

5 PROFIT DRAINING MISTAKES

YOU'RE MAKING IN YOUR
BUSINESS

By
Dora Ngoma



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GRACE CERTIFIED ACCOUNTANTS



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CHAPTER

INTRODUCTION



YOUR DREAM

There are many reasons to love running your own business: more freedom, a better work-life balance and total creative control. However, there's no denying that money matters an awful lot, too.

As a business owner, there's theoretically no limit to how much you can earn. Gone are the days of asking your boss for a pay rise; if you want extra income, it's up to you to get out there and earn it. The flip side to this is that there are no guarantees, either, and the sad truth is that many small business owners would be financially better off working for someone else.

Furthermore, research has shown that around four in ten small businesses fail within the first five years. A lack of funds is the biggest threat to an organisation, so careful money management is an absolute must.

Don't despair and go running back to the day job. If you're not making as much money as you'd like to, it's time to take a look at your business and root out the mistakes that are eating into your profits. It's possible to enjoy all the benefits of running a business and make much more than you ever could working for somebody else. Entrepreneurship is a risky path, but the rewards are worth it.

In this eBook, we're going to take you through the common mistakes that we see our prospects make time and time again. It's essential that you work hard to maximise your profits right from the very beginning of your business to ensure that your company will not only survive, but thrive, in years to come.



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**EXPECTATION
&
REALITY**



THE REALITY

When you started your own business, you likely harboured lofty dreams of flexible hours, more family time and dreamy trips to the Bahamas.

The reality, however?

You're working harder than ever, but the profits aren't following.

You're stressed out and wondering whether you made the right choice.

You're missing the 9-5, when you could switch off at the end of the day.

Financial problems keep cropping up and you lack the confidence to invest in growth.

If this is you, then you need to work smarter, not harder. You need to adjust your current practices and focus on maximising your profit margins. It's likely that you, like so many others before you, are making some pretty common errors because you just don't know any better. It's time to work out what you're doing wrong and put yourself back on the path towards success.

Here at Grace Certified Accountants, we have years of experience helping our customers maximise their profits. The following mistakes are ones that we've seen our clients make time and time again.

The good news is that rectifying these errors isn't rocket science. By maximising your profits, you can start running that lifestyle business you've always dreamed of and put the 9-5 nostalgia to bed for good.



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**POOR CASH FLOW
MANAGEMENT**



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THE LIFEBLOOD

Cash flow is the lifeblood in a business and failing to focus on this often proves fatal. Your business can't function for long without cash and poor cash flow management will quickly eat into your hard-earned profits.

First of all, you need to understand the difference between cash flow and net profit. Cash flow is the money going in and out of your organisation. Cash comes in from customer and client payments for goods and services and goes out in the form of expenses, such as staffing costs, materials, power usage and rent.

Positive cash flow means that more money is coming in than going out. This means that you'll have plenty to cover your expenses and keep your business afloat.

Negative cash flow means you're paying out more than you're receiving, and thus your business' bank balance is declining. It's okay to have a negative cash flow in the short term if you have sufficient reserves - in fact, it's to be expected as you scale-up and invest in growth. However, if this goes on for too long you'll run out of funds and may have to cease operation.

It's possible for a business to be profitable but lack adequate cash flow, especially if your products or services go through a long sales chain. You may have to pay staff and suppliers long before your customers pay you and consequently you might not have enough available funds to continue operating. This can lead to a loss in revenue or may cause you to accumulate debt.

As well as permitting you to continue operations and protecting you against debt, a positive cash flow allows you to grow and scale your business in the future. If you have very large cash reserves, it could be time to re-invest.



THE LIFEBLOOD

The first step to improving your cash flow management is to keep careful financial records. Ensure that your personal and business bank accounts are completely separate, and set aside time each day or week to update your books and ensure that your records are accurate.

You should use this data to regularly prepare cash flow statements so that you can clearly see how much money is entering and leaving your bank accounts. This will then allow you to create cash flow projections to help you manage your money well in the future, too - particularly during periods of growth. This will also help you to prepare an adequate safety net for any unforeseen costs that may crop up.

Another simple way to improve your cash flow management is to stay on top of your invoices and ensure that your clients pay you on time. When you sign a new client, be sure to map out the invoicing details straight away to ensure no delays later on. Make it a priority to send invoices in a timely manner and keep track of which deadlines are approaching so that you can send a polite reminder. If this proves too stressful or time-consuming, it may be worth investing in invoicing software to take care of this process for you.

If you've been neglecting your cash flow, it's time to make some changes. Good cash flow management goes a long way in protecting the financial health of your business against debt, circumstantial changes and unforeseen costs, whilst enabling you to make smart and well-timed investments to drive growth.



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*FOCUSING ON
TURNOVER, NOT
PROFIT*



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THE CONFUSION

Many business owners confuse turnover and profit, but it's vital to understand the clear differences between the two. Otherwise, you may find yourself in a whole host of financial trouble.

Turnover is the money you take. It's the amount you generate from sales over a specified period. Turnover is one metric that can be used to measure the health and performance of your business, but it's not the same as profit.

Profit is the money you make, i.e. your turnover minus your costs. Let's say you take £100,000 per year, but spend £30,000 - your total profit is £70,000. You then must take tax into account to understand your NOPAT (Net Operating Profit After Tax) to see how much financial gain your business will actually make. If you pay another £10,000 in taxes, your business has gained £60,000, not £100,000.

It's crucial that you understand this in order to maximise your profits. Of course, increasing your turnover can boost your profit dramatically but you shouldn't automatically assume that this is the case. For example, increasing your turnover by £10,000 sounds great, but if you spend £20,000 in order to do so then your profit margin has actually decreased.

Furthermore, confusing turnover and profit encourages overspending because it leads you to think you're making more money than you really are. This in turn cuts into your profits and can land you in a lot of debt, which will halt your growth and further eat away at your margins.

Understanding the difference between turnover and profit gives you a clear picture of how much money you're actually making and how much you can afford to invest. In addition to this, it allows you to understand which costs and practices generate the largest ROI and therefore cut down on costs where appropriate, further increasing your profit margin.



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***HIRING A CHEAP
ACCOUNTANT***



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THE BIG MISTAKE

When you're looking to maximise your profits, cost-based hiring often seems like a good idea. However, this is a short-sighted approach that can actually drain your profits and land your business in financial trouble.

Many business owners assume that all Accountants offer the same service, but this could not be further from the truth. When hiring an Accountant, you shouldn't focus on how much money it will cost in the short term but how much money they will save and generate for you in the future.

There are many cheap accountancy firms out there, but you really do pay for what you get. Many businesses fail to realise that anyone can call themselves an Accountant, without any qualifications or experience whatsoever.

An Accountant can be anybody, but Chartered Accountants study for at least three years to pass their exams and gain a wealth of practical experience whilst doing so. Therefore, they charge significantly more than cowboys who have no knowledge or expertise to speak of.

Ask yourself: do you really want the latter handling your accounts?

When hiring an Accountant, one of the first things to look for is an ACA, ACCA or CIMA qualification. Chartered Accountants are regulated by external professional bodies and remain up to date with the latest practices and guidelines.

Cheap Accountants are hired based on cost rather than quality of service. Therefore, a cheap Accountant will most likely do the bare minimum for your firm.



This puts you at risk of mistakes on your tax return which can result in potentially crippling fines. It also means you're likely to miss out lucrative tax breaks and incentives that a qualified and experienced Accountant would be able to spot. Cheap Accountants prove expensive in the long run.

On the other hand, a qualified Accountant will go over your accounts with a fine-toothed comb to save you as much money as possible. They can also offer valuable industry insights and help you with forecasting, thus protecting and accelerating your growth.

Additionally, they can also advise you on lucrative financing opportunities and help you to present the best possible case to potential investors. In short, the services of a qualified Accountant can totally transform the financial health of your business. In fact, they'll help you to fix financial problems you didn't even know you had.

Qualified Accountants aren't hired based on cost, so it's in their interest to boost your profits as much as they possibly can.

This is more than a compliance cost; it's an INVESTMENT in your business that will dramatically boost your profits by saving and generating revenue.



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***NEGLECTING
MARKETING***



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THIS ISN'T A HIDE AND SEEK GAME

If you want healthier profits and fewer working hours - and let's face it, who doesn't? - you need to focus on marketing.

Yes, marketing is expensive but when done correctly it generates a huge ROI. If you want to attract high-value clients, you need to market yourself as the obvious solution to all of their problems. You need to become the go-to company within your chosen niche.

There's no denying that word of mouth marketing is valuable, but it's simply not enough. For one thing, you have no control over which prospects referrals bring in; the chances are, they may not be a great fit for you. Furthermore, referrals generally happen during busy periods and this marketing method will leave you high and dry during quieter times of year.

In order to achieve solid, steady growth you need to consistently focus on your marketing efforts to ensure a stable stream of income all year round. This will make it far easier to plan for the future, manage your cash flow and understand your profit margins.

When your profits aren't what you want them to be, it's tempting to cut back on marketing costs in order to boost your margins. However, this will only further shrink your earnings. Instead, take a careful look at your current marketing efforts and evaluate which practices generate the largest ROI to fine-tune your approach.



Remember that marketing is a long-term game. When you scale back your marketing campaigns, you won't see the effects immediately but you'll certainly feel them six months down the line when you're wondering where your customers have disappeared off to.

Similarly, when you increase your efforts, it may take a few months to see results, but you'll reap the rewards as you amass a high-value client base and watch your profits grow.

Finally, don't forget about the value of marketing to existing customers, either. Research by Small Business Trends found that on average 65% of sales come from existing customers, whilst Neil Patel found that existing customers spend an average of 31% more.

Marketing isn't just about customer acquisition, so concentrate some of your efforts on upselling and cross-selling to your existing base. Devising loyalty programs and offering exclusive discounts makes your current customers feel valued and appreciated, and thus encourages them to keep on spending.



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**WASTING TIME
BY
FAILING
TO
OUTSOURCE**



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JACK OF ALL TRADES, MASTER OF NONE

One of the most common mistakes business owners make is undervaluing their time. There are £10 tasks and £10,000 tasks.

As a business owner, which one do you think is more worthy of your attention?

Many new entrepreneurs are reluctant to outsource and try to handle every aspect of their business by themselves, but this is a very expensive mistake. You need to recognise the value of your time and invest it just as carefully as you would your money. If you focus all your time on £10 admin tasks and neglect the £10,000 tasks, you're effectively losing £9,990. Suddenly, outsourcing doesn't seem so expensive.

New business owners often put off handling the "business" side of things and would rather simply serve clients than focus on growth. However, if you do this your business will never grow the way you want it to - at best, it will stand still. In this instance, you'd be better off working for somebody else. You need to recognise that you're the owner, not an employee and thus you need to focus on growth and client generation.

As the business owner, you need to outsource compliance and focus on the tasks that require your particular expertise. Build a team that you trust so that you don't waste valuable time micromanaging them. There are many tasks within your business that somebody else could do, so use your time to do the things that only you can.



On top of this, you need to understand that there are certain tasks that you just aren't well-equipped to do. A qualified Accountant, for example, will be able to file your tax returns much more efficiently than you can, as well as take advantage of tax breaks and incentives to save you money.

If you try to do this alone, you're likely to waste time and make many mistakes; your time can be put to far better use elsewhere. No successful business is a one man show. The sooner you learn to value your time and outsource accordingly, the better. Invest your time wisely and you'll see your profits surge. Bury yourself in admin, and the opposite will be true.



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THE NEXT STEP



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THE BALL IS IN YOUR COURT

If you're making any of the above mistakes, then your profits certainly aren't what they could be. In order to maximise your profits you need to:

- Improve your Cash Flow management
- Focus on Profit instead of Turnover
- Hire a Qualified Accountant
- Be consistent with your marketing
- Assign a value to your tasks and outsource accordingly

The mistakes we've identified are fixable, but you can't do it all by yourself. It's time to hire a Qualified Accountant who can crunch the numbers, take care of your cash flow and offer expertise.

Here at Grace Certified Accountants, we provide transformational services to maximise your profits and propel you towards success. We're not just here to tick boxes and balance the books; we help you to get the most out of your money and accelerate your growth through careful account management.

If you're at your wits' end when it comes to your profits, we're the fresh pair of eyes that you need. If you're looking to take your business from zero to hero, you've got to stop letting money mistakes drag you down.

Let us help you put on your cape and fly!

To find out more about our services, visit our website or book a [FREE discovery call today.](#)



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THE COMPANY

Here at Grace Certified Accountants, we're passionate about helping your business to grow and thrive. We specialise in accounting services for startups, sole traders and limited companies, so if this is you then we'd love to hear from you.

Our services are both personal and professional. We're always willing to go the extra mile to serve our valued clients because your success is our success, too.

If you'd like to find out more about our accounting services, please get in touch!

"I have been in the Accounting profession for more than two decades, and although things have certainly changed since then, my commitment to GCA clients has remained steadfast".



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[01442 368 040](tel:01442368040)



info@gracecertifiedaccountants.co.uk



www.gracecertifiedaccountants.co.uk

Dora Ngoma
Director & Founder



www.gracecertifiedaccountants.co.uk