FINANCIAL STATEMENTS

FINANCE STATEMENTS

1. Cash Basis or Accrual Basis

Before you begin your financial statement, you should determine what basis of accounting the business will use. The major difference between the two is that with cash basis, it is an expense when you spend cash. When you receive cash, it is a revenue. However, with accrual basis, you recognize revenue when it is earned, not when it is received. For example, if you are a contractor and bill based on percentage of completion, or a forty-five to sixty day payment, you will accrue your revenue when it is earned, not when it is received.

2. Profit and Loss Statement

The profit and loss statement is also known as the income statement or the trial balance. This statement should include the following:

- **Gross Sales**- The sales of your services or products
- **Cost of Goods Sold-** Direct costs of what it took your business to sell those products or services (raw materials, labor, packaging, shipping)
- **Net Sales-** Deduct your expenses from your net sales (mortgage, rent, insurance, repairs, utilities, etc.). Once you have deducted your expenses, you are left with your net income or net loss.

3. Balance Sheet

The balance sheet contains your assets, liabilities, and retained earnings.

- **Assets-** There are both current and liquid assets. Liquid assets would be cash. Hard assets are vehicles, inventory, machinery, and equipment.
- **Liabilities-** There are long-term and short-term liabilities. Any liability that is twelve months or less is short-term; anything over twelve months is long-term.
- **Retained Earnings-** Liabilities subtracted from assets gives you retained earnings. Retained earnings are earnings by the business that the owner has not taken from the business.

4. Cash Flow Statement

The cash flow statement shows all of your business' cash. You create one so each month you know exactly where your cash went.