

Financial Statement Preparation Guidance Instructions

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Financial Statement Entry Matrix (BUSN 5000)

The **Financial Statement Entry Matrix** below was developed by Eddie Schwertz, BUSN 5000 Course Lead for Webster University, to assist the online students with the preparation of financial statements required for the Business Plan Term Project. It should be used in conjunction with the **Sample Business Plan B: Retail Business** located in the **Class Resources** area of the BUSN 5000 Online course and the **Income Statement, Cash Flow Statement, and Balance Sheet** financial statements that follow the matrix on pages 3 to 5 of this Word document file.

It is not possible to prepare instructions that answer all potential questions. However, an attempt has been made to provide you with the situations you will likely most often encounter during the preparation of the business plan for this course. It is recommended that you print a copy of this help file for preparing the financial statements and a copy of the **Sample Business Plan B: Retail Business** for reference as you use this matrix.

The **Financial Statement Entry Matrix** consists of four columns. The first column identifies the financial statement item that appears on the three financial statements. In front of each item is a bold upper-case letter. The purpose of the bold, highlighted capital letter (e.g., **A**, **B**, **C**) is to assist you in locating the specific item on the financial statements and to identify the relationships that exist between the item and the financial statements.

Note: While preparing financial statements, please remember in accounting that any number shown in parentheses is a negative value. We recommend that you use parentheses for negative numbers to emphasize that the number shown is a negative value.

Students should also round all figures to the nearest dollar.

Financial Statement Entry Matrix (BUSN 5000)

Financial Statement Item	Income Statement	Cash Flow Statement	Balance Sheet
A. Net Sales	Revenue	Operating Activities (Net Sales to Customers)	NA
B. Depreciation Expenses	Operating Expenses	Operating Activities	Accumulated Depreciation
C. Total Operating Expenses	Operating Expenses	Operating Activities	NA
D. Accounts Payable	NA	Operating Activities	Current Liabilities
E. Inventory Purchases	Cost of Goods Sold (COGS)	Operating Activities	NA
F. Ending Inventory	Cost of Goods Sold (COGS)	NA	Current Assets (Ending Inventory at Cost)
G. Purchased Property, Plant and Equipment	NA	Investing Activities	Long-term Assets (Fixed Assets)
H. Owner Capital Investment (Cash Only)	NA	Financing Activities	Owner Capital Paid for Current Year
I. Ending Cash Balance	NA	Ending Cash Balance and Beginning Cash Balance (for next year)	Current Assets (Cash and Equivalents)
J. Income Taxes Owed for Current Year	Income Taxes	Operating Activities	Current Liabilities (if not paid in current year) Also show the income tax amount to be paid next year under Owners' Equity
K. Income Taxes Paid from Prior year(s)	NA	Operating Activities	NA
L. Owners' Equity	NA	NA	Owners' Equity and Owner Capital (beginning of next year)
M. Accounts Receivable	NA	Subtracted from Net Sales	Current Assets

Note: The shaded bold capital letters on the following sample financial statements link to this matrix. **Please do not include the letters in your business plan project financial statements.**

Your Memories

Income Statement

For the Year Ended December 31, 2017

Revenue

Gross Sales (60 customers @ \$250 each)	\$15,000
Less: Sales Returns and Discounts	<u>(500)</u>
Net Sales	14,500 A

Cost of Goods Sold

Beginning Inventory	0	
Purchases of DVDs	360 E	
Less: Ending Inventory	<u>(100) F</u>	
Less: Cost of Goods Sold		<u>(260)</u>

Gross Profit

14,240

Operating Expenses

Selling Expenses		
Delivery Expenses	700	
Advertising Expenses	3,200	
Entertainment Expenses	2,200	
Miscellaneous Expenses	3,500	
Sales Taxes Paid *	<u>48</u>	
Total Selling Expenses		9,648

General and Administrative Expenses

Rent Expenses	3,500	
Utilities Expenses	750	
Automobile Expenses	1,500	
Insurance Expenses	1,200	
Supplies Expenses	2,600	
Depreciation Expenses	3,597 B	
Legal & Pro Services	2,400	
Miscellaneous Expenses	<u>1,500</u>	
Total G&A Expenses		<u>17,047</u>

Less: Total Operating Expenses

(26,695) **C**

Income before Taxes

(12,455)

Less: Income Taxes (@ 25 %) **

0 **J**

Net Income after Taxes

(\$12,455)

**Sales taxes are paid on inventory items sold. The sales taxes are normally paid to the state.*

***Note: The business owner reports net income on his or her IRS Form 1040. In this case the business owner would reduce personal income taxes for this loss.*

Your Memories
Cash Flow Statement
For the Year Ended December 31, 2017

Operating Activities*

Net Sales to Customers	\$14,500	A
Accounts Receivable from Customers 2017	(0)	M
Payments for Total Operating Expenses	(26,695)	C
Add Depreciation Expenses Taken	3,597	B
Add Accounts Payable for Current Year	2,100	D
Payments for 2016 Income Taxes (none)	(0)	K
Payments for 2017 Income Taxes	(0)	J
Payments for Inventory (DVDs)	(360)	E
Net Cash Flows from Operating Activities		(6,858)

Investing Activities

Proceeds from Sale of Property/Plant/Equipment	0	
Purchased Property/Plant/Equipment**	(3,142)	G
Net Cash Flows from Investing Activities		(3,142)

Financing Activities

Owner Investment (cash only)	10,000	H
Owner Withdrawals	(0)	
Repayment of Long-term Debt	(0)	
Net Cash Flows from Financing Activities		<u>10,000</u>

Changes in Cash Balance

Net Change in Cash for Current Year	0
Add: Beginning Cash Balance	<u>0</u>
Ending Cash Balance	<u>I</u> <u>\$0</u>

*The business owes suppliers \$2,100 as of 12/31/17 for trade credit purchases. Therefore, Accounts Payable amounts to \$2,100 for 2017. There is no income taxes payable for 2017. Depreciation Expenses in 2017 are \$3,597, which consists of \$455 for personal property converted to business property (\$2,275 depreciated at \$455 per year for five years) and \$3,142 in new equipment purchases.

** Only the \$3,142 spent in cash for equipment in 2017 is shown under Investing Activities.

Your Memories
Balance Sheet
As of December 31, 2017

Assets

Current Assets

Cash and Equivalents	\$0	
Accounts Receivable	0	M
Ending Inventory (at cost)	<u>100</u>	F
Total Current Assets		100

Long-term Assets

Property, Plant and Equipment	5,417	G
Less: Accumulated Depreciation ¹	<u>(3,597)</u>	B
Other Assets	<u>0</u>	
Total Long-term Assets		<u>1,820</u>

Total Assets **\$1,920**

Liabilities and Owners' Equity

Current Liabilities

Accounts Payable (supplies)	2,100	D
Employment Taxes Payable	0	D
Income Taxes Owed (2017)	0	J
Notes Payable	<u>0</u>	
Total Current Liabilities		2,100

Long-term Liabilities

Long Term Debt	0	
Other Liabilities	<u>0</u>	
Total Long-term Liabilities		<u>0</u>

Total Liabilities **2,100**

Owners' Equity

Owner Capital (1/1/2017)	0	
Owner Capital Paid in 2017 ²	12,275	H
Net Income after Taxes for the Year	<u>(12,455)</u>	
Less: Owner Withdrawals	<u>(0)</u>	

Total Owners' Equity **(180)** **L**

Total Liabilities and Owners' Equity **\$1,920**

¹ This includes the \$455 for property converted from personal use plus the \$3,142 of new equipment purchased in 2017.

² The owner contributed \$10,000 in cash and \$2,275 in personal equipment to the business. Notice that the \$5,417 of property/plant/equipment includes the \$2,275 plus \$3,142 of new items purchased in 2017.

Preparing the Income Statement

The **Income Statement** should be the first financial statement that you prepare for your business. Its purpose is to identify the revenues and expenses that you expect to have at the end of a period (normally a year). Because the bottom line is the amount of profit or loss that you project to make from your business, the Income Statement is sometimes called the **Profit and Loss Statement**.

There are usually four major parts to the Income Statement: **Revenues**, **Cost of Goods Sold** (only for business that sell a tangible product; service business do not normally have a Cost of Goods Sold section), **Operating Expenses** (often separated into Selling Expenses and General and Administrative Expenses), and **Net Income** (including taxes paid).

Revenues

This section identifies the amount of sales or revenue received from customers. Sales Returns and Allowances are subtracted from the gross amount of Sales, resulting in Net Sales. The **Net Sales (or Revenue)** value is also the dollar value that you should use for the “**Net Sales to Customers**” line of the **Operating Activities** section of the **Cash Flow Statement**.

Note: On occasion a business will have additional revenue from investments or interest income that will also need to be listed in the **Revenue** section.

Cost of Goods Sold (COGS)

The **Cost of Goods Sold** section identifies the cost of goods purchased and/or manufactured that are sold to the customer. The section begins with a **Beginning Inventory** value. If you are just starting the business normally your beginning inventory will be zero unless you have converted personal goods into business inventory.

Add Purchases: During the year your business will purchase additional items for your inventory and subsequent sale. The cost of these purchases is listed here and on the **Cash Flow Statement** in the **Operating Activities** section as “Payments for Inventory” to the extent that you paid for the inventory with cash. You should also identify and add the cost of freight charges that your business is charged to have the inventory shipped/delivered to your business.

Direct Labor: If your business manufactures or assembles goods, you will also have other cost required to produce the goods (e.g., direct labor costs). Other expenses directly linked to the manufacturing or assembly of the goods is also normally included in the **Cost of Goods Sold** section.

Less: Ending Inventory: The **Ending Inventory** value is the lower of the cost or market value of the inventory remaining at the end of the income period. (We will just plan on using cost value rather than complicate matters for our business plan by trying to calculate Fair Market Values.) This value is also carried to the **Balance Sheet Statement** and listed in the **Assets** section as **Ending Inventory (at cost)**.

Cost of Goods Sold: This is the mathematical result of subtracting the value of the **Ending Inventory** from the sum of the cost of inventory purchased during the year and the **Ending Inventory** value from the previous year (**Beginning Inventory** for this year). Sometimes you will see an extra line in the **Cost of Goods Sold** section that summarizes the value of goods available for sale (this is a personal preference).

Gross Profit: You will normally see a **Gross Profit** subtotal that subtracts the **Cost of Goods Sold** section value from the **Net Sales** value. Hopefully the value will be positive.

Operating Expenses

Operating Expenses are often separated into two distinct expense areas: **Selling Expenses** and **General and Administrative Expenses**.

Selling Expenses: Items normally included are advertising, commissions/salaries for sales force, delivery expense, sales entertainment expenses, sales taxes collected on the sale of tangible products, and other miscellaneous expenses that can be identified with the costs of making sales.

General and Administrative Expenses: These are the expenses connected with the day-to-day operations of the business. You might think of these expenses as the cost of staff to support the sales force personnel. Some items normally included are:

- Bank charges
- Contract labor
- Credit card fees
- Depreciation (This expense charge also appears on the **Cash Flow Statement** in the **Operating Activities** section as a positive addition to cash flow)
- Insurance (building, cars, etc.)
- Interest costs (on loans) (Although interest payments are shown on the Income Statement, the principal paid is shown on the CFS in the Financing Activities section and on the BS statements in the Long-term Liabilities section. The BS amount is calculated by subtracting this year's principal paid from last year's loan balance.)
- Maintenance costs
- Miscellaneous
- Office Supplies (typing paper, copier paper, toner, pens, etc.)
- Payroll taxes (Social Security taxes, also known as FICA)
- Permits and licenses
- Property taxes
- Rent or lease costs
- Repairs

- Telephone (including computer modems/Internet hookups)
- Travel
- Utilities (lights, natural gas, water, and sewerage charges)
- Vehicle expenses (gas, oil, minors repairs)
- Wages (for employees – not yourself if self-employed)

You do not have to show all of the above expenses on your **Income Statement**. Just include those that you feel you will have. If you have an expense not listed above, please include it as well.

Total Operating Expenses: This is a subtotal addition of the **Selling Expenses** and the **General and Administrative Expenses**.

Income before Taxes: This is the result of subtracting the value of **Total Operating Expenses** from the **Gross Profit** value. Although students will select the Sole Proprietorship form of business ownership and show only the value of the **Income before Taxes** value as the last line of their income statement, we include an adjustment for income taxes paid so that students don't forget that taxes have to be paid. (Please refer to Schedule C of IRS Form 1040 if you want more details on how to treat sole proprietorship income and expenses.)

Less Income Taxes Paid @ 25%: The **Sample Business Plans** currently use the federal marginal tax rate (MTR) of 25%. **Please use the MTR of 25% for your business plan since that is the present (2015) MTR for most Americans owning a small business.**

Net Income after Taxes: The result of subtracting the amount of taxes from the **Income before Taxes** is the bottom line of our **Income Statement**. For our purpose, we transfer the value of the **Net Income after Taxes** to the **Balance Sheet** in the **Owners' Equity** section (near the bottom) as the **Net Income after Taxes for the Year**.

Preparing the Cash Flow Statement

The preparation of the **Cash Flow Statement** can be the most difficult of the three financial statements for the novice business student to prepare. Presented in Chapter 15 of our textbook (page 444-446) is a very brief introduction to the **Cash Flow Statement** used by a business that uses accrual accounting. However, the **Sample Business Plan B: Retail Business** provided in Business 5000 presents **Cash Flow Statements** that are easier to follow for a cash basis business.

(Note: The IRS no longer requires small businesses to use the accrual accounting method. As of January 1, 2002, qualifying small businesses can choose to use the cash method of accounting. A qualifying small business taxpayer is any taxpayer with average annual gross receipts of more than \$1,000,000 but less than \$10,000,000 that is not prohibited from using the cash method of accounting under section 448 of the Internal Revenue Code. Small businesses with average annual gross receipts of \$1,000,000 or less can also use the cash method of accounting under Revenue Procedure 2001-10, which is discussed in IRS Publication 538, *Accounting Periods and Methods*.)

We recommend that you print a copy of the **Sample Business Plan B: Retail Business** so that you can more easily follow along with the instructions below.

Since most small businesses tend to operate primarily on a cash basis, you may find this approach easier for your business plan. Please note that we had to include **Accounts Payable** and **Accounts Receivable** activities where our sample retail business plan reported them. If we were using an accrual basis **Cash Flow Statement** as shown in the textbook, we would start with **Net Income** and then show changes in **Accounts Payable** and **Accounts Receivable** during the accounting period (in this case one year). We opted to show both AR and AP amounts in the financial reports for the **Sample Business Plan B: Retail Business**.

Note: Please remember, we are not trying to make accountants out of you this term. We are just trying to introduce you to accounting this term. Hopefully in a future term you will take BUSN 5600: Accounting Theory and Practice.

If you choose to operate on a cash basis, you will not have to deal with **Accounts Receivable**. Likewise, if you pay all your bills in cash (or by credit card) including sales taxes and income taxes (in other words prepay current income taxes); you can also avoid **Accounts Payable** activities. *Students that decide to report revenue and expenses when earned will avoid the need to use Accounts Receivable and Accounts Payable on the financial statements and this will make the financial statements easier to prepare.*

Students that intend to prepare a service business plan should also print a copy of the Sample Business Plan A.

We prefer that you simplify your financial statements for this project. We realize that in real life it is more complicated. However, for this introduction to business class, we won't get carried away with accounting details that you may not be ready to deal with at this point.

The **Cash Flow Statement** has four categories: **Operating Activities**, **Investing Activities**, **Financing Activities**, and **Changes in Cash Balance**. Please keep in mind that cash inflows are reported as positive values while cash outflows are reported as negative values. The accounting convention is to place parentheses around these negative values.

Operating Activities

Net Sales to Customers: Determine the value of the net sales (Gross Sales less Returns and Allowances) that were received. Enter this as a positive value.

Accounts Receivable from Customers for the Current Year: If you did not collect from all of your customer(s) when they received goods or services, you should have an **Accounts Receivable** amount for the current year. The value for the **Accounts Receivable** for the current year would be shown as a negative value here and would reduce your cash inflow for the current year.

Accounts Receivable from Customers for Prior Years: If you have customers that pay you for goods and services that they received in a prior year, you should include a line in your **Cash Flow Statement** to show these cash receipts for the current year (see the 2012 Cash Flow Statement in the **Sample Business Plan B: Retail Business**). The amount of money received should be entered as a positive value.

Cash Payments for Current Year Total Operating Expenses: Identify the total cost of your operating expenses (Selling Expenses and General and Administrative Expenses) including depreciation taken. Enter this as a negative value.

Depreciation Expenses for Current Year: Enter the value that is taken (expense claimed) for the current year as a positive value.

Accounts Payable for the Current Year: If you decided to use trade credit for goods or services that you received for your business, you will need to show as a positive value the amount of these deferred expenses. (You will normally pay this amount next year as indicated in the next paragraph.)

Payments for Accounts Payable from Prior Years: If you used **Accounts Payable** for some of your operating expenses (Selling Expenses and General and Administrative Expenses) for a prior year you will need to include a line for payments that you made in the current year for these expenses. Enter the amount as a negative value.

Cash Paid for Inventory Purchases: Enter the costs for inventory purchases for the current year as a negative value.

Cash Paid for Prior Year Income Taxes: If you had prior year **income** taxes due, enter as a negative value the amount of cash paid for the prior year income taxes in the current year.

Payments for Current Year Taxes: If you prepaid your income taxes for the current year, enter that amount as a negative value.

Deferred Payments to the Following Year for Current Year Income Taxes: If the student decides to defer the payment for the current-year income taxes until the next year the amount deferred should be shown as a positive value in the Operating Activities section of the Cash Flow Statement. This amount must also be shown in the **Owner's Equity** section of the **Balance Sheet** for that year. It is recommended that students not defer the payment of income taxes to the following year to avoid this more complicated financial statement.

Net Cash Flow from Operating Activities: This figure is the net value of the above operating activities. Normally it will be a positive value (at least you would hope so).

Investing Activities

Proceeds from the Sale of Property, Plant and Equipment: If you sold any of your long-term (fixed) assets, enter the value as a positive number.

Purchased Property, Plant and Equipment: Enter the cost of long-term (fixed) assets purchased with cash in the current year as a negative value.

Net Cash Flows from Investing Activities: Enter the net value. It will normally be a negative value if the business purchases long-term assets during the accounting period (normally a year).

Financing Activities

Owner Investment (cash only): Enter as a positive value the amount of cash contributed in the year by the owner(s). If the owner converts personal property to business use, it is not shown as a cash input. However, this investment does show up on the **Balance Sheet** as **Owner Capital Paid** (see the 2017 Balance Sheet in the **Sample Business Plan B: Retail Business** where the owner contributed \$10,000 in cash and \$2,275 in used equipment converted from personal use to business use).

Owner Withdrawals: Enter as a negative value any cash withdrawn by the owner(s) during the current year. In real-life sole proprietorship situations the business owner is responsible for reporting the full amount of the business profits on his or her Form 1040 income tax statements on Schedule C. If the business owner chooses to use some of the business cash to pay personal income taxes that are due, the business owner would have to show the amount of money that he or she withdrew for this purpose as a withdrawal from the business. The business owner would also have to show this on the **Balance Sheet** as **Less Owner Withdrawals**.

Proceeds from Long-term Debt: Enter the value of the proceeds from long-term loans/debts as a positive value.

Repayment of Long-term Debt: Enter the value of principal payments made on long-term debt as a negative number. These payments reduce the long-term debt principal amount and reduce **Long-term Liability** values on the **Balance Sheet**. You can claim only the interest paid in the current year as an expense on your **Income Statement**.

Net Cash Flows from Financing Activities: Enter the net value of the financing activities. The value could be positive or negative.

Changes in Cash Balance

Net Change in Cash for Current Year: Enter the net value of the change in cash for the current year. One would expect this to be a positive value. However, sometimes you may have a net negative change in cash. Your business must at least have a zero or positive **Ending Cash Balance**.

Add: Beginning Cash Balance: Enter the amount of cash that your business began the year with. If you have a new business you will normally begin your business with a zero cash value. After the first year, your **Beginning Cash Balance** value for the year is the **Ending Cash Balance** value for the prior year.

Ending Cash Balance: Add your **Net Change in Cash** value to your **Beginning Cash Balance** value to obtain your **Ending Cash Balance** value. Note that your **Ending Cash Balance** value is the value of your **Cash and Equivalents** on your **Balance Sheet** for the current year.

Preparing the Balance Sheet

Also known as a **Statement of Financial Position**, the **Balance Sheet** is a snapshot of the business' net worth at the end of the accounting period (normally the fiscal year ending December 31). It includes three major sections: **Assets**, **Liabilities**, and the difference between the assets and liabilities (i.e., **Owners' Equity** or **Net Worth**).

The **Balance Sheet** follows the following accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owners' Equity} (A=L+OE)$$

Sometimes the equation is shown as follows:

$$\text{Assets} - \text{Liabilities} = \text{Owners' Equity} (A-L=OE)$$

Assets

The **Assets** section is divided into two subsections: **Current Assets** and **Long-term Assets** (often called Fixed Assets).

Current Assets: These are assets that are cash or can be converted to cash in less than one year. They are listed on the **Balance Sheet** in decreasing order of liquidity. Liquidity is the speed that an asset can be converted into cash.

The amount of **Cash and Equivalents** held by the business is taken from the **Ending Cash Balance** on the **Cash Flow Statement** for the current accounting period (normally the year just ended). This value should always be positive.

Accounts Receivable: If the business allows its customers to purchase their products or services on credit, there will be an amount of money that its customers have not paid yet. These funds are normally expected to be paid in 30 to 60 days or so.

It is recommended that you not allow customers to make credit purchases for a small sole proprietorship or partnership business. (Credit card purchases are fine.) It is best that you require them to pay for the products or services when received – the essence of cash basis accounting.

Ending Inventory (at cost): The lower of cost or market value of the **Ending Inventory** is also shown in the **Current Assets** section of the **Balance Sheet**. (As indicated on page 7 of this document, plan to use the cost value.) The value is transferred from the Income Statement's **Cost of Good Sold (COGS)** subsection.

Total Current Assets: This sub-total value is the mathematical total of the **Cash and Equivalents**, **Accounts Receivable**, and **Ending Inventory (at cost)** values.

Long-term Assets (Fixed Assets): This subsection lists the assets that will last for one year or longer. Typically you will need to total the purchase prices of the property (land values), plant (buildings), equipment, and furniture to identify the value of these long-term assets.

There are two approaches to showing the value of the long-term assets. One approach is to show the “net value” of the assets by listing the value of the long-term assets as the purchase price less the accumulated depreciation.

The second approach lists the purchase price value of the long-term assets on a separate line (all of the assets added together) and the total accumulated depreciation as a separate value.

Note: It is recommended that you use the latter approach for your business plan, as illustrated in the **Sample Business Plan B: Retail Business**. For example, if your business takes advantage of the Section 179 depreciation, the value of long-term assets purchased could be offset by the amount of accumulated depreciation taken (as shown on the **Income Statement** for that year) if it is less than the \$133,000 maximum allowed for Section 179 depreciation as January 1, 2009. (There was a special \$250,000 maximum set for 2008 to spur the troubled economy.)

To use the second approach described above, follow these steps:

1. Add the amount of long-term assets purchased or converted to business use in the first year to the long-term assets purchased in the second year to obtain the total value of long-term assets for the business.
2. Add the value of the accumulated depreciation for the first and second years to obtain the total value for accumulated depreciation for the first two years of business.

Assuming that the long-term assets did not include the purchase price of land, the net value of the long-term assets purchased value and the accumulated depreciation would be zero after the full depreciation time frame has passed.

Note: The IRS does not allow land to be depreciated in value. You should always have a net positive value for Long-term Assets if your business purchased land.

Other Assets: This line could include such assets as goodwill, other firm’s stock or bonds, or other holdings including land. For our purposes, enter zero for this category in your business plan.

Long-term Assets (Fixed Assets) Total: This is the mathematical total of the **Long-term Assets** and **Accumulated Depreciation**.

Total Assets: This is the mathematical total of the values for the **Current Assets** and **Long-term Assets** subtotals.

Liabilities and Owners' Equity

These sections constitute the second half of the **Balance Sheet**. It used to be the custom to show Assets on the left side of a page and Liabilities/Owners' Equity on the right, thus explaining the name Balance Sheet, since both sides "balanced."

Liabilities include **Current Liabilities**, **Long-term Debt**, and **Other Long-term Liabilities**. As was the case with the **Assets** portion of the **Balance Sheet**, current liabilities are debts that are due (owed) in less than one year. **Long-term Debt** becomes due in one year or longer. For purposes of your business plan project for Business 5000, you don't have to list anything under **Other Longer-term Liabilities**.

Current Liabilities: The current liabilities are listed in increasing chronological order for when they will be due (**Accounts Payable**, **Notes Payable**, and **Other Current Liabilities**).

Accounts Payable lists debts your business owes suppliers or other vendors. **Accounts Payable** actually reduces the amount of cash your business pays at the present time for the goods or services it receives. For example, if your business uses trade credit (accepting supplies or inventory for payment in 30 days, etc.) and the bill is not payable before the end of the accounting period (usually December 31 for most businesses), this cost is actually not paid for with cash until the next year. On the **Cash Flow Statement** you would only show the cash spent on purchases for this year. The amount of debt postponed because you used trade credit for that last month or so would be shown on the **Balance Sheet** as **Accounts Payable**.

Employment Taxes Payable, Wages Payable, and Other Short-Term Debts Payable: If you did not pay your employees' social security or income tax withholdings owed the IRS for a period of the tax year, these items can also be listed as **Accounts Payable** items as a separate line if you want to show the detail. They would normally be payable in mid-January of the next year.

Notes Payable: The **Notes Payable** is the debts you owe that are longer term but usually less than one year. For example, you may have taken a 180-day loan from your bank.

Total Current Liabilities: This is the mathematical total of the **Accounts Payable** (including taxes owed) and **Notes Payable**.

Long-term Debt: This is debt principal that is owed beyond one year. It normally includes mortgage loans, automobile loans, and other types of equipment or furniture loans that extend over one or more years. The remaining loan balance is shown in the **Long-term Liabilities** section of the Balance Sheet. The value is calculated by subtracting this year's principal paid from last year's loan balance.

Other Long-term Liabilities: This would be other long-term liabilities that your business may owe such as bonds payable.

Total Long-term Liabilities: This is the mathematical total of the **Long-term Debt** and **Other Long-term Liabilities**.

Total Liabilities: This is the mathematical total of the values for the **Total Current Liabilities** and the **Total Long-term Liabilities**.

Owners' Equity

If the business is a corporation with stock, this subsection is called **Stockholders' Equity**. If you have a Sole Proprietorship or Partnership form of business, this subsection is referred to as **Owners' Equity**.

As shown in the **Sample Business Plan B: Retail Business**, the **Owners' Equity** section is composed of **Owner Capital** as of the beginning of the year plus additional capital contributions, net income from the current year and, if the owner(s) withdraw capital, the amount withdrawn from the business is shown as "**Less Owner Withdrawals**."

Owner Capital (beginning of the year): This is the value of the **Owners' Equity** as of the beginning of the present year. It is the same value as the **Total Owners' Equity** as of the end of the previous year.

Owner Capital Paid in (Current Year): This is the value of capital contributed during the current year. If the owner(s) contribute equipment or inventory from personal use, it is treated as a conversion to business use and the value is recorded at its fair market value on this line. Owners may contribute cash, equipment, inventory, or some combination, as they desire.

Current-year Income Taxes to be paid Next Year: If the student decided to defer payment for the current year income taxes until next year, the amount of current-year income taxes to be paid must be shown in the **Owner's Equity** section of the **Balance Sheet**. As was noted earlier in the **Cash Flow Statement** in the **Operating Activities** section, it is recommended that students not defer the payment of current year income taxes to the following year to avoid this more complicated financial statement. However, if you want a challenge, the **Your Memories** Sample Business Plan B: Retail Product Business shows how deferring income taxes to the next year are prepared.

Net Income after Taxes for the Year: This is the value of the income generated by the business for the current year after deducting the cost of income taxes. It is the bottom line in the **Income Statement**. Corporations refer to this figure as **Retained Earnings**.

Less Owner Withdrawals: This is the amount of funds/capital (usually in cash) that the owner(s) withdrew from the business for the year.

Total Owners' Equity: This value is the mathematical total of the above four values. It is also the value moved forward to next year's **Balance Sheet** for the beginning **Owner Capital** for the start of the next year.

Total Liability and Owners' Equity: This is the total of the values for the **Total Liabilities** and the **Total Owners' Equity**. This value will equal the value of the **Total Assets** value at the top (or left) of the Balance Sheet.