

## Errata

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Attachments
NEW p. 12: BSBFIM601 Manage finances

**Please use the attached page to replace erroneous page in the above resource.**

Aspire Learning Resources

## Example: net profit ratio

The following shows the net profit ratio for a company called Design Z Emporium.

Net sales (net profit - sales returns)	\$100,000
Total expenses	\$40,000
Income before tax	\$60,000
Tax rate	35%

For Design Z Emporium to work out its net profit, the net profit ratio will need to be calculated as follows:

**Profit after tax = \$60,000 x (1 - 0.35) = \$39,000**

**Net profit ratio = (\$39,000/\$100,000) x 100 = 39% or \$0.39**

Thus 39 per cent (or 39 cents) of each sales dollar is left as net profit after all the costs of Design Z Emporium have been covered.

## Calculate cashflow ratios

There are a number of ratios to help analyse the organisation's cashflow, as shown below.

### Cashflow solvency

This ratio measures the organisation's ability to pay debts, and therefore indicates financial strength or problems, and the ability to implement strategies. A low ratio indicates the organisation may not be able to meet debts. The formula is:

**Cashflow solvency = Cashflow from operating activities / Total liabilities**

### Cashflow margin

The cashflow margin measures how an organisation converts sales to cash. The higher the margin, the more cash is available to engage in business activities to meet organisational objectives. The calculation is:

**Cashflow margin = Cashflow from operating activities / Sales**

### Cashflow return on assets

The cashflow return on assets (ROA) ratio enables managers to see how efficient the organisation is compared to other, similar organisations. The return can also be compared with past ratios to identify trends. The formula is:

**Cashflow return on assets = Cashflow from operating activities / Total assets**

## Understand the balance sheet

The balance sheet is a financial snapshot of the business as it currently stands, that is, the financial stability of the organisation today. Though the balance sheet does not actually show financial profit, managers can review profitability by looking at the owner's equity.