Can Help

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The SBA reports that about half of all small businesses don't survive to reach their

statement. But in order to keep your business afloat, there are several additional metrics that are important to understand. Jot down some notes before your next appointment with your CPA to make sure these metrics are top of mind, and don't be afraid to ask for context to help you get a firm grasp on the numbers.

Pre-tax net profit margin. How much profit is your business making for every dollar in sales? This metric is an incredibly important one, as a higher margin equals more profit. Speak with your CPA about this figure in terms of business expenses – is there an opportunity to cut costs in some areas? Managing expenses effectively is one way that many small business owners can almost immediately impact profits in a positive way. Most accountants have assisted a wide variety of companies over the years, so they will likely have ideas you may not have considered.

Current ratio and quick ratio. While these are two individual metrics, they are generally analyzed together to help show a more complete picture of a company's liquidity. The reason these two metrics are crucial to understand is actually a very simple concept – without adequate liquidity, one unexpected expense can cripple a small business.

Current ratio is the proportion of current assets to current liabilities – essentially what assets you can convert quickly into cash (usually within a year). A current ratio under 1 suggests that a company would be unable to pay off its short-term obligations. The quick ratio evaluates the ability of a company to meet those same obligations with its most liquid assets – cash plus accounts receivable. Inventory is excluded from assets used to determine the quick ratio because inventory isn't as liquid as cash or receivables. As with current ratio, the higher the quick ratio, the better positioned the company.

To better understand all three of these metrics, it could be helpful for your CPA to offer industry benchmarks. Because industry financials are often unique, seeing how your business sizes up against others in the same field can best explain where your