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Title:
10 Financial Yardsticks for Your Small Business

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Summary:
Time and again, accountants and consultants who specialise in small businesses say that such enterprises don't pay enough attention to cash flow. That’s the measure of how much money you really have in the business.

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Small Business, Small Business Ideas, Small Business Startup, Small Business Software

Article Body:
<p>Time and again, accountants and consultants who specialise in small businesses say that such enterprises don't pay enough attention to cash flow. That's the measure of how much money you really have in the business. </p>
Be Wary of Big Contracts
<p>"Small entrepreneurs wind up taking big orders that get them in trouble," says Ronald Lowy, who heads a college business administration department. "They want the big contract, but they're not getting enough money at the front end of it and they don't have the cash reserves to pay workers and other bills while they're waiting to get paid themselves. They might show a profit on an accrual basis, but from a cash-flow standpoint, they don't." </p>
<p>Judith Dacey, a certified public accountant, calls a cash-flow statement "probably the most important thing in telling you if your business is on or off target." As an example she describes how board members of a non-profit group were not examining their cash-flow statements. </p>
<p>"They were hiring people and spending money on membership campaigns, and doing all of these things based on money they thought they had from looking at the profit-and-loss (P&L) statements," Dacey says. "They didn't realise that the profit-and-loss statement was an accrual statement, which basically means you are including paper promises of payments to come, not money that you have in the bank." </p>
<p>The non-profit board became aware of the difficulty only when the organisation bounced a check. Employees had to be laid off, and belts were tightened. "That could have been avoided if they'd seen the cash-flow statements," Dacey says. "A cash-flow statement tells you here's the cash that

has actually come in and that you can work with." </p>
<p>A statement of cash flow starts with the bottom of your profit and loss statement — the line that shows your net income. Several adjustments are made to that number. The details are a little complex but a good accounting program that does a P&L and a balance sheet will also calculate this statement for you. </p>
Tracking the Big 10
<p>If you've established a way to track cash flow, then you can go on to organise and track 10 financials for your business. That's a big list, but don't panic: As with profit and loss statements, you can take advantage of software programs to automate tracking for many of the following: </p>
<p>• Your Assets </p>
<p>Tracking your equipment, furniture, real estate and other holdings should be easy. But to have a true idea of the value of your business, you also have to track changes in the value of those assets. More than one small business has found itself located on a piece of land that's worth more than the business itself. Similarly, you also will want to track the declining value of assets such as computers and office furniture. </p>
• Your Liabilities
<p>On the face of it, this is easy — liabilities are what you owe. But what you owe isn't always as obvious as a bill from your landlord. Payroll taxes are a liability that depend on the size of your payroll. Loans are a clear liability, but in repaying them you'll want to be able to track how much of a payment is applied against principal and interest. </p>
•What does it Cost You to Produce What You Sell?
<p>If you're buying a finished item for resale, this is relatively easy. It's trickier if you have to calculate all the factors, such as labour, that go into manufacturing a product. </p>
•What's it Costing You to Sell What You Sell?
<p>Advertising, marketing, labour, storage and the catch-all category of overhead — it's useful to know how much it costs you to get a product sold as well as what it costs you to create it. </p>
•What's Your Gross Profit Margin?
<p>This is calculated by dividing your total sales into your gross profit. If your gross profit margin is staying consistent or trending upward, you're probably on track. </p>
<p>Being able to track a declining margin can give you a heads-up that you must adjust your prices or your costs. In the worst cases your gross profit and profit margin disappear altogether. At that point, you'll be like the fellow who lost money on every sale but figured he could make it up in volume. Don't do it. </p>
•What's Your Debt-to-asset Ratio?

<p>This ratio can let you know how much of the stuff you have in your company is actually owned by someone else — your lender. Having this ratio climb can be a bad sign. It can happen as part of a major expansion, but it can also indicate that you're getting in over your head. </p>
•What's the Value of Your Accounts Receivable?
<p>This is the money you are owed. If accounts receivable are on the rise, you may be getting a warning that the folks you sell to are starting to stumble. </p>
•What's Your Average Collection Time on Accounts Receivable?
<p>This is probably one of the most aggravating pieces of information for cash-strapped businesses, because it tells you how many days you're acting as 'banker' for the people who owe you money. </p>
•What Are Your Accounts Payable?
<p>The flip side of accounts receivable. An increase in your accounts payable may merely reflect a larger amount of purchases overall. But an increase that hasn't been planned or managed can be an internal warning that your company's financial strength is waning. </p>
•What's Happening With Your Inventory?
<p>There are occasions, even in this just-in-time business world, when building up a significant inventory can be a good thing. </p>
<p>If prices for items you sell or use in production are relatively low, putting some of your money into inventory may make sense. </p>
<p>Being able to track your inventory can tell you whether business is increasing or slowing down. It also tells you how much money is tied up in this unproductive asset. </p>
<p>Knowing what's up with your cash flow is essential to your business. But sometimes the figures can be difficult to understand. Don't ever be afraid to turn to professionals for some help. </p>