BUSINESS SURVIVAL GUIDE

Your Village Accountant

In 2016 small business survival rates were as high as 90% after one-year trading however after five years shockingly only 4 in 10 businesses will still be trading.

Here at Your Village Accountant we understand that it is tough running a small business and whilst they can fail for many reasons poor cash flow and bad record keeping remain two of the main causes. Poor cash flow is most likely caused by late payment of invoices. Unfortunately, a lot of the time this cannot be prevented but providing credit checks on customers, being up front with payment terms and effective credit control will all help towards timely payment.

Keeping paperwork is vital even if you are not sure whether something is a legitimate business expense we always say keep it and let us decide. It is tough running a business which is why we've launched the business survival guide for small businesses to understand more clearly what can be done to ensure your business is a success.

CREATE AND MANAGE REALISTIC BUDGETS

Budgets must be realistic, there is no point putting a £5 budget in for advertising if it is your first-year trading and you plan on doing a lot of advertising and marketing of your product or service. Make sure you review budgets against actuals regularly on a monthly, quarterly or annual basis.

FORECAST REVENUE

It is a good idea to forecast revenue monthly. This might identify seasonal trends and help you to budget which months cash flow is likely to be tight.

KEEP TRACK OF EXPENSES

It is useful to track expenses to see where money is being spent in your business, how much and what for. You may find patterns emerging or it may highlight that business spending is increasing whilst revenue is decreasing. This should ring alarm bells and should prompt you to act before it is too late.

DETERMINE TIMELY PURCHASES

This is often overlooked by small businesses but the timing of big purchases particularly assets is vital. We strongly advise you to check with your accountant before buying any large pieces of equipment as this can have a direct effect on your tax bill.

KEEP ACCURATE RECORDS

Keeping accurate records is vital for the health of your business and to fulfil any legal obligations. It really does not matter if you keep the records on a spreadsheet, in a manual cashbook, on book keeping software or you just hand us all your paperwork to generate the records.

These methods are perfectly acceptable for now but with making tax digital rapidly approaching it is important that you stay in touch with your accountant to make sure you stay ahead of the game. We will inform and assist you in plenty of time if you need to change how you currently operate.

So, you now know how to keep your business financially healthy…

Here's what not to do….

Poor Record Keeping

This is often a costly mistake. If you don't keep records then you don't know how your business is performing and if you don't know how well you are doing then things make go irreparably wrong without you even knowing.

Overlooked Unpaid Expenses

This can easily happen if record keeping is poor. If you are not keeping records it is very easy to forget a supplier needs paying. If you don't budget for an expense then often the cash won't be there to pay for it. This is a particularly bad scenario if the expense is overlooked as you may not be aware of it until it reaches a legal stage.

Penalties for Late/ Inaccurate Filing

This happens far more than people realise and it's something that we really don't like. It is such an avoidable expense and one that can become very costly quite quickly. We have seen cases where people owe thousands in late filing penalties. We know all the deadlines our customers face and providing paperwork is submitted to us in a timely manner we will ensure this does not happen.

Mixing Personal Assets with Business

This is a difficult one as we all know that sometimes it cannot be helped. A good example of this is using a vehicle partly for business and partly for personal and you aren't sure how to record this situation in your books. It is ok to do this but we recommend you speak to your accountant about the best way around this. Every situation is different and what works for one business may not work for another.

To keep monetary transactions separate we recommend to all our clients that you have a separate business bank account. This doesn't have to specifically be a business account as we know there are often charges that small companies can't justify absorbing. Any current account is fine and does the job of separating personal transactions from business ones. It keeps everything neater, it is much easier to form a good set of records and far easier for your accountant at the end of the year to complete your tax return.

Understanding Our Reports

Profit and Loss Statement

The profit and loss statement is a snap shot at any point in time showing the following:

Revenue

Money streams coming into the business

Cost of Goods Sold

The cost of materials and services that are directly attributable to revenue streams. These costs are often referred to as direct costs and examples include materials needed to make the product you are selling or labour that can be wholly attributed to making that product.

Gross Profit

Revenue – Cost of Goods sold = Gross Profit

Expenses

All other expenses that are not direct costs such as electricity, rent, rates, telephone, stationary etc. These costs are often referred to as overheads

Net Profit

Gross Profit – Expenses

As a sole trader, you are taxed on your net profit! A common mistake is thinking you are taxed on what funds you withdraw from the company. .

The Balance Sheet

The balance sheet is a snap shot in time showing your assets, liabilities and equity.

Assets

Assets are items that the company owns. They are the resources of the company that have been acquired through transactions, and have future economic value that can be measured and expressed in pounds. Assets include costs paid in advance that have not yet been utilised such as prepaid insurance, cash, stock, equipment, land and debtors (debts customers owe you)

Liabilities

Liabilities are the opposite of assets, they are obligations of the company and amounts owed for past transactions. They include items such as creditors (money you owe suppliers), loan repayments and costs incurred but not paid for (commonly called accruals)

Equity

The equity section is made up of capital and reserves typically a cash injection by the business owners and any retained profit. More complex businesses may have several types of share capital.

In summary, an important part of the balance sheet is to look at the net assets (total assets – total liabilities.) If this is a negative figure this is a worrisome situation and indicates the business is insolvent and cannot pay all its debts.

When assessing the health of a company it is essential to analyse both financial statements as well as considering budgets and forecasts.

We hope you have found our business survival guide useful.

As part of your package with us you will receive an annual summary analysing the health of your company.