



StartUp
Mendocino

BUSINESS ACCELERATOR

2023

Finance Basics



Finance Basics

- Self Management Quiz
- What are you listening for and to?
- Foundations of Financial Management:
 - Income Statement, Balance Sheet, Cash Management
- Financial Strategy:
 - Budget Forecasting
- Financial Software
- Next Steps

If you don't have financial statements, you don't know your business.

If you do have financial statements but don't understand them, you still don't know your business.

And if you can read them but don't know what to do about what they tell you, you can't manage your business effectively.

Quantifying and reporting your finances begin with financial statements — your income statement, your balance sheet, and your cash flow statement.



Review

- What did you learn about the balance of your business?
 - Where are your comfort zones?
 - What is hurting your business growth the most?
 - What areas confused you?
- How will you prioritize 2023?
 - What needs to be developed?
 - What needs to be maintained?
 - What needs to be redirected?
- Are you Self Managed?
 - How did you score?
 - What do you need?
 - When will you know you are doing better?

Are You Listening?

What does your business tell you?

Where is that information?

When should you respond?

What do you say?

The biggest communication problem in our society is we do not listen to understand. We are thinking of our reply. One of the sincerest forms of respect is to listen.

Income Statement

Your Profit and Loss Statement, often called an Income statement, shows you the performance of the company. It shows the monthly, quarterly and yearly activity the business is doing. The activity of your business is represented in income and expenses.

Example Corporation Income Statement Years ended December 31

(in thousands of dollars)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 3,980	\$ 3,750	\$ 3,400
Cost of sales	<u>3,100</u>	<u>2,950</u>	<u>2,700</u>
Gross profit	880	800	700
Selling, general and administrative expenses	<u>640</u>	<u>590</u>	<u>510</u>
Operating income	240	210	190
Interest expense	20	15	15
Loss on sale of equipment	<u>5</u>	<u>-</u>	<u>4</u>
Income before income taxes	215	195	171
Income tax expense	<u>50</u>	<u>40</u>	<u>36</u>
Net income	<u>\$ 165</u>	<u>\$ 155</u>	<u>\$ 135</u>

See notes to the financial statements.



Performance and Profitability

Understand your performance through trends, actuals and percentages. Your profitability will be measured tangibly (Profit Margin) and intangibly (consistency).



Numerical Relationships

To deepen your understanding of the business and how to improve it, look at the relationship between your numbers. Does your revenue go up proportionally when you invest in marketing? When you are more present, do you see your payroll produce more? When you stay consistent with certain vendors, are your customers happier?

Balance Sheet

The balance sheet, on the other hand, tells what you own and what you owe. It discloses information about the book value and general health of your business.



Assets, Liabilities and Owners Equity

The health of the business is determined by what you own, what you owe and if the business has any net worth..or anything leftover after everything is bought and paid for.



Healthy business

By paying attention to your accounts receivable turns, your debt repayment trends and what you are saving, you will see if you are thriving or not able to get off life support.

Balance Sheet

As of December 31, 2016 (000s)

What the Company Owns

Assets	
Cash	481
Marketable Securities	1,346
Accounts Receivable	1,677
Inventory	2,936
Prepaid Expenses	172
Other Current Assets	58
Total Current Assets	6,670
Gross Value of Property, Plant & Equipment	2,019
Accumulated Depreciation	(664)
Net Property, Plant, Equipment	1,355
Note Receivable	349
Total Assets	8,374

What the Company Owes

Liabilities	
Accounts Payable	625
Current Portion L-T Debt	1,021
Taxes Payable	36
Accrued Expenses	157
Total Current Liabilities	1,839
Long-term Debt	2,332
Total Liabilities	4,171

Shareholders' Equity

Owner's Equity	
Common Stock and Paid-in Cap	194
Retained Earnings	4,009
Total Shareholders' Equity	4,203
Total Liabilities and Equity	8,374

Cash Flow Statement

Your cash flow statement shows you the inflows and outflows of cash during a set time period of time. Businesses with many transactions will track cash flow more quickly, while businesses with less transactions will be longer.

Get In The Flow



Your income statement helps you figure out your profitability and your balance sheet helps you figure out your value, your cash statement helps you figure out your liquidity. That is, it tells you how much cash you have readily available that you can use to fund the ongoing or unexpected operations of your business.



Do you have enough?

Tracking cash flow will allow you to organize your accounts payable strategy to ensure you never drain the cash out of the business and that you don't sit on too much. Cash makes more cash if used correctly.

Cash Flow Statement

[Company Name]

For the Year Ending 12/31/2019
Cash at Beginning of Year 15,700

Operations

Cash receipts from	
Customers	693,200
Other Operations	
Cash paid for	
Inventory purchases	(264,000)
General operating and administrative expenses	(112,000)
Wage expenses	(123,000)
Interest	(13,500)
Income taxes	(32,800)
Net Cash Flow from Operations	147,900

Investing Activities

Cash receipts from	
Sale of property and equipment	33,600
Collection of principal on loans	
Sale of investment securities	
Cash paid for	
Purchase of property and equipment	(75,000)
Making loans to other entities	
Purchase of investment securities	
Net Cash Flow from Investing Activities	(41,400)

Financing Activities

Cash receipts from	
Issuance of stock	
Borrowing	
Cash paid for	
Repurchase of stock (treasury stock)	
Repayment of loans	(34,000)
Dividends	(53,000)
Net Cash Flow from Financing Activities	(87,000)

Net Increase in Cash	19,500
----------------------	--------

Cash at End of Year 35,200

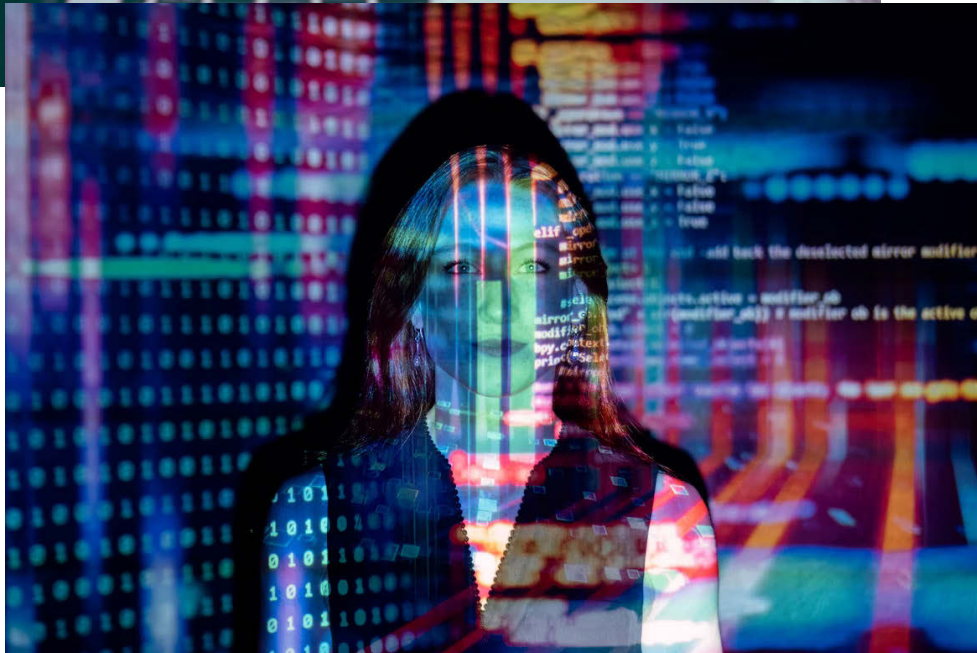
Budgeting For The Future

- An Operational Budget forecasts your income and expenses in various categories on a monthly, quarterly, or annual basis.
- Budgeting requires you to think about your basic objectives, policies, plans, systems, and resources on a regular basis.
- It asks you to take this, coupled with the future goals you are trying to achieve and forecast a strategy for achieving those.
- It enables you and your employees to undertake a coordinated, comprehensive effort to achieve your near-term objectives on the path toward your Vision.

	Year to Date BUDGET	Year to Date ACTUAL	DIFFERENCE
INCOME			
Salary	0.00	0.00	0.00
Interest Income	0.00	0.00	0.00
Dividends	0.00	0.00	0.00
Gifts Received	0.00	0.00	0.00
Refunds/Reimbursements	0.00	0.00	0.00
Transfer from Savings	0.00	0.00	0.00
Other Income	0.00	0.00	0.00
TOTAL INCOME	0.00	0.00	0.00
SAVINGS			
Emergency Fund	0.00	0.00	0.00
Car Replacement	0.00	0.00	0.00
Holiday	0.00	0.00	0.00
Investments	0.00	0.00	0.00
Education Fund	0.00	0.00	0.00
Other Savings	0.00	0.00	0.00
TOTAL SAVINGS	0.00	0.00	0.00
EXPENSES			
Home	0.00	0.00	0.00
Transport	0.00	0.00	0.00
Daily Living	0.00	0.00	0.00
Entertainment	0.00	0.00	0.00
Charity/Gifts	0.00	0.00	0.00
Subscriptions	0.00	0.00	0.00
Miscellaneous	0.00	0.00	0.00
TOTAL EXPENSES	0.00	0.00	0.00
NET	0.00	0.00	0.00

Budgeting isn't a one-time activity. You will go through planning and monitoring cycles on a regular basis. The steps below lay out the procedure that you will follow and explain who is responsible for each:

1. Set up the budget process.
2. Plan and forecast.
3. Monitor and report.
4. Review and manage.



What Are You Using?

1. Consider Your Needs and your Experience
2. Consider a Cloud Based Platform
3. Consider Your Budget.
4. Think about add on features.
5. Ask Your Accountant and Bookkeeper.

Systems Count

Using accounting software will help you get and stayed organized. It will also force finance systems in your business to be created. Finance systems can show up in every area of your business.



Lead Your Future

“Money is one form of power. But what is more powerful is financial education. Money comes and goes, but if you have the education about how money works, you gain power over it and can begin building wealth. The reason positive thinking alone does not work is because most people went to school and never learned how money works, so they spend their lives working for money”.-R.Kiyosaki, Rich Dad, Poor Dad

Next Steps

- Confirm Your Income Statement and Balance Sheet is accurate
- Set up a written Cash Plan
- Project a Q2 Budget Forecast
- Learn Your Financial Software



THANK YOU FOR BEING PART OF



StartUp Mendocino

BUSINESS ACCELERATOR

2023

