



Financial Statements



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Learning Objectives

- ✓ What are the different financial statements?
- ✓ How do they differ from each other?
- ✓ What is their purpose?
- ✓ How are they constructed?



Purpose of Financial Statements

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise.





Why do you need to know FSs?

Some uses for financial statements include:

- Negotiating loan with bank
- Deciding pricing of product/service
- Determining initial capital investment
- Opportunity cost: Is this worth my time?





Financial Statements

✓ Income statement

✓ Is my company profitable?

✓ Balance Sheet

✓ What's the value of my company?

✓ Cash Flow Statement

✓ How much money is my company generating?



Income Statement

What is an income statement?

An income statements is a financial document that analyzes the **PROFITABILITY** of a company

Income Statement

- ✓ Is a financial statement for companies that indicates how much of your **Sales** are transformed into **Net Income**.
- ✓ The purpose of the income statement is to show whether the company made or lost money during a period of time.
- ✓ The Income statement represents a period in time (generally one month or one year).

The Income Statement Equation

How do you calculate the profitability of a company?

$$\text{Sales} - \text{Expenses} = \text{Profit}$$

Items on Income Statement

Revenue – inflows during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major operations.

Expenses - outflows or other using-up of assets or incurrence of liabilities during a period from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major operations.

Fixed Costs

Costs that are the same every month (rent, salaries, loan payments etc)

Variable Costs

Costs that change according to the volume of sales (raw material, sales commissions etc)

Sample Income Statement

Cold Store ABC

Income statement

Jan 1 – Dec 31 2009

Sales	13,000
Cost of goods sold	7,500
Salaries	1,500
Rent	1,000
Utilities	500
Net Profit	2,500



Calculate the Income Statement

- Salaries: 800 BD
- Rent: 500 BD
- Sales: 6500
- Electricity & phone: 200
- Cost of goods sold: 3200
- Equation: $\text{Sales} - \text{Expenses} = \text{Profit}$



Balance Sheet

What is a balance sheet?

An balance sheet is a financial document that analyzes the **VALUE** of a company

Balance Sheet

- ✓ Useful to determine the “health” of a company and to negotiate partnerships.
- ✓ Of the four basic financial statements, the balance sheet is the only statement which applies to a single point in time.
- ✓ A company balance sheet has three parts: **assets, liabilities and equities.**

Definitions:

Assets: are everything owned by or company (all tangible and intangible property) that can be converted into cash. What the company owns.

Liabilities: is defined as an *obligation* of the company. What the company owes to third parties.

Equities: is the interest in remaining assets, spread among individual shareholders . What the company owes to its shareholders.

The Balance Sheet Equation

$$\text{Assets} = \text{Liabilities} + \text{Equities}$$

Sample Balance Sheet

Cold Store ABC has 2 partners with 50% ownership each

Assets =		Liabilities +		Equities	
Cash	10,000	Bank Loan	10,000	Owner A Equity	4,000
Machines	5,000			Owner B Equity	4,000
Inventory	2,000				
Account Receivable	1,000				
Tot Assets	18,000	Tot Liabilities	10,000	Tot Equities	8,000



Calculate Balance Sheet

- ⑩ Account Receivable: 2000BD
- ⑩ Loan: 10000BD
- ⑩ Car: 8000BD
- ⑩ Cash : 10000BD
- ⑩ Machines: 6000BD
- Balance Sheet Equation: $\text{Assets} = \text{Liabilities} + \text{Equities}$
- keep in mind **4 SHAREHOLDERS Each with 25% Share**



Cash Flow Statement

What is a cash flow statement?

An cash flow statement is a financial document that analyzes the LIQUIDITY of a company

Cash Flow Statement

- ✓ In financial accounting, a **cash flow statement** or is a financial statement that shows a company's flow of cash.
- ✓ The money coming into the business is called **cash inflow**, and money going out from the business is called **cash outflow**.
- ✓ The statement shows how changes in balance sheet and income statement affect cash and cash equivalents, and breaks the analysis down to **operating, investing, and financing** activities

The Cash Flow Equation

Net Cash =

Cash flow from Operating Activities +

Cash flow from Financing Activities +

Cash flow from Investment Activities

Items on Cash Flow Statement

Cash flow from Operating Activities

- ✓ Cash flow that originates from the company main business lines, such as selling products, paying for wages, rent etc.

Cash flow from Investing Activities

- ✓ Cash flow that originates from the company investments like the sale of an asset or machine or other capital expenditures (such as building a new plant).

Cash flow from Financing Activities

- ✓ Cash flow that originates from the company financing activities such as paying dividends or buying back stocks.

Sample Cash Flow Statement

Colds Store ABC	Jan 1 – Dec 31 2009
Cash at the beginning of the year: 5,000	
Operating Activities	
Sales	10,000
Expenses	- 5,000
Investing Activities	
New Refrigerators	- 2,000
Financing Activities	
Loan Repayment	- 1,500
Total Cash Flow	1,500
Cash at the end of the year: 6,500	



Hair saloon 1st Jan – 31 Dec 2012

- ⑩ Cash at the beginning: 15000BD
- ⑩ Expenses: 8000BD
- ⑩ New Hair Dressers: 5000BD
- ⑩ Loan Repayment: 2000BD
- ⑩ Sales: 18000BD
- Calculate cash at end of the year

Conclusion

Statement:	<u>Income St.</u>	<u>Balance Sheet</u>	<u>Cash Flow</u>
Time Frame:	From – To	One Day	From – To
Equation:	Profit = Revenues – Expenses	Assets = Liabilities + Equities	Cash = Op. Act. + Inv. Act. + Fin. Act
Used for:	Analyzing a company's profitability	Analyzing a company's value	Analyzing a company's liquidity



40
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