

Business Finance Basics



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Presented by the Cal Poly Small Business Development Center (SBDC)

Zoom Etiquette:

Please use the Q&A Feature for all questions.

Introducing the Cal Poly CIE SBDC



Who We Are

- A national program with over 1,000 locations.
- Helps stimulate economic growth through business development.
- A proud resource partner of the U.S. Small Business Administration (SBA).
- Serving 14 counties in the Central California Regional Network.

What We Do

Provide professional no-cost, no-obligation business consulting, training and resources to small businesses.

Services include:

- Sourcing funding
- Business planning
- Social Media Marketing & Much More!

Contact Us for a No-Cost, No-Obligation Consultation

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Understanding the Basics



1

Intro to Income Statements

How are we doing over a period of time?

2

Intro to Balance Sheets

A snapshot of the business at a point in time.

3

Intro to Cash Flow and Cash Forecasting

What's in the bank and how do we predict the cash balance in the future?

Follow the Money – How do we predict it?

Identify potential revenue streams and other sources of cash – CASH IN

Identify additional costs – CASH OUT

Follow the money and you can more accurately predict cash



Understanding Financial Statements

Income Statement aka Profit and Loss Statement



INCOME STATEMENT January-Dec 202X

Period	
Sales (Revenue)	\$ 810
Cost of items sold (Cost of Goods)	-400
Salaries	-100
Rent	-50
Permits	-20
Legal/Accounting	-25
Maintenance	-50
Insurance	-20
Depreciation	-5
Taxes	-5
Total Expenses	-675
NET INCOME	\$ 135

How did we do over a period of time?

Are you profitable? Net Income = PROFIT

This is not the same as asking “Do you have more money in the bank?”

Understanding Financial Statements

Balance Sheet

A SNAPSHOT IN TIME

Assets = Liabilities + Equity

BALANCE SHEET at Year End

Assets

Cash	\$	200
Inventory		50
Money owed to you (Accounts Receivable)		35
Buildings		200
Machinery		150
TOTAL ASSETS	\$	635

ASSETS: What you own or what people owe to you

Liabilities & Equity

Money owed by you (Accounts Payable)	\$	50
Bank loans		100
TOTAL LIABILITIES		150
Contributed capital		350
Cumulative Net Income (Loss)		135
TOTAL EQUITY		485
TOTAL LIABILITIES + EQUITY	\$	635

LIABILITIES: What you owe to others

EQUITY: What you have contributed plus Cumulative Net Income (Loss) from the business

Understanding Financial Statements

Balance Sheet

A SNAPSHOT IN TIME

Assets = Liabilities + Equity

BALANCE SHEET at Year End

Assets	
Cash	\$ 200
Inventory	50
Money owed to you (Accounts Receivable)	35
Buildings	200
Machinery	150
TOTAL ASSETS	\$ 635
Liabilities & Equity	
Money owed by you (Accounts Payable)	\$ 50
Bank loans	100
TOTAL LIABILITIES	150
Contributed capital	350
Cumulative Net Income (Loss)	135
TOTAL EQUITY	485
TOTAL LIABILITIES + EQUITY	\$ 635

...or another way of say it.....

$$\text{Equity} = \text{Assets} - \text{Liabilities}$$

Equity is NET WORTH which is all the money invested in the venture PLUS all the Net Income or Loss for all years of operation.

In other words, having Net Income or a Profit means you are contributing to your NET WORTH.

Understanding Financial Statements

Cash Flow Statement

Where did the cash come and go?

CASH FLOW January-Dec 202X Period

Cash In	
Sales	\$ 810
Contributions of Capital	350
Loans	150
Total Cash In	1,310
Cash Out	
Expenses:	
Salaries	-100
Rent	-50
Permits	-20
Legal/Accounting	-25
Maintenance	-50
Insurance	-25
Taxes	-5
Purchase of inventory	-450
Purchase of Building	-200
Purchase of Machinery	-150
Ending AP - Beginning AP	50
Beginning AR - Ending AR	-35
Estimated Tax Payments	0
Payments on Loans	-50
Total Cash Out	-1,110
BEGINNING CASH BALANCE	0
ENDING CASH	\$ 200

Where did cash come IN. Consider all sources

Where did cash go OUT. Consider all sources.

Add up Cash In; deduct Cash Out; add Beginning Cash. VOILA: Ending Cash

BUDGETING

Cash Flow Prediction

Great exercise for existing business.

New venture: partial budgeting. Consider costs that relate to this new venture only.

Think through **START UP COSTS** and also **NEW** ongoing expenses related to just the **NEW** venture.

SOME POTENTIAL NEW COSTS:

Start up:

- Building (new or improvements)
- Fencing
- Equipment
- Land
- Signage
- New Legal entity

Ongoing new expenses:

- Maintenance
- Staffing
- Advertising
- Permits, Licenses
- Food/drink
- Credit card fees



BUDGETING

Cash Flow Prediction

CASH PROJECTIONS					
1/1/202X	Mo. Ending Jan	Mo. Ending Feb	Mo. Ending Mar	Mo. Ending Apr	Mo. Ending May
Beginning Cash Balance	\$0	\$156	\$65	\$47	\$257
Balance	-	156	65	47	257
Projected Income					
Cash Sales	200	250	450	500	500
A/R Collection			5	5	5
Loan Proceeds	-	-	-	100	-
Investor Financing	350	-	-	-	-
Other					
TOTAL ESTIMATED INCOMING	550	250	455	605	505
Total Estimated In Bank	550	406	520	652	762
Projected Payroll Expenses					
Estimated Payroll	30	35	40	45	50
Estimated P/R Tax	3	4	4	5	5
Benefits company portion	2	2	2	3	3
Total Payroll Expenses	35	41	46	52	58
CASH BALANCE AFTER P/R	515	366	474	600	704
Projected Other Payments					
Accounting	5	5	5	5	5
Capital Equipment purchases	5			5	5
Construction (new)	60				
Credit card fees	10	10	10	10	10
Debt service				5	5
Estimate tax payments			30		
Insurance	10	10	10	10	10
Interest payments	4	4	4	4	4
Inventory purchases	50	50	50	50	50
Legal	5	5	5	5	5
Licenses/Permits			20		
Marketing	25	25	25	25	25
Office expenses	8	8	8	8	8
Office supplies	10	10	10	10	10
Rent payment	25	25	25	25	25
Repairs and maintenance	5	5	5	5	5
Sales Commission	20	25	45	50	50
Shipping	6	8	14	15	15
Travel and entertainment	18	18	18	18	18
Trade show	-	-	50	-	-
Utilities	15	15	15	15	15
Vehicle	78	78	78	78	78
Total Payments	359	301	427	343	343
PROJECTED ENDING BANK BAL	\$156	\$65	\$47	\$257	\$361

- Enter cash at beginning
- Estimate when you can start generating revenue.
- Take all recurring costs and budget them out over time.
- Take all one time costs and estimate when you will pay for them.
- Take beginning cash balance..what happens to ending cash balance over time?
- Predict when you need to add cash in the form of investment or loans.
- Can you delay some costs? Can you start revenue stream sooner? Do you have to tap into your personal savings? Do you need to consider a bank loan? Is your pricing correct?



Break-Even Analysis

What do you have to charge to determine pricing per “unit ” to cover all costs

Need to know all fixed and variable costs!

FIXED COSTS Do not vary with the number of guests or units produced

- Buildings
- Insurance
- Marketing
- Legal/Accounting

VARIABLE COSTS Vary with number of guests or units produced

- Labor
- Fuel
- Seed

BREAK-EVEN = TOTAL FIXED COSTS / (PRICE - VARIABLE COSTS)

Break Even Analysis

What do you have to charge to determine pricing per “unit ” to cover all costs

VERY SIMPLIFIED EXAMPLE: How many 1 hour farm tours do I need to offer in order to break even (B-E)?

Total Fixed Costs (TFC) = \$3,000

Variable Costs (VC) = \$50

Labor Hours = 4 people at \$10/hour = \$40

Fuel = \$10 for one tour

How much charge per Tour (P) = \$100

$B-E = TFC / (P/VC)$

$B-E = \$3000 / (\$100 - \$50)$

$B-E = \$3000 / \$50 = 60 \text{ tours}$

Anything over 60 tours a month = profit

BREAK-EVEN = TOTAL FIXED COSTS / (PRICE - VARIABLE COSTS)

Upcoming Events

Coffee and Conversation

February 10

8:30 – 9:30am

Donica Forensich and Rolando Locci

Register at:

ucmsbdc.ecenterdirect.com/events/13816

Contact Us

Email

slosbdc@gmail.com

Website

sbdc.calpoly.edu



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