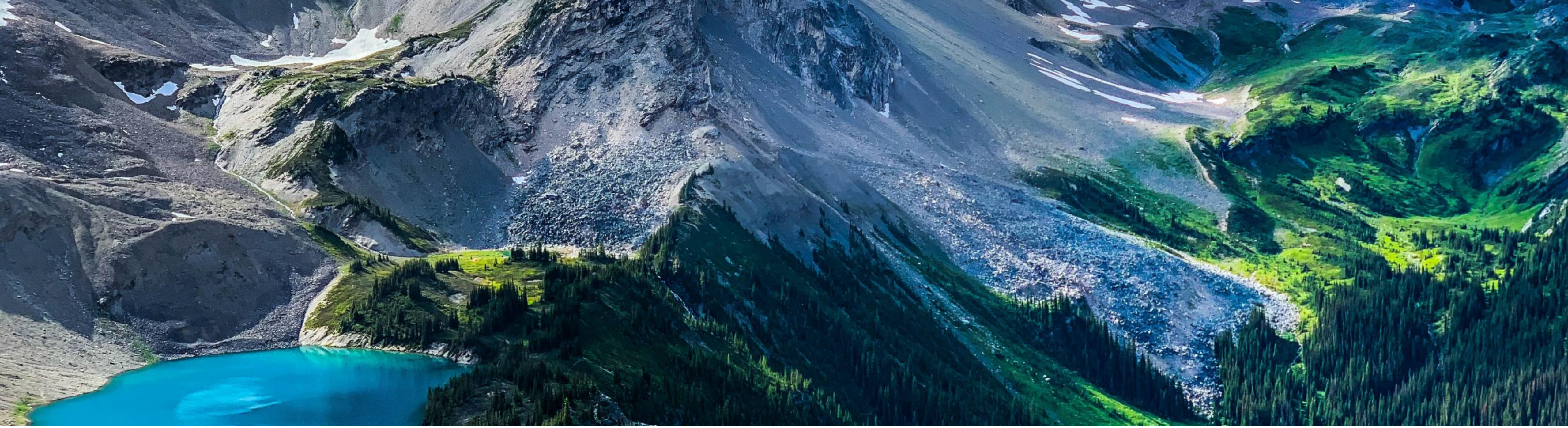


Financial Learning Pathway

Presented by:

Denise MacDonald and Steve Fisher
BBA Business Advisors

Columbia Basin trust | BASIN BUSINESS ADVISORS

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

Presented by:

Denise MacDonald and Steve Fisher
BBA Business Advisors

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

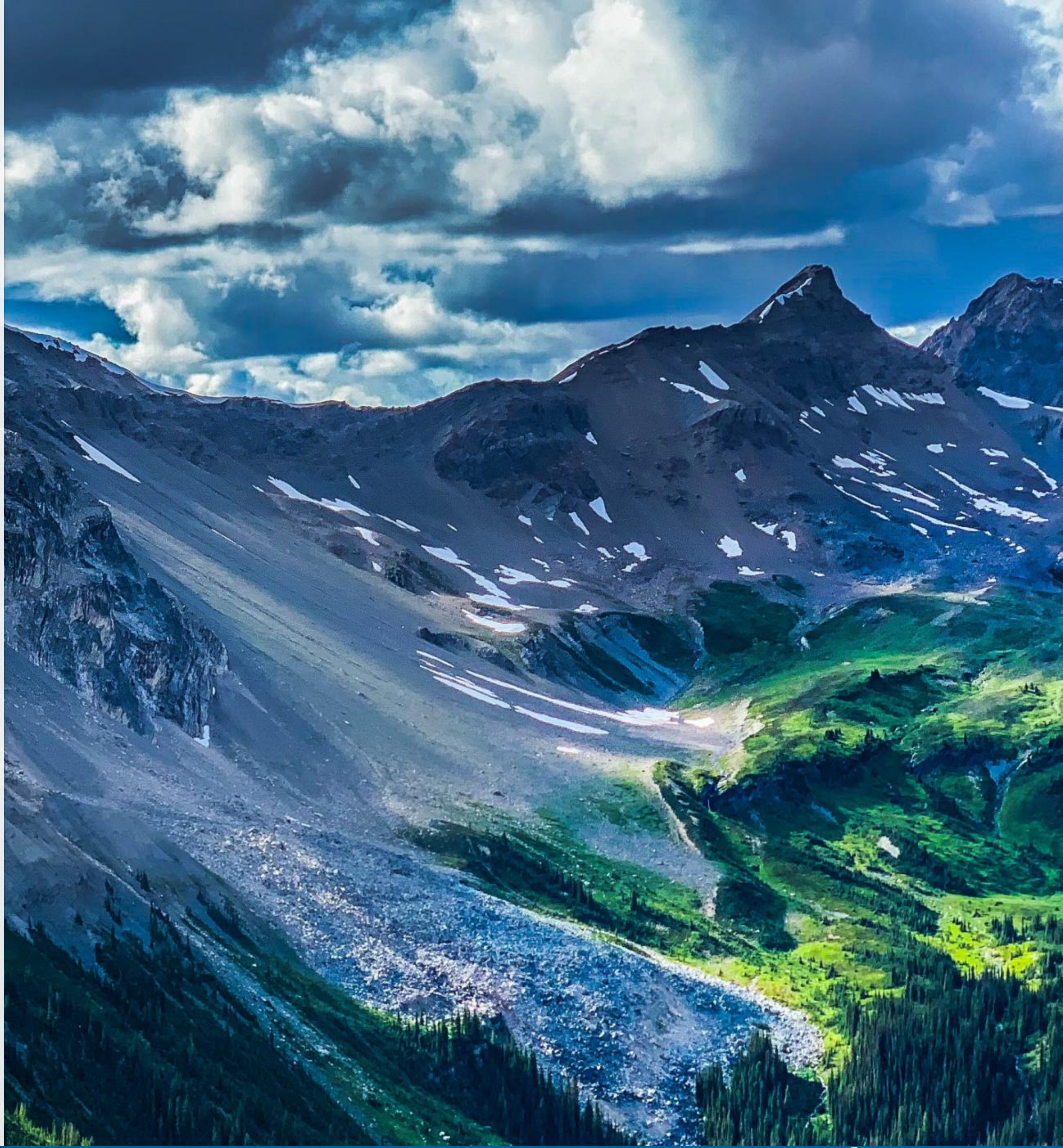
Session 3 -

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

WHAT: Breaking Down Revenue Centres

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)

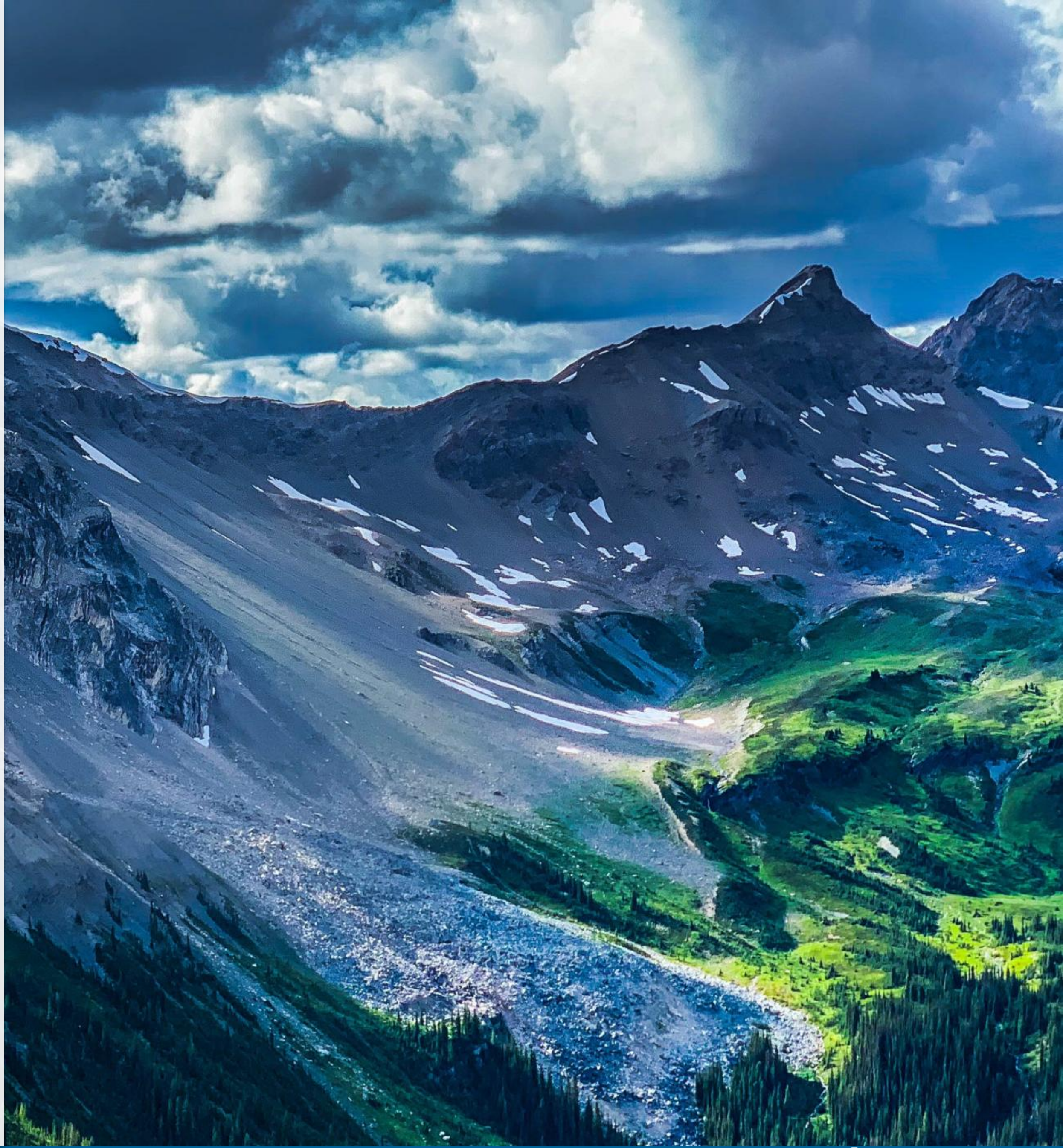
HOW: Criteria for Choosing Revenue Centres

(Based on Business Questions)

1. **Products or Services**
   - 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**
   - Especially useful for service-based businesses.
   - Example: A marketing agency with *branding packages*, *social media management*, and *web design projects*.

Revenue Centre Example

Questions?



Aligning COGS or COS

(Cost of Goods Sold or Cost of Sales)

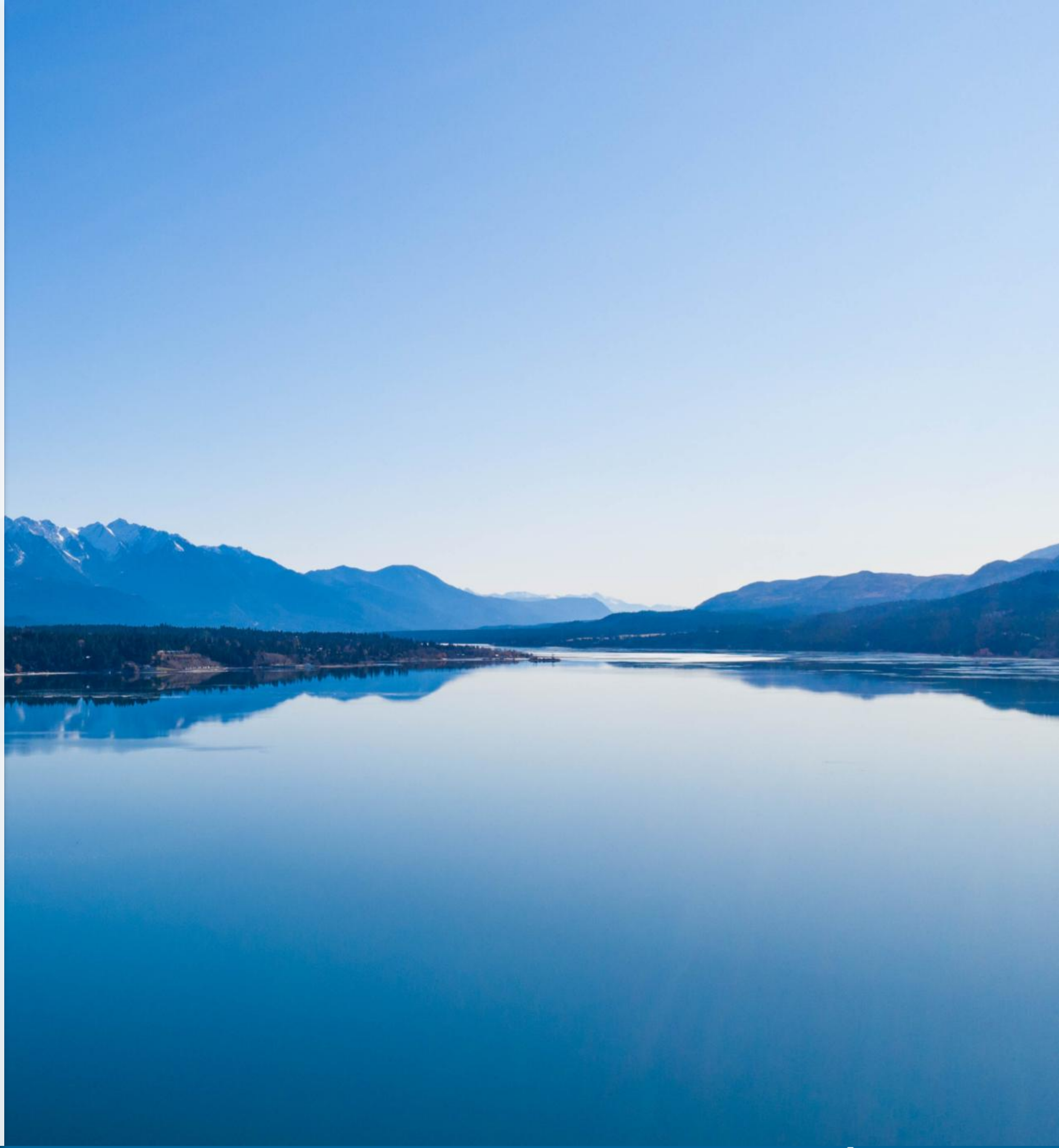
Direct vs Indirect Expenses (Costs)

- 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

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)

📋 Process	💬 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 informed, you need to know your margins
- Wages are one of the biggest expenses of a company
- By pulling direct wages up, you can actually measure 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"

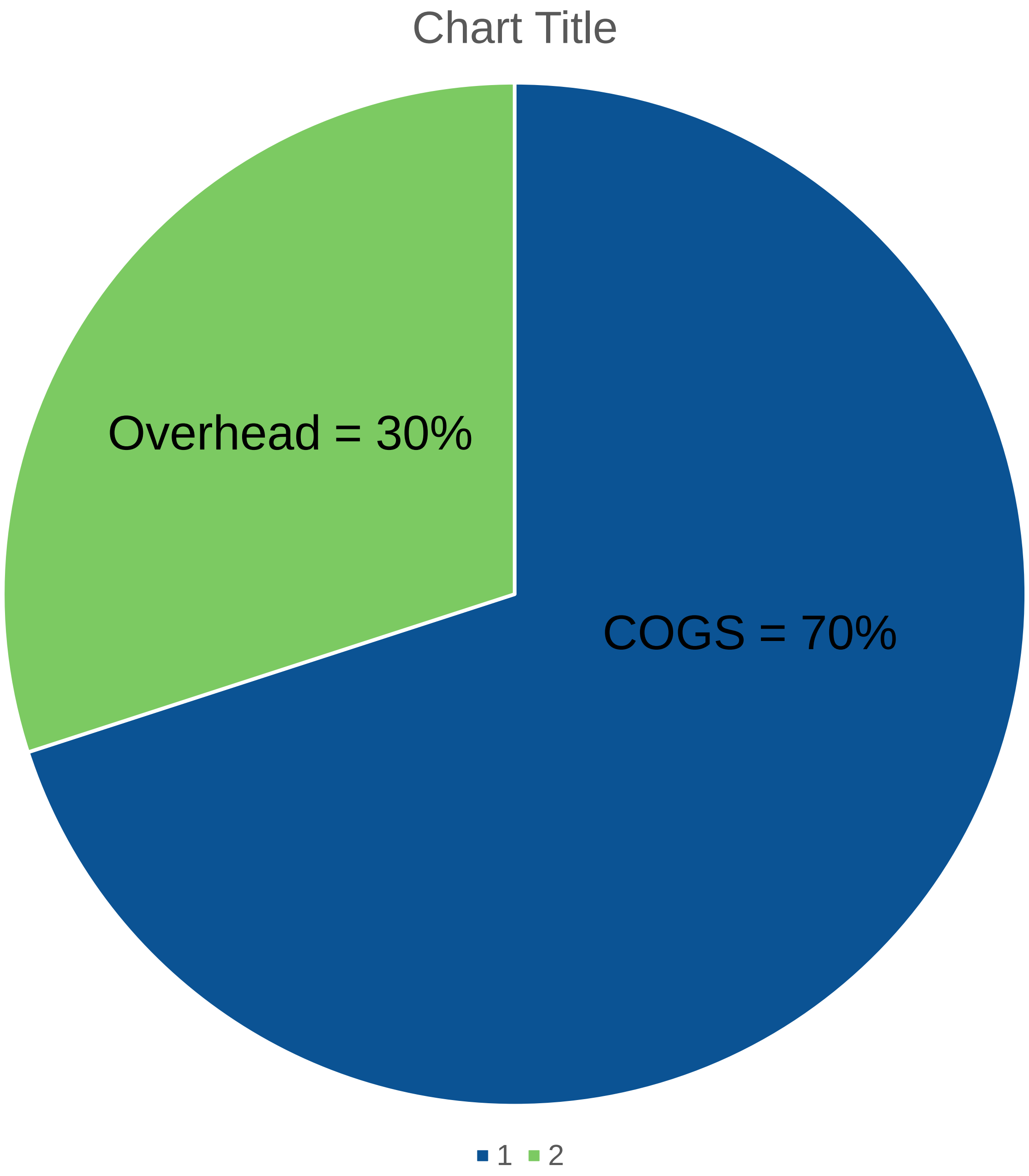
- Wages directly correlated to revenues should move up to COGS
- Non-revenue generating employees live in expenses
- For employees that work generating revenue AND on the business, use attribution (%)
- MERC fees (Mandatory Employment Related Costs) live in expenses

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



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

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

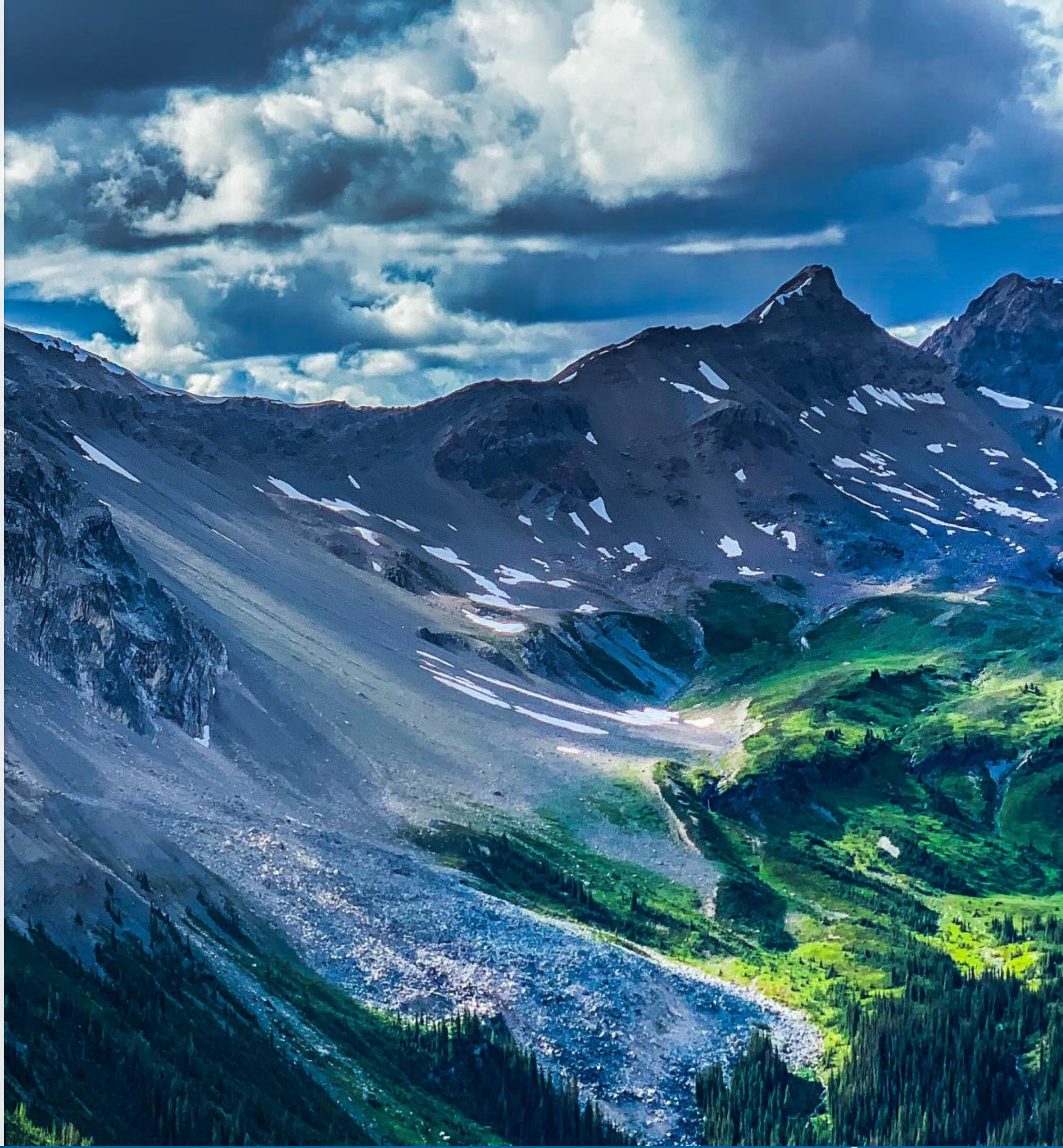
NOTE: Of all the things on the P&L, this can be the most complicated piece!

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

Example: COGS

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.

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

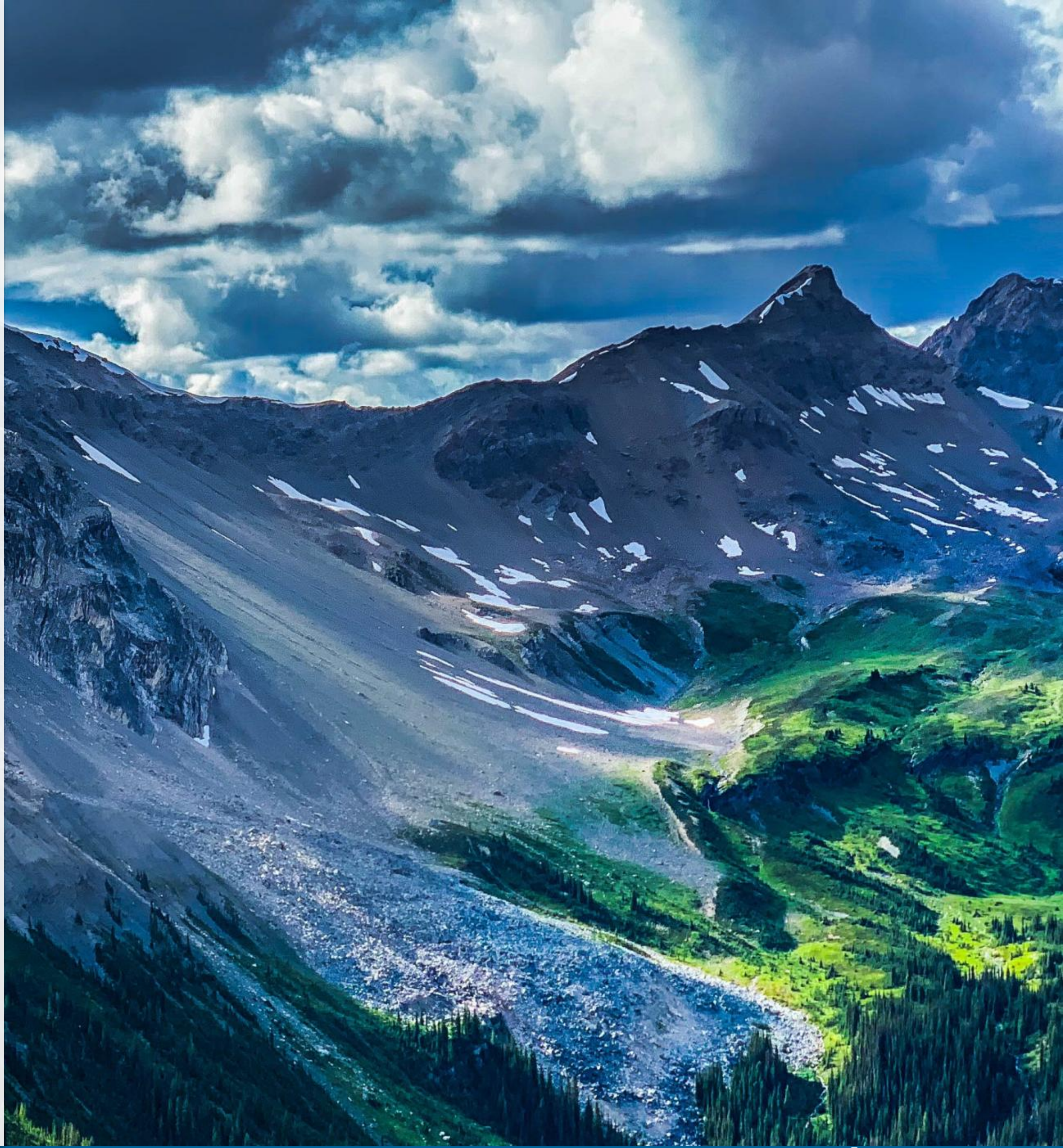
Margin is what you actually keep after accounting for all direct costs

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

Gross Margin Example

Questions?



Homework for Working Group:

- Break your TTM (P&L) into 3-5 Revenue Centres in Excel

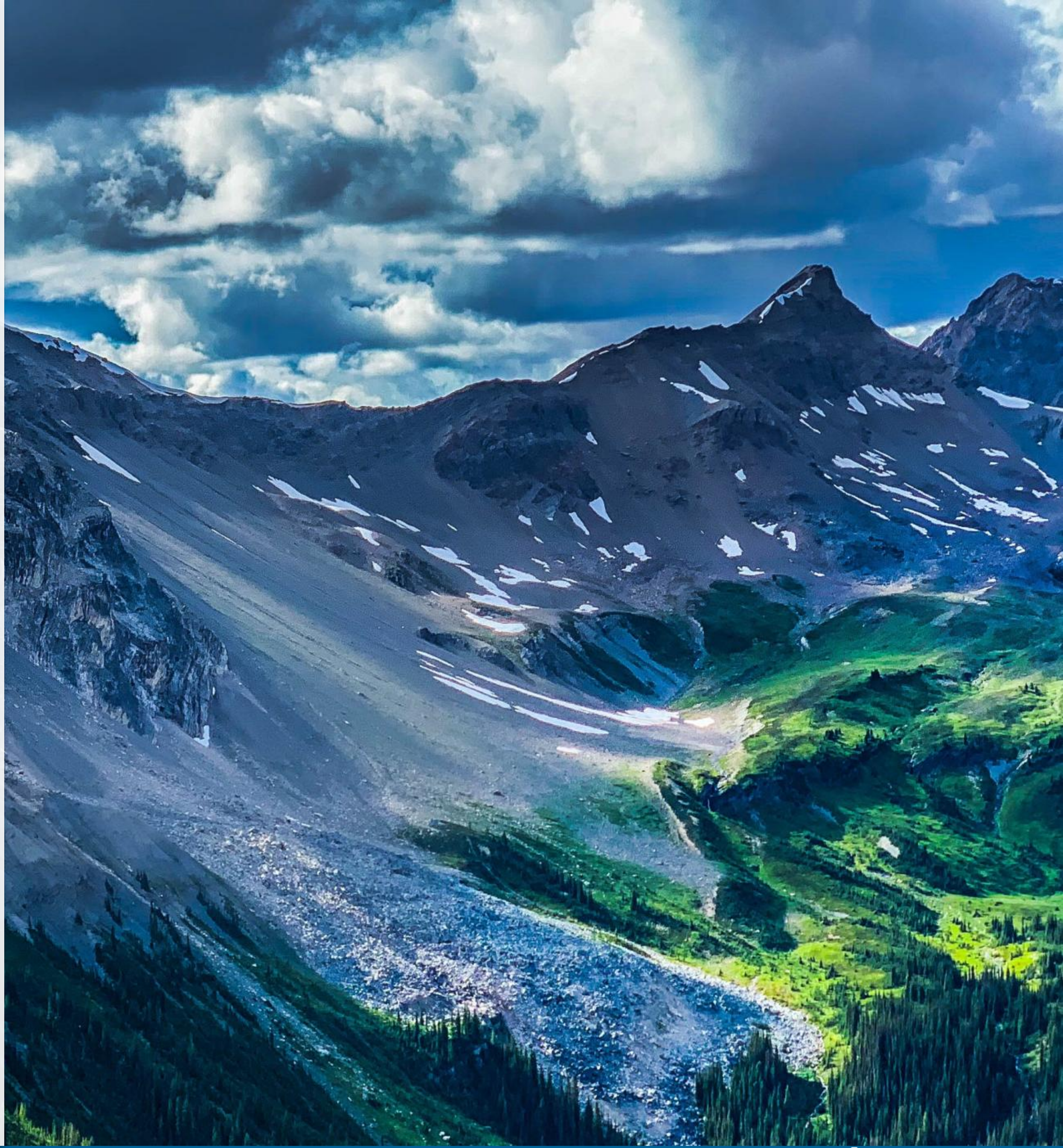
- Organize your COGS per Revenue Centre
  - Wages
  - Materials
  - Freight and Delivery
  - Packaging (if applicable)

- 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

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