

An alternative way of presenting a balance sheet.

Some years ago, I found an alternative way of presenting a balance sheet, which shows some interesting advantages to the classical way. This led us to apply it to the company I was working for and had a positive impact for the managers to interpret figures and relating them in a more direct way.

The question behind this format is “What makes more sense to the leaders and managers and helps them to understand the figures in a better way? What helps them to see the figures in relation to where they can influence them?”

There are traditionally three basic documents:

1. Profit and Loss Statement, the
2. Balance Sheet and the
3. Cash Flow.

These three are inter-related. The most commonly used is the Profit and Loss Statement, which is built up by three parts: 1 – Operational Result, 2 – Financial Result and 3 – Non Operational Results. The next example makes this clear:

PROFIT AND LOSS STATEMENT	2016	2017	Δ ±
+ Sales	645	743	+98
- Direct Operating Costs	579	667	+88
- Depreciation	10	11	+1
= Operational Result I	56	65	+9
- Indirect Expenses	54	60	+6
= Operational Result II	2	5	+3
+ Financial Revenues	3	3	0
- Financial costs	2	1	-1
= Financial Result	1	2	+1
± Non operational result	0	9	+9
= Total result	3	16	+13

The colours show the specific responsibility of the business manager (green) and the financial manager (blue).

In order to come to Operational Result, the manager works with Operational Assets and Liabilities, like stock, receivables (clients), payables (suppliers), which he can influence by purchasing more or less, negotiating more credit from the supplier, keeping more or less material in stock, giving more or less credit to the clients. In doing so, he influences directly the cash flow of the company. So, it is important to have an instrument that shows this influence, so that he can be held responsible for his part in the cash flow.

This means that also the Balance Sheet and the Cash Flow have to show where the manager is responsible and where he can influence. This brings us to a format in which the distinction is made between items where the operational manager influences and where not.

First I will present the traditional Balance Sheet, in which the green colours show the operational accounts (yellow/green) that can be influenced by the operational manager, the financial accounts (blue) and “other accounts” (orange).

BALANCE SHEET (traditional)

BALANCE SHEET	DEC 2016	DEC 2017	Δ ±
ASSETS			
Current Assets			
Cash and equivalents	28	33	+5
Inventories	41	43	+2
Accounts receivable / clients	20	24	+4
TTL CURRENT ASSETS	89	100	+11
Property and equipment			
Land	24	24	0
Other fixed assets	86	88	+2
(-) depreciation	10	11	+1
Other non operational assets	2	2	0
TTL PROPERTY AND EQUIPMENT	102	103	+1
TOTAL ASSETS	191	203	+12
LIABILITIES			
Current liabilities			
Accounts payable - suppliers	24	27	+3
Accounts payable - salaries	3	3	0
accounts payable - other	3	3	0
Short term debts	27	24	-3
TOTAL CURRENT LIABILITIES	57	57	0
Long term debts	16	15	-1
TOTAL LONG TERM DEBTS	16	15	-1
TOTAL LIABILITIES	73	72	-1
SHARE HOLDERS EQUITY			
Capital	10	10	0
Retained earnings	105	105	0
Earnings current year	3	16	+13
TTL SHAREHOLDERS EQUITY	118	131	+13
TTL LIABILITIES AND EQUITY	191	203	+12

Now I will arrange the accounts in a way the operational accounts (yellow/green) are put together. Comparing the values with the previous year, this immediately shows the variations of the accounts (part 1), that are important for building the cash flow also in such a way that we can see how the operational activity is generating cash or demanding cash, resulting in investments (or disinvestments) of operational working capital. Also, the net investment made in operational assets (part 2) are already visible in the Balance Sheet.

The further accounts (blue) show the Financial Accounts and their variation. See the following alternative Balance Sheet:

BALANCE SHEET (alternative)

BALANCE SHEET		DEC 2016	DEC 2017	Δ ±
OPERATIONAL ASSETS				
1 Operational Working Capital				
+	Inventories	41	43	+2
-	Accounts payable - suppliers	24	27	+3
=	Net Inventories	17	16	-1
+	Accounts receivable / clients	20	24	+4
-	Accounts payable - salaries	3	3	0
-	accounts payable - other	3	3	0
=	Ttl Operational Working Capital	31	34	+3
2 Operational Fixed Assets				
+	Land	24	24	0
+	Other fixed assets	86	88	+2
-	(-) depreciation	10	11	+1
=	Ttl Operational Assets	100	101	+1
Operational Balance (=1 + 2)		131	135	+4
3 FINANCIAL ACCOUNTS				
-	Short term debts	27	24	-3
-	Long term debts	16	15	-1
=	Ttl Financial Debts	43	39	-4
+	Cash and equivalents	28	33	+5
=	Ttl Financial Assets	-15	-6	+9
4 OTHER ASSETS				
+	Other non operational assets	2	2	0
= Net worth (assets - liabilities)		118	131	+13
5 SHARE HOLDERS EQUITY				
-	Capital	10	10	0
-	Retained earnings	105	105	0
-	Earnings current year	3	16	+13
=	TTL SHAREHOLDERS EQUITY	118	131	13

In part 3 the Balance Sheet gives the view of the Financial Assets minus Financial Liabilities. These figures are a result of the financial management, where an operational manager normally has little influence, unless in moments when he is taking part in a Direction Team.

These start with the Financial Liabilities (short term and long term) minus financial receivables and finally Cash and Financial Investments.

Part 4 of the Balance Sheet show the Assets and Liabilities that are not related to the business of the organization, and are also not Financial Assets. Normally this part has few items and does not bring a big change to the sum of the first and second part.

Now we come to the 3rd document, the Cash Flow, which can be built in three phases:
 1 – Showing the net cash provided by Operating activities (or used in, if there is a loss). In practice this is the Operating result plus the costs that do not affect cash, mainly the depreciation.
 2 – Showing the cash used in Investing activities. The investments here are in Working Capital and in Fixed Assets.
 3 – Showing the cash generated by or used in the Financial activities: new loans minus payment of debts.

The final result corresponds to the variation of the Cash.

Here I. a concrete example.

CASH FLOW	2017	
+ Operational Result	5	
+ Depreciation	11	
= Generated operational cashflow	16	
- Investment in Working Capital	3	
- Investment in Assets	2	
= Cash used for operational Investments	5	
= Operational Cashflow for Capital providers	11	
± Financial Result	2	
± Non operational Result	9	
= Net generated Cash	22	
- Paying former loans	4	
+ New financial loans	0	
= Surplus = variation of Cash	18	

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