

FINANCIAL-HEALTH SCORE

FIVE-MINUTE FINANCIAL-HEALTH SCORE FOR SMALL BUSINESSES

For many small business owners, it is difficult to evaluate monthly the financial health of their company. They are not trained in reading financial statements. Here is an easy assessment they now can use regularly and compare it to previous periods. It is not meant as a way to bypass reviewing the financial statements, but another means to measure your company's financial health.

1. DOES YOUR SMALL BUSINESS HAVE POSITIVE OR NEGATIVE CASH FLOW?

What this means: Do you have more or less cash at the end of the month?

Where to find it?

1. Bank statement. Look at the beginning cash balance and the ending cash balance.

Do you have more or less at the end of the month?

2. Cash-flow statement from your accounting system. Look at the beginning cash balance and the ending cash balance. *Do you have more or less at the end of the month?*

If you have more cash at the end of the month, add one point to your total.

2. WHAT IS YOUR CURRENT RATIO?

What this means: It's the total current assets divided by the total current liabilities.

Where to find it? Your balance sheet from your accounting system.

If it is greater than one, add one point to your total.

3. DO YOU HAVE MONTHLY ANNUITIES FOR REVENUE?

What this means: Your business gets repeat revenue automatically every

month from a subscription or contract without having to sell to a new customer.

Where to find it? The revenue or sales line on your profit-and-loss statement.

If you have annuity revenue, add one point to your total.

4. WHAT PERCENTAGE OF REVENUE IS YOUR GROSS PROFIT?

What this means: Revenue (sales) minus the cost of goods or cost of service.

Where to find it? Your profit-and-loss statement from your accounting system.

If your gross margin is higher than 50 percent, add one point to your total.

5. MORE FIXED VS. VARIABLE EXPENSES?

What this means: Fixed expenses are usually all expenses in your business except those directly related to the cost of providing the product or service you sell. For example, rent, marketing, internet service and travel.

Where to find it? Your profit-and-loss statement.

If fixed expenses are less than 20 percent of sales, add one to your point total.

EVALUATE YOUR POINT TOTAL: _____

FOUR OR FIVE: Congratulations! Your small business is healthy and well positioned for 2021. Grow on!

THREE: At risk! Key financial parts of your small business need to be improved. You are vulnerable to changes in the market.

ONE OR TWO: Danger! Too many parts of your business are unhealthy, and your company risks going bankrupt in 2021. Find help!

TINY FINANCIAL HABITS FOR SUCCESS

1. Read your financial statements monthly
2. Use a budget and update once a year
3. Invoice weekly or more frequently
4. Limit customer credit
5. Collect payments faster
6. Pay vendors on time with a credit card
7. Minimize inventory and maximize usage
8. Make more expenses variable
9. Guard your cash jealously
10. Borrow money for quantifiable returns