

## The Scorecard

This Scorecard is the "report card" for the financial performance of your business. It's designed to tell you how you've been performing for the last month, how you stack up against your peers in the industry and, more importantly, how to make improvements that will drive improved cash flow and increased profits.

The Scorecard consists of 14 ratios most commonly used to measure financial performance in an operating company. The names are in the second column from the left, how to compute them is in the next column (the "formula") and the reporting periods are in the next three columns. Profit Gap has pulled this information from your QuickBooks and is providing your current month, last month, and two months ago calculations.

A critically important part of the process is your Goals, which are located in the second column from the right. These can be derived from your own company expectations, as well as the financial performance of your industries

Note: NA designates the Metric is not of value in this company



Better than Goal  
≤ 25% away from Goal  
Greater than 25% from Goal  
Greater than 50% from Goal

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**PROFIT MASTERY**

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Hello Telephone Co			Two (2) Months Ago	Last Month	Current Month	Trend	Your Goal	Actual Annualized	Industry Standard			Calculations
Period Ending 01/31/2014			11/30/13	12/31/13	1/31/14				Top 10%	Top 25%	50% Median	For Current Month
BALANCE SHEET RATIOS: Stability (Staying Power)												
1	Current	Current Assets				▼						1,543,042
		Current Liabilities	2.6	2.6	2.6		2.9	2.5	3.5	3.3	2.7	604,320
2	Quick	Cash + Accts. Rev.	1.7	1.5	1.4	▼	2.0	1.6	2.1	1.9	1.5	863,777
		Current Liabilities										604,320
3	Debt-to-Worth	Total Liabilities				▼						1,244,041
		Net Worth	1.2	1.2	1.2		0.8	1.3	0.3	0.5	0.7	1,064,194
INCOME STATEMENT RATIOS: Profitability (Earning Power)												
4	Gross Margin	Gross Profit				▼						\$5,000
		Sales	35.0%	26.7%	24.3%		45.0%	31.1%	52.7%	44.7%	30.0%	350,000
5	Net Margin	Net Profit Before Tax				▼						203
		Sales	8.8%	1.4%	0.1%		10.0%	3.9%	9.5%	5.4%	3.9%	350,000
ASSET MANAGEMENT RATIOS: Overall Efficiency Ratios												
6	Sales to Assets	Sales	2.1	1.9	1.9	▲	2.0	2.0	3.3	2.3	1.0	1,125,000 X 4
		Total Assets										2,308,235
7	Return on Assets	Net Profit Before Tax	9.3%	7.6%	7.0%	▼	10.0%	8%	30.4%	4.3%	0.9%	40,600 X 4
		Total Assets										2,308,235
8	Return on Investment	Net Profit Before Tax	20.6%	16.6%	15.3%	▼	14.5%	17%	35.2%	7.4%	1.3%	40,600 X 4
		Net Worth										1,064,194
9	Inventory Turnover	Cost of Goods Sold	5.6	5.2	4.9	▼	12.2	5.3	12.3	9.4	8.6	265,000 X 12
		Inventory										650,000
10	Inventory Turn-Days	365	64	70	74	▲	30	68	30	39	42	365
		Inventory Turnover										4.9
11	Accounts Receivable Turnover	Sales	4.6	5.0	4.9	▼	7.3	4.5	15.0	9.9	9.2	350,000 X 12
		Accounts Receivable										850,000
12	Accounts Receivable Turn-Days	365	78	72	73	▲	50	80	24	37	40	365
		Accts. Rec. Turnover										4.9
13	Accounts Payable Turnover	Cost of Goods Sold	11.3	12.7	12.7	▲	6.1	11.9	6.3	7.7	11.2	265,000 X 12
		Accounts Payable										250,000
14	Average Payment Period-Days	365	32	28	28	▼	60	30	58	48	32	365
		Accts. Payable Turnover										12.7

peer group labeled "Industry Standard." Profit Gap provides you with the average 50%, the top 25% or top quartile, and the top 10% commonly called the best-in-class. Your goals provide the benchmarks to measure yourself against and see where improvements can be made. Clearly, the far right column contains your actual numbers used in the calculation.

It is important to understand the trends that come to light as a result of laying out your ratios in this manner. For instance, carefully review your Gross Margin for the last three periods. Is it increasing or decreasing? What are the underlying causes one way or the other?

One of the most valuable and unique features of the scorecard is that we have quantified in "\$\$ and cents" the variances between your most recent numbers and your Goals – and we have used these variances to populate the "Road Map."

Thus, we have delivered to you extremely powerful decision-relevant financial intelligence – identifying in visual format: (1) where are the opportunities for improvement against the "standard," (2) quantifying in "\$\$ and cents" the financial impact of achieving your goal, and (3) identifying whether the improvement will have a primary impact on Cash (C) or Profits (P).

In other words, the Scorecard and Road Map together provide a unique visual system to "find the leaks and plug 'em" – and they show you the financial impacts in cash or profits.