



FRACTIONAL CFO · FINANCIAL STATEMENTS

Reading Your *Financial Statements*

The three reports that run your practice

Income statement, balance sheet, cash flow — what each one measures, why you need all three, and how they explain the paradox of a profitable practice that still runs short on cash.

Profit?

Income statement

Solvent?

Balance sheet

Liquid?

Cash flow

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Educational guide for practice owners and operators. Not accounting, tax, or investment advice. Illustrative figures for teaching only.

Your practice tells its story in three statements

Most practice owners read one number — what's in the bank — and fly blind on the rest. The three financial statements together tell you whether the practice is profitable, solvent, and generating cash. They answer different questions, and you need all three.

INCOME STATEMENT

Are we profitable?

Revenue minus expenses over a period. Shows whether the practice made money — but profit on paper isn't cash in the bank, which is why it's only one-third of the picture.

BALANCE SHEET

What do we own and owe?

A snapshot at a point in time: assets, liabilities, and equity. Shows solvency and what the practice is actually built on — receivables, equipment, debt.

CASH FLOW STATEMENT

Where did the cash go?

Reconciles profit to actual cash movement across operations, investing, and financing. The statement that explains why a profitable practice can still run short on cash.

READ TOGETHER

The full diagnosis

Profit without cash flow is a warning. Assets without margin is a trap. Cash without profit is temporary. The three read together is how you actually diagnose financial health.

A single statement can mislead. A profitable income statement hides a collections crisis; a healthy bank balance hides mounting debt. **Read all three, and read them over time.**

Profit is an opinion; cash is a fact

The income statement is where owners spend most of their attention — and where the most misleading conclusions get drawn. The key is reading past revenue to margin, and knowing which line items actually move the business.

What to actually watch

- **Net collections, not gross charges** — what you billed is fiction; what you collected is real. The gap is your revenue-cycle health.
- **Contribution margin by line** — revenue minus the direct cost to produce it, by provider and service line (the difference between busy and profitable).
- **Operating margin trend** — is the spread between revenue and cost widening or narrowing over time? Direction matters more than any single month.
- **Payer mix impact** — the same visit pays differently by payer; a mix shift can erode margin even as volume grows.

Illustrative — a simplified practice income statement, monthly

Line	Amount	% of net rev
Gross charges	\$520,000	—
Contractual adjustments & denials	(\$184,000)	—
Net collections	\$336,000	100%
Provider & clinical staff cost	\$168,000	50%
Overhead (rent, admin, supplies)	\$109,000	32%
Operating income	\$59,000	18%

Notice the top line most owners quote — \$520,000 in charges — is **35% higher** than what the practice actually collected. Managing to charges instead of collections is the most common income-statement mistake.

Why a profitable practice runs short on cash

The income statement says you made money. The bank says otherwise. The balance sheet and cash-flow statement explain the gap — and it usually lives in receivables, debt timing, and equipment.

BALANCE SHEET: WHAT TO WATCH

Solvency

Accounts receivable — profit trapped in unpaid claims. **Debt & terms** — what you owe and when. **Equipment & equity** — what the practice is built on. A growing A/R balance is often the hidden reason cash is tight despite profit.

CASH FLOW: THE RECONCILIATION

Liquidity

Operating cash flow (the engine), investing (equipment, build-outs), financing (debt and owner draws). This statement turns 'we're profitable' into 'here's where the cash actually went' — and forecasts where it's going.

The classic trap: profitable but cash-poor

- You post \$59,000 in operating income for the month — real profit.
- But A/R grew by \$70,000 as claims aged — that profit is stuck in receivables, not cash.
- A quarterly debt payment and an equipment purchase hit the same month.
- Result: a profitable month that **drained** the bank account. The income statement alone would never show it.

This is why owners feel 'busy but broke' even when the P&L looks fine. The cash-flow statement — especially a rolling 13-week forecast — is what turns those surprises into things you see coming.

From statements to decisions

Financial statements are only useful if they change what you do. Here's the small set of habits that turns three reports into a managed practice — and where a fractional CFO takes it off your plate.

The owner's monthly rhythm

- Close the books monthly — on time, accurately, every month. Late books are blind books.
- Review all three statements together, and against prior months — look for trends, not points.
- Track net collections, A/R days, and operating margin as your core dashboard.
- Maintain a rolling 13-week cash forecast so payroll is never a surprise.
- Ask 'why' on every variance — the explanation is where the decision lives.

WHAT A FRACTIONAL CFO ADDS

Interpretation, not just reports

Clean, timely statements are table stakes. The value is in the interpretation — what the numbers mean, what to do about them, and how to model the next decision — delivered by someone who has read hundreds of practice financials.

THE PAYOFF

Confidence, not guesswork

Decisions made on numbers instead of instinct: whether to hire, add a location, buy equipment, or renegotiate a contract — each modeled before you commit.

Get financials you can actually use.

MCS Advisory provides senior fractional CFO/COO leadership for practices and ASCs — clean statements, real interpretation, and the dashboard that turns reports into decisions. Free 30-minute clarity call. Veteran-owned, senior-led.

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