rea
BUSINESS ADVISORS

READING THE SCOREBOARD: HOW TO UNDERSTAND YOUR FINANCIAL STATEMENTS

Accounting Fundamentals That Drive Better Decisions

GROUNDWORK BY REA · EPISODE 2

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TODAY'S SPEAKERS

Cody Kiser, CPA

Manager

Nearly 10 years at Rea. Started in bookkeeping, moved through audit, now serves as a fractional controller producing monthly and annual financial statements for ACT clients across restaurants, professional services, and more.

Emily Anderson, CPA, MBA

Supervisor

Works with clients on financial statement analysis, industry benchmarking, and trend analysis, helping business owners understand what the numbers actually mean, not just what they say.

WHAT WE'RE COVERING TODAY

01

Your 3 Financial Statements

What each one tells you, and when to use it

02

Reading Your P&L Top to Bottom

A line-by-line walkthrough with real-world examples

03

Common Mistakes That Distort Your Numbers

What goes wrong, and how to fix it

04

The Balance Sheet

What nobody looks at, but everyone should

05

Benchmarking, Ratios & Trend Analysis

Turning your financials into a decision-making tool

06

Cash Flow: A Preview

Setting up Episode 3, plus live Q&A

POLL 1

HOW DO YOU CHECK ON YOUR BUSINESS?

"When you want to know how your business is doing financially, what do you look at first?"

My Bank Balance

Whatever's in the account is my number

My P&L

I pull up the income statement first

My Accountant

I wait for them to tell me how things look

Not Sure

Honestly, I don't have a consistent process

SECTION 1

THE 3 FINANCIAL STATEMENTS, AND WHAT EACH ONE DOES

Before diving deep, get oriented to the full picture. Each statement answers a different question, and using the wrong one leads to the wrong conclusions.

Income Statement (P&L)

What happened over a period of time. Revenue in, expenses out, net income is what's left. This is the story of your operations.

Balance Sheet

A snapshot at a point in time. What you own, what you owe, and what's left (equity). This is your financial health check.

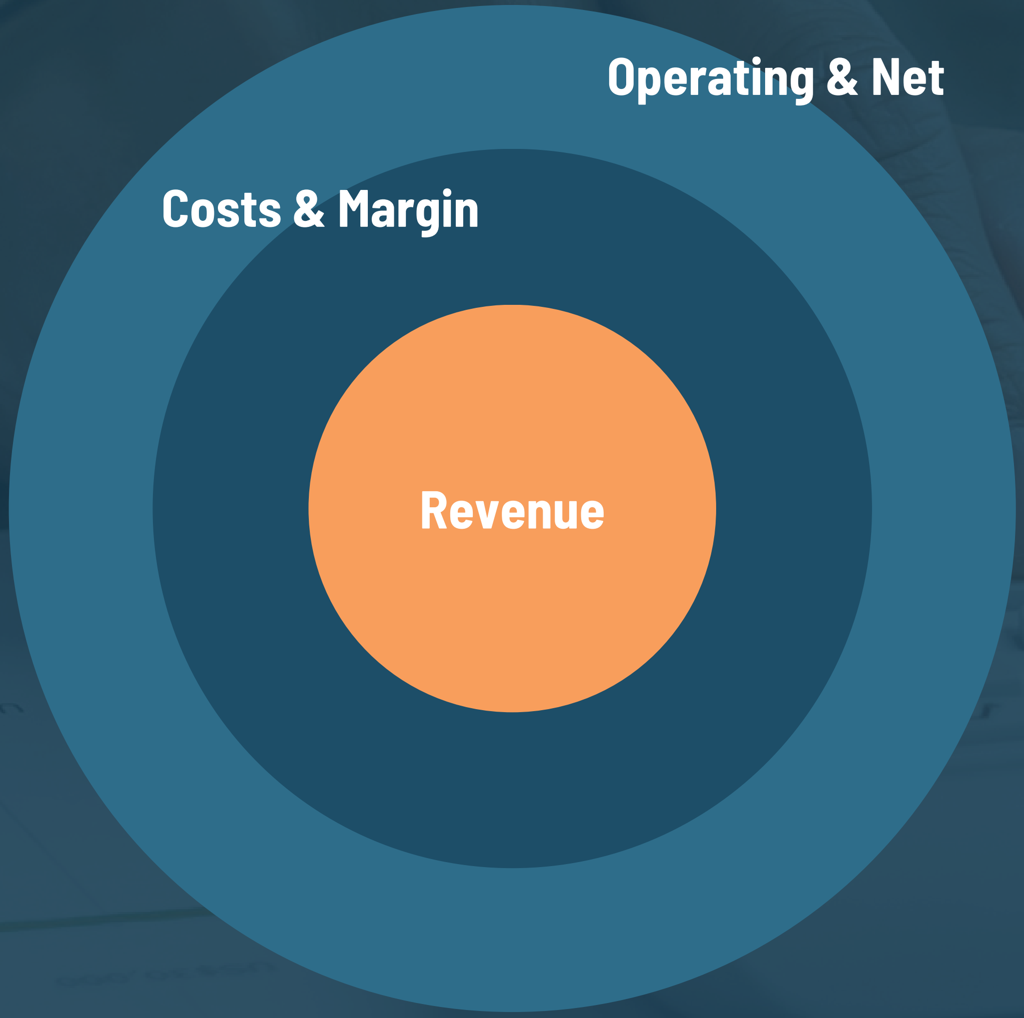
Cash Flow Statement

Tracks the actual movement of cash in and out, and explains why your bank balance doesn't match your profit.

A healthy bank balance doesn't mean your business is healthy. Cash in the bank won't show aging receivables, mounting payables, or whether you're truly profitable.

SECTION 2

READING THE INCOME STATEMENT TOP TO BOTTOM



Why Each Line Matters

- **Revenue:** Total income your business generated
- **COGS:** Direct costs to produce that revenue
- **Gross Margin:** First critical checkpoint, is revenue covering direct costs?
- **Operating Expenses:** Payroll, rent, utilities, insurance
- **Other Income/Expenses:** Depreciation, interest, misc. items
- **Net Income:** The actual bottom line after everything

WHY BREAKING OUT COGS BY CATEGORY MATTERS

Lumping all costs together hides which parts of your business are actually making money, and which aren't.

Restaurant Example

Food, beer, liquor, and wine each carry different margins. Combine them and you can't tell where profit is leaking.

The Broader Principle

Multiple product lines, service types, or departments? Break out costs by segment to see what's actually performing.

The Marketing Analogy

"Half my marketing is working, I just don't know which half." The same applies to costs hidden inside a single line item.

SECTION 3

COMMON P&L MISTAKES THAT DISTORT YOUR NUMBERS

Two Costly Errors

Misallocating COGS vs. SG&A

When direct costs land in operating expenses, your gross margin looks artificially healthy, masking real problems with the core business.

One Lump Payroll Number

A single payroll line doesn't tell you if production costs are in line or if admin overhead is growing faster than revenue.

Finding the Sweet Spot on Detail

Too High-Level

You see the bottom line but can't diagnose why. You know you made money, or didn't, but not what drove it.

Too Granular

The P&L becomes 10 pages. Nobody reads it, and the signal gets buried in the noise.

The Sweet Spot

Enough segmentation to answer "which parts of my business are profitable?", without making the report unusable.

POLL 2

WHICH IS YOUR BIGGEST CHALLENGE?

With financial statements, what trips you up most?

Knowing Which Numbers Matter

Not sure what to actually focus on

Benchmarking

Don't know what's good for my industry

Understanding Changes

Numbers move, but I don't know why

Making Time to Review

It's always the first thing to get skipped

SECTION 4

THE BALANCE SHEET: WHAT NOBODY LOOKS AT (BUT SHOULD)

Most business owners treat the P&L as “how the business is doing” and the balance sheet as “the accountant's thing.” That's a mistake, the balance sheet is the backbone of the entire financial picture.

1 Am I Too Leveraged?

Look at debt relative to equity. Too much leverage puts the business at risk when revenue dips.

2 Are Receivables Turning?

How quickly are you collecting? Slow AR turnover is a cash problem hiding in plain sight.

3 Is Inventory Moving?

Slow-moving or obsolete inventory ties up cash and inflates your assets artificially.

4 Enough Working Capital?

Do you have the short-term assets to cover short-term obligations and keep operations running?

If your balance sheet isn't reconciled and current, the P&L numbers downstream from it can't be trusted either.

SECTION 5

BENCHMARKING, RATIOS & TREND ANALYSIS

This is where financials shift from a report you file to a tool you use. Benchmarking compares your metrics to industry averages, answering “is my gross margin good?” with context, not a guess.

Key Ratios to Track

Gross Margin %

Revenue minus COGS, divided by revenue.

Net Profit Margin

Bottom-line profit as a percentage of revenue.

Current Ratio

Current assets ÷ current liabilities.

Operating Cash Flow Ratio

How well operations generate cash to cover liabilities.

Why Trend Analysis Changes the Game

Seasonality matters

One bad month doesn't mean a bad business.

Year-over-year

More meaningful than month-to-month in most industries.

Budget vs. actual

Are you on track, or drifting?

Rea uses tools like **ProfitCents** to give clients access to industry-specific benchmarks, data most businesses can't get on their own.

SECTION 6

THE CASH FLOW STATEMENT: A PREVIEW

The third statement completes the picture, and answers the question every business owner has asked at least once.

"I had a great quarter on paper. So why can't I make payroll?"

1

Cash from Operations

Day-to-day business activity, the cash engine of your company

2

Cash from Investing

Equipment purchases, asset sales, long-term resource decisions

3

Cash from Financing

Loans, repayments, owner draws, how the business is funded

You can be profitable and broke, or cash-rich and technically unprofitable. The cash flow statement is where that gap lives. We go deep on this in Episode 3: Where'd My Money Go?

POLL 3

WHAT'S YOUR NEXT STEP?

After today, what's your most likely next move?

Review My P&L

Take a fresh look at the numbers

Look at My Balance Sheet

Give it the attention it deserves

Benchmark My Industry

See how I stack up

Register for Episode 3

Keep building the foundation

KEY TAKEAWAYS + WHAT'S NEXT

01

Your Bank Balance ≠ a Financial Statement

It doesn't tell you what your business is actually doing.

02

All 3 Statements Work Together

P&L, balance sheet, and cash flow give you the complete picture, no single statement tells the whole story.

03

Benchmarking Turns Reports into Tools

Context is everything. Knowing your margin is 30% means nothing without knowing if that's good for your industry.

04

Segmentation Drives Decisions

If you can't answer "which parts of my business are profitable?", your statements need more detail.

Up Next, Episode 3: *The Cash Flow Playbook: How to Forecast & Manage Your Cash Wisely*

Connect with a Rea Advisor

Register for Episode 3