



Preparing Your Financial Documents

Date: Tuesday
June 22nd 2021



Accredited to provide
Technology commercialization assistance

Presenter

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Bilingual Business Consulting- MD SBDC

- 20+ years experience in Banking
- Founder and operator of a restaurant and catering service
- 10+ mentoring and counseling small business
- Mentor, activist, trainer, and coach
- Graduate of The American University, DC
- Join SBDC-Corridor región in August 2020



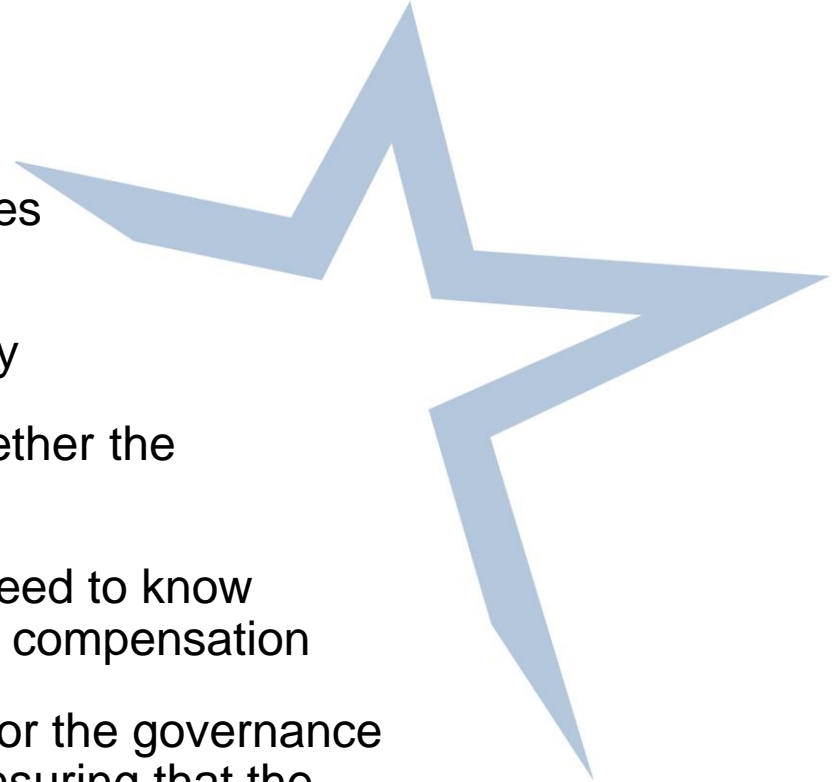
What are financial Statements?

- **They provide a snapshot of a corporation's financial health, giving insight into its performance, operations, and cash flow.**
- **They are essential since they provide information about a company's revenue, expenses, profitability, and debt.**

Who wants to know?

People and groups interested in financial statements include:

- Accounting personnel, who need to know whether the organization will be able to cover payroll and other immediate expenses
- Potential lenders or creditors, who want a clear picture of a company's ability to repay
- Potential investors, who need to judge whether the company is financially sound
- Potential employees or contractors, who need to know whether the company will be able to afford compensation
- Company Directors, who are responsible for the governance of the company, and are responsible for ensuring that the company does not trade while insolvent
- Shareholders of the company.



Common Financial Statements

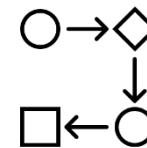
BALANCE SHEET



INCOME STATEMENT



CASH FLOW STATEMENT



Balance Sheet

AKA **statement of financial position** or **statement of financial condition**

Summary of financial balances of an organization

Often described as a "snapshot of a company's financial condition"

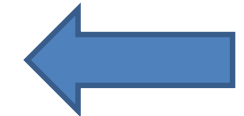
Assets, liabilities and ownership equity are listed as of a specific date

Balance Sheet

ABC Company Inc.

Dec. 31, 201X

Assets	
Current Assets	
Cash	7,314
Accounts receivable	
Inventory	5,560
Prepaid expenses	
Short-term investments	
<i>Total current assets</i>	12,874
Fixed (Long-Term) Assets	
Long-term investments	2,310
Property, plant, and equipment	14,442
(Less accumulated depreciation)	(2,200)
Intangible assets	
<i>Total fixed assets</i>	14,552
Other Assets	
Deferred income tax	
Other	
<i>Total Other Assets</i>	-
Total Assets	27,426
Liabilities and Owner's Equity	
Current Liabilities	
Accounts payable	9,060
Short-term loans	
Income taxes payable	3,349
Accrued salaries and wages	
Unearned revenue	
Current portion of long-term debt	
<i>Total current liabilities</i>	12,409
Long-Term Liabilities	
Long-term debt	3,450
Deferred income tax	
Other	
<i>Total long-term liabilities</i>	3,450
Owner's Equity	
Owner's investment	6,000
Retained earnings	5,567
Other	
<i>Total owner's equity</i>	11,567
Total Liabilities and Owner's Equity	27,426



What information is in the balance sheet?

Current assets such as cash, accounts receivable, and inventory

Fixed assets such as land, buildings, and equipment

Intangible assets such as patents

Liabilities such as accounts payable, accrued expenses, and long-term debt

Contingent liabilities such as warranties are noted in the footnotes to the balance sheet

The small business's equity is the difference between total assets and total liabilities

How to build a Balance Sheet?

REVIEW

- ✓ Left side: cash on hand and in the bank
value of the equipment you own
value of the inventory in stock
other financial assets
- ✓ Right side: list liabilities, accounts payable,
credit card balances
bank loans
other monies owed by the company

Total assets – Total Liabilities = Owner's
equity

Common Errors in Balance Sheets

- Omitting transactions
- Recording transactions incorrectly
- Not reporting inventory changes
- Incorrect classification of data
- Inconsistent time period



How to avoid errors

- ✓ Conduct a trial balance before creating balance sheet
- ✓ Review balance sheet transactions regularly
- ✓ Identify and address issues as soon as possible
- ✓ Keep financial records organized
- ✓ Verify that the time period is correct

Income Statement

Shows company's revenues and expenses during a particular period

Shows how revenues are transformed into net income/profit

Shows managers & investors whether the company made money

Helps forecast ability to generate future revenues

Income Statement Sample

Ford Motor Co.
Consolidated Income Statement
for the Years Ended December 31
(in millions)

	<u>2010</u>	<u>2009</u>
Revenue	\$ 128,954	\$ 116,283
Expenses		
Cost of goods sold	(104,451)	(98,866)
Selling, administrative, and other costs	(11,909)	(13,029)
Interest expense	(6,152)	(6,790)
Other income (expenses)	(181)	5,119
Net income	<u>\$ 6,261</u>	<u>\$ 2,717</u>

How to build an Income Statement

Part I

An income statement is composed of:

- ✓ Pick a reporting period
- ✓ Generate a Trial Balance Report
- ✓ Calculate your revenue
- ✓ Determine your Cost of Goods sold
- ✓ Calculate the Gross Margin

How to build an Income Statement

Part II

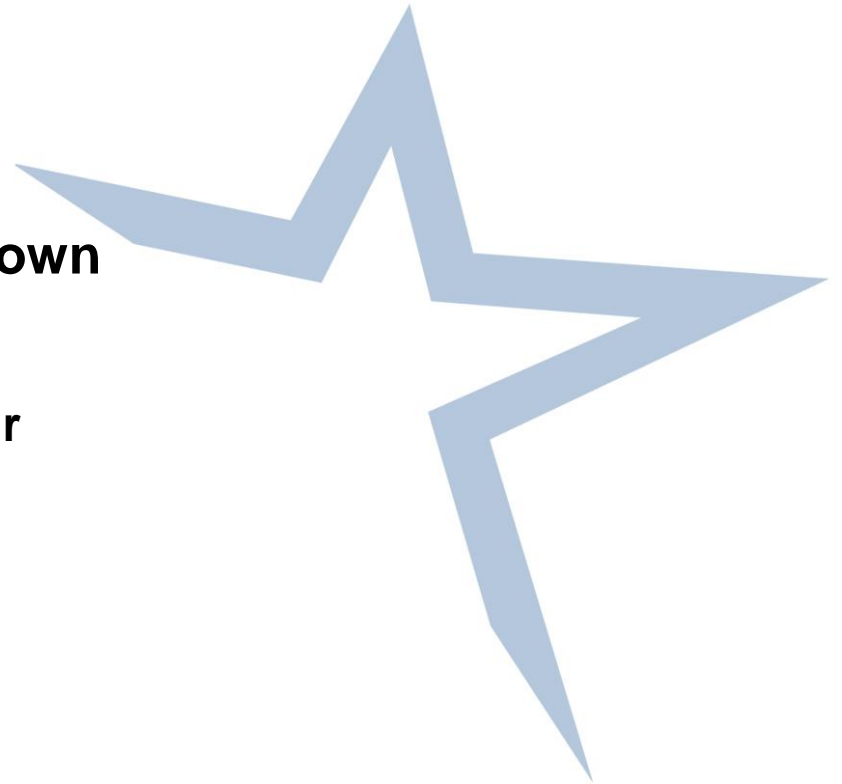
An income statement is composed of:

- ✓ Add up Operating Expense
- ✓ Calculate your income
- ✓ Include Income Taxes
- ✓ Calculate Net Income
- ✓ Finalize your Income Statement

ERRORS OF OMISSION

Unrecorded transactions are known as errors of omission.

- ✓ **Errors of omission throw off your accounting book**
- ✓ **May cause you to file your taxes incorrectly**
- ✓ **create false financial statements**
- ✓ **spend more money than you have.**





Avoiding Errors

- ✓ Update your accounting books. Save receipts and other documents. I
 - ✓ Check your records. ...
 - ✓ Separate personal and business funds. ...
 - ✓ Use software. ...
 - ✓ Create budgets.
-
- ✓ Unrecorded transactions are known as errors of omission. Errors of omission throw off your accounting books, which may cause you to file your taxes incorrectly, create false financial statements, and spend more money than you have.

Cash Flow Statement

Concerned with the flow of cash in and out of the business.

Breaks the analysis down to operating, investing, & financing activities.

Shows how changes in balance sheet accounts & income affect cash & cash equivalents

An analytical tool, the statement of cash flows is useful in determining the short-term viability of a company, particularly its ability to pay bills



Home Store, Inc.
Statement of Cash Flows
for the Year Ended December 31, 2012

Cash flows from operating activities^a		
Net income	\$ 124,000	
Adjustments (to convert net income to cash provided by operating activities)		
Add back depreciation expense	24,000	
Add back loss on sale of equipment	6,000	
Increase in accounts receivable	(60,000)	
Increase in merchandise inventory	(66,000)	
Decrease in prepaid expenses	2,000	
Increase in accounts payable	1,000	
Decrease in income tax payable	(9,000)	
Cash provided by operating activities		\$ 22,000
Cash flows from investing activities^b		
Purchase of equipment	(67,000)	
Proceeds from sale of equipment	5,000	
Purchase of long-term investments	(12,000)	
Cash used by investing activities		(74,000)
Cash flows from financing activities^c		
Principal payment on bonds	(18,000)	
Proceeds from issuance of common stock	4,000	
Payment of cash dividends	(32,000)	
Cash used by financing activities		(46,000)
Net decrease in cash		\$ (98,000)
Cash at beginning of year ^d		130,000
Cash at end of year ^d		<u>\$ 32,000</u>

Step 1

Step 2

Step 3

Step 4

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Intended purpose

1

Provide information on a firm's liquidity and solvency and its ability to change cash flows in future circumstances

2

Provide additional information for evaluating changes in assets, liabilities and equity

3

Improve the comparability of different firms' operating performance

4

Indicate the amount, timing and probability of future cash flows



Avoiding Errors

- ✓ **Misclassifying cash flows**
- ✓ **Not accounting for non-cash transactions**
- ✓ **Not reporting a non-cash transaction**
- ✓ **Inconsistent naming of categories**
- ✓ **Audit numbers, double check**
- ✓ **Double check again!!!!**

Take Aways

- ✓ Always maintain update accurate records
- ✓ Seek professional help
- ✓ Audit your numbers
- ✓ Numbers tell a story, are you listening?
- ✓ They are essential since they provide information about a company's revenue, expenses, profitability, and debt.





About SBDC

Training

- Core Topics
- Specialty Topics
- Virtual Training

Counseling

- Assessments
- Business and Marketing Plan

Technical Assistance

- Loan Packaging
- 8(a) Certification Application
- MDot MBE/DBE Application
- Government Procurement
- Market Research
- 3rd Party Review of Business Plan