Your financial review checklist



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For even the smallest business, periodic financial reviews are a fact of life. Whether it's for monthly billing, quarterly accounting, or an annual business assessment, sitting down with your accountant or financial advisor is an ideal time to ask critical questions that can help defuse potential issues before they start.

Cash flow

Balance sheet

Expenses

Sales

Consider covering the following points in your next review.

Cash flow

Cash flow is truly the lifeblood of a business. It's what pays the bills and keeps the doors open. Whether you're a fledgling startup or a seasoned operation, think about:

- **Timing of payables and receivables.** Scrutinize when cash is received and dispersed. Do you find that you're periodically short on cash and need to dip into reserves? You may be able to better time inflows so they cover expected costs, or to negotiate payment terms that give you more flexibility.
- **Major expenditures.** How will they be funded? While some strategic outlays such as a new facility may call for debt financing, others can often be paid for from cash flow if you plan ahead. For instance, when you buy a new piece of machinery, set up a capital fund to pay for a replacement down the road. And since the cost of capital equipment can be deducted over its useful life, your actual expense won't hit your bottom line all at once.
- **Lines of credit.** Sometimes unanticipated major expenses just happen. A critical piece of equipment suddenly dies, or a one-time opportunity offers itself that requires substantial outlays. That's why it's wise to establish a line of credit well in advance, so you'll be prepared when the unexpected occurs.

Balance sheet

A critical part of any financial review should be an assessment of your business's net worth – its assets and liabilities and how leveraged and liquid it is. While the makeup and structure of balance sheets varies widely depending upon what business you're in, there are several general points you'll want to cover.

- **Leverage.** How indebted is your business? Look at the ratio of debt to equity and see how it compares with your peers. Higher-growth businesses will generally warrant greater leverage, but too much means higher risk if sales sour.

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- **Liquidity.** Next to cash flow, short-term assets are a critical resource for meeting a business's liquidity needs. If you cannot collect on a major invoice, will you be able to cash in some assets without taking a hit? Calculate your current ratio of short-term assets to short-term liabilities to see how well your business can meet its short-term liabilities.
- **Inventory.** What's the "right" inventory level? This will depend upon the nature of your business and anticipated sales. Consider setting a target inventory and adjusting it as needed, keeping in mind that too much means tying up capital that could be used more productively elsewhere, while too little means potential delays in production or delivery. Also keep in mind that the amount of time it takes to move your inventory can indicate whether business conditions are improving or slowing down.

Expenses

Cost control is integral to running any business. It means identifying when and where costs are getting out of hand, while not scrimping on the areas that warrant the expense.

- **Trends.** When scrutinizing costs, look for cost trends. Compare with last year, not just last month. Do any variations stand out? You should see increases in areas you have targeted for growth, but not across the board. If you find otherwise, it may be time to cut back.
- **Procedures.** As you examine cost trends, think about the procedures you have in place to control costs. Who approves what, and is it working? Consider processes that might better control expenses on an ongoing basis.
- **Taxes.** While many small businesses do not worry about taxes until tax time, periodic financial reviews are the ideal time to identify potential tax savings. Ask your accountant or tax advisor how you could potentially lower your tax bill with different methods of booking revenues or expenses permitted by the IRS, or by taking advantage of qualifying tax credits.

Sales

Even if sales are booming, there may be ways to boost them further by scrutinizing where the sales are coming from — what products and clients are generating them — and identifying which sales practices are working and which are not.

- **Revenue sources.** Which products sell best? Who are your best customers? Identifying the specific revenue generators of your business is half the battle in growing it. Look for recent trends and shifts in composition. It may be time to shift your emphasis to better-selling products or to focus on a different client profile.
- **Cost of sales.** How much is it costing you to sell your product or services? Expenses such as sales commissions and travel expenses are usually controllable and can be managed. If your gross margin — defined as net sales (gross sales less sales costs) divided by gross sales — is slipping, you may want to revisit sales incentives or selling costs.
- **Pricing.** How do your prices stack up with your competitors'? What profit margin do they generate? You may need to raise your prices or cut costs if your profits are static or declining.

Remember, periodic financial reviews are the perfect time to take a larger view of your business. So get the most out of them by asking questions.

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