

Understanding Your Financial Reports

Three different views of your business. Read them together for a fuller picture.

Profit-and-loss statement / Performance over time

Shows revenue, expenses, and the resulting profit or loss for a period. Start by checking the dates and whether the report uses cash or accrual accounting.

Compare the same-length periods. Ask what changed in sales, major expenses, and margins. Seasonal changes can make a single month misleading.

Balance sheet / Position on one date

Shows assets (what the business owns or is owed), liabilities (what it owes), and equity (the remaining ownership interest). Assets equal liabilities plus equity.

Review cash, customer balances, vendor balances, loans, and owner activity. Ask about balances that are old, unexpected, or inconsistent with supporting records.

Cash-flow statement / Movement of cash

Explains changes in cash through operating, investing, and financing activity. It helps show how cash changed even when profit tells a different story.

A cash forecast is different: it estimates future receipts and payments using assumptions. A forecast is a planning tool, not a guarantee.

Why profit does not equal cash

Example: under accrual accounting, a \$2,000 customer invoice can increase revenue before the customer pays. Profit may rise while cash stays unchanged.

A \$10,000 loan deposit increases cash and debt; it is not sales revenue. A principal repayment reduces cash and the loan balance rather than becoming an operating expense.

Questions to bring to your review

Are all accounts reconciled through the report date? Are any records or answers still missing?

What explains the biggest changes? Which customer balances need follow-up? What payments are coming due?

Which reports are included in my service scope, and which would help answer my next business decision?