

The Five Financial Reports Every Business Must Have

To Grow, Succeed and Avoid Failure





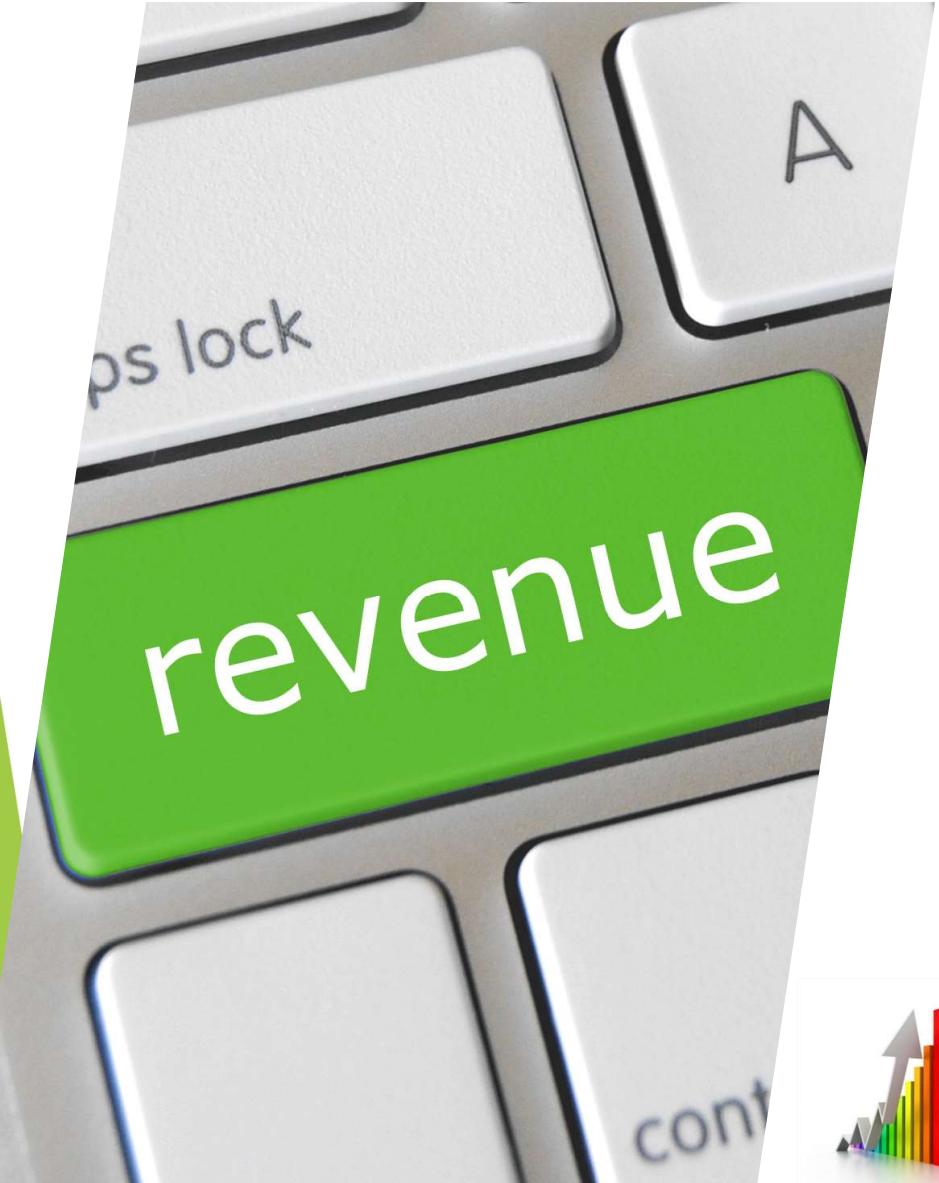
#1

Profit and Loss (Income Statement)

Profit and Loss (Income Statement)

- ▶ The Profit and Loss is the report that shows all revenue and expense activities, with the resulting net profit or loss that occur in a company for the specific period of time.
- ▶ It is also sometimes called the Statement of Financial Performance (mostly by non-profits) because it shows how well the company's performance is. And It also called an Income Statement (internationally), as it shows the net profit or net loss for the period.
- ▶ All of these names refer to the same report. However, the income statement is different from balance sheet since it only shows transactions, while balance sheet shows the balance of accounts at the end of the periods. There is important data to review on the Profit and Loss Report...





Income (Revenue)

- ▶ Income (Revenue) refers to sales of goods or services that a company generates during a specific accounting period. The company can use cash basis or accrual basis to recognize its revenues.
- ▶ The Income section shows how much the company earned for the period they are covering.
- ▶ Revenue normally reports as the summary on income statement and you can usually generate a detailed report to support the summary info.



Expenses

- ▶ Expenses are operational costs that occur in the company for specific accounting period. They are ranking from operating expenses like salary expenses, utilities, depreciation, transportation and training expenses to tax expenses and interest expenses.
- ▶ In Expenses Section, all types of expenses records under this section and them subtotal into one line. Those expenses include cost of goods sold, operating expenses and loss on revaluation. The different of these two section create another section called Net Loss or Profit.



[Company Name]
Multi Step Income Statement Template

For the Years Ending [Dec 31, 2016 and Dec 31, 2015]

	2016	2015
Sales Revenue	2,000,000	1,500,000
Cost of Goods Sold	1,300,000	850,000
Gross Profit (Loss)	700,000	650,000
Expenses		
Advertising expenses	5,000	4,500
Bad debt	5,000	4,500
Commissions expenses	7,000	6,000
Depreciation expenses	9,050	8,000
Employee benefits	10,000	9,000
Insurance Cost	4,000	4,500
Interest expense	400	500
Maintenance and repairs expenses	5,050	4,000
Office supplies	3,450	5,000
Rent Expenses	4,950	9,000
Research and development	-	5,000
Salaries and wages	20,000	15,000
Travel expenses	500	400
Utilities expenses	8,000	7,800
Web hosting and domains expenses	1,000	1,000
Other expenses	6,000	5,000
Total Operating Expenses	89,409	89,200
Operating Income (Loss)	610,591	560,800
Non-operating revenues, expenses, gains, losses	50,000	40,000
(Less interest expense)	4,000	5,000
Income Before Taxes	664,591	605,800
(Less income tax expense)	50,000	40,000
Income From Continuing Operations	714,591	645,800
Below-the-Line Items		
Income from discontinued operations	-	-
Extraordinary items	-	-
Cumulative effect of accounting changes	-	-
Net Income	714,591	645,800

Sample Profit and Loss Report



Profit and Loss Report Details

What is some important details to review?



► Sales Revenues:

- ▶ This is the total amount of revenues that entity generate in the period of time. This information is shown on the top of income statement. For example, if the entity operating in the selling of clothes, this line will show the total amount of cloths that entity sales during the months, quarter or annually.
- ▶ If the revenue report on monthly, all of others items have to report in monthly. Different accounting principle, might show different amount of revenues.

► Cost of Goods Sold:

- ▶ Cost of goods sold are direct cost related to product. These costs are the variable cost that attribute to the goods that sold during the period. These costs are not including the fixed cost and operating expenses for the period and they have to be consistence with revenues that we recognize.
- ▶ Cost of goods sold equal beginning inventories plus purchase during the period less ending inventories.

► Gross Profits:

- ▶ This is the gross operating profit that entity generate for the period. This amount is equal to revenue less cost of goods sold. gross profit report in the third lines of Income Statement and it is the importance information for users of financial information for assessing how profitability of the entity is compare the same kind of entity in the market.

► Operating Expenses:

- ▶ These expenses are different from cost of goods sold. Operating Expenses are the general administrative expenses that occur during the period to support the operation.
- ▶ Those expenses include salary of administrative staff including sales, admin, account, finance audit and others staff which is not directly related to productions. Other expenses that also include in this line are include electricity, repair and maintenance, utilities, gasoline, bank charged, and others operating expenses.

The background of the slide features a complex, abstract design. It consists of numerous overlapping, semi-transparent geometric shapes in various colors, including shades of green, yellow, orange, red, and blue. A prominent feature is a large, dark grey arrow pointing upwards from the bottom left towards the center of the slide. The overall effect is one of depth and modernity.

#2 Balance Sheet

Balance Sheet

It show the balance of assets, liabilities and equity at the end of the period of time.

The Balance Sheet is sometimes called the Statement of Financial Position (non-profits). This report shows the values of net worth of the company as well. You can find the company's net worth simply by removing liabilities from total assets.

Balance Sheet or Statement of Financial Position is the financial statement that reports three main importance financial information of entity at the end of balance sheet date. These three important topics of information are Assets, Liabilities, and Equity.



Assets



1

Assets are the resources belonging to company. Total assets here will report all types of company assets. These include current assets, and non-current assets. Current asset rank above non-current assets.

2

The common examples of assets are land, building, cars, cash in the bank and on hand, inventories and account receivable. Any assets that belong to the owners or shareholders are not included here.

3

In the Balance Sheet, Assets are reported in the first section, above the Liabilities and Equity sections.

Current Assets



► Cash and Cash Equivalence:

- ▶ Report the balance of cash and cash equivalence that belong to the entity at the reporting date. It could be cash on hand, petty cash, cash deposit in the bank or others financial note that equivalence to cash. Equivalence to cash mean easily convert into cash.

► Accounts Receivable:

- ▶ Accounts receivable are the receivable amount by entity from its customers as the result of credit sales. This amount is expected to be received in the period of less than twelve months from the reporting date or Balance Sheet date.
- ▶ If part of receivables are expected to receive over twelve months, then they have to class into long term assets.

► Prepaid Expenses:

- ▶ Prepaid is the amount that entity pay to its suppliers in advance to secure, thought, services or products. For example, the company want to purchase computers, and because the computers are limited in the stores, or the computer need to order from outside country, supplier require company to make certain deposit.

► Inventories:

- ▶ Inventories here include all kind of inventories : Raw material, work in process and finish goods. At the end of the accounting period, the entity usually perform physical count to all inventories and then qualifying them.

Fixed Assets (Non-Current Assets)



- ▶ **Machinery**: need to class and report as non current assets as the useful life of its is longer than one year. The machinery are records in the Balance Sheet at cost. Accumulated Depreciation is based on company's depreciation policies.
- ▶ **Equipment**: This is the kind of equipment that use in the entity which has the useful life more than twelve months period. The same as machinery and others long-term assets, equipment is records as costs.
- ▶ **Leasehold Improvements**: this type of assets happen when the entity does not own the building or office that it is using. The office or building is rent from others and because of business requirement, entity make improvement on its. For example, the entity rent office building. The owner of the building provides only building space. All other decoration, and room for employees are the company's responsibility.
- ▶ **Buildings**: Buildings here could be the office building for head office or branch. they are records as non-current assets and depreciate base on its useful life.
- ▶ **Vehicles**: they are including cars for use in the company or similar types of vehicles are including here. Vehicles rental experience should not records as fixed assets. The expenses should be recorded in income statement.
- ▶ **Long-term Notes Receivable**: This is the same to account receivable that we records in the current assets. The reason we records here because part of receivables are expected to receive in the period of more than twelve months.
- ▶ **Investments**: this is refer to long term investment that expect to be recover into cash in the long term or more than twelve months. The kind of investments is like stock or bond something.
- ▶ **Goodwill**: This kind of assets happen when the entity purchase the new subsidiary while the net book value of assets of those subsidiary are less than what the entity offer.
- ▶ **Trademarks**: the costs of assets that entity purchase probably from the government or professional body.
- ▶ **Patent**: This is the cost that entity purchase the right to operate the services or sales the products in the country. This is normally over a one year period.

Liabilities: Second Section on Balance Sheet

There are two types of liabilities...

Short-term liabilities

Short-term liabilities is the liabilities that expected to be paid with the period LESS THAN twelve months from Balance Sheet date.

Long-term Liabilities

Long-term liabilities are those that are expected to be paid with a period GREATER THAN a twelve month period.

Shareholders' Equity: Third Item on Balance Sheet

- ▶ Shareholders' Equity, Owner's Equity or Stockholders Equity are called differently in Balance Sheet because of nature of business. For private or individual companies, we usually call it owner's equity. For partnerships and for corporations, we usually call it shareholders or stockholder equity.
- ▶ Total amount of shareholders' equity are the leftover amounts from assets and liabilities as well as from business operation. For example, if the company operating loss, the equity will be reduce eventually.
- ▶ There are many sub-components that are recorded under shareholders' equity. They include: Common Stock, Prefer Stock, Retained Earnings, and Accumulated Other Comprehensive Incomes. All sub-elements that records or class under equity elements are increasing in credit site and decrease in debit site same as liabilities element.



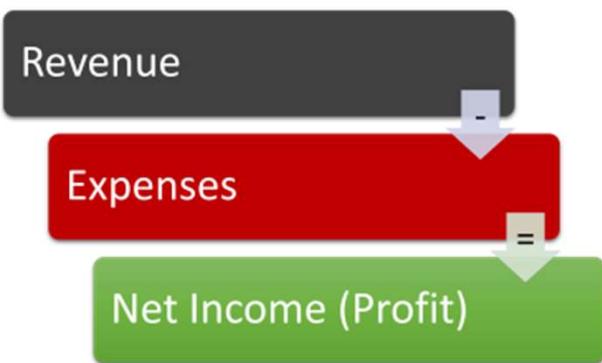
Sample Balance Sheet Report



	Note	As at 31 December XXXX USD
ASSETS		
Non current assets		
Intangible assets		500,000
Property, Plant and Equipment		2,000,000
Deferred tax asset		40,000
Long term deposit		110,000
Total non-current assets		2,650,000
Current assets		
Cash and cash equivalents		500,000
Inventory		400,000
Prepayment and other assets		300,000
Amount due from related parties		200,000
VAT receivable		40,000
Total current assets		1,440,000
Total assets		4,090,000
EQUITY AND LIABILITIES		
EQUITY		
Share capital and premium		1,000,000
Accumulated losses		(60,000)
Convertible loan - equity component		700,000
Total equity		1,640,000
Non current liabilities		
Borrowings		500,000
Total non-current liabilities		500,000
Current Liabilities		
Trade and other payable		600,000
Deferred tax liabilities		50,000
VAT payable		500,000
Short term Liablities		800,000
Total current liabilities		1,950,000
Total Liabilities		2,450,000
Total Equity and Liabilities		4,090,000

Two Very Important Financial Reports

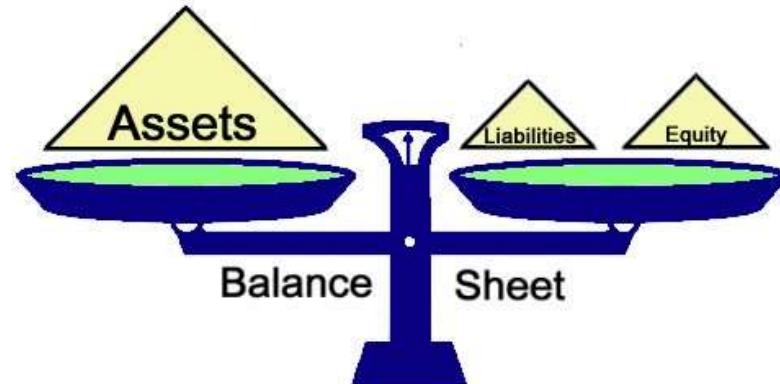
Profit and Loss Statement



Measures what you *earned* and what you *spent* over a *period of time*.

For Taxes, Business Loans, Government and Investors

Balance Sheet



Measures what you *have* and what you *owe* at a *specific moment in time*.



#3

Statement of Change in Owner Equity

Statement of Change in Owner Equity

- ▶ Statements of change in equity is one of Financial Statements that show the shareholder contribution, and movement in equity. and equity balance at the end of accounting periods. Information that show is this statements include Classification of share capital, total share capital, retain earning, dividend payment, and others related state reserve.
- ▶ Please noted that the statement of change in equity is the result of income statement and balance sheet. Basically, if the income statement and balance sheet are correctly prepared, the statement of change in equity would be corrected too.



Equity Items

► Common Stock:

- ▶ Common Stock or Ordinary shares are the same, and this class of shares normally has the voting right. The ordinary share is recording at par value in the balance sheet under equity sections. Detail of it could be found in the statement of change in equity and Noted to Financial Statements.
- ▶ This types of stock represent the ownership of corporation. If the corporation go to liquidation, then the holders of this stock have less priority to get payments than others preferred shareholders or lenders.

► Retained Earnings or Accumulated Losses/ Profit :

- ▶ Retained Earnings or accumulated losses is recording the equity section of balance sheet. This is the accumulation of profits or losses that corporation or entity has earned so far. The balance of return earning could be reduced once the entity make dividend payments to its shareholders or reinvestment.
- ▶ It is depending on company's investment and financial strategy. Retain earning can be calculated by accumulation of beginning balance of retain earning plus net income during the year and minus dividend payments during the year.



Equity Items (Cont'd)

► Reserves:

- It is normally the statutory or standard requirement for the company to make reserves for special occasions that could happen unexpectedly. Sometimes it is named Capital Reserve. For example, if the corporation is a bank, then the central banks might require the corporation to have certain amounts of capital reserve for the liquidations.

► Dividends:

- Dividend is the amount that reduce the total shareholders' equity. It is what the company pay to its shareholders and mostly decided by the board at the end of the year. Dividend might report as the contract to retained earnings or sometimes it is recorded as the net from retained earnings.



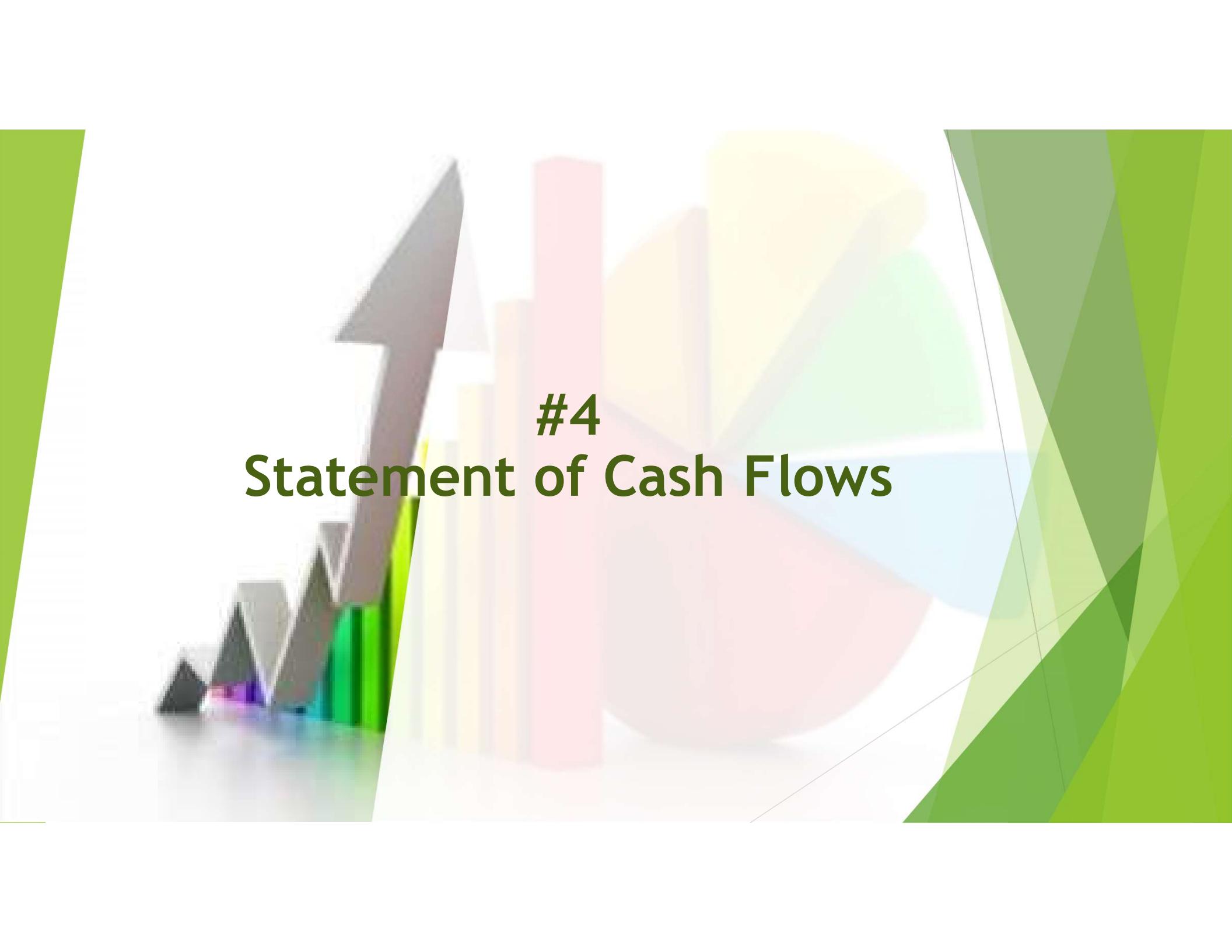
Sample Report of Changes in Owner/ Shareholder Equity

(M€)	Common shares issued			General reserves and retained earnings	Revaluation reserve	Total
	Number	Amount	Issue premiums			
As of January 1, 2010	2,348,422,884	5,871	27,170	11,027	37	44,105
Balance of cash dividends paid ^(a)	-	-	-	(2,662)	-	(2,662)
Net income 2010	-	-	-	5,840	-	5,840
Cash interim dividends paid for 2010 ^(b)	-	-	-	(2,665)	-	(2,665)
Capital decrease	-	-	-	-	-	-
Issuance of common shares	1,218,047	3	38	-	-	41
Changes in revaluation differences	-	-	-	-	11	11
As of December 31, 2010	2,349,640,931	5,874	27,208	11,540	48	44,670
Balance of cash dividends paid ^(c)	-	-	-	(2,685)	-	(2,685)
Net income 2011	-	-	-	9,766	-	9,766
Cash interim dividends paid for 2011 ^{(d)(e)}	-	-	-	(4,058)	-	(4,058)
Issuance of common shares	5,223,665	13	160	-	-	173
Capital increase reserved for Group Employees	8,902,717	22	288	-	-	310
Changes in revaluation differences	-	-	-	-	-	-
Expenses related to the capital increase reserved for employees	-	-	(1)	-	-	(1)
As of December 31, 2011	2,363,767,313	5,909	27,655	14,563	48	48,175
Balance of cash dividends paid ^(f)	-	-	-	(1,311)	-	(1,311)
Net income 2012	-	-	-	6,520	-	6,520
Cash interim dividends paid for 2012 ^{(g)(h)}	-	-	-	(4,161)	-	(4,161)
Issuance of common shares	798,883	2	29	-	-	31
Capital increase reserved for Group Employees ⁽ⁱ⁾	1,366,950	4	-	(4)	-	-
Changes in revaluation differences	-	-	-	-	(24)	(24)
Expenses related to the capital increase reserved for employees	-	-	-	-	-	-
As of December 31, 2012	2,365,933,146	5,915	27,684	15,607	24	49,230

(a) Balance of the 2009 dividend paid in 2010: €2,662 million (€1.14 per share).

(b) Interim dividend paid in 2010: €2,665 million (€1.14 per share).





#4

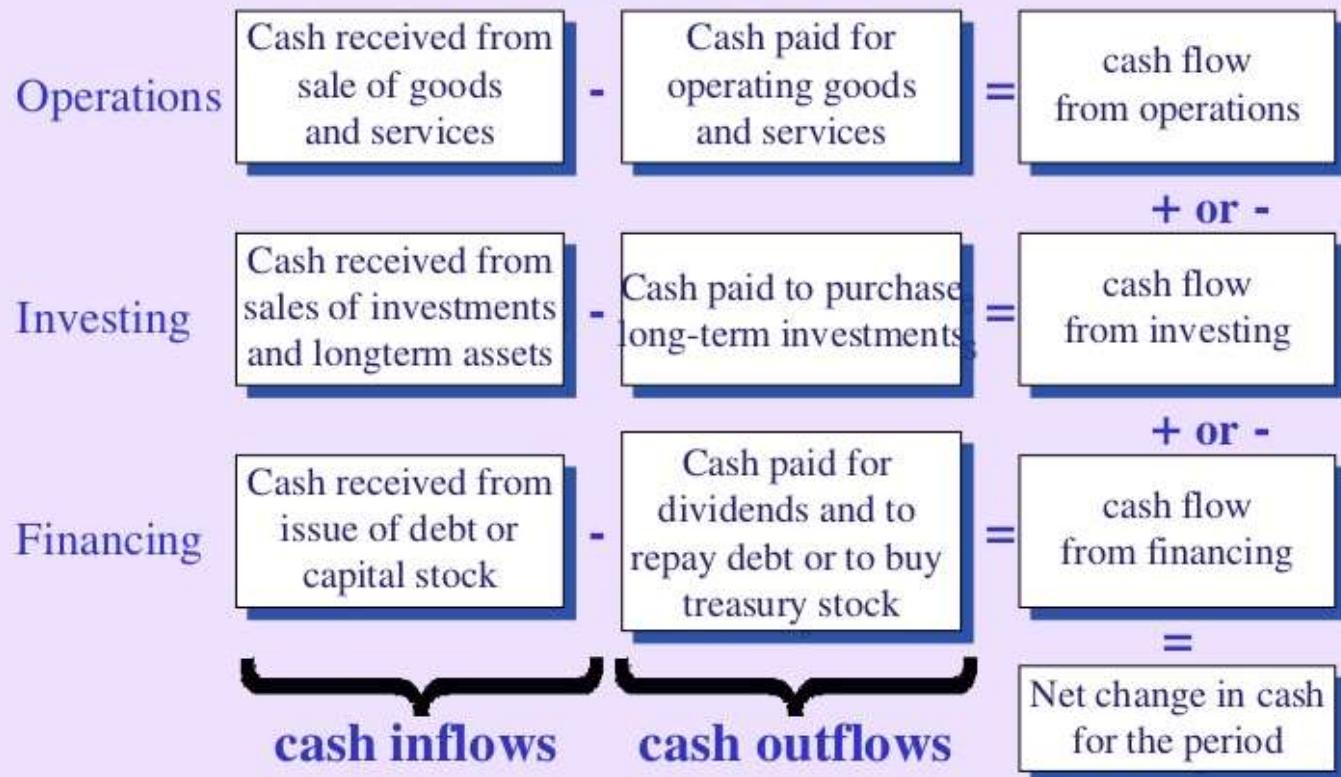
Statement of Cash Flows

Statement of Cash Flows

- ▶ This financial statement blends information from both the income statement and the balance sheet to give a picture of how cash is flowing in and out of the business.
- ▶ The “Cash Flow from Operations” line on this report is one of the most important of all financial statements for the business owner. It shows the net difference of cash that came in and went out of a business on an operating level over a period of time.
- ▶ Regularly looking at cash flow can give a better perspective on the health of the business.
- ▶ The cash from operating activities is compared to the company’s net income. If the cash from operating activities is consistently greater than the net income, the company’s net income or earnings are said to be of a “high quality”.
- ▶ If the cash from operating activities is less than net income, a red flag is raised as to why the reported net income is not turning into cash.



Components of the Cash Flow Statement



Sample Cash Flow Statement Report



Cash Flow Statement	
For the Year Ended December 31, 2016	
Cash Flow from Operations	
Net income	79,000
Adjustments for depreciation	2,000
Adjustments for increase in inventories	(22,000)
Adjustments for decrease in accounts receivable	12,000
Net Cash Flow from Operations	71,000
Cash Flow from Investing	
Cash receipts from sale of property and equipment	10,000
Cash paid for purchase of equipment	(12,000)
Net Cash Flow from Investing	(2,000)
Cash Flow from Financing	
Cash paid for loan repayment	(5,500)
Net Cash Flow from Financing	(5,500)
Net Increase in Cash	63,500



#5

Budget vs. Actual Report

Sample Budget vs. Actual Report

	TOTAL			
	ACTUAL	BUDGET	OVER BUDGET	% OF BUDGET
Income				
Design income	1,275.00	1,300.00	-25.00	98.08 %
Discounts given	-89.50		-89.50	
Landscaping Services	4,324.08	3,275.00	1,049.08	132.03 %
Pest Control Services	70.00		70.00	
Sales of Product Income	912.75	1,000.00	-87.25	91.28 %
Services	503.55	500.00	3.55	100.71 %
Total Income	\$6,995.88	\$6,075.00	\$920.88	115.16 %
Cost of Goods Sold				
Cost of Goods Sold	405.00	400.00	5.00	101.25 %
Total Cost of Goods Sold	\$405.00	\$400.00	\$5.00	101.25 %
Gross Profit	\$6,590.88	\$5,675.00	\$915.88	116.14 %
Expenses				
Advertising	74.86	75.00	-0.14	99.81 %
Automobile	312.81	305.00	7.81	102.56 %
Equipment Rental	112.00	75.00	37.00	149.33 %
Insurance	241.23	241.00	0.23	100.10 %
Job Expenses	602.63	535.00	67.63	112.64 %
Legal & Professional Fees	565.00	500.00	65.00	113.00 %
Maintenance and Repair	940.00	700.00	240.00	134.29 %
Meals and Entertainment	28.49	35.00	-6.51	81.40 %
Office Expenses	18.08	20.00	-1.92	90.40 %
Rent or Lease	900.00	900.00	0.00	100.00 %
Utilities	188.45	185.00	3.45	101.86 %
Total Expenses	\$3,983.55	\$3,571.00	\$412.55	111.55 %
Net Operating Income	\$2,607.33	\$2,104.00	\$503.33	123.92 %
Other Expenses				
Miscellaneous	2,666.00		2,666.00	
Total Other Expenses	\$2,666.00	\$0.00	\$2,666.00	0.00%
Net Other Income	\$ -2,666.00	\$0.00	\$ -2,666.00	0.00%
Net Income	\$ -58.67	\$2,104.00	\$ -2,162.67	-2.79 %



Budget vs. Actual Report

- ▶ The Budget vs. Actual report compares the budgeted amounts that were earlier projected against the actual numbers generated from the activities of that period.
- ▶ This report allows for an in-depth, line-by-line analysis of the company's income and expense activities, and whether expectations were missed or met.
 - ▶ You can identify the areas that either were over or under the budgeted projections by percentage or amount
 - ▶ Helps you to make any adjustments, if needed, to keep your business goals on track based on solid numbers, not assumptions
- ▶ This report is best reviewed on a monthly, quarterly and annually basis.