

Disclaimer: Information provided in the following PowerPoint slides is general information related to accounting, financial statements and projections. This information is not intended to provide advice regarding accounting, business or tax matters.

Accounting Basics and Startup Considerations

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Financial Statements

- Balance Sheet

The Accounting Equation

- $\text{Assets} - \text{Liabilities} = \text{Equity}$
- A house with a mortgage illustrates all three

- Income Statements (Statement of Operations)

- $\text{Income} - \text{expenses} = \text{net income}$
- Net income flows from income statement to equity on balance sheet

Financial Statements

- Cash Flow Statement

Cash from operations

+/-Investing Activities

+/-Financing Activities

“Cash is King.” – every business ever

Elements of the Financial Statements

- Assets
- Liabilities
- Equity
 - Investments by owners
 - Distributions to owners
 - Net Income <loss>
- Revenues
- Expenses
- Gains
- Losses

Financial Statement Elements

- Revenue vs. Receipts
- Expenses vs. Distributions

Accrual vs. Cash

- Accrual
 - revenues based on when they were earned
 - expenses based on when they become obligations (when they are “incurred”).
- Cash
 - revenues based on when they are received
 - expenses based on when they are paid

Projections

- What is a projection?
- Why is it important?

Projections

- Elements of a projection
 - Sales forecast
 - Expense forecast
 - Fixed Expenses (General and Administrative costs)
 - Variable Expenses (Direct Costs)
 - Production Forecast
 - Break even analysis
 - fixed costs/revenue per unit-variable cost per unit
 - Assumptions

Conversion Periods

Receivable Conversion Period –

The time it takes to convert the sale of a good or service into cash, i.e. the time needed to collect receivables.

(Formula: $\text{Receivables} / \text{Net Sales} \times 365$)

Inventory Conversion Period-

The inventory conversion period is the time required to obtain materials for a product, manufacture it, and sell it.

The inventory conversion period is essentially the time period during which a company must invest cash while it converts materials into a sale. (Formula: $\text{Inventory} / \text{Cost of Goods Sold} \times 365$)

Accounting Related Risks

- Credit Concentration
- Supplier Concentration

Cash Flow Projection

- Cash Receipts
- Cash Disbursements

General Forecasting Tips

- Forecast revenue on a range of scenarios
 - High and low sales price and sales volume
- Start with Expenses
 - Fixed first
 - Variable second
- Identify your assumptions
 - How much will the market grow/shrink?
 - Changes to competitors
 - Impact of tech advancements
 - Avoid bias
 - Write them down
- Find Comparisons – is my forecast plausible?
- Over-estimate advertising expenses
- Really-over estimate legal costs

Startup Costs

- Work Space
 - Down Payment
 - Deposit
- Equipment
- Supplies
- Inventory or Materials

Startup Costs

- Legal Costs
 - Legal entity set up
 - Licenses
 - Insurance
 - Patent expenses
- Communications
- Utilities (may require a deposit)

Startup Costs

- Market Research
- Advertising
- Website

Don't Forget Taxes!!

- NM Gross Receipts Tax
- Payroll Tax
- Self Employment Tax