



## RETURN ON ASSETS IS REAL TEST OF HEALTH

How healthy is your business from a financial point of view? The financial ratio "return on assets" is the real test of health, not net profits. Based on the financial risk associated with investing capital in and owning a seasonal

smaller business, 25% return on assets is the minimum you should expect from your business investment. You of course want a higher percentage than this, and some companies in the industry, in fact, achieve as high as a 50% return on assets.

To calculate return on assets, divide your net profits

before taxes (this is the number from the bottom line on your income statement) by the total average assets invested in your company. This number comes from your balance sheet. It's the dollar value total of your cash, accounts receivable, inventory and equipment (net depreciation). Here's a sample calculation:

1. Take annual net profit: \$100,000
2. Then add your Jan. 1 beginning assets: \$375,000
3. And Dec. 31 year-end assets: \$425,000
4. This is your average assets  $(\$375,000 + \$425,000)/2$ : \$400,000
5. Then calculate return on assets:  $\$100,000/\$400,000 = 25\%$

SOURCE: KEHOEGUIDO