Interpreting financial statements

The main financial statements are: Profit and Loss and the Balance Sheet. These are the documents that the Board or Committee of Management at a community radio station will want to see produced each month (and later on in this course you will be shown how to generate them).

Interpreting financial statements means that you can read them, understand what the statements are telling you about the financial situation of the station, recognise where there are discrepancies and suggest what actions you and the Management Committee need to take to remedy the situation.-

Profit and Loss statements

The monthly P&L statements and the year to date (YTD) P&L summarise income and expenditure from 1 July to the current date (these are generated automatically in accounting software such as MYOB, Quicken, etc).

Although the structure of the P&L statements are much the same across different organisations, you will find that the formats are very different. Some are clear to read and others are not. Some have more or less level of detail.

The best approach is to have enough detail in the statement to help manage the business, but not too much so that it becomes difficult to administer the data. For example, the item 'phone' may cover fixed phones, mobiles and fax in one account. But with 'subscriptions', you might want to break up the different levels - for instance, youth, full and premium levels, to help guide the station financial strategy. You will need to sit down with your accountant and work out what level of detail you want in the Profit and Loss statement, and why. It's also a good idea to talk to other stations that are similar in size or approach.

A simple financial statement may have the following columns:

Income & expenses	Monthly Actual	Monthly Budget	Variance	Actual YTD	Budget YTD	Variance

When provided with a P&L statement, here are some tips on what to question:

- Check that all receipts and payments were entered before the report was run. If you know you spent money on an item and it's not reflected in the statement, check that it was entered – and in the right place!
- Compare actual income and expenditure against budgeted amounts. Are there any major discrepancies? Is there a valid reason for the discrepancy? Do you need to take remedial action before things get out of hand?
- If you use a cash accounting system, make sure you are aware of any major expense incurred in the current month that has not yet appeared in the P&L statement. On the plus side, you may have issued large invoices for a payment which has not yet been received.
- Always keep your eye on the cash flow situation.

Balance sheet

The balance sheet is important because it gives you the whole picture about the station's finances, unlike the P&L statement which simply states income and expenditure for a given period of time.

When reading a balance sheet, you need to make sure that it does in fact provide the whole picture. Make sure that the value of all assets is listed, read any notes that explain, for example, cash assets (money in different bank accounts) or current liabilities (e.g. interest payments on loans or bills that need to be paid).

Depreciation

Some items flow through financial statements over a number of years, e.g. the depreciation of equipment purchases. For most commercial businesses this might be an income tax decision. For not-for-profits, it might be more a reflection of the life of the equipment and spreads the expense over a greater period. The charging of depreciation is a book entry and does not involve cash. The process of depreciation does not set aside cash to replace an asset at the end of its useful life, rather it spreads the cost of the asset across the years of its use.