

The Non - Accountants Guide to Accounts

Isn't it annoying when you receive your lovely new set of accounts, complete with balance sheet, profit and loss account, and maybe even some spangly colour graphs, only to discover that you don't understand what any of the numbers actually mean? Well fret no longer! The kind people at Kelsall Steele have constructed this guide to help you hack your way through the jungle of accounts and come out on the other side with nary a scratch.

Hopefully you will find this guide useful, and it will enable you to understand (at least) the main parts of your accounts, thereby making them a lot more useful to you.

What Makes a Set of Accounts?

You will notice that your basic set of accounts has **two main parts**, the **balance sheet** and the **profit and loss account**. These two statements allow anyone who understands them to get a clear picture of how your business has performed over the year and how it stands at the end of the year.

The profit and loss account shows the flow of funds into and out of your business over the year. The balance sheet shows you how the business stands at a specific moment.

Imagine that you're going hiking in the mountains. You go up a hill, you go down a hill, you go around a tree and over a turnstile. You arrive at a picturesque spot and get someone to take a photo of you. Anyone who looks at that photo can see exactly where you are; they can see your surroundings, they can see what shorts

you're wearing, what sunglasses you've got on, etc. What they can't see however is how you got there. You might have hiked there from the west, you might have hiked there from the north, you might have climbed a big cliff, you might have been flown there by helicopter. The balance sheet is like snapshot of you on the mountain, the profit and loss account is like the journey that you took to get there.



Phil says,
“If the **balance sheet** is *where you are*, the **profit and loss account** is *how you got there.*”

Probably the main problem with understanding your accounts is the fact that you don't understand what the terms mean, or that there may be words used in an unfamiliar context. To help you translate the useless mess of numbers into something that you can actually use we have prepared a short dictionary of the main terms that you will most likely come across when looking over your accounts.

Dictionary of Accounting Terms

Profit and Loss account

Income/Turnover/Sales – Money that you have made in the year.

Cost of sales – Costs that must be paid before you even start trading (for Chiros this would be your purchases of medical products to be sold - on, for associates it would also include your clinic rent).

Gross profit – Profit that you have before deducting your expenses. Calculated as (Turnover *less* Cost of sales).

Expenses – Things that you have paid for in the year (wages, phone bill, etc.).

Net profit – The actual profit that your business has made in the year. Calculated as (Gross profit *less* expenses).



Balance sheet

Fixed asset – Something that the business owns. They come in two flavours;

Tangible fixed asset – An asset that you can touch. This could be anything from a computer to a car to a building.

Intangible fixed asset – An asset that is associated with the business. Imagine that you were going to buy the Coca – Cola Company. If you offer them a price equal to the total value of

the buildings, machinery, vehicles, etc. they would not take it. Why? Because there is a value attached to the good name of the company. This as much an asset to the company as a building and as a result is included in the accounts as goodwill – an intangible fixed asset.

Current assets – Money or goods owed to the business. For example:

Bank account – The amount of money in your bank account at the year end. This may well be a different figure to the one on your bank statement. This is because we adjust the bank statement balance to allow for cheques that you have written and money that you have deposited that have not cleared the bank yet.

Debtors – Money owed to you for work done. If someone has a customer/client account and hasn't paid it off by the end of the year, they would appear on the balance sheet as a debtor.

Prepayments – A cost to the business already paid for, that partly or wholly relates to the next year. You pay your year's car tax at the start of December, and your year end is the end of March. Clearly only 4/12 of this cost should be included as an expense this year, the other 8/12 of the amount would be a prepayment and appear on the balance sheet as such.

Liabilities – People or organisations that the business owes money to. For example:

Long term liabilities – Money that the company owes to an organisation or person due in more than one year, for example a loan with a term greater than 1 year.

Short term liabilities – Money that the company owes to an organisation or person due in less than one year, for example a bank overdraft.

Trade creditors – Money that you owe for goods or services received, i.e. an invoice from a supplier that you haven't paid off yet.

Accruals – The opposite of a prepayment: goods or services that relate to the current year but have not been invoiced. The best example of this is accountancy. The work relates to the current year, but is not invoiced or paid for until after the year end.

Capital – Money that has been invested in the business. This includes the money used to start the business, all profits to date and money introduced to the business, minus your drawings.

Drawings – Money drawn from the business for private use.

Other Terms that you might come across

Depreciation – This is an adjustment made by the accountants to allow them to fairly represent the value of an asset. Depreciation will appear as an expense on your profit and loss account.

Net book value – The value of an asset after depreciation has been accounted for. Calculated as (cost price *less* depreciation).

There are two standard ways of charging depreciation:

Straight line – Depreciation is charged as a percentage of the asset's original value. Depreciation calculated this way will be the same each year

Reducing balance – Depreciation is charged as a percentage of the assets' net book value. Depreciation calculated this way will change from year to year.

NB: There is no advantage to either of these methods of depreciating an asset; your accountant will choose the one that they feel is most suitable.

You should now have everything you need to get a basic understanding of your accounts. Hopefully you have found this short guide useful and are now appreciating your accounts in a way you never thought possible.

By Paul and Helen. Photograph courtesy of Phil 'Indiana' Wyatt.

If you have had trouble following this guide, or have any suggestions about future topics that we could explain please do not hesitate to drop either Claire or Helen an email at:

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Any feedback would be gratefully received.