



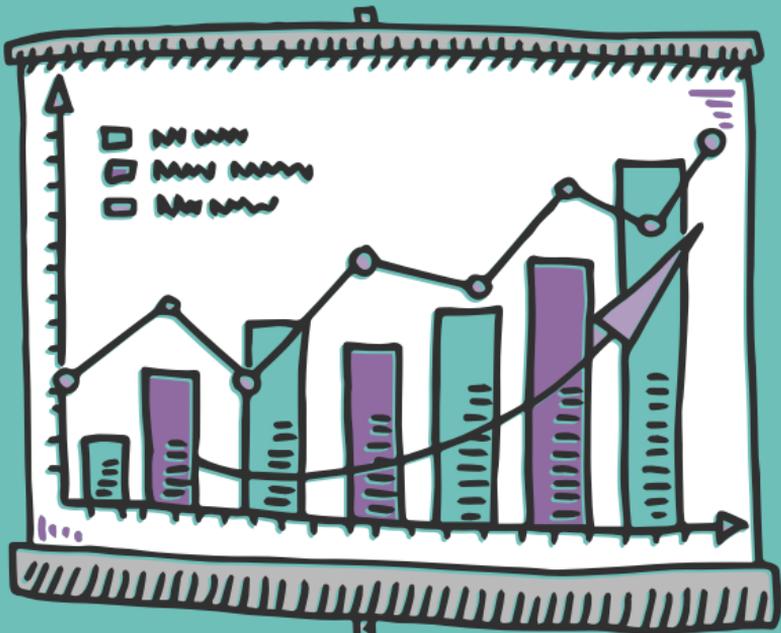
RIFT

Safety in numbers

USING YOUR PROFIT & LOSS STATEMENT

[RIFTACCOUNTING.COM](https://riftaccounting.com)

TURNING A PROFIT... INTO SOMETHING BETTER



Knowing how your numbers add up is essential, whatever kind of business you're in - but it's not enough on its own. You've got to make those numbers work for you. Your accounts aren't just a record of where you were last year. Shine the right light on them and they'll not only show you where you could be in the future, but they'll give you the tools you'll need to get there as well.

Let's start with a rundown of the different types of profit you're recording. They're all different, and telling them apart will do a lot to keep you out of serious trouble:

GROSS PROFIT:

this is your turnover minus the direct cost of your sales.

OPERATING PROFIT:

your gross profit minus your overheads and salaries.

NET PROFIT:

your operating profit minus any tax you have to pay on it.

CRUNCHING THE NUMBERS

Once you've got those figures, you can start to turn them into something useful. Obviously, a high gross profit is a fine thing to have, but if your overheads and salaries take too big a bite out of it then you're going to risk cash flow problems the first time a delayed invoice or bad debt rears up. Here's where your profit margins come in, so let's take a look at those next.

GROSS PROFIT MARGIN:

this is your gross profit as a percentage of your total turnover.

NET PROFIT MARGIN:

your net profit as a percentage of your turnover.

So if your cost of sales is £6,000 and your turnover is £20,000, your gross profit margin is $\text{£}14,000/\text{£}20,000$, which comes to 70%. To put it in real terms, for every £100 of sales, £70 goes towards expenses and net profit .

Let's say your net profit is £3,000. This would make your net profit margin $\text{£}3,000/\text{£}20,000$, for a total of 15%.

THOSE BOOKS WON'T BALANCE THEMSELVES

You can look at your balance sheet as the story of your business - and if that story's told well enough, you'll already be able to predict if it's heading toward a happy ending. By summarising what you own and what you owe, you can see how healthy your business is, how much value you're getting out of your various investments and the strength of your financial position.

Armed with this information, and the records you've kept in previous years, you'll be able to work up a cash flow forecast - one of the most powerful survival tools around. You'll be able to keep a tight rein on all the expenses you have to pay out, plan for growth, avoid cash shortfalls and impress lenders and investors!

The best part, of course, is that RIFT Accounting is here to take care of all this for you. With our help, your profit and loss records can be so much more than meaningless financial housework. They'll be the weapons you wield as you fight for the future of your business.

CALL US ON

01233 653006

**TO SEE HOW WE CAN
HELP YOU TODAY**

CHECK OUT OUR YOUTUBE
CHANNEL FOR LOADS OF
HELPFUL VIDEOS INCLUDING :
SMALL BUSINESS FAQs

YOUTUBE /RIFTACCOUNTING

RIFTACCOUNTING.COM

RIFT
Safety in numbers

RIFT HOUSE

200 Eureka Park, Upper Pemberton,
Kennington, Ashford, Kent TN25 4AZ

Tel: 01233 653006

info@riftaccounting.com