

# Financials



# *Six kinds of Financial Items*

*Assets*

*Revenue*

*Liabilities*

*Costs*

*Capital/  
Equity*

*Expenses*

**Assets** are the **resources** of the business.

They are some things that **have a future or potential value**





cash



inventory



supplies



prepaid



building





Liabilities are **promises** made to others.  
They are **responsibilities** to others.



## ACCOUNTS PAYABLE



## Interest payable



gg56930439 www.gograph.com

\$25,000

Orlando, Florida  
February 17, 2013

Eight months after date I promise to pay to the order of Peter Payee  
twenty-five thousand dollars.

*Mike Maker*  
Mike Maker

## Notes payable

## Unearned revenue



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Equity/Capital is money invested in a business to generate income.





Retained earnings



Revenue is income generated from sale of goods or services, or any other use of capital or assets, associated with the main operations of an organization before any costs or expenses are deducted.



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*Sales is a quantity or amount sold.*





## *Sales : Cash*

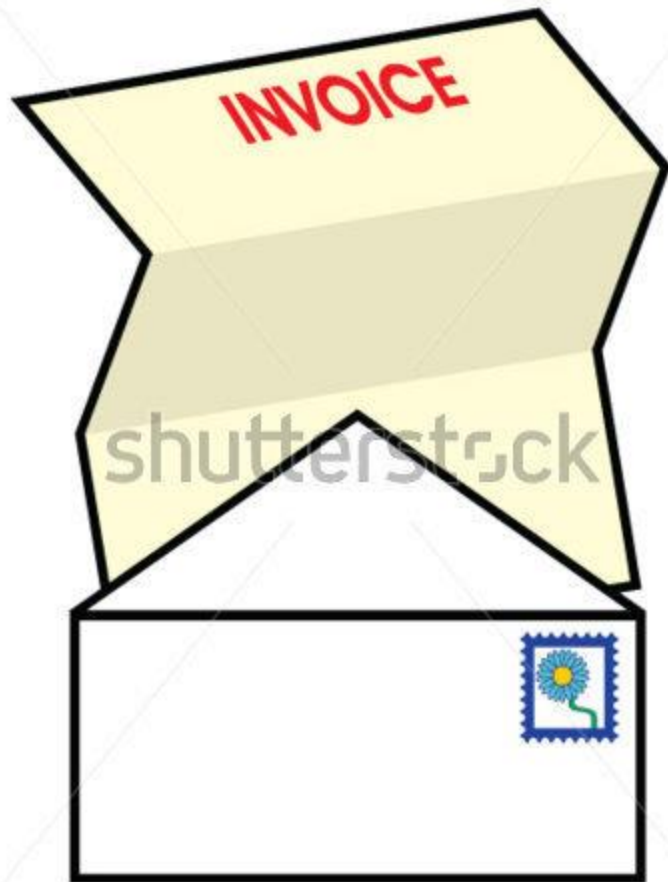


## *Sales : Credit Card*





# *Sales : Invoice*



www.shutterstock.com · 13462756



When do sales happen?

*Sales happen when ownership of goods changes hands.*



*Sales happen  
when the service  
is delivered or  
fulfilled.*

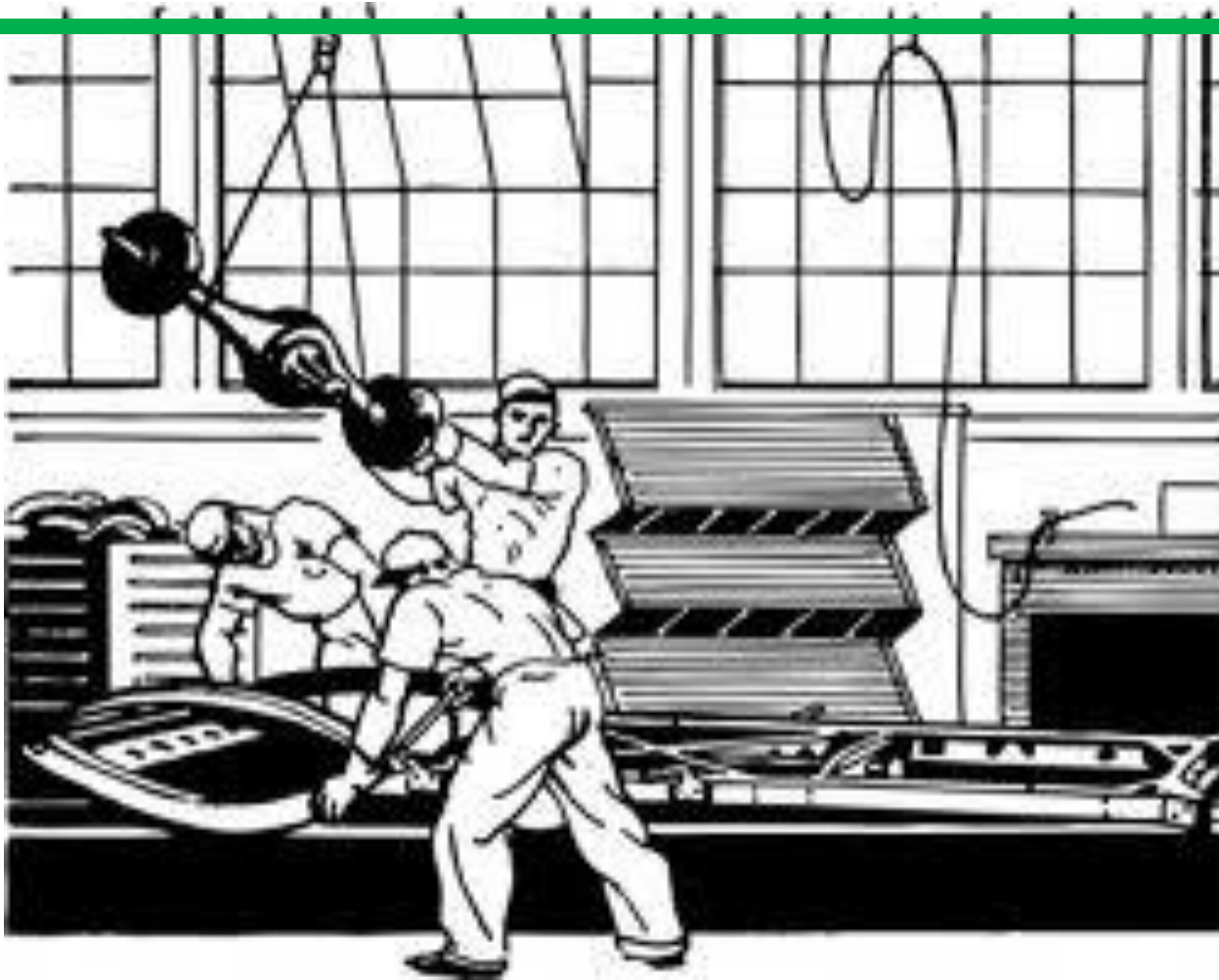


*Cost is an amount that has to be paid or given up in order to get something.*





*In business, cost is usually a monetary valuation of (1) **effort**, (2) material, (3) resources, (4) time and utilities consumed, (5) risks incurred, and (6) opportunity forgone in production and delivery of a good or service.*



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ClipartOf.com/34905





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*Expenses are money spent or cost incurred in an organization's efforts to generate revenue, representing the cost of doing business.*

*All expenses are costs, but not all costs (such as those incurred in acquisition of an income-generating asset) are expenses.*



salaries



depreciation

[www.clipartof.com](http://www.clipartof.com) · 434081

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rent

# Financial Statements

## Balance Sheet



## Income Statement



## Cash Flows

XXX Pte Ltd Statement of Cash Flows For the Year Ended December 31, 20x8		
<b>Cash flows from operating activities</b>		
Net Income	\$ x,xxx	
Add back (Subtract) non-operating (income) expense:	\$ x,xxx	
Depreciation	\$ x,xxx	
Decrease (increase) in Accounts Receivables	\$ x,xxx	
Increase (decrease) in Accounts Payables	\$ x,xxx	
Increase (decrease) in Taxes Payable	\$ x,xxx	
Decrease (increase) in inventories	\$ x,xxx	
Increase (decrease) in other operating activities	\$ x,xxx	
<b>Net cash provided by operating activities</b>		\$ x,xxx
<b>Cash flows from investing activities</b>		
Capital expenditure	(\$ x,xxx)	
Investments	(\$ x,xxx)	
Other cash flows from investing activities	(\$ x,xxx)	
<b>Net cash used in investing activities</b>		(\$ x,xxx)
<b>Cash flows from financing activities</b>		
Dividends Paid	(\$ x,xxx)	
Sales (repurchase) of stock	(\$ x,xxx)	
Increase (decrease) in debt	\$ x,xxx	
Other cash flows from financing activities	\$ x,xxx	
<b>Net cash used in financing activities</b>		\$ x,xxx
Net increase (decrease) in cash and cash equivalents		\$ x,xxx
Cash and cash equivalents at beginning of year		\$ x,xxx
Cash and cash equivalents at end of year		\$ x,xxx

## Statement of Changes in Equity

### M. SANTOS STATEMENT OF CHANGES IN OWNER'S EQUITY For the year ended December 31, 2011

<b>M. Santos, Capital, January 1</b>	P	-
Investments during the year	P	300,000
Net income for the year		51,414
<b>Total</b>		<b>351,414</b>
Less: Withdrawals	P	(25,000)
<b>Net increase in owner's equity</b>		<b>326,414</b>
<b>M. Santos, Capital, December 31</b>	P	<b>326,414</b>



**Income Statement**  
**For the Year Ended December 31**

**Revenue:**

Net sales.....  
Interest earned.....

Total revenue.....

**Less: Costs and expenses:**

Cost of goods sold.....

Selling expenses.....

General & administrative expenses.....

Interest expense.....

Purchase discount.....

Income taxes.....

Total costs and expenses.....

Net income.....  
Per share.....



# What is an Income Statement?

- An income statement (US English) or profit and loss account (UK English) is one of the financial statements of a company and shows the company's revenues and expenses during a particular period.
- It indicates how the revenues (money received from the sale of products and services before expenses are taken out, also known as the “top line”) are transformed into the net income (the result after all revenues and expenses have been accounted for, also known as “net profit” or the “bottom line”).
- It displays the revenues recognized for a specific period, and the cost and expenses charged against these revenues, including write-offs (e.g., depreciation and amortization of various assets) and taxes.
- The purpose of the income statement is to show managers and investors whether the company made or lost money during the period being reported.

		Jan	Feb	Mar	April	May
<b>Revenue</b>						
	Subscription Software Revenue	\$ 350,000	\$ 360,000	\$ 385,000	\$ 370,000	\$ 375,000
	Professional Services	\$ 40,000	\$ 35,000	\$ 20,000	\$ 55,000	\$ 40,000
<b>Total Revenue</b>		\$ 390,000	\$ 395,000	\$ 405,000	\$ 425,000	\$ 415,000
<b>Cost of Goods</b>						
	Third Party and/or Transaction Fees	\$ 3,500	\$ 3,600	\$ 3,850	\$ 3,700	\$ 3,750
	Hosting Expenses	\$ 8,750	\$ 9,000	\$ 9,625	\$ 9,250	\$ 9,375
	Customer Support	\$ 12,300	\$ 14,000	\$ 14,500	\$ 13,000	\$ 13,000
	Internal Engineering Support	\$ 4,100	\$ 4,300	\$ 4,000	\$ 3,900	\$ 4,300
	Professional Services	\$ 32,000	\$ 30,000	\$ 35,000	\$ 33,000	\$ 34,000
<b>Total CoGS</b>		\$ 60,650	\$ 60,900	\$ 66,975	\$ 62,850	\$ 64,425
<b>Gross Profit</b>		\$ 329,350	\$ 334,100	\$ 338,025	\$ 362,150	\$ 350,575
<b>Gross Margin</b>		84%	85%	83%	85%	84%
<b>Operating Expenses</b>						
	Sales	\$ 145,000	\$ 125,000	\$ 122,000	\$ 135,000	\$ 140,000
	Marketing	\$ 87,000	\$ 62,000	\$ 89,000	\$ 79,000	\$ 90,000
	Product Development	\$ 135,000	\$ 130,000	\$ 128,000	\$ 133,000	\$ 135,000
	General and Administrative	\$ 56,000	\$ 71,000	\$ 73,000	\$ 81,000	\$ 83,000
<b>Total Operating Expenses</b>		\$ 423,000	\$ 388,000	\$ 412,000	\$ 428,000	\$ 448,000
<b>Net Income</b>		\$ (93,650)	\$ (53,900)	\$ (73,975)	\$ (65,850)	\$ (97,425)

		Jan	Feb	Mar	April	May
<b>Revenue</b>						
	Subscription Software Revenue	\$ 350,000	\$ 360,000	\$ 385,000	\$ 370,000	\$ 375,000
	Professional Services	\$ 40,000	\$ 35,000	\$ 20,000	\$ 55,000	\$ 40,000
<b>Total Revenue</b>		\$ 390,000	\$ 395,000	\$ 405,000	\$ 425,000	\$ 415,000
<b>Cost of Goods</b>						
	Third Party and Hosting Expenses			3,850	\$ 3,700	\$ 3,750
	Customer Support			9,625	\$ 9,250	\$ 9,375
	Internal Engineering			14,500	\$ 13,000	\$ 13,000
	Professional Services			4,000	\$ 3,900	\$ 4,300
		\$ 32,000	\$ 30,000	\$ 35,000	\$ 33,000	\$ 34,000
<b>Total CoGS</b>		\$ 60,650	\$ 60,900	\$ 66,975	\$ 62,850	\$ 64,425
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**material costs**

**subscription and hosting costs**

**support costs**

**professional service costs**

- the cost of the CDs and non-electronic documentation
- the cost of product packaging (including labor costs)
- the cost of shipping and any other fulfillment costs

**material costs**

**subscription and hosting costs**

**support costs**

**professional service costs**

- Bandwidth costs
- Data center costs
- Depreciation of data center equipment
- Leases of data center equipment
- Royalties or expenses related to 3rd party software used in data center
- Royalties for 3rd part components used in product offerings
- Data center staff payroll, taxes and benefits
- Credit card processing fees



**material costs**  
**subscription and hosting costs**  
**support costs**  
**professional service costs**

- Support salaries
- Depreciation of equipment related to providing support
- Leases of equipment related to providing support
- Amortization of software related to providing support
- Allocated overhead

**material costs**

**subscription and hosting costs**

**support costs**

**professional service costs**

- Professional services salaries and benefits
- Depreciation of equipment related to providing professional services
- Leases of equipment related to providing professional services
- Amortization of software related to providing professional services
- Allocated overhead

	A	B	C	D	E	F	G	
1	Proforma Income Statement							
2					Percentage of Sales Method			
3								
4								
5	Tax Rate	35.00%						
6	Starting Sales (units)	1,000,000						
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8	Price	\$400						
9	COGS %	81.00%						
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11	Depreciation (fixed)	\$10,000,000						
12	Year	0	1	2	3	4	5	
13	Sales Revenue							
14	COGS							
15	SGA							
16	Depreciation							
17	Operating Profit							
18	Taxes							
19	Net Profit							
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21								

SUM  $=\$B\$6*(1+\$B\$7)^(C12-1)*\$B\$8$

	A	B	C	D	E	F	G
1	<b>Proforma Income Statement</b>						
2					<b>Percentage of Sales Method</b>		
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18	Taxes						
19	Net Profit						
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	A	B	C	D	E	F	G
1	Proforma Income Statement						
2					Percentage of Sales Method		
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13	Sales Revenue		\$400,000,000.00				
14	COGS		$=C13*\$B\$9$				
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17	Operating Profit						
18	Taxes						
19	Net Profit						
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15	SGA							
16	Depreciation							
17	Operating Profit							
18	Taxes							
19	Net Profit							
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Pro Forma Income Statement - Microsoft Excel								
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17	Operating Profit		=C13-C14-C15-C16					
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18	Taxes						
19	Net Profit						
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	A	B	C	D	E	F	G	
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16	Depreciation		\$10,000,000.00					
17	Operating Profit		\$30,000,000.00					
18	Taxes		=C17*\$B\$5					
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SUM			=C17-C18				
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12	Year	0	1	2	3	4	5
13	Sales Revenue		\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00
14	COGS		\$324,000,000.00				
15	SGA		\$36,000,000.00				
16	Depreciation		\$10,000,000.00				
17	Operating Profit		\$30,000,000.00				
18	Taxes		\$10,500,000.00				
19	Net Profit		\$19,500,000.00				
20							

	A	B	C	D	E	F	G
1	Proforma Income Statement						
2				Percentage of Sales Method			
3							
4							
5	Tax Rate	35.00%					
6	Starting Sales (units)	1,000,000					
7	Sales growth rate	0.00%					
8	Price	\$400					
9	COGS %	81.00%					
10	SGA %	9.00%					
11	Depreciation (fixed)	\$10,000,000					
12	Year	0	1	2	3	4	5
13	Sales Revenue		\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00
14	COGS		\$324,000,000.00	\$324,000,000.00	\$324,000,000.00	\$324,000,000.00	\$324,000,000.00
15	SGA		\$36,000,000.00	\$36,000,000.00	\$36,000,000.00	\$36,000,000.00	\$36,000,000.00
16	Depreciation		\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00
17	Operating Profit		\$30,000,000.00	\$30,000,000.00	\$30,000,000.00	\$30,000,000.00	\$30,000,000.00
18	Taxes		\$10,500,000.00	\$10,500,000.00	\$10,500,000.00	\$10,500,000.00	\$10,500,000.00
19	Net Profit		\$19,500,000.00	\$19,500,000.00	\$19,500,000.00	\$19,500,000.00	\$19,500,000.00
20							

	A	B	C	D	E	F	G
1	Proforma Income Statement						
2					Percentage of Sales Method		
3							
4							
5	Tax Rate	35.00%					
6	Starting Sales (units)	1,000,000					
7	Sales growth rate	5%					
8	Price	\$400					
9	COGS %	81.00%					
10	SGA %	9.00%					
11	Depreciation (fixed)	\$10,000,000					
12	Year	0	1	2	3	4	5
13	Sales Revenue		\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00	\$400,000,000.00
14	COGS		\$324,000,000.00	\$324,000,000.00	\$324,000,000.00	\$324,000,000.00	\$324,000,000.00
15	SGA		\$36,000,000.00	\$36,000,000.00	\$36,000,000.00	\$36,000,000.00	\$36,000,000.00
16	Depreciation		\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00
17	Operating Profit		\$30,000,000.00	\$30,000,000.00	\$30,000,000.00	\$30,000,000.00	\$30,000,000.00
18	Taxes		\$10,500,000.00	\$10,500,000.00	\$10,500,000.00	\$10,500,000.00	\$10,500,000.00
19	Net Profit		\$19,500,000.00	\$19,500,000.00	\$19,500,000.00	\$19,500,000.00	\$19,500,000.00
20							

	A	B	C	D	E	F	G	
1	Proforma Income Statement							
2					Percentage of Sales Method			
3								
4								
5	Tax Rate	35.00%						
6	Starting Sales (units)	1,000,000						
7	Sales growth rate	5.00%						
8	Price	\$400						
9	COGS %	81.00%						
10	SGA %	9.00%						
11	Depreciation (fixed)	\$10,000,000						
12	Year	0	1	2	3	4	5	
13	Sales Revenue		\$400,000,000.00	\$420,000,000.00	\$441,000,000.00	\$463,050,000.00	\$486,202,500.00	
14	COGS		\$324,000,000.00	\$340,200,000.00	\$357,210,000.00	\$375,070,500.00	\$393,824,025.00	
15	SGA		\$36,000,000.00	\$37,800,000.00	\$39,690,000.00	\$41,674,500.00	\$43,758,225.00	
16	Depreciation		\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	
17	Operating Profit		\$30,000,000.00	\$32,000,000.00	\$34,100,000.00	\$36,305,000.00	\$38,620,250.00	
18	Taxes		\$10,500,000.00	\$11,200,000.00	\$11,935,000.00	\$12,706,750.00	\$13,517,087.50	
19	Net Profit		\$19,500,000.00	\$20,800,000.00	\$22,165,000.00	\$23,598,250.00	\$25,103,162.50	
20								



	A	B	C	D	E	F	G
1	Proforma Income Statement						
2				Percentage of Sales Method			
3							
4							
5	Tax Rate	35.00%					
6	Starting Sales (units)	1,000,000					
7	Sales growth rate	5.00%					
8	Price	\$400					
9	COGS %	84%					
10	SGA %	9.00%					
11	Depreciation (fixed)	\$10,000,000					
12	Year	0	1	2	3	4	5
13	Sales Revenue		\$400,000,000.00	\$420,000,000.00	\$441,000,000.00	\$463,050,000.00	\$486,202,500.00
14	COGS		\$324,000,000.00	\$340,200,000.00	\$357,210,000.00	\$375,070,500.00	\$393,824,025.00
15	SGA		\$36,000,000.00	\$37,800,000.00	\$39,690,000.00	\$41,674,500.00	\$43,758,225.00
16	Depreciation		\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00
17	Operating Profit		\$30,000,000.00	\$32,000,000.00	\$34,100,000.00	\$36,305,000.00	\$38,620,250.00
18	Taxes		\$10,500,000.00	\$11,200,000.00	\$11,935,000.00	\$12,706,750.00	\$13,517,087.50
19	Net Profit		\$19,500,000.00	\$20,800,000.00	\$22,165,000.00	\$23,598,250.00	\$25,103,162.50
20							

	A	B	C	D	E	F	G
1	Proforma Income Statement						
2				Percentage of Sales Method			
3							
4							
5	Tax Rate	35.00%					
6	Starting Sales (units)	1,000,000					
7	Sales growth rate	5.00%					
8	Price	\$400					
9	COGS %	84.00%					
10	SGA %	9.00%					
11	Depreciation (fixed)	\$10,000,000					
12	Year	0	1	2	3	4	5
13	Sales Revenue		\$400,000,000.00	\$420,000,000.00	\$441,000,000.00	\$463,050,000.00	\$486,202,500.00
14	COGS		\$336,000,000.00	\$352,800,000.00	\$370,440,000.00	\$388,962,000.00	\$408,410,100.00
15	SGA		\$36,000,000.00	\$37,800,000.00	\$39,690,000.00	\$41,674,500.00	\$43,758,225.00
16	Depreciation		\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00	\$10,000,000.00
17	Operating Profit		\$18,000,000.00	\$19,400,000.00	\$20,870,000.00	\$22,413,500.00	\$24,034,175.00
18	Taxes		\$6,300,000.00	\$6,790,000.00	\$7,304,500.00	\$7,844,725.00	\$8,411,961.25
19	Net Profit		\$11,700,000.00	\$12,610,000.00	\$13,565,500.00	\$14,568,775.00	\$15,622,213.75
20							

# Balance Sheet



# Balance Sheet

- The Balance Sheet describes a **business's financial situation at a moment in time** (snap shot)
- A standard company balance sheet has three parts: assets, liabilities, and ownership equity.

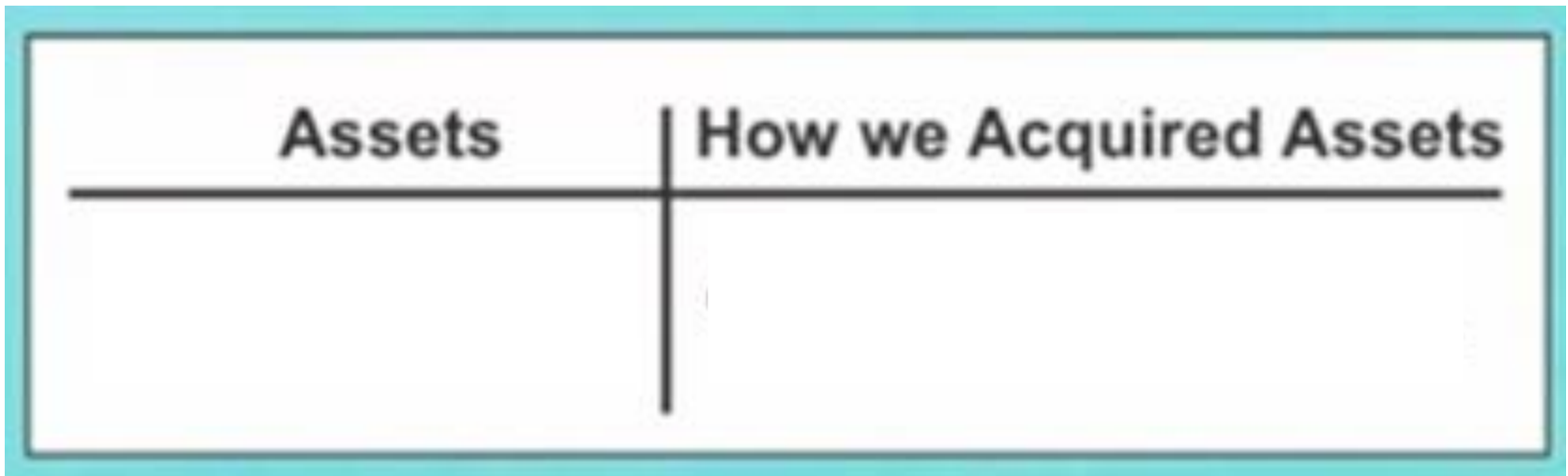
# Balance Sheet

- The Balance Sheet describes a business's financial situation at a moment in time

Assets	How we Acquired Assets

# Balance Sheet

- The Balance Sheet describes a business's financial situation at a moment in time



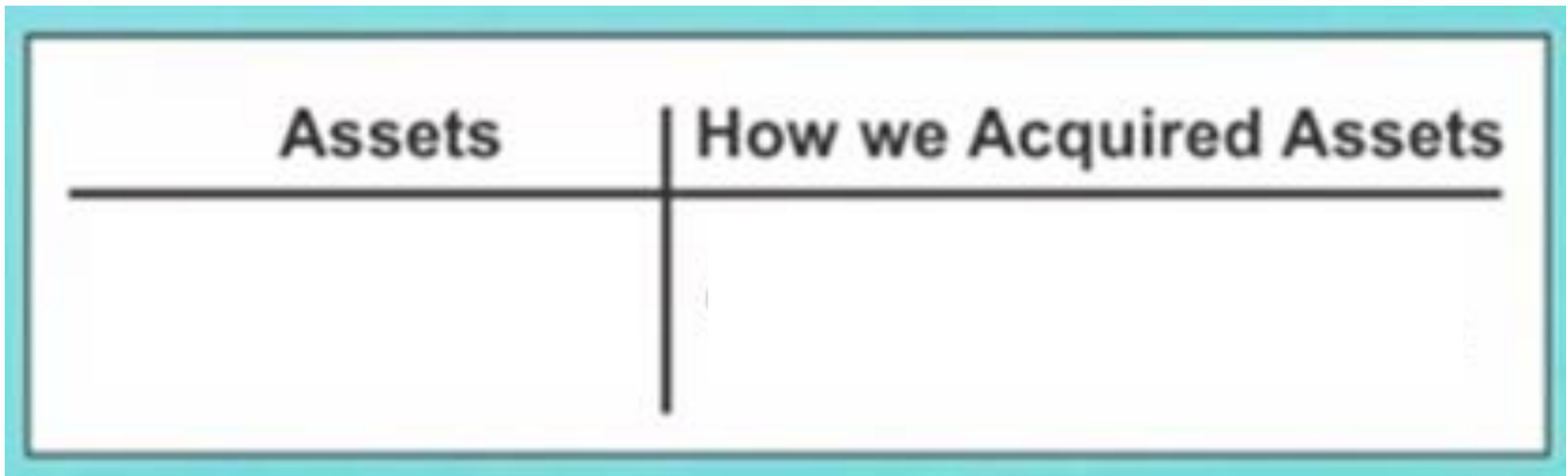
Assets	How we Acquired Assets

- The **left side** details the **assets** a business has



# Balance Sheet

- The Balance Sheet describes a business's financial situation at a moment in time

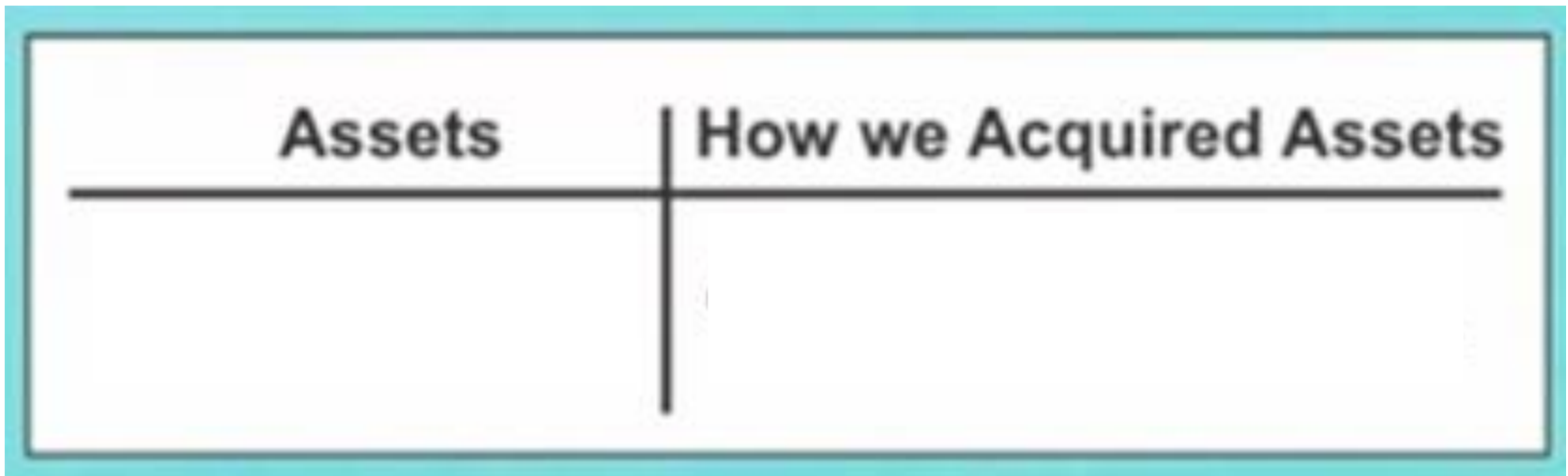


Assets	How we Acquired Assets

- The left side details the assets a business has
- The **right side** details **how those assets were acquired**

# Balance Sheet

- The Balance Sheet describes a business's financial situation at a moment in time



Assets	How we Acquired Assets

- The left side details the assets a business has
- The right side details how those assets were acquired
- Both sides **must always be equal**

# Balance Sheet

- The Balance Sheet describes a business's financial situation at a moment in time

Assets	How we Acquired Assets
	Liabilities Owner's Equity

- The left side details the assets a business has
- The right side details how those assets were acquired
- Both sides **must always be equal**

Sample Small Business Balance Sheet			
Assets (current)		Liabilities and Owners' Equity	
Cash	\$6,600	Liabilities	
Accounts Receivable	\$6,200	Notes Payable	\$5,000
Assets (non-current)		Accounts Payable	\$25,000
Tools and equipment	\$25,000	<i>Total liabilities</i>	\$30,000
		Owners' equity	
		Capital Stock	\$7,000
		Retained Earnings	\$800
		<i>Total owners' equity</i>	\$7,800
<i>Total</i>	\$37,800	<i>Total</i>	\$37,800

Thank You for Listening!