GUIDA ACCOUNTANCY

7 Numbers Every Business Owner Should Know

TAKING THE MYSTERY OUT OF YOUR ACCOUNTS

Because You Have Better Things To Do With Your Time!

WELCOME TO GUIDA ACCOUNTANCY

My name is **John Lawrence.**

My aim is to transform the outdated stereotype of the grey-haired man in the grey suit Accountant (apart from the grey hair that is!)

To my clients I am someone in their corner, a spare pair of hands with a brain attached, a silent partner, their outsourced Chief Financial Officer.

Hello, **I am Ida,** and I am Head of Mindfulness and Wellbeing.

My first career choice was to train as a Guide Dog but I was bitten by another dog and had to leave the training program and be rehomed. So, on to my second career.

My job here at Guida Accountancy is to provide inspiration and joy as well as maintaining dad's physical and mental wellbeing.

7 Numbers Every Business Owner Should - And Learn To Love.

As a new or existing business owner, numbers may not be your area of expertise, but if you want to run a successful business, knowing your numbers will help you make the best informed decisions at the right time. There is no need to know or understand every accounting nuance there is (that's my job!), but just a few basic figures will help you.

Here are **my 7 most important numbers** that every business owner should know - and why.

1 Cash flow

Cashflow is the lifeblood of a business. The majority of business failures are the result of running out of cash and not because of low sales.

As a growing business your cash forecasting is vital. Your income and cost structure will be changing and you must know when your peaks and troughs of cash are likely to be.

This will help in getting support from lenders should you need it, and making sure you spend money on new equipment at the right time so that cash does not run out.

A forecast should be prepared at least annually and reviewed monthly.

2 Revenue

Revenue refers to the sales your business is making and is the number that most business owners know very well.

Of course, revenue is crucial, but it is not the best measure of overall performance or success.

Revenue should be tracked monthly where possible but quarterly as a minimum. Just like cash it is important to know when your peaks and troughs are likely to be, as it will help when making other business decisions.

And remember, sales mean nothing until you get paid for them!

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3 Expenses (or Costs)

Formed in 2 parts, costs of sales and overheads.

Costs of sales relate to the direct production of the goods you sell and overheads relate to the general costs of running the business
As your business grows it is important to keep control over all costs and only spend on purchases that benefit the business.

As you grow you are likely to increase the amount of fixed costs in the business, for example rent and staff costs. So it is important to budget and plan spending on other items so you always have the fixed costs covered.

4 Profit and Loss

Profit (or loss) is calculated by taking all your revenue and subtracting all your costs. This is a very important measure of business performance, perhaps the most important for established businesses.

For a growing business though this figure does not always give the best measurement, since investment in one-off costs will result in higher expenditure, often before there is an increase in revenue.

As a business expands, profits will regularly fall initially. Short-term results should be viewed more with the long-term benefit of investment in mind.
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5 Accounts Receivable

This is often referred to as Trade Debtors and is the amount your customers owe you.

Cashflow is the lifeblood of a business then control over your debtors is one of the main ways you can improve it.

You should make tracking and reviewing your customers' payments a central part of your business procedures, and an aged receivables (or trade debtors) report will highlight any problems.

Non-paying customers cost a business, and any sales made to them are worthless. Regular monitoring and set procedures will help your business keep cash in the bank and avoid unnecessary losses.

6 Accounts Payable

This figure is the amount your business owes to its suppliers for purchases. As you may have guessed it is effectively the opposite of accounts receivables.

For a growing business keeping a close eye on your accounts payable will enable you to determine who, what and when to pay.

Negotiating terms with suppliers to maximise the time for payment will enable your business to improve cashflow. One of the best ways to help yourself in any negotiation is to have a track record of paying on time in the first place.

Regular review of accounts payable will help in projecting cashflow over the coming months, which in turn will help with your business decision making.
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7 Quick Ratio

So this one is a bit more technical but is an important measure.

Also referred to as the Acid Test, it is a calculation that determines a company's ability to meet its debts. Banks like it because their main consideration is always whether the company has the ability to repay any lending.

It is calculated by adding cash, accounts receivable and any short-term investments together and dividing this by the accounts payable.

Businesses should always look to have a figure above 1. Below 1 indicates potential problems in paying their debts, and could be in a risky situation.
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Conclusion

I believe in talking to my clients to help them understand the numbers in their business. Numbers are my thing.

They may not be yours; I know and understand they are not everybody's cup of tea.

But knowing your numbers is vital if you want a successful business. So, it's essential to be able to talk to someone you know and trust who can help demystify your numbers for you.

That's where I come in...

If you want an accountant that you are happy to talk to, please feel free to arrange a complimentary, no-obligation 'DISCOVERY' conversation.

Let me (and Ida!) work with you to make your numbers work for you.

Simply click below to book in your free call.

Book A Call

Other Resources

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