

BANKING AND FINANCIAL RATIOS

PRESENTED BY: GINA COUILLARD

DIRECTOR COCONINO COMMUNITY COLLEGE SBDC

WHO WE ARE



Small Business Development Center:

The SBDC is part of a nationwide network of centers that deliver services to anyone who operates a business or is planning to start a business. We work with businesses in every industry and at every stage of growth from start-ups to well-established companies.

You are busy working IN your business. We help you work ON your business.

Have an idea for expansion, need to refinance, are there opportunities to sell to the government? Through our one-on-one no charge consulting we can help!

For more
information visit us
at:

Coconino.edu/sbdc

Centralaz.edu/sbdc

NPC.edu/sbdc





America's SBDC Clients

- > Start a new business every 32 minutes
- > Create a new job every 5.3 minutes
- > Access \$100,000 in capital every 9.4 minutes
- > Make \$100,000 in new sales every 8 minutes



SERVICES WE OFFER:

- No cost Confidential Business Counseling
- No cost to low cost Seminars & Training
- New Business Check List
- Access to Capital Loan Assistance
- Government Contracting
- And much more



- **Importance of Good Banking Practices**
- **Explanation of Financial Ratios**
- **How to Compute Financial Ratios**
- **Industry Comparison using Ratios**



BOOKKEEPING TIMELINE



Daily

- Evaluate cash flow
- Check bank balances
- Enter your sales and cash receipts
- Prepare deposits

Weekly

- Prepare and send invoices
- Evaluate cash flow
- Pay vendors
- Review cash flow
- Payroll
- Reports due to government agencies
- Document and file receipts

Monthly

- Evaluate cash flow
- Reconcile petty cash
- Complete Sales Tax report and payment
- Review past due accounts receivables
- Analyze inventory
- Complete monthly payroll reports and payments
- Review financial statements
- Compare budget to actual

Quarterly

- Complete estimated taxes and payments
- Complete quarterly payroll reports and payments
- Review accounts receivable

Annual

- Review accounts receivable
- Complete physical inventory
- Review financial reports
- Backup accounting software
- Prepare info for tax preparation
- Prepare w-2'S and 1099's



TIME MANAGEMENT



- **Plan:**
 - **Schedule time**
 - **Determine priorities**
 - **Account access**
 - **Create a master bill schedule**
 - **Online bill pay**
 - **Plan for emergencies**



CASH IS KING



- **Control Cash:**
 - **Monitor Cash Position Daily**
 - **Alerts**
 - **Customer Payment Options**
 - **Collections**
 - **Reserves**

Worried about cash flow?

Ensuring proper cash flow, or the amount of funds flowing in and out of your business, is one of the biggest challenges business owners face.

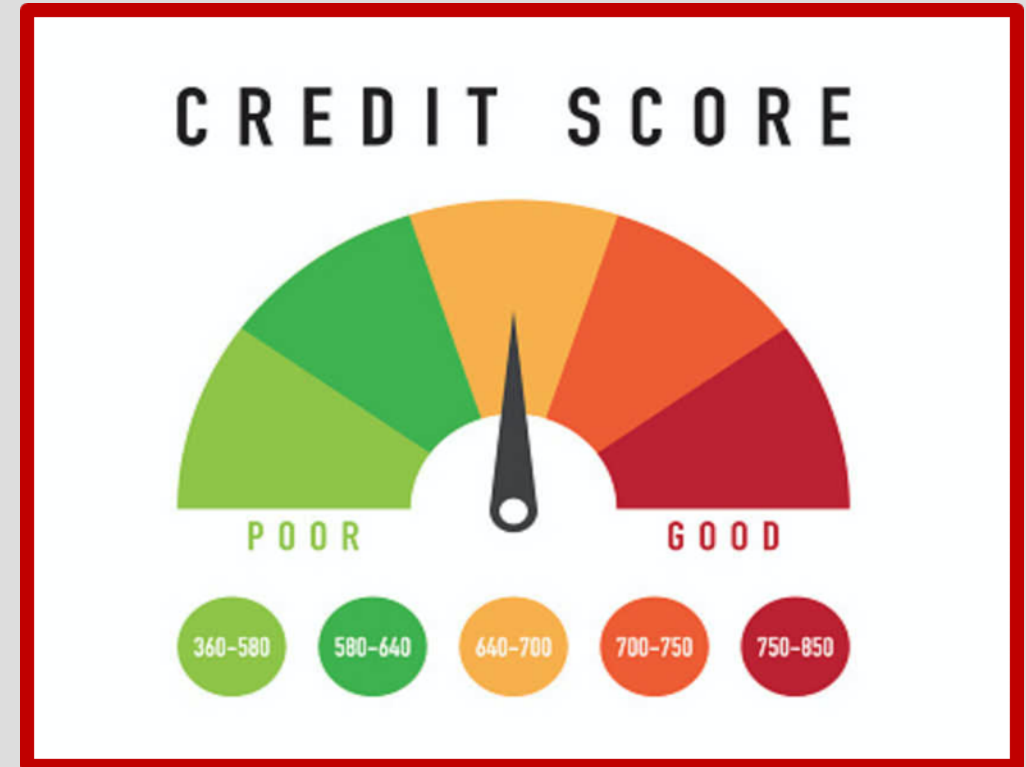
69% of small business owners' concerns about cash flow keep them up at night.*

The infographic features a dark blue background with stylized clouds and several floating green dollar bills and gold coins.

CREDIT SCORING



- **Growing Your Business:**
 - **Goals**
 - **Target**
 - **Funding Sources**
 - **Build Credit**



ASSET PROTECTION



- **Protecting Assets:**
 - **Separate Business and Personal**
 - **Insurance**
 - **Cyber Security**
 - **Fraud Protection**
 - **Tax**



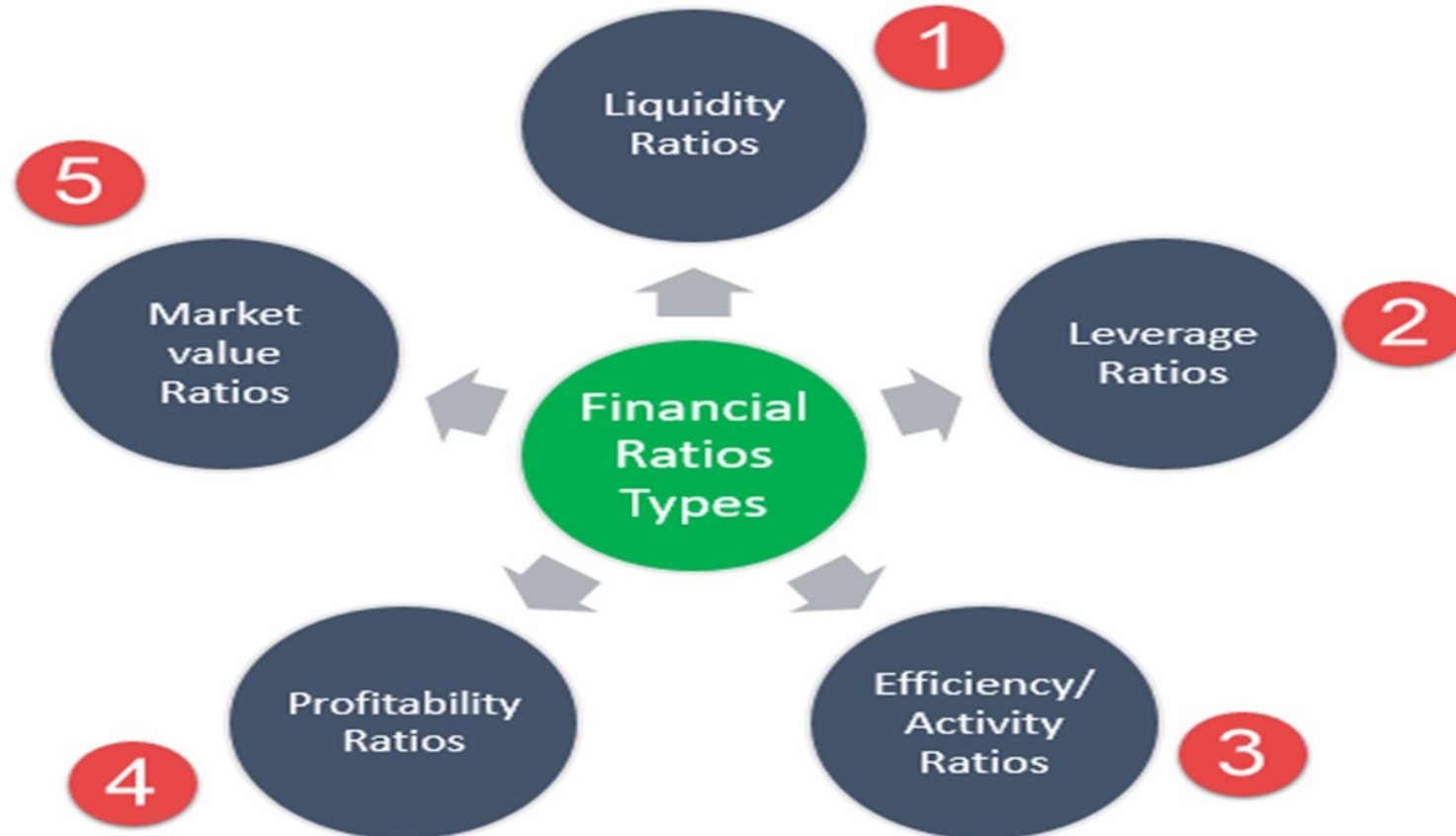
- **Exit Plan:**
 - **Succession**
 - **Retirement**
 - **Valuation**
 - **Business Continuity**



**EXIT
PLAN**

The graphic features the words "EXIT PLAN" in large, bold, black capital letters. The letter "I" in "EXIT" is replaced by a red door with a silver doorknob, set within a white rectangular frame.

FINANCIAL RATIO CATEGORIES



LIQUIDITY



Liquidity ratios are financial ratios that measure a company's ability to repay both short and long-term obligations.



Example Business Balance Sheet

	2019	2020
Assets		
Cash	45,356	62,123
Inventory	47,178	38,190
Prepaid Expenses	4,975	4,975
Furniture & Equipment	35,000	35,000
Less Accumulated Depreciation - F&E	3,100	5,500
Total Assets	129,409	134,788
Liabilities & Owner's Equity		
<i>Liabilities</i>		
Accounts Payable	24,129	7,756
Loans Payable	11,020	8,290
Total Liabilities	35,149	16,046

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2019: \frac{\text{Current Assets (92,534)}}{\text{Current Liabilities (35,149)}} = 2.63$$

$$2020: \frac{\text{Current Assets (100,313)}}{\text{Current Liabilities (16,046)}} = 6.25$$



The ideal Current Ratio should be higher than 1:1. A ratio of 1.5-2.0 is considered ideal.

Ratio < 1.5	Ratio = 1.5 to 2.0	Ratio > 2.0
Suggest solvency problems	Company is operating efficiently	Suggests poor resource management

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$$\text{Quick (Acid) Test} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

$$2019: \frac{\text{Cash (45,356)}}{\text{Current Liabilities (35,149)}} = 1.29$$

$$2020: \frac{\text{Cash (62,123)}}{\text{Current Liabilities (16,046)}} = 3.87$$



The Quick Ratio, also known as the Acid-test or Liquidity ratio, measures the ability of a business to pay its short-term liabilities by having assets that are readily convertible into cash.

LEVERAGE

Leverage Ratios measure the amount of capital that comes from debt. In other words, leverage financial ratios are used to evaluate a company's debt levels.





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<i>Liabilities</i>		
Accounts Payable	24,129	7,756
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Total Liabilities	35,149	16,046
<i>Owner's Equity</i>		
Owner's Equity	94,260	118,742
Total Liabilities & Owner's Equity	129,409	134,788

$$\text{Debt Ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

$$2019: \frac{\text{Total Liabilities (35,149)}}{\text{Total Assets (129,409)}} = 0.27$$

$$2020: \frac{\text{Total Liabilities (16,046)}}{\text{Total Assets (134,788)}} = 0.12$$



The higher the ratio implies a more leveraged company and it demonstrates that a company is a greater financial risk.

For many lenders .50 is considered an ideal financial ratio.



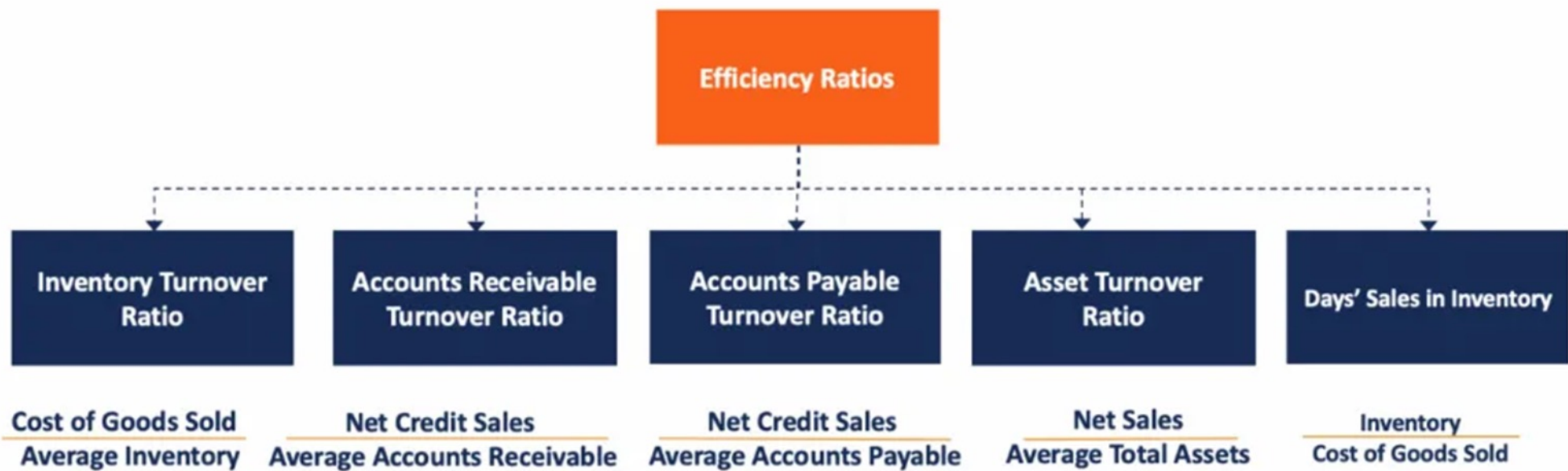
EFFICIENCY RATIOS



Efficiency ratios, also known as activity financial ratios, are used to measure how well a company is utilizing its assets and resources.



EFFICIENCY RATIO TYPES



$$\frac{\text{Total Output}}{\text{Total Input}} = \text{Labor Productivity}$$

A company generated \$80,000 worth of goods in 1500 hours. To calculate the labor productivity:

$$\frac{\$80,000}{1,500 \text{ Hours}} = \$53 \text{ Per Hour of Work}$$

A company generated \$80,000 worth of goods or services with 30 employees. To calculate the labor productivity:

$$\frac{\$80,000}{30 \text{ Employees}} = \$2,666 \text{ Per Employee a Week}$$

PROFITABILITY



Profitability Ratios measure a company's ability to generate income relative to revenue, balance sheet assets, operating costs, and equity



**Example Business
Income Statement**

	2019	2020
Operating Revenue		
Sales	567,004	624,025
Less Sales Returns & Allowances	12,500	21,350
Net Sales	554,504	602,675
Cost of Goods Sold		
Inventory Jan 1	52,000	47,178
Purchases	321,500	352,000
Freight In	9,800	10,200
Less Purchases Returns & Allowances	3,050	2,200
Less Purchase Discounts	3,130	2,950
Net Cost of Purchases	325,120	357,050
Total Inventory Available for Sale	377,120	404,228
Less Inventory Dec 31	47,178	38,190
Cost of Goods Sold	329,942	366,038
Gross Profit on Sales	224,562	236,637
Operating Expenses		
Advertising	7,425	10,160
Bank Charges	125	125
Depreciation Expense	2,400	2,400
Dues and Subscriptions	520	220
Insurance	2,450	2,690
Legal & Professional	800	1,200
Licenses & Permits	770	890
Payroll	106,190	139,480
Payroll Taxes	7,368	9,542
Rent	27,600	30,100
Supplies	4,975	6,980
Telephone	1,875	2,143
Utilities	5,925	6,225
Total Operating Expenses	168,423	212,155
Net Income (Loss)	56,139	24,482



Operating Margin Ratio = $\frac{\text{Operating (Net) Income}}{\text{Revenue (Sales)}}$

2019: $\frac{\text{Operating (Net) Income (56,139)}}{\text{Revenue (Sales) (554,504)}} = .10$

2020: $\frac{\text{Operating (Net) Income (24,482)}}{\text{Revenue (Sales) (602,675)}} = .04$



Operating margin ratio is the ratio of operating income to the revenue of the business. It highlights the operating income of the business as a percentage of the revenue





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Cost of Goods Sold		
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Gross Profit on Sales	224,562	236,637
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Total Operating Expenses	168,423	212,155
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Furniture & Equipment	35,000	35,000
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Total Assets	129,409	134,788

$$\text{Return on Assets} = \frac{\text{Operating (Net) Income}}{\text{Total Assets}}$$

$$2019: \frac{\text{Operating (Net) Income (56,139)}}{\text{Total Assets (129,409)}} = .43$$

$$2020: \frac{\text{Operating (Net) Income (24,482)}}{\text{Total Assets (134,788)}} = .18$$



Return on assets (ROA) is a profitability ratio that provides how much profit a company is able to generate from its assets.

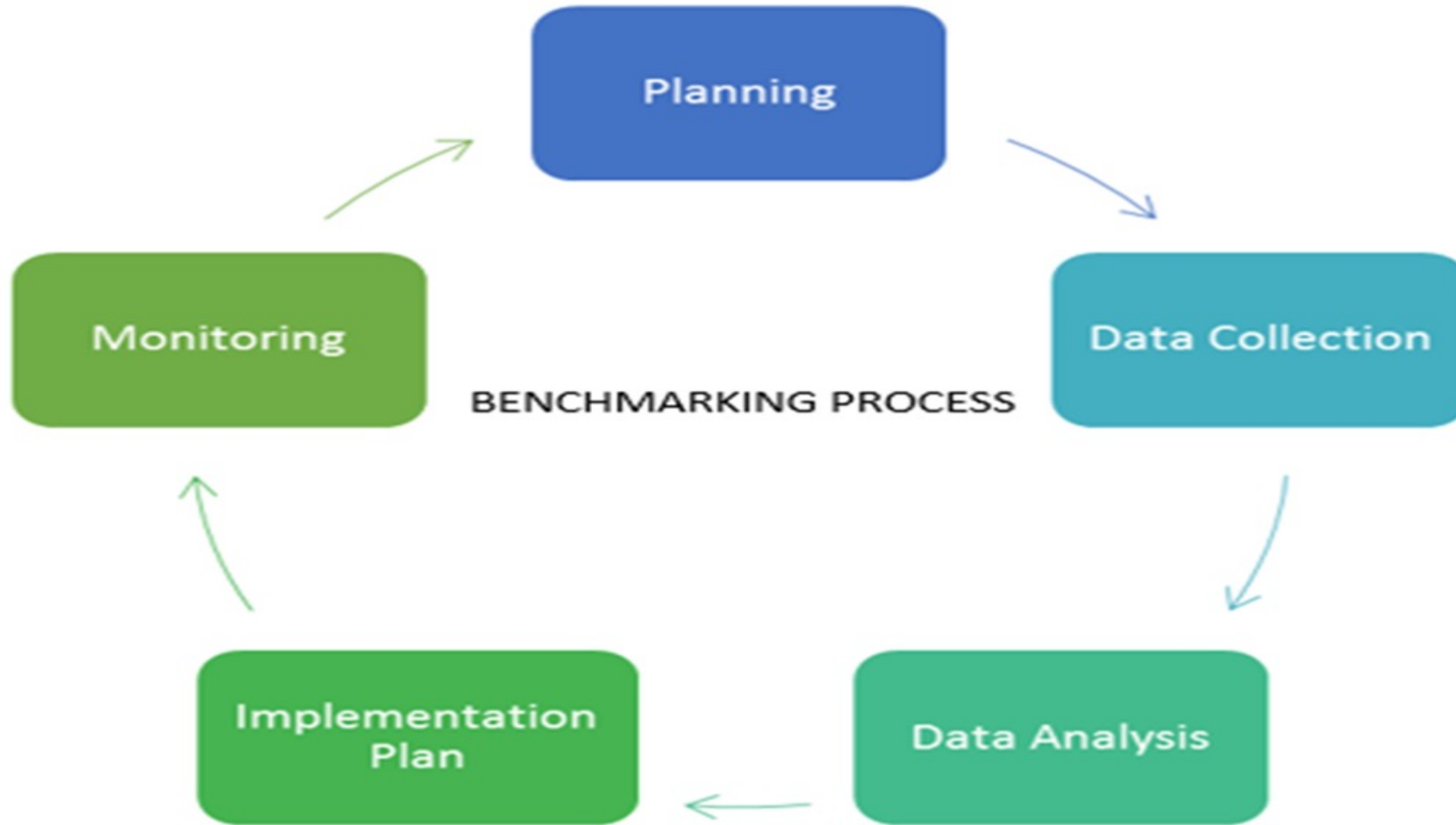


BENCHMARKING



Types of Benchmarking





IMPLEMENTATION PLAN



S
M
A
R
T



Increase ROA to .30



CFO will track and report ROA monthly to Senior Management



CFO will work with Purchasing to identify areas for expense reduction.



Provides measure of how our firm is converting assets to net income



Improvement of ROA from .18 to .30 by end of Quarter 2



QUESTIONS?



Register for counseling:
Website: Coconino.edu/sbdc
Centralaz.edu/sbdc
NPC.edu/sbdc

Contact Us:

Coconino-Gina Couillard, Director
sbdc@Coconino.edu

Central-Katherine Boddy, Director
sbdc@Centralaz.edu

Show Low- Rich Chanick, Director
sbdc@NPC.edu

