Financial Modelling Tool

This tool allows you to enhance your understanding of the financial needs of your company by evaluating your cash flow.

Initial investment

To start a business, you need equipment, inventory, a work space and many other physical and technological assets. In addition, you will need to have enough cash to pay your overhead expenses, which incur before your business yields returns. Do not forget to allocate funds for your working capital, because it is likely that you will need to pay your suppliers faster than your customers pay you. These expenditures will be covered your initial investment and equate to the amount of financial resources required for your business.

Cash flow

Your cash flow is the amount of cash you spend on paying salaries, fixed costs, suppliers of goods, equipment costs as well as for services, minus the cash you receive from your clients.

Profit

The net income, which is the last line on your income statement, tells you how much is left for the shareholders. This amount could be withheld by the company, as a precaution for future expenses, or distributed as dividends if the company does not require additional funds to finance its growth. However, this would be unusual during its first years of existence.

Tips for a sound financial model

Do not waste too much time setting up a very detailed model. Make it flexible and easy to use based upon main assumptions, like the number of transactions and the average price per transaction, the gross margin (revenues minus cost of sold goods), payroll and fixed costs. Have a good system for tracking cash movements so that you can accurately measure the amount required to manage and grow the business.

Balance Sheet Test

You will be presented with a mock balance sheet and have to answer 5 questions. We recommend reading the Financial Literacy before taking the quiz.

Balance sheet of SunRise Export Industries 31st December 2013					
Assets			**Liabilities**		
Cash	95,000		Accountants payable	45,000	
Accounts receivable	155,000		Loans payable	190,000	
Inventory	160,000		Other current liabilities	55,000	
Total current assets		410,000	Total current liabilities		290,000
			Long term debt	395,000	395,000
Land	215,000		**Stockholders' equity**		
Buildings	655,000		Capital stock	180,000	
Equipment	285,000		Retained earnings	715,000	
Other assets	15,000	1,170,000	Total stockholders' equity		895,000
Total assets		1,580,000	Total liabilities & equity		1,580,000

1 - Which of the following is not a current asset?

❑ Cash ❑ Inventory ❑ Buildings

2 - What is the working capital of the company?

❑ 90,000 ❑ 120,000 ❑ 60,000

3 - Calculate the Days Payable Outstanding (DPO). Inventory (€160,000) will be used as the cost of goods sold

❑ 103 days ❑ 1,298 days ❑ 34 days

4 - What is the debt-to-worth ratio of the company?

❑ 0.70:1 ❑ 1.3:1 ❑ 0.45:1

5 - Which of the following assets would not be valued at cost price minus depreciation?

❑ Buildings ❑ Equipment ❑ Investments

Note: This test acts as a creative way to test your knowledge related to the subject of a Balance Sheet. Although it has been designed carefully, it is not scientific based.