

FINANCIALS AND TAX PLANNING







- Understanding Basic Financial Statements
- Basics of Tax Planning
- Differences Between Tax Basis and Accrual Basis Accounting
- Critical Measurements for Lending



IMPORTANCE OF FINANCIAL STATEMENTS

PURPOSE OF FINANCIAL STATEMENTS



INFORMED DECISIONS

Grow your company through informed decisions (Management).



SECURE FINANCING

Inform Banks on how your company is doing to secure financing.



REGULATORY REQUIREMENTS

Ensure your company is complying with regulatory requirements (IRS).



FRAMEWORKS AND FOCUS **CASH BASIS ACCRUAL** TAX BASIS or Other **BASIS** or GAAP Forms

There may be a different framework to meet each need.







Introduction to Financial Statements

BALANCE SHEET

Snapshot of the company's financial position at a specific point in time

INCOME STATEMENT

Summary of the company's performance over a specified period

CASH FLOW STATEMENT

Tracks the inflow and outflow of cash





Understanding the Balance Sheet

Definition and Purpose

- Snapshot of the company's financial position at a specific point in time
 Key Components
- Assets
- Liabilities
- Equity



Assets

Current Assets

Non-Current Assets

1 Cash

5 Property, Plant, and Equipment (PP&E)

2 Accounts Receivable

6 Intangible Assets

3 Inventory

7 Investments

4 Prepaid Expenses

Liabilities

Current Liabilities

Non-Current Liabilities

1 Accounts Payable

4 Long-Term Debt

2 Short-Term Debt

5 Deferred Tax Liabilities

3 Accrued Liabilities

Equity

Owner's Equity/ Shareholder's Equity

1 Capital Contributions

2 Retained Earnings

Equation:

Assets = Liabilities + Equity

- Liquidity Ratios
 Measures a company's
 ability to cover upcoming
 obligations
- Solvency Ratios
 Measures a company's
 ability to meet it's long term debt obligations



| Assets | <u>2023</u> | 2022 | <u>2021</u> |
|---------------------------|-------------|-----------|-------------|
| Cash | \$ 33,000 | \$ 23,000 | \$ 19,000 |
| Accounts receivable (net) | 51,000 | 37,000 | 48,000 |
| Inventory | 84,000 | 72,000 | 54,000 |
| Prepaid Expenses | 16,000 | 18,000 | 13,000 |
| PP&E | 400,000 | 340,000 | 280,000 |

53,000

\$

\$

\$

645,000

43,000

40,000

18,000

250,000

35,000

386,000

100,000

159,000

259,000

645,000

\$

\$

\$

9,000

48,000

547,000

34,000

35,000

21,000

200,000

33,000

323,000

100,000

124,000

224,000

547,000

\$

\$

\$

\$

10,000

78,000

502,000

35,000

32,000

13,000

180,000

27,000

287,000

100,000 115,000

215,000

502,000

123 CORPORATION **Balance Sheet** December 31

| Prepaid Expenses | 16,000 |
|-------------------|---------|
| PP&E | 400,000 |
| Intangible Assets | 8,000 |

Total Owner's Equity

Liabilities + Stockholders Equity

Investments

Liabilities

Accounts Payable

Accrued Liabilities

Deferred Tax Liabilities

Short-Term Debt

Long-Term Debt

Owners Equity Common Stock \$5 par

Retained Earnings

Income Statement

Income Statement

Summary of the company's performance over a specific period

- REVENUE (SALES)
 Gross Sales, Net Sales (after returns, allowances, and discounts)
- COST OF GOODS SOLD
 (COGS)

 Direct costs attributable to the production of goods sold by a company
- **03** GROSS PROFIT Calculation: Revenue COGS

- OPERATING EXPENSES
 Selling, General, and
 Administrative Expenses
 (SG&A), Depreciation,
 Amortization
- OPERATING INCOME
 Calculation: Gross Profit –
 Operating Expenses
- Of OTHER INCOME AND EXPENSES
 Interest Expense, Interest Income,
 Gain/Loss on Sale of Assets

Net Income
Calculation: Operating Income –
Other Expenses + Other Income



| 123 CORPORATION Income Statement December 31 | | | | |
|--|-------------|-----------|--|--|
| Assets | <u>2023</u> | 2022 | | |
| Revenue | \$240,000 | \$190,000 | | |
| Cost of Goods Sold | 110,000 | 95,000 | | |
| Gross Profit | 130,000 | 95,000 | | |
| Operating Expenses | 38,000 | 27,000 | | |
| Operating Income | 92,000 | 68,000 | | |
| Other Income and Expenses | (21,000) | (33,000) | | |
| Net Income | 71,000 | 35,000 | | |





Tax Planning Basics

Why is tax planning important?



Minimizes tax liability



Ensures compliance with tax laws

Common Tax Deductions and Credits



Business Expenses



Depreciation



Research and Development Credits



Tax Planning Continued...

Estimated Tax Payments



Avoid unforeseen liability



Make quarterly payments

Record Keeping for Tax Purposes



Maintain accurate and thorough records



Stay ahead

S-Corp and Family Wages

Tax Basis vs Accrual Basis Tax Basis

- Recognizes income and expenses only when they are received or paid
- Simpler, more cash flow focused

Accrual Basis

- expenses when they are incurred

Impact on Financial Statements:

- Timing of income and expense recognition
- Effects on profitability and tax liability



BANK FOCUS

What is the Bank Looking For?



Assets

Indicator of company strength, and to identifies collaterals for loan security.



Financial Strength

Any profit earned is available to pay back new debt service.



Management

Credibility

See that management has the skill and experience necessary to successfully run the business.

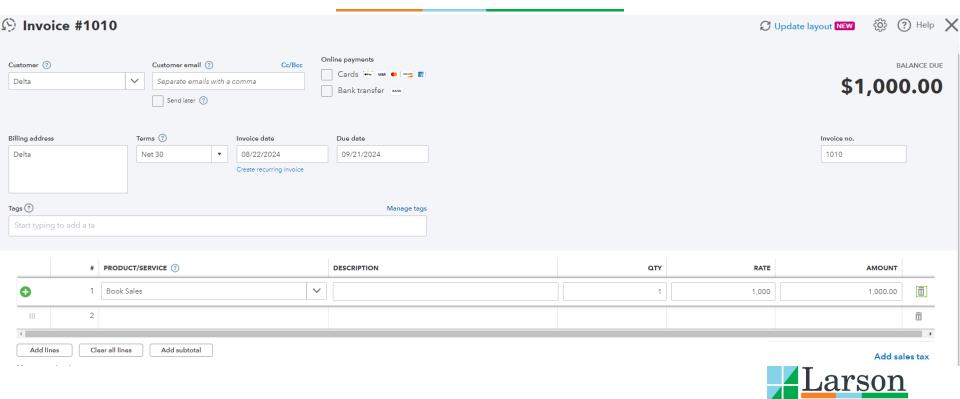


Credit Score

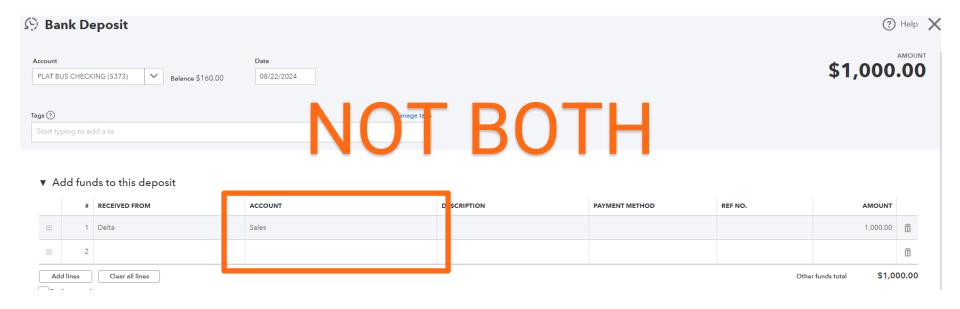
Personal and Business score.
On time payments. Separate business vs personal credit.

FREQUENT QB MISTAKES

Double counting Revenue (Invoice vs. Payments)



Double counting Revenue (Invoice vs. Payments)





Payment for Loans

| 4 | | | | | | |
|---|-----------------------|--|--|------------------------------|-----------------------------|---------------------------------|
| Account \$ (Transaction line items : Account) | Date ↑ (Transactio | Transaction type \$ (Transaction line it | Memo/Description \$ (Transaction line items) | Account \$ (Transaction line | Amount (Transaction line it | Balance (Transaction line it |
| ∨ N/P - Karl Jebailey (2) | | | | | | |
| Beginning Balance | | - | - | - | | \$341,148.88 |
| N/P - Karl Jebailey | 07/01/2024 | Expense | WIRE/OUT-2023040400002675; | Zions - Checking | -\$34,371.09 | \$306,777.79 |
| Total for N/P - Karl Jebailey | | | | | -\$34,371.09 | |
| | | | | | -\$34,371.09 | |

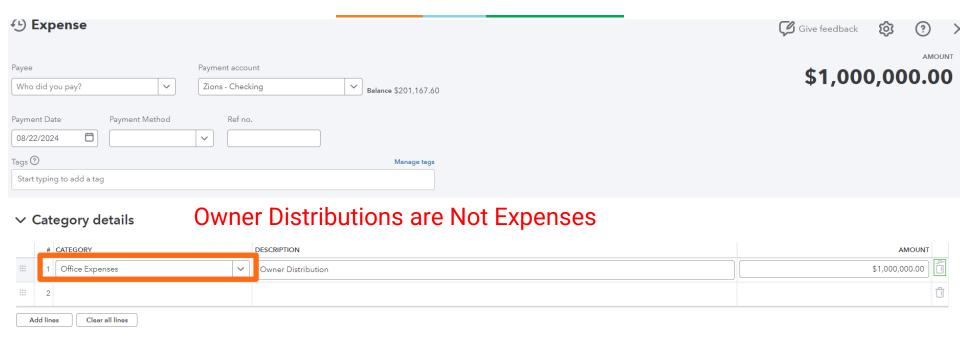


Payment for Loans

| Date ↑ (Transactio | Transaction type \$ (Transaction line it | Memo/Description (Transaction line items) | Account \$ (Transaction line | Amount (Transaction line it | Balance (Transaction line it |
|-----------------------|--|---|------------------------------|-----------------------------|---------------------------------|
| | | | | | |
| | - | - | - | | \$341,148.88 |
| 07/01/2024 | Expense | WIRE/OUT-2023040400002675; | Zions - Checking | -\$34,371.09 | \$306,777.79 |
| 07/31/2024 | Journal Entry | Interest | - | \$511.30 | \$307,289.09 |
| | | | | -\$33,859.79 | |
| | | | | -\$33,859.79 | |

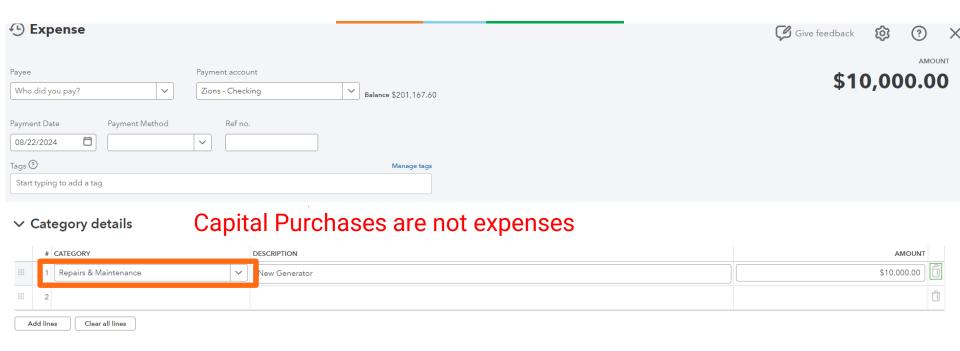


Owner Distributions



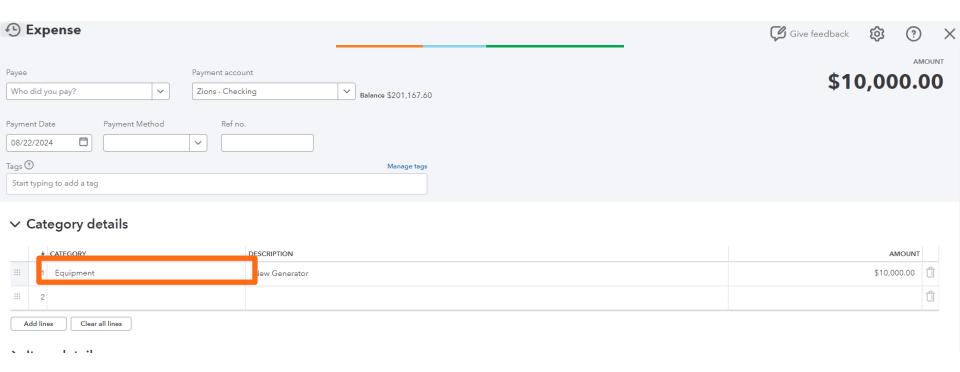


Fixed Asset Purchases





Fixed Asset Purchases





Fixed Asset Purchases



| | # | ACCOUNT | DEBITS | CREDITS | DESCRIPTION |
|-----|---|--------------------------|-----------|-----------|----------------------|
| *** | 1 | Depreciation Expense | 13,586.75 | | Depreciation expense |
| *** | 2 | Accumulated Depreciation | | 13,586.75 | Depreciation expense |
| | 3 | | | | |

 Fixed Assets

 Accumulated Depreciation
 -1,066,551.39

 Capital Work in Progress
 0.00

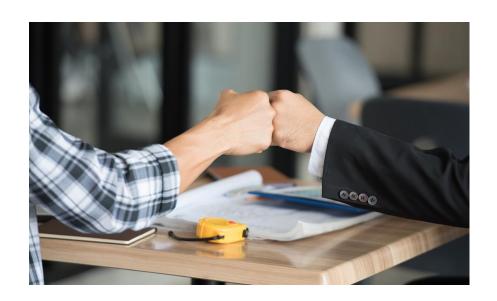
 Equipment
 589,207.68

 Furniture & Fixtures
 152,160.87

 Leasehold Improvements
 766,466.53



Final Thoughts and Encouragement



Understanding the financial state of your business gives you the confidence you need to plan for a strong, healthy, and growing corporation. It builds trust and helps to avoid unforeseen liability.





QUESTIONS?

