

Understanding Your Balance Sheet

ABC Gift Shop Balance Sheet December 31, 2023

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	\$32,800	Accounts Payable	\$49,000
Accounts Receivable	\$300	Accrued Expenses	\$450
Prepaid Rent	\$1,000	Unearned Revenue	\$1,000
Inventory	\$39,800	Total Current Liabilities	\$50,450
Total Current Assets	\$73,900	Long-term Liabilities	\$99,500
		Total Liabilities	\$149,950
Long Term Assets		Owner's Equity	
Leasehold Improvements	\$100,000	Owner's Equity	
Accumulated Depreciation	(\$2,000) \$98,000	Retained Earnings	\$11,950
Total Long-Term Assets	\$98,000	Common Stock	\$10,000
Total Assets	\$171,900	Total Owner's Equity	\$21,950
		Total Liabilities + Owner's Equity	\$171,900

A balance sheet is a financial picture of a company at a specific moment. It shows three main things:

- 1. What the business owns:** These are called assets. Think of them as the business's stuff-- like cash, buildings, or computers.
- 2. What the business owes:** These are called liabilities. These are the business's bills or debts that need to be paid, like loans of money they owe suppliers.
- 3. What's left over:** This is called equity. This is what's left after paying off the bills. It's the company's value for the owners.

Here's the formula that's used to make balance sheets:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

This formula means that everything the company owns (assets) is either paid for with borrowed money (liabilities) or money from the owners (equity). Just like this formula, balance sheets must always "balance."

Definitions from Balance Sheet Example

Cash: Money that a business can use right away. It could be paper money or money in the bank

Accounts Receivable: Money that customers owe a business, but haven't paid yet

Prepaid Rent: Rent that a business has paid in advance before it's due

Inventory: The items a business has ready to sell

Leasehold Improvement: Changes or upgrades made to a rented space to make it better for the business using it

Accumulated Depreciation: The total loss in value of something a business owns over time, like how a car becomes worth less the more you drive it

Accounts Payable: Money that a business owes to others, like bills they need to pay later

Accrued Expenses: Costs that a business has to pay but hasn't paid yet

Unearned Revenue: Money that a business gets before doing the work or delivering the product

Retained Earnings: Money that a business has made over time that it keeps to use later

Common Stock: Shares in a business that people can buy, giving them part ownership

[Video: What is a Balance Sheet?](#)

Understanding Your Profit & Loss Statement

ABC Bookstore January 1- September 20, 2024

Description	Q1 (Jan-Mar)	Q2(Apr-Jun)	Q3(Jul-Sep)	Year-to-Date	
Revenue					This is the total amount of money the business earns from selling things. It shows how much money the business brought in before paying for any cost or expense
Book Sales	\$25,000	\$30,000	\$35,000	\$90,000	
Coffee & Snack Sales	\$5,000	\$6,000	\$7,500	\$18,500	
Stationary Sales	\$1,000	\$1,200	\$1,500	\$3,700	
Total Revenue	\$31,000	\$37,200	\$44,000	\$112,200	
Cost of Goods Sold					This is the amount of money a business spends to buy or make the products it sells.
Cost of Books	\$15,000	\$18,000	\$21,000	\$54,000	
Cost of Coffee & Snacks	\$2,000	\$2,400	\$3,000	\$7,400	
Cost of Stationery	\$400	\$480	\$600	\$1,480	
Total COGS	\$17,400	\$20,880	\$24,600	\$62,880	This is the money the business has left after it sells something and pays the cost of that product
Gross Profit	\$13,600	\$16,320	\$19,400	\$49,320	
Operating Expenses					These are the everyday costs of running a business. It's all the things a business has to pay to stay open, even if they don't sell anything
Rent	\$3,600	\$3,600	\$3,600	\$10,800	
Salaries & Wages	\$6,000	\$6,000	\$6,000	\$18,000	
Utilities	\$900	\$900	\$900	\$2,700	
Advertising & Marketing	\$450	\$500	\$600	\$1,550	
Office Supplies	\$300	\$350	\$400	\$1,050	
Total Operating Expenses	\$11,250	\$11,350	\$11,500	\$34,100	This is the money the business has left after paying for everything. It's the amount of money the business actually gets to keep
Net Profit	\$2,350	\$4,970	\$7,900	\$15,220	

A profit and loss statement (also called an income statement) is a financial report that shows the business's income, expenses, and overall profitability. It's a snapshot of your business's financial health.

It is a way to track how much your money is making and spending. By understanding your profit and loss, you can make informed decisions about how to grow and improve your business. Here are a few ways that you can use your statement:

- Determine Profitability:** The statement shows whether a business is making a profit or a loss. This information is crucial for determining the overall health of the business and identifying areas for improvement.
- Track Financial Performance:** By comparing the profit and loss statement to previous periods, you can track changes in your financial performance over time. This can help identify trends, such as increasing or decreasing revenue or expenses.
- Identify Cost-Saving Opportunities:** This statement can help identify areas where expenses are higher than expected. By reviewing the statement, you can pinpoint areas where costs can be reduced, such as by negotiating better deals with suppliers or streamlining operations.
- Evaluate Business Strategies:** The profit and loss statement can be used to evaluate the effectiveness of different business strategies. For example, if a new marketing campaign resulted in a significant increase in revenue, the statement can help measure the success of the campaign. [Video: What Is an Income Statement \(or Profit and Loss Statement\)?](#)

Understanding Your Cash Flow

ABC Hair Salon for the Month Ended September 30, 2024

Cash Flows from Operating Activities

Cash Inflows:

Cash Receipts from Customers	\$12,000
Other Income (ex, Product Sales)	\$1,500

Total Cash Inflows \$13,500

Cash Outflows

Employee Salaries	\$4,000
Rent	\$1,800
Utilities (Electricity, Water, Internet)	\$350
Product Purchases (Supplies for Hair Services)	\$1,200
Marketing and Advertising	\$400
Insurance	\$200
Miscellaneous Expenses	\$250

Total Cash Outflows \$8,200

Net Cash Flow from Operating Activities \$5,300

Cash Flows from Investing Activities

Purchase of Equipment (ex, Hair Dryers)	(\$1,000)
Proceed from Sale of Old Equipment	\$300

Net Cash Flow from Investing Activities (\$700)

Cash Flows from Financing Activities

Loan Repayments	(\$500)
Owner's Capital Contribution	\$2,000

Net Cash Flow from Financing Activities \$1,500

Net Increase in Cash \$6,100

Cash at Beginning of Period \$10,000

Cash at End of Period \$16,100

These are the daily tasks a business does to make money, like selling products or providing services
Cash Inflows are the money a business receives, such as from customers who buy things

Cash Outflows are the money the business spends, like paying bills or buying supplies

Investing Activities are when a business spends or makes money by buying or selling things like equipment, buildings, or other investments

Financing Activities are the ways a business gets or repays money, like taking loans or paying back debts

Owner's Capital Contribution is the money that the owner of a business puts into the business to help it run or grow

A cash flow statement is like a report that shows how much money is coming in and going out of your business over a certain time. Think of it like a bank statement, but just for your business. It helps you see if you have enough money to pay your bills, save for the future, or invest in growing your business.

Here are a few ways a cash flow statement can help your business grow:

- 1. Understand how much money you have:** It shows if you're making more money than you're spending, so you know if your business is healthy or needs improvements.
- 2. Plan for future expenses:** You can spot when bills are coming up and make sure you have enough money saved to pay for them.
- 3. Identify opportunities to save or invest:** It helps you find places where you might be overspending or if you have extra money to invest in new equipment or advertising.
- 4. Make better business decisions:** You'll know when it's safe to hire new employees, expand your services, or buy better tools because you'll see exactly where your money is going.

[Video: The Cash Flow Statement: All the Basics in 9 Minutes](#)