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Welcome to the late Summer edition of our Newsletter.



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In this edition we have decided to make a change to our normal format.

We have included some of the questions that most frequently asked. When we started to plan this newsletter (yes, we do plan them), it became apparent how different the sets of questions are that Louise and I get asked... I am so pleased I don't get asked hers!

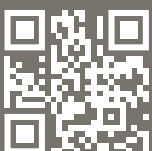
Also, of interest was how often the answers are not clear cut: time based questions such as 'when is my tax due?', does require a firm answer, but 'it depends' is an answer that initially, but unapologetically features quite often. And that is because of the people that ask them, sometimes they have quite complicated arrangements, or the need to consider various taxes, the needs of the business and even personal circumstances. They all need to be weighed up and balanced before refining the initial thoughts to give a decisive conclusion: a process that never costs our client money, as we don't have a stopwatch checking the time.

We hope you find this an enjoyable and interesting and read.

Questions aside, we have our usual dates for the diary and look forward to continuing a happy and successful 2023 together.

Adrian Barker Managing Director

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to view the
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Ask an Accountant

■ 'Are management accounts really worth having?'

In the introduction I said that the initial answer is often 'it depends'. In this case that is definitely the case, but with a follow-on clarification, to give 'It depends... on what you plan to do with them'.

It is oft said measure what you manage. If you don't measure what you manage, you are unlikely to be managing it optimally.

However, if you do measure (i.e. have management accounts), but then fail to read them, understand them, or do anything with them, then management accounts will not be very helpful, and so the answer to the question 'Are management accounts really worth having?' will be a definite 'No'.

For the avoidance of doubt, the management accounts also need to be accurate.

So, let's say they are accurate and you plan to look at them, and already understand them, then they are definitely worthwhile... provided that you then do something about what they show. That is best achieved by having a few important numbers. (We could call them Key Performance Indicators – 'KPIs').

In farming that might be £ per kg/ tonne, or yield. Naturally, that means that some numbers have to come from outside the normal management accounts, but they are usually readily available. For wholesales that would be gross profit percentage – better still if you do management accounts by branch.

And for businesses that provide services based on time worked, you could include the percentage of time spent doing client work (chargeability) and the fee charged compared with time charged (recovery).

Producing management accounts is the easy bit – as long as data has been entered properly, then just press the button in the accounts software (what comes out depends on which software you have - and you will not be surprised to hear that is another of our featured questions). The next step is to email them to your accountant; preferably us please. We can then chat them through on the phone or face to face, discuss what they show, understand them and suggest actions arising.

If that sounds like a good idea, then back to the original question, it is a definite yes – management accounts are really worthwhile.

■ 'What is my tax bill and how do I reduce it?'

This is a question that Louise, Sandra and the team that deal with personal tax returns often get asked, and it is one that I often refer to when people ask me about CBSL Accountants: in particular, what makes us different from other firms of accountants.

I often resort to drawing a diagram to show the size of businesses in terms of turnover and complexity, and the number of businesses at those sizes. It is something I will draw and show in a blog another time, but essentially there are a lot more, small simple businesses than there are big complicated ones: sorry if that is obvious! But we then draw a line part way across the diagram to see where we start to look after businesses.

Its not a fixed rule: We came across a couple of business owners a while ago who had been given quite simply, shockingly bad advice. We felt that we should step in and help them rebuild.

As a general rule though, fewer small businesses, particularly sole traders and partnerships, and fewer that keep manual records, means that January is less pressured for us. A tour of accountants' car parks in December and January will show that – albeit a tour that would not sell many tickets. Our office is quiet at weekends and evenings in those months. Tax season has been and gone... apart from a few last-minute personal tax returns.

Complexity means planning, which in turns means proactive measures have been made before the start of the tax year.

So how do we reduce your tax bill?
Already done it!

■ 'Do I really have to make those payments on account?'

This sometimes gets asked as a follow up. We will always see what might have changed. But based on the previous article, Yes! (Sorry).

‘What accounting software would you recommend?’

Oooh now that is an interesting one – it depends where you are starting from.

What’s the best way to Dublin from here said the driver, to the local. Ah well I wouldn’t start from here if I were you came the reply.

Where you are now though is undoubtedly the best starting place. The accounts of too many businesses are held together with the Sellotape (other brands are available) of Excel: Data taken out of an accounts package; automatically or manually re-entered. Passed from one sheet to another, via Vlookups of Pivot table, or hard-coded; the risk of errors arising increasing through each step.

However, it is surprising how much accounts packages will do, that built-in features stop risk of errors arising, and how rarely those features are used.

Much is said of ‘Autoentry’ – the business owner being able to take a photo of his taxi receipt on his phone and it be entered automatically for example. Or bank statements automatically downloaded into the software. Similarly, there is excitement to be had in your accounts being held in the cloud and viewable from said phone and in said taxi.

That has made some people very excited about packages such as Xero, which are undoubtedly good and far from the Emperor’s new clothes. Less satisfactorily are advisors who become resellers and steer clients to specific products, when they might not be the best solution.

Now personally I am not the one to advise on which software is best – in part because the last time made any real use of Sage, it was DOS based and had the standard password of ‘letmein’. We are though very lucky to have amongst others, a Jenny, a Mark and a Helen, all of whom can advise. They have seen, but more importantly used, pretty much everything.

However, before they recommend a change, they will want to understand your business, understand what you need to know about its performance an financial position... both accounting and operational, and coming back to the start of this article – where you are now.

We recently met with a new client to the firm to take over their management accounts. The words that our new client used were ‘oh wow – I didn’t know that it did that’. A simple procedure that he didn’t know about, that will save him 3-4 hours every month and completely remove the errors he has been finding in the accounts, which of course took additional time to resolve.

So when considering which accounting software to use, you cannot help starting the journey where you are; and quite possibly you might be very pleased you did.

‘Should I sell my business now or later?’

I was asked this very question last week: ‘Should I sell this year or wait?’ Having spent some time thinking about it and answering them, I thought I would expand upon and share my thoughts in this in our blog, which you can read on our website at www.cbsigroup.com.

As you might imagine, there is no clear-cut answer to this question.

Any type of succession planning is very much about giving the current owners options, rather than creating an obligation: whether that be a transition to the next generation, or to management, but the same applies to a company sale if that is what you decide to do instead: the business needs to be in the right place so that it does depend upon its owners.

So, part one of the answer is – Is the business ready to be sold?

This will include whether there is an ongoing management team in place that is independent of its owners. But will also include having an established loyal customer base, and a positive trajectory in profits (In the next article we will explain what we mean about ‘profit’ but spoiler alert we tend to use EBITDA). There is a raft of other things too.

Then, are you ready? And again, this covers a number of things: What will you do instead of work? How long do you want to continue, and if you sell, how long can you support a handover? And perhaps the biggie... can you afford to sell... will the proceeds from the sale of the business, fund your retirement?

That leaves us to think about the third, being the market for buying and selling companies.

You hear advisors tell you that there has never been a better time. I am sure you will know the firms that do that – Two in particular who have probably done what they do to you – written to once a month for the last n-years to suggest a chat, in confidence?

So, how is the market now for selling a business?

There is no doubt that multiples of profit are not what they once were. If I think back to 2017 and 2018, the market has softened. What might have once been 6-8x profit might now be lower by 1x profit. It also depends on market sector. I see though two levels of investor.

- 1. At one level:** Investors that seek value, by approaching (off market), companies that are not in a position to be sold, or the owners seek a quick sale. Or you might be told that its down to the recession (What recession?) Multiples, in such cases might be say 4x profit; and,
- 2. At a different level (Private Equity):** Good companies still command premium values, and as private equity have huge available funds to invest, they are still willing to pay higher multiples. The alternative for them is not investing which is not an ideal option with inflation at the level it is, as in real terms their fund is diminishing if they do not.

The market may not be as strong as it has been.

The priority therefore is in the order that I proposed the three pieces of the jigsaw... (1) Is the business ready to be sold; (2) Are you ready; and then (3) If the first two are a yes, then they are all that matter – Now could be the time to sell.

‘What are your views on AI?’

We have an eclectic client base and so that is a difficult question to answer. It is though, an important growth area, with the press raising risks from China, and the rise of Chat GPT et al. But in a newsletter that covers a range of ‘Ask an Accountant’ questions, it is one that we just had to include.

What must be two years ago now, a wealth manager spent time telling me how AI is a growing area for financial planning, and he went on to tell me about Robot IFA services at a lower level. As a simple chap from Shropshire, I nodded along, listened attentively, and we ended the meeting an awful lot wiser than at the start.



Much of the blame for my difficulties though, I put squarely at the door of Jeremy Clarkson. Whilst bleeps (my strategic coughs), are needed to cover some of the vocab, my daughter is a fan of Clarkson's Farm. A recent moisture test that she did for Grandad Terry, gave a score of 10.2 for the OSR. Last night it was 7.3 and they are combining as I write this (21 July)... apparently there is nothing they can do about the dust from the field blowing over my freshly washed car!

For those that have not seen the programme, Clarkson purchased some beef cattle for the planned farm restaurant, one of the girls of whom was called ‘Pepper’, was unsuccessful with the ministrations of the bull, and so a second straw of AI was required.

I think you now know where this story is heading...

The meeting I had immediately prior to the one with the wealth manager, was with a pig farmer, and we had been discussing the costs that year... including artificial insemination.

Sometimes it is best to say nothing – I did though admit my mistake a few months later over a glass of wine.

Morning networking at Theatre Severn.

We recently held a morning networking event, with a talk on Mind Mapping delivered by Phil Chambers. Many thanks to those of you who attended. We can't wait to see you at our next event – look out for details soon.



Updates and Reminders

Personal Tax

31st October – deadline for filing paper self-assessment returns

31st January – deadline for filing online self-assessment returns

Corporation Tax

1st October – deadline for payment if you have a December year end

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