Agenda

- Overview
- Income Statement
- Balance Sheet
- Statement of Cash Flows
- Using Statements
Businesses use financial statements to help them make decisions
Financial statements tell a business owner how profitable they are
Financial statements help owners identify opportunities and threats
Financial statements help owners keep track of resources
The Matching Principle

“The matching principle is an accounting concept that matches all revenues with the expenses generated to earn those revenues during the accounting period”

– Wisegeek.com
Overview

- Double entry bookkeeping
  - Requires that you enter at least two entries to record a transaction
- It's all about timing
- T-accounts
Expenses generate revenues
- Some expenses are fixed and some are tied to the product or service you provide
- The income statement tells you how profitable you are, NOT how much money you received
A typical Income statement looks like this:

Revenue
Less Cost of Goods Sold
Equals Gross Profit
Less Expenses
Equals Net Income
See handout

- How do you track sales?
- How do you track expenses?
- Do you use pre-paid or use credit?
- When do you recognize revenue and expenses?
Income Statement

- What is depreciation?
- Remember the matching principle
- Realizes expenses over time instead of all at once, usually at time of purchase
The balance sheet keeps track of your assets. It tells you how much of your assets are yours and what you owe.

Assets = Liabilities + Owners Equity
Accumulated depreciation is “a contra asset” account
Depreciation expense is matched to this account reducing the book value of the asset
Balance Sheet

- Assets are what the company owns
- Cash and equivalents
- Accounts receivable
- Equipment
- Property
- Buildings (plant)
- Goodwill
Balance Sheet

- See handout
- What types of assets do you own?
- Did you borrow? (or will you?)
- How much equity do you have?
Statement of Cash Flows

- Tracks how actual CASH going in and out of the business
- See handout
Using Statements

- Track expenses
- When are you most profitable?
- How much debt to you really have in relation to assets
- How often will you view statements?
Using Statements

- Lets recap the double entry system now that we know what statements look like
  - You sell have a $1,000 sale.
  - You give them a bill to pay you within 30 days
  - What two entries will you make?
Let's recap the double entry system now that we know what statements look like:

- You sell have a $1,000 sale.
- You give them a bill to pay you within 30 days.
- What two entries do you make when you receive the cash?
Using Statements

- Lets recap the double entry system now that we know what statements look like
  - You buy small equipment (cash expense)
  - You buy large equipment (account payable)
  - You pay employees
  - You want some money from the business
  - You borrow money for the business
A guide to Internal Controls

Small Business Finance