ELAN & CO

advisors of choice

Financial Planning and Cashflow Management

by Shakar Elahi BSc FCCA

FINANCIAL PLANNING AND CASHFLOW MANAGEMENT

AN EBOOK FROM ELAN & CO WITH ADVICE AND CASE STUDIES

Case Study -
Thames Digital Reprographics

Case Study -
Ganapati Restaurant

Ver 1.7

eBook edited and produced by Julian Jackson www.julianjackson.co.uk

Contents

Case Study - Tony Ferrell's Garage

Case Study - Ryan Harms' Metalworking business

Introduction

You have decided to go on a long car journey from London to Glasgow. What would you do to get ready for this drive? Most people would look at a map or put the details in their satnav. Top up with petrol and check the oil and water. Pack some snacks. If there are going to be children onboard, then you would take things to amuse them.

You might listen to the radio for warnings about weather and tailbacks.

Then you probably would make a rough schedule in your head so you would know when and where to stop for breaks.

Few people would just get in the car and head for the M1, hoping that the signposts would take them to their destination.

They are the sort of people you might see lost and asking directions. Or fuming because they are late. Or broken down on the hard shoulder.

If this is the type of planning you would do when travelling, why do so many businesses and individuals fail to plan, and in effect plan to fail in the crucial area of their finances?

How this Free Guide will benefit your business

Chartered Certified accountant Shakar Elahi will take you through the strategy of financial planning and cashflow management. This eBook will clarify the the goals for your business, and give you sound advice on how to proceed. Four case studies of disparate businesses show the importance of proper business accounting and financing and how it helps businesses succeed.

Navigating this eBook

You can simply scroll through this Adobe Acrobat PDF format eBook, but you can also open the Bookmarks tab to jump to a particular section. In addition you can use Alt+left or right facing arrow keys (Ctrl+left or right facing arrow in some versions of

Adobe Acrobat or Acrobat Reader) or Apple+ arrows on a Mac, to jump forward and back between where you have just been. For example if you click on the interactive Contents table, to jump to one of the Case Studies, you can then jump straight back to the Contents by clicking Alt+left-facing arrow keys, which is much easier than scrolling back. Inputting a page number into the page number box at the bottom of the page and clicking Enter or Return will take you directly to that page.

What is financial planning and cashflow management?

Financial planning is a process by which you assess your financial situation and your sources of finance, determine your objectives, and then formulate financial strategies to achieve those objectives.

But all the planning in the world is useless if your business does not have the cash on hand to implement these plans – cashflow management is essential to ensure that you are paid in full and on time, otherwise your business will quickly find itself in serious financial trouble.

About Shakar Elahi

Shakar Elahi BSc FCCA - Founder and Principal Partner Elan & Co

Shakar is a Chartered Certified Accountant and has over 22 years experience working in the accountancy profession and industry.

He was educated at the University of Kent and then worked for IMG, the sports, entertainment and media company founded by sports entrepreneurial legend Mark McCormack. He managed the financial interests of top flight sports stars including Vijay Singh, Virginia Wade and Colin Montgomery.

Shakar then moved on to become a management consultant at Deloittes, specialising in business solutions.

Striking out on his own, he established Elan & Co in 1997. He has developed the business and technical skills essential for growing SME's, making him an invaluable Business Advisor. He is also a qualified Mortgage Advisor and specialist in Property and Business Tax. At Elan & Co he is head of a team of highly-qualified business professionals who can advise on any aspect of business finance and accounting including Bernadette Teuma CA, Jamal Rahman BSc (Hons), MBA, MBCS, and Samera Saleem, who between them have over 60 years of experience in the profession.

Elan & Co
Chartered Certified Accountants
Unit 3 Cedar Court
1 Royal Oak Yard
London SE1 3GA

Tel: 020 7403 1500

Email: info@elanand.co.uk

Web: www.elanand.co.uk

Financial Planning

What is Financial Planning?

Financial planning can be either business, or personal:

1 – Business Financial Planning

A process in which your business

- assesses your business' financial situation,
- determines its objectives and
- formulates financial strategies on how to achieve those objectives

2 – Personal Financial Planning

A process in which an individual sets long-term financial goals through

- investments,
- tax planning,
- asset allocation,
- risk management,
- retirement planning and
- estate planning.

Why is it necessary to Financial Plan?

- The future is uncertain
- Business can be complex
- Risks and rewards ebb and flow
- Management is improved by planning
- Increases chances of success

When do you need to Financial Plan?

- financial planning should become a continuous activity where the plan is reviewed regularly and performance measured against specific devised targets.

How to start your Financial Planning

Begin by assessing your business by looking at your past, present and future.

Core activities – what type of business are you in?

How do you deliver those activities profitably?

What are your Assets and Liabilities?

What is your Income and Expenditure?

Will you need funds to start or expand your business venture?

Case Study 1 - Ryan Harms Archimet Architectural Metalwork

- **Managing cashflow is critically important**

Entering Ryan Harms' workshop is like entering a dungeon – strange metal shapes loom out of the gloom, harsh machinery screeches and sparks fly. The you hear laughter and joking. A ray of light shines out from his upper floor eyrie and Ryan comes down to explain his business.

He creates custom-made gates, balustrades and staircases in metal. His products are specially designed and hand-made by his expert team. They have spent the last nine months on a huge job completely refurbishing a house in St Johns Wood. "We put in four staircases, two driveway gates, front door, and many other hand-forged details, all in mirror polished stainless steel for a property developer."

After training in 3D crafts, and having sculpture exhibitions, Ryan worked his way up in a traditional blacksmiths, from "Tea Boy to Master Craftsman".

Leaving that company to travel on his honeymoon, Ryan returned to find a job with Archimet. After only being there two months the owner offered to sell the business to him. Ryan Harms says, "I thought well: why not? That's a good opportunity now, and started off, built the business."

The business aspect has been a steep learning curve. Ryan is a hands-on person and does most of the book-keeping himself, relying on Shakar Elahi and the team at Elan & co for advice. Ryan admits that it has not been easy, and at one particular time the finances of the business became strained because of poor financial planning, it was very stressful, but with the intervention of Shakar Elahi, the business managed its cashflow better and is now moving to new premises in Kent, which is a huge barn set on an idyllic farm 15 minutes from his home. It even has space for his retired uncle to devote himself to his hobby of making rocking horses. Creativity seems to be a family trait.

Ryan is confident about the future – with his Kent workshop manufacturing the products and his London team fitting them, his client-base is secure, and he is returning to what started him off in his career: metal sculpture. “One thing I found so interesting with metal was that it was an object that was always looked upon as tough and hard, but one thing I got enjoyment out of when you were forging it was that you could manipulate it to any shape you wanted. In this job you can be confined to certain extent if you are making a staircase, but with sculpture you are a lot freer and you can be a lot more creative.”

Tel: 077899 51043

Email: ryan@harms.fsworld.co.uk

Financial Planning and Budgets: improving the Performance Measurement Process

> *"Every aircraft in the world would be grounded if air traffic control relied on the same type of system as companies use to report their information….current reporting formats provide too little too late"*
>
> Institute of Chartered Accountants in England and Wales

Elan and Co have worked with hundreds of other leading accountants across the UK to formalise an eight – step best practice process, called The AVN Performance Measurement and Improvement System. It is based on what the UK's most successful businesses do to stay at the top.

By following these eight steps your business will be following the best practice of the most successful businesses – a tried and tested recipe for achievement.

Step 1 – Financial Planning and Budgets

What you want to achieve - and how well you expect to perform.

Step 2 – Actual performance

How well you actually perform each month in all the key areas of your business.

Step 3 – Annual accounts

Your financial accounts for the year as required by law.

Step 4 – How your performance compares to previous years

Financial Performance Review analysing the trends in your annual accounts over the last five years.

Step 5 – How your performance compares to your industry

Confidential Performance Report identifying your strengths and weaknesses by benchmarking your performance against others in your industry.

Step 6 – How much is your business worth

Business Valuation Report showing how much capital value you have generated and how much a buyer might be willing to pay for your business.

Step 7 - Improvement Potential

Calculations showing how much more profitable and valuable your business could be.

Step 8 – Improvement Plan

Action plan setting out precisely what you are going to do to improve your performance.

Case Study 2 - Claire Fisher   Ganapati Restaurant

- **Use a professional service to do your accounts and financial planning if you are a creative person who needs to offload that aspect of the business**

Claire is an adventurous person who learned to cook Indian food by staying with Indian families when she trekked through the subcontinent 15 years ago. Her background is in Fine Art, but the "food bug" got her and she worked her way up as a chef through various Indian restaurants, then after testing her recipes at pub launched Ganapati in Christmas 2004.

It serves wonderful South Indian cuisine, based around lentil Dosas, with an atmosphere deliberately modelled on the family canteens Claire experienced during her travels. Her artistic eye means that as well as tasting superb, the food is expertly presented.

Shakar Elahi was recommended to her by a restauranteur friend, just before Ganapati opened. Claire says, "I was very happy to offload nearly all the accountancy related matters onto him and get on with the creative side of the business. I was full-time in the kitchen, running the business, shopping and all the rest of it. The company don't charge huge fees – they look at the size of the business and they come up with a very fair system of charging which makes it affordable." This gave her the mental space to get on with growing the business organically: although it does advertise, word of mouth has spread around the neighbourhood, and it is often hard to get a table.

Shakar also advised her on mortgage advice for a flat she bought and income protection. He continues to offer ongoing support. Claire adds, "There are lots of opportunities to network through the company seminars, they are very proactive at introducing you to other people in business."

Claire does not see the future of Ganapati as a chain, although she has plans to expand by offering her food as a takeaway from another venue. The Ganapati team get involved in local events and do charity meals for various schools, so being a highly-successful local business suits Claire's philosophy of melding work and family life together.

Contacts: Ganapati 020 7277 2928

Website: www.ganapatirestaurant.com

Raising Finance

Businesses usually need start-up capital. Another major need is when the business is growing, and requires further monies to expand, for example to move to bigger premises, or buy equipment or vehicles. This is where a well-crafted financial proposal is necessary to obtain finance from external sources. There are a number of different ways to raise the funds for a business. Each source has advantages and disadvantages.

Potential sources of finance

- Existing shareholders' and directors' funds
- Family and friends
- Business Angels
- Share issues
- Bank loans, overdrafts or credit cards
- Suppliers – extended credit terms
- Customers – payments in advance
- Government and EU – grants and loans
- Venture Capitalists

Unless you are using your own savings, or borrowing from family, you will need to write a Loan Proposal to obtain the funds. Elan and Co can help prepare this or give you sound advice to maximise the probability of gaining the finance you require.

Loan Proposal document

This is critically important: a lender – a bank, for example, will judge whether to grant the loan on how well this document presents the case to them. Their concern is that they will be repaid.

A good proposal will contain the following key elements:

- Overview of the business
- Amount and purpose of the loan
- Business description – details of the businesses' trading history, assets, number of employees, and legal structure
- Management Profiles – brief biographies of key individuals
- Market Rundown – define your companies' products and the area of the market it operates in. Profile your customers Identify competitors.
- Financial information – provide balance sheets, and cashflow statements. List collateral that you can pledge as security for the loan

The loan proposal can be an integral part of the Business Plan, or it can be an addition to it if the business is expanding.

Tools & Techniques in Financial Planning

Below are examples of tools and techniques for financial planning, which include the following:

Spreadsheets

Financial Modelling software

Loan calculators

Accounting software

Management Accounting

Business plans

Pricing models for goods and services

Key Performance Indicators (KPI's)

Credit checking and control systems

Cash Flow Forecasts

Cash is the lifeblood of all business

Cash flow is a term used to describe the pattern of cash coming into and going out of the business bank accounts over a given time period. Very few, if any, businesses can continue operating successfully if cash flow slows or worse stops over any extended period of time. It is therefore necessary to assess and estimate what amounts of cash will be needed and available to the business over the short, medium and long terms. If cash stops circulating within the business it can result in serious problems and ultimately failure for the business e.g. recent problems at Northern Rock.

What does a cash flow forecast look like?

A cash flow forecast can be produced in a variety of ways but generally it will include the following essential lines:

Inflows e.g. money from customers, investors, refunds, cash from bank loans.

Outflows e.g. money paid out to suppliers, to staff for wages, loan repayments, vat and other taxes.

Cash Flows and Accounts

There is a direct link between a business' cash flow and its accounts both financial and management accounts which can be described as follows e.g.

Last year's performance →	Current year's cash flows →	Current year's performance

How to start creating a cash flow model

Although there are a number of commercially available software tools that help produce cash flow forecasts and financial analysis models. The most common would be the use of spreadsheets e.g. Microsoft's Excel programme. Usually the models are self created and self maintained due to the low cost and ease of using such software.

A Cash Flow Model

Getting started involves looking at three critical stages:

What information will be required to input into the cash flow model?

(INPUTS) Inputs should not be confused with INFLOWS.

Inputs refer to *data inputs*, inflows refer to *cash inflows to the business; that is, money the business earned* similarly Outputs refer to *data outputs,* whereas outflows refer to *cash outflows* from the business, that is money that it paid out.

What will need to be done with the input and whether it needs to be processed? (PROCESSES)

What output is required from the cash flow model?

(OUTPUTS) Outputs should not be confused with OUTFLOWS.

Profit & Loss items

Profit and Loss items are usually the easier items to deal with in a cash flow model.

Sales

You will need to consider how you generate sales and when these sales turn into cash. Cash businesses like shops and restaurants etc can do this easily as their sales are usually not on credit. However, where sales are done on credit then an assessment of when (and sometimes if) the cash will be cleared in the bank account.

Cost of sales

The items normally included on cost of sales are those that form the core activity of a trading business e.g. retail shop selling groceries.

Expenses

Most expenses can be accurately estimated prior to a business committing to them. Where they cannot then a prudent estimate can be used in the cash flow. Typical expenses would include salaries, purchases of goods, rent, rates, telephone, professional fees, motor expenses and computer supplies etc.

For VAT registered businesses VAT can prove complicated to include in a cash flow but it can have a significant impact on the cash flow. For larger businesses this can flaw the cash flow results and is an important factor to be taken into consideration.

Balance Sheet items

Balance Sheet items can be more difficult to work with so some guidance is needed.

Balance sheet

Fixed Assets

Buildings/premises (owned e.g. freehold/leasehold)

Motor Vehicles

Equipment, e.g. computers, machinery, tools, printing presses, catering equipment

Current Assets

Stocks, e.g. goods for resale

Trade debtors – businesses who owe you money

Cash

Current Liabilities

Taxes due not paid (VAT PAYE etc)

Trade creditors (suppliers or businesses you owe money to)

Loans/Bank Overdrafts

Long term liabilities

Loans due after 1 year or more

HP Agreements

Net Assets or net liabilities = worth of company

If assets exceed liabilities then this is a positive outcome, if liabilities exceed assets then this is an indicator that the business may be in trouble and remedial action needs to be taken quickly.

Fixed assets

Fixed assets are those items owned by a business which it intends and needs to use over quite some time i.e. usually more than one accounting period. Typical fixed assets are property, fixtures and fittings, computers, motor vehicles. Fixed assets are depreciated for accounting purposes but depreciation is not a cash flow and is a common error in cash flows.

Current assets

Current assets are those items within the business that usually comprise of stocks, trade debtors and cash in the bank. The cash flow forecast aims to determine the changes in the cash and is thus crucial to working capital management.

Current liabilities

Current liabilities are those items owed by the business to others on a short term basis. Typically these items will include amounts owed to suppliers, taxes due but not yet paid and bank overdrafts and any other creditors. Again the management of current liabilities is integral to the management of working capital in the business and is a driver of the cash flow forecast.

Impact of loans

Loans a normally arranged through financial institutions like banks and finance providers like leasing companies. There are a number of ways in which the repayment of these loans can be calculated but normally it is sufficient to arrive at a figure that is due for payment on a regular basis, normally a monthly instalment. Loans can be on an interest only basis, capital and interest or low start with final balloon payments commonly seen in car and motor vehicle financing.

Impact of VAT and taxes

Taxation will have an impact on business cash flow. If a business is VAT registered then it must account for VAT and if liable pay the VAT over to HM revenue and Customs. Equally if the business is due a refund it can claim this from the government. Its impact will be clear on the cash coming into and out of the business. Most businesses will pay VAT on a quarterly basis but not all. This means that for three months of the year the business will have more cash in its bank account. But once it pays the VAT over it will suffer a sizeable outflow. If the business does not manage its liability then it can be in an position where it either does not have enough cash to pay the VAT or it will have to delay payments to others in order to meet any liability. A well prepared cash flow forecast should high light when there is likely to be a problem with meeting a liability.

Other taxes which need to be managed are the PAYE/NI deductions made from staff salaries which can in themselves be high. However as they are due on the 19th of the following month it is quickly apparent whether or not these amounts can be paid to HMRC.

The corporation taxes on the business are normally due 9 months after the financial year end. Business taxes for sole traders and partnerships are a little more complicated but normally they are paid in two instalments in the following tax year the profits are earned. The first instalment is due 31 January and the 2nd instalment is due 31 July e.g.

> Profits earned in the tax year 2006/07 will have tax due on 31 January 2008 and 31 July 2008. In addition there is a Payment on Account due also on the same dates for the current year.

The impact of these taxes is significant so its understanding is crucial to accurate forecasting. Nobody wants an unexpected tax bill – especially a large one! See Case Study 3 for the potentially critical results of a tax dispute.

A good cashflow model should include all relevant data to give a complete as possible picture of the business. It is also important that timescale is sufficient to illustrate variability over a long enough period, for example the business may have enough funds for 6 months of operations under normal circumstances; what happens after 6 months or if unforeseen circumstances arise – for example a recession or unexpected tax bill, or the initial assumptions about as business basic, such as turnover, were wrong?

A good cashflow model would give advanced warning and thus alert the managers of the business to take problem-solving action. It is better to catch a problem early – to be active in solving it – than react later when it has become a crisis.

Case Study 3 - Tony Ferrell VauxFord

- **Tax and Mortgage problems can be very difficult to solve**
- **Professional advice is essential if a business is to recover from serious difficulties**

For someone who has come through an arduous five years, nearly losing his car repair business, Tony Ferrell is remarkably phlegmatic. He shrugs it off: “It couldn’t get much worse than that really. It’s put me back 5 years.”

Tony started his South London business by breaking cars in 1992. As cars became more reliable and parts got cheaper, he moved into servicing and MOTs. He’s seen rapid changes in the automotive repair industry: “Welding, You hardly do welding now on cars: whereas back in 95 you were forever welding all week long – that’s a change around. Servicing is all computerised now – if there’s a problem, the engine management light comes up and you have to plug it into a computer, instead of looking under the bonnet.”

His business was humming along quite nicely when he managed to get on the wrong side of the HMRC. When he was discussing his tax affairs with them he unwisely plucked a figure out of the air on how many MOTs he was doing, then compounded the error by missing the deadline to appeal against the decision that he owed a staggering £258,000 back tax over five years. “I told them to earn that sort of money over five years I’d need 11 staff employed full time, with no jobs going wrong, for 6 days a week and no dinner hours. We’ve got three guys down there. It isn’t possible.” Nevertheless the tax people were adamant. Tony accepts his error in failing to appeal. The result was he either had to lose his business or arrange an IVA and pay a monthly to the Inland Revenue. He did this.

Another effect was that he seems to have found it difficult to obtain the services of an accountant who could help him out of the mess. It was only when he found Elan and Co his situation started to improve. Shakar negotiated the repurchase of the car repair yard so that it could return to Tony's control. "I got it back this week in my name. The mortgage has come down from 2200 a month to 1400, which saved me quite a lot of money, which I am putting into my pension." Elan and Co do accounts, bookkeeping and payroll as well as the mortgage on his property.

Tony is happy with the service he received from Shakar Elahi and his team: "When I wanted to buy the property back [his business premises] no-one could give me the information like he could; I went and talked to him and he told me what you can and can't do, and that is what you want to hear."

Tony has weathered the storm, and is moving forward with his business back on an even keel.

Vauxford

123 Fenham Road

London SE15 1AE Tel: 020 7732 2683

Common mistakes in financial planning and cash flow forecasting

- Trading businesses

1. Do not account for VAT properly
2. Include depreciation as an outflow
3. Accurately measure or control the time it takes to collect from debtors
4. Under estimate the risk of bad debts
5. Unsure about the impact of stock and how it is valued or included in a cash flow

- Service businesses

1. Do not account for VAT properly
2. Include depreciation as an outflow
3. Accurately measure or control the time it takes to collect from debtors
4. Under estimate the risk of bad debts
5. Fail to understand the impact of work in progress on their cash flow

- For profit companies

1. Over estimate the profits and hence cash that the business can generate
2. Ignore VAT and taxes as part of their financial planning
3. Believe banks will bail them out if they get into trouble with no cash
4. Creditors will provide credit

- Not for profit organisations

1. Ignore proper financial planning as they don't 'make profits'
2. Believe VAT and taxes do not apply to them
3. Suitable credit ratings do not apply to them as they are not a commercial business

Case Study 4 - Thames Digital Reprographics Ltd

- **Successful financial planning and cashflow management means steady expansion and business success**

From one small unit, printers Thames Digital have grown to three offices in 10 years of operation in the London Southbank, City, and Stratford. Started by partners Graham Barwell and Phil Waring, who saw that there was room for another player in the market, the business has expanded considerably. Their clients range from one-man architect's studios to government departments. Graham explains that from day one ploughed back money into the business, rather than take it out, and that has been one of the reasons for their steady growth in the face of fierce competition.

They have used Shakar for the past five years. The connection arose after dissatisfaction with their previous accountant, who took days to get back to them, whereas Shakar and his team are available immediately. "Apart from filing our normal accounts, and looking after our personal tax, from time to time, when we are looking at purchasing for example, a different business, or investing in a new piece of equipment, we run it past Shakar for his views. We don't always get the answers we expect but when he explains the reasons for gving us the answers he does give us, we either don't proceed, or do proceed with his advice in mind."

Phil Waring adds, "Any time you need any advice from Shakar, he has always been available and the advice he has proffered has been beneficial to us."

Their future financial planning involves adding a design studio to complement their existing revenue-stream, as well as strategically opening their Stratford office so that they can service new business from the Olympics.

Contact tel: 020 7357 6665

Website: www.thamesdigital.com

Click below to subscribe to Elan and Co's:

FREE monthly Tax Tips e-newsletter

and

FREE quarterly Mortgage e-newsletter

Conclusion

Careful financial planning and cashflow management are critical areas for successful business management. Professional assistance from Elan and Co can play to the strengths of disparate businesses – as shown by this eBook's Case Studies, improving the efficiency of the business and allowing owners and managers to concentrate on their core business activities.

Elan & Co's Services

The firm specialises in providing a blend of top four accountancy firm experience and professionalism, along with friendly service and client attention only available in smaller practices. These services include:

Business Accounting

As Chartered Accountants and Registered Auditors, Elan & Co's accountancy, tax and audit services are suitable for companies which are either growing or established and value ongoing professional advice.

Consultancy

Elan Convensys is the consulting division of Elan & Co. The team comprises of experienced consultants that have successfully delivered projects in a variety of industries, including major oil companies and financial services sector.

Mortgages and Insurance

Elan & Co Financial Services is the finance division of Elan & Co. If you need to raise finance, are looking for your first mortgage, wanting to re-mortgage, need a buy to let mortgage or simply want to find out more about your mortgage options we can help you.

Elan & Co
Chartered Certified Accountants
Unit 3 Cedar Court
1 Royal Oak Yard
London SE1 3GA

Tel: 020 7403 1500
Email: info@elanand.co.uk
Web: www.elanand.co.uk

Useful Common Financial Terms

Accounts receivable (AR)

Accounts receivable are monies owed. These amounts are usually the result of the sale of assets or for services you have provided.

Assets

Assets are any property owned by you or your business. Tangible assets can include money, land, buildings, and investments amongst others. Intangible assets, such as goodwill, are also considered to be assets.

Budget

A budget is a plan that outlines your organisation's financial and operational objectives.

Business Plan

A business plan is a document that summarises the objectives of a business. It would contain detailed plans and budgets showing how these objectives are to be realised.

Capital Assets or Fixed Assets

Capital (or fixed) assets are those assets such as land, buildings, or equipment acquired to carry on the business of a company long-term. In financial records capital assets are conventionally expressed as the value of the asset minus depreciation.

Cash

An organisation's bank balance and cash on hand.

Cashflow

The movement of money into and out of your business that determines your business' solvency.

Cashflow analysis

A cashflow analysis is the study of your business' cash inflow / outflow cycle, with the purpose of understanding and controlling its cashflow.

Cashflow Budget

An overview of cash inflows and outflows over a specified period of time. Researching and devising a cashflow projection is one of the most critical elements of financial and business planning.

Current assets

Current assets are items such as cash, inventory, and accounts receivable that are currently cash or are expected to be turned into cash within the short-term.

Debt financing

This is any money that you borrow to run your business.

Depreciation

An estimation of the loss of value of assets over time. Cars for example, tend to rapidly depreciate following purchase.

Earnings

Bottom line, income, or profit.

Fixed costs

Running costs that take time to wind down: usually rent, overhead, some salaries. Technically, fixed costs are those that the business would continue to pay even if it went bankrupt. In practice, fixed costs are usually considered the running costs.

Income statement

An income statement is a financial statement that shows sales, margins, operating expenses, and profits or losses.

Liabilities

Liabilities are debts.

Net cash flow

The projected change in cash position - an increase or a decrease.

Net profit

The operating income less taxes and interest.

Net worth

This is the same as assets minus liabilities, and the same as total equity. Other short-term assets include securities, business equipment, etc.

Pro Forma Statements

Financial statements that project the results of future business operations.

Sales forecast

The sales an organisation expects to achieve in a particular period of time.

Sunk cost

Past expenditures. Typically these are considered irrelevant to future decisions.

Variance

A calculation of the difference between plan and actual results, used by analysts to manage and track the impact of planning and budgeting.

Click here to receive information on Elan & Co's regular free financial seminars. For tax, accounts, financial planning and mortgage advice consult Elan & Co's website or telephone 020 7403 1500.

Elan & Co
Chartered Certified Accountants
Unit 3 Cedar Court
1 Royal Oak Yard
London SE1 3GA

Tel: 020 7403 1500
Email: info@elanand.co.uk
Web: www.elanand.co.uk

Shakar Elahi in June 2007 with schoolchildren at a school for under privileged children from the poorest of families in Pakistan, most of whom would never see the inside of a school if it was not for the work of the charity, The Citizens Foundation http://www.thecitizensfoundation.org/