



Home-Based Business Fact Sheet

Bulletin #3003

FINANCIAL STATEMENTS

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What Are Financial Statements?

Financial statements usually include the balance sheet, income statement (sometimes called a profit or loss statement) and the cash flow statement. They are prepared from business records at the end of each accounting period, but they can also be done on a monthly or quarterly basis. Annual accounting periods usually represent a fiscal year or a tax year.

Financial statements may be either historical—that is, from records kept over time—or they may be pro forma, which include estimates of future income and expenditures, net worth or cash flow. Annual pro forma statements range from one to five years and are usually required by financial institutions as part of the operator's business plan.

What Will Annual Financial Statements Do for Me?

Balance sheets show you the financial position of your business in terms of assets, liabilities and net worth at a specific point in time. Let's define these terms.

Assets are what the business owns. Examples of assets include current assets such as cash, inventory and accounts receivable, and fixed assets such as land, buildings and equipment.

Liabilities are what the business owes its creditors. They can be current liabilities, such as

accounts payable and current portions of mortgage notes payable, or long-term debts such as notes or bank loans payable.

Net worth is what the business owes its owners. It is the difference between the total assets and total liabilities.

Balance sheets are usually prepared at the close of your business year. A sample format of a balance sheet is shown in *Figure #1*. Remember, balance sheets should always be in balance—that is, total assets equal total liabilities plus net worth.

Income statements reflect the annual operation of your business in terms of total receipts and total expenditures. They show the net income or loss for the business. A sample format of an income statement is shown in *Figure #2*.

Cash flow statements represent the difference between your business income and disbursements. Cash flow statements summarize the cash inflows and outflows of the business. They show cumulative balances and help you identify accumulations of cash surpluses or deficits. This information can help you make good decisions about borrowing money or making short-term investments of the surplus funds. A sample format of a cash flow statement is shown in *Figure #3*.

Are There Other Uses of Financial Statements?

All three financial statements—the balance sheet, the income statement and the cash flow statement—can be very useful in analyzing your

business using ratio analysis. Selected information from the financial statements is put into a mathematical ratio form and then compared to an industry standard or previous historical information.

For information on ratio analysis, see *Keeping Your Business on Track, Part III: Ratio Analysis*.

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Figure #1

SAMPLE FORMAT

**BALANCE SHEET
Your Company
December 31, 20XX**

ASSETS

Current Assets:

Cash \$ _____
 Accounts Receivable (net) _____
 Merchandise Inventory _____
 Supplies _____
 Prepaid Expenses _____

Total Current Assets \$ _____

Fixed Assets:

Land \$ _____
 Fixtures & Leasehold Improvements _____
 Building _____
 Equipment _____
 Trucks _____
 Less: Accumulated Depreciation (_____)

Total Net Fixed Assets \$ _____

TOTAL ASSETS \$ _____

LIABILITIES AND NET WORTH

Current Liabilities:

Accounts Payable \$ _____
 Current Portion Long-Term Debt _____

Total Current Liabilities \$ _____

Long-Term Liabilities:

Notes Payable \$ _____
 Bank Loan Payable _____
 Other Loan Payable _____

Total Long-Term Liabilities \$ _____

Total Liabilities \$ _____

Net Worth:

Owner's Funds \$ _____
 Retained Earnings _____

Total Net Worth \$ _____

TOTAL LIABILITIES & NET WORTH \$ _____

Figure #2

SAMPLE FORMAT

ANNUAL PRO FORMA OR HISTORICAL INCOME STATEMENT
Your Company
January 1, 20XX - December 31, 20XX

NET SALES	\$ _____
Less: COST OF GOODS SOLD	_____
GROSS MARGIN	\$ _____
OPERATING EXPENSE:	
Salaries & Wages	\$ _____
Payroll Taxes & Benefits	_____
Rent	_____
Utilities	_____
Maintenance	_____
Office Supplies	_____
Postage	_____
Automobile & Truck	_____
Insurance	_____
Advertising	_____
Interest	_____
Legal & Professional Services	_____
Depreciation	_____
Other	_____
TOTAL OPERATING EXPENSES	\$ _____
PRE-TAX PROFIT (LOSS)	\$ _____
LESS: TAXES	_____
NET PROFIT (LOSS)	\$ _____

Figure #3

SAMPLE FORMAT
Monthly or Annual Pro Forma or Historical
CASH FLOW
Your Company

	Annual		Month _____		Month _____		Month _____	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
CASH RECEIPTS								
Cash Sales 1								
Cash Sales 2								
Cash Sales 3								
Other Cash Receipts								
TOTAL CASH RECEIPTS								
CASH PAYMENTS								
Start-Up Expenses								
Advertising								
Material Purchases								
Bank Service Charges								
Car & Truck Expenses								
Commissions								
Dues & Publications								
Employee Benefits								
Freight								
Insurance								
Principal Payment								
Interest Payment								
Laundry & Cleaning								
Legal & Professional Services								
Office Expense								
Rent on Business Property								
Maintenance								
Supplies								
Travel								
Meals and Entertainment								
Utilities:								
Water								
Telephone								
Power								
Salaries & Wages								
Other Payments								
Draw								
Taxes								
TOTAL CASH PAYMENTS								
SUMMARY								
Starting Balance								
Plus: Total Cash Receipts								
Less: Total Cash Payments								
Equals: Ending Balance								

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