FINANCIAL STATEMENTS

– In Detail



# Quick Summary

Small businesses need to keep detailed records of the inflow and outflow of funds in their business so that they may track the success of the business and also for taxation purposes.

The three types of financial statements that we will be looking at are:

* Revenue Statement
* Balance Sheet
* Cash flow statement

# Important Terms

The following is a list of terms that are important to know when working on financial statements. We will discuss these terms as we move through the worksheet.

Revenue expenses gross profit/loss

Net profit/loss assets liabilities

Owner’s equity liquidity

Revenue Statement

Businesses use revenue statements to measure their revenue against their expenses to figure out how much profit they are making.

Important equations in a revenue statement are:

**Revenue – Cost of Goods Sold= Gross Profit**

**Gross Profit- Expenses = Net Profit**

**Revenue**: The income earned by a business

**Expenses**: costs incurred in running the business

**Gross Profit/loss**: the amount remaining when the cost of goods sold is deducted from revenue

**Net Profit/loss:** the amount remaining when operating expenses are deducted from gross profit

* **What might be some expenses that a business might incur?**
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## Some things to remember when drawing up a Revenue Statement:

* There should be 3 columns
* The first column should hold the name of the cost or expense
* The second column should include the monetary figures related to the business’s expenses
* The third column should include the monetary figures related to the business’s revenue
* The third column should also include all the TOTALS , this includes the total gross profit, the total expenses and the total net profit

## An example of a REVENUE STATEMENT

Revenue statement for the year ending 30 June 2012

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| **Revenue**  |  |  |
| Cash sales  |  | 215,000 |
| Less Cost of Goods Sold  |  | 90,000 |
| **Gross Profit**  |  | 125,000 |
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| Less **Expenses**  |  |  |
| Wages  | 38,000 |  |
| Rent  | 20,000 |  |
| Electricity  | 5,500 | 63, 500 |
| **Net Profit**  |  | 61,500  |

## Further Examples – Complete the Revenue Statements for the following businesses. Determine whether they have experienced a profit or loss for the year ending 30th June.

**Sam’s Sports**

* Cash Sales $230,000
* Cost of Goods Sold $125,000
* Wages $40,000
* Lease Payments $15,675
* Electricity $5,500
* Promotions $2, 760
* Insurance $4,900

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**Gloria’s Coffee Corner**

* Cash Sales $195,000
* Cost of Goods Sold $46,700
* Lease Payments $15,000
* Electricity $9050
* Free Samples $1,550
* Advertising $5,500
* Interest on Loan $4,565

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**Matt’s Mechanic**

* Cost of Goods Sold $280,000
* Gross Profit $450,000
* Wages $150,000
* Lease Payments $30,580
* Electricity $12,000
* Advertising $5,000
* Insurance $5,500

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**Diana’s Home Depot**

* Cost of Goods Sold $75,080
* Gross Profit $128,000
* Wages $42,000
* Lease Payments $17,000
* Equipment $5,000
* Electricity $7,000
* Advertising $4,560
* Insurance $3,750
* Interest on Loan $4,590

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**Jayden’s Juice Store**

* Cost of Goods Sold $380,000
* Gross Profit $440,000
* Wages $160,000
* Lease Payments $20,580
* Electricity $16,000
* Advertising $6,000
* Insurance $7,500

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1. **What is the main use of revenue statement?**

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1. **Construct a set of steps that somebody who doesn’t know much about revenue statements can use to construct one.**

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## Construct your very own Revenue Statement

**Name of Business:**

**List of Revenue and Expenses**

**Revenue Statement:**

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Balance Sheet

The balance sheet shows the statement of financial position of a business at a particular time. It can be thought of as a set of scales which weights what you own (assets) on one side and what you owe (liabilities) on the other. Both sides must balance

The most important equation in a balance sheet is:

**Owner’s Equity= Assets- Liabilities**

OR

**Assets= Owner’s Equity + Liabilities**

**Owner’s Equity:** the value of the business to the owner

**Assets:** items of value owned by the business

**Liabilities:** debts owed by a business to others

## Some things to remember when drawing up a Cash Flow Statement:

* The left hand side of the balance sheet shows assets
* The right hand side of the balance sheet shows liabilities and owners equity
* Classify balance sheet items into one of the following categories
* Assets (Current or non-current)
* Liabilities (current or non-current)
* Owner’s Equity
* All statistics for each sub-topic should be written in the left-hand column of the appropriate section (assets, liabilities or owners’ equity)
* All totals for each section should be written in the right hand column of the appropriate section (assets, liabilities or owner’s equity).
* When all balance sheet items are entered on the balance sheet, both sides should have the same total.
* When determining the value of the owner’s equity, add up all items in the assets column, record the same total in the liabilities column, then subtract whatever liabilities are listed from the “Total liabilities and owners equity” figure.

## Important Terms Continued

**Examples of Current Assets**

**Examples of Non-Current Assets**

**Examples of Current Liabilities**

**Examples of Non-Current Liabilities**

**Examples of Owner’s Equity**

## Example of a BALANCE SHEET

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets* Cash at bank Stock on hand  | 68,00022,300 |  | *Current Liabilities* Accounts payable  |  | 35,000 |
| Total  |  | 90,300 | Total  |  | 35,000  |
| *Non-Current Assets*Equipment Motor Vehicle Glasses and Cutlery  | 58,0037,00012,500 |  | *Non-current liabilities* Bank loan  |  | 55,000 |
| Total  |  | 55,000 |
| *Owner’s Equity* Net Profit Retained Capital  | 61,500 46,300  |  |
| Total  |  | 107,500 | Total  |  | 107,800  |
| *Total Assets* |  | 197,800 | *Total liabilities and owners equity*  |  | 197,800  |

##  Further Examples – Complete the Balance Sheets for the following businesses. Determine whether they have experienced a profit or loss for the year ending 30th June.

**Paul’s Pizza**

* Cash $450
* Creditors $2,400
* Mortgage $10,000
* Pizza Ovens $1,500
* Loan $680
* Stock $550
* Delivery Vehicles $15,000
* Capital $4,420

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| --- | --- | --- | --- | --- | --- |
| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets*   |  |  | *Current Liabilities*   |  |  |
| Total  |  |  | Total  |  |  |
| *Non-Current Assets*  |  |  | *Non-current liabilities*  |  |  |
| Total  |  |  |
| *Owner’s Equity*   |  |  |
| Total  |  |  | Total  |  |  |
| *Total Assets* |  |  | *Total liabilities and owners equity*  |  |  |

**Ben’s Bakery**

* Creditors $23,000
* Cash at bank $8,000
* Goodwill $2,000
* Capital $13,500
* Building $4000
* Ovens $3,500
* Accounts receivable $23,500
* Profit $9,500
* Shares(in a company) $5000

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| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets*   |  |  | *Current Liabilities*   |  |  |
| Total  |  |  | Total  |  |  |
| *Non-Current Assets*  |  |  | *Non-current liabilities*  |  |  |
| Total  |  |  |
| *Owner’s Equity*   |  |  |
| Total  |  |  | Total  |  |  |
| *Total Assets* |  |  | *Total liabilities and owners equity*  |  |  |

**Frank’s Pharmacy**

* Owner’s investment $10,000
* Bank loan $18,000
* Cash $15,000
* Equipment $4,500
* Stock $5,500
* Accounts payable $15,000
* Debtors $8,000
* Premises $10,000

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| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets*   |  |  | *Current Liabilities*   |  |  |
| Total  |  |  | Total  |  |  |
| *Non-Current Assets*  |  |  | *Non-current liabilities*  |  |  |
| Total  |  |  |
| *Owner’s Equity*   |  |  |
| Total  |  |  | Total  |  |  |
| *Total Assets* |  |  | *Total liabilities and owners equity*  |  |  |

**Sally’s Sports**

* Debtors $15,000
* Owner’s Investment $3,500
* Creditors $21,000
* Cash at Bank $8,000
* Building $10,000
* Bank Loan $4,500
* Stock $1,500
* Accounts payable $9,000
* Goodwill $3,500

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| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets*   |  |  | *Current Liabilities*   |  |  |
| Total  |  |  | Total  |  |  |
| *Non-Current Assets*  |  |  | *Non-current liabilities*  |  |  |
| Total  |  |  |
| *Owner’s Equity*   |  |  |
| Total  |  |  | Total  |  |  |
| *Total Assets* |  |  | *Total liabilities and owners equity*  |  |  |

**Danny’s Deli**

* Cash in store $6000
* Owner’s investment $8,505
* Debtors $5,100
* Building $5,000
* Bank Loan $15,000
* Creditors $2,745
* Profit $3,500
* Stock $6,500
* Cash at Bank $20,100

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| --- | --- | --- | --- | --- | --- |
| **Assets** | **$** | **$** | **Liabilities**  | **$** | **$** |
| *Current Assets*   |  |  | *Current Liabilities*   |  |  |
| Total  |  |  | Total  |  |  |
| *Non-Current Assets*  |  |  | *Non-current liabilities*  |  |  |
| Total  |  |  |
| *Owner’s Equity*   |  |  |
| Total  |  |  | Total  |  |  |
| *Total Assets* |  |  | *Total liabilities and owners equity*  |  |  |

* Capital $26,000
* Accounts payable $3,500
* Accounts receivable $7,300
* Goodwill $1250
* Shares $3000
* Equipment $5000

Cash Flow Statements

A cash flow statement is used to keep track of the movement of cash within a business. By regularly comparing cash inflows and cash outflows a business is able to calculate its surplus or deficit cash. This is an important indicator of a business’s liquidity.

Some important equations to remember when drawing up a cash flow statement is:

Net Cash Flow= Total Cash Inflow – Total Cash Outflow

Closing Cash Balance= Opening Cash Balance + Net Cash Flow

**Cash inflows:** [Money](http://www.businessdictionary.com/definition/money.html) received by an [organization](http://www.businessdictionary.com/definition/organization.html) as a [result](http://www.businessdictionary.com/definition/result.html) of its [operating activities](http://www.businessdictionary.com/definition/operating-activities.html), [investment](http://www.businessdictionary.com/definition/investment.html) [activities](http://www.businessdictionary.com/definition/activity.html), and [financing activities](http://www.businessdictionary.com/definition/financing-activities.html). Money coming in.

**Cash outflows:** [Money](http://www.businessdictionary.com/definition/money.html) paid out by an [organization](http://www.businessdictionary.com/definition/organization.html) as a [result](http://www.businessdictionary.com/definition/result.html) of its [operating activities](http://www.businessdictionary.com/definition/operating-activities.html), [investment](http://www.businessdictionary.com/definition/investment.html) [activities](http://www.businessdictionary.com/definition/activity.html), and [financing activities](http://www.businessdictionary.com/definition/financing-activities.html). Money going out.

**Net Cash flow:** Total Cash inflow minus the Total Cash Outflow

**Opening cash balance:** The cash already existing within the business. The closing cash balance from the previous cash flow statement.

**Closing cash balance:** This is the Opening Cash Balance plus the Net Cash Flow.Steps to remember to when drawing up a Cash Flow Statement:

1. Calculate the total cash inflows by adding up all the cash coming IN to the business.
2. Calculate the total cash outflows by adding up all the expenses of the business.
3. Calculate the Net cash flow (Total Cash Inflow minus Total Cash Outflow)
4. Calculate the Closing Cash Balance (Net Cash Flow + Opening Cash Balance)

## How to set out a Cash flow statement:

* There should be 3 Columns
* The first column contains all the headings/labels.
* The second column contains all the monetary figures of things such as cash inflows and cash outflows
* The third column contains all the totals: total cash inflows, total cash outflows, net cash flow, opening cash balance and closing cash balance.

## Example of a Cash Flow Statement

### Sam’s Soccer Boots

Cash flow statement for the year ending 30 June 2012

Net Operating Activities- 75,300 Wages – 38,000

Borrowed Funds- 55,000 Rent – 20,000

Opening Cash Balance – 11,000 Electricity- 5,500

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| **Cash Inflows**  |  |  |
| Net Operating Activities  | 75,300 |  |
| Borrowed Funds  | 55,000 |  |
| **Total cash inflows**  |  | 130,300 |
|  |  |  |
| **Cash outflows**  |  |  |
| Wages  | 38,000 |  |
| Rent  | 20,000 |  |
| Electricity  | 5,500 |  |
| **Total cash outflows**  |  | 63,500 |
| **Net cash flow (TCI-TCO)** |  | 66,500 |
| **Opening cash balance**  |  | 11,000 |
| **Closing cash balance**  |  | 77,500 |

## Further Examples – Complete the Balance Sheets for the following businesses. Determine whether they have experienced a profit or loss for the year ending 30th June.

**Peter’s Paint Store**

* Net Operating Activities $85,000
* Borrowed Funds $65,000
* Wages $20,000
* Rent $15,000
* Electricity $6000
* Maintenance $4000
* Opening Cash Balance $10,000

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**Sam’s Skateboard Store**

* Net Operating Activities $65,000
* Borrowed Funds $75,000
* Wages $30,000
* Paint Supplies $6000
* Rent $12,000
* Electricity $4000
* Maintenance $2000
* Opening Cash Balance $12,000

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**Tim’s tutoring**

* Net Operating Activities $85,000
* Borrowed Funds $15,000
* Wages $35,000
* Stationary Supplies $8000
* Rent $13,500
* Electricity $4000
* New Furniture $7000
* Opening Cash Balance $21,000

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**Adam’s Aussie Restaurant**

* Net Operating Activities $105,000
* Borrowed Funds $11,000
* Wages $25,000
* Ingredients $18,000
* Rent $17,500
* Electricity $7000
* New Tables and Chairs $7000
* Opening Cash Balance $52,000

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**Tanya’s Telecommunications**

* Net Operating Activities $305,000
* Borrowed Funds $17,000
* Wages $75,000
* New Display cabinets $11,000
* Rent $23,500
* Electricity $12,000
* Glass Cleaner’s fee $7000
* Opening Cash Balance $22,000

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