



A Guide to Internal Controls

Small Business Finance



November 23, 2010 – Menominee, WI



Agenda

- Overview
- Income Statement
- Balance Sheet
- Statement of Cash Flows
- Using Statements



Overview

- 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

Overview

- **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
- Its all about timing
- T-accounts



Income Statement

- 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



Income Statement

- A typical Income statement looks like this

Revenue

Less Cost of Goods Sold

Equals Gross Profit

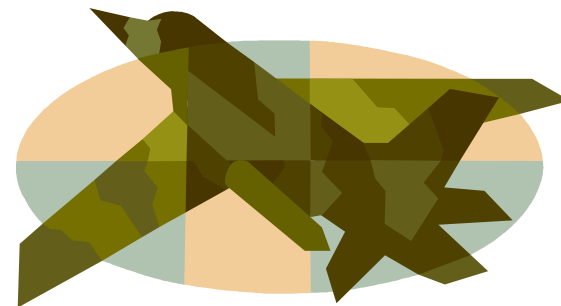
Less Expenses

Equals Net Income



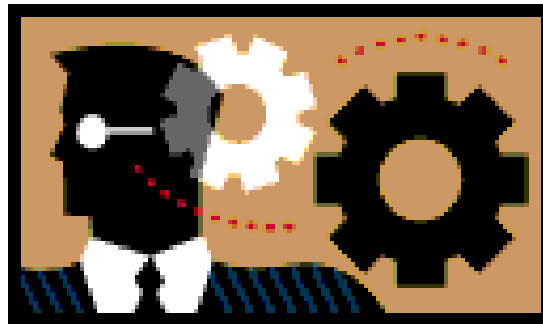
Income Statement

- See handout
- How do you track sales?
- How do you track expenses?
- Do you use pre-pays 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



Balance Sheet

- The balance sheet keeps track of your assets.
- It tells you how much of your assets are yours and what how much you owe

Assets = Liabilities + Owners Equity



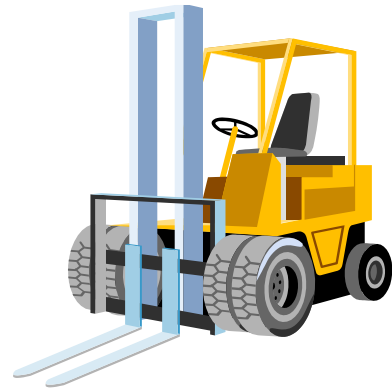
Balance Sheet

- 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



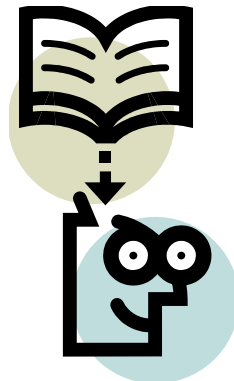
Using Statements

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



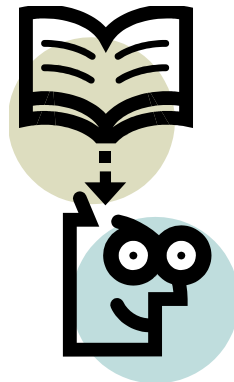
Using Statements

- 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?



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 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

