

## 2. MONTHLY MANAGEMENT ACCOUNTS

- i) Profit & Loss Account for the month
- ii) VAT Returns: copy each quarter as issued.
- iii) Other information as required from time to time
- iv) Marketing information should be provided as occasionally required.



### **E.15. STATUTORY RECORDS & RETURNS**

As previously stated all businesses must satisfy the VAT. Authorities and the Inland Revenue that they are complying with legal obligations and regulations.

You should ensure that returns and payments made, of VAT, National Insurance and PAYE, are made on time as heavy fines can result in late payment.

If you are trading as a limited company, annual returns must be made by specified dates.

There will be an inspection visit from one or all of the authorities at some stage in the life of your business. You must be able to demonstrate that you are aware of the regulations and that you have set your up systems in order to comply with them.

By utilising nicensripy systems you are automatically complying with current legislation.

## **E.16. MONITORING & CONTROLLING YOUR BUSINESS**

You should not keep financial records just because there are legal obligations to do so. The main reason business people maintain good books is so that financial data is readily available and that a financial health check can be carried out at any time.

To carry out a health check of your business you need to look at what has happened in the past and project forward what **you will make** happen in the future.

Each month you should be comparing actuals against budgets in your business plan and ascertain whether further improvements can and need to be made.

*Most small business people wait until the year end for their Accountant to advise them how much profit/loss they have made - but by then it is too late to change or improve !*

Your accountant must provide monthly accounts to enable you to always be in control of your business.

## **E.17. CONTROLLING CASH**

Some people are good at budgeting and controlling cash and others less than wise. Everybody has their own methods of controlling cash and cash flow but there are times when an unexpected bill arrives which we cannot afford to pay as we have forgotten to budget for it.

Business people, in business for the first time, often forget to put a little away for one thing or another.

i.e.

### **1. TAX**

- i) You will have to pay personal tax on your profits each year, if a sole trader.
- ii) You will have to pay corporation tax on your company's profits each year, if a company.

### **2. NATIONAL INSURANCE**

- i) If you are trading as a limited company and pay yourself a salary your national insurance contributions will be deducted from your pay.
- ii) If you are trading as a self employed person or within a partnership, you will have to pay a self-employed contribution, normally by standing order, plus a contribution as a percentage of profits made.
- iii) Your accountant will advise you how to prepare a cash flow and the elements that should be included.

## 3. INSURANCE

Each year you will need to pay your premiums.

## 4. VAT

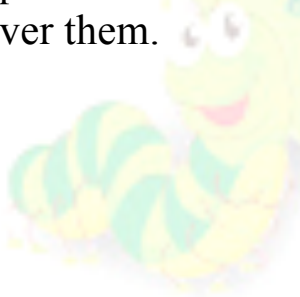
Is payable each quarter - heavy fines can be made on late payment. There are other options available for different payment periods with the approval of H. M. Customs & Excise.

Your accountant will provide the necessary information and recommendations.

## 5. PURCHASES

Without cash available you will not be able to meet bills when due.

In other words you should **BUDGET** for all possible expenditures in advance to ensure you have enough **CASH** to cover them.



## E.18. PETTY CASH

During the course of running your business there may be the need to make some payments in cash rather than using a cheque. We suggest that you use a petty cash float of say £100, which should be sufficient, which you should "top up" each week.

You will require Petty Cash Vouchers, which should be written-up each time an amount is removed from the float. All receipts must be attached to your Petty Cash Vouchers. Receipts should show a valid VAT registration number. Do not forget to show the VAT amount to be recovered.

When you replenish your Petty Cash Float summarise all your Petty Cash Vouchers in the Petty Cash Book File, which will then be summarised at the end of each accounting period.

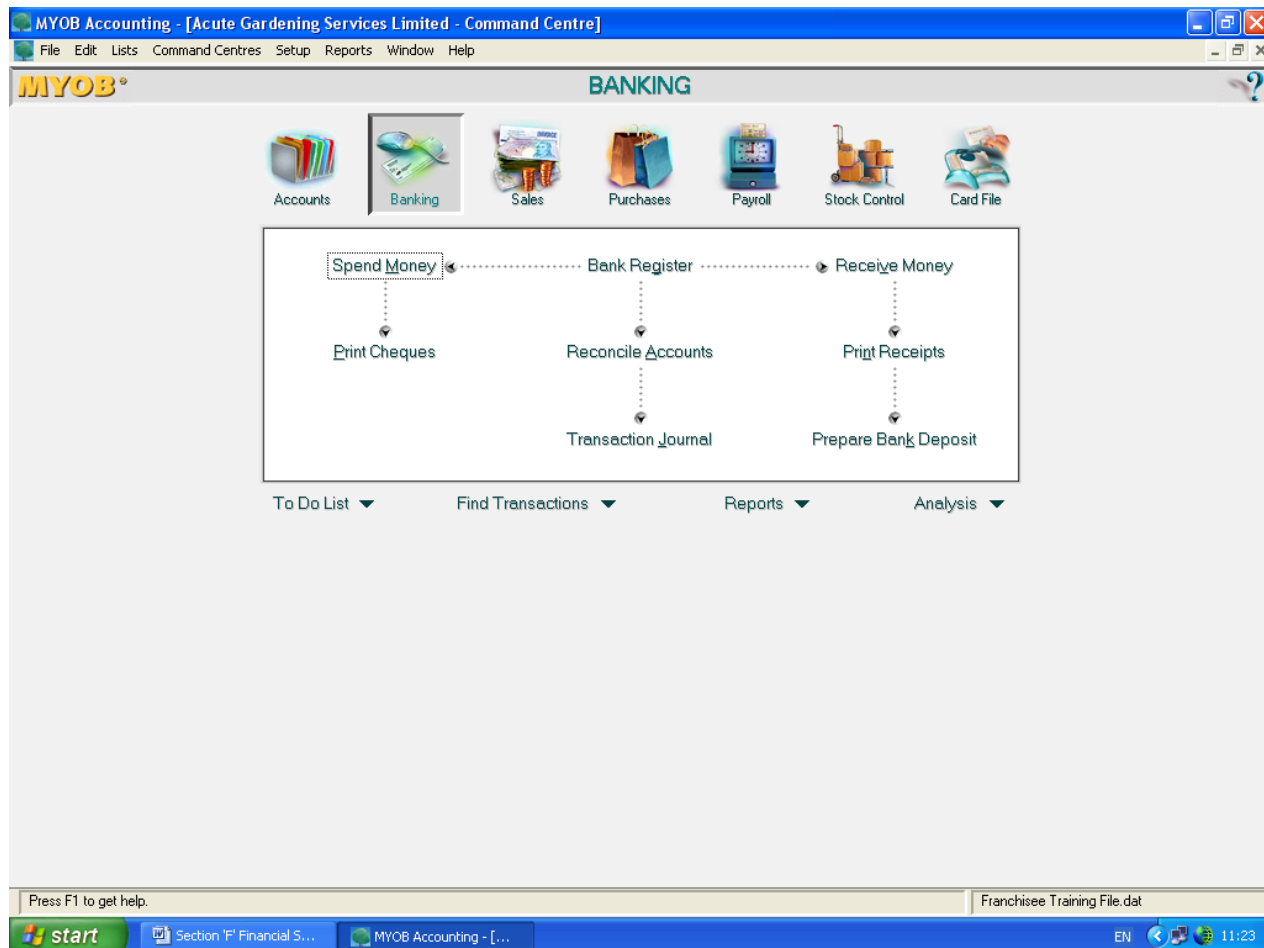
### EXAMPLE

Date	Reason For Expenditure	Net Value	VAT Paid	Total
30.4.2001	Blade Grinding	£5.00	0.88	£5.88

## E.19. CASH BOOK

This is controlled through your MYOB programme.

Go to Banking



Go to Spend Money

# Issue Number 000

[illegible]

Click Account (top left hand corner) and select 'Petty Cash' from drop down



# Issue Number 000

Select 'Use Recurring' (towards bottom of screen)

The screenshot shows the MYOB Accounting - [Spend Money] window. The main window has a menu bar (File, Edit, Lists, Command Centres, Setup, Reports, Window, Help) and a toolbar. The main area is divided into sections: Account (1-2140 Petty Cash, Balance £1,228.92, VAT Inclusive), Card (Cheque No. 281, Date 08/11/2004, Amount), Payee, Memo, and a table of transactions. A dialog box titled 'Select a Recurring Transaction' is open, showing a search bar and a table of recurring transactions. The dialog box has buttons for Help F1, Cancel, Delete, Edit, and OK. The main window also has buttons for Save Recurring, Use Recurring, Recrd, and Cancel.

Name	Frequency	Last Posted	Due
British Gas	Other	10/11/2003	
BT	Other	24/11/2003	
Gary Taylor	Monthly	19/02/2004	26/06/2004 *
Graham Tinsley	Other	30/12/2003	
HM Customs & Excise	Other	27/11/2003	
Inland Revenue	Monthly	10/02/2004	14/01/2004 *
Inland Revenue Graham NI	Other	28/04/2003	
Inland Revenue graham ni cont	Other	01/08/2003	
J Tinsley NI Contribution	Other	01/08/2003	
James Blakey	Other	02/02/2004	

Go to Petty Cash Account required and click

# Issue Number 000

Enter Petty Cash spent during the period

Account: 1-2140 Petty Cash Balance: £1,228.92 VAT Inclusive

Card: Petty Cash Cheque No.: 281  
Payee: Petty Cash Date: 08/11/2004  
Amount: £697.11  
Six Hundred Ninety-Seven and 11/100 Pounds  
Memo: Petty Cash Acute Gardening Services Limited

Acct No.	Name	Amount	Job	Memo	VAT
6-2600	Advertising				S
6-1400	Travel & Subsistence	£0.40			Z
6-2250	Postage & Stationery	£20.00			E
6-2200	Telephone	£99.50			Z
5-1220	Van Exp-Service & Repairs	£45.00			S
5-1210	Van Exp-Fuel	£221.97			S
6-1200	Staff Welfare				S
5-1160	Tools				S
5-1300	Sub-Contract Labour	£15.50			Z
6-1150	Staff Overalls				S
6-2900	Sundry Expenses	£34.99			S
5-1100	Machinery Parts				S
5-1200	machinery fuel				S
5-2300	Fill Bought				S
5-1155	Hire of Equipment	£216.20			S
9-2055	New Account	£43.55			N-T

Total Allocated: £697.11  
VAT: £79.48  
Total Paid: £697.11  
Out of Balance: £0.00

Buttons: Save Recurring, Use Recurring, Help F1, Print, Journal, Register, Recrd, Don't Record

Tick off – item by item –from your book onto the MYOB page

Go to Reconcile Accounts (still in Banking)

Click onto Petty Cash Account

Enter end day of petty cash month

# Issue Number 000

Enter amount at end of petty cash book into top right hand box

Tick off – item by item –onto the MYOB page

MYOB Accounting - [Reconcile Accounts]

File Edit Lists Command Centres Setup Reports Window Help

Account: T-2140 Petty Cash New Statement Balance: £1,631.81  
Last Reconciled Date: 30/04/2004 Calculated Statement Balance: £1,228.92  
Bank Statement Date: 08/11/2004 Out of Balance: -£402.89

Mark All Cleared Transactions	Deposits	Withdrawals
10079 08/10/2004 Petty Cash	£100.00	
10080 08/11/2004 Petty Cash	£1,000.00	
281 08/11/2004 Petty Cash		£697.11

Bank Entry Get Statement Total Cleared: £0.00 £0.00

Help F1 Print Date ID No. Reconcile Cancel

Press F1 to get help. Section 'F' Financial Systems October 2004 - Microsoft Word Franchisee Training File.dat

start Section 'F' Financial S... MYOB Accounting - [...

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You will only be able to reconcile your account when the balances agree.

Click reconcile – print report

Click reconcile and reconcile

## **E.20. VALUE ADDED TAX.**

### **A. VAT REGISTRATION**

A person making or intending to make taxable supplies of goods or services in the course of furtherance of a business is required to be registered if taxable turnover exceeds, or is expected to exceed the annual turnover limit, which is adjusted most years.

This can be achieved by submitting form VAT1 to the VAT registration unit for your area of the country. Your accountant should assist you in submitting this form.

**VAT ON FRANCHISE  
PAYMENTS  
(IN ACCORDANCE  
WITH CURRENT UK  
VAT LEGISLATION)**

## 1. PURCHASE PRICE

The question to ask is whether there is a 'transfer of a trade as a going concern'. If the answer is 'YES' then no VAT is payable, provided the franchisee is registered for VAT

### a) CONVENTIONAL FRANCHISE - NEW START UP BUSINESS

You purchase your equipment etc. direct from suppliers and will pay VAT on those purchases. The VAT costs can then be reclaimed on the first VAT return.

### b) CONVENTIONAL FRANCHISE - EXISTING OPERATION (COMPANY OWNED OR PREVIOUS FRANCHISEE)

No VAT is payable because this is the transfer of a trade as a going concern from the previous owner(s) to you.

### c) FRANCHISEE FEES

VAT is payable on the initial franchise fee and subsequent Management Services Fees. The VAT can then be reclaimed through your quarterly VAT returns.

## ACCOUNTING FOR VAT

### (1) GENERAL COMPLIANCE OBLIGATIONS

Each taxable person is obliged to keep records that are sufficiently detailed to enable VAT to be assessed and the assessment to be confirmed during a VAT inspection by the H. M. Customs & Excise.

### (2) INVOICES

An invoice must be issued for all supplies of goods or services to your customers.

Your customer will need to have an invoice in order to support **their** claim for a deduction of input VAT incurred on goods or services acquired for their business purposes.

Only nicensripy invoices may be used which will show your VAT registration number; prefixed by 'GB'.

### (3) OUTPUT TAX

This is the VAT you charge your customers when you provide **taxable supplies**.

If you are in business and sell goods or services, it is more than likely that you are making taxable supplies. Anything you do by way of business can be a taxable supply - not just things you do in the ordinary course of your day-to-day business.

When you are registered, VAT is chargeable on all the taxable supplies that you make. This is your **Output Tax**.

## (4) SUPPLIES NOT SUBJECT TO OUTPUT TAX

A number of supplies are not taxable because the law says that VAT is not to be charged on them. These supplies include loans of money and some property transactions. These are called **Exempt Supplies**.

It is important to know whether you make any exempt supplies, because this can affect the amount of VAT you can get back on goods and services you buy for your business.

A number of other supplies are not taxable because the law states the VAT is zero-rated. These supplies (at present) include children's clothing, most types of food, educational books and promotional literature such as leaflets.

N.B. At present all nicenstripy franchisees only sell taxable supplies.



## (5) OTHER TAXABLE SUPPLIES

When the VAT is being calculated, you should charge and pay to Customs and Excise, do not just look at your day-to-day sales.

See Below for some of the other taxable supplies that you may also be making:

- ◆ Sales to your staff
- ◆ Sales of Business Assets (e.g. office equipment)
- ◆ Gifts of Goods which cost you more than £10
- ◆ Goods which you or your family have taken out of the business for your own use
- ◆ Commission received in return for selling something on behalf of someone else
- ◆ Scale charges on private motoring

## (6) ACCOUNTING FOR VAT IF NO VAT IS CHARGED

**Remember** - when pricing, costing or estimating, always ask yourself:

*‘Have I charged VAT?’*

If you do not charge VAT when you should have, you will still have to account for the output tax to Customs & Excise.

Whatever price you charge to your customer, that price is deemed to include VAT and must be paid over.

That VAT paid over will, therefore, come out of **your** profits.



## (7) INPUT TAX

Many of the items you buy bear VAT, but if you are registered you can usually claim back the VAT charged on your business purchases and expenses.

### **This is your . . . Input Tax**

#### ***It will include:***

- ☐ VAT on your raw materials or on goods you buy for resale
- ☐ VAT on office equipment for your business
- ☐ VAT on expenses such as a telephone bill (in so far as it has been used for your business)
- ☐ VAT on services to do with your business such as accountants, solicitors or management fees

#### ***It does not include:***

- ⇒ VAT paid on goods or services for someone else's business
- ⇒ VAT paid on private purchases, such as furnishings for your home
- ⇒ VAT paid on cars (including estate cars)
- ⇒ VAT paid on supplies for business entertainment (except for overseas customers)
- ⇒ VAT on private services such as telephone, electricity and professional services

## WHEN SHOULD YOU CLAIM INPUT TAX?

Whenever you purchase goods or pay for a service, you should ask for a VAT Invoice or VAT Receipt.

For the seller to give you a VAT Invoice/Receipt they must be registered for VAT.

If they are not registered they cannot charge you VAT nor give you a VAT Invoice/Receipt.

All VAT Invoices/Receipts must have a VAT registration number clearly shown.

e.g. - You employ the services of a blade grinder

- i) The blade sharpener is part of a business which has decided **not** to register for VAT as it is under the limit for registration.

*You will **not** be able to claim VAT (as none will have been charged)*

- ii) The blade sharpener is part of a business that **has** decided to register for VAT.

*You **will** be able to claim VAT (providing you get a VAT Invoice/Receipt)*

## CALCULATING THE VAT CONTENT OF AN INVOICE

To calculate the amount of VAT for a service at Selling Price: -

Selling Price x 1.175 (1+VAT rate) = Total Amount Payable

i.e.

$$£10.00 \times 1.175 = £11.75$$

$$\text{Therefore the VAT cost} = £1.75$$

$$£36.00 \times 1.175 = £42.30$$

$$\text{Therefore the VAT cost} = £6.30$$

We can double check the net cost by simply dividing by 1.175

i.e.

$$£11.75 \text{ divided } 1.175 = £10.00$$

$$£42.30 \text{ divided } 1.175 = £36.00$$

### Note:

The above is based at the prevailing rate of 17.5%

## RECORDING YOUR VAT RECORDS IN YOUR BOOKS

The VAT content of all your sales is controlled through your MYOB software.

### (i) Your Sales Records

MYOB keeps a copy of each invoice you raise.

When you list your invoices MYOB keeps a separate column for VAT. This VAT is your **Output Tax**. The total of the invoices, less the VAT elements, are your **Outputs**.

Remember if you issue credit note to a customer MYOB notes it in your sales records. Any VAT on a credit note you issue, **reduces** the amount of VAT you have to pay in the VAT period in which you issue it. All sales must be entered into the MYOB program.

### (ii) Your Purchase Records

Again this is controlled through your MYOB software

Remember if you get a credit from a supplier, you must note it in your purchase records. Any VAT on a credit note you receive, **reduces** the amount you can reclaim in the tax period in which you receive the credit note.

## **YOUR VAT CONTROL ACCOUNT & BUSINESS RECORDS**

Your VAT account shows the link between your MYOB program and your VAT returns. The balance outstanding on your VAT control account should always equal the amount due to or from Customs & Excise.

You must keep details of your VAT control account and all your business records for Six Years. If this causes serious storage problems of undue expense you should consult your local VAT office, who may allow you to keep some of the records for a shorter period.

Business Records include:

- ▣ Orders and delivery notes
- ▣ Relevant business correspondence
- ▣ Purchase and sales day books
- ▣ Cash books and other account books
- ▣ Purchase invoices and copy of sales invoices
- ▣ Annual accounts, including profit and loss accounts
- ▣ Bank statements and paying in slips
- ▣ Credit notes or debit notes you issue or receive
- ▣ Import and export documents (where applicable)

All these records must be readily available to H. M. Customs & Excise Officers when they visit you.

## YOUR VAT RETURN

VAT returns are normally submitted quarterly at dates agreed with Customs & Excise. The quarterly dates chosen are normally selected when applying for registration and it is advised that one of the quarterly dates is your year-end.

Under special circumstances introduced in 1996, some businesses may apply to submit an annual return only. However, periodic payments still have to be made, normally quarterly (based on estimates) and this can lead to under or over payments, depending on the growth of the business.

Serious cashflow difficulties can result from this system so you are advised not to use it!



## COMPLETING THE VAT RETURN

The report to Customs & Excise is produced by MYOB.

Nine boxes need to be completed on your VAT return:

- ☐ Box 1 **Enter here the total VAT due on your sales and any other taxable income (Your Output Tax)**
- ☐ Box 2 **Enter here any output tax on sales to EC Member States (Normally none)**
- ☐ Box 3 **Add Boxes 1 & 2 together**
- ☐ Box 4 **Enter here the total of all input tax on purchases and other inputs including inputs from EC Member States**
- ☐ Box 5 **Enter the difference between Boxes 3 & 4**
- ☐ Box 6 **Enter the total value of sales and all other outputs, excluding any VAT but including Box 8**
- ☐ Box 7 **Enter the total value of purchases and all other inputs excluding any VAT but including Box 9**
- ☐ Box 8 **Enter the total of all supplies of goods and services (excluding any VAT) to other EC Member States**
- ☐ Box 9 **Enter the total of all acquisitions of goods and services (excluding any VAT) to other EC Member States**

## VAT CASHFLOW IMPLICATIONS

VAT should not represent a *cost* for those registered persons or companies who are entitled to a recovery of input VAT.

Thus it will not affect profit.

VAT may, however, have an affect on a 'business' cashflow. This occurs where there is a time lag between the point at which input VAT must be paid and when it may be recovered.

Throughout the quarter of any VAT return, you should be collecting Output VAT on sales made to your customers. One month after the end of each quarter, you then have to pay all the Output VAT over to Customs & Excise, less your allowable inputs.

In extreme circumstances, if you do not collect debts due from a customer within three months, you can be paying over the Output VAT on that debt to Customs & Excise, before you have received the debt from your customer.

This emphasises the necessity for a tight control of the collections of debts from your customers.



## **E.21. MONTHLY MANAGEMENT ACCOUNTS**

Your monthly profit and loss statement is used to feel the 'pulse' of your business. Use it to analyse how your business is actually proceeding against your business plan cash flow forecast. It is in effect an immediate picture of your month's trading position.

When this is being calculated for you, you will notice it contains no VAT amounts either paid or received, as this has absolutely no impact whatsoever on your profitability.

***MONTHLY SALES (Net of VAT) less EXPENSES (Net of VAT) = PROFIT FOR MONTH***

Your Management Accounts are the financial statement that reports the profit or the loss of your business during a given period of time.

It will be prepared by your accountants and will include totals for the current month, as well as the year-to-date. All income and costs will be categorised.

Each set of Management Accounts should be transmitted via modem link to the Administration Department at Central Office, no later than the fourth working day of the following month.

In addition to the normal submissions of Management Accounts and Balance sheets, there is also a requirement to submit an annual profit and loss statement and balance sheet within three calendar months of the year-end.

## **E.22. BANKING PROCEDURES**

It is recommended that the following procedures are followed for the banking of monies.

- i) Money must be banked daily.
- ii) Times of journeys and routes to the Bank should be varied as much as possible.



## **E.23. BREAK-EVEN ANALYSIS**

At all times you should be aware of your break-even, which reveals the lowest level of sales necessary to cover the basic fixed costs of the business.

The calculation is not complicated and once mastered will assist you in budgeting and forecasting.

### **STEP ONE:**

- 1) Work out your typical cost as a percentage of sales [say 5%]

Add your contribution to:

- 2) Management Services Fee [12%]
- 3) Marketing Levy [3%]
- 4) Subtract the result from 100%.

We can now assume that  $\text{Sales} = \text{Costs}$  [where fixed costs = 80%]

## STEP TWO:

Calculate Fixed Cost.

The annual totals should be listed, net of VAT.

There can be two calculations:

- \* CASH            **From cashflow forecast**
- \* PROFIT        **From profit/loss projections.**

## STEP THREE:

Calculate Break Even Turnovers

$$\text{Fixed cost} = \text{£'s} \times 100 = \text{Break Even. } 80$$

To ensure your calculations are correct you should make a calculation a little lower and a little higher than the breakeven figure above.

# Issue Number 000

i.e.

<b>Break-even Analysis</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Sales	500.00	750.00	927.50	1,000.00	1,500.00
Variable Overheads	100.00	150.00	185.50	200.00	300.00
Fixed Overheads	742.00	742.00	742.00	742.00	742.00
<b>Total Costs</b>	<b>842.00</b>	<b>892.00</b>	<b>927.50</b>	<b>942.00</b>	<b>1042.00</b>
<b>Profit/[Loss]</b>	<b>£-342.00</b>	<b>£-142.00</b>	<b>B/E</b>	<b>£58.00</b>	<b>£458.00</b>

## ADDING A NEW MEMBER OF STAFF?

It is important to understand the effect of adding say one extra wage to the payroll.

Fixed Overheads Increase, thus your break-even will increase.

## **E.24. PROFIT & LOSS ACCOUNTS**

It is important to understand the principles on which profits are calculated; it is necessary, therefore, to have an understanding of some of the terms and concepts that accountants use.

The most fundamental distinction to make is: -

**PROFIT - V - CASH**

Some items affect the Bank Balance but not the profit and the other way round as follows: -

### **A. DRAWINGS**

Drawings are made only by a Sole Trader and relate to all cash and items of value that are taken from the business. As far as the business is concerned it is not an expense and, therefore, does not effect the profit - **BUT DOES AFFECT THE CASHFLOW.**

It should be noted, however, that Drawings do have an effect on how the Balance Sheet appears to outsiders (especially your Bank!).

## B. LOAN REPAYMENTS

This usually consists of a repayment of the capital sum borrowed plus a charge for interest. The total repayment is cash but only the interest is an expense and will show in your calculations of profit.

e.g.

Let us assume £5,000 is borrowed from a Bank and is to be repaid over 5 years, at a fixed interest of 10.5%.

Repayments are £107.47 per month.

Total repayments will be  $60 \times £107.47 = £6,448.20$

This shows that interest of £1448.20 is payable over the loan term of 5 years based on the following:-

Year 1	£487.11
Year 2	£398.67
Year 3	£300.48
Year 4	£191.47
Year 5	£70.45

**Cash flow** is affected by £1,289.63 per annum ( $12 \times £107.47$ )

But **Profits** are only reduced, each year, by the amounts above.

## **E.25. THE BALANCE SHEET**

The Balance Sheet is the accounting statement that provides an overall financial picture of your nicensripy business at a particular point in time.

Whereas the Profit and Loss Statement only shows a specific accounting period, the Balance Sheet actually reflects assets, liabilities and shareholders equity accumulated from commencement of your franchise to the Balance Sheet date.

Although the Balance Sheet may point out fewer problems than the Profit & Loss Statements, it actually acts as a tool that is far more useful with regard to future planning.

The Balance Sheet provides you with data not found on Profit & Loss Statements, such as what you own and how much you own.

The Balance Sheet is structured with shareholder's equity (what you own) equalling the difference between assets and liabilities.

Each monthly Balance Sheet should be transmitted to the Administration Department at Central Office

The format for a nicensripy Balance Sheet is on the following page: -

nicensripy Balance Sheet Example



# Issue Number 000

This Year Actuals		
March 2004	Selected Period	% of Total
<b>Assets</b>		
<b>Fixed Assets</b>		
<b>Goodwill</b>		
Goodwill-Cost	£25,001.00	17.3%
Goodwill-Accum Dep	£0.00	0%
<b>Total Goodwill</b>	£25,001.00	17.3%
Improvements to Premises	£22,732.20	15.7%
<b>Plant &amp; Machinery</b>		
Plant & Machinery-Cost	£6,563.73	4.5%
Plant & Machinery-Accum Dep	£959.00	-0.7%
<b>Total Plant &amp; Machinery</b>	£5,604.73	3.9%
<b>Computer Equipment</b>		
Computer Equipment-Cost	£2,060.00	1.4%
Computer Equipment-Accum Dep	£0.00	0%
<b>Total Computer Equipment</b>	£2,060.00	1.4%
<b>Furniture &amp; Fixtures</b>		
Furniture & Fixtures-Cost	£4,146.11	2.9%
Furniture & Fixtures-Accum Dep	£0.00	0%
<b>Total Furniture &amp; Fixtures</b>	£4,146.11	2.9%
<b>Motor Vehicles</b>		
Motor Vehicles-Cost	£52,830.00	36.6%
Motor Vehicles-Accum Dep	£1,238.00	-0.9%
<b>Total Motor Vehicles</b>	£51,592.00	35.7%
<b>CURRENT ASSETS</b>		
<b>Bank &amp; Cash Accounts</b>		
Bank Account-HSBC	£62,801.76	43.5%
Savings Account	£0.00	0%
Petty Cash	£1,228.92	0.9%
Undeposited Funds	£39.00	0%
Cash Drawer	£0.00	0%
Private Funds	£36,331.22	-25.2%
<b>Total Bank &amp; Cash Accounts</b>	£27,738.46	19.2%
Trade Debtors	£4,601.42	3.2%
Stock	£0.00	0%
Deposits with Suppliers	£0.00	0%
Sundry Debtors & Prepayments	£17.00	0%
<b>Total Fixed Assets</b>	£143,492.92	99.4%

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Print

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Up

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Ledger

Asset

Liability

Capital

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MYOB Accounting - [...]

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## E.26. FORECASTING & BUDGETING

As well as keeping records of what has happened historically it is also important to look ahead and forecast what you think will happen in the future. This is particularly important in the case of cashflow.

The majority of businesses that fail do so because of a lack of cash resources. By monitoring **ACCURATELY** your cashflow you both reassure yourself about the money your business needs and also reassure those from whom you have borrowed, that the business is financially sound.

A great advantage of any type of forecast or budget is that it encourages you to sit and look at where you think the business is going over the next period of time. It also sets targets to aim for and is an early warning device if you are falling behind on what you feel you should be achieving.

Many individuals, when finishing their forecast, do not derive the full benefit of it as they put it in a drawer and forget about it. The full benefit can only be gained if your forecast is monitored in a regular and systematic way.

Your first forecast is that used in your Business Plan, which you should monitor against each week.

i.e.

Item	Budget	Actual	Variance	% Variance
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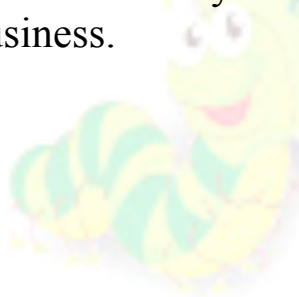
# Issue Number 000

Indeed preparing a revised business plan each year, in advance, will not only assist you in forecasting but will also help you prepare your strategy to obtain your forecast. If you require assistance in the preparation of your business plan contact your Regional Support staff who will offer any assistance you require. In any event a copy of your plan should be forwarded to your Regional Support staff **before** any outside source (e.g. Bankers, etc.) for comments.

You should keep your Bankers up to date with your business activities and advise them of both good and bad news **before** the event.

This shows that you are **CONTROLLING** your business and gives you credibility with your Bankers. We would recommend contact with your Bank Manager at least on a quarterly basis.

You should contact him/her before they make contact. Again this tells them you are "on the ball" and controlling your business.



## PREPARING A CASHFLOW FORECAST

If you have already been operating for a year then you are off to a flying start. You should assemble all the information you can on, where and when the cash came from and where you spent it over the last year.

The required information is given on the following list.

Taking this as a basis you can then go on to forecast how the year ahead is likely to work out in comparison.

If you are starting from scratch in preparing the forecast then it may be helpful to adopt the following strategy: -

### **(i) Prepare Your Sales Forecast**

This forms the backbone of the cash flow forecast. You should allocate the overall target into specific periods, making allowances for seasonal variations and special factors such as the effect of promotions.

### **(ii) Compute The Expenditure Which Is Directly Related To Sales -**

Purchase of products should be worked out on an actual or a predicted cost of sales (approximately 5%).

### **(iii) Allocated Payments To Specific Periods**

This is dependant upon the average credit period that can be obtained from suppliers and the length of time any item is in stock before a sale (e.g. if an invoice is paid, on average, 30 days after delivery of goods, then purchase payments should be forecast for 30 days after the related sale).

Management Services Fees and Advertising Levy payments occur in the month following sale.

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## **(iv) Compute Other Overheads Etc. According To The Month Of Payment**

Don't forget to allow for the effects of inflation, wage rises etc. It is wise to build in an element of surplus to allow for unforeseen expenditure, which always seems to occur.

## **(v) Allow For Capital Expenditure, Drawings Etc.**

The figures may be dependant upon the picture shown by the above calculations.

Obviously what capital expenditure is made of and how it is financed must be looked at in the context of the available cash resources.

For example you may wish to purchase a small 'ride-on' mower at the beginning of your second year of operation but have failed to save enough cash from your first year . . . therefore you may have to delay making the purchase or raise finance (possibly from your bank) to make the purchase sooner.

The full benefit of a forecast is only obtained if it is monitored on a regular basis and systematic way.

A suggested layout of a monitoring report is shown next to the illustration cash flow forecast format.

This report should be updated every period so that it is continuously being fine-tuned.

The format illustrated is that used in the Business Plan, indeed the ideal context for preparing such a report is when mapping out your strategy.

If you require any help please contact your Accountant who will be happy to assist.

## **E.27. TAXABLE PROFIT OR LOSSES**

Every year your business will be assessed by the Inland Revenue as having made a taxable profit or loss. This assessment will be based upon the set of accounts that your accountant will prepare.

These accounts do not have to coincide with the tax year (ending 5th April). The rules regarding the allocation of accounting years to tax years are discussed elsewhere in this manual.

Certain costs, which are deducted from your profit and loss account, are not allowable for tax purposes, for example, entertaining guests.

You are also not allowed to charge depreciation against your profit, although you will receive a "writing down allowance" which, in the end, has a similar effect.

These and other non-allowable expenses, therefore, must be added back to the profits.

Certain aspects of profits are assessed on a different basis to the main trading profit and are subject to a return under different headings such as, capital gains, income from sub-letting part of your premises or interest paid by the bank on money being held in a deposit account

## LOSSES.

### *(i) Limited Companies*

Losses can be offset against other income of the accounting year in which they arise, or set back against the total income of the previous year. If still not totally relieved the losses are carried forward against future profits.

### *(ii) Sole Traders*

You can have the loss set off against your other income for the tax year in which the loss was incurred and for the subsequent year.

The set-off has to be made first of all against earned income and then, if you are still "in Credit", against unearned income.

Business losses incurred in the first four years of a business, however, can be carried back against income from other sources, including salary, in the three years before commencing business as a self-employed person or partner.

## TAX ADVICE

*Any summary on taxation law is necessarily incomplete. It is a great advantage to your business if your accountant is up to date in taxation matters.*

*He will have a good reputation with the Inland Revenue, which will assist in resolving any difficulties. Your accountant will handle the annual submission of tax details and deal with any subsequent negotiations that may arise.*

*Alternatively you may wish to seek the advice of a specialised Taxation Consultant (ATII qualified) who should be able to offer constructive advice.*



## E.28. HOW HEALTHY IS MY BUSINESS?

Not many businesses take care of themselves. Unless you feel that your business is in that happy position it is essential that you develop a regular routine whereby you can monitor its state of health. There are two fundamental questions which should concern you:

- Am I making a profit?
- How solvent am I?

If business is **not** going well then awareness of these factors will save you from running into a crisis.

If crises are not the issue you should be looking at the same points from the perspective of raising your performance to the level you would wish to achieve - or reassure yourself if you have got there!



## **E.29. PROFITABILITY**

There are no firm rules about the level of profit that you should aim for.

Potential profit is determined by factors such as location, competition, the degree to which the business has become established and local factors such as levels of rent and rates.

*Your own aspirations and personal targets also significantly determine it.*

Having determined the level of profit you are aiming for, you should keep a close eye on the following points: -

- a) Are my weekly sales levels going according to plan?
- b) Am I keeping my cost of sales at the right level?
- c) Is my expenditure on overheads rising or am I incurring any?
- d) New unforeseen overheads?
- e) What is happening to my liquidity position?

## E.30. FINANCIAL PROBLEMS

### AN ACTION PLAN

If you are following the basic financial monitoring techniques outlined in

*"How Healthy is My Business?"*

then you should be in a position to identify potential problems before they develop to serious proportions and, therefore, in time to take appropriate action.

#### ■ Increase Sales or Reduce Overheads?

If indications with regard to profitability were not good then you would be well advised to resist the urge either to push for extra sales at any price or to cut back too drastically on overheads.

e.g. by shedding staff or disposing of equipment cheaply.

Unless matters have drifted too far there is generally more moderate action to be tried first.

#### a) **Build up sales.**

You should not neglect the basic techniques of building up business. There is much that can be done without necessarily incurring extra expense.

#### b) **Control gross margin.**

Ensure all services sold are correctly priced. Look at any stock losses. Be aware that discounting will affect your gross margin.

## c) Identify

those overhead items on which there may be some "fat" to trim

*e.g. heat and light or telephone.*

If everyone in the business becomes cost conscious there may be quite substantial savings to be made.

## ▮ Where is the Cash coming from?

In almost every business from time to time there is a shortage of cash. There are predictable factors such as seasonal sales fluctuations or large payments such as tax bills and a large range of unpredictable factors that may have an affect.

No matter what reasons have produced a cash crisis, the important steps to take are:

- a) Do not panic!
- b) Draw up a list of expected cash receipts and necessary cash payments, including an indication of the priorities.
- c) Advise your bank manager of the problem; tell him how you intend to tackle it; ask for his advice and support.

Unless your relationship is at rock bottom he is likely to be sympathetic if he feels you are in control of the situation, are doing the right things to improve matters and have a reasonable chance of success without placing the bank in a dangerous position.

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- d) Build up the confidence of your principal creditors. None of your suppliers will want to harm your business deliberately.

If you do not reply to their letters and telephone calls, and break promises of payment of their account, they may be forced to take legal action to clear the debts.

If they are receiving some money on account, and if you reassure them that no other creditors are being paid off at their expense, they are likely to co-operate as much as possible.

Talk to them and notify your Regional Support staff, who may be able to approach them on your behalf.

- e) Look closely at your profitability and, if necessary, take the action set out above.

Your long-term cash flow depends on a strong and vigorous business and this must be the ultimate aim.

- f) As soon as you have tackled the immediate cash flow problem, focus your attention on the long-term requirements of the business.

You may find that the business is permanently short of working capital and needs an increased bank facility such as a loan or overdraft.

An injection of equity or loan capital from the partners, shareholders, or outside bodies, is an alternative strategy, without encumbering the business with undue debt.

## Do I Need Help?

Most of the ups and downs that happen along the way in the financial life of your business can usually be handled by calm, sensible action.

The necessary techniques should become a natural part of your management of the business.

If you feel, however, that you have cause for concern you should contact your Regional Support staff for advice.

You should also utilise your other professional advisers such as your accountant or your bank manager. The best businesses are built by successful **teamwork**



## E.31. FINANCIAL TASK LIST

Although in the early days of a business the financial "paper work" may appear more than a little daunting, the secret lies in developing the appropriate routines, to ensure that all the necessary jobs are done.

That relevant information can be produced in the most efficient order and in a timely manner. Once routines are established the job really does get easier.

Sloppy paperwork unfortunately leads to a sloppy business and our goal is to prevent bad habits setting in from the very beginning. You may well think we are being unreasonable at times in the early days . . . but we know and are quite positive you will be thanking us within a period of just 6 months!

