

## **Financial Learning Pathway**

**Presented by:** 

Denise MacDonald and Steve Fisher BBA Business Advisors





### Session 2: How to Organize your P&L to Access Better Data

**Presented by:** 

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### Session 2 Outcome

You will understand the basic principles of Revenue Centres and Cost of Goods Sold or Cost of Services. You will learn how to calculate your Gross Margin and why you need to stabilize it on your TTM.





### **Session 2 Outline**

- P&L Preview: Begin with the End in Mind
- Breaking Down Revenue Centres
- Aligning COGS to your Revenue Centres
- Processes you need to Align COGS to your Revenue Centres
  - ≻ Time
  - Materials
- Intro to Gross Margins



Session 2 -ORGANIZING your Revenue and COGS on your P&L

Session 3 -OPTIMIZING your Revenue and COGS on your P&L





### **P&L Preview: Begin** With the End in Mind





# TTM Example: Begin with the End in Mind





### Questions?





#### Structuring your Tools (Order of Operations)

Begins with Excel Revenue and COGS Work with Operating System Expert Assign Team expert

Take your Partners

Then go to Accounting System

\$

Chart of Accounts (for Bookkeeper and Accountant)

Organize Operating System to feed QBO



### Breaking Down Revenue Centres:

- Why to break them down
- What Pick 3 to 5 revenue centres
- How to break them down





### WHY Break down Revenue Centres?

Breaking your revenue into clear streams gives you:

- Visibility into what's actually driving the business
- Clarity on revenue contribution by percentage
- Insight into high-margin vs. low-margin areas
- Targeted marketing, pricing, and cost control
- Strategic resource allocation
- Focus for future growth
- The ability to pull levers in your business
- A roadmap to long-term profitability

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### **WHAT:** Breaking Down Revenue Centres

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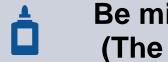
Each Revenue Centre should represent ~10% or more of total revenues



Group small or related centres together (& eliminate others)



Stick to 3–5 revenue centres (Too many creates unnecessary complexity)



Be mindful of COGS tracking (The hard part is matching costs, so keep it simple and realistic)



# HOW: Criteria for Choosing Revenue Centres

#### (Based on Business Questions)

#### 1. Products or Services

- o If offerings are meaningfully distinct in value, cost structure, or customer base.
- Example: A gym with personal training, group classes, and retail (supplements/merchandise).

#### 2. Sales Channels

- Different platforms or methods of sale.
- Example: Online store, retail storefront, and B2B wholesale.

#### 3. Customer Segments

- Revenue can be split by distinct target markets.
- Example: A consulting business that serves *small businesses*, *non-profits*, and *corporate clients*.

#### 4. Geographic Regions

- Relevant if pricing, costs, or demand vary regionally.
- Example: A service company operating in different provinces or regions (Canada and US)

#### 5. Projects or Contracts

- $\circ~$  Especially useful for service-based businesses.
- Example: A marketing agency with branding packages, social media management, and web design projects.

### PROSPECT G SALES ROWTH SOLUTION **Revenue Centre** DEVELOPMENT **Example** BUSINESS FINANCE



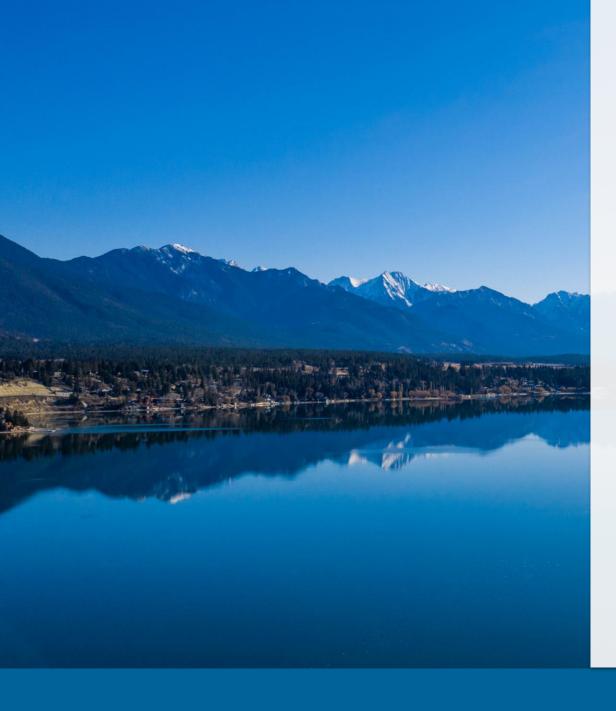
### Questions?





#### Aligning COGS or COS (Cost of Goods Sold or Cost of Sales)





### Direct vs Indirect Expenses (Costs)

- Direct costs are 'variable' costs that can be directly tied to a specific product or service; they're directly correlated to revenue
- Indirect costs are not correlated to revenues; are all other costs – rent, utilities, accounting, etc. They are 'fixed' and do not go up or down regardless of sales. Known as overhead

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### COGS: Time, Materials, Freight, Packaging

- Time = Wages & Commissions
- Materials = input costs, actual cost of the product from suppliers, etc.
- Freight = shipping and delivery
- Packaging = materials + the time to pack
- Other discretionary items



### Processes to Align COGS - Organize



### Setting up the Right Processes (for Revenue and COGS)

<b>Process</b>	Description
Record Time/Wages	Use T-Sheets, Time Tracking App, Jane App
Clean Invoicing	Align Invoices to the same names & accounts as POS/Order Systems
Supplier Ordering	Separate or attribute purchases correctly
Inventory Management	Track inventory cleanly into COGS

## Setting your POS/OS

- Break out different revenue centres
- Identify COGS per revenue centres in POS
- Create Purchase orders
  > Align to Revenue Centres
- Receive PO's and verify pricing (or input receipts if applicable)
- Give POS data to Bookkeeper to update BS and P&L at end of month



### COGS: Time/Wages





### **Time: Wages and Attributions – The Why**

To be truly	Wages are one of	By pulling direct
informed, you need	the biggest	wages up, you can
to know your	expenses of a	actually measure
margins	company	your true margins

Often having pricing wrong; Don't have methodology to properly price Need to understand margins to effectively set your pricing

Without proper margins, cashflow is restricted

### Time: Wages and Attributions – The "WHAT"

- Wages directly correlated to revenues ٠ should move up to COGS
- Non-revenue generating employees live in ٠ expenses
- For employees that work generating ulletrevenue AND on the business, use attribution (%)
- MERC fees (Mandatory Employment • Related Costs) live in expenses

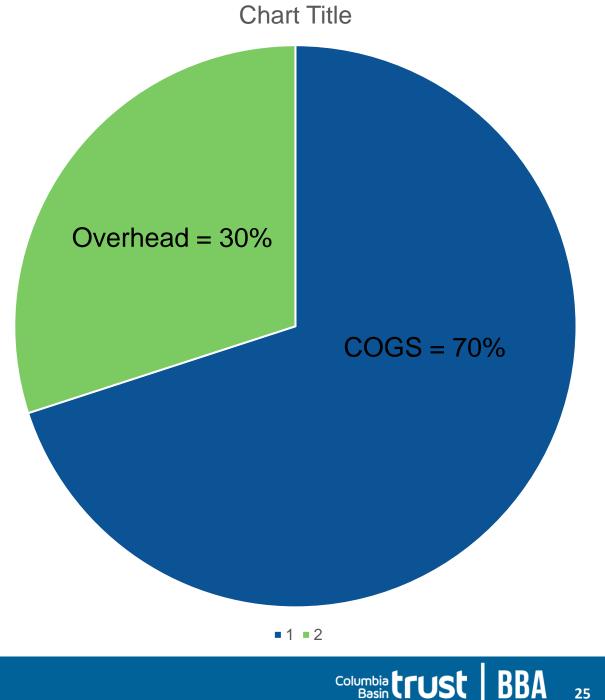


### What is Attribution?

**Employees often work across multiple areas:** 

- Part of their time = **Direct Labor** (goes into COGS)
- Part of their time = **Indirect Labor** (stays in Overhead)

Task Type	% of Time	Wage Allocation
Direct Work (e.g., billable hours)	70%	COGS
Indirect Work (e.g., admin, meetings)	30%	Overhead





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# Time: Wages and Attributions – The "HOW"

- Track time
  - T-Sheets
    - Time Tracking App
    - ➤ Time Diary
    - Operating Systems
- Roll it out to the Team
- Good is good enough
- Consistency is the key

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### COGS: Materials/Product Costs



## WHY Moving Inventory to COGS Matters

🛠 Process Area	Why It Matters
Match Inventory to Sales Month	Reduces margin volatility
Manage Supplier/Input Costs	Inflation, disruptions, and rising costs
Accurate COGS = Better Pricing	Set pricing based on real costs, rather than just markup
Focus on Margins, Not Just Markup	True profitability, not just "adding a %"

### Inventory to COGS: The Flow

#### Buy Inventory

 Record on Balance Sheet

#### Sell the Product

Record in Revenue

#### Record COGS

 Move From Inventory

#### Protect Your Margins

# NOTE: Of all the things on the P&L, this can be the most complicated piece!



## Inventory to COGS

- Life of a Widget
  - Balance Sheet to P&L
- All POs and purchases go to Inventory first – on Balance Sheet
- POS needs to be set up so when an item sells, it goes from BS to COGS
- Note: Extra journal entry that bookkeepers often don't love



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### PROSPECT G SALES ROWTH SOLUTION **Example: COGS** DEVELOPMENT BUSINESS FINANCE



### Questions?





# Inventory to COGS for Manufacturing

- Manufacturers typically manage two types of inventory:
- Raw Materials / Unfinished Goods (Work in Progress)
  - Materials and products partway through production
- Finished Goods

Completed products ready for sale.



Columbia Basin



# Inventory to COGS for Manufacturing

#### **Purchase Raw Materials**

Recorded as Inventory: Unfinished Goods on the Balance Sheet

#### **Production Process Happens**

Direct materials, direct labor, and manufacturing overhead are added to production. These processing costs are capitalized into **Unfinished Goods** (they stay on the Balance Sheet, not the P&L yet)

#### **Goods Completed**

As production is completed, **Unfinished Goods** are moved to **Finished Goods**.

#### **Goods Are Sold**

The cost of the Finished Good moves from the Balance Sheet (Inventory) to the P&L (COGS).

### Intro to Gross Margins



### **Gross Margin** The most important number on your P&L!





### Gross Margin The real lever for profitability

Gross Margin = (Revenue - COGS) ÷ Revenue

- It measures how much money is left after covering the direct costs of delivering your product or service
- Gross Margin is not automatically shown on most standard financial reports — you often have to calculate it manually or adjust your reporting to show it



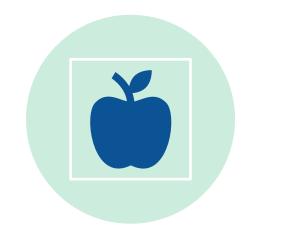
### **Gross Margin**

- Shows true profitability of your products or services
- Highlights where you're strong and where you're losing money
- Helps you pull levers to grow your business:
- Raise prices
- Find efficiencies direct costs (labour)
- Focus marketing on high-margin products
- Drop unprofitable channels or offerings
- Margin = Power

High margin businesses have stronger cash flow, better scalability, and more strategic options



# Why Percentage is Important







#### COMPARE APPLES TO APPLES

#### MEASURE IT ACCURATELY

#### SEE TRENDS OVER TIME



### Margin vs Mark-up

Margin is what you actually keep after accounting for all direct costs

**Markup** Formula: Margin = (Selling Price - Cost) / Selling Price

Margin	Markup
Focuses on what you keep	Focuses on what you add
Based on Revenue - COGS	Based on Cost x Markup %
Accounts for all real costs	Often ignores hidden expenses
Drives cash flow & growth	Can cause underpricing
Formula: Markup = (Selling Price - Cost) / Cost	Formula: Margin = (Selling Price - Cost) / Selling Price

### PROSPECT G SALES ROWTH SOLUTION **Gross Margin Example** DEVELOPMENT BUSINESS FINANCE



### Questions?





### Homework for Working Group:

- Break your TTM (P&L) into 3-5 Revenue Centres in Excel
- Organize your COGS per Revenue Centre
  - > Wages
  - Materials
  - Freight and Delivery
  - Packaging (if applicable)
- Calculate your new Gross Margins

NOTE: If you don't have the numbers yet, do the excel layouts, general framework and make some estimates.



# **Thank You**



# Q&A





### Notes



### Notes

