Understanding Your Financial Statements

A small business owner's review guide.

Go beyond running reports - learn what to look for in your numbers.

1. Start With the Profit & Loss

- Review total revenue for the month and year to date
- Compare revenue with the prior month, prior year or budget when useful
- Review gross profit and gross margin if applicable to the business
- Scan major expense categories for unexpected changes
- Investigate unusually high, low or negative expense balances
- Look for one-time expenses that may distort normal operating results
- Review net income or loss and consider what drove the result

Bookkeeper's Note:
Profit is not the same as cash. Your Profit & Loss measures income and expenses for a period, while cash is reflected on the Balance Sheet.

2. Ask Better Profit & Loss Questions

- Which revenue streams are growing or declining?
- Are direct costs moving in line with sales?
- Which operating expenses changed significantly?
- Are there expenses that should be investigated or recategorized?
- Is profitability improving, declining or staying relatively consistent?
- Are seasonal patterns affecting the comparison?
- Does the report match what you know happened in the business?

3. Review Cash & Accounts Receivable

- Compare bank balances on the Balance Sheet with reconciled records
- Review Accounts Receivable and the aging report
- Identify overdue customer balances
- Review customer credits and unapplied payments
- Consider how much of reported revenue has actually been collected
- Identify cash needs for upcoming obligations

4. Review Liabilities & Accounts Payable

- Review Accounts Payable and upcoming bills
- Compare credit card balances with reconciled statements
- Compare loan balances with lender statements
- Review payroll, sales tax, GET or other tax liabilities as applicable
- Investigate negative or unusual liability balances
- Consider near-term payments that will affect cash flow

5. Review Assets & Equity

- ■ Review fixed assets for significant purchases or disposals
- ■ Investigate old balances in Undeposited Funds, clearing or suspense accounts
- ■ Review owner contributions, draws or distributions
- ■ Look for negative asset balances that do not make sense
- ■ Review equity balances for unusual activity
- ■ Identify balances that may need clarification from your bookkeeper or tax professional

6. Look at Trends - Not Just One Month

- ■ Compare several months of revenue rather than relying on a single period
- ■ Watch gross margin trends when applicable
- ■ Review recurring expense trends
- ■ Monitor Accounts Receivable and Accounts Payable over time
- ■ Watch debt balances and repayment progress
- ■ Compare cash levels with upcoming obligations
- ■ Use consistent reporting periods when making comparisons

Bookkeeper's Note:
Financial statements become more useful when you compare consistent periods and look for patterns. One unusual month does not necessarily represent a trend.

7. Questions to Take to Your Bookkeeper

- Why did this account change significantly?
- What is included in this unusual balance?
- Are all bank and credit card accounts reconciled?
- Are there old receivables, payables or uncleared transactions to resolve?
- Are owner transactions recorded correctly?
- Are loan balances and interest recorded correctly?
- Are there bookkeeping issues that should be addressed before tax time?

8. Monthly Financial Review

- Profit & Loss reviewed
- Balance Sheet reviewed
- Accounts Receivable Aging reviewed, if applicable
- Accounts Payable Aging reviewed, if applicable
- Cash position reviewed
- Major changes and unusual balances investigated
- Questions documented for follow-up
- Financial information used to inform upcoming business decisions

Your Reports Should Help You Make Better Decisions

Accurate bookkeeping is the foundation of useful financial reporting.

Take the free **Aloha Bookkeeping Pros Business Finance Confidence Scorecard** to identify areas of your financial process that may need attention.

Need help understanding or cleaning up your books?
Aloha Bookkeeping Pros provides monthly bookkeeping, reconciliations, financial reporting, QuickBooks Online support and cleanup services for small businesses.

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