

Key Numbers for your Business

Baubre Murray FCA



Covering Today:

- Financial statements
- Some terminology
- Key numbers and ratios

- Financial Statements

- Profit and Loss:

- Income
- Less expenses
- = Profit

- Balance Sheet:

- Assets
- Less Liabilities
- = Equity/ Net Worth

Terminology:

- **Cash Accounting:**
 - Cash in and cash out
- **Accrual Accounting:**
 - Income earned at any point in time even if not all received
 - Expenses incurred or owing
 - Excludes GST and principal repayments on loans,
 - Takes into account depreciation on assets, stock etc
 - Needs accounts receivable and accounts payable
- **Depreciation:**
 - Allocation of an asset's cost over its useful life.
 - SL = evenly
 - DV = sliding scale (higher cost at the beginning)
- **Cost of sales:**
 - Opening stock
 - Plus Purchases
 - Less Closing stock

- Shareholder current accounts
 - Keep track of the money the company owes you.
 - Funds introduced for home office costs, purchases on behalf of the company to be reimbursed
 - Drawings for payments to yourself eg regularly or as reimbursements
 - Year end salary offsets the drawings.
 - If you have taken out more than put in or earned as salary at 31 March then you are considered to have borrowed from the company and you will be charged interest for borrowing those funds.

- Key numbers to keep an eye on:
- Income/ Sales
- Variable costs eg contractors, wages
- Fixed costs eg rent, salaries
- Remember too that taxable income will be different to profit at year end, partly because of non-deductible items eg entertainment and loan repayments and timing differences eg depreciation.

ABC LTD

less 10%

Sales	500,000	450,000
Cost of Sales	200,000	180,000
Gross Profit	300,000	270,000
Less Overheads		
Rent	40,000	40,000
Salaries	80,000	80,000
Total Overheads	120,000	120,000
Surplus	180,000	150,000

ABC LTD

Sales	500,000	550,000	10%
Cost of Sales	200,000	220,000	
Gross Profit	300,000	330,000	
Less Overheads			
Rent	40,000	40,000	
Salaries	80,000	80,000	
Total Overheads	120,000	120,000	
Surplus	180,000	210,000	17%

ABC LTD

Less 10% exp

Sales	500,000	550,000	10%
Cost of Sales	<u>200,000</u>	<u>180,000</u>	-10%
Gross Profit	300,000	370,000	
Less Overheads			
Rent	40,000		
Salaries	<u>80,000</u>		
Total Overheads	120,000	118,000	-10%
Surplus	180,000	252,000	40%

- How to grow or earn more without having to work weekends...
- Power of leverage ie
 - Selling more widgets
 - Having more staff
 - Borrowing funds

Some key ratios:

- Compare between periods eg months, years, against others in industry (benchmarking)
- <http://www.ird.govt.nz/industry-benchmarks/bm-find-your-benchmark/>
- Gross Profit:

$$\frac{\text{Profit after cost of sales}}{\text{Sales}}$$

$$360,000 / 600,000 = 60\%$$

(higher is better)

Debtor days:

$$\frac{\text{Accounts receivable (excl GST)}}{\text{Sales}} \times 365$$

Eg $50,000/632,500 \times 365 = 28$ days

Excl GST $43,478/600,000 \times 365 = 27$ days

Liquidity ratio:

Current assets
Current liabilities

Eg. $76,000/23,000 = 3.3$

Inventory Turnover

Cost of sales

Inventory

$$276,000 / 20,000 = 13.8 \text{ times}$$

Inventory days

Inventory

x 365

Cost of sales

$20,000/240,000 \times 365 = 30 \text{ days}$

Gross return rental properties

Annual rent

Purchase price

- Purchase price: \$450,000
- Weekly rental: \$ 500pw
- Annual rental: \$ 25,000

$$\frac{25,000}{450,000} = 5.6\%$$

Return on equity

Profit
Equity

$$\$40,000 / \$25,565 = 156\%$$