

Financial Statements

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Basically Three Primary Statements



Balance Sheet

- ❖ Financial Position
- ❖ Physical Exam
- ❖ Point in time
- ❖ As of XXXXXX



Income Statement

- ❖ Statement of Financial Performance
- ❖ Profit & Loss
- ❖ Statement of Activity
- ❖ “Elastic Band”



Income Statement

Activity over a period of time – generally:

- ❖ Monthly
 - ❖ Quarterly
 - ❖ Semi Annually
 - ❖ Annually
- ❖ For the Year Ended December 31, 2015



Cash Flow Statement

❖ Flow

- “Kitchen Faucet”
- The “Flow” of all actual \$ through the period
- Reconciles Cash at start and cash at end points
- Reconciles Net Profit on IS to Cash Balance on Balance Sheet
- Needs and Uses of Cash
- Projected cash flow statements critical to meeting business commitments



Balance Sheet

Assets = Liabilities + Equity



Balance Sheet

❖ Assets

❖ Things you OWN at the point in time

- ❖ Money
- ❖ Inventory
- ❖ Home
- ❖ Farm
- ❖ Car
- ❖ Private Jet
- ❖ Yacht



Balance Sheet

❖ Liabilities

❖ Things you OWE at the point in time - DEBT

- ❖ Bank Loan
- ❖ Car Loan
- ❖ Mortgage Loan
- ❖ Outstanding vendor bills
- ❖ Unfavorable court judgment



Balance Sheet

❖ Equity/Owners' Equity/ Stockholders' Equity / Owners' Capital/Capital

- Owners' **Stake** in the business
 - Initial Capital contributed
 - APIC
 - Net income /(loss)



Balance Sheet

❖ REAL OWNERSHIP

- ❖ Debtholders – Banks, Bond holders, Other Creditors
- ❖ Equity Holders / Stockholders
- ❖ BOTH



Income Statement

❖ Revenues & Incomes

- Sale
- Fees received
- Salary received

❖ Costs & Expenses

- Cost of Goods Sold
- Selling and Distribution Expenses
- Other Operating Expenses

❖ Net Income (Belongs to the Owners)



Cash Flow Statement

❖ “Only Cash activity matters”

- ❖ Net Income
- ❖ Non Cash Adjustments
- ❖ Net Cash Flow from Operating Activities
- ❖ Cash Flow from Financing Activities
- ❖ Cash Flow from Investing Activities
- ❖ Cash Changes for the Period
- ❖ Add Beginning Cash Balance
- ❖ Ending Cash Balance



Understanding Financial Statements

Debit Accounts

- Assets
- Expenses

Credit Accounts

- Liabilities
- Owners Equity
- Revenues

Assets + Expenses

=

Liabilities + Owners
Equity + Revenues

ACCOUNTING EQUATION



Critical Requirement

**MAINTAIN DETAILS OF “ALL” RECEIPTS AND EXPENDITURES
INCURED BY THE BUSINESS AT ALL TIMES**



Example

- ❖ 1/1/15 – Started bakery business
- ❖ 1/1/15 – Paid Initial Capital \$10,000 in cash
- ❖ 1/1/15 – Borrowed \$10,000 worth of equipment from family
- ❖ 2/1/15 – Paid \$3,500 for baking material used
- ❖ 2/1/15 – Sold cakes for \$8,000
- ❖ 3/1/15 – Paid salaries for \$2,000



Journal Entries

	DR	CR			DR	CR
Cash	10000			Capital		10000
COGS		3500				
Sales	8000					
Salaries		2000				
	18000	5500			0	10000
Balance C/F		12500				
	DR	CR			DR	CR
COGS	3500			Sales		8000
	3500	0			0	8000



Balance Sheet

Balance Sheet as of March 31, 2015		in US \$
Assets		
	Cash	12,500
	Equipment	10,000
	Total Assets	22,500
Liabilities		
	Loan	10,000
	Total Liabilities	10,000
Owners Capital		
	Initial Capital	10,000
	Net Income	2,500
	Total Owners Capital	12,500
	Total Liabilities and Owners Capital	22,500



Income Statement

Income Statement for the Quarter Ended March 31, 2015

Sales	8000
COGS	-3500
Salaries	-2000
Net Income	2500



Cash Flow Statement

Statement of Cashflow for the Quarter Ended March 31, 2015

Net Income		2500
Cashflow from operations		2500
Cashflow from investing activities		10000
Change in cashflow		12500
Opening Cash		0
Ending Cash balance		12500



Readers of Financial Statements

❖ Key Stakeholders

- ❖ Investors
- ❖ Banks
- ❖ Owners
- ❖ Government (IRS and State)



Investors

- ❖ Cash flow
- ❖ Trend Analysis
- ❖ Profitability Ratios
 - Gross Margin ratio
 - Profit Margin Ratio
 - Return on Capital Employed
 - Return on Equity
- ❖ Liquidity Ratios
 - Current Ratio
 - Quick Ratio
 - Working Capital



Bankers

- ❖ Debt to Equity Ratios (leverage)
- ❖ Cash flow
- ❖ Profitability Ratios



Owners

- ❖ Cash Flow
- ❖ Operating Activity
- ❖ Business Performance
- ❖ Employee Performance
- ❖ Machine Performance



Government Agency (IRS)

- ❖ More Revenues & Less Expenses
- ❖ Minimize Liabilities & Maximize Assets
- ❖ Data Match
- ❖ Trend Analysis
- ❖ Sector Analysis



Key Take-Away Quiz

❖ Primary statements of FS are:

- Balance Sheet
- Income Statement
- Cash Flow Statement



Key Take-Away Quiz

❖ Balance Sheet is made up of:

- Assets
- Liabilities
- Owners' Capital



Key Take-Away Quiz

❖ Accounting Equation:

- $\text{Assets} = \text{Liabilities} + \text{Owners Capital}$



Key Take-Away Quiz

❖ Record Keeping:

- A must at all times



Key Take-Away Quiz

- ❖ What to do if in doubt :
 - Contact your CPA



Contact Information

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