Financially Sound

Finance is one of the most important aspects of business management. Without proper financial planning, a new enterprise cannot even start, let alone be successful. As money is the single most powerful liquid asset, managing money is essential to ensure a secure future, both for an individual as well as an organization.

Information found at: http://en.wikipedia.org

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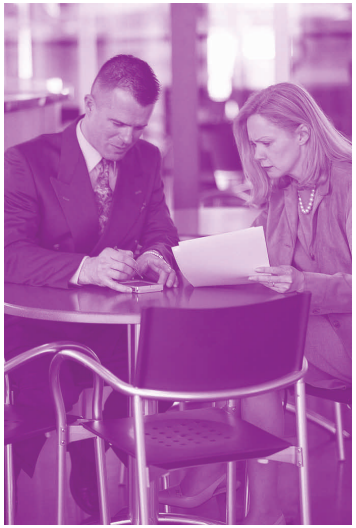
Business Diagnostic Series:

Financial Organization

Help ensure your business success

Financial Organization

No one starts a business because they love the paperwork and accounting that goes with it. All too



often, those details are put aside in favor of the more interesting (and seemingly profitable) vision-casting, marketing, and sales. But knowing what your financial statements are and being able to read them can help you run your business more effectively and discover profit where you may not have realized any existed.

Financial statements (or **financial reports**) are formal records of a business' financial activities. These statements provide an overview of a business' profitability and financial condition in both short and long term. There are four basic financial statements:

1. **Balance Sheet** - also referred to as statement of financial condition, reports on a company's assets, liabilities and net equity as of a given point in time.
2. **Income Statement** - also referred to as Profit or loss statement, reports on a company's results of operations over a period of time.
3. **Cash Flow Statement** - reports on a company's cash flow activities, particularly its operating, investing and financing activities.
4. **Statement of Retained Earnings** - explains the changes in a company's retained earnings over the reporting period.

All four of these statements are important to the small business owner who is serious about

running a financially sound business. Like going to the doctor, these reports examine your business and allow you to make a diagnosis on your company's health and future plans.

Fundamental Qualities

To be useful and helpful, financial statements must be:

- **Relevant**: relevant information makes a difference in a decision. It also helps users make predictions about past, present and future events. Relevant information helps users confirm or correct prior expectations. It must also be available on time, that is before decisions are made.
- **Reliable**: reliable information is verifiable, neutral (free from bias), and demonstrates representational faithfulness.
- **Comparable**: information must be measured and reported in a similar manner for different enterprises (allows financial statements to be compared between different companies).
- **Consistent**: the same accounting methods should be applied from period to period and all changes in methods should be well explained and justified.