M2C2 FINANCIAL REPORT - XYZ Company

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📈 Financial Statements Summary

💰 Income Statement

Metrics	Current Year 2024	Previous Year 2023	Change ($)	% Change	Comments
Revenue	$2,296,159.91	$1,956,361.84	$339,798.07	17.37%	⬆️ Strong revenue growth indicating expanding practice activity.
Cost of Goods Sold	$332,946.95	$200,196.37	$132,750.58	66.31%	🚩 COGS grew significantly faster than revenue, indicating potential margin compression or shifts in product/service mix.
Operating Expenses	$1,994,297.72	$1,681,276.42	$313,021.30	18.62%	Operating expenses increased in line with revenue growth, but at a slightly higher rate.
Net Operating Income	-$31,084.76	$74,889.05	-$105,973.81	-141.50%	🚩 A concerning shift from a healthy operating profit to an operating loss, driven primarily by disproportionate COGS growth and increased overheads despite strong revenue.

⚖️ Balance Sheet

Metrics	Current Year 2024	Previous Year 2023	Change ($)	% Change	Comments
Cash on Hand	$93,727.00	$97,103.14	-$3,376.14	-3.48%	Cash on hand decreased slightly, indicating tight liquidity management.
Accounts Payable (Credit Cards)	$164,555.81	$86,257.62	$78,298.19	90.77%	🚩 Significant increase in credit card liabilities, a short-term financing method that needs careful monitoring for sustainability.
Total Assets	$153,917.91	$154,967.87	-$1,049.96	-0.68%	The asset base remained relatively stable year-over-year.
Total Liabilities	$171,879.83	$124,356.23	$47,523.60	38.22%	🚩 Substantial increase in total liabilities, primarily driven by credit card balances, leading to negative equity.
Owner's Equity	-$17,961.92	$30,611.64	-$48,573.56	-158.67%	🚩 Owner's equity turned negative, indicating liabilities now exceed assets. This is a critical area requiring immediate attention.

💸 Cash Flow

Metrics	Current Year
Cash from Business Operations	$23,904.79
Cash from Buying/Selling Assets	-$2,326.18
Cash from Loans & Equity	-$24,954.75
Net Cash Change	-$3,376.14

⏳ Cash Runway Analysis

Current Cash Position

$93,727

Monthly Expenses

$166,191.48

Cash Coverage Period

0.56 months

Analysis & Recommendation

Your current cash position covers less than one month of average operating expenses, indicating an extremely tight cash runway. A minimum **3-6 months** cash reserve of **$498,574 - $997,148** is recommended to manage operational risks and ensure business continuity.

⚖️ Profit vs Cash Reality Check

Your Business Snapshot:

Net Income (Profit on Paper):	**-$23,618.81**
Actual Cash (Net Change for Period):	**-$3,376.14**
The Difference:	**$20,242.67**

> Why is the loss $23,618.81 while the cash decrease is only $3,376.14? Your business lost money on paper, but the actual cash drain was much smaller because you used $78,298.19 in credit (unpaid bills on credit cards) to fund operations, which cushioned the cash impact.

Why the Difference? Here's Where Your Money Went:

Starting Point:

Net Income (what you earned on paper)	**-$23,618.81**	A

Add back money that you DID NOT actually pay out:

+ Bills not yet paid to suppliers (Credit Card Liabilities Increase)	**$78,298.19**	
Total money that reduced your profit but you DID NOT pay out	**$78,298.19**	B

Money that you spent but DID NOT reduce your profit:

– Equipment & asset purchases	**$2,326.18**	
– Loan principal payments (not interest)	**$30,774.59**	
– Owner withdrawals/distributions	**$24,954.75**	
Total money that you spent but DID NOT reduce your profit	**$58,055.52**	C
Net Cash Change for Period:	**-$3,376.14**	D

Total (A - D) and (B - C)	**-$20,242.67**

BOTTOM LINE:

Your paper loss was larger than the actual cash reduction. This was primarily due to a significant increase in credit card liabilities that provided cash, offsetting other cash uses like asset purchases, loan payments, and owner distributions.

🔍 Notable Observations

📊 FINANCIAL ADVISORY

- **Liquidity Concern**: Your cash runway is critically low at less than one month. A downturn in collections or revenue could severely impact operations. Recommend establishing a minimum **3-6 month cash reserve of $498,574 - $997,148** by retaining profits and potentially securing a line of credit to safeguard against unforeseen challenges. **HIGH RISK**
- **Debt/Leverage Concern**: Total liabilities (predominantly credit cards) now exceed total assets, leading to negative owner's equity. This signifies high financial risk. We recommend aggressively paying down high-interest credit card debt by **$78,298.19** and monitoring your debt-to-equity ratio regularly, aiming for a positive equity position within 12-18 months. **HIGH RISK**
- **Operational Efficiency**: The significant jump in Cost of Goods Sold (66.31%) compared to revenue growth (17.37%) is eroding your gross profit margin and led to a net operating loss. Review supplier contracts, inventory management, and pricing strategies to reduce COGS by at least **5-10% ($16,647 - $33,295)**. **MEDIUM RISK**

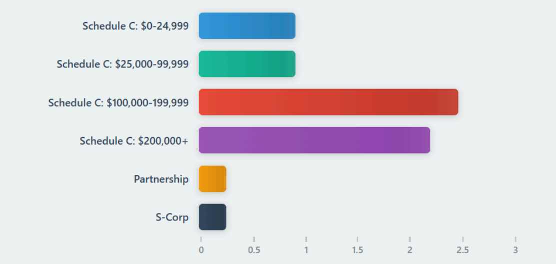
📋 TAX ADVISORY

- **Summary**: XYZ Company reports an ordinary business loss of **$26,091** for 2024, which is beneficial for the shareholder's personal tax situation. The business currently utilizes a Home Office deduction, accounting for **$8,048.87** in property taxes and insurance. Current cash liquidity is extremely tight, necessitating a cautious approach to tax planning. **HIGH RISK**
- **Expense Acceleration Opportunities**: With a reported loss and tight cash, prepaying expenses is not currently advisable. However, maintaining detailed records for all operating expenses, especially areas like **$16,247** in Maintenance and **$75,796** in Office Expenses & Supplies, will ensure all legitimate deductions are captured. **LOW RISK**
- **Shareholder Basis Note (S Corp)**: The shareholder's basis at year-end is **$58,612**. The 2024 ordinary business loss of **$26,091**, owner distributions of **$24,955**, and non-deductible expenses of **$4,132** all reduce this basis. It's crucial to continuously monitor basis to ensure distributions do not exceed it, which could trigger taxable gains. **MEDIUM RISK**
- **Cash Flow Note**: Given the negative net cash change and a cash runway of less than one month, any tax planning recommendations must prioritize cash preservation. The existing Home Office deduction is a low-cash strategy already in use, effectively reducing taxable income without requiring additional cash outflow. **HIGH RISK**

🚨 AUDIT RISK ASSESSMENT

- **Primary Audit Trigger**: The negative owner's equity, coupled with substantial owner's distributions (**$24,955**) while the company reported a net loss, represents a **HIGH RISK** audit trigger. The IRS often scrutinizes S-Corps that take distributions when the business is unprofitable, looking for disguised wages or distributions exceeding basis. **HIGH RISK**
- **Documentation Recommendations**: Maintain meticulous records for owner's distributions, ensuring they are properly classified and do not exceed shareholder basis. Document all business expenses, especially the significant **$78,298.19** increase in credit card liabilities, detailing their business purpose and proper categorization to support the large changes on the Balance Sheet. **MEDIUM RISK**
- **Industry-Specific Compliance**: For a chiropractic service, pay close attention to the proper classification of "Treatment Sales" vs. "Product Sales" and ensure all related COGS are accurately allocated. The Home Office deduction (**$8,048.87**) for medical professionals is acceptable but requires rigorous documentation (e.g., dedicated space, exclusive use) to avoid scrutiny. **MEDIUM RISK**

IRS Audit Risk by Business Structure



Audit rates shown as percentage (%) • Higher income Schedule C filers face significantly higher audit risk

Understanding IRS Audit Risk

Audit rates are at historic lows. The IRS primarily targets sole proprietorships and cash-intensive businesses like restaurants and laundromats. They publish audit guides on their website showing exactly what they look for.

Look at the bottom of the chart: S-corporations and partnerships have just a 0.2% audit rate. If audit risk concerns you, restructuring your business could help you fly under the radar.