

Summary

Financial Statements, MIS and Financial KPIs

In this session, you learnt about Financial Statements, Management Information Systems, and Financial Key Performance Indicators. Financial Statements are reports that every business organisation must prepare to be able to indicate to its stakeholders and operators, the complete picture of the organisation's health. Management Information System (MIS) is a means to generate regular and timely reports that help management take critical decisions that shape the business, and help it improvise on several aspects. Financial Key Performance Indicators (KPIs) are clearly defined financial metrics that measure various aspects of a company's performance.

Introduction to Financial Statements

Any business usually creates three statements at the end of a financial year, which are:

1. **Profit and Loss Account (Income Statement):** This is a statement that provides information on the revenue of the business, as well as its direct and indirect costs. In this statement, direct and indirect costs are subtracted from revenues, to arrive at the net profit or loss of the organisation, thus indicating its profitability or the lack of it. An entrepreneur needs to be cautious about the profitability of his/her start-up and take actions to be able to move in the right direction.
2. **Balance Sheet:** This is a statement of what a business owns and owes. Whatever a business owns is usually classified as assets while any short or long term obligations is its liabilities. The balance sheet has four major components. These are:
 - a. Fixed Assets
 - b. Shareholders' Funds
 - c. Borrowings
 - d. Net Working Capital
3. **Cash Flow Statement:** This statement provides complete information on the cash inflows and outflows of the company over a period of time. This includes all incomings and all outgoings, irrespective of their purpose and the heading under which they fall. This statement is also crucial for planning purposes, as it helps the company plan its cash-needs, thus allowing it to remain in business. The statement is broadly divided into the three broad components. They are:
 - a. Cash from Operating Activities
 - b. Cash from Investing Activities
 - c. Cash from Financing Activities

Management Information System

Management Information System (MIS) is a system that helps the management and founders of an organisation take key decisions. These reports are designed to provide crucial information about the revenues, costs and operations of the business, and also allow a comparison against budgeted or projected numbers and figures. This information, if used well, can tangibly help increase the profitability of the business. The key component of MIS, discussed in the session are as follows:

1. Budget v/s Actual
2. Unit Metrics
3. Key Performance Indicators
4. Summary of Financial Statements

Key Performance Indicators

Key Performance Indicators (KPIs) are indicators used to judge the performance of any venture. Most ventures track them to stay in line with business objectives and take corrective action whenever there is a difference in expectations. This session covered the most commonly tracked KPIs, which are:

1. Booking v/s Revenue
2. GMV v/s Revenue
3. Revenue Run Rate
4. Gross Profit
5. Life Time Value
6. Customer Acquisition Cost
7. Monthly Burn
8. Average Revenue Per User
9. Conversion Rate
10. Cohort Analysis

You should be able to:

At the end of this session, you should be able to:

1. Read and understand the financial statements of your business venture
2. Understand and implement management information systems for your startup
3. Determine key performance indicators for your venture to setup a system for continuous performance evaluation