

Manage Expenses

Unfortunately every business has expenditure and costs, whether it's the costs of making things, the cost of fuel for travel, staff costs or marketing and sales costs. It is vital for all businesses to manage these costs very carefully for a number of reasons. For instance:

- **Cash Flow**

Many small businesses fail because they don't manage their cash flow effectively. Good cash flow management ensures that your income is always coming in ahead of your expenses. It is possible that a business seems to be doing very well because it is selling a lot of goods or services, but expenditure is usually incurred before the income is received. The cost of making and selling a product might involve buying the raw materials, the staff time to build it, the production of a brochure etc... It might however be 30 days after the sale of the product before, you receive an income. My Business will of course help you be aware of your true business costs and also remind you when your customers should be paying their invoices.

- **Profitability**

It is very important to know the true cost of different areas of your business. If for instance you have 3 products or services to sell, you probably know how much you receive in income from each of them over a year (if you don't you should use Income Sub Categories in My Business to track your different sales). However, to know if you are making a "profit" on each product, you need to track the true cost against these items as well as the income. These costs might be the cost of travel, the cost of buying the materials, the costs involved in selling the product, or even the cost of supporting and servicing the customer after the sale has been made. You may even find that some products or services do not actually make enough profit to be worth your time and effort, and you should focus your efforts elsewhere.

- **VAT**

If you are VAT registered, then you will need to have a very efficient means of tracking all expenditure and the VAT relating to it. This is because you will need to reclaim some of this VAT in the future.

Simple Steps to better Cash Management in MyBusiness

1. Tracking expenses by setting up an expense sub category: If you want to track expenses against your business activities it is a good idea to set up Expense Sub-Categories first. For instance you might want to track different staff costs under the main cost code "Motor". So you would set up "John's Petrol", "Sarah's Petrol", "John's Repairs", "Sarah's Repairs" to analyse these at the end of the year.

In this example however we want to track expenditure against work done or a product, Product A, so we need to set up a sub category for the key expenses for Product A. You might want to set up some categories for instance "Motor – Product A", "Motor – Product B", "Costs of Sales – COS, Product A", "Cost of Sales – COS, Product B". Do this by going to Accounts Main Menu, select Income and Expense Categories on the left, and select "Add Expense Sub Category". Under "Category Group" select "Cost of Sales", add subcategory name of your choice e.g. "Product A" or maybe "COS – Product A" and any comments you want. You can change any of these categories at any stage.

2. Recording an expense or a purchase. There are 2 simple ways to record an expense. You can either record the details from a supplier invoice which is covered in the Simple Guide To Invoice Management, or by going to the Accounts Main Menu page and selecting Pay Cash Out, which is what we will look at here in our example. Then on first screen, Enter the amount to pay, select whether this figure includes VAT or not, and from the category select "COS - Product A". Put in a description for this item, for instance "Fixtures". Click next at the bottom of the page. If there is no additional expenses item to record, click Next. On the next page select the supplier who has been paid, or create one. On the next screen you can add a description for the whole purchase (it might contain a number of different items of expenditure), choose the payment type and insert when the payment was actually made. If this cost is associated with a particular job you can link it to this job on the next page, for future analysis. On the final page select the bank account you paid or intend to make the payment from. Click Finish to view a summary and if it is as you wish you click Finish again.

3. Viewing the expense item in the Cash Book. When you have finished recording the expense it will appear in the Cash Book. You can click on this expense item at any stage and amend it if you find you have made a mistake (the My Business log will track these changes for your accountant). This item can be viewed in the future as a record of what your business activities were on that day. Note that you will need to reconcile this expense (and income items) against your bank statement in the future. This is a very important check to ensure that all expenditure and income is presented correctly by your bank. Go to the item, open it and if it matches your bank statement select "Reconciled" from the top right hand side on the Expense Summary screen.

4. Viewing the expense in Reports. Reports are invaluable for telling you how your business is performing. You can now go to Accounts, Reports and select Report by Category detail. This will show you all of the expenditure relating to Product A and all of the Income as well. You can also see this summarised in the Trading Profit and Loss report.