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B.Com Honours | Semester II | Calicut University

Accounting and Finance for Entrepreneurs

Course Code: COM2MN101 • Module 2 Notes

1. Financial Statements for Startups: Analysis and Projections

Financial statements represent the scorecard of a business. For entrepreneurs, these statements are not just historical records but critical tools for pitch decks, bank loans, and operational decision-making. This module covers the core elements of the Income Statement and Balance Sheet, cash flow management metrics (burn rate, runway), and how to draft projected financial statements.

Income Statement & Balance Sheet Essentials

Income Statement (P&L)

- **Revenue:** Top-line sales generated from products or services.
- **Operating Expenses (OPEX):** Rent, salaries, marketing, utilities.
- **Net Profit:** Total revenue minus cost of goods sold (COGS), OPEX, interest, and taxes. The bottom line.

Balance Sheet (SOFP)

- **Assets:** Resources owned (Current: cash, inventory, accounts receivable; Non-Current: equipment, IP).
- **Liabilities:** Money owed (Current: trade payables, short-term debt; Non-Current: bank loans).
- **Equity:** Founder capital + investor seed funding + retained earnings.

Cash Flow Management: The Key to Startup Survival

A startup can be highly profitable on an accrual basis but still go bankrupt if it runs out of cash. Managing cash flows involves tracking the movement of actual physical cash in and out of the business:

- **Operating Cash Flow:** Cash generated or consumed by daily business operations.
- **Cash Burn Rate:** The rate at which a venture spends cash (usually monthly) before generating positive operating cash flow.
  Monthly Burn Rate = (Starting Cash Balance - Ending Cash Balance) over a month.

- **Cash Runway:** The number of months a startup can survive before running out of funds at its current burn rate.
  Runway (Months) = Total Cash Balance / Monthly Burn Rate.

Drafting Projected (Pro-Forma) Financial Statements

Projected financial statements are forward-looking statements created for future periods (typically 3-5 years). Founders prepare them using:

1. **Sales Forecasts:** Estimating customer growth and price per unit based on market research.
2. **Expense Assumptions:** Estimating employee hire schedules, inventory requirements, and marketing costs.
3. **Capital Needs:** Projecting when additional equity or debt funding must be injected.