



Untangle financial information

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Businesses, small, medium and large, all need to become financially literate in order to succeed. Leaving the time consuming, cumbersome and boring number crunching, collections, and disbursements to accountant conceals potential problems and risks. Furthermore, looking at daily cash balances and then, possibly, looking at profits each quarter, will not provide the insights needed to elevate performance.

Your business is unique and has its own complexities; and as you continue to grow, your financial reporting will not necessarily help you manage performance unless you make changes on how you track events. Can you easily trace the exact decisions that caused your costs to increase? Do you have a cogent understanding of the effect of sales investments on revenue generation?

Ultimately, businesses fail simply because they run out of money, cannot pay their bills and then inevitably get trapped into a death spiral. By the time such predicaments become apparent it is often too late – owners and executives become focused on recovery, disconnect from their customers and let the competition take the lead.

Typical financial statements which pop out of accounting systems do not provide all the information needed. Your accountant must learn to appreciate business nuances and untangle your financial reports to create the right information for you.

You only need a few simple ways to redesign reports to keep your finger on the pulse of your business.

1 **Create a forward looking view** that projects your sales, costs, profits, debts and cash over the next quarter, or even longer. Use your most recent results to create a projection of what your business will do over the next time frame. Near term projections can be set out in more detail (because you have more certainty around these numbers) and longer term numbers can be summarized (because they require “best guess” estimates). You will predict possible cash shortfalls, expense overages early and this will also make sure you have the resources to execute your plans.

2 **Keep your sales pipeline current.** Your sales pipeline trends your recent sales figures forward, adds anticipated sales from your new customers, and gives you a perspective on where you might have soft spots. Getting the timing of these sales by month predicts a possible cash crunch.

3 **Focus on your best customers** and monitor your interactions with them regularly. Often we ignore what is working well and focus on our problems. Our best customers tell us everything we need to know to grow our business. Report sales by major customer, in detail, so that you can discern their buying patterns and refine your selling strategy with not only your top clients but also prospective customers. Use this information to elevate your selling power.

4 **Oversee your biggest expenses closely.** The 80/20 rule applies here. 20% of your cost items will most likely make up almost 80% of your total costs. Looking at these in detail, and often, will help you keep them under control. Make sure you capture trends in unit costs and be sure to assign accountability for controlling and spending cost items to the right people.

5 **Track your working capital.** Working capital is the sum of your short term sources of cash (mostly cash in the bank, inventories and accounts receivable) less your short term payables (payroll, tax remittances, trade payables, and credit cards). Not only should you strive to keep this number in the black, make sure your inventory turns fast and your customers pay on time. Pay your suppliers on time, or you might find it difficult to replenish inventories on time. And, as for those credit cards, only use them to pay for budgeted or planned expenses. These figures should be part of your daily spot check on your business.

6 **Do the level of your long term debts correspond to your assets?** Basically, inventories should be financed with a short term line of credit (and payables) and equipment should be financed with a long term loan. This will help you meet your payment obligations better.

7 **Monitor cash levels to make sure you can cover your operating expenses over the short term.** Have reserves earmarked for those tight periods when sales are typically down and you need to carry your business without struggling. You may want to regularly monitor whether your reserves can carry the business’ operating expenses for a period of six to twelve months’ just in case sales do not materialise. This will keep you from worrying about cash and help you focus on building your business.

Using these guidelines, your accountant can assemble a simple one page, daily or weekly summary to give you all the information you need to keep your business on track.



Being clear and focused is always a challenge for any business. Define the levers that make your business successful or alternatively mire performance. We assist clients in deconstructing their financials to understand the impact of their decisions. For example, our analytics can link sales performance to sales spend to help you maximize the impact of sales activity. Activity based costing, target costing and network routing are just some of the tools that will help you understand the impact of your decisions on your results. Please contact us to learn about our engagements.