



Michael Anderson & Company, Inc.
CPAs & Advisors

Measurements For Business Success

September 15, 2011

Presented By:

Erin Roche, CPA

What We Want To Avoid



Knowing What to Look For

- What are Financial Ratios?
- What are Key Performance Indicators (KPIs)?
- Why are they so important?



Knowing Where to Look

Where do I get this wealth of knowledge??

Your Financial Statements!!**



Your Business
Balance Sheet
For the Year Ended December 31, 20xx

ASSETS		LIABILITIES	
Current Assets		Current Liabilities	
Cash	\$ 1,000	Notes Payable	\$ 5,000
Petty Cash	100	Accounts Payable	5,500
Temporary Investments	5,000	Wages Payable	2,500
Accounts Receivable - net	5,500	Payroll Tax Payable	500
Inventory	3,000	Income Tax Payable	3,100
Supplies	500	SE Tax Payable	3,100
Prepaid Insurance	500	Unearned Revenues	1,500
Total Current Assets	15,600	Total Current Liabilities	21,200
Investments	6,000	Long-term Liabilities	
		Notes Payable	10,000
Fixed Assets		Mortgage Payable	70,000
Land	5,500	Total Long-term Liabilities	80,000
Furniture and Fixtures	6,500		
Equipment	6,000		
Building	75,000	Total Liabilities	101,200
Less: Accum Depreciation	(6,000)		
Total Fixed Assets	87,000		
Intangible Assets		Owner's or Stockholders' Equity	
Goodwill	25,000	Owner Investment	30,000
Trade Names	20,000	Retained Earnings	25,400
Total Intangible Assets	45,000	Total Owner's Equity	55,400
Other Assets	3,000		
Total Assets	\$156,600	Total Liabilities & Owners' Equity	\$156,600

YOUR BUSINESS
INCOME STATEMENT
FOR YEAR ENDING DEC. 31, 20xx

Revenue:		
Gross Sales	0.00	
Less: Sales Returns/Allowance	0.00	
Net Sales	0.00	
Cost of Goods Sold:		
Purchases	0.00	
Delivery Charges	0.00	
Cost of Goods Sold:	0.00	
Gross Sales Profit(Loss)	0.00	
Expenses:		
Expense #3	0.00	
Expense #4	0.00	
Expense #5	0.00	
Expense #6	0.00	
Expense #7	0.00	
Expense #8	0.00	
Expense #9	0.00	
Expense #10	0.00	
Total Expenses:	0.00	
Net Operating Income:	0.00	
Other Income:		
Income #2	0.00	
Income #3	0.00	
Total Other Income:	0.00	
Net Income (Loss):	0.00	



Common Ratios

Your gross profit margin tells you the average gross profit on each dollar of sales *before* operating expenses. The equation is simple:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}}$$



Common Ratios

Your net profit margin is the percentage profit your business makes for every dollar of revenue – whether you're making a profit after covering *all* of your costs.

$$\text{Net profit margin} = \frac{\text{Net income}}{\text{Sales}}$$



Common Ratios

You're making profitable sales but are they enough to cover short term liabilities? To answer that, you need the current ratio. It helps to measure the solvency of your business by comparing your current assets (like unpaid invoices) to your current liabilities (unpaid bills and the like):

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$



Common Ratios

If you deal in physical product, then inventory turnover is an incredibly useful number. It shows you how many times your business' inventory is sold and replaced over a particular period:

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Inventory}}$$



Common Ratios

Return on owner's equity compares your net business income to the equity you've invested in the business. It reveals how much you're making from your investment:

$$\text{Return on owner's equity} = \frac{\text{Net income}}{\text{Owner's equity}}$$

**Non-Financial KPIs

- Performance measures NOT related to dollar figures
- Non-financial measures can be even more important than the dollars sometimes
 - Labor Hours
 - Machine Hours
 - Employee Turnover
 - Customer Satisfaction Rate

The Monitoring Process

- How often?
- Which Ratios/KPI's should I be focused on?
- Who should be involved?



Taking the Next Steps...

- Industry Comparisons
- Professional Consulting
 - Success Track

Questions?

Thank You for attending!



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