Alliance
BOOKKEEPING

## Alliance Bookkeeping is cutting through the confusing financial jargon to keep things simple and jargon free!

### Revenue (or Turnover)

**Explanation:** The total money your business earns from selling goods or services before subtracting any costs.

**Example:** If you sell 20 handcrafted candles at £10 each, your revenue (turnover) is £200.

### Cost of Goods Sold (COGS)

**Explanation:** The direct costs associated with producing your products or services.

**Example:** If making each candle costs £3 in wax and materials, then your COGS for 20 candles is 20 × £3 = £60.

### Gross Profit

**Explanation:** Your revenue minus the direct costs (COGS). It shows the profit from your main activity before other expenses.

**Example:** With a revenue of £200 and COGS of £60, your gross profit is £200 − £60 = £140.

### Expenses

**Explanation:** All other costs required to run your business that aren't directly tied to producing the product. These include rent, utilities, marketing, and salaries.

**Example:** If you spend £30 on packaging and £20 on delivery, your total expenses (apart from COGS) are £50.

### Net Profit

**Explanation:** What's left after you subtract all your expenses (both COGS and other operating costs) from your revenue.

**Example:** If total expenses (COGS + other costs) come to £110, then your net profit is £200 − £110 = £90.

### Assets

**Explanation:** Things of value that your business owns, such as cash, equipment, or stock.

**Example:** A computer for managing your orders or even the stock of candles you haven't sold yet.

### Liabilities

**Explanation:** What your business owes—debts, bills, or any financial obligations.

**Example:** A business loan of £1,000 or unpaid supplier bills.

### Equity

**Explanation:** The owner's share in the business. It's calculated by subtracting your liabilities from your assets.

**Example**: If your business assets are worth £5,000 and your liabilities total £2,000, your equity is £3,000.

## Cash Flow

**Explanation:** The movement of cash in and out of your business over a period. Positive cash flow means more money coming in than going out.

**Example:** Even if your business is profitable, a late customer payment might mean you have less cash available right now.

## Balance Sheet

**Explanation:** A snapshot of your business's financial status at a specific moment, listing assets, liabilities, and equity. Think of it as a "photo" of your finances.

**Example:** A balance sheet might show that on 31 December, your assets were £10,000, liabilities £4,000, and equity £6,000.

## Profit and Loss Statement (P&L) / Income Statement

**Explanation:** A report summarizing your revenues, costs, and expenses over a specific period.

**Example:** A monthly P&L might show total sales of £2,000, expenses of £1,500, and therefore a net profit of £500.

## VAT (Value Added Tax)

**Explanation:** A tax charged on most goods and services in the UK. If you are registered, you add a percentage (often 20%) on top of your sales price and later pay that tax to HMRC.

**Example:** For a product priced at £100, if VAT is 20%, you'll charge £120 to your customer.

**Allowable Expenses**

**Explanation:** Business costs you can subtract from your income to reduce the amount of tax you need to pay.

**Example:** Expenses like travel costs for business meetings, office utilities, or software subscriptions are often allowable expenses, always check with HMRC.

## Capital Expenditure

**Explanation:** Money spent on acquiring or improving long-term assets that will benefit your business for several years, rather than being an immediate cost.

**Example:** Buying a delivery van or setting up a permanent office space are considered capital expenditures.

familiarizing yourself with these terms, you're well on your way to feeling more confident and in control of your business finances.