

Business Insights 101

AccountEdge Pro

AccountEdge Network Edition

What is it?

The AccountEdge Business Insights is designed to give you a new way to review the health and performance of your business. One of the keys to effective financial management is to regularly monitor those factors that determine the success of your business. Companies can benefit from a short list of key measures that they can look at on a regular basis to see how their business is tracking. We use familiar financial ratios, based on your AccountEdge data, and display them graphically for easier analysis, so you can spot trends. You can print these graphs and also print a Business Insights Summary report.

How do you use it?

Select Business Insights from the Accounts command center, select the financial years you want to compare and select the specific area you want to review. Based on your recorded transactions, you'll be able to review your company's performance using common business ratios with charts showing results over time and highlighted in color.

What does it mean?

You can compare your results over the course of time to spot trends that will affect your future performance. You may have your own market or industry data and you want to compare your results to other similar businesses. Short term, long term, and liquidity ratios are used to give you a real time view of your business over two years. Results are highlighted in color to help you spot trends and identify opportunities and risks. If a number is the result of a calculation, and the divisor is 0, the result will display as N/A indicating that the division cannot be done.

How is my Chart of Accounts (COA) connected

When each of your accounts was set up, they were assigned an Account Classification, an Account Type, an Account Number and Name. To see your list, go to your Accounts Command Center, select Account List and drill down into any account. Under Account Type you'll see a drop down menu.

Your recorded transactions are posted to the accounts that make up the building blocks of the ratios displayed in the Business Insights.

In order to get accurate results, all your business transactions must be recorded in your company file, including loans, depreciation, amortization, and other long-term items. Have your accountant review your Balance Sheet to make sure all of your assets and liabilities are recorded. Your accountant can give you Journal entries that will help you 'book' your Balance Sheet items, empowering you to run a complete set of financial reports.

IMPORTANT:

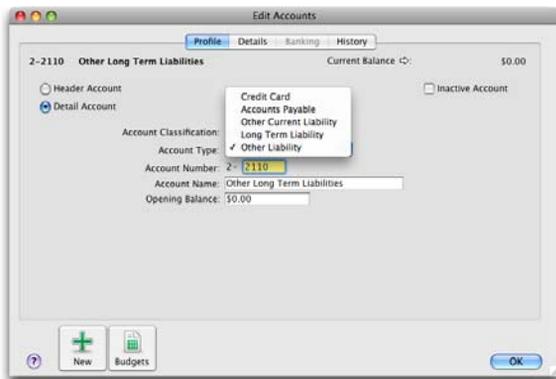
Your ratios are based on how your Chart of Accounts is configured – please read this important information to make sure your accounts are set up correctly and what you can do to adjust them so you will get the expected results.

Are my ratios correct?

We suggest checking your accounts to make sure they are in the right Account Classification and Type. Long-time users of AccountEdge should review all their Accounts, especially their Asset and Liability accounts to make sure they are set correctly.

AccountEdge uses the Account Type to calculate the financial ratios included in the Business Insights area. The table below describes the typical use for each type and what kind of transactions are 'posted' or recorded to each account.

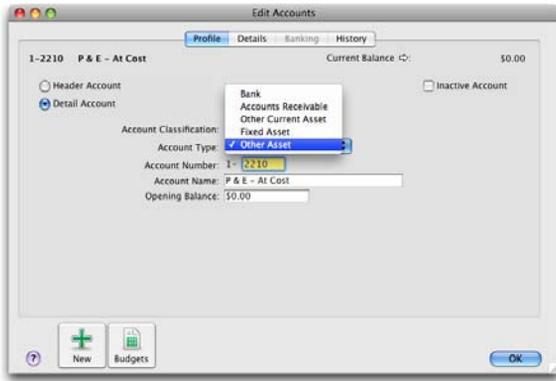
If you originally adopted a Chart of Accounts recommended in AccountEdge, some of your account types may need to be changed.



For Example:

You may have an account called (2-xxxx) Other Long Term Liabilities, but its Account Type is Other Liabilities. Most likely, it should be changed to a Long Term Liability Account Type.

You may have an account that represents equipment, but the Account Type is Other Assets. Most likely, it should be changed to a Fixed Asset Account Type.



How do I adjust my accounts?

Just select an account from your Accounts List and edit it, in this case, by selecting a new Account Type. Account Types can be interpreted in different ways. If you're not sure, ask your accountant, bookkeeper or AccountEdge Certified Consultant.

Note:

You cannot change an account's Classification. If required, set up a new account and move the balance via a Journal Entry.

What are the different Account Classifications and Types and what do they mean?

Account classifications and types are described in the following:

What are the actual ratios used?

- $\text{Gross Profit Margin Ratio} = \text{Gross Profit} / \text{Sales}$
- $\text{Operating Profit Ratio} = \text{Operating Profit} / \text{Sales}$
- $\text{Net Profit to Sales Ratio} = \text{Net Profit} / \text{Sales}$
- $\text{Accounts Receivable Days} = \text{Accounts Receivable} / \text{Sales} \times \text{Days in the given month}$
- $\text{Accounts Payable Days} = \text{Accounts Payable} / \text{Cost of Sales Sold} \times \text{Days in the given month}$
- $\text{Inventory Turnover Days} = \text{Inventory} / \text{Cost of Sales Sold} \times \text{Days in the given month}$
- $\text{Current Ratio} = \text{Current Assets} / \text{Current Liabilities}$

- Profitability Ratio(s) = A summary of your business in comparison to Sales, including:
 - Cost of Sales = $\text{YTD Total COS} / \text{YTD Total Income}$
 - Gross Profit = $(\text{YTD Total Income} - \text{YTD Total Cost of Sales}) / \text{YTD Total Income}$
 - Operating Expenses = $\text{YTD Total Expenses} / \text{YTD Total Income}$
 - Operating Profit = $((\text{YTD Total Income} - \text{YTD Total Cost of Sales}) - \text{YTD Total Expenses}) / \text{YTD Total Income}$
 - Operating Profit = $((\text{YTD Total Income} - \text{YTD Total Cost of Sales}) - \text{YTD Total Expenses}) / \text{YTD Total Income}$
 - Non Operating Income = $\text{YTD Total Other Income} / \text{YTD Total Income}$
 - Non Operating Expenses = $\text{YTD Total Other Expenses} / \text{YTD Total Income}$
 - Net Profit = $(\text{YTD Total Income} - \text{YTD Total Cost of Sales} - \text{YTD Total Expenses} + \text{YTD Other Income} - \text{YTD Other Expenses}) / \text{YTD Total Income}$

Still want more detail?

The information required to compute the equations displayed for each option are as follows:

NOTE: Income = Sales, i.e. Total Income equals Total Sales.

- Total Income – This will be the total amount of all accounts listed with an account type of Income.
- Total Expenses – This will be the total amount of all accounts listed with an account type of Expense.
- Total Cost of Sales – This will be the total amount of all accounts listed with an account type of Cost of Sales.
- Accounts Receivable – This will be the total amount of the linked receivables account, linked receivables accounts for all foreign currencies and the corresponding exchange accounts.
- Inventory – This will be the total of the asset accounts used to track inventory. It will be necessary to first find which accounts are used in the item information window of each item.
- Accounts Payable – This will be the total amount of the linked payable account, linked payables accounts for all foreign currencies and the coordinating exchange accounts.
- Total Current Assets – This will be the total amount of the accounts with account types of Bank, Accounts Receivable, Other Current Asset and Other Asset.
- Total Current Liabilities – This will be the total amount of the accounts with account types of Credit Card, Accounts Payable, Other Current Liability and Other Liability.
- Total Other Income – This will be the total amount of all accounts listed with an account type of Other Income.
- Total Other Expenses - This will be the total amount of all accounts listed with an account type of Other Expense.

- Prior to performing the calculations for the ratios, some other calculations must be done. They are as follows:
- $\text{Gross Profit} = \text{Total Income} - \text{Total Cost of Sales}$
- $\text{Net Profit} = (\text{Total Income} - \text{Total Cost of Sales}) - \text{Total Expenses} + \text{Total Other Income} - \text{Total Other Expenses}$
- $\text{Operating Profit} = (\text{Total Income} - \text{Total Cost of Sales}) - \text{Total Expenses}$

So, what if I need more help?

- Speak to your accountant. The data provided has to be considered in the context of the rest of your business – beyond the transactions.
- Work with an AccountEdge Certified Consultant – They can help you set up and effectively use AccountEdge to help you manage your day-to-day operations.
- Browse the web (search or wiki on ‘financial ratios’)

So, what’s the bottom line?

- Try it.
- Consult with your accounting professional to review your Account Types if you still have questions.
- Experiment.
- Have fun, after all, it is only accounting...

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