Understanding and Using Financial Statements for Your Business

Understanding, creating, and using financial statements can help you make informed and strategic decisions about how to run and grow your business.

Unfortunately, financial statements inspire fear and anxiety for some entrepreneurs.

Entrepreneurs typically have many skills, but finance and bookkeeping are not always among them. Most lenders, however, will want to see financial statements before making a loan. And basic financial statements are not just a hurdle to jump over to get a loan. They are tools to help you understand your business.

While you don't need to become an accountant, increasing your comfort and understanding of basic financial statements can be very helpful. Below we explain the three most important financial statements:

- Profit and Loss
- Balance Sheet
- Cash Flow

Taken together, these three interrelated financial statements can give you powerful insights into your business' profitability, its financial condition, and expected cash flow. Let's take a high-level look at each one.

Craft3 meets customers where they are

When a creative and talented chef contacted us about a loan to turn his side business into a fulltime venture, he had a solid business plan and delicious products. But up to this point he hadn't done any formal bookkeeping.

We looked at his Square receipts and put together some financial projections before issuing a $45,000 loan. We're often able to work with entrepreneurs who have strong businesses, but incomplete financials or unconventional bookkeeping.

1. Profit and Loss (also known as an Income Statement)

Generally created monthly, after bank reconciliation, a profit and loss statement lets you track revenue, monitor expenses, and know whether your business is profitable.

You can think of a profit and loss statement as two simple formulas.

Revenue - Cost of goods sold = Gross profit

Gross profit - Expenses = Net profit

Revenue can come from goods sold or services provided. Your cost of goods sold are your costs directly related to the product or service you sell. Your expenses are other, indirect costs not associated with goods sold or services provided, such as rent.

Your gross profit shows you the money available to pay operating expenses such as rent and payroll.

Your net profit shows you money available to reinvest in your business, pay taxes, or pay yourself.

Video Resource

Understanding and Using Financial Statements

Astrid Daniela Galvez, is owner of **ASNBS**, a QuickBooks ProAdvisor and Tax Specialist, and a trusted Craft3 partner. In this video, Astrid walks through the different types of financial statements and how to best utilize them to assess your financial health. Find out where your business is making a profit and identify areas for improvement.

Use the QR code to access a guide from Intuit QuickBooks on Financial statements: What business owners should know.

Craft3 Pro Tip

Don't worry if you don't understand everything about basic financial statements on your first read through. Take in what you can and feel free to skip parts that are confusing. Come back later and give the section a second read.

-Aldo Medina Martinez VP, Business Services Program Lead

2. Balance Sheet

A balance sheet is a moment in time snapshot of your business' finances. Generally created quarterly, it lists your assets and liabilities.

You can think of a balance sheet as a simple formula.

Current assets + fixed assets - liabilities = net value or equity

Current assets include accounts receivable, inventory, and cash, while fixed assets are less liquid and include furniture, equipment, and property.

Liabilities are often broken down into those due within 12 months and longer-term liabilities such as loans and mortgages.

AT CRAFT3 WE'RE COMMITTED TO HELPING ENTREPRENEURS GROW AND THRIVE.

In addition to often being able work with incomplete financials, Craft3 offers resources to help you understand and create your own basic financial statements. Our network of professionals is part of the value of working with Craft3. We may not have all the answers, but we know someone who does. We also can connect you to certified public accountants (CPAs), bookkeepers, and other service providers.

3. Cash Flow

A cash flow statement is future-oriented and models the expected cash flowing in and out of the business. This can help you set sales and expense goals, plan for major expenses, and cope with seasonal fluctuations in sales.

Again, there's a simple formula.

Cash receipts (inflows) - cash disbursements (outflows) = cash surplus or shortfall

Cash receipts typically come from goods sold or services provided, while cash disbursements are your expenses.

Cash flow statements, by highlighting potential shortfalls as well as inflows, can help you determine your need for financing as well as your ability to repay a loan.

We hope this quick overview has helped you see the value of basic financial statements above and beyond the fact that they're usually required when you apply for a loan.

DOWNLOADABLE RESOURCE

Financial Templates

SCORE's finance templates will help you understand, create, and use financial statements and projections and help you make informed and strategic decisions about how to run and grow your business.

Helpful templates include:

- financial projections
- balance sheet
- profit and loss
- cash flow statement
- personal financial statement

Use the QR Code to access your templates today.

Craft3 Pro Tip

It's OK if you're not able to produce financial statements that are up to an accountant's standards. Gaining new skills takes time. Partial financial statements are better than none at all. And if you end up working with a bookkeeper or other professional, understanding the main concepts behind key financial statements is very helpful.

-Amori Rix, Commercial Credit Underwriter