CHECKLIST

Set and monitor financial targets for your business

If you want to run a successful business you need to keep track of the money you use, save and spend. Setting financial targets and monitoring how well your business does against them will help you to do this.

This involves:

1. researching different ways to measure the success of your business
2. setting up systems to monitor the financial performance of your business
3. deciding what to do if what happens is different to what you expect

What you need to do

- make a realistic estimate of the financial state of your business
- research different ways to measure the success of your business
- decide what information you need to prepare a financial forecast to help plan your business and measure profit
- produce accurate forecasts for particular accounting periods and present them in an appropriate way
- make sure that the financial information you use for forecasting is based on valid and reliable information
- use the forecasts in the financial planning and management of your business
- accurately work out business income and spending and regularly check their effect on profit targets
- identify differences between forecast profits and actual profits
- investigate what is causing the difference between forecast and actual profits and what effect these have on your business
- set financial targets in line with your financial plans for your business
- prepare a clear financial plan and use it to assess and help improve the financial performance of your business
- decide what financial management systems to use in your business
- identify ways to keep your tax liabilities to a minimum within the law

CHECKLIST

What you need to know and understand

Setting targets

- what financial targets are important to your business. (For example, turnover, cash flow, profit, profit margins, borrowing, tax efficiency, investment and cost efficiency.)
- how to assess the impact of financial targets on productivity, sales and non-sales revenue, costs and spending
- how to work out the important ratios that measure how successful different parts of your business are. (For example, gross and net profit as a percentage of turnover or sales, or the return on capital used.)
- how to find out when income will match spending (break even analysis)

Financial forecasting

- what particular financial forecasts need to be done. (For example profit and loss, cash flow, income, spending, movements in, assets and liabilities, budgeting and production, sales.)
- what problems are likely to affect business forecasting, such as market changes on products and ranges, resources and operating costs

Increasing profitability

- how to work out the difference between gross and net profit, basic profit and loss statements, high and low forecasts and simple ratios and how to use this information to analyse the profit margins for different products and markets
- what the appropriate profit margins are for your business, how to monitor profitability and how often this should be done
- how to decide what range of stock to offer by taking account of:

  product life cycle (the way in which sales rise and fall – introduction, growth, maturity and decline); and

  stock turn (the value of stock held against annual sales).

- how to compare stock range and volume of sales with:

  production (unit costs);

  finance (stock costs);

  purchase (volume discounts); and

  pricing policy (margins)

Financial plan

- what a financial plan should consist of, including:

  an assessment of the financial state of your business and financial aims, with the important ratios of profit against turnover, sales or capital;

  cash flow, profit and loss statements and forecasts;

  a balance sheet;

  information about the control systems and performance measures to be used; and

  the break-even point

- how to use contingency planning (ways of avoiding any potential problems).
- what basic ways there are of keeping the amount of tax you pay to a minimum.
- what your liabilities are under current laws. (For example for long-term planning and reporting duties and insolvency.)

Accounts management

- how to select manual and computer-based systems. (For example ledgers, journals, budgets, invoicing, receipts, payments, accounting periods, finance year and tax year
- which financial statements and statutory returns are relevant to your business. (For example, profit and lost, balance sheets, old debts, account journals or tax returns) in terms of your trading status (for example, sole trader, partnership, limited company.)

- how to use different accounting periods for planning
- why your business needs financial information, such as keeping a check on customer payments (credit control), managing the amount of the money coming in and going out (cash flow management), monitoring the activity in your bank account and the charges made by the bank (bank monitoring)