

How financial reports relate to business performance

Here's a simple analogy to a human body, to help explain the importance of financial reports to business performance decision support:



PROFIT AND LOSS STATEMENT:

is like a record of your body's performance at the end of each day: calories ingested, calories burnt (surplus or deficit), and level of efficiency in converting inputs to output.



CASH FLOW STATEMENT:

is like a real-time record of the blood flow throughout a body's veins, with strength or weakness of the blood pumping throughout being dependent on work rate and available resources.



BALANCE SHEET:

is like a record of the strength and condition of your body's skeletal structure, muscle tone and mobility. How free or taxed, leveraged and strained these aspects are, in order to sustain your activity and future performance.