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The Maine Chapter Presents its Popular Commercial Lending School

“Small Business Financial Statement and Cash Flow Analysis”

Comprehensive Basic Credit Training Using an Income Tax Return Focus

May 26, 27, June 2, 3, 9, and 10, 2021

9:00am to 11:30am; 1:30pm to 4:00pm each day (delivered via Zoom® Virtual Technology)

COURSE DESCRIPTION:

Designed specifically as a “boot camp” level training experience, this comprehensive lending school has been designed to serve the fundamental commercial credit analysis training needs of community bankers. It is ideal for recently hired staff who may be new to the commercial lending underwriting process. The course consists of a review of *basic* financial accounting concepts and the presentation of *basic* financial statement credit analysis theory rooted in banking industry adopted “best practices”. The use of specifically designed case studies enables course participants to take a “hands-on” approach when applying the analytical concepts discussed.

“Small Business Financial Statement and Cash Flow Analysis” begins with a review of the needed foundation in financial accounting for those individuals who have had no previous formal financial accounting classroom instruction, or as a refresher for those who have had previous financial accounting training. That is followed by a curriculum which focuses on interpreting information typically contained in accountant prepared financial statements, personal financial statements, and U.S. federal income tax returns.

WHO SHOULD ATTEND?

- Commercial credit analysts.
- Commercial lenders.
- Small business development officers.
- Branch Managers involved in small business lending.
- Loan review staff.
- Commercial loan administrative assistants.
- Other credit staff who face the underwriting challenges associated with self-employed individuals and closely held business entities.

INSTRUCTOR:

Philip Hatch – Principal – Commercial Credit Training Services:

Phil has over 40 years of banking experience, with approximately 15 of those years managing commercial lending relationships. He also has over 25 years of combined bank training and college level teaching experience. Since 2006 he has been a self-employed contract training consultant providing services to individual financial institutions. Additionally, he is a member of the Risk Management Association’s (RMA) national instructor pool, delivering open enrollment courses around the country covering various financial statement and cash flow analysis topics.

From 1996 to 2016 Phil and his Registered Nurse wife Lucie owned and operated Winterhaven, a 10-bed private pay assisted living facility for the elderly. That business ownership experience complements his many years of banking experience to create a very enriching set of informative examples for the training classroom.

Phil graduated from the University of Southern Maine, earning a Bachelor of Science Degree in Accounting and a Master’s Degree in Business Administration. He also holds the RMA professional designation of “Credit Risk Certified” (CRC).

OUTLINE OF TRAINING TOPICS

The course uses 12 sequentially delivered sessions, each serving as a building block for the previous. To achieve full benefit of the course's learning objectives, participants must attend all sessions. Each session is 2.5 hours in length.

Pre-course assignment

Each participant will be required to individually complete a pre-course assignment which will be distributed approximately one week prior to the Session 1 delivery date. The pre-course assignment should take no more than 90 minutes to complete.

Session 1 (2.5 hours)

Module 1: The 5 C's of Credit – The Framework for Commercial Credit Decisions

Module 2: Financial Accounting Review (Part 1)

Economic decision making within a business, both internal and external.

Case Study 1 – “How a Success at Microsoft Washed Out at a Laundry” (WSJ May 30, 1995)

Session 2 (2.5 hours)

Module 2: Financial Accounting Review (Part 1) (continued)

5 Elements of Accounting Information

The “Fundamental Accounting Equation”

The “Adjusted Trial Balance”, the segue to preparation of financial statements and income tax returns.

Complete set of financial statements under GAAP.

Case Study 2 – Analyzing Economic Transactions Using the “Fundamental Accounting Equation” (Part 1)

Session 3 (2.5 hours)

Module 3: Financial Accounting Review (Part 2)

Accounts Receivable – including aging schedules and bad debts

Fixed Assets – including depreciation, amortization and depletion

Inventory – including valuation considerations

Session 4 (2.5 hours)

Module 3: Financial Accounting Review (Part 2) (continued)

Case Study 2 – Analyzing Economic Transactions Using the “Fundamental Accounting Equation” (Part 2)

Module 4: Preparation of Financial Statements

The “Adjusted Trail Balance” revisited

Classified Income Statement

Statement of Owner's Equity

Classified Balance Sheet

Statement of Cash Flows (Indirect Method)

Homework Assignment – Case Study 3 – Deuce Hardware (Preparation of Financial Statements)

Session 5 (2.5 hours)

Review solution to Session 4 Homework Assignment

Module 5: Setting the Stage for Underwriting

The life cycle of a business.

Primary reasons for small business failure.

Industry segments.

Business conditions – Industry, Strategy and Management.

Benchmarking using RMA Statement Studies and E Mentor.

Session 6 (2.5 hours)

Module 6: Financial Statement Trend and Ratio Analysis

Trend analysis.

Case Study 4 – Acme Printing (Trends)

Session 7 (2.5 hours)

Module 6: Financial Statement Trend and Ratio Analysis (continued)

The operating cash flow cycle of a business.

Ratio analysis.

Session 8 (2.5 hours)

Module 6: Financial Statement Trend and Ratio Analysis (continued)

Ratio analysis. (continued)

Case Study 4 – Acme Printing (Ratios)

Module 7: Cash Flow Analysis

Cash flow analysis, including a comparison of “Traditional”, “EBITDA” and “UCA” approaches

Case Study 5 – Acme Printing (Cash Flow)

Homework Assignment – Case Study 6 – Flooring Warehouse (UCA Cash Flow Calculations)

Session 9 (2.5 hours)

Review solution to Session 8 Homework Assignment

Module 8: Collateral Analysis

Collateral valuation sources and discounted “Loan-to-Value” analysis

Case Study 7 – Widget Manufacturing

Session 10 (2.5 hours)

Module 9: Income Tax Concepts

How different types of business organizations are taxed.

How business owners can extract cash from their businesses.

IRS “rules” regarding taxable income.

IRS “rules” regarding business expense.

Credit analysis issues regarding business tax returns.

Double taxation and pass-through (“disregarded”) entities.

Tax filing deadlines.

Module 10: Business Tax Returns

C Corporations (Form 1120)

S Corporations (Form 1120S)

Limited Liability Companies (LLC) (Form 1065)

Case Study 8 – Maine Furniture Manufacturing, Inc. (S Corporation Traditional Cash Flow)

Case Study 9 – Precision Surgical Associates LLC (Partnership Traditional Cash Flow)

Session 11 (2.5 hours)

Module 11: Personal Financial Statements

Individual guarantors.

“Adjusted Net Worth” analysis.

Accountant prepared personal financial statements.

Case Study 10 – Diane Smith Entrepreneur (Net Worth Adjustment)

Module 12: Personal Tax Returns and Global Cash Flow Concepts

Global cash flow analysis.

Session 12 (2.5 hours)

Module 12: Personal Tax Returns and Global Cash Flow Concepts (continued)

Filing deadlines.

Selected review of 2018 tax code changes.

Individual (Form 1040)

Case Study 11 – Mary Jones (Personal Cash Flow Analysis)

Module 13: Course Summary

PROGRAM FEES

- **Small Business Financial Statement and Cash Flow Analysis (6 days)**
 - **\$2,125.00** for participants from RMA “Institutional” members
 - **\$2,325.00** for participants from non-RMA member institutions

The fee includes professional quality instruction, all instructional materials delivered electronically using Google drive file sharing. A 10 minute “screen” break will be provided approximately mid-way through each session. If you have questions please contact Phil Hatch at (207) 229-0376 or phatchii@maine.rr.com. Additional program details will be provided to the participants during a pre-course virtual meeting to be held approximately one week prior to the first course session date.