

Carnegie Mellon University  
Swartz Center for Entrepreneurship

**Strength in Numbers**

# Welcome to CMU!

- Dave Mawhinney, Executive Director,  
Swartz Center for Entrepreneurship
- Christine Ferguson-Rau, CMU Alumna
- Donald Bonk, CMU Alumni
- Sonya Ford, Program Manager, CMU
- Aleks Petkov, Program Manager, CMU

# Why Convene this Cohort?

- Build capacity in women and minority owned businesses in communities close to CMU
- First pilots in Homewood and Wilkinsburg

# **Where** and **When** will Cohort Meet?

- Third Session: Tuesday, **November 9<sup>th</sup>**
- Fourth Session: Wednesday, **December 1<sup>st</sup>**
- Educational sessions at **Swartz Center for Entrepreneurship** at CMU Tepper Quad

# Program **Strategy**

- Identify the **road to profitable growth**
- Understand **blocks on that road**
- Work together to **clear them away**

# Challenges

## *Top Challenges From Intake Survey:*

***#1 Finance***

*#2 Time Management*

*#3 Staffing / Retaining Employees*

*#4 Supplier / Vendor Relationships*

# Finance

- Finance is **forward-looking** and therefore critical to decision-making processes at companies
- The accounting numbers need to be analyzed and interpreted to create forward-looking **projections about what might happen in the future**

# Local Mission-Based Funding Source

## **Bridgeway Capital**

is a certified Community Development Financial Institution (**CDFI**) that provides **patient, flexible capital** and business education to **ignite small business growth, develop communities, increase access to healthy foods, and expand social services.**



# Who does Bridgeway Lend To?

**Bridgeway** provides funding for:

- Businesses with **Minority owners** (as defined by the SBA)
- Businesses in **Low/Moderate-income census tract** areas *including*:
  - **Minority Start-Ups**
  - Real Estate for **Affordable Housing**

# Minority-Owned Small Business

## The SBA defines a minority-owned small business as:

A business that is **owned and controlled by a “socially and economically disadvantaged” United States citizen**. Socially and economically disadvantaged groups include racial minority groups. A minority individual **must directly own** at least **51%** of the small business.

# How to Apply for Funding

- **Bridgeway Capital** requirements:
  - **For an LLC: Certificate of Organization** stamped by the State/ Operating Agreement or **Sole Member Statement**
  - **For a Corporation: Articles of Incorporation** stamped by the State *and* a copy of the **By-Laws**

# How to Apply for Funding (Cont.)

- **Requirements** to apply for financing through **Bridgeway Capital**:
  - Business Plan
  - Loan Application
  - Intake Form
  - Business Debt Schedule
  - Personal Financial Statement
  - 3 Years Business and Personal Tax Returns
  - **YTD Financial Statements (Balance Sheet/Profit and Loss)**
  - 3 Year Projections

# The Financial Statements

- Companies produce three main financial statements:
  - Balance Sheet
  - Income Statement
  - Cashflow Statement

# The Balance Sheet

- The balance sheet displays the company's total assets and how the assets are financed, either through either debt or equity
- The balance sheet is based on the fundamental equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

# Balance Sheet

**Total Assets**

**Current Assets**  
+  
**Non-Current Assets**

**Total Liabilities**

**Current Liabilities**  
+  
**Non-Current Liabilities**

**Total Equity**

**Share Capital**  
+  
**Retained Earnings**

# Sample Balance Sheet

**Example Company  
Balance Sheet  
December 31, 2017**

## ASSETS

### Current assets

Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>

Investments	<u>36,000</u>
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### Property, plant & equipment

Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	<u>(56,000)</u>
Prop, plant & equip - net	<u>337,000</u>

### Intangible assets

Goodwill	105,000
Trade names	<u>200,000</u>
Total intangible assets	<u>305,000</u>

Other assets	<u>3,000</u>
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Total assets	<u>\$ 770,000</u>
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## LIABILITIES

### Current liabilities

Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	<u>1,500</u>
Total current liabilities	<u>61,000</u>

### Long-term liabilities

Notes payable	20,000
Bonds payable	<u>400,000</u>
Total long-term liabilities	<u>420,000</u>

Total liabilities	<u>481,000</u>
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## STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	<u>(50,000)</u>
Total stockholders' equity	<u>289,000</u>

Total liabilities & stockholders' equity	<u>\$ 770,000</u>
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The notes to the sample balance sheet have been omitted.



# The Income Statement

**Revenues**

**Expenses**

**Profit or Loss**

# Sample Income Statement

## Income statement example

TEDDY FAB INC. STATEMENT OF INCOME Year Ended December 31, 2100	
Revenues	\$ 1,000,000
<u>Cost of goods sold</u>	<u>200,000</u>
Gross profit	<u>800,000</u>
<b>Operating expenses</b>	
Selling, general, and administrative expense	357,700
Interest expense	20,000
<u>Depreciation and amortization expense</u>	<u>5,200</u>
Operating income	<u>417,100</u>
Interest income	20,000
<b>Net earnings before taxes</b>	<u>437,100</u>
Income tax expense	<u>240,000</u>
<b>Net income</b>	<u>\$ 197,100</u>

# Cashflow Statement

**Operating:** Sale of Goods and Providing of Services

**Investing:** Buying or selling of a building or other asset

**Financing:** Obtaining a loan or grant or equity investment

# Sample Statement of Cash Flows

<b>Cash Flow Statement</b>	
For the Year Ended December 31, 2016	
<b>Cash Flow from Operations</b>	
Net income	79,000
Adjustments for depreciation	2,000
Adjustments for increase in inventories	(22,000)
Adjustments for decrease in accounts receivable	12,000
<b>Net Cash Flow from Operations</b>	<b>71,000</b>
<b>Cash Flow from Investing</b>	
Cash receipts from sale of property and equipment	10,000
Cash paid for purchase of equipment	(12,000)
<b>Net Cash Flow from Investing</b>	<b>(2,000)</b>
<b>Cash Flow from Financing</b>	
Cash paid for loan repayment	(5,500)
<b>Net Cash Flow from Financing</b>	<b>(5,500)</b>
<b>Net Increase in Cash</b>	<b>63,500</b>

# Accurate Financial Statements

Building **accurate financial statements** is **essential** to understand your company's financial performance and being able to **convey** that performance to those that can provide **capital**

# Where to build Financial Statements?

- Every company has a ledger
- Ledgers used to be paper based
- Today ledgers are electronic -  
**Quickbooks**

# Quickbooks

- **Quickbooks (QB)** is the industry standard for small business
- Links to **Quickbooks** from most banks allow for *automatic downloading of transactions* into **QB software**

# How do you keep track?

The intake survey revealed:

1. **Quickbooks (53%)**
2. Excel
3. Outside Bookkeeping Service



# How Financial Statements are Created

## The Chart of Accounts (COA)

- Think about **the COA** as **the foundation** of a building
- In the COA you decide **how your transactions are categorized and reported in your financial statements.**
- **Companies use a COA to organize their finances and give** interested parties, such as investors and shareholders, a clearer **insight into their financial health.**

# COA Organization

<b>Numeric Range</b>	<b>Account Type</b>	<b>Financial Report</b>
100 – 199	Assets	Balance Sheet
200 – 299	Liabilities	Balance Sheet
300 – 399	Equity	Balance Sheet
400 – 499	Revenue	Profit & Loss
500 – 599	Cost of Goods Sold	Profit & Loss
600 – 699	Operating Expenses	Profit & Loss
700 – 799	Taxes Paid	Profit & Loss
800 – 899	Other Expenses	Profit & Loss

# Sample COA

*Code	*Name	*Type
101	Checking Account	Bank – Current Asset
120	Accounts Receivable	Accounts Receivable – Current Asset
140	Inventory	Inventory
160	Computer Equipment	Fixed Asset
161	Less Accumulated Depreciation on Computer Equipment	Fixed Asset
200	Accounts Payable	Accounts Payable
216	Wages Payable – Payroll	Current Liability
230	Employee Tax Payable	Current Liability
240	Income Tax Payable	Current Liability
290	Loan	Non-current Liability
300	Owners Contribution	Equity
320	Retained Earnings	Retained Earnings
330	Common Stock	Equity
400	Sales	Revenue
500	Cost of Goods Sold	Direct Costs
600	Advertising	Expense
604	Bank Service Charges	Expense
612	Consulting & Accounting	Expense
624	Postage & Delivery	Expense
632	Insurance	Expense
640	Legal Expenses	Expense
644	Utilities	Expense
648	Automobile Expenses	Expense
652	Office Expenses	Expense
660	Rent	Expense
664	Repairs and Maintenance	Expense
668	Wages and Salaries	Expense
672	Payroll Tax Expense	Expense
676	Dues & Subscriptions	Expense
680	Telephone & Internet	Expense
684	Travel	Expense
700	Depreciation	Expense
710	Income Tax Expense	Expense
720	Federal Tax expense	Expense
721	State Tax expense	Expense
800	Interest Expense	Expense

# Financial Statements and the COA

Financial Statements *organize* and *display* the **information** that is **contained in the Chart of Accounts** in a standard way

# Preparation for November Meeting

- **Connect with your mentors** and share the top challenges that your business is facing.
- Decide if you will use **Quickbooks** for your bookkeeping and share that information with Christine Ferguson-Rau
- **Review your Chart of Accounts** with your mentor. Determine if it accurately reflects your company.

# Contacts

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