Set and monitor financial targets for your business

Overview

This standard is for entrepreneurs who need to set and monitor financial targets for their business. If you want to run a successful business you need to keep track of the money you use, save and spend. Setting financial targets and monitoring how well your business does against them will help you to this. Setting up and monitoring financial targets involves researching different ways to measure the success of your business, setting up systems to monitor the financial performance of your business, deciding what to do if what happens is different to what you expect.

You might do this if you are:

1. creating a business plan for a new business or a social enterprise;
2. reviewing the financial plan of an established business or a social enterprise;
3. seeking additional finance to expand your business or a social enterprise;
4. changing the products or services that you are offering.

Performance criteria

You must be able to:

1. assess the financial state of your business
2. research different ways to measure the success of your business
3. source relevant financial information that your business needs
4. prepare a financial forecast to help plan your business and measure profit
5. produce forecasts for accounting periods and present them in an appropriate way
6. ensure the financial information you use for forecasting is based on valid and reliable details
7. use the forecasts in the financial planning and management of your business
8. work out potential business income and spending
9. set financial targets in line with your financial plans for your business
10. prepare a financial plan and use it to assess and help improve the financial performance of your business
11. decide what financial management systems to use in your business
12. monitor income and spending regularly to check their effect on profit targets
13. identify differences between forecast profits and actual profits
14. investigate what is causing the difference between forecast and actual profits
15. define what effect the difference between forecast and actual profits have on your business
16. revise targets when required based on monitoring activities
17. identify ways to keep your tax liabilities to a minimum within the law
18. monitor and review financial targets within current regulation and laws

Knowledge and understanding

You need to know and understand:

Financial targets

1. the financial targets for your business, such as turnover, cash flow, profit, profit margins, borrowing, tax efficiency, investment and cost efficiency

2. how to assess the impact of financial targets on productivity, sales and non-sales revenue, costs and spending

3. how to work out the important ratios that measure how successful different parts of your business are

4. the gross and net profit as a percentage of turnover or sales, or the return on capital used

5. how to carry out a breakeven analysis

Financial forecasting

6. the types of financial forecasts that need to be prepared, such as profit and loss, cash flow, income, spending, movements in, assets and liabilities, budgeting and production, sales

7. the issues that are likely to affect business forecasting, such as market changes on products and ranges, resources and operating costs, seasonal peaks and troughs

Increasing profitability

8. how to work out the difference between gross and net profit

9. how to interpret the basic profit and loss statements

10. the high and low forecasts and simple ratios

11. how to use this information to analyse the profit margins for different products and markets

12. the profit margins for your business

13. how to monitor profitability and how often this should be done

Financial plan

14. the components of a financial plan
15. the assessment of the financial state of your business and financial aims
16. the ratios of profit against turnover, sales or capital
17. the cash flow, profit and loss statements and forecasts
18. the balance sheet
19. the break-even point
20. how to use contingency planning to avoid any potential problems
21. the ways of keeping the amount of tax you pay to a minimum
22. your liabilities are under current laws, such as long-term planning and reporting duties and insolvency

Accounts management

23. the manual and computer-based systems, such as ledgers, journals, budgets, invoicing, receipts, payments, accounting periods, finance year and tax year
24. the financial statements and statutory returns relevant to your business
25. how your trading status affects the financial statements and returns
26. how to use different accounting periods for planning
27. the types of financial information your business needs, such as credit control, cash flow management, charges made by the bank, etc

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