

BUSINESS GUIDE

3 Keys for Financial Dashboards That Matter



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Read Time: 4 minutes

3 Keys for Financial Dashboards That Matter

Gone are the days when VC-backed companies could just focus on reaching some arbitrary investor milestone in order to raise money. Companies today must understand their financials on a true unit economics basis in order to succeed.

Raising money from venture capitalists is far from guaranteed today. Understanding financial health and unit economics is critical to building a sustainable business that doesn't depend on venture capital money. And if you want to raise money, potential investors want to see and understand the financial health of the business. This scrutiny is especially true for software companies today, since the expectations have risen for cloud-based software. Simply having strong revenue growth isn't enough. Investors (and operators) are painfully realizing that not all revenue is created equal and some companies are much better at becoming highly profitable than others.

Financial Health Dashboards

There are three points I want to highlight for building financial dashboards that matter:

1. Start with good data
2. Know how to read basic financials
3. Follows the rules of financial dashboards

1. Good Data

Garbage in equals garbage out. But a lot of companies don't really understand what "good financial data" looks like because they have never had it. Here are some hard questions to ask about your company's data:

- Is your accounting data segmented by department?
- Can you easily report on spend by vendor?
- Can you track revenue by different geographies or products?
- Can you track gross margins by product?
- Is your CRM organized and set up properly?
- Is your accounting following standard practices?

Make sure you have a great controller or CFO who can help determine what great looks like. And check out the [OnlyCFO sample chart of accounts](#) to get your accounting data better organized.

2. Reading Financials

Many business leaders and investors don't know how to read basic financials. Make sure your company's leaders understand the basics. Below is my cheat sheet for folks at tech companies ([full OnlyCFO blog here](#)). If your team doesn't understand how to read financial statements then it will be really hard to get them aligned to company plans and targets. Below are descriptions of some of the items you'll see on the "big three" financial statements—income statement, balance sheet, and cash flow statement.

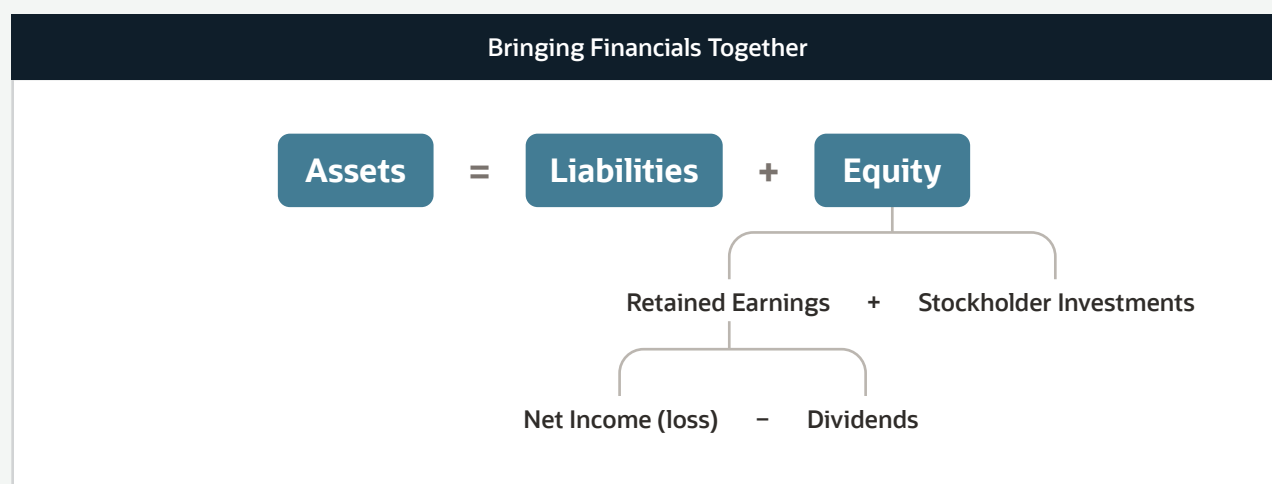
The Software Finance Guide

Income Statement			
Revenue		Operating Expenses	
Subscription Revenue	Revenue recognized ratably over subscription term	Research and Development (R&D)	Engineering, product, and design people and related costs
Usage Revenue	Revenue recognized as used	Sales and Marketing (S&M)	Sales, marketing, customer success, rev ops, trial costs
Professional Services Revenue	Typically recognized as services are performed	General and Administrative (G&A)	Finance, legal, HR, corporate, insurance, charity, and random stuff
COGS		Operating Expense Callouts	
COGS – Subscription	Infrastructure, support team, dev ops, maybe customer success	Stock-based Compensation	Value of equity awards on grant date expensed over the vesting period
COGS – Professional Services	People delivering services and their related costs	Commissions	Majority of commissions are expensed over time (3–5 years)
Gross Margins		Other Income/Expenses	
Gross Margin \$	Revenue – COGS	Interest Income/Expense	Debt investment income or debt obligation expense
Gross Margin %	Gross Margin \$/Revenue	Other Income/Expense	Most common: Foreign exchange stuff and equity investment gain/loss

Balance Sheet			
Assets		Liabilities	
Cash and Cash Equivalents	Money in the bank and < 90 day maturity investments	Accounts Payable	Vendor bills
Short-Term Investments	Debt investments with maturities of < 1 year	Accrued Expenses and Other Current Liabilities	Expenses owed, not yet paid, and not billed
Accounts Receivable	Money due from customers	Operating Lease Liabilities	Value of all lease payments
Deferred Commissions	Sales commission earned from closing deals	Deferred Revenue	Customer payments not yet recognized as revenue
Prepaid Expenses and Other Current Assets	SaaS subscriptions, rent, marketing events, etc.	Debt	Principal and accrued interest

Balance Sheet			
Assets		Liabilities	
Property and Equipment	Internal use software costs, computer stuff, office stuff, etc.	Other Liabilities	Taxes and other miscellaneous
Operating Lease Right-of-Use Assets	Present value of lease payments	Equity	
Goodwill	Premium paid over fair value for business acquisitions	Common Stock and Additional Paid-In Capital	Money invested by shareholders
Intangible Assets	Acquired developed technology, patents, trademarks, etc.	Retained Earnings (or Accumulated Deficit)	Net income (loss) minus dividends

Cash Flow Statement			
Operating Activities		Investing Activities	
Net Income (Loss)	Net income (loss) from the income statement	Purchases of Property and Equipment	Cash paid for computer equipment and office stuff
Non-Cash Adjustments		Capitalization of Internal-Use Software	Payroll and other costs to create new software functionality
Depreciation and amortization	Expenses for items previously paid for in cash	Purchases/Proceeds of Marketable Securities	Buying and selling of investments with maturities > 90 days
Amortization of commission costs	Commission expense for commissions previously earned	Business Acquisitions	Net cash paid to acquire companies
Stock-based compensation expense	Expense for equity awards given to employees/consultants	Financing Activities	
Change in Working Capital		Proceeds from Issuance of Stock	Money from VCs, PE, or public markets (IPO)
Assets (accounts receivable, prepaids, fixed assets, etc.)	↑ in assets causes ↓ to cash, ↓ in assets causes ↑ to cash	Proceeds/Repayment of Debt	Money from and paid back to creditors
Liabilities (accounts payable, deferred revenue, accruals, etc.)	↑ in liabilities causes ↑ to cash, ↓ in liabilities causes ↓ to cash	Proceeds from Stock Options, Warrants, ESPP	Money from exercising these awards. Stock is issued once exercised.
Gross Margin %	Gross Margin \$/Revenue	Other Income/Expense	Most common: Foreign exchange stuff and equity investment gain/loss



3. Rules of Financial Dashboards

Here are some of the rules I live by when building financial dashboards:

- **Context:** Provide the right level of historical or forecast context when showing numbers. This can change depending on the audience and objective of the dashboard.
- **Consistency:** Provide the same financial information and in the same format each time. Sometimes a change in the business requires a change in financial dashboards and metrics presented, but things shouldn't change too often. Too many companies pick and choose which metrics to show each time based on what looks good. Don't do this.
- **Customization:** I am providing a sample financial health dashboard that I think is really good, but if you're using my exact template for your company dashboard, then you're probably not doing your job. Every company is different (stage, industry, GTM motion, customer base, etc.) so your dashboard should incorporate some aspect of this uniqueness.

- **Definitions:** Key metrics should be defined somewhere. This makes sure everyone is aligned.
- **Know your audience:** What you show the entire company will be different from what you show your leadership team or what you show your board of directors. Your dashboards should reflect what the audience cares about and the level of detail relevant for them.
- **Numbers over pretty visuals:** Some charts are always nice but don't get carried away with too many visuals. Leaders and your board should be comfortable looking at numbers.

Final Thoughts

I hope you find my [sample financial dashboard](#) as a helpful starting point to building your own dashboard. Remember that every business is unique so make sure you reflect any important aspects in your dashboard.

Finance leaders need to truly understand the business in order to make financial dashboards that will make an impact on the business. Get your data in order, understand the business, and then build financial dashboards that will help drive successful business outcomes.

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