

1  **Financial Statements  
(Part Deux)**

Agribusiness Procedures

2  **Income Statement**

⊙ If the Balance Sheet is a Snapshot, the Income Statement is a Movie – a measure of how the business has performed over a specific period of time

⊙

⊙ Revenues – Expenses = Income

⊙

⊙ Aliases:

- Profit & Loss Statement
- Expense & Revenue summary
- Income & Expense statement

3  **Income Statement**

⊙ Income

- Revenue from sales
- Interest & Dividends earned

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4  **Income Statement**

⊙ Expenses

- Cost of goods sold
  - Beginning inventory for period
  - *Plus* all purchases for the period
  - *Minus* inventory at end of period
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- Cost of goods manufactured
  - Direct labor cost
  - Raw material cost
  - Factory overhead cost
    - Depreciation on building and machinery
    - Supplies
    - Supervisors salaries

⊙

5  **Income Statement**

⊙ Expenses (con't)

- Operating expenses, i.e. Expenses that contribute directly to sales of goods
  - Advertising
  - Insurance
  - Sales personnel
  - Entertainment
  - Travel
- General expenses, i.e. Indirect costs incurred in administration of business
  - Payroll taxes, utilities, postage, etc
  - Other expenses

6  **Income Statement**

Uses

- Analyze financial trends over a period of time
- Help to decide on
  - Investments
  - Purchases of assets

- Distribution of profit
- Used by others
  - Federal income tax returns
  - State and local taxing agencies
  - Creditors and investors

7 8  **Budget**

Budget: You can look at it as an estimate of next year's income statement

4 components

1. Income
2. Cost of goods sold (manufactured)
3. Controllable expenses
4. Uncontrollable costs

9 **Budget**

Components of a business budget

1. Income
  - EXPECTED sales revenue is forecast by the business and basis for almost all the budget
  - Number of units forecast to be sold during next year and included in THIS section determines the cost of goods sold, controllable expenses in OTHER sections.

10 **Budget**

2. Cost of Good Sold
 

Estimated on basis of previous experiences in markup on the total volume of expected sales
3. Controllable Expenses
 

Expenses the business has control over

  - Advertising
  - Personnel
  - Entertainment and travel
4. Uncontrollable Expenses
 

Relatively fixed

  - Insurance, all depreciation, office expenses, postage, payroll taxes, utilities

11 **Budget**

Uses of the Budget

- Convince people to loan you money or make deals with you!
- Helps control the business
- Aids in making decisions about the business
- Allows you to check for deviations away from plans

12 **Cash Flow Statement**

Measure of change in cash the business has on hand from month to month

- ⊙ Projects all cash receipts less all cash disbursements
- ⊙ Used as
  - Record of cash
  - Projection into the future

13 **Cash Flow Statement**

⊙ Components of a cash flow statement

- Takes amount of cash on hand at beginning of the month
- Adds
  - Cash receipts to the balance

- Subtracts
- Cash disbursements
- Yields
- Cash on hand at end of month

14  **Cash Flow Statement**

◎ Uses of Cash Flow Statement

- Identifies future problems with cash
  - Warn
    - Months in advance of cash shortage
    - Amount of shortage
  - Identify surplus
    - Arrange for use of funds
- Tool for investor
  - More valuable than income statement