

## DOES YOUR BUSINESS MAKE USE OF YOUR FINANCIAL STATEMENTS?

Many small business owners pay too little attention to their financial statements. This is due in part to not understanding just what the statements have to offer. In fact, many may not be able to tell you the difference between a Balance Sheet and an Income Statement.

Think of them this way. The Balance Sheet is like a still picture. It shows where your company is at on a specific date, at month-end, or at year-end. It is a listing of your assets and debts on a given date. So Balance Sheets that are a year apart show your financial position at the end of year one versus the end of year two. Showing how you got from position one to position two is the job of the Income Statement.

Suppose I took a photo of you sitting behind your desk on December 31, 2013. And on December 31, 2014, I took a photo of you sitting on the other side of your desk. We know for a fact that you have moved from one side to the other. What we don't know is how you got there. Did you just jump over the desk or did you run all the way around the building to do it? The Income Statement tells us how you did it. It shows how many sales and how much expense was involved to accomplish the move.

To see why a third kind of financial statement called a Funds Flow Statement is useful, follow this case. A printer has started a new printing business. He invested \$20,000 of his own cash and borrowed \$50,000 from the bank to buy new equipment. After a year of operation, he has managed to pay off the bank loan. He now owns the equipment free and clear. When he is told his net profit is \$50,000, he can't believe it. He might tell you that he took nothing out of the business and lived off his wife's wages for the year. And since there is no cash in the bank, just where is the profit? The Funds Flow Statement will show the income as a "source of funds" and the increase in equipment is an "application of funds." The Funds Statement is even more useful when you have several assets to which funds can be applied and several sources of funds such as bank loans, vendor payables, and business profit or loss.

Don't be afraid to ask your accountant questions about your financial statements. The more questions you get answered, the more useful you will find your financial statements. Accounting is sort of a foreign language. Learn to speak a little of it.

For more information on financial statements, contact our office at (888) 388-1040.

NOTE: This article is written to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.

Members: American Institute of Certified Public Accountants, Minnesota Society of Certified Public Accountants

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