

THE MANAGEMENT CHEAT SHEET

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12 FINANCIAL SKILLS

FINANCIAL STATEMENT ANALYSIS

BUDGETING AND FORECASTING

BREAK-EVEN ANALYSIS (B/E)

COST-VOLUME-PROFIT ANALYSIS (CVP)

CAPITAL BUDGETING

WORKING CAPITAL MANAGEMENT

FINANCIAL RATIO ANALYSIS

PERFORMANCE MANAGEMENT

RISK MANAGEMENT

DEBT MANAGEMENT (LEVERAGE/SERVICE /COVERAGE)

PERFORMANCE METRICS (KPIs)

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

$$\text{Margin} = \text{Markup} / (1 + \text{Markup})$$

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

MARKUP = GROSS PROFIT PER PRODUCT / PRODUCT COST X 100

$$\text{Markup} = \text{Margin} / (1 - \text{Margin})$$

20 RED FLAGS

UNUSUAL TRANSACTIONS

HIGH EMPLOYEE TURNOVER

INADEQUATE SEGREGATION OF DUTIES

FREQUENT CHANGES IN AUDITORS OR LEGAL COUNSEL

EXCESSIVE USE OF MANUAL JOURNAL ENTRIES

UNUSUAL PATTERNS IN FINANCIAL RATIOS

INCONSISTENT REVENUE RECOGNITION

INADEQUATE DOCUMENTATION

RELUCTANCE TO PROVIDE INFORMATION

PERSISTENT NEGATIVE CASH FLOW

HIGH DEBT LEVELS

OVERRELIANCE ON A SINGLE CUSTOMER OR SUPPLIER

DECLINING MARKET SHARE

OVERSTATED ASSETS OR UNDERSTATED LIABILITIES

INEFFECTIVE INTERNAL CONTROLS

POOR CORPORATE GOVERNANCE

CONFLICTS OF INTEREST

AGGRESSIVE ACCOUNTING PRACTICES

INACCURATE OR DELAYED FINANCIAL REPORTING

UNEXPLAINED BUDGET VS ACTUAL VARIANCES

16 TYPES OF COSTS

SUNK COSTS

OPPORTUNITY COSTS

PERIOD COSTS

PRODUCT COSTS

INCREMENTAL COSTS

FIXED COSTS

VARIABLE COSTS

MIXED COSTS

STEP COSTS

DIRECT COSTS

ALLOCATED COSTS

ECONOMIC COSTS

CONVERSION COSTS

MANUFACTURING COSTS

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



Customer Perspective



- Profitability
- Leverage
- Debt Coverage
- Growth
- Activity

Financial Perspective

Internal Perspective

Education & Learning Perspective

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



- 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 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.

Gross Profit (GP) = (Revenue - COGS)

Gross Profit Margin = Gross Profit / Revenue

Evaluates the profitability of overall operations, through the relationship between revenue and the cost of goods sold (COGS) for all products / services

Includes direct materials, direct labor, and manufacturing fixed and variable overheads. Excludes variable costs unrelated to production

Used to understand company overall operational efficiency, identify areas for cost improvement, and determine the profitability of the entire product or service portfolio

Contribution Margin Ratio

Contribution Margin expressed as a percentage of the sales price.

Contribution Margin (CM) = Unit Price - Unit Variable Cost

Contribution Margin Ratio = CM / Unit Price

Evaluates the profitability of individual products or services, assessing how each product contributes to covering fixed costs and generating profit.

Considers direct materials, direct labor, variable manufacturing overhead, variable selling and variable marketing.

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

Definition

Discount rate at which net present value (NPV) of investment cash flows equals zero.

Formula

$NPV = \sum \text{Cash Flow}_t / (1 + IRR)^t = 0$

Drivers

Time value of money, cash flow timing and amounts, discount rate, project duration, and risk

Uses

Evaluate and compare investment profitability

Determine investment break-even discount rate

Avoid Using

When investment cash flows can be both negative and positive

Return on Investment

Definition

Financial ratio measuring the profitability of an investment, as a % of the invested amount.

Formula

$\text{Investment Profit} / \text{Investment} \times 100$

Drivers

Investment revenues & costs

Uses

Measure investment efficiency & profitability

Capital allocation decisions

Avoid Using

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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