

# 2021 BUSINESS BUILDER

VIRTUAL TRAINING SERIES

3.24.21/10-11AM

APPLYING FINANCIAL TOOLS

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# Most Common Financial Statements

- Balance sheet
  - Statement of net position
- Income statement
  - Profit and loss
  - Statement of activities
  - Statement of revenues and expenses



# Basis of Accounting

- Accrual basis of accounting – revenue is recorded when earned and expenses are recognized when incurred.
- Cash basis of accounting – recognizes transactions when they occur. Revenue is recorded when cash is collected and expenses are recorded when cash is paid.
- Modified cash basis of accounting – combines the features of these two accounting methods.

# Balance sheet

- Definition: snapshot of a business's assets, liabilities and equity at a certain point in time
- Formula:  $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
- Current vs long-term (> 1 year)
- Order of liquidity – how quickly something can be converted to cash or will be paid
- Permanent accounts - running total since the inception of the business





# Income statement

- Income statement represents profitability over a certain period of time
- Temporary accounts - start over at zero each year



Name of Business

Balance Sheet

As of December 31, 2020

ASSETS			LIABILITIES		
<b>CURRENT ASSETS:</b>			<b>CURRENT:</b>		
Bank balance	\$ 40,328		Unearned revenue	\$ 4,800	
Accounts receivable	10,000		Accounts payable	2,900	
Prepaid	500		<b>LONG TERM:</b>		
Inventory	<u>10,200</u>		SBA Working Capital Loan	2,800	
<b>TOTAL CURRENT ASSETS</b>		\$ 61,028	Mortgage	<u>100,201</u>	
			<b>TOTAL LIABILITIES</b>		110,701
<b>FIXED ASSETS:</b>			<b>OWNERS' EQUITY</b>		
Building	\$ 145,000		Retained Earnings	\$ 2,000	
Office Furniture	14,400		Net income (loss)	27,527	
LESS: Accumulated Depreciation	<u>(80,200)</u>		<b>TOTAL OWNERS' EQUITY</b>		<u>29,527</u>
<b>TOTAL FIXED ASSETS</b>		<u>79,200</u>			
<b>TOTAL ASSETS</b>		<u>\$ 140,228</u>	<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<u>\$ 140,228</u>

Name of Business

Income Statement

For the year ended December 31, 2020

REVENUE:		
Sales revenue		\$ 150,000
Cost of sales		<u>90,000</u>
GROSS PROFIT (LOSS)		<u>60,000</u>
EXPENSES:		
Accounting		1,500
Communications		5,500
Depreciation		5,000
Insurance		3,078
Interest expense		895
Rent		12,000
Supplies		<u>4,500</u>
TOTAL EXPENSES		<u>32,473</u>
NET INCOME (LOSS)		<u>\$ 27,527</u>

# Vacation Rental Business

- Take out a loan of \$10,000 to fund its activities
- Purchase home for \$300,000 with a loan
- Spend \$100 on supplies for home
- Receive \$200 as a deposit on a rental
- Receive \$300 as a payment on a rental that occurred last night
- Make a loan payment of \$1,000 (\$900 principal and \$100 interest)





ABC Vacation Rentals				ABC Vacation Rentals					
Balance Sheet				Income Statement					
As of December 31, 2020				For the year ended December 31, 2020					
ASSETS				LIABILITIES				REVENUE:	
CURRENT ASSETS:				CURRENT:				Rental income	\$ -
Bank balance	\$ -			Unearned revenue	\$ -			Cost of sales	<u>-</u>
Accounts receivable	-			Accounts payable	-				
Prepaid	-			LONG TERM:					
Inventory	<u>-</u>			SBA Working Capital Loan	-			GROSS PROFIT (LOSS)	<u>-</u>
TOTAL CURRENT ASSETS	<u>-</u>			Mortgage	<u>-</u>				
				TOTAL LIABILITIES		<u>-</u>		EXPENSES:	
FIXED ASSETS:				OWNERS' EQUITY				Accounting	-
Building	-			Retained Earnings	-			Communications	-
Office Furniture	-			Net income (loss)	<u>-</u>			Depreciation	-
LESS: Accumulated Deprecia	<u>-</u>			TOTAL OWNERS' EQUITY		<u>-</u>		Insurance	-
TOTAL FIXED ASSETS	<u>-</u>							Interest expense	-
				TOTAL LIABILITIES AND				Rent	-
				OWNERS' EQUITY		<u>-</u>		Supplies	<u>-</u>
TOTAL ASSETS	<u>\$ -</u>							TOTAL EXPENSES	<u>-</u>
								NET INCOME (LOSS)	<u>\$ -</u>

# Common Ratios for Small Businesses

- Current ratio = total current assets to total current liabilities

$$\text{Current ratio} = \frac{\$ 20,000}{\$ 10,000} = 2 \text{ to } 1$$

- Quick ratio = total current asset – total current inventory to total current liabilities

$$\text{Quick ratio} = \frac{\$ 5,000}{\$ 10,000} = 0.5$$

<u>Current Assets</u>	
Cash	\$ 500
Checking account	4,500
Inventory	<u>15,000</u>
Total	<u>\$ 20,000</u>
<u>Current Liabilities</u>	
Line of Credit	<u>\$ 10,000</u>

## Steps to Avoid or Detect Errors or Fraud

- Monitor the bank account
- Read the financial statements
- Segregate accounting duties

## Segregation of Duties – Two people

### Accountant or other professional staff\*

- Mail checks
- Write checks
- Reconcile bank statement
- Record credit/debits
- Approve payroll
- Disburse petty cash
- Authorize purchase orders
- Authorize check requests
- Authorize invoices for payment



### Executive Director

- Receive and open bank statements
- Sign checks
- Make deposits
- Perform interbank transfers
- Distribute pay checks
- Review petty cash
- Review bank reconciliations
- Approve vendor invoices
- Perform analytical procedures
- Sign important contracts
- Make compensation adjustments
- Discuss matters with board or audit committee
- Review wire/ACH transactions
- Review account activity

*\*Non-accounting personnel such as a receptionist, administrative personnel, etc. can be trained to perform some of the less technical duties.*



# Join us next week for “Team Development & Leadership”

Katie Weaver, MSU Park County Extension, will cover why strategic investment in professional development and leadership for your employees and team is a smart investment. We will share some easy-to-use tools and strategies that you can start implementing immediately. Register via email at [park@montana.edu](mailto:park@montana.edu)



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TEAM DEVELOPMENT  
AND LEADERSHIP

KATIE WEAVER