

# A Simple Model

## Integrating Financial Statements: Overview of the Process

### NOTES TO ACCOMPANY VIDEOS

These notes are intended to supplement the videos on [ASimpleModel.com](http://ASimpleModel.com). They are not to be used as stand-alone study aids, and are not written as comprehensive overviews of the topic detailed. The purpose of these notes is to provide a tangible collection of the visuals used in the videos with comments highlighting the more important aspects covered.

The objective of the first video in this series is to explain and briefly walk through the process of building a fully integrated financial statement model.

Initially a brief outline is provided detailing the sequence in which this model will be built:

## **Overview of Building an Integrated Financial Statement Model**

- 1. Input Historical Data**
- 2. Project Financial Statements**
  - I. Income Statement
  - II. Balance Sheet
  - III. Cash Flow Statement
- 3. Build the Supporting Schedules**
  - I. Debt Schedule
  - II. PP&E Schedule

Keeping this sequence in mind as you build the model provides a good reference for progress made.

# Integrating Financial Statements

- 002 Overview of the Process

The video then walks through these steps using a fully integrated financial statement model that has been formatted to fit on the screen.

The relationships between the financial statements and supporting schedules are pointed out individually and color coded to make it easier to identify the source of information.

- A red arrow, for example, indicates that data from the PP&E Schedule is being used at the location referenced.

Financial Statements				
<b>INCOME STATEMENT</b>				
	20X1	20X2	20X3	20X4
Revenue	1,331	1,464	1,611	1,772
Cost of Goods Sold	799	878	966	1,063
Gross Profit	532	586	644	709
Operating Expenses (SG&A)	200	220	242	266
Operating Income (EBIT)	333	366	403	443
Interest Expense	43	38	33	28
Pretax Income	290	329	370	415
Income Tax Expense	102	115	130	145
Net Income	189	214	241	270
<b>BALANCE SHEET</b>				
	20X1	20X2	20X3	20X4
Cash	478	627	809	1,026
Accounts Receivable	109	120	132	146
Inventory	131	144	159	175
Total Current Assets	718	892	1,100	1,346
Property Plant & Equipment (PP&E)	840	837	827	808
TOTAL ASSETS	1,559	1,729	1,927	2,155
Accounts Payable	66	72	79	87
Current Portion on Long Term Debt	50	50	50	50
Total Current Liabilities	116	122	129	137
Long Term Debt	400	350	300	250
TOTAL LIABILITIES	516	472	429	387
Common Stock	100	100	100	100
Retained Earnings	943	1,157	1,397	1,667
TOTAL EQUITY	1,043	1,257	1,497	1,767
TOTAL LIABILITIES & EQUITY	1,559	1,729	1,927	2,155
Check	0.0	0.0	0.0	0.0
<b>CASH FLOW STATEMENT</b>				
	20X1	20X2	20X3	20X4
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net Income		214	241	270
Add Back Non-Cash Items				
Depreciation		73	81	89
Amortization		0	0	0
Changes in Working Capital				
Accounts Receivable		(11)	(12)	(13)
Inventory		(13)	(14)	(16)
Accounts Payable		7	7	8
Net Cash Provided by Operating Activities		269	302	337
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>				
Capital Expenditures - Purchase of PP&E		(70)	(70)	(70)
Net Cash Used in Investing Activities		(70)	(70)	(70)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>				
Revolving Credit Facility		0	0	0
Long Term Debt (Current Portion)		(50)	(50)	(50)
Net Cash Provided by (Used in) Fnce Activities		(50)	(50)	(50)
Net Cash Flow		149	182	217

  

Supporting Schedules				
<b>DEBT SCHEDULE</b>				
	20X1	20X2	20X3	20X4
Cash Balance @ Beg of Year (End of Last Year)		478	627	809
Plus: Free Cash Flow from Operations and Investing		199	232	267
Less: Minimum Cash Balance		0	0	0
Total Cash Available or (Required) for Debt Service		677	859	1,076
<b>Debt</b>				
Current Portion of LT Debt		50	50	50
Long Term Debt		350	300	250
Total Cash Surplus		627	809	1,026
Line of Credit		0	0	0
<b>INTEREST EXPENSE</b>				
Interest Rate on Long Term Debt		10%	10%	10%
Interest Rate on Line of Credit		8%	8%	8%
Interest Expense on Long Term Debt		37.5	32.5	27.5
Interest Expense on Line of Credit		0	0	0
Total Interest Expense		38	33	28
<b>PP&amp;E SCHEDULE</b>				
	20X1	20X2	20X3	20X4
Beg: PP&E, Net of Accum. Depreciation		840	837	827
Plus: Capital Expenditures		70	70	70
Less: Depreciation		73	81	89
End: PP&E, Net of Accum. Depreciation		837	827	808

This is merely used to provide a visual reference. The model built in the video that follows incorporates a greater level of detail.