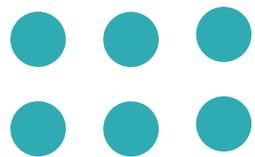




# Profit v Cashflow

- **Presented by Jo Tomlinson**
- Owner and MD of Business Works UK
- Certified Quickbooks Trainer
- Certified Profit Improvement Coach



# Jo Tomlinson BA(hons) ACMA

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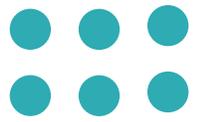
[www.businessworksuk.co.uk](http://www.businessworksuk.co.uk)



After 20 years in Industry analysing company data to support commercial business decisions, I founded Business Works with a vision to offer real-world solutions to businesses.

We have grown into a trusted partner for companies seeking a better understanding of their numbers, great customer service, and business growth.

With a team of 12, we are large enough to provide all the finance support SME business owners need, plus the value-added services that help them to flourish and grow.



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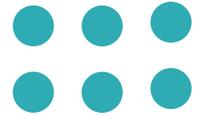
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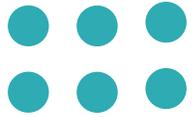
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# The Accruals Principle

The accruals principle requires that income and expenses are recorded in the period they relate to, not when the cash is received or paid.

AKA Matching



# Accruals - Income

- **Income** is recognized when it is earned, rather than when the payment is received.
- or the invoice is raised!



# Accruals - Income



- Once a piece of work is completed
- At the end of the week or month, for work done in the previous period
- Staged payments towards the completion of a project
- As a deposit followed by the balance on completion
- For building works, a retention can be kept back for an extended period of time (often a year)



# Accruals - Income

Example – A project is being delivered over a period of 3 months

Costs consumed throughout the 3 months



# Accruals - Income

Invoice raised on completion of project

	Month 1	Month 2	Month 3	Month 4
Invoice raised				£ 30,000
Work completed	10%	60%	30%	
Revenue earned	£ 3,000	£ 18,000	£ 9,000	



# Accruals - Income



May not need to accrue if:

- At the end of the week or month, for work done in the previous period
- Staged payments towards the completion of a project



# Accruals - Income



## Deposits

- Post to a special deposits account
- Only account for as income once it is no longer refundable

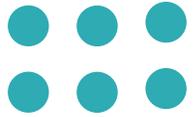


# Accruals - Income



## Retentions

- Invoices raised for full project value
- Retention stays as a debtor until its paid



# Accruals - Expenses

Accrue when

You have received the goods or services, but have not yet received a Bill/Expense



# Accruals - Expenses

Prepay when

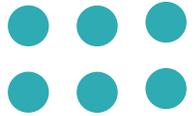
The Bill/Expense covers a longer period of time, say a year, but is consumed monthly



# Accruals - Expenses

## Prepay

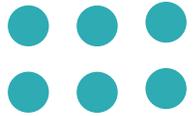
- Insurance
- Council Tax
- Some software subscriptions



# Accruals - Expenses

## Prepay

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Insurance Bill dated in month 1	£ 2,000											
Consumed	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167



# Accruals - Expenses

## Stock

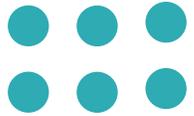
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Stock Purchases	£ 5,000		£ 5,000		£ 5,000	
Cost of goods sold	£ 2,000	£ 2,500	£ 2,000	£ 1,500	£ 2,500	£ 2,500
Closing stock position	£ 3,000	£ 500	£ 3,500	£ 2,000	£ 4,500	£ 2,000



# Accruals - Expenses

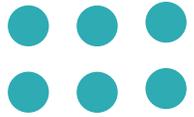
Stock - WIP

- Manufacturing
- Amalgamating



# Accruals - Expenses

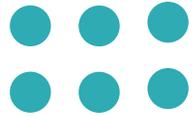
A Journal voucher is used to record adjusting entries, not captured by regular business processes, like sales, purchases and payroll.



# Cash flows

Two key dates

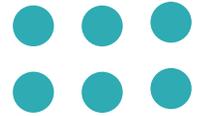
- 1) Transaction Date
- 2) Date paid



# Cash flows - Invoicing

If the invoice was raised in month 4 it is likely it will be paid in either month 4 or month 5

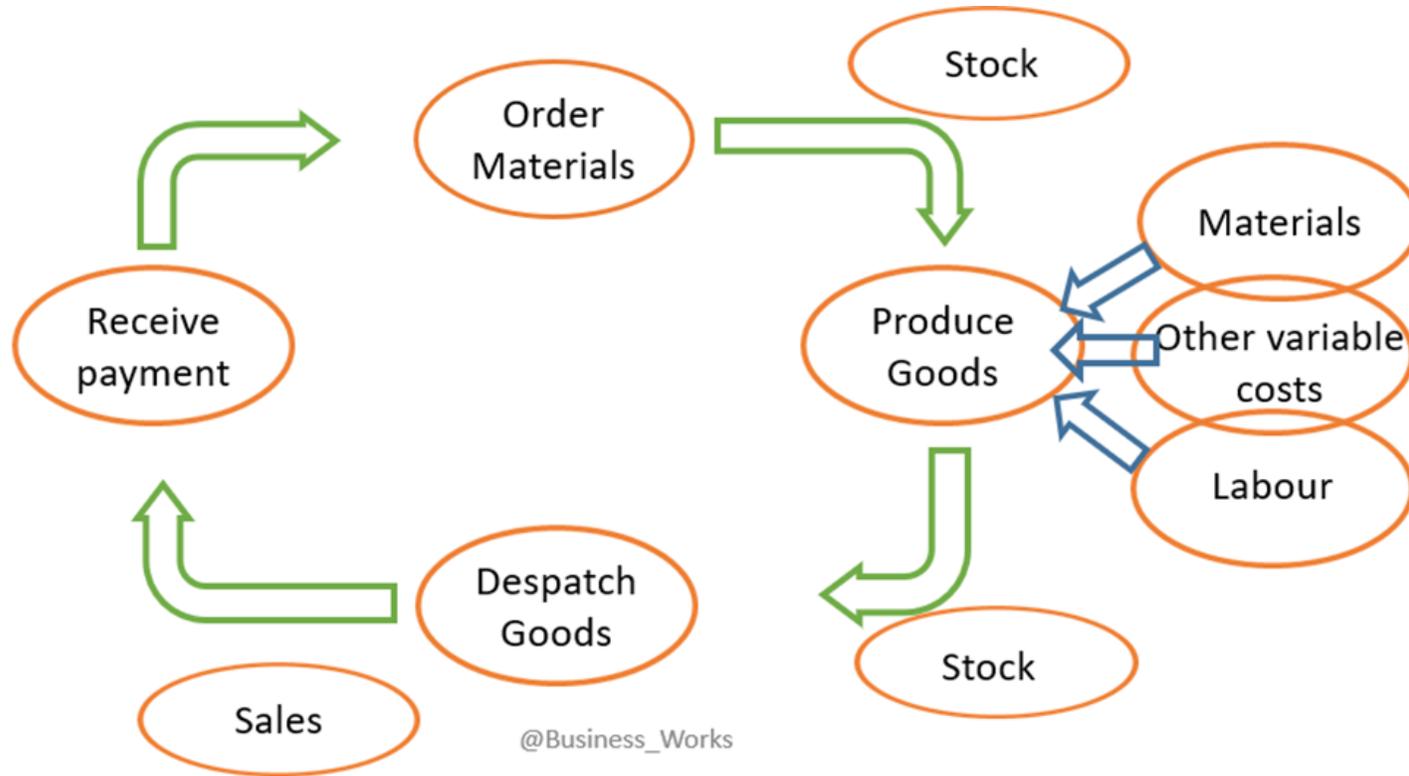
	Month 1	Month 2	Month 3	Month 4
Invoice raised				£ 30,000
Work completed	10%	60%	30%	
Revenue earned	£ 3,000	£ 18,000	£ 9,000	

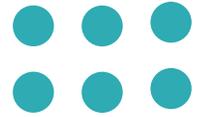


# Cash flows - Expenses

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Insurance Bill dated in month 1	£ 2,000											
Consumed	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167	£ 167
If business rates, paid over 10 month	£ 200	£ 200	£ 200	£ 200	£ 200	£ 200	£ 200	£ 200	£ 200	£ 200		

# Cash flow - Stock





# Cash Flow Forecasting

- **Non-profit and loss transactions**
  - Loans – Where you have a loan built in, you will need to include the repayment of the loan.
  - Directors Loans – If you take a regular amount out of your business as a directors loan, that may be converted to a dividend at the end of the year.



# Cash Flow Forecasting

- **Non-profit and loss transactions**
  - Payment of taxes
    - **VAT** – for most people, VAT will be based on a quarterly cycle paid one calendar month and 7 days after the end of the VAT quarter
    - **PAYE and Pension contributions:**
      - Wages are paid to employees net of deductions at a timing dictated by your employment contracts
      - Deductions made from staff salaries, plus employers' national insurance and employers pension contributions are paid over after wages are paid. Mostly, this is on or before the 19<sup>th</sup> of the following month
    - **Corporation Tax** – due 9 months and 1 day after the company year end



# Cash Flow - Timing

**Payment terms** – How long does it take each of your customers to pay?  
This may be longer than your standard terms.

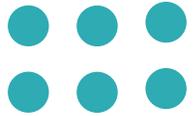
Better credit control procedures can improve this



# Cash Flow - Timing

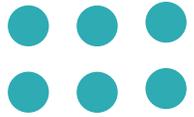
**Stock purchases** - If you use stock in your business, you will most likely buy in far greater quantities than you sell in, which led to holding stock.

- Stock ties up cash and can cost in storage too, but order quantity impacts the price of what you buy, so this is a delicate balance
- Often, to release goods, you have to pay, so you need to take account of:
  - Whether the items are in stock at your supplier, or need to be scheduled for manufacture
  - Shipping time
  - Customs, if importing
  - Conversion, once you receive the items



# Cash Flow Liabilities

- We don't run out of cash – it can take weeks to organise funding
- We don't spend cash that is in the bank now, but should be earmarked for these future liabilities



# Forecasting

## Profit – Forecast to:

- Understand where you make profit
- Maintain and grow profit

## Cash Flow – Forecast to:

- Understand risk of running out of cash
- Future cash liabilities



# Resources



1. MTD
2. Accessing Capital for Growth
3. Forecasting
4. How much is your business worth
5. Selling some or all of your shares
6. Shared Business Ownership
7. Profitability
8. Project Evaluation
9. Directors Loans v Dividends
10. Cash flow v Profit
11. Risk and Resilience

# Thank

# You



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