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STEP 19 - Your Financial System

RECOMMENDATION

Go for the **GB Accounts** spreadsheet system. **www.diyaccounting.co.uk** I've been using this for several years now and it is flexible enough to meet my 'peculiar' business needs. It is updated with the latest tax rules each year and you purchase a new set of spreadsheets each year, currently approx. £45 no VAT.

The PBCS Finance Pack is contains the following spreadsheets that you can use as a basis for your accounting system. Those marked * are compatible with the GB Accounts tax accounting system to facilitate easy transfer of data.

- Bank Records*
- Card Records*
- Consolidated Accounts*
- Cash Flow Forecast and other Forecasting Tools
- Start Up Investment Record

Video A and B show you how to use these in conjunction with GB Accounts or other accounting packages

Accounting system set up

☐ **Done**

RECOMMENDATION

We strongly recommend that as an Accountant you choose **The Buxton Partnership** as recommended in Step 13. If you have not contacted them or another accountant already you should do it now. **www.thebuxtonpartnership.co.uk**

Accountant engaged

☐ **Done**

Current Financial Situation

Profit & Loss Statement (P&L)

This table essentially contains the same basic information as the income projection statement, *but looking back*, rather than forward.

Established businesses use this form of statement to give comparisons from one period to another. Many lenders may require P&L statements for the past three years of operations.

You may also wish to use your P&L to compare each income and expense item to the amount that was budgeted for it. In which case, you can enter these in the column provided.

You'll find the P&L which the DIY Accounting system generates in the Finance Pack

Balance Sheet

The balance sheet summarises the assets and liabilities of a business and is an indicator of its 'worth'.

The Balance sheet is normally applicable to a business that has been in operation for at least 12 months and has produced a formal set of accounts, but you can produce an estimated balance sheet to predict your position at the end of that time.

Note: Many people get confused about the meanings of the terms 'debtors' and 'creditors'

Debtors are people who owe the business money, ***Creditors*** are people to whom the business owes money.

Assets: are anything of value that is owned or is legally due to a business. Total assets include all net values; the amounts that result from subtracting depreciation and amortization from the original cost when the asset was first acquired.

Fixed Assets

This term includes all resources that a business owns or acquires for use in its operations that are not intended for resale.

They may be leased rather than owned and, depending upon the leasing arrangements, may have to be included both as an asset for the value and as a liability.

Fixed assets include land (the original purchase price should be listed, without allowance for market value), buildings, improvements, equipment, furniture, vehicles.

Assets depreciate (decrease in value) over time and the current value of fixed assets is determined by subtracting the accumulated depreciation. Different types of assets depreciate at different rates. Current guidelines on depreciation can be obtained from the HMRC.

Current Assets:

Cash—Money in the bank or resources that can be converted into cash within 12 months of the date of the balance sheet.

Petty Cash—A fund of cash for small, miscellaneous expenditures.

Accounts Receivable—Also known as 'Trade Debtors' are amounts due from clients for merchandise or services that have been provided but not yet paid for.

Inventory— (Also referred to as Stock) Raw materials on hand, work-in-progress, and all finished goods (either manufactured or purchased for resale). Charged in the balance sheet at cost (excluding any tax paid).

Short-term Investments—Interest or dividend-yielding holdings expected to be converted to cash **within a year**; stocks, bonds, certificates of deposit and time-deposit savings accounts. These should be shown at either their cost or current market value, *whichever is less*. Short-term investments may also be called "temporary investments" or "marketable securities."

Prepaid Expense—Goods, benefits or services that a business pays or rents in advance, such as office supplies, insurance or workspace.

Long-term Investments—Holdings that a business intends to retain for at least a year. Also known as long-term assets, these are usually interest or dividend paying stocks, bonds or savings accounts.

Liabilities:

Current Liabilities: Include all debts, monetary obligations, and claims payable within 12 months.

Accounts Payable also referred to as 'Trade Creditors' are amounts that the business owes to suppliers for goods and services purchased for the business but not yet paid for. For clarity this means that the money to pay these debts has not yet left a bank or credit card account.

Loans Payable—The balance of the principal due on short-term debt or funds borrowed for the business including Bank overdrafts. Also includes the current amount due on loans whose terms exceed 12 months.

Interest Payable—Accrued amounts *of interest* due on both short and long-term borrowed capital and credit extended to the business.

Taxation includes amounts of tax of whatever type (for a Limited Company this would mainly consist of Corporation Tax but there may be others) incurred during the accounting period covered by the balance sheet.

Payroll Liabilities will include any salaries and wages owed during the period covered by the balance sheet together with any related National Insurance and Pension Contributions due.

Long-term Liabilities—Loans, contract payments, or mortgage payments due over a period exceeding 12 months. These should be listed by outstanding balance less the current position due.

Net Worth—Also called owner's equity or **Directors' Loan Account**. This is the amount of the claim of the owner(s) on the assets of the business. In a proprietorship or partnership, this equity is each owner's original investment plus any earnings after withdrawals. This can be a negative figure in that the business owes money to the owner(s) or a positive figure in that the owner(s) have borrowed funds from the business.

Called Up Share Capital - this applies only to incorporated companies. When a company is formed 'shares' in the ownership of the company are issued. Normally for a small business this will be 100 shares at £1 each. When there are multiple owners these shares may be divided up, usually equally.

As businesses grow they may issue more 'shares' in order to raise funds by allowing others to invest in the business.

Retained Profit & Loss Account: This is the figure at the bottom of the P&L Account for that year.

Capital Reserves are additional funds which may be held outside the business or in a savings or investment account intended as a contingency fund but not readily available to boost working capital other than in an 'emergency'.

Important Note:

Total assets will **always** equal total liabilities plus total net worth. That is, the bottom-line figures for total assets and total liabilities will always be the same.

You'll find the Balance Sheet which the DIY Accounting system generates in the Finance Pack

It's now time for your next STRATEGY SESSION

Go to https://BenCoker.as.me and book this NOW

☐ **Done**

Complete the Strategy Session before going on.

