

Where's the Money?

Financials 101

A decorative graphic in the top left corner featuring a grey map of New Zealand, several red curved lines, and a small yellow speech bubble icon.

What will be covered

- How to read and understand financial statements?
- Monitoring the health of your organisation
- Key ratios
- So where's the money
- How to add value to your business
- Final philosophy

Financial Statements Required

- ❑ Balance Sheet
- ❑ Profit and Loss
- ❑ Cashflow



The Balance Sheet

- Formula ($A = L + E$)
- Is a snapshot of your Financial Health on a particular day - “As At”



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Profit and Loss Account (Income Statement)

- ❑ Profit for a specified period of time**
- ❑ Calculates the amount you pay tax on**
- ❑ Takes into account Balance Day Adjustments**
 - Debtors**
 - Creditors**
 - Stock on Hand**
 - Depreciation**

Cash flow Statement

- You receive payment 60 days after deliver

Cash Flow	Month 1	Month 2	Month 3	Month 4	Month 5	Total
Sales					26,500	26,500
Fixed Expenses						
Rent	500	500	500	500	500	2,500
Telephone	250	250	250	250	250	1,250
	750	750	750	750	750	3,750
Variable Expenses						
Fabric	5,000					5,000
Production		5,500				5,500
Freight			500			500
	5,000	5,500	500	-	-	11,000
Net (Loss)/ Profit	(5,750)	(6,250)	(1,250)	(750)	25,750	11,750
GST Refund			1,500		250	1,750
Cash Flow (Out)/ In	(5,750)	(6,250)	250	(750)	26,000	13,500
Cumulative Cash Flow	(5,750)	(12,000)	(11,750)	(12,500)	13,500	13,500

Ratio Analysis

- ❑ Numbers are just numbers.
- ❑ Let's look at ratios to see what's really going on!



Profitability Ratios

- ❑ Gross Profit % - $\frac{\text{Gross Profit}}{\text{Income}}$
- ❑ Net Profit % - $\frac{\text{Net Profit}}{\text{Income}}$
- ❑ Profit per Employee – $\frac{\text{Net Operating Profit}}{\text{Number of Employees}}$
- ❑ Breakeven Point – $\text{Income} - \text{Variable Expense}$



Ratio Analysis

- ❑ Net Profit Margin
- ❑ Gross Profit Margin
- ❑ Expenses Ratio
- ❑ Return on Equity
- ❑ Return on Assets
- ❑ Working Capital Ratio
- ❑ Debt-to-Equity Ratio

Your Business	Industry Average
20%	10%
50%	40%
30%	50%
45%	30%
25%	15%
2.3%	2.3%
20%	45%

Keeping On Track

Free cash flow is one of the most important factors in keeping your business on track to success.

Improving the KPIs shown on your Business Barometer reading will enable you to increase free cash flow.

Free cash flow is any cash you have left over once all bills have been paid. The greater your free cash flow, the more money you have to pay off debts, strengthen or expand your business or make non-business purchases such as taking that long-awaited holiday.

Business Barometer will help you identify which KPIs can be improved to ensure free cash flow is maximised. It will isolate problem areas where things are heading off track and give you advice to steer your business back in the right direction.



A stylized globe graphic in the top left corner, showing a map of New Zealand and several curved lines representing latitude and longitude.

Consider Future From *a Range of Perspectives*

- ❑ Customer
- ❑ Shareholders
- ❑ Suppliers
- ❑ Competitor / market share
- ❑ Stakeholders

So Where's the Cash?



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Why Your Bank Balance Differs from Your Profit

- Increase in stock on hand
- Increase in debtors
- Decrease in creditors
- Repaid loan principal
- You have purchased Capital Items

Income v Profit

What are you in the business of producing?

Income



Profit





Profit Drivers

- ❑ **Maximum Income**
- ❑ **Minimum Expenditure**

- ❑ **“Why is it so hard to achieve?”**

Get all your ducks lined up

- Working on your business not in it!



The Busy Fool

**Busier and busier in our
job and work longer and
longer hours**

BUT

we make less money.



A decorative graphic in the top left corner featuring a grey silhouette of a person's head and shoulders, with several red and grey curved lines radiating from the top left corner, resembling a stylized umbrella or a signal.

Symptoms of the 'Busy Fool' Condition

- ❑ Trading for sales, not profits
- ❑ No extra money in the bank
- ❑ Increase in tax payable
- ❑ Working excessive hours
- ❑ Constantly 'putting fires out'
- ❑ Damage to family and social relationships
- ❑ Owner won't let go



Taking Remedial Action

- ❑ **Take time out for a new perspective**
- ❑ **Monitor profit not just sales**
- ❑ **Develop a business plan**
- ❑ **Learn to delegate**
- ❑ **Exploit the 80/20 rule**



A philosophy

- ❑ Do not worry
- ❑ Know when to yield
- ❑ Be the expert
- ❑ Lead
- ❑ Go out on a limb...
- ❑ Remember the turtle...

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In Summary

- ❑ **If you don't measure you don't know**
- ❑ **Monitor both sales and profits**
- ❑ **Focus on the key drivers in your business**
- ❑ **Consider cash flow implications of your decisions**
- ❑ **Never discount**
- ❑ **Have fun**



Thank You!

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