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# Case Study: Good Financial Health as a Business

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A B S T R A C T

Business Financial health can be defined as a company's capacity to manage expenses, anticipate and recover from financial shocks, develop wealth, and have low debt. The state of a company's financial affairs is referred to as financial health. Financial health has numerous characteristics, including the quantity of revenue generated, how much is set aside for contingency planning, and how much of the money is spent on fixed or variable expenses. Annual and monthly financial statement analyses are required to examine the company's financial health in the same way that an annual physical visit to the doctor is required. However, if the company's finances require attention at any moment, a financial health assessment employing suggestions, methods, ratios, and checks is required to avert financial disaster within the organization.

Keywords: Finance, Financial Health, Business, Expenses, Revenue

## 1. Introduction: Financial Health

Effective business planning will identify what constitutes corporate success and what actions are required to accomplish it. After a business plan has been established, it is usually prudent to look at the figures to see if the strategy will produce the financial results that the organization desires.

Companies should develop a budget based on the business plan objectives in order to stay aligned and maintain excellent financial health. For example, if the company intends to boost sales, this could imply additional labor, inventory, and marketing efforts. They will need to create a budget that demonstrates not simply increased sales, but also the additional expenses needed to reach those sales.

The state of one's finances can be assessed in a variety of ways. The savings and overall net worth of a company show the monetary resources available for current or future use. Debt, such as mortgages and loans, can have an impact on these. Financial well-being is not a static metric. It fluctuates depending on the company's cash and assets, as well as the price of materials.

To improve a company's financial health, it must first take a hard, realistic look at where it is now. A company's net worth must be calculated in order to determine where they stand. This involves deducting all debts from whatever they own, such as vehicles and other assets.

Furthermore, if a company has cash on hand and income coming in, but is spending it on new expenditures in office space, manufacturing equipment, new personnel, and other business services, it may raise concerns about the company's long-term financial health and viability.

If more money is spent on things that don't add to the business's overall stability and prospective growth, it might lead to a downturn, making it difficult to pay for necessities like electricity and employee salaries. As a result, businesses may be forced to freeze or reduce compensation in order to continue operations.

## 2. Instability: Low Financial Health in the Business

*2.1.* Unexpected expenses are bound to happen, no matter how careful a company is. Whether it's vandalism, storm damage, or a leaking roof, unforeseen costs may wreak havoc on even the most meticulous budgeting.

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*2.2.* Cash flow is the most dependable indication of financial health since it tracks the amount of money coming in and out of an organization. The cash flow determines whether the company succeeds or fails. Inconsistent cash flow may wreak havoc on a company and is the leading cause of failure.

*2.3.* Do not be a businessperson who spends hours developing a budget for their company only to file it away in a desk drawer and forget about it. Ignoring the budget can lead to bigger cost and expenses, which will lead to efficiency in operations. A good business strategy and a reasonable budget can help a company stay on track, but only if they are properly implemented. A budget should never be static; rather, it should be utilized as a guide to identify how well (or badly) the company's finances are running.

*2.3.* Recruiting and Retaining Employees Top talent is costly, which can have an impact on a company's financial stability. On boarding new personnel can be time and money consuming. Bringing on an employee can cost a company anywhere from $2000-$3,000 or more, which can be difficult for a small business to handle, so ensuring sure they're a good fit for the firm before recruiting is crucial to avoid loss on business side and ensure employee contribution for efficient operations to improve the revenue overall.

*2.4.* A sole proprietor, a partnership, or a corporation, they all have to pay taxes on the profits for the year. However, if a corporation keeps meticulous records of its expenses, it may be able to deduct part of them, lowering its tax liability dramatically. Improper record keeping will not lead to excellence but affect the financial stability.

*2.5.* Without the proper funds, it is difficult to expand and invest in any firm. One of the most significant issues that small businesses confront is obtaining sufficient finance. Furthermore, while some businesses are fortunate enough to have angel investors eager to support their operations, the bulk of business owners begin with credit cards or bank loans. all this factors has to be considered to plan out an prepare contingency plan for the company to avoid financial crisis.

## 3. Considerations and suggestions;

The following are a few suggestions for improving a company's financial stability or financial health:

### *3.1. Financial Health Strategies*

Set financial targets for the company. Setting goals, such as revenue targets or obtaining new clients, should be prioritized. Companies can determine their strengths and shortcomings while designing a strategy. Have cash reserves unless you're an entrepreneur. It is best to have six months of reserves when establishing its own firm. Analyze the personal budget and determine the monthly expenses. During a quiet period, the cash reserve should cover these costs.

### *3.2. The merits of developing a financial strategy*

Keeping track of the resources in relation to budget expectations helps ensure that they get the most out of the company's resources. For example, if can look at the time it takes from a customer's order to completion of the project and payment, and see if it can be shortened – this will means getting paid faster and the employees will be able to move on to the next job sooner.

Having a budget and comparing it to real outcomes allows businesses to rapidly see what is working and what isn't - and make changes to increase overall profit. Key performance metrics, such as minimum monthly sales and maximum spending levels, can be included in the budget and compared to actual outcomes.

### *3.3. The following are essential components of a sound financial strategy:*

- The flexibility to change actions and targets if actual results show that budgeted outcomes will not be met.
- An examination of industry trends and other accessible information to aid in the preparation of plausible assumptions and targets
- The creation of attainable goals that are in line with both the strategic business plan and previous trading activity
- Budgeted schedules that match with both the strategic business goals and the creation of financial statements documented assumptions, including sources of information
- Comparing budgets to actual financial results on a monthly basis

### *3.4. Ratios of Financial Health*

*These ratios can be used to determine whether a corporation is financially sound.*

*3.4.1. Current Ratio:*

*Current Ratio: Current Assets / Current Liabilities = Current Ratio*

*This is a common balance sheet ratio. It is used to assess the company's ability to repay its short-term debts. If the result is less than 1, it's a red flag that the organization might not be able to meet its short-term obligations. It does not necessarily imply the business will fail, but it is something to be aware of.*

*3.4.2. Quick Ratio*

*(Current Assets-Inventories) / Current Liabilities = Quick Ratio*

*This is a quick and simple computation with an easy-to-understand outcome. The purpose of calculating this financial health ratio is to assess if the business has enough cash, assets, and low debt to function without going bankrupt.*

*3.4.3. Days Sales Outstanding*

*(Receivables / Revenue) x 365 = Days Sales Outstanding*

*This ratio indicates how well a company can turn receivables into cash. A company that can accomplish this rapidly is financially sound. Businesses want to see a low score here since it suggests the company's accounts receivables are collected in fewer days.*

*3.4.4. Debt-to-Equity Ratios*

*Total Liabilities / Shareholders Equity = Total Debt/Equity Ratio*

*This determines how the company has been funding its expansion. A high score indicates that the company has grown because of debt. However, keep in mind that not all debt is bad. If the result is extremely high, the company will be required to repay loans and interest payments.*

*3.4.5. Outstanding Inventory Days (DIO)*

**(Inventory / COGS) x 365 = Days Inventory Outstanding**

The average number of days a company maintains inventory before selling it is calculated using this financial health ratio. This is a ratio used to compare your firm to its competitors in the industry.

***3.5. Financial Health Rules and Guidance***

- It is critical to automate bill payment and savings, which means setting up automatic transfers to a savings account and setting up auto-pay for all of the expenses.
- Use a budgeting approach like 50:30:20, which states that you must spend 50% of the money on necessities, 30% on wants, and 20% on savings. If you have high-interest debts, this 20% could incorporate debt reduction.
- Stick to the budget and double-check the budgeting strategies in the business plan for consistency and to prepare for the unexpected.
- Examine your existing financial situation objectively and realistically. Calculate the company's net worth and see where it stands. This comprises all of the company's assets, such as shares and assets.
- Creating an emergency fund will improve the financial situation. The fund is intended to be money that has been set aside and is ready to be used in an emergency.

## 4. Conclusion

It is crucial to remember that ratios aren't the sole way to assess a company's financial success. Location and other factors can also play a role. Regional differences in elements such as labor or shipping costs may also have an impact on the ratio's outcome and relevance. A thorough examination of the data used to calculate the ratios, as well as an assessment of the series of events that led to the findings, is always required in sound financial analysis. Assessing the financial health of a company can be as easy as evaluating a profit-and-loss statement or as complex as evaluating all of the company's components. However, there's no denying that properly comprehending a company's finances is a sure method to be successful and prosperous.

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