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I've spent 22+ years studying Finance with the last 7 as a CFO, and

I'll teach you **everything you need to know about Financial Statements in the next 7 minutes:**

The 3 financial statements you need to know:

- **Balance sheet** - Are you Stable
- **Income Statement** - Are you Profitable
- **Statement of Cash Flows** - Will you Survive

Income Statement

The Income Statement shows:

- If you're **efficient**
- If you're p**rofitable**
- How to **make better decisions**
- How much **money you're making**
- What **costs you will need to control**

The structure of the income statement is **revenue minus expenses.**

Revenue is what you earn from sales:

- Merchandise
- Revenue from services
- Miscellaneous revenue, such as interest

Income Statement

Expenses are broken into:

- **Cost of goods sold** - what it costs you to manufacture what you sell.
- **Overhead expenses** are costs required to run the business that aren't directly tied to revenue.

There are two categories of **overhead expenses:**

- **Variable Costs** - move up or down based on a level of activity: If every unit we sell requires a $1 box. If we sell 100 units, it costs $100 and if we sell 5 units, $5.
- **Fixed costs** - don't change with levels of activity. You pay $10,000 per year in rent whether you sell 100 units or you sell 5 units. Minimize fixed costs and control your variable costs.

Balance Sheet

The balance sheet tells you **whether your business is healthy:**

- Is there cash
- Can you pay your bills
- How much debt do you have

The structure of a balance sheet is: **Assets = Liabilities + Equity**

Balance Sheet

Assets are what you own:

- cash
- inventory (goods available for sale)
- accounts receivable (what people owe you)
- Fixed assets (land, machinery, equipment, and buildings)

Liabilities are what you owe:

- accounts payable
- income tax payable
- mortgages and long-term debt

Liabilities provide you **working capital.**

Balance Sheet

Equity is what you're worth

If you sold all your assets and paid your liabilities, **equity's what's left over:**

- money contributed (common shares) •
- profits taken out of the business (dividends)
- earnings retained in the business (retained earnings)

Balance sheet focus:

- how much cash is there
- can current assets cover liabilities
- can the company meet its debt obligations
- what is the debt to equity ratio (lower is healthier)

Statement of Cashflows

How much cash did you receive or use over a period of time from:

- financing
- operations
- investments opening cash + net increase or decrease of cash during the period = ending cash

Statement of Cash Flows

Cash flow from operating activities

How much cash is generated from business activities:

- rent
- cash from sales
- income tax payments
- salary and wage expense
- Cash flow from investing activities

Includes a company's investments:

- purchase and sale of assets
- loans made to vendors or received from customers
- purchase or sale of machinery, plant, and equipment

Statement of Cash Flows

Cash flow from financing activities

You raise capital from investors, banks, and shareholders:

- capital raised
- dividends paid
- principal on debt
- principal repayments

Cash flow focus:

- Is cashflow positive
- Why is cashflow positive or negative
- Are operations strong enough without financing or investments

Can your company **survive from operations or is it alive** because of investments and financing.