

## Facilities Management from A to Z

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### **Q**uick Ratios

Financial ratios are useful indicators of an organisations financial performance or status. It is helpful for facility managers to understand such things in order to properly manage the assets of the organisations they serve and to assess the commercial security of contracted service providers on whom they may depend.

The Quick Ratio, also known as the acid test ratio, reveals a company's ability to meet short-term operating needs by using its liquid assets. It is similar to the Current ratio, which reveals a company's ability to meet its short-term obligations, but is considered a more reliable indicator of a company's immediate financial strength.

The Current Ratio is calculated by dividing current assets by current liabilities. However the current assets may include inventory items which may be difficult to liquidate quickly and have uncertain values. The Quick Ratio is an alternative measure of liquidity which does not include inventory in the current assets. The calculation is Current Assets minus Inventory and divided by Current Liabilities.

In theory, the higher the ratio is, the better the position of the company is. However, a better benchmark is to compare the ratio with the industry average.

Financial literacy is a vital skill for the modern facility manager but many find the complexity of the subject rather daunting. The technical jargon used by accountants to describe and manage corporate finance presents a formidable barrier to the initiated. However without becoming an expert the facility manager who learns a little of the basic concepts soon finds the language to be less confusing and the results can be very helpful.

The successful facility manager cannot afford to leave financial matters to the accountants on their own. The ability to interpret and present financial data, an understanding of the impact of the facility budget on corporate accounts and a familiarity with the language and techniques of the finance professional are all invaluable skills for a career in facilities management.

A technically excellent facilities operation with a people focussed service team establishes a solid platform for success but all businesses and operations revolve around money. The language, tools and techniques used by accountants are simply addressing fundamental management areas.

Most finance people would love to work with more financially literate customers and would be delighted to provide training or guidance not only in the financial basics but also in the peculiarities that inevitably exist within the accounting practices of all organisations. Understanding and utilising tools like the Quick Ratio is an important part of a fully rounded facilities management discipline.

*A useful guide to the use of ratios including the Quick Ratio is: 'Key Management Ratios' by Ciaran Walsh published by The Financial Times ISBN-10: 0273719092*