

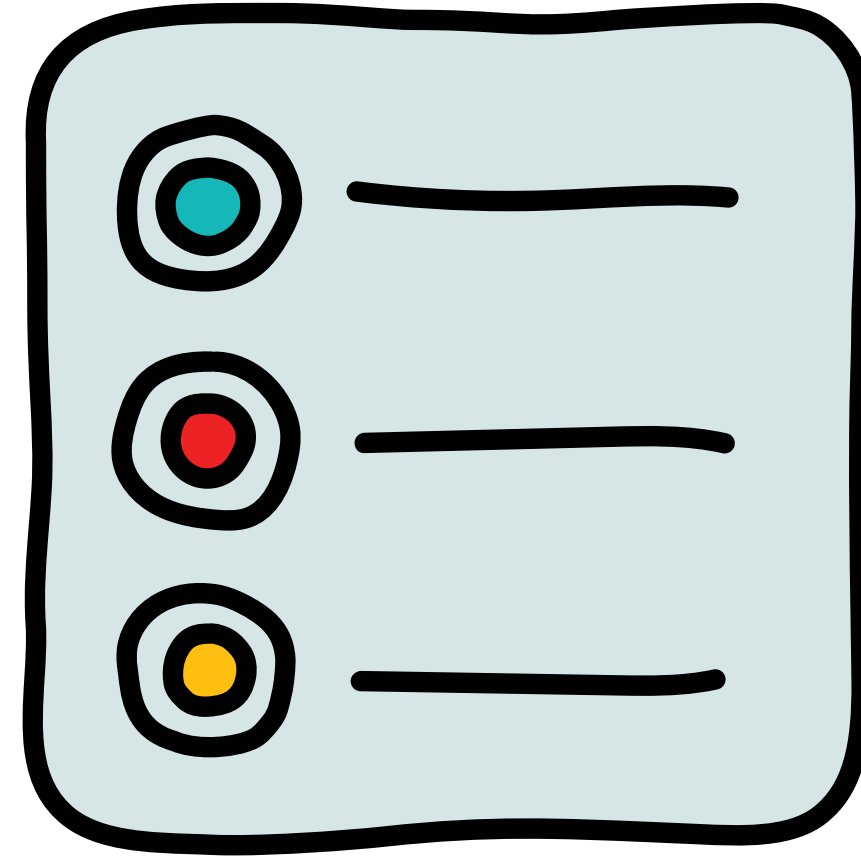
FINANCIAL STATEMENTS

MODULE 2

May 17th, 2021



QUICK REFRESH



WHAT DO WE USE ACCOUNTING FOR?

TRACK SALES

HOW MUCH
MONEY IS COMING
INTO THE
BUSINESS?

TRACK EXPENSES

HOW MUCH
MONEY IS
GOING OUT?

TRACK PROFIT

HOW MUCH
MONEY IS
LEFT?



TRACK CASH

HOW MUCH
CASH DO WE
HAVE TO USE?

CREATE A BUDGET

BUILD A FINANCIAL
PLAN

AND MORE...

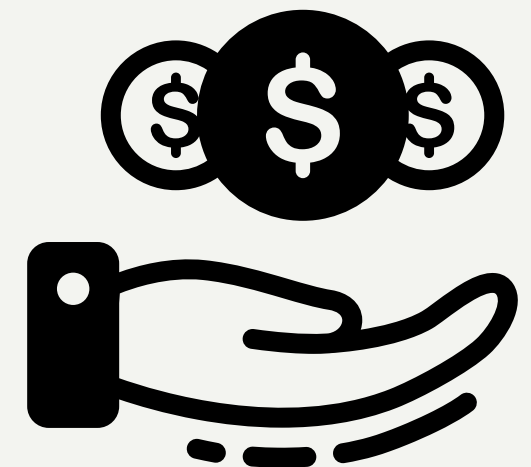
TAXES,
BUSINESS
FINANCING, ETC

TERMS

INCOME: funds that come **INTO the business**. Also called **Revenue**

EXPENSE: funds that **go out of the business**.

- **Cost of Goods Sold(COGS):** direct cost to produce the good or services. Can include material and labor.
- **General & Administrative (G&A):** also called Overhead. Costs required to run a business, but cannot be directly attributed to any specific business activity, product, or service.



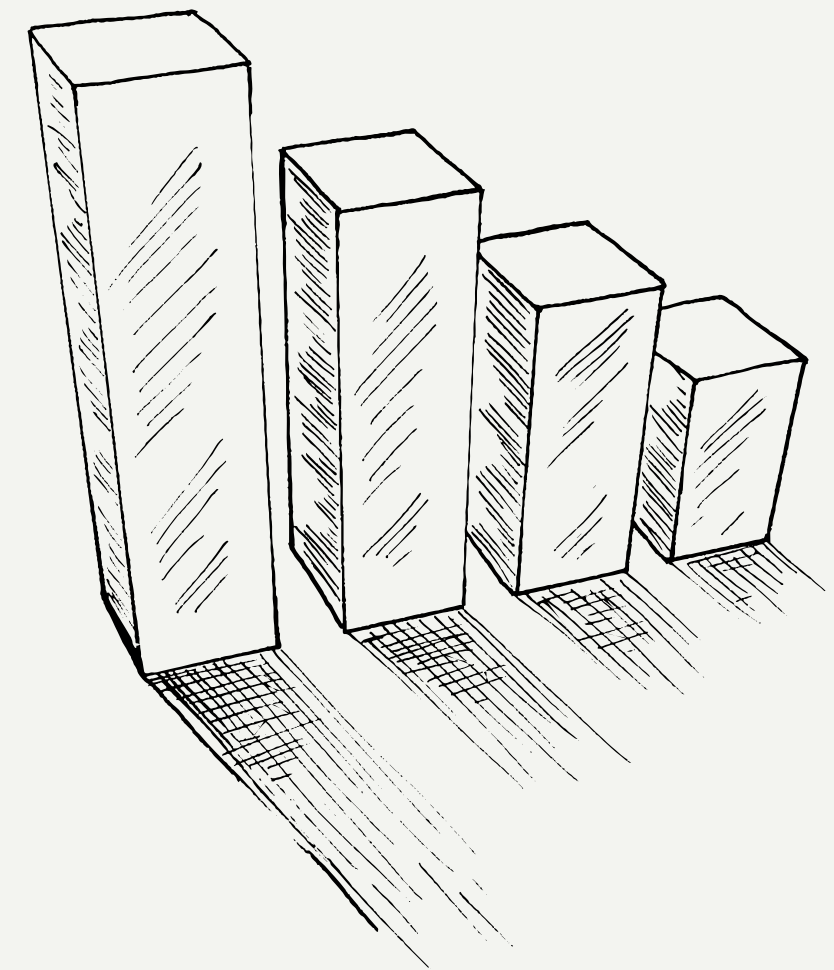
EXPENSE TERMS

FIXED: Fixed Expenses do not change as a result of changes in sales or production levels.

DIRECT: A direct cost can be easily traced to the production of specific goods or services.

VARIABLE: Variable Expenses do change (they vary) with changes in sales or production levels.

INDIRECT: An indirect cost cannot be easily traced to the production of specific goods or services.



PROFIT



**Income
(COGS)**

Gross Profit

**Gross Profit
(Overhead)**

Net Profit

What is left after you pay for labor and materials (COGS) is used to pay for overhead.

.....

What is left after you pay for all expenses is your profit

PROFIT MARGIN

- $\text{Profit} \div \text{Income} = \text{Profit Margin}$
-

- Expressed as a percentage (%)
-

- $\text{Gross Profit Margin} = \text{Gross Profit} \div \text{Income}$
-

- $\text{Net Profit Margin} = \text{Net Profit} \div \text{Income}$



MARK UP

Amount added to the cost of the good or service to **cover direct costs, overhead and profit**

Total Item cost: \$100

Mark up: 20% (\$20)

Selling Price: \$120



Profit = \$20

Profit Margin = \$20 ÷ \$120 = 17%

ASSETS

Something **OWNED by the company** that has value. i.e cash, inventory, equipment, equipment

Current Asset is to be sold, converted to cash, or liquidated to pay for liabilities within one year.

Long Term Asset is not intended to be turned into cash or be consumed within one year of the balance sheet date.

Fixed Asset is a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income



LIABILITIES

Something **OWED by the company** that has value. i.e debt, credit card expenses, bills

Current Liabilities are amounts due within the current year

Long Term Liabilities are amounts due beyond the current year



OWNER'S EQUITY

Represents the owner's investment in the business (contribution) minus the owner's draws, plus the NET income

It is the "residual" claim because Liabilities have priority over owner's equity. It is the proportion of the total value of the company that can be claimed by the owners.

$$\text{ASSETS} = \text{LIABILITIES} + \text{OWNER'S EQUITY}$$

$$\text{OWNER'S EQUITY} = \text{ASSETS} - \text{LIABILITIES}$$



METHODS OF RECORDING

CASH basis records income and expenses at the time cash is received or paid out.

For an example, consider a small business that sells to other businesses and the customers pay invoices in 30 days. The business would record revenues from the sale when the payment actually arrives, 30 days.

Key advantage: it is simpler and easier to track cash flow when that is tight

ACCRUAL BASIS: income and expenses are recorded when they are earned, regardless of when the money is actually received or paid. For example, you would record revenue when a project is complete, rather than when you get paid.

Key advantage: it matches revenues with related expenses, so that the complete impact of a business transaction can be seen within a single reporting period.

CASH VS PROFIT



Cash (revenue) indicates how much money a company earns. Profit indicates how much money is left over after all expenses are paid

CASH FLOW indicates the cash flows in and out of the business. For example, if you sell to a customer that will pay you in 15 days, you had "revenue" but the actual cash will not be in the bank account until the customer pays.

The same holds true if you have a bill that is due in 30 days. You incurred the expense, but the cash won't be disbursed until 30 days from now.

Showing a profit does not mean you have that amount of cash sitting in the bank account

FINANCIAL REPORTS

Balance Sheet

Income Statement

Cash Flow Statement

FINANCE TOOLS

PROFIT AND LOSS

Also called a Income Statement, it shows the business performance over a period. It helps track and organize the revenue, expenses and profit/ loss.

.....

REVENUE: what the business receives. Income generated from the services provided

.....

EXPENSE: what the business spends to operate

.....

REVENUE – EXPENSES = PROFIT/ LOSS

.....

BALANCE SHEET

ASSETS: items owned by the company. It can be tangible or intangible.

Current Asset

Expected to be sold, consumed, or exhausted in the current year

Longterm / Other Asset

Not intended to be converted to cash, consumed, exhausted in one year

LIABILITIES: what the company owes

Current Liability

Amounts due in the current year

Long-term Liability

Amounts due beyond the current year

OWNER'S EQUITY: it the remaining value of an owner's interest in the company, after all liabilities have been deducted.

$$\text{ASSETS} = \text{LIABILITY} + \text{OWNER'S EQUITY}$$

CASH FLOW STATEMENT

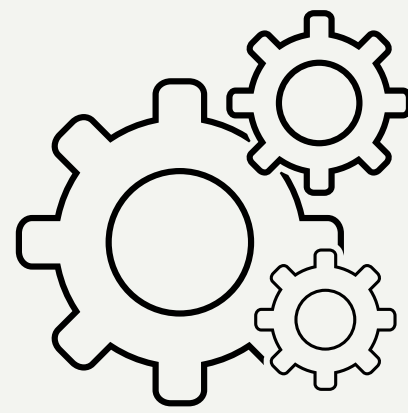
The **Profit & Loss** shows profitability over a period of time

The **Balance Sheet** shows what is owned and owed at a specific point in time

A **cash flow statement** is a financial statement that provides aggregate data regarding all **cash inflows** a company receives from its ongoing operations and external investment sources. It also includes all **cash outflows** that pay for business activities and financing during a given period.

The cash flow statement measures **how well a company manages its cash position**, meaning how well the company generates cash to pay its debt obligations and fund its operating expenses. The cash flow statement complements the balance sheet and profit & loss and is a mandatory part of a company's financial reports.

FINANCIAL TOOLS



Profit and Loss

Balance Sheet

Cash Flow
Statement

Revenue
Expenses
Profit

Assets
Liabilities
Equity

Cash in
Cash out
Cash Analysis

What you
earn/ spend

What you
own/ owe

How cash
moves
through the
business

PROFIT AND LOSS

CAPITAL, Inc. Profit and Loss January - February, 2021			
	Jan 2021	Feb 2021	Total
Income			
Sales			
Total Income			
Cost of Goods Sold			
Gross Profit			
Expenses			
Advertising & Marketing			
Bank Charges & Fees			
Charity			
Contractors			
Discount			
Dues & Subscriptions			
Insurance			
Legal & Professional Services			
Meals & Entertainment			
Office Supplies & Software			
Other Business Expenses			
Payroll Expenses			
Rent			
Utilities			
Total Expenses			
Net Income			

The **Period** of the report tells us what timespan of business history displayed in the report. Software allows reports to be queried based on the desired period. Expenses and Sales Revenues which occurred within the period are added together.

Income	Gross Profit
(COGS)	(Overhead)
<hr/>	<hr/>
Gross Profit	Net Income

- Profit ÷ Income = Profit Margin
- Gross Profit Margin = Gross Profit ÷ Income
- Net Profit Margin = Net Profit ÷ Income

BALANCE SHEET

CAPITAIL Inc Balance Sheet As of January 31, 2021	
ASSETS	
Current Assets	
Bank Accounts	
Accounts Receivable	
Inventory	
Total Current Assets	
Fixed Assets	
Automobile	
Furniture and Equipment	
Leasehold Improvements	
Total Fixed Assets	
TOTAL ASSETS	XXXXX
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Credit Cards	
Total Current Liabilities	
Long-Term Liabilities	
Automobile Payable	
Loan Payable	
Total Long-Term Liabilities	
Total Liabilities	
Equity	
Opening Balance Equity	
Owner Distribution - Ana	
Owner Contribution - Ana	
Retained Earnings	
Total Equity	
TOTAL LIABILITIES AND EQUITY	XXXXX

Unlike a P&L, which covers a period of time, **the balance sheet is a snapshot of a specific point in time.**

ASSETS = LIABILTIES + OWNER'S EQUITY

OWNER'S EQUITY = ASSETS - LIABILITIES

Assets: **OWNED by the company**

Liabilities: **OWED by the company**

Current Asset is to be sold, converted to cash, or liquidated to pay for liabilities within one year.

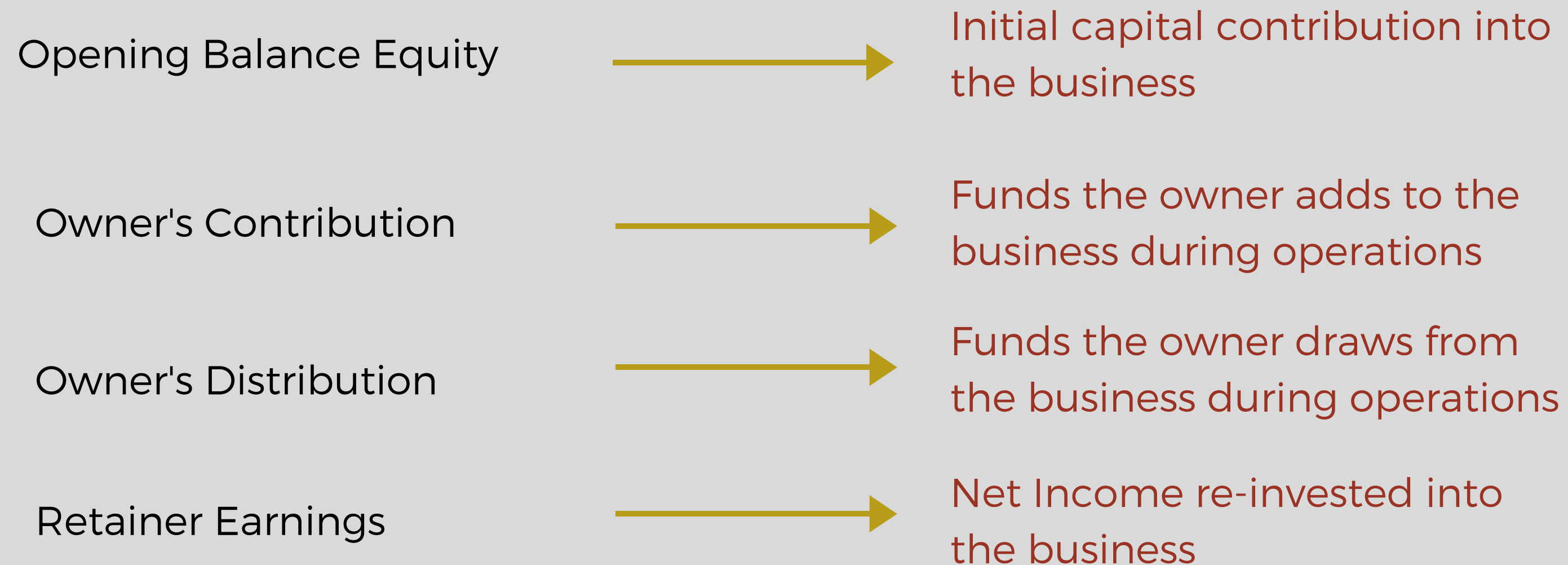
Long Term Asset is not intended to be turned into cash or be consumed within one year of the balance sheet date.

Fixed Asset is a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income

Current Liabilities are amounts due within the current year

Long Term Liabilities are amounts due beyond the current year

EQUITY



CASH FLOW STATEMENT

Weekly Cash Flow Projection

Your Company, Inc.
For July, 2009

CASH RECEIVED	6/26	7/3	7/10	7/17	7/24	7/31
Beginning Cash Balance	\$24,250	\$54,500	\$60,666	\$57,394	\$51,943	\$64,464
Cash Sales	\$33,500	\$37,500	\$32,000	\$27,500	\$36,000	\$42,200
Receivables Collected	\$49,000	\$61,540	\$61,095	\$52,502	\$63,231	\$54,285
Other Cash Received					\$10,000	\$18,908
Total Cash Available	\$106,750	\$153,540	\$153,761	\$137,396	\$161,174	\$179,857

CASH DISBURSED						
Salaries and Wages	\$14,750	\$14,750	\$14,750	\$15,855	\$15,855	\$15,855
Lease/Mortgage	\$11,750					
Insurance		\$11,085				
Office Supplies	\$5,500	\$3,505	\$3,505	\$4,088	\$2,970	\$4,088
Utilities				\$6,693		
Repairs and Maintenance	\$4,500	\$4,155	\$4,155	\$5,117	\$4,546	\$5,117
Operating Supplies	\$3,000	\$3,950	\$3,950	\$2,862	\$3,765	\$2,862
Professional Fees			\$1,575			
Commissions	\$13,500	\$12,850	\$12,850	\$12,543	\$15,043	\$12,543
Travel and Entertainment	\$3,750	\$4,580	\$4,620	\$3,080	\$3,444	\$3,080
Purchases	\$4,250	\$4,500	\$4,290	\$4,171	\$4,697	\$4,171
Advertising	\$2,000	\$2,850	\$2,410	\$2,009	\$2,758	\$2,009
Transportation	\$10,000	\$9,543	\$11,432	\$13,717	\$12,453	\$13,717
Purchase of Capital Assets	\$2,000	\$1,574	\$1,512	\$3,244	\$1,200	\$2,244
Loan Payment with Interest		\$8,214				
Dividends						\$5,500
Other Cash Disbursed	\$12,250	\$11,318	\$11,318	\$12,074	\$9,979	\$12,074
Total Disbursements	\$87,250	\$92,874	\$76,367	\$85,453	\$76,710	\$83,260

CASH POSITION						
Balance Before Financing	19500	60,666	77,394	51,943	84,464	96,597
Loan (Repayment)						(50,000)
Securities Sale (Purchase)	35000		(\$20,000)		(\$20,000)	
Stock Issue (Repurchase)						
Other Received (Disbursed)						
End Of Month Balance	\$54,500	\$60,666	\$57,394	\$51,943	\$64,464	\$46,597

Basis - The Cashflow is always a cash-basis document, meaning that income and expenses are logged at the time they occur.

Actuals - A cashflow statement can be used to analyze Actuals, meaning cash transactions that have actually occurred.

Projections - A cashflow statement is the best tool for making projections, planning for investment or startup expenses, and modeling business expansion ideas.

Recommendation -- Maintain your Actuals! A current cashflow means you can produce a projection anytime. Always keep a cashflow with only actuals.

WHAT DO WE USE PROFIT FOR?

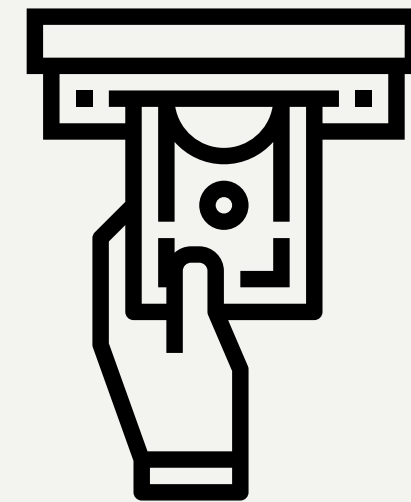
Pay down debt



**Retained
Earnings**



Draw



SCENARIOS AND DISCUSSION

SCENARIO 1

Sales are UP!

Operating Expenses are NEUTRAL

NO NEW Inventory Purchases

Owner's Draw went UP

What happens to?

P&L

Sales?
COGS?

Balance Sheet

Cash?
Inventory?
Owner's Draw?

Cashflow

Revenue?
Expenses?

SCENARIO 2

Inventory is running low before buying season -
Time to purchase/ produce more inventory (no sales yet)

What happens to?

P&L

Sales?
COGS?

Balance Sheet

Cash?
Inventory?
Owner's Draw?

Cashflow

Revenue?
Expenses?

SCENARIO 3

Cash is short to purchase inventory and we are considering financing instead of Owner's Contribution (still no sales)

What happens to?

P&L

Sales?
COGS?

Balance Sheet

Cash?
Inventory?
Liabilities?
Owner's Equity?

Cashflow

Revenue?
Expenses?

SCENARIO 3

We went for a Loan to purchase inventory and now, 6 months later we have sold a lot of inventory

What happens to?

P&L

Sales?
COGS?

Balance Sheet

Cash?
Inventory?
Liabilities?

Cashflow

Revenue?
Expenses?

SCENARIO 4

It is the end of the year and we've done well! We sold almost all our inventory, and net Profit is strong!

What happens to?

P&L

Sales?
COGS?

Balance Sheet

Cash?
Inventory?
Liabilities?

Cashflow

Revenue?
Expenses?

