20 Key Finance Learnings

- **Balance Sheet:** Total Assets = Total Liabilities + Shareholder Equity.
- **Fixed Assets vs. Current Assets:** Things you keep vs. cash and things that are quickly converted to cash.
- **Liabilities: Loans, Payables, Taxes:** What you owe: money lent by other people, value of goods & services which have been received but are not yet paid for, taxes due but not yet paid.
- **Shareholder Equity: Capital Stock, Retained Earnings:** What you own: original investment, profits retained in the company over the life of the company.
- **Income Statement:** Sales – Expenses = Profit. Also called P&L or Profit and Loss Statement.
- **Depreciation**: The wearing out of fixed assets is a genuine expense to the company, but it is not a cash expense.
- **SG&A Expenses:** Selling, General & Administrative, includes salaries, overheads, rent, etc.
- **Operating Income (EBIT) vs. Net Income:** Earnings before Interest & Tax vs. bottom-line Profit or Loss for the period.
- **Financing:** Getting the cash you need through borrowing, factoring, selling off assets, etc. Emergency short-term financing is both harder to get and more expensive than planned long-term financing.
- **Difference between Cash and Profit:** You need cash all the time, but you can survive—for a while—without profit.
- **Direct & Indirect Costs:** Direct costs, such as labor and materials, are only reported when you make a sale. Indirect costs, such as SGA, are reported each month, whether or not there have been sales.
- **Payables and Receivables, Credit Terms:** A payable is money you owe your vendor; a receivable is money your customer owes you. Typically longer credit terms will be offset by higher prices.
- **Working Capital:** Net Working Capital = Current Assets - Current Liabilities: The cash you need to run the business, maintain inventories, and pay expenses.
- **The Impact of Inventory Build-Up:** Cash that is tied up in Working Capital is not available for other uses.
- **Importance of Cash Flow:** If you don't plan for cash flow you end up paying huge finance charges or going out of business.
- **Planning for Profit:** Market forecasting, cost structure, budgeting, cash flow needs, and competitor analysis.
- **Improving Business through Cost-Cutting:** Reducing costs without reducing revenues will improve profits.
- **Improving Business through Expansion:** Increasing volume does not increase all costs; over heads can be spread more thinly and unit cost can go down.
- **Improving Business through Pricing:** Supply & Demand awareness may allow you to raise prices without losing sales. Or it can identify niche markets.
- **Income/Outcome Triangle of Key Ratios; uses and limitations of ratios:** ROS, ROA and Asset Turnover; ratios each offer one perspective on the business. Managers may change their behavior, depending on the metric used.

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