

**CAREER CLUSTER**

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

BUSINESS FINANCE SERIES EVENT**PARTICIPANT INSTRUCTIONS**

- The event will be presented to you through your reading of the 21st Century Skills, Performance Indicators and Event Situation. You will have up to 10 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 10 minutes to make your presentation to the judge (you may have more than one judge).
- You will be evaluated on how well you meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

21st CENTURY SKILLS

- Critical Thinking – Reason effectively and use systems thinking.
- Problem Solving – Make judgments and decisions, and solve problems.
- Communication – Communicate clearly.
- Creativity and Innovation – Show evidence of creativity.

PERFORMANCE INDICATORS

1. Explain the role of finance in business.
2. Explain the nature of balance sheets.
3. Describe techniques used to analyze customer financial information.
4. Discuss the analysis of a company's financial situation using its financial statements.
5. Apply information to accomplish a task.

EVENT SITUATION

You are to assume the role of a newly hired loan officer at ABC BANK, working in their small business lending division. The manager (judge) has asked you to analyze the balance sheet of a corporate client and make a recommendation to approve or deny a loan request.

The small business lending division of ABC BANK works with companies with less than 1 million dollars in assets. One potential client is BIG SALES COMPANY, a mail-order company that sells several thousand products. BIG SALES COMPANY has been in business for over 10 years and has decided to come to ABC BANK to seek a small business line of credit for \$300,000 to expand their global operations.

The manager (judge) has asked the loan officer team to analyze different financial aspects of BIG SALES COMPANY to truly understand the company's financial health. The manager (judge) has asked you to analyze the company's balance sheet from last year, specifically the following:

- Explain the nature of the balance sheet (regards to assets, liabilities and owner's equity).
- Measure the company's liquidity using a current ratio and explain why this is important.
- Calculate the working capital and be prepared to explain why this is a valuable measure.

Once you have analyzed last year's balance sheet, the manager (judge) wants you to make a recommendation to approve or deny the loan based on the balance sheet.

The balance sheet is located on the following page.

You will present your analysis and recommendation to the manager (judge) in a role-play to take place in the manager's (judges) office. The manager (judge) will begin the role-play by greeting you and asking to hear your ideas. After you have presented the information and have answered the manager's (judge's) questions, the manager (judge) will conclude the role-play by thanking you for your work and recommendation.

BIG SALES CO.

Balance Sheet

December 31, 2016

Assets		
Current Assets		
Cash	225,700.00	
Accounts Receivable	18,000.00	
Total Current Assets		243,700.00
Fixed Assets		
Fall Line Order	94,000.00	
Spring Line Order	73,000.00	
Total Fixed Assets		167,000.00
Total Assets		410,700.00
Liabilities		
Current Liabilities		
Notes Payable – Cars 4 Real		7,200.00
Long-Term Liabilities		
Notes Payable – Mailing Supplies Inc.		12,960.00
Total Liabilities		20,160.00
Owner's Equity		
Capital -		390,540.00
Total Liabilities and Owner's Equity		410,700.00

JUDGE'S INSTRUCTIONS

DIRECTIONS, PROCEDURES AND JUDGE'S ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Procedures
2. 21st Century Skills and Performance Indicators
3. Event Situation
4. Judge Role-play Characterization
Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
5. Judge's Evaluation Instructions
6. Judge's Evaluation Form
Please use a critical and consistent eye in rating each participant.

JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of loan manager at ABC BANK, working in their small business lending division. You have asked a newly hired loan officer (participant) to analyze the balance sheet of a corporate client and make a recommendation to approve or deny a loan request.

The small business lending division of ABC Bank works with companies with less than 1 million dollars in assets. One potential client is BIG SALES COMPANY, a mail-order company that sells several thousand products. BIG SALES COMPANY has been in business for over 10 years and has decided to come to ABC BANK to seek a small business line of credit for \$300,000 to expand their global operations.

You have asked the loan officer team to analyze different financial aspects of BIG SALES COMPANY to truly understand the company's financial health. You have asked the loan officer (participant) to analyze the company's balance sheet from last year, specifically the following:

- Explain the nature of the balance sheet (regards to assets, liabilities and owner's equity).
- Measure the company's liquidity using a current ratio and explain why this is important.
- Calculate the working capital and be prepared to explain why this is a valuable measure.

Once the loan officer (participant) has analyzed last year's balance sheet, you want the loan officer (participant) to make a recommendation to approve or deny the loan based on the balance sheet.

BIG SALES CO.

Balance Sheet

December 31, 2016

Assets		
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Capital -		390,540.00
Total Liabilities and Owner's Equity		410,700.00

During the course of the role-play, you are to ask the following questions of each participant:

1. What is the difference between current and fixed assets?
2. Why would a business plan be another important document for a lender to look at when deciding to advance money to a business?

After the loan officer (participant) has presented the information and has answered your questions, you will conclude the role-play by thanking them for their work

You are not to make any comments after the event is over except to thank the participant

SOLUTION

1. Explain the nature of balance sheet.

- Explain the nature of the balance sheet (regards to assets, liabilities and owner's equity).

The balance sheet is a financial statement that summarizes a company's assets (items that a company owns), liabilities (financial debt or obligations that arise during a company's business operations) and owner's equity which represents the owner's investment in the business minus the owner's withdrawals from the business plus the net income since the business began. The balance sheet formula (accounting equation) is Assets = Liabilities + Owner's Equity.

2. Describe techniques used to analyze financial information.

- Measure the company's liquidity using a current ratio.

$$\text{Current Ratio} = \text{Current Assets}/\text{Current Liabilities}$$

$$\$243,700.00/\$7,200.00$$

$$33.84\% \text{ or } 33.9:1$$

Current ratio measures a company's ability to pay short-term and long-term obligations.

Big Sales Company's ratio is very strong because it shows that it has \$34 accessible to every dollar owed.

- Calculate the working capital and be prepared to explain why this is a valuable measure. Working capital is the amount of money left over after you subtract current liabilities from current assets. It shows how much is left to pay short term debts.

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

$$\$243,700 - \$7,200.00$$

$$\$236,500.00$$

Big Sales Company has an excess of actual cash to meet its short term debt in dollars analyzed.

3. Discuss the analysis of a company's financial situation using its financial statements.

- Make a recommendation to approve or deny the loan based on the balance sheet.

Big Sales Company is a strong company when looking at the balance sheet analyzing and calculating both current ratios and working capital. It can clearly be seen that the company could allocate more assets to in fact growing the company. You could also look at the business plan to clearly understand the direction that the business is going on. In addition, accounts receivable is also very low which can signify that companies that purchase products from them either pay in cash or pay their debts on time.

Answers to the Judges Questions:

1. What is the difference between current and fixed assets?

Current Assets: Cash and other assets that are expected to be converted into cash within a year.

Fixed Assets: Assets that are purchased for long term use and will take more than a year to convert to cash. Examples are equipment, buildings and land.

2. Why would a business plan be another important document for a lender to look at when deciding to advance money to a business?

A business plan is a very important blue print for business owners and entrepreneurs because it shows the direction that the business wants to grow. Lenders want to see the vision and mission very clearly. Other items that a lender would look at outside of all financial statements and analysis:

How revenues are generated?

What relevant skills, knowledge and expertise does the owner have?

What market you are serving. Is there an opportunity for growth?

Projections for the future

JUDGE'S EVALUATION INSTRUCTIONS

Evaluation Form Information

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators being demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event chairperson and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.

**BUSINESS FINANCE SERIES, 2018**

Participant: _____

JUDGE'S EVALUATION FORM

I.D. Number: _____

INSTRUCTIONAL AREA

Financial Analysis

Did the participant:

	Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
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PERFORMANCE INDICATORS

1.	Explain the role of finance in business?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Explain the nature of balance sheets?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Describe techniques to analyze customer financial information?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Discuss the analysis of a company's financial situation using its financial statements?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Apply information to accomplish a task?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	

21st CENTURY SKILLS

6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	

TOTAL SCORE