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Finance Masterclass by Colin Crooks MBE

A Practical Calculation Guide

1. Key Investment Calculations (How to Do Them)

Customer Lifetime Value (LTV)

What it tells you: Total gross profit from one customer over time.

Formula:
LTV = Margin per sale × Number of repeat purchases (in 1, 3 or 5 year period)

Example:
£300 margin × 2 purchases = £600 LTV per customer

Investment Viability

What it tells you: Whether the idea is financially worth doing.

Formula:
Investment capacity = Expected total value – One-off investment cost

Where Expected total value = No of customers x LTV

Example:
Expected total value = £2,400 & One-off investment cost = £2,000

£2,400 - £2,000 = £400

Decision rule:

- **Positive & comfortable: Proceed**
- **Small positive: Test / Pilot**
- **Negative: Reject or redesign**

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2. Why Cash ≠ Profit

A business can be profitable and still fail if:

- **Customers pay late**
- **Costs are paid upfront**
- **Stock or work-in-progress absorbs cash**

That's why we use cashflow forecasts, not just profit.

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3. Simple 13-Week Cashflow Example

Starting cash balance: £80,000

Week	Cash In	Cash Out (Operating)	Capital Spend	Net Movement	Closing Cash
Opening Cash	**80000**				
1	6,500	6,000	–	500	80,500
2	6,400	6,000	–	400	80,900
3	6,600	6,000	–	600	81,500
4	6,500	6,000	–	500	82,000
5	6,700	6,000	–	700	82,700
6	6,600	6,000	–	600	83,300
7	6,800	6,000	–	800	84,100
8	6,950	6,000	–	950	85,050
9	6,900	6,000	–	900	85,950
10	6,800	6,000	50,000	-49,200	36,750
11	6,800	4,500	–	2,300	39,050
12	7,000	4,500	–	2,500	41,550
13	7,200	4,500	–	2,700	44,250
	87,750	**73,500**	**50,000**		

13 week run rate before investment	=	13 x 6,000	£78,000
13 week run rate after investment	=	13 x 4,500	£58,500
Total Cash In	=		87,750
Total Cash Out	=		123,500
Total Cash Movement	=	Opening balance MINUS Closing Balance	-35,750
Projected weeks to restore 13 week buffer		58,500 / 2500	23.4

How to Use This

- **Focus on lowest cash point, not final balance**
- **Check overall cash movement in period**

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- **Test "what if" scenarios (late payments, higher costs)**

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4. Working Capital & Cash Conversion Calculations

Debtor Days (Days Outstanding Payments)

What it tells you: How long customers take to pay.

Formula:
Debtor days = (Trade debtors ÷ Annual total credit sales) × 365

Example:
£60,000 debtors ÷ £600,000 sales × 365 = **36.5 days**

Creditor Days (Days Payable Outstanding)

What it tells you: How long you take to pay suppliers.

Formula:
Creditor days = (Trade creditors ÷ Annual credit purchases) × 365

Example:
£40,000 creditors ÷ £400,000 purchases × 365 = **36.5 days**

Inventory Days (Days Inventory Held)

What it tells you: How long stock is held before sale.

Formula:
Inventory days = (Average inventory ÷ Cost of Sales) × 365

[Average inventory = Opening Inventory +Closing Inventory / 2]

Example:
£50,000 inventory ÷ £500,000 COS × 365 = **36.5 days**

Cash Conversion Cycle (CCC)

What it tells you: How long cash is tied up in the business.

Formula:
CCC = Debtor days + Inventory days − Creditor days

Example:
36.5 + 36.5 − 36.5 = **36.5 days**

Interpretation:
Lower is better. A negative CCC means customers fund your business.

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5. Margins & How Discounts Destroy Profit

Gross Margin

What it tells you: Profit after direct costs.

Formula:
Gross margin = (Revenue − Cost of Sales) ÷ Revenue

Example:

Revenue = £100 Cost of Sales = £60
(£100 − £60) ÷ £100 = **40%**

Operating Margin

What it tells you: Profit after operating costs.

Formula:
Operating margin = Operating profit ÷ Revenue

Example:

Revenue = £100 Total operating costs = £85 Operating Profit = £15
£15 ÷ £100 = **15%**

How Discounting Destroys Profit (Simple Demo)

Assume:

- Selling price: £100
- Cost: £60
- Gross profit: £40

10% discount → New price £90
New gross profit = £90 − £60 = **£30**

Impact:

- Price down 10%
- Profit down **25%**

Key rule:
Discounts hit profit *far harder* than they hit revenue.

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6. Liquidity & Efficiency Ratios

Quick Ratio (Acid Test)

What it tells you: Ability to pay short-term bills *without selling stock*.

Formula:
Quick ratio = (Current assets − Inventory) ÷ Current liabilities

Example:
(£120,000 − £50,000) ÷ £70,000 = **1.0**

Rule of thumb:
≥ 1 is healthy.

Inventory Turnover

What it tells you: How efficiently stock is used.

Formula:
Inventory turnover = Cost of sales ÷ Average inventory

Example:
£500,000 ÷ £50,000 = **10 times per year**

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7. Profitability Ratios

Return on Assets (ROA)

What it tells you: How well assets generate profit.

Formula:
ROA = Net profit ÷ Total assets

Example:
£50,000 ÷ £500,000 = **10%**

Return on Capital Employed (ROCE)

What it tells you: Profit generated from long-term funding.

Formula:
ROCE = Operating profit ÷ (Total assets − Current liabilities)

Example:
£80,000 ÷ £400,000 = **20%**

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