Grunberg & Co.

Chartered Accountants

A guide to

Knowing Your Numbers

KNOWING YOUR NUMBERS AND UNDERSTANDING HOW THEY INTERACT WITH THE RUNNING OF YOUR BUSINESS IS CRITICAL TO YOUR SUCCESS.

Getting to grips with the ins and outs of your financial performance will not only help you spot risks but also help you to create opportunities that can help you build your wealth in the future.

While businesses may experience losses from time to time, understanding how these occur is important.

Equally having a better knowledge of how your business can achieve profit and increase in value is crucial if you plan to build and one day exit your business.

Whether you are new to running a business or an experienced entrepreneur, knowing your figures is vital.

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

Every business is unique, so we recommend seeking expert advice alongside the information provided by this guide.

Turnover

The simplest way to think about turnover is your total number of sales or transactions within a set period.

Business revenue or income, as turnover is also referred to, differs from your profits, which measures a business's earnings after costs and other elements are deducted.

To understand how you generate a profit you must first understand your turnover. To calculate your turnover, you must simply multiply the cost of the product/services you sell by the number of times it is sold in a given period – most typically a week or a month.

This information is important for many reasons, not least so that you can accurately calculate your tax liabilities.

It is also an important metric for evaluating your performance and it is often used by investors and lenders when determining whether you can access finance and by insurers to determine the level of coverage available.

If you are looking towards an eventual exit from your business, turnover is essential in determining your business's value, as it can indicate potential growth and the profitability of an organisation.

For example, if you have a high potential turnover, but are currently operating at a loss, this can be an indicator of significant value for purchasers where you are trading within a niche or have considerable reach in your market.

Sales forecasts

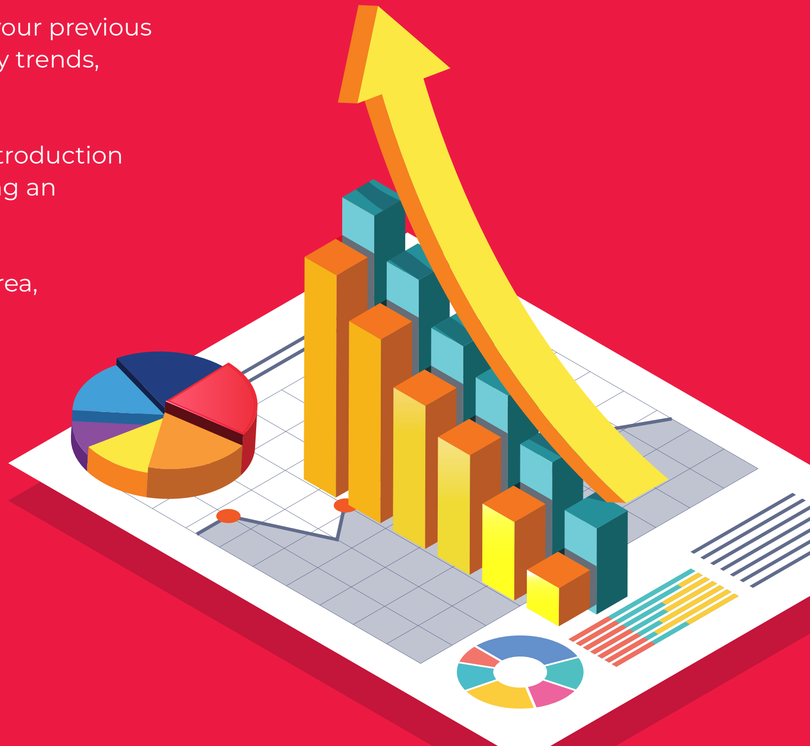
A sales forecast can help you to predict projected income for a period by assessing how much you expect to sell in the future.

To create sales estimates you will need to examine your previous year's sales figures to find out whether there are any trends, patterns or seasonal variations.

Alongside this, you will need to consider how the introduction of new products or services will affect sales, including an estimation of your expected market.

If you plan to make additional sales in a particular area, due to a promotion or special event or project, you should also build that into your forecast, as well as any new contracts or retained work that is anticipated during this period.

If you are estimating your sales, you must not include the tax on the products or services sold. This is factored in later when creating a cashflow forecast for your business.



Profit and loss

Business owners are often keen to have a better understanding of their profits as it relates to the wealth that they, and their fellow shareholders, can attain from the business.

Profit is also important for calculating Corporation Tax and giving management teams an estimation of future funding for investment.

Gross vs Net

In order to understand profits and losses you need to first know the difference between gross and net profit.

GROSS PROFIT
The amount of money you are left with after having paid all your allowable business expenses.

NET PROFIT
The amount of money you are left with after deducting the cost of goods sold from turnover.

Net profits are ultimately what deter-mine how much money you can invest into or take out of the business. To determine your net profits, you must first have calculated your gross profits.

Profit and loss statement

A profit and loss statement helps you to assess how your business makes net profits and is another critical indicator of the health of your organisation.

This statement compares the turnover, expenses and expenditure of your business, either weekly, monthly, quarterly or on an 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
- Gain an indication of loss-leading products and/or the first indications of negative cashflow.

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 companies as the Corporation Tax rates system will charge a higher rate of tax depending on the profitability of your business from April 2023.

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

Break-even

Break-even indicates the point at which a business achieves no profit or loss at the end of its business's activity.

This can help business owners to understand the financial performance of their operations as it can indicate where investment or additional resources are needed to build profits or prevent loss.

Determining your break-even will help you to examine the margin of safety for your business and identify how many sales are required to trade without a loss.

This will allow you to evaluate different scenarios, such as an increase in demand for your product or services due to marketing or the impact of a price rise 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.

Cashflow

Cashflow Is a critical figure within any business. It is often the biggest challenge – with poor cashflow being one of the most common reasons for a business's failure.

In its most basic form, cashflow measures the money that comes into and leaves a business over a set period. Too much going out and not enough coming in will eventually lead to a slowdown or end of trading and, potentially, insolvency.

Owners need to be able to forecast how their business will perform in future in order to assess future cashflow.

A well-prepared cashflow 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 cashflow 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 profit and loss and finally, VAT costs. These reports combined can be used to create a comprehensive and accurate forecast.

Cashflow forecasts needn't be challenging or complex, but it can help to get professional assistance to ensure that forecasts are accurate and so that you have the advice to act on the information you receive.

Costs

With the UK experiencing a period of high inflation, businesses will be all too aware of the costs that they face.

The costs you incur during trading can significantly affect your cashflow and determine the profitability of your organisation.

Costs can be fixed or variable, but many are currently rising due to the additional costs faced by suppliers.

Common costs include:

- Salaries and benefits.
- Energy and fuel.
- Raw materials and supplies.
- Insurance and licensing.
- Rent or mortgages.
- Business rates.
- Other debts.

Seeing costs rise can be disheartening and create uncertainty, but there are actions you can take to lower them over the long term, including:

- Switching suppliers.
- Moving premises.
- Paying down existing debts.
- Investing in more efficient equipment.

When it comes to costs and how you manage them, there are certain trade-offs that you will need to consider, such as:

- Return on investment (ROI).
- Costs vs pricing.
- Costs vs consumer demand.
- Costs vs quality of product/ service delivered.

Achieving the right balance between these factors can be very challenging, but they are essential in achieving and maintaining profitability.

Given the changeability of many costs at the moment, it can pay to conduct a regular analysis of your spending to understand how money leaves your business and where costs are likely to rise and fall in future.

Balance sheets

Your balance is one of the most accurate measures of your business's financial performance at any given time.

Updated regularly with information on your profits and losses, liabilities, assets and shareholder equity, it should give you and your other stakeholders a clear view of your current financial health.

An effective balance sheet should be able to:

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

Achieving this level of insight into your business's finances can help you to make better decisions and provide a focus for further improvements to your operations.

Staying in control of your figures

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That is why, even the largest and most successful businesses require outside assistance to collate their finances, assess them and prepare forecasts so that stakeholders can review and act upon the findings.

We work with a wide range of businesses – large and small – to provide services and systems that can give you a clearer view of your figures.

This is supported by the advice and guidance of our experienced team who can provide insights that help you make decisions with impact.

Our services include:

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

Let us help you save time while delivering incredible information that can help your business to seek out investment, improve profitability, drive growth and reduce risk.

Get in touch

Contact us today to find out how we can help you understand your numbers in greater detail.

Grunberg & Co.
Chartered Accountants

5 Technology Park, Colindeep Lane, London, NW9 6BX

T: 020 8458 0083 **E:** contact@grunberg.co.uk

grunberg.co.uk