

# Understanding Financial Reports

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# Disclosures

- Stephanie Czuhajewski is employed by the Academy of Doctors of Audiology
- Jordan Coates has no financial or non-financial conflicts to disclose

# Course Objectives

1. Attendees will be able to identify the three common types of financial reports and describe how they are used in an audiology practice
2. Attendees will be able to describe financial metrics and plans that audiology practices use to monitor the health of the business
3. Attendees will be able to locate resources to help them gain a deeper understanding of financial reporting for a business

# WHY DOES THIS MATTER?

## UNIVERSALITY

The 3 financial statements we discuss are used in every business, hospital, non-profit, etc

## DECISION-MAKING

Management decisions are mostly based on financial impact. How do we know where we stand in terms of finances? Financial statements!

## YOUR CAREER

Merely knowing this terminology and having a base understanding of financial statements will impress ANY boss!



# Key Reports



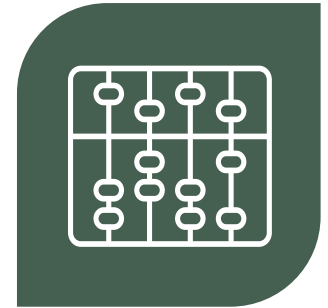
BALANCE SHEET



INCOME  
STATEMENT



CASH FLOW  
STATEMENT



BUDGET

# EAR-RESPONSIBLE AUDIOLOGY, INC

- *Serving the citizens of the Blackbottom County, GA since 2022*
- *Single provider office*
- *Dr. Tim Pannyk, AuD*
- *Dispensing practice*
- *Bills insurance for testing*
- *Accepts some 3rd party HA networks*
- *Pays professional bookkeeper (That's why all of the numbers add up)*



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# **The backbone of all accounting: The Accounting Formula**

# THE ACCOUNTING FORMULA

The universal formula used by all accountants/financial managers in all types of organizations.



## Assets

- Cash
- Investments
- Equipment
- Inventory
- Investments
- Accounts Receivable



## Liabilities

- Loans
- Accounts Payable
- Taxes Payable
- Credit Card Bills



## Owner's Equity

- Retained earnings
- Common Stock (par or face value)



# (traditional formula)



# (the way I like to look @ formula)



What Dr. Pannyk's  
practice has

What Dr. Pannyk's  
practice owes

What Dr. Pannyk's  
practice is worth

# Balance Sheet

- A snapshot of a company's financial position at an exact, specific point in time. Like a screenshot of your financial position
- Key components:
  - Assets: What the company owns
  - Liabilities: What the company owes
  - Equity/Net Assets: The difference between assets and liabilities
- What it tells you: Overall Financial Stability and Resources Available

# Balance Sheet

- **Assets**

- Cash/Savings
- Investments
- Accounts Receivable
- Capital Equipment
- Land/Real Estate
- Inventory
- Pre-paid Expenses

- **Liabilities**

- Business Mortgage
- Other Business Loan
- Accounts Payable
- Services Owed/Unearned Revenue

- **Owner's Equity/Net Assets**

- Retained Earnings
  - Accumulated income that has not been distributed
- Distributions
- Capital investments
- Treasury Stocks

# Balance Sheet

“The business selfie”:  
a snapshot, a moment in time,  
of the business’s financial  
standing

Assets	
Current Assets	
Cash	\$85,678.00
Accounts Receivable	\$8,400.00
Inventory	\$3,800.00
Fixed Assets	
Medical Equipment	\$13,456.00
<b>Total Assets</b>	<b>\$111,334.00</b>
Liabilities	
Current Liabilities	
Accounts Payable	\$8,500.00
Sales Tax Due	\$812.00
Credit Card Bills	\$2,765.00
Long-Term Liabilities	
Bank loan	\$9,845.00
<b>Total Liabilities</b>	<b>\$21,922.00</b>
Equity	
Retained Earnings	\$88,412.00
Common Stock	\$1,000.00
<b>Shareholder Equity</b>	<b>\$89,412.00</b>



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# ANALYZING A BALANCE SHEET: RATIOS

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## Ratios

Ratios are used across financial statements to get a picture of financial health, benchmark data and establish trends



## Usefulness

Ratios can be compared within the company to look for trends. They can also be used to compare to other companies but you must look at the same type of industry.

## CURRENT RATIO

**What it tells us:** Liquidity, ability for Dr. Pannyk to pay his short-term obligations

**How to calculate:**  $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

## DEBT TO EQUITY RATIO

**What it tells us:** How dependent Dr. Pannyk is on debt

**How to calculate:**  $\frac{\text{Total Liabilities}}{\text{Shareholder Equity}}$

# ANALYZING A BALANCE SHEET: RATIOS

Assets	
Current Assets	
Cash	\$85,678.00
Accounts Receivable	\$8,400.00
Inventory	\$3,800.00
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## CURRENT RATIO

**What it tells us:**

Liquidity, ability for Dr. Pannyk to pay his short-term obligations

**How to calculate:**

Current Assets/  
Current Liabilities

$$\text{\$97,878} / \text{\$12,077} = 8.10$$

- Shows that Dr. P has enough assets to cover immediate debts 8 times over.
- If business were to slow way down or he were to get sick, he would be able to cover short-term obligations

## DEBT TO EQUITY RATIO

**What it tells us:**

How dependent Dr. Pannyk is on debt

**How to calculate:**

Total Liabilities/  
Shareholder Equity

$$\text{\$21,922} / \text{\$89,412} = .245 \text{ or } 24.5\%$$

- “For each dollar of shareholder equity, how much debt is issued?”
- Should be compared over time periods to establish trends
- Evaluating two companies? High DE ratio = higher risk

# ANALYZING A BALANCE SHEET : COMPARING TIME PERIODS

<b>Assets</b>	Dec. 31 2024	Dec. 31 2023
<b>Current Assets</b>		
Cash	\$85,678.00	\$69,665.00
Accounts Receivable	\$8,400.00	\$7,800.00
Inventory	\$3,800.00	\$2,895.00
<b>Fixed Assets</b>		
Medical Equipment	\$13,456.00	\$14,665.00
<b>Total Assets</b>	<b>\$111,334.00</b>	<b>\$95,025.00</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$8,500.00	\$7,945.00
Sales Tax Due	\$812.00	\$1,016.00
Credit Card Bills	\$2,765.00	\$3,800.00
<b>Long-Term Liabilities</b>		
Bank loan	\$9,845.00	\$11,256.00
<b>Total Liabilities</b>	<b>\$21,922.00</b>	<b>\$24,017.00</b>
<b>Equity</b>		
Retained Earnings	\$88,412.00	\$70,008.00
Common Stock	\$1,000.00	\$1,000.00
<b>Shareholder Equity</b>	<b>\$89,412.00</b>	<b>\$71,008.00</b>

- Increased total shareholder equity
- Paid down loan
- Less credit card debt at the end of the year
- More cash in the bank

# Income Statement

- A summary of revenue and expenses over a specific period of time
- Key sections
  - Revenue/Income
  - Expenses
  - Net Income/Net Loss
- What it tells you: Whether an organization operates within its means
- Cost of goods sold (for hearing aids) reduces revenue



# PROFIT & LOSS STATEMENT

AKA

# INCOME STATEMENT

August 1-August 31, 2024

<b>Revenue</b> (Incoming money)	
Hearing Aids	\$32,564.00
Fitting Fees	\$2,400.00
Diagnostics	\$1,900.00
Services	\$5,600.00
Accessories	\$895.00
<b>Total Revenue</b>	<b>\$43,359.00</b>
<b>Cost of Goods</b> (Attributable to sales)	
Hearing Aid Bills	\$10,746.00
Repair Bills	\$800.00
Accessory Bills	\$425.00
<b>COG Total</b>	<b>\$11,971.00</b>
<b>Gross Profit</b>	<b>\$31,388.00</b>
<b>Expenses</b> (Fixed* expenses)	
Credit Card Processing	\$556.00
Officel Cleaning	\$350.00
Donations (Charitable)	\$1,000.00
Advertising and Promotion	\$4,160.00
Computer/Internet	\$456.00
Insurance Expense	\$120.00
Office Supplies	\$450.00
Payroll Expenses	\$11,538.00
Rent Expense	\$4,500.00
Telephone Expense	\$100.00
Utilities	\$130.00
<b>Total Expenses</b>	<b>\$23,360.00</b>
<b>Net Income</b>	<b>\$8,028.00</b>



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# Analyzing the P&L

- We can use margins to analyze the P&L
- Margins give us information about the relationship between two line items of the statement
- Expressed as a percentage
- How to use margins:
  - Compare within your company over time
  - Compare to companies in similar industries (benchmarking)

My Favorite  
MARGINS

**Gross Profit Margin**  
**Net Profit Margin**

Revenue	Aug 1-Aug 31, 2024	Sep 1- Sep 30, 2024
Hearing Aids	\$32,564.00	\$38,965.00
Fitting Fees	\$2,400.00	\$2,000.00
Diagnostics	\$1,900.00	\$1,765.00
Services	\$5,600.00	\$4,300.00
Accessories	\$895.00	\$565.00
<b>Total Revenue</b>	<b>\$43,359.00</b>	<b>\$47,595.00</b>
<b>Cost of Goods</b>		
Hearing Aid Bills	\$10,746.00	\$12,446.00
Repair Bills	\$800.00	\$765.00
Accessory Bills	\$425.00	\$346.00
<b>COG Total</b>	<b>\$11,971.00</b>	<b>\$13,557.00</b>
<b>Gross Profit</b>	<b>\$31,388.00</b>	<b>\$34,038.00</b>
<b>Expenses</b>		
Credit Card Processing	\$556.00	\$633.00
Officel Cleaning	\$350.00	\$350.00
Donations (Charitable)	\$1,000.00	\$1,200.00
Advertising and Promotion	\$4,160.00	\$3,865.00
Computer/Internet	\$456.00	\$396.00
Insurance Expense	\$120.00	\$120.00
Office Supplies	\$450.00	\$466.00
Payroll Expenses	\$11,538.00	\$12,325.00
Rent Expense	\$4,500.00	\$4,500.00
Telephone Expense	\$100.00	\$100.00
Utilities	\$130.00	\$130.00
<b>Total Expenses</b>	<b>\$23,360.00</b>	<b>\$24,085.00</b>
<b>Net Income</b>	<b>\$8,028.00</b>	<b>\$9,953.00</b>

# Gross Profit Margin

$$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

$$\text{Aug: } \frac{\$31,388}{\$43,359} = 72.4\%$$

$$\text{Sep: } \frac{\$34,038}{\$47,595} = 71.5\%$$

# Net Profit Margin

$$\frac{\text{Net Income}}{\text{Revenue}} \times 100$$

$$\text{Aug: } \frac{\$8,028}{\$43,359} = 19.5\%$$

$$\text{Sep: } \frac{\$9,953}{\$43,359} = 22.9\%$$

# Analyzing a P & L

In October we had \$3,267 of revenue but \$2,937 less in profit. Why?

## Net Profit Margin

October: 29.3%

November: 35.7%

Headline: We're taking home a larger % of what we brought in than in October

## Gross Profit Margin

October: 73.1%

November: 78.2%

Headline: we paid 6 cent more per dollar of revenue to manufacturer

## Hearing Aid Cost

October: 28.4% (\$14,800/\$52,125)

November: 23.3% (\$11,865/\$51,025)

Headline: Dr.Pannyk paid an average of 5.1% more for hearing aids in October

## Advertising Cost

October: 9.9% (\$6,240/\$62,802)

November: 8.3% (\$4,986/\$59,535)

Headline: Dr. Pannyk paid \$1.60 more in advertising per \$100 dollars revenue

Revenue	Oct 1-Oct 31, 2024	Nov 1- Nov 30, 2024
Hearing Aids	\$52,125.00	\$51,025.00
Fitting Fees	\$2,600.00	\$1,880.00
Diagnostics	\$1,856.00	\$1,765.00
Services	\$5,596.00	\$4,300.00
Accessories	\$625.00	\$565.00
<b>Total Revenue</b>	<b>\$62,802.00</b>	<b>\$59,535.00</b>
<b>Cost of Goods</b>		
Hearing Aid Bills	\$14,800.00	\$11,865.00
Repair Bills	\$1,556.00	\$765.00
Accessory Bills	\$506.00	\$346.00
<b>COG Total</b>	<b>\$16,862.00</b>	<b>\$12,976.00</b>
<b>Gross Profit</b>	<b>\$45,940.00</b>	<b>\$46,559.00</b>
<b>Expenses</b>		
Credit Card Processing	\$556.00	\$633.00
Office Cleaning	\$350.00	\$350.00
Donations (Charitable)	\$1,100.00	\$1,200.00
Advertising/Marketing	\$6,240.00	\$4,986.00
Computer/Internet	\$456.00	\$396.00
Insurance Expense	\$120.00	\$120.00
Office Supplies	\$450.00	\$466.00
Payroll Expenses	\$13,522.00	\$12,325.00
Rent Expense	\$4,500.00	\$4,500.00
Telephone Expense	\$100.00	\$100.00
Utilities	\$130.00	\$130.00
<b>Total Expenses</b>	<b>\$27,524.00</b>	<b>\$25,206.00</b>
<b>Net Income</b>	<b>\$18,416.00</b>	<b>\$21,353.00</b>

# Analyzing the Income Statement

- Consistent and growing revenue indicates strong income sources
- Diverse revenue streams create resilience and stability
- Must make budget adjustments to align income and expenses with objectives and needs
- Red Flags:
  - Persistent deficits
  - Expenses that are consistently disproportionate to revenue
    - Programs, products, and services that are financially unsustainable may not have intended impact over time
    - Care should be taken when using profitable programs to subsidize unprofitable programs

# Statement of Cash Flows

- Represents the movement of money into and out of a business over a specific period
  - Operating Activities
  - Investing Activities
  - Financing Activities
- Ensures liquidity to cover expenses
- Supports business growth/investment
- Helps manage debt over time
- Positive cash flow over time indicates financial health

# Statement of Cash Flows: Jan. 1 - Dec 31, 2024

## Operating

Net Income	\$187,556.00
Depreciation	\$18,567.00
Increase in Accounts Receivable	(\$26,556.00)
Increase in Inventory	(\$5,600.00)
<b>Net Cash from Op Activities</b>	<b>\$173,967.00</b>

## Investing

New Audiometer	(\$9,500.00)
Interest Income from CD	\$1,200.00
<b>Net Cash from Investing Activities</b>	<b>(\$8,300.00)</b>

## Financing

Loan for New Audiometer	\$9,500.00
Loan Payments	(\$14,555.00)
Shareholder Distributions	(\$35,000.00)
<b>Net Cash from Financing Activities</b>	<b>(\$40,055.00)</b>

Net Cash Increase (decrease) for Period	\$251,224.00
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## Operating

Cash movement related to company's core business operations. Starts with net income and "adjusts" for non-cash items

## Investing

Includes *cash movement* related to funding the business such as issuing debt/equity, dividends, borrowing/repaying money or paying shareholders

## Financing

Includes *cash movement* related to funding the business such as issuing debt/equity, dividends, borrowing/repaying money or paying shareholders



# Nike, Inc Statement of Cash Flows

<i>(Dollars in millions)</i>	2023	2022
<b>Cash provided (used) by operations:</b>		
Net income	4,039 \$	4,607
Adjustments to reconcile net income to net cash provided (used) by operations:		
Depreciation	516	538
Deferred income taxes	(216)	(234)
Stock-based compensation	556	467
Amortization, impairment and other	107	6
Net foreign currency adjustments	(197)	3
Changes in certain working capital components and other assets and liabilities:		
(Increase) decrease in accounts receivable	109	466
(Increase) decrease in inventories	(527)	(872)
(Increase) decrease in prepaid expenses, operating lease right-of-use assets and other current and non-current assets	(273)	(639)
Increase (decrease) in accounts payable, accrued liabilities, operating lease liabilities and other current and non-current	(526)	(305)
Cash provided (used) by operations	3,588	4,037
<b>Cash provided (used) by investing activities:</b>		
Purchases of short-term investments	(4,844)	(9,229)
Maturities of short-term investments	2,470	5,152
Sales of short-term investments	3,149	2,921
Additions to property, plant and equipment	(700)	(516)
Other investing activities	62	(39)
Cash provided (used) by investing activities	137	(1,711)
<b>Cash provided (used) by financing activities:</b>		
Increase (decrease) in notes payable	4	4
Proceeds from exercise of stock options and other stock issuances	413	959
Repurchase of common stock	(4,101)	(2,923)
Dividends — common and preferred	(1,488)	(1,356)
Other financing activities	(94)	(140)
Cash provided (used) by financing activities	(5,266)	(3,456)
Effect of exchange rate changes on cash and equivalents	(78)	(55)
Net increase (decrease) in cash and equivalents	(1,619)	(1,185)
Cash and equivalents, beginning of period	8,574	9,889
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<b>6,955 \$</b>	<b>8,704</b>
<b>Supplemental disclosure of cash flow information:</b>		
Non-cash additions to property, plant and equipment	145 \$	126
Dividends declared and not paid	527	488



# Analyzing Cash Flow

- Is the business generating positive or negative cash flow?
  - **Operating Cash Flow** = Cash Receipts – Cash Payments
- Compare cash flow trends over multiple periods
- Compare net income with cash flow from operations (high profits but low cash flow may indicate poor collections).
- Key Formulas:
  - **Operating Cash Flow Margin** = Operating Cash Flow / Revenue
  - **Cash Flow Coverage Ratio** = Operating Cash Flow / Total Debt



# BUDGETING IN PRIVATE PRACTICE

## Define Goals

Set short term goals (month to month, quarter to quarter) and adjust long term goals (5 years or more).

## Gather Data

Use financial reports from previous periods to understand revenue trends, expense trends and cash flow. Look at market trends from professional organizations and published data

## Revenue Forecasting

Use the market trend and financial data to estimate revenue on a month by month or quarter by quarter basis. Look for seasonality in historical data and apply to revenue forecast.

## Expense Planning

Look at major expense line items compared to top-line revenue for the period.

Fixed Expenses: Look for seasonality, find extremes, adjust budget for both

Variable Expenses: Calculate the ratios (expense divided by revenue), compare to other months.

# Resources

- ADA Student Audiology Practice Webinar Series: <https://audiologist.org/students/current-students/student-webinar-series>
- Khan Academy: Understanding Financial Statements: <https://www.khanacademy.org/economics-finance-domain/core-finance/accounting-and-financial-stateme>
- SCORE: <https://www.score.org/resource/article/understanding-financial-statements-balance-sheet-income-statement-and-cash-flow>

# RESOURCES FOR SMALL BUSINESS ACCOUNTING AND FINANCE

Investopedia  
(online)



Chamber of  
Commerce



Community  
Colleges



# QUESTIONS?

Contact Us:

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