1. How To Read And Understand Financial Statements As A Small Business - YouTube

<https://www.youtube.com/watch?v=DLRF-eeFj1g>

Transcript:

hey there aidan here from bench accounting today we're going to talk about financial statements what they are how to read them and how to actually get value from them for making real business decisions let's start with the definition financial statements are reports that summarize important financial information about your business there are three main types of financial statements the balance sheet income statement and cash flow statement we'll look at what each of these three statements do and how they work together

to give you a full picture of your company's financial health if you need a template for the balance sheet income statement and cash flow statement you can find links to those in the description below let's start with the balance sheet [Music] a balance sheet is a snapshot of your business finances as it currently stands it tells you about the assets you own and liabilities aka debts that you owe at a particular point in time balance sheets are broken up into three general categories assets liabilities and equity here's what it

looks like this one happens to be the balance sheet for disneyland assets are anything valuable that your business owns including cash office furniture inventory patents etc sometimes they're broken up into current assets and fixed assets like you see here current just means it's cash or cash equivalent something you can sell quickly next we have liabilities liabilities are debts you owe to other people these can be things like credit card debt mortgages and accrued expenses such as utilities taxes or wages owed to employees

like assets they're normally split into current liabilities that you owe within the next 12 months and long-term debt beyond 12 months the last category is equity equity is the remaining value of the company after subtracting liabilities from assets equity can come in the form of common stocks like when you buy stock in a company like apple or in the form of retained earnings which is the amount of net income left over for your business after you've paid out any dividends to shareholders now here's where the whole balance part

of the balance sheet comes in the value of the asset section will always balance with the liabilities and equity section that's the balance sheet equation assets equal liabilities plus equity so you can see on the disneyland balance sheet the value of the assets is the exact same as the liabilities plus equity that's how you know they prepared the balance sheet right that's a quick overview of the balance sheet big businesses like banks prepare a balance sheet every day small businesses like a brand new etsy

shop might only prepare a balance sheet every three months it all depends on how many assets are moving in and out of your business now what can you really learn from a balance sheet tons of things for one you can measure the liquidity of your business with the current ratio which is current assets divided by current liabilities this tells you if you'll be able to pay off your debts in the next 12 months and there's lots of other useful ratios you can calculate using just your balance sheet next let's

talk about the income statement the income statement tells you how much money your business has spent and how much it has earned in a specific period that lets you calculate your net profit otherwise known as your bottom line the reason it's called the bottom line is because net profit is at the bottom of your income statement here's what an income statement looks like this one is from apple it has six main sections revenue cost of revenue gross profit which is revenue minus cost of revenue operating expenses operating income or

loss taxes and other non-operating expenses and net income let's go through what each section means we'll make it quick revenue is how much money you want pretty basic cost of revenue or cost of goods sold is how much money it costs to make and distribute your product or service this doesn't include things like the cost of your bookkeeper or the cost of rent those are operating costs gross profit is your revenue minus cost of revenue essentially how profitable your products and services are operating expenses are all the other

costs of running a business utilities rent support staff who aren't making or distributing your products etc you can see for apple they also include research and development here since the r d team isn't exactly making products they're just doing research that may or may not lead to a new product operating expenses are also known as overhead operating income or loss is your gross profit minus operating expenses this shows you how profitable your whole business is how efficient your business is at making money you might have a nice

gross profit but you spend way too much on rent and office snacks so overall you're losing money after you calculate your operating income or loss you need to take into account things that are somewhat out of your control mainly taxes after you've subtracted taxes from your operating income or loss you get the bottom line your net income that's how much money you walk away with after you've subtracted everything else the value of the income statement is a little more obvious to most people compared

to say the value of the balance sheet it shows you if you're making money if your business is profitable or not that is super useful more than that it shows you if you're spending too much money producing your products or if you're spending too much money on overhead the cost of running your business more generally you'll want to consult your income statement regularly if you want an income statement of your own you can click the link in the description where you'll find a simple income statement template

of your own created by our expert bookkeepers here at bench if you don't want to do your own bookkeeping and make your own income statements you can check out bench we'll do your bookkeeping for you and send you an income statement every month anyway on to the last financial statement your cash flow statement the cash flow statement tells you how much cash entered and left your business over a particular time period you might ask isn't that the same as the income statement no the income statement shows you how

much you spend and how much you made the cash flow statements show you what the cash reality of your business is this is most relevant for businesses that use the accrual basis of accounting let's say your income statement says that you made ten thousand dollars in march but your cash flow statement says that you only made five thousand dollars in cash what's going on well it could be that you sent out two invoices to clients for five thousand dollars each if you're using the accrual system of accounting you would record that ten

thousand dollars as revenue in march even though you haven't gotten paid yet then one client pays you but the other client is late your income statement would say ten thousand dollars but your cash flow statement would say five thousand dollars it's super important to know what the cash situation of your business is if you don't have cash you can't pay bills even if you have accounts receivable money on the way to you this is what a cash flow statement looks like this is one from the toronto raptors

the cash flow statement has three parts the first is cash from operating activity this is all the core business activity buying stuff and selling stuff below that you see adjustments things like accounts payable and luxury tax taxes aren't from operating activity but they still come out of our cash so we subtract it accounts payable technically isn't a cash transaction at all however on the income statement it's marked as an expense even though it's money that hasn't been paid out yet so we add it back into the cash flow

statement so we get an accurate picture of how much cash we actually have today next is cash flow from investments in your business so not the regular buying and selling of your core business but things like equipment work vehicles etc in the case of the toronto raptors here they bought an ice bath tub and a hyperbaric chamber for athletes to recover after games and they also sold a hyperbaric chamber the last category is cash from financing activities this includes money the owner invested in the business as well as taking out and repaying loans

on the rapture statement we see there was an owner's draw which means the owners withdrew 225 000 from the business this basically means they paid themselves if you add all three categories together you get the total change in cash if you add the beginning cash to the total change in cash you get the ending cash and for good measure you check your ending cash against what your bank account actually says to make sure you added everything up correctly if you want to create your own cash flow statement you can download our template in the

description below just plug in your numbers and you have a basic statement you can use to analyze your cash situation today that's the end of our financial statements crash course if you're an accounting pro using accounting software you can create these statements yourself if you're less comfortable with accounting you're probably going to want to hire a bookkeeper to do it for you if you don't have a bookkeeper today check out bench we'll do your bookkeeping for you and send you financial statements every

month so you can make smart business decisions and stay on top of your finances that's it from us here at bench good luck on your entrepreneurial journey and happy bookkeeping