

How to avoid financial crisis in your business



Keywords

Hits

46

URL

Too many people keep working away in their business and never quite work out why the bank balance seems to hover at the overdraft limit permanently or why they are facing financial crisis . The answer is to keep an eye on some important figures and ratios. Here are ten finance figures it's good to understand.

1. **Overheads** - the fixed costs of operating your business. The more you sell, the smaller your overhead costs proportionately become. If sales fall then overheads can cripple you.
2. **Variable costs** - incurred only when you produce something, for example raw materials. These costs are good because they are directly proportional to your sales.
3. **Profit** - as a rule of thumb, profit is the value of your sale less the associated variable costs less a proportion of your overhead costs. Many forget to include overhead costs in their costings and consequently lose money.
4. **Debtor days** - the average length of time customers make you wait for your money. As your business grows it becomes vital to keep this figure low.
5. **VAT** - if your sales rise above a certain level you have to add VAT. VAT sitting in your bank account can lead you think you've got more money to spend than you actually have. Take note!
6. **Creditor days** - the average length of time you string your suppliers along before paying your bills. Smart operators always pay the most important dependent suppliers first.
7. **Credit rating** - if you habitually pay your bills late and have perhaps had the odd court judgment made against your business, then your credit rating will be poor and people may ask for cash up front. Specialist agencies provide credit rating reports for a fee.
8. **Quick ratio** - is the easiest accounting ratio to watch and also the most important. It is the total of the debt owed you plus the cash in your bank, divided by the amount you owe creditors. So, if your debtors owe you INR

10,000 and your bank account stands at INR 2000, and you owe creditors INR 4,000, your quick ratio is $(\text{INR}10,000 - \text{INR}2,000) / \text{INR}4000 = 2$. Above 1 and you are solvent, below 1 and you are not!

9. **Cash flow** - use a spreadsheet to calculate why you need your income to be phased to meet your predicted outgoings. Calculate the effect of people paying you late - it's alarming!
10. **Balance sheet and profit & loss** - these are reports that your accounting software will produce. Always look at the year-to-date figure as well as the last month's performance. You can rarely judge success on the strength of one month alone.

I hope the article will be help full for you to understand how to avoid financial crisis. Share and help other.

POSTED BY

Management consultant, ISO consultant, Marketing consultant, CRM, Digital Marketing, SEO, ISO 9001 certification

Address	13 , 14 Akar Apartment Tithal Road, valsad
Contact Person	Mehnaz Nan
Mobile Number	9825566009
Email	info@greendot.co.in

For more details, please visit <https://www.brocta.com/detail/management-consultant-iso-consultant-marketing-consultant-crm-digital-marketing-seo-iso-9001-certification-valsad-54>