IE – Business Economics Fundamentals – Lesson 2 – Overview of Core Financial Reports – Video

Three basic financial reports: (pro formas)

- Profit and Loss Statement (aka P&L, Income Statement)
- Cash Flow Statement
- Balance Sheet

P&L is overview of operations over a period of time, typically a year broken down into quarters, months, even weeks or days

This example looks at 6 "periods"

The basic: revenue – when you make a sale, irrespective of A/P, A/R

Minus the Cost of Goods Sold – tracked to that specific product, commission

= Gross Revenue aka Gross Income, Gross Profit

Minus Operating Expenses – can't be directly tracked to a specific sale – rent, utilities, salaries, marketing, etc…

= Income before taxes, interest and depreciation

Capital expenses don't get deducted all at once, spread out over time versus paperclip – value of capital asset declines over a defined period of time

Interest – this is not the repaying of principle

= Taxable income minus taxes

= Profit

Cash flow

How much cash at beginning of period, after some arithmetic, cash at end of the period.

Cash flow is key at the start of a business. Business can be profitable but run out of money. Capital is cash out, but not expense

Balance sheet

Measures what the business is worth, its assets

Assets – short- and long-term

Liabilities – short- and long-term

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Owners inflow of capital plus/minus cash retained earning

Balance – Assets always equal Liabilities and Retained earnings