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Percentage of credit sales method

When analyzing figures in business, it is helpful to know how to calculate the percentage of sales to expenses. Performing these calculations is an important part of decision-making and long-range planning for any organization. Calculating the percentage of sales to expenses is commonly referred to as the percentage of sales method. This method is used by business owners and employees within a business who create budgets to determine if the ratio of expenses to sales is appropriate. If ratios are too high, the business may make adjustments to reduce the expense percentage and increase profits. The calculation can be used to find the percentage of sales for all expenses and also for specific expense categories. Calculate your total sales in dollar amounts for the period. You can analyze data for any period of time, such as breaking it down daily, monthly, quarterly or annually. Calculate your expenses for the same period of time for which you collect sales data. Divide your expense total by the sales revenue total. Multiply the result by 100. The result is the percentage of sales to expenses. For example, suppose your revenue for a particular period equals \$200,000 and your expenses for the same period equal \$95,000. Divide \$95,000 by \$200,000.The result is .475. Multiply .475 by 100 to get 47.5%. This means that, for the period analyzed, 47.5% of your sales goes toward expenses. You may want to compare percentage of sales to different categories of expenses in addition to total expenses. Here is an example, using figures from a company's balance sheet: Net sales = \$450,000 Cost of goods sold = \$228,000 Administrative expenses = \$22,000 Sales expenses = \$36,000 You want to know the percentage of sales to administrative expenses. Divide the administrative expenses by net sales, then multiply by 100: (42,000/450,000) = 0.09330.0933 x 100 = 9.33% You want to know the percentage of sales to sales expenses. Divide the sales expenses by net sales, then multiply by 100: (198,000/450,000) = .44.44 x 100 = 44% From the above example, you can see that sales expenses have a higher percentage of sales than do administrative expenses. The information becomes especially useful in comparing figures from previous years and making budgeting decisions for the future. For example, if you want to decrease your percentage of sales to administrative expenses, you need to implement strategies to increase sales, decrease administrative costs, or both in order to change the ratio. The percentage of sales method is a tool for forecasting and budgeting. A business looks at the historical cost of goods as a percentage of its sales and uses that figure for the forecasted sales amount. The percentage of sales method can also be used to forecast other balance sheet items that are closely associated with sales, such as inventory, accounts payable and accounts receivable. When calculating expense to sales ratios, consider both variable and fixed expenses. Variable expenses can include such items as commissions, cost of raw materials and shipping. Fixed expenses, including such items as rent of building, utilities and fixed salaries, often do not correlate with sales. Another variable is step costing, which are costs that do not change steadily with sales volume but at discrete points. For example, purchase discounts may be applied to purchases once a unit count passes, say, 10,000 per year. The cost is variable and changes to a different percentage of sales in response to a different volume level. Whatever your line of business, revenue growth is likely to be a key objective. Selling more product from one period to the next shows that you're attracting more customers and thus have a better chance of sustaining your business. Calculating the percentage increase in sales across two or more periods can help you to spot revenue trends. It's a key metric for understanding whether the demand for your products or services is likely to be increasing in the future. To calculate the percentage increase in sales, you simply compare the sales figures for one period with the sales figures for a comparable period. The key word here is "comparable" – you must compare two periods of approximately equal length or your results will be distorted. Common periods include: The current accounting year versus the previous accounting year. The current month versus the previous month, for example, May 2018 versus April 2018. The current quarter versus the immediately preceding quarter. A month or quarter from the current year versus the same period for the previous accounting year, for example, Q2 of 2017 versus Q2 of 2018. You can choose any period you like as long as it's a good basis for comparison. Seasonal businesses, for example, often want to know how a current quarter compares to the same quarter in the previous year. It wouldn't be useful, for example, to compare a sales period in low-season against a sales period in high season as this would skew your results. To calculate the percentage increase in sales, plus the net sales revenue figures for your two periods you can use the following formula: (Net sales this period – net sales prior period) / net sales prior period * 100 Net sales are equal to the grand total of your sales receipts (gross sales) minus customer returns, discounts and allowances for defective merchandise. You'll find the net sales figure on the company's income statement. Say that XYZ Company reported \$300,000 in net sales revenue in Q1 of 2017 and \$450,000 for Q1 of 2018. The 2018 \$450,000 minus the 2017 \$300,000 is \$150,000 in actual sales revenue growth. Next, divide the \$150,000 by \$300,000, the 2017 Q1 revenue number. That's 0.5, which times 100 gives us 50 percent. This tells us that XYZ has earned 50 percent more sales revenue in Q1 of 2018 than the same period in the previous year. The result of this calculation can be a positive or a negative number. A positive number indicates that your sales revenue is growing. This is desirable for obvious reasons but it's important to look at the percentage itself – the higher the number, the better your company is performing. Context is important, here. For example, a mature company's 6-percent increase in net sales revenue may seem admirable, but if competitors are achieving 8-percent growth between the same two fiscal periods, the result doesn't look as promising. A negative number shows declining sales from one period to the next. You'll need to dig deeper to discover the reasons behind this trend. Do your sales representatives need additional training? Do you need to change the way you market your products? Is your pricing strategy poor? A single percentage decrease in sales figures has limited usefulness so be sure to run the calculation over multiple periods. This will help you to spot seasonal blips and fluctuations and get a more accurate picture of the company's growth position. A company's financial statements contain a great deal of information, and you may not need all of that information at a given time. You can quickly pick out a specific section of that data, such as annual credit sales, if you know where to find it within the statements. You find credit sales in the "short-term assets" section of a balance sheet and in the "total sales revenue" section of a statement of profit and loss. However, credit sales also affect the other two accounting data synopses: Statements of cash flows and equity reports. A credit sale doesn't require any cash to be paid before the delivery of merchandise or the provision of a service. This type of transaction runs counter to a cash deal, which mandates that a client pay before a vendor ships goods or performs services. To record a credit sale, a corporate bookkeeper debits the customer receivables account and credits the sales revenue account. Don't mistake a credit sale for a credit transaction, which generally pertains to a borrowing arrangement. Credit sales interact with a balance sheet through the customer receivables account, which is a short-term asset. Along with merchandise and cash, accounts receivable represent resources a business will use in the next 12 months. Long-term assets are those that will not be liquidate for at least 52 weeks. Examples include real property, production equipment, manufacturing plants and computer gear, all of which go under the "property, plant and equipment" section of a balance sheet. Credit sales flow into the top-line section of a statement of profit and loss – the other name for an income statement, or statement of income. In the top-line category you also find merchandise expense, also known as cost of sale or cost of goods sold. Total sales minus merchandise expense equals gross profit, a measure of top-line growth. Don't mistake this for the bottom line, which is the net performance result an organization publishes at the end of a given period – say, a month or fiscal quarter. A credit sale doesn't directly affect a statement of cash flows because it involves no monetary element. However, a liquidity report – an identical term for a statement of cash flows – prepared under the indirect method touches on credit sales and accounts receivable. To calculate cash flows from operating activities, financial managers add a decrease in customer receivables back to net income, doing the opposite for an increase in the accounts' value. This makes sense, because a decrease in accounts receivable means more money coming in corporate coffers. Credit sales affect an equity statement through the retained earnings account. Sales revenue increases a company's net income, which ultimately flows into retained earnings, which is an equity statement item. The math involved in sales forecasting is actually quite simple. The hard part is maintaining the detailed and accurate financial records needed to make those calculations. Here's some of the most useful information for calculating sales forecasts:Sales numbers for each product broken down by month of the yearNumber of sales that are returned or canceledExternal factors impacting sales, such as economic forecasts, price changes in raw materials, employee contract renegotiations, increased competition, among othersThe simplest sales forecasting method is an annual sales forecast. Assuming that your sales are relatively stable -- no major changes in your competition, your employees or your customer base from year to year -- you only have to account for inflation. Here's the formula:last year's annual sales + (last year's annual sales X rate of inflation) = next year's sales forecast [source: Virtual Adviser Interactive]An example would be:\$100 in sales last year + (\$100 X .03 rate of inflation) = \$103 in sales for next yearFor many businesses, sales fluctuate with the seasons. If that's the case, then you can break down your sales forecast month by month. The first thing you have to do is analyze the past few years of sales figures to calculate what percentage of the year's total sales are made each month.In January, for example, you might make 5 percent of your total annual sales, but in June you make 20 percent. With that information, you can use current monthly sales numbers to predict the total sales for the year, no matter if it's the high season or the low season.Let's say it's February and you already have the sales numbers for January. Since you know that January usually accounts for 5 percent of the year's total sales, you can make a forecast for the rest of the year. Here's the formula:monthly sales / percentage of total sales expressed as a decimal = annual sales forecastLet's says you made \$100 in sales in January. Here's the formula:\$100 in January / .05 = \$2,000 for the yearOf course, it's rare that a company's sales remain so stable from year to year, even with seasonal variations. When making sales forecasts, there are several other factors that may need to be added to the calculation:Sales contracts that won't be renewedNew sales contracts that are on the horizonIndustry analysts' predictions for growth or shrinking in your market segmentEconomic analysts' predictions for the increased or decreased buying power of consumers in your marketPolitical changes that could effect government contractsOne of the hardest things is forecasting for a new business that has no proven sales. At this stage, sales forecasts are important for attracting investors and qualifying for loans. The standard method for calculating a sales forecast with no existing sales is to base your predictions on the performance of similar businesses that sell similar products.It's important to base your predictions on businesses that sell to the same customer demographic and have the same geographic location. For retail sales, you'll want to figure out the average monthly or annual sales volume per square foot of retail space. That way you can adjust for the relative size of your store.Visit your competition, talk to sales staff and customers and draw up a profile of your target customer. Using census data, find out how many people in your area fit that customer profile and use that information when making your sales forecasts.What tools can help you calculate sales forecasts? On the next page, we'll find out. Some people are so swamped in credit card debt that they are afraid to even look at their bills, let alone analyze their credit card percentages. But the only way out of debt is to gain an understanding of what you are being charged and when so that you can take the appropriate actions to pay down the debt aggressively. Here are some guiding points for determining your key credit card percentages and rates. Look at your credit card statement online or in your bill. There should be a section that discusses your interest rates. You may have more than one interest rate listed depending on the categorization of your balances. One interest rate may be for purchases, another for balance transfers, and yet another for ATM withdrawals you made from your credit card. Work with one interest rate at a time when calculating your credit card percentages. Calculate your average monthly interest rate by dividing the credit card interest rate percentage by 12. Calculate your daily interest rate by dividing your yearly (annual) interest rate by 365. For example, if your credit card interest rate is 12.99 percent per year, your daily rate is .0356 percent. Calculate your APR (annual percentage rate) for each billing period by adding in all of the finance charges you paid that month, including interest on all balances, balance transfer fees and other transaction fees. Divide that dollar amount by the number of days in your billing cycle. Then multiply the resulting figure by 365 (days in the year). Divide that resulting figure by your principal balance for that billing cycle (total up all the balances listed in your "Finance Charge Schedule" to determine that amount). Convert the ending decimal figure into a percentage rate by multiplying it by 100. This is the annual percentage rate you are paying in that particular billing cycle. Tips Use your daily interest rate to calculate how much money you are spending each month on interest by multiplying the daily interest rate by your current credit card principal balance, and then multiplying that dollar amount by the number of days in the billing month. Stay on top of your credit card company to make sure that your credit card percentages are the same as they were the previous month. If the credit card company raises your rates, you have the right to reject the rate change. The only down side is that you will probably not be able to continue to use the credit card for new charges.

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