

3 Essential Financial Statements For Your Digital Business

This is an extra resource to go along with the original article:
[What's My Accountant Talking About? Jargon Explained](#)

These are the top three essential statements your digital business should be on top of:

#1. Balance Sheet

Equation: Liabilities + owner's equity = assets

The two sides of this equation must balance out.

Your balance sheet is an overall financial snapshot of your business, you will need:

Current assets - Cash or holdings that can quickly be converted to cash within the next year. For example, your inventory can be included because you can sell it quickly for cash.

Fixed assets - Any equipment or other essentials that you do not plan on selling.

Short-term liabilities - Taxes or accounts payables.

Long-term liabilities - Any loans or royalties.

Owner's equity - The amount of invested capital or retained earnings.

Paul's Guitar Shop, Inc.
Balance Sheet
December 31, 2015

Assets		Liabilities	
Current Assets		Current Liabilities	
Cash	32,800	Accounts Payable	49,000
Accounts Receivable	300	Accrued Expenses	450
Prepaid Rent	1,000	Unearned Revenue	1,000
Inventory	39,800	Total Current Liabilities	50,450
Total Current Assets	73,900	Long-term Liabilities	99,500
		Total Liabilities	149,950
Long-term Assets		Owner's Equity	
Leasehold Improvements	100,000	Owner's Equity	
Accumulated Depreciation	(2,000) 98,000	Retained Earnings	11,950
Total Long-term Assets	98,000	Common Stock	10,000
Total Assets:	171,900	Total Owner's Equity	21,950
		Total Liabilities and Owner's Equity	171,900

Source: MyAccountingCourse.com

#2. Cash Flow Statement

Equation: Beginning Cash Balance + Cash Inflows - Cash Outflows = Ending Cash Balance

Highlights money coming in (inflows) and going out (outflows).

You will need:

Cash Inflows - Sales, loans (you've made), accounts receivable, investments etc.

Cash Outflows - Expenses paid, equipment purchased, inventory etc.

Cash Flow Statement Company XYZ FY Ended 31 Dec 2003	
all figures in USD	
Cash Flow From Operations	
Net Earnings	2,000,000
<i>Additions to Cash</i>	
Depreciation	10,000
Decrease in Accounts Receivable	15,000
Increase in Accounts Payable	15,000
Increase in Taxes Payable	2,000
<i>Subtractions From Cash</i>	
Increase in Inventory	(30,000)
Net Cash from Operations	2,012,000
Cash Flow From Investing	
Equipment	(500,000)
Cash Flow From Financing	
Notes Payable	10,000
Cash Flow for FY Ended 31 Dec 2003	1,522,000

Source: Investopedia

#3. Profit and Loss Statement

Equations:

Gross Profit = Total sales - Cost of goods sold.

Net Profit = Gross profit - Total operating expenses

A profit and loss statement (or income statement) helps you to project sales and expenses. Your statement will usually cover a period of a few months to a year.

You will need:

- Cost of goods sold
- Total sales
- Total operating expenses (include things like repairs, utilities, insurance, equipment costs...)

Paul's Guitar Shop, Inc.
Income Statement
For the Year Ended December 31, 2015

Revenues

Merchandise Sales	\$ 24,800	
Music Lesson Income	<u>3,000</u>	
Total Revenues:		\$ 27,800

Expenses

Cost of Goods Sold	10,200	
Depreciation expense	2,000	
Wage expense	750	
Rent expense	500	
Interest expense	500	
Supplies expense	500	
Utilities expense	<u>400</u>	
Total Expenses:		<u>14,850</u>

Net Income

\$ 12,950

Source: MyAccountingCourse.com