

WORK BOOK SIX

**PROFIT!  
PROFIT!**

**LEARN THE BENEFITS OF PREPARING**

**DETAILED MANAGEMENT ACCOUNTS**

**COACHING ACADEMY SPECIALIST**

**Where Small Businesses Grow**



## Profit! Profit!

**The most effective way to 'Get Even' with one who has done you a 'Bad Turn'.**

*Suffocate them with kindness. Do them a good deed in return. It will transform your thinking from that of the defenceless victim to the forgiving strong leader. Draw on your courage and strength of character and replace your thoughts of pride and retaliation to converting an enemy to a friend. As Napoleon Hill said, "The hottest coals of fire ever heaped upon the head of one who has wronged you are the coals of human kindness."*

**Tim Meagher - Business Coach**

### **Profit**

The entrepreneur looks at the business profit whilst the technicians and soldiers look at the Income.

If the owner is greedy then the employees will be greedy, giving less and less of themselves, always asking for more.

The London Stock Exchange and Growth intelligence of 1,000 SME's to inspire Britain, of over 3,000,000 businesses.

Based on profit and growth on at least 3 of the past 4 years plus staff numbers, square footage and filed patents.

51% use Credit cards 46% use bank debt with just 3% using equity Finance.

Profit is the money needed to finance its growth. If the value of a business is measured by its enhanced equity then the only way to do that is make the business grow. The only way to do that is invest in its growth and the best way to that is with the capital created for that purpose. The best way to that is through the profitability of the business.

**There are three kinds of money a company creates, income, profit and equity. Income is what everyone is paid, profit is what is leftover and equity is what the business is worth.**

# The Importance Of Management Accounts

By Sian Kelly

Management Accounts allow the business owner to stay in control of their business, merely checking the bank balance on a periodic basis does not constitute good financial control.

**Management Accounts will provide the basis for reporting Key performance indicators. KPI's are an invaluable tool if reported regularly, and in a timely manner.**

All businesses are required by law to keep certain financial information, however the statutory information does not help small business owners make informed decisions. Ensuring that the bank balance is always positive and then waiting until the end of the accounting year before knowing the financial results of the business is a dangerous strategy.

**Easy to use accounting packages, offer businesses the opportunity of maintaining their books in electronic form, from which Management Accounts can be prepared throughout the course of the trading period.**

The key is to have the data set up in the accounting system in such a way that meaningful Management Accounts can be automatically produced.

## **What are Management Accounts?**

Management Accounts are a set of financial statements, prepared periodically e.g. monthly or quarterly, allowing the business owner or directors to understand the financial trading position of the business and make decisions based on the data. These are usually against a plan and typically would include a profit and loss account, balance sheet, cash flow statement and a short report.

**If the business owner is not competent to prepare the accounts personally, a bookkeeper will be able to easily provide such information, particularly if an electronic accounting package is used and configured in the correct format for the business.**

## Why Should A Company Prepare Management Accounts

The work may be considered an unwanted administrative chore or simply a cost and another source of cash outflow from the business.

Whilst some administration work is required, the preparation of management accounts is work that should allow informed decisions to be made throughout the year, leading to improved performance, and will also form the basis of the annual results.

### **What are the benefits of preparing and using Management Accounts?**

There are several benefits including:

#### **Business Control**

In some instances a healthy bank balance may not indicate a successful company. The cash balance is taken at one point in time, and may in the future be adversely impacted by current trading conditions.

Unless the business owner can immediately identify adverse operating trends and take action to correct the situation, it may result in a severe cash flow shortfall later.

Management Accounts should provide sufficient information to detect positive and adverse trends in sales volumes, operating margins, costs and profit.

**Importantly this information will be available throughout the trading year and allow for informed business decisions to be taken.**

## Focus On Key Business Areas

### a) Sales

Knowing at year end that sales may have increased or decreased in total against the previous period may be interesting, but is it sufficient to exercise control over key areas of the business?

As part of the Management Accounts work it would be expected that an analysis of sales, by product is made available.

This will allow the business owner to review objective data on product sales trends and to take informed decisions on divestment or investment in different product lines.

### b) Costs

The total business costs are of little value when managing a business. The need to have some cost analysis cannot be underestimated.

A business owner/director should know where the company money is being spent and if costs are spiralling out of control.

#### Tax Planning and Dividend Payments

When up to date information is available, a director/owner can plan with greater confidence when transactions need to be made.

**This approach may be helpful in legitimately reducing the tax liability of the company, and to maximise the potential benefits by payment of dividends as opposed to salary.**

## Demonstrate That The Business Owner Is In Control

### **Knowledge is power.**

Certainly if the owner can demonstrate to the professional people the business has contact with, that there is a comprehensive understanding of what is happening within the business then respect will be gained and the level of comfort in the business relationship will be heightened.

**This may be of particular importance in the relationship with the bank manager.**

### **Reduced Year End Audit and Accounting Costs**

During the process of preparing Management Accounts many queries will be identified and resolved.

If this were not the case, at year end in addition to accounting for twelve month's work, all queries during the period will need to be addressed at the same time.

**Memories will fade and resolution of issues will take longer and cost more.**

### **Detection of fraud**

A regular review of the financial performance of the business will increase the possibility of detecting fraud or other malpractices.

**Simply the longer time gap between financial reviews will allow wrong doings to remain hidden and more difficult to uncover.**

## Conclusion

The preparation of Management Accounts will provide a valuable tool on which the business owner can manage the business. Informed decisions can be taken based upon objective data and be taken in a timely manner to enable the business to succeed.

Bring in staff bursting with dynamism and enthusiasm and infuse them with your values and vision.

**When management and staff values are not aligned, some of the staff will mask or hide their differences.**

Management will make more powerful statements in who they part with, more than who they hire.

Having a shared vision is very different from giving yourself up to someone else's vision, or even worse than that, to no vision at all, could have disastrous results.

**You must always be vigilant of staff who think that keeping busy is what life is all about.**

## Success Story And Positive Mental Attitude

### Milton

The poem 'Paradise Lost' concerns the Biblical story of the Fall of Man: the temptation of Adam and Eve by the fallen angel Satan and their expulsion from the Garden of Eden.

Milton's purpose, stated in Book I, is to "justify the ways of God to men".

**Paradise Lost is widely considered one of the greatest literary works in the English language.**

In 1651 Milton became blind, but like Jorge Luis Borges centuries later, blindness helped him to stimulate his verbal richness. "He sacrificed his sight, and then he remembered his first desire, that of being a poet,"

He wrote the 10,000 line piece totally blind and suffering from Gout. Suffering emotionally from the death of his second wife and the death of his infant daughter.

The writer and critic Samuel Johnson wrote that Paradise Lost shows off Milton's peculiar power to astonish and that Milton seems to have been well acquainted with his own genius, and to know what it was that nature had bestowed upon him more bountifully than upon others.

**The power of displaying the vast, illuminating the splendid, enforcing the awful, darkening the gloomy and aggravating the dreadful.**

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PROFIT!" VIDEO**