

Title:

10 Financial Yardsticks for Your Small Business

Word Count:

1092

Summary:

Time and again, accountants and consultants who specialise in small businesses say that such e

Keywords:

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

Article Body:

<p>Time and again, accountants and consultants who specialise in http://www.microsoft.com/business/10_yardsticks
Be Wary of Big Contracts
<p>"Small entrepreneurs wind up taking big orders that get them in trouble," says Ronald Lowy, a certified public accountant, calls a cash-flow statement "probably the most important financial statement you can have."
<p>Judith Dacey, a certified public accountant, calls a cash-flow statement "probably the most important financial statement you can have."
<p>"They were hiring people and spending money on membership campaigns, and doing all of these things," she says. "The non-profit board became aware of the difficulty only when the organisation bounced a check."
<p>The non-profit board became aware of the difficulty only when the organisation bounced a check.
<p>A statement of cash flow starts with the bottom of your profit and loss statement - the line for net income.
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 key financial ratios.
<p>Your Assets
Your Liabilities
<p>On the face of it, this is easy - liabilities are what you owe. But what you owe isn't always what you think you owe.
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're producing something.
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 what you're spending.
What's Your Gross Profit Margin?
<p>This is calculated by dividing your total sales into your gross profit. If your gross profit is declining, you may be having trouble.
<p>Being able to track a declining margin can give you a heads-up that you must adjust your prices.
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 you.
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 better at collecting.
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.
What Are Your Accounts Payable?
<p>The flip side of accounts receivable. An increase in your accounts payable may merely reflect a change in your terms.
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 idea.
<p>If prices for items you sell or use in production are relatively low, putting some of your cash into inventory can be a good idea.
<p>Being able to track your inventory can tell you whether business is increasing or slowing down.
<p>Knowing what's up with your cash flow is essential to your business. But sometimes the figures don't tell the whole story.

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