

FINANCIAL DOCUMENTS 101

‘Healthy habits toolkit’



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Welcome to the 'Healthy habits toolkit'. We'll guide you step by step through small business finance with bite-sized content that helps you understand YOUR numbers and build financial confidence.

Using the toolkit

1. Download the toolkit
2. Use it on any device or print it off if you prefer
3. Work through the activities to build the financial habits, skills and mindsets that will help your business succeed



Look out for...



Habit builder

Activities that help you track your business's financial health and make informed decisions



Mindset

Activities that help you build the mindsets you need to stay focused and tackle challenges head-on



Tell me more

Additional resources and real-world examples from other small business owners

Reaching out for support

If you need support or advice along the way:

- Talk to an accountant or bookkeeper for financial advice and help with planning your next steps. If you don't have one, you can apply for free mentoring through the [Xero For Good Ambassador Programme](#)
- Explore [resources to keep you and your business healthy](#)
- Access [free smart business guides from Inland Revenue \(IR\)](#)
- Check out our [frequently asked questions](#)
- Access [services to help if you are experiencing financial difficulties](#)

If you're reading a printed version of this toolkit, you can find the full URLs for all the internet pages listed above in the appendix at the end.



The information provided is for general educational purposes only and should not be considered financial, legal, or tax advice. Please consult with a professional before making financial decisions.



FINANCIAL DOCUMENTS 101

In this topic, you'll build the skills, confidence and mindset you need to read and understand your financial documents.

We'll explore what they are and how they work together to give you a clear view of how your business is performing and where you could make changes to improve the financial health of your business.

Work your way through the 'Healthy habits toolkit' and take your first steps to financial confidence.

Choose where to start:

Select any of the six headings below to get started.



Use the interactive buttons and topic menu to move through the toolkit or scroll down to read the pages in order.

THE POWER OF YET

Carol Dweck coined the phrase ‘the power of yet’ in her book, ‘Mindset’. It’s a small word, but it packs a big punch!

Why? Because it tells us that we all have the ability and power to improve. As long as we believe we can – and we’re willing to practice and persevere through mistakes and challenges.

A great way to integrate the power of yet is to think of where you’re using the word ‘can’t’ and add ‘yet’ to the end.

Example: I can’t understand financial documents... yet.

Find out more about [the power of yet](#)



What’s your yet?



Think about the financial document you find the hardest. The one where your inner voice tells you, ‘I can’t do this.’ Now, use the space below to turn that statement into a ‘yet.’

How did it feel to reframe your ‘can’t’ into a ‘yet’? With the power of yet in your mind, what commitments can you make to yourself as you move from ‘I can’t yet’ towards ‘I can’? It’s ok to start small – practice makes progress.

- What will you do when things feel hard, and you feel yourself moving into a negative headspace?
- How will you bring yourself back to ‘yet’?



Success isn’t about being perfect. It’s about building habits that grow your skills and confidence, staying focused yet flexible, and learning from setbacks.

TRACKING YOUR FINANCIAL HEALTH

When it comes to your financial health, there are five key account categories.



1. Income

The money your business makes



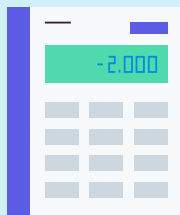
2. Expenses

The money your business spends



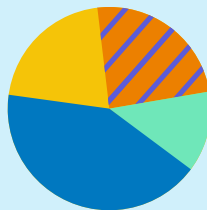
3. Assets

What your business owns



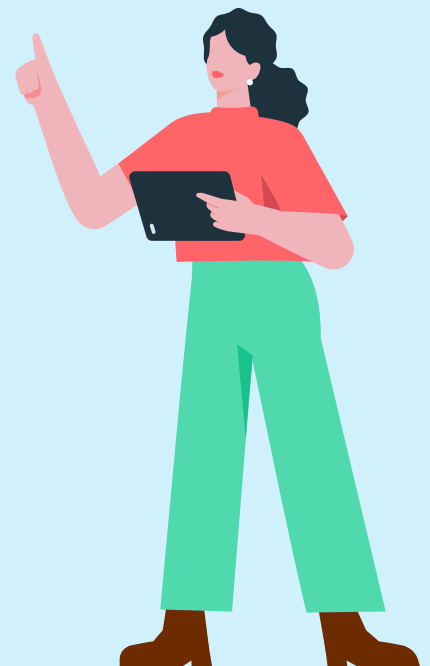
4. Liabilities

What your business owes



5. Equity

This is what your business is worth and could include money invested in the business and any retained profits

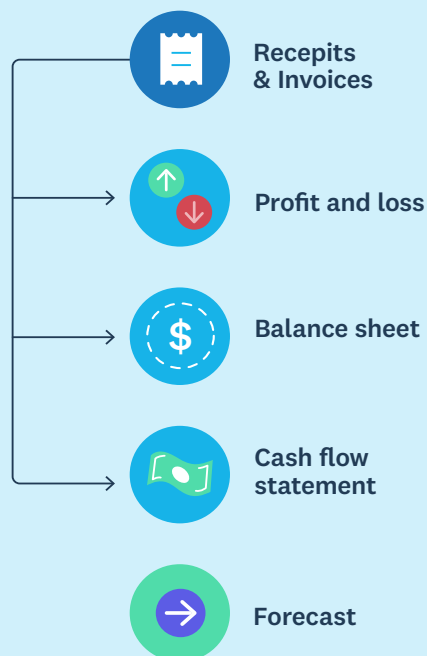


The five accounting categories make up your financial statements, giving you a clear picture of your business's health. Every sale, expense, invoice, and receipt adds to this picture, so it's important to track them regularly.

The more accurate your records are, the easier it is to get a true picture of your business, spot issues early and take action to keep things running smoothly.

How financial statements work together

Your financial documents give you a clear picture of how your business is performing and help you track the money moving in and out of your business.



For example:

Imagine you sold \$10,000 worth of products or services this month:

- Your profit & loss (P&L) statement will show \$10,000 as income and deduct any costs to show whether you made a profit or a loss
- If customers haven't paid yet, you don't actually have the cash. Instead, this \$10,000 appears as money owed to you on your balance sheet
- Once your customers pay, the cash is recorded in your cash flow statement, showing that the money is now available to spend

Planning ahead

Understanding how and when money moves through your business helps you use your cash flow forecast to predict how much cash you'll need, spot potential cash flow gaps, and plan ahead. For example, if you're owed \$10,000 but won't receive it before a large bill is due, you have a cash flow gap that needs to be managed.

Financial statements help you understand how your business is performing, but they don't tell you everything...

Explore other resources that help you understand your business's performance:



- [Small business guides](#)
- [Sustainability guide](#)

THE PROFIT AND LOSS STATEMENT

A profit and loss statement (P&L) is a financial report that shows how much your business has spent and earned over a specified time and whether you've made a profit or a loss.

What is a P&L?



Your P&L can cover any time period, although it's usually prepared at the end of a month, quarter, or year.

It summarises your:



Income

The money you've earned, for example, through sales, funding or investments such as interest and dividends



Direct costs (or costs of goods sold)

The money you've spent to produce your product or service, like the cost of materials, wages, freight or sales commissions



Indirect costs

The money you need for your day-to-day business expenses, like rent or utilities – these are often known as your overheads or operating expenses



Your P&L will include all sales, including credit sales that your customers might not have paid yet. It will also include bills for expenses you have incurred but not paid. If you're tracking income and expenses manually, record different expenses in separate columns so you can analyse costs easily.

P&L at a glance

By reviewing your P&L, you can see:

- If you're making enough to cover your business costs (**gross profit**)
- How much you have left after all your expenses (**net profit or loss**)

Income $-$ Direct Costs $=$ **Gross Profit**

Gross Profit $-$ Indirect Costs $=$ **Net Profit**



P&L example



P&L statements can range from simple to complex, depending on your business's size and the types of income and expenses you have.



Using your P&L

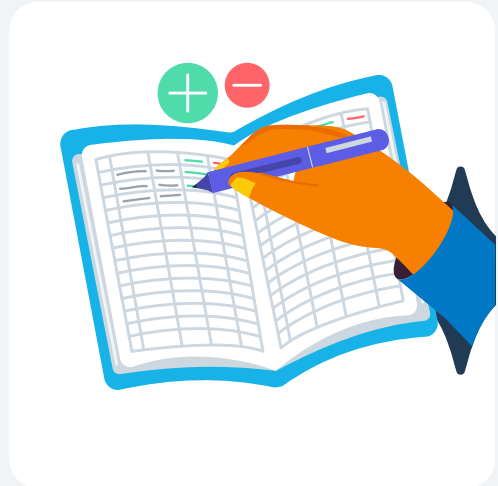
Track your P&L over the next two months to find out if you're making a profit or loss using the two activities below.



Month 1: Get familiar with your P&L

Reviewing your P&L helps you track how your business is performing and where you could make changes to improve your financial health. If you don't have a P&L yet, use the example we shared in the previous page to understand how your income and expenses are shown.

1. Check your P&L at the end of the month
2. Think about how your business is performing:
 - Are you making enough to cover your costs?
 - Are your costs and income what you expected? If not, do you know why?
 - Are you making a profit after all your expenses are paid? If you're not, what does this mean for you and your business and what do you need to do about it?

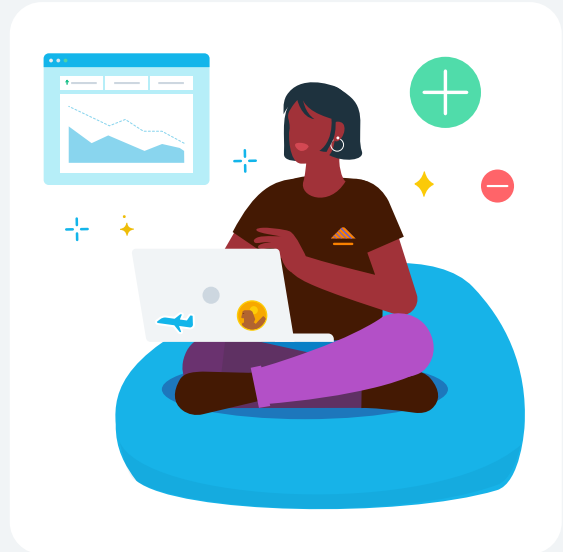


A new business may start at a loss, which is fine if planned, but if not, it can strain your finances. Track your numbers, improve where you can, and adjust or step away if needed.

Month 2: Learn how your business works

Tracking your P&L over time helps you understand how your business operates and how to spot trends and patterns, like when income and expenses are likely to be higher or lower. This makes it easier to plan ahead and avoid surprises.

1. Compare your P&L from two points in time, for example, two different months or quarters:
 - What did you notice about your business?
 - Did your costs or income vary? Was this expected?
 - How did it affect your gross and net profit?
2. Identify areas for improvement, e.g. where you might be over-spending, or trends when compared to previous periods



Continue to track your P&L monthly, quarterly, or annually or any time you want to check your finances, based on your needs. If profits or margins are low, monitor it closely to manage costs and stay on top of finances.

CASH FLOW, NOT PROFIT, IS THE KEY TO FINANCIAL SUCCESS

Cash flow and profit are not the same. Your business can be profitable but still run out of cash if your money is tied up in unpaid invoices, stock, or assets that can't be quickly turned into cash to pay your bills on time.

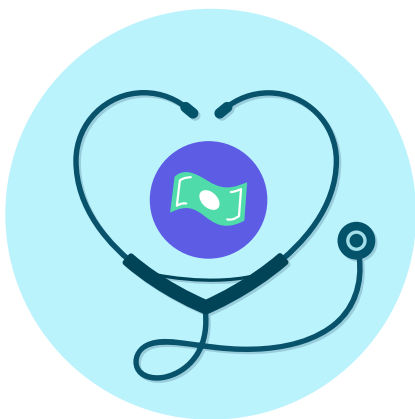
What is cash flow?



Cash and profit are both indicators of your business's financial health – they just show different things...

Cash flow is like the heartbeat of your business, keeping it alive by ensuring money constantly moves in and out. Whereas profit is more like your overall fitness; you can be strong and healthy, but if your heart stops pumping, everything shuts down.

A business needs both a steady cash flow and strong profits to stay healthy and grow.



Cash Flow



Profit

THE BALANCE SHEET

Your balance sheet gives you a snapshot of how stable your business is, what it's worth at a single point in time, and if you have enough cash to cover your expenses (liquidity).



What your business is worth today may be different tomorrow, as changes to sales, expenses, assets and liabilities can all cause fluctuations.

- [What is a balance sheet?](#)
- [What is liquidity?](#)

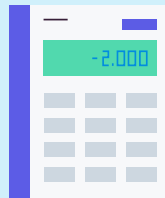


It summarises your:



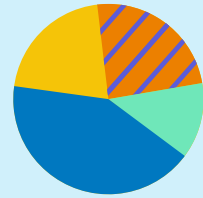
Assets

What your business owns, like cash, stock, equipment or money owed to you.



Liabilities

What your business owes, like loans or unpaid bills.



Equity

What your business is worth, including money invested in the business and any retained profits.

Assets can be broken down into:

- **Current assets:** Cash, stock or money owed from customers (accounts receivable)
- **Non current assets (fixed):** Machinery, equipment, vehicles etc

Liabilities can be broken down into:

- **Current liabilities:** Money owed to suppliers (accounts payable), bank overdrafts or money owed in taxes
- **Non-current liabilities:** Long term loans



You can use your current assets to pay your current liabilities as they can be turned into cash quickly.

Balance sheet at a glance

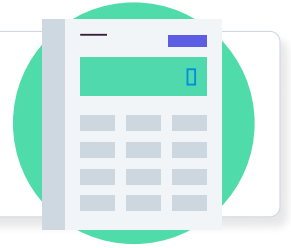
Assets



Liabilities



Equity



By reviewing your balance sheet, you can:

- Check whether you have enough cash or assets to cover what your business owes
- Track and prove your business's stability to secure loans or investments
- Manage your cash cycle and plan for the future

Explore a balance sheet:

- [Balance sheet example](#)



Your balance sheet will look different depending on your business. For example:



A service business that offers payment terms to their customers will have more **money owed to them listed as an asset.**



A business that sells products at the point of sale will likely have more **stock listed as an asset.**

Get to know your balance sheet

Check your balance sheet once a month for the next three months using the three activities below.



1. Check your liquidity – do you have the cash to cover what you owe for day-to-day liabilities? This can often be referred to as working capital.

- Compare your current assets with your current total liabilities to see which is higher.



If your current liabilities are higher than your current assets, you may have trouble paying your short-term costs.

2. Learn how your business works

- Compare your balance sheet report with the prior month (quarter or year) and note down any differences



Look out for:

- If you sell on credit, is your accounts receivable balance getting bigger or smaller? A growing receivables balance could be a sign of slow payments
- How much inventory are you carrying? Holding high inventory levels means your cash is tied up in stock and may not be available to pay your bills
- Which is rising faster: your liabilities or your assets? If it's your liabilities, this could be a sign of financial risk or strain

3. Tackle challenges head-on

Understanding your cash cycle helps you make informed decisions about your finances.

- Do you have enough cash to comfortably pay what you owe on time?
- What adjustments would help you free up cash or reduce your liabilities?
- What actions could you take to improve your business stability?



If costs are tight, monitor your liquidity closely each month. The more you understand your balance sheet, the easier it becomes to spot cash flow issues and take control of your finances.



CASH FLOW DOCUMENTS

A **cash flow statement** looks back on all the money that has flowed in and out of your business over a period of time, showing you where your cash is coming from and where it's going. Whether you need one depends on your business, but it can be a useful tool for any business. Reach out to an advisor if you're unsure.

A **cash flow forecast** looks forward, and helps you predict how much money you expect to come in and go out of your business in the future.

- [What is a cash flow statement?](#)
- [What is a cash flow forecast?](#)



A cash flow forecast breaks down:

- **Money in** – The money you expect to receive, like sales, interest received or loans
- **Money out** – The money you expect to spend, like rent, equipment costs or taxes

The cash flow forecast at a glance

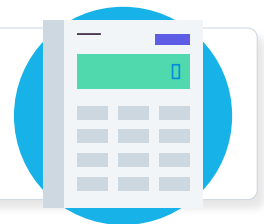
Starting balance



Net cash flow
(Money in - money out)



**Closing
balance**



By reviewing your cash flow forecast, you can:

- See the difference between the money you're making and spending (net cash flow)
- Check how much cash you have left once all your expenses are paid (closing balance)
- Track when money comes in and goes out to spot cash flow gaps
- Plan for big expenses to keep your finances on track

Explore cash flow documents:

- [Cash flow statement example](#)
- [Cash flow forecast example](#)



Make your prediction

Try the two activities below. Spend 5 minutes each week for the next four weeks working on your forecasting skills.



If you don't have a cash flow forecast just yet, there are plenty of free templates available online. Take a look and find one that works for you.

1. Predict what you think will happen

Note down:

- Your starting bank balance
- How much money you expect to receive each week for the next four weeks
- Anything you expect to pay out each week for the next four weeks

Check:

- Is more money coming in than going out each week?
- Are there any big expenses coming up?
- Can you cover all your expenses, or are there shortfalls?
- Is your closing balance higher or lower than the start of the month?

2. Check what actually happened

At the end of each week, check your bank account to see if your actual balance matches what you expected.

- Did everything go as planned? If not, what changed, and what should you do?
- How will any unexpected expenses affect next week's cash?
- What can you adjust to improve your accuracy in future weeks?



Knowing about big expenses or cash flow shortfalls ahead of time helps you plan your budget to manage these costs.

APPENDIX

Xero For Good Ambassador Programme

knowyournumbers.xero.com/en-nz/join-mentorloop

Financial help for your family

govt.nz/browse/family-and-whanau/financial-help-for-your-family/getting-help-budget/

Frequently asked questions

knowyournumbers.xero.com/en-nz/contact

Wellbeing support to keep you and your business healthy

business.govt.nz/wellbeing-support/wellbeing

Inland Revenue (IR) business guides

ird.govt.nz/search?q=smart%20business%20guide&t=All

What is a balance sheet?

xero.com/nz/glossary/balance-sheet/

MBIE balance sheet example

business.govt.nz/assets/Uploads/Documents/balance-sheet.pdf

What is liquidity?

xero.com/nz/glossary/liquidity/

What is cash flow?

xero.com/nz/glossary/cash-flow/

What is a cash flow forecast?

xero.com/nz/guides/cash-flow-forecasting/

Cash flow forecast example

brandfolder.xero.com/NE531UQB/as/5nt9wv4xv83q8gggrc4k4xn/Know_Your_Numbers_Cash_flow_forecast_example

What is a cash flow statement?

xero.com/nz/glossary/cashflow-statement/

MBIE cash flow statement example

business.govt.nz/assets/Uploads/Documents/cash-flow-statement.pdf

What is a P&L?

xero.com/nz/glossary/profit-loss-statement/

MBIE P&L example

business.govt.nz/assets/Uploads/Documents/profit-and-loss-statement.pdf

Small business guides

xero.com/nz/guides/

Sustainability guides

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The power of yet

fs.blog/carol-dweck-mindset/

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