



Industry Supply Inc
MONTHLY CONTROLLERSHIP REPORT
September, 2012



Industry Supply Inc
Monthly Controllership Report
Prepared by Controllership Focus Online
September, 2012

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Industry Supply Inc
Executive Summary / Current Issues
Prepared by Controllership Focus Online
September, 2012

PURPOSE: HIGHLIGHTS THE MOST IMPORTANT POINTS FOR YOUR ATTENTION

KEY ISSUES FOR DISCUSSION THIS MONTH

- 1 Inventory management needs to be addressed and obsolete products removed. This is also a good time to review the profitability of your product lines to ensure you keep the 'right' products. Accordingly, we have added a product line analysis to the dashboard.

- 2 It will be time to prepare the year end tax planning, bonuses/dividends and voluntary tax payment soon.

- 3

OTHER TOPICS

- 1 Sales travel expenses are particularly high this month due to the Sales conference in Seattle.

- 2 There will be surplus cash, even after the additional tax payments. We should discuss a more efficient cash policy.

- 3

FOLLOW UP FROM LAST MONTH

- 1
- 2
- 3

ACTION STEPS FOR NEXT MONTH

		WHO	WHEN
1	Target inventory needs to be established	Bill	18th
2	2013 budget to be prepared	CFO	25th
3	2012 voluntary tax instalment calculation	CFO	7th

Industry Supply Inc

Dashboard Report

Prepared by Controllership Focus Online

September, 2012

PURPOSE: REPORTS ON MEASURES CRITICAL TO YOUR SUCCESS

	THIS MONTH	LAST MONTH	YEAR TO DATE	THIS MONTH LAST YEAR	BUDGET (TARGET)	INDUSTRY BENCHMARK
<u>Widget 1</u>						
QTY	10	12	80	22	10	
Sales	2,500	3,000	20,000	5,500	2,500	50%
GP%	25%	25%	25%	25%	25%	
<u>Widget 2</u>						
QTY	100	95	812	50	100	
Sales	25,000	23,750	203,000	12,500	25,000	50%
GP%	60%	60%	60%	60%	60%	
<u>Widget 3</u>						
QTY	25	30	180	50	25	
Sales	6,250	7,500	45,000	12,500	6,250	50%
GP%	75%	75%	75%	75%	75%	
<u>Widget 4</u>						
QTY	250	312	2200	100	250	
Sales	62,500	78,000	550,000	25,000	62,500	50%
GP%	40%	40%	40%	40%	40%	

Commentary

Widget 1 is a good candidate to be discontinued.

Widget 3 should be assessed to see if the quantity can be lifted otherwise it too may be discontinued.

Industry Supply Inc
Breakeven Analysis
Prepared by Controllership Focus Online
 September, 2012

PURPOSE: DETERMINES NECESSARY SALES TO ACHIEVE YOUR GOALS

FIXED COSTS:

Selling Expenses
 Overhead (G&A)
 Plus (Less) - Other Expense (Income)

	FISCAL YTD	AVERAGE MONTHLY	PROJECTED ANNUAL
	121,467	15,183	182,201
	134,493	16,812	201,739
	-	-	-
	\$ 255,960	\$ 31,995	\$ 383,940

GROSS PROFIT % (YTD)

PLANNED ANNUAL NET PROFIT

A	B	C
	D	53.00%
	E	\$ 500,000

BREAK-EVEN SALES VOLUME REQUIRED
 PROFIT TARGET SALES VOLUME REQUIRED
 LESS - AVERAGE ACTUAL SALES YTD
 EXCESS (SHORTFALL) YTD

	ANNUAL	MONTHLY
	\$ 724,000	\$ 60,000
	\$ 1,668,000	\$ 139,000
		\$ 136,787
		\$ (2,213)

NEW REQUIRED BREAK-EVEN SALES

SALES TO ACHIEVE PROFIT TARGET

\$	-
\$	143,426

Commentary

You have comfortably broken even for the year (you could stop selling now and still break even) but the sales are still a little short of those required to earn your \$500,000 net profit target. Your new target is \$143,426 per month but this will be difficult to obtain in your off-season.

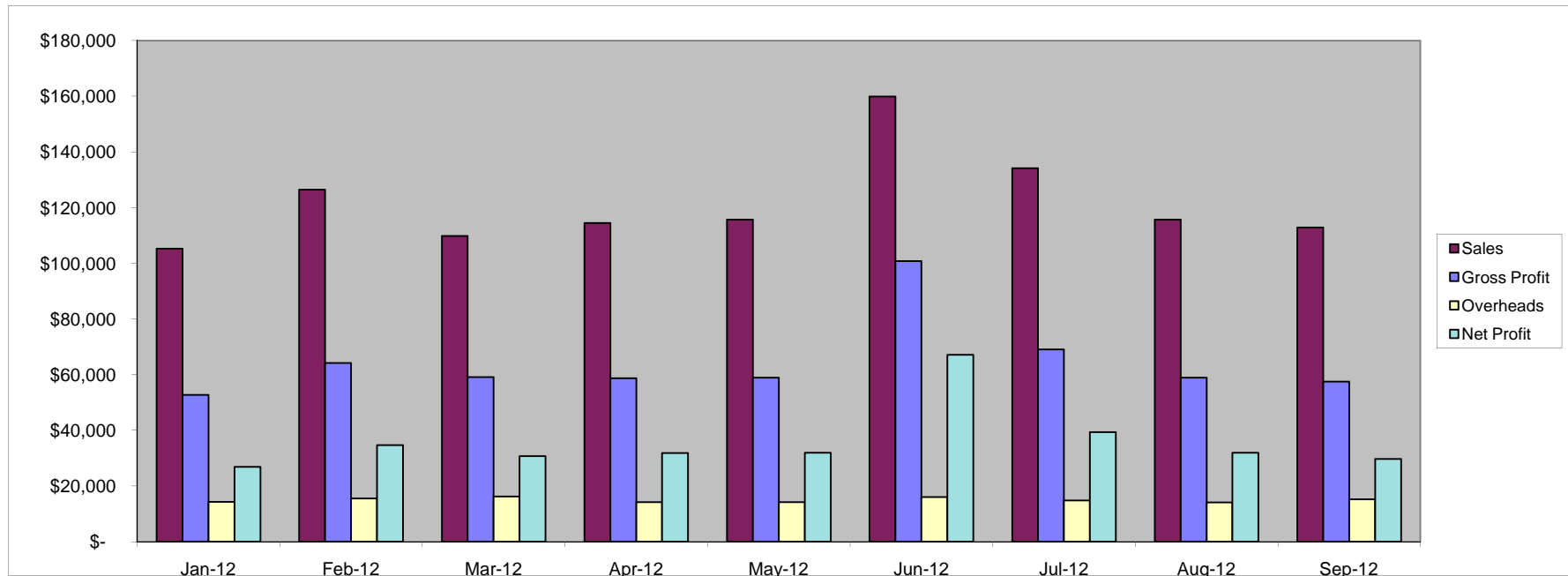
Explanatory Notes

- In general terms the Break-Even calculations are showing you:
 - The total Fixed Costs of the Company year-to-date (A).
 - The average monthly Fixed Costs based on the above figure (B).
 - Then the Fixed Costs are projected forward - on the assumption - that your Fixed Costs will continue at that same level for the balance of the fiscal year (C).
 - Next, the Planned Annual Net Profit (E) projections are added to the Total Projected Annual Fixed Costs (C) and then divided by the actual Gross Profit % (D) achieved to date in order to determine the projected annual sales volume required.
- The calculated break-even sales are then shown in monthly and annual terms.
- Next the actual sales achieved to date are deducted from the required break-even sales volume to calculate break-even sales above or below targets.
- Finally, the *New Break-Even Monthly Sales Target* is calculated showing what is required to be achieved monthly for the balance of the fiscal year.

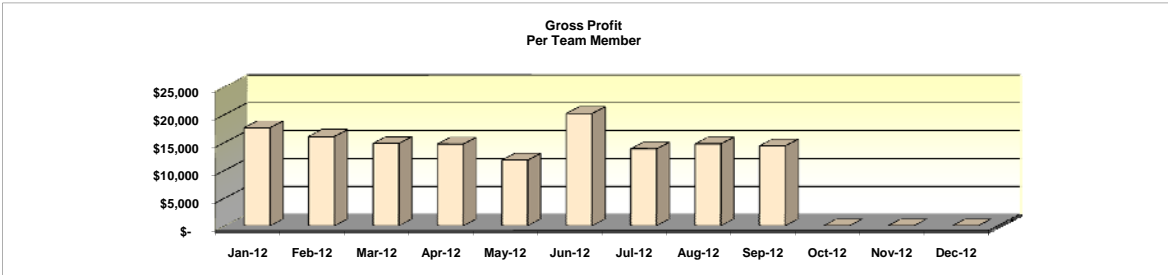
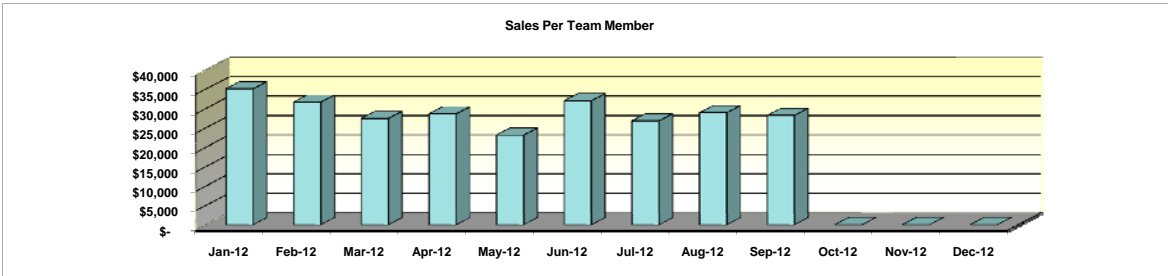
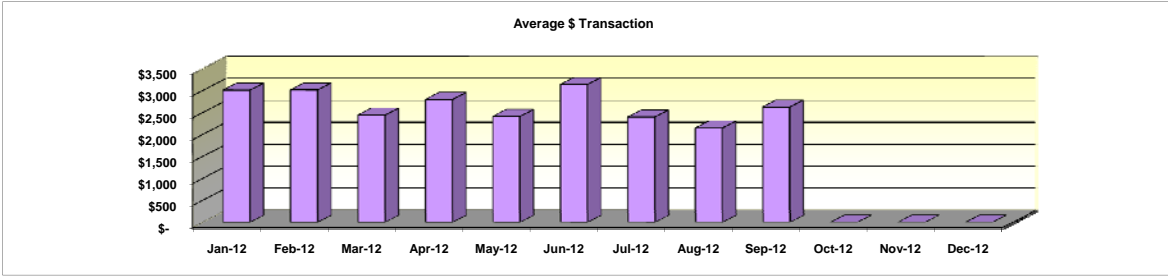
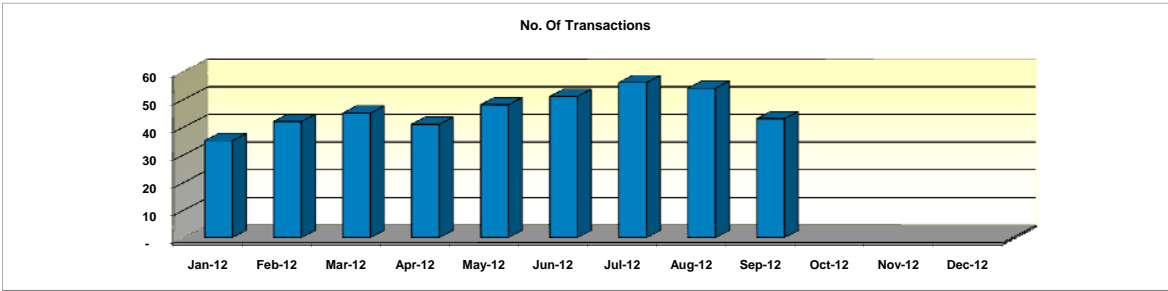
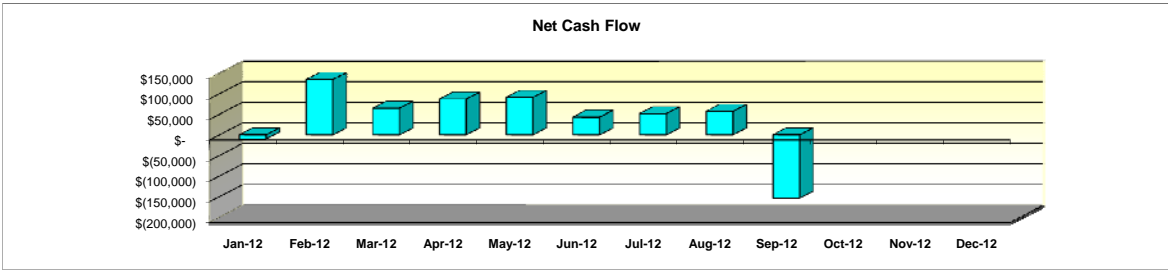
Industry Supply Inc
Monthly Trend Analysis
Prepared by Controllership Focus Online
 September, 2012

PURPOSE: SHOWS DEVELOPMENT OF SALES AND PROFITABILITY OVER TIME

	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Total
Revenue	\$ 105,267	\$ 126,470	\$ 109,799	\$ 114,484	\$ 115,673	\$ 159,878	\$ 134,165	\$ 115,673	\$ 112,888				\$ 1,094,297
Gross profit	\$ 52,769	\$ 64,192	\$ 59,137	\$ 58,757	\$ 58,899	\$ 100,809	\$ 69,060	\$ 58,899	\$ 57,452				\$ 579,975
GP %	50.13%	50.76%	53.86%	51.32%	50.92%	63.05%	51.47%	50.92%	50.89%				53.00%
Selling & Marketing Expenses	\$ 11,685	\$ 14,038	\$ 12,188	\$ 12,708	\$ 12,840	\$ 17,746	\$ 14,892	\$ 12,840	\$ 12,531				\$ 121,467
SM Expenses % Revenue	11.10%	11.10%	11.10%	11.10%	11.10%	11.10%	11.10%	11.10%	11.10%				11.10%
Other Income less Other Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				\$ -
Other Overhead	\$ 14,250	\$ 15,518	\$ 16,225	\$ 14,197	\$ 14,169	\$ 15,977	\$ 14,840	\$ 14,093	\$ 15,223				\$ 134,493
Overhead % Revenue	13.54%	12.27%	14.78%	12.40%	12.25%	9.99%	11.06%	12.18%	13.49%				23.39%
EBITA	\$ 26,834	\$ 34,636	\$ 30,725	\$ 31,852	\$ 31,890	\$ 67,086	\$ 39,328	\$ 31,966	\$ 29,698				\$ 324,015
EBITA % Revenue	25.49%	27.39%	27.98%	27.82%	27.57%	41.96%	29.31%	27.63%	26.31%				29.61%
Net Profit	\$ 26,834	\$ 34,636	\$ 30,725	\$ 31,852	\$ 31,890	\$ 67,086	\$ 39,328	\$ 31,966	\$ 29,698				\$ 324,015
Net Profit % Revenue	25.49%	27.39%	27.98%	27.82%	27.57%	41.96%	29.31%	27.63%	26.31%				29.61%
Net Cash Flow	\$ (9,862)	\$ 134,323	\$ 64,605	\$ 86,832	\$ 91,115	\$ 43,190	\$ 51,394	\$ 57,146	\$ (153,632)				\$ 365,113
No. of Transactions	35	42	45	41	48	51	56	54	43				415
Average Transaction Value	\$ 3,008	\$ 3,011	\$ 2,440	\$ 2,792	\$ 2,410	\$ 3,135	\$ 2,396	\$ 2,142	\$ 2,625				\$ 2,636.86
Sales per Team Member	\$ 35,089	\$ 31,618	\$ 27,450	\$ 28,621	\$ 23,135	\$ 31,976	\$ 26,833	\$ 28,918	\$ 28,222				\$ 28,797
GM Per Team Member	\$ 17,590	\$ 16,048	\$ 14,784	\$ 14,689	\$ 11,780	\$ 20,162	\$ 13,812	\$ 14,725	\$ 14,363				\$ 15,262



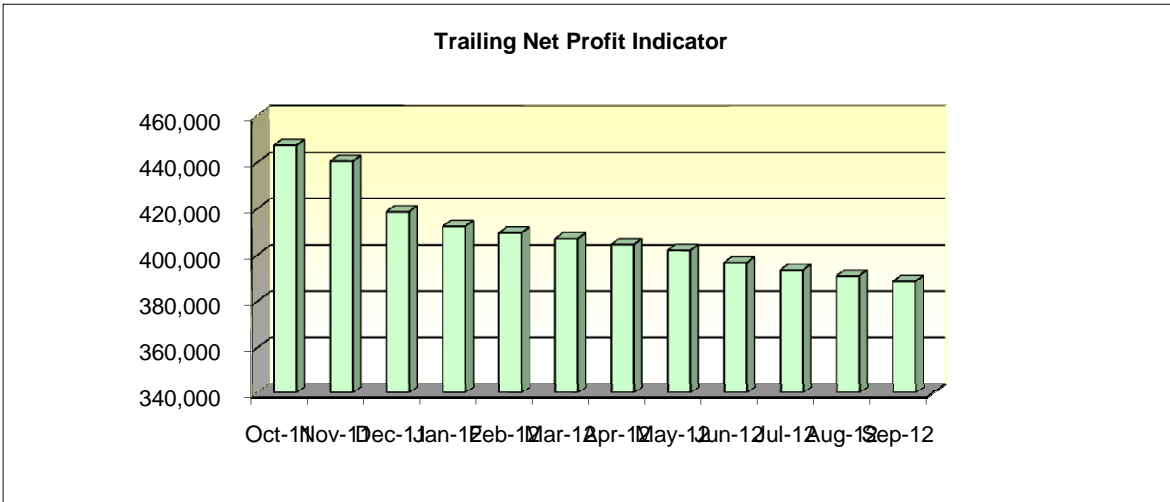
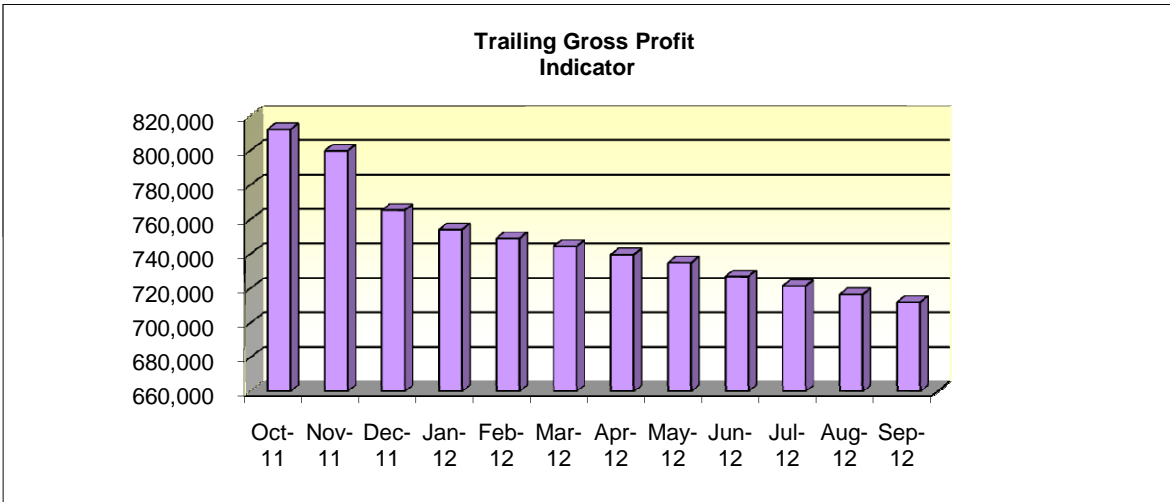
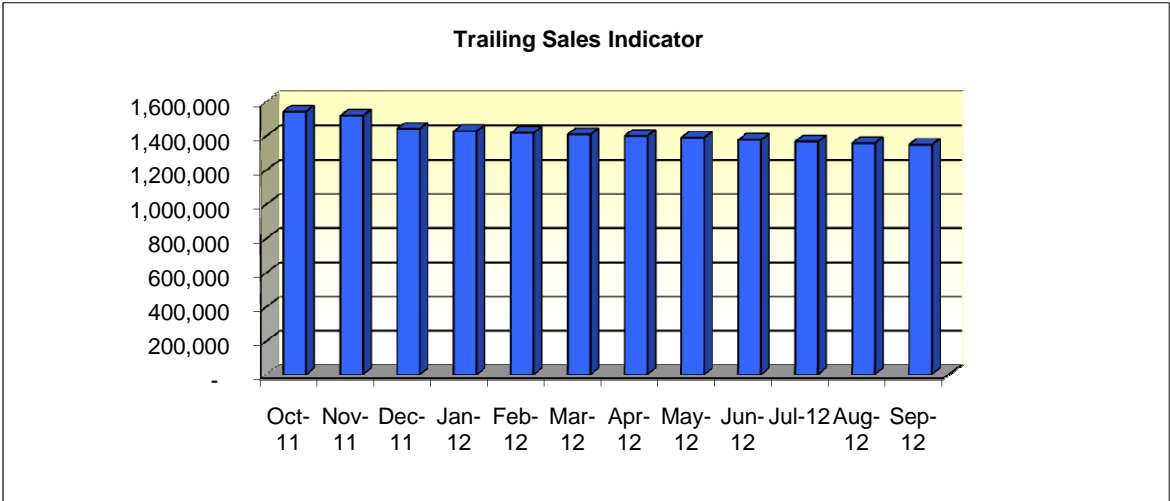
Industry Supply Inc
 Key Performance Indicators
 Prepared by *Controllership Focus Online*
 September, 2012



Industry Supply Inc

Trend Analysis (Trailing Indicators)

Prepared by Controllershship Focus Online
September, 2012

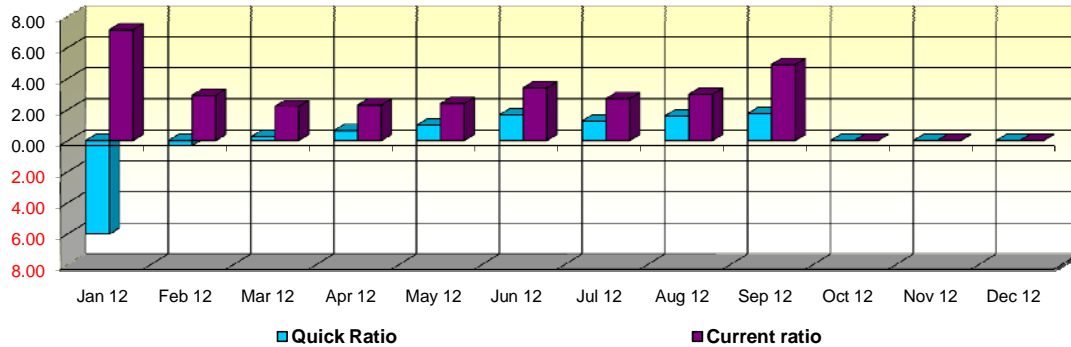


Industry Supply Inc
Liquidity Ratio Analysis
Prepared by *Controllership Focus Online*
September, 2012

PURPOSE: INDICATES THE LIKELIHOOD OF PAYING BILLS WHEN THEY COME DUE

Definition		Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12
1 Quick Ratio Ideal is 1.00	cash & near cash												
	current liabilities	(6.03)	(0.32)	0.25	0.64	0.99	1.66	1.27	1.59	1.74			
2 Current Ratio Ideal is 2.00	current assets												
	current liabilities	7.14	2.92	2.19	2.29	2.37	3.40	2.69	2.97	4.90			

LIQUIDITY RATIOS



Commentary

Both the Current and Quick ratios continued to strengthen this quarter and the company is now in a very strong working capital position.

Explanatory notes

Quick Ratio

The Quick Ratio represents the amount of cash and near-cash (marketable securities, term deposits, and accounts receivable) that the company has to cover its current liabilities. A Quick ratio of one means that for every \$1 in current liabilities the company has \$1 in cash and near-cash to pay it. In fact, a Quick Ratio of one is usually considered quite good and should be aimed for. The Quick Ratio is a more immediate determiner of liquidity and because it relates to cash and near-cash only tells you right away how well the company can meet its short-term obligations.

Current Ratio

This ratio reflects the ability of the business to cover its short term liabilities with its short term (or current) assets. A current asset is one that is expected to be converted (or capable of being converted) into cash within a 12 month period. The current ratio is calculated by dividing current assets by current liabilities.

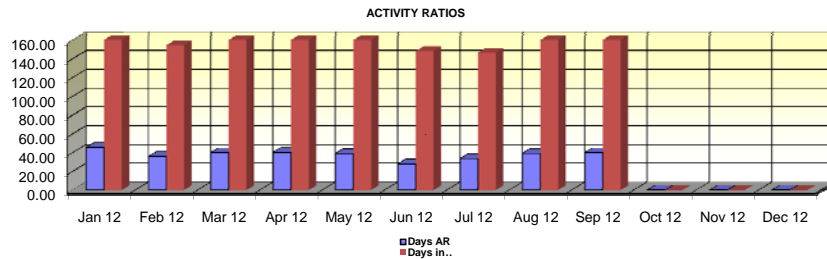
There is no right or wrong level for this ratio to be. If it is high, say 4:1, your firm probably has too much invested in short term assets for example inventory, receivables, marketable securities and even cash. Care should be exercised to ensure that inventory does not include un-saleable products and/or receivables are all collectible. In other words, this ratio can look good for the wrong reasons.

On the other hand a very low ratio, say less than 1:1, indicates that the business has less current assets than its current liabilities. It could be heading for a solvency problem. In these circumstances the business is vulnerable to failure. For example, if a customer can't pay a debt or if sales drop off and cash flow slows the business could be in serious trouble and unless the owners can inject more capital or it can raise more borrowings it may fail. The key management issue here is to monitor the trend in the ratio.

Industry Supply Inc
Activity Ratio Analysis
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September, 2012

PURPOSE: THESE RATIOS SHOW HOW ACTIVELY THE COMPANY IS MANAGING ITS RESOURCES

Definition		Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12
1 Receivables Turnover	sales												
	receivables	0.66	0.84	0.75	0.74	0.77	1.08	0.89	0.77	0.75			
2 Days Receivables	no. of days												
	receivables turn	45	36	40	40	39	28	34	39	40			
3 Inventory Turnover	cost of goods sold												
	average inventory	0.17	0.19	0.14	0.16	0.18	0.20	0.20	0.17	0.15			
4 Days Inventory	no. of days												
	inventory turn	179	154	210	194	171	148	146	180	196			



Commentary

Accounts Receivable Days

The AR days grew from a very good 28 days out to a more normal 40 days this quarter due mostly to the lag between sales decreasing and receivables being collected. While 40 days is still reasonable, watch your credit and collections activities to ensure this trend does not continue any further.

Inventory Days

Inventory on hand remains far too high and is will be costing you money in terms of storage, management and obsolescence. There should be a real focus on selling old inventory and removing those product lines that do not sell. For slower items, look at ordering on a just in time basis.

Explanatory notes

Inventory Turnover (Days)

The rate of inventory turnover is a critical measure of short term asset management. It represents the number of days it takes to convert Inventory (including Work in Progress, Materials and Supplies) into Sales Revenue. It is calculated by dividing the annual Cost of Goods Sold by the level of inventory. This shows how many times each year you are turning over your inventory. To express it as the number of days that represents you divide the turnover rate into the number of days in the year.

The faster the turn rate (which is reflected by fewer days) the better. On the other hand, if you have very low levels of inventory you may run the risk of not being able to supply your customers and therefore lose sales (and possibly even customers!). In this case you may have a very healthy rate of inventory turn but the hidden cost of lost business could be enormous.

If there is an increasing trend in the number of days to turn inventory it's important to find out what is causing this. To do this you would need to analyze the turn rate for each of the items you carry. At the very least you should analyze the top 20% of your product lines. While you're doing this it is advisable to also calculate the return on investment from each line. You can do this by multiplying the Gross Profit % for each line by the number of times you are turning it over each line - this will tell you which of your product lines are your major profit contributors.

Accounts Receivable

The Receivables Turn rate shows how long on average it takes customers to pay their bill. It is calculated by dividing annual Credit Sales by Accounts Receivable. This shows how many times each year you are turning over your Receivables. To express it as the number of days that represents you divide the turnover rate into the number of days in the year.

The trend in this ratio should be carefully monitored. If the number of days tied up in receivables is increasing you obviously have an emerging problem. This may indicate that some of your customers are experiencing cash flow problems themselves and you'll need to keep a close watch on them. If they exceed their allowed credit limit or if their buying pattern changes you should put yourself on notice of a potential bad debt.

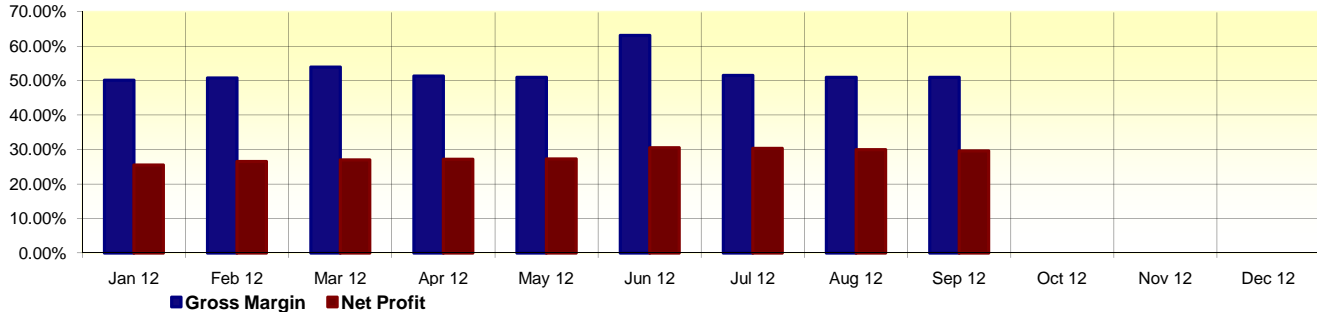
Not only will the profit generated from a slow paying customer be lower than from one who meets your trading terms but you run a serious (and costly) risk of loss from a bad debt if you don't keep on top of delinquent accounts.

Industry Supply Inc
Profitability Ratio Analysis
Prepared by Controllership Focus Online
 September, 2012

PURPOSE: THESE RATIOS SHOW WHETHER OR NOT IT'S ALL WORTHWHILE! ARE WE MAKING SUFFICIENT PROFIT/MONEY?

Definition		Jan 12	Feb 12	Mar 12	Apr 12	May 12	Jun 12	Jul 12	Aug 12	Sep 12	Oct 12	Nov 12	Dec 12
1 Gross Profit Rate	gross profit sales	50.13%	50.76%	53.86%	51.32%	50.92%	63.05%	51.47%	50.92%	50.89%			
	net profit YTD sales YTD	25.49%	26.53%	26.99%	27.20%	27.28%	30.49%	30.30%	29.99%	29.61%			

PROFITABILITY



Commentary

Gross profit for the quarter was very stable at around 51%. It is pleasing to see this being well managed through the seasonal decrease. Net profit percentage remains at an extremely strong 30% - an excellent return.

Explanatory notes

Net Profit %

Net Operating Profit is the difference between Gross Profit and Total Operating Expenses. The Net Operating Profit Margin will vary from industry to industry. It is not something that can be directly managed. Rather it is the outcome of the quality of your management of the factors that result in your GP% and the efficiency and effectiveness of your management of the business processes that are reflected in the various expense ratios.

The NP% reflects how well you are managing the two critical elements of a business. The first of these is your management of customers and the value you create for them. This is reflected in your GP%. The more value you create for your customers the higher will be your GP% and the more loyal your customers will be which, in turn, will lead to higher sales volume as well.

The second element is the management of the resources you need to generate your gross profit. There is little point being the best in customer service and value creation if the value you create exceeds the costs you incur.

Some people believe that the only way to increase their NP% is to cut expenses. This strategy is almost always the wrong answer to the problem. A declining NP% is often symptomatic of causes other than rising expenses. Usually it's associated with a declining GP% and hence pricing, sales mix and customer retention (service) issues.

It may also be caused by the impact of an unfavourable economic climate (but don't use that as an excuse for poor managerial performance). It may even be a temporary decline that reflects a recent addition to capacity that will take some time to recover as sales volume and Gross Profit grow.

And finally, a profit decline is often caused by inefficiency creep that permeates many businesses over time. This may be a consequence of not redesigning the business to cope with more people and higher levels of activity. This is reflected by a lack of detailed planning and target setting, poor internal controls, increased wastage because skilled people are too far from the front line and so on. These problems occur when the owners are forced to spend more time away from the operational level without putting in place the appropriately trained people and controls.