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## STEP 16 - Targets and Policies

### Financial Targets

The next thing to do is consider realistic financial targets.

You should look at this in the short (12 months), medium (up to 3 years) and longer term, probably up to a maximum of 10 years although 5-6 is likely to be more appropriate.

Start with the target for the current financial year, then for the next financial year before you go on to longer term targets.

Note that the financial year is different from the fiscal year (April 6<sup>th</sup> to April 5<sup>th</sup>) and probably also different from the calendar year unless you started your business on the 1<sup>st</sup> January.

The first financial year may be a period of from 9 to 18 months from the start date. Subsequent financial years will be 12 calendar months from the end of the first 'year'.

If you are a sole trader, it helps to align your business year with the fiscal year to facilitate your tax returns.

Your financial targets should cover four main areas:

1. The **total gross turnover** you are expecting. This is normally your total gross income from sales but may include other income.

If your business is registered for VAT this income figure should *exclude* any VAT charged. If your business is not VAT registered, then you will not be charging tax in any case.

#### Target Turnover in GBP

Current Year	Second Year	Third Year

Now consider your direct costs of sales. Cost of sales is the money you have to spend before you can make a sale that is *directly related* to that sale.

For example, if you buy a product for £5 wholesale and then sell it for £10 retail your cost of sales is £5, and the cost/sales ratio would be 50%. Or if you have to pay a sub-contractor to do work specifically on a project before you 'sell' it again this is a direct cost.

Your accountant will help you identify direct as opposed to indirect costs if you are unsure.

As time goes on and your business grows, economies of scale often reduce your cost/sales ratios and you can set targets to achieve these.

### Target direct costs/sales ratios (enter appropriate percentage figures)

Current Year	Second Year	Third Year

Now think about the annual budgets for administrative and other expenses (excluding direct cost of sales). 'Administrative expenses' are essentially everything else that you invest in operating your business.

Look at the Chart of Accounts below to see most of the categories of expenses that you may encounter.

Note all salaries and wages and any 'expenses', including those paid to directors, are included in this section. This also includes contributions to pension funds.

Interest on borrowing is also included in this section.

Don't include any taxation in this section *except*:

If your business is not registered for VAT and you cannot reclaim VAT on purchases, then the costs shown here will *include* any VAT.

If your business **is** registered for VAT which you later reclaim then the costs here should be shown *exclusive* of VAT.

### Annual budgets for administrative and other expenses (excluding direct cost of sales)

Current Year	Second Year	Third Year

Finally look at your target profit. Your earned income less the direct cost of sales and administrative expenses for the year.

Initially do this before any consideration of taxation, just show the gross profit.

When you've completed the plan take it to your accountant and ask them to advise on the likely taxation levels that will be applied and how you may be able to optimise this in your favour.

### Target profit *before* taxation in GBP

Current Year	Second Year	Third Year

## Financial Policies

Now is the time to look at what you're going to do with the money you've made and set out the various appropriate policies. At this stage just put down your 'ideas'. Formal policies can be drawn up later.

**Are you going to put money aside for contingencies - things that 'go wrong' unexpectedly? If so, how much and where will it be held?**

**Are you going to put money aside for longer term reserves? If so, how much, for what reasons, and where will it be held?**

**If your business is a Limited Company do you intend to pay dividends to the shareholders and if so when and according to what criteria?**

### **Payment Policies**

**How do you propose to take payment for purchases?**

What will be your terms of payment? In advance, On Account, Part payments, Within 14 Days, 30 Days etc.

**How will you receive payment?** (You can deal with the mechanics of setting this up later)

Cash, Bank Transfer, PayPal, Credit/Debit Card, Standing Order, Direct Debit etc.

**If you propose to take card payment what payment system will you use?**

**If you propose to take payment by Cash what is your policy for handling it?**

Daily deposit to bank, weekly deposit to bank, hold as cash in hand, any relevant security measures etc.

**Other financial policies such as those relating to the circumstances and criteria for borrowing money should also be included here.**