SIGNAL DIAGNOSTIC AUDIT

Findings, priorities, and the first three fixes.

Meridian Fabrication

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Engagement SD-2026-001

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Sector 332312 — Fabricated Structural Metal Manufacturing

Accounting basis Accrual

Worked example. Meridian Fabrication is fictional. This report exists to show the structure and standard of a Signal Diagnostic, not to describe a real engagement.

01

Executive Summary

> Your cash problem is a collections problem, not a profit problem.

Meridian is profitable and the margin structure is sound. The shortfall is timing: you are financing your customers for an average of 68 days against stated 30-day terms, on roughly $6.2M of revenue. That gap is worth approximately $640,000 in working capital — more than a line of credit would give you, and it costs nothing but process.

The reason it looks like a profit problem is structural, not careless. Your P&L is produced monthly and looks healthy, because it is. Nothing in your reporting surfaces days sales outstanding, so the one number that explains the cash position is the one number nobody sees. You have been reading an accurate report that does not contain the answer.

Three findings below are High confidence and quantified. One is offered as a question rather than a conclusion. Fixing the first finding alone should recover most of the shortfall within one quarter.

02

What You Asked vs. What the Evidence Shows

PRESENTED AS	A cash problem — insufficient working capital, possibly requiring debt or a price increase.
EVIDENCE SUPPORTS	A collections and terms problem. Profit is real, margins are stable, and the cash gap is fully explained by the spread between stated terms and actual collection.
WHY THE GAP	Your monthly reporting package contains a P&L and a balance sheet but no receivables ageing and no DSO figure. Cash felt mysterious because the metric that explains it was never on the page. This is a reporting design gap, not a management failure — and it is why the instinct was to reach for financing rather than collections.

03

Findings

Every finding below is traceable to something you provided. Findings marked **Low confidence** are stated as questions for you to verify — they are not conclusions.

F1 Receivables are running 38 days past stated terms

HIGH CONFIDENCE | FINANCIAL | ≈ $640,000 IN WORKING CAPITAL

EVIDENCE

Average DSO of 68 days against stated Net 30 terms, calculated from the ageing summary provided. Four accounts representing 31% of receivables are past 90 days.

WHAT'S HAPPENING

Nobody owns collections. Invoices are raised by the office manager as a byproduct of job closeout, and follow-up happens only when cash gets tight — which means chasing is reactive and concentrated in exactly the weeks when everyone is busiest. There is no dunning sequence and no escalation point.

IMPACT

At $6.2M revenue, closing the gap from 68 days to 35 releases roughly $560,000 of cash without changing a single price or borrowing anything.

F2 Invoices are raised on average 9 days after job completion

HIGH CONFIDENCE | OPERATIONAL | ≈ 9 DAYS OF UNNECESSARY FLOAT PER JOB

EVIDENCE

Job completion dates in the shop system compared against invoice dates in QuickBooks across the sample provided.

WHAT'S HAPPENING

Job completion is recorded in the shop floor system. Invoicing happens in QuickBooks. Nothing connects them, so an invoice is only raised when someone notices a job is finished — typically during weekly admin catch-up. The 9-day average is not a decision anyone made; it is the interval between two systems that do not speak.

IMPACT

Nine days on every invoice is nine days added to DSO before collections even begins. This compounds F1 rather than sitting alongside it.

F3 The same job data is entered manually in four places

HIGH CONFIDENCE | OPERATIONAL | ≈ 11 HOURS PER WEEK

EVIDENCE

Tools reported: shop floor system, QuickBooks, a scheduling spreadsheet, and a customer tracking spreadsheet. Job number, customer, and value are keyed into all four.

WHAT'S HAPPENING

Beyond the time cost, four independent copies means four opportunities to disagree. This is the most likely source of the reconciliation work that dominates your 12-day month-end close.

IMPACT

Roughly 11 hours weekly of skilled administrative time, plus the reconciliation burden it creates downstream at close.

F4 Revenue concentration is approaching a threshold worth watching

MODERATE CONFIDENCE | FINANCIAL | 38% OF REVENUE FROM THE LARGEST CUSTOMER

EVIDENCE

Revenue by customer for the trailing twelve months.

WHAT'S HAPPENING

At 38%, this sits just below the 40% level at which we would flag concentration as a material risk to earnings quality. It is not a finding requiring action today. It is a number worth putting in front of yourself quarterly, because it moves without anyone deciding it should.

IMPACT

No immediate action. Relevant if you seek financing or a valuation, where concentration at this level attracts questions.

F5 Is the shop floor system actually configured, or just installed?

LOW CONFIDENCE

OPERATIONAL

EVIDENCE

Heavy spreadsheet use running alongside a paid system is a recurring signal that the system was never configured to the workflow.

WHAT'S HAPPENING

We cannot confirm this from the intake alone, so it is offered as a question rather than a conclusion. If the shop system can already produce the scheduling and customer views you maintain in spreadsheets, two of the four data entry points in F3 disappear without buying anything.

IMPACT

Potentially removes half of F3's cost. Worth thirty minutes with your vendor before any other system is considered.

04

Threshold Scorecard

Measured against the thresholds Signal Strategy applies to every diagnostic, so your results are comparable to any other engagement.

SIGNAL	YOUR POSITION	STATUS
DSO vs. stated terms	68 days vs. Net 30	BROKEN
Month-end close	12 business days	BROKEN
Manual re-entry points	4	WATCH
Systems holding same data	4	BROKEN
Time from close to cash	77 days	BROKEN
Founder hours on admin/week	~25%	WATCH
Revenue per FTE vs. sector	Within 20% of median	HEALTHY
Documentation & role discipline	Weak — collections and invoicing unowned	BROKEN

05

Quality of Earnings

Earnings quality is sound. Reported profit survives the adjustments that matter at this size, and no check produced a material concern.

CHECK	RESULT
Owner compensation add-backs	Owner compensation is within market range for the role. No material adjustment required.

CHECK	RESULT
One-time revenue treated as run-rate	No non-recurring revenue identified in the trailing twelve months.
Related-party transactions	Premises leased from an owner-controlled entity at a rate consistent with local market. Disclosed and reasonable.
Capitalised costs	Capitalisation policy is conservative and consistently applied.
Revenue concentration	38% from largest customer. Below our 40% flag, but trending upward — see F4.
Working capital swings	Receivables growth is masking otherwise stable operating performance. This is the core finding, not a distortion of it.

06

Peer Comparison

Comparison is to the median of the peer set. Where Meridian sits within normal range, no conclusion is drawn.

METRIC	YOU	PEER MEDIAN	READ
Days sales outstanding	68 days	41 days	Materially worse
Gross margin	31.4%	29.8%	Slightly better
Revenue per employee	$443,000	$412,000	Within range
Current ratio	2.1	1.9	Within range

Source: RMA Annual Statement Studies, NAICS 332312, $5M–$10M revenue band

07

First Three Fixes

Ranked by impact against effort. Start at one.

1

Assign collections to one person and give them a sequence

Effort Low · **Returns** ≈ $560,000 working capital · **Horizon** One quarter

One named owner, a written dunning sequence at 7, 21 and 35 days past due, and an escalation point at 45. No new software required. This is the highest-return action available to you and it costs nothing but the decision.

2

Trigger invoicing from job completion

Effort Low · **Returns** ≈ 9 days off every invoice · **Horizon** 2–3 weeks

Connect job closeout in the shop system to invoice creation in QuickBooks so completion raises a draft invoice automatically. This is the single automation with the clearest payback in your operation.

3

Establish one system of record for job data

Effort Medium · **Returns** ≈ 11 hrs/week, plus a shorter close · **Horizon** One quarter

Start with the question in F5 — the system you already pay for may cover two of the four entry points. Resolve that before considering any purchase.

08

What Was Examined

Examined in depth

- Financial — revenue and cost makeup, quality of earnings, value generation and scalability
- Operational — manual handoffs, data re-entry, intake and routing, role clarity and process ownership

Reviewed for attribution only

- Supply chain and input costs — reviewed only to confirm the problem does not originate there. It does not.
- Sales and go-to-market — reviewed only for attribution. Pipeline and pricing are not the cause.
- General management and P&L structure — reviewed for attribution.

Not examined — outside our scope

- Legal and contracts — outside our scope. Your customer terms are worth a separate review by counsel given finding F1.
- Hiring, performance management, compensation and culture — outside our scope.
- Product strategy — outside our scope.

09

Basis and Limitations

This diagnostic is professional analysis and opinion based on the information you supplied: the completed intake form, the profit and loss statement and balance sheet for the trailing twelve months, and the receivables ageing summary. It is not an audit, an attestation, a legal opinion, a tax opinion, or investment advice.

Accuracy depends on the accuracy and completeness of what was provided. We did not independently verify the underlying records.

Analysis was assisted by automated tools for structured extraction, benchmark comparison and drafting. Every finding was reviewed, edited and signed by Ryan Funke, CFA before delivery. No finding reached you unreviewed.

Findings are labelled High, Moderate or Low confidence. Low-confidence findings are stated as questions for you to verify, never as conclusions.

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