Your Assets – Are they working for you or just sitting there?

FINANCIAL MANAGEMENT SKILLS TRACK

Presented

by

Tom Shay

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

Your Assets – Are they working for you or just sitting there?

How much are you making?

Your salary $______________

The profit for the year $______________

Total $______________

How much is this investment in your business earning for you?

Is this the best investment you can make?

1. Savings account
2. Certificate of deposit
3. Money market account
4. Purchase stock
5. Treasury bond
6. Precious metals
7. Your business

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

Let’s start all over with an investment

The safest investment

The highest return

The highest level of confidence

Having the most knowledge

What are your choices?

Let’s invest in your business today

How much money will you need to borrow?

Whom do you borrow the money from?

How much will the current owner or a bank finance?

At what interest rate?

How much of your personal money will you need?

What interest rate are you expecting for your money invested in your business?

How much are you currently earning from the business?

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

While you have already made this investment…

Will you make another?

When do you increase this one?

What return are you expecting?

How are you going to measure it?

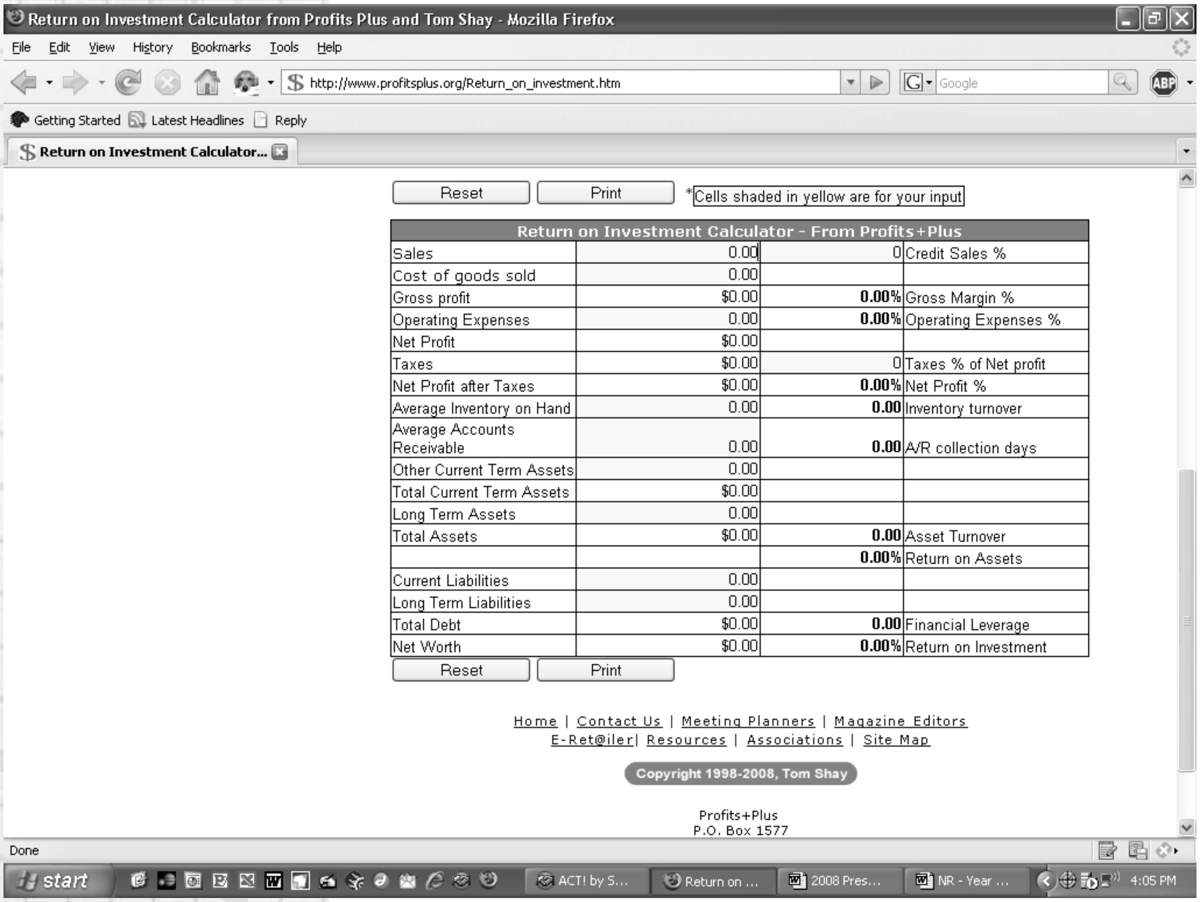
You have a profitable business in which your manager actively participates

Will you honor their request for additional assets?

If you have multiple locations, where should you place additional assets?

Do you place it with the most profitable, or should we consider all aspects of the income statement and balance sheet?

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



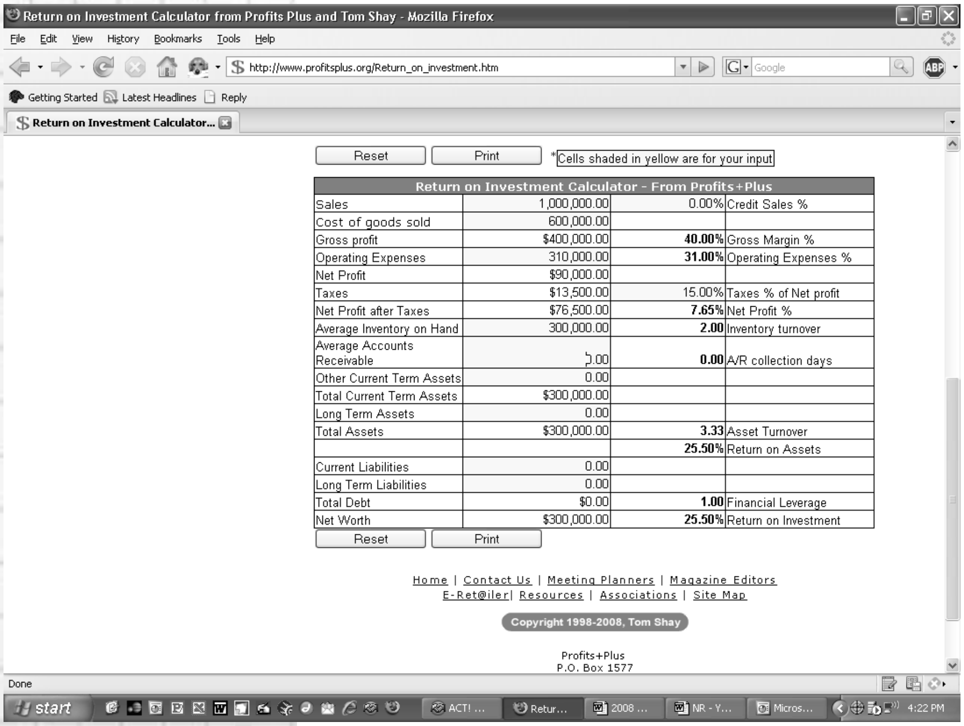
Return on Investment Calculator - From Profits+Plus			
Sales	0.00	0	Credit Sales %
Cost of goods sold	0.00		
Gross profit	$0.00	**0.00%**	Gross Margin %
Operating Expenses	0.00	**0.00%**	Operating Expenses %
Net Profit	$0.00		
Taxes	$0.00	0	Taxes % of Net profit
Net Profit after Taxes	$0.00	**0.00%**	Net Profit %
Average Inventory on Hand	0.00	**0.00**	Inventory turnover
Average Accounts Receivable	0.00	**0.00**	A/R collection days
Other Current Term Assets	0.00		
Total Current Term Assets	$0.00		
Long Term Assets	0.00		
Total Assets	$0.00	**0.00**	Asset Turnover
		0.00%	Return on Assets
Current Liabilities	0.00		
Long Term Liabilities	0.00		
Total Debt	$0.00	**0.00**	Financial Leverage
Net Worth	$0.00	**0.00%**	Return on Investment

Information needed:

Total sales	Percentage of credit sales
Cost of goods sold	Operating expenses
Tax rate percentage	Average inventory on hand
Average accounts receivable	Other current term assets
Long term assets	Current liabilities
Long term liabilities	

Average inventory = 12 eom inventories/12
Current assets or liabilities is < 12 months
Long term assets or liabilities is > 12 months

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org


Return on Investment Calculator from Profits Plus and Tom Shay - Mozilla Firefox

http://www.profitsplus.org/Return_on_investment.htm

Reset Print *Cells shaded in yellow are for your input

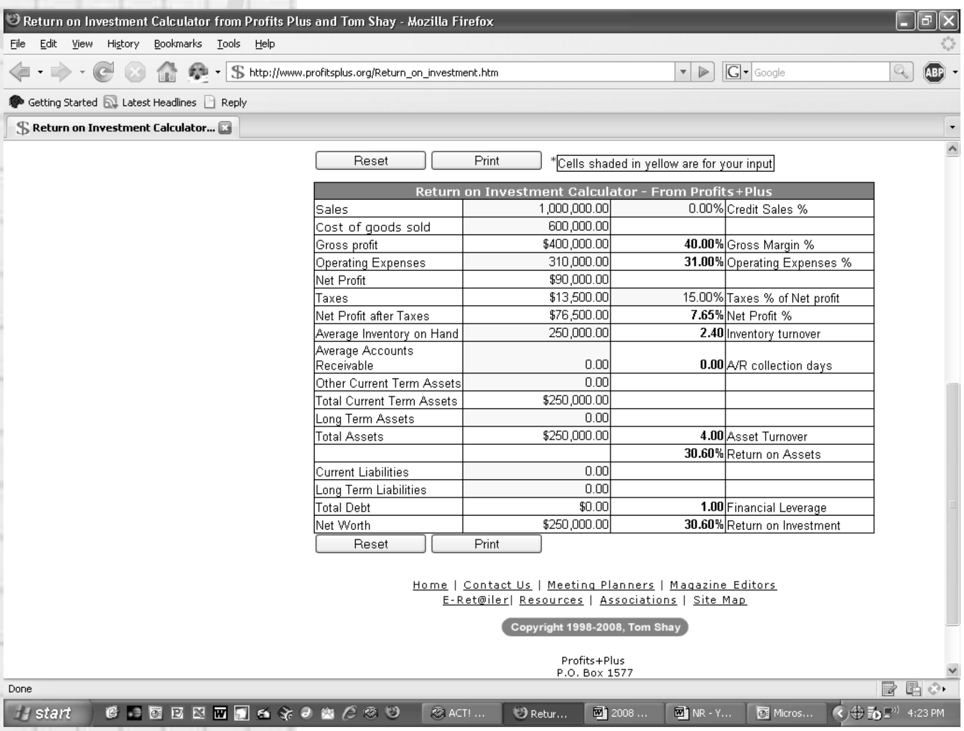
Return on Investment Calculator - From Profits+Plus			
Sales	1,000,000.00	0.00%	Credit Sales %
Cost of goods sold	600,000.00		
Gross profit	$400,000.00	**40.00%**	Gross Margin %
Operating Expenses	310,000.00	**31.00%**	Operating Expenses %
Net Profit	$90,000.00		
Taxes	$13,500.00	15.00%	Taxes % of Net profit
Net Profit after Taxes	$76,500.00	**7.65%**	Net Profit %
Average Inventory on Hand	300,000.00	**2.00**	Inventory turnover
Average Accounts Receivable	0.00	**0.00**	A/R collection days
Other Current Term Assets	0.00		
Total Current Term Assets	$300,000.00		
Long Term Assets	0.00		
Total Assets	$300,000.00	**3.33**	Asset Turnover
		25.50%	Return on Assets
Current Liabilities	0.00		
Long Term Liabilities	0.00		
Total Debt	$0.00	**1.00**	Financial Leverage
Net Worth	$300,000.00	**25.50%**	Return on Investment

Reset Print

Home | Contact Us | Meeting Planners | Magazine Editors
E-Ret@iler | Resources | Associations | Site Map

Copyright 1998-2008, Tom Shay

Profits+Plus
P.O. Box 1577


Return on Investment Calculator from Profits Plus and Tom Shay - Mozilla Firefox

http://www.profitsplus.org/Return_on_investment.htm

Reset Print *Cells shaded in yellow are for your input

Return on Investment Calculator - From Profits+Plus			
Sales	1,000,000.00	0.00%	Credit Sales %
Cost of goods sold	600,000.00		
Gross profit	$400,000.00	**40.00%**	Gross Margin %
Operating Expenses	310,000.00	**31.00%**	Operating Expenses %
Net Profit	$90,000.00		
Taxes	$13,500.00	15.00%	Taxes % of Net profit
Net Profit after Taxes	$76,500.00	**7.65%**	Net Profit %
Average Inventory on Hand	250,000.00	**2.40**	Inventory turnover
Average Accounts Receivable	0.00	**0.00**	A/R collection days
Other Current Term Assets	0.00		
Total Current Term Assets	$250,000.00		
Long Term Assets	0.00		
Total Assets	$250,000.00	**4.00**	Asset Turnover
		30.60%	Return on Assets
Current Liabilities	0.00		
Long Term Liabilities	0.00		
Total Debt	$0.00	**1.00**	Financial Leverage
Net Worth	$250,000.00	**30.60%**	Return on Investment

Reset Print

Home | Contact Us | Meeting Planners | Magazine Editors
E-Ret@iler | Resources | Associations | Site Map

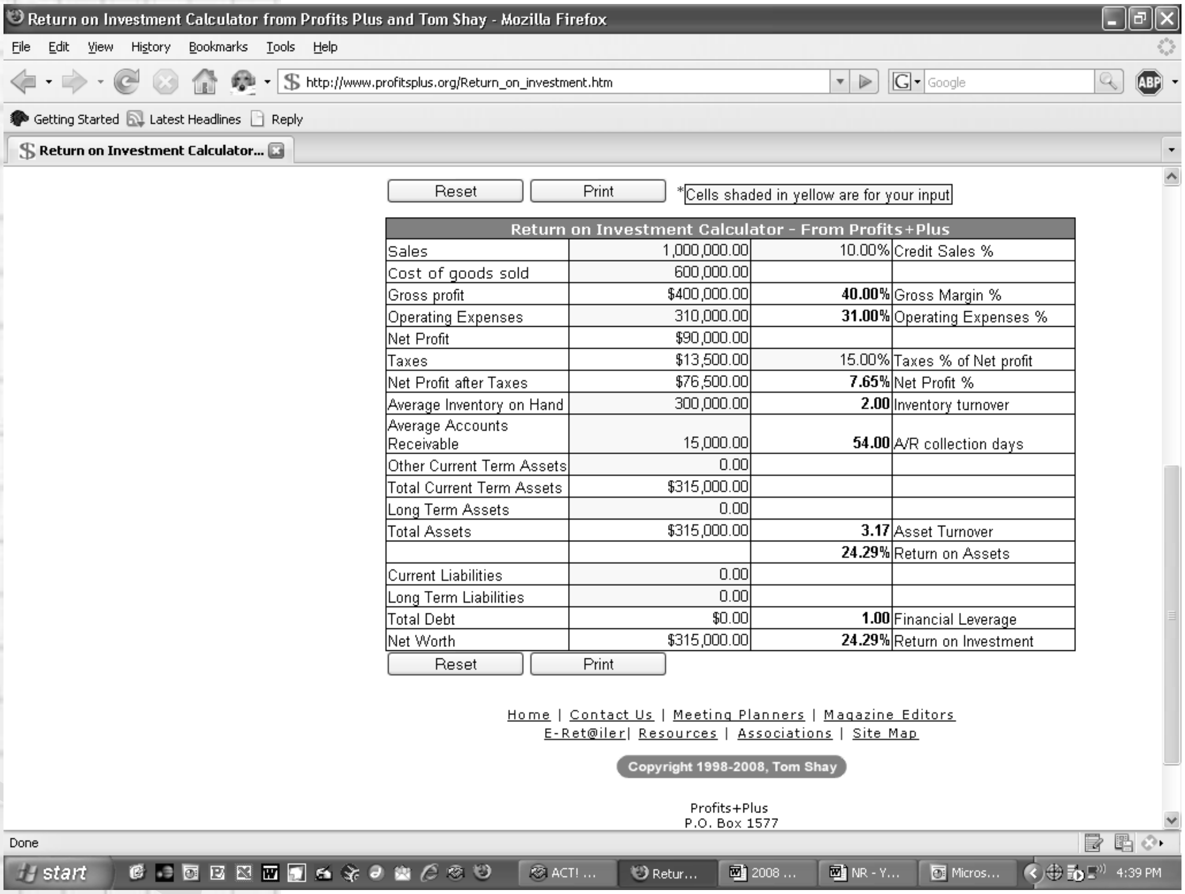
Copyright 1998-2008, Tom Shay

Profits+Plus
P.O. Box 1577

Increased inventory turn increases ROI

Do you utilize an 'open to buy'?

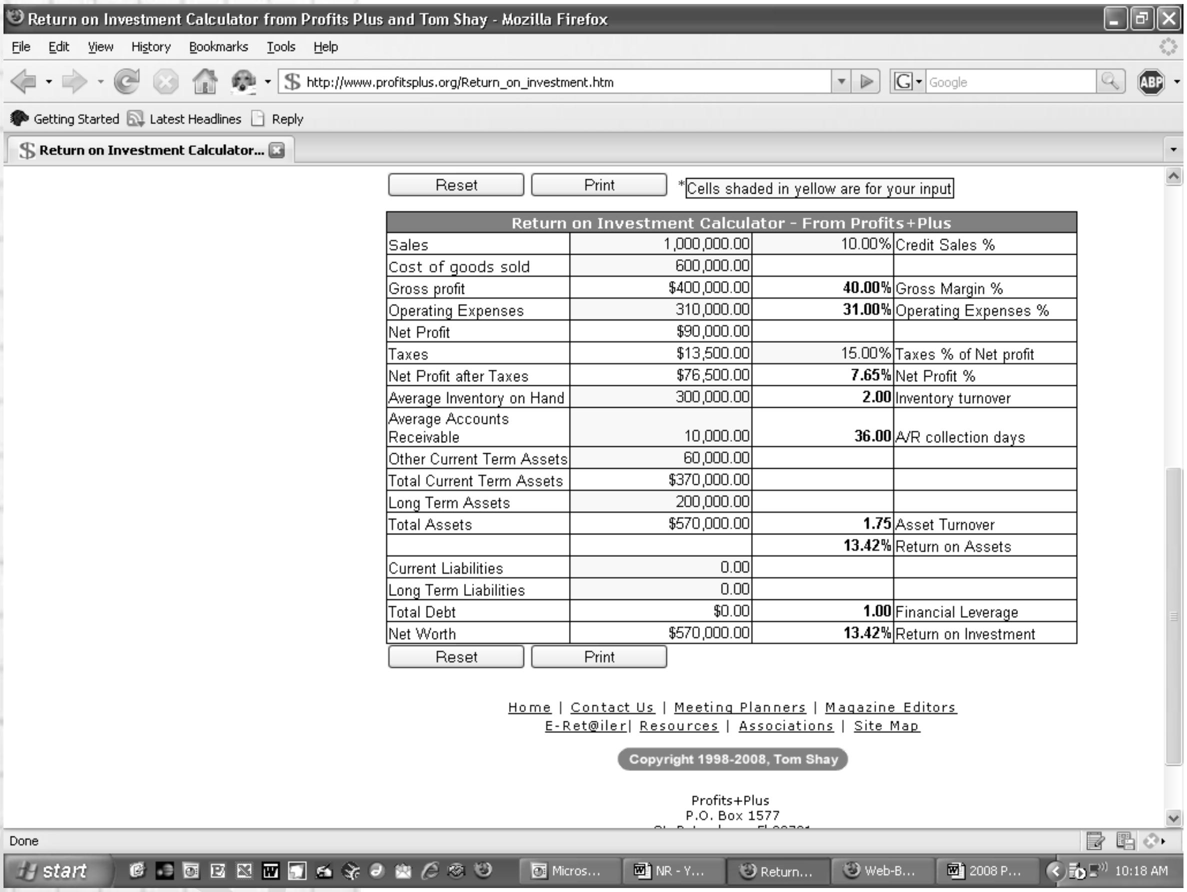
PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



Return on Investment Calculator - From Profits+Plus			
Sales	1,000,000.00	10.00%	Credit Sales %
Cost of goods sold	600,000.00		
Gross profit	$400,000.00	**40.00%**	Gross Margin %
Operating Expenses	310,000.00	**31.00%**	Operating Expenses %
Net Profit	$90,000.00		
Taxes	$13,500.00	15.00%	Taxes % of Net profit
Net Profit after Taxes	$76,500.00	**7.65%**	Net Profit %
Average Inventory on Hand	300,000.00	**2.00**	Inventory turnover
Average Accounts Receivable	15,000.00	**54.00**	A/R collection days
Other Current Term Assets	0.00		
Total Current Term Assets	$315,000.00		
Long Term Assets	0.00		
Total Assets	$315,000.00	**3.17**	Asset Turnover
		24.29%	Return on Assets
Current Liabilities	0.00		
Long Term Liabilities	0.00		
Total Debt	$0.00	**1.00**	Financial Leverage
Net Worth	$315,000.00	**24.29%**	Return on Investment

Accounts receivable will draw business; not colleting them turns you into an interest free business.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



Return on Investment Calculator from Profits Plus and Tom Shay - Mozilla Firefox

File Edit View History Bookmarks Tools Help

http://www.profitsplus.org/Return_on_investment.htm

Getting Started Latest Headlines Reply

Return on Investment Calculator...

Reset Print *Cells shaded in yellow are for your input

Return on Investment Calculator - From Profits+Plus			
Sales	1,000,000.00	10.00%	Credit Sales %
Cost of goods sold	600,000.00		
Gross profit	$400,000.00	**40.00%**	Gross Margin %
Operating Expenses	310,000.00	**31.00%**	Operating Expenses %
Net Profit	$90,000.00		
Taxes	$13,500.00	15.00%	Taxes % of Net profit
Net Profit after Taxes	$76,500.00	**7.65%**	Net Profit %
Average Inventory on Hand	300,000.00	**2.00**	Inventory turnover
Average Accounts Receivable	10,000.00	**36.00**	A/R collection days
Other Current Term Assets	60,000.00		
Total Current Term Assets	$370,000.00		
Long Term Assets	200,000.00		
Total Assets	$570,000.00	**1.75**	Asset Turnover
		13.42%	Return on Assets
Current Liabilities	0.00		
Long Term Liabilities	0.00		
Total Debt	$0.00	**1.00**	Financial Leverage
Net Worth	$570,000.00	**13.42%**	Return on Investment

Reset Print

Home | Contact Us | Meeting Planners | Magazine Editors
E-Ret@iler | Resources | Associations | Site Map

Copyright 1998-2008, Tom Shay

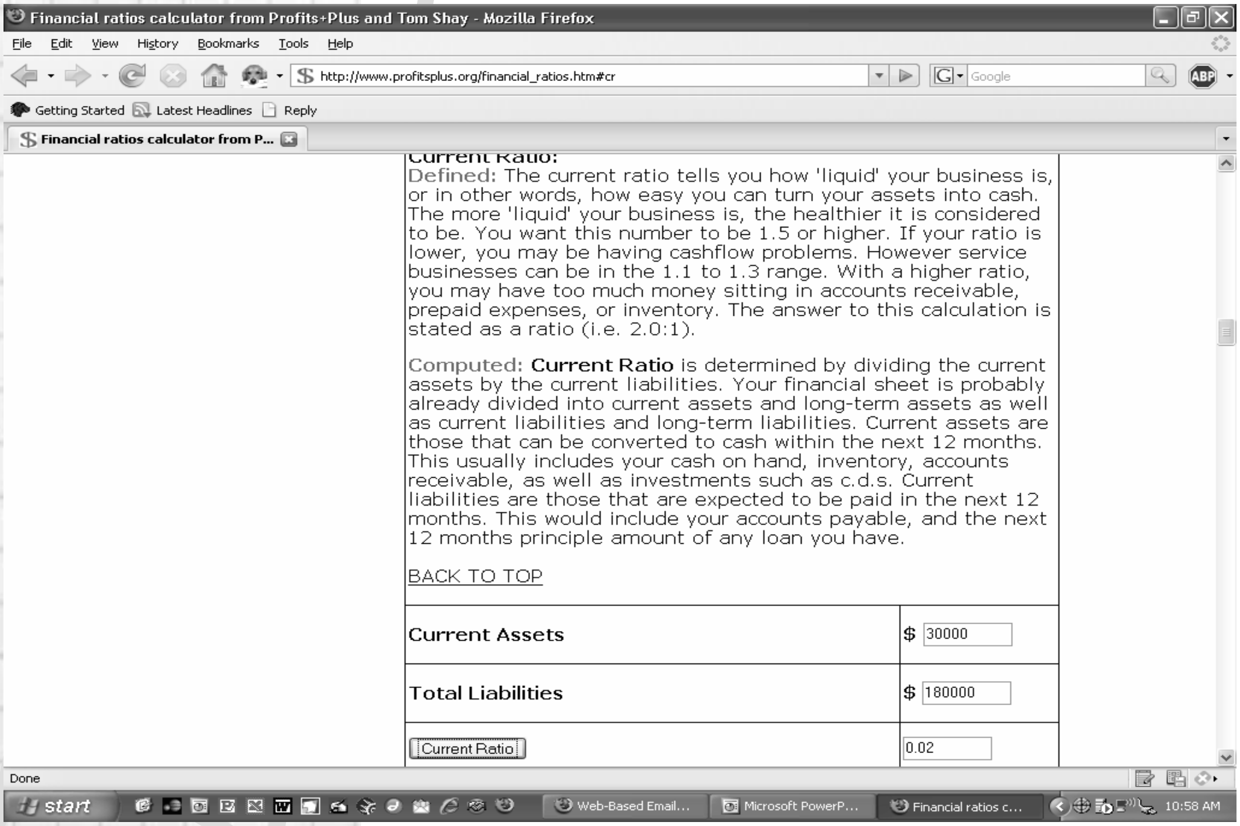
Profits+Plus
P.O. Box 1577

Done

start Micros... NR - Y... Return... Web-B... 2008 P... 10:18 AM

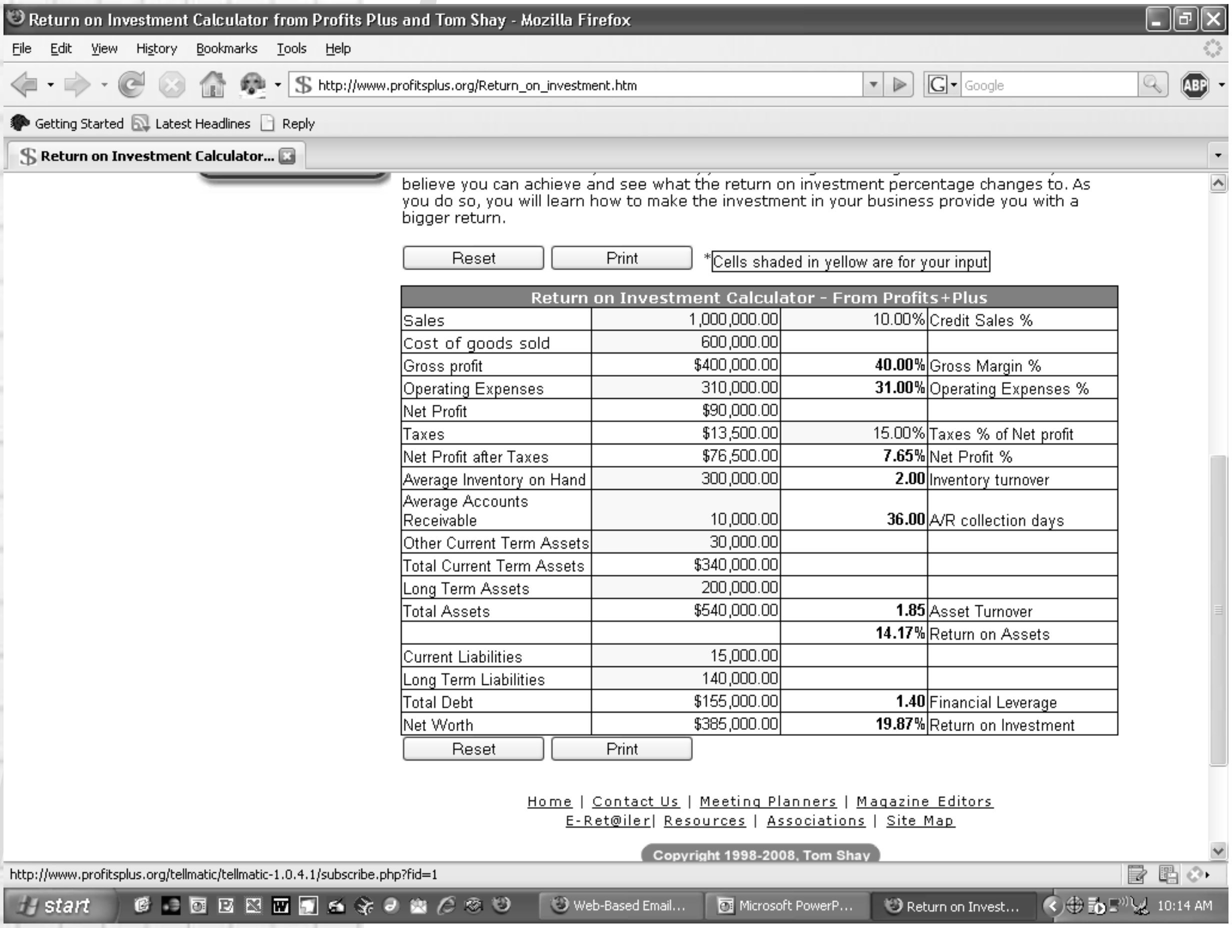
When you function utilizing fewer assets, current and long term, you increase your return on investment

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



The current ratio gives an accountant or lending institution an idea of how well you can be expected to be able to pay your day to day bills

P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



believe you can achieve and see what the return on investment percentage changes to. As you do so, you will learn how to make the investment in your business provide you with a bigger return.

Reset | Print | *Cells shaded in yellow are for your input

Return on Investment Calculator - From Profits+Plus			
Sales	1,000,000.00	10.00%	Credit Sales %
Cost of goods sold	600,000.00		
Gross profit	$400,000.00	**40.00%**	Gross Margin %
Operating Expenses	310,000.00	**31.00%**	Operating Expenses %
Net Profit	$90,000.00		
Taxes	$13,500.00	15.00%	Taxes % of Net profit
Net Profit after Taxes	$76,500.00	**7.65%**	Net Profit %
Average Inventory on Hand	300,000.00	**2.00**	Inventory turnover
Average Accounts Receivable	10,000.00	**36.00**	A/R collection days
Other Current Term Assets	30,000.00		
Total Current Term Assets	$340,000.00		
Long Term Assets	200,000.00		
Total Assets	$540,000.00	**1.85**	Asset Turnover
		14.17%	Return on Assets
Current Liabilities	15,000.00		
Long Term Liabilities	140,000.00		
Total Debt	$155,000.00	**1.40**	Financial Leverage
Net Worth	$385,000.00	**19.87%**	Return on Investment

Reset | Print

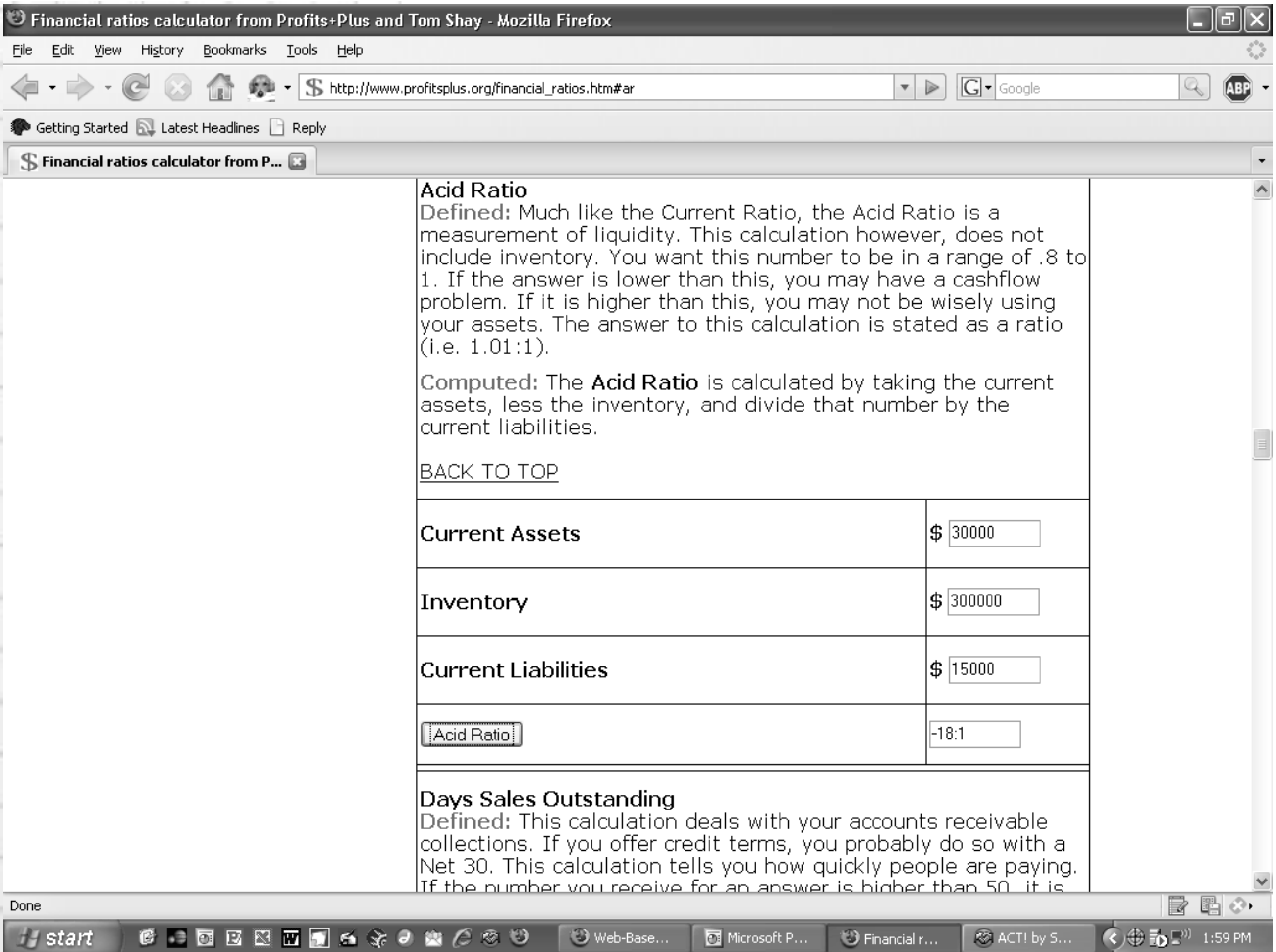
Home | Contact Us | Meeting Planners | Magazine Editors
E-Ret@iler | Resources | Associations | Site Map

Copyright 1998-2008, Tom Shay

Financial leverage looks at how many dollars of assets you control with your business in relation to the amount of dollars you have invested in your business.

A larger debt in relationship to the assets within your business causes the return on investment to increase. This does not imply that you should increase your debt just to make a ratio look better.
Liabilities that are long term, as compared to current, cause the acid ratio to improve. This implies that the business is stronger in the short term.

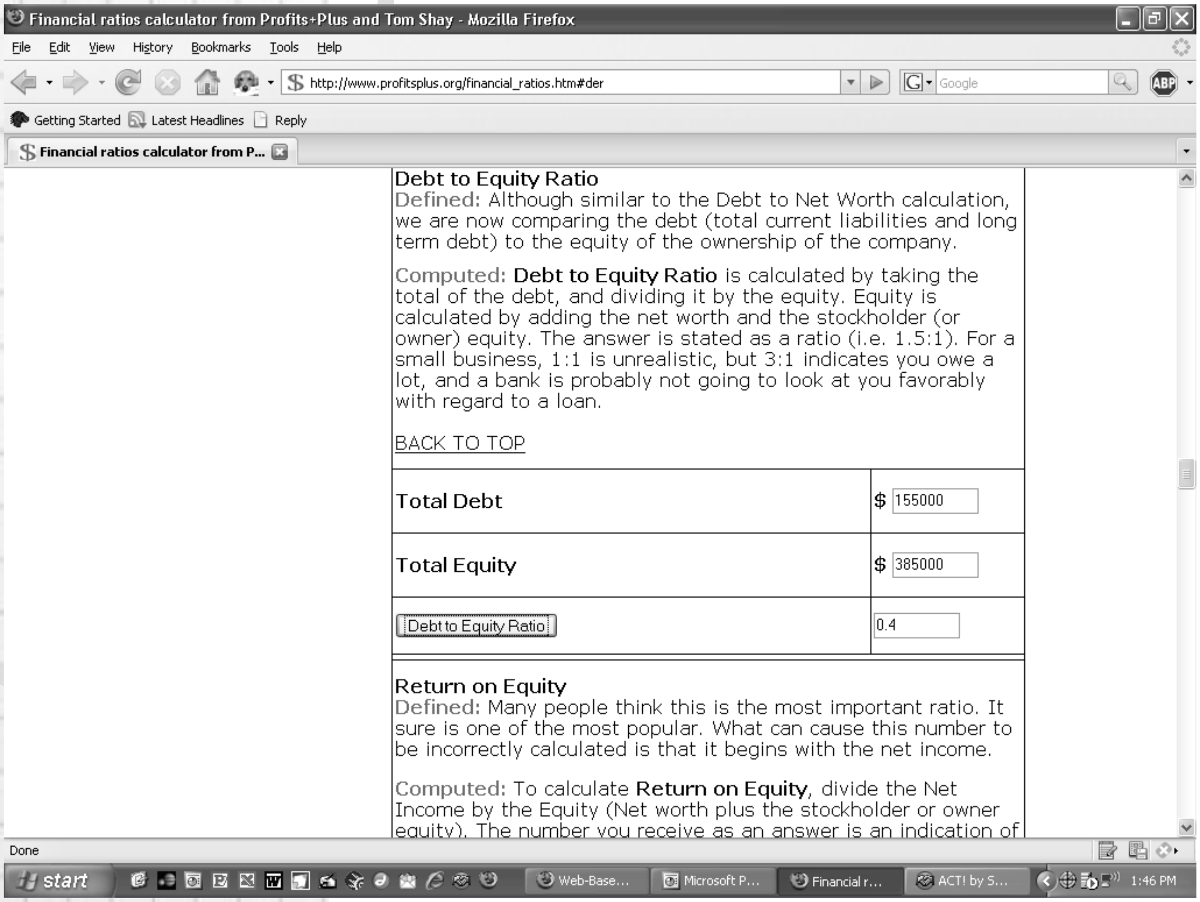
PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



Liabilities that are long term, as compared to current, cause the acid ratio to improve. This implies that the business is stronger in the short term.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org



Having a lower debt to equity ratio indicates that you hold a stronger (not necessarily larger) financial position in the business.

Having a lower debt to equity ratio indicates that you hold a stronger (not necessarily larger) financial position in the business.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

BONUS ARTICLE

Shay's Way

Year End Accounting

By Tom Shay

SOUND ADVICE FOR BUSINESS

If we could do a survey of small businesses and ask about their utilization of an accountant or CPA for their business, we would likely find that most businesses employ the services of these people. Perhaps the next question we should ask of the readers would be the 'why' of employing the accountant.

Other than the obvious answers of creating the monthly financial statements and preparing the year-end tax returns, the overall reasons for utilizing an accountant should be pretty basic. The first reason would be to minimize the amount of taxes paid. The second reason would be to delay paying taxes for as long as possible. And for a few fortunate businesses, the accountant could show them how to make more money. Let's take a quick look at all three of these reasons.

No one wants to pay more in taxes than they absolutely have to. An accountant should be making sure that your business is taking every deduction possible. Part of this would be to council the business owner with regard to the proper establishment of the legal entity of the business. It may be a sole proprietorship, partnership, 'Sub S' corporation or a 'C' corporation.

Different legal entities pay different tax rates and a qualified accountant should be advising the business owner which one works best.

The second reason is delaying taxes as long as possible. This does not refer to delaying taxes by mere weeks or months by filing tax extensions. Instead we are referring to legally delaying taxes from one year to the next by the way we report revenue and expenses. And, we are delaying taxes for years by the usage of depreciation.

Depreciation is recorded as an operating expense and is a means of taking the value of a piece of equipment or other asset that you purchase and over a period of years recognizing that the equipment has less value. There are many options with regard to how depreciation is utilized.

While there is a limit as to how much depreciation you can take, there are choices as to when the depreciation is taken. As compared to simply taking the price of the equipment and dividing by a predetermined number of years, depreciation can be arranged to be more in the beginning or more during the ending years of the depreciation.

And the more depreciation that is taken earlier in the life of the equipment causes the business to show less profit during those same years.

With the depreciation, you have choices not only as to how many years are used to depreciate the item, but you can decide if the item is depreciated to zero or other dollar amount. With all of these factors to be considered, the purchase of a piece of equipment is obviously more than just deciding which piece to buy and how much to pay for it.

The third, and most unique aspect of working with an accountant occurs when they help a business to increase their profitability. They can achieve this by showing you how to diminish your expenses, increase your margins, or sell more goods and services.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

Shay's Way

Year End Accounting (continued)

By Tom Shay

SOUND ADVICE FOR BUSINESS

Envision having an accountant that goes to great lengths to understand your business. Perhaps through their community involvement with civic groups, they make a point to note the awards and plaques their group gives out.

The accountant that is actively participating in your business could tell you why the group has bought awards through another business; they could tell you how the other awards business is marketing their goods and services. And the accountant could tell you how much the civic group is paying for what they are buying. With this type of participation, it would be like having a business coach and accountant rolled into one.

Going back to our initial expectation that most small business owners utilize the services of an accountant or CPA, we would next ask when they would work with the accountant with regard to this year's year-end financials.

For this second question we would expect the answer to be somewhere in the first quarter of next year. And while we would at least commend these business owners for enlisting the help of accounting firms, we would quickly point out that they are about 150 days behind schedule.

Doing the math, you are undoubtedly finding that we are suggesting that a business owner begin the discussion with the accountant early in the fourth quarter of the year. The reason for suggesting this earlier date can potentially lead to improving your financial position. If you wait until the new year to talk with the accountant, the suggestions they might give you will work in the upcoming year, but you won't be able to go back and change the current year.

In the last quarter of this year, if the accountant has not already been conversing with you on a regular basis, they should be visiting with you to ask questions about this year. You should be making sure that they have been closely monitoring each of the monthly profit and loss statements to compare the numbers to last year. They need to be able to see what is different in the two years. This would give them a good idea about how the last quarter of the year should play out.

The accountant should be closely watching your balance sheet to know how much money you currently have, as well as get an idea of how much cash you traditionally have available. Without this, you would not be the first small business that had an accountant inform them of a sizable year end tax liability when the business does not have that much cash on hand.

Hence, your accountant needs to know the cash parameters of not only your business, but those of your personal situation and your ability to borrow cash should the need arise.

If this visit is happening in September, the accountant should be asking what your expectation is for revenues for the rest of the year. There should also be a conversation regarding the expenses to date and anticipated expenses for the rest of the year.

Another series of questions from the accountant should focus on your observations of the economy and your industry for next year. This information helps the accountant to make an educated guess as to whether the upcoming year will be more or less profitable for you.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org

BONUS ARTICLE

Year End Accounting (continued)

By Tom Shay

SOUND ADVICE FOR BUSINESS

Why would the two of you need to go through all of this? To minimize taxes, the accountant is attempting to determine in which year the profit from your business should be reported. Your business may be teetering between two tax brackets for this year. Being able to have this year become less profitable could result in your paying less tax. To accomplish this, the accountant will help you regarding revenue and expenses in the closing days of the year.

An old rule of business has been that a business should carefully monitor the revenues and expenses that occur during that year-end period of time. Expenses that are to be paid in the early part of next year should be paid this year if possible so that the profit of 2008 is reduced. Likewise, by deferring incomes from December to January, profitability of 2008 will be pushed into the following year.

Another aspect of the conversation would occur as the accountant should ask you about the major equipment purchases you anticipate for the business for the first part of next year. The accountant will likely advise you that, where possible, these purchases should occur this year.

Note that these are purchases of equipment and not of inventory. The purchase of inventory is only an exchange of assets; cash for inventory. The purchase of equipment is an expense. The issue of dealing with the expense of pieces of equipment is resolved by the depreciation that we discussed earlier.

An accountant can be many things to many businesses. Unfortunately, too often, the relationship is defined by the accountant. The relationship should instead be defined by both parties working together, and if the accountant is not providing what you want and need, it is definitely time for at least a conversation if not a search for a replacement accountant.

Whatever your decisions, the time for a conversation and perhaps action is now; not at the point next year as you and the accountant say that you wish you had talked about something this year.

PROFITS PLUS SOLUTIONS FOR SMALL BUSINESS
P.O. Box 128
Dardanelle, AR 72834
www.profitsplus.org