Agenda

(1) Financial Accounting
(2) HW 4
(3) Projects / Midterm
(1) Financial Strategy:

Accounting

Financial Accounting is the process of recording, summarizing, and reporting the company's financial transactions (costs & revenues).

Financial Accounting is important because:

1. Communicates the performance to investors
2. Required by the government (basis for taxation)
3. Enables the company to plan (esp. budget)

Simplified version of the Accounting Process

- Company
- Revenue
- Rest of the World

Financial Accounting

- Balance Sheet
- Income Statement
- Cash Flow Analysis
Balance Sheet

The balance sheet is a record of the company's assets & liabilities at a specific point in time.

Assets: equipment, facilities, patents, inventory of products, cash

Liabilities: money the company owes to the bank or other sources (e.g., suppliers)

Owner's equity: difference between (or shareholders') assets & liabilities

Equity: assets - liabilities

also called the "book value" of the company
Example:
(all #'s in $1,000's)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 500</td>
<td>Short-term debt: 200</td>
</tr>
<tr>
<td>Fixed assets: 500</td>
<td>(to pay suppliers)</td>
</tr>
<tr>
<td>(facility, equipment, inventory of product)</td>
<td>Long-term loan: 500</td>
</tr>
<tr>
<td></td>
<td>(used for product development, team, equipment)</td>
</tr>
<tr>
<td>Total assets 1,000</td>
<td>Total liabilities: 700</td>
</tr>
</tbody>
</table>

Owner's equity: 300

Book Value
## Income Statement

Income Statement is a record of revenues & expenses over a period of time.

**Example (amount in $1,000s)**

<table>
<thead>
<tr>
<th>Revenues &amp; Expenses</th>
<th>Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Revenues</td>
<td>1,000</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>-500</td>
</tr>
<tr>
<td>(salaries, production, facilities)</td>
<td></td>
</tr>
<tr>
<td>Earnings before interest &amp; taxes (EBIT)</td>
<td>500</td>
</tr>
<tr>
<td>Interest (loans)</td>
<td>-50</td>
</tr>
<tr>
<td>Earnings before taxes</td>
<td>450</td>
</tr>
<tr>
<td>Taxes (~50%)</td>
<td>-225</td>
</tr>
<tr>
<td>Net Profit</td>
<td>225</td>
</tr>
<tr>
<td>Profit Margin</td>
<td>225 / 1000 = 22.5%</td>
</tr>
</tbody>
</table>
Cash Flow Statement

cash flow statement provides a summary of the company's cash flows over a period of time (e.g. Q4 2016). It shows where the company is spending its money.
Project Phase 4

Pitch - 10-15 minute presentation presenting your start-up to the investor (VC)

- About the company (1-2 slides)
- The product or service (2-3)
- The Market Strategy (1-2)
- The Business (competitive) strategy (1-2)
- The Financial Strategy (2-3)

For Notebooks

Complete Financial Strategy

- Funding Plan - objectives, sources of funding, dilution, ownership, valuation, shares of stock
- Accounting - income statement, balance sheet
- Financial Health Metrics: ROI, Profit Margin, etc.

Complete any backlogged work from phases 1, 2, 3; integrate feedback from meetings.