

THE OWNER'S MONEY SHELF · BOOK 1 OF 11

Know Your Numbers

Read your business in 30 minutes a month



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How every chapter works

The idea → Why it matters → The method → An example →
Your worksheet → 3-line summary

Included with this book

Printable worksheets: **one for each chapter, the owner's monthly scorecard**. Excel files: **Owner's monthly scorecard**. All in your download.

1

Sales, profit and cash: three different scores

Sales tell you how busy you were, profit tells you whether it was worth it, and cash tells you whether you can pay next month's bills. You need all three.

IN THIS CHAPTER

- Three scores and the questions they answer
- Why profit and cash drift apart
- Example: Kaveri Kitchenware's good year that felt bad
- Where the money sits at any moment
- Four questions to ask every month
- Your worksheet: your three scores

By the end, you will be able to

- Explain the difference between sales, profit and cash in one sentence each
- List the six things that make cash differ from profit
- Read your own last year as three scores, not one

THE IDEA

Three scores, three questions

When an owner says “we had a good year”, they usually mean sales went up. But sales are only the first of three scores, and each one answers a different question.

Score	The question it answers	Where to find it	How it can fool you
Sales (turnover)	How much did we sell?	Sales register, GST returns, P&L top line	Sales can rise while profit falls, if prices or margins slip
Profit	Was the work worth doing?	P&L, after all costs	Profit counts sales you have not been paid for
Cash	Can we pay salaries, suppliers and the bank?	Bank statement, cash book	One big receipt can hide a weak month

A healthy business needs all three to move in the right direction, though not at the same speed. Sales without profit is a busy way to stand still. Profit without cash is how profitable businesses run out of money.

The habit this book builds: never look at one score alone. Every month, ask what happened to sales, to profit and to cash, and why they moved differently.

A quick test: can you write last year's sales, profit before tax and change in bank balance from memory, within 10%? If not, the worksheet at the end of this chapter will show you where to find them.

WHY IT MATTERS

Why profit and cash drift apart

Profit is an accounting score: it counts a sale on the day you invoice and a cost on the day you incur it. Cash is a bank score: it counts money only when it moves. Six things open a gap between them.

What happens	Effect on profit	Effect on cash
You sell on credit	Counted at once	Arrives 30, 60 or 90 days later
You buy extra stock	Not a cost until it is sold	Paid out now
Suppliers give you credit	Cost counted when goods are sold	Paid out later: helps cash
You buy a machine or vehicle	Only a slice each year (depreciation)	Paid out now, in full
You repay a loan	Only the interest is a cost	Interest and principal both go out
You take money out as owner	Not a business cost (except salary)	Leaves the bank

None of these is a mistake. A growing business sells more on credit, holds more stock and buys more equipment, so its cash almost always trails its profit. The danger is not the gap; it is not knowing how big it is.

Remember: profit is an opinion about the year, prepared by your accountant under rules. Cash is a fact in your bank account. You need both, and you need to know why they differ.

EXAMPLE

Kaveri Kitchenware: a good year that felt bad

Kaveri Kitchenware Pvt Ltd (an invented company) distributes steel utensils, pressure cookers, non-stick cookware and small appliances to about 400 shops across western Tamil Nadu. Meena Iyer took over from her father six years ago and runs it with 14 staff from a warehouse in Coimbatore.

Last year looked like her best yet. Sales rose 20%. Profit rose too. Yet from October onwards she was juggling supplier payments, the bank's cash credit limit was almost full, and twice she paid salaries a few days late.

	Year before	Last year	Change
Sales	₹5.0 crore	₹6.0 crore	+20%
Profit before tax	₹27 lakh	₹32 lakh	+19%
Cash in bank at 31 March	₹10 lakh	₹6 lakh	-₹4 lakh
Bank cash credit used	₹55 lakh	₹75 lakh	+₹20 lakh

+20%

sales

+19%

profit before tax

-₹4 lakh

cash in bank

+₹20 lakh

bank borrowing

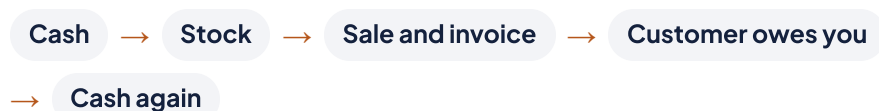
What was going on

Two of the three scores said “great year”. The third said “we are borrowing more just to stand still”. Chapters 3 and 4 trace exactly where Kaveri's cash went. The short answer: into customers who were paying more slowly, and into more stock.

THE METHOD

Where the money sits at any moment

Picture every rupee in your business moving round a loop. It starts as cash, becomes stock, becomes a sale, waits with the customer as money owed to you, and returns as cash. Profit is added at the moment of sale, but you can spend it only when the loop comes back round.



At any moment, some of your money is in each stage. The longer each stage takes, the more money is stuck in the loop, and the more you need from the bank or your own pocket to keep it turning.

Stage	Kaveri on 31 March	What makes it bigger
Stock in the warehouse	₹90 lakh	Buying ahead, slow-moving items, more product lines
Owed by customers	₹1.10 crore	Longer credit, late payers, disputes
Owed to suppliers (helps)	–₹60 lakh	Paying suppliers early, losing credit terms
Cash in the bank	₹6 lakh	The part you can actually spend

The point: Kaveri had ₹1.4 crore tied up in stock and customers (after supplier credit), and only ₹6 lakh in the bank. Most of its profit was sitting in the loop, not in the account.

THE METHOD

Four questions to ask every month

You do not need a finance degree to keep all three scores in view. You need four questions, asked at the same time every month, with the same numbers in front of you.

- 1 Did we sell what we planned?** Sales against your plan and against the same month last year. A big gap in either direction needs a reason.
- 2 Did we keep enough of each sale?** Gross margin as a percentage. If it slips by even one point, find out which products, customers or discounts caused it.
- 3 Did we cover our overheads?** Profit after salaries, rent and interest. Compare sales with your break-even level (Chapter 5).
- 4 Where did the cash go?** Bank balance and bank limit used, against last month. If cash fell while profit rose, look at money owed by customers and stock first.

A useful rule

If profit rises for three months running but cash keeps falling, stop and find the reason before taking any big new order or opening a new branch.

Start small

For the next three months, write the answers to these four questions on one page and keep the pages together. Patterns appear quickly.

Who answers them? Your accountant can give you the numbers by the 7th of each month. You answer the “why” questions. Chapter 8 turns this into a 30-minute monthly meeting.

APPLY IT · THREE SCORES

Your three scores

Use last year's accounts and bank statements. Round to the nearest lakh.

1 Sales for the last two years, and the change in %

2 Profit before tax for the last two years, and the change in %

3 Cash in bank at the end of each year, and the change in rupees

4 Bank limit or loans used at the end of each year

5 Which score moved differently from the others, and your first guess at why

6 Which of the six reasons in this chapter apply to your business most

Example (invented): a dental clinic

Fees rose from ₹1.2 crore to ₹1.5 crore (+25%); profit before tax from ₹30 lakh to ₹34 lakh; cash fell ₹6 lakh. Reason: a ₹28 lakh imaging machine paid for in cash, while its cost shows in profit only as ₹4 lakh of depreciation a year.

CHAPTER 1 IN 3 LINES

What to remember

- 1 Sales, profit and cash answer three different questions; read all three.
- 2 Credit sales, stock, equipment, loan repayments and owner withdrawals open a gap between profit and cash.
- 3 Most of a growing business's profit sits in stock and customer balances, not in the bank.

KEY WORDS

Turnover

Total sales in a period, before any costs.

Profit before tax

What is left from sales after all costs, before income tax.

Working capital

Money tied up in stock and customer balances, less what you owe suppliers.

Common mistakes

- Calling a year good because sales grew
- Spending profit that has not arrived as cash
- Looking at the bank balance only on the day salaries are due

Try this week

- Write your three scores for the last two years
- Ask your accountant for the numbers by the 7th of each month
- Note which of the six gaps apply to you

Quick self-check: A business sold ₹50 lakh more than the year before and earned ₹4 lakh more profit, but its bank balance fell. Name three places the cash could have gone. Model answers are in the toolkit.

Next: **Chapter 2 · Your P&L, read as an owner**

You've just read Chapter 1 of Know Your Numbers.

The full book has 8 chapters, 9 worksheets and 82 pages. It is Book 1 of The Owner's Money Shelf: 11 short, practical books on one subject, sold together.

STILL TO COME IN KNOW YOUR NUMBERS

- | | |
|--|---|
| 2 Your P&L, read as an owner | 5 Twelve numbers to watch, and which ones to check weekly |
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THE 11 BOOKS IN THE OWNER'S MONEY SHELF

- | | |
|-------------------------|--------------------------|
| 1 Know Your Numbers | 7 GST Without Guesswork |
| 2 Books in Order | 8 Tax-Ready All Year |
| 3 Never Short of Cash | 9 The Right Structure |
| 4 Paid on Time | 10 Borrow Smart |
| 5 Profit Leaks | 11 Raise the Right Money |
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