Accountants 2 Business

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Business Health Check

YOUR BUSINESS HEALTH CHECK

This Business Health Check measures the relationship between two or more component of financial statements. They are used most effectively when results over several periods are compared. This allows you to follow your company's performance over time and uncover signs of trouble early. Ever wondered how your bank assesses your business? They use some of these ratios!

Current Ratio

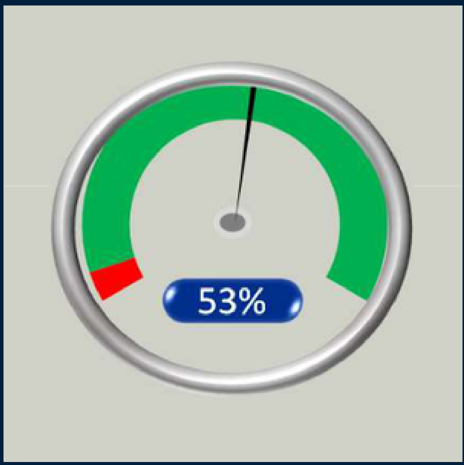
Current Ratio is an indicator of whether the business can pay its debt due within the current year. Higher is better and less than one indicates that the business may be unable to pay its debts. Lenders look at the Current Ratio as a major indicator of business survival.

Quick Ratio

Quick Ratio is an indicator of whether the business can pay its debts on time. Higher is better and the rate should always to 1.5 or more. A lower rate indicates that the business is unable to pay its current due debts. Serious consequence can result from inadequate Quick Ratio.

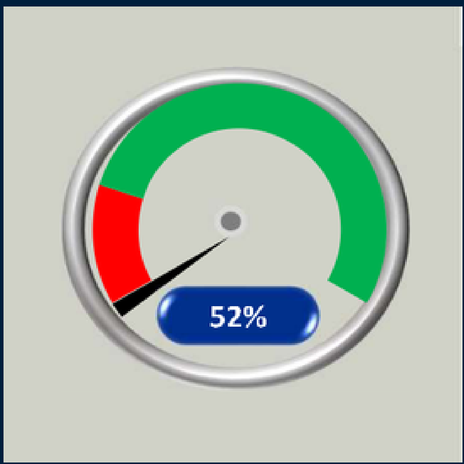
Debt to Equity

Debt to equity ratios vary widely between industries. A low ratio is better. If your industry is capital intensive, like earthmoving or tech development, your ratio will be higher than 3. Service based industries should aim for a maximum of 3.



Return on Assets

Return on Assets measures business profitability and how well management utilizes assets to generate a return. A higher rate is better so we aim for increasing return on assets.



Solvency

Solvency Score is one measure used to predict the business ability to continue operations. A solvency ratio of over 20% indicates a healthy solvency status. However, businesses with high fixed assets also have higher debt and may routinely have a solvency ratio under 20%.

Prepared for: Sample Trust
For the year ended 30 June 2023

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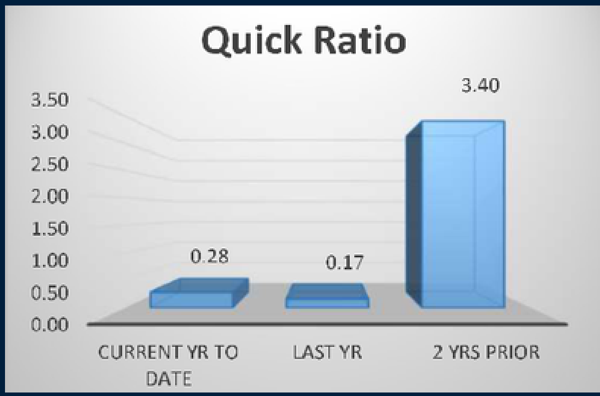

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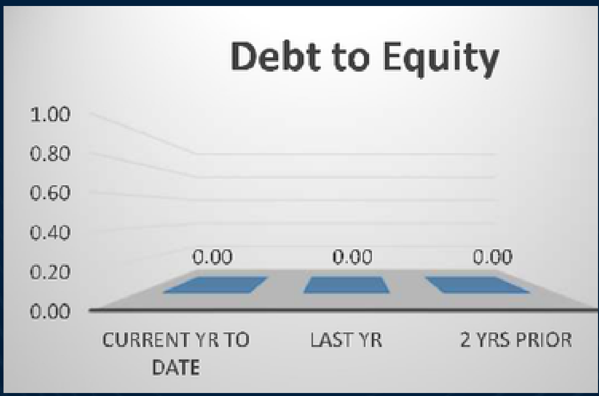

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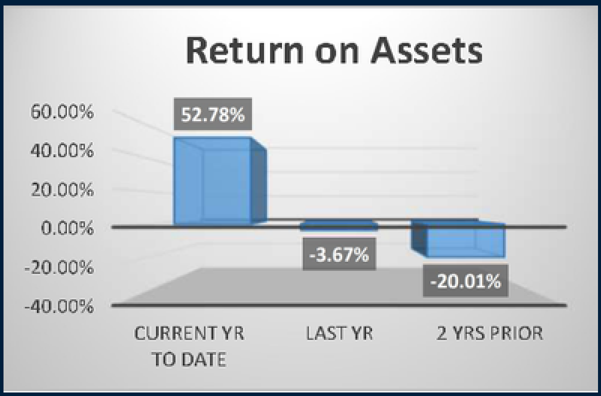
Accounts Receivable turnover measures how well the business is managing accounts receivable. A rate less than 12 indicates that you are likely to encounter cash flow problems because of your slow paying customers.



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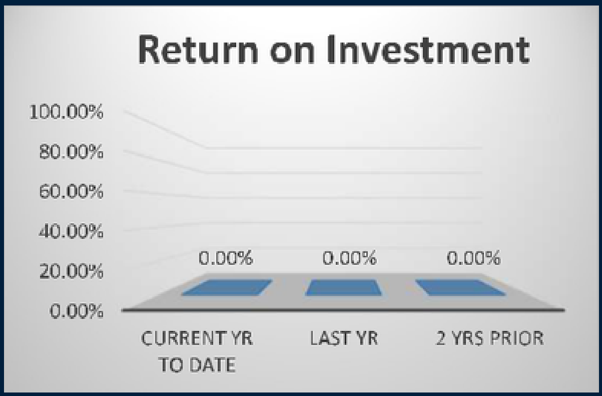
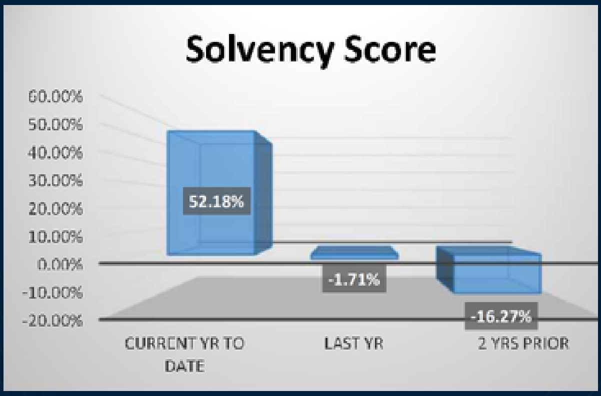
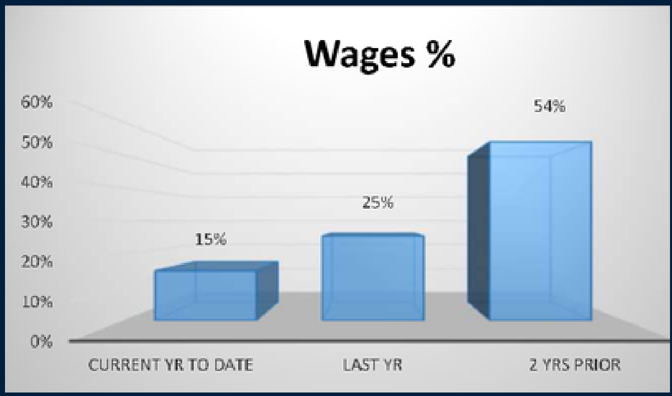


Return on investment measures the return on your funds invested in the business. Investors in the stock market look to earn 8%+ but business has inherent risk and you should earn 20%+ in return.



Solvency Score is one measure used to predict the business ability to continue operations. A solvency ratio of over 20% indicates a healthy solvency status. However, businesses with high fixed assets (like earthmoving, construction and some technology) also have higher debt and may routinely have a solvency ratio under 20%

Debt to Assets Ratio is a leverage score. A high ratio indicates high financial risk. This ratio helps lenders assess not only the ability of the business to meet obligations, but also, can the business pay a dividend or return to owners.



The Gross Margin Ratio helps determine the net value of sales to the business. Gross Margins vary between industries but an increasing Gross Margin should be your goal.

Wages as a percentage of sales is a measure of the productivity of your workforce. Rates vary greatly between industries but your goal should always be reducing wages %. An increasing wages % may indicate the need for price review.

Your Score: This report is designed to help you identify areas of improvement in your business, it is not intended to alarm you. Developing your score in these key areas will increase the return to you from the business. It will also improve borrowing capacity and increase the value of your business both on your Balance Sheet and For Sale. Some ratios might produce results that are not relevant to your business. **Remember if you cannot pay your bills on time (including tax) you are trading insolvent and should speak to us immediately.**

Want help? We produce this generalized report annually with your tax work, as a complimentary service. We also offer quarterly and monthly reviews with more in-depth relevant analysis and action plans. Book a meeting to discuss a plan for regular management reviews please call 07 3823 2344 or email janelleb@AccountantBusiness.com.au.

Disclaimer: This report is intended for use by business owners only. The contents and calculation data has not been checked or audited in any way. Accountants 2 Business accepts no liability regarding the information supplied or any loss incurred by any person or company who utilizes or relies upon this information for any purpose.

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