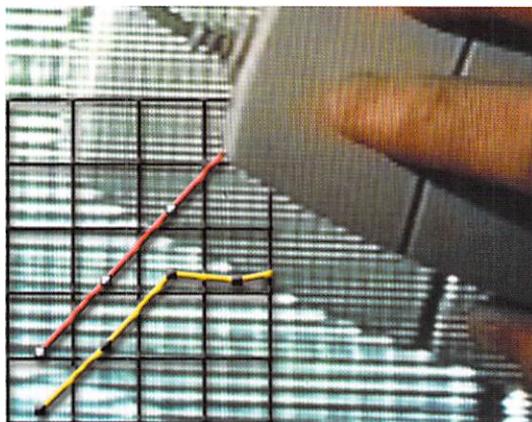
Use Financial, Management Reports to Increase Your Profitability

By Paul Sullivan

Management and financial reports are an historical account of where you've been. Used properly, they can help you to make decisions about the future of your practice. Because they're point-in-time snapshots, they must be compared to other reports to give an accurate picture of what's going on.

If you're using your computer only to track your time, print and send bills, and tally your income and expenses, you're not getting full value for your investment. Today's billing and accounting systems generate many reports that give you a better understanding of how your practice is performing. Here are some of the reports that can help you measure productivity and increase efficiency.



Your accounting program can produce reports that help you measure productivity and improve your bottom line. Are you using them to full advantage?

Financial reports

From the high-school bookkeeping class to the most sophisticated accounting systems, the balance sheet and income statement are the keystone reports. While they provide meaningful information, they have their limitations.

Balance sheet. This report is a list of your assets and liabilities – how much you own and how much you owe. The difference between the two is the equity or book value of the business. This report, always required by your banker, gives insight to your financial liquidity.

Income statement. Often called a profit-and-loss statement, this standard report shows the net profit or loss by deducting expenses from total income. It can be misleading, though, because any month's report can be unrepresentative of overall performance– after all, income and expenses rarely occur in 12 equal parts. Annual income statements are helpful because they reflect changing trends in various income and expense categories.

Cash flow report. There's a wide gap between profit and cash, yet some people think that if they make a profit of x dollars, that should translate into x dollars in personal income. Conversely, many consider any outgoing cash as an expense, but not all cash disbursements show on a profit and loss statement. For example, debt repayments, purchases of equipment, other capital expenditures, and partner draws deplete available cash but don't show on the statement.

Also, if you are categorizing advances to clients on files as expenses, beware: the IRS has determined that these are loans to clients and should be categorized as such. That means they shouldn't show on your income statement, either. Income statements also include noncash items, such as depreciation, that cause confusion.

Cash flow is the real engine that makes a business perform, and the best way to manage and budget cash is by way of a cash flow report. It is simply (1) a list of all income you expect over the next 30, 60, and 90 days and (2) a list of expenditures over the same periods. When a bill arrives in the mail, enter it into your accounts-payable system with its corresponding due date. Enter recurring obligations such as loan payments, lease payments, and expenses like rent in advance – say at the beginning of each year. You can now use this data to generate a cash requirements report.

Cash requirements/accounts receivable aged analysis. The cash requirements report tells you how much funding you need as of a specific future date. Although it will be less meaningful for expenditures beyond 30 days, it can alert you to large expenditures lurking around the corner. Combine this report with an accounts receivable aged analysis report and you'll be able to identify the source of future income.

An accounts receivable aged analysis report tells you how much each client owes and how long it has been since they've made payments. It usually categorizes outstanding client invoices in current, 30, 60, and 90-days-and-over categories. Depending on your billing cycles, you should be able to compare it with earlier reports to identify typical income stream for the next 30 days.

You can also use the aged analysis report to calculate your accounts receivable turnover ratio. This is one of those benchmark numbers that businesses like to track over time. You can calculate your receivables-turnover ratio by dividing your total annual receipts minus retainers by your total accounts receivable. This ratio measures the number of