

10 Essential Business Numbers



1. Turnover

The total money you receive from sales

- Revenue / income you receive from selling your products or services
- Money may come from multiple sources and income streams
- Can include cash, card payments, bank transfers
- May be received in different currencies
- Turnover is the total of all income generated by your business
- Expressed as a gross figure, with no costs removed.



2. Direct Costs

Costs directly linked/ attached to each sale

- E.g. stock, packaging, delivery, materials
- You would not be able to sell your product or service without them
- Also known as cost of sales or cost of goods sold (COGS)
- When sales rise and fall - direct costs often rise and fall too.
- Different from overhead costs such as rent, subscriptions
- Individual to each business but with many common areas.



3. Gross Profit (£)

Profit remaining after direct costs have been paid

- Calculated as: turnover minus direct costs
- Shows how much your product or service actually makes in cash.
- This is what you have available to cover your overhead costs and pay yourself
- If gross profit is too low, your business may not be sustainable
- Note that product and service businesses have different cost structures.

Step	Company A	Company B
Turnover	£100,000	£100,000
-Direct costs	(£40,000)	(£70,000)
=Gross profit	£60,000	£30,000



4. Gross Margin (%)

How efficiently your products/services makes profit

- Can be used to measure profitability and efficiency of separate income streams i.e. different products/ services
- Low margins mean more sales/ work needed to earn the same money
- Low margins may put the business at risk if costs increase

Step	Company A	Company B
Sales Turnover	£100,000	£100,000
- Direct costs	(£40,000)	(£70,000)
= Gross Profit (GP)	£60,000	£30,000
GP ÷ Turnover	£60,000 ÷ £100,000	£30,000 ÷ £100,000
× 100	× 100	× 100
= Gross Margin	60%	30%



5. Indirect Costs

The costs of running your business

- Also known as overheads or fixed costs
- Costs that are not directly linked to individual sales
- These costs are paid regardless of how much you sell
- Examples: rent, wages, software, utilities, insurance
- Usually fixed or only change over time, not with each sale
- Overheads may be more or less than your direct costs

Your gross profit must be sufficient to cover overheads



6. Net Profit (£)

The cash you have left after all costs have been paid

- The money left after both direct and indirect costs have been paid.
- Equals gross profit (£) minus indirect costs
- This is your actual final profit (before tax)
- Shows whether your business is making profit or loss

Step	Company A	Company B
Turnover	£100,000	£100,000
- Direct costs	(£40,000)	(£70,000)
= Gross profit	£60,000	£30,000
- Overheads	(£30,000)	(£30,000)
= Net profit	£20,000	£0



7. Net Margin (%)

How efficiently your business turns sales into profit

- Net profit / loss shown as a percentage of your sales
- A measure of overall business efficiency
- Helps you track performance over time
- Categorise your income and costs sensibly to make business strengths and weaknesses more visible

Step	Company A	Company B
Turnover	£100,000	£100,000
- Direct costs	(£40,000)	(£70,000)
= Gross profit	£60,000	£30,000
Gross profit ÷ Turnover	£60,000 ÷ £100,000	£30,000 ÷ £100,000
× 100	× 100	× 100
= Gross margin	60%	30%
- Overheads	(£30,000)	(£30,000)
= Net profit/ loss	£30,000	£0
Net profit ÷ Turnover	£10,000 ÷ £100,000	£0 ÷ £100,000
× 100	× 100	× 100
= Net margin	30%	0%



8. Break Even Point

The point where your income covers all your costs

- The level of sales where you make no profit and no loss
- Income covers both direct costs and overheads
- Below this point, you lose money
- Above this point, you make profit
- Shows the minimum you need to sell to be viable
- Simple mathematical exercise!



9: Net Cash Movement (£)

Cash in minus cash out over time

- The money coming into your business minus the money going out (often on a monthly basis)
- Shows your actual 'cash at hand' position
- Different from profit due to timing of payments
- Includes things like sales income, supplier payments, and bills
- Helps you manage day-to-day cash and avoid shortfalls
- Remember to account for self assessment and VAT bills if applicable.



10: Assets & Liabilities

What your business owns and what it owes

- Assets are what your business owns (e.g. cash, stock, equipment, premises, vehicles, money owed to you)
- Liabilities are what your business owes (e.g. loans, supplier bills, taxes owed).
- Watch out for money tied up in stock, equipment and premises - this can reduce cash flow.
- Often referred to as a balance sheet - shows your overall financial position at a point in time
- Helps you value your business



10 Essential Business Numbers