

Do you know your Business's Financial Health?

A mix of daily earnings, equity, long-term/short term borrowing, creditors and lines of credit funds a business. It is important that the right balance is struck between these. Each has a cost and you have to be sure that you understand it and are able to pay it.

Understanding your financial position is an important step in evaluating the health of your business. Cash is the life-blood of any organization and must be closely managed to ensure the business can survive and grow effectively. Understanding the basic concepts of cash flow will help you plan for any unforeseen eventualities that may occur.

This **checklist** will help you analyze the financial help of your business.

Do You Know	Yes	No
Your gross inflow vs outflow?		
How much you debt you have?		
Your daily cash collection and how it is being managed?		
Your daily bank balance?		
What the current value of your business's stocks, bonds, etc. holding is?		
What your outstanding balance is?		
How much cash/credit is spent in your business daily?		
How you are funding your day-to-day capital needs?		
Whether your bank and other sources of finance are enough for your needs?		
What are your other sources of finance?		
Is your working capital equal to the short-term funds?		
What it is costing to fund your business?		
Is your growing faster than you have resources to sustain it?		
Whether your cost of overheads in proportion to your gross profit is increasing?		
Your break-even point for sales?		
How an interest rate change will affect you?		
Are you making use of all the tax breaks are available for your business?		

This **checklist** will help you calculate the financial ratios that you need to know.

PROFITABILITY

Net Margin (%)	$\frac{\text{Net Profit}}{\text{Sales}}$	
Gross Margin (%)	$\frac{\text{Gross Profit}}{\text{Sales}}$	
Cost of Materials (%)	$\frac{\text{Cost of Materials}}{\text{Sales}}$	
Cost of Labor (%)	$\frac{\text{Cost of Labor}}{\text{Sales}}$	
Overhead Costs (%)	$\frac{\text{Overhead Costs}}{\text{Sales}}$	

LIQUIDITY

Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	
Quick Ratio	$\frac{\text{Current Assets excluding Stock}}{\text{Current Liabilities}}$	
Short Term Debt Ratio (%)	$\frac{\text{Short Term Loans + Overdrafts}}{\text{All Loans + Overdraft}}$	

RISK

Margin of Safety	$\frac{\text{Sales} - \text{Break Even Sales}}{\text{Sales}}$	
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ASSET EFFICIENCY

Capital / Net Asset Turnover	$\frac{\text{Sales}}{\text{Net Assets}}$	
Debt Turnover	$\frac{\text{Sales}}{\text{Debtors}}$	
Stock Turnover	$\frac{\text{Sales}}{\text{Stocks}}$	
Fixed Asset Turnover	$\frac{\text{Sales}}{\text{Fixed Assets}}$	
Return On Total Assets	$\frac{\text{Operating Profit (before interest)}}{\text{Total Assets}}$	