

Understanding Financial Reports

A basic guide to the reports that help you understand your business finances

Financial reports provide insight into how a business is performing. Even a basic understanding of these reports can help business owners make better financial decisions.

1. Profit & Loss Statement

The Profit & Loss report shows income and expenses over a specific period.

It answers questions like:

- ✓ How much revenue did the business generate?
- ✓ What were the main expenses?
- ✓ Did the business make a profit?

This report helps track business performance month-to-month.

2. Balance Sheet

The Balance Sheet provides a snapshot of the business's financial position.

It shows:

- ✓ Assets (what the business owns)
- ✓ Liabilities (what the business owes)
- ✓ Equity (the owner's interest in the business)

This report helps understand overall financial health.

3. Cash Flow

Cash flow focuses on how money moves in and out of the business.

It helps answer:

- ✓ Is there enough cash to cover expenses?
- ✓ When does money typically come in?
- ✓ When do large payments occur?

Managing cash flow helps prevent unexpected financial pressure.

4. Why Reviewing Reports Matters

Regularly reviewing financial reports helps business owners:

- ✓ Understand how their business is performing
- ✓ Identify unusual expenses or trends
- ✓ Make informed financial decisions

Even a quick monthly review can provide valuable insight into the health of the business.