

# ESSENTIAL FINANCIAL KPIs



**BERNIE SMITH**

**23 FULL KPI DEFINITIONS INSIDE!**

**SPECIAL**

**ORACLE  
NETSUITE**

**EDITION**

# Essential Financial KPIs

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# Free Download Templates

This book is intended as a practical guide for selecting financial KPIs for your organisation, so it comes with some useful free implementation templates. It's a good idea to download the free templates pack right now, so you have the templates when you need them. Here's the link...

<https://goo.gl/8r2cxA>

Here's a quick description of each template...

- **KPI Shortlisting Template (Excel):** A tool to enable you to score and then prioritise your chosen KPIs based on how 'important' they are and their 'ease of measurement'.
- **ROKS KPI Definitions Canvas (PDF and Excel):** A carefully designed one-page definition template to prompt you to think about, and record, all the important aspects of tuning the KPI definition for your particular organisation.
- **KPI Definition Management Tool (Excel):** A simple spreadsheet tool that enables you to keep all your definitions electronically in one place on a spreadsheet.
- **Dashboard Templates (Excel):** A selection of 'get you started' dashboard templates with easy-to-read chart and table designs.

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# Introduction

### What this book will do for you...

This guide is intended to be a 'quick and simple' source of financial KPIs.

This guide will...

- Offer you a very carefully chosen selection of the most important and useful financial KPIs.
- Give you full definitions for all the KPIs, with (fictional) case study examples to show you how they work.
- Provide you with free, downloadable, battle-tested templates to help get you started with your freshly-chosen KPIs.

Within this should be most of the financial figures you need to keep an eye on.

One thing to point out: the KPIs here are probably not going to help you with your legal accounting and reporting requirements (make sure you discuss those with your accountant), but they are definitely going to help you run your business. Keeping a close eye on things like 'Cash in the bank', 'Working Capital Ratio' and 'Net Profit' is the key to a successful business and being able to sleep at night.

### How to use this guide

To make best use of this guide you should think about your business objectives (the outcome you want your KPIs to help you achieve), read through the KPIs on offer, select the ones relevant to your objectives then implement them. Nice and simple.

### An approach built to grow...

If you later realise that you have a broader performance measurement challenge and want to extend your

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measurement to other aspects of your organisation, the KPIs in this guide are part of a simple-but-powerful KPI selection system called the ROKS Express™ approach. Because these financial KPIs have been selected from that system, you can easily extend your measurement system with minimal rework or duplication (the full guide to the ROKS Express approach is 'Getting Started with KPIs', there are more details at the end of this guide).

## Getting ready to start

Having helped lots of people develop their KPIs over the past ten years, and struggled with setting up my own company KPIs, I have identified three underlying 'golden rules' for creating performance measures for small businesses.

### The three golden rules for small business performance measurement...

1. **Get started right now.** Partial measures are normally better than no measures at all. Testing your measures will quickly tell you whether they are useful or not.
2. **Don't worry about perfection.** You will never be completely happy with your KPIs first-off. It's much easier to fix measures that are being **used**, than to try and get everything right straight away.
3. **Don't get carried away.** Limit how many KPIs you get started with. The practicalities of measurement are harder than they first look. Don't try and measure too many things to start with. When you are up and running you will start to get a good idea of what's working and what's not, making it easier to ditch irrelevant measures and develop more important ones.



### The case studies in this guide: Chaos Coffee and others...

Now life is messy and most of my clients want to keep their KPI secrets to themselves, so I've created three **completely** fictional organisations that cover all the KPIs that we will be talking about.

Let me introduce you to the (*totally* fictitious) companies used in our KPI definitions:

#### Chaos Coffee Shop

Charlie runs a small high street coffee shop. Most of his sales are small, cash and straight to the consumer. He's had some quality issues recently and is also trying to boost customer numbers with a local radio campaign.

#### Dangerous Developers

Daniella runs 'Dangerous Developers', developing small apps and websites for local clients. Her sales are invoiced weekly and are to local businesses. Daniella has one full-time employee, Dave.

#### Woeful Widget Warehouse

Will runs 'Woeful Widgets', selling wholesale novelty items, like comedy mouse mats, to shops and party organisers. Woeful Widgets is a business-to-business setup with a strong focus on warehouse management.

### Need practical help?

If you want extra practical help or support for any aspect of KPI selection or implementation, there are a few options...

## Visit [madetomeasurekpis.com](http://madetomeasurekpis.com)

There's lots of free material and pointers to more information and help on my website.

## Explore my other books

I've written several other books on KPIs, dashboard design and reporting. There are more details at the back of this guide.

## Get in touch

Drop me an email on...

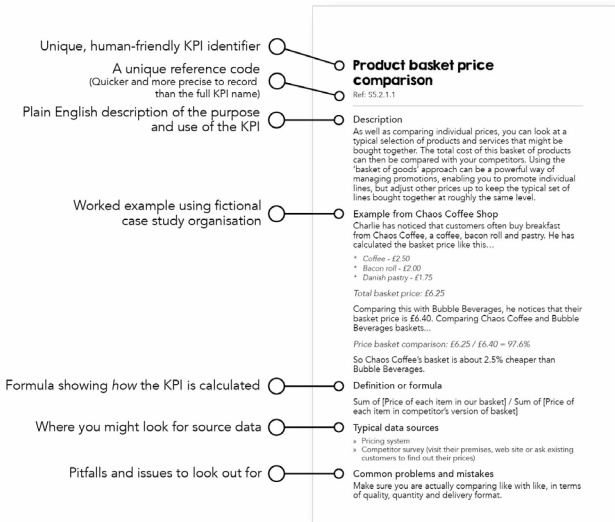
[bernie@madetomeasurekpis.com](mailto:bernie@madetomeasurekpis.com)

...and I will put you in touch with a ROKS™ specialist to give you practical support and advice on any aspect of choosing and setting up KPIs.

Whichever option you go with, **action** is the key. You now have all the tools you need to get up and running with KPIs. Getting started will put you on the road to your objectives and the dreams that achieving those objectives will deliver. **Now** is the time to get on and make it happen.

# KPI Definitions

# Anatomy of a KPI definition



# Invoiced amount in period

Ref: F1.1.1.1

---

## Description

To show the total value of sales invoiced in the period. It's a leading indicator of cash income and cash flow. A vital part of 'staying in the black' and not going bust. For a 'cash' business, like a small shop, this may not be a relevant measure.

## Example from Dangerous Developers

Each week Daniella invoices her five major clients for development time.

*The total value of the invoices for last week is £3,100*

## Definition or formula

Sum of [Amounts invoiced during the period, less known refunds and cancellations]

## Typical data sources

- » Invoice copies
- » Sales system
- » Sales spreadsheet
- » Accounting software

## Setting targets

It is simple and important to set targets on this, but beware of driving the wrong behaviour. Some organisations have set targets on this but discovered that sales teams have 'sold' products, only to cancel them after the bonus period is up.

## Common problems and mistakes

Be clear on whether you include or exclude sales taxes in this figure. Remember to deduct cancellations and refunds.

# Cash receipts in period

Ref: F1.1.1.2

---

## Description

This shows the amount of cash coming into the business in the period. For businesses that invoice, this is about counting the money when it's paid or received, not invoiced. This is a crucial figure, as you can spend cash but you can't spend unpaid invoices!

## Example from Chaos Coffee Shop

Charlie sells 2,000 cups of coffee, 1,200 donuts and 300 hot chocolate drinks, taking £5,500 in cash (all his sales are cash).

*Cash receipts for the period are £5,500 (Charlie likes to measure things weekly, so that's his 'period').*

## Definition or formula

Sum of [Cash received in period] - Sum of [Refunds in period]

## Typical data sources

- » Bank accounts
- » PayPal accounts
- » Till receipt roll or similar
- » Accounting software

# Average days to issue invoice

Ref: F1.1.1.3

---

## Description

One common pitfall, particularly for busy small companies, is that they “forget” to invoice.

It's very unlikely that someone will pay until you invoice them, so the quicker you get the invoice out of the door the faster you get paid and the better your cash flow will be. This is a measure to consider if you know you have a problem issuing invoices on time.

## Example from Woeful Widget Warehouse

Will typically works one day a week for each of his clients, invoicing on the following Monday. That means his Monday client gets invoiced 6 days after the work, his Friday client 2 day after the work.

*Average days to issue an invoice is 5 days.*

## Definition or formula

Average of [Number of days from completion of work to issuing of invoice]

## Typical data sources

- » Invoices
- » Accounting system
- » Work records
- » Accounting software

## Common problems and mistakes

You need to be clear whether you count non-working days in this calculation. It's probably worth thinking about what is meaningful. I generally include weekends and bank holidays, as many of your costs and overheads ‘keep on costing’, even when it's not a working day.

# Total costs

Ref: F1.2.0.1

---

## Description

'Total Costs', sometimes described as 'Total Expenses', is the total of all costs associated with running your business over a given period. It will include things like payroll, raw materials, loan repayments and many other things. The total costs figure is needed for our Net Profit calculation.

## Example from Woeful Widget Warehouse

Will adds up his expenses for each month. These include warehouse rental, van costs, wages, inventory purchase, postage, energy, rates and many other things. If you spend money on it, and it's for the business, then it's probably a cost.

*Total business costs for the month: £8,400.*

## Definition or formula

Sum of [All costs for period]

## Typical data sources

- » Receipts
- » Bank records (statements or transactions download)
- » Supplier invoices



# Total cost of goods sold

Ref: F1.2.1.1

---

## Description

These are the costs directly associated with the production of whatever it is you sell. This would include raw materials, packaging, parts etc.

## Example from Chaos Coffee Shop

For Charlie this includes:

- Coffee beans
- Cups
- Milk
- Bought-in food and ingredients

## Definition or formula

Sum of [Cost of goods sold]

## Typical data sources

- » Receipts
- » Bank records (statements or transactions download)
- » Supplier invoices

# Total controllable costs

Ref: F1.2.1.2

---

## Description

A controllable cost is a cost which is not directly associated with creating the product, but which you still have some (or total) control over.

For example, in a fast food restaurant, controllable costs might include payroll, advertising, promotions, linen, maintenance and repairs, utilities.

Controllable costs are often called 'variable costs'. I like controllable, as it's a bit more self-explanatory. Controllable costs increase for one of two reasons. Either we are making something less efficiently (bad) or we are making more of something (good, so long as we sell them as well). We can spot the first situation by looking at the 'unit costs'. If the unit cost goes up then we might have a problem.

## Example from Woeful Widget Warehouse

Of Will's costs, the following are 'controllable':

- Van fuel and repairs
- Wages
- Energy bills
- Uniforms
- Maintenance and repairs on the warehouse

## Definition or formula

Sum of [Cost of items classified 'controllable']

## Typical data sources

- » Receipts
- » Bank records (statements or transactions download)
- » Supplier invoices

# Total non-controllable (fixed) costs

Ref: F1.2.2.1

---

## Description

A non-controllable cost or expense is something where you have no control over whether you pay and how much you pay. Tax is a non-controllable cost for every business.

## Example from Chaos Coffee Shop

Charlie adds up all of the costs that he would categorise as 'non-controllable'. Some of his non-controllable costs include:

- Loan interest
- Insurance (several types of cover)
- Accounting fees
- Taxes

The sum of these gives his total non-controllable costs.

## Definition or formula

Sum of [Cost of items classified as 'non-controllable']

## Typical data sources

- » Receipts
- » Bank records (statements or transactions download)
- » Invoices
- » Accounting software

# Net profit

Ref: F1.3.1.1

---

## Description

Net profit is the money left once we have covered all our costs. Along with 'Cash in bank', this is the most important measure for any business, from a dog walking firm to a multinational.

Net profit is sometimes called 'the bottom line' or 'net earnings'.

## Example from Chaos Coffee Shop

For Charlie, last week breaks down like this...

*Sales revenue: £5,500*

*Costs (both controllable, and non-controllable): £4,600*

*Net profit for week is £5,500 - £4,600 = £900*

## Definition or formula

Sum of [Sales revenue] - Sum of [Total costs]

## Typical data sources

- » Receipts
- » Bank records (statements or transactions download)
- » Invoices

## Common problems and mistakes

Unlike gross profit, net profit includes overheads and interest payments. This makes it a little trickier to apply to *individual* products and services, as you have to 'allocate' overhead costs. 'Allocating overheads' means chopping up the cost of say, rent, and adding a little bit of the rent costs to the 'cost' of each product (or service) sold. This can get complicated pretty quickly, so Gross Margin (or Gross Profit) can be a quicker and easier indicator when you are trying to spot your super-star profitable products and services.

# Gross profit & margin

Ref: F1.3.1.2

## Description

Gross profit is the revenue (the money you make selling something) less the cost of making that thing or providing that service. It does not include overheads, so it's not the full picture, but it can be very useful for identifying your 'star' products and services (or the ones you need to drop or re-price). Gross Profit expressed as a percentage is called the Gross Margin (or Gross Profit Margin).

## Example from Chaos Coffee Shop

Chaos Coffee took £2,800 in coffee sales, £1,800 in donut sales and £900 in hot chocolate sales - a total of £5,500 for the week, last week. His costs for making those products were £280 for coffee sales, £420 for donut sales and £150 for hot chocolate sales - a total of £850 for the week. The figures are summarised in the table below.

*So, the overall Gross Profit is £5,500 - £850 = £4,650*

The Gross Profit Margin is  $£4,650 / £5,500 = 85\%$  (Don't get too excited, this figure doesn't include Charlie's considerable overheads). In the table below, we break that down and go a step further and work out the gross profit per item, by type. To do this, just divide the Gross profit for a category (e.g. Coffee) by the volume sold.

	Vol.	Sales	Sale price	Unit Cost	Total cost	Gross profit	Gross profit per unit	Gross profit margin
Cups of coffee	1,120	£2,800	£2.50	£0.25	£280	£2,520	£2.25	90%
Donuts	1,200	£1,800	£1.50	£0.35	£420	£1,380	£1.15	77%
Hot chocolate	300	£900	£3.00	£0.50	£150	£750	£2.50	83%
Totals		£5,500			£850	£4,650		85%

## ...continued

---

### Definition or formula

Gross profit: Sum of [Sales revenue] - Sum of [Cost of sales and other direct costs]

Gross profit per item: (Sum of [Sales revenue] - Sum of [Cost of sales and other direct costs]) / Volume

### Typical data sources

- » Purchasing records
- » Inventory control system
- » EPOS system
- » Till summary
- » Receipts
- » Bank records (statements or transactions download)
- » Invoices
- » Accounting software

# Gross profit percentage split

Ref: F1.3.1.3

---

## Description

This shows which products or services made the 'lions share' of your gross profit. The amount you make for a product or service type is a result of both gross profitability on the sales and volume, so is good for focusing the mind on where the majority of your income comes from.

The Gross Profit Percentage isn't as meaningful a figure as the Net Profit Percentage, but it's a lot quicker and easier to work out for most businesses.

It's a close relative of 'Gross profit per product/service/item type', but this is calculated based on the **total** profit on sales of that item/service type compared with other types. Selling more of an item type (compared with other types) will increase the Gross profit percentage split for that type of product.

## Example from Chaos Coffee Shop

Using the Gross profit (£4,650) and the Gross Profits by product from earlier, the Gross Profits percentage split are shown in the table below.

## Definition or formula

$100 * (\text{Sum of [Gross profit per product type]}) / \text{Sum of [Total sales revenue]}$

## Typical data sources

- » Purchasing records
- » Pricing lists
- » Inventory control system
- » EPOS system
- » Till summary
- » Receipts
- » Bank records (statements or transactions download)
- » Invoices
- » Accounting software

## ...continued

### Common problems and mistakes

Your percentages should add up to 100%. If they don't, first check your rounding. If they still don't add up then you have made a mistake or missed something out of your calculations.

	Vol.	Sales	Sale price	Unit Cost	Total cost	Gross profit	Gross profit per unit	Gross profit margin	Gross profit % split
Cups of coffee	1,120	£2,800	£2.50	£0.25	£280	£2,520	£2.25	90%	54%
Donuts	1,200	£1,800	£1.50	£0.35	£420	£1,380	£1.15	77%	30%
Hot chocolate	300	£900	£3.00	£0.50	£150	£750	£2.50	83%	16%
Totals		£5,500			£850	£4,650		85%	



# Gross profit per unit product / service / item

Ref: F1.3.1.4

---

## Description

Gross profit per product shows the profit made on an individual item (or service) after you deduct the direct costs of making that product (or providing that service). It can be very useful if you need to simplify your business by dropping unprofitable lines or want to focus on the ones that make the most money. You can show this as either the profit made in £/\$ or as a percentage.

This figure should be high for most small businesses, particularly where the product is low cost and there are serious overheads. As an example Dunkin' Brands - of Dunkin' Donuts fame - reported an 84% gross profit margin (gross margin is just gross profit as a percentage) in the March quarter of 2017. If you have a low or negative gross profit per product, you should seriously think about why you are selling that product or service.

## Example from Chaos Coffee Shop

For donuts, Charlie buys the donuts in at £0.35 each and sell them for £1.50.

*This gives a gross profit per donut of £1.15. You can also express this as a percentage if you like -  $\frac{£1.15}{£1.50} = 77\%$*

## Definition or formula

[Unit sale price] - [Direct unit costs] for the cash profit per unit

$([Unit\ sale\ price] - [Direct\ unit\ costs]) / [Unit\ sale\ price]$  for % profit per unit

## Typical data sources

- » Purchasing records
- » Pricing lists

# Cash forecast

Ref: F1.0.0.1

---

## Description

A cash forecast is a running total showing cash income and outgoings over a period of time, and the cash balance at any given time.

This measure is about looking ahead, seeing problems and avoiding them, not just dealing with the mess. It's a really key tool that will help you avoid one of the most common causes of business failure - running out of cash.

## Example from Dangerous Developers

Daniella has £18,000 in the company bank account. Next month she has to pay £4,000 tax bill, £4,000 in wages and another £1,000 in sundry expenses, but expects to receive £10,000 in invoice payments.

*The cash forecast for the end of next month will be...*

$$£18,000 - £4,000 - £4,000 - £1,000 + £10,000 = £19,000$$

## Definition or formula

[Cash in bank, previous period] + Sum of [Net cash income] - Sum of [Total costs], for period

## Typical data sources

- » Tracking spreadsheet
- » Accounting software

# Cash in bank

Ref: F1.4.0.1

---

## Description

There's not too much explanation required for this one. It's simply the total amount of available (cleared) cash in your bank, PayPal or wherever else you store your money. Simple though it is, this is the most important measure for your business, along with net profit.

Without cash, you can't function as a business. Enough said?

## Example from Woeful Widget Warehouse

Will logs into his online company bank account and sees the cleared company funds are £24,500. The company also has an overdraft of £2,000 in another account, so...

*Net total 'Cash in bank' is £24,500 - £2,000 = £22,500*

## Definition or formula

Sum of [Cash in bank] for all company bank accounts

## Typical data sources

- » Bank records (don't forget to include payment services like Stripe and PayPal, if they can hold cash)

# Total assets

Ref: F1.4.0.2

---

## Description

An asset is something that you own that has value. So your 'Total assets' are the sum total of all the things your business has that have financial value.

## Example from Chaos Coffee Shop

Charlie has the following assets....

- Inventory: £3,000
- Equipment: £8,000 (net value)
- Cash: £10,000
- Equity in his coffee shop property £115,000 (the difference between its market value - £300,000 and the amount he owes on the mortgage - £185,000).

So, Charlie's total assets are:

$$£3,000 + £8,000 + £10,000 + £115,000 = £136,000$$

## Definition or formula

Sum of [Value of assets] for the company - [Depreciation]

## Typical data sources

- » Inventory control system
- » Receipts, bank records (statements or transactions download)
- » Invoices
- » Accounting software/spreadsheets
- » Asset register/log

# Working capital ratio

Ref: F1.4.0.3

---

## Description

The working capital ratio shows the ratio of assets to liabilities. This gives a strong indication of whether the business can pay its bills.

A ratio of 2.0 (or 2:1, if you prefer) is generally a good place to be for short term liquidity (cash or things you can rapidly turn into cash).

The inverse of this measure is called the Debt Ratio.

## Example from Chaos Coffee Shop

*Charlie's assets are £136,000, his liabilities are £200,000, so his working capital ratio is  $£136,000 / £200,000 = 0.68$ .*

This is a weak position to be in. Much of his assets and liabilities revolve around his mortgage on the coffee shop. If I were Charlie, I'd want this to be nearer 2.0.

## Definition or formula

[Total assets] / [Total debt]

## Typical data sources

- » Inventory control system
- » Receipts, bank records (statements or transactions download)
- » Invoices
- » Accounting software/spreadsheets
- » Asset register/log

# Cost of inventory

Ref: F1.4.1.1

---

## Description

The value of inventory (stock) that your business owns. This is an important figure: too low a value of inventory and you may have problems meeting customer demand promptly; too much inventory and you may have valuable cash tied up in inventory, adversely affecting your cash flow.

## Example from Woeful Widget Warehouse

Will has...

- £500 of 'Widget Spinners'
- £4,000 of 'amusing cat mouse mats'
- £43,000 of 'water soluble coffee cups'

*His total value of inventory is  $£500 + £4,000 + £43,000 = £47,500$*

Will has had problems shifting the 'water soluble coffee cups'. Do you think he can fully recover £43,000? What are his options here when it comes to valuing the cups?

## Definition or formula

Sum of [Value of inventory]

## Typical data sources

- » Inventory control system
- » Inventory/stock check

## Common problems and mistakes

It is not uncommon for businesses to have significant amounts of "inventory" that is in fact unsellable. It's an easy trap to fall into where you value the inventory at its nominal sales value, ignoring the fact that it is in fact impossible to sell. In terms of understanding what's really happening in your business it's a seriously bad move. Accounting policy is to always value at the lower end of cost or net realisable value.

# Inventory turnover ratio

Ref: F1.4.1.2

---

## Description

The inventory turnover ratio is the 'cost of goods sold' for a given period divided by the 'average inventory' for that period. This is another way of looking at whether you're carrying the right level of inventory or not. Low turnover ratio suggests that you have weak sales and/or are carrying too much inventory. A high turnover ratio implies strong sales and/or inventory may be very low.

It is a way of expressing how long your average stock level is likely to last.

## Example from Chaos Coffee Shop

Charlie spends £300 per week on coffee beans - £15,000 per year including holidays. On average, he has 60kg - £600 worth of beans - in stock. So...

*Inventory turnover ratio is  $\text{£}15,000 / \text{£}600 = 25$*

In other words two weeks of stock.

## Definition or formula

[Cost of goods sold] / [Value of average inventory]

## Typical data sources

- » Inventory control system, 'inventory/stock check'
- » Accounting software/spreadsheets

# Working capital

Ref: F1.4.0.4

---

## Description

This is what's left when you take away what you owe (liabilities) from your current assets. It's an important measure of whether you're about to go bankrupt or not, so keep a close eye on this one!

## Example from Dangerous Developers

Daniella has £18,000 in the company bank account. This month she needs to pay £1,000 for some office furniture they bought last month and she owes £3,000 to freelance user-interface designers.

Her working capital:

$$£18,000 - £1,000 - £3,000 = £14,000$$

## Definition or formula

[Current assets] - [Current liabilities]

## Typical data sources

- » Inventory control system
- » Loan, credit and overdraft records
- » Receipts, bank records (statements or transactions download)
- » Invoices
- » Accounting software/spreadsheets
- » Asset register/log

## Common problems and mistakes

You should not include property or fixed assets as assets for the purposes of this calculation. Working capital is all about the money you can 'get your hands on' rather than locked away in property.



# Total accounts receivable

Ref: F1.4.2.1

---

## Description

'Total accounts receivable' is the money owed to your business from others (called 'debtors') for services or goods already delivered. Knowing this figure is an important part of staying solvent, to put it simply we need it to know whether or not we're about to go bust. So after 'cash in the bank' and 'net profit' this is definitely one to keep a close eye on.

It may take the form of credit you offer to a customer, a supplier or employee.

## Example from Dangerous Developers

Daniella has submitted £10,000 of invoices to clients, which have not yet been paid. So...

*Total accounts receivable: £10,000*

## Definition or formula

Sum of [Money owed to your business]

## Typical data sources

- » Tracking spreadsheet
- » Accounting software
- » Manual comparison of invoices to payments into bank account

## Common problems and mistakes

Letting accounts receivable get out of control, for example overdue unpaid invoices, can lead to bad debt - debts that may never be fully repaid. These bad debts can quickly erode profit and cash flow.

# Average debtor days

Ref: F1.4.2.3

---

## Description

Debtor days give you an indication of how quickly cash is being collected from people that owe it to your business. The longer it takes to collect the greater the number of debtor days.

## Example from Woeful Widget Warehouse

Will sells lots of his products to small shops. His average monthly sales are £18,000. At the end of this month he is owed £24,000.

*His Debtor days are:  $(24,000 / 18,000) * 30 = 40$  days*

## Definition or formula

$365 \text{ days} * [\text{Trade receivables (what you are owed)}] / [\text{Annual credit sales (total amount you sell on credit)}]$

For a shorter period, use the number of days in that period, rather than 365 - for example 30 days for a month - and you would use the credits sales for that shorter period, rather than a year

## Typical data sources

- » Tracking spreadsheet
- » Accounting software
- » Manual review of invoice age and whether they have been paid or not

# Total liabilities

Ref: F1.5.0.1

---

## Description

This is how much we would be called to pay back if repayment were demanded on all of the things we owe.

## Example from Chaos Coffee Shop

Charlie has an outstanding mortgage of £185,000, an outstanding company vehicle loan of £10,000 and unpaid tax of £5,000 from last year.

*Total liabilities are: £185,000 + £10,000 + £5,000 = £200,000*

## Definition or formula

Sum of [Liabilities]

## Typical data sources

- » Tracking spreadsheet
- » Accounting software
- » Loan, credit and overdraft records

# Total accounts payable

Ref: F1.5.1.1

---

## Description

'Total accounts payable' is the amount of money borrowed by your business from another party. This will include money you owe to vendors and suppliers for purchases of goods and services made using credit. Knowing this figure is an important part of staying solvent, to put it simply we need it to know whether or not we're about to go bust. So after 'cash in the bank' and 'net profit' this is another one to keep a close eye on.

## Example from Dangerous Developers

Daniella needs to pay £1,000 for some office furniture they bought last month and she owes £3,000 to freelance user-interface designers.

*Total accounts payable are  $£1,000 + £3,000 = £4,000$*

## Definition or formula

Sum of [Accounts payable]

## Typical data sources

- » Outstanding supplier invoices
- » Unpaid credit card bills
- » Loan agreements
- » Overdrafts

# Tax owed

Ref: F1.5.2.2

---

## Description

You find out the tax on profits owed by your company at the end of your financial year, once you have processed your company accounts. This amount isn't normally payable for a number of months, but you will now know what it is. It's important not to be surprised by that payment so planning in when you have to pay can help you manage your cash flow effectively. Different businesses in different countries pay different types of tax, but it's common to have to find fairly substantial sums of money at regular intervals, so looking ahead helps you manage this. The same applies to other forms of tax, such as sales tax. Putting them on a spreadsheet and tracking against your cash will help you form a simple cash forecast.

## Example from Woeful Widget Warehouse

Woeful Widgets' tax year ends on the 31st of December. Will has his accounts done by the end of May, and must pay any outstanding profit taxes by the end of October. He has five months from knowing the exact figure to paying the outstanding amount. Sales taxes are due each quarter, and must be paid within six weeks of the amount being due.

Will likes to use tax estimates in his cash forecast and update those estimates when he knows each tax figure exactly, to improve the accuracy of the forecast.

## Definition or formula

Sum of [Unpaid taxes owed for previous tax period]

## Typical data sources

- » Notifications from your accountant
- » Notifications from the tax office

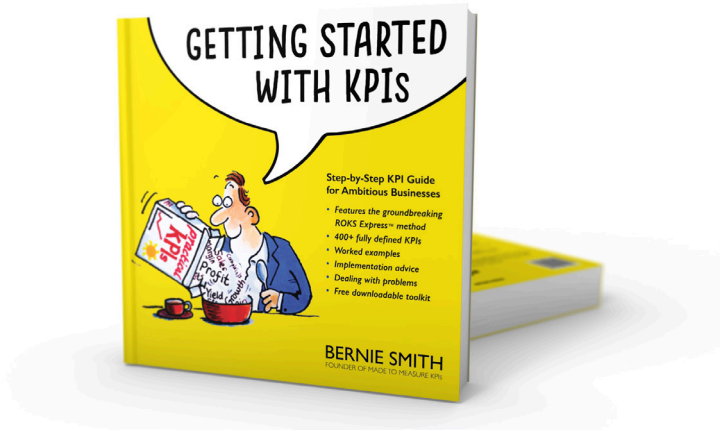
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