TOP FINANCE CHEAT SHEETS

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50 FINANCE KPIS

by
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Performance Tracking Made Simple

Accounting KPIs

Accounts Receivable Turnover
Measures how quickly a company collects outstanding debts from customers
Net Credit Sales / Average Accounts Receivable

Accounts Payable Turnover
Measures how quickly a company pays its suppliers
Total Supplier Purchases / Average Accounts Payable

Working Capital Ratio
Measures a company's ability to meet its short-term financial obligations
Current Assets / Current Liabilities

Debt-to-Equity Ratio
Measures the proportion of a company's financing that comes from debt versus equity
Total Debt / Total Equity

Gross Profit Margin
Measures the percentage of revenue that is left over after deducting the cost of goods sold
(Revenue - Cost of Goods Sold) / Revenue

Net Profit Margin
Measures the percentage of revenue that is left over after deducting all expenses, including taxes
Net Income / Revenue

Return on Assets (ROA)
Measures how efficiently a company uses its assets to generate profits
Net Income / Total Assets

Return on Equity (ROE)
Measures how much profit a company generates with the money shareholders have invested
Net Income / Total Equity

Inventory Turnover
Measures the number of times inventory is sold and replaced during a period
Cost of Goods Sold / Average Inventory

Fixed Asset Turnover
Measures how effectively a company uses its fixed assets to generate sales
Revenue / Net Fixed Assets

Cash KPIs

Cash Burn Rate
Net Cash spent by a company in a specific time frame (usually monthly or normalized to a year)
Cash Spent (monthly average) - Cash Received (monthly average)

Average Days Delinquent
Measures effectiveness of collection efforts. Often used at client level to compare with the others
Days Sales Outstanding (DSO) - Best Possible Days Sales Outstanding (BPDSO)

Operating Cash Flow (OCF)
Money generated by daily operations
Net Income + Non-Cash Expenses - Increase in Working Capital

Free Cash Flow (FCF)
Expands on the OCF concept by also excluding interest payments and including asset purchases
OCF + Interest Payments - Asset Purchase

Overdues Ratio
Measures your effectiveness of collecting cash and the quality of your receivables
Overdues / Total Receivables

Days of Inventory Outstanding
Average number of days that a company holds inventory for before turning it into sales
Average Inventory / Yearly Cost Of Goods Solds (COGS) x 365 days

Days Sales Outstanding
Average number of days that it takes a company to collect payment for a sale
Average Account Receivables / Annual Sales x 365 days

Days Payables Outstanding
Average number of days that it takes a company to pay its suppliers
Average Account Payables / Yearly Cost Of Goods Solds (COGS) x 365 days

Cash Conversion Cycle
Days to convert inventory into cash flows from sales
DIO+DSO-DPO

Cash Reserves in Days
Measures of how long your organisation could survive if cash dried up tomorrow
Cash Reserves / Average Daily Expenses

SaaS KPIs

Customer Churn Rate
Percentage of customers lost in a given time frame
Customers lost / Total Customers

New Buyer Growth Rate
Speed at which you gain new customers over defined periods of time
(New buyers this month - New buyers last month) / New buyers last month

Lifetime Value
Revenue from a customer over the retention time period
Customer Value * Average Customer Lifespan

Customer Acquisition Costs
Amount of money a company spends to get a new customer
Cost of Sales and Marketing / Number of New Customers Acquired

Net Burn rate
Net Cash spent by a company in a specific time frame (usually monthly or normalized to a year)
Cash Spent - Cash received

Runway
Time that a startup has before they run out of finances
Current Cash Balance / Burn Rate

Average Revenue Per User
Average revenue generated per customer (either monthly or annually)
Total revenue / Total number of customers

SaaS Quick Ratio
Compares revenue added (new business) vs revenue lost (churn)
(New MRRt + Expansion MRRt) / (Churned MRRt + Contraction MRRt)

Monthly Recurring Revenue
Monthly revenue from customers with a subscription
Number of customers * Average billed amount

Total Addressable Market
Market size of a product/service in value that the company can achieve
Annual Contract Value per client * Number of potential clients

Inventory KPIs

Average Inventory
Amount of inventory a company has on-hand during a period
(Beginning inventory + Ending inventory) / 2

Days on Hand
Days on hand (DOH) is the average days before inventory is sold
(Average inventory for period / Cost of sales for period) x 365

Stock to Sales Ratio
Is the measure of the inventory amount in storage versus the number of sales
Inventory value / Sales value

Cost of Carry
Percentage of total inventory value a company pays to maintain inventory in storage
(Inventory Service Costs + Inventory Risk Costs + Capital Cost + Storage Cost) / Total Inventory Value

Backorder Rate
Tracks the number of delayed orders due to stockouts
Number of Undeliverable Orders / Total Number of Orders)

Sell-through Rate
Comparison of the inventory amount sold and the amount of inventory received from a manufacturer
Number of units sold / Number of units received

Scrap rate
Measures the quality of the inventory and is used to decrease the non quality costs
Scrap expenses over the period / Average inventory over the period

Time to receive
Measures the efficiency of stock receiving process
Time for stock validation + Time to add stock to records + Time to prep stock for storage

Inventory shrinkage
Measures the shrinkage due to damage, miscounts and fraud
Ending inventory value - Physically counted inventory value

Dead Stock
Dead stock is inventory no one wants to buy. Measures efficiency of supply chain
Amount of unsellable stock in period / Amount of available stock in period

Investors KPIs

Return on Investment
How much money you made compared to your investment
Income from asset / Asset invested

Return on Equity
Measures the return on shareholders' equity
Net Income / Shareholders' Equity

Earnings per Share
Company's profitability on a per share basis
Net Income / Average number of outstanding shares

Price-to-Earnings Ratio
Price of a company's shares relative to its earnings
Market Price per Share / Earnings per Share

Dividend Yield
Return on investment from dividends
Annual Dividend per Share / Market Price per Share

Debt-to-Equity Ratio
Measures the company's financial leverage
Total Liabilities / Shareholders' Equity

Current Ratio
Company's ability to pay its current liabilities with current assets
Current Assets / Current Liabilities

Quick Ratio
Company's ability to pay its current liabilities with quick assets
(Current Assets - Inventories) / Current Liabilities

Gross Margin Ratio
Measures the profitability of a company's products or services
(Revenue - Cost of Goods Sold) / Revenue

Net Promoter Score
Measures customer satisfaction and loyalty
% of Promoters - % of Detractors

THE KPIS CHEAT SHEET by Oana Labes

CHIEF EXECUTIVE OFFICER (CEO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Revenue Growth Rate
- [ ] Net Profit Margin
- [ ] Gross Margin
- [ ] Operational Cash Flow
- [ ] Return on Investment (ROI)
- [ ] Economic Value Added (EVA)
- [ ] Debt-to-Equity Ratio
- [ ] Current Ratio (liquidity)
- [ ] Operating Expense Ratio
- [ ] EBITDA
- [ ] Price Earnings (P/E) Ratio
- [ ] Total Shareholder Return
- [ ] Market Capitalization
- [ ] Return on Assets (ROA)
- [ ] Dividend Payout Ratio

Non-Financial KPIs:
- [ ] Employee Engagement Score
- [ ] Employee Turnover Rate
- [ ] Net Promoter Score (NPS)
- [ ] Customer Acquisition Cost
- [ ] Customer Retention Rate
- [ ] Customer Satisfaction Index
- [ ] Customer Lifetime Value
- [ ] Brand Equity Score
- [ ] Public Sentiment Score
- [ ] Number of Successful Acquisitions
- [ ] Synergy Value from M&As
- [ ] Covenant Compliance Rate
- [ ] Number of Non-Compliance Issues
- [ ] Regulatory Fines Incurred
- [ ] Stakeholder Satisfaction Score
- [ ] Frequency of Stakeholder Meetings
- [ ] Number of Identified Risks Mitigated
- [ ] ESG Score
- [ ] Carbon Footprint
- [ ] Energy Efficiency Rate
- [ ] R&D Spend as a Percentage of Revenue
- [ ] Technology Adoption Rate
- [ ] Market Share
- [ ] Succession Planning Score
- [ ] Percentage of Strategic Goals Achieved
- [ ] Strategy Execution Efficiency Rate
- [ ] Business Continuity Plan Coverage Ratio
- [ ] Number of Succession Roles Identified and Ready
- [ ] Total Cost of Workforce
- [ ] Time to Hire
- [ ] Leadership Diversity Rate
- [ ] Percentage of Employees Undergoing Training
- [ ] Social Media Engagement Rate
- [ ] SEO Rank for Important Keywords
- [ ] Customer Churn Rate
- [ ] Employee Net Promoter Score (eNPS)
- [ ] Capacity Utilization Rate
- [ ] Frequency of Safety Incidents
- [ ] Workplace Happiness Score
- [ ] Diversity and Inclusion Index
- [ ] Percentage of Women in Leadership Roles
- [ ] Average Employee Tenure

CHIEF FINANCIAL OFFICER (CFO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Revenue Growth Rate
- [ ] Net Profit Margin
- [ ] Gross Margin
- [ ] Operating Cash Flow Margin (OCF)
- [ ] Free Cash Flow Margin (FCF)
- [ ] Free Cash Flow to Equity Margin (FCFE)
- [ ] Return on Investment (ROI)
- [ ] Economic Value Added (EVA)
- [ ] Debt-to-Equity Ratio (D/E)
- [ ] Current Ratio (C/R)
- [ ] Operating Expense Ratio
- [ ] EBIT Margin
- [ ] EBITDA Margin
- [ ] Price / Earnings (P/E) Ratio
- [ ] Return on Equity (ROE)
- [ ] Market Capitalization
- [ ] Return on Assets (ROA)
- [ ] Dividend Payout Ratio
- [ ] ROI of strategic initiatives
- [ ] Budget variance (actual vs. budget)
- [ ] Overall budget accuracy
- [ ] Rolling forecast accuracy
- [ ] Weighted Average Cost of Capital (WACC)
- [ ] Cost reduction as a % of total costs
- [ ] Accuracy of earnings guidance
- [ ] Number of successful acquisitions
- [ ] Post-acquisition performance against targets
- [ ] Synergy realization (% of expected synergies that have been realized)

Non-Financial KPIs:
- [ ] Completion rate of planned strategic initiatives
- [ ] No. of identified risks
- [ ] Severity of identified risks
- [ ] Timeliness of financial reporting
- [ ] Number of errors in reported financials
- [ ] Degree of financial reporting transparency
- [ ] Number of non-compliance issues
- [ ] Severity of non-compliance issues
- [ ] Time to resolve compliance issues
- [ ] Time to resolve risks
- [ ] Number of shareholder inquiries
- [ ] Investor satisfaction score
- [ ] Number of governance issues
- [ ] Time to resolve governance issues
- [ ] Covenant compliance rate
- [ ] Employee satisfaction score within the finance department
- [ ] Employee turnover rate within the finance department
- [ ] Number of leadership training hours
- [ ] Total cost savings from negotiations
- [ ] Number of contracts renegotiated
- [ ] Frequency of communication with stakeholders
- [ ] Effectiveness of cross-functional communication
- [ ] Number of strategic initiatives proposed and accepted
- [ ] Impact of strategic initiatives on company performance
- [ ] Degree of alignment between financial strategy and business strategy
- [ ] Innovation success rate

CHIEF OPERATING OFFICER (COO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Revenue growth rate
- [ ] Cost reduction as a percentage of sales
- [ ] ROI for strategic initiatives
- [ ] Profit margins on new business contracts
- [ ] Operational cost per unit
- [ ] Inventory carrying costs
- [ ] Cost of Goods Sold (COGS)
- [ ] Technology ROI
- [ ] Cost savings from strategic initiatives
- [ ] Savings from technology-driven process improvements
- [ ] Project ROI
- [ ] Cost variance (CV) for projects
- [ ] Costs associated with non-compliance
- [ ] Fines paid for regulatory breaches
- [ ] Total overhead costs
- [ ] Total cost of ownership for key assets
- [ ] EBITDA

Non-Financial KPIs:
- [ ] % of strategic initiatives completed on time
- [ ] Number of strategic objectives achieved
- [ ] Operational process efficiency
- [ ] Percentage reduction in waste/errors
- [ ] Utilization rate of resources
- [ ] Employee satisfaction score
- [ ] Leadership readiness index
- [ ] Employee retention rate
- [ ] Employee skill improvements
- [ ] Supplier defect rate
- [ ] On-time delivery rate by suppliers
- [ ] Inventory turnover ratio
- [ ] Order fill rate
- [ ] Defect rate
- [ ] Quality score from internal/external audits
- [ ] Percentage of products/services meeting quality standards
- [ ] Number of quality certifications achieved
- [ ] New customer acquisition rate
- [ ] Number of new markets entered
- [ ] Number of strategic partnerships formed
- [ ] Customer churn rate
- [ ] Number of identified risks mitigated
- [ ] Time to resolve risk incidents
- [ ] Risk severity score
- [ ] Downtime in operations
- [ ] OEE (Overall Equipment Efficiency)
- [ ] Cycle time of key operational processes
- [ ] Net Promoter Score (NPS)
- [ ] Customer Satisfaction Score (CSAT)
- [ ] Number of repeat customers
- [ ] Number of processes improved
- [ ] Process efficiency gains
- [ ] Adoption rate of new technologies
- [ ] Downtime due to technology issues
- [ ] Time to implement new technologies
- [ ] % of projects completed on time and on budget
- [ ] Stakeholder satisfaction rate
- [ ] Number of compliance issues or violations
- [ ] Time to resolve compliance issues
- [ ] Number of successful audits passed

CHIEF REVENUE OFFICER (CRO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Revenue Growth Rate Formula:
- [ ] Customer Acquisition Cost (CAC)
- [ ] Customer Lifetime Value (CLTV)
- [ ] Sales Conversion Rate
- [ ] Sales Pipeline Value
- [ ] Average Deal Size
- [ ] Gross Profit Margin
- [ ] Revenue by Product/Service
- [ ] Revenue by Market Segment
- [ ] Revenue Forecast Accuracy
- [ ] Customer Churn Rate
- [ ] Revenue from Existing Customers
- [ ] Upsell/Cross-sell Rate
- [ ] Retention Rate
- [ ] Revenue from Strategic Accounts
- [ ] Revenue from Key Accounts
- [ ] Revenue from New Product Launches
- [ ] Customer Lifetime Revenue
- [ ] Revenue from Marketing Campaigns
- [ ] Sales Forecast Accuracy
- [ ] Sales Forecast Variance

Non-Financial KPIs:
- [ ] Sales Win Rate
- [ ] Sales Cycle Length
- [ ] Customer Satisfaction Score (CSAT)
- [ ] Net Promoter Score (NPS)
- [ ] Sales Team Quota Attainment
- [ ] Sales Team Productivity
- [ ] Sales Training Effectiveness
- [ ] Customer Onboarding Time
- [ ] Deal Renewal Rate
- [ ] Deal Upsell/Cross-sell Rate
- [ ] Customer Referral Rate
- [ ] Market Share Growth
- [ ] Customer Expansion Rate
- [ ] Win/Loss Ratio
- [ ] Sales Team Turnover Rate
- [ ] Sales Compensation Effectiveness
- [ ] Sales Activity Volume
- [ ] Sales Funnel Conversion Rate
- [ ] Competitive Win Rate
- [ ] Lead-to-Customer Conversion Rate
- [ ] Sales Response Time
- [ ] Revenue from Upselling/Cross-selling
- [ ] Sales Target Achievement
- [ ] Channel Partner Performance
- [ ] Customer Retention Rate
- [ ] Revenue by Customer Size
- [ ] Deal Velocity

CHIEF HUMAN RESOURCES OFFICER (CHRO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Cost per Hire
- [ ] Compensation Expense Ratio
- [ ] Training and Devt. Spend per Employee
- [ ] Benefits Cost per Employee
- [ ] HR Operating Expense Ratio
- [ ] Return on Training Investment
- [ ] Absence Cost Rate
- [ ] Employee Turnover Cost
- [ ] HR Efficiency Ratio
- [ ] Diversity and Inclusion Index
- [ ] Total Rewards Cost Ratio
- [ ] Return on Employee Investment
- [ ] Employee Productivity Ratio
- [ ] HR Technology Expense Ratio
- [ ] HR Budget Variance

Non-Financial KPIs:
- [ ] Employee Engagement Score
- [ ] Employee Satisfaction Score (ESS)
- [ ] Employee Retention Rate
- [ ] Employee Performance Rating Distribution
- [ ] Training Effectiveness Score
- [ ] Leadership Development Program ROI
- [ ] Average Days to Fill a Vacancy
- [ ] Employee Promotions Rate
- [ ] Employee Satisfaction with Benefits
- [ ] Employee Training Hours per Employee
- [ ] Succession Planning Readiness Score
- [ ] Employee Development ROI
- [ ] Employee Wellness Program Participation %
- [ ] Employee Recognition and Rewards Score
- [ ] Employee Diversity Index
- [ ] Employee Feedback Response Rate
- [ ] Employee Performance Improvement Rate
- [ ] Employee Satisfaction with Performance Mngt Process
- [ ] Employee Well-being Index
- [ ] HR Policy Compliance Rate
- [ ] Employee Absenteeism Rate
- [ ] Employee Skills Gap Analysis
- [ ] Employee Career Progression Rate
- [ ] HR Effectiveness Index
- [ ] Employee Onboarding Satisfaction Score
- [ ] Employee Morale Index
- [ ] Employee Internal Mobility Rate
- [ ] Diversity and Inclusion Training Completion Rate
- [ ] Employee Job Satisfaction Score
- [ ] Employee Feedback Action Rate
- [ ] Employee Recognition Program ROI
- [ ] HR Technology Adoption Rate
- [ ] HR Process Automation Rate
- [ ] Employee Self-Service Adoption Rate
- [ ] Employee Benefits Enrollment Rate
- [ ] Employee Learning and Development Participation Rate
- [ ] Employee Performance Management Completion Rate
- [ ] Employee Engagement Survey Participation Rate
- [ ] Employee Performance Improvement Plan Success Rate
- [ ] Employee Exit Survey Response Rate

CHIEF MARKETING OFFICER (CMO) KEY PERFORMANCE INDICATORS

Financial KPIs:
- [ ] Marketing ROI
- [ ] Customer Acquisition Cost (CAC)
- [ ] Customer Lifetime Value (CLTV)
- [ ] Marketing Budget Ratio
- [ ] Marketing Cost per Lead
- [ ] Revenue per Marketing Channel
- [ ] Marketing Contribution to Pipeline
- [ ] Customer Churn Rate
- [ ] Return on Ad Spend (ROAS)
- [ ] Marketing Influenced Customer Conversion Rate
- [ ] Marketing-Generated Revenue
- [ ] Sales Growth Rate
- [ ] Marketing-Sourced Pipeline Value
- [ ] Marketing-Sourced Revenue

Non-Financial KPIs:
- [ ] Customer Engagement Score
- [ ] Customer Satisfaction Score (CSAT)
- [ ] Net Promoter Score (NPS)
- [ ] Brand Awareness
- [ ] Social Media Engagement Rate
- [ ] Website Traffic
- [ ] Organic Search Traffic
- [ ] Conversion Rate
- [ ] Email Open Rate
- [ ] Customer Retention Rate
- [ ] Content Engagement
- [ ] Customer Lifetime Revenue
- [ ] Social Media Reach
- [ ] Influencer Engagement Rate
- [ ] Customer Referral Rate
- [ ] Brand Equity Index
- [ ] Customer Loyalty Index
- [ ] Customer Feedback Response Rate
- [ ] Marketing Campaign Reach
- [ ] Customer Lifetime Engagement
- [ ] Customer Satisfaction with Marketing Efforts
- [ ] Customer Advocate Score
- [ ] Marketing Channel Effectiveness
- [ ] Customer Journey Conversion Rate
- [ ] Marketing Collateral Usage Rate
- [ ] Marketing Channel ROI
- [ ] Marketing Campaign Conversion Rate
- [ ] Marketing Campaign Response Rate

ACCOUNTING VS. FINANCE CHEAT SHEET

by Oana Labes

Accounting KPIs

CASH CONVERSION CYCLE
= DSO + DIO - DPO

DAYS SALES OUTSTANDING (DSO)
= Average Accounts Receivable / Net Credit Sales x 365

DAYS PAYABLE OUTSTANDING (DPO)
= Average Accounts Payable / Purchases x 365

DAYS INVENTORY OUTSTANDING (DIO)
= Average Inventory / COGS x 365

TOTAL ASSET TURNOVER
= Net Sales / Average Total Assets

RETURN ON ASSETS
= Net Income/ Average Total Assets

GROSS PROFIT MARGIN
= (Net Sales - Cost of Goods Sold) / Net Sales

NET PROFIT MARGIN
= Net Income / Net Sales

DEBT TO EQUITY RATIO
= Total Debt / Total Equity

CURRENT RATIO
=Current Assets/ Current Liabilities

NET WORKING CAPITAL
= Current Assets - Current Liabilities

The Master Budget

OPERATING BUDGET

Sales Forecast
Revenue Budget
Cost of Sales (COS)
Production Budget
Direct Materials Budget
Direct Labour Budget
Manufacturing Overhead Budget
Cost of Goods Manufactured (COGM) and Cost of Goods Sold (COGS) Budgets
Selling and Administration (SG&A) Budget
Operating Cash Budget

FINANCIAL BUDGETS

CAPEX Budget
Cash Budget
Financing Budget
Budgeted Financial Statements

20 Confusing Accounting Topics

- ACCRUAL VS. CASH ACCOUNTING
- DEPRECIATION VS. AMORTIZATION
- GROSS PROFIT VS. NET PROFIT
- GROSS PROFIT VS. GROSS PROFIT MARGIN
- GAAP VS IFRS
- FAIR VALUE VS. HISTORICAL COST
- ALLOWANCE FOR DOUBTFUL ACCOUNTS VS BAD DEBT EXPENSE
- GOODWILL VS INTANGIBLE ASSETS
- CAPITAL EXPENDITURES VS REVENUE EXPENDITURES
- FAIR VALUE VS. CARRYING VALUE
- FIXED ASSETS VS CURRENT ASSETS
- ACCUMULATED DEPRECIATION VS DEPRECIATION EXPENSE
- CONTINGENT LIABILITIES VS CONTINGENT ASSETS
- DEFERRED REVENUE VS. UNBILLED (ACCRUED) REVENUE
- DEFERRED TAXES VS CURRENT TAXES
- PROVISION VS RESERVE
- CAPITAL STOCK VS RETAINED EARNINGS
- LEASE VS LOAN
- USEFUL LIFE VS. ECONOMIC LIFE
- ACCOUNTING POLICY VS. ACCOUNTING ESTIMATE

Accounting vs. Finance

	Accounting	Finance
SCOPE	Accounting involves recording, analyzing, and reporting financial transactions	Finance involves managing and allocating financial resources for businesses
FOCUS	Accounting is drive to ensure the accuracy and compliance of financial data	Finance is driven to create value through straegic capital allocation
TIMEFRAME	Accounting deals with the day-to-day recording and reporting of financial	Finance focuses on the long-term financial health and growth of a business
REGULATIONS	Accounting adheres to regulatory frameworks such as GAAP, IFRS, and tax regulations	Finance deals with capital structure, investments, and risk management
TOOLS OF THE TRADE	Accounting involves recording, analyzing, and reporting financial transactions	Finance works with financial modeling, forecasting, and investment appraisal techniques

Accounting vs. Finance Designations

ACCOUNTING

- CPA US (Certified Public Accountant)
- CPA Canada (Chartered Professional Accountant
- CMA (Certified Management Accountant)
- CIA (Certified Internal Auditor)
- ACCA (Association of Chartered Certified Accountants)
- CGMA (Chartered Global Management Accountant)

FINANCE

- CFA (Chartered Financial Analyst)
- FRM (Financial Risk Manager)
- CAIA (Chartered Alternative Inv. Analyst)
- CFP (Certified Financial Planner)
- CTP (Certified Treasury Professional)
- CBV (Chartered Business Valuator)
- CRM (Certified Risk Manager)
- FP&A (Certified Corporate Financial Planning & Analysis Professional)

Accounting vs. Finance Careers

	Accounting	Finance
CAREER PROGRESSION	Staff Accountant → Senior Accountant → Accounting Manager → Controller → CFO	Financial Analyst → Senior Financial Analyst → Financial Manager → CFO or Transition to Investment Banking, Private Equity, or Venture Capital
WORK TYPE	Detail-oriented, technical, compliance-focused, process-driven	Strategic, forward-looking, analytical, decision-making-focused
	Audit, Tax, Consulting, Risk Management, Forensic Accounting	Investment Banking, Private Equity, Venture Capital, Corporate Strategy, Treasury, Risk Management

THE CFO OFFICE

RESPONSIBILITIES

Controllership		Treasury		FP & A	
Reporting, Controls, Compliance, Accounting		Cash, Risk, Debt & Capital Management		Budgeting, Forecasting, Variance, Planning	
Financial reporting & compliance	Cost accounting	Cash management	Financial covenant compliance	Budgeting and forecasting	Financial analysis
Internal controls	Payroll & benefits	Risk management	Investments	Strategic decision support	Profitability analysis
Audit management	Accounts payable and receivable	Debt management	Banking relationships	Scenario planning	Business planning
Tax management	Financial Information Systems	Foreign Exchange Management	Capital Structure Management	Performance management	Capital budgeting

Strategic Finance

Mergers & Acquisitions | Investor relations | Investment Analysis | Strategic Planning

Finance KPIs

ECONOMIC VALUE ADDED (EVA)
= EBIT (1-tax) - ((Long Term Debt + Equity) x WACC)

EARNINGS PER SHARE (EPS)
= (Net Income - Pref. Dividends) / Weighted Average Shares Outstanding

PRICE TO EARNINGS RATIO (P/E RATIO)
= Market Price per Share / Earnings per Share (EPS)

FREE CASH FLOW (FCF)
= Operating Cash Flow - Capital Expenditures

WGT. AVG. COST OF CAPITAL (WACC)
= (E/V x Re) + ((D/V x Rd) x (1 - Tax Rate))

RETURN ON INVESTED CAPITAL (ROIC)
= EBIT (1-tax) / (Long Term Debt + Equity - Cash)

DIVIDEND PAYOUT RATIO
= Dividends / Net Income

RETURN ON EQUITY (ROE)
= Net Income / Average Shareholder's Equity

RETURN ON ASSETS (ROA)
= Net Income / Average Total Assets

OPERATING CASH FLOW RATIO
= Operating Cash Flow / Current Liabilities

10 Finance Skills For Managers

- FINANCIAL ANALYSIS
- BUDGETING AND FORECASTING
- BREAK-EVEN ANALYSIS
- COST-VOLUME-PROFIT ANALYSIS
- CAPITAL BUDGETING
- WORKING CAPITAL MANAGEMENT
- FINANCIAL RATIO ANALYSIS
- PERFORMANCE MANAGEMENT
- RISK MANAGEMENT
- CASH FLOW ANALYSIS
- PERFORMANCE METRICS
- BUSINESS/ ASSET VALUATION

Financial Analysis Scorecard

Horizontal Analysis (Trend Analysis)
Vertical Analysis (Common Size Analysis)

Profitability Ratios	Efficiency Ratios
Liquidity Ratios	Solvency Ratios

Ratio, Sensitivity & Scenario Analysis
Cash Flow Analysis

EBITDA RATIOS

EBITDA MARGIN
EBITDA / Revenue x 100

INTEREST COVERAGE
EBITDA / Interest Expene

DEBT SERVICE COVERAGE
EBITDA / (principal + interest)

FIXED CHARGE COVERAGE
EBITDA + Fixed Charges - Cash Taxes - Unfunded CAPEX - Shareholder Distributions) / (P+I+Fixed Charges

FUNDED DEBT TO EBITDA
Total Financed Debt / EBITDA

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ARR Cheat Sheet

By Aleksandar Stojanovic

"Accelerate Your ARR: The Ultimate Guide and Toolkit for Tracking, Boosting, and Sustaining Revenue Growth."

9 ARR Tracking Tools to Use:

1. **ChartMogul:** Comprehensive subscription analytics platform.
2. **Baremetrics:** Real-time subscription analytics and insights.
3. **SaaSOptics** Financial management for SaaS businesses.
4. **ProfitWell:** Subscription revenue optimization platform.
5. **Paddle:** Revenue delivery and subscription management.
6. **Zoho Subscriptions:** Simplified recurring billing and tracking.
7. **Chargebee:** Flexible subscription management and billing.
8. **Recurly:** Automation for subscription billing and revenue management.
9. **Fusebill:** Subscription billing and revenue analytics platform.

10 Steps to Increasing Your ARR:

- Define your target market and customer persona.
- Develop a pricing strategy that matches your market value.
- Offer annual contracts.
- Upsell and cross-sell existing customers.
- Invest in customer success to reduce churn.
- Implement a referral program.
- Improve your sales process and reduce sales cycles.
- Seek partnerships to broaden your customer base.
- Leverage content marketing to educate and attract potential customers.
- Regularly review and adjust your ARR growth strategy.

3 Strategies to Prevent ARR Leakage:

1. **Prevent Churn:** Invest in customer success and support to maintain customer satisfaction.
2. **Combat Downgrades:** Regularly review customer usage and engage before they consider downgrading.
3. **Reduce Payment Failures:** Use an efficient payment system to reduce payment failures and involuntary churn.

13+ Examples of Successful ARR Strategies:

1. Slack
2. Zoom
3. Salesforce
4. Atlassian
5. HubSpot
6. Shopify
7. Adobe
8. Netflix
9. Amazon Prime
10. Microsoft Office 365
11. Dropbox
12. Zoho
13. ServiceNow

15+ Exercises to Improve Your ARR Growth:

1. Conduct a SWOT Analysis
2. Role-Play Upselling/Cross-selling Scenarios
3. "What If" Scenarios
4. Customer Retention Exercises
5. Product Enhancement Brainstorms
6. Market Segmentation Study
7. Competitor Analysis
8. Sales Demos
9. Financial Forecasting
10. Product/Market Fit Analysis
11. Customer Feedback Review
12. Contract Review Exercises
13. Churn Prediction Exercises
14. Lead Conversion Workshops
15. Partnership Evaluations

7+ Hacks to Keep Your ARR on Track:

- Regular Reporting: Keep an eye on ARR and other related metrics regularly.
- Alert System: Set up alerts for churn or downgrade.
- Customer Feedback: Regularly collect and review customer feedback.
- Pricing Review: Regularly check if your pricing is in line with the market.
- Benchmarking: Compare your ARR with competitors.
- Market Research: Stay updated with market trends that might affect your ARR.
- Continuous Learning: Stay informed about best practices and new strategies in ARR growth.

ARR Growth Chart:

8 Tactics to Boost Your ARR:

- Upsell and Cross-Sell: Maximize the value of existing customers.
- Pricing Optimization: Regularly review and adjust pricing based on value provided.
- Improve Product: Continuously update and enhance your product based on customer feedback.
- Increase Market Reach: Expand into new markets to reach a wider customer base.
- Incentivize Annual Subscriptions: Offer discounts for annual payment to encourage higher ARR.
- Customer Retention: Enhance customer service and success to retain existing customers.
- Increase Lead Conversion: Optimize your sales process to convert more leads into paying customers.
- Partnership and Affiliates: Collaborate with other businesses to access new customer segments.

Fractional FP&A, CFO and BI Consultant

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Aleksandar Stojanovic

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Balance Sheet Cheat Sheet

By Aleksandar Stojanovic

9 Balance Sheet Formats for Different Sectors:

Manufacturing:

Current Assets (Cash, Accounts Receivables, Inventory)
Non-current Assets (Property, Plant, Equipment)
Current Liabilities, Long-term Liabilities, Equity

Banking:

Assets (Cash and Cash Equivalents, Investments, Loans)
Liabilities (Deposits, Borrowed Funds), Equity

Insurance:

Assets (Investments, Premiums Receivable)
Liabilities (Unearned Premiums, Claims), Equity

Retail:

Current Assets (Cash, Inventory)
Non-current Assets (Equipment, Fixtures)
Current Liabilities, Long-term Debt, Equity

IT Companies:

Assets (Cash, Accounts Receivable, Goodwill, Intellectual Property), Liabilities, Equity

Real Estate:

Assets (Properties, Cash)
Liabilities (Mortgages, Loans), Equity

Healthcare:

Assets (Cash, Patient Receivables, Medical Equipment)
Liabilities (Accounts Payable, Medical Claims)
Equity

Non-Profit:

Assets (Cash, Receivables, Investments)
Liabilities (Payables, Deferred Revenue)
Net Assets (Unrestricted, Temporarily Restricted, Permanently Restricted)

Investment Firms:

Assets (Cash, Investments), Liabilities
(Management Fee Payable, Distribution Payable), Equity

10 Steps to Preparing a Comprehensive Balance Sheet:

1. Identify the date for which the balance sheet is to be prepared.
2. List all assets and their respective values (both current and non-current).
3. Sum up total assets.
4. List all liabilities and their respective values (both current and long-term).
5. Sum up total liabilities.
6. Calculate the equity by subtracting total liabilities from total assets.
7. Ensure that total assets equal total liabilities and equity (the fundamental balance sheet equation).
8. Organize the balance sheet in the appropriate format with assets on the left or top, and liabilities and equity on the right or bottom.
9. Review and confirm the accuracy of all figures and calculations.
10. Prepare notes to the balance sheet if necessary, providing additional information about certain items.

3 Steps to Avoid Common Balance Sheet Errors:

1. **Regular Reconciliation:** Regularly reconcile your balance sheet accounts with underlying records to ensure accuracy.
2. **Proper Classification:** Classify items correctly between current and non-current, and between assets, liabilities, and equity.
3. **Valuation:** Ensure assets and liabilities are valued appropriately. Certain assets may need to be depreciated, and certain liabilities may need to be discounted to present value.

15+ Exercises to Improve Your Balance Sheet Analysis Skills:

1. Calculate and interpret the current ratio and quick ratio.
2. Analyze the debt-to-equity ratio and its implications for the financial risk of the company.
3. Compute and interpret the return on assets ratio.
4. Assess the implications of a high inventory turnover ratio.
5. Evaluate the effects of a low accounts receivable turnover ratio.
6. Analyze the consequences of a low accounts payable turnover ratio.
7. Calculate and interpret the net working capital.
8. Evaluate the impact of a significant long-term loan on the balance sheet.
9. Assess the implications of a large increase in inventory.
10. Analyze the effects of a significant write-off of receivables.
11. Evaluate the consequences of a large depreciation expense.
12. Analyze the effects of an equity issuance.
13. Assess the implications of a significant long-term investment in a joint venture.
14. Evaluate the impact of the buyback of company shares.
15. Compute and interpret the cash ratio.

8 ways to analyze your assets and liabilities:

Current Ratio: Measures the ability to cover short-term liabilities with short-term assets.

Quick Ratio: Similar to the current ratio but excludes inventory from current assets.

Debt to Equity Ratio: Measures the proportion of funding that comes from debt compared to equity.

Return on Assets: Measures profitability relative to total assets.

Asset Turnover: Measures how efficiently a company uses its assets to generate sales.

Inventory Turnover: Measures how quickly a company sells its inventory.

Accounts Receivable Turnover: Measures how effectively a company manages its credit sales and collections.

Accounts Payable Turnover: Measures how quickly a company pays its suppliers.

7+ Tips for Making Balance Sheet Forecasts:

Use historical trends: Base your forecasts on historical growth rates for each balance sheet line item.

Incorporate business plans: Include any planned significant investments, divestitures, or financing activities in your forecast.

Use industry data: Use industry data to benchmark and validate your forecasts.

Forecast linked accounts : Some accounts naturally go together (like accounts receivable and sales) - forecast them together to maintain coherence.

Balance your balance sheet: Always ensure that assets = liabilities + equity.

Scenario analysis: Create multiple scenarios (such as best case, worst case, and most likely case) to account for uncertainty.

Iterate your forecast: As actual data becomes available, or as conditions change, revise your forecast.

13+ Examples of Balance Sheet Applications Across Industries:

1. **Manufacturing:** Analyzing asset efficiency and leverage.
2. **Banking:** Assessing capital adequacy and liquidity.
3. **Insurance:** Evaluating the adequacy of reserves for claims and the investment portfolio quality.
4. **Retail:** Examining inventory management efficiency and the ability to handle debt.
5. **IT Companies:** Analyzing the ratio of tangible to intangible assets and its impact on company valuation.
6. **Real Estate:** Assessing the level of property assets, associated liabilities, and equity.
7. **Agriculture:** Evaluating the adequacy of land and machinery assets
8. **Healthcare:** Analyzing the ability to manage patient and the efficiency of asset usage.
9. **Non-Profit:** Assessing the balance of unrestricted, temporarily restricted, and permanently restricted net assets.
10. **Investment Firms:** Evaluating the proportion of the portfolio in various asset classes and assessing the risk profile.
11. **Energy:** Analyzing the balance of reserves and the ability to handle environmental liabilities.
12. **Construction:** Assessing the management of work in progress and the level of liabilities.
13. **Education:** Analyzing the level of endowment funds and the ability to cover future expenses.

Aleksandar Stojanović
Fractional FP&A, CFO and BI Consultant

COGS Cheat Sheet

By Aleksandar Stojanovic

7+ Expert Tips on Optimizing COGS for Better Margins:

1. Regularly review suppliers and negotiate better deals.
2. Keep a close eye on inventory to avoid waste and spoilage.
3. Invest in efficient technology to improve productivity.
4. Regularly review and adjust your pricing strategies.
5. Identify and eliminate inefficiencies in the production process.
6. Train employees to increase productivity and reduce errors.
7. Consider outsourcing non-core production processes if it's more cost-effective.

9 COGS Calculation Tools to Adopt:

1. **Quickbooks:** An accountingsoftware for businesses, it includes a feature to track inventory and calculate COGS.
2. **Zoho Books:** This cloud-based accounting software helps in calculating COGS accurately.
3. **FreshBooks:** An all-in-one accounting tool with built-in COGS calculation.
4. **Xero:** A popular accounting software that includes COGS calculation.
5. **MarginEdge:** A restaurant management software that calculates COGS.
6. **inFlow Inventory:** A tool for managing inventory and calculating COGS.
7. **SOS Inventory:** A software with a strong focus on inventory tracking and COGS calculation.
8. **Craftybase:** An inventory and COGS management tool designed for handmade businesses.
9. **Fishbowl:** An advanced inventory tracking system that includes COGS calculations.

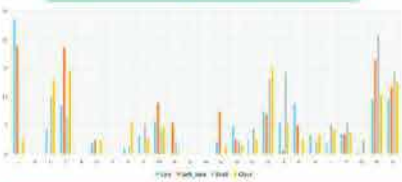
10 Strategies for Optimizing Your Gross Profit Margin

1. Negotiate better terms with suppliers.
2. Buy in bulk to take advantage of volume discounts.
3. Improve operational efficiency.
4. Minimize waste and spoilage.
5. Optimize the use of resources.
6. Find cheaper, but equally effective materials or inputs.
7. Regularly review and adjust pricing strategies.
8. Automate processes to save labor costs.
9. Train staff to improve productivity.
10. Opt for renewable or reusable resources if possible.

18+ Exercises to Fine-tune Your Understanding of COGS:

1. **Calculate COGS:** Practice calculating COGS for a product-based business using different cost components.
2. **Identify Costs:** Differentiate between costs included in COGS and those excluded for various business types.
3. **COGS & Inventory:** Explore the relationship between COGS and inventory levels.
4. **Cost Flow Assumptions:** Experiment with FIFO, LIFO, and average cost methods to observe their impact on COGS.
5. **COGS & Gross Profit:** Calculate gross profit using sales and COGS.
6. **COGS & Net Income:** Analyze the effect of COGS changes on net income.
7. **Reduce COGS:** Generate ideas for reducing COGS without compromising product or service quality.
8. **Industry Differences:** Research industry-specific COGS calculation methods.
9. **COGS & Pricing:** Understand how COGS influences pricing decisions.
10. **COGS & Profit Margins:** Examine the correlation between COGS and profit margins.
11. **Budgeting:** Incorporate COGS into budgeting exercises to evaluate profitability.
12. **Forecasting:** Forecast future COGS based on historical trends.
13. **Financial Analysis:** Utilize COGS in ratio analysis, such as the gross margin ratio.
14. **COGS & Tax:** Explore how COGS affects tax calculations.
15. **COGS & Cash Flow:** Assess the impact of COGS on cash flow.
16. **Financial Statements:** Practice interpreting COGS on financial statements.
17. **COGS & ROI:** Calculate return on investment (ROI) based on COGS and sales revenue.
18. **Real-World Case Studies:** Analyze case studies to learn effective COGS management strategies.
19. **COGS & Break-Even Point:** Determine the break-even point considering COGS and sales price.
20. **Scenario Analysis:** Conduct scenario analysis with fluctuating COGS due to raw material and labor cost changes to understand business impact.

Bar plot showing distribution of COGs



How to calculate COGS

6 Strategies to Avoid Common COGS Errors:

1. Regularly update inventory records.
2. Distinguish accurately between direct and indirect costs.
3. Choose an inventory valuation method that best suits your business
4. Include all direct costs in the COGS calculation.
5. Regularly audit your inventory and COGS calculations.
6. Use reliable software to automate COGS calculation and reduce manual errors.

10 Steps to Perfecting Your COGS Accounting:

- Identify all the direct costs associated with the production of your goods.
- Distinguish between direct and indirect costs.
- Implement a reliable inventory tracking system.
- Regularly update your inventory records.
- Calculate COGS for each individual product.
- Calculate COGS for different periods (monthly, quarterly, annually).
- Monitor changes in COGS over time.
- Understand the impact of COGS on your profitability.
- Perform regular audits to ensure accuracy in your COGS calculation.
- Constantly seek ways to reduce COGS without sacrificing product quality.

15+ Examples of Effective COGS Management Across Industries:

1. **Manufacturing:** A manufacturing company may implement lean production methods to reduce waste and lower COGS.
2. **Retail:** A retail store might negotiate bulk purchase discounts with suppliers to reduce the cost of goods sold.
3. **Food Service:** A restaurant could reduce food waste through careful inventory management and menu planning, thus decreasing COGS.
4. **Fashion:** A clothing company might use more cost-effective materials without sacrificing quality to reduce the COGS.
5. **Tech:** A tech company can manage its COGS by optimizing its software development processes and efficiency.
6. **Pharmaceuticals:** A company could increase its production scale to lower the per-unit COGS.
7. **Automotive:** A company could streamline its production process or renegotiate supplier contracts to reduce the COGS.
8. **Agriculture:** An agri-business might implement modern farming practices to increase yield and reduce waste, thereby lowering COGS.
9. **Construction:** Construction companies can reduce COGS by optimizing labor costs and managing material costs effectively.
10. **Logistics:** A logistics firm could use route optimization software to save on fuel costs, reducing its COGS.
11. **Furniture:** A furniture company might source less expensive, but durable materials or streamline its manufacturing process to lower the COGS.
12. **Breweries:** can manage COGS by maintaining efficient brewing processes and negotiating for lower costs for ingredients like grains and hops.
13. **E-commerce:** E-commerce businesses might work directly with manufacturers or wholesalers to lower the purchase price of goods sold.
14. **Telecommunications:** A telecom company could manage COGS by maintaining efficient network operations and optimizing the cost of network equipment and infrastructure.
15. **Education:** Providers can reduce COGS by scaling up, as the cost of proding an online course doesn't increase with the number of students.

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Aleksandar Stojanovic

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DISCOUNTED CASH FLOW CHEAT SHEET

by Bojan Radojicic

STEPS

Purpose

DCF is used to estimate the intrinsic value of an investment or business by discounting future cash flows to their present value. It helps determine whether an investment opportunity is undervalued or overvalued.

1 HISTORICAL FINANCIAL ANALYSIS

The discount rate is the minimum rate of return acceptable to the investor.

The absolute value of the discount rate depends on the definition of the discount rate. Namely, for cash flow after debt servicing, a simple discount rate is used, while for cash flow before debt servicing, a weighted average cost of capital (WACC) is used.

2 INCOME STATEMENT FORECAST

Projections of revenue, COGS, OPEX, salareis, amortization, depreciation, interest etc..

3 CAPEX and NWC forecast

Forecasting capital expenditures (capex) is an important part of the valuation modeling process, as it allows businesses to plan for and manage their investment in long-term assets.

4 DEFINE PERIOD AND FORECASTING CF

5 DISCOUNT RATE DETERMINATION

The cost of equity is the expected rate of return that shareholders require to invest in a company's common equity. In other words, it is the return that investors expect to receive on their investment in the form of dividends and capital gains.

When conducting a valuation, the cost of equity is an important factor to consider as it reflects the investors' perception of risk associated with the company's future earnings. A higher risk perception means a higher cost of equity, and vice versa.

6 LONG TERM GROWHT RATE

7 TERMINAL VALUE CALCULATION

8 DISCOUNITNG CF

9 FINAL ADJUSTMENT AND SENSITIVITY

Pros

Takes earning potential into account

Flexible method that can be tailored to different types of assets or businesses

Future oreientated

Enables sensitivity analysis by allowing the modification of assumptions

Provides a quantitative basis for comparing different investment opportunities

Cons

DCF heavily depends on accurate and reliable projections

Subjectivity of these assumptions can introduce biases and uncertainty

A slight change in projected cash flows or discount rates can result in significant variations in the estimated present value

Difficulty in Determining the Discount Rate

CF FORECAST SUMMARY

	Year 1	Year 2	Year 3	Year 4	Year 5
EBITDA	5,500	5,885	6,297	6,738	7,209
Depreciation	(200)	(214)	(229)	(245)	(262)
Interest	(300)	(321)	(343)	(368)	(393)
Corporate tax	(750)	(803)	(859)	(919)	(983)
CAPEX adjustments	(700)	(500)	(500)	(500)	(500)
Change in NWC	(500)	(600)	(600)	(600)	(600)
Free Cash flow	3,050	3,448	3,766	4,106	4,471

DCF based valuation

	Valuation
Discounted FCF	12,540
Discounted CF Terminal	7,250
Total DCF	19,790
Cash	250
Financial Debts	(4,500)
Net financial position	(4,250)
NWC adjustments	(1,000)
Valuation before marketability discount	14,540
Discount for marketability	35%
Final valuation	9,451

Sensitivity analysis example (long term rate + WACC)

Discount rate

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	3,546.4	3,340.2	3,167.8	3,004.2	2,855.3
[illegible]	3,592.3	3,385.9	3,209.2	3,032.3	2,879.8
[illegible]	3,636.8	3,425.8	3,234.3	3,061.8	2,905.4
[illegible]	3,686.1	3,467.5	[illegible]	2,092.8	2,902.3
[illegible]	3,740.3	3,511.8	[illegible]	3,125.4	2,960.4

WACC

- Risk-free rate
- Equity risk premium
- Relevered industry beta
- Sub-total
- Specific risk premium
- Cost of equity
- Industry - database
- Cost of debt
- Corporate tax rate
- Cost of Debt after tax
- (ND / EV)
- WACC
- Local inflation
- WACC result

Revenue forecast

- Identify key drivers
- Gather data
- Analyze trends
- Develop assumptions
- Create a forecast

COGS forecast

- Identify the components of COGS
- Collect data on historical COGS
- most important metric is % of cogs in Revenue
- Analyze trends
- Develop assumptions

OPEX forecast

- Use historical share in total revenues
- Adjusted for some assumptions

Depreciation forecast

- Start by identifying the assets that will be depreciated
- Determine useful life
- Choose a depreciation method
- Calculate depreciation expense

NWC

+ AR = Sales / DSO
+ Inevnotirs (I = Cogs / DIO)
- Payables (AP = Costs / DPO)

DCF Formula

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_n}{(1+r)^n}$$

CF_1 = Cash flow for the first period
CF_2 = Cash flow for the second period
CF_n = Cash flow for "n" period
n = Number of periods
r = Discount rate

Terminal Value (TV)

TV = (FCFn x (1 + g)) / (WACC – g)

FCF = free cash flow.
n = year 1 of terminal period or final year.
g = perpetual growth rate of FCF.
WACC = weighted average cost of capital.

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EBIT Cheat Sheet

By Aleksandar Stojanovic

10 Steps to Improving Your EBIT

1. **Increase pricing:** Raise prices to boost revenues.
2. **Decrease direct costs:** Reduce COGS and labor costs.
3. **Optimize overhead:** Analyze expenses to cut costs.
4. **Expand sales channels:** Reach new markets for growth.
5. **Improve productivity:** Increase efficiency for cost savings.
6. **Decrease waste:** Minimize physical and operational waste.
7. **Negotiate with suppliers:** Secure lower costs.
8. **Utilize technology:** Automate tasks for savings.
9. **Optimize product mix:** Focus on high-margin items.
10. **Improve financial management:** Enhance budgeting, forecasting, and cash management.

9 EBIT Calculation Tools to Use

1. **Microsoft Excel:** Excel's formula functions make it a versatile tool for EBIT calculations.
2. **Google Sheets:** Similar to Excel but accessible anywhere with internet connection.
3. **QuickBooks:** This accounting software can help calculate EBIT based on your financial inputs.
4. **FreshBooks:** Another accounting tool that can assist with EBIT calculations.
5. **Zoho Books:** Zoho's accounting software also includes features for EBIT calculation.
6. **ProfitStory:** A business performance app which can provide EBIT calculations.
7. **EBIT Calculator app:** This smartphone app focuses solely on calculating EBIT
8. **Sage 50cloud:** Accounting software that can calculate and track EBIT over time.
9. **Xero:** Cloud-based accounting software with robust reporting that can include EBIT.

10 Ways to Increase Your Operating Profit

1. Try new marketing strategies, explore new markets, or introduce new products.
2. Streamline your production processes or find cheaper suppliers.
3. Regularly review your business operations to find inefficiencies.
4. Consider whether a small price increase would be acceptable to your customers.
5. Keep only what's necessary in inventory to reduce storage costs.
6. Regularly review overhead costs and look for opportunities to cut back.
7. Sell more of the products that yield higher profit margins.
8. Reducing the number of links in your supply chain can reduce costs.
9. Implementing technology solutions can lead to greater efficiency and lower costs.
10. You may be able to get cheaper prices for your direct costs, thereby increasing your EBIT.

10 Steps to Improving Your EBIT

Increase pricing: If your market will bear it, consider increasing your prices to raise revenues.

Decrease direct costs: Look for ways to reduce the cost of goods sold (COGS) and direct labor costs.

Optimize overhead: Analyze your operating expenses to identify areas where costs can be reduced.

Expand sales channels: Reach new markets or demographics to boost your sales volume.

Improve productivity: Greater efficiency can lead to reduced costs and increased output.

Decrease waste: This includes both physical waste in products and operational waste in time and resources.

Negotiate with suppliers: You may be able to get lower prices on your direct costs.

Utilize technology: Automating manual tasks can lead to significant cost savings.

Optimize your product mix: Focus on selling higher-margin products or services.

Improve financial management: Use budgeting, forecasting, and cash management to improve your bottom line.

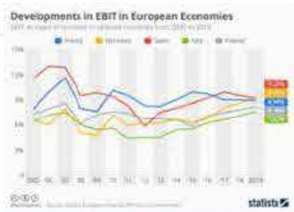
18+ Prompts for Understanding EBIT in Your Business

1. Compare EBIT to Revenue: What is the percentage of EBIT to your revenue? Is this percentage increasing or decreasing over time?
2. Compare EBIT to COGS: How does EBIT compare to the cost of goods sold (COGS)? Is the ratio increasing or decreasing?
3. EBIT Margin: Calculate your EBIT margin (EBIT divided by revenue). How does this figure compare to industry benchmarks?
4. Year-on-Year EBIT: Compare your EBIT on a year-on-year basis. Is it growing, staying steady, or decreasing?
5. EBIT per Employee: How much EBIT does each employee generate? Is this figure increasing or decreasing?
6. EBIT by Product Line: Calculate EBIT for each product or service line. Which are the most and least profitable?
7. EBIT by Business Unit: If your business has multiple units or departments, calculate the EBIT for each. Which units are driving profitability?
8. Forecasting EBIT: Forecast EBIT for the next quarter, year, and three years. How do these projections compare to your strategic goals?
9. EBIT Sensitivity Analysis: Conduct a sensitivity analysis for EBIT. How do changes in sales volume, price, or costs affect EBIT?
10. Compare EBIT to Operating Cash Flow: How does EBIT compare to operating cash flow? Significant differences might indicate issues with working capital management
11. EBIT and Capital Expenditure: How does EBIT compare to your capital expenditure? High capital expenditure with low EBIT may indicate a need for efficiency improvements.
12. EBIT and Interest Expense: If you have significant debt, compare EBIT to your interest expense. Can your operational earnings cover interest payments?
13. EBIT and Taxation: How does EBIT compare to your tax expense? This can provide insight into your effective tax rate.
14. EBIT and Dividends: Can your EBIT cover your dividend payments? If not, you might need to reevaluate your dividend policy.
15. EBIT and Investments: Compare EBIT to your investment income. This can show you how much of your profitability is driven by operations versus investments.
16. EBIT and Non-Operating Expenses: How does EBIT compare to non-operating expenses? High non-operating expenses can distort your operational profitability.
17. EBIT and Depreciation: How does EBIT compare to depreciation? This can indicate whether your assets are generating sufficient profits.
18. EBIT and Amortization: If you have significant intangible assets, compare EBIT to amortization. This can help assess the profitability of these assets.

15+ Examples of EBIT Usage in Various Industries

- **Manufacturing:** EBIT used to analyze operational efficiency over time.
- **Construction:** EBIT determines project profitability.
- **Retail:** EBIT evaluates store profitability with COGS and operating expenses.
- **Energy:** EBIT gauges profitability of extraction sites or energy methods.
- **Healthcare:** EBIT assesses department or service profitability.
- **Telecommunications:** EBIT evaluates service or plan profitability.
- **Technology:** EBIT shows operational profitability without tax and interest.
- **Banking:** EBIT analyzes branch or service operational efficiency.
- **Food and Beverage:** EBIT compares profitability of locations or product lines, development processes and efficiency.
- **Education:** EBIT compares profitability of programs or schools.
- **Real Estate:** EBIT analyzes property profitability with operating costs.
- **Agriculture:** EBIT determines profitability of crops or livestock.
- **Automotive:** EBIT measures model or branch profitability.
- **Pharmaceuticals:** EBIT assesses drug or research project profitability.
- **Transportation and Logistics:** EBIT assesses route or fleet profitability.

EBITDA Margin Graph With Annual Revenue



6 Strategies to Avoid Common EBIT Errors

1. **Regularly update financial data:** Outdated or incorrect data can lead to wrong EBIT calculations.
2. **Understand the difference between operating and non-operating expenses:** Only operating expenses should be subtracted in the EBIT calculation.
3. **Proper classification of expenses:** Be careful not to misclassify indirect expenses as direct expenses.
4. **Include all income:** Not just income from the main business activities, but also other relevant income sources
5. **Don't mix up EBIT with EBITDA:** EBITDA adds back Depreciation and Amortization to EBIT, they're not the same.
6. **Professional financial advice:** Consulting with a finance professional can help ensure the accuracy of your EBIT calculation.

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Aleksandar Stojanovic

A SUCCESSFUL CAREER IN FINANCE CHEAT SHEET

The Basics

Technicals

Get a good head start by learning the basics right.

Here are a few examples of solid finance certifications:

- **Chartered Financial Analyst (CFA)**
- **Chartered Alternative Investment Analyst (CAIA)**
- **Financial Risk Manager (FRM)**

This is not an exhaustive list. There are plenty of other Bachelor's & Master's degrees + other great finance certifications out there.

Soft Skills

Soft skills foster effective interactions and problem-solving.

They often differentiate top performers from average ones.

- **Communication** (learn to write and present properly)
- **Analytical thinking** (how to think critically and make reasoned decisions)
- **Attention to detail** (ability to work accurately and meticulously)

Mastering soft skills fosters **interpersonal effectiveness and helps finding solutions to unexpected problems.**

Hard Skills

The engine powering efficiency and accuracy in the finance industry.

The concrete foundation upon which innovative solutions are built.

- **English** (the language that will allow you to work anywhere in the world)
- **Generative AI** (the skill that will save you thousands of hours)
- **Behavioural economics** (this will enable you to understand markets)

Hard skills will allow you to make **informed investment decisions**, **forecast financial trends** and derive **insights from data.**

Find A Niche

Finance Trending Areas

Select a finance field that interests you and become an expert. Here are some hot ones at the moment:

- **Artificial Intelligence (AI) in finance:** AI is increasingly being used for predictive analysis, automation of tasks, and improving customer service in finance.
- **ESG investing:** Environmental, Social, and Governance (ESG) criteria are increasingly important for investors. There's a growing trend toward sustainable and responsible investing.
- **Cryptocurrencies and blockchain:** The use and acceptance of cryptocurrencies continue to grow. The underlying technology, blockchain, keeps being explored for its potential applications in various financial processes.
- **Regulatory changes:** Changes in financial regulations around the world continue to be a hot topic, impacting various aspects of finance, from banking to investing.
- **Financial literacy:** There's a growing movement to improve financial literacy among the general public, especially focusing on younger generations and marginalized communities.

Bonus Points

The Extra Mile

Select a finance field that interests you and become an expert. Here are some hot ones at the moment:

- **Master the art of storytelling:** Data is vital in finance, but the ability to tell a compelling story with that data can set you apart. It's a powerful way to communicate complex ideas in an understandable way.
- **Cultivate a wide network:** Your network shouldn't just include other finance professionals. Diversify to include individuals from various industries and roles. They may provide unique insights or opportunities.
- **Keep an entrepreneurial mindset:** Look for ways to innovate within your role and seek out new opportunities for growth. This proactive approach can lead to exciting new projects and career advancement.

Compiled by Ignacio Ramirez Moreno, CFA
The Finance Nerd 🤓

THE FINANCE & ACCOUNTING DESIGNATIONS CHEAT SHEET

by Oana Labes

For discussion purposes only. Not an official guide. Opinions are my own. You are responsible for your own research.

FINANCE

1. CFA (Chartered Financial Analyst)

- Earning potential: High
- Difficulty: High
- Duration of study: 3-4 years
- Key topics: Investment analysis, portfolio management, ethics, economics, financial analysis
- Experience: min 3 years of relevant work experience
- Typical jobs: Portfolio manager, research analyst, risk manager, financial advisor, investment banker
- Regulatory bodies: CFA Institute
- International recognition: Yes

2. FRM (Financial Risk Manager)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Risk management, quantitative analysis, financial markets
- Experience: 2 years of relevant work experience
- Typical jobs: Risk analyst, risk /credit risk/operational risk/ market risk manager
- Regulatory bodies: Global Association of Risk Professionals (GARP)
- International recognition: Yes

3. CAIA (Chartered Alternative Inv. Analyst)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Alternative investments, private equity, hedge funds, real estate
- Experience: 1 year of relevant work experience
- Typical jobs: Portfolio manager, hedge fund analyst, private equity associate, investment consultant, wealth manager
- Regulatory bodies: Chartered Alternative Investment Analyst Association (CAIA)
- International recognition: Yes

4. CFP (Certified Financial Planner)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 2-4 years
- Key topics: Personal financial planning, investment, tax, retirement, estate planning
- Experience: 3 years of relevant work experience
- Typical jobs: Financial planner/advisor, wealth manager, estate planner, investment consultant
- Regulatory bodies: CFP Board (US), FP Canada, CISI (UK)
- International recognition: Yes, with some limitations

5. CBV (Chartered Business Valuator - Canada)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 2-3 years
- Key topics: Business valuation, financial analysis, litigation support
- Experience: 1,500 hours of relevant work experience in valuation engagements
- Typical jobs: Business valuator, financial analyst, M&A specialist, forensic accountant
- Regulatory bodies: CBV Institute (Canada)
- International recognition: Yes, with some limitations

6. CRMP (Certified Risk Mgmt. Professional)

- Earning potential: High, depending on industry and level of expertise
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Enterprise risk management, risk assessment, mitigation, control, financing, regulatory risk
- Experience: Min two years of full-time work experience in risk management
- Typical job roles: Risk manager, risk analyst, risk consultant, risk management advisor
- Regulatory bodies: primarily the Global Risk Management Institute (GRMI)
- International recognition: Yes, but reciprocity varies

7. FPAC (Certified Corporate FP&A Prof.)

- Earning potential: High
- Difficulty: Medium
- Duration of study: 1-2 years
- Key topics: Financial planning, analysis, budgeting, forecasting, performance evaluation
- Experience: 2 -4 years of relevant work experience
- Typical jobs: Financial analyst, FP&A analyst, FP&A manager, finance manager, director of finance
- Regulatory bodies: Association for Financial Professionals (AFP)
- International recognition: Yes, with some limitations

8. CTP (Certified Treasury Professional)

- Earning potential: High
- Difficulty: Medium
- Duration of study: 1-2 years
- Key topics: Treasury management, cash management, risk management, corporate finance
- Experience: 2 years of relevant work experience
- Typical jobs: Treasury analyst, cash manager, treasury manager, assistant treasurer, treasurer
- Regulatory bodies: Association for Financial Professionals (AFP)
- International recognition: Yes, with some limitations

9. CISI (Chartered Institute for Sec & Inv)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-3 years
- Key topics: Depends on certification (securities, investments, wealth and financial planning)
- Experience: No specific requirement but experience is helpful
- Typical jobs: Investment analyst, wealth manager, financial planner
- Regulatory bodies: Chartered Institute for Securities & Investment (CISI)
- International recognition: Yes

10. CIIA (Certified Int'l Investment Analyst)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 2-3 years
- Key topics: Financial planning, retirement planning, insurance, investments
- Experience: 3 years of relevant work experience
- Typical jobs: Financial planner, wealth manager, financial advisor, portfolio and fund manager
- Regulatory bodies: Association of Certified International Investment Analysts (ACIIA)
- International recognition: Yes, with some limitations

ACCOUNTING

1. CPA US (Certified Public Accountant)

- Earning potential: High
- Difficulty: High
- Duration of study: 2-3 years
- Key topics: Accounting, auditing, taxation, business law, financial reporting
- Experience: 1-2 years of relevant work experience, depending on the state
- Typical jobs: Auditor, tax advisor, financial analyst, controller, CFO
- Regulatory bodies: AICPA, State Boards of Accountancy
- International recognition: Yes, with some limitations

2. CPA Canada (Chartered Professional Acct)

- Earning potential: High
- Difficulty: High
- Duration of study: 2-3 years
- Key topics: Accounting, auditing, taxation, finance, strategy, governance, management accounting
- Experience: 30 months of relevant work experience
- Typical jobs: Auditor, tax consultant, financial analyst, controller, CFO
- Regulatory bodies: CPA Canada, Provincial CPA organizations
- International recognition: Yes, with some limitations

3. CMA (Certified Management Accountant)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Management accounting, financial planning, analysis, decision support
- Experience: 2 years of relevant work experience
- Typical jobs: Management accountant, financial analyst, controller, finance manager, CFO
- Regulatory bodies: IMA (Institute of Management Accountants)
- International recognition: Yes

4. ACCA (Assoc of Chartered Certif. Acct's)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 3-4 years
- Key topics: Accounting, finance, business management, taxation, audit
- Experience: 3 years of relevant work experience
- Typical jobs: Auditor, tax consultant, financial analyst, management accountant, finance manager
- Regulatory bodies: Association of Chartered Certified Accountants (ACCA) Global
- International recognition: Yes

5. CGMA (Chartered Global Mgmt. Acct)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 2-3 years
- Key topics: Management accounting, financial strategy, business & risk management
- Experience: 3 years of relevant work experience
- Typical jobs: Management accountant, financial analyst, finance manager, controller, CFO
- Regulatory bodies: AICPA (US), CIMA (UK)
- International recognition: Yes

6. CIA (Certified Internal Auditor)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Internal auditing, risk management, control, governance
- Experience: 2 years of relevant work experience
- Typical jobs: Internal auditor, audit manager, compliance officer, risk manager, internal audit director
- Regulatory bodies: Institute of Internal Auditors (IIA)
- International recognition: Yes

7. CIMA (Chartered Inst. of Mgmt. Accts)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 2-4 years
- Key topics: Management accounting, business, investment & financial strategy, decision making
- Experience: Three years of relevant work experience
- Typical jobs: Management accountant, financial analyst, finance manager, controller, CFO
- Regulatory bodies: Chartered Institute of Management Accountants (CIMA)
- International recognition: Yes

8. CA (Chartered Accountant)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 3-5 years
- Key topics: Financial accounting, management accounting, auditing, taxation, law, business strategy
- Experience: 3 years of relevant work experience
- Typical job roles: Auditor, tax consultant, financial controller, finance manager
- Regulatory bodies: Varies (ICAEW in the UK, Chartered Accountants Ireland in Ireland)
- International recognition: Yes, though the exact recognition may vary by country and region

9. DipIFR (Diploma in Int'l Fin. Reporting)

- Earning potential: Moderate to High
- Difficulty: Low-Medium
- Duration of study: up to 1 year
- Key topics: International Financial Reporting Standards (IFRS)
- Experience: relevant accounting or finance work experience recommended
- Typical job roles: Financial accountant, audit and assurance associate, financial manager
- Regulatory bodies: Association of Chartered Certified Accountants(ACCA)
- International recognition: Yes, especially in countries that use IFRS for financial reporting

10. CPFA (Chartered Public Finance Acct.)

- Earning potential: High
- Difficulty: Medium-High
- Duration of study: 1-2 years
- Key topics: Financial analysis, portfolio management, investment advice
- Experience: 3 years of relevant work experience
- Typical jobs: Financial analyst, portfolio manager, investment advisor
- Regulatory bodies: Chartered Institute of Public Finance and Accountancy (CIPFA)
- International recognition: Yes

THE FINANCIAL ANALYSIS CHEAT SHEET by Oana Labes

5 EBITDA RATIOS

EBITDA MARGIN
Formula: EBITDA / Revenue
Answers: How much Revenue was turned to EBITDA?

INTEREST COVERAGE
Formula: EBITDA / Interest
Answers: How many times over can EBITDA pay for Interest Expense on debt obligations?

DEBT SERVICE COVERAGE
Formula: EBITDA / (Scheduled Principal + Interest)
Answers: How many times over can EBITDA pay for Interest expense and scheduled debt payments ?

FIXED CHARGE COVERAGE
Formula: (EBITDA + Fixed Charges - Cash Taxes - Unfunded CAPEX - Shareholder Distributions) / (P + I + Fixed Charges)
Answers: How many times over can net EBITDA pay for all fixed payment obligations (rent, debt, dividends)

FUNDED DEBT TO EBITDA
Formula: Total Funded Debt/ EBITDA
Answers: How many years will it take to repay all outstanding financed debt if 100% of EBITDA went towards principal payments

5 CASH FLOW RATIOS

CASH FLOW MARGIN
Cash Flow Margin = (Cash Flow from Operations / Net Sales) x 100

FREE CASH FLOW MARGIN
Free Cash Flow Margin = (Free Cash Flow / Net Sales) x 100

CASH FLOW COVERAGE RATIO
Cash Flow Coverage Ratio = Cash Flow from Operations / (Principal + Interest)

OPERATING CASH FLOW RATIO
Operating Cash Flow Ratio = Cash Flow from Operations / Current Liabilities

CASH CONVERSION EFFICIENCY (CCE)
Cash Conversion Efficiency Ratio = Net Sales / Average Working Capital

THE FINANCIAL ANALYSIS SCORE CARD

Horizontal Analysis (Trend Analysis)

Vertical Analysis (Common Size Analysis)

Ratio Analysis

Profitability Ratios
Gross Profit Margin
Operating Profit Margin
Net Profit Margin
Return on Assets
Return on Equity

Efficiency Ratios
AR Turnover
Inventory Turnover
AP Turnover
Asset Turnover

Liquidity Ratios
Current Ratio
Quick Ratio
Cash Conversion Cycle (DSO + DIO - DPO)

Solvency Ratios
Debt to Assets
Debt to Equity
Debt Service Coverage
Fixed Charge Coverage
Interest Coverage

Sensitivity & Scenario Analysis

Cash Flow Analysis

VERTICAL ANALYSIS

Vertical Analysis / Common Size Income Statement

Revenue	100%	100%	100%	100%	100%
Variable COGS	20%	18%	20%	20%	20%
Fixed COGS	10%	9%	8%	8%	8%
Gross Profit	70%	73%	71%	72%	72%
Variable Overhead	30%	32%	30%	30%	30%
Fixed Overhead	10%	11%	12%	12%	12%
EBITDA/Operating Income	30%	30%	30%	30%	30%
Depreciation & Amortization	2%	2%	2%	2%	1%
EBIT	28%	28%	28%	28%	29%
Tax	8%	8%	8%	8%	8%
Net Income	21%	21%	21%	21%	21%

HORIZONTAL ANALYSIS

Horizontal Analysis / Income Statement Trend Analysis

Revenue	0%	10%	10%	10%	10%
Variable COGS	0%	0%	23%	8%	10%
Fixed COGS	0%	0%	2%	4%	6%
Gross Profit	0%	14%	8%	11%	10%
Variable Overhead	0%	17%	3%	11%	10%
Fixed Overhead	0%	20%	17%	14%	13%
EBITDA/Operating Income	0%	10%	10%	10%	10%
Depreciation & Amortization	0%	0%	0%	0%	0%
EBIT	0%	11%	11%	11%	11%
Tax	0%	10%	10%	10%	10%
Net Income	0%	11%	11%	11%	11%

PROFITABILITY

Gross Profit Margin = (Gross Profit / Total Revenue) * 100%

Operating Profit Margin = (Operating Profit/Revenue) * 100%

Net Profit Margin = (Net Profit / Total Revenue) * 100%

Return on Assets = (Net Income / Total Assets) * 100%

Return on Equity = (Net Income / Equity) * 100%

Return on Capital Employed = Earnings before Interest and Tax / (Long Term Debt + Equity)

Return on Investment = (Net Profit / Investment) * 100%

Earnings per Share = Net Income / # of outstanding shares

LIQUIDITY

Current Ratio = Current Assets / Current Liabilities

Quick Ratio = (Current Assets - Inventory) / Current Liabilities

Net Profit Margin = (Net Profit / Total Revenue) * 100%

Days Sales Outstanding (DSO) = (Average Accounts Receivable / Total Credit Sales) * Number of Days in Period

Days Inventory Outstanding (DIO) = (Average Inventory / Cost of Goods Sold) * Number of Days in Period

Days Payables Outstanding (DPO) = (Average Accounts Payable / Purchases) * Number of Days in Period

Cash Conversion Cycle (CCC) = Days of Sales Outstanding (DSO) + Days of Inventory Outstanding (DIO) - Days of Payables Outstanding (DPO)

Net Working Capital Ratio = (Current Assets - Current Liabilities) / Total Assets

SOLVENCY

Debt to Assets = Total Debt / Total Assets

Debt to Equity = Total Debt / Total Equity

Debt Service Coverage Ratio = EBITDA / (Scheduled Principal + Interest Debt Payments)

Return on Capital Employed = EBIT/ (Long Term Debt + Equity)

Fixed Charge Coverage Ratio = (EBITDA + Fixed Charges) / (Fixed Charges + Scheduled Principal + Scheduled Interest)

Interest Coverage Ratio = EBITDA / Interest Expenses

Tangible Net Worth Ratio = Total Liabilities / (Total Equity - Intangible Assets - Prepaid Assets - Due from Related Parties)

Funded Debt to EBITDA = Total Interest Bearing Debt/EBITDA

EFFICIENCY

Accounts Receivable Turnover = Net Credit Sales / Average Accounts Receivable

Inventory Turnover = Cost of Goods Sold / Average Inventory

Accounts Payable Turnover = Purchases / Average Accounts Payable

Asset Turnover = Net Sales / Average Total Assets

Fixed Asset Turnover = Net Sales / Average Net Fixed Assets

Working Capital Turnover = Net Sales / Average Working Capital

****Note that in all applicable ratios, EBITDA can be replaced with EBIT or Operating Cash Flow for a different perspective which includes D&A expenses**

SENSITIVITY ANALYSIS

	49,500	56,925	68,310	85,388
5.13	$ 253,688	$ 291,741	$ 350,089	$ 437,611
5.30	$ 262,567	$ 301,952	$ 362,342	$ 452,927
5.52	$ 273,069	$ 314,030	$ 376,836	$ 471,044
5.76	$ 285,357	$ 328,161	$ 393,793	$ 492,241
6.05	$ 299,625	$ 344,569	$ 413,483	$ 516,853

PROJECT PROFITABILITY

NPV	IRR	PP	PI
NET PRESENT VALUE	INTERNAL RATE OF RETURN	PAYBACK PERIOD	PROFITABILITY INDEX
Inflows - Outflows	Discount rate for zero NPV	Time to recoup investment	PV of cash flows to investment
Sum of Present Value of (Inflows – Outflows)	NPV = 0 = (Cash Inflow / (1+IRR)^n) - Initial Investment	Initial Investment / Annual Cash Inflows	(Sum of Present Value of Cash Inflows) / Investment
Use to assess profitability (positive = profitable)	Use to rank project profitability (time value of money)	Use to rank low-risk short-term projects	Use to assess profitability and compare projects
Avoid aggressive projections & low discount rate. Remember risk & fit	Avoid using to compare projects with different sizes/ risk ;consider MIRR	Don't use in isolation because it doesn't factor in time value of money	Avoid aggressive projections. Remember risk & fit

DUPONT ANALYSIS

Net Profit Margin × **Asset Turnover** × **Financial Leverage**

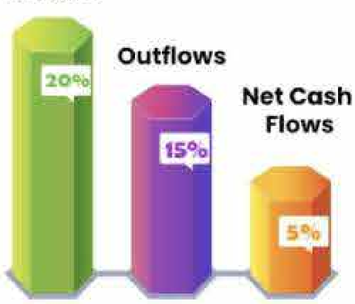
Net Profit Margin	Asset Turnover	Financial Leverage
Gross Profit Margin Gross Profit / Sales	Fixed Asset Turnover Sales / Fixed Assets	Debt Ratio Total Debt / Total Assets
Operating Profit Margin Operating Income / Sales	AR Turnover Sales / Average AR	Equity Ratio Equity / Total Assets
Pre-tax Profit Margin Pre-tax Income / Sales	AP Turnover Purchases/ Average AP	**DUPONT RATIO = Profitability x Efficiency x Leverage**
Effective Tax Rate Taxes / Pre-tax Income	Inventory Turnover COGS/ Average Inv.	

Financial Forecasting Cheat Sheet

By Aleksandar Stojanovic

9 Crucial Financial Forecasting Models to Apply

1. **Time Series Models:** Use past data trends to forecast future ones.
2. **Regression Analysis:** Predict one variable based on the behavior of another.
3. **Moving Average Models:** This method uses the average of past periods for forecasts.
4. **Exponential Smoothing:** A time series method that gives more weight to recent data.
5. **ARIMA:** This statistical analysis model uses time series data to understand the data or forecast future trends.
6. **Econometric Modeling:** This incorporates economic theory and statistical inference to forecast future outcomes.
7. **Monte Carlo Simulations:** This involves simulating a range of possible outcomes and probabilities.
8. **Financial Statement:** A bottom-up approach that involves forecasting revenues, costs, and capital structure.
9. **Sales and Revenue:** This is specific to predicting future sales revenue.



8 Ways to Make Your Financial Forecasts More Accurate:

1. Use Reliable Data: Quality data is key to accurate forecasts.
2. Utilize Multiple Models: Gain insights from different models for increased accuracy.
3. Include Confidence Intervals: Show a range of possible outcomes, not just a single figure.
4. Update Regularly: Keep forecasts up to date with new data.
5. Understand Model Limitations: Know the strengths and weaknesses of the model you're using.
6. Validate with Actual Results: Compare forecasts to real outcomes for validation.
7. Consider External Factors: Include market trends and economic indicators in your forecasts.
8. Use Expert Judgment: Combine models with expert insights for more accurate forecasts.

10 Steps to Developing a Reliable Financial Forecast:

- **Define the Scope of Your Forecast:** Decide on the time period and the level of detail required.
- **Collect Relevant Data:** Include historical financial data, industry trends, and economic indicators.
- **Choose a Suitable Forecasting Model:** This depends on the type of data and your business context.
- **Analyze and Understand Trends:** Look for patterns, trends, and seasonality in your data.
- **Prepare Initial Forecasts:** Use your chosen model to prepare initial forecasts.
- **Review Assumptions and Inputs:** Ensure your assumptions are realistic and inputs are accurate.
- **Adjust Based on Other Information:** Consider other relevant information such as upcoming market changes or new products.
- **Review and Refine Your Forecasts:** Refine your forecasts based on feedback and as you get more data.
- **Implement Your Forecasts:** Use your forecasts for budgeting, financial planning, and strategic decision-making.
- **Monitor and Update Your Forecasts:** Regularly compare actual results with forecasts to improve accuracy over time.

15+ Exercises to Sharpen Your Financial Forecasting Skills:

1. Practice forecasting revenue of a retail store based on past sales data
2. Forecast next year's expenses for a specific company
3. Practice using different models to forecast stock prices
4. Predict the impact of a price change on demand for a product
5. Forecast the sales of a new product based on market research data
6. Estimate a company's future net income based on historical growth rates
7. Use a company's financial statements to forecast its future balance sheet
8. Practice forecasting cash flows for a project to calculate its Net Present Value (NPV)
9. Conduct a scenario analysis to see how different outcomes impact a project's profitability
10. Forecast a country's GDP based on historical trends and expected policy changes
11. Use regression analysis to forecast sales based on advertising spend
12. Estimate future property prices in a city based on past trends
13. Forecast a company's bankruptcy risk based on financial ratios
14. Predict future unemployment rates based on economic indicators
15. Use Monte Carlo simulations to forecast the possible outcomes of an investment

3 Steps to Avoid Common Forecasting Errors:

1. **Beware of Overfitting:** Overfitting happens when your model is too complex and captures noise rather than the trend.
2. **Handle Outliers Carefully:** Outliers can distort your forecast. Identify them and understand their cause.
3. **Check for Bias:** Bias can make your forecasts consistently over or under-estimate. Regularly review your forecasts versus actual outcomes to detect any bias.

7+ Tricks for Making Your Forecasts More Comprehensive:

1. **Consider a range of scenarios:** Don't just forecast the most likely scenario, but also consider best-case and worst-case scenarios.
2. **Use both quantitative and qualitative information:** While hard data is crucial, don't ignore soft information like expert opinions and market news.
3. **Regularly update your forecasts:** As new information becomes available, update your forecasts.
4. **Don't ignore uncertainty:** Include a range of possible outcomes in your forecasts.
5. **Use a consistent approach:** This allows you to compare forecasts for different projects or periods.
6. **Involve different parts of the business:** Get input from finance, sales, marketing, etc., to make your forecasts more comprehensive.
7. **Don't just rely on software:** While forecasting software is helpful, also use your judgment and understanding of the business.

13+ Examples of Financial Forecasting Usage in Various Industries

1. **Tech Companies:** Forecasting sales for new products
2. **Retail:** Predicting seasonal demand
3. **Manufacturing:** Forecasting production needs
4. **Finance:** Predicting future stock prices
5. **Healthcare:** Projecting future healthcare costs
6. **Energy:** Predicting future energy demand
7. **Real Estate** Forecasting property price trends
8. **Government:** Estimating tax revenues
9. **Non-profit:** Predicting fundraising revenue
10. **Agriculture:** Forecasting crop yields based on weather patterns
11. **Telecom:** Projecting customer churn rates
12. **Education:** Forecasting tuition revenue and expenses
13. **Construction:** Forecasting project costs and completion times
14. **Travel & Tourism:** Predicting tourist arrivals based on seasons, events, etc.

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Fractional FP&A, CFO and BI Consultant

Aleksandar Stojanovic

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The CFOs Guide to Improving Financial Reporting

10 descriptions and 60 improvement ideas

How to improve what financial reporting teams should do well

	1	2	3	4	5	6	7	8
Accurate and reliable data	Data governance framework	Standardized data entry	Data validation and verification	Regular data reconciliation	Data quality controls	Data security measures	Staff training and awareness	Regular data audits
Standards and regulations	Stay updated	Understand requirements	Establish internal controls	Standardize reporting practices	Quality assurance reviews	Engage external experts	Training and development	Monitoring and compliance audits
Standardized reporting framework	Identify Reporting Objectives	Determine Reporting Requirements	Define Reporting Elements	Develop Reporting Templates	Establish Data Collection Processes	Implement Approval Procedures.	Communicate and Train	Continuous Improvement and Evaluation
Clear and concise language	Understand the Audience	Simplify Technical Jargon	Use Clear and Precise Terminology	Organize Information Effectively	Avoid Redundancy	Write in Active Voice	Provide Context and Explanations	Seek Feedback and Review
Financial analysis	Define Analysis Objectives	Gather Relevant Data	Select Appropriate Analysis Tools	Analyze Trends and Patterns	Perform Ratio Analysis	Conduct Comparative Analysis	Provide Actionable Insights	Communicate Analysis Effectively
Utilize data visualization tools	Establish clear objectives	Foster open communi-cation	Understand department needs	Collaborate in planning process	Share insights & analysis	Seek cross functional input	Provide training & support	Participate in operational reviews
Reporting timeliness	Define Reporting Objectives	Identify Relevant Data	Select Visualization Tools	Determine Visualization Types	Design Engaging Visuals	Ensure Data Accuracy and Integrity	Optimize Interactivity	Test and Iterate
Transparent disclosures	Understand Regulatory Requirements	Identify Key Disclosures	Use Plain Language	Provide Sufficient Context	Include Supporting Information	Organize Disclosures Effectively	Use Visual Aids	Seek Independent Reviews
Customer centric reporting	Identify Stakeholder Needs	Tailor Reporting Formats	Prioritize Key Information	Provide Context and Analysis	Use Visual and Interactive Elements	Incorporate Non-Financial Information	Foster Two Way Commu-nication	Regularly Review Reporting
Technology and automation	Assess Current Processes	Define Objectives	Identify Suitable Tools	Integrate Systems	Automate Data Collection	Utilize Data Analytics	Adopt Visualization Tools	Continuous Improvement

60 ideas to improve 10 Financial Reporting KPIs

Reporting accuracy	Reporting timeliness	Compliance with standards	Audit opinion	User satisfaction	Data integrity	Transparent disclosures	Adherence to reporting standards	Ease of under-standing	Stakeholder feedback
Data governance	Clear deadlines	Staying informed	Internal controls	Understand user needs	Robust data governance	Clear and complete disclosures	Stay updated with standards	Use plain language	Understand stakeholder needs
Dedicated resources	Reporting milestones	Training and education	Strong record-keeping	Customized reporting	Enhance data validation	Follow accounting standards	Robust policies and procedures	Context and explanations	Enhance transparency and clarity
Streamline processes	Templates and tools	Internal controls	Proactive communi-cation	Clarity and accessibility	Strengthen data security	Meaningful footnotes	Internal review processes	Visual aids	Timely and accurate information
Reporting standards	Real-time monitoring	Periodic reviews	Stay updated on standards	Contextual insights	Regular data audits	Disclose KPIs	External experts	Highlight key takeaways	Seek feedback
Clear document-tation	Data integration	External expertise	Internal audit and reviews	Visual communi-cation	Automate data capture	Enhance risk disclosures	Perform self-assessment	Offer interpretive analysis	Offer interpretation and insights
Strong controls	Post-reporting reviews	Continuous monitoring	Use experienced auditors	Seek feedback and iteration	Training and awareness	Engage external assurance	Training and education	Use technology for interactivity	Foster open communi-cation

Gross Profit Cheat Sheet

By Aleksandar Stojanovic

7+ Tips for Leveraging Gross Profit in Your Business Decision-Making

1. Use Gross Profit to determine pricing strategies
2. Use Gross Profit to identify and focus on your most profitable products or services.
3. Use Gross Profit to benchmark and measure performance over time.
4. Use Gross Profit to identify potential areas of cost savings.
5. Use Gross Profit to gauge the overall financial health of your business.
6. Use Gross Profit to help attract investors by showing strong profitability.
7. Use Gross Profit to make informed decisions about expansion or downsizing.

9 Gross Profit Calculation Tools to Use

1. **Gross Profit Margin Calculator** (by Omni)
2. **Gross Profit Calculator** (by Calculator.net)
3. **Profitability Ratios Calculator** (by Good Calculators)
4. **Gross Profit Calculator** (by My Accounting Course)
5. **Gross Profit Calculator** (by Calculator Soup)
6. **Margin Calculator** (by RapidTables)
7. **Gross Profit Margin Ratio Calculator** (by Corporate Finance Institute)
8. **QuickBooks Online Accounting Software**
9. **Xero's accounting software**

10 Strategies for Optimizing Your Gross Profit Margin

1. Increase prices without losing customers
2. Enhance production efficiency
3. Reduce direct costs
4. Identify and focus on selling higher-margin products
5. Implement cost-effective marketing strategies
6. Negotiate better terms with suppliers
7. Utilize technology for inventory management
8. Improve product quality to justify higher prices
9. Streamline business processes
10. Review and adjust pricing strategies regularly

10 Steps to Effectively Increase Your Gross Profit

- Increase your product prices
- Lower your Cost of Goods Sold (COGS)
- Increase sales of high-margin products
- Implement cost-saving measures in production
- Negotiate with suppliers for lower prices
- Improve inventory management
- Enhance productivity and efficiency
- Upsell and cross-sell to existing customers
- Introduce loyalty programs to boost repeat purchases
- Streamline your business operations

Bar Graph Showing Gross Profit Margin Comparison

18+ Exercises to Enhance Your Gross Profit Analysis Skills

1. Calculate Gross Profit from financial statements
2. Analyze Gross Profit trends over a 5-year period
3. Calculate and interpret Gross Profit Margin
4. Assess the impact of price changes on Gross Profit
5. Evaluate the effect of direct cost changes on Gross Profit
6. Assess the impact of sales volume changes on Gross Profit
7. Evaluate Gross Profit in different scenarios of price, cost, and volume changes
8. Compare your Gross Profit Margin with industry benchmarks
9. Analyze the relationship between Gross Profit and Net Profit
10. Understand the impact of discounts on Gross Profit
11. Evaluate the effect of COGS on Gross Profit
12. Understand the role of overheads in Gross Profit calculation
13. Identify the products contributing most to your Gross Profit
14. Examine the relationship between Gross Profit and cash flow
15. Understand how changes in inventory levels affect Gross Profit
16. Analyze the impact of foreign exchange rates on Gross Profit for businesses
17. Calculate Gross Profit per unit and assess its implications
18. Perform a sensitivity analysis on Gross Profit using different scenarios

Financial chart showing Revenue and Gross Profit Margin

15+ Real-World Examples of Successful Gross Profit Management

1. **Amazon:** Optimize warehousing, distribution, and inventory management for lower cost of goods sold and higher gross profit.
2. **Apple:** Premium branding and innovative products maintain high gross profit margins.
3. **Walmart:** Negotiate low prices from suppliers for reduced cost of goods sold and increased gross profit.
4. **Microsoft:** Low cost of goods sold and high gross profit margins with software and service-based model.
5. **Costco:** Membership model boosts gross profit and adds to revenue.
6. **Tesla:** Ramp up production to spread fixed costs and improve gross profit.
7. **Netflix:** Transition to streaming reduces cost of goods sold and increases gross profit.
8. **Coca-Cola:** Higher prices with iconic brand and marketing maintain high gross profits.
9. **McDonald's:** Franchising reduces costs and enhances gross profit margins.
10. **Google:** Advertising business yields high gross profit margin with low direct costs.
11. **Adidas:** Continuous innovation and premium pricing for higher gross profit margins.
12. **Unilever:** Efficient supply chain management reduces production costs and boosts gross profit.
13. **Southwest Airlines:** Fuel price hedging manages cost of goods sold and gross profit.
14. **Pfizer:** Focus on high-margin patented drugs for increased gross
15. **Oracle:** Software sales with low production costs maintain high gross profit margins.

6 Methods to Avoid Common Gross Profit Misconceptions

1. Understand that Gross Profit is not your net income
2. Don't forget to account for all direct costs associated with production
3. Remember Gross Profit doesn't include operating expenses
4. Understand that a higher Gross Profit doesn't always mean higher profitability
5. Don't overlook changes in Gross Profit Margin over time
6. Recognize that a high Gross Profit doesn't always imply a healthy cash flow

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IAS 38 – INTANGIBLE ASSETS CHEAT SHEET

by Bojan Radojicic

DEFINITIONS

Intangible asset

Intangible asset is an identifiable non-monetary asset without physical substance ccontrolled by the entity from which future economic benefits are expected to flow to the entity

Amortisation

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Asset

An asset is a resource: (a) controlled by an entity as a result of past events; and (b) from which future economic benefits are expected to flow to the entity.

Carrying amount

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated amortisation and accumulated impairment losses thereon

Cost

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction

Development

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

Fair value

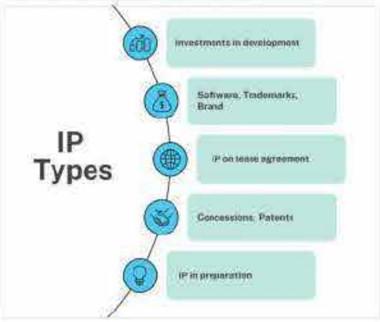
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

Research

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Useful life

Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.



MEASUREMENT AFTER INITIAL RECOGNITION

OPTION 1: Cost model

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

OPTION 2: Revaluation model

After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

IP carrying amount is increased

Increase shall be recognizedin equity under the heading of revaluation surplus. However, the increase shall be recognized in P&L to the extent that it reverses a revaluation decrease of the same asset previously recognized in P&L

IP carrying amount is decreased

Decrease shall be recognised in P&L. However, the decrease shall be recognised in other ccomprehensive income to the extent of any credit balance in the revaluation surplus in respect that asset

RECOGNITION

The time should meets the definition of an intangible asset

The time should meets the recognition criteria

Recognition criteria

1. It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity
2. The cost of the asset can be measured reliably

An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset shall be measured initially at cost. The cost comprises

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- Any directly attributable cost of preparing the asset for its intended use.

Examples of directly attributable costs

1. costs of employee benefits (as defined in IAS 19) arising directly from
2. bringing the asset to its working condition
3. professional fees arising directly from bringing the asset to its working condition
4. costs of testing whether the asset is functioning properly

Examples of expenditures that are not part of the cost of an intangible asset

1. costs of introducing a new product or service (including costs of advertising and promotional activities
2. costs of conducting business in a new location or with a new class of customer (including costs of staff training
3. administration and other general overhead costs.

RETIREMENTS AND DISPOSALS

Intangible asset shall be derecognized:
1. on disposal
2. when no future economic benefits are expected from its use or disposal.

Gain or loss arising from the de-recognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

EXAMPLES

Company purchased software from suppliers doe 100k and used consultants to make us usable and bring in working condition for 20k

Debit	IP - Software	120,000
Credit	Payable to supplier	100,000
Credit	Payable to consultant	20,000

Company paid 25k in acitvites for gathering the knowledge in term of new developing project

Debit	Cost of research	25,000
Credit	Payable to supplier	25,000

Company employs researchers based in countries around the world. Employee time is the basis upon which charges to many customers are made. The project team incurs the following costs:

Cost type	Expense	Capitalized
Concept design	3,500	
Evaluation of design alternatives	2,500	
Determination of required technology	8,000	
Software design		35,000
Software coding		19,000
Quality assurance testing		15,000
Training	1,200	
Ongoing maintenance costs	3,500	
Administration and general costs	2,000	
TOTAL	20,700	69,000

NOT APPLIED TO

1. Intangible assets held by an entity for sale in the ordinary course of business (see IAS 2 Inventories)
2. Deferred tax assets (see IAS 12 Income Taxes)
3. Leases of intangible assets accounted for in accordance with IFRS 16 Leases.
4. Financial assets as defined in IAS 32.
5. Assets arising from employee benefits
6. Goodwill acquired in a business combination
7. Contracts within the scope of IFRS 17 Insurance Contracts

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognized as intangible assets.

R&D PROJECTS

DEVELOPMENT

Intangible asset arising from development shall be recognized if an entity can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale
2. its intention to complete the intangible asset and use or sell it.
3. its ability to use or sell the intangible asset how the intangible asset will generate probable future economic benefits.
4. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
5. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

RESEARCH

No intangible asset arising from research (or from the research phase of an internal project) shall be recognized. Expenditure on research (or on the research phase of an internal project) shall be recognized as an expense when it is incurred.

Examples of research activities are:

1. activities aimed at obtaining new knowledge
2. the search for, evaluation and final selection of, applications of research findings or other knowledge
3. the search for alternatives for materials, devices, products, processes, systems or services

DISCLOSURES

1. useful life or amortization rate
2. amortization method
3. gross carrying amount
4. accumulated amortization and impairment losses
5. line items in the income statement in which amortization is included
6. reconciliation of the carrying amount at the beginning and the end of the period showing all chagnes, additons, amortizations, disposals, imparments, re-valuation
7. basis for determining that an intangible has an indefinite life
8. description and carrying amount of individually material intangible assets
9. certain special disclosures about intangible assets acquired by way of government grants
10. info about intangible assets whose title is restricted
11. contractual commitments to acquire intangible assets

M&A DEALS CHEAT SHEET

by Bojan Radojicic

THE ROLE OF THE BUY-SIDE:

- Increasing assets under management.
- Performing financial modeling and valuation.
- Conducting internal research on potential investment and financing opportunities.
- Identifying investors and recruiting capital to manage.
- Earning the most favorable risk-adjusted return on capital.
- Determining whether to buy, sell, or hold investments.
- Overseeing clients' money.

THE ROLE OF THE SELL-SIDE:

- Advertising and selling securities.
- Generating liquidity for listed securities.
- Assisting clients with getting in and out of positions.
- Providing equity research analysis of indexed companies.
- Performing financial modeling and valuation.
- Advising corporate clients on major transactions, mergers and acquisitions.
- Creating and building relationships with new businesses and corporations.
- Facilitating increasing debt and/or equity.

Financial analysis of target

- Define scope for review e.g. 3-5 years
- Financial statements
- Standalone positions in financials
- Profitability, liquidity, activity and structure indicators
- EBITDA normalization
- Revenue and expenses impact on EBITDA
- Reviewing business units performance
- Analysis NWC and debt

EBTIDA Adjustments

- 01 Non-recurring fees (one off expenses)
- 02 Effects of asset sold
- 03 Non-operating expenses
- 04 Excess owner compensation
- 05 Impairments

FINANCIAL PROJECTIONS

1. Sales and other revenue projections
2. Earnings projections
3. Operating expense projections
4. Net working capital projections (receivables, inventory, and liabilities to suppliers)
5. Long-term and fixed asset and depreciation projections
6. Financial liability and interest expense projections
7. Other balance sheet item projections
8. EBITDA projections
9. Cash flow projections

POST TRANSACTION ACCOUNITNG

- Financial consolidation and integrations
- Financial reporting requirements
- Pruchase price allocation:
- Indentificaion and valuation of ingnagbile asset
- FMV of tangible assets
- Goodwil calculation and recognition

Finance due diligence

- Business and processes understanding
- Finance function and team assesment
- Overall Financial Statements Reviewing
- Reviewing Specific Balance Sheet Positions
- Analyzing Financial Performance
- Assessing Financial Controls
- Examining Contracts and Agreements
- Assessing Contingencies

Tax due diligence

- Understanding the tax function
- Review external advisor outputs
- Review current and past disputes with tax administration
- Check did the taxpayer submmt all tax returns and pay taxes timely
- Standardized list of questions to the client
- Prepare sampling for reviews
- CIT testing
- VAT testing
- PIT and other taxes testing

VALUATION APPROACH AND METHOS

- Market approach
  - Public Company Comparable
  - Valuation by Multiple
- Income approach
  - Discounted Cash Flows
  - Capitalization of Earnings
  - Excess Earning
- Cost approach
  - Replacement Cost
  - Net Asset

COVENANTS

Non-Compete Covenant

This covenant prohibits the target company or its key employees from engaging in activities that compete with the acquiring company's business for a specified period of time and within a defined geographical area.

Non-Solicitation Covenant

This covenant restricts the target company from soliciting or hiring employees or customers of the acquiring company for a certain period after the merger or acquisition. It helps prevent the loss of key talent or customers to competitors.

Confidentiality Covenant

his covenant ensures that both parties maintain the confidentiality of sensitive information shared during the due diligence process and subsequent integration

Financial Covenant

These covenants are designed to maintain certain financial performance levels after the merger or acquisition. They may include requirements related to debt-to-equity ratios, liquidity, revenue targets, profitability, or other financial metrics.

CREDITS TO Bojan Radojicic | FOLLOW ON LINKEDIN in POWERED BY: WTS TAX AN FINANCE wts AND Time Analytics

THE MANAGEMENT CHEAT SHEET by Oana Labes

12 FINANCIAL SKILLS

- FINANCIAL STATEMENT ANALYSIS
- FINANCIAL RATIO ANALYSIS
- BUDGETING AND FORECASTING
- PERFORMANCE MANAGEMENT
- BREAK-EVEN ANALYSIS (B/E)
- RISK MANAGEMENT
- COST-VOLUME-PROFIT ANALYSIS (CVP)
- DEBT MANAGEMENT (LEVERAGE/SERVICE /COVERAGE)
- CAPITAL BUDGETING
- PERFORMANCE METRICS (KPIS)
- WORKING CAPITAL MANAGEMENT
- VALUATION (BUSINESS/ASSETS/ UNIT)

MARGIN VS. MARKUP

MARGIN SHOWS HOW MUCH OF YOUR PRODUCT SALES PRICE YOU GOT TO KEEP

MARGIN = GROSS PROFIT PER PRODUCT / PRODUCT PRICE X 100

Margin = Markup/ (1+Markup)

MARKUP SHOWS HOW MUCH OVER COST YOU'VE SOLD YOUR PRODUCT FOR

MARKUP = GROSS PROFIT PER PRODUCT / PRODUCT COST X 100

Markup = Margin / (1-Margin)

20 RED FLAGS

- UNUSUAL TRANSACTIONS
- HIGH DEBT LEVELS
- HIGH EMPLOYEE TURNOVER
- OVERRELIANCE ON A SINGLE CUSTOMER OR SUPPLIER
- INADEQUATE SEGREGATION OF DUTIES
- DECLINING MARKET SHARE
- FREQUENT CHANGES IN AUDITORS OR LEGAL COUNSEL
- OVERSTATED ASSETS OR UNDERSTATED LIABILITIES
- EXCESSIVE USE OF MANUAL JOURNAL ENTRIES
- INEFFECTIVE INTERNAL CONTROLS
- UNUSUAL PATTERNS IN FINANCIAL RATIOS
- POOR CORPORATE GOVERNANCE
- INCONSISTENT REVENUE RECOGNITION
- CONFLICTS OF INTEREST
- INADEQUATE DOCUMENTATION
- AGGRESSIVE ACCOUNTING PRACTICES
- RELUCTANCE TO PROVIDE INFORMATION
- INACCURATE OR DELAYED FINANCIAL REPORTING
- PERSISTENT NEGATIVE CASH FLOW
- UNEXPLAINED BUDGET VS ACTUAL VARIANCES

16 TYPES OF COSTS

- SUNK COSTS
- STEP COSTS
- OPPORTUNITY COSTS
- DIRECT COSTS
- PERIOD COSTS
- ALLOCATED COSTS
- PRODUCT COSTS
- ECONOMIC COSTS
- INCREMENTAL COSTS
- CONVERSION COSTS
- FIXED COSTS
- MANUFACTURING COSTS
- VARIABLE COSTS
- OPERATING COSTS
- MIXED COSTS
- OVERHEAD COSTS

COST DRIVERS

Internal Drivers				External Drivers		
Volume	**Efficiency**	**Process**	**Quality**	**Overhead**	**Materials**	**Labor**
Production volume	Cycle time	Workflow streamlining	Quality control procedures	Energy consumption	Lower cost sourcing	Employee cross-training
Just-in-time (JIT) inventory	Manual process automation	Automation technology	Rework and warranty costs	Outsourcing non-core functions	Material usage optimization	Retention and engagement
Production consolidation	Product design	Continuous improvement	Employee development	Occupancy cost management	Substitute materials	Temporary or contract labor

PROJECT PROFITABILITY

NET PRESENT VALUE	INTERNAL RATE OF RETURN	PAYBACK PERIOD	PROFITABILITY INDEX
Inflows - outflows	Discount rate for zero NPV	Time to recoup investment	PV of cash flows to investment
Sum of Present Value of Cash (Inflows – Outflows)	NPV = 0 = (Cash Inflow / (1+IRR)^n) - Initial Investment	Initial Investment / Annual Cash Inflows	(Sum of Present Value of Cash Inflows) / Investment
Use to assess project profitability (positive = profitable)	Use to rank project profitability (time value of money)	Use to rank low-risk short-term projects	Use to assess profitability and compare projects
Avoid aggressive projections & low discount rate. Remember risk & strategic fit	Don't use IRR to compare projects of different sizes or risk levels and consider MIRR	Don't use in isolation because it doesn't factor in time value of money	Avoid aggressive projections. Remember risk &strategic fit

BALANCED SCORE CARD

Customer Perspective
- Customer satisfaction
- Customer retention
- Net promoter score
- Market share
- On-time delivery rate

Financial Perspective
- Profitability
- Leverage
- Debt Coverage
- Growth
- Activity

Internal Perspective
- Inventory turnover
- Production lead times
- Time to market
- Defects ratio
- Productivity per FTE

Education & Learning Perspective
- Job Satisfaction
- Employee turnover
- Employee engagement
- Training hours / FTE
- Number of patents

DUPONT ANALYSIS

Net Profit Margin	× Asset Turnover	× Financial Leverage
Gross Profit Margin Gross Profit / Sales	**Fixed Asset Turnover** Sales / Fixed Assets	**Debt Ratio** Total Debt / Total Assets
Operating Profit Margin Operating Income / Sales	**AR Turnover** Sales / Average AR	**Equity Ratio** Equity / Total Assets
Pre-tax Profit Margin Pre-tax Income / Sales	**AP Turnover** Purchases/ Average AP	**DUPONT RATIO = Profitability x Efficiency x Leverage**
Effective Tax Rate Taxes / Pre-tax Income	**Inventory Turnover** COGS/ Average Inv.	

GROSS PROFIT VS CONTRIBUTION MARGIN

GROSS PROFIT	CONTRIBUTION MARGIN
Gross Profit is the sales revenue less direct costs (COGS / COS)	Contribution Margin is the product price less variable costs
Gross Profit Margin Gross Profit expressed as a **percentage** of sales.	**Contribution Margin Ratio** Contribution Margin expressed as a **percentage** of the sales price.
Gross Profit (GP) = (Revenue - COGS) **Gross Profit Margin** = Gross Profit /Revenue	**Contribution Margin** (CM) = Unit Price - Unit Variable Cost **Contribution Margin Ratio** = CM / Unit Price
Evaluates the **profitability of overall operations**, through the relationship between revenue and the cost of goods sold (COGS) for all products /services	Evaluates the **profitability of individual products or services**, assessing how each product contributes to covering fixed costs and generating profit.
Includes direct materials, direct labor, and manufacturing fixed and variable overheads. **Excludes** variable costs unrelated to production	**Considers** direct materials, direct labor, variable manufacturing overhead, variable selling and variable marketing.
Used to understand company overall operational efficiency, identify areas for cost improvement, and determine the profitability of the entire product or service portfolio	**Used for decisions related to individual product or service** pricing, production levels, and sales mix, because it highlights the incremental profit generated by each additional unit sold.

IRR VS ROI

IRR and ROI are financial metrics for evaluating investment profitability. IRR is complex and considers cash flows, time value of money (TVM) and risk. ROI is simple but not comparable, ignores TVM and disregards risk.

	Internal Rate of Return	Return on Investment
Definition	Discount rate at which net present value (NPV) of investment cash flows equals zero.	Financial ratio measuring the profitability of an investment, as a % of the invested amount.
Formula	NPV = ∑(Cash Flow_t / (1 + IRR)^t) = 0	Investment profit / Investment x 100
Drivers	Time value of money, cash flow timing and amounts, discount rate, project duration, and risk	Investment revenues & costs
Uses	• Evaluate and compare investment profitability • Determine investment break-even discount rate	• Measure investment efficiency & profitability • Capital allocation decisions
Avoid Using	When investment cash flows can be both negative and positive	When TVM, cash flow timing, and risk are critical factors in investment decisions

EBITDA VS.CASH FLOW

EBITDA	Operating Cash Flow
Net Income	Net Income
+ Depreciation and Amortization	+ Depreciation and Amortization
+ Interest Expense	+− Changes in AR Balances
+ Tax Expense	+− Changes in AP Balances
	+− Changes in Inventory Balances
	+− Changes in Other Current Assets and Liabilities

THE CASH FLOW MASTERCLASS

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IAS 16 – PROPERTY PLANT & EQUIPMENT CHEAT SHEET

by Bojan Radojicic

DEFINITIONS

Property, plant and equipment

Tangible (fixed) asset is used in business purposes and will benefit in future economic benefits in the accounting period in more than 1 year.

Depreciation

Depreciation is the systematic allocation of the depreciable amount (cost of an asset or the other amount that has been substituted for cost, less the residual value) of an asset over its useful life.

Bearer plant

Bearer plant is a living plant used to supply or produce agricultural products, it will provide output for a period greater than one year and for which the possibility of it being sold as agricultural produce.

Carrying amount

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated amortization and accumulated impairment losses thereon.

Cost

Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

Impairment loss

Impairment loss is the excess of the carrying of an asset in financial statement over its recoverable amount.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Residual value

Residual value is estimated amount that an entity could currently obtain from disposal of the asset, net of estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful life

Useful life is: (a) the period over which an asset is expected to be available for use by an entity; or (b) the number of production or similar units expected to be obtained from the asset by an entity.

Recoverable amount

Recoverable amount is the greater value of an asset's fair value less costs to sell or its value in use.

MEASUREMENT AFTER INITIAL RECOGNITION

OPTION 1: Cost model

After initial recognition, an tangible asset shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

OPTION 2: Revaluation model

After initial recognition, an tangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be measured by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

Assets carrying amount is increased	Assets carrying amount is decreased
Increase shall be recognized in equity under the heading of revaluation surplus. However, the increase shall be recognized in P&L to the extent that it reverses a revaluation decrease of the same asset previously recognized in P&L.	Decrease shall be recognised in P&L. However, the decrease shall be recognised in other ccomprehensive income to the extent of any credit balance in the revaluation surplus in respect that asset.

The amount credited to revaluation surplus can either be transferred directly to retained earnings (but not through P&L) as the asset is being depreciated, or it can be held in the revaluation surplus account until such time as the asset is disposed of or retired from service. Any transfer to retained earnings is limited to the amount equal to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. In addition, revaluation surplus may be transferred directly to retained earnings when the asset is derecognised.

RECOGNITION

The item should meets the definition of an tangible(fixed)asset

The item should meets the recognition criteria

Recognition criteria

1. It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity
2. The cost of the asset can be measured reliably

An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An tangible asset shall be measured initially at cost. The cost comprises

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- Any directly attributable cost of preparing the asset for its intended use.
- Estimated costs of dismantling or/and removing the item and restoring the site. Recognition of liability can only be effected when all the criteria outlined in IAS 37

Examples of directly attributable costs vs Examples of expenditures that are not part of the cost of an tangible asset

Cost type	Capitalized vs Expense
costs of employee benefits (as defined in IAS 19) arising directly from from the construction or acquisition of PPE	C
bringing the asset to its working condition	C
professional and agent fees	C
costs of testing whether the asset is functioning properly	C
costs of site preparation	C
initial delivery and handling costs	C
installation and assembly costs	C
costs of opening a new facility	E
costs of introducing a new product or service (costs of advertising and promotional activities)	E
costs of conducting business in a new location or with a new class of customer (including costs of staff training)	E
administration and other general overhead costs	E
incidental operations may occur before or during the construction or development activities and as incidental operations are not necessary	E
interest costs incurred during the construction of certain qualifying assets must be added to the cost of the asset (as defined in IAS 23)	C

On 14 May 2020 the IASB published amendments to IAS 16 which now prohibit deducting from the cost of an item of PPE any proceeds from selling items produced and are effective for annual periods beginning on or after 1 January 2022.

EXAMPLES

Company acquired a plot of land with a cost of $200,000. After one year land is appraised as having a current fair value of $210,000. The journal entry to increase the carrying amount of the land to its fair value is as follows:

Example - Initial revaluation		
Debit	Land	$10,000
Credit	Other comprehensive income gain on revaluation	$10,000

In the following year, Company determines that the fair value of the land is no longer $210,000. Assuming the fair value decreased to $195,000, the following journal entry is made to record downward revaluation:

Example - Subsequent revaluation		
Debit	Other comprehensive income loss on revaluation	$10,000
Debit	Impairment loss - land (expense)	$5,000
Credit	Land	$15,000

FAIR VALUE

The frequency of revaluations depends upon the changes in fair values of the items being revalued and, consequently, when the fair value of a revalued asset differs materially from it's carrying amount, a further revaluation is required.

IASB recommends that a class of assets should be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

Fair value is usually determined by professional appraisers, using market based evidence.

Market values can also be used for machinery and equipment, but such items usually do not have readily determinable market values, particularly if intended for specialised applications, they may instead be valued at depreciated replacement cost. Fair value is determined in terms of IFRS 13 - Fair Value Measurements.

IAS 16 requires that if any assets are revalued, all other assets in the class, in those groupings or categories must also be revalued.

Methods of adjusting accumulated depreciation at the date of revaluation

1. Restate accumulated depreciation to reflect the difference between the change in the gross carrying amount of the asset and the revalued amount, so that the carrying amount of the asset after revaluation equals its revalued amount
2. Eliminate the accumulated depreciation against the gross carrying amount of the asset

DERECOGNITION

Tangible asset shall be derecognized:
1. on disposal
2. when no future economic benefits are expected from its use or disposal.

Gain or loss arising from the de-recognition of an tangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset.

DISCLOSURES

1. useful life or depreciation rate
2. measurement basis used (cost or revaluation approaches)
3. depreciation method(s)
4. gross carrying amount
5. accumulated depreciation and impairment losses
6. reconciliation of the carrying amount from the beginning to the end of the period, all changes, additions, disposals assets included in disposal groups or classified as held for sale, acquisitions, increases or decreases resulting from revaluations, reductions to recognised impairments, depreciation, the net effect of translation of foreign entities financial statements etc.
7. restrictions on titles and any assets pledged as security for debt
8. accounting policy regarding restoration costs for items of PPE
9. expenditures made for PPE including any construction in progress
10. amount of outstanding commitments PPE acquisitions
11. amount received from any third parties as compensation for any impaired, lost or given up asset. This is the only applicable if the amount received was not separately disclosed in the statement of comprehensive income.

PURCHASE PRICE ALLOCATION
CHEAT SHEET

by
Bojan
Radojicic

PP Structure

Terms

Goodwill

Goodwill is an intangible asset that represents the excess of the purchase price of a company or business over the fair value of its identifiable net assets.

Identifiable Intangible Assets:

These are intangible assets that can be separately identified and valued. Examples include trademarks, patents, customer relationships, and technology.

WARA

Represents the weighted rate of return earned by the portfolio of acquired assets including intangible assets such as brand, customer relationships, and goodwill

Excess prices

The difference between purchase price and net book value of acquired company

Assembled workforce

Intangible asset associated with the skilled and experienced employees that the acquiring company gains as part of the business combination.

FMV

Fair value represents the estimated market value of an asset or liability. In PPA, the fair value of acquired assets and assumed liabilities is determined to allocate the purchase price.

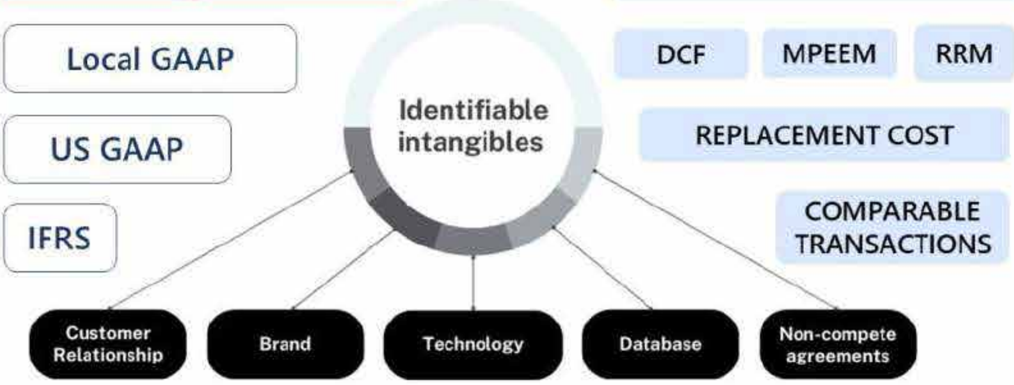
Deferred tax

Deferred tax liabilities are created when the tax basis of the acquired assets or liabilities is lower than their fair value for financial reporting purposes. This results in lower future tax deductions or higher taxable income, leading to higher tax payments in the future. Deferred tax assets, on the other hand, arise when the tax basis exceeds the fair value, creating future tax benefits.

PPA Process

1. Identifying purchase price, i.e. price paid by acquirer to acquire the company. The purchase price can include amounts paid in cash and in equity
2. Identifying net book value: Reviewing balance sheet, write offs, impairment, write ups etc.
3. Fair market value adjustments: calculation of fair value of acquired company's tangible asseets
4. Identification of intangible asset of the company acquired: brand, technology, customer etc..
5. Fair market value estimation for intangibles, by application most relevant valuation methods such as DCF, MPEEM, Reilief from royalty etc.
6. Comparison PP with FMV and calculation of goodwill, weighted average return on assets, deferred tax etc.

Accounting framework



VALUATION METHODS

- DCF
- MPEEM
- RRM
- REPLACEMENT COST
- COMPARABLE TRANSACTIONS

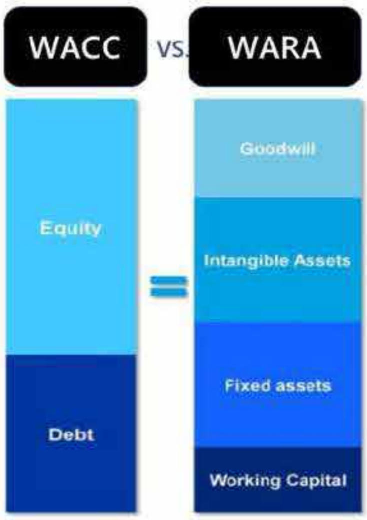
Balance sheet FMW adjustment example

TargetCo Balance Sheet

(all values in $MM)	Book Value	FMV		Book Value	FMV
Assets			**Liabilities and Equity**		
Cash	25	25	Total Debt	200	200
Other Current Assets	155	178	Other Liabilities	155	175
Total Current Assets	180	203	**Total Liabilities**	355	375
Tangible Assets	650	777	**Total Equity**	575	1,325
Identifiable Intangible Assets	100	550			
Goodwill	-	170	**Total Liabilities and Equity**	930	1,700
Non-Current Assets	750	1,497			
Total Assets	930	1,700			

Example of excess price distribution

WACC vs. WARA



Popular databasis

- Royalty Stat
- Royalty Range
- Thomson Reuters
- Comparable.ai

SaaS Finance Cheat Sheet

By Aleksandar Stojanovic

9 SaaS finance tools to use

1. **Sage Intacct:** A cloud-based software that offers native subscription billing and recurring revenue visibility
2. **FreshBooks:** An online platform that features native recurring payments and invoicing, as well as monthly income and expense tracking
3. **Oracle Fusion Cloud Financials:** A global financial platform that connects and automates your financial management processes, including payables, fixed assets, expenses, and reporting
4. **QuickBooks Online:** A popular accounting software that supports multiple currencies, tax calculations, invoicing, and reporting
5. **Xero:** A cloud-based accounting software that integrates with various SaaS tools and provides real-time cash flow visibility, invoicing, and reporting
6. **ProfitWell:** A SaaS analytics platform that helps you measure and optimize your subscription revenue, churn, retention, and pricing
7. **ChartMogul:** A SaaS analytics platform that helps you track and improve your key metrics, such as MRR, ARR, LTV, churn, and cohort analysis
8. **Baremetrics:** A SaaS analytics platform that helps you monitor and grow your subscription business with insights into revenue, customers, trials, churn, and more
9. **Stripe:** A payment platform that enables you to accept online payments from your customers and manage your subscriptions and billing

8 Funding options

- **Equity financing:** selling shares of your company to private investors, venture capitalists, or public markets
- **Debt financing:** borrowing money from banks, lenders, or other sources and repaying it with interest
- **Revenue-based financing:** receiving a lump sum of cash upfront and repaying it as a percentage of your future revenue
- **Crowdfunding:** raising money from a large number of people online who support your product or idea
- **Grants:** receiving non-repayable funds from governments, foundations, or other organizations that support your cause or mission
- **Bootstrapping:** funding your business with your own savings, revenue, or personal loans
- **Subscription prepayment:** offering discounts or incentives to your customers who pay for your service in advance
- **Corporate venture:** partnering with a larger corporation that invests in your company in exchange for strategic benefits

7+ best practices for SaaS finance:

1. Plan your budget and forecast based on realistic assumptions and scenarios.
2. Manage cash flow by optimizing payment terms and collecting payments efficiently.
3. Track unit economics to ensure profitability and sustainability.
4. Align pricing with the value customers receive from your service.
5. Optimize revenue model with the right billing frequency, payment method, etc.
6. Automate accounting and reporting processes with tools and software.
7. Comply with industry regulations and standards.

10 steps to creating a SaaS financial model

- Define your business model and key assumptions
- Project your revenue streams based on customer acquisition, retention, and churn
- Project your cost of goods sold based on hosting, payment processing, and customer support expenses
- Project your operating expenses based on sales and marketing, research and development, general and administrative, and depreciation and amortization costs
- Calculate your gross margin, operating margin, and net margin
- Project your cash flow based on operating activities, investing activities, and financing activities
- Calculate your key financial ratios such as return on assets, return on equity, current ratio, debt-to-equity ratio, etc.
- Perform a sensitivity analysis to test how your results change under different scenarios
- Perform a valuation analysis to estimate the worth of your business based on discounted cash flow or multiples methods
- Summarize your findings and present them in a clear and concise way

3 steps to avoiding common pitfalls

1. Validate your product-market fit by conducting market research, customer interviews, surveys, etc. before launching your product
2. Monitor your unit economics by measuring your customer acquisition cost (CAC), customer lifetime value (LTV), payback period (PBP), etc. to ensure profitability and sustainability
3. Plan for growth by forecasting your revenue and expenses based on realistic assumptions and adjusting them as needed based on actual performance

CLV vs CAC Chart:

MRR Growth Chart:

13+ benchmarks and metrics examples

1. **Monthly Recurring Revenue (MRR):** The amount of revenue generated by your customers who pay for your service on a monthly basis
2. **Annual Recurring Revenue (ARR):** The amount of revenue generated by your customers who pay for your service on an annual basis
3. **Customer Acquisition Cost (CAC):** the average amount of money spent to acquire a new customer
4. **Customer Lifetime Value (LTV):** The average amount of revenue generated by a customer over their entire relationship with your company
5. **Churn Rate:** the percentage of customers who stop using your service over a given period of time
6. **Retention Rate:** The percentage of customers who continue using your service over a given period of time
7. **Net Promoter Score (NPS):** The measure of customer satisfaction and loyalty based on how likely they are to recommend your service to others
8. **Customer Satisfaction Score (CSAT):** The measure of customer satisfaction based on how they rate their experience with your service
9. **Customer Effort Score (CES):** The measure of customer satisfaction based on how easy they find it to use your service
10. **Gross Margin:** The percentage of revenue that remains after deducting the cost of goods sold
11. **Operating Margin:** The percentage of revenue that remains after deducting the operating expenses
12. **Cash Flow:** The amount of money that flows in and out of your business over a given period of time
13. **Burn Rate:** The rate at which your company spends money in excess of its income

15+ tips for scaling your SaaS business:

1. Validate product-market fit by solving a real problem for a specific target audience.
2. Optimize pricing strategy by testing different plans, tiers, and features.
3. Build a strong brand identity with a memorable name, logo, and story.
4. Invest in marketing and sales to develop a clear value proposition and generate leads.
5. Leverage referrals and testimonials to spread positive word-of-mouth.
6. Improve customer retention and loyalty through excellent service and incentives.
7. Increase customer lifetime value by upselling and cross-selling additional offerings.
8. Reduce customer churn by addressing reasons for dissatisfaction.
9. Expand into new markets by understanding different segments and adapting marketing.
10. Partner with other businesses to enhance your offering.
11. Hire and retain talent aligned with your vision and provide competitive compensation.
12. Delegate and outsource tasks based on skills and expertise.
13. Automate workflows with tools and software.
14. Measure and analyze key performance indicators to identify strengths and weaknesses.
15. Innovate based on customer feedback and market trends.

Follow Now!

Aleksandar Stojanovic

Fractional FP&A, CFO and BI Consultant

Stay ahead in your FP&A skills! Follow me on LinkedIn

TRANSFER PRICING CHEAT SHEET

OECD Risk Indicators

- Significant transactions with low tax jurisdictions
- Transfers of intangibles to related parties
- Business restructurings
- Specific types of payments
- Poor/Non-existent documentation
- Significant variations in the effective tax rate
- Loss making
- Poor results
- Excessive debt

The Transfer Pricing Lifecycle

OECD Comparability Factors

Characteristics of Property and Services
Physical features, quality, and reliability of goods/services.

Functional Analysis
Functions, risks assumed, and assets used.

Contractual Terms
How written or verbal contracts or agreements influence the transaction conditions (like payment terms, warranties, etc.)

Economic Circumstances
Broader market conditions, like geographic location, market size, competition, consumer purchasing power, etc.

Business Strategies
Long-term commercial strategies such as market penetration, innovation, diversification.

Methods

Comparable Uncontrolled Price (CUP) method

Compares the price charged in a controlled transaction to the price charged in a comparable uncontrolled transaction.

Useful for commodity transactions, financial transactions, and transactions with very reliable internal comparables.

Resale Price Method (RPM)

Assesses the gross margin with which a product purchased in the controlled transaction was resold in the uncontrolled transaction.

Most appropriate for sales, marketing, and distribution transactions where internal comparables are available.

Cost Plus Method (CPM)

Test the gross markup on costs incurred by an enterprise during transactions with related parties.

Suitable for manufacturing and service provision transactions where internal comparables are available.

Transactional Net Margin Method (TNMM)

Tests the net (operating) profit earned by a tested party of a controlled transaction.

Often applied when a tested party can be identified, no internal comparables are available and traditional methods are not reliable. TNMM is versatile and flexible and typically relies on external comparables.

Transactional Profit Split Method (PSM)

Splits the profits to arrive at the result that would be achieved by independent parties in comparable transactions.

Used for transactions where both parties make unique and valuable contributions (such as intangibles), and/or traditional methods are not appropriate due to the high integration of business operations.

OECD Local File Requirements

- Management structure and business strategy, highlighting recent significant changes.
- List of key competitors.
- Brief overview of controlled transactions.
- Summary of intra-group payments/receipts per transaction type and tax jurisdiction.
- List of associated enterprises in transactions.
- Copies of significant intercompany agreements.
- Summary of comparability and functional analysis, noting year-to-year changes.
- Identified transfer pricing method with justification.
- Identification of tested party and reasoning.
- Summary of key assumptions in methodology.
- Justification for multi-year analysis, if relevant.
- Overview of comparable transactions and related financial indicators.
- Summary of comparability adjustments made.
- Justification for arm's length pricing of transactions.
- Summary of financial data used in methodology.
- Copies of relevant APAs and other tax rulings.
- Annual financial accounts of the local entity.
- Schedules linking financial data with annual financial statements.
- Summary schedules of financial data for comparables.

Adjustments in Transfer Pricing

Comparability Adjustments

Changes that make the characteristics of uncontrolled transactions more comparable, enabling their use in transfer pricing method application.

Year-End Adjustments

Changes that taxpayers can make at year-end to bring the results of their transactions into the arm's length range.

Primary Adjustments

Adjustments to a company's taxable profits made by a tax administration due to the application of the arm's length principle. These adjustments may lead to double taxation issues.

Corresponding Adjustments

Changes to the tax liability of a related party made by the second tax jurisdiction corresponding to a primary adjustment. These adjustments are intended to resolve double taxation.

Secondary Adjustments

Constructive transactions introduced after a primary adjustment to align actual profit allocation with the primary adjustment. Can take the form of constructive dividends, equity contributions, or loans.

PLIs

Operating (net) margin

Applied to limited risk distributors (often used)

$$\frac{\text{Operating (net) profit}}{\text{Revenue}}$$

Return on assets

Applied to asset-intensive industries (rarely used)

$$\frac{\text{Operating (net) profit}}{\text{Operating System (usually only tangible assets)}}$$

Berry Ratio

Applied to distributors, procurers, & intermediaries (relatively often used)

$$\frac{\text{Gorss profit}}{\text{Operating expense}}$$

Return on total costs (also known as full cost mark-up or net cost plus)

Applied to contract and low-risk manufacturers, service providers, procurers (often used)

$$\frac{\text{Operating (net) profit}}{\text{Total Costs (including CoGS and operating expenses)}}$$

Return on capital employed

Applied to capital intensive industries (rarely used)

$$\frac{\text{Operating (net) profit}}{\text{Capital employed in a transaction}}$$

Typical Functional Profiles

	Limited Risk	Fully Fledged
Manufacturer	**Toll Manufacturer:** • Manufacturing services without taking title to raw materials or final products • No inventory or selling risks • Limited quality control or logistics management • No significant intangibles **Contract Manufacturer:** • Manufacturing services with title to raw materials and finished products • No risks associated with holding finished products or selling them • Bears stock risk related to raw materials	**Fully Fledged Manufacturer:** • Performs all important manufacturing functions • Engages in production planning, sourcing and procuring inputs, R&D activities, design and engineering, quality control, and logistics • Assumes market risk, inventory risk, R&D risk, product liability risk, and other risks • Earns residual profit
Distributor	**Agent:** • Acts as a sales representative, receives commission on sales • Facilitates sales, but principal concludes contract • Minimal risks since no title to the products **Limited Risk Distributor:** • Buys goods and markets them to customers • Risks relating to inventory and debtors are limited	**Fully Fledged Distributor:** • Undertakes all of the sales and distribution functions • Bears all material risks relevant to these functions • Buys, holds, & sells products, develops necessary intangibles • Bears significant downside risks, as well as receiving upside results of positive outcomes of its activity • Often entitled to residual profit
Service Provider	• Provision of low value-adding or supportive services • No significant assets or risks • Predetermined routine return	• Provision of high value-adding or core services • Ownership of significant assets (e.g., unique skills, proprietary software, intangibles) • Assumption of substantial operational and financial risks • Potential for higher, non-routine returns

Credits to

Borys Ulanenko

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VALUATION CHEAT SHEET

by Bojan Radojicic

PROCESS

Define the prupose → Gather info → Choose valuation method → Perform financial analysis → Adjsut financials → Determine discount rate → Appply mehtodology → Consider additional factors → Sensitivity analysis

PURPOSE

Selling business
Buying business
Fundraising
Litigations
Financial reporting requirements
Capital gain tax base calculation
Internal decision making
Divorce reasons
Partnerships restructuring

3 VALUATION APPROACHES

Income approach

This approach is based on the idea that the value of a company is directly related to its ability to generate income.

This approach is useful for valuing companies that have a predictable income stream and a long-term history of earnings.

Market approach

This approach assumes that the value of a company is closely related to the prices of comparable companies in the market.

The market approach considers the actual market transactions and market data of comparable companies, such as their stock prices, sales, earnings, dividends, and other financial metrics.

Cost approach

This approach is based on the principle that the value of a company is equal to the sum of its assets (equipment, cash, receivables), less the sum of its liabilities (payables, loans).

The asset-based approach is useful for valuing companies that have significant tangible assets, such as real estate companies

Discount rate

The discount rate is the minimum rate of return acceptable to the investor.

The absolute value of the discount rate depends on the definition of the discount rate. Namely, for cash flow after debt servicing, a simple discount rate is used, while for cash flow before debt servicing, a weighted average cost of capital (WACC) is used.

WACC

Risk-free rate
Equity risk premium
Relevered industry beta
Sub-total
Specific risk premium
Cost of equity
Industry - database
Cost of debt
Corporate tax rate
Cost of Debt after tax
(ND / EV)
WACC
Local inflation
WACC result

DCF Essentials

1. Sales & Growth
2. Expenses
3. CAPEX
4. Financing
5. Working capital
6. Terminal value
7. Discount rate
8. Long term growth rate

METHODOLOGY

Income approach

1. Discounted cash flow method
2. Capitalization of earnings method
3. Excess Earnings Method
4. Adjusted Present Value (APV) Method
5. Relief from royalty method

Market approach

1. Valuation by multiple method
2. Economic Value Added (EVA) method
3. Market price method
4. Comparable companies method
5. Comparable transaction method

Cost approach

1. Net book value method
2. Replacement cost method
3. Reproduction cost method

Cash flows calculation before and after debt service

Before servicing debts	After servicing debts
Operating profit	Operating profit
Depreciation	Depreciation
Decrease (increase) in value of current assets	Decrease (increase) in value of current assets
Increase (decrease) in the value of current liabilities	Increase (decrease) in the value of current liabilities
Investments in fixed assets	Investments in fixed assets
	Increasing long-term liabilities
	Debt repayment
FREE CASH FLOW TO FIRM	FREE CASH FLOW TO EQUITY
Cash flow in the residual period	Cash flow in the residual period
weighted average cost of capital (WACC)	Cost of equity
Estimated value of invested capital	
Value of long-term liabilities	
Estimated value of equity	Estimated value of equity

6 Types of Valuation Multiples

1. Price-to-Earnings (P/E) Ratio
2. Price-to-Sales (P/S) Ratio
3. Price-to-Book (P/B) Ratio
4. Enterprise Value-to-EBITDA Ratio
5. Price-to-Cash Flow (P/CF) Ratio
6. Dividend Yield

What can be subject of valuation?

Database | Customer list | Businesses | Intangibles | Real Estate | Brand | Technology | Software

Working Capital Cheat Sheet

By Aleksandar Stojanovic

Unlocking Financial Efficiency for Your Business!

📊 9 Working Capital Layouts for Various Businesses:

1. **Manufacturing:** Inventories, receivables, and payables.
2. **Services:** Receivables and payables.
3. **Retail:** Inventories and payables.
4. **IT:** Receivables, payables, and short-term investments.
5. **Banking:** Short-term loans and deposits
6. **Construction:** Receivables, payables, and advances from customers.
7. **Agriculture:** Inventory (crops, livestock), receivables, and payables.
8. **Healthcare:** Receivables, payables, and medical supplies inventory.
9. **Real Estate** Advances from customers, payables, and short-term debt.

8 Ways to Efficiently Manage Your Current Assets and Liabilities:

Inventory Management:
Keep enough to meet demand but not so much that it ties up capital.

Receivables Management:
Promptly invoice and follow up on collections.

Payables Management:
Take advantage of credit terms but avoid late payments.

Cash Management:
Keep enough for needs but invest excess.

Short-term Financing:
Use for temporary needs but avoid over-reliance.

Working Capital Forecasting:
Anticipate needs based on sales and expense forecasts.

Ratio Analysis:
Monitor ratios like the current ratio and quick ratio.

Contingency Planning:
Be ready for unexpected needs or opportunities.

15+ Exercises to Sharpen Your Working Capital Analysis Skills:

1. Calculate and interpret the current ratio.
2. Calculate and interpret the quick ratio.
3. Compare the current ratio with the industry average.
4. Assess the impact of a change in inventory levels on the current ratio.
5. Analyze trends in the working capital cycle.
6. Calculate and interpret the inventory turnover ratio.
7. Calculate and interpret the receivables turnover ratio.
8. Evaluate the impact of a change in payment terms on the payables turnover ratio.
9. Analyze the implications of a negative working capital position.
10. Evaluate the sustainability of a company's dividends from its working capital position.
11. Interpret the cash conversion cycle and its implications.
12. Analyze the impact of seasonality on a company's working capital needs.
13. Assess the potential effects of a major sales contract on working capital needs.
14. Evaluate the potential effects of a major purchase on working capital.
15. Project the future working capital needs based on sales and expense forecasts.

✨ 7+ Tricks for Maintaining Positive Working Capital:

Monitor Your Ratios:
Regularly calculate your working capital ratios to spot potential issues early.

Manage Receivables:
Send invoices promptly and follow up on late payments.

Manage Payables:
Take full advantage of payment terms and negotiate for better ones.

Inventory Management:
Keep inventory levels optimized to avoid tying up funds.

Negotiate:
Work with suppliers and customers to improve your working capital position.

Use Short-Term Financing:
Use lines of credit, short-term loans, and other short-term financing options wisely.

Plan Ahead:
As actual data becomes available, update your forecast to maintain accuracy.

10 Steps to Optimizing Your Working Capital:

1. Efficiently manage your inventory.
2. Speed up collection of receivables.
3. Negotiate better payment terms with suppliers.
4. Use short-term financing options wisely.
5. Manage your payables effectively.
6. Have a contingency plan for unexpected needs.
7. Regularly analyze your working capital needs.
8. Monitor your working capital ratios regularly.
9. Consider the effects of seasonality.
10. Plan for growth and expansion.

3 Steps to Avoid Common Working Capital Errors:

1. **Overstocking Inventory:**
This ties up capital and can lead to obsolescence.
2. **Slow Collection of Receivables:**
This delays inflows and can lead to bad debts.
3. **Late Payments:**
This can damage supplier relationships and lead to penalties.

13+ Examples of Cash Flow Management in Various Sectors:

1. **Manufacturing:** Toyota's just-in-time inventory system reduces inventory costs.
2. **Retail:** Walmart's efficient supply chain management minimizes inventory levels.
3. **Services:** Accenture's timely invoicing and follow-ups ensure fast receivable collection.
4. **IT:** Apple's management of its cash pile and short-term investments.
5. **Banking:** Wells Fargo's management of short-term loans and deposits.
6. **Construction:** Turner Construction's management of advances from customers and payments to suppliers.
7. **Agriculture:** Archer Daniels Midland's management of crop inventories and payments to farmers.
8. **Healthcare:** Kaiser Permanente's management of medical supplies inventory and payments to suppliers.
9. **Real Estate:** DLF's management of advances from customers and payments to contractors.
10. **Pharmaceuticals:** Pfizer's management of drug inventories and payments to suppliers.
11. **Logistics:** FedEx's management of receivables and payables.
12. **Telecommunications:** AT&T's management of receivables and payables.
13. **Food Service:** McDonald's efficient inventory management and quick turnover.

Fractional FP&A, CFO and BI Consultant

Aleksandar Stojanovic

USEFUL EXCEL SHORTCUTS

GENERAL

Create embedded chart	Alt F1
Create chart in new worksheet	F11
Find previous match	Ctrl Shift F4
Find next match	Shift F4
Display the Paste Special dialog box	Ctrl Alt V
Repeat last action	F4
Close current workbook	Ctrl W
Close Excel	Alt F4
Create new workbook	Ctrl N
Open workbook	Ctrl O

NAVIGATION

Move one screen right	Alt PgDn
Move one screen left	Alt PgUp
Move one screen up	PgUp
Move one screen down	PgDn
Move to right edge of data region	Ctrl →
Move to left edge of data region	Ctrl ←
Move to beginning of row	Home
Move to last cell in worksheet	Ctrl End
Move to first cell in worksheet	Ctrl Home

FORMATTING

Align center	Alt H A C
Align left	Alt H A L
Align right	Alt H A R
Increase font size one step	Alt H F G
Decrease font size one step	Alt H F K
Currency Format	Ctrl Shift $
Percentage Format	Ctrl Shift %
Scientific Number Format	Ctrl Shift ^
Date Format	Ctrl Shift #
Time Format	Ctrl Shift @
Number Format	Ctrl Shift !
Remove borders	Ctrl Shift _
Enter Current Date	Ctrl ;
Enter Current Time	Ctrl :

WORKBOOK

Insert new worksheet	Shift F11
Go to next worksheet	Ctrl PgDn
Go to previous worksheet	Ctrl PgUp
Move to next pane	F6
Move to previous pane	Shift F6
Go to next workbook	Ctrl Tab
Go to previous workbook	Ctrl Shift Tab
Minimize current workbook window	Ctrl F9
Maximize current workbook window	Ctrl F10

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FINANCE CHEAT SHEET

by Nicolas Boucher

ACCOUNTING KPIS

ACCOUNTS RECEIVABLE TURNOVER
Net Credit Sales / Average Accounts Receivable

ACCOUNTS PAYABLE TURNOVER
Total Supplier Purchases / Average Accounts Payable

WORKING CAPITAL RATIO
Current Assets / Current Liabilities

DEBT-TO-EQUITY RATIO
Total Debt / Total Equity

GROSS PROFIT MARGIN
(Revenue - Cost of Goods Sold) / Revenue

NET PROFIT MARGIN
Net Income / Revenue

RETURN ON ASSETS (ROA)
Net Income / Total Assets

RETURN ON EQUITY (ROE)
Net Income / Total Equity

INVENTORY TURNOVER
Cost of Goods Sold / Average Inventory

FIXED ASSET TURNOVER
Revenue / Net Fixed Assets

CASH KPIS

CASH BURN RATE
Cash Spent (monthly average) - Cash Received (monthly average)

AVERAGE DAYS DELINQUENT (ADD)
Days Sales Outstanding (DSO) - Best Possible Days Sales Outstanding (BPDSO)

OPERATING CASH FLOW (OCF)
Net Income + Non-Cash Expenses - Increase in Working Capital

FREE CASH FLOW (FCF)
OCF + Interest Payments - Asset Purchase

OVERDUES RATIO
Overdues / Total Receivables

DAYS OF INVENTORY OUTSTANDING
Average Inventory / Yearly Cost Of Goods Solds (COGS) x 365 days

DAYS SALES OUTSTANDING (DSO)
Average Account Receivables / Annual Sales x 365 days

DAYS PAYABLES OUTSTANDING (DPO)
Average Account Payables / Yearly Cost Of Goods Solds (COGS) x 365 days

CASH CONVERSION CYCLE (CCC)
DIO+DSO-DPO

CASH RESERVES IN DAYS
Cash Reserves / Average Daily Expenses

BALANCE SHEET KPIS

CURRENT RATIO
Current Assets / Current Liabilities

QUICK RATIO
(Current Assets - Inventory) / Current Liabilities

DEBT-TO-EQUITY RATIO
Total Liabilities / Shareholders' Equity

DEBT RATIO
Total Liabilities / Total Assets

INTEREST COVERAGE RATIO
Earnings Before Interest and Taxes (EBIT) / Interest Expenses

RETURN ON ASSETS (ROA)
Net Income / Total Assets

RETURN ON EQUITY (ROE)
Net Income / Shareholders' Equity

INVENTORY TURNOVER
Cost of Goods Sold / Average Inventory

ACCOUNTS RECEIVABLE TURNOVER
Revenue / Average Accounts Receivable

WORKING CAPITAL
Current Assets - Current Liabilities

SAAS KPIS

CUSTOMER CHURN RATE
Customers lost / Total Customers

NEW BUYER GROWTH RATE
(New buyers this month - New buyers last month) / New buyers last month

LIFETIME VALUE
Customer Value * Average Customer Lifespan

CUSTOMER ACQUISITION COSTS
Cost of Sales and Marketing / Number of New Customers Acquired

NET BURN RATE
Cash Spent - Cash received

RUNWAY
Current Cash Balance / Burn Rate

AVERAGE REVENUE PER USER (ARPU)
Total revenue / Total number of customers

SAAS QUICK RATIO
(New MRRt + Expansion MRRt) / (Churned MRRt + Contraction MRRt)

MONTHLY RECURRING REVENUE MRR
Number of customers * Average billed amount

TOTAL ADDRESSABLE MARKET (TAM)
Annual Contract Value per client * Number of potential clients

FINANCE ORGANIZATION CHART

- CFO
  - FP&A Team
    - Commercial Analysis Team
    - Industrial Analysis Team
    - Business Analysis Team
  - Accounting Team
    - Accounts Payable (AP) Team
    - Accounts Receivable (AR) Team
    - General Ledger (GL) Team
  - Treasury Team
    - Cash Management Team
    - Debt Management Team
    - Foreign Exchange (FX) Team
  - Tax Team
    - Corporate Tax Team
    - Indirect Tax Team
    - Transfer Pricing Team

FP&A METHODS AND SKILLS CHART

- Financial analysis
  - Variance analysis
  - PVM analysis
  - Ratios/KPIs
  - Pareto (80/20)
- Project analysis
  - Project variances
  - Earned Value
  - Risk monitoring
- Budgeting
  - Incremental method
  - Activity based method
  - Zero Based Budgeting
  - Headcount planning
  - Department budgeting
- Scenario planning
  - Break even analysis
  - Sensitivity analysis
  - Monte Carlo method
  - 3 Statements modeling
  - Business Case modeling
- Business Partnering
  - Influencing
  - Business acumen
  - Communication
  - Demand management
- Storytelling
  - Visualisation
  - B.O.T.E
  - Non-verbal communication
  - Manage a meeting room

FINANCIAL TERMS EXPLAINED TO NON-FINANCE PEOPLE

REVENUE
The total amount of money coming into your business

PROFIT
The money you have left over after you subtract your expenses from your income

ASSETS
Things you own that have value

BALANCE SHEET
It shows how much a company has, how much it owes and how much is left for the owner of the company

CASH FLOW STATEMENT
Shows where the company's cash came from and where it went

EXPENSES
Money you spend on things you need to run your business

LOSS
When your expenses are more than your income

LIABILITIES
Money you owe to others

INCOME STATEMENT
It shows how much money the company made and how much it spent

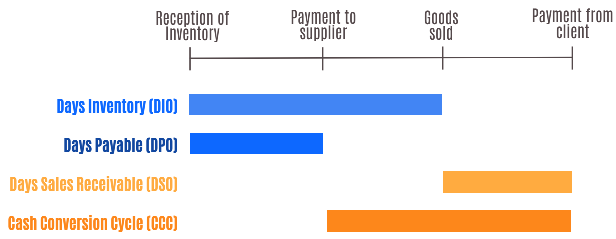
HOW TO REDUCE COSTS ?

-10% INCREMENTAL IDEAS
- Gain control of "miscellaneous" spending
- Reduce consulting services
- Reduce expenses specific to each department

-20% REDESIGN IDEAS
- Reduced business requirements
- Automate processes
- Eliminate liaisons and coordinators

-30% REVAMP IDEAS
- Restructure or cut cross-department activities
- Eliminate programs
- Shift the burden to the most efficient location

CASH CONVERSION CYCLE



HOURLY RATE = **COSTS** / **HOURS**

COSTS: Direct Labor Costs & Costs allocated to hourly rate

HOURS: Available hours, less holidays, less sickness, less non-productive hours

BUDGET PROCESS

1. Set expectations with management
2. Sales
3. Operational Plan
4. Resources
5. Standard costs / Overhead
6. Income Statement / Balance Sheet / Cash Flow Statement

PVM ANALYSIS

Price + **Volume** + **Mix**

- Price: Effect of price keeping quantity constans
- Volume: Selling more products, even at the same mix and price will increase sales
- Mix: Even keeping total quantities and prices the same, sales can increase if more of we sell a higher proportion of expensive products

V = s³

VALUATION TECHNIQUES

Comparable Analysis
- Comparable Company Ratio x Company Financial Ratio

DCF — Discounted Cash Flow
- Σ(Cash Flows / (1+r)^t)

Asset-Based Valuation
- Market Value of Assets - Liabilities

Liquidation Valuation
- Assets - Liabilities

Precedent Transactions
- Transaction Price x Transaction Multiples

CAPEX KPIS

ACQUISITION
Purchase Cost + Direct Costs

COMMITMENTS
Future Purchase Contracts

ASSET TURNOVER
Revenue / Fixed Assets

RETURN ON ASSETS (ROA)
Net Income / Fixed Assets

RETURN ON INVESTMENT (ROI)
Net Income / Total Investment

PAYBACK PERIOD
Total Investment / Annual Cash Flow

INTERNAL RATE OF RETURN (IRR)
(Future Value / Present Value) ^ [(1 / Number of Periods) - 1]

NET PRESENT VALUE (NPV)
Net Cash Flows / [(1 + discount rate) ^ Number of periods]

DEPRECIATION
Acquisition / Useful Life

UTILIZATION
Actual Production / Maximum Production x 100%

CEO KPIS

REVENUE GROWTH
(Current period revenue - Previous period revenue) / Previous period revenue

GROSS PROFIT MARGIN
(Revenue - Cost of Goods Sold) / Revenue

NET PROFIT MARGIN
(Net Income / Revenue) x 100

RETURN ON INVESTMENT (ROI)
(Gain from investment - Cost of investment) / Cost of investment

EARNINGS PER SHARE (EPS)
(Net Income - Preferred Dividends) / Average Outstanding Shares

CUSTOMER ACQUISITION COST (CAC)
Total Marketing and Sales Costs / Number of New Customers Acquired

CUSTOMER LIFETIME VALUE (CLV)
(Average Annual Revenue per Customer x Average Customer Lifespan) - Customer Acquisition Cost

EMPLOYEE ENGAGEMENT
Measures the level of employee satisfaction and commitment to the company

EMPLOYEE TURNOVER
(# of Employees who left during the period / Average # of Employees during the period) x 100

CASH FLOW
Operating Cash Flow + Investing Cash Flow + Financing Cash Flow

HEADCOUNT KPIS

HEADCOUNT
Number of active employees full time & part time + leasing employees

FULL TIME EQUIVALENT (FTE)
Number of hours in the employee contract / Standard working hours

TURNOVER RATE
Number of departure over a period / Average total headcount

NATURAL ATTRITION
Planned retirement + Planned end of limited contract

CAPACITY
Number of FTEs over a period x working hours available for one FTE

CAPACITY INCREASE FLEXIBILITY
Flexible time account not used + Overtime + Temporary change of hours available in part-time contracts

CAPACITY DECREASE FLEXIBILITY
Flexible time account + Temporary change of hours available in part-time contracts + Temporary workers time

NORIA EFFECT
(New hires salary costs - Leavers salary costs) / Previous salary costs

ABSENTEEISM
Illness days / Total working days

TIME TO FILL
Average number of days between job opening & contract signed by candidate

MANUFACTURING KPIS

PRODUCTION ACTIVITY
Sum of monetary value of all finished goods produced within a defined period

CYCLE TIME
Process time + Inspection time + Move time + Queue time

TAKT TIME
Production available time / Customer demand

INVENTORY TURNOVER
Cost of Goods Sold / Average Inventory (over period of time)

RETURN ON ASSETS (ROA)
Net Income / Average Total Assets

FIRST PAST YIELD
Number of good products finished / Number of production orders started (expressed in percentage)

YIELD FACTOR
Number of production orders started / Number of good products finished

OVERALL EQUIPMENT EFFECTIVENESS
Good Count × Ideal Cycle Time / Planned Production Time

ON TIME DELIVERY
On time units / Total units

AVOIDED COSTS
Assumed Repair Cost + Production Losses – Preventative Maintenance Cost

INVENTORY KPIS

AVERAGE INVENTORY
Average inventory = (Beginning inventory + Ending inventory) / 2

DAYS ON HAND
Days of inventory on hand = (Average inventory for period / Cost of sales for period) x 365

STOCK TO SALES RATIO
Stock to sales ratio = Inventory value / Sales value

COST OF CARRY
(Inventory Service Costs + Inventory Risk Costs + Capital Cost + Storage Cost) / Total Inventory Value

BACKORDER RATE
Backorder rate = (Number of Undeliverable Orders / Total Number of Orders)

SELL-THROUGH RATE
Number of units sold / Number of units received

SCRAP RATE
Scrap expenses over the period / Average inventory over the period

TIME TO RECEIVE
Time for stock validation + Time to add stock to records + Time to prep stock for storage

INVENTORY SHRINKAGE
Ending inventory value – Physically counted inventory value

DEAD STOCK
Amount of unsellable stock in period / Amount of available stock in period

CREDITS TO

Nicolas Boucher

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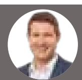

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FP&A CHEAT SHEET

By Asif Masani

5 TYPES OF FINANCIAL PROJECTIONS

1.BUDGET
Blueprint for company to do business in the next FY

2. ANNUAL OPERATING PLAN (A.O.P)
Broader than budget + practical outline of the company's targets and key activities.

3. FORECAST OR OUTLOOK
Latest estimates of a company's future financial outcomes. It shows if the company is reaching its budget or not.

4. LONG RANGE PROJECTIONS
Evaluates business decisions like acquisitions, strategic plans & alternatives. Has a longer-term horizon of 2 to 7 years.

5. CAPITAL INVESTMENT DECISIONS
Decisions like investing in new equipment, launching a new product, lease v/s buy, produce in-house v/s outsource etc

7 BUDGETING APPROACHES

1.INCREMENTAL BUDGETING
We pick last year's Budget & add or subtract a percentage.W.

2. ZERO BASED BUDGETING
Broader than the budget and provides a practical outline of the company's targets and key activities.

3. ACTIVITY BASED BUDGETING
The budget inputs finalized basis the desired output or result.

4. VALUE PROPOSITION BASED
Ensures everything in the budget creates + delivers value.

5. ROLLING FORECAST
New period is added to replace the previous one as it expires.

6. TOPS DOWN BUDGETING
Top management takes decisions without participation from middle management

7. BOTTOMS UP BUDGETING
Managers recommend their targets. Inputs start from operational level and moves top. It is Participative.

3 KEY PAIN POINTS IN BUDGETING

1.INEFFECTIVETECHNOLOGY
More than 60% companies use Excel as their budgeting software. Excel is user friendly but not best tool for budgets

2. LONG CYCLE TIMES
Avg cycle time for preparing a budget is around 3 months. Slow to detect problems & doesnt add lot of value.

3. GAMING BEHAVIOUR
The traditional budgeting process incentivies gaming instead of "stretch behaviour"

TOP 10 FP&A SKILLS

1. ATTENTION TO DETAIL + BIG PICTURE
To produce accurate reports,spot trends and inconsistencies. At the same time be able to connect the various dots.

2.OWNERSHIP AND ACCOUNTABILITY
Bee answerable and take ownership for what you work.

3. EFFECTIVE QUESTIONING SKILLS
Asking right questions, at right time, listening objectively to various viewpoints, considering the information gathered,

4. BUSINESS ACUMEN
Understand the business model, organizational goals, objectives and strategy.

5. DATA INTO INSIGHTS
Turning complex data into actionable insights, bringing numbers to life, making reports useful, interesting, valuable .

6. COMMUNICATION &PRESENTATION
Regularly make presentations on financial and operational performance to senior management.

7. DATA STORYTELLING
Instead of sharing a lot of numbers and data tables building a compelling story instead around the business performance.

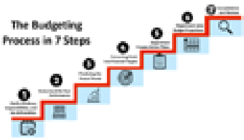
8.COLLABORATION & TEAMWORK
Work closely with cross functional teams on various initiatives

9. LEADERSHIP
FP&A is not just numbers crunching. Emotional, intelligence, the ability to influence and empathy are equally important.

10. BUILDING RELATIONSHIPS
Building rapport, the ability to deal with conflicts and being able to influence decision making.

What is FP&A?

Planning & Budgeting: FP&A teams work with different departments to prepare budgets. Once they collect all the information they work on consolidatinginto one overall company budget.



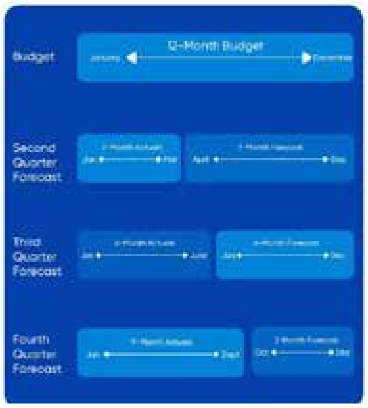
Forecasting and Modelling: Creating, updating, and maintaining financial models & detailed forecasts in a spreadsheet a budgeting tool.

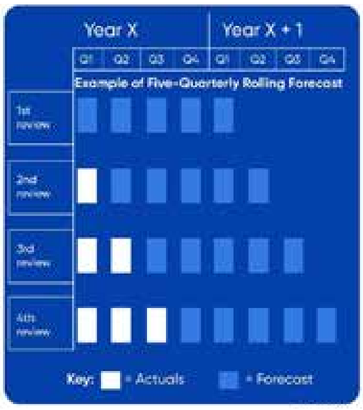
Finance Businesss Partnership:
The mindset is of a Finance business partner (keeping a business first approach)

Management Reporting: Preparing and analysing internal reports for senior management to support their decision-making

"FP&A teams act as a bridge between business teams & leadership"

Traditional v/s Rolling Forecast





Budget, Forecast and Rolling Forecast Examples

USD'000

Budget 2023

Particulars	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL
Type	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud	Bud
Revenue	100	100	100	100	100	100	100	100	100	150	150	150	1,350
Cost	88	88	88	88	88	88	88	88	88	132	132	132	1,188
Profit	12	12	12	12	12	12	12	12	12	18	18	18	162
Profit %	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%

Forecast Q1 / Mar - 2023

Particulars	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL
Type	Act	Act	Act	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst
Revenue	90	110	115	100	100	100	100	100	100	150	150	150	1,365
Cost	79	96	98	88	88	88	88	88	88	132	132	132	1,197
Profit	11	14	17	12	12	12	12	12	12	18	18	18	168
Profit %	12%	13%	15%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%

Rolling Forecast Mar - 2023

Particulars	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	TOTAL	Jan	Feb	March	TOTAL
Type	Act	Act	Act	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Revenue	90	110	115	100	100	100	100	100	100	150	150	150	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cost	79	96	98	88	88	88	88	88	88	132	132	132	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit	11	14	17	12	12	12	12	12	12	18	18	18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit %	12%	13%	15%	12%	12%	12%	12%	12%	12%	12%	12%	12%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COMMON FP&A TERMS

1. THE TOP LINE
This is eaither Revenues, Cash, Bookings or Sales

2. THE BOTTOM LINE
This is usually the Net Income after all expenses

3. YOY COMPARISIONS
Difference between two values of the same measure (e.g., revenues this year versus last year)

4. BUDGET V/S OUTLOOK/ FCST
Budget is set at the beginning of year,outlook changes all the time. This compares outlook against budget

5. EXPENSE V/S EXPENDITURE
An expense occurs when an asset is used for its economic purpose, and expenditure occurs when the payment / cash flows out.

3 KEY SKILLS IN PRESENTATION

5 INTERVIEW TIPS

1. UNDERSTAND THE BUSINESS
The business model, products and services

2. STUDY THE FINANCIAL
You can get the financials from company's website.

3. QUESTIONNAIRE / ASSIGNMENT
More than the final result demonstrating a logical thought process / approach is more important

4. DURING THE INTERVIEW
Link your experience to the required job description using stories and examples from the past.

5. ASK QUESTIONS
Based on your reserach ask atleast 2-3 meaningful questions either during or at the end

TOP 12 MANAGEMENT REPORTS

1. MONTH END REPORTING:
Latest month actuals compared against Budget & forecast with variance analysis, commentary & recommendations.

2.QUARTERLY BUSINESS REVIEWS (QBR)
Top management examines progress metrics, identifies adjustments based on previous quarters' performance.

3. OPERATING BUDGET (PLAN) DECK
Prepared in advance of a reporting period as a goal or plan that the business expects to achieve in the next financial year.

4. LATEST ESTIMATE/ OUTLOOK DECK
The latest forecast is updated and compared against previous Comments are made on what has changed from previous.

5.FLASH REPORTING
Periodic snapshot of key financial and operational data.

6.RISKS & OPPORTUNITIES ASSESSMENT
In this report all the risks and opportunities are listed along with the probability of its occurrence.

7. HEADCOUNT REPORTING:
Employee data presented in many ways. Example, permanent, fixed-term or temporary, job titles & positions etc

8. SALES PIPELINE ANALYSIS
Revenue is forecasted on the basis the of the deal stage and probability of conversion and is usually tracked with CRM tool

9.ADHOC REPORTING
These are one-time reports that helps the senior management to answer critical business questions immediately

10. BALANCED SCORECARDS
Building rapport, the ability to deal with conflicts and being able to influence decision making.

11. KPI OR OKR REVIEWS
KPI: set of quantifiable measurements used to gauge a company's overall performance. OKR: A goal-setting framework for defining & tracking objectives and their outcomes.

12. INVESTOR PRESENTATIONS
These presentations are prepared for the earnings call

7 QUALITIES MANAGEMENT REPORT

1.ONE PAGER REPORT
The main report has to fit on 1 page. Too many details can divert the focus and attention.

2. DECISION FOCUSED
The results for each line item should suggest a decision or an action. Ideally include a recommendation /suggested action.

3.INTUITIVE TO UNDERSTAND
Design in a way soimportant information jumps right out.

4. CONSISTENT LOOK & FEEL
Consistent appearance makes reports much easier to read.

5. SIMPLE LANGUAGE
Avoid using accounting jargons like trueups, one timers etc

6. FREQUENCY
Short enough + allow time for taking decisions between updates

7. ACCURACY
Should tie back to the accounting system

10 WAYS TO ANALYSE DATA

1. DRILL UP/ DRILL DOWN
Move into further detail from the parent to child and child to parent relationships to uncover root causes of anomalies.

2. SLICE AND DICE
Pivot the dimensions of the data on-the-fly.

3. SEGMENTATION
Grouping data with common attributes like customer segmentation (small business, enterprise , government)

4. DATA VISUALIZATION
Graphical representations of the data across multiple dimensions and variables.

5. DRIVER BASED RELATIONSHIPS
Dependency relationships (when one thing happens or changes, another thing happens or changes

6. BENCHMARKING
Comparing results with internal benchmarks or external benchmarks (those produced by peers in your industry).

7. SEASONALITY
Comparing results adjusted for selling seasons of the business (eg: retail in december, hospitality in summer etc)

8.TREND ANALYSIS
Showing whether results are improving or not over time and compared to related measures that may be improving or not.

9. PROFITABILITY ANALYSIS
Product Profitability ,Channel Profitability, Customer profitability .Segment profitability, Branch Profitability etc

10. OUTLIERS
Deviations from the norm or anomalies

FINANCE CHECKLIST

by Nicolas Boucher

THE CFO CHECKLIST

Strategic Planning & Financial Analysis

- [ ] Establish a working relationship with the board of directors
- [ ] Develop a strategic plan for the next 3-5 years
- [ ] Assess the current financial position of the company
- [ ] Evaluate tax implications of business decisions
- [ ] Identify areas for cost savings and revenue growth
- [ ] Develop a comprehensive budget for the upcoming year
- [ ] Review short-term and long-term financial goals
- [ ] Establish financial policies and procedures
- [ ] Review the company's banking relationships
- [ ] Develop a cash flow management plan

Controls and Risk Management

- [ ] Develop a capital expenditure plan
- [ ] Review current investments and make recommendations
- [ ] Evaluate current tax strategies and adjust for better results
- [ ] Develop a risk management strategy
- [ ] Establish internal controls to ensure compliance
- [ ] Develop a financial reporting system
- [ ] Establish a system to track key performance indicators
- [ ] Evaluate current contracts and propose changes
- [ ] Develop a strategy for debt management
- [ ] Review existing compensation plans & identify improvements

CONTROLLER CHECKLIST

Auditing and compliance

- [ ] Manage relationships with external auditors
- [ ] Communicate with internal auditors for financial audits

Internal controls and processes

- [ ] Develop and implement internal controls
- [ ] Oversee the financial systems and tools
- [ ] Manage the accounts payable and receivable processes
- [ ] Manage the fixed assets and inventory processes
- [ ] Maintain a chart of accounts
- [ ] Establish procedures for accounting and financial reporting

Financial reporting and statements

- [ ] Produce accurate financial statements
- [ ] Manage the financial reporting functions
- [ ] Ensure compliance with accounting standards

Team management Process improvement

- [ ] Provide training to staff on accounting & financial processes
- [ ] Develop a strong team of diverse accounting professionals
- [ ] Explain accounting topics to non finance teams
- [ ] Optimize reporting processes & tools
- [ ] Leads ERP changes for finance topics

BUDGETING CHECKLIST

Feed the budget

- [ ] Develop a deep understanding of the business and industry
- [ ] Analyse financial data to identify trends and opportunities
- [ ] Build and maintain forecasting models
- [ ] Conduct sensitivity analysis to assess potential impacts
- [ ] Provide input into financial and strategic planning processes
- [ ] Collect qualitative information from colleagues
- [ ] Provide financial guidance to business units
- [ ] Collaborate with cross-functional teams to develop financial plans and forecasts
- [ ] Stay up-to-date with macro-economic changes and their impact on your business

Budget Management

- [ ] Set up budgeting policies and procedures
- [ ] Manage the budget process and timeline
- [ ] Evaluate financial performance against budget
- [ ] Identify and manage budget variances
- [ ] Develop accurate and timely financial reports
- [ ] Implement a budget reporting process
- [ ] Build a budget performance dashboard
- [ ] Continuously improve budgeting processes & tools
- [ ] Adapt tools to budget processes
- [ ] Communicate and follow-up on budget decisions

INVENTORY CHECKLIST

Inventory Analysis and Monitoring

- [ ] Get an overview of the inventory process
- [ ] Monitor and analyse inventory levels
- [ ] Analyse inventory turnover
- [ ] Track product demand vs inventory
- [ ] Conduct sensitivity analysis on inventory budgets
- [ ] Monitor and analyse procurement costs
- [ ] Provide input for inventory policies and procedures

Budgeting and Forecasting

- [ ] Develop and maintain an inventory budget
- [ ] Build a product demand forecasting model

Supplier Management

- [ ] Develop and maintain relationships with key suppliers
- [ ] Develop and maintain a procurement policy
- [ ] Develop a growth mindset for innovation and improvement

Inventories policies and procedures

- [ ] Develop and maintain a product life cycle management process
- [ ] Build a stock keeping unit (SKU) rationalization process
- [ ] Develop and maintain a safety stock policy
- [ ] Create a slow-moving inventory policy
- [ ] Implement a scrap inventory process
- [ ] Update inventory policies and procedures

CASH CHECKLIST

Cash Management

- [ ] Establish a cash management strategy
- [ ] Manage your treasury management system
- [ ] Monitor and analyse cash reserves
- [ ] Develop and maintain relationships with external partners and vendors
- [ ] Establish a cash reserves policy
- [ ] Set up a cash management policy
- [ ] Monitor and analyse foreign exchange risks
- [ ] Develop and maintain a foreign exchange management policy
- [ ] Establish a credit policy
- [ ] Implement a clear client payment policy
- [ ] Continuously improve processes and tools

Cash Flow Planning

- [ ] Develop an understanding of the cash flow process
- [ ] Build a cash flow forecasting model
- [ ] Conduct sensitivity analysis on cash flow forecasts
- [ ] Provide input into financial and strategic planning processes

Cash Improvement

- [ ] Track your cash conversion cycle
- [ ] Analyse payment terms and timing
- [ ] Analyse impact of working capital on cash
- [ ] Improve cash collection process
- [ ] Negotiate payment terms with vendors

HEADCOUNT CHECKLIST

Headcount Budgeting

- [ ] Implement a headcount budget
- [ ] Build a headcount forecasting model
- [ ] Conduct sensitivity analysis on headcount costs
- [ ] Provide input into financial and strategic planning processes
- [ ] Set up a headcount approval process
- [ ] Collaborate with cross-functional teams on workforce plans

Employee Management

- [ ] Invest in employee and organizational development
- [ ] Develop relationships with internal stakeholders
- [ ] Develop and maintain a cost-benefit analysis process for employees

Business Strategy and Objectives

- [ ] Align the business strategy with headcount planning
- [ ] Stay up-to-date with labor markets and regulations
- [ ] Develop a growth mindset for innovation and improvement
- [ ] Continuously improve headcount processes

Financial Analysis and Reporting

- [ ] Analyse headcount trends and costs
- [ ] Conduct financial analysis to identify trends & opportunities
- [ ] Create a headcount reporting process
- [ ] Develop workforce metrics and dashboards
- [ ] Monitor and analyse workforce productivity
- [ ] Analyse workforce data for improvement

TREASURY CHECKLIST

Cash Flow Management

- [ ] Understand cash flows and liquidity needs
- [ ] Forecast short-term and long-term cash needs
- [ ] Develop and implement cash management strategies

Treasury Operations

- [ ] Implement and maintain treasury management systems
- [ ] Monitor and report on treasury key performance indicators
- [ ] Manage guarantees for commercial projects
- [ ] Consolidate and manage group cash pooling

Strategic Planning

- [ ] Provide input into financial and strategic planning processes
- [ ] Participate in M&A transactions and provide input on financing

Risk Management

- [ ] Manage foreign exchange and hedging risks
- [ ] Manage credit and counterparty risk
- [ ] Analyse and monitor interest rate risks

Professional Development

- [ ] Stay up-to-date with changes in financial markets and regulations
- [ ] Continuously improve knowledge of treasury tools
- [ ] Keep a growth mindset to seek out opportunities

Relationship Management

- [ ] Manage relationships with banks and financial institutions
- [ ] Build relationships with rating agencies and bond investors
- [ ] Develop strong relationships with internal stakeholders

FINANCE ANALYST CHECKLIST

Financial Analysis

- [ ] Conduct financial analysis to identify trends & opportunities
- [ ] analyse financial data to provide insights and recommendations
- [ ] Evaluate investment opportunities and provide ROI analysis
- [ ] Conduct sensitivity analysis to assess potential impacts
- [ ] Prepare and present financial reports to senior management
- [ ] Manage financial reporting processes and dashboards

Financial Modeling

- [ ] Develop and maintain financial models
- [ ] Build scenarios to support business decisions
- [ ] Create forecasting models for revenue, costs and profit
- [ ] Evaluate pricing strategies & make propositions for improvement

Continuous Improvement

- [ ] Learn industry jargon and competitive dynamics
- [ ] Conduct market research and competitive analysis
- [ ] Continuously improve financial modeling skills
- [ ] Keep a growth mindset and seek out opportunities
- [ ] Automate repetitive tasks and reporting
- [ ] Learn skills on PowerBI, PowerQuery, Python

Business Partnering

- [ ] Understand your business partner needs
- [ ] Develop relationships with your stakeholders
- [ ] Manage demand and prioritize tasks
- [ ] Collaborate with cross-functional teams

TAX CHECKLIST

Tax Compliance and Reporting

- [ ] Understand international & local tax laws and regulations
- [ ] Develop a comprehensive understanding of the tax code
- [ ] Evaluate tax implications of business decisions
- [ ] Prepare and file tax returns accurately and on time
- [ ] Maintain accurate records to support tax filings
- [ ] Manage tax audits effectively
- [ ] Coordinate with legal and finance for tax compliance
- [ ] Provide tax advice to senior management and business units
- [ ] Build relationships with tax authorities and regulators

Tax Planning and Optimization

- [ ] Develop tax planning strategies to minimize liability
- [ ] Identify tax risks based on your business and industry
- [ ] Look for tax credit opportunities
- [ ] Understand transfer pricing rules and regulations
- [ ] Implement tax tools for accuracy and efficiency
- [ ] Manage tax disputes and litigation
- [ ] Provide tax advice to senior management & business units
- [ ] Develop tax training programs for employees & stakeholders
- [ ] Understand tax implications of M&A transactions

Created by **Nicolas Boucher**

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CFO CHEATSHEET

By Nathan Liao, CMA 

CFO Career Path

A Job at One of the "Big Four"

It's very possible to get a low-level job at one of these big companies and work your way up, eventually segueing into a role as a CFO somewhere else.

- Deloitte
- Ernst & Young (EY)
- PricewaterhouseCoopers (PwC)
- KPMG

Treasury Role

All big corporations have a treasury, and the jobs you can get can include important CFO-related skills like cash forecasting, capital/investment management, risk management, and more.

Controller Position

Controllers are responsible for all types of accounting operations. They also help companies make strategic financial decisions, which is a valuable kind of experience for CFO-hopefuls.

How to Become a CFO in 6 Strategic Steps

Get a Bachelor's Degree in a Relevant Field

An attractive CFO degree is going to be in accounting or finance.

It can be general, but needs to be in the right universe if you hope to work your way up the ladder one day.

Get an MBA or MSF Degree

Having an (MBA) with a concentration in accounting has numerous benefits.

Most people who are really serious about getting to the top of the accounting field and becoming a CFO do either graduate studies, a professional certification, or both.

Get a Professional Certification

In addition to college and possibly graduate work, it's recommended that people who want to become a CFO pursue an professional accounting certification.

The two most popular and respected are Certified Management Accountant (CMA) and Certified Public Accountant (CPA).

Get Well-Rounded Experience

CFOs need to be more than master management accountants.

Build your understanding in a diverse body of business knowledge and your ability to apply it in a capable way. Landing a CFO role is a long-term commitment that takes demonstrated abilities.

Develop Management Skills

Even if you love numbers, the path to CFO is going to include lots of people.

CFOs are at the top of the heap. This means that you will inevitably be reported to by department heads and you will need to manage teams.

Develop & Establish a Solid Career

Your track record should speak for itself. So, build it with intention. Each job you take can contribute to a body of work that clearly demonstrates your skills and abilities.

You need to think strategically about where you work and how you build a network that can be useful to you.

FAQs

How Long Does It Take To Become a CFO?

You will probably need a bachelor's degree, a master's degree or professional accounting certificate and about ten years of work experience.

Some of these can overlap, but it will probably take **10-15 years minimum** to achieve this goal.

What Degree Do You Need to Become a CFO?

You need a **degree in a field like accounting, or something related to finance/accounting**. It is recommended to get education and experience in accounting/finance. After all, that is what a CFO role is all about.

Is It Hard to Be a CFO?

It can come with a significant set of responsibilities, not limited to making strategic decisions that impact all employees. While **it can be stressful, it can also be immensely rewarding and lucrative.** If you have the ambition, it's well worth the effort.

Top CFO Certifications

- Certified Management Accountant (CMA)
- Chartered Financial Analyst (CFA)
- Certified Public Accountant (CMA)
- Chartered Global Mgmt Accountant (CGMA)

CFO Training Programs

- CFO-C from the C-Suite Institute
- The Strategic CFO Training Program
- The CFO Program at Deloitte
- PwC's Academy
- EY Training

Chief Financial Officer Skills

Leadership

CFOs are expected to be great leaders. They need to be able to manage teams, provide directives, and cast vision that gets people from every department on board.

Time Management

Managing time is a crucial part of providing financial leadership at a company. In addition to self-management, this will be important for managing staff.

Accounting Knowledge

CFOs need to have a significant body of knowledge about all areas of accounting & finance. They will be responsible for managing everything from daily tasks to ongoing projects.

Financial Strategy Vision

The high-level strategies and visioning that drives a company's financial planning and operations is overseen by the CFO.

Technology Prowess and Data Analytics

Finances and accounting are now managed primarily by various software platforms and technology. Data analytics enables CFOs to see the broader picture, but also focus on particular areas and identify outliers. A modern CFO needs to be able to access and analyze data as well as use and oversee the use of financial tech.

CFO KPIs

RETURN OF INVESTMENT
Income from asset / Asset invested

RETURN ON EQUITY
Net Income / Shareholders' Equity

WORKING CAPITAL RATIO
Current Assets - Current Liabilities

DEBT-TO-EQUITY RATIO
Total Debt / Total Equity

EARNINGS PER SHARE
Net Income / Average number of outstanding shares

NET PROFIT MARGIN
Net Income / Revenue

RETURN OF ASSETS
Net Income / Total Assets

INVENTORY TURNOVER
Cost of Goods Sold / Average Inventory

QUICK RATIO
(Current Assets - Inventories) / Current Liabilities

CURRENT RATIO
Current Assets / Current Liabilities

Nathan Liao

Accounting Cheat Sheet

Balance sheet ratios

- Current Ratio
- Quick Ratio
- Cash Ratio
- Equity Multiplier
- Return on Equity (ROE)
- Return on Assets (ROA)

Cash flow ratios

- Operating Cash Flow (OCF)
- Free Cash Flow (FCF)
- Cash Conversion Cycle (CCC)
- Net Cash Flow
- Discounted Cash Flow (DCF)
- Present Value
- Future Value

Debits and credits

ASSETS = LIABILITIES + OWNERS EQUITY

ALL INCOME – ALL EXPENSES = NET INCOME

Cash vs accrual

CASH BASIS	ACCRUAL BASIS
What is focuses on:	**What is focuses on:**
Money **IN** vs Money **OUT**	Income **EARNED** vs Expenses **INCURRED**

ASSETS = LIABILITIES + OWNERS EQUITY

All items of economic value (both tangible and intangible)

How those assets were funded

Amounts owed to creditors (CAPPED) — Amounts owed to owners (UNCAPPED)

GAAP vs IFRS

	GAAP	IFRS
What is stands for	Generally Accepted Accounting Principles	International Financial Reporting Standards
What it means	a set of rules-based accounting standards used primarily in the **United States**	a principles-based set of accounting standards used in many **other countries** around the world

Bank Reconciliations

What are Bank Reconciliations?

Chart of Accounts

The chart of accounts is the list of accounts used on your:

The 3 financial statements

10 Accounting Interview questions

10 Common Adjusting Journal Entries

Deferred Revenue

Prepaid Expense

Depreciation

Accrued Interest

Accrued Expense

Inventory

Security Deposit

Accrued Payroll

Intercompany balances

Amortization

Cash flow ratios

- Payback Period
- Operating Cash Flow to Sales Ratio
- Cash Ratio
- Cash Burn
- Unlevered Free Cash Flow
- Levered Free Cash Flow

Profitability ratios

- Gross Profit
- EBITDA
- Net Operating Income
- Net Income
- Net Income Margin
- EBITDA Margin
- Gross Profit Margin
- Return on Investment (ROI)
- Return on Equity (ROE)
- Return on Assets (ROA)
- Net Other Income
- Earnings per Share (EPS)
- Operating Profit Margin
- Price-to-Earnings (P/E)
- Return on Capital Employed (ROCE)

Download This Cheat Sheet At: yourcfoguy.com/accounting-cheat-sheet

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Financial Metrics One Pager

YOUR CFO GUY

Balance sheet ratios

Debt-to-Equity Ratio
- Amount of debt a company has in relation to its equity
- Total Debt / Shareholders Equity
- The lower the ratio, the less the debt compared to equity

Debt-to-Assets Ratio
- Amount of debt a company has in relation to its assets
- Total debt / Total Assets
- The lower the ratio, the less the debt compared to Assets

Equity Multiplier
- Measures the proportion of a company's assets that are financed through debt versus equity
- Total Assets / Total Equity
- A high equity multiplier means the company is relying more on debt to finance it's assets rather than equity

Current Ratio
- Measures whether a company has enough short-term assets to cover its short-term liabilities
- Assets / Current Liabilities
- The higher the ratio, the more assets you have in relation to your liabilities

Quick Ratio
- Shows the ability of a company to meet its short-term obligations with its most liquid assets
- (Current Assets - Inventory) / Current Liabilities
- The higher the ratio, the more liquidity your business has

Net Working Capital Ratio
- Showcases the difference between a company's current assets and its current liabilities
- (Current Assets - Current Liabilities) / Total Assets
- The higher the ratio, the more current assets you have compared to your current liabilities

Total Debt-to-Capitalization Ratio
- The total amount of debt in relation to a company's total capitalization (Debt & Equity)
- Total Debt / (Total Debt + Shareholders' Equity)
- The lower ratio, the less your business is capitalized using debt

Return on Equity (ROE)
- Amount of net income a company generates in relation to its equity
- Net Income / Shareholders' Equity
- A high Cash Turnover the company is efficiently using it's cash to geneThe higher your ROE, the better return you are getting on your equityrate revenue

Return on Assets (ROA)
- Amount of net income a company generates in relation to its total assets
- Net Income / Total Assets
- The higher your ROA, the better your return on your assets

Accounts Receivable Turnover
- Net Credit Sales / Average Accounts Receivable
- Measures how many times a company collects its average accounts receivable balance in a given period
- The higher your AR Turnover, the quicker you are collecting against your Accounts Receivable balance

Inventory Turnover
- Cost of Goods Sold / Average Inventory
- Measures many times a company's inventory is sold and replaced over a given period
- A high inventory turnover ratio indicates that the company is selling its inventory quickly

Accounts Payable Turnover
- Total Purchases on credit / Average Accounts Payable
- Measures how many times a company pays off its average accounts payable balance in a given period.
- A high accounts payable turnover ratio indicates that the company is paying off its bills quickly

Asset Turnover
- Sales / Total Assets
- Measures how efficiently a company is using its assets to generate revenue.
- A high asset turnover ratio indicates that the company is generating a high level of sales relative to its assets

Fixed Asset Turnover
- Sales / Net Fixed Assets
- (Current Assets - Current Liabilities) / Total Assets
- The higher the ratio, the more current assets you have compared to your current liabilities

Working Capital Turnover
- Sales / Average Working Capital
- Measures how many times a company's working capital (current assets minus current liabilities) is turned over in a given period
- A high working capital turnover ratio indicates that the company is generating a high level of sales relative to its working capital

Cash Turnover
- Sales / Avg Cash & Cash Equivalents
- Measures the rate at which a company converts it's cash balance into revenue
- A high Cash Turnover the company is efficiently using it's cash to generate revenue

Cash flow ratios

Operating Cash Flow (OCF)
- OCF = Net Income + Depreciation + Amortization + Other Non-Cash Items - Changes in Working Capital
- Measures the rate at which a company converts it's cash balance into revenue
- A higher OCF indicates that a company has more cash available for its day-to-day operations, investments, and debt repayments.

Free Cash Flow (FCF)
- FCF = Operating Cash Flow - Capital Expenditures
- Free cash flow measures a company's cash flow available for distribution to its investors or for future investments.
- A positive FCF indicates that a company is generating cash from its operations and can invest in new projects, pay dividends, or reduce debt.

Cash Conversion Cycle (CCC)
- CCC = Days of Sales Outstanding + Days of Inventory Outstanding - Days of Payables Outstanding
- The CCC measures the amount of time it takes for a company to convert its investments in inventory and receivables into cash, minus the time it takes to pay its suppliers.
- A lower CCC indicates that a company is efficiently managing its working capital and has cash available to meet its obligations and invest in growth opportunities.

Net Cash Flow
- Net Cash Flow = Operating Cash Flow + Investing Cash Flow + Financing Cash Flow
- Net cash flow measures the total amount of cash generated or used by a company from its operating, investing, and financing activities.
- A positive net cash flow indicates that a company is generating more cash than it is using

Operating Ca sh Flow to Sales Ratio
- Operating Cash Flow / Net Sales
- This ratio measures the percentage of each sales dollar that is converted into operating cash flow
- A higher ratio indicates that a company is generating more operating cash flow per dollar of sales

Payback Period
- Payback Period = Initial Investment / Annual Cash Flow
- The payback period measures the amount of time it takes for an investment to generate enough cash flows

Discounted Cash Flow (DCF)
- DCF = CF1 / (1+r)1 + CF2 / (1+r)2 + ... + CFn / (1+r)n, where CF is cash flow, r is the discount rate, and n is the number of periods.
- DCF is a method of valuing an investment or a company by discounting its expected future cash flows to their present value.
- A higher DCF indicates that the investment or the company is expected to generate more cash in the future

Present Value
- PV = CF / (1+r)^t, where CF is cash flow, r is the discount rate, and t is the number of periods.
- Present value measures the current value of a future cash flow, given a discount rate.
- A higher present value indicates that the future cash flow is more valuable today

Future Value
- FV = CF x (1+r)^t, where CF is cash flow, r is the interest rate, and t is the number of periods.
- Future value measures the value of a current cash flow at a future point in time, given an interest rate.
- A higher future value indicates that the current cash flow will be worth more in the future

Cash Ratio
- (Cash + Marketable Securities) / Current Liabilities
- measures a company's ability to pay off its current liabilities using only its most liquid assets, such as cash and marketable securities.
- A higher cash ratio indicates that a company has a larger amount of highly liquid assets relative to its current liabilities

Cash Burn
- Cash from Operating Activities + Cash from Investing Activities
- Measures the amount of cash consumed without accounting for activities related to financing (equity / debt)
- A higher cash burn means the company is consuming more money, outside of activities related to financing

Levered Free Cash Flow
- EBITDA - Taxes - Capital Expenditures - Changes in Net Working Capital - Interest Expense
- Represents the cash flow available to equity holders after taking into account interest payments on debt
- A higher levered free cash flow indicates a company is generating more cash that can be used to pay down debt, make dividend payments, or invest in growth opportunities.

Profitability ratios

Gross Profit
- Total Revenue - Cost of Goods Sold (COGS)
- This tells you how much is left after each sale

EBITDA
- Net Income + Interest Expense - Interest Income + Taxes + Depreciation + Amortization
- Earnings before interest, tax, depreciation & amortization

Net Income
- Total Revenue - Total Expenses
- Bottom line profit after subtracting all expenses from all income

Net Income Margin
- Net Income / Revenue
- Percentage of revenue that remains after deducting all expenses, including taxes and interest

Return on Investment (ROI)
- Net Profit / Total Investment
- The return on investment capital invested in a business.

Net Operating income
- Gross Profit - Operating Expenses
- The profit derived from a company's regular business activities

Gross Profit Margin
- Gross Profit / Revenue
- Percentage of revenue that exceeds the cost of goods sold.

EBITDA Margin
- EBITDA / Revenue
- Your % of revenue that's left over as EBITDA

Net Other Income
- Other Income - Other Expense
- The net profitability of your other income / expense items, not related to your core business

Earnings per Share (EPS)
- Net Income / Total Shares Outstanding
- The portion of a company's profit allocated to each outstanding share of common stock

Operating Profit Margin
- Operating Profit / Revenue
- The percentage of revenue that remains after deducting operating expenses.

Price-to-Earnings (P/E)
- Price per Share / EPS
- The relationship between a company's stock price and its earnings per share.

Return on Capital Employed (ROCE)
- Operating Profit / Capital Employed
- A company's ability to generate profits from the capital it has invested in its business.

SaaS Metrics

Churn
- Lost revenue / customers who are no longer active

Customer Acquisition Cost
- Sales + marketing costs / new customers
- Cost to acquire a customer

Customer Lifetime Value
- Avg monthly revenue * avg month's active
- Total expected revenue from a customer over their lifetime

Net Dollar Retention
- Net revenue / opening MRR
- The amount being retained from a customer or cohort over a specific period of time

Monthly Recurring Revenue
- Opening MRR + new MRR - Churn MRR + expansion MRR - contraction MRR
- Revenue from customers subscribed to monthly recurring plans

Annual Recurring Revenue
- Opening ARR + new ARR - churn ARR + expansion ARR - contraction ARR
- Revenue from customers subscribed to Annual recurring plans

Contraction revenue
- Reduced revenue from recurring customers

Budget Attainment
- Budget variance / budget amount
- % of your budget achieved

Average Revenue per User
- Total Revenue / # of Users
- The average revenue you are generating from a user (more common in B2C)

Runway
- Cash in bank / monthly avg cash burn
- How many months till you run out of cash

Net Promoter Score
- Measures customer loyalty based off of likelihood to refer

Revenue run rate
- This months revenue * 12
- An annualized version of your revenue

CAC Payback
- Customer Acquisition cost / gross profit
- Period of time till you make back your Customer Acquisition Cost

Cash out date
- This month + runway
- Date in which you run out of cash

Expansion Revenue
- Added Revenue from recurring customers

THE INTERNAL CONTROLS CHECKLIST

1 FINANCIAL CONTROL

- Separate individuals handling authorization, recording, and custody of assets and financial transactions.
- Establish a formal vendor approval process.
- Establish controls for managing vendor master data.
- Implement a formal expense authorization process.
- Perform due diligence on new vendors before engaging in business transactions.
- Periodically review vendor performance and contracts.
- Regularly reconcile accounts payable balances.
- Set expenditure limits and require approval for expenses above a certain threshold.
- Verify invoices against purchase orders and contracts.
- Document and approve revenue recognition policies.
- Ensure compliance with revenue recognition principles.
- Implement credit checks for new customers.
- Periodically review and update credit policies to reflect changing risks.
- Regularly review aging reports for outstanding receivables.
- Regularly review the adequacy of bad debt reserves.
- Establish procedures for cash handling and deposits.
- Maintain a petty cash fund with proper controls and reconciliations.
- Regularly review bank signatories and account access.
- Segregate duties for handling cash receipts and disbursements.
- Conduct regular physical inventory checks.
- Establish a formal approval process for capital expenditures.
- FA Separate custody of physical assets from accounting responsibilities.
- Implement controls for the acquisition and disposal of fixed assets.
- Keep an accurate fixed asset register.
- Periodically review asset retirement obligations for accuracy and updates.
- Regularly test for impairment of assets and document the results.
- Review depreciation and amortization calculations for accuracy.
- Document and approve all journal entries and adjustments.
- Ensure timely reconciliation of intercompany balances and transactions.
- Establish a record retention policy in line with legal requirements.
- Follow up on audit findings to ensure remediation.
- Implement controls for managing investments and risk exposures.
- Implement cost accounting processes to track and manage expenses.
- Maintain proper documentation for all financial transactions.
- Perform monthly bank reconciliations for all accounts.
- Regularly review cost allocations for accuracy and consistency.
- Regularly review lease agreements for compliance and accounting treatment.
- Review and approve all related party transactions.
- Review and document R&D expenses for accounting treatment.
- Review significant contracts for financial implications and compliance.
- Review supporting documentation for accuracy and validity.
- Segregate the roles of transaction preparation and approval.
- Use pre-numbered documents for accounting records to detect missing transactions.
- Conduct periodic reviews of financial controls and processes.
- Continuously assess and improve internal controls based on changing circumstances and feedback.
- Establish clear financial policies and procedures and communicate them to relevant staff.
- Establish policies for managing capital and equity.
- Establish procedures for approving and documenting inventory write-offs.
- Implement policies for managing travel and entertainment expenses.
- Provide training to employees on internal controls and financial policies.
- Regularly review compliance with financial regulations and company policies.
- Review payroll inputs and outputs for accuracy.
- Conduct regular meetings with management to discuss financial results and controls.
- Ensure accurate and timely financial reporting.
- Ensure compliance with relevant industry accounting standards.
- Ensure proper use of accounting estimates in financial reporting.
- Regularly analyze financial statements for unusual trends or discrepancies.
- Control access to financial systems and sensitive data.
- Establish a disaster recovery plan for financial systems and data.
- Implement controls to protect customer and employee privacy.
- Periodically review IT general controls to ensure the integrity of financial data.
- Protect financial data from unauthorized access and cyber threats.
- Regularly review user access rights.

2 FINANCIAL PLANNING & ANALYSIS

- Define and communicate the company's strategic goals and objectives.
- Establish a formal strategic planning process, including timelines and responsibilities.
- Regularly review the alignment of financial plans with strategic objectives.
- Perform scenario planning exercises to assess potential risks and opportunities.
- Review the sensitivity of financial forecasts to different scenarios.
- Implement a structured budgeting process with clear guidelines.
- Require appropriate approvals for budget changes and adjustments.
- Review and validate assumptions used in the budget.
- Establish a robust forecasting process to update financial projections regularly.
- Document and communicate forecast assumptions and changes.
- Monitor forecast accuracy and identify areas for improvement.
- Establish a process to incorporate feedback and lessons learned into future forecasts.
- Implement a rolling forecast process to update projections continuously.
- Align the rolling forecast with the strategic planning cycle.
- Monitor and analyze key business drivers and variances against budget and forecast.
- Investigate significant variances and document explanations.
- Prepare timely and accurate management reports.
- Ensure that reports are relevant, insightful, and aligned with business needs.
- Implement data integrity checks to validate the accuracy of reported information.
- Identify and monitor financial and non-financial KPIs relevant to business performance.
- Set targets for KPIs and track progress against these targets.
- Implement controls to ensure the accuracy and integrity of financial and operational data.
- Regularly review data sources for completeness and accuracy.
- Define and document the allocation methodology for shared costs and expenses.
- Review and validate the results of allocations regularly.
- Document and retain the rationale behind key financial assumptions.
- Regularly review and update assumptions based on changing business conditions.
- Conduct variance analysis to explain deviations between actuals and forecasts.
- Investigate and resolve significant variances promptly.
- Implement controls to monitor and manage expenses effectively.
- Set expenditure limits and require approvals for significant expenses.
- Implement cost control measures in response to changing business conditions.
- Monitor cost-saving initiatives and assess their effectiveness.
- Monitor working capital levels and analyze trends in receivables and payables.
- Implement measures to optimize working capital, if applicable.
- Ensure financial models are well documented and adhere to best practices.
- Review and validate financial models for accuracy and consistency.
- Facilitate coordination between FP&A, operations, sales, and other functions.
- Promote cross-functional collaboration in the planning process.

3 TREASURY & CASH MANAGEMENT

- Forecast cash flows regularly to ensure sufficient liquidity.
- Implement controls to monitor and manage cash inflows and outflows.
- Review and validate cash flow projections for accuracy and reasonableness.
- Establish a contingency plan to address cash flow shortfalls or disruptions.
- Maintain clear communication with banks and establish strong relationships.
- Regularly review bank service agreements and negotiate favorable terms.
- Confirm that bank charges and fees are reasonable and properly accounted for.
- Monitor changes in bank policies and regulations that may impact cash management.
- Maintain up-to-date records of bank facilities and loan agreements.
- Ensure compliance with covenants and reporting requirements.
- Regularly review borrowing needs and optimize debt structure.
- Monitor the company's credit rating with banks and credit rating agencies.
- Implement measures to maintain or improve the credit rating.
- Monitor fixed deposit maturities and rollovers to optimize returns.
- Maintain proper documentation for fixed deposits and interest income.
- Establish procedures to monitor cash balances at various locations.
- Implement controls to safeguard cash on hand and prevent misappropriation.
- Implement cash concentration and pooling arrangements to optimize cash utilization.
- Regularly review and reconcile cash concentration and pooling activities.
- Monitor the accuracy of cash flow forecasts and adjust forecasting methods as needed.
- Investigate and address significant variances between forecasted and actual cash flows.
- Establish controls for cash handling and disbursement processes.
- Segregate duties for cash handling, recording, and reconciliation.
- Perform regular bank reconciliations to ensure the accuracy of cash balances.
- Investigate and resolve outstanding reconciling items promptly.
- Implement secure electronic payment systems and review access controls.
- Require dual authorization for large or sensitive electronic payments.
- Establish controls to prevent and detect fraudulent activities related to cash management.
- Regularly review and update fraud prevention measures.
- Implement controls to manage foreign exchange risks, if applicable.
- Hedge foreign exchange exposures to mitigate currency risk.
- Maintain an up-to-date register of all bank accounts.
- Periodically review authorized signatories and access rights for bank accounts.
- Implement positive pay or payment confirmation procedures with banks.
- Validate that outgoing payments match the approved list of checks and payments.
- Conduct due diligence on bank service providers and payment platforms.
- Review and assess the security measures of third-party payment providers.
- Ensure compliance with all banking regulations and reporting requirements.
- Regularly review bank compliance reports and address any deficiencies.
- Monitor interest rate exposures and implement appropriate hedging strategies.
- Assess the impact of interest rate changes on cash flows and financial performance.
- Establish a formal payment authorization process with appropriate approval levels.
- Regularly review and update payment authorization policies.
- Implement controls to validate banking communications, such as SWIFT messages.
- Verify the authenticity of banking requests or changes in account information.
- Develop and maintain an investment policy that aligns with the organization's risk tolerance.
- Monitor investment activities and assess compliance with the investment policy.
- Control access to banking systems and limit privileges based on roles and responsibilities.
- Regularly review user access rights to banking platforms.

4 TAXATION

- Monitor changes in tax laws and regulations to ensure compliance.
- Establish a tax calendar with key deadlines for filing returns and making payments.
- Assign responsibility for tax compliance and reporting to specific individuals or teams.
- Implement controls to verify the accuracy of tax calculations and filings.
- Maintain organized and accurate records of all tax related transactions.
- Retain supporting documentation for tax positions taken and deductions claimed.
- Establish a record retention policy to comply with tax authority requirements.
- Develop tax planning strategies that align with the company's business objectives.
- Review and approve significant tax planning initiatives.
- Comply with transfer pricing regulations and maintain proper documentation.
- Conduct periodic transfer pricing reviews and adjustments, if applicable.
- Verify the accuracy of sales tax and VAT calculations and filings.
- Implement controls to track and manage sales tax exemption certificates.
- Establish controls to calculate the income tax provision accurately.
- Review tax provision calculations for accuracy and completeness.
- Identify and assess eligibility for tax credits and incentives.
- Document and support claims for tax credits and incentives.
- Prepare for tax audits and inquiries by maintaining organized records.
- Respond to tax authorities' requests promptly and accurately.
- Implement controls to ensure timely and accurate transfer of tax payments.
- Review payment confirmations and reconcile with tax authorities' records.
- Comply with withholding tax requirements and report withheld amounts accurately.
- Implement controls to verify the correct application of withholding tax rates.
- Establish procedures for handling tax disputes and appeals.
- Identify and assess potential tax risks and implement risk mitigation strategies.
- Review and monitor tax contingencies and reserves.
- Comply with international tax regulations, including cross-border transactions.
- Conduct periodic reviews of international tax compliance and transfer pricing.
- Disclose tax-related information in financial statements and public reports as required.
- Ensure compliance with tax reporting requirements for related-party transactions.
- Provide tax compliance training to relevant employees and departments.
- Monitor the understanding and adherence to tax compliance policies.
- Where relevant, Require tax compliance certifications from key personnel and vendors.
- Regularly review and update tax compliance certifications.
- Establish a tax code of conduct that outlines ethical tax practices.
- Promote awareness of the tax code of conduct throughout the organization.
- Establish protocols for handling tax controversies and disputes.
- Document communications and resolutions related to tax controversies.
- Conduct an annual tax review to assess overall tax compliance and planning.
- Implement corrective actions based on the findings of the tax review.
- Control access to tax-related information and systems.
- Regularly review user access rights to tax databases and software.
- Involve tax experts in significant business transactions to assess tax implications.
- Document and communicate tax considerations for business decisions.
- Conduct periodic tax risk assessments to identify potential exposures.
- Develop and execute risk mitigation plans based on the assessment.
- Implement reliable tax compliance software to streamline reporting and calculations.

5 RISK MANAGEMENT

- Implement a structured process to identify and assess risks.
- Engage stakeholders in risk identification, including employees, management, and external experts.
- Regularly review and update the risk register to capture emerging risks.
- Conduct qualitative and quantitative risk assessments to prioritize risks.
- Evaluate the potential impact and likelihood of each identified risk.
- Consider risk interdependencies and correlations in the assessment.
- Develop and implement risk mitigation strategies for high-priority risks.
- Assign responsibility for overseeing and executing risk mitigation actions.
- Establish risk tolerance levels for key risks and monitor compliance.
- Monitor risk indicators and triggers to identify early warning signs.
- Implement real-time risk monitoring tools and dashboards.
- Conduct periodic risk reviews and updates based on changing circumstances.
- Develop contingency plans to address potential risk scenarios.
- Regularly review and test contingency plans for effectiveness.
- Establish clear communication channels for reporting risks across the organization.
- Ensure that risk information is communicated to relevant stakeholders in a timely manner.
- Provide risk training and awareness programs to employees.
- Implement a structured risk reporting process to management and the board.
- Provide regular risk reports with actionable insights for decision making.
- Document risk management activities and responses.
- Assign clear ownership of risks to accountable individuals or departments.
- Ensure that risk owners understand their responsibilities and authority.
- Define the organization's risk appetite and risk tolerance levels.
- Align risk-taking decisions with the established risk appetite.
- Establish controls to monitor compliance with laws, regulations, and internal policies.
- Conduct periodic compliance assessments and audits.
- Develop a crisis management plan to respond to major risks and emergencies.
- Conduct crisis management drills and simulations to test preparedness.
- Foster a risk-aware culture throughout the organization.
- Promote a "speak-up" culture to encourage reporting of potential risks.
- Assess the effectiveness of risk controls and mitigation measures.
- Implement necessary improvements to enhance risk control effectiveness.
- Develop a business continuity plan to ensure continuity during disruptive events.
- Test the business continuity plan regularly to validate its effectiveness.
- Implement controls to protect sensitive data from cybersecurity threats.
- Ensure compliance with data protection and privacy regulations.
- Review and maintain adequate insurance coverage to mitigate financial risks.
- Regularly assess insurance policies for appropriateness and coverage limits.
- Conduct scenario planning exercises to assess the impact of potential risk scenarios.
- Use scenario analysis to inform risk mitigation strategies.
- Establish a risk governance structure with defined roles and responsibilities.
- Provide oversight and review of the risk management framework regularly.