3 essential financial statements for your small business

Accurately tracking financial data is not only critical for running the day-to-day operations of your small business, but it is also essential when seeking funding from lenders or investors to take your business to the next level. In addition, keeping tabs of your finances can help ensure your products and services are priced right, identify what your margins are, determine your cash flow and make filing taxes easier.

Here are three basic financial statements that are important for your small business:

Your **BALANCE SHEET** provides an overall financial snapshot of your small business. As an equation, it looks like:

liabilities + owner's equity = assets

There are two types of assets: current and fixed. Current assets include cash or other holdings that can quickly be converted to cash within a year. These may include inventory, prepaid expenses and accounts receivable. Machinery, equipment, land, buildings, furniture and other essentials that you are not planning to sell are considered fixed assets.

Liabilities can be broken down into current or short-term liabilities, such as accounts payable and taxes, and long-term debt such as bank loans or notes payable to stockholders. Owner's equity includes any invested capital or retained earnings.

If you captured all of your accounting information correctly, both sides of the balance sheet equation should be equal.

Your **PROFIT AND LOSS STATEMENT**, also referred to as an income statement, enables you to project sales and expenses and typically covers a period of a few months to a year.

To determine net profit, subtract total operating expenses from gross profit.

gross profit – total operating expenses = net profit

Remember that gross profit is calculated as total sales minus the cost of goods sold. Costs of goods sold include things like raw materials, inventory and payroll taxes. Make sure to also factor in overhead costs such repairs, utilities, insurance and legal fees into your operating expenses to ensure your net profit is accurate.

Your **CASH FLOW STATEMENT** highlights how much money is coming in to and going out of your business. Cash inflows include cash sales, accounts receivable collections, loans and other investments. Equipment purchased, expenses paid, inventory and other payments are considered cash outflows.

To calculate your ending cash balance, take the beginning cash balance, add cash inflows and then subtract cash outflows.

beginning cash balance
+ cash inflows
– cash outflows
= ending cash balance

Featured Small Business:

Catfish Cabin

Lucedale, MS

"I can learn a lot about a person by cooking for them. It's a great way to start a new friendship. SRFCU is the same way with small businesses – they took the time to learn my business, help me write a business plan and arrange the perfect financing for my needs."

LOUAN STRINGER, OWNER

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4 marketing resolutions for 2015

Upgrade your marketing for success

Have you resolved to take your small business to bigger and better heights? Here are four marketing resolutions that every small business owner should consider making for 2015.

1. **Invest more money in your marketing.** Many small business owners make the mistake of playing Scrooge when it comes to marketing. They may save a few dollars here and there, but they lose out on bigger opportunities. It's important to look at marketing costs as investments in your business and your brand – not as expenses.

   Always stop to assess how much new business could come from your marketing efforts. If spending $500 on ads this month stands a good chance of netting you a client that could be worth $50,000 a year, isn't that worth the investment?

2. **Assess the results of your marketing.** You need to know exactly what marketing campaigns attracted new customers or converted to sales.

   Use your website's analytics tools to see which online marketing campaigns attract users, get them to click and convert them to buyers. Use codes in your print, TV or radio ads to track which specific ads bring customers in to your store or business.

   If all else fails, try the easiest method: Ask customers where they heard about your business! Take time at the end of each month, each quarter and each year to review your results and plan for how you'll modify your marketing accordingly.

3. **Devote more time to marketing.** When you're swamped with business, it may seem like you don't need to market at all. Then suddenly you're twiddling your thumbs with no new business in the pipeline.

   Set a rule that you will devote at least 20 percent of your time to marketing your business, no matter what. If you've got extra time during a slow period, you can put in even more. Here are a couple of quick marketing techniques you can use when you're slammed:

   - Reach out to current customers with a **special offer or discount** on additional services or products related to past purchases.
   - Contact satisfied customers to see if they're willing to give you **referrals**. Then follow up with the referrals within a week or two.

4. **Always be looking ahead.** Pay attention to your customers, your competitors and your industry.

   How are your competitors marketing? What new developments are affecting the way businesses in your industry market? How are your target customers changing and what new markets might you reach out to next? Growth can come from unexpected places, so don't discount anything you notice.