

# A MAP OR A MAZE UNDERSTANDING FINANCIAL STATEMENTS

- A must for small business owners



# Solution Resources, Inc.

Solution Resources was founded to provide accounting services and training to small businesses...

We specialize in accounting software training. We train business owners to utilize the financial reports provided by their accounting system ...

## Financial Statements

Balance Sheet

Income Statement

Cash Flow Statement

Systems Management

# *Solution* Resources, Inc

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- Solution Resources is an Intuit Certified Solution Provider and all of our consultants are accountants and are QuickBooks Certified Proadvisors.
- We also Partner with many 3<sup>rd</sup> party Applications that interface with QuickBooks, Velocity, Fishbowl, MISys SBM, ProEst, Corecon and others to help you find the Solution that works for your company.

# Intuit Press Release

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- Intuit has teamed with a network of local, certified Solution Providers to deliver the professional business management solution and technology consulting services growing businesses need. Get help with finding, implementing and optimizing the right solution for your business.

# Intuit Solution Providers Can Help You

- Evaluate your business and complete a needs analysis
- Receive an onsite consultation & customized product demonstration
- Purchase the right Intuit solution for your business
- Migrate your existing business data
- Integrate your new solution with your other systems
- Train your users how to use your new solution
- Provide ongoing support

# *Sandy Robertson*

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Intuit® QuickBooks Enterprise Certified  
Intuit® QuickBooks Advanced Certified ProAdvisor  
Intuit® QuickBooks POS Certified ProAdvisor  
Intuit® QuickBase Business Consultant Partner  
Sage® Accountants Network  
Sage Master Builder Consultant  
Peachtree by Sage - Premier Advisor  
Microsoft® Professional Accountants Network  
Microsoft Certified Small Business Accounting  
National Society of Accountants  
Sleeter Certified Consultant.



# Financial Statements -- MAP

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- Financial Statements form a basis for understanding the financial position of a company
- They allow users to assess historical and prospective financial performance
- Accurate Financial Statements present a picture of the company's financial health, leading to informed business decisions

# Financial Statements -- MAZE

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- ❑ Contain large amounts of information
- ❑ Accounting policies and reporting requirements are complex and constantly changing
- ❑ Allow management considerable discretion
- ❑ Hide or omit key information or contain inaccurate information
- ❑ Sometimes they are just like a garbage can. They hold garbage

# Conclusion

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- Financial statements are potentially both a MAP and a MAZE
- The better one can read and understand the financial statements, the more useful they are as a MAP to intelligent decision-making

# Why use financial Statements?

- Proper use of financial statements allows users to assess:
  - financial position of the company
  - success of its operations
  - policies and strategies of management
  - insight into future Performance
  - Financial statements are “ancient history,” BUT **they can help predict the future**

# Financial Statements Help Management Predict the Future

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# Intuit Business Intelligence is your Crystal Ball



- **Profit and Loss Dashboard**
  - Perform 'what if' analysis to project profit and loss scenarios for your business
- **Profitability Dashboard**
  - Get an overview of sales, expense, and profit numbers for different time periods
- **Sales Dashboard**
  - View top ten customers, items and classes by total sales, open sales orders, and gross profit
- **Three licenses for Intuit Business Intelligence included with purchase of Enterprise Solutions**

# Cash vs. Accrual

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- Financial statements are prepared on an “accrual” basis
- The “accrual” basis is an Attempt to MATCH expenses with revenue in a given accounting period. Revenues are reported when “earned” not when the cash is received.
- Expenses are “matched” with revenues in the same accounting period

# What is GAAP?

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- General Accepted Accounting Principles  
GAAP is extensive:
- SEC is allowing Public Companies to use International Financial Reporting Standards
- SEC's Spotlight On:  
International Financial Reporting Standards  
"Roadmap"  
<http://www.sec.gov/spotlight/ifrsroadmap.htm>

# What is GAAP?

## General Accepted Accounting Principles

- ❑ **FASB Pronouncements & EITF Abstracts**
- ❑ **Statements of Financial Accounting Standards**
- ❑ **Statements of Financial Accounting Concepts**
- ❑ **Concepts FASB Interpretations**
- ❑ **FASB Staff Positions**
- ❑ **FASB Technical Bulletins**
- ❑ **EITF Abstracts**

Financial Accounting Standards Board

[www.fasb.org](http://www.fasb.org)

# Financial Statement Designer

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- Produce GAAP Compliant Financials with Financial Statement Designer.
- Choose from over 20 customizable financial statement designs and easily format them to meet your specific needs
- All financial statements can be saved and emailed as PDF files or exported to Excel
- Financial Statement Designer is included with QuickBooks Enterprise Solutions

# Financial Statement Purposes

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- Federal and State Governments
- Financial Institutions
- Surety Companies
- Business Management

# Financial Management

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- Make good business decisions
- Monitor your business
- Plan for the future of your business

# Prepare Your Business Plan

- **QuickBooks Enterprise Solutions** includes a Business Plan Tool. This powerful, step-by-step business-planning tool enables you to create a comprehensive business plan, along with a 36-month financial projection.



# Two Sets Of Books

- Yes, it's legal!! -

Financial vs. Tax Reporting:

Tax Basis:

- Cash
- Modified Cash
- Completed Contract
- Accrual

# Fixed Asset Manager

- ❑ Depreciate book on 6 Different Basis
- ❑ Post your Book Depreciation directly to QuickBooks
- ❑ Standard Feature in QuickBooks Enterprise Solutions

Client Information

General | Dates | **Basis** | Methods | Groupings | Accounts

Select the bases for which you want to calculate depreciation for this client.

Basis:

<input checked="" type="checkbox"/> Federal	<input checked="" type="checkbox"/> Age	<input checked="" type="checkbox"/> State
<input checked="" type="checkbox"/> AMT	<input checked="" type="checkbox"/> Book	<input checked="" type="checkbox"/> Other

OK Cancel Help

Client Information

General | Dates | **Basis** | Methods | Groupings | Accounts

Select the default depreciation method for each basis.

Federal:

ACRS:

MACRS:

Other:

State:

Book:

Other:

Sum of the years digits  
Use FEDERAL basis depreciation  
Use AMT basis depreciation  
Use ACE basis depreciation  
Do not calculate  
Other

OK Cancel Help

Asset Synchronization Options

From QuickBooks To QuickBooks

How would you like to save asset information into QuickBooks?

☒ Automatically when QuickBooks Fixed Asset Manager closes

Select the level of data change you wish to save into the Fixed Asset Item List in QuickBooks:

☒ Both new and modified assets

☐ Only new assets

☐ Only modified assets

☐ Manually by selecting "Save Assets to QuickBooks" from the QuickBooks menu

Fixed Asset Manager will prompt you to select the level of data change when you manually synchronize.

OK Cancel Help

# Our Goal

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- To provide the business owner a fundamental understanding of accounts described on a balance sheet
- The owners should develop a feel for the relationship of each account to the financial statements as a whole

# What is a BALANCE SHEET?

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- A “statement of financial condition” On a particular date (a “snapshot”)
- A balance sheet helps the small business owner or an outside user to quickly get a handle on the financial strength and capabilities of the business.

# The Basic Equation

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- ASSETS are economic resources
- LIABILITY and EQUITIES are claims to those resources

# The Basics

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- ❑ ASSETS are what the company *owns*
- ❑ LIABILITIES are what the company *owes* to outsiders
- ❑ EQUITIES are what the company *owes* to insiders
- ❑ Therefore:  $\text{Assets} = \text{Liabilities} + \text{Stockholders' Equity}$  represents equality between resources and claims to resources

# FACT

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- ❑ If your Balance Sheet is correct. Your bottom line (Net Profit or Loss) is correct
- ❑ The Small Business Owner should know the make up of each Balance Sheet account.

## KNOW THE MAKE UP OF YOUR BALANCE SHEET ACCOUNTS

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- Banks Accounts - Credit Card Accounts  
Review your reconciliation's -
- Accounts Receivable - Accounts Payable  
Look at your ledgers
- Notes Receivable - Notes Payable  
Is that mortgage balance correct
- Fixed Assets -  
Do you have a depreciation schedule?

# Income Statements

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- An INCOME STATEMENT, otherwise known as a profit and loss statement, is a summary of a company's profit or loss during any one given period of time, such as a month, three months, or one year. The income statement records all revenues for a business during this given period, as well as the operating expenses for the business.

# What are income statements used for?

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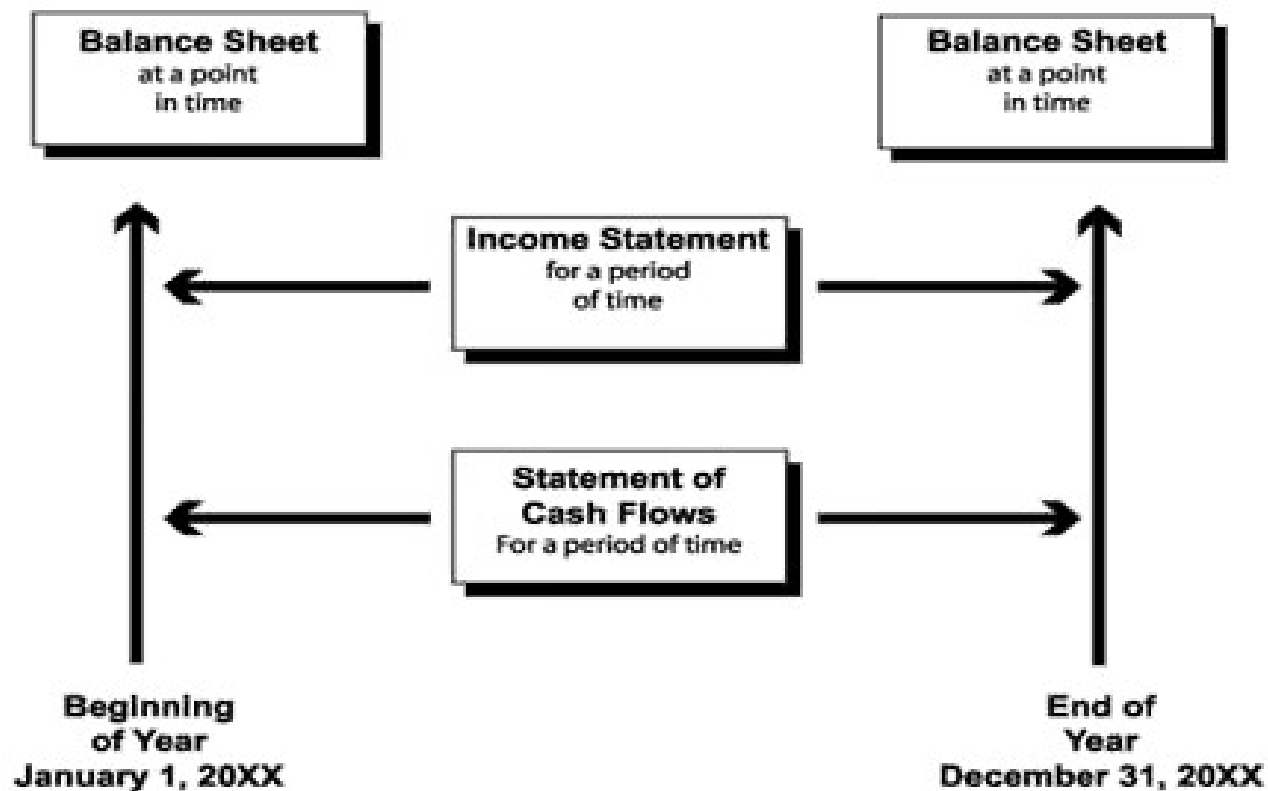
- You use an income statement to track revenues and expenses so that you can determine the operating performance of your business over a period of time. Income statements can also track dramatic increases in product returns or cost of goods sold as a percentage of sales.

# YOUR INCOME STATEMENT

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- It is very important to format an income statement so that it is appropriate to your business and provides the information you need to make informed decisions.
- Income statements are used to determine income tax liability.

# Reporting of Business Activity



# Analysis



## Ways Financial Management Helps Your Business Succeed

**1. Cash Flow.**  
Track the money going in and out of your business.

**6. Funding.**  
To be considered for a loan or investment, you'll need complete financial statements.

**2. Manage Customers and Sales.**  
Know and understand your customers through consolidated records.

**3. Production.**  
Obtain goods and services. Apply for and establish credit with your vendors.

**4. Compliance.**  
Report your company's incomes, expenses, and payroll accurately to the IRS.

**5. Insight and Decision Making.**  
Make informed decisions – and price your product or service for profitability – with financial reports



# The Profit Cycle



# Who else uses Income Statements?

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- Income statements, along with balance sheets, are the most basic elements required by potential lenders, such as banks, investors, bonding companies and vendors. They will use the financial reporting contained in the statements to determine credit and bonding limits.

# STATEMENT OF CASH FLOWS

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- ❑ Required by SFAS #95 (*Statements of Financial Accounting Standards*)
- ❑ Replaced the Statement of Changes in Financial Position in 1988
- ❑ One of the required MAJOR statements
- ❑ Can be developed from Balance Sheet and Income Statement data
- ❑ Provides very RELEVANT information!

# Why is Cash Flow important???

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- A positive net income on the income statement is ultimately insignificant unless your company can translate its earnings into cash, and the only source in financial statement data for learning about the generation of cash from operations is the statement of cash flows"

# HOW CASH FLOW IS DERIVED

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- From OPERATIONS
- From INVESTING
- From FINANCING

## Which is the most important?

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- All sources and uses of cash represent important information
- But, only cash flows from operations represent cash generated *internally*
- In order to SURVIVE, a company needs to generate positive cash flows from it's operations....

# CASH FLOW WARNING

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A COMPANY CAN BE HIGHLY  
PROFITABLE AND BE IN TROUBLE

HOW CAN THIS BE???

# Manage Your Cash Flow

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- ❑ A company is defined as “profitable” if it has a positive net income
- ❑ A positive net income results from accrual-based revenues exceeding accrual-based expenses
- ❑ A company may have a positive net income, but this does not guarantee that the company has the CASH to meet its obligations!

## Cash Flow Analysis:

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- ❑ Is the firm generating sufficient cash from operations?
- ❑ What are underlying causes of positive or negative operating cash flow?
- ❑ How large is the positive or negative operating cash flow?
- ❑ Have operating cash flows fluctuated over time or are they stable?

# Cash is King!

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- ❑ Businesses that fail to manage their cash flow properly often fail to survive

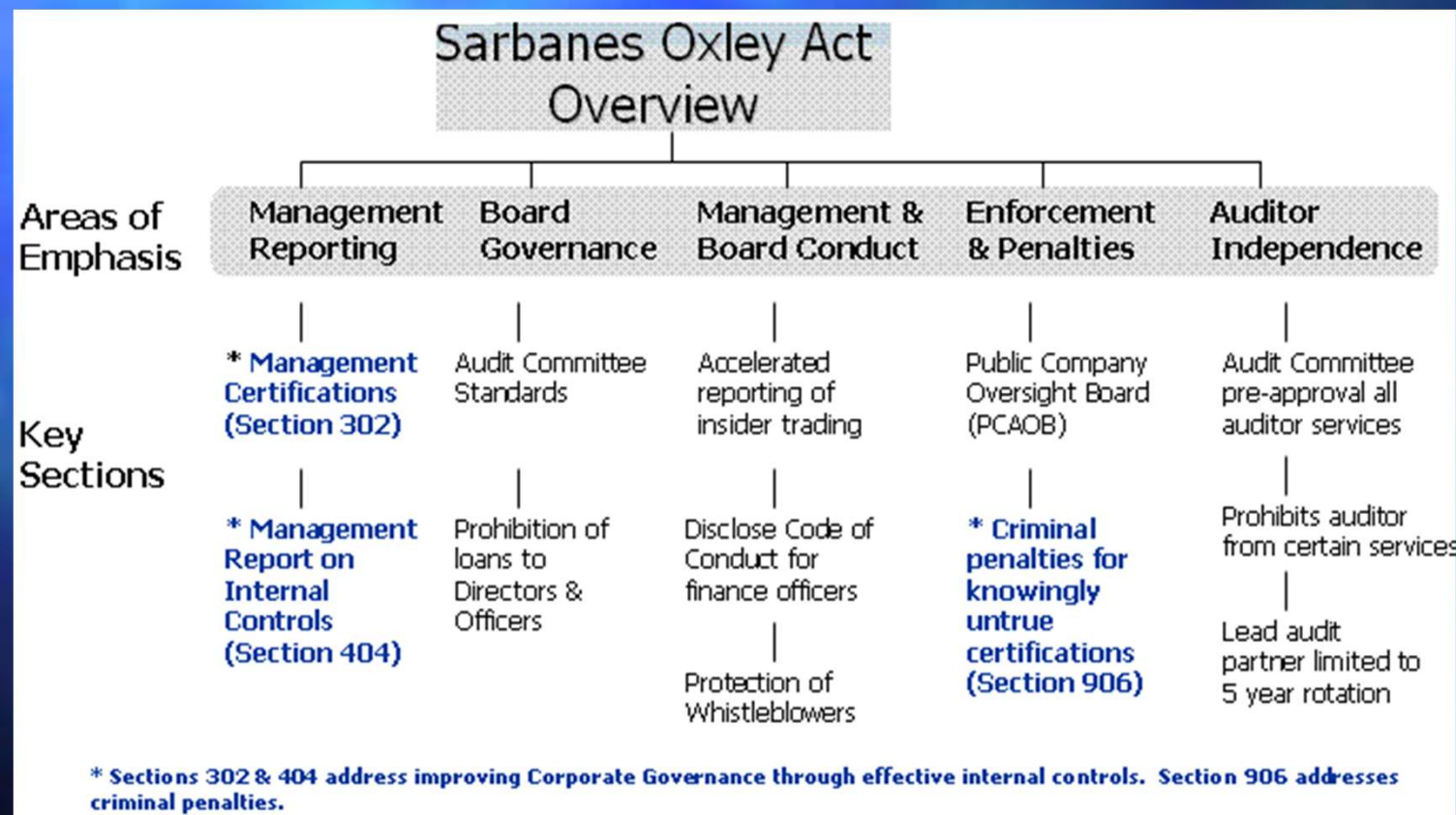


# SAS 112 – Internal Control

- ❑ Internal Control is a process
- ❑ Effected by those charged with Corporate Governance, management and other personnel
- ❑ Designed to provide reasonable assurance about the achievement of the entity's objective with regard to
  - financial Reporting
  - compliance with laws and regulations, and
  - effectiveness and efficiency of operations.

# Required of Public Companies

- Sarbanes Oxley – **SOX** Not Just For Public Companies



# Examples of Internal Control Issues

- ❑ Inadequate design of internal control over the preparations of the F/Ss being audited
- ❑ Inadequate documentations of internal control components
- ❑ Insufficient control consciousness within the organization
- ❑ Absent or inadequate controls over the safeguarding of assets
- ❑ Employees/Management lack qualifications and training to fulfill assigned functions (ex Corporate Controller unable to apply GAAP in recording transactions or preparing (F/Ss))
- ❑ Failure to perform reconciliations of significant accounts on a timely or accurate manner

# Who needs Internal Control?

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- You the small business owner.
  - You are probably the biggest Stake Holder in your company
  - SOX is not looking out for you
  - You may not need audited financials  
but
  - You need to protect your shareholders.

**YOU**

# Identify Needs

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- **What are your** daily accounting tasks?
- What do you need **that you cannot get from your current accounting system?**
- **What** accounting skills **do you or your staff have?**
- **Do** multiple users **need access to the data?**
- **What is on your** “wish list

# Identify Needs

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- By asking yourself
- **What** condition are records in **today?**  
**Do you have the** financial knowledge  
**sufficient to know if things are done**  
**correctly or not?**
- **Do you and your staff need** training,  
support or monthly reviews ?
- **Do you need** a part time controller?

# THE LANGUAGE OF ACCOUNTING

## Debits & Credits

- DEBITS AND CREDITS are the backbone of any accounting system. Understand how debits and credits work and you'll understand the whole system. Every accounting entry in the general ledger contains both a debit and a credit. Further, all debits must equal all credits.

# The Basics Of The Double Entry Accounting System

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Account Type	Debit	Credit
Assets	Increases	Decreases
Liabilities	Decreases	Increases
Equity	Decreases	Increases
Income	Decreases	Increases
Expenses	Increases	Decreases

# Purpose of an Accounting System

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- The purpose of the accounting system is to communicate. It produces useful information not raw data. An accurate accounting systems tells specific things about your company, if you understand what the system is saying.

# Information Means Profits

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- ❑ Information that you need to run your company is at your fingertips. Of course, this information is presented in financial terms. That's the language your accounting system uses. But it's not complicated and with training - it's not foreign.

# The Future - Real Time

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- As we continue to advance into real time technology, companies, their owners and users of their financial statements are insisting on real time accuracy of their Financial Statements.

# Ancient History

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- ❑ Historical financials are Ancient History
- ❑ We want real time accuracy from our Management Information System to help us better un our business.

# Proof of Reliability

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- The users of the “Real Time” financial statements are going to insist on some proof as to reliability.

# New Audit Guidelines

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- To achieve that the company will need to establish a system for processing and recording information and have the *system* audited as opposed to the financial statements themselves.

# System Design

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- Our staff's experience in business enables Solution Resources to assist in the system design and implementation at a cost that makes sense to the small business owners. This process involves gaining an in-depth understanding of the business and setting up policies, procedures and internal controls

# Key Indicators

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- We work with business owners to help them establish budgets and key indicators. Understanding the impacts of key indicators is more important than looking at last month's financial statements.

# What's Break Even?

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- If you need to generate sales of X amount per day to break even, knowing what that amount is and what your actual daily sales are, enables you to react much more quickly to changes in the market and stay on top of your business.

# Map not a Maze

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- Its obvious that a good financial reporting system - seeing a MAP not a MAZE - is not only advantageous for the future, but critical right now to business owners to effectively manage their businesses.

# Services

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- The staff of Solution Resources can help you select software and train you and your staff. If you need an audit opinion or a review, we will assist you in finding a CPA firm and manage your audit cost.
- We also make sure that compiled statements from a CPA firm are not needed as reliable internal information can be substituted.

# Financial Analysis

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- We analyze your financial statements on a monthly basis, make adjusting entries, answer questions from you & your staff and communicate issues identified with the necessary and appropriate people. Part of this process is training you to understand the process and therefore mistakes do not reoccur.

# Solution Resources

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17402 Isbell Lane

Tampa, FL 33556

Phone: 813-269-0153

[info@solutionresources.org](mailto:info@solutionresources.org)

[www.solutionresourcesinc.com](http://www.solutionresourcesinc.com)

Stacy Y Patrick, CPA Managing Partner

Sandy Robertson, Founding Partner