How to Understand Financial Statements: What the Numbers Reveal About Your Business

Understanding the story behind profitability, cash flow, and financial strength.

You Have the Numbers. But What Are They Telling You?

The email arrives from your accountant.

Attached are your year-end financial statements. You open the file, scan the pages, and look for the numbers that feel familiar.

Sales. Expenses. Profit.

Perhaps revenue increased. Perhaps the business earned more than last year. You feel a moment of relief.

Then you look at your bank balance.

And the relief gives way to a question:
“If the business made money, why does cash still feel so tight?”

For many business owners, this is where financial statements become difficult. The numbers appear clear on the page, but their connection to everyday experience is harder to see.

You have customers. Your team is busy. Bills are being paid.

Yet you are unsure whether the business can comfortably afford another employee, replace an aging vehicle, or support a larger payment to your family.

The statements tell you something happened.

You want to understand what it means.

A Familiar Business. A Familiar Question.

Consider Maya, the owner of *Prairie Home Services Inc.*, a fictional incorporated business in Edmonton that provides residential maintenance and renovation services.

Maya knows her business well. She understands which jobs require more labour, which suppliers are dependable, and why customers recommend her team.

Over the past year, the business generated $1.2 million in revenue and reported $90,000 in net income.

At first glance, that sounds encouraging.

But several customers have yet to pay their invoices. The company purchased equipment during the year. It is making monthly loan payments, and payroll comes due again next week.

Maya is considering hiring another technician.

Her question is straightforward:
“Are we in a strong enough position to take this on?”

The profit figure alone cannot answer her.

She needs to understand:

- how the business earned that profit,
- where its cash went,
- what it owes, and
- which commitments are approaching.

We will follow Maya and her business throughout this article, connecting familiar business events to the statements that record them.

Knowing Your Business Includes Understanding Its Financial Story

Many capable owners have never been shown how to read financial statements in a way that connects with their daily decisions.

They may know the meaning of individual terms while remaining unsure how the pieces fit together.

They may also hesitate to ask questions that seem too basic.

That hesitation is understandable.

Financial language can make an ordinary business question feel more complicated than it needs to be.

Yet asking why profit has increased while cash has fallen is a thoughtful question.

So is asking whether higher sales are leaving enough behind, or whether the business is becoming more dependent on borrowing.

These questions are where understanding begins.

The Goal Is to See More Clearly

You do not need to become an accountant to take a more informed role in your business's financial conversations.

You need a working understanding of what each statement reveals, how the statements connect, and which changes deserve a closer look.

That understanding can help you recognise pressure earlier, assess opportunities more carefully, and have more useful conversations with your accountant.

Financial statements describe what has already happened.

Read thoughtfully, they also provide evidence for the choices ahead.

For Maya, the next step is learning where to look—and what to ask.

For you, it may begin with one question:
"What do I need to understand about my business before making my next important decision?"

Start With the Questions Your Financial Statements Can Answer

When Maya opens the financial statements for Prairie Home Services Inc., she looks first at net income.

The business earned $90,000.

That is encouraging.

But she is considering hiring another technician, and she needs to understand what that commitment would mean.

- Would another employee help the business earn more?
- Could it manage the additional payroll while waiting for customers to pay?
- What other obligations would compete for the same cash?

Each question requires a different view of the business.

Knowing which statement to turn to makes the numbers easier to approach—and the next conversation more useful.

The Income Statement: How Did the Business Perform?

The income statement reports revenue, expenses, and the resulting profit or loss **over a period of time**, such as a month, quarter, or year.

For Maya, it shows how $1.2 million in annual revenue became $90,000 in net income after the expenses reported for that year.

It helps her explore how much the business earns from its work and which costs absorb those earnings.

That matters to her hiring decision.

A busy schedule suggests demand, but Maya also needs to understand whether the work produces enough profit to support a larger team.

Her starting question is:
“What are we earning from the work we already do?”

The income statement provides evidence for that discussion. Assessing a new hire will also require an estimate of the additional revenue and costs.

The Balance Sheet: Where Does the Business Stand?

The balance sheet shows what the business owns and owes **at a particular date**.

It reports assets, liabilities, and equity.

Put simply, equity is what remains on the books for the owners after subtracting what the business owes from what it owns.

Maya can look here for cash, unpaid customer invoices, equipment, supplier balances, and outstanding loans.

These figures help her consider whether the business has the resources to take on another commitment—and which obligations already need attention.

Her question becomes:
“What resources and obligations do we have as we consider this decision?”

The timing distinction matters. An income statement might cover the full year ending December 31.
The balance sheet shows the position on December 31 itself.

A profitable year can still end with limited cash and substantial bills to pay.

The Cash Flow Statement: How Did Cash Move?

The cash flow statement explains changes in cash **over a period of time**.

It shows cash generated or used through everyday operations, investment in longer-term assets, and financing activities such as borrowing and repayments.

For Maya, it helps explain why the year's profit did not translate into an equal increase in the bank balance.

- Customers may still owe money.
- Equipment purchases and
- Loan principal repayments may have used cash.

Her question is:
"How much cash are our operations generating, and where else is cash going?"

That understanding matters because another technician brings recurring payroll commitments.

Some reporting packages do not include a cash flow statement.

Maya can still ask her accountant to help explain the cash movements.

One Business, Three Connected Views

A simple distinction brings these statements together:

- ✔ **Profit shows what the business earned after expenses.**
- ✔ **Financial position shows what it holds and owes.**
- ✔ **Cash flow shows how cash moved.**

Supporting information adds context.

A statement of retained earnings or changes in equity explains movements in owners' interests.

Notes explain the reporting basis and significant details. The accountant's report describes the work performed.

Maya now knows where to begin. Her statements provide a foundation; current information and forecasts will help her assess what comes next.

She starts with profitability:

How is the business earning its profit—and what is influencing the amount that remains?

The Income Statement: Understanding How Your Business Earns Its Profit

Maya remembers the busy weeks, the demanding projects, and the effort her team put into serving customers.

The income statement helps her see what that work produced financially.

Prairie Home Services Inc. generated $1.2 million in revenue and earned $90,000 in net income. Between those figures lies a story about pricing, delivery costs, and the expense of running the business.

Understanding that story helps Maya judge whether more work could support a stronger business.

Follow the Movement From Revenue to Profit

Here is a simplified annual income statement for Maya's fictional company:

Item	Amount
Revenue	$1,200,000
Direct costs of delivering services	($720,000)
Gross profit	**$480,000**
Operating expenses	($350,000)
Operating profit	**$130,000**
Interest expense	($10,000)
Profit before income tax	**$120,000**
Income tax expense	($30,000)
Net income	**$90,000**

These figures are illustrative. Actual income tax expense depends on the company's circumstances.

Each profit subtotal helps Maya examine a different part of the business.

Gross Profit: What Remains After Delivering the Work?

Direct costs include job materials, field labour, and subcontractors. After these costs, Maya's business retained $480,000 in gross profit.

Dividing gross profit by revenue gives a **gross margin of 40%**.

For every dollar of revenue, 40 cents remained to cover operating expenses, interest, income taxes, and the eventual profit.

This gives Maya a useful way to examine pricing and job performance.

If materials become more expensive or jobs take longer than estimated, less may remain from each sales dollar.

For her proposed technician hire, she needs to estimate both the additional revenue and the costs of delivering that work.

Operating Profit: What Remains After Running the Business?

The company also needs administration, insurance, marketing, and other support.

In this example, those operating expenses totalled $350,000, leaving $130,000 in operating profit.

This subtotal helps Maya assess how the business's ordinary activities performed before interest and income taxes.

It also raises a practical question: would a larger team require more office support, software, or supervision?

Growth can change costs beyond the wages of the person being hired.

Net Income: What Was the Final Accounting Result?

After interest and income tax expense, the company reported $90,000 in net income.

That represents a **net margin of 7.5%**: 7.5 cents of accounting profit for every dollar of revenue.

Whether that result is satisfactory requires context, including prior performance, business risks, and any unusual items.

The figure also does not tell Maya how much cash she can withdraw.

When Higher Sales Leave Less Behind

Suppose revenue increased to $1.32 million while direct costs rose to $825,000.

Gross profit would become $495,000, and gross margin would fall to 37.5%.
An additional $120,000 in revenue would produce just $15,000 in additional gross profit, before any increase in operating expenses.

That relationship deserves attention.

- Did material prices rise?
- Were jobs underquoted?

- Did the company accept more work with lower margins?

The numbers identify a change. Maya's knowledge of the business helps explain it.

Keep Profit and Cash Distinct

Under accrual accounting, revenue is generally recorded when earned and expenses when incurred.

A completed December job may contribute to the year's profit even if the customer pays in January.

Profit therefore needs to be read alongside cash movements and outstanding balances.

Maya now has a question she can return to:
"When our sales increase, how much of that increase remains after the costs of earning it?"

Next, she needs to understand the resources and obligations behind those results.
What does the business own—and what does it owe?

The Balance Sheet: Understanding the Position Behind the Performance

Maya's business earned $90,000 in net income.

Before hiring another technician, she needs to understand the financial position supporting that decision.

The new employee would need to be paid on schedule, even when customers pay late.

Supplier bills, loan payments, and taxes would continue coming due.

The balance sheet helps Maya examine the resources available to support those commitments—and the obligations already competing for them.

Start With One Simple Relationship

Every balance sheet follows the same equation:
Assets = Liabilities + Equity

Assets are the resources recorded by the business.

Liabilities are its recorded obligations.

Equity is what remains on the books after liabilities are subtracted from assets.

Here is Maya's simplified year-end balance sheet.

Assume $30,000 of the company's $180,000 loan balance is due within the next 12 months.

Item	Amount
Current assets	
Cash	$35,000
Customer receivables	$110,000
Inventory and job materials	$25,000
Total current assets	**$170,000**
Longer-term assets	
Equipment, net of accumulated depreciation	$230,000
Total assets	**$400,000**
Current liabilities	
Supplier payables	$55,000
Income taxes payable	$15,000
Loan principal due within 12 months	$30,000
Total current liabilities	**$100,000**
Remaining longer-term loan balance	$150,000
Total liabilities	**$250,000**
Share capital and retained earnings—equity	$150,000
Total liabilities and equity	**$400,000**

The equation balances. Understanding what those figures mean requires looking at their timing and composition.

What Can Support the Payments Ahead?

Current assets generally include cash and resources expected to become cash, be sold, or be used within a year or the normal operating cycle.

Current liabilities generally capture obligations falling due over that horizon.

Maya's **working capital** is:
$170,000 − $100,000 = $70,000

This provides an initial measure of the company's short-term financial cushion.

But $70,000 in working capital is not $70,000 in available cash.

Only $35,000 is in the bank. Another $110,000 depends on customer collections, while $25,000 is held in inventory and materials.

Maya needs to ask whether overdue invoices are collectible and whether materials will be used soon. She also needs to know when individual payments fall due.

A positive working capital balance can still leave a business facing a cash shortage at the wrong moment.

Equipment Supports Work, but Cannot Directly Fund Payroll

The equipment's $230,000 carrying amount reflects its recorded cost less accumulated depreciation in this example.

It does not necessarily equal what the equipment could sell for today.

The equipment helps Maya's team deliver services and earn revenue. Its usefulness differs from cash available for wages or supplier payments.

That distinction matters when judging how much financial flexibility the business actually has.

Equity Is Not Money Waiting to Be Withdrawn

The company's $150,000 in equity includes share capital and retained earnings.

Retained earnings generally represent accumulated accounting profits, less losses and dividends. Those earnings may already be invested in equipment, tied up in customer invoices, or used to repay debt.

Equity therefore does not represent a separate bank balance. It also does not necessarily equal the business's sale value.

Connect the Position to the Decision

Maya can now see what deserves attention before she hires: customer collections, upcoming obligations, and the cash needed between completing work and receiving payment.

The balance sheet provides a snapshot.

Current information and forecasts help her assess what happens next.

Her question becomes:
"Will money become available in time to meet the commitments we are making?"

To understand that more fully, she turns to how cash moves through the business.

The Cash Flow Statement: Understanding Why Profit and Cash Differ

Prairie Home Services Inc. earned $90,000 in net income during the year.

Yet its cash increased by only $15,000—from $20,000 to $35,000.

Maya wants to understand the difference.

Some customer invoices remained unpaid. The business purchased equipment and repaid debt. Each affected cash differently from profit.

The cash flow statement brings those movements together, explaining how the opening cash balance became the closing balance.

Follow the Money in Three Parts

Here is the company's simplified annual cash flow summary:

Cash movement	Amount
Cash at beginning of year	**$20,000**
Cash generated by operating activities	$95,000
Cash used in investing activities	($60,000)
Cash used in financing activities	($20,000)
Net increase in cash	**$15,000**
Cash at end of year	**$35,000**

Each category helps Maya understand a different part of the story.

Operating Activities: Did Everyday Business Generate Cash?

Operating cash flow reflects cash generated or used through ordinary business activities.

One way to understand it is to start with profit, adjust for non-cash expenses, then account for changes in operating assets and liabilities.

For Maya's business, assume:

- Net income included $30,000 in depreciation, an expense without a current cash payment.
- Customer receivables increased by $20,000, leaving more revenue uncollected.
- Inventory and materials increased by $5,000, tying up additional resources.
- Other operating balances were unchanged.

The simplified reconciliation is:
$90,000 + $30,000 − $20,000 − $5,000 = $95,000

Adding back depreciation does not create cash. It reverses the effect of a non-cash expense when reconciling profit to operating cash flow.

The result tells Maya that operations generated $95,000 during the year.

She still needs to examine whether that cash generation is sustainable and when money arrives.

Investing Activities: What Did the Business Purchase for Future Use?

The company spent $60,000 on equipment.

The purchase used cash immediately. Its cost is generally recognised as an expense over its useful life through depreciation.

That timing explains why a substantial equipment purchase can reduce cash much more than it reduces the same year's profit.

It also shows why a cash outflow needs context. Equipment may improve reliability, increase capacity, or replace something essential.

Maya's question is whether the purchase supports the business while leaving enough financial flexibility for other commitments.

Financing Activities: How Did Borrowing and Repayments Change Cash?

The company received $10,000 in new borrowing and repaid $30,000 of loan principal.

Together, those transactions produced a $20,000 financing cash outflow.

Borrowing increased cash without creating revenue.

Principal repayments reduced cash and debt without becoming an income statement expense. Interest is accounted for separately.

Financing activities can also include owner contributions and distributions.

Debt repayment uses cash while reducing an obligation. Its effect deserves to be understood alongside the business's remaining resources.

Connect the Cash Movements to the Decision

Maya can now explain the $15,000 increase in cash.

- Operations generated $95,000.
- Equipment purchases used $60,000.
- Financing activities used a net $20,000.

Some revenue remained in customer receivables, and additional resources were held in materials. Cash also went toward equipment and debt repayment.

For the proposed hire, Maya needs to look ahead.

A loan can increase today's bank balance, while payroll creates a recurring commitment.

Expected operating cash flow and available funding must support that commitment over time.

The annual statement explains past movements.

A short-term cash forecast helps identify upcoming pressure.

Maya's next question brings the statements together:
"What do profitability, financial position, and cash movement collectively tell me about our ability to hire?"

Read the Statements Together: One Business, One Connected Story

Maya begins to recognise familiar business events across her financial statements.

The unpaid invoice, the equipment purchase, and the loan repayment each appear in different ways.

Following those connections helps her understand how the business earned $90,000 while its cash increased by $15,000.

The statements tell different parts of the same story. Reading them together makes that story clearer.

Follow One Job From Work Completed to Payment Received

Consider a $10,000 maintenance project already included in Prairie Home Services Inc.'s annual results. For simplicity, this example excludes sales taxes.

Assume the job required $6,000 in direct labour and materials, all paid before the customer settled the invoice.

Once the work was completed and the revenue earned, the income statement reflected $10,000 in revenue and $6,000 in direct costs—a $4,000 contribution to gross profit.

That contribution still needed to help cover overhead, interest, and income taxes.

Meanwhile, the balance sheet showed $10,000 owed by the customer. The company had already paid $6,000 to deliver the work.

The job contributed to profit while temporarily using cash.

When the customer paid, cash increased by $10,000 and receivables decreased by the same amount. The receipt contributed to operating cash flow.

Collection created no second sale or additional profit. It converted money owed into money the business could use.

Maya can now see why taking on more profitable work may still require additional cash before customers pay.

Connect the Equipment Purchase Across the Statements

The company's $60,000 equipment purchase also tells a connected story.

The cash flow statement records the investing outflow. The balance sheet records the equipment acquired. Depreciation gradually recognises its cost as an expense.

Across the company's equipment, the annual figures reconcile:
$200,000 opening carrying amount + $60,000 purchased − $30,000 depreciation = $230,000 closing carrying amount

This simplified example assumes no disposals or other equipment adjustments.

Maya sees both the investment and its consequences: cash was committed immediately, while equipment remained available to support future work and its cost was allocated over time.

Connect Debt Reduction With Cash Use

The loan balances connect just as clearly:
$200,000 opening debt + $10,000 borrowed − $30,000 principal repaid = $180,000 closing debt

The balance sheet shows the remaining $180,000 obligation. The cash flow statement shows the net $20,000 financing outflow.

Principal repayments reduced cash and debt without reducing accounting profit. Interest expense was separate.

Maya can now explain how cash was used to reduce an obligation, alongside the money committed to equipment.

Bring the Connections Back to the Hiring Decision

Another technician could help the business complete more profitable work. That person would also need to be paid before some customers settled their invoices.

Additional tools or a vehicle might require cash or financing. Existing loan payments would continue.

Maya therefore needs to consider the combined effects:

- Would additional work produce enough margin after its delivery costs?
- How much cash would be needed between paying for the work and collecting from customers?
- Would equipment and financing commitments leave sufficient room for other obligations?

Current information and forecasts help her explore those questions using the relationships she now understands.

A Reading Habit Worth Keeping

Follow one business event across the statements.

Ask what it changed: profit, cash, assets, or obligations. Then consider what those changes mean together.

A decision can improve profit, use cash, and change the balance sheet at the same time.

Maya's next step is to examine whether those patterns are improving:
"As sales grow, are we earning more from the work—and collecting the money quickly enough to support it?"

Look Beyond One Year: Recognising Patterns That Deserve Attention

Maya understands how Prairie Home Services Inc. earned its profit and used its cash. Now she wants to know whether the business is becoming better able to support another employee.

This year's figures provide a starting point. Comparing them with earlier periods helps her examine direction.

- Are margins improving?
- Are customers paying more slowly?
- Is borrowing becoming a recurring way to cover ordinary expenses?

Financial understanding deepens when Maya moves from "What is the number?" to "What is changing—and why?"

Make the Comparison Meaningful

Begin with periods of similar length and consider the same season where possible.

A busy summer quarter may naturally differ from a quiet winter quarter. Changes in expense classifications, accounting methods, or unusual costs can also affect comparisons.

Maya's first question is:
"Am I comparing similar periods, prepared on a consistent basis?"

Prior years, monthly results, and budgets offer different reference points. Each needs context.

Compare Sales Growth With What Remains

Earlier, we considered revenue increasing from $1.2 million to $1.32 million while direct costs rose from $720,000 to $825,000.

The extra $120,000 in sales would produce just $15,000 in additional gross profit. Gross margin would fall from 40% to 37.5%.

The business would be busier, but less would remain from each sales dollar to cover overhead and contribute to net income.

Two measures help Maya follow this relationship:

Measure	Calculation	What it helps Maya examine
Gross margin	Gross profit ÷ revenue	What remains after direct delivery costs
Net margin	Net income ÷ revenue	What remains after all reported expenses

If gross margin stays steady while net margin falls, overhead, interest, taxes, or unusual items may deserve attention.

Ask Whether Sales Are Becoming Cash Quickly Enough

Maya's year-end receivables increased from $90,000 to $110,000.

That movement could reflect higher sales, slower payments, or large invoices issued shortly before year-end.

Collection days provides another perspective:
Average trade receivables ÷ credit sales × days in the period

This estimates the average time taken to collect payment.

The calculation needs consistent treatment of sales taxes and an appropriate average receivables balance.

Suppose collection time increased from 30 to 40 days. The business would wait roughly ten additional days for payment while payroll and other commitments continued.

That average does not describe every customer. An aged receivables report helps identify which invoices are overdue.

Look for Trends That Reinforce One Another

Imagine sales rising while margins narrow, collections slow, and borrowing increases.

Together, those movements could mean the business is doing more work, retaining less from each sales dollar, and financing a longer wait for payment.

That combination matters to Maya's hiring decision. Another technician could increase capacity while adding pressure before customer payments arrive.

The pattern deserves investigation. Its cause still needs evidence.

Separate Timing Differences From Persistent Pressure

One large invoice near year-end may temporarily increase receivables. Several months of worsening overdue balances suggest a more persistent collection issue.

Likewise, additional inventory may prepare the business for confirmed work—or represent materials that are no longer moving.

There is no universal "good" margin, collection period, or working capital balance. Business models, payment terms, seasonality, and industry conditions shape interpretation.

Finish With One Clear Focus

Maya can make each review useful by identifying:

- One change that deserves attention.
- A possible explanation.
- The evidence needed to assess it.

This turns comparison into a manageable next step.

Before deciding what the trends mean, she has one more question:
"What else do I need to know before trusting my interpretation of these numbers?"

Read the Context: What the Headlines and Totals Leave Out

Maya's balance sheet shows $180,000 in outstanding loans, including $30,000 due within the next year.

Those figures help her understand the obligation.

But before hiring another technician, she needs to know more.

- What interest will the company pay?
- Which assets secure the borrowing?
- Are there lender conditions that could affect its financial flexibility?

The balance tells Maya how much is owed. The surrounding information helps her understand what that obligation means.

The same principle applies throughout her financial statements.

Confirm What the Statements Cover

Begin with the company name, reporting dates, and comparative periods.

- Do the statements cover the business being assessed?
- Are the periods comparable?
- How much time has passed since year-end?

For owners with several corporations, one company's statements may exclude property, debt, or activities held elsewhere.

Maya also needs to consider developments since the reporting date.

A major customer loss, new borrowing, or overdue account could change the position she is relying on.

Understand How the Figures Were Prepared

The reporting basis determines how transactions are recorded, measured, and presented.

A Canadian private company might use Accounting Standards for Private Enterprises.

Compiled financial information may use a different basis described in an accompanying note.

Maya does not need to master those rules. She needs to understand which basis applies and whether the information suits her purpose.

Policies and estimates also influence the figures. Equipment depreciation depends partly on estimated useful lives.

Receivables may require adjustments when collection becomes doubtful.

A useful question is:
“Which methods or estimates could materially affect my interpretation?”

Understand the Accountant’s Involvement

The accountant’s report explains the type of engagement performed.

Engagement	What the reader should understand
Compilation	The accountant assists in preparing financial information from information supplied by management. No assurance is provided.
Review	The accountant provides limited assurance, primarily through inquiries and analytical procedures.
Audit	More extensive procedures support reasonable assurance that the statements as a whole are free from material misstatement.

A material misstatement is an error or omission significant enough to influence users’ decisions.

A compilation’s lack of assurance does not automatically make the information unreliable.

It means the engagement does not provide an assurance conclusion.

An audit provides high, rather than absolute, assurance.

Neither a review nor an audit guarantees future performance or answers Maya’s hiring question.

Any qualifications or other significant report wording deserve discussion with her accountant.

Look for Commitments Behind the Balances

Notes may explain financing terms, pledged assets, lease commitments, guarantees, and transactions with owners or related companies.

What appears depends on the reporting basis. Supporting agreements or schedules may therefore be needed.

Maya can ask:

- What assets secure our borrowing?

- What lender conditions must we meet?
- Which commitments will require future payments?
- When could amounts owed to shareholders become payable?

These questions connect the reported balances to the company's room to make new commitments.

Distinguish Tax Expense From Taxes Still Payable

Maya's illustrative statements show $120,000 in profit before income tax, $30,000 in tax expense, and $15,000 in year-end income taxes payable.

Tax expense relates to the accounting period.

Taxes payable represent the remaining recorded obligation at the reporting date.

Payments, opening balances, and other tax adjustments help explain the difference.

Accounting profit may also differ from taxable income—for example, because accounting depreciation and tax deductions follow different rules.

The illustrative expense is not a tax-rate assumption.

Clarify Before Committing

Maya now knows which explanations to seek before acting.
"What do I need to clarify before using these numbers to make a commitment?"

With that context, she can begin translating financial understanding into decisions about pricing, collections, investment, and hiring.

Turn Financial Understanding Into Better Business Decisions

Maya began with a question: can Prairie Home Services Inc. afford another technician?

After examining the statements, she can ask something more useful:
"What would make this hire financially workable, and what must we prepare before it begins?"

She understands that profit, available cash, and existing obligations each influence the answer. Now she can bring them together around the decision.

Test the Decision From Three Perspectives

Maya can organise her assessment around three questions:

Perspective	Question
Profitability	Would the additional work cover the additional costs?
Cash timing	Could we meet payments before customers pay?
Resilience	Could we manage if results developed more slowly than expected?

Together, these questions help her identify the conditions under which hiring could strengthen the business.

Profitability: What Would the Hire Add?

Maya's existing gross margin provides context. The hiring decision needs its own estimate of additional revenue and costs.

She should consider the work available, realistic billable hours, and the time a new employee may need to become productive.

Against that revenue, she needs to include wages, employer payroll costs, benefits, materials, training, and any additional overhead.

Consistency matters. If her calculation already includes the technician's wages within direct labour costs, she should not subtract those wages again.

Some existing overhead may remain unchanged. Other costs may increase as capacity grows.

Her question becomes:
"After counting the additional costs once, what contribution could this hire make?"

Cash Timing: What Must Be Paid Before Money Arrives?

A profitable hire can still increase the cash needed to operate.

- Wages begin on schedule.
- Tools and training may require earlier payments.
- Customers may settle invoices weeks after the work is completed.

Maya needs a short-term cash forecast that combines those movements with existing supplier payments, taxes, and debt repayments.

This helps her estimate the funding needed between paying for the work and collecting the revenue.

The year-end bank balance is one starting point.

Upcoming receipts, obligations, and available financing complete the picture.

Resilience: What If Progress Is Slower?

Suppose the technician starts as planned, but billable work builds more slowly and customers take longer to pay.

- Would the business still meet payroll and its other commitments?
- How long could it support that situation?
- What response would be available?

Maya can compare a reasonable base case with a cautious scenario.

The purpose is to understand where pressure might arise and prepare before it does.

Let the Findings Shape the Response

Different findings can lead to different choices.

- ✔ If demand is strong and the work is profitable, but collections are slow, Maya may need to improve payment processes and arrange sufficient funding before the start date.
- ✔ If there is insufficient profitable work, delaying the hire may deserve consideration.
- ✔ If the existing team is overstretched, she must also weigh the effects of delay on service quality, staff workload, and lost opportunities.

The same reasoning applies elsewhere:

- ✔ Investigate margin pressure before changing prices,
- ✔ Assess cash needs before buying equipment, and
- ✔ Review obligations before making owner distributions.

Make the Reasoning Clear Enough to Revisit

Maya can use a repeatable habit:
What changed? → What might explain it? → What else do we need to know? → What decision deserves attention?

Once she decides, she can record the assumptions, the action, and the results she expects to monitor.

She can explain:

- ✔ Why the choice makes sense,
- ✔ Recognise what it depends on, and
- ✔ Respond when circumstances change.

Her final question turns the decision into an ongoing responsibility:
“What would tell us that this decision is working—and when will we check?”

Build a Review Habit: Make Understanding Part of Running the Business

Maya’s first careful review helped her assess whether Prairie Home Services Inc. could support another technician.

Returning to the numbers will help her discover whether the assumptions behind her decision still hold.

Work may arrive more slowly than expected. Customers may take longer to pay. Job costs may change.

A regular review gives Maya an opportunity to:

- notice those changes,
- understand their consequences, and
- respond while choices remain available.

Start With a Manageable Rhythm

A monthly financial review could give Maya a practical starting point.

During a hiring transition or a period of cash pressure, she may also need a weekly look at collections, available cash, and upcoming payments.

The frequency should reflect how quickly conditions change and how soon she may need to act.

Each review can begin with a few meaningful changes, approaching obligations, and one decision requiring attention.

A focused routine is easier to sustain when its purpose is clear.

Make Sure the Information Supports the Conversation

Before reviewing results, Maya needs to know whether the records are sufficiently complete.

Bank accounts should be reconciled, customer invoices and supplier bills recorded, and significant adjustments or estimates identified.

An unrecorded supplier bill, for example, can make profit appear higher and obligations lower than they actually are.

Maya does not need to wait for perfect information before every decision. She does need to understand what is missing and whether it could change her interpretation.

Return to What You Expected

If Maya hires the technician, she can compare actual results with the assumptions behind that choice.

If she delays, she can track the conditions that would justify reconsidering.

A simple worksheet can keep the review focused:

What we expected	What happened	What we will do
Expected billable work	Actual billable work and the difference	Agreed response, person responsible, and date
Expected customer receipts	Actual receipts and overdue amounts	Collection follow-up or forecast adjustment
Expected job margins	Actual margins and identified causes	Pricing, estimating, or operating changes

The entries should reflect evidence from the business.

Where the cause is unclear, the next action may be to investigate.

Decide Which Differences Deserve Attention

Maya can consider three things:

- **Size:** How significant is the difference?
- **Persistence:** Is it temporary or recurring?
- **Consequence:** Could it affect an approaching commitment?

A brief payment delay may require monitoring.

Repeated collection delays that threaten payroll require a prompt response.

These questions help Maya direct attention where it can make the greatest difference.

Combine Financial Interpretation With Business Knowledge

Maya understands the jobs, customers, and staffing pressures behind the figures.

Her accountant brings accounting interpretation and technical judgment.

Suppose labour costs rise. Maya may know that several projects required unexpected rework.

Her accountant can help assess the effect on margins and whether the reports capture the costs consistently.

Together, they can ask:
“What explains this change, and what response would address its cause?”

That conversation connects the financial result to something the business can examine or improve.

Follow Through—and Learn

Every agreed action needs someone responsible and a date for checking progress.

At the next review, Maya can ask:
“Did we do what we agreed, and did it improve the situation?”

The answer helps her decide whether to continue, adjust, or investigate further.

Over time, these reviews build a record of expectations, decisions, and lessons.

Maya becomes better able to recognise patterns and explain her choices.

The starting point can be small: choose a review date, one important question, and the information needed to answer it.
“What will I review regularly so I can act before pressure becomes urgent?”

When the Numbers Begin to Make Sense

When Maya first opened the financial statements for Prairie Home Services Inc., she looked for profit.

The company had earned $90,000. Yet cash felt tight, and she was unsure whether the business could support another technician.

As she explored the statements, the relationships became clearer.

- Some revenue remained in unpaid customer invoices.
- Equipment purchases had used cash while adding resources for future work.
- Loan repayments had reduced both available money and outstanding obligations.

The numbers had not changed. What Maya could see in them had.

A Clearer Basis for the Next Decision

Maya could now explain what the proposed hire would require.

- She needed enough profitable work to support the additional costs.
- She needed cash to meet payroll before some customers paid.
- She needed room to manage if demand developed more slowly than expected.

Whether she moved ahead, prepared further, or delayed, she had a clearer basis for her choice.

She also knew which assumptions to revisit and which results to monitor.

That is a meaningful change for an owner:

- ✔ being able to explain why a decision makes sense,
- ✔ what it depends on, and
- ✔ what might call for a different response.

Begin With the Question You Already Have

You may recognise something of your own experience in Maya's story.

Perhaps your business is busy, but the bank balance rarely feels comfortable.

Perhaps revenue is growing, while the amount left behind seems disappointing.

Perhaps you are considering a commitment and want to understand whether the business can support it.

You can begin with a question you have been reluctant to ask.

You do not need to understand every accounting term before starting the conversation.

- Bring the question to your statements.
- Follow the relevant balances.
- Ask your accountant to explain the connections.
- Then relate what you learn to the business you know through daily experience.

Understanding grows through these encounters.

Over time, figures that once felt unfamiliar begin to reveal patterns you can recognise and discuss.

The Responsibilities Behind the Numbers

Financial decisions reach beyond the reports that inform them.

- ✔ A hiring decision affects someone's livelihood and the workload of an existing team.
- ✔ Equipment investment can influence service quality and reliability.
- ✔ Owner withdrawals connect the needs of a business with those of a family.

Understanding financial statements helps you consider these responsibilities together.

It can reveal:

- ✔ where preparation is needed,
- ✔ where a commitment may create pressure, and
- ✔ where the business has room to act.

Uncertainty remains.

But you have a stronger foundation for responding to it thoughtfully.

Carry the Understanding Forward

At Growth Space, our belief that **Better Financial Decisions Create Better Financial Outcomes™** comes to life through moments like these.

- An owner asks for an explanation.
- A pattern receives attention.
- An assumption is tested before a commitment is made.
- A decision is reviewed while there is still time to adjust.

Financial statements become useful through the attention people bring to them and the actions that follow.

For Maya, the next conversation can begin with greater understanding.

For you, it can begin with the decision already on your mind.
"If you understood your financial statements more clearly, which business decision would you approach differently?"