



KORBICOM

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Pages: 3 (including this one)

What Story are your Financials Telling You?

Did you make a profit this past financial year? Are you making a profit this financial year? Will you make a profit during the next financial year-end? The first two questions should be easy to answer- if you know where to look. The third is less easy to answer- only because it requires you to make an educated guess...and the accuracy of your guess is going to be determined by three things- you need to know where to look, what it is you are looking at and what it means!

The numbers for your business are summarised in your financial statements (those prepared for external and internal reporting purposes). Those numbers are telling you a story- a story of how your business has performed. And the story is less convoluted and less open to interpretation than the Shakespeare set works we all had to suffer through at school- which should make understanding the story of your business easier. Before we can go forth and take in the story our financials are telling us, we need to be honest with ourselves and assess our reading and comprehension level. After all there is no point in us trying to read Shakespeare when all we able to read are Batman comics! Gauge your financial literacy with the following three simple questions:

1. What are the three main reports in your financial statements?
2. What is the purpose of each report?
3. What do I use each report for?

To assess your level of financial statement literacy:

- If you can't answer questions 1, 2 or 3- it's time to go to school
- If can answer question 1 only- you're a novice
- If you can answer questions 1 & 2 only- you're in a position to have a high-level conversation about financial performance
- If you can answer all three questions- you're in a position to start analysing your business and making educated financial decisions

The answers to the above questions are:

1. What are the three main reports in your financial statements?

- **The Balance Sheet:**
 - A financial report that shows the financial position of a firm at a point in time. It shows the resources (assets) the firm has its disposal and the

sources (Liabilities and Capital) from where the money came to acquire the assets

- **The Income Statement**
 - A report that summarises management's performance, as reflected in the profit (or loss), over a period of time (usually a year).
- **The Cashflow Statement**
 - A report that presents the physical cash (money) coming into and leaving the firm over a period of time (usually a year).

2. What is the purpose of each report?

- **Balance Sheet:**
 - It tells you what assets the firm owns and what is owed to the firm (assets)
 - It tells you how the firm paid for its assets
 - It tells you what the firm owes (its liabilities)
 - It tells you what the owner(s) of the firm are due or liable for (Equity)
 - It helps you understand what you need to do in the short or long term to improve your firm's performance.
- **Income Statement:**
 - It shows you the revenue (Fees) generated and expenses incurred (for a given period) that resulted in the firm making a profit or a loss.
 - It does not include unbilled fees and pending disbursements or receipts or payments
 - It should be used to understand what has resulted in the firm making a profit or loss and what can be done to improve performance.
 - It helps you to make decisions on the changes you need to effect (based on quantifiable information)
 - It should guide you in planning for the future (short term and long term)
- **Cashflow statement:**
 - It tells you where the money in the firm came from?
 - It tells you where the money of the firm it went to
 - It tells you the net amount of money that came into the firm or left the firm during a period.
 - Of the money that came into or left the firm it tells you how much related to Fees and Expenses (Operating-activities), Sales and purchases of assets (Investing-activities) and monies borrowed, repaid and invested in the firm by its owners (Financing-activities)
 - It will help you understand how you can better manage your cash and improve the money in your back pocket.

3. What do I use each report for?

Firstly- you must understand that each report tells you a part of the story and you have to use all three together to get a true understanding of your firm's financial position. Therefore together they tell you the financial position of the firm- if you only watched one movie in the Lord of the Rings series would you know the full story?

Specifically what do you use each report for?

- **Balance Sheet:**



- To Understand if the firm owes its owners money or the owners owe the firm money
- To understand if the firm is in a position to grow?
- To understand how the firm is going to meet its short and long term commitments
- To understand what the firm can do to improve its cash reserves
- This list is not exhaustive
- **Income Statement:**
 - To understand where your revenue (fees) is coming from
 - To understand what your firm's regular and ad hoc expenses are
 - To understand how you can cut expenses to improve your firm's profit/reduce your firm's losses
 - To understand how and where you should be increasing fees to increase profits/reduce losses
 - Again, this list is not exhaustive
- **Cashflow statement:**
 - To understand what you have spent your money on in terms of running expenses, asset purchases, servicing debt
 - To understand where your money came from in terms of Fees, asset sales, loans or owner contributions
 - To understand if the cash reserves are increasing or decreasing
 - Again, this list is not exhaustive

Now that you have assessed your financial statement literacy, you are in a position to either do something about it or have the confidence to start managing your firm using these critical and important reports. If your literacy is below what you expected, help is at hand- we have courses and consulting services to get you up to speed and support you until you are fully literate. Furthermore our software allows you access these reports at the click of a button- so access to these reports is no longer an excuse!

It really is vitally important to be able to understand the story of your business! Think of it like this- corporations exist to maximise profit for their shareholders. They spend vast amounts of money creating financial reports- only because it's important to understand the story of their business. If it wasn't important in maximising profits, they'd increase their profits by cutting the cost of creating financial reports. Determining and evaluating the overall financial health of the firm is a managerial position duty. Why- firms' managers should use financial data to allocate resources and run their businesses. If a manager can't read a balance sheet how would he/she know what the financial position of the firm was and how to improve it?

All stories are different- whether or not you and your firm's story has a happy ending is up to you. How well you understand the story your financials are telling you will determine how the story ends. What's important to remember is that in order to understand the story of your financials, you do not have to have a deep understanding of accounting.

If you would like to know more about how GhostPractice can help you understand the story of your business (with our software, training and consulting services) or how GhostPractice is driving change in the legal industry feel free to call me on 084 586 6789 or email me on kubenn@korbitec.com.

Regards
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