



## Financial Education Curriculum



U.S. Small Business Administration



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### DISCLAIMER

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## Getting Started

Here are ideas to help you plan and present engaging and productive sessions:

- **Effective use of PowerPoint.** Use the slides to introduce key concepts only—they are provided to support and enhance your presentation, they are not the presentation.) Avoid reading slides to the learners. Add your perspective. The learners will appreciate interesting examples and brief anecdotes that make the concepts come alive.
- **Introductions.** Introductions allow you to “break the ice,” create active instructor–participant dialogue, and set the tone for the session. They also provide strong indicators of the experience levels of your learners as business owners.
- **Diversity of learner needs.** Assume that some learners are just getting started (Group A) while others have already gone down the path to business ownership (Group B). Where appropriate, Group A and Group B options are provided to allow you to anticipate and address the diverse needs of learner groups.
- **Agenda and ground rules.** Providing an agenda and ground rules helps participants understand how the training will be conducted.
- **Expectations.** Discussing expectations gives participants the opportunity to tell you what they hope to learn from the training.
- **Objectives.** Establishing objectives helps participants place the information to be learned in the proper context and ensures that the content is consistent with their expectations.
- **Participant Workbook format and contents.** The workbook serves to keep participants on track with the presentation. Several worksheets help them apply key concepts to their own specific contexts.
- **Pre-Test.** This helps determine what the participants already know or do not know so you can customize the presentation accordingly.
- **Discussion points.** Having discussion points helps participants reinforce learning.
- **Post-Test.** This can help gauge how well participants learned the content, giving you an indication of what content to review, if any, and what additional materials participants may want to review on their own.
- **Parking Lot Flipchart/Chart Paper.** This option is helpful if you are asked complicated questions that you do not have time to answer. Instead of answering, agree to answer at a later time. Then “park” the questions on a flipchart pad or chart paper and make arrangements to follow up with the participant(s) after the module.
- **Breaks.** No formal breaks are recommended. Encourage participants to take rest room breaks if they need them.



## Icons Guide

The following icons may be used throughout this instructor guide to indicate an activity type.



- \* Refer participants to the Participant Guide (PG) to locate information, descriptions, or relevant worksheets.



- \* Engage the group in a conversation about the topic.



- \* Assess participant comprehension or previous experience with the topic by asking them to take a quiz.



- \* Ask a "high gain" question to check comprehension, or present a problem such as "What would you do if this was your business"

## Training Overview

### Purpose

The *Financial Management* module provides an overview of business financial management and is designed to help participants to understand how financial management can benefit their business.

**This Instructor Guide is the key document for this class.** Please read it thoroughly. We provide plenty of white space for you to add notes and examples from your own experience. Please also review the related PowerPoint slides and Participant Guide in detail. These documents contain information or visuals you will reference during the class.

### Preparing for Class

Each participant will require a Participant Guide (ideally printed two-sided). Participants do not need copies of the slides. Before printing the guides, consider adding local information to the *For More Information* section. In the space provided, list local resources that offer technical assistance or financing options to small businesses.

## Learning Objectives

After completing this class, the participants will be able to:

Explain the concept of financial management and why it is important to a small business

Identify financial management practices, rules, and tools that are commonly available to a small business

Explain how these financial management practices, rules, and tools work

Explain financial management basics for a small business

Explain the basics of start-up financing

Explain the basics of financing for a growing business

Explain the basics of financing working capital

Explain the basics of financing fixed assets

### Presentation Time

Each topic has an approximate completion time. Use the suggested times to personalize the module based on your participants' needs and the given time period. Allow extra time for discussion and questions when teaching larger groups.

### The Module at a Glance

Timing (in minutes)	Topic	Instructor Comments/Notes
10+	Welcome, Pre-Test, Agenda, and Learning Objectives	
5	Benefits of Financial Management	
10	Budgeting <ul style="list-style-type: none"> <li>• Discussion Point #1: Budgeting</li> </ul>	
10	Bookkeeping	
30	Financial Statements <ul style="list-style-type: none"> <li>• Discussion Point #2: Balance Sheets</li> <li>• Discussion Point #3: Cash Flow Projections</li> <li>• Discussion Point #4: Profit and Loss Statements;</li> </ul>	
10	Business Financing	
5	Key Points to Remember	
10	Summary, Post-Test, Evaluation	
90 Total		

## Materials and Equipment

The materials and equipment needed to present this training are:

- Instructor Guide
- Participant Guide
- PowerPoint Slide Deck
- Audiovisual equipment (such as a computer with Microsoft Office PowerPoint, overhead projector, and microphone, if appropriate)

## Instructor Notes

## Presentation

10 minutes

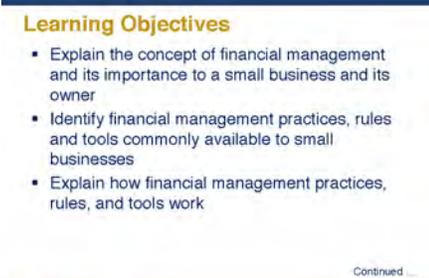
Slide 1



Slide 2



Slides 3 and 4



## Welcome, Agenda, Learning Objectives, What Do You Know?

Welcome to *Financial Management*. By taking this class, you are taking an important step toward building a better business.

My name is \_\_\_\_\_. (Briefly introduce yourself)

### Agenda

We have a very full agenda today. We will not have time to cover everything. Fortunately your participant guide is very detailed. We encourage you to read it on your own time.

### Learning Objectives

Briefly review the objectives listed on the slides.

Explain the concept of financial management and why it is important to a small business and its owner

Identify financial management practices, rules, and tools commonly available to small businesses

Explain how financial management practices, rules, and tools work

Explain financial management basics for a small business, including:

- Start-up financing
- Financing for a growing business
- Financing working capital
- Financing fixed assets

## Instructor Notes

## Presentation

PG

## Slide 5

## Introductions: What Do You Want to Know?

What do you know or want to learn about financial management?



Use the *What Do You Know?* form and/or the *Pre-Test* to gauge participants' prior knowledge of the content and customize your presentation, focusing on content with which they are least familiar.

Assess

**Participant Guide**

Each of you has a copy of the *Financial Management Participant Guide*. It contains information and discussion points to help you learn the material. We do not have enough time to go over everything in the guide. Make some time to review it on your own. It contains a lot of helpful information. Also make sure to check out the *For More Information* section in the back which lists many valuable resources.

**What Do You Know?**

Before we begin, we will see what you know about financial management for a small business.

**[If using the *What Do You Know?* form]**

The *What Do You Know?* form on page 4 of your participant guide lets you compare how much you know before the training and how much you learned after the training. Please take a few minutes now to complete the “Before the Training” column. Which statements did you answer with “disagree” or “strongly disagree”?

- \* *If time is limited, make sure you cover these content areas.*
- \* *A sample *What Do You Know* form is provided on the following page of this instructor guide.*

We will complete the second column when we finish the training.

**[If using the *Pre-Test*]**

Take a few minutes to complete the *Pre-Test* beginning on page 5 of your participant guide. Which questions were you unsure of or unable to answer?

- \* *Note: If time is limited, make sure you cover these content areas.*
- \* *A sample *Pre-Test* is provided on the following pages of this instructor guide.*

As we progress through the module and cover the related material, you will be able to determine whether you answered each question correctly.

Now that we know who is here and what you want to know, we will move on to a discussion of the benefits of financial management.

## Sample What Do You Know? Financial Management

Instructor: \_\_\_\_\_ Date: \_\_\_\_\_

This form will allow you and your instructors to see what you know about financial management both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

	Before Training					After Training				
	Strongly Disagree	Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Disagree	Agree	Strongly Agree
1. I can explain the concept of financial management and why it is important to a small business.	1	2	3	4	4	1	2	3	4	4
2. I can identify financial management practices, rules, and tools that are commonly available to a small business.	1	2	3	4	4	1	2	3	4	4
3. I can explain how these financial management practices, rules, and tools work.	1	2	3	4	4	1	2	3	4	4
4. I can describe some of the features and benefits of three financial statements: balance sheet, cash flow statement, and profit and loss statement.	1	2	3	4	4	1	2	3	4	4
5. I can explain the benefits of using “off-the-shelf” accounting software.	1	2	3	4	4	1	2	3	4	4
6. I can explain financial management basics for a small business.	1	2	3	4	4	1	2	3	4	4
7. I can explain the basics of start-up financing.	1	2	3	4	4	1	2	3	4	4
8. I can explain the basics of financing for a growing business.	1	2	3	4	4	1	2	3	4	4
9. I can explain the basics of financing working capital.	1	2	3	4	4	1	2	3	4	4
10. I can explain the basics of financing fixed assets.	1	2	3	4	4	1	2	3	4	4

## Sample Pre-and Post-Test

\* The correct answers are in **bold** below

1. Which of the following are reasons for good financial management? Select all that apply.
  - a. Helps to show which products or services are profitable
  - b. Provides information on the size of a loan a business can afford
  - c. Helps in deciding what inventory a business should purchase
  - d. It is a tool for planning to reach new markets
  
2. New businesses should start financial management with a(n) \_\_\_\_\_?
  - a. Business credit card
  - b. **Budget**
  - c. Inventory purchase
  - d. Profit and Loss Statement
  
3. Sound bookkeeping is the basis for all financial management.
  - a. **True**
  - b. False
  
4. When business owners pay themselves, it is called \_\_\_\_\_.
  - a. **Owner's draw**
  - b. Check cashing
  - c. Profit and loss
  - d. Ownership transfer
  
5. What is the definition of cash flow?
  - a. Sales minus Cost of Goods Sold
  - b. Moving cash in or out of a business
  - c. Balance of cash received less the amount of cash paid out over a period of time
  - d. **Both b. and c.**
  - e. All three: a., b. and c.
  
6. Which of the following is a good use of a cash flow projection? Select all that apply.
  - a. **Setting sales and expense goals**
  - b. **Determining the breakeven point for a business**
  - c. Tracking sales
  - d. **Planning equipment purchases**
  - e. **Tracking liquidity**
  
7. What is the basic formula for a profit and loss statement?
  - a. + Sources of Cash  
– Operating Uses of Cash  
– Non-operating Uses of Cash  
= Ending Cash
  
  - b. + Sales  
– Cost of Goods Sold

= **Gross Profit**

- **Overhead**

= **Net Profit**

c. + Purchase Price

- **Cost of Goods Sold**

= Profit

d. + Cash Flow from Operations

+ Cash Flow from Financing

+ **Cash Flow from Investments**

= Net Cash Flow

8. **For most small businesses, debt financing comes from owner or family savings and it is frequently the only source of funds for start-up small businesses.**

a. True

b. False

9. **Which of the following might be an element of a small business loan package? Select all that apply.**

a. **Business plan**

b. **Business financial statements**

c. **Business tax returns**

d. **Credit report**

e. **Collateral**

f. **Personal financial statements**

g. **Personal tax returns**

h. **Purchase agreements**

10. **Of the following financial management statements, which is the most important?**

a. Balance Sheet

b. Cash Flow Statement

c. **Profit and Loss Statement**

d. All of the above

e. None of the above

## Instructor Notes

## Presentation

5 minutes

Slide 6

**Benefits of Financial Management**

Reach your goals by making good decisions.

- Know your profitability
- Forecast your growth
- Plan for diversification, new product lines, reaching new markets
- Prepare for financing (loans)



PG

10 Minutes

Slide 7

**Budgeting**

There are several financial management practices and tools that are commonly used for small business.

Let's start with **budgeting**.

## Benefits of Financial Management

Quality financial management offers many benefits to you as a business owner. Financial management includes bookkeeping, projections, financial statements, and financing, which forms the foundation for reaching your goals through sound business decisions.

Financial management is one of your main avenues to success as a business owner. Financial management is the way you know if you are making a profit. Financial management helps you decide what you can afford in terms of store or office location, inventory purchases, employees, and equipment. You need sound financial information to set your prices and select your vendors. Financial management gives you the tools to plan for overall business growth, for diversification of your product lines, or for reaching new markets. Financial management helps you decide which products, services, and markets are profitable. Effective financial management gives you tools to chart your course into the future, adjust your direction when needed, and help you find your way through challenging times.

If your business growth requires financing (loans), financial management provides the information to know how much you can afford for your business. Financial management gives you not only the documentation needed for a loan application, but also helps you discuss your business circumstances with a lender in terms that improve your ability to qualify for the loan.

## Budgeting

Creating a budget is the first place to start with your financial management practice. A budget is a list of all your (monthly or yearly) expenses, organized by categories. A budget is a tool that helps you:

- Track all your business expenses
- Plan for the future
- Economize when you need to
- Plan for expansion
- Make a profit

## Instructor Notes

## Presentation

Once you create a budget, use it to compare what you have budgeted with your actual expenditures.

### Discussion Point #1: Budgeting

Please turn to page 8 in your guide to review the sample budget categories provided in the worksheet. Take a minute to record “guesstimated” amounts for what you are now paying each month for business expenses such as rent, utilities, telephone and internet, and so on.

How do you currently keep track of your monthly expenses? For those of you who are already doing this, how does this budget tracking help you with business decisions?

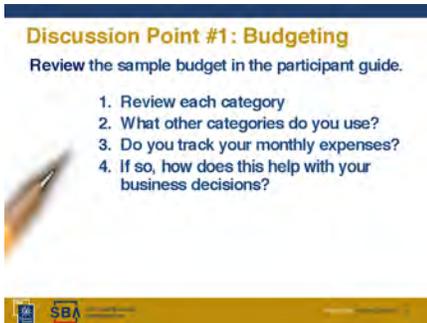
✳ *After the participants have had a chance to contribute their ideas and experiences, summarize:*

Budgeting is a critically important component of financial management. Once you have created a budget you can use it to compare what you budgeted with your actual expenditures.

### Bookkeeping

Bookkeeping is the organized process of tracking all income and expense transactions. Bookkeeping is a critical component of financial management, which leads to better business decisions regarding financing, taxes, owner’s draw, and retirement.

#### Slide 8



Group  
Discussion

#### 10 Minutes

#### Slide 9



## Instructor Notes

## Presentation

## Slides 10 and 11

**Bookkeeping Steps**

Here are 10 basic bookkeeping steps:

1. Obtain business accounting software
2. Open a separate business checking account
3. Reconcile your checking account
4. Track sales
5. Deposit all sales

Continued ...

**Bookkeeping Steps**

6. Write business checks for business expenses
7. Obtain a separate business credit card
8. Pay business expenses first
9. Generate and use a profit and loss (P&L) statement
10. Pay yourself with owner's draw

PG

**Bookkeeping Steps**

Here are ten basic bookkeeping steps:

1. **Obtain business accounting software.** Proper software selection is critical for success.
2. **Open a separate business checking account.** Do not mix business and personal checking accounts.
3. **Reconcile your checking account.** Each month reconcile your account using business accounting software or a cloud computing reconciliation process.
4. **Track sales.** Create an airtight system for tracking sales using tools such as a register tape, invoices, and a sales book. Always use this sales tracking system.
5. **Deposit all sales.** Using the duplicating deposit slips, deposit *all* sales in your business checking account. Alternately, “remote deposit capture” (RDC) may be available for depositing checks. Total sales should equal total deposits. Do not spend cash sales. Link all forms of sales documentation (such as invoices, cash register tapes, and sales books) with a specific deposit.
6. **Write business checks for all business expenses (or use a business check card).** Do not use a petty cash system until you are experienced at bookkeeping.
7. **Obtain a separate business credit card.** Do not mix personal and business expenses on one credit card.
8. **Pay business expenses first.** Most businesses start out as a sole proprietorship. In sole proprietorships, you, the owner, do not get a salary; rather you take an owner’s draw. A common question is how much draw to take? Here is a rule of thumb: Sales pays for business expenses first, personal expenses second (step 10, below).
9. **Run a profit and loss (P&L) statement.** A checking account balance is not a good indication of how much profit the business has made or what amount is available for owner’s draw. A P&L statement can provide a better picture of the financial health of the organization.
10. **Pay yourself with owner’s draw.** Owners should pay themselves by writing a check or making an electronic transfer from the business account to a personal account. If you are a sole proprietor, assign those draw checks to an equity account called “Draws.”

## Instructor Notes

## Presentation

## Slide 12

## Financial Management Software

- Easy to organize and complete daily accounting tasks
- Creates accounting reports such as cash flow statements
- Helps you track the financial health of your business
- Do not use paper to run your business: use software to stay on top!



## Financial Management Software

A quick note about using financial software – if you do not already use it, start. Do not rely on paper to record your financials.

There are many practical reasons to purchase and learn how to use off-the-shelf or financial management software. If you are unfamiliar with how to use it, take a course at a local community college or business development center. This is a great way to invest in your company!

## 30 Minutes

## Slide 13

## Financial Statements

Financial statements are reports about a business's financial health and cash flows.

There are three basic statements:

- **Balance Sheet**
- **Cash Flow Projection** - also sometimes called a Cash Flow Statement
- **Profit and Loss Statement** - also known as a P&L or Income Statement



## Financial Statements

Financial statements are reports about a business's financial health and cash flows. There are three basic statements:

- Balance Sheet
- Cash Flow Projection (also sometimes called a Cash Flow Statement)
- Profit and Loss statement (P&L) (also called an Income Statement)

We do not have enough time to go into these three statements in great detail. Please refer to the detailed information provided in your participant guide.

PG

## Slide 14

## Financial Statements: Balance Sheets

See pages 10 – 13 in your guide for detailed information.

- A snapshot of a business at a specific point in time
- Lists Assets (on the left) and Liabilities or Debt (on the right)
- The totals on both sides must be the same

Assets		Liabilities (Debt)	
Cash	\$10,000		\$20,000
Equipment	\$25,000	Owner's Equity	\$35,000
Inventory	\$30,000		
<b>Total</b>	<b>\$65,000</b>	<b>Total</b>	<b>\$65,000</b>



## Balance Sheets

Please turn to pages 10 – 13 in your guide. I will provide a high level overview only. There is more detail to read over on your own time.

A balance sheet is a snapshot of a business at a specific point in time, such as the first day a business opens its doors. Subsequent balance sheets are prepared at the conclusions of accounting periods, such as monthly, quarterly, or year-end.

## Instructor Notes

## Presentation

PG

A balance sheet reports the dollar value of a company's assets, liabilities, and owner's equity as of a specific date.

Assets include cash, accounts receivable, inventory, investments, land, buildings, equipment, and some intangible items and other assets.

Liabilities are the debt or obligations of a company and include loans payable, accounts payable, taxes payable and more. The Owner's Equity shows the amount of assets that came from the owner and not creditors.

The balance sheet tells a story about the assets your company controls such as cash, equipment, and inventory. The balance sheet explains who owns those assets: someone else (creditors) or you (owner's equity), how much working capital (cash) you have to run your business, and if the company is highly leveraged or carrying too much debt.

**Instructor Notes**

**Presentation**

Slide 15

**Discussion Point #2: Balance Sheets**

Review the balance sheet on page 12. What story does it tell?

Group Discussion

**Discussion Point #2: Balance Sheets**

Please review the detailed balance sheet on page 12 (it is not easy to see it on the slide).

What story does this balance sheet tell?

\* After the participants contribute their ideas, summarize:

It tells a story about this business. It is like a photograph or snapshot. It illustrates how a business looks at a specific point in time. A simplified opening balance sheet tells us how much money came into the business, where it came from (debt or equity) and how that money was used to purchase assets used in the business. Any remaining money is also an asset called working capital used to run the day-to-day operations of the business.

**Cash Flow**

As with the balance sheet, we will quickly review the information in your participant guide about cash flow.

Slide 16

**Financial Statements: Cash Flow**

What is cash flow? Two primary definitions:

1. Balance of cash received less the amount of cash paid out over a period of time
2. Moving cash in or out of a business

Cash flow can be defined two ways:

Balance of cash received less the amount of cash paid out over a period of time

Moving cash in or out of a business.

For more detailed information about cash flow management, sign up for the MSSB class: **Cash Flow Management** which goes into this topic in greater detail.

## Instructor Notes

## Presentation

## Slide 17

**Cash Flow Projection**

A financial statement using assumptions to forecast:

- Company cash flowing in and out
- Future cash flow during a specific time period
- Project whether cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows).



**SBA**

PG

## Slide 18

**Cash Flow Projection**

How can a cash flow projection help and when do I need one?

- Set sales and expense goals
- Determine breakeven point
- Plan equipment purchases for replacement or expansion
- Determine cash needed to purchase inventory for seasonal cycles

Continued ...

**SBA**

## Slide 19

**Cash Flow Projection**

How can a cash flow projection help? When do I need one?

- Track liquidity when accrual accounting masks cash realities.
- Helps you determine the need for financing
- Show lenders your ability to plan and repay financing. (Frequently required with loan applications.)

**SBA**

## Cash Flow Projection

## What is a cash flow projection?

A *cash flow projection* is a financial statement that tries to show how cash is expected to flow in and out of a business over a future period of time. A cash flow projection is used to see if projected cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows). A business can be profitable and still run out of cash. As an investment banker might say, “Cash flow projections provide the visibility needed to avoid liquidity problems.” In other words, a cash flow projection is a tool to help you manage your cash so you can pay your bills on a timely basis and keep the doors of your business open.

## How can a cash flow projection help and when do I need one?

A cash flow projection is a great tool for setting sales goals and for planning for expenses to support those sales. A related use for a projection is to determine your breakeven point during a start-up or expansion phase. If you need to plan for a large expenditure, such as an equipment purchase or move to a new location, a cash flow projection is the perfect tool. Similarly, if you have a seasonal business with large inventory purchases, a projection can help you have the cash on hand to make a large inventory investment when you need it.

A P&L statement can mask cash shortages if you use accrual accounting. A cash flow projection helps you see the cash status of your business now and plan into the future. A cash flow projection is a good way to prepare and plan for your financing needs and is often a required part of a business loan application.

## Instructor Notes

## Presentation

## Slide 20

**Cash Flow Projection Sample**

Let's look at a sample cash flow projection.

Category	Sub-Category	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Sources of Cash	Accounts Receivable						
	Accounts Payable						
	Owner's Investment						
	Other Sources						
Operating Uses of Cash	Cost of Goods Sold						
	Operating Expenses						
	Depreciation						
	Other Operating Expenses						
Non-Operating Uses of Cash	Equipment Purchases						
	Loan Payments						
	Taxes						
	Owner's Draw						
Total Cash Available							
Ending Cash							
Opening Cash							

PG

**Cash Flow Projection Sample**

Let us look at a sample cash flow projection. The first set of rows, titled *Sources of Cash*, document all sources of incoming cash, including cash from customer sales, interest earned, loan funds, and current checking and savings account balances. The second section, *Operating Uses of Cash*, contains all those expenditures associated with the day-to-day buying and selling process. Most of these expenses show up on the P&L statement. The third section, *Non-Operating Uses of Cash*, show expenses that normally show up on your Balance Sheet: equipment purchases, the principle portion of loan payments, inventory, taxes, and owner's draw. Subtract your Uses of Cash from your Total Cash Available, and you have Ending Cash for the month. Ending Cash for one month becomes Opening Cash for the next month.

**Discussion Point #3: Cash Flow Projections**

## Slides 21 and 22

**Discussion Point #3: Cash Flow Projection**

Review the cash flow projection spreadsheet.

To increase cash flow, the owner could:

1. Increase the number of items sold
2. Increase the price
3. Reduce expenses
4. Change the timing of expenses
5. Save money to have sufficient Opening Cash to get through the "start-up" period

Continued ...

**Discussion Point #3: Cash Flow Projection**

Continued

6. Obtain sources of cash other than sales (e.g., line of credit)
7. Reduce or change timing of Owner's Draw
8. Buy inventory from vendor at lower price
9. Obtain credit from vendor
10. Establish policy to get paid sooner by customers

**Review the cash flow projection spreadsheet (two slides):**

Review data in each of the cells

To increase cash flow, the owner could:

1. Increase the number of items sold
2. Increase the price
3. Reduce expenses
4. Change the timing of expenses
5. Save money to have sufficient Opening Cash to get through the "start-up" period
6. Obtain sources of cash other than sales, such as a line of credit
7. Reduce or change the timing of your owner's draw
8. Research vendor options for buying inventory at lower price or obtaining credit from vendors
9. Establish policies to get paid sooner from customers

## Instructor Notes

## Presentation

## Slides 23 and 24

## Financial Statements: Profit and Loss (P&amp;L)

A Profit and Loss statement:

- Measures revenues and expenses over a period of time
- Tracks profitability: whether the business is making a profit on what it sells



Continued ...

## Profit and Loss Statement

A P&L Statement (Income Statement):

- Shows how successfully the buying and selling process has been managed
- Measures the ability of your business to grow, repay debt service and support you

The P&L is the most important report from your accounting software program.

## Slide 25

## Profit and Loss Statement

What is the basic formula for a Profit and Loss Statement?

```

+ Sales
- Cost of Goods Sold
= Gross Profit
- Overhead
= Net Profit

```

Continued ...

PG

## Profit and Loss Statements

## What is a Profit and Loss (P&amp;L) Statement?

The P&L (Income) statement is the best tool for knowing if your business is profitable. A P&L statement measures revenue (also called sales or income) and expenses over a month, quarter or year. With it you know if you have made a profit (and how much) or if you have incurred a loss.

The most important financial management report is the P&L statement. A P&L statement will reflect your business decisions on the basic buying and selling process. A P&L will tell you how well you are managing your business and provide information on how to grow your business.

## What is the basic formula for a Profit and Loss Statement?

$$\begin{aligned}
 &+ \text{Sales} \\
 &\underline{- \text{Cost of Goods Sold}} \\
 &= \text{Gross Profit} \\
 &\quad \underline{- \text{Overhead}} \\
 &= \text{Net Profit}
 \end{aligned}$$

**Sales (also called Income or Revenue):** Total amount from selling your product or service during a certain time period.

**Cost of Goods Sold:** Total expenditure for inventory items which customers buy. Cost of Goods Sold consists of the cost of purchasing the items, freight, manufacturing costs, modification costs, and packaging. For services, this is the cost of providing the services, including labor, material used, and transportation.

**Gross Profit:** Sales less Cost of Goods Sold.

## Instructor Notes

## Presentation

**Overhead:** Expenses associated with your ongoing business operation.

**Net Profit:** Gross Profit less Overhead.

## Slide 26

**Profit and Loss Statement**

What is the basic formula for a Profit and Loss Statement?

Net profit pays for:

- Owner's Draw (sole proprietor)
- Future expansion and equipment
- Principal loan repayment
- Income taxes

**Net Profit** is what remains to pay for expansion, equipment, loan repayment, income taxes and owner's draw.



## Slide 27

**Profit and Loss Statement**

How do I compile a Profit and Loss Statement?

**Easy!**

If you have business accounting software.

**How do I compile a Profit and Loss Statement?**

As we mentioned before, invest in business financial management or accounting software. Do not use paper to track the financial health of a business.

All quality business accounting software programs compile a P&L statement at the push of a button. The *accuracy* of your P&L statement will depend on how it is set up for your company and your input data. Print out your P&L regularly to track your business progress. Use your P&L statement as the basis for building a cash flow projection.



## Instructor Notes

## Presentation

## Slide 28

## Discussion Point #4: Profit and Loss Statement

Review the sample profit and loss statement in the participant guide.

1. What do you see?
2. Is the business well-managed?
3. Does any problem stand out?
4. What about growth potential?
5. Will the business support the owner?
6. Will the business be able to get a loan?



Group  
Discussion

10 Minutes

## Slide 29

## Business Financing

What is business financing?  
Financing is getting the money you need to start, operate or grow your business.

## Basic Financing Concepts:

- Equity financing versus debt financing
- Financing working capital versus financing fixed assets



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## Discussion Point #4: Profit and Loss Statements

Please review the sample P&L statement in your participant guide.

1. What do you see?
2. Is the business well-managed?
3. Does any problem stand out?
4. What about growth potential?
5. Will the business support the owner?
6. Will the business be able to get a loan?

## Business Financing

The following items are core elements in business financing:

- **Equity financing:** Invested funds that stay in the business, often permanently. For most small businesses, equity comes from the owner or from family savings and is frequently the only source of funds for start-up small businesses. For large, fast-growing quality companies, venture capital can sometimes be accessed for equity.
- **Debt financing:** Borrowed funds that are paid back. The cost of debt financing is interest paid to the lender.
- **Working capital:** Used to acquire funds needed to run the daily operations of the business, such as inventory and overhead expenses.
- **Fixed asset financing:** Used for purchasing equipment, vehicles and real estate.

## Instructor Notes

## Presentation

## Slides 30 and 31

## Business Financing

## What are the Do's and Don'ts for small business financing?

- Invest your own money
- Earn the right to borrow
- Show profitability
- Understand and keep working capital
- Be lean on fixed assets
- Match sources and uses of funds

Continued ...



## Business Financing

## What are the Do's and Don'ts for small business financing?

- Understand your financial statements
- Understand collateral options
- Understand risks and costs for loan types
- No grants
- Shop around
- Get expert advice (e.g. SBA or your bank)



PG

## What are the Do's and Don'ts for small business financing?

Here are some “do's and don'ts” for small business financing:

**Invest your own money:** You need to invest your own money first, before you ask for equity or debt from other sources. Having your “skin in the game” shows your commitment and also shows your skill in running a successful business.

**Earn the right to borrow:** Generally, borrowing is not a “right.” Rather, the ability to borrow is an earned privilege. To obtain others' investment, you need to demonstrate your ability to manage debt well and run a profitable business.

**Show profitability:** Profits are what lenders or investors want to see. Do not let lax management inhibit a healthy bottom line.

**Understand and retain working capital:** Experienced business owners know that working capital is critical. On the other hand, working capital is sometimes overlooked or misunderstood by new business owners. As your business grows, the amount of working capital cycling through the business to support operations should grow. Successful business owners stay aware of the working capital needed to grow and sustain their businesses.

**Be lean on fixed assets:** New business owners sometimes think they need to purchase fixed assets to start or grow a business. Fixed assets consume precious working capital (through down payments and monthly loan payments), so whenever possible, new business owners should buy as few fixed assets as possible. When acquiring fixed assets, new business owners should consider buying used assets or leasing the assets.

**Match sources and uses of funds:** When financing, current assets (accounts receivables and inventory) should be financed with current liabilities (line of credit or credit card). Fixed assets should be financed with long term loans that match the use life of the asset. New business owners can make the mistake of buying a fixed asset with short-term debt, forcing them to pay for an asset faster than that asset can generate profits for the loan repayment.

**Understand your financial statements:** Most types of financing require an application process that asks for business financial statements such as your P&L statement, balance sheet and a cash

## Instructor Notes

## Presentation

- flow projection. You want to know your financial statements well and be able to discuss them intelligently with a lender.
- Understand your collateral options:** Most loans require assets (collateral) be pledged as security for a loan. In the event a borrower defaults on a loan, the collateral may be sold. Be prepared to discuss collateral options with your lender.
- Understand risks and costs for loan types:** Each type of loan carries associated risks and costs. For example, while a credit card may be easy to use, credit card financing may be a very expensive form of credit. In many cases a small business loan, guaranteed by the SBA, will be a better form of loan than a credit card.
- No grants:** There is a common mistaken belief that government grants are available for businesses. With a few rare exceptions, grants are not available to business owners.
- Shop around:** Shop around for the best loan. You may want to start where you already have a personal relationship. For example, if you have a personal account at a bank, start there. Check out SBA loan guarantees, available at most commercial banks.
- Get expert advice:** You can get mentoring and advice with the SBA. Do not rule out banks, especially ones with which you have a good working relationship. The FDIC has educational resources as well.

## Loans

Here are some steps you can take to prepare for a loan.

1. **Have a business plan (including a profit plan):** The best way to get a loan is to have a solid plan for using the loan. Make sure you have a good up-to-date business plan which incorporates a profit plan. A profit plan will show how the loan proceeds will be used to increase sales and profitability. Showing a lender a reasonable proposition with a solid repayment plan will help as well. Your plan should include any research you have undertaken to establish your costs and your marketing or sales strategies. Typically a business plan will:
  - Have a statement of purpose
  - List the owners of the business

### Slide 32

#### Loans

##### Steps for Getting Ready for a Loan

1. Have a business plan (include profit plan)
2. Know what you can afford
3. Study your financial statements
4. Check your credit report
5. Establish collateral options
6. Show your equity contribution
7. Research your financing options



## Instructor Notes

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## Presentation

- Describe the business and how it will make a profit
  - Provide financial statements like a P&L statement and a cash flow projection
  - Provide other documents such as references and proof of insurance
2. **Know what you can afford:** Using the likely loan terms, calculate the amount of funds you will need and the monthly loan payment. Your plan should include a repayment plan with projections that show your ability to make your monthly loan payment.
  3. **Study your financial statements:** As mentioned earlier, a lender will want to see your financial statements. Not only do you need to provide accurate current and historical statements, you need to know what your statements say about your business. Be prepared to discuss the details of your statements and explain any issues.
  4. **Check your credit report:** You can get a free copy of your credit report each year. Study your credit report, make sure it is accurate, fix any inaccuracies, and be prepared to explain any credit issues.
  5. **Establish collateral options:** Be prepared to discuss collateral with lenders. When you are purchasing a fixed asset, the asset is often the collateral for the loan. Lines of credit are sometimes unsecured if a business owner can show a strong history of profitability, but it is not uncommon to use personal assets to collateralize a business loan.
  6. **Show your equity contribution:** Lenders usually require an equity contribution for a start-up loan or a loan for an expansion project. The required cash contribution can range from 10% to 30% of the total project costs.
  7. **Research your financing options:** You will need to choose between many lenders and many types of loans. Research your options to ensure you obtain financing from credible sources.

## Instructor Notes

## Presentation

Slides 33 and 34

### Loan Package

#### Common elements of a loan package

- Business plan
- Business financial statements (current and historical)
- Personal financial statements
- Personal and business tax returns

Continued ...



### Loan Package

#### What are elements of a loan package?

- Source and amount of equity contribution
- Credit report
- Collateral
- Purchase agreement, appraisals, contracts, and estimates



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## Loan Packages

Loan packages require a lot of preparation and documentation. Here is a list to get you started:

- **Business plan:** Most lenders require a business plan that describes your costs and your management and sales strategies.
- **Business financial statements:** Lenders generally want to review business financial statements for the past three years, as well as current statements.
- **Personal financial statements:** A personal financial statement shows your personal assets, liabilities, and net worth.
- **Personal and business tax returns:** Lenders often ask for up to three years of past tax returns, both business and personal.

Loan packages require a lot of preparation and documentation. Here is a list to get you started:

- **Source and amount of equity contribution:** Business loans usually require the business owner to contribute between 10% and 30% of total project costs in cash or equity. Include a write-up documenting the amount and source of your equity contribution.
- **Credit report:** Lenders will order your credit report, but it is important you know what they will see in the report. Make sure you have addressed any credit issues that are contained in the report.
- **Collateral:** Lenders usually require collateral. Include options for collateral in your application.
- **Purchase agreements, appraisals, contracts, and estimates:** Include purchase agreements, appraisals, contracts, and official estimates to document costs that pertain to your project.

## Instructor Notes

## Presentation

## Slide 35

**Qualifying for a Loan**

What are the criteria for qualifying for a loan?

- Good credit score
- Equity contribution
- Repayment ability
- Loan to value ratio



## Qualifying for a Loan

What do lenders look for when evaluating a loan application?

- **Good credit score:** Your credit report gives the history of how you have managed debt for the past seven years. A good credit score tells a lender that you have the ability to manage and repay a loan.
- **Equity contribution:** Sufficient equity contribution shows a lender that you have a commitment to the project and the ability to earn, save, and manage money.
- **Repayment ability:** Lenders often analyze financial statements from the past three years to see if the business has the historic ability to pay debt service. Lender criteria vary, however, you will probably need to show that you have strong profits, good cash management skills, and growth potential. The need to show historical evidence is why it is harder for a start-up business to obtain a loan. On the other hand, while most loan applications require projections, it is more difficult to qualify for a loan on projections alone.
- **Loan-to-value ratio:** Lenders tend to loan between 70 and 90 percent of the market value of an asset. If you are buying real estate, an appraisal will be used to determine the maximum loan amount.

## Slide 36

**Start Up Financing**

What are the financing options for a start-up business?

- Equity
- Sweat equity
- Business credit card
- Family



## Start Up Financing

Here are options for financing a start-up business:

- **Equity:** Equity is simply—it is your money. Many businesses are started with savings from a “day job” or through the sale of an asset. You can launch your business by starting small and re-investing the profits over time to build up the business.
- **Sweat equity:** Sweat equity means “doing it yourself.” Owners of start-up businesses are often a “jack of all trades.” You put in the hours to cover the many activities of your business, rather than hiring others or buying equipment.

## Instructor Notes

## Presentation

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- **Credit card:** Owners of start-up businesses can often qualify for a credit card. When used wisely, a credit card can be a source of credit for starting a small business. Here are some tips to using a credit card wisely:
  - Get a separate credit card for business use.
  - Use only one credit card, not multiple cards.
  - Keep your balances modest.
  - Pay the balance before the due date to avoid paying interest.
  - Do not use a credit card to prop up an unprofitable business. Remember, *profits* are the best way to grow your business.
- **Family:** Some business owners turn to their families for an equity contribution.

## Looking for a Loan

Here are places to look for business financing:

**Banks:** Many banks provide business loans, lines of credit, equipment leasing loans, and SBA-guaranteed loans. Start by gathering information from the bank with which you currently do business. Find out what types of business financing your bank offers. Make an appointment with your bank's lending officer to discuss products offered by the bank. If your bank is not active in small business lending, ask your accountant or other business owners in your area for referrals to other banks.

**Regional Lending Organizations:** Many are nonprofit, community development organizations that have revolving loan programs for business development in their region. To locate these organizations (or organizations that can refer you to lending programs in your area) in your area, search the internet for:

- Community Development Financing Institutions (CDFI)
- Small Business Administration (SBA) Resource Partners such as Small Business Development Centers (SBDC), SCORE, Women's Business Centers, Veterans Business Outreach Centers, and US Export Assistance Centers

Slide 37



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## Instructor Notes

## Presentation

- Your city, county, state, or community economic development department
- Certified Development Corporations (CDCs), part of the National Association of Development Companies (NADCO)
- Microenterprise development organizations, part of the Association for Enterprise Opportunity (AEO)
- SBA lenders, by looking on the SBA website for Community Advantage Approved Lenders
- Your state USDA Rural Development office
- Your regional SBA office

Remember to check out the *For More Information* section in your participant guide for descriptions of some valuable resources.

## 10 Minutes

## Slide 38

## Key Points to Remember

- Financing is getting the money you need to start, operate, or grow your business
- Start with a budget
- Sound bookkeeping is the basis for all financial management
  - Purchase and learn how to use financial management software
- Three statements — balance sheets, cash flow statements, and profit and loss statements — provide a compelling story to describe a business
- Separate personal and business records and funds
- Factors that affect your ability to get a loan: credit score, equity contribution, repayment ability, loan to value ratio



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## Key Points to Remember

Financing is getting the money you need to start, operate, or grow your business.

Start with a budget.

Sound bookkeeping is the basis for all financial management.

Purchase financial management software and learn how to use it.

Three statements — balance sheets, cash flow statements, and profit and loss statements — provide a compelling story to describe a business.

Separate personal and business records and funds.

Factors that affect your ability to get a loan: credit score, equity contribution, repayment ability, and loan to value ratio.

## Instructor Notes

## Presentation

*Slide 39***Summary**

- What final questions do you have?
- What have you learned?
- How would you evaluate the training?

**Summary**

We have covered a lot of information. What final questions do you have?

Who would like to share one thing they learned from this training?

**10 Minutes***Slide 40***Conclusion**

You learned about:

- What financial management is and why it is important.
- Common financial management practices, rules and tools
- Financing basics, such as:
  - Start up financing
  - Financing a growing business
  - Financing working capital
  - Financing fixed assets

**Conclusion**

You learned about:

- What financial management is and why it is important
- Common financial management practices, rules, and tools
- Financing basics, such as:
  - Start-up financing
  - Financing a growing business
  - Financing working capital
  - Financing fixed assets

## Instructor Notes

## Presentation

## Slide 41

**Pre-Post Test and Evaluation**

- If you have not already done so, assess what your knowledge on this topic was *before* you participated in this class.
- Assess your knowledge on this topic *after* taking this class.
- Complete the Evaluation Form. Your feedback is helpful!

Thank you!

*In your workbook*

**DON'T FORGET**

**SBA**

Assess

## Post Test and Evaluation

We would like your feedback about this class. Please complete and return the *Evaluation Form* on the last page of the Participant Guide.

### What Do You Know? Form

The What Do You Know? form on page 4 of your participant guide lets you compare how much you knew before the class and how much you have learned. Please take a few minutes now to complete the “After the Training” column. Which statements can you answer with “agree” or “strongly agree”?

### Post-Test

Take a few minutes to complete the Post-Test beginning on page 25 of your participant guide. Check to see how many answers you can provide now that you have attended this class.

## Sample Post-Test

\* Note that the correct answers are in bold.

Now that you have completed this class, see what you've learned.

Test your knowledge of financial management before you go through the training.

11. Which of the following are reasons for good financial management? Select all that apply.
  - a. Helps to show which products or services are profitable
  - b. Provides information on the size of a loan a business can afford
  - c. Helps in deciding what inventory a business should purchase
  - d. It is a tool for planning to reach new markets
  
12. New businesses should start financial management with a(n) \_\_\_\_\_?
  - a. Business credit card
  - b. **Budget**
  - c. Inventory purchase
  - d. Profit and Loss Statement
  
13. Sound bookkeeping is the basis for all financial management.
  - a. **True**
  - b. False
  
14. When business owners pay themselves, it is called \_\_\_\_\_.
  - a. **Owner's draw**
  - b. Check cashing
  - c. Profit and loss
  - d. Ownership transfer
  
15. What is the definition of cash flow?
  - a. Sales minus Cost of Goods Sold
  - b. Moving cash in or out of a business
  - c. Balance of cash received less the amount of cash paid out over a period of time
  - d. **Both b. and c.**
  - e. All three: a., b. and c.
  
16. Which of the following is a good use of a cash flow projection? Select all that apply.
  - a. **Setting sales and expense goals**
  - b. **Determining the breakeven point for a business**
  - c. Tracking sales
  - d. **Planning equipment purchases**
  - e. **Tracking liquidity**
  
17. What is the basic formula for a profit and loss statement?
  - a. + Sources of Cash
  - Operating Uses of Cash
  - Non-operating Uses of Cash

= Ending Cash

- b. + Sales  
– Cost of Goods Sold  
= Gross Profit  
– Overhead  
= Net Profit

- c. + Purchase Price  
– Cost of Goods Sold  
= Profit

- d. + Cash Flow from Operations  
+ Cash Flow from Financing  
+ Cash Flow from Investments  
= Net Cash Flow

18. For most small businesses, debt financing comes from owner or family savings and it is frequently the only source of funds for start-up small businesses.

- a. True  
b. False

19. Which of the following might be an element of a small business loan package? Select all that apply.

- a. Business plan  
b. Business financial statements  
c. Business tax returns  
d. Credit report  
e. Collateral  
f. Personal financial statements  
g. Personal tax returns  
h. Purchase agreements

20. Of the following financial management statements, which is the most important?

- a. Balance Sheet  
b. Cash Flow Statement  
c. Profit and Loss (Income) Statement  
d. All of the above  
e. None of the above

## Evaluation Form

Please fill out this evaluation form for the *Financial Management* class.

### Training Rating

1. Overall, I felt the training was (check one):

- Excellent
- Very Good
- Good
- Fair
- Poor

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree to which you agree by circling a number.

2. I achieved the training objectives.	1	2	3	4	5
3. The instructions were clear and easy to follow.	1	2	3	4	5
4. The PowerPoint slides were clear.	1	2	3	4	5
5. The PowerPoint slides enhanced my learning.	1	2	3	4	5
6. The time allocation was correct for this training.	1	2	3	4	5
7. The instructor was knowledgeable and well-prepared.	1	2	3	4	5
8. The participants had ample opportunity to exchange experiences and ideas.	1	2	3	4	5

Please indicate the degree of knowledge/skill by circling a number.

	None	Advanced			
9. My knowledge/skill level of the subject matter <b>before taking the training.</b>	1	2	3	4	5
10. My knowledge/skill level of the subject matter <b>upon completion of the training.</b>	1	2	3	4	5

### Instructor Rating

11. Instructor Name:

	Poor	Fair	Good	Very Good	Excellent
12. Made the subject understandable	1	2	3	4	5
13. Encouraged questions	1	2	3	4	5
14. Provided technical knowledge	1	2	3	4	5

Please use the response scale to rate your instructor by circling a number.

12. Made the subject understandable	1	2	3	4	5
13. Encouraged questions	1	2	3	4	5
14. Provided technical knowledge	1	2	3	4	5

15. What was the most useful part of the training?

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16. What was the least useful part of the training and how could it be improved?

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