

Ask SCORE

THREE BASIC FINANCIAL DOCUMENTS YOUR BUSINESS CAN'T IGNORE

Making time to manage your business' financials can be hard for many small business owners. Nevertheless, there are three financial documents you cannot ignore: the balance sheet, the P&L and the cash flow statement.

When you own a small business, you have deadlines to meet, customers to keep happy, orders to fill, products to ship — and a million other tasks on your plate. Finding the time to work on your business and manage the financials can feel overwhelming for many owners who are knee-deep in the day-to-day.

Managing your business' finances does not mean drowning in spreadsheets.

Making the time to manage your finances is a part of what it takes to run a profitable business. At a minimum, there are three basic financial documents that you cannot ignore — your balance sheet, profit and loss statement and cash flow statement. By keeping these three statements up-to-date and within reach, you will always have a strong sense of the financial health of your business.

According to SCORE mentor and retired CPA Frank Curtis, "These financial statements are the keys to understanding any business. In a very precise way, you can determine if your business is growing and succeeding or failing."

• **Balance Sheet:** Your balance sheet is a snapshot of your business' financials at any given moment and shows you if you are in the red or the black. This financial statement lists your business' assets, liabilities and equity. These elements together give you your company's net worth.

• **Profit and Loss Statement:** Your profit and loss statement, or P&L, is your income statement. A P&L summarizes your business' revenues and expenses during a period of time — usually by fiscal quarter and year. This is the financial statement you'll use to understand how your revenues and costs impact your profitability.

• **Cash Flow Statement:** Your cash flow statement shows your sources of incoming and outgoing cash over a period of time. Cash flow documents are helpful when assessing performance trends and other aspects of your business that would not be as evident if you were evaluating your business only on the basis of the balance sheet or P&L. Though it is not obvious how to use this financial report, a good discussion of its use can be found at <https://www.investopedia.com/investing/what-is-a-cash-flow-statement/>.

(Continued on page 24)



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(Continued from page 23)

Running a business without regularly reviewing these three financial statements is the equivalent of driving a car blindfolded. Together, these documents give you the state of your business' financial health. Without that information, you have no basis for making fact-based strategic decisions for your business.

"If you review your company balance sheet, you can learn how much cash you have on hand, how much you owe, and how much equity you have in the business. Your annual profit and loss statement will tell you if you have made a profit and how much. It will also assist you in preparing your income tax return," explains Curtis. "Good financial statements are essential if you need additional funding for your business. Any lender will require these documents before providing additional funds."

Setting up and maintaining your business' balance sheet, P&L and cash flow statements is easier with the help of someone well-versed in business finance, like a SCORE mentor or your accountant. A SCORE mentor will help you to have a clear understanding of the financial state of your business at any time. Contact a SCORE mentor today.

Since 1964, SCORE "Mentors to America's Small Business" has helped more than 10 million aspiring entrepreneurs and small business owners through mentoring and business workshops. More than 11,000 volunteer business mentors in over 320 chapters serve their communities through entrepreneur education dedicated to the formation, growth and success of small businesses. For more information about starting or operating a small business, contact SCORE TriCounty, <https://tricity.score.org/content/find-mentor-183>.

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