

# Guiding Towards Profit

*Expert knowledge means success*

## **Contents**

1. Introduction
1. Skills to make businesses succeed
1. What can the right accountancy firm do for you?
2. General Management
2. Cost Control
2. Pricing Strategy
2. Budgeting
2. Cash Flow Forecasting and Management
3. Internal Audit
3. Management Accounting
3. Corporate Finance
3. Investment Appraisal
4. Acquisition Strategy
4. Compliance and Company Secretarial
4. Financial Reporting
4. Planning
5. Taxation
5. Corporate Governance
5. Quality Assured
5. Further Information

**Note:** This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

## Introduction

Guiding a business towards profit is easier said than done, especially for a new or young business stepping into the unknown. And many businesses, or rather their owners or managers, do just that. Charged with brilliance, zeal or ambition, or simply a good idea, they launch their enterprises forwards, not knowing what to expect. Sometimes the result is blistering success, sometimes not. But always it brings more involvement in financial and legal matters. Always more headaches, worries and administrative problems. Always dangers, crises and opportunities.

This is where an experienced accountant comes in - as facilitator, they're the professionals about whom the storm often revolves.

As accountants in business, they are trained to take the strain, to beat back the paperwork, ease the finance road, advise on business strategy, and come up with profit making ideas. They know the pain that business owners feel as they attempt to climb the ladder of success - it isn't easy.

## Skills to make businesses succeed

In business a good idea is not enough. To survive and prosper it takes sales flair, production know-how and financial skill. Businesses do well - no matter what their size, no matter how good the initial idea - only if they are able to muster adequate finance, control resources, plan prudently and invest wisely.

Skills in these areas are hard earned. They come only through structured learning backed by broad experience. A good accountant has those skills.

Few businesses start out with a full time accountant. Most that succeed quickly find the need to employ one.

They use experienced accountants to:

- **Make profits grow** - by injecting

financial discipline into management decisions, identifying moneymaking opportunities and controlling costs;

- **Control the present** - by providing much needed management information, setting and monitoring progress towards realistic goals;
- **Ensure a prosperous future** - by analysing investment opportunities while sourcing finance needs;
- **Meet legal duties** - by identifying and ensuring compliance with company, investment, data protection, employment and other business laws and regulations.

Experienced accountants are the eyes and ears of business - the professionals whose skills are directed towards gathering and passing on information, towards sensing dangers and assessing risks.

Working with a company, the right accountant can be its guide to profit.

## What can the right accountancy firm do for you?

The days are gone when the primary task of an accountant was to keep the records - make sure not a penny slipped through the net. Computers have changed all that.

The drudgery has been taken out of bookkeeping and accountants have been freed of administrative duties to concentrate more fully on the more creative role for which they have been trained. Of course, they still oversee the accounting function and use their experience and training to avoid wastage, misappropriation and misstatements. And, of course, they are often the guardians of the budget. But their guiding duties cover much more.

Today, professional accountants act as pathfinders, picking a way through the unknown jungle of the future, pointing to likely dangers and highlighting opportunities for their clients. They assist with the corporate plans and budgets to chart the way towards success. They advise on keeping watch to look out for predatory attack from competitors.

Often, they act as company interpreters, skilled in explaining the precise meaning of financial statements, management accounts

*"Climbing the ladder of success isn't easy... "*



and budgets - the common language of business.

They are also the financial “medics”, maintaining the lifeblood of the business, cash flow, and arranging transfusions by way of loans or increased capital when needed.

They advise on systems and act as facilitators - making sure the paperwork is in place, necessary authorisations gained and obligations met. Above all, they like to act as part of the management team - the sales, production and finance triumvirate at the heart of any business.

The next few pages set out the typical business tasks that the right accountant could handle for your business.

## General Management

Being at the heart of management information systems means that as experienced accountants they are among the most well informed members of any management team. Add to this their training to question and probe, their skill at assessing the effects of different strategies, and their understanding of businesses, and it's not hard to see why many companies invite a good accountant to join their Board of Directors - in fact, many qualified Accountants are found on the boards of most successful companies.

Indeed, the qualities we've mentioned have resulted in accountants moving away from the specialist roots in the finance function towards general management. Mostly, they serve small and medium sized enterprises, and provide an external perspective on management issues.

There are very many examples of successful UK companies, large and small, and multinational concerns that have qualified Accountants at the helm as chairman or chief executive. Smaller enterprises can't afford a full-time person to fill that role and deal with it by buying in services and advice from a quality local firm of accountants.

## Cost Control

Cost control is often a matter of financial analysis - making comparisons of actual with expected expenditure and applying suitable ratios and percentages. It also involves

establishing management systems with suitable checks and controls so that possibilities for waste through mistakes, loose or over-ordering or through theft are minimised.

These are matters for which qualified accountants are well trained as a result of their experience in working in an auditing environment where control systems play a focal role.

## Pricing Strategy

Businesses can achieve success with low margins and high turnover, or high prices and lower turnover. Deciding upon a successful strategy means taking into account market conditions, cost structures, supply possibilities, stock and fixed and working capital requirements. In short it requires an understanding of the financial and business relationship between the different elements of the supply chain and up-to-date market intelligence and cost information. Pricing falls within the realms of marketing and sales strategy, but not entirely.

An experienced accountant can provide a vital input in such management decisions.

## Budgeting

Budgeting is at the heart of the management process. Creation of annual budgets, although an accounting function, involves providing a means of dealing with the constraints that will inevitably be revealed and umpiring negotiations between departments vying for use of company resources.

Once in place, the budget is both a short-term plan and a means of assessment. Being skilled at compiling and comparing budget and actual results, an accountant is able to guide management through the figures and to contribute to decisions on the action points that are revealed.

## Cash Flow Forecasting and Management

No business can survive without cash. And whether profitable and expanding or facing

tougher times, it's a resource that must be nurtured and managed.

Companies that employ their own full-time accountant will have someone, as the head of the financial function, as the guardian of cash flow. He or she must make sure there is money in the bank to meet commitments by having adequate funding in place and by managing working capital - making sure the most is made of credit facilities, monitoring stock levels and overseeing efficient credit control.

Companies that can't afford a full-time accountant can turn to a professional firm of accountants for support and advice in these areas.

## Internal Audit

With an initial training in auditing covering a wide spectrum of businesses, it is not surprising that many companies call on qualified and experienced accountants' skills in these areas for their own internal audit needs.

The emphasis here may be different: reporting to management on its control over the business - rather than to shareholders on the stewardship of their company but the skills required, the questioning attitude and financial "savvy" are the same.

## Management Accounting

If budgets are at the heart of the management system, so too are management accounts. They are the means by which management is able to assess its achievement against the goals it has set itself in the form of budgets.

Unencumbered by legal or other requirements, management accounts must be tailored to yield what financial information management deems useful, and to report this as quickly as possible.

And because management accounts are less formal than financial accounts, and the options more numerous, skill and judgement is needed in designing their structure and executing their preparation - the sort of skill that comes through training and wide experience. This is an area where an accountant is particularly strong and it continues to be a significant growth area -

indicating that more and more companies are recognising the advantage in having timely and useful management accounts as a valuable operational tool.

## Corporate Finance

If cash flow management is needed to meet day-to-day commitments, corporate financial management is needed for overall and longer-term success. To set up, expand or acquire other concerns requires a firm financial footing.

Some accountants are particularly skilled and experienced and accustomed to predicting financial needs, identifying possible and suitable sources of finance and negotiating most favourable terms.

Raising corporate finance entails production of effective presentations backed by comprehensive and trustworthy financial statements, budgets and forecasts - tasks in which the right firm of accountants is skilled in areas such as AIM and Full-List experience as well as in Management Buy-Ins/Buy Outs and fund raising generally.

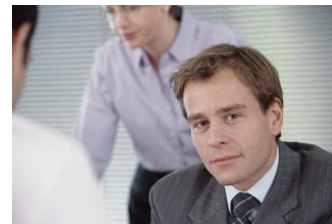
## Investment Appraisal

Few decisions are more crucial to business performance over the longer run than those concerning investments in buildings, plant, equipment, vehicles and other fixed assets. On whether or not these investments yield a sufficiently high return depends future viability.

Proposed investments require careful assessment.

Beyond this, progression of capital asset investments must be monitored, both to make sure they are completed according to plan and to feed knowledge of variances into the overall business plan and into appraisal of similar future investment decisions.

The right accountant can help you with investment appraisal techniques. Equally importantly, they will have the understanding and skills to work investment plans into overall budgets and forecasts, to pinpoint finance needs and tax and cash flow consequences, and to update and amend plans according to actual outturn.



## Acquisition Strategy

An experienced and qualified accountant will be completely at home with financial statements. This means that they're able to search these summaries of company activity to identify potential acquisitions, to assess the financial and business impact of deals and to process the complex legal paper-work that is involved.

Their input to management decisions in this area will be linked to long- and short-term planning skills and to negotiating strengths gained from a thorough understanding of the financial position of both parties.

## Compliance and Company Secretarial

Today, statutory demands on businesses are considerable and growing, especially in the areas of company law, financial services, data protection, health and safety, and environmental controls. Insolvency legislation also has its own demands - and penalties for those who do not comply.

It is easy for directors unwittingly to overstep the mark unless they make it the responsibility of a particular manager to check continually that legal obligations are being met. There is therefore a growing trend towards the appointment of compliance officers.

Although now not a legal requirement that every company should appoint a company secretary, most do so. This is an office that entails specific legal duties. The most important duties relate to the preparation and filing of financial statements and various statutory notices to do with board appointments and charges on assets, and of the annual report, besides the calling of meetings and provision of information and notices to shareholders.

Many of these functions can be outsourced to an experienced and qualified firm of accountants with a thorough grounding in most areas of company and commercial law.

## Financial Reporting

Every business must prepare annual accounts, to show its owners how it, (and its managers), have performed, and to meet the requirements of the taxation authorities and - in the case of limited companies - of the law.

But presenting results and financial position in figures is no simple matter. While there are many laws, rules, regulations and conventions to be met, application of standard formulae, however complex would not meet the 'true and fair' criteria that British business expects. The many hundreds, sometimes thousands, of estimations and judgements that go into producing meaningful financial accounts require professional judgement.

This is the domain of qualified and experienced accountants - no other group of professionals studies the concepts of financial reporting so deeply or is so steeped in its practice as they do. And no other group has the backing of a profession that invests so much in the maintenance of high standards of reporting and in the development of modern answers to new reporting dilemmas.

## Planning

Accountants work across a window in time. Financial accounts deal with a previous year, management accounts with the recent past, budgets with the relatively near future broken down into time-bite expectations. Corporate plans look further forward.

In a business of any size, the variables affecting the future will be enormous and the possibilities unlimited - so that almost invariably, any sensible look at the future will require computer modelling of some sort.

But no matter how sophisticated the technique employed, planning will only yield worthwhile results if it's based upon knowledge of the financial structure and position of the business concerned at the outset and the interrelationship of its interlocking parts.



Accountants are in a unique position when it comes to longer term planning. The management accounts and budgets they can produce provide the framework and starting point and their experience and skills provide the means of extrapolating these forward and of opening up the myriad of possibilities that may be pursued.

## Taxation

Tax laws are complex and their effects momentous. Detailed tax planning is a matter for the experts – if you have the right firm of accountants, they will have the necessary experience and know when to call in specialist lawyers or other advisors on unusual and complex issues. It's important for your accountants to work alongside your own management team who will appreciate that a general outline knowledge of tax laws is important in any planning process. For example, the amount and timing of capital investment, financing and business structure all impinge upon the amount of tax a business pays.

## Corporate Governance

Collapses and scandals have been a feature of business life over the last 15 or 20 years. The Cadbury Committee focused attention on the need to manage business better from a commercial and ethical point of view. While Cadbury was aimed principally at larger businesses, the principles apply to all businesses.

With their unique experience in management and as experienced and qualified accountants, the right accountancy firm will have the ability to structure and direct a management team - the focus for good corporate governance.

## Quality Assured

Nobody becomes a qualified accountant without a sound education and tough training.

Qualified accountants are required to study financial management and corporate planning, to know about tax and budgeting, and to understand company and commercial law.

Grasp of these subjects is tested in stringent examinations. But theoretical study and exam success is not enough. Qualification is gained only following a period of rigorous on-the-job training.

Qualified accountants have a professional obligation to keep themselves up-to-date with technical developments and to adhere to a code of ethics embracing both technical and personal standards. They are advised to study and read so that their technical knowledge stays abreast of latest developments while their business understanding is continually broadened.

It is a tenet of the profession that no member should take on tasks he or she is not competent to handle - one of the many ethical standards backed by a complaint's procedure.

## Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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