# FINANCIAL DICTIONARY: PART 4

2019 has come to a close which for many people and businesses signals a new beginning and the start of a fresh cycle. Many of us have heard about business financial statements, but have we considered creating them for ourselves? In this issue, we have a look at how these financial tools are used by businesses and can also be used by people.

**Financial Statements:**
Both public and private corporations create financial statements to help them paint a picture of how their business is performing, and where it looks to be heading. There are many different documents that could be defined as financial statements, but the big three are: Balance sheets, Income statements, and Cash Flow statements. Investors use these statements to make calculations and establish a general value of a company. For example, one popular ratio to analyze is the earnings per share (EPS). You divide the earnings, found on the income statement, by the shares outstanding, found on the balance sheet. This ratio tells us how much money the corporation earns per share outstanding on the market.

**Balance Sheet/Net Worth Statement:**
To a business, a balance sheet is used to illustrate their financial health by separating their assets from their liabilities. In business there is another category called Shareholders Equity, which represents the portion of the company held by investors. For personal use, we use a net worth statement. Again in personal use, this statement is used to separate out your assets from your liabilities. When you total up all your assets and subtract away all your liabilities, you end up with your net worth. A positive net worth shows that you have more than you owe, whereas a negative net worth shows that you owe more than you have. It is completely normal for a young person to have a negative net worth, given that many people have student loans, mortgages, car loans, etc. Though you don’t want to stay that way forever, it is important to understand that its ok to be negative as long as you are working towards getting positive. Perhaps at the beginning of the year you had a negative net worth due to your mortgage, if you checked back at the end of the year, you would see that your payments have slightly reduced your debt, and thus increased your net worth! It is important to note that a net worth statement is a snap shot in time.

**Cash Flow Statement:**
A cash flow statement is very similar in personal and corporate use. For a business, an income statement is also similar, but includes non- cash transactions like amortization and depreciation. The name is pretty self-explanatory, how does your cash flow? Where a net worth statement is a snapshot in time, a cashflow statement represents a defined period and what occurred during it. You can think of your bank statement as a mini month-long cash flow statement. It would show your pay cheque come in, your trip to Tim Hortons, your car insurance, and your mortgage payment. Additionally, it would show a starting and ending value, these are important. Obviously we would hope that your account would grow over a given period, showing that your ending value is higher than your beginning value. It is important to look at a couple time periods to get a good idea of your cash flow, a long term example and short term example is a good start. You might spend more money than you earn in one month, like December when buying gifts, going out with friends, or vacationing; when overall throughout the year you have actually spent less than you earned. Examining cashflow from different perspectives like this can help you to learn about your habits and how you might improve your saving skills.