

# Financial Education for Worker Cooperative Members

## Topic 5: Basic Financial Statements

# Introduction

This curriculum was created as part of a project between the New York City Department of Consumer Affairs Office of Financial Empowerment and Make the Road New York, with the support of Citi Community Development to integrate financial empowerment tools and training into the cooperative development process.

It consists of 5 two-hour-long workshops:

- Topic 1: Basic Money Management & Budgeting
- Topic 2: Banking & Basic Financial Transactions
- Topic 3: Credit
- Topic 4: Creating a Profitable Business
- **Topic 5: Basic Financial Statements**

# Basic Financial Statements

- 1. Balance Sheet**
- 2. Cash Flow Statements**
- 3. Income Statement**
- 4. Projected Income Statement**

# Questions to Think About

**What financial data must business owners know and track?**

**What are the basic financial statements or tools that business owners need to develop?**

**How are these financial statements used to evaluate the health of a business by the owners, lenders and investors?**

# Balance Sheet

- The “**Balance Sheet**” is a snapshot of what the company owns and owes at one point in time.
- **Top questions for owners:**
  - Does your company collect?
  - Does your company pay its bills?
  - Does your company control inventory?
  - Are the officers committed to the company?
  - Does the company have a profitable operating history?

# Balance Sheet

# Liabilities & Owner's Equity

Current Assets	Year One	Year Two	Year Three
Cash			
Inventory			
Accounts Receivables			
Security Deposit			
<b>Total Current Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Fixed Assets	Year One	Year Two	Year Three
Furniture & Equipment			
Office Equipment			
Manufacturing Equipments			
Furniture & Fixture			
Real Property			
Auto Equipment			
Less Accum. Depreciation			
<b>Total Fixes Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Other Assets	Year One	Year Two	Year Three
Start Up Costs			
Franchise Costs			
Less Accum. Amortization			
<b>Total Other Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Total Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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Current Liabilities	Year One	Year Two	Year Three
Accounts Payable			
Current Loans Payable			
Current Mortgage Payable			
<b>Total Current Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Long-Term Liabilities	Year One	Year Two	Year Three
Bank Loans			
Personal Loans			
Mortgages			
<b>Total Long-Term Liabilities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Owner's Equity	Year One	Year Two	Year Three
Capital			
Additional Paid-in-capital			
Retained Earnings			
Current year Income / (Loss)			
<b>Total Shareholders' Equities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Total Liabilities &amp; Owner's Equity</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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# Cash Flow Statement

- A **“cash flow statement”** shows the circulation of actual cash into and out of a business during a specific period.
- **Sales may not result in immediate cash.**
- **If disbursements exceed receipts, plan to borrow funds, call your investors, or tap cash reserves.**
- **Top questions for owners:**
  - Does the company have cash when it needs it?
  - What are the sources of the cash that the company is bringing in?
  - Is cash being properly allocated given current amount of cash available?
  - Is cash increasing or decreasing as a percentage of sales over time?

# Cash Flow Statement

<b>Cash Flow Statement</b>	<b>Year One</b>	<b>Year Two</b>	<b>Year Three</b>
<b>Cash Flow from Operations</b>			
Net Income / (Loss)			
Add Depreciation			
Add Amortization			
Decrease / (Increase) in Current Assets			
Increase / (Decrease) in Current Liabilities			
<b>Net Cash Provided / (Used) From Operations</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Cash Flow from Investment</b>			
Purchase of Equipment			
Purchase of Furniture & Fixture			
Purchase of Client Listing			
Purchase of Real Property			
Rent Deposit			
<b>Net Cash Used by Investing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Cash Flow from Financing Activities</b>			
Bank Loans			
Personal Loans			
Owners Capital			
Less Repayment of Loans			
Less Distribution to Shareholders			
<b>Net Cash Provided by Financing Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

<b>Cash at Beginning of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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<b>Cash at End of period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
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# Internally Generated Sources of Cash

- **Negotiate terms of Accounts Payable**
- **Negotiate terms of Accounts Receivable**
- **Cut non-essential direct and indirect costs**
- **Renegotiate loan or credit card terms**
- **Discount, or “liquidate”, excess inventory**
- **Barter for services from other business**
- **Build and draw from cash reserves**

# Income Statement

- The **Income Statement** is a record of a company's revenues and **expenses** during a specific period.
- **Top questions for owners:**
  - Is the company growing?
  - Does the company control margins? Overhead?
  - Is the company profitable? Is there hidden cash flow?

# Income Statement

## INCOME STATEMENT (Jan. 1, 2015 – Dec. 31, 2015)

<b>TOTAL REVENUE</b>	<b>\$</b> -
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<b>TOTAL DIRECT COSTS</b>	<b>\$</b> -
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<b>GROSS PROFIT</b>	<b>\$</b> -
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### INDIRECT COSTS

Officers' Salaries	
Staff Salaries	
Employee Withholdings	
Employee Benefits	
Liability Insurance	
Telephone	
Marketing/Advertising	
Travel	
Office Supplies	
Legal Fees	
Accounting Fees	
Rent	
Internet/Web Costs	
Utilities	
Amortization	
Other Expenses	

<b>TOTAL INDIRECT EXPENSES</b>	<b>\$</b> -
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<b>PROFIT / (LOSS)</b>	<b>\$</b> -
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# Projected Income Statement

- The **Projected Income Statement** is a forecast of the business's likely sales, expenses and net income (or loss) over a period. To be most useful, that period should begin with the first month of the business and extend 2 to 3 years into the future on a month-by-month basis.
- **The projected income statement can be used to:**
  - Understand how growth in numbers of customers and sales of individual products / services translates into overall revenue growth (vs. using “ball park” estimates)
  - Make assumptions for growth more realistic which improves ability to determine how much cash must be in reserve and how to allocate it during the starting months of the business
  - Examine how direct and indirect costs behave in relation to changes in the sales volume. Preferred that gross profit margin increases as sales increase



# Summary

- **The basic financial statements help business owners** understand the financial health of their business
- **The statements also help the business** to manage its finances
- **These statements are also considered by investors and lenders** to assess the strength of a business