

Taking Account

MARSHALL ROCHE
Newsletter – Christmas 2011

Memo for 2012: Turnover is vanity – Profit is sanity!

With all the economic doom and gloom, if your turnover is holding up, you might be forgiven for assuming that profitability is also stable – but many businesses have collapsed over the years because they focussed too much on turnover and forgot that it's profit that really counts.

Every business decision must consider the impact on three basic factors:

- Turnover (sales or takings)
- Cost of Sales ('variable costs')
- Overheads ('fixed costs')

Cost of sales are the costs that are directly linked to output. For example, a shop would include stock purchases, a builder would include materials and labour, while a courier would include fuel costs under this heading.

Overheads are those costs that do not vary with output in the short term, such as rent and rates. Of course, all costs are potentially variable – if you outgrow your factory then even rent can become 'variable'. However, on a day-to-day basis, such costs are 'fixed'. Don't forget to include your own 'salary' as an overhead.

It's useful to work out the total for a year (your latest accounts will help with this) and then divide the total up, so that you know your monthly, or even weekly, Overheads figure.

Turnover minus **Cost of Sales** gives us **Gross Profit** (sometimes called 'contribution' or 'margin'). Then deduct **Overheads** and we get **Net profit**.

The key to good business is getting the balance between these right: it's no good propping up Turnover by slashing prices, only to find that your total Gross profit no longer covers Overheads. Likewise, if you decide to spend more on Overheads such as Advertising, you need to be confident that the Gross Profit (margin) on the extra sales (ie *not* just the extra Turnover figure) will cover the additional Advertising costs.

Good decision-making in business involves breaking everything down into its impact on Turnover, Cost of Sales and Overheads. Remember – don't chase sales at all cost –

at the end of the day, Turnover is vanity, while Profit is Sanity.

All the best for 2012!

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Keeping a diary

If you are suspected of committing a crime, then you are presumed innocent until proved guilty. But if you are suspected of tax evasion, you are presumed guilty unless you can prove yourself innocent.

If HMRC find that you do not have a reliable method of recording your income, they will assume that you have failed to record all of it. The onus is then on you to show that your tax return is complete.

You must keep a clear record of all income – not just what goes in the bank – **HMRC will be sceptical if you tell them you pay all the cash into the bank.** Retail businesses should have a till; others should issue sequentially numbered invoices or receipts – and keep a copy. Include all tips, reimbursed expenses and other receipts.

One useful tool for any business is a desk-diary: record where you went and who you worked for; amounts received and reasons for any discount/reduction; what the weather was like if you couldn't work; holidays and sick days; problem jobs that take longer than expected; **anything that impacts on your income – and explains why it's not as high as HMRC might suspect!**

If HMRC come knocking and you have this much detail (and if it all ties up with your accounts!), you dramatically improve your chances.

Don't forget to keep the diary (and all other tax records) for 6 years.

Tax returns – beware the new penalties!

*As before, the final deadline for Self Assessment tax returns is 31 January. However, this year the penalties for being late are much tougher. **The later the return, the higher the penalty – up to £1,600! And this applies even if there is a refund due!** As always we process returns on the basis of 'first come, first served' and, if too many come in at the last minute, this does risk late filing penalties for the latecomers.*

Please also remember that, except for payment plans, we only submit returns once paid for in full. Payment may be by cleared cheque, cash or card. If you would like to discuss a payment plan for next year's accounts and/or tax return, please contact us.

" Taxpayer: someone who works for the government but who doesn't have to take a civil service examination." Ronald Reagan

Note: The content of this newsletter is necessarily of a general nature and no liability can be accepted for any action or inaction on the part of any person without first consulting us.

Merry Christmas

and
Best Wishes for the New Year
from everyone at

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Chartered Accountants

Our tradition is not to send Christmas cards, but instead we incorporate our newsletter into this seasonal greeting. Once again we shall be donating the money saved to Spinal Research, a charity that funds research into spinal injuries, their repair and the reversal of paralysis arising from them.

Thank you

