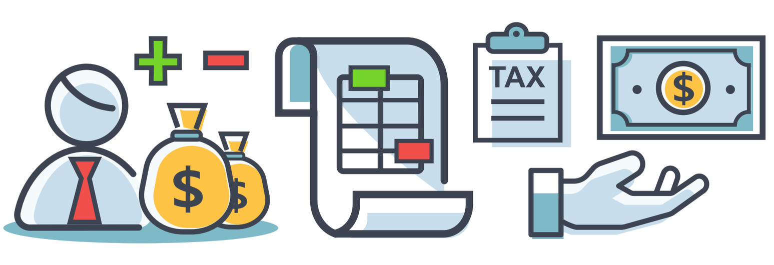
Getting the Most from your Business Financial Statement

Accurate and up-to-date financial statements can give small business owners the information they need to make smart decisions on where to take their business next. Our visual guide will help you make sense of the details and start using this tool to take your business where you want it to go.

While there are lots of financial reports out there, the most useful ones for small businesses are:

Balance Sheet

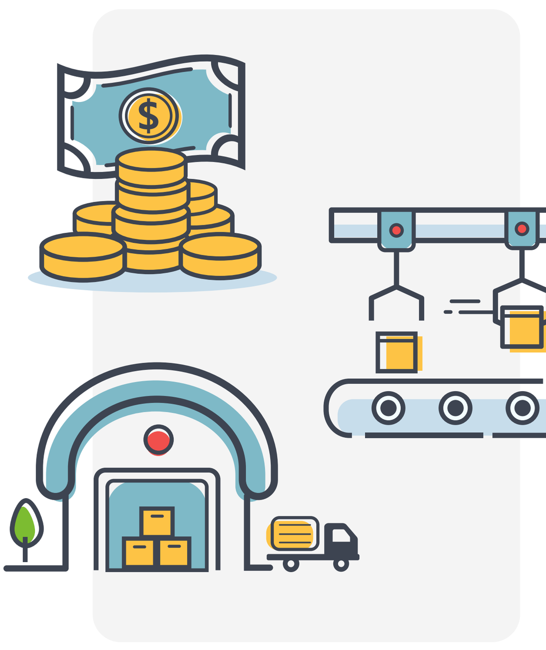
This summary gives you a clear picture of the state of your business on the day that it is created. It presents your finances in three clean categories.



Income Statement

Sometimes referred to as a profit and loss statement. The Income Statement measures the performance of your business across time by showing your revenues and expenses during a defined period, for example a month, quarter or year. They are divided into important segments.

About Balance Sheets



Assets

Everything your business owns that has value tied to it is included in this category. Whether it is cash in the bank, inventory to be sold or the equipment you own to make products or deliver services, it counts as an asset.

- Current Assets are items that can be easily converted into cash within the next 12 months.
- Fixed Assets are tangible pieces of property or equipment that are used in operations to generate income, so their value generally carries across multiple statements.

Liabilities

Everything your business owes, whether money, services or product to be delivered. These are your bills to be paid and promises to be fulfilled.

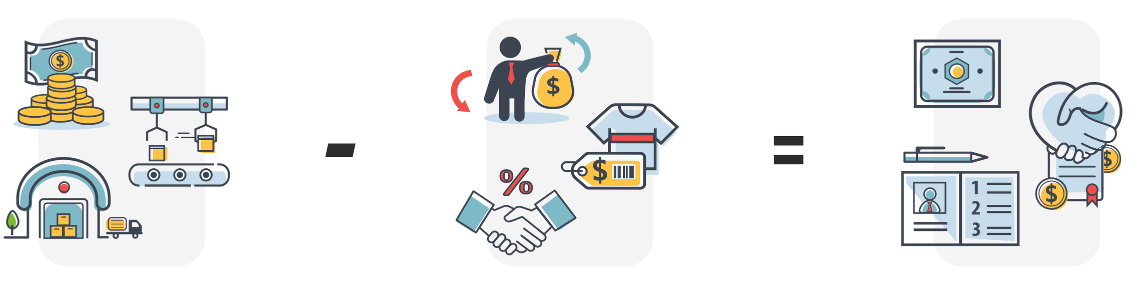
- Current Liabilities are amounts due to be paid to creditors within the next 12 months.
- Long-Term Liabilities are financial obligations that are due more than one year in the future.

Equity

The value of your business when liabilities are subtracted from assets. Essentially, this is the cash value of your business if you were to sell everything and pay off all debts.

- Equity can indicate your profitability at any point, though cash infusions can also add to current equity.
- Equity is the "book value" of your company, not the market value, which could be higher.

The Bottom Line on Balance Sheets



Assets - Liabilities = Equity

This formula should always hold true. If not, consider contacting a CPA to get to the root of the issue.

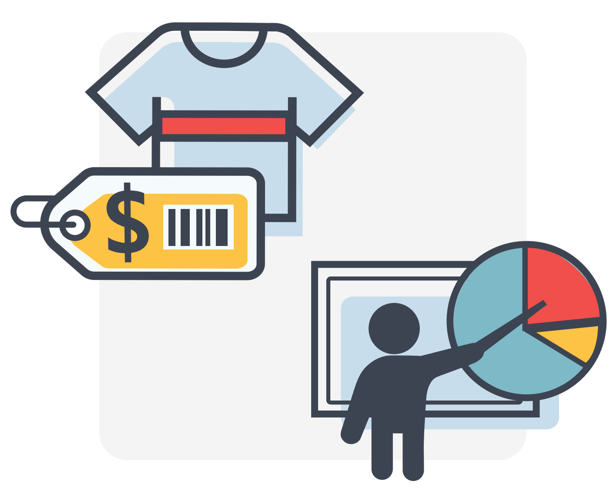
About Income Statements

Sales or Revenue

Amount earned through sales of goods or services.

Cost of Goods Sold (COGS)

What it cost you to make your product or deliver your service. This can include the cost of materials, labor, etc.



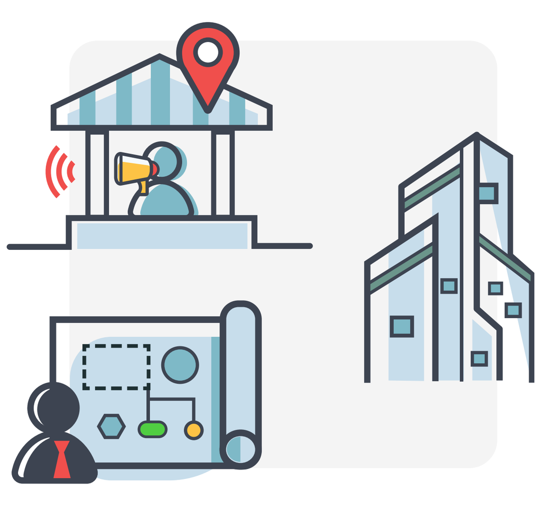
Gross Profit

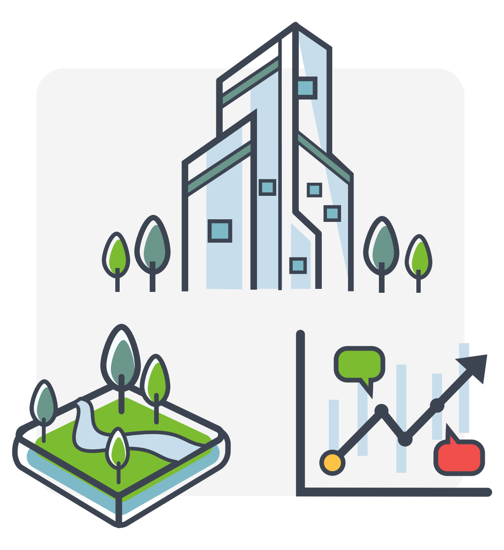
Gross Profit = Sales - COGS

This amount tells you how much money you are making on the products you sell and whether the product you are making is profitable. If this amount is not large enough, you need to find a fix by either reducing the direct cost of your products or selling them for more money.

Operating Expenses

All the other expenses associated with running your business that are not a direct cost associated with the items you make or sell. This can include office supplies, advertising costs, insurance, you name it.





Additional Income

If you receive income from channels other than direct sales, for example, if you sublet a portion of your space to another company, this would be recorded as Additional Income.

Net Profit

Net Profit = Gross Profit – Operating Expenses

This amount tells you how well your overall business is running. If this amount isn't large enough, it may be time to try and increase Gross Profit or reduce Operating Expenses.

Tools for Success

Keeping these two statements in order will give you the tools you need to improve your business today and into the future, no matter what your goals are.

Borrowing

These statements provide lending agencies with the details they need to decide whether you are a risk they are willing to take. Loans and lines of credit may be vital for a business trying to ride out unexpected events, and good financial bookkeeping can help secure the needed funds.

Growing

If you are seeking investors in your business to help drive growth, these financial statements provide them with the information they need to determine what kind of a return on their investment can be expected.

Managing

Reviewing your financial statements regularly lets you identify bright spots in your operation where everything is on track. It also lets you spot areas where something may be going awry and take corrective actions early on to minimize issues.