



Why Does Your Small Business Need Financial Statements?

As a small business owner you may be convinced that your business is doing fine, but if you need a loan to expand and grow your business you will need to convince more than just yourself. Financial Statements can not only provide you with peace of mind, but seeing facts and figures to show investors, creditors, and shareholders can prove the business's success.

Measuring Performance

Financial statements are crucial in bridging the information gap. I am not sure how many times I have had clients come in and when ask, "How did the business do this year?" Their response is always similar, "I have more money in my bank account than I did at the beginning of the year, so business is doing great." You should be reviewing more than just your bank statements, when measuring performance. Financial Statements will give you a clear and accurate picture on how your business is currently performing. This monitoring process will help identify opportunities for growth.

Better Decision Making

Consistent monitoring of financial statements can help make crucial business decisions. Whether you're looking to buy new equipment or maybe your business is slow and you need to cut expenses. Financials will show you whether the business can afford that new piece of equipment, or maybe that one expense you can live without to improve your bottom line.

Proof of Your Success

Financial statements are historical records of a business's success, if you ever need a business loan, want to sell your business, or obtain new investors. Financial statements will be the first thing to show the business's success. Many lenders will not even consider a business for a loan without up to date financials.

The objective of financial statements is to provide information about a business's financial position, performance and provide useful information to make better decisions. This information is used by a wide range of users; owners and managers, prospective investors and lenders. Although you may refer to your bank account for the basics, the best reference lies in the income statement, balance sheet and statement of cash flows, to provide the most comprehensive overview of a business.

3 Essential Financial Statements:

- Balance Sheet – shows the financial health of the business.

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

An asset can only be obtained through equity (profit or owner's capital) or by taking on liabilities (loans or a line of credit). The balance sheet reflects direct relationships between these types of transactions.

- Income Statement – shows the businesses revenue and expenses at any given time. This is the best view of businesses bottom line.
- Cash Flows Statement – shows how the business is spending and earning money. It explains numbers shown on a balance sheet and changes in profit report on the income statement.