

Every manager in "Corporate America" needs to use and understand financial statements, their use and interpretation.

Yet, many managers come up through non-financial ranks (e.g., engineering, plant management, marketing, etc.) and lack the basic understanding of how management decisions influence/impact the financial statements and, ultimately, the organization's market value.

**Theory** - Most finance courses and training use the "traditional" model of teaching finance, e.g., dismantling existing financial statements to understand "what went on in the company." This is, in our experience, somewhat backwards and rarely teaches "why" the decisions impacted the statements in the way they did; rather it merely shows the impact.



**Design** - The simulation therefore, is designed specifically to "build-up" an organization from "ground zero" by using a "start-up" case study. Participants will have to raise capital, purchase equipment and hire employees. Every effect of every decision will be immediately reflected in the financial statements through a graphical interface. Each computer is linked together in the training environment so that the instructor/facilitator can (1) maintain the "market", (2) monitor progress of individual teams and (3) act both as the public (e.g., buying/selling shares) and as the governing body (e.g., SEC in reporting).

## Objectives:

This one-day course is designed for the non-financial manager (or manager-to-be) to familiarize the participants to finance - reading, understanding and interpreting the three primary financial statements (P&L, Balance Sheet, Statement of Cash Flows) with a primary focus on practical, hands-on experiential learning. The content will be amplified and augmented through the use of a computer-based simulation whereby all the decisions made will be reflected in the three financial statements.

## Outline - Day 1

- Introduce course purposes
- Course components and learning objectives
  - Components:
    - "Lecturette" on financial statements, Simulation exercise, Ratio "Lecturette", Wrap-up
  - Learning Objectives:
    - Become familiar with financial statements (how to read, relationships among them, decision impacts, comprehend interconnected nature

## Team Formation

- Participant introductions
- Team formation exercise
- Simulation overview

## Financial Statements

- Three basic statements
  - Statement of Profit & Loss
  - Balance Sheet
  - Statement of Cash Flows
- Overview of each

## Income Statement Basics

- Period based
- Ways to recognize revenue
- Matching concept
- View Simulation Income Statement
- View/discuss Client Income Statement

## Balance Sheet Basics

- Basic formula
- Assets
- Liabilities
- Owners equity
- View Simulation Balance Sheet
- View/discuss Client Balance Sheet

## Cash Flow Statement

- Description of Cash Flow
- Sources and uses of cash
- Operating activities
- Investing activities
- Financing activities
- View Simulation Cash Flow
- View/discuss Client Statement of Cash Flow

## The Simulation - Period #1

- Initial capitalization
- Pricing strategy
- Production and capacity
- Supply chain decisions
- Purchase assets

## Discuss Results of Period #1

- Enter results on "public board" or SEC spreadsheet
- Present individual team results briefly (without competitive information, such as pricing strategy)
- Discuss results as a group

## The Simulation - Periods #2 & #3

- Re-tune supply chain
- Pricing decisions
- Production and capacity decisions
- Capitalization and borrowings revisited

## Discuss Periods #2 & #3

- Enter results on "public board" or SEC spreadsheet
- Present individual team results briefly (without competitive information, such as pricing strategy)
- Discuss results as a group

## The Simulation - Periods #4 - #6

- Pricing decisions
- Production and capacity decisions
- Supply chain decisions
- Financing decisions

## Discuss Results of Simulation

- Enter results on "public board" or SEC spreadsheet
- Present individual team results briefly (without competitive information, such as pricing strategy)
- Discuss results as a group

## Measurements

- Ratio Analysis
- Margins
- Returns
- Efficiency
- Debt and Liquidity
- EVA, SVA, FCF, etc.
- Ratio Concerns

## Discussion of Ratio Results

- Comparison of team results
- Discussion of usefulness of common ratios/measures

## Wrap-up of Day

Other topics which could be presented during the day and built into the simulation include, but are not limited to:

## Break Even Analysis

- Cost-volume-price relationship
- Contribution margin
- Cost drivers and cost behaviors
- Changes to Break Even
- Operating leverage
- Calculation of Break Even for Simulation Periods #4 - #6

## Forecasting

- Objectives
- Basic steps
- Development of a Forecast for Simulation Periods #4 - #6