

How Understanding Your Financial Statements Can Help Your Business Grow

Are you ready to grow your small business? If so, one of the most valuable tools at your disposal is right under your nose: It's your business's financial data. Learning to understand and use that information is key to expansion, says Kirk Canzano, professor of business administration at Long Beach City College in Long Beach, California.

As an instructor for the Goldman Sachs *10,000 Small Businesses* program, Canzano shows entrepreneurs how understanding financial data can help take their companies to the next level. **Goldman Sachs 10,000 Small Businesses gives growth-oriented entrepreneurs the tools they need to create jobs and economic opportunity.** Read more about how the Goldman Sachs *10,000 Small Businesses* program works — www.bit.ly/2OLELQB

Key financial statements for managing growth

Profit & Loss Statement (also called Income Statement)

Most small business owners use cash basis accounting, Canzano says. "That's great for getting your taxes done, but very difficult to use to manage your business." We show entrepreneurs how to use accrual basis accounting, which provides a more accurate picture of the business's profits or losses.

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"Cash basis accounting tracks when cash comes in [or goes out], no matter when you did the work [or incurred the expense]," he explains. "Accrual basis accounting shows you how much work you did that month, and how much you incurred in expenses that month." Instead of managing your business by your checkbook, accrual basis accounting provides a big-picture view that can help you make better business decisions about your company's future.

Cash Flow Statement

"Cash flow from operating activity is a key measure," Canzano explains. "We teach [entrepreneurs] how to use the cash flow statement to monitor that." Participants learn how to look at sources and uses of business cash, broken down in terms of: 1) basic operations, 2) investing activity (such as buying equipment or vehicles), and 3) financing activity.

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Balance Sheet

Think of the balance sheet as your company's "report card," Canzano says. It shows what you had at the beginning of the year, including assets (such as cash and equipment), liabilities (debt) and the owner's claim or equity in the business. "At year-end, if operations were successful and you left the earnings in the business, your balance sheet will reflect that you're a bigger company [than at the beginning of the] year," he says.

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Summing up Success

Financial statements are just a summary of your company's financial information. The *10,000 Small Businesses* program gives business owners systems for setting up a company's financial database so they can monitor data such as financial ratios on a regular basis. This can have "transformative" effects, Canzano says.

For instance, one business owner in the program couldn't figure out why he was spending so much money on interest on his line of credit. "After looking at financial metrics such as accounts receivable turnover, he found out that although he extended 45-day credit to customers, his average receivables were 150 days," Canzano recalls. The entrepreneur reached out to late-paying customers, resolved issues that were delaying payments, and in just two months, slashed his average receivables to 42 days. "That was two years ago, and he hasn't used the line of credit since."



The bigger your business gets, the more frequently you need to monitor your financial data, Canzano advises. "If you're a [one-person] home-based business, it's easy to tell what's happening with your financials," he says. "But once you have employees and managers, you really need the financial database to understand what's going on."

The most important financial metrics to measure vary from business to business, Canzano says. Figure out what is most essential to your operations and financial growth and set up a dashboard with everything you want to keep your eye on. In addition to financial metrics, this should include things like key performance indicators (KPIs), operating statistics and even personal metrics, such as whether you're getting enough sleep or spending enough time with your family.

When your business is small, monitoring this data quarterly may be enough, but as the company grows, Canzano advises looking at the numbers monthly or even bi-monthly. "Then you're able to spot opportunities and head off problems before they occur," he explains.

Financing Growth

Financial statements can not only guide your business, but they're also essential to getting business loans. "Accounting is the language of business, and financial statements are a way to communicate the financial condition of your business to any investor or lender," Canzano explains. "Lenders want to lend; all you have to do is give them a reason to lend to you."

If your financial statements aren't strong enough to demonstrate that your company is profitable and can pay back a loan, the *10,000 Small Businesses* program can help you improve them. One entrepreneur Canzano worked with was turned down four times for a \$200K business loan; after completing the program, he got a \$400K loan.

Whether you're seeking financing to grow your business or simply looking to gain more control over your business's finances, attending the *10,000 Small Businesses* program can help. "You'll get greater insight into your business, have a better way of monitoring operations and growth, and if you need financing, you'll be well educated in what you have to do to get lenders interested," Canzano says.

Be a Part of Goldman Sachs *10,000 Small Businesses* Program

Good news! If you live in the Southern California area, the Goldman Sachs *10,000 Small Businesses* is currently accepting applications for 2019 at two locations.

LOS ANGELES CITY COLLEGE

Application Deadline: **November 15, 2018**
Program Dates: **March 15, 2019 - June 21, 2019**

APPLY ONLINE NOW @ www.10KSBapply.com

LONG BEACH CITY COLLEGE

Application Deadline: **December 19, 2018**
Program Dates: **April 5, 2019 - July 12, 2019**

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