BIZ|EQUITY
What's Your Business Worth?™

BizEquity Stepwise Framework Legend

STEP 3 – Income and Expenses

Revenue: The amount of money your business receives for selling a good or service.

Pretax Income: This is the amount of money your business earns before deducting income taxes (also known as pretax profit).

Officer Compensation: This is the amount of actual compensation (wages, bonus payments, perks and other tax deductible discretionary payments on behalf of the primary owner-operator) paid to the primary owner-operator. Distributions (return of capital) should NOT be added here as they are already reflected in the pretax income entry above.

Interest Expense: This is the amount of interest expense paid by your company on various types of loans, credit card balances, etc.

Non-Cash Expenses: These are expenses which did not require the use of cash in the current period. Customarily these items include only amortization and depreciation expense.

One-Time/Non-Operating Expenses/Losses: This line item includes a variety of adjustments which serve to "normalize" (increase) the reported earnings stream in accordance with business valuation principles and may or MAY NOT APPLY to your company.

One-Time/Non-Operating Expenses/Losses: This line item includes a variety of adjustments which serve to "normalize" (decrease) the reported earnings stream in accordance with business valuation principles and may or MAY NOT APPLY to your company.

STEP 4 – Assets

Cash: This account should include cash and all cash equivalents such as checking and savings accounts, short term CD's, money market funds and even marketable securities which can be quickly liquidated.

Accounts Receivables: This is the amount of money owed to your company by clients who have been provided goods or services on credit.

Inventory: Typically measured at original cost, this account should reflect office supplies, raw materials, work in progress and finished goods.

Other Current Assets: This "catchall" account typically includes items such as lease deposits; prepaid expenses and employee/officer loan receivables but may include accounts such as accrued revenue and deferred income tax.

Fixed Assets: Commonly referred to as "furniture, fixtures and equipment", these long-term assets are subject to ongoing depreciation expense. Most balance sheets will present their "original cost" followed by "accumulated depreciation" with the differences being "book value". For financial analysis purposes, book value should be entered in this line item.

Intangible Assets: Most balance sheets will NOT include intangible assets based on GAAP and IRS rules. The common exception is when the subject company has been purchased via the "asset sale" deal structure, which requires the buyer and seller to agree on the "allocation of purchase price" (IRS Form 8594). Most such

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STEP 5 - Liabilities

Accounts Payable: This balance should reflect amounts currently owed to suppliers of all types. Amounts owed on credit cards could also be included here.

Other Short-Term Liabilities: Any financial obligation due within the next year, which is not included in, accounts payable. Common examples include credit card payables, line of credit balances and accrued liabilities related to payroll and taxes. This line item could

Long-Term Debt: This account reflects any loans or financial obligations incurred by your company that has a maturity of one year or longer. Bank loans and outstanding capital lease obligations are common examples. Notes payable and bonds payable (including convertible bonds) may also be included here.

Contingent Liabilities: These are potential obligations, which are dependent on the occurrence/non-occurrence of a certain event in the future. A common example would be a pending lawsuit, which is likely to lead to legally enforceable financial payments owed by the company in the future. Other examples include potential warranty payments or payments related to the guarantee of a third party loan.