The role financial statements play in your practice

Like actors in a theatre production, each financial statement has a role to perform in order to tell the true story of your business finances.

Introducing your cast of characters

Income Statement, Balance Sheet and Cash Flow are the three key financial statements. Financial institutions like to see projected (also called 'pro forma') financial statements if you are looking to open a new practice and require financing. By preparing conservative projections, you'll have a better idea of how your practice will run and what the challenges may be. And you can compare your actual performance against the projections to help keep you on track.

The Newsmaker

Income Statement talks about current events

About this character

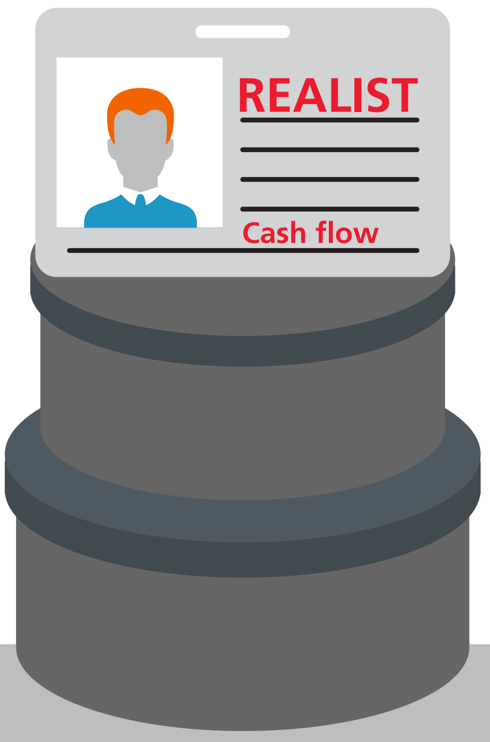
Income Statement shows the difference between Revenue and Expenses resulting in Net Income. It will show business performance over a current period of time (a month or year) to tell you how profitable your business is.

Character traits

Significant entries on the Income Statement include Sales (also known as Revenue), Expenses (broken-out by various categories) and Depreciation, which is a non-cash expense that records the reduction in value of Capital Assets.

Interesting fact

Revenue and Expense is reported on the Income Statement whenever a sale is made or an expense incurred—also known as 'accrued' income and expense. The Cash Flow statement is where you'll see actual dollars coming in from sales and going out to pay expenses.



The Realist!

Cash Flow worries about your money

About this character

Cash Flow shows you the sources and uses of cash in your business. It reflects the starting cash position, monthly fluctuations, and closing cash position. Banks use this statement to project ongoing operating credit needs of a business.

Character traits

Total cash disbursements are subtracted from cash receipts to reflect the net cash flow, which may be either positive or negative. Shortfalls in cash balances indicate need for a line of credit.

Interesting facts

The Cash Flow Statement can be a more useful tool for the business owner than the Income Statement. You can't pay your bills with accrued revenue…only cash. Non-cash items are not included in the Cash Flow statement (such as depreciation).

The Historian!

Balance Sheet reveals your past

About this character

The Balance Sheet is a snapshot of the business at one moment in time. It tells you exactly what the company owns (called Assets), what it owes (called Liabilities) and the funds invested by the business owner (called Equity) at a particular date.

Character traits

The Balance Sheet likes its debit and credit entries to match up, because, at the end of the day, Assets must equal Liabilities plus Equity.

Interesting facts

Some Fixed Assets such as land and buildings may in fact appreciate over time. However, the current market values are not listed on the Balance Sheet, which show the more conservative value of 'historical cost' (what the business paid for the asset less depreciation).

Don't forget this key player

Owner's Equity

It's the amount of money the business owes you, the owner. Equity may include the original investment you made to start the business and any retained earnings (share dividends you didn't withdraw) kept in the company.

Ask Scotiabank for help to get your practice performing.

Scotiabank has the tools and resources to help you manage your practice from the initial planning phase through your growth years.

For example, the Scotia Professional® Plan is an all-inclusive banking package that is exclusively endorsed by leading professional associations. Full details are available online at scotiabank.com/professionals.

Or, contact a Scotiabank Small Business Advisor today for information.

Scotiabank®