



Speaker • Author • Consultant • Fraud Examiner

Understanding Your Financial Reports

By: Susan Gunn

“I have gotten my financial reports from my CPA, but don’t have a clue what I am looking at.”

If you’ve uttered this at least once in your life, trust me, you are not alone. It has become a reoccurring statement of tax season I have heard time and time again.

The use of QuickBooks can largely impact the level of understanding financial reports. Since your CPA’s reports are to be based on your QuickBooks data and your custom Chart of Accounts, the financial report you receive back from them should look familiar.

If you are not using QuickBooks, though, then it should come as no surprise you may not be as familiar with the account list.

Let’s break it down.

The Chart of Accounts is the most important feature of any accounting software, including your QuickBooks. A good Chart of Accounts layout can greatly enhance financial report comprehension. However, the flip side is equally true — a poor Chart of Accounts can lead to further confusion.

I designed the Practice Management Chart of Accounts for this exact reason. With likeminded expenses being grouped together, and their parent accounts being in the order of importance, the business management design is a logical and easy to follow financial map, creating straightforward financial reports. There are two aspects of the chart of accounts that typically distinguish it as a management design: no accounting numbers and no Cost of Goods Sold accounts.

For the sake of simplicity. When speaking with your CPA, request all Financial Reports not include accounting numbers. Here’s why.

888.994.3167

susan@susangunnsolutions.com

©2018 Susan Gunn Solutions LLC

If you are not an accountant, then you should not be presented, or be forced, to review reports with accounting numbers. When accounting numbers are present, the brain tries to make sense of ALL the numbers on the page. The issue here is, the transaction totals to the right of each account name are the only numbers important to understanding the report. So, for the sake of your sanity (and your practice), ensure there is only a single set of numbers present on your financial statements.

| The Kiddos Practice Profit & Loss January through December 2017 | | |
|---|--------------|-------------|
| | Jan - Dec 17 | % of Income |
| 5:19 PM | | |
| 01/15/17 | | |
| Cash Basis | | |
| Ordinary Income/Expense | | |
| Income | | |
| PATIENT DEPOSITS | | |
| Cash & Checks Deposits | 79,684.70 | 39.4% |
| MC & VISA Deposits | 90,098.31 | 44.6% |
| American Express Deposits | 7,805.00 | 3.9% |
| Discover Deposits | 1,455.00 | 0.7% |
| Patient Plan Deposits | 24,186.00 | 12.0% |
| Total PATIENT DEPOSITS | 203,229.01 | 100.6% |
| REIMBURSEMENTS & RETURNS | | |
| Insurance Reimbursements | -126.00 | -0.1% |
| Patient Reimbursements | -801.61 | -0.4% |
| Returned Checks | -216.00 | -0.1% |
| Total REIMBURSEMENTS & RETURNS | -1,143.61 | -0.6% |
| Total Income | 202,085.40 | 100.0% |
| Expense | | |
| MINOR EXPENSE | | |

Figure 1: Chart of Accounts

Less is more.

If your brain attempts to process too much information, and only half truly necessary, confusion and frustration will almost certainly set in. Once that happens, you can be sure you are not getting the most out of your financial reports. For every CPA I have come across, I have seen a unique accounting style. That being said, do not let a stubborn CPA stand in the way between you and understanding your reports.

Cost of Goods Sold (COGS), what are they and should you use them?

COGS are the direct costs attributed to your production, i.e. deductible costs of product production, such as materials. Designed with manufacturing in mind, these are items purchased,

then resold. COGS are mainly used to subtract production costs from income for gross profit purposes, with net income being calculated after expenses.

Accuracy is key.

With back to back accountability between your practice software and QuickBooks, the percentage of collections of your total expenses cost is easily defined and grouped logically in one body of expenses. However, just as I have seen almost every form of accounting style, I have also seen everything under the stars used as COGS accounts, even employees. This is a complete misuse of COGS. Employees are definitely not purchased and resold!

Due to the availability of customized QuickBooks Profit & Loss reports, I highly recommend not using COGS accounts. A professional practice is not in the manufacturing industry.

Update Required.

If you are using QuickBooks and only provided your CPA with reports, rather than an accountant's copy, the sole accuracy of your financial reports relies upon the accuracy of your data. The financial reports should then mirror your accounts and their totals.

If you are providing your CPA with an accountant's copy, and the accounts are similar, but ultimately different, then your CPA may be exporting your data into their own accounting software. This is most certainly an acceptable process IF the CPA is updating your existing QuickBooks software and not simply maintaining the CPA software.

Always ask your CPA to keep your QuickBooks as updated and accurate as the accounting software they are using for tax purposes. This includes updating amortization/depreciation of expenses or fixed assets, as well as loan balances. If you ever change accountants, you will be kicking yourself for not keeping up to date.

For the sake of understanding.

Design simplicity makes for an easier review of your reports. On your Profit & Loss report, match the same date period of Patient Income (Collections) with that of the Collections report from your practice software. Patient Reimbursements, also an Income Account (albeit negative income), should match your practice software's Adjustment report for the same time period.

Following Income, Expenses should be grouped together logically. Don't forget to turn on the advanced option to view the percentages of those expenses compared to income.

Design your QuickBooks for YOU.

Understanding the importance of your finance report details encourages the management and growth of your practice.

Diligently review financial reports.

If you are using QuickBooks, compare the CPAs Profit & Loss report with your own QuickBooks report of the same time period. Compare the CPA's Income details to the practice software's Collection report created for the same time period. Are these the same?

Now, compare last year's Financial Reports with this year's.

Are you more or less profitable?

Is your income greater or less? Why?

What percentage of income is your production cost? Is it reasonable? Keep in mind, if you are a specialty practice, these expenses may be greater than others, but your net income may be greater, as well.

Are your expenses reasonable? What percentage of income are your employee expenses for wages? For benefits? In total?

With QuickBooks reports, you can "drill down" to see transaction details in a Profit and Loss report. Simply hover the magnifying glass over the amount and click.

Review and assess your expense transactions monthly and you will be the expert of your own practice.

"I have gotten my financial reports from my CPA but don't have a clue what I am looking at."

With determination to learn, courage to ask questions and dedication to thoughtful study, you will be on the fast track to understanding and utilizing your financial reports. Keep at it and don't give up. If you need help, call. That's what I'm here for, after all!