

FINANCIAL STATEMENTS

INCOME STATEMENT

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AN INCOME STATEMENT, ALSO KNOWN AS A PROFIT AND LOSS STATEMENT (P&L), STATEMENT OF EARNINGS, OR STATEMENT OF OPERATIONS, IS A FINANCIAL STATEMENT THAT PROVIDES A SUMMARY OF A COMPANY'S REVENUES, EXPENSES, AND PROFITS OVER A SPECIFIC PERIOD OF TIME

BALANCE SHEET

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A BALANCE SHEET, ALSO KNOWN AS A STATEMENT OF FINANCIAL POSITION, IS A FINANCIAL STATEMENT THAT PROVIDES A SNAPSHOT OF A COMPANY'S FINANCIAL CONDITION AT A SPECIFIC POINT IN TIME. IT PRESENTS THE COMPANY'S ASSETS, LIABILITIES, AND SHAREHOLDERS' EQUITY

STATEMENT OF CASH FLOWS

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A STATEMENT OF CASH FLOWS, OFTEN REFERRED TO AS THE CASH FLOW STATEMENT, IS A FINANCIAL STATEMENT THAT PROVIDES AN OVERVIEW OF HOW A COMPANY GENERATES AND USES CASH DURING A SPECIFIC PERIOD OF TIME



THE INCOME STATEMENT

THE INCOME STATEMENT | PROFIT AND LOSS (P&L)

- THE INCOME STATEMENT OR THE PROFIT AND LOSS STATEMENT SHOWS YOUR BUSINESS'S ABILITY TO SELL GOODS AND SERVICES FOR MORE THAN IT COSTS TO MAKE THEM YEAR BY YEAR OR PERIOD BY PERIOD.
- THE INCOME STATEMENT CAN BE ORGANIZED IN A WAY THAT SUITS THE NEEDS OF YOUR BUSINESS AND ITS RESPECTIVE OPERATIONAL AND DEPARTMENTAL REQUIREMENTS.
- REVENUE - EXPENSES = PROFIT OR LOSS.
- "ABOVE THE LINE" = FIRST SECTION OF THE INCOME STATEMENT THAT REFLECTS THE INCOME AND GROSS PROFIT THAT IS GENERATED BY THE REVENUE TRANSACTIONS THAT YOU'VE HAD.
- "BELOW THE LINE" = SECOND SECTION OF THE INCOME STATEMENT THAT REFLECTS THE OPERATING EXPENSES BY DEPARTMENT THAT COME OUT OF THE GROSS PROFIT GENERATED ABOVE, WHICH HELPS DICTATE THE NET INCOME OF YOUR BUSINESS.
- IMPORTANT TERMS AND LINE ITEMS ON YOUR P&L:
 - "TOP LINE REVENUE" = TOTAL INCOME LINE ITEM
 - "BOTTOM LINE REVENUE" = NET INCOME LINE ITEM
 - NET OPERATING INCOME LINE ITEM = MANAGERIAL NET INCOME
 - EBITDA OR MANAGEABLE EARNINGS: EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION
- AT YEAR END, NUMBERS FOUND IN YOUR INCOME STATEMENT GET RESET TO ZERO FOR THE START OF THE NEW FISCAL YEAR.
- AT YEAR END, YOUR COMPANIES NET EARNINGS OR NET INCOME IS AUTOMATICALLY ROLLED OVER TO "RETAINED EARNINGS" LOCATED ON YOUR BALANCE SHEET.
- YOUR YIELD FROM YOUR INCOME STATEMENT HAS AN IMPACT ON YOUR BALANCE SHEET YEAR AFTER YEAR, ACCUMULATING THOSE EARNINGS AND CREATING A STRONGER BUSINESS.

THE BALANCE SHEET

THE BALANCE SHEET

- THE BALANCE SHEET MEASURES THE CUMULATIVE VIEW AND RESULT OF ALL BUSINESS EFFORTS OVER THE LIFETIME OF THE BUSINESS.
- THE BALANCE SHEET IS A PICTURE/SNAPSHOT IN TIME OF YOUR BUSINESS.
- WITHOUT A STRONG BALANCE SHEET, THERE IS LITTLE CAPACITY TO SUPPORT THE REVENUE GENERATING ACTIVITIES THAT ARE REQUIRED AND MEASURED BY THE INCOME STATEMENT.
- THE BALANCE SHEET MEASURES WHAT YOU OWN AND WHAT YOU OWE:
 - OWN = ASSETS
 - OWE = LIABILITIES
 - $ASSETS - LIABILITIES = EQUITY$ | $ASSETS = LIABILITIES + EQUITY$
 - EQUITY = NET WORTH OR DIFFERENCE BETWEEN ASSETS AND LIABILITIES
 - EQUITY = ACCUMULATED EARNINGS OF THE BUSINESS OR APPROXIMATION/ESTIMATION OF THE LIQUID LONG-TERM VALUE OF YOUR BUSINESS IF YOU WERE TO SELL EVERYTHING AND SETTLE ALL OF YOUR DEBTS
 - WHEN ASSETS EQUAL LIABILITIES AND EQUITY, WE HAVE A BALANCED BALANCE SHEET
- EQUITY IN FINANCIAL STATEMENTS IS ALWAYS MEASURED AT COST. AS AN EXAMPLE, IF YOU PURCHASE A BUILDING FOR YOUR COMPANY, THAT WOULD REFLECT A FIXED ASSET ON YOUR BALANCE SHEET AND INCREASE YOUR TOTAL EQUITY/NET WORTH. HOWEVER, WHILE YOUR PREVIOUSLY PURCHASED PROPERTY HAS LIKELY APPRECIATED IN VALUE SINCE YOU PURCHASED IT, YOUR EQUITY LISTED ON YOUR BALANCE SHEET IS AT THE COST YOU ORIGINALLY PURCHASED THE FIXED ASSET.
- TOTAL EQUITY (OR ACCUMULATED RETAINED EARNINGS) FROM YOUR BALANCE SHEET REVEALS THE YEAR AFTER YEAR CUMULATIVE GROWTH OR CHANGE TO YOUR NET INCOME THAT YOUR BUSINESS HAS EXPERIENCED IN ITS LIFETIME, SIMILAR TO A HISTORICAL RECORD.
- IF YOU ARE MANAGING YOUR BUSINESS FOR ITS LONG-TERM GROWTH AND FUTURE VALUATION TO POSSIBLY SELL, IT IS IN FACT THE EQUITY FROM YOUR ASSETS LESS YOUR LIABILITIES ON YOUR BALANCE SHEET THAT YOU WILL WANT TO BE FOCUSED ON, VERSUS THE CURRENT PERIOD'S EARNINGS.
- UNLIKE THE FLEXIBILITY FOUND IN THE DESIGN OF THE INCOME STATEMENT, THE BALANCE SHEET ADHERES TO SPECIFIC RULES WITH RESPECT TO ACCOUNT PLACEMENT ON THE STATEMENT.
- ON A BALANCE SHEET, ALL ACCOUNTS (ASSETS, LIABILITIES AND EQUITY) ARE ARRANGED IN ORDER OF LIQUIDITY, OR HOW FAST THEY CAN BE CONVERTED TO CASH.
 - FOR EXAMPLE, THE BANK ACCOUNT FUNDS WILL ALWAYS BE AT THE TOP, AS THEY ARE 100% LIQUID. THEY ARE FOLLOWED BY MONEY COMING IN/ACCOUNTS RECEIVABLE, AND THEN INVENTORY, WHICH IS A LITTLE MORE CHALLENGING TO LIQUIDATE.

THE BALANCE SHEET CONT.

THE BALANCE SHEET

- SIMILARLY, LIABILITIES AND EQUITY ARE ARRANGED IN TERMS OF LIQUIDITY/CASH-CONVERSION.
 - FOR EXAMPLE, ACCOUNTS PAYABLE ARE EXPECTED TO BE PAID BY YOUR COMPANY FIRST, AS THEY ARE A SHORTER-TERM OBLIGATION. THEY ARE FOLLOWED BY ANY TAXES OR NOTES PAYABLE, AND FOLLOWED BY LONG-TERM LIABILITIES OR OBLIGATIONS TO BE PAID BY YOUR COMPANY.
- WHILE THE INCOME STATEMENT AND THE BALANCE SHEET ARE CRITICAL COMPONENTS OF YOUR BUSINESS'S FINANCIAL SUITABILITY, NO BUSINESS CAN SURVIVE WITHOUT CASH AND ITS CONTINUOUS FLOW.

STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS

- THE STATEMENT OF CASH FLOWS CONNECTS THE INCOME STATEMENT TO THE BALANCE SHEET.
- THE STATEMENT OF CASH FLOWS HELPS YOU SEE HOW MUCH CASH WAS CONSUMED BY THE INCOME STATEMENT AND HOW MUCH CASH WAS CONSUMED IN GROWING THE BALANCE SHEET.
- IF YOU ARE A BUSINESS OWNER WHO SEES YOUR NET INCOME ON YOUR INCOME STATEMENT AND WONDERS WHY AND WHERE YOUR NET INCOME/CASH (\$) HAS GONE, THE STATEMENT OF CASH FLOWS ALWAYS HAS YOUR ANSWER.
- STATEMENT OF CASH FLOWS: IMPORTANT LINE ITEMS
 - **TOP** "NET INCOME" LINE ITEM ON YOUR STATEMENT OF CASH FLOWS COMES DIRECTLY FROM YOUR INCOME STATEMENT.
 - **BOTTOM** "CASH AT END OF PERIOD" LINE ITEM ON YOUR STATEMENT OF CASH FLOWS COMES DIRECTLY FROM YOUR BALANCE SHEET.
 - **MIDDLE** "NET CASH PROVIDED BY OPERATING ACTIVITIES" LINE ITEM SHOWS HOW MUCH CASH YOU ARE GENERATING THROUGH YOUR NORMAL COURSE OF BUSINESS TO KEEP THE BUSINESS RUNNING.
 - A "BOTTOM LINE" ON THE STATEMENT OF CASH FLOWS.
 - IF YOU EVER NEED A BUSINESS LOAN, THIS IS THE LINE ITEM LENDERS WILL LOOK AT TO APPROVE OR DENY YOU BECAUSE THAT LINE IS THE SOURCE OF DEBT REPAYMENT.