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Accountants and Tax Advisers

A Guide to Knowing Your Numbers

RUNNING A BUSINESS REQUIRES MASTERY OF A WIDE RANGE OF FIGURES. YOUR BUSINESS'S FINANCIAL PERFORMANCE WILL ULTIMATELY DETERMINE NOT ONLY ITS SUCCESS OR FAILURE BUT YOUR OWN WEALTH IN YEARS TO COME.

No one goes into business to make a loss, but achieving profit, and for most business owners, an eventual successful exit, requires you to know your numbers thoroughly.

Even business owners with years of experience can benefit from refreshing their knowledge of the figures that determine the success of their business.

To help, we have produced some helpful guidance, which covers some of the most important aspects of assessing, forecasting and improving your finances.

However, every business is unique, so we recommend seeking expert, tailored advice.

Turnover

Turnover accounts for the total number of sales or transactions your business makes within a set period.

Also commonly referred to as a businesses revenue or income, it differs from profit, which measures a businesses earnings after costs and other elements are deducted.

You must understand your turnover to appreciate the steps required to generate a profit. Calculating your turnover is simple and requires you to multiply the value of the products/services you sell by the number of times it is sold in a given period – most typically a week or a month.

You will require this information anyway to accurately calculate your tax liabilities.

Understanding your turnover is important in evaluating your performance as it is a metric often used by investors and lenders when determining whether you can access finance and insurers to decide the level of coverage offered.

Further down the line, turnover will be a key factor in determining your business's value, as it can indicate potential growth and the profitability of an organisation.

Even businesses currently trading at a loss but with a high potential turnover are often considered valuable, particularly where they fill a niche or have a commanding position within their market.

Sales Forecast

A sales forecast will include an estimate of how much you expect to sell in the future, which allows you to predict projected income for a period.

Creating a sales estimate can be achieved by analysing your previous year's sales figures to see whether there are any trends or seasonal variations.

You will also need to take into consideration the introduction of new products or services and the expected market for these.

If you plan to make additional sales in a particular area, due to a promotion or special event or project, build that into your forecast.

A sales forecast should include any new contracts or retained work that is anticipated during this period.

When estimating your sales, do not include any tax on the products or services sold, as this will be incorporated into the cash flow forecast later on.

Profit and Loss

For many business owners, the profits of their business will directly relate to the ongoing wealth that it generates for them and the funding they require to invest more into the organisation's growth.

Gross vs Net

To understand how profits and losses are realised you need to first understand the difference between gross and net.

- Net profits are the amount of money you are left with after having paid all of your allowable business expenses.
- Gross profit is the amount of money you are left with after deducting only the cost of goods sold from turnover.

You must calculate gross profit first to determine the net profits of your business. Net profits are ultimately what determine how much money you have available to invest in or take out of the business.

Profit and Loss Statement

A profit and loss statement is a key part of understanding how a business makes net profits, but it is also another indicator of the general health of an enterprise.

This collates information about the turnover and expenses/expenditure that your business has made on a weekly, monthly, quarterly or annual basis.

The most basic calculation within this is:
Turnover – Expenses = Net Profit or Net Loss

You should be able to put together a profit and loss forecast from your sales forecasts. The profit and loss forecast combines your business's income and its costs to give you a projected profit figure for the future allowing you to:

- Estimate how much tax the business will be liable for;
- Understand the costs of launching new products; and
- Highlight the first indications of negative cash flow.

Be sure to include costs in the month that you incur them, rather than the month that you pay for them as a profit and loss forecast must be prepared based on when you incur your costs.

Beyond the performance of your business, your profit and losses will have a big impact on the amount of tax your business pays each year.

This is especially true for limited companies, following changes in April 2023, as the Corporation Tax rates increase to charge higher rates of tax depending on the profitability of your business.

From this date, those companies with profits of £250,000 or more face the 25 per cent top rate of tax. Only businesses that have profits of £50,000 or less will continue to enjoy 19 per cent.

Break-even

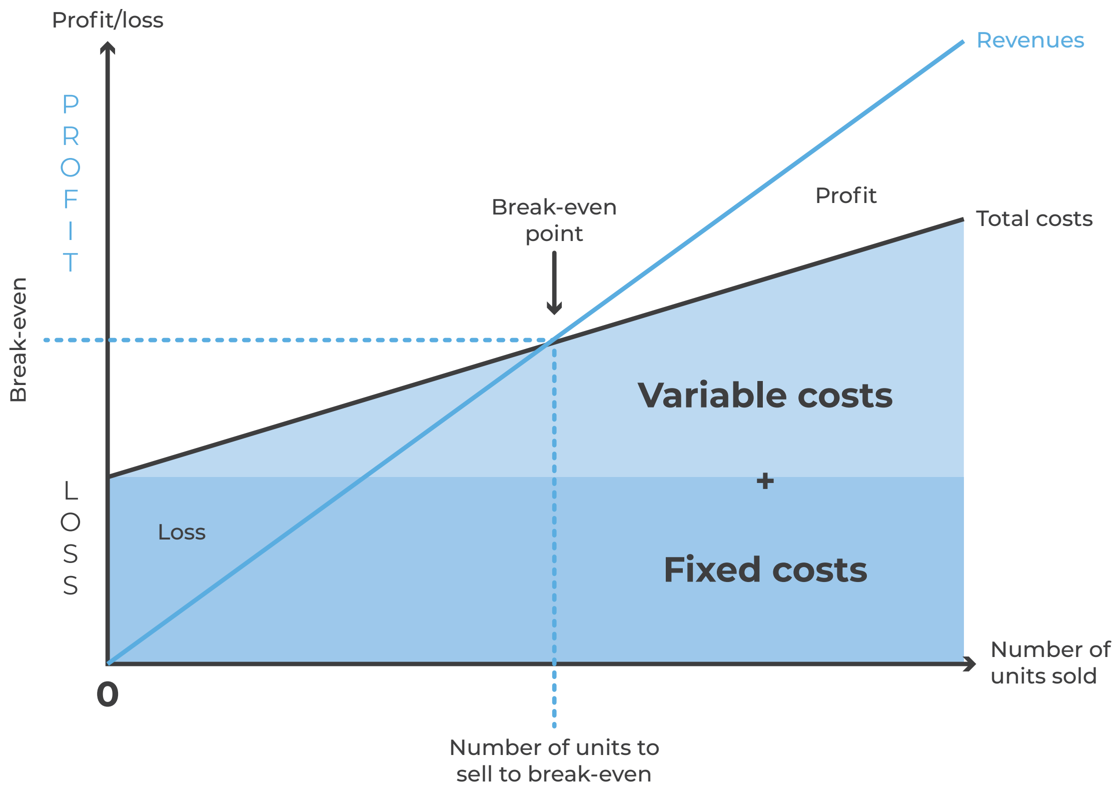
Break-even is important to all businesses as it marks the point at which a business has covered its costs at the end of its activity during any given period.

This can be useful in understanding the financial performance of a business and may indicate where it needs to focus its efforts to prevent loss and build profits.

By analysing break-even you can examine the margin of safety for your business and show how many sales it takes to pay for the cost of doing business.

By achieving this you can feed in different elements, such as an increase in price or demand to see the impact it will have on your profits.

Similarly, you can add both variable costs and fixed costs into the analysis to calculate the impact of changes on your profitability.



This diagram shows a useful way of assessing your break-even.

Cash Flow

Cash flow is a vital factor in running a business. Not having sufficient money coming in and having too much money going out of a company is a recipe for business failure.

To manage it effectively, businesses need to be able to forecast how they will perform in future. A well-prepared forecast can help to:

1. Predict sales performance.
2. Estimate costs and spending expectations.
3. Indicate when cash will come into and leave a business.

Businesses should compile a 30, 60 and 90-day cash flow forecast, as a minimum, but longer forecasts can also be useful up to a point.

When preparing an in-depth forecast, the first element is sales, followed by costs and finally, VAT and taxation costs.

These reports combined are used to create a comprehensive and accurate cash flow forecast.

Drawing up these forecasts for your business needn't take long, but it doesn't hurt to seek professional assistance to ensure that forecasts are accurate so that you have the expert advice to enable you to confidently act on the information you receive.

Costs

With inflation continuing to rise in the UK at a historic rate, many businesses will be all too familiar with their rising costs.

As mentioned, costs can significantly affect the profitability of your organisation and its cash flow position.

Costs can be fixed or variable, but many are currently rising due to supply chains. Common costs include:

- SALARIES AND BENEFITS
- ENERGY AND FUEL
- RAW MATERIALS AND SUPPLIES
- INSURANCE AND LICENSING
- RENT OR MORTGAGES
- BUSINESS RATES
- OTHER DEBTS

However, as costs will play a critical role in the success of your organisation, there are steps you can take to lower them over the long term, including:

- SWITCHING SUPPLIERS
- MOVING PREMISES
- INVESTING IN MORE EFFICIENT EQUIPMENT
- PAYING DOWN EXISTING DEBTS

Businesses also face several trade-offs when it comes to costs which include:

- COST vs PRICING
- COSTS vs QUALITY OF PRODUCT/SERVICES
- COST vs CONSUMER DEMAND
- RETURN ON INVESTMENT (ROI)

Finding the right balance between these and many other factors can play an essential role in enhancing the profitability of your operations.

However, to accurately measure your costs, it is worth carrying out regular analysis of your spending to understand how money leaves your business and where costs are likely to rise and fall in future.

Your Balance Sheet

Your balance sheet gives you an overview of your finances and acts as a barometer of the overall health of your company at any given time.

It records your assets, liabilities and shareholder equity to give your business stakeholders a clear view of your financial performance.

At a glimpse, a balance sheet should be able to:

- Measure the 'net worth' of the business at any point in time
- Show if your business is solvent
- Provide a comparison between different financial periods
- Track the financial 'strength' of the business
- Be used as a basis for calculating key ratios and KPIs

In the current climate, many companies' balance sheets are likely to have taken a hit.

Getting an insight into your business's progress will inform you of whether you should make improvements to your operations. Your business is constantly evolving, and your goals need to keep up.

Keeping a Closer Eye on your Numbers

As a business owner, there is a lot that you need to keep on top of and in an ideal world, you would know and be able to analyse your numbers with minimal effort at all times.

However, even the largest and most successful businesses require outside assistance to collate data, analyse, prepare forecasts and present it in a way that all stakeholders can not only understand, but also act upon.

At Seymour Taylor, we provide a wide range of services and systems that can give you a clearer view of your figures, supported by the advice and guidance of our experienced team.

This includes:

- Management accounting;
- Audit;
- Cloud accounting and automation;
- Business advisory;
- And much more.

Together these services can help you to save time while delivering incredible insights to your operations that can help your business reduce risk, seek investment, drive growth and build value.

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Get in touch

To find out how we can help you to know your numbers a little better, please contact us.

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