

The Three-Question Monthly Review

One sheet · three questions · after every month-end close

MONTH

PREPARED BY

DATE

Take out last month's P&L and statement of cash flows. Answer all three, then compare with last month's sheet.

1. GROSS MARGIN

Has it improved or declined over the last three months, and do you know why?

MONTH	SALES	COST OF SALES	GROSS MARGIN %

Direction (improving, flat, sliding): _____

The reason (prices, costs, mix of work, discounting): _____

2. BREAK-EVEN

How much in monthly sales do you need to cover your operating costs?

Fixed expenses per month \$ _____ ÷ contribution margin _____ % = break-even sales \$ _____

Fixed expenses continue whether sales are good or bad: rent, salaries, insurance, software, utilities. Contribution margin is the share of each sales dollar left after all the costs that vary with sales, not only cost of sales. Count fixed production costs with the fixed expenses; your accountant or advisor can help establish both figures. Every point of margin you give up raises this number.

3. CASH FLOW

Did last month's profit turn into cash from operations? If not, where did the cash go?

Net income \$ _____ Cash from operating activities \$ _____

Biggest reason for the difference (receivables, inventory, bills paid down): _____

WHAT NEEDS ATTENTION

Maybe it is pricing. Maybe it is collections. Maybe expenses are growing faster than revenue.

Next month, bring out this sheet, update the three numbers, and compare. Accurate statements tell you what happened. Understanding the numbers helps you decide what to do next.