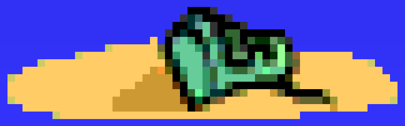
Preparing a business performance summary:

What you’ll learn

- How to determine what the profit is for a business for a year.
- Considerations that one should look at when evaluating whether a business has shown a good profit for the year.
- Types of information a business owner can gain from records.(Ratios)
- Writing a narrative business performance summary.

How to determine profit for the year

- Accurate, detailed records for the entire fiscal year
- Profit & Loss Statement/Income Statement
- Balance Sheet



Accurate, detailed records

- It is impossible to prepare a good business performance summary if you did not accurately record income and expenses, just like it is impossible to balance your check book if you did not record checks and deposits.

Profit & Loss (Income) Statement

- The profit & loss statement summarizes your business's (SAE's) performance for the year.
- It shows all income and expenses for the year.
- If income was greater than expenses that is a positive reflection on your business!

Balance Sheet

- A balance sheet is another good report for showing how well your business (SAE) is doing.
- It is a report which includes assets and liabilities for a specified date (usually December 31st)
- If assets are greater than liabilities, that is a positive reflection on your business!

Considerations that one should look at when evaluating whether a business has shown a good profit for the year.

Cash vs. Accrual Comparisons

Cash vs. Accrual Accounting

- Cash
  - Profits are determined by the amount of money received minus the amount of money spent.
  - It does not include Accounts Receivable (money owed to you) or Accounts Payable (money you owe others)
- Accrual
  - More accurate.
  - Accounts receivable and accounts payable are used to calculate profits.
  - Money received

    + money owed to you

    – Money spent

    + money owed for expenses (not including loan payments.)

Comparisons

- Records and financial reports become more useful when you have more than one year to compare.
  - Did I decrease expenses?
  - Did I increase sales and/or make more profit than last year?
  - Did I increase my margin? (Net Income/Sales)
  - Has my net worth increased?
  - Do I have more assets and less debt?

Business owners can gain information from their records by calculating ratios and comparing more than one year of records.

Ratios

- *Return on Equity*

  =Net Income/Net Worth

- *Asset turnover*

  =Revenue/Total Assets

- *Collection ratio*

  $= \dfrac{\textit{Accounts receivable}}{\textit{(Revenue/365)}}$

- *Debt to Asset ratio*

  =Total liabilities/Total Assets

- *Debt to Equity ratio*

  =Total liabilities/Net Worth

- *Working Capital*

  =Current Assets/Current Liabilities

Narrative

- The narrative includes text that explains the meaning of each ratio.

- Numbers
- Words

The End!