



Financial Statements

Cash is a key indicator of your business situation. However, it is not sufficient on its own. To understand truly how your business performs, three documents are required: the income statement, the balance sheet and the cash flow statement.

The Balance Sheet

A balance sheet is a snapshot at a point in time of all the assets and liabilities of your company. The difference between the two is equity, the amount invested by the shareholders. The balance sheet shows what the company owns (assets), on the left side, and what it owes (liabilities), on the right side. The difference between the two is what the shareholders have. $Assets = Liabilities + Equity$. Both sides of the equation are by definition always equal.

The Income Statement

For a defined period of time, this statement will tell you the level of your earnings and expenses and therefore the profitability of the business. Be aware that revenues or expenses don't necessarily mean cash because you may give or receive extended payment terms. Revenues are booked when the transfer of ownership has occurred, not when you have received full payment.

The Cash Flow Statement

This statement organizes the cash generated or used into three segments - the operating cash flow, the investment cash flow and the financing cash flow. The operating cash flow shows the impact of the movements - positive or negative - of your current assets and liabilities. The investment cash flow is the movement of your long-term assets and the financing cash flow shows the movement of funds vis-à-vis your lenders, such as additional borrowings or debt repayment.

A few Accounting Principles

Accounting is a legal requirement for a business and must be done regularly - at least annually. Separate your business from your own personal assets and expenses completely. Your accounting books will be managed according to what is called the cost principle; therefore, every item is recorded at its historical purchase price plus any costs directly associated with such a purchase. All statements must be based on full disclosure.



Balance Sheet Sample

Leyla's Café		
Balance sheet as at	31st December	
	2017	
31st December		
Current Assets		
Cash	60 000	Leyla has cash of 60 000 as of Dec 31 2017
Accounts receivable	240 000	Leyla has four clients that each owe her 60 000
Inventory	1 000 000	Leyla purchased property and equipment of 150 000 which is depreciated over five years (i.e., 30 000 per year)
Total current Assets	<u>1 300 000</u>	
Property plant & Equipment	150 000	Leyla owes vendors 275 000 as of Dec. 31 2017
Accumulated Depreciation	30 000	Leyla accrued a 2017 staff bonus expense in Dec. which will be paid in Jan.
Net PP&E	<u>120 000</u>	On Oct. 1 Leyla took out a 200 000 bank loan at 9% interest
Total Assets	<u>1 420 000</u>	Leyla has promised to repay her family 20 000 in 2018
Liabilities		
Current Liabilities		
Account Payable	275 000	Leyla entered into a 500 000 five-year lease agreement on Jan. 1 2013 for her café. At Dec. 31 her remaining obligation is 400 000
Accrued Expenses	25 000	
Bank and other Short-term Del	200 000	Leyla put 200 000 of her own money into the business as equity
Current position LTD	20 000	
Total Current Liabilities	<u>520 000</u>	
Long term liabilities		
Capital Lease Obligations	400 000	
Long-term Debt	300 000	
Tota Long term liabilities	<u>700 000</u>	
Equity	<u>200 000</u>	
Total Liabilities and Equity	<u>1 420 000</u>	Total Liabilities and Equity must be equal to Total Assets

Income statement sample

Leyla's Café Income Statement	
Income Statement for the year ended	31st December
	2017
Revenue	
Wholesale	2 000 000
Retail	1 500 000
Catering	500 000
Total Revenue	4 000 000
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Total revenue is the sum of all of Leyla's café for 2017</div>
Expenses	
Costs of goods sold	
Ingredients	2 000 000
Packaging	250 000
Total Cost	2 250 000
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Cost of Good solds is the cost related to all of Leyla's sales</div>
Gross Margin	1 750 000
Gross Margin as % of Revenue	43,75%
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Total revenue is the sum of all of Leyla's café for 2017</div>
Operating expenses	
Sales	200 000
Marketing	75 000
Distribution	45 000
General & Administrative	140 000
Total Expenses	460 000
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Leyla spent 115 000 on G&A expenses, plus 25 000 for staff bonuses</div>
Income Before Interests and Taxes	1 290 000
Interest expenses	16 500
Earnings Before Taxes	1 273 000
Taxes	382 050
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Leyla pays 30% tax on her earnings</div>
NET INCOME	891 450
	<div style="border: 1px solid gray; padding: 5px; display: inline-block;">Net income is total revenue less all the costs</div>



Cash Flow Statement Sample

Leyla's Café		
Statement cash flows for the year ended		31st December 2017
	GEL	GEL
31st December		
Net income	807 450	
Depreciation	120 000	
Gross cash flow		927 450
(Increase)/decrease in trade receivables	- 20 000	
(Increase)/decrease in inventories	- 20 000	
Increase/decrease in accrued expenses	50 000	
Increase in trade payables	- 25 000	
	<u>- 15 000</u>	
<i>Net cash from operating activities</i>		927 450
Cash flows from investing activities		
Purchase of property, plant and equipment	- 200 000	
Proceeds from sales of equipment		
<i>Net cash used in investing activities</i>		- 200 000
Cash flows from financing activities		
Proceeds from issue of share capital		
Proceeds from borrowings		
Repayment of bank debt	- 300 000	
<i>Net cash used in financing activities</i>	<u>- 300 000</u>	<u>- 300 000</u>
Net increase in cash and cash equivalents	412 450	
Cash & cash equivalents at start of the period	<u>364 500</u>	
Cash & cash equivalents at end of the period	<u>776 950</u>	

The investment has been made in the previous year so there is no cash impact this year

More credit given to the customers this year means less cash for the company

To support the growth more inventory is required

Fewer supplies have granted credit this year compared to last year therefore more cash is required

Additional equipment has been purchased for 200K

With the cash generated last year Leyla's café has to pay part of the loan