

Basic Financial Statements -- General Review

Balance Sheet

Balance Sheet for XYZ, Inc; September 30, 20XX			
Assets		Liabilities	
Cash	???	Operating loan	???
Equipment	???	Mortgage	???
Accounts receivable	???		
Land	???	Total Liabilities	???
Total Assets	???	Net Worth (Equity)	???

Income Statement

Income Statement for XYZ, Inc. July 1, 20XX to Sept. 30, 20XX	
Income (Revenue)	
Revenue; product A	???
Revenue; product B	???
Total Income	???
Cost (Expenses)	
Input supplies	???
Utilities	???
Labor (wages)	???
Repairs and Maintenance	???
Total Cost	???
Net Income (Profit or Loss)	???

Cash Flow Statement

Cash Flow Statement for XYZ, Inc. July 1, 20XX to Sept. 30, 20XX				
	July	August	September	October
Beginning cash balance	??	?????		
Cash Inflow				
Cash sale	???			
Owner Contribution	???			
Loan borrowed	???			
Total Cash Available	???			
Cash Outflow				
Supplies	????			
Labor (Wages)	????			
Utilities	????			
Loan principal paid	????			
Interest on loan	????			
Total Cash Needs	????			
Ending cash balance	?????			

Series of business transactions intended to illustrate how each transaction impacts each financial statement. Assume this is a new business so the first transaction is the owner depositing cash in a new checking account for the recently created business. The following pages suggest what each financial statement would report if they were prepared immediately after each business transaction. The purpose of the example is to illustrate how each transaction is reported on the financial statements.

BS means balance sheet, CF means cash flow statement, and IS means income statement.

- 1) Start a business with \$100,000 cash
CF – 100,000 cash inflow
BS – 100,000 cash; 100,000 asset; no debt; 100,000 equity
IS – no income
- 2) Buy input inventory for \$30,000 cash
CF – 30,000 outflow
BS – 70,000 cash and 30,000 inventory of input, 100,000 asset; no debt; 100,000 equity
IS – no expense
- 3) Buy item of processing equipment for \$40,000; \$10,000 is paid in cash and \$30,000 is “borrowed” from seller.
CF – 10,000 outflow
BS – 60,000 cash, 30,000 inventory of input, 40,000 equipment, 130,000 asset; 30,000 debt; 100,000 equity
IS – no expense
- 4) Use 2/3 of inventory (\$20,000) to produce a product worth \$25,000
CF – none
BS – 60,000 cash; inventory of input at 10,000; inventory of product at 25,000, 40,000 equipment; 135,000 in asset; 30,000 debt; 105,000 equity
IS – 25,000 produce and 20,000 cost; 5,000 gain
- 5) Sell \$15,000 of product for cash
CF – 15,000 cash inflow
BS – 75,000 cash, 10,000 product inventory, 10,000 input inventory; 40,000 equipment; 135,000 asset; 30,000 debt; 105,000 equity
IS – no income or expense
- 6) Borrow \$50,000
CF – 50,000 cash inflow
BS -- 125,000 cash; 10,000 product inventory; 10,000 input inventory, 40,000 equipment; 185,000 asset; 80,000 debt; 105,000 equity
IS – no transaction
- 7) Buy land for \$40,000
CF – 40,000 cash outflow
BS – 85,000 cash; 10,000 product inventory; 10,000 input inventory; 40,000 equipment, 40,000 land; 185,000 asset; 80,000 debt; 105,000 equity
IS – no cost
- 8) Buy input inventory for \$50,000 cash
CF – 50,000 cash outflow
BS – 35,000 cash; 10,000 product inventory; 60,000 input inventory; 40,000 equipment, 40,000 land; 185,000 asset; 80,000 debt; 105,000 equity
IS – no cost
- 9) Produce product with 2/3 of inventory (\$40,000) worth \$50,000
CF – none
BS – 35,000 cash; 60,000 product inventory; 20,000 input inventory; 40,000 equipment, 40,000 land; 195,000 asset; 80,000 debt; 115,000 equity
IS – 50,000 produce with 40,000 cost; 10,000 gain

- 10) Pay \$5,000 in wages
CF – 5,000 outflow
BS – 30,000 cash; 60,000 product inventory; 20,000 input inventory; 40,000 equipment 40,000 land; 190,000 asset; 80,000 debt;
110,000 equity
IS – 5,000 cost
- 11) Sell \$10,000 worth of inventory for only \$8,000
CF – 8,000 inflow
BS – 38,000 cash; 50,000 product inventory; 20,000 input inventory; 40,000 equipment, 40,000 land; 188,000 asset; 80,000 debt;
108,000 equity
IS – 2,000 negative adjustment on income statement
- 12) Recognize depreciation of equipment; \$2,000
CF – no cash flow
BS – 38,000 cash; 50,000 product inventory; 20,000 input inventory; 38,000 equipment, 40,000 land; 186,000 asset; 80,000
debt; 106,000 equity
IS – 2,000 negative adjustment on income statement
- 13) Make payment to equipment seller; \$4,000 (\$1,000 interest and \$3,000 principal)
CF – 4,000 outflow
BS – 34,000 cash; 50,000 product inventory; 20,000 input inventory; 38,000 equipment, 40,000 land; 182,000 asset; 77,000
debt; 105,000 equity
IS – 1,000 negative adjustment on income statement

After transaction 1

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Total Cash Available	100,000
Cash Outflow	
Total Cash Needs	0
Ending cash balance	100,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	100,000		
		Total Liabilities	0
Total Assets	100,000	Net Worth (Equity)	100,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Total Income	0
Cost (Expenses)	
Total Cost	0
Net Income (Profit or Loss)	0

After transaction 2

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Total Cash Available	100,000
Cash Outflow	
Purchased input	30,000
Total Cash Needs	30,000
Ending cash balance	70,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	70,000		
Input inventory	30,000		
		Total Liabilities	0
Total Assets	100,000	Net Worth (Equity)	100,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Total Income	0
Cost (Expenses)	
Total Cost	0
Net Income (Profit or Loss)	0

After transaction 3

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Total Cash Available	100,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Total Cash Needs	40,000
Ending cash balance	60,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	60,000	Equipment debt	30,000
Input inventory	30,000		
Equipment	40,000		
		Total Liabilities	30,000
Total Assets	130,000	Net Worth (Equity)	100,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	0
Total Income	0
Cost (Expenses)	
Input used	0
Total Cost	0
Net Income (Profit or Loss)	0

After transaction 4

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Total Cash Available	100,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Total Cash Needs	40,000
Ending cash balance	60,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	60,000	Equipment debt	30,000
Input inventory	10,000		
Equipment	40,000		
Product Inventory	25,000		
		Total Liabilities	30,000
Total Assets	135,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Total Income	25,000
Cost (Expenses)	
Input used	20,000
Total Cost	20,000
Net Income (Profit or Loss)	5,000

After transaction 5

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Total Cash Available	110,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Total Cash Needs	40,000
Ending cash balance	75,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	75,000	Equipment debt	30,000
Input inventory	10,000		
Equipment	40,000		
Product Inventory	10,000		
		Total Liabilities	30,000
Total Assets	135,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Total Income	25,000
Cost (Expenses)	
Input used	20,000
Total Cost	20,000
Net Income (Profit or Loss)	5,000

After transaction 6

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Total Cash Available	165,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Total Cash Needs	40,000
Ending cash balance	125,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	125,000	Equipment debt	30,000
Input inventory	10,000	Loan	50,000
Equipment	40,000		
Product Inventory	10,000		
		Total Liabilities	80,000
Total Assets	185,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Total Income	25,000
Cost (Expenses)	
Input used	20,000
Total Cost	20,000
Net Income (Profit or Loss)	5,000

After transaction 7

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Total Cash Available	165,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Total Cash Needs	80,000
Ending cash balance	85,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	85,000	Equipment debt	30,000
Input inventory	10,000	Loan	50,000
Equipment	40,000		
Product inventory	10,000		
Land	40,000	Total Liabilities	80,000
Total Assets	185,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Total Income	25,000
Cost (Expenses)	
Input used	20,000
Total Cost	20,000
Net Income (Profit or Loss)	5,000

After transaction 8

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Total Cash Available	165,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Total Cash Needs	130,000
Ending cash balance	35,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	35,000	Equipment debt	30,000
Input inventory	60,000	Loan	50,000
Equipment	40,000		
Product inventory	10,000		
Land	40,000	Total Liabilities	80,000
Total Assets	185,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Total Income	25,000
Cost (Expenses)	
Input used	20,000
Total Cost	20,000
Net Income (Profit or Loss)	5,000

After transaction 9

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Total Cash Available	165,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Total Cash Needs	130,000
Ending cash balance	35,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	35,000	Equipment debt	30,000
Input inventory	20,000	Loan	50,000
Equipment	40,000		
Product inventory	60,000		
Land	40,000	Total Liabilities	80,000
Total Assets	195,000	Net Worth (Equity)	115,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Product produced	50,000
Total Income	75,000
Cost (Expenses)	
Input used	20,000
Input used	40,000
Total Cost	60,000
Net Income (Profit or Loss)	15,000

After transaction 10

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Total Cash Available	165,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Wages paid	5,000
Total Cash Needs	135,000
Ending cash balance	30,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	30,000	Equipment debt	30,000
Input inventory	20,000	Loan	50,000
Equipment	40,000		
Product inventory	60,000		
Land	40,000	Total Liabilities	80,000
Total Assets	190,000	Net Worth (Equity)	110,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Product produced	50,000
Total Income	75,000
Cost (Expenses)	
Input used	20,000
Input used	40,000
Wages paid	5,000
Total Cost	65,000
Net Income (Profit or Loss)	10,000

After transaction 11

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Cash sales	8,000
Total Cash Available	173,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Wages paid	5,000
Total Cash Needs	135,000
Ending cash balance	38,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	38,000	Equipment debt	30,000
Input inventory	20,000	Loan	50,000
Equipment	40,000		
Product inventory	50,000		
Land	40,000	Total Liabilities	80,000
Total Assets	188,000	Net Worth (Equity)	108,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Product produced	50,000
Adjust value of product	-2,000
Total Income	73,000
Cost (Expenses)	
Input used	20,000
Input used	40,000
Wages paid	5,000
Total Cost	65,000
Net Income (Profit or Loss)	8,000

After transaction 12

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Cash sales	8,000
Total Cash Available	173,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Wages paid	5,000
Total Cash Needs	135,000
Ending cash balance	38,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	38,000	Equipment debt	30,000
Input inventory	20,000	Loan	50,000
Equipment	38,000		
Product inventory	50,000		
Land	40,000	Total Liabilities	80,000
Total Assets	186,000	Net Worth (Equity)	106,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Product produced	50,000
Adjust value of product	-2,000
Total Income	73,000
Cost (Expenses)	
Input used	20,000
Input used	40,000
Wages paid	5,000
Depreciation	2,000
Total Cost	67,000
Net Income (Profit or Loss)	6,000

After transaction 13

Cash Flow Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
	Time period not Specified
Beginning cash balance	0
Cash Inflow	
Owner Contribution	100,000
Cash sales	15,000
Loan proceeds	50,000
Cash sales	8,000
Total Cash Available	173,000
Cash Outflow	
Purchased input	30,000
Purchased equipment (downpayment)	10,000
Purchased land	40,000
Purchased input	50,000
Wages paid	5,000
Interest payment	1,000
Principal payment	3,000
Total Cash Needs	139,000
Ending cash balance	34,000

Balance Sheet for XYZ, Inc; <i>Date not specified in this example</i>			
Assets		Liabilities	
Cash	34,000	Equipment debt	27,000
Input inventory	20,000	Loan	50,000
Equipment	38,000		
Product inventory	50,000		
Land	40,000	Total Liabilities	77,000
Total Assets	182,000	Net Worth (Equity)	105,000

Income Statement for XYZ, Inc. <i>Time period not specified in this example</i>	
Income (Revenue)	
Product produced	25,000
Product produced	50,000
Adjust value of product	-2,000
Total Income	73,000
Cost (Expenses)	
Input used	20,000
Input used	40,000
Wages paid	5,000
Depreciation	2,000
Interest	1,000
Total Cost	68,000
Net Income (Profit or Loss)	5,000