BUSINESS RISK ASSESSMENT

Company: Atlanta Works, Inc.

Section: Financial Risk

Presented By: Demo User **Phone:** 7705124124

Email: demo@gmail.com

Summary

* Closing the books on a timely basis may seem like a fire drill each month. It is the only way, however, to have confidence in the information being used to manage the business. Keep up the routine as you never know when timely information will save your business.

* Separation of duties can be difficult in the small business, but some separation is critical. Your decision to have the bank account reconciled by someone other than the person who prepares the cash transactions is a good one.

* Using your outside accountant to analyze your annual results is great. However, a lot happens over the course of a year. Your outside accountant will spend more time with the annual statements, but should be involved throughout the year to help spot trends and potential problems.

* The only way to know whether a product line is profitable is to track it as a P/L center. Your treatment of each product as a profit center is gives you a solid foundation for making decisions about the products.

* Revenue trends are a primary indicator of the health of any business. Certain comparisons can be done annually, but others need to be performed every week. Develop a plan to make better use of sales data.

BUSINESS RISK ASSESSMENT

Company: Atlanta Works, Inc.

Section: Financial Risk

Presented By: Demo User **Phone:** 7705124124

Email: demo@gmail.com

Narrative

Having accounting software that allows multiple users enhances the ability of the business to get timely financial analysis. It also increases the number of risk points. Regular reviews should be conducted to confirm that internal controls are in place and functioning.

QuickBooks and Peachtree are both excellent software packages that can be implemented quickly and at low cost for up to 5 users. There are two significant downsides: 1. your company may outgrow the limits and 2. it is difficult to build a really tight audit trail to report changes in financial transactions.Review your software solutions on at least an annual basis to determine that your needs are being met. Plug-ins and modifications of commercial software should be approached cautiously, but are often helpful in meeting unique needs.

It is very difficult to manage a business without current financial data. While the work may sometimes seem trivial, successful businesses have access to timely information. Monthly posting is the minimum acceptable standard. Review your procedures with your outside accountant to get a clear assessment.

Banks make errors and bookkeepers make errors. Errors in cash management can drive a business under. Even when where are no errors, early diagnosis of a negative trend can save a business, Take the initiative to get organized, tracking bank activity no less often than weekly.

Closing the books on a timely basis may seem like a fire drill each month. It is the only way, however, to have confidence in the information being used to manage the business. Keep up the routine as you never know when timely information will save your business.

Financial statements are an important tool for financial management. Annual statements are often prepared in a formal presentation with explanatory notes and a letter from the outside accountant. Businesses run their business, however, based on the interim financial statements that need to be prepared at least monthly.

Separation of duties can be difficult in the small business, but some separation is critical. Your decision to have the bank account reconciled by someone other than the person who prepares the cash transactions is a good one.

The business owner must be aware of the cash flow issues facing the business. Your practice of reviewing cash activity on a monthly basis is good, but probably not adequate. Unless you have a trusted associate watching cash activity on a daily basis, you should get more directly involved in the process.

Using your outside accountant to analyze your annual results is great. However, a lot happens over the course of a year. Your outside accountant will spend more time with the annual statements, but should be involved throughout the year to help spot trends and potential problems.

There are often tax advantages to keeping your books on a cash basis. However, the accrual basis is the only way to get meaningful results for management purposes. Ask your accountant how you might keep books separately for accounting and tax purposes - many companies adjust their books at year end to prepare a cash basis tax return.

Most businesses find that on occasion they must extent credit to a customer. Exercise caution, however, as the customer is using your precious capital to finance their operations. Make sure you understand the risk and have adequate resources to handle the receivables ledger.

When companies provide credit to their customers, success can result in failure. Management of receivables is critical to maintaining a viable working capital position. Your monthly schedule for preparation and review of account agings will help keep your monthly financial statements square, but will not provide you with timely insight into receivables problems.Your number of days outstanding is not unusually high, but is still worthy of careful review. Monitor the level of receivables to assure that the amount does not grow to a level that surprises you. Confirm that you have the available resources to fund the balances as the business grows.Days outstanding should be a consistent metric. The fact that your balance is the same over the past year is clearly a positive.While extension of credit is often necessary to sustain sales activity, extended payment terms should generally be used only when consumer finance is an integral part of the business model.

Perhaps your business has no need to pay commissions, but consider whether key

Presented By: Demo User **Phone:** 7705124124

Email: demo@gmail.com

management personnel should have an incentive based on sales.

The fact that your business requires inventory can involve a major commitment of financial resources. Techniques for management of inventory levels are important in minimizing the commitment.

The fact that your inventory system is integrated with your general accounting system means that your financial reports can be run on a daily basis with accuracy. The trade-off may be the ability to use specific inventory management techniques that are supported by special software applications.Quarterly adjustment of inventories to actual counts allows the business owner to have confidence that shrinkage and obsolescence are being addressed in a timely manner.Your inventory movement is relatively slow, meaning that you need to keep an eye out for items that may become stale and lose value.

Slow moving inventory items can signal a trend. It is important to review inventory on a regular basis to maintain a competitive advantage as markets shift.The fact that you have considered bulk sale of slow moving items indicates your willingness to adjust.Your business is profitable but could likely do better. Set clear goals for improving the bottom line.

Now that you've been profitable for a year, you can start to evaluate how much of the profit is needed to grow the business. Access to capital is more flexible with a history of profits.Managers should be accountable for their bottom line. Most companies find that worksheet analysis is inadequate to hold managers accountable. Consider implementing Departmental P/L schedules. Review the methods used for goal setting and allocations to confirm that responsibility for the bottom line is clearly defined.

The only way to know whether a product line is profitable is to track it as a P/L center. Your treatment of each product as a profit center is gives you a solid foundation for making decisions about the products.

Consider joining an industry trade group. These groups can be great sources of data for benchmarking.

Review your lending agreements to determine whether you have specific covenants and just what those covenants might be. Once you understand the requirements, then keep a chart of your progress against the requirements.

Make it a continuing priority to measure your progress. The statistics that you use should be communicated to your accounting personnel and your accounting personnel should know which data to deliver daily, weekly, monthly, etc.

Revenue trends are a primary indicator of the health of any business. Certain comparisons can be done annually, but others need to be performed every week. Develop a plan to make better use of sales data.

Your revenue per employee, while not extremely high, is high enough to be a meaningful metric. Growth of your business will depend on your ability to add staff while maintaining production per employee.

Your employee turnover ratio is relatively low. If you experience a temporary downturn in revenues, use that opportunity to cull the weaker individuals from your work force. Continually work to upgrade your talent pool.

Your cost of hiring and training is low, indicating that your business does not employee a highly skilled workforce. A constant flow of new applicants is necessary to keep the positions filled.Your gross profit margin is neither high nor low. You should break it down to each product line and possibly to each product to determine whether you should be maintaining each product or group of products that you offer.

Your operating profit ratio is neither high nor low. Build an ideal scenario and determine your optimum operating profit percentage, then determine how to adjust your actual operations into line with that ideal scenario..

Your debt to equity ratio is not so high as to be a red flag, but is high enough that lenders would hesitate to provide additional funds without a compelling business case.

Your access to capital is based in large part on your ability to repay debt, and the assets available to secure the debt. Your debt to asset ratio of less than 50% is relatively strong but may not support additional asset based debt.

Your return on equity is a good measure of the success of your business. Track the return each period, looking especially for trends. The actual percentage return is less important than the direction of the trend.

Your current ratio is an important measure of short term solvency. Your ratio of less than 1:1 indicates that your company has more short term obligations than resources to make payments.

Disclaimer