

DAY 1 OF 5 - FINANCIAL INTELLIGENCE SERIES

The story behind the numbers

How your three financial statements reveal what's really happening in your business, and what to do about it

What to do about it - this week and long-term

Understanding the story is step one. The second step is action. Here are the moves you should make, split into what can be done immediately and what needs to be built over time.

QUICK WINS: DO THESE THIS WEEK

1. Pull your last 3 months of bank statements and your most recent P&L side by side. Write down the profit figure and the cash movement. If they diverge by more than 20%, you have a working capital story to investigate.
2. Calculate your Debtor Days right now: $(\text{Debtors} \div \text{Annual Revenue}) \times 365$. If it's above 45 days, you have money sitting in your customers' bank accounts that belongs in yours.
3. Look at your debtor's ledger. Identify every invoice over 30 days old. Make one phone call today (not an email). A personal call to your top three late payers will recover more than any automated reminder system.
4. Check your stock or WIP balance. Has it grown in the last 6 months? If so, ask why. Growing WIP without growing revenue is cash leaving the business silently.
5. Open your balance sheet and find the line called Retained Earnings or Equity. Is it growing year on year? If your business is profitable but equity isn't growing, money is leaking somewhere.

STRUCTURAL CHANGES: BUILD THESE IN THE NEXT 90 DAYS

6. Set a Debtor Days target and make it a standing agenda item. 35 days is achievable in most sectors. Every 10 days you reduce your debtor days frees approximately 10 days of revenue as cash. For instance, at £4M revenue, that's £110,000 released per 10-day improvement.
7. Rewrite your payment terms and enforce them consistently. Move from net-30 to 'payment due on receipt' or 14-day terms where possible. Consider a small early payment discount (1.5–2%) for customers who pay within 10 days. This is cheaper than a bank overdraft.
8. Introduce a monthly cash flow review separate from your management accounts review. The P&L is a trailing indicator. Cash flow is a leading one. Build a simple 13-week cash flow forecast (we'll cover this in Day 2) and review it monthly without exception.
9. Map the three statements to each other once a quarter. Take 20 minutes with your accountant or finance lead. Start with net profit on the P&L. Trace it through to cash. Every pound of profit that doesn't show up as cash is sitting somewhere on the balance sheet, find it and ask why.

10. Define a minimum cash floor and treat it as sacrosanct. Choose a number (typically 8–12 weeks of fixed costs) and never let the bank balance fall below it without a deliberate decision. If you breach the floor, it triggers an automatic review.
11. Segment your debtors by risk. Not all late payers are the same. A customer who is 60 days late with a strong trading history is different from one who is 35 days late and showing signs of distress. Build a simple traffic light system: Green (on terms), Amber (chasing), Red (escalated). Review it weekly.

Your 3-Statement Self-Check

Use your own numbers to find out which pattern you're in. You need your most recent P&L and balance sheet, most accounting software (Xero, Sage, QuickBooks) can produce both in under two minutes.

SECTION A - THE P&L CHECK

My Gross Margin % is: $(\text{Gross Profit} \div \text{Revenue} \times 100) = \text{_____} \%$

Vs same time last year: *Up / Down / Same* by $\text{_____} \%$

My Net Margin % is: $(\text{Net Profit} \div \text{Revenue} \times 100) = \text{_____} \%$

My EBITDA is: £ _____ (operating profit before depreciation, interest, tax)

SECTION B - THE BALANCE SHEET CHECK

My Debtor Days are: $(\text{Debtors} \div \text{Annual Revenue} \times 365) = \text{_____} \text{ days}$

My Debtor Days vs last year: *Up / Down / Same* by $\text{_____} \text{ days}$

My Stock / WIP balance is: £ _____ vs £ _____ last year

My Current Ratio is: *(Current Assets ÷ Current Liabilities) = _____ ×*

My Cash balance right now: *£ _____ vs £ _____ this time last year*

SECTION C - THE CONNECTION CHECK

My Net Profit this year: *£ _____*

My Operating Cash Flow this year: *£ _____ (from cash flow statement)*

The gap (Profit minus Cash Flow): *£ _____ — where did this go?*

The biggest item on my balance sheet that explains the gap: *e.g. Debtors / Stock / CapEx / Loan repayment*

SECTION D - WHICH PATTERN AM I IN?

Pattern	Tick if this sounds like you
Pattern 1. Profitable but cash-poor (Debtor Days >45, cash falling)	<input type="checkbox"/>
Pattern 2. Shrinking margins, rising costs (Gross Margin declining YoY)	<input type="checkbox"/>
Pattern 3. Strong cash, weak business (Revenue flat, no investment)	<input type="checkbox"/>
Pattern 4. Everything looks fine (But I haven't stress tested)	<input type="checkbox"/>

The one thing my numbers are telling me that I've been ignoring: *_____*