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

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

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 you £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, then your total expenses (apart from COGS) are £30 + £20 = £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 PCL 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 charge 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.