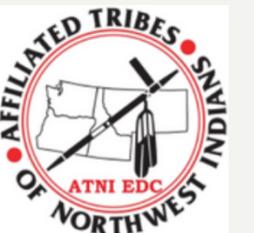


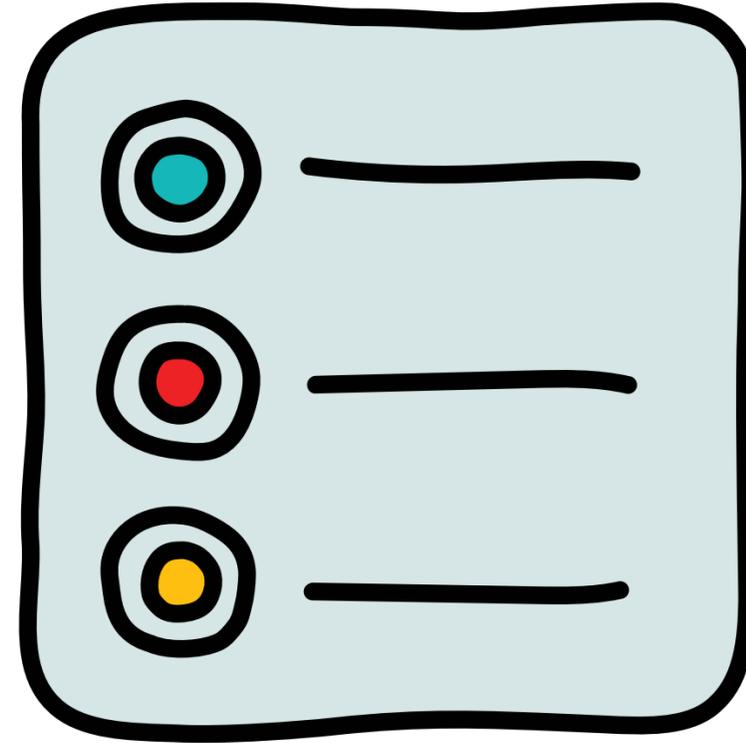
FINANCIAL MANAGEMENT

MODULE 3

June 17th, 2021



QUICK REFRESH



FINANCIAL REPORTS

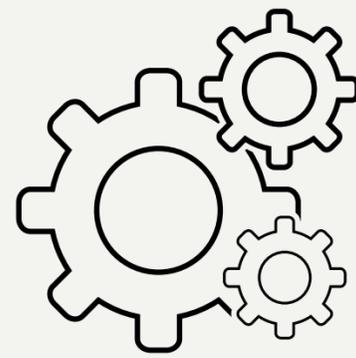
Balance Sheet

Income Statement

Cash Flow Statement

FINANCE TOOLS

FINANCIAL TOOLS



Profit and Loss

Balance Sheet

Cash Flow
Statement

Revenue
Expenses
Profit

Assets
Liabilities
Equity

Cash in
Cash out
Cash Analysis

What you
earn/ spend

What you
own/ owe

How cash
moves
through the
business

PROFIT AND LOSS

CAPITAL, Inc. Profit and Loss January - February, 2021			
	Jan 2021	Feb 2021	Total
Income			
Sales			
Total Income			
Cost of Goods Sold			
Gross Profit			
Expenses			
Advertising & Marketing			
Bank Charges & Fees			
Charity			
Contractors			
Discount			
Dues & Subscriptions			
Insurance			
Legal & Professional Services			
Meals & Entertainment			
Office Supplies & Software			
Other Business Expenses			
Payroll Expenses			
Rent			
Utilities			
Total Expenses			
Net Income			

The **Period** of the report tells us what timespan of business history displayed in the report. Software allows reports to be queried based on the desired period. Expenses and Sales Revenues which occurred within the period are added together.

Income
(COGS)

Gross Profit

Gross Profit
(Overhead)

Net Income

- Profit ÷ Income = Profit Margin
- Gross Profit Margin = Gross Profit ÷ Income
- Net Profit Margin = Net Profit ÷ Income

BALANCE SHEET

CAPITAL Inc Balance Sheet As of January 31, 2021	
ASSETS	
Current Assets	
Bank Accounts	
Accounts Receivable	
Inventory	
Total Current Assets	
Fixed Assets	
Automobile	
Furniture and Equipment	
Leasehold Improvements	
Total Fixed Assets	
TOTAL ASSETS	XXXXX
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Credit Cards	
Total Current Liabilities	
Long-Term Liabilities	
Automobile Payable	
Loan Payable	
Total Long-Term Liabilities	
Total Liabilities	
Equity	
Opening Balance Equity	
Owner Distribution - Ana	
Owner Contribution - Ana	
Retained Earnings	
Total Equity	
TOTAL LIABILITIES AND EQUITY	XXXXX

Unlike a P&L, which covers a period of time, **the balance sheet is a snapshot of a specific point in time.**

ASSETS = LIABILITIES + OWNER'S EQUITY

OWNER'S EQUITY = ASSETS - LIABILITIES

Assets: **OWNED** by the company

Liabilities: **OWED** by the company

Current Asset is to be sold, converted to cash, or liquidated to pay for liabilities within one year.

Long Term Asset is not intended to be turned into cash or be consumed within one year of the balance sheet date.

Fixed Asset is a long-term tangible piece of property or equipment that a firm owns and uses in its operations to generate income

Current Liabilities are amounts due within the current year

Long Term Liabilities are amounts due beyond the current year

EQUITY

Opening Balance Equity



Initial capital contribution into the business

Owner's Contribution



Funds the owner adds to the business during operations

Owner's Distribution



Funds the owner draws from the business during operations

Retainer Earnings



Net Income re-invested into the business

CASH FLOW STATEMENT

Weekly Cash Flow Projection

Your Company, Inc.
For July, 2009

CASH RECEIVED	6/26	7/3	7/10	7/17	7/24	7/31
Beginning Cash Balance	\$24,250	\$54,500	\$60,666	\$57,394	\$51,943	\$64,464
Cash Sales	\$33,500	\$37,500	\$32,000	\$27,500	\$36,000	\$42,200
Receivables Collected	\$49,000	\$61,540	\$61,095	\$52,502	\$63,231	\$54,285
Other Cash Received					\$10,000	\$18,908
Total Cash Available	\$106,750	\$153,540	\$153,761	\$137,396	\$161,174	\$179,857

CASH DISBURSED						
Salaries and Wages	\$14,750	\$14,750	\$14,750	\$15,855	\$15,855	\$15,855
Lease/Mortgage	\$11,750					
Insurance		\$11,085				
Office Supplies	\$5,500	\$3,505	\$3,505	\$4,088	\$2,970	\$4,088
Utilities				\$6,693		
Repairs and Maintenance	\$4,500	\$4,155	\$4,155	\$5,117	\$4,546	\$5,117
Operating Supplies	\$3,000	\$3,950	\$3,950	\$2,862	\$3,765	\$2,862
Professional Fees			\$1,575			
Commissions	\$13,500	\$12,850	\$12,850	\$12,543	\$15,043	\$12,543
Travel and Entertainment	\$3,750	\$4,580	\$4,620	\$3,080	\$3,444	\$3,080
Purchases	\$4,250	\$4,500	\$4,290	\$4,171	\$4,697	\$4,171
Advertising	\$2,000	\$2,850	\$2,410	\$2,009	\$2,758	\$2,009
Transportation	\$10,000	\$9,543	\$11,432	\$13,717	\$12,453	\$13,717
Purchase of Capital Assets	\$2,000	\$1,574	\$1,512	\$3,244	\$1,200	\$2,244
Loan Payment with Interest		\$8,214				
Dividends						\$5,500
Other Cash Disbursed	\$12,250	\$11,318	\$11,318	\$12,074	\$9,979	\$12,074
Total Disbursements	\$87,250	\$92,874	\$76,367	\$85,453	\$76,710	\$83,260

CASH POSITION						
Balance Before Financing	19500	60,666	77,394	51,943	84,464	96,597
Loan (Repayment)						(50,000)
Securities Sale (Purchase)	35000		(\$20,000)		(\$20,000)	
Stock Issue (Repurchase)						
Other Received (Disbursed)						
End Of Month Balance	\$54,500	\$60,666	\$57,394	\$51,943	\$64,464	\$46,597

Basis - The Cashflow is always a cash-basis document, meaning that income and expenses are logged at the time they occur.

Actuals - A cashflow statement can be used to analyze Actuals, meaning cash transactions that have actually occurred.

Projections - A cashflow statement is the best tool for making projections, planning for investment or startup expenses, and modeling business expansion ideas.

Recommendation -- Maintain your Actuals! A current cashflow means you can produce a projection anytime. Always keep a cashflow with only actuals.

WHAT DO WE USE PROFIT FOR?

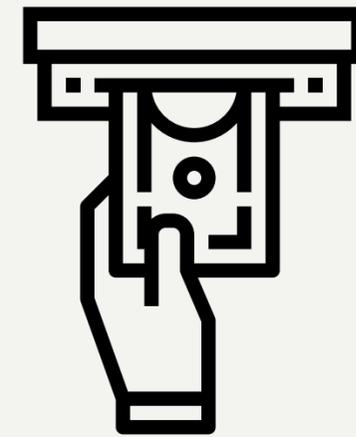
Pay down debt



Retained Earnings



Draw



TOOLS AND RESOURCES FOR DAY-TO-DAY

DEVELOPING A FINANCIAL PLAN

Start up
Budget



Operating
Budget

Financing your
business

START UP BUDGET

A Start-up Budget is a **first step to a sound financial plan.**

It is an estimate of all your costs to start the business. It **includes one-time costs**, such as equipment, furnishings, renovations, deposits and down payments, as well as **60 to 90 days of estimated Operating costs.**

This will allow you to have a cash reserve in case there are delays or issues with the opening date, and until you have steady income.

EXPENSES	PRE-OPENING	90 DAYS ESTIMATE
OCCUPANCY		
Rent Deposit		
Utilities Deposit		
Remodeling Costs		
FURNITURE AND EQUIPMENT		
Furniture and Furnishings		
Computers and Electronics		
SUPPLIES		
Program supplies		
Office Supplies		
Housekeeping and Cleaning		
Food and Beverages		
PERSONNEL (hiring costs)		
MARKETING		
LEGAL AND PROFESSIONAL FEES		
INSURANCE		
OPERATING CASH		
TOTAL EXPENSES		

OPERATING BUDGET

You will prepare an operating budget when your center opens so **you know how you will be spending your funds.**

You will estimate your reoccurring monthly expenses. **You will also estimate the amount of income you will receive** but remember that most businesses will not hit full income potential for several. You will need the cash reserves to help you cover the expenses.

Below you will find an example of an Operating Budget. **You will customize your budget to reflect the expenses that are applicable to your business.**

BALANCING INCOME AND EXPENSES

After completing your operating budget, **look at the Net Income line and see if your expenses match the income.** If not, you will need to lower the costs or reevaluate your fees. If you cannot raise your prices, you will need to find places to cut cost.

A good practice is to **update your Operating Budget every month** to ensure your projections are accurate. This will allow you to catch mistakes and prevent running out of cash.

Also to ensure a sound fiscal management of your business, contact an accountant or an accounting firm to help you set up your books. This will ensure you are compliant with the legal requirements for taxes, government regulations and funding sources.

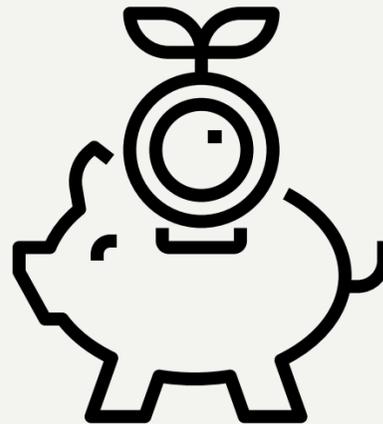
FINANCING YOUR BUSINESS

What are the options for fund your business

PRIVATE SOURCES



Private sources include **your own savings or funds from friends or relatives** and are among the most common methods of financing

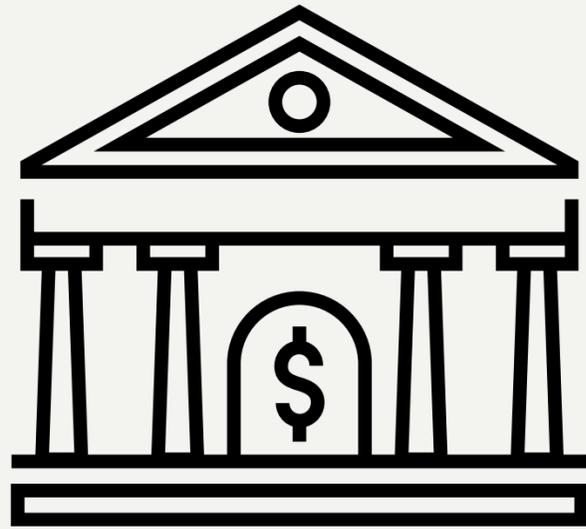


The advantages of using your own money include no finance charges and less search for additional funds. The disadvantages are losing the interest you could be earning on your money losing the use of your savings as a cushion for any future emergencies.



There are advantages of borrowing from friends and relatives such as less demands on your style of management, no legal limit on how much you can borrow and more negotiable terms, but make sure you have formal documents (such as a promissory note) that spells out the terms in detail, to avoid confusion or misunderstandings.

COMMERICAL BANKS



All banks have a commercial division. Since the banking industry was deregulated, many savings and loan associations also engage in commercial banking. All commercial banks offer business loans- both short-term and long-term - at prevailing interest rates.



Banks will require collateral to secure their loan against total loss in the event of default. To obtain funding, the amount of cash or other assets that you will need will depend on the potential success and the level of risk of your business as evaluated by the lender.

DEBT FINANCING COMPONENTS

Principal - The amount of the loan at any given time

Term - Amount of time to repay

Payment - The amount due each period (often monthly)

Interest Rate - The 'cost' of the outstanding principal

Closing Fee - A fee associated with receiving a loan

Defaults - A missed or incomplete payment

Late Fees - An additional fee assessed for paying late

Delinquency - 30, 60, 90, 120+ days, calculated by delinquent dollars (not days)

Bank Loans, and Micro Loans above \$2,500 often additionally have:

Collateral - Assets pledged to secure a loan

Personal Guarantees - Personal assets to secure a loan

RISKY DEBT FINANCING

Bad or Risky loan products have common components:

- Very Short Terms
- Very High or Variable Interest Rates
- Extremely high collateralization (500%+)
- No, or minimal Underwriting

Merchant Loans - A cash advance tied to a portion of sales

Payday Loans - A cash advance tied to a paycheck

Credit Card Cash Advance - A cash advance with a fee and additional interest rate

Factoring Loans - Not really a loan, receivables are sold to a third party at a discount

Pawnshop Loan - Piece of collateral assigned to the pawn shop for capital

GOVERNMENT AGENCIES

Federal, state and local government agencies offer special financial assistance to small businesses. Each program is designed to assist a special type of business.

States provide financing through a variety of instruments, often with restrictions imposed. Many instruments are similar to those used by private sector sources, but they may incorporate public policy objectives, such as job creation or tax revenue enhancement. Loans can be extended directly by a state, through a state-chartered corporation, or indirectly, through guaranteed loans from commercial lenders. Typically, loans are used for long-term capital needs, such as plant and equipment.

Most programs require collateral, so that in the event of loan default the state doesn't lose its entire investment. Interest rates may be at the market rate or may be subsidized by the state. Most loans require the borrower to satisfy certain criteria before a loan is granted, such as showing qualified management, market potential for the firm's product(s), sufficient collateral to secure the loan and adequate cash flow from operations to service debt.

For an up-to-date list of loan programs and their requirements, contact your local Small Business Administration (SBA) office (for information on federal loan programs) or your local economic development office such as ATNI-EDC

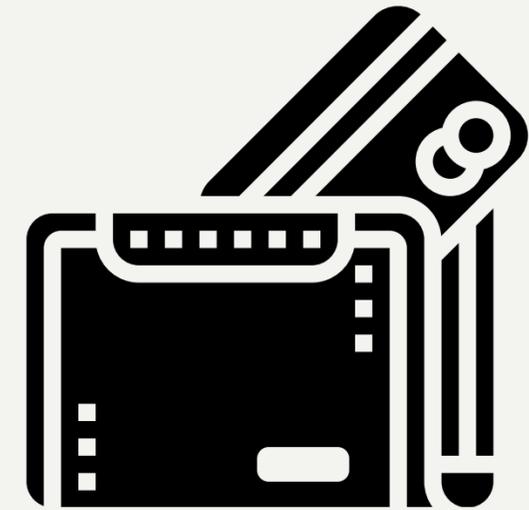
PERSONAL CREDIT



When signing a lease for your new space, or seeking a loan from a financial institution, your credit score will be used to assess your eligibility. You might also need to provide a Personal Guarantee.



Your credit score will influence the interest rate, the terms, the available credit and the collateralization



Personal Credit is an essential part of Self Employment

WHAT INFLUENCES YOUR CREDIT SCORE

Payment history: is the record on your credit report of whether you pay your bills on time.

Credit Utilization: is the amount of available credit you have used. Ideal ranges are keeping the amount of debt you owe below at least 30%— and ideally 10%—of your available credit line.

Length of History: How long you've managed credit. The longer you've had credit, the better.

Credit Types: it is a good idea to have a variety to show you can responsibly manage different types of debts.

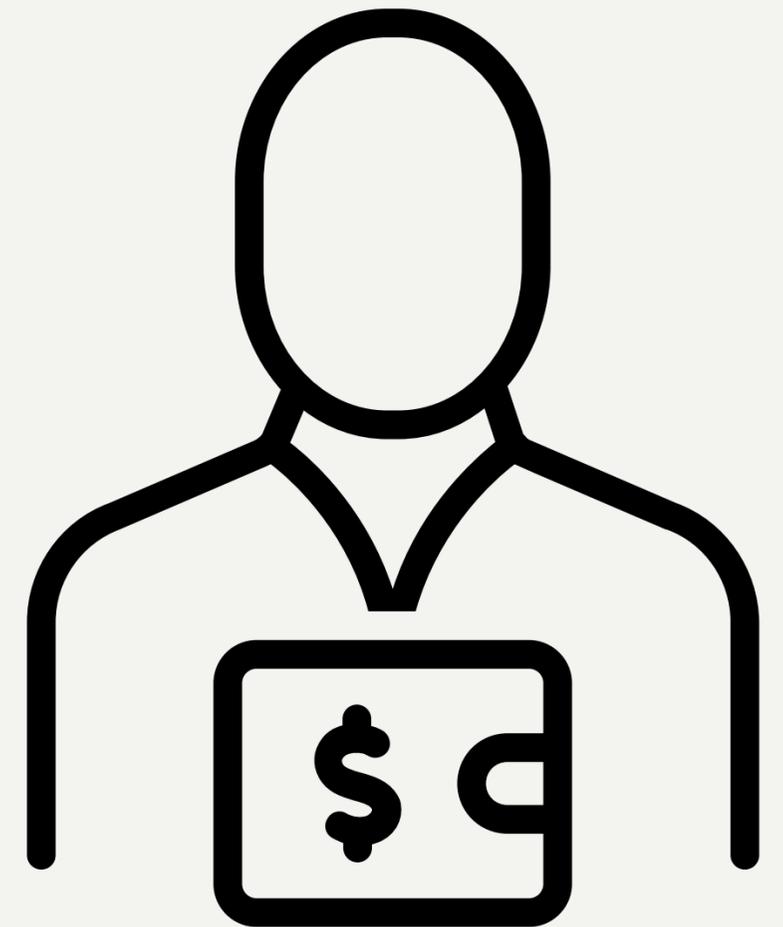
Credit Inquiries appearing on your history makes up about 10% of your credit score.

PERSONAL GUARANTEE

A **personal guarantee** is a promise made by a person or an organization (the guarantor) to accept responsibility for some other party's debt (the debtor) if the debtor fails to pay it

The Small Business Association requires all owners with a 20% or greater stake in ownership to personally guarantee loans.

From a lender's perspective, **a lower credit score decreases the reliability and value of a personal guarantee**



BANKING



The health of your business and the accuracy of your financial statements depends on banking properly

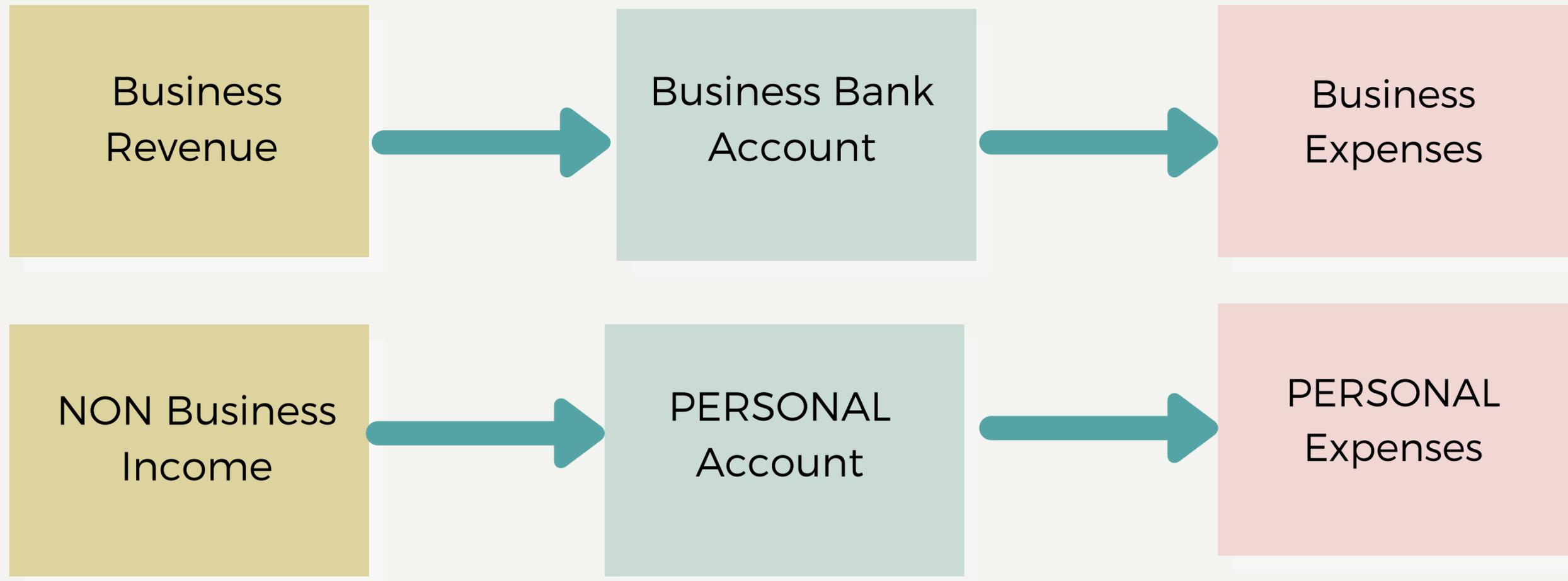


For LLCs, liability is not protected if we bank improperly

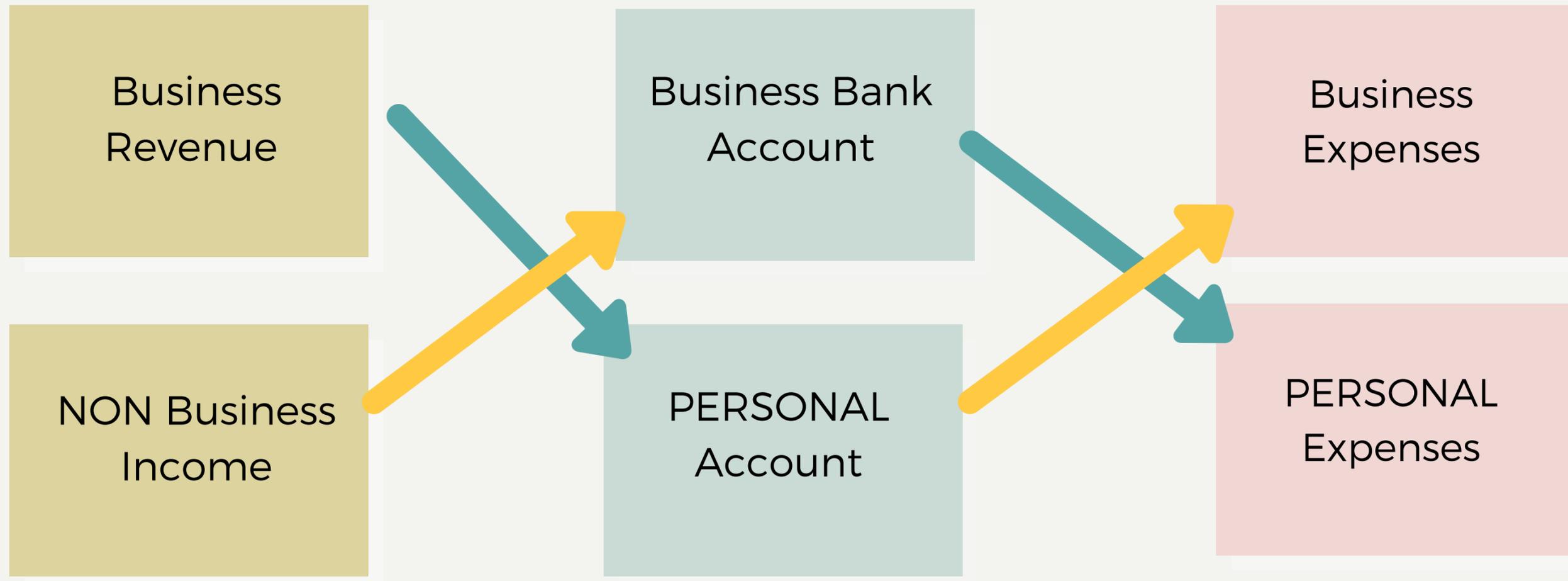


For Sole Proprietors who don't bank separately, open a second checking account and treat it like your business account.

PERSONAL VS BUSINESS BANKING



DO NOT DO THIS!



HOW TO MAINTAIN YOUR BOOKS IN ORDER

- **Hire a bookkeeper as soon as you can** – most business owners wait too long to hire professional help. Bookkeepers can keep your information current, organize and compliant so you always know where you stand with your financials.
- Work closely with your bookkeeper to **create a system to review your Financial Reports on a monthly basis**, so you can assess your performance and project your cash position for future months.
- **ALWAYS KNOW YOUR BANK BALANCE** – before you incur expenses.
- **Use an accounting software** – if you don't hire a bookkeeper right away, work with an accounting software as soon as you can. QuickBooks is the most popular for small businesses, but there are other options. Learning a new software can be daunting at first, so make sure you connect with local sources for help and assistance. There are low cost resources available to help you get started.
- Make sure you **keep impeccable records for your earnings and expense receipts**. All expenses should have back up with date and category.
- **DO NOT use your personal bank account for business expenses and vice versa**. It is imperative to keep your personal bank account transactions completely separate from your business bank account.

