

BEING FINANCE SAVVY for busy Creatives PART ONE

All creative businesses require a basic level of business savvy when it comes to managing your finances. Do you want to improve your profits? Do you have good understanding of your business finances? Do you need help with financial planning? Even if you don't do your own accounts, it is critical for you to understand the basics to ensure you are running a profitable business.

Welcome to the Being Finance Savvy for Busy Creatives factsheet (Part One), summarizing the key points from the Workshop session delivered as part of the Flourishing Barnstaple Programme. This guide will provide you with an overview of how to record income & expenditure, prepare cashflow forecasts & create professional-looking invoices. It will also provide an update on 'Making Tax Digital (MTD)' and VAT Registration.

Why do you need to record Income & Expenditure? There are many reasons for recording your income & expenditure as well as for calculating your tax liability. These include monitoring business performance and verifying whether you are making a profit (and allowing you to act quickly if you are making a loss). It can help to check whether your prices are correct and whether it's the right time to invest in new equipment or if you can draw funds from the business.

What records should you keep? Generally speaking, HMRC expects businesses to keep a record of all business income, copies of all bank statements and paying-in slips as well as invoices for purchases and other expenses. They will also expect you to keep a record of all purchases and sales of business assets and details of any money invested into the business or taken out for personal use.

For how long do records need to be kept? Tax records relating to self-employment must be kept for five years from the 31st January following the end of the tax year and limited companies must keep their tax records for six years from the end of the accounting period they cover, or in some cases for longer. If HMRC launches an enquiry into a filed tax return, the records relating to that return must be kept until the enquiry ends.

Do you need Accounting Software? According to the HMRC Website, at the time of writing, software that had been fully approved for direct submission of tax returns, included 123 Sheets, Apari, Dext, Digita Personal Tax, FreeAgent, Sage, Intuit QuickBooks and Xero.

The HMRC website also lists a number of other providers that have developed MTD compliant software which is still going through the approval process: <https://www.gov.uk/guidance/find-software-thats-compatible-with-making-tax-digital-for-income-tax>

Broadly speaking, the features included within the packages offered by most of the software providers are very similar, with the Basic/Entry Level schemes including Importing and reconciling bank transactions, recording income & expenditure, generating invoices, collation of self-assessment tax information and direct submission of VAT Returns to HMRC. They also usually provide some degree of free support.

Enhanced Packages can include the ability to accept multiple currencies, track employee time, manage stock levels, assess project profitability and setting & monitoring budgets & forecasts. There are also extra "add-ons" available, either direct from the software providers themselves, or via a third-party App, including an option to record transactions directly from scanned receipts.

Profit & Loss (or P&L) Statements These provide a record of how the business has performed over time. Limited Companies must prepare a P&L Statement as part of their end-of-year accounts, to comply with company law and, whilst Sole Traders and Partnerships have no such legal obligation, the information they provide is useful for tax return. Comparing figures year-on-year can also be helpful in identifying trends in income and expenditure.

It is important to remember that P&L Statements are reporting the profit position and NOT the amount of cash generated or retained in the business. It is entirely possible, therefore, for a business that is making good profits on paper to fail if it is starved of cash to meet its day-to-day costs. Below is an example of a simple P&L Statement:

Profit & Loss Statement for A Business for the year ended 31 October 2024		
	This Year	Last Year
Sales/Turnover	£400,000	£300,000
Opening Stock	£10,000	£15,000
Stock Purchased	£125,000	£75,000
Closing Stock	(£15,000)	(£10,000)
Cost of Goods Sold (Direct Costs)	£120,000	£80,000
Gross Profit	£280,000	£220,000
Fixed Costs/Overheads		
Rent, Utilities	£35,000	£33,000
Wages & Staffing Costs	£150,000	£112,000
Marketing	£10,000	£4,000
Admin Costs, etc.	£25,000	£21,000
	220,000	170,000
Net Profit	£60,000	£50,000

For ease of comparison, it is customary to report the figures for the period in question alongside the equivalent figures from the previous trading year.

At the top is the value of total sales achieved for the period.

Below that are the costs specifically associated with making & selling your products (often referred to as 'Direct Costs')

That provides the margin achieved on selling your goods (the Gross Profit)

After the Gross Profit, come the 'Overheads' which are all of the day-to-day business and admin costs involved in running your business. These are also referred to as 'Fixed Costs' as they are unaffected by the volume of sales made and will generally be payable whether you sell one product or a thousand products.

Preparing Professional-looking Invoices Where customers have not paid in advance, an invoice prompts them to pay and provides them with all the information they need to make the payment. A professional-looking invoice is more likely to be prioritised over handwritten notes when making payments.

There is certain information that must be quoted on an invoice, including the Invoice Date and a unique identification number, the name & address of the business as well as for the customer. It should also give a clear description of the goods or services provided, the date they were supplied, details of the amount being charged for each product or service listed and the total amount payable (with details of the VAT if applicable).

<https://www.gov.uk/invoicing-and-taking-payment-from-customers/invoices-what-they-must-include>

It is also helpful to confirm the payment terms (e.g. "payment is due within 30 days") and provide details about how to settle the invoice (e.g. electronic bank transfer, PayPal, credit cards etc.) as well business bank account details. Including the business logo and website address will also enhance the professional image of your business.

If you have a few slow payers among your customers, you may want to consider including details of a 'Late Payment Charge', although this should be included within your standard terms & conditions which your customer needs to have accepted. The 'standard' approved rate is up to 8% plus the Bank of England Base Rate (which is 4.25% at the time of writing).

Standard templates for invoices are available on MS Word and Excel as well as within software systems such as Canva or Adobe, Xero or QuickBooks or even through payment systems such as Square, SumUp, etc. and digital business bank accounts such as Tide, Mettle, Starling and Monzo.

What are the benefits of Preparing a Cash Flow Forecast? The main purpose of preparing a cash flow forecast is to predict the flow of money in and out of a business and highlight any potential pressure points. This will help to identify whether any additional cash needs injecting, or if overdraft borrowing may be required. Also, being able to anticipate periods when the business has surplus funds can help to identify the optimum timing for planning major expenditure.

Cash flow forecasts are typically drawn up to cover a 12-Month period, although if you are going through a particularly difficult time, you may wish to monitor the position more closely and prepare forecasts for a quarter, a month or even a week. Also, when planning a new venture, cash flow will look very different in Year One, when you have all the start-up and development costs, compared with a 'normal trading year', so you may want to prepare forecasts covering several years.

Unlike Profit & Loss Statements, Cash Flow Forecasts need to show ALL movements of cash in or out of the business so do not distinguish between Capital transactions and Revenue-related items.

Here is an example of a simple Cash Flow Forecast.

When preparing a forecast, you need to predict income from sales as realistically as possible, allowing for seasonality and ensuring that outgoing payments for the materials used to make the products to be sold reflect similar trends.

Include all of the usual overhead expenses allowing for inflationary increases and consider including a contingency for unexpected costs.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Totals
Sales of Product A	£0	£1,500	£1,250	£1,500	£2,500	£4,000	£5,500	£7,000	£23,250
Sales of Product B	£250	£100	£50	£150	£80	£200	£100	£50	£980
Total Income	£250	£1,600	£1,300	£1,650	£2,580	£4,200	£5,600	£7,050	£24,230
Stock Purchases	£125	£50	£775	£700	£790	£1,350	£2,050	£2,775	£8,615
Staff Wages	£500	£500	£500	£500	£1,000	£1,000	£1,000	£1,000	£6,000
Rent & Rates	£350	£350	£350	£350	£350	£350	£350	£350	£2,800
Utilities			£300			£300			£600
Insurance	£25	£25	£25	£25	£25	£25	£325	£25	£500
Accountancy Fees	£10	£10	£10	£10	£10	£10	£10	£10	£80
Repairs /Renewals	£500						£250		£750
Loan Repayments	£125	£125	£125	£125	£125	£125			£750
Tax Payments	£1,500								£1,500
Contingency	£200	£200	£200	£200	£200	£200	£200	£200	£1,600
Total Expenditure	£3,335	£1,260	£2,285	£1,910	£2,500	£3,360	£4,185	£4,360	£23,195
Opening Balance	£3,500	£415	£755	£-230	£-490	£-410	£430	£1,845	£3,500
Total Income	£250	£1,600	£1,300	£1,650	£2,580	£4,200	£5,600	£7,050	£24,230
Sub Total	£3,750	£2,015	£2,055	£1,420	£2,090	£3,790	£6,030	£8,895	£27,730
Total Expenditure	£3,335	£1,260	£2,285	£1,910	£2,500	£3,360	£4,185	£4,360	£23,195
Closing Balance	£415	£755	£-230	£-490	£-410	£430	£1,845	£4,535	£4,535

When the forecast has been drawn up, if the bottom line highlights any pressure points, you will need to consider whether any of the payment timings can be adjusted to manage this, or if extra cash may need to be injected?

Do you need to register for VAT? All businesses need to register for Value Added Tax (or VAT) when the annual sales of taxable goods reach £90k, or they first realise this will occur (for example, when raising an invoice). NB. This is based on a rolling 12-month period – NOT the business's 'trading year' and registration must take place within 30 days of this occurring (i.e. you cannot put it off until the end of the trading year).

Businesses with sales below £90k can register voluntarily if they wish and benefits of this may include the ability to reclaim VAT paid on business-related purchases, enhancing public credibility (i.e. making the business look more 'official', more established, etc.) and opening up more business opportunities.

To be weighed up against this, becoming VAT-registered will almost certainly result in an immediate increase in prices paid by non-VAT registered customers, an increased administrative burden and, potentially, increased costs if paying accountants to help with this.

Registering for VAT involves completion of an on-line application form: <https://www.gov.uk/register-for-vat/how-register-for-vat> and, if sales subsequently fall below the lower threshold of £88k, and are expected to remain so, a business can then apply to cancel their registration: <https://www.gov.uk/register-for-vat/cancel-your-registration>

Once registered, VAT Returns must be completed every three months (even if there is no VAT to pay or claim) and must be completed online. For more information, visit: <https://www.gov.uk/submit-vat-return>

The Standard VAT Rate for most goods & services is 20%, although there is a Reduced rate of 5% for some healthcare products etc. and a Zero rate for children's clothes, books etc. There is also an additional category for Exempt or Out of Scope items such as stamps, insurance etc.

What is 'Making Tax Digital'? Making Tax Digital (or 'MTD') is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs.

Since April 2022, all VAT-registered businesses have been obliged to submit their quarterly VAT returns digitally using MTD-compliant accounting software. With effect from April 2026, the next phase will take effect, when all self-assessment taxpayers with income in excess of £50k p.a. will be required to complete their income tax returns digitally, and from April 2026 this will be extended to those with income between £30k and £50k p.a.



Further information on Making Tax Digital, including updates on timescales etc. can be found on the HMRC website: <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

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