Foundations of Entrepreneurship

Two minutes read #9

January 2022, a happening month on entrepreneurship (funding during the month)

January	Number of deals	Total amount	Calender year	Total deal value
2020	65	$ 1 B	2020	$ 11.4 B
2021	75	$ 0.6 B	2021	$ 34.7 B
2022	130	$ 3.5 B	2022	4 deals of $ 115 M per day on an average
There have been FOUR UNICORNS in January 2022				

"The best way to predict the future is to create it."

- Peter Drucker

"Winners never quit, and quitters never win."

- Vince Lombardi

Items in the Balance Sheet

Understanding Current Assets:

Though it is not an universally accepted rule, the convention is that the most liquid asset appears first in the balance sheet. Cash and cash equivalents are the most liquid assets.

Marketable securities are next which are equity (shares) and debt (loans and advances given to others by the company) securities for which there is a liquid market.

Accounts receivable arises when a company sells goods, but the buyer does not pay immediately, i.e. the company sells on credit. Accounts receivables refer to money that customers owe the company. The company raises an invoice and delivers to customers along with the goods sold. The buyer acknowledges the receipt of the goods and registers a promise to pay the value within a specified date by singing on a copy of the invoice. The seller refers to this document as 'invoice' whereas the buyer calls it a 'bill'. The document (invoice or bill) contains details of the product sold or services rendered. Copies of invoice must be preserved by both buyers and sellers for audit purpose.

Inventory is goods available for sale, valued at the lower of the cost or market price. Inventory, for a trading company, is the purchase value of all the goods at its showroom and warehouses maintained for selling.

Prepaid expenses represent the money paid in advance the service of which will be utilized later. Examples are insurance, advertising contracts, advance rent, advance payment for goods to be supplied later, annual transportation contract or maintenance contracts. Since a venture has already made the payment (utilization of funds) and is yet to be recorded as expense, prepaid expenses are recorded in the balance sheet as 'assets' – mostly current assets (unless the payment is for a long-term assets. For example, costs incurred in capital works in progress).

Long-term assets include the following:

Fixed assets including land, machinery, equipment, buildings, transportation equipment, factory shed, road, electrical installations, and other durables. These are also considered to be capital-intensive assets.

Some investments also form part of long-term assets such as investments which are not meant to be liquidated in the next one year.

Intangible assets include non-physical (but still valuable) assets such as intellectual property and goodwill. In general, intangible assets are only listed on the balance sheet if they are acquired, rather than developed in-house. Their value may thus be wildly understated – by not including a globally recognized logo, for example – or just as wildly overstated.

Liabilities

Items under 'Liabilities' are the sources of money. These are the money that a company owes to outside parties such as banks (for loans), payables (dues against goods purchased on credit, rent payable, utilities and salaries that are due but are yet to be paid. Current liabilities are those that are due within one year (and are listed in order of their due dates). Long-term liabilities are due at any point after one year.

Current liabilities accounts include:

- current portion of long-term debt

- bank indebtedness
- interest payable
- wages payable
- customer prepayments
- dividends payable and others
- earned and unearned premiums
- accounts payable

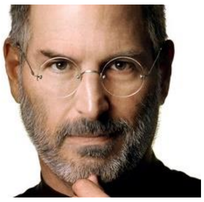
Long-term liabilities can include:

- Long-term debt: interest and principal on bonds issued
- Pension fund liability: the money a company is required to pay into its employees' retirement accounts
- Deferred tax liability: taxes that have been accrued but will not be paid for another year (Besides timing, this figure reconciles differences between requirements for financial reporting and the way tax is assessed, such as depreciation calculations.)
- Some liabilities are considered off the balance sheet, meaning that they will not appear on the balance sheet.

Shareholders' Equity

- Shareholders' equity is the money attributable to the owners (meaning its shareholders) of a business. [When we refer to the term "net assets" it effectively means the value of those assets which are funded purely by funds attributed to the owners of the business. 'Net Assets' is estimated by deducting all outside liabilities (such as accounts payable, short-term and long-term loans, and other liabilities) from the total value of all the assets.
- Retained earnings are that part of the profit which is reinvested in the business. Suppose the profit after tax (net profit) of a company is 100. The company pays dividend out of this money, say 40. So, 60 (100 – 40) is added to the 'Retained Earnings' account in the balance sheet. It is the prerogative of the company management to either pay or do not pay dividend or how much dividend to be paid.
- Preference equity is a different form of capital that has characteristics of both equity and debt (loans). Some companies issue preferred stock while some do not depend on requirement of funds and availability. Money received by issuing preference shares are repayable with interest. The difference is that this interest is called 'dividend' and can be paid when the company's cash flow is adequate. Else, it will keep on accumulating. Preference shareholders do not voting right and thus can't participate in decision making process.

Stakeholders such as analysts, investors, and banks use balance sheet in conjunction with 'income statement' – also called 'profit & loss account' and statement of cash flows in conducting fundamental analysis to know the health of a company and its future prospect.



"Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma – which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary."

- Steve Jobs