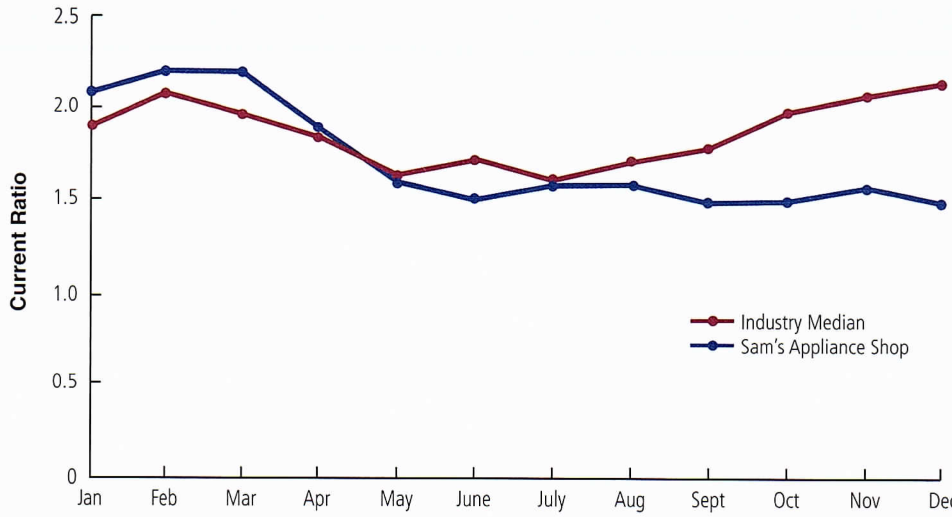
FIGURE 11.5

Trend Analysis of Ratio



break-even point
the level of operation (sales dollars or production quantity) at which a company neither earns a profit nor incurs a loss.

LO5

Conduct a break-even analysis for a small company.

Break-Even Analysis

Another key component of every sound financial plan is a break-even (or cost-volume-profit) analysis. A small company's **break-even point** is the level of operation (typically expressed as sales dollars or production quantity) at which it neither earns a profit nor incurs a loss. At this level of activity, sales revenue equals expenses—that is, the firm "breaks even." A business that

You Be the Consultant

All Is Not Paradise in Eden's Garden: Part 2

Remember Joe and Kaitlin Eden, co-owners of Eden's Garden? Assume the role of Shelley Edison, their accountant. Tomorrow, you have scheduled a meeting with them to review their company's financial statements and to make recommendations about how they can improve their company's financial position. Use the following worksheet to summarize the ratios you calculated earlier in this chapter. Then compare them against the industry averages for businesses of a similar size from the Bizminer's *Industry Financial Report*.

Ratio Comparison

Ratio	Eden's Garden	Nursery, Garden Center, and Farm Supply Stores Industry Median*
Liquidity Ratios		
Current ratio		2.27
Quick ratio		0.84
Leverage Ratios		
Debt ratio		0.57
Debt-to-net-worth ratio		1.34
Times-interest-earned ratio		1.29
Operating Ratios		
Average-inventory-turnover ratio		6.74
Average-collection-period ratio		10.79 days
Average-payable-period ratio		37.9 days
Net-sales-to-total-assets ratio		2.95
Profitability Ratios		
Net-profit-on-sales ratio		5.51%
Net-profit-to-assets ratio		16.26%
Net-profit-to-equity ratio		38.04%

*Bizminer's *Industry Financial Report*.

1. Analyze the comparisons you have made of Eden's Garden's ratios with those from Bizminer. What red flags do you see?
2. What might be causing the deviations you have observed?
3. What recommendations can you make to the Edens to improve their company's financial performance in the future?