

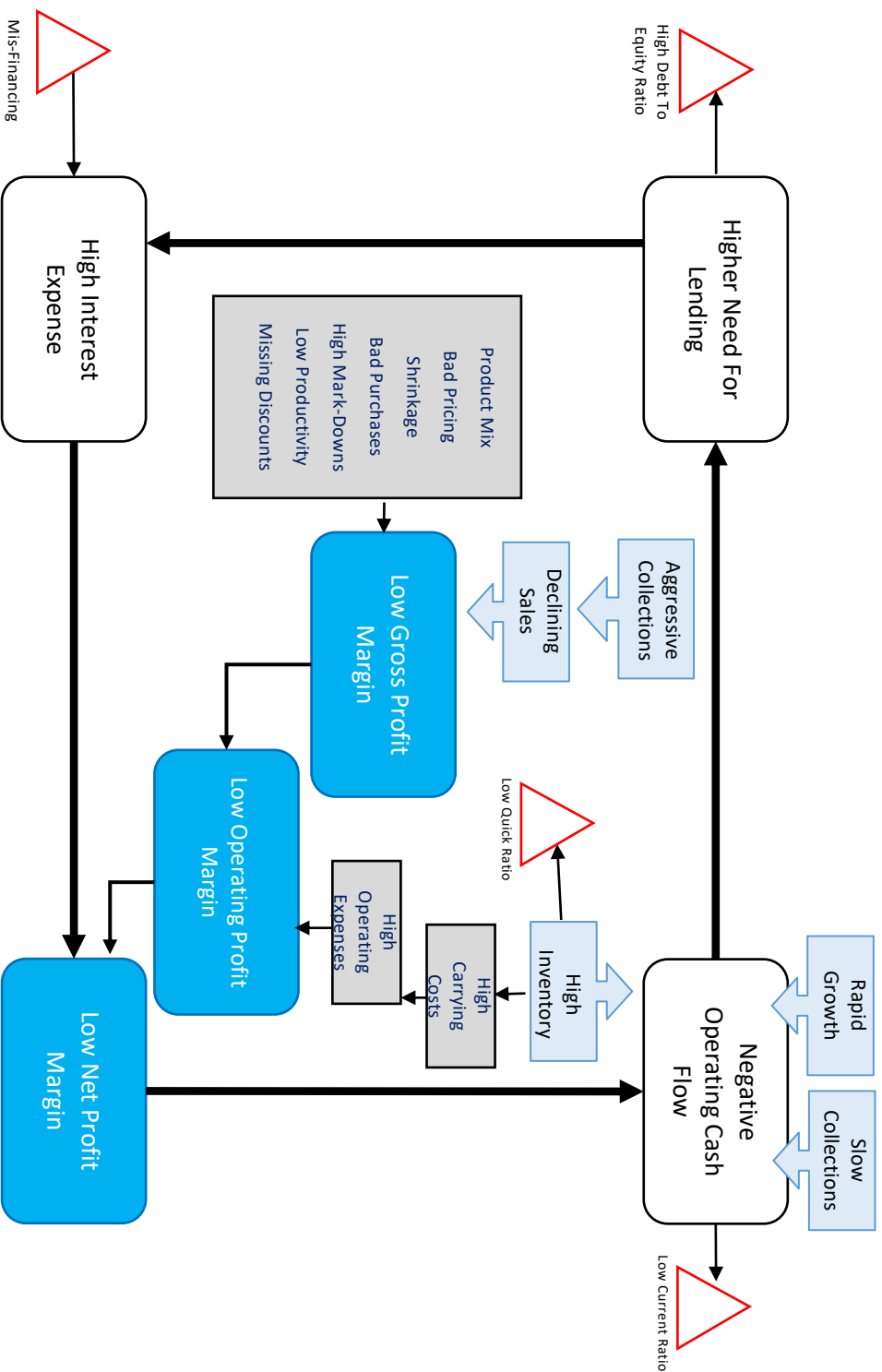
Clear **PATH** To Cash  
*More Money, More Time, Better Business*

# Financial Fix Cheat Sheet

Solutions To Problems You Find In Your Business

Cash Flow Mike

Your business is a complex set of inter-related events. One thing could lead to another and cause a domino effect of problems at the same time. This chart shows the relationships and dynamics of your business and can help point you to the actual root cause of a problem. Use this chart to identify the real issue that is the primary contributing factor to issues you are experiencing and focus on the issues that matter most.



Problems	Possible Causes	Solutions
1. Low Current Ratio (Low Solvency)	<ul style="list-style-type: none"> <li>• Current liabilities too high</li> <li>• Using short-term funds (current liabilities) to fund long-term assets</li> </ul>	<ul style="list-style-type: none"> <li>• Move some short-term liabilities to long term</li> <li>• Sale/leaseback some of the fixed assets</li> </ul>
2. Low Quick Ratio (Low Liquidity)	<ul style="list-style-type: none"> <li>• Same as low current ratio</li> <li>• Inventory is too high</li> </ul>	<ul style="list-style-type: none"> <li>• Same as low current ratio</li> <li>• Reduce inventory (calculate appropriate inventory by dividing cost of goods sold by industry average inventory turnover rate)</li> </ul>
3. High Debt to Equity (Low Safety)	<ul style="list-style-type: none"> <li>• Equity too low</li> <li>• Liabilities too high</li> </ul>	<ul style="list-style-type: none"> <li>• Add to capital (sell stock)</li> <li>• Slow growth in order to let profits reduce liabilities instead of purchasing additional assets</li> </ul>
4. Low Gross Profit Margin	<ul style="list-style-type: none"> <li>• Poor pricing</li> <li>• Poor buying</li> <li>• Poor product mix</li> <li>• Poor productivity</li> <li>• Spoilage, shrinkage, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Do not offer discounts</li> <li>• Take trade discounts</li> <li>• Change sales mix</li> <li>• Reduce production costs</li> <li>• Monitor inventory more closely</li> </ul>
5. Low Pre-Tax Profit Margin	<ul style="list-style-type: none"> <li>• Low gross profit margin</li> <li>• Overhead too high</li> </ul>	<ul style="list-style-type: none"> <li>• Same as low gross profit margin</li> <li>• Reduce overhead (calculate appropriate overhead through multiplying sales by industry average overhead percentage)</li> </ul>
6. Low Sales to Assets	<ul style="list-style-type: none"> <li>• Low sales</li> <li>• High assets</li> </ul>	<ul style="list-style-type: none"> <li>• Increase sales by increasing accounts receivable (loosening credit terms) and/or increasing inventory (having better selection to choose from)</li> <li>• Reduce inventory</li> <li>• Reduce accounts receivable</li> <li>• Sale/leaseback some fixed assets</li> <li>• Sell unnecessary property</li> </ul>
7. Low Return on Assets	<ul style="list-style-type: none"> <li>• Low pre-tax profit</li> <li>• High assets</li> <li>• High equity</li> </ul>	<ul style="list-style-type: none"> <li>• Increase sales</li> <li>• Reduce expenses (see Financial Cause and Effect Diagram)</li> <li>• Reduce inventory</li> <li>• Increase sales</li> <li>• Expand business using borrowed funds</li> </ul>
8. Low Inventory Turnover	<ul style="list-style-type: none"> <li>• Inventory is too high</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce inventory (calculate appropriate inventory by dividing cost of goods sold by industry average inventory turnover rate)</li> </ul>
9. Low Accounts Receivable Turnover	<ul style="list-style-type: none"> <li>• Accounts receivable too high</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce accounts receivable (calculate appropriate accounts receivable by dividing sales by the industry average accounts receivable turnover)</li> </ul>

Problems	Possible Causes	Solutions
1. Low Current Ratio (Low Solvency)	<ul style="list-style-type: none"> <li>• Current Liabilities too high</li> <li>• Using short term funds (current liabilities) to fund long term assets</li> </ul>	<ul style="list-style-type: none"> <li>• Move some short term liabilities to long term</li> <li>• Sale/leaseback some of the fixed assets</li> </ul>
2. High Debt to Equity (Low Safety)	<ul style="list-style-type: none"> <li>• Equity too low</li> <li>• Liabilities too high</li> </ul>	<ul style="list-style-type: none"> <li>• Add to capital (sell stock)</li> <li>• Slow growth in order to let profits reduce liabilities instead of purchasing additional assets</li> </ul>
3. Low Gross Profit Margin	<ul style="list-style-type: none"> <li>• Poor pricing</li> <li>• Poor product mix</li> <li>• Poor productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Do not offer discounts</li> <li>• Change revenue mix</li> <li>• Reduce cost of providing service</li> </ul>
4. Low Pre-Tax Profit Margin	<ul style="list-style-type: none"> <li>• Low gross profit margin</li> <li>• Overhead too high</li> </ul>	<ul style="list-style-type: none"> <li>• See low gross profit margin</li> <li>• Reduce overhead (calculate appropriate overhead through multiplying sales by industry average overhead percentage)</li> </ul>
5. Low Revenue to Assets	<ul style="list-style-type: none"> <li>• Low revenue</li> <li>• High assets</li> </ul>	<ul style="list-style-type: none"> <li>• Increase revenue by increasing selling effort</li> <li>• Reduce accounts receivable</li> <li>• Sale/leaseback of fixed assets</li> <li>• Sell unnecessary property</li> </ul>
6. Low Return on Assets	<ul style="list-style-type: none"> <li>• Low pre-tax profit</li> </ul>	<ul style="list-style-type: none"> <li>• Increase revenue</li> <li>• Reduce expenses</li> <li>• Reduce accounts receivable</li> <li>• Sale/leaseback of fixed assets</li> <li>• Sell unnecessary property</li> </ul>
7. Low Return on Equity	<ul style="list-style-type: none"> <li>• High assets</li> <li>• Low pre-tax profit</li> <li>• High equity</li> </ul>	<ul style="list-style-type: none"> <li>• Increase revenue</li> <li>• Expand the business using borrowed funds</li> </ul>
8. Low Accounts Receivable Turnover	<ul style="list-style-type: none"> <li>• Accounts receivable too high</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce accounts receivable</li> </ul>