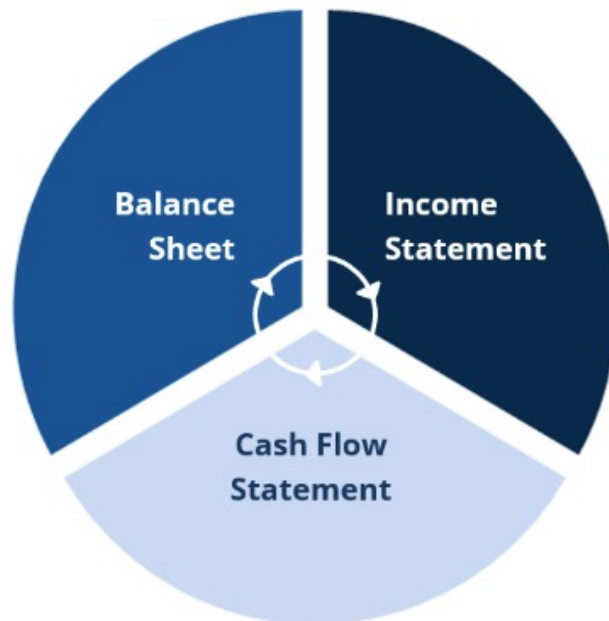


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## Business Financial Statement Basics



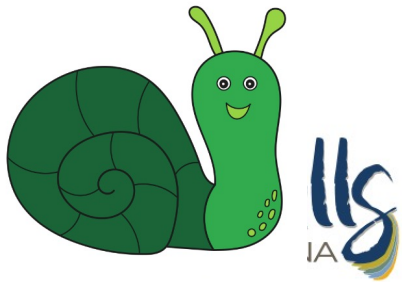
Presented by Rich Gannon  
Montana SBDC Business Advisor  
Great Falls Development Alliance

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# Business Financial Statement Basics

## Agenda

- » Disclaimer
- » Why Bother
- » Income statement
- » Balance Sheet
- » Cash Flows
- » Tying them all together



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## Business Financial Statement Basics

### Why Bother?

- » Understanding your (or your employer's) financial statements can help you better understand your business, and help you make better informed decisions.
- » Every business decision you make impacts your financials.

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## Business Financial Statement Basics

### Income Statement

- » Conceptually the easiest statement to understand
- » Why is it important? Shows profitability over a time period – you can use this to track progress and make management decisions.

ABC Pizza Income Statement		2023
1/1/23 to 12/31/23		
Revenue	Revenue	\$1M
	Sales	\$1M
COGS	Direct Costs	\$400,000
	Cost of Goods Sold	\$400,000
Gross Profit	Gross Margin	\$600,000
	Gross Margin %	60%
Operating Income aka EBITDA	Operating Expenses	\$301,200
	Salaries & Wages	\$216,000
	Employees	\$216,000
	Employee Related Expenses	\$43,200
	Rent	\$18,000
	Other S, G and A	\$24,000
	Operating Income	\$298,800
Non Operational Exp.	Interest Expense	\$12,048
	Income Taxes	\$40,013
	Depreciation and Amortization	\$20,000
Total Exp. (COGS + Operating Exp + Non Operating Exp.)	Total Expenses	\$773,261
Net Profit	Net Profit	\$226,739
Net Profit Margin% (Net profit margin/sales)x100%	Net Profit %	23%



Some key things  
to remember  
about the  
Income  
statement

- » Revenue includes all sales – there’s a huge difference between sales and cash! That’s one of the reasons we need a cash flow statement.
- » Shows profitability over a set time period. Use the income statement to track trends.
- » Important to understand EBITDA because some non operational expenses can throw off the income statement.

**EBITDA = Earnings before Interest, Taxes, Depreciation, Amortization**

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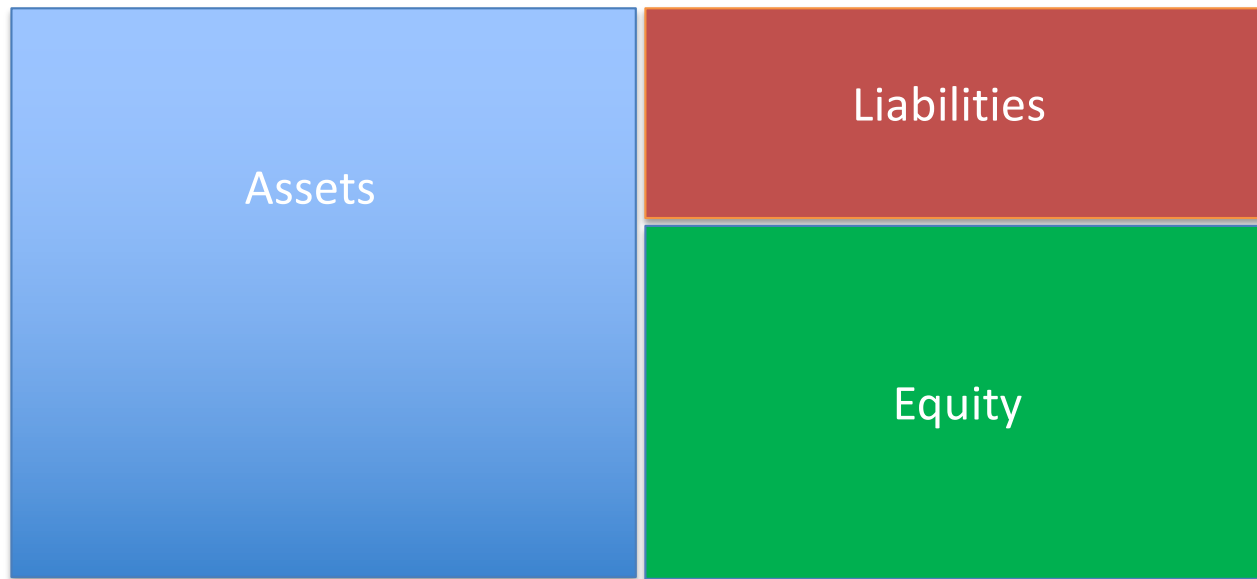
## Business Financial Statement Basics

### Balance Sheet

- » A snapshot at a point in time that shows the net worth of a company.
- » The balance sheet equation is...
  - **Assets = Liabilities + Equity (what a company owns and how it paid for it.)**
  - **Assets – Liabilities = Equity (or net worth)**
- » Why is it important? Helps you understand use of equity and debt – an indicator of short term and long term financial stability

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## Balance Sheet





Assets (what the company owns) divided between current and long term

Liabilities (what the company owes) divided between current and long term

Equity (net worth of the company)

ABC Pizza Balance Sheet as of 12/31/23		2023
<b>Assets</b>		<b>\$457,900</b>
<b>Current Assets</b>		<b>\$277,900</b>
Cash		\$261,233
Accounts Receivable		\$16,667
<b>Long-Term Assets</b>		<b>\$180,000</b>
Long-Term Assets		\$200,000
Accumulated Depreciation		(\$20,000)
<b>Liabilities &amp; Equity</b>		<b>\$457,900</b>
<b>Liabilities</b>		<b>\$181,161</b>
<b>Current Liabilities</b>		<b>\$50,537</b>
Accounts Payable		\$0
Income Taxes Payable		\$40,013
Short-Term Debt		\$10,524
<b>Long-Term Liabilities</b>		<b>\$130,624</b>
Long-Term Debt		\$130,624
<b>Equity</b>		<b>\$276,739</b>
Paid-In Capital		\$50,000
Retained Earnings		\$226,739
Earnings		
	<b>\$181,161 Total Liab.</b>	
	<b>+\$276,739 Total Equity</b>	
	<b>= \$457,900 Total Assets</b>	
	<b>\$457,900</b>	
	<b>-\$181,161</b>	
	<b>=\$276,739</b>	



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## Some key things to remember about the balance sheet

- » Shows cumulative worth of the company.
- » Assets and liabilities are divided between short term and long term. Liquidity is important!
- » Remember the accounting equation;
  - A company's total assets is equal to the sum of its liabilities and shareholder's equity.  $A = L + E$

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## Business Financial Statement Basics

# Statement of Cash Flow

- » Reports cash and and out of the business over a period of time.
- » Three components of cash from the business
  - **Cash from operations**
  - **Cash from investing**
  - **Cash from financing**
- » Why is it important? Provides an understanding of how cash is generated in a company and how cash is used.

ABC Pizza Statement of Cash Flow 1/1/23 to 12/31/23		2023
<b>Net Cash from Operations</b>		<b>\$270,085</b>
Net Profit		\$226,739
Depreciation and Amortization		+ \$20,000
Change in Accounts Receivable		-\$16,667
Change in Accounts Payable		\$0
Change in Income Tax Payable		+ \$40,013
<b>Net Cash from Investing</b>		<b>(\$200,000)</b>
Assets Purchased or Sold		(\$200,000)
<b>Net Cash from Financing</b>		<b>\$191,148</b>
Investments Received		\$50,000
Change in Short-Term Debt		\$10,524
Change in Long-Term Debt		\$130,624
Cash at Beginning of Period		\$0
Net Change in Cash		\$261,233
<b>Cash at End of Period</b>		<b>\$261,233</b>

Cash from Operations

Cash from Investing

Cash from Financing

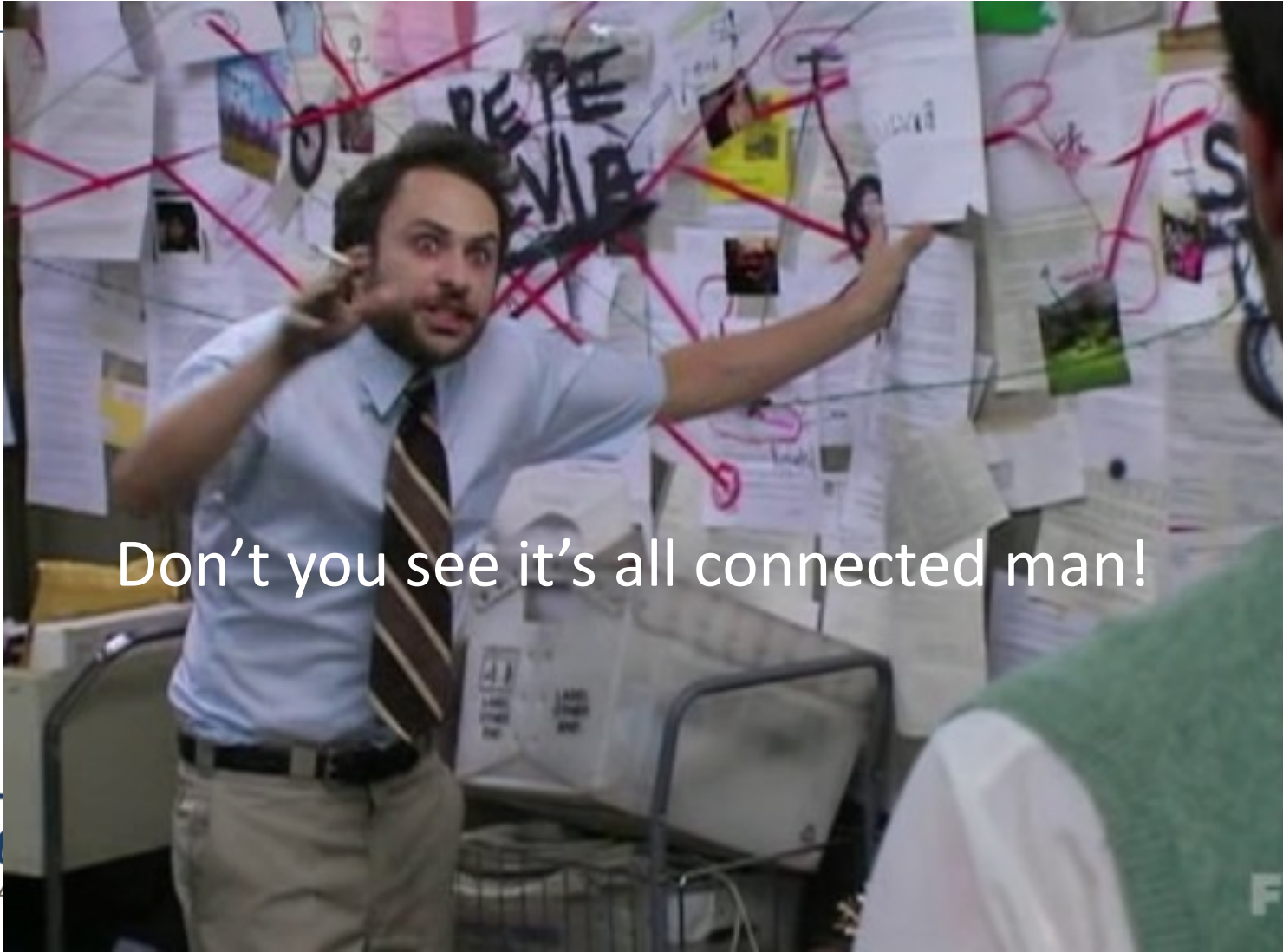


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## Business Financial Statement Basics

### Recap

- » Profit and loss or Income statement – understand profitability over a time period.
- » Balance sheet – statement of company net worth insight into how it acquired its assets
- » Cash flow – shows sources and uses of cash in the business



Don't you see it's all connected man!

**FAME**  
REPRENEURIAL  
SPIRIT

GROW  
Great Falls  
MONTANA

montana.org

# Income Statement

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<b>Net Profit %</b>	<b>23%</b>

# Balance Sheet

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# Cash Flow

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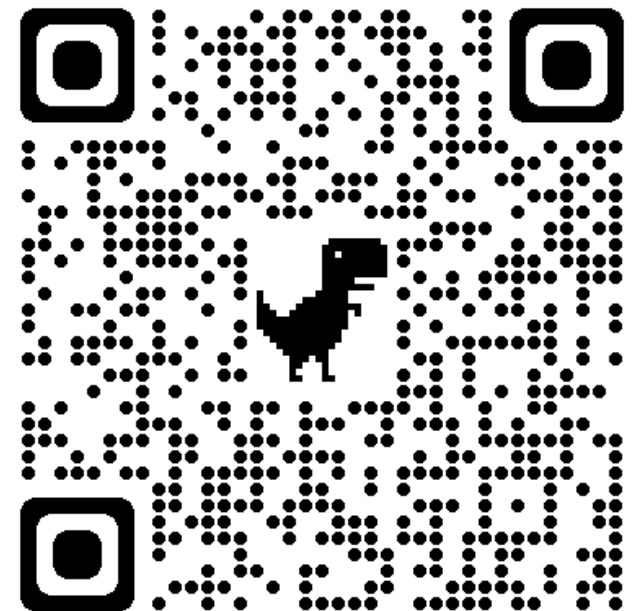
Connect with the Montana Small Business Development Center

Please contact me with any questions or comments

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406-836-2078



<https://sbdc.mt.gov/>

[GrowGreatFallsMontana.org](https://GrowGreatFallsMontana.org)



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## Business Financial Statement Basics - Quiz

Q. What financial statement is a snapshot of the company's net worth? **A. Balance Sheet**

Q. What financial statement shows profitability over a set time period? **A. Income Statement**

Q. What financial statement gives an indication of the company's ability to meet short term obligations? **A. Balance Sheet**

Q. What financial statement shows the different ways a company sources and uses cash? **A. Statement of cash flow**

Q. If a company has \$100,000 of debt and \$400,000 of equity, what should its asset balance be? **A. \$500,000**

Q. What color was the snail? **A. Green**