

## Evaluating an Entrepreneur's Financial Statements

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One of your friends, Disco Dave, just started a new club called Disco Dave's Dance Club. He asks for your help to get his financial information organized. The bank has asked to see his income statement and balance sheet, as well as some ratio calculations. Here's what Dave knows:

### INCOME STATEMENT DATA

- Dave's sales in the past year have been \$22,000.
- His cost of sales amounted to \$7,500.
- His operating expenses included his salary and gas totaling \$11,600.
- He paid \$900 in taxes.

### BALANCE SHEET DATA

- Dave currently has \$1,100 in his bank account in cash.
- His customers currently owe him \$2,400, which he thinks is called accounts receivable.
- His inventory and supplies amount to \$3,550.
- His DJ equipment is worth \$3,500.
- His vehicle (the "DJ-Mobile") is worth \$5,000.
- Dave doesn't own any buildings or land (he lives in his mother's basement).
- Dave has credit card debt (considered accounts payable) of \$2,550; he doesn't have any other payables.
- Dave borrowed \$6,000 from his dad, which he hasn't started paying back yet (long-term debt); he doesn't have any other long-term liabilities.
- He figures that his investment in the business (owner's equity) is \$7,000.

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**JOB 1:** Use the information above to create a balance sheet and income statement for Disco Dave's Dance Club for the year.

**JOB 2:** Calculate the six ratios shown for this business based on the information in your balance sheet and income statement.



# Disco Dave's Dance Club

## INCOME STATEMENT

Sales	_____	
Cost of Sales	_____	
Gross Profit	_____	(Sales – Cost of Sales)
Operating Expenses	_____	
Income from Operations	_____	(Gross Profit – Total Operating Expenses)
Taxes	_____	
Net Income	_____	(Income from Operations – Taxes)

## BALANCE SHEET

### ASSETS

#### Current Assets

Cash	_____	
Accounts Receivable	_____	
Inventory and Supplies	_____	
Current Assets	_____	(Cash + AR + Inventory and Supplies)

#### Long-Term Assets

Equipment	_____	
Vehicle	_____	
Long-Term Assets	_____	(Equipment + Vehicle)
Total Assets	=====	(Current Assets + Long-Term Assets)

### LIABILITIES AND OWNER'S EQUITY

#### Current Liabilities

Accounts Payable	_____	
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#### Long-Term Debt

Loans	_____	
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#### Owner's Equity

Investment in Business	_____	
Total Liabilities and Owner's Equity	=====	(Current Liabilities + LT Liabilities + OE)

## Disco Dave's Dance Club

### LIQUIDITY RATIO

$\text{current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$	current assets =  current liabilities =	<u>Answer</u>
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### ASSET MANAGEMENT RATIO

$\text{total assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$	sales =  total assets =	<u>Answer</u>
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### DEBT MANAGEMENT RATIO

$\text{debt ratio} = \frac{\text{total debt}^*}{\text{total assets}}$ <p style="font-size: small; margin-top: 5px;">* accounts payables plus long-term debt</p>	total debt =  total assets =	<u>Answer</u>
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### PROFITABILITY RATIOS

$\text{profit margin on sales ratio} = \frac{\text{net income}}{\text{sales}}$	net income =  sales =	<u>Answer</u>
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$\text{return on total assets ratio} = \frac{\text{net income}}{\text{total assets}}$	net income =  total assets =	<u>Answer</u>
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$\text{return on equity ratio} = \frac{\text{net income}}{\text{owner's equity}}$	net income =  stockholders' equity =	<u>Answer</u>
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