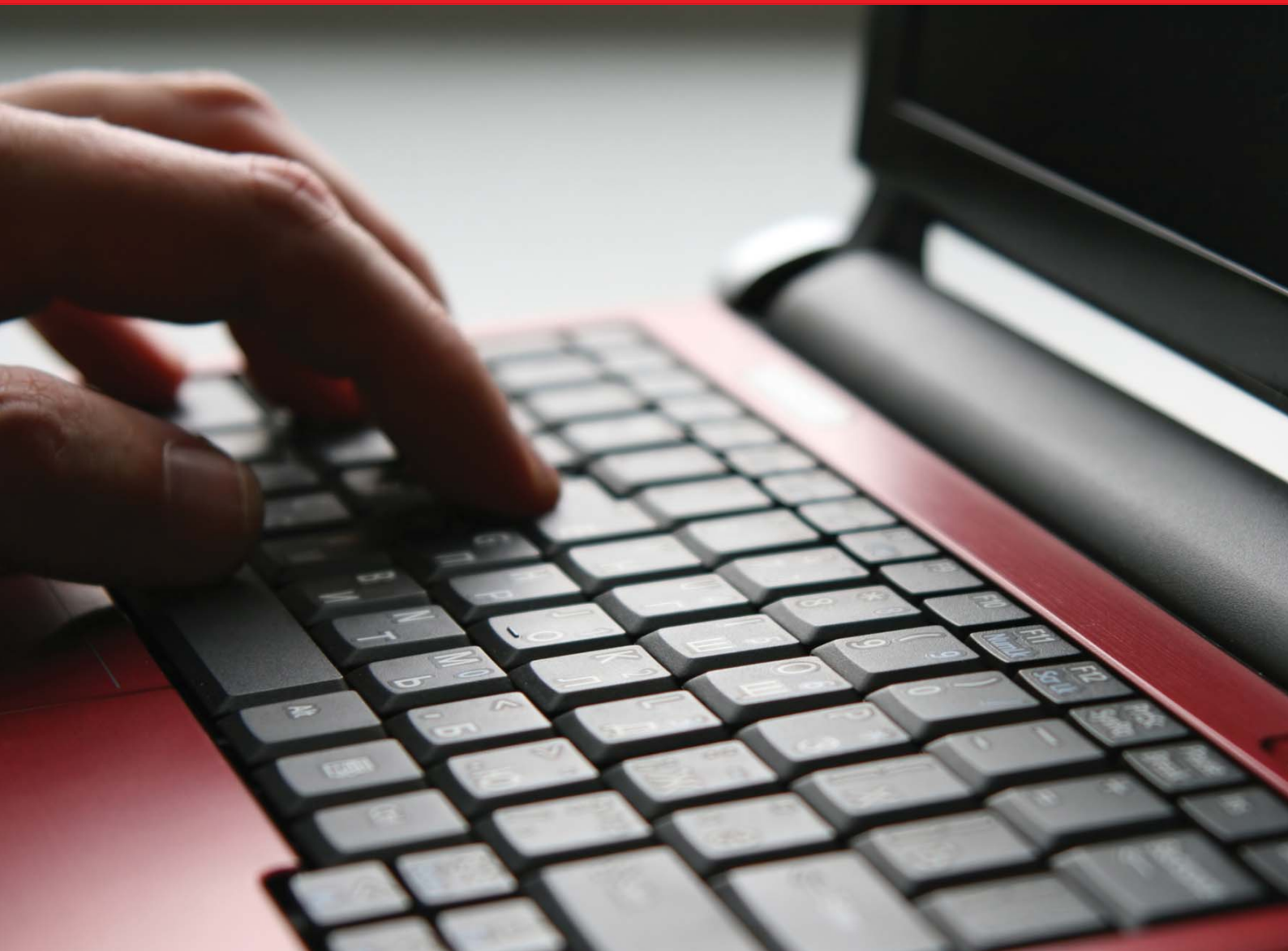




# RUN A SUCCESSFUL BUSINESS

HELPFUL INFORMATION AT EVERY STAGE  
OF YOUR BUSINESS



# RUN A SUCCESSFUL BUSINESS

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# STEP 1

## PREPARING FOR BUSINESS

Running your own business can be an immensely rewarding experience. Every year approximately 400,000 new businesses start up in the UK.

Decisions taken in the early years can be the most difficult as well as the most important, particularly for first time entrepreneurs and those with no previous business knowledge or experience.

This booklet examines the challenges involved in setting up a business: the issues that you need to resolve before starting up and the questions you need to answer in order to make those crucial first steps and then grow your business with confidence.

### 1. WILL MY BUSINESS SUPPORT ME?

The business should provide you with a satisfactory income in exchange for the time that you put into it, or it will not be worth doing. There are ways of stacking the odds in your favour.

Wherever practical, you can reduce risk by beginning on a part-time basis. For example, if you are thinking of opening a shop, try hiring a stall in a market first. This gives you an opportunity to test your idea: how well does the product sell? Is it priced correctly? Can it be improved?

Researching your business proposition will help improve your chance of success. It will also give you a better understanding of your target market and anticipated demand. This not only helps shape the decision to go ahead but can also clarify issues such as where to locate premises, how much to spend on promotion and particularly, how much start-up finance will be required.

Before starting work on a full-time basis, you need to be as certain as you can be that the business will generate enough profit to provide a living for you and any dependants. This should usually involve preparing a

business plan, an approach that not only helps clarify your own thinking but will also form the platform from which you can convince others (such as the bank) that your business has a future.

### 2. WHAT BUSINESS FORMAT SHOULD I ADOPT?

There are four main options available to you:

#### SOLE TRADER

Setting up in business on your own is the most popular choice. It gives you total control of the business and the least administrative burdens, but has implications for tax and raising finance. A big disadvantage of being a sole trader is that you have unlimited liability and could therefore risk personal loss if something were to go seriously wrong.

#### PARTNERSHIP

If two or more people run a business together as partners, they share profits, losses and unlimited legal liability. It is a common and often very successful formula for business success, but even close relatives or the best of friends can fall out over money matters.

That is why it is essential to define the rights and responsibilities of partners and to set them out in a partnership deed before you start the business so everyone concerned knows exactly where they stand. The partnership deed should help establish the amount of capital to be introduced, the division of profits, the calculation of individual tax liabilities, and the adjustments necessary when a partner joins or leaves the firm. Such issues are complex and need special accountancy and legal skills.

#### LIMITED COMPANY

A limited company is a legal entity separate from its owners. One advantage of this format is its continuity. Ownership can be changed or extra capital raised through the selling of shares, without necessarily affecting the management of the company. And if the business grows, the company structure can easily accommodate the expansion.

There are, however, a significant number of government statutes and regulations covering the operations of companies and these can add substantially to the time and money spent on administration. What is more, the theoretical advantage of limited liability is partly offset by the common banking practice of requiring personal



guarantees to cover loans to small limited companies. In short, the costs and benefits of operating a business as a company need careful analysis.

#### LIMITED LIABILITY PARTNERSHIPS (LLP)

A LLP is a corporate entity. Unlike in a standard partnership, the liability of the partners in a LLP is normally limited to the amount of their partnership commitments. Requirements regarding accounts, audit (small company audit exemption applies), returns to Companies House, winding up and insolvency, all follow normal company law rules, but taxation follows the rules for partnerships.

### 3. DO I NEED TO RAISE FINANCE?

If you have enough of your own capital, convincing others to invest in your business is not an issue. However, when seeking a bank overdraft or loan, applying for certain types of government aid, or when trying to attract new investors or partners, you will need to present a convincing picture of your business' financial condition and future prospects.

A **chartered accountant** will know exactly what information is required and how it should be presented to give you the best chance of success.

#### YOUR OWN MONEY OR THAT OF FRIENDS AND FAMILY?

Personal funding of a new business may come from personal savings, money released from the sale of other assets or from re-mortgaging your home. Asking for finance from your friends and family may be a sensitive issue that can test your relationships, but people who know you personally may be more supportive, particularly if they have also run a business. It is advisable to draw up a written loan agreement which should set out how, for example, you intend to repay them. This makes it clear that their funding is a business investment and not a favour.

#### BANK LOANS AND OVERDRAFTS

An overdraft may often be a good way to finance a temporary or fluctuating cash shortage. Where a longer-term commitment is involved, a bank loan can be the easiest and most suitable form of finance.

#### GOVERNMENT ASSISTANCE

The government and the EU may provide financial assistance in some circumstances. This may take the form of cash grants, tax concessions, funding of training or relocation, subsidised rents and so on. Assistance schemes vary from year to year, from industry to industry and from region to region, with most assistance being concentrated in areas of high unemployment.

Visit: [www.berr.gov.uk/bbf/enterprise-smes](http://www.berr.gov.uk/bbf/enterprise-smes)  
[www.businesslink.gov.uk](http://www.businesslink.gov.uk)  
[www.ec.europa.eu/grants](http://www.ec.europa.eu/grants)

#### OTHER SOURCES OF FINANCE

Other possible sources of finance available to a business owner range from debenture loans to venture capital provided under, for example, the Enterprise Investment Scheme or Regional Venture Capital Funds. Alternatively, it may be possible to arrange finance from a merchant bank, some other financial institution or perhaps a research institution. Through your own and your adviser's contacts, you may find new investors to increase the share capital.

Visit: [www.eisa.org.uk](http://www.eisa.org.uk)  
[www.thecapitalfund.co.uk/links/regionalvcfunds](http://www.thecapitalfund.co.uk/links/regionalvcfunds)

#### PRESENTING INFORMATION

Regardless of which sources of finance or support you intend to approach, you will need to present a convincing picture of your business' financial condition and future prospects. A **chartered accountant** will know what information is required and how it should be presented.

# STEP 2

## STARTING UP YOUR BUSINESS

Now you are prepared:  
you have spoken to the right people  
and obtained the best advice you can.  
The next questions that you have to  
consider are:

### 1. WHO DO I NEED TO NOTIFY?

If you have chosen to be a sole trader you must notify HM Revenue and Customs (HMRC) within three months of starting your business.

Visit: [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

Businesses which reach the threshold for compulsory VAT registration (this threshold is revised every tax year) must notify HMRC. However, it can be advantageous to register even if you are below the threshold. To register for VAT you must notify HMRC. Depending upon the nature of your business and whether you are operating from a business premises, there may be other bodies you should notify, such as your local authority.

Visit: [www.direct.gov.uk](http://www.direct.gov.uk)

If you create a limited company, you must notify Companies House, who will then notify HMRC. HMRC will send you a form that must be completed and returned within three months of issue.

Visit: [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

### 2. WHAT DO I NEED TO THINK ABOUT IF I AM BUYING A BUSINESS?

Sometimes an entire business or its assets can be acquired as a going concern. One of the main challenges of buying a business is agreeing the amount that is to be paid and on what terms, as there is rarely a market comparison available. A **chartered accountant** can help to assess the value and can also assist you in negotiating the deal.

### 3. WHAT ACCOUNTING RECORDS ARE REQUIRED?

Every business registered for VAT is required to maintain financial records according to the guidelines given by HMRC.

Similarly, it is a requirement of the Companies Act that every company should keep proper accounting records of money received and paid, of all sales and purchases, and of assets and liabilities.

Visit: [www.berr.gov.uk/bbf/co-act-2006](http://www.berr.gov.uk/bbf/co-act-2006)

HMRC requires every business which employs staff to keep proper records for Pay As You Earn (PAYE) and for the calculation of tax liabilities. In some types of business, there are additional records that have to be kept to satisfy government requirements.

Visit: [www.hmrc.gov.uk/payee](http://www.hmrc.gov.uk/payee)

If your records are inadequate in any of these areas, you could fall foul of the law. Your **chartered accountant** is there to make sure that this does not happen.

### 4. HOW DO I MONITOR THE PROGRESS OF MY BUSINESS?

#### IDENTIFY PROFIT AND LOSS

Many businesses do not have adequate systems for identifying the amounts of profit or loss generated by different products and services, or even by the business as a whole, yet this information is absolutely essential if the business is to grow stronger.

It is also important to know the costs of different areas of administration, so that overheads are not allowed to swallow the profits made from gross margins.

To keep track of where profits and costs are coming from, you may need to have a properly designed management information system which can provide all the essential facts quickly and accurately.

#### OBTAIN TIMELY INFORMATION

Annual accounts are not enough to control a business. You must know what is happening to profits and losses on a much more regular basis. Most businesses need to produce operating statements at quarterly intervals at least and, better still, at monthly intervals. There are even some businesses where financial information is available in real time.



#### SET FINANCIAL OBJECTIVES

Businesses need to plan ahead and compare forecast figures with actual results. Break-even analysis, business ratios, budgets and discounted cash flow, perhaps built into a financial model on a computer, are some of the methods which can be used to set realistic financial targets and then keep you on course to achieve them.

A **chartered accountant** is qualified to advise you on the most appropriate systems for you to use and which methods to adopt.

#### 5. SHOULD I USE ACCOUNTING SOFTWARE?

Almost certainly. If you already have a computer, using accounting software to run the accounting and management information systems can make such a big difference to your business. They provide fast and detailed information. They save you time and time is your money.

There is now a wide selection of small computers and standard accounting software which do not cost too much. It is important, however, to obtain independent professional advice on the suitability of a system for your particular business and to ensure that proper controls are provided.

#### 6. CAN I START MY BUSINESS BY WORKING FROM HOME?

Working from home requires considerable self-discipline and will not suit everybody. However, it is an excellent way of starting a new venture when the business proposition allows, particularly because you will incur lower overheads during the critical stage of establishing the business.

It will also allow you to claim a percentage of your property's running costs as an office. However, there is a danger that, if HMRC considers the claim excessive, it might launch an inquiry that could result in disallowed costs and an increased tax bill. There is also the possibility of a capital gains tax liability when the property is eventually sold.

If you do decide to work from home, consider notifying these organisations:

- **Your local authority:** there may be a case for paying business rates but it is unlikely if the local authority decides that there has been no material change in the use of the house (from residential use).

- **Your insurance companies:** your contents insurance will probably need to specify any business assets such as computing equipment etc, to ensure they are covered.
- **The bank/building society** (if you have a mortgage): this is usually a formality but it is advisable in case there is a potential breach of the mortgage agreement.

#### 7. WHAT HAPPENS IF I USE MY OWN VEHICLE?

That all depends on the business format you have chosen. As a sole trader or in a partnership you can bring a private vehicle into the business right from the start. But if you do, it is important to keep all your receipts for petrol, repairs, insurance etc. For tax purposes you are also required to keep a record of mileage to calculate the allowable business share of the running costs.

For limited companies, it is less advisable to bring a private vehicle into the company because of the HMRC's 'benefit in kind' regulations which assess the benefit derived from the personal use of a company car together with the fuel benefit.

Visit: [www.hmrc.gov.uk/cars](http://www.hmrc.gov.uk/cars)

Talk to your **chartered accountant** to see if it is worth your while.

# STEP 3

## GROWING YOUR BUSINESS

### 1. WHAT ARE THE ISSUES FOR FINANCING A GROWING BUSINESS?

The way a business is financed can have an important effect on profitability, especially when interest rates are high. It may be possible to reduce interest payments on loans or overdrafts by more efficient use of cash, better stock control, improved buying terms, etc.

An expanding business means increasing turnover and consequent increases in debtors (amounts owed to the business). Growing businesses often need to improve their credit control, making efforts to ensure their customers pay promptly and do not default on their debts.

A great number of other financial issues may require consideration: should new capital equipment be leased or purchased? Should money be raised by share capital, loans or overdraft? What are the tax implications? What is the correct gearing level (the relationship between the capital contributed by the owners and the amount of money borrowed) for a business? If there is spare cash, can it be invested temporarily? Where will the cash get the best return while still being accessible if needed? All these considerations affect working capital requirements, the cost of financing the business and, of course, profits.

The main sources of finance for growing businesses include:

#### INVOICE DISCOUNTING

Invoice discounting makes cash available to you from an invoice discounting firm on receipt of a debtor's invoice. You are still responsible for collecting payment from the debtor. Such a facility is suitable for partnerships and limited companies selling goods or services on credit to other businesses and is a cost-effective alternative to overdrafts and bank loans.

#### FACTORING

In a similar manner to invoice discounting, a factor will buy your trade debts and pay you as soon as they receive a valid invoice. The factor directly collects the debt from your customer but will usually agree collection policies with you. Invoice factors and discounters advance around 80-90% of your invoice value, although the figure does depend on your industry sector, turnover, customer base and existing credit controls.

#### ASSET FINANCE

This is a secured business loan under which a financial institution lends you money using your assets as collateral. Ownership of the assets is retained by the lender for the duration of the contract. Such lenders prefer to deal with manufacturers, distributors and retailers who possess assets with a high recoverable value and a measurable residual value at the end of the borrowing period.

#### EQUITY FINANCE

As your business grows it might exhaust its borrowing abilities. Alternatively, your plans may involve incurring expenditure which will not result in the acquisition of tangible assets against which to raise finance – such as research and development or significant marketing expenditure. In these cases raising equity finance may be a solution.

#### BUSINESS ANGELS

A business angel is an individual who may invest in your business in return for a stake in your company. They are most attracted to those businesses offering a good return. Business angels will also want a seat on the board and to receive regular updates on the company's progress, so you will have to be prepared to relinquish some control.

Visit: [www.bbaa.org.uk](http://www.bbaa.org.uk)

#### VENTURE CAPITAL

Venture capitalists tend not to fund start-ups but do provide finance for growing businesses in exchange for a significant stake in the company. As professional investors, they can bring significant financial and management expertise which might make it easier to attract further funding. Because venture capitalists rarely make investments below £500,000, they will need to be convinced that your business has the potential for sustained growth and that you have a sound management team to move the business forward.

Visit: [www.thecapitalfund.co.uk](http://www.thecapitalfund.co.uk)

#### OTHER SOURCES OF FINANCE

Visit: [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

## **2. WHAT DO I NEED TO CONSIDER WHEN EMPLOYING STAFF?**

Growing a business usually means taking on more employees and with them comes a lot of new paperwork and responsibility. Can you be sure that you are correctly interpreting the legislation on the national minimum wage, working time directive, maternity leave, stakeholder pensions, etc? At this stage many businesses opt to use a payroll bureau to calculate employee wages, deductions for PAYE, and national insurance. There are also year-end returns and P11Ds to be completed every year.

## **3. SHOULD I CHANGE THE BUSINESS STRUCTURE?**

Possibly. Most expanding businesses decide to become a limited company. This makes it easier to give minority interests to new shareholders, as well as offering limited liability so that the owners are not subject to the risks of bankruptcy. It also allows a division between the business owners (now called shareholders) and the management (now directors). If the business has 'outside shareholders', they will probably want the annual accounts to be audited. Finance providers may also prefer the assurance that an audit brings, to protect their investment.

## **4. WHAT MANAGEMENT INFORMATION MIGHT I NEED?**

Any business that is on the up needs timely information about its financial performance. And if yours has external funding, the financial providers will demand regular information on profitability and cash flow to enable them to assess the risks that their finance is under. Quarterly, or sometimes even monthly, accounts are the minimum expected by finance providers. Shareholders not involved in the day-to-day running of the business will also want information about performance.

## **5. HOW WILL ANNUAL ACCOUNTS HELP ME?**

They will enable you to buy goods or services on credit. If you have a limited company you will be filing annual accounts at the Registrar of Companies. HMRC will require accounts to support the tax returns. Credit reference agencies also need financial information before you can buy on credit.

## **6. WHAT ARE THE KEY CONSIDERATIONS WHEN LOOKING FOR BUSINESS PREMISES?**

It pays to be flexible when looking for business premises and practical too. Don't ignore any of these points:

- Location: is it convenient for you and your customers?
- Parking: is there enough space for staff and customers? What are the parking costs?
- Local transport facilities: how will everybody get there?
- Are there shopping facilities nearby for staff?
- Access: does it meet the requirements of the Disability Discrimination Act?
- Terms of lease: how important is stability, or is flexibility more important?
- Availability of services: reception, kitchen, toilets, cabling for computers, etc.
- Size of accommodation: will furniture and equipment fit? Is there room for expansion?
- Crime: does the area have a high crime rate? It could affect your insurance.
- Image: will the premises enhance the business image with existing or new customers?
- Would serviced accommodation be a better solution?

# THE LAST STEP – EXITING A BUSINESS

Many small business owners regard their business as their pension so, at some stage, they will consider selling the business to fund their retirement.

These owners then become involved in a careful balancing act. On the one hand, they want to maintain their income from the business but, on the other, they need to dispose of the business while at its peak earning capacity in order to gain the best price.

## 1. WHEN DO I THINK ABOUT SELLING MY BUSINESS?

Maximising the price from the sale of a business requires considerable planning. The preparation of the business for the sale can be a long process. In the meantime you, as the owner, need to be careful not to take your eye off the business ball.

Poorer performance could result in a reduction in the perceived value of the business from the prospective buyer's viewpoint. Most probably you will need outside help in arriving at a valuation, putting together a sale prospectus and conducting the sale process.

## 2. HOW WILL SELLING AFFECT MY STAFF?

A common way for an owner to exit a business is to sell it to the remaining staff. You would need to ensure they have adequate management skills and then groom them for their roles.

The raising of finance for a 'management buyout' may involve complicated loan arrangements between the company and the new shareholders. The tax considerations can also be complex, as both seller and buyer will want to maximise their tax benefits.

A **chartered accountant** is well placed to help you resolve these issues and advise you of the pitfalls.

## 3. HOW DO I ENSURE AN ADEQUATE PENSION?

You will need to set aside sufficient money from business profits to yield an adequate future pension. Saving out of earnings to set aside a pension is usually highly tax-efficient and could give you the opportunity for future investment.



# A CLEAR PERSPECTIVE ON TAX

## 1. QUESTIONS ABOUT BUSINESS TAXATION

### IS TIMING IMPORTANT WHEN SETTING UP A BUSINESS?

If you intend to start on your own or in partnership and not through a limited company, then definitely. The dates chosen for starting or ending a business and for its accounting year end can make a big difference to your tax position and cash flow. The timing of important transactions or purchases of capital equipment can also have a significant effect. It often pays to take expert advice before committing yourself to a decision on timing, as you may be able either to save tax or delay the payment of tax.

### WHAT IS TAX DEDUCTIBLE?

Most of the expenses of running a business are tax deductible but there are exceptions. The capital cost of most business assets is allowable, although the deductions are usually spread over a period of years. You need to ensure that all legally available tax allowances have been claimed and also try to achieve maximum benefit by careful timing of your capital allowance claims.

### SHOULD I PURCHASE OR LEASE?

That depends on your taxation and financial position. But you are absolutely right to consider such implications when investing in equipment, buying a car, or undertaking any other major expenditure. The options are outlined in step 1. The tax treatment will vary. Some forms of finance have an immediate cash flow effect, whereas others result in a tax benefit in 12–18 months time.

### WHAT SHOULD I DO BEFORE DOING BUSINESS ABROAD?

Trading or setting up overseas can bring complex tax problems. You will encounter a different tax regime, both on direct and indirect taxes. There may also be complications with transactions between the UK and the overseas country. To assess the tax advantages and disadvantages of overseas operations you should seek expert advice.

### SHOULD I DO THE BUSINESS' TAX RETURN?

Completing tax returns can be complicated and time consuming and mistakes may give rise to an enquiry from HMRC, and ultimately a penalty. Unless your business is very small it is advisable to use the services of an expert who is experienced in dealing with a wide range of tax returns.

### WHICH ITEMS ARE VATABLE?

Some businesses have trouble sorting out which transactions are VATable and those that are exempt or zero-rated. There may even be problems of definition that have to be negotiated with the VAT inspector. HMRC publishes *public notices* to assist with VAT queries.

### DO I NEED TO REGISTER FOR VAT?

Your business must be registered for VAT if your turnover for the previous 12 months exceeds the threshold (revised every tax year). Once you register you will be given a VAT registration number and notified of the registration date from which VAT should be charged on your supplies.

If your business has a turnover below the £67,000 threshold, you can voluntarily register for VAT. This would be appropriate if your business makes purchases from suppliers and receives invoices which include VAT. If your business is not VAT registered, the VAT on these suppliers' invoices becomes an unrecoverable cost. Voluntary registration means that it is important to consider whether your customers are VAT registered and can recover this cost themselves.

## 2. QUESTIONS ABOUT PERSONAL TAXATION

### DO I HAVE TO DO MY OWN SELF ASSESSMENT?

You will be required to complete a self assessment tax return. If you are computer literate and your tax affairs are relatively straightforward, you can complete and submit the relevant documents either online or in hard copy. HMRC publishes a range of information on self assessment.

### HOW DO I RECLAIM TAX?

If too much tax has been paid in the past, it may be reclaimed in certain circumstances. Examples of causes of overpayments include incorrect PAYE coding, the omission of allowable expenses from a tax return, or refunds because of the higher personal allowance available to pensioners.

### IS IT POSSIBLE TO REDUCE MY INCOME TAX?

Of course. There are a large number of legitimate ways by which you can reduce your income tax liability, including ensuring that you are claiming all allowable expenses.

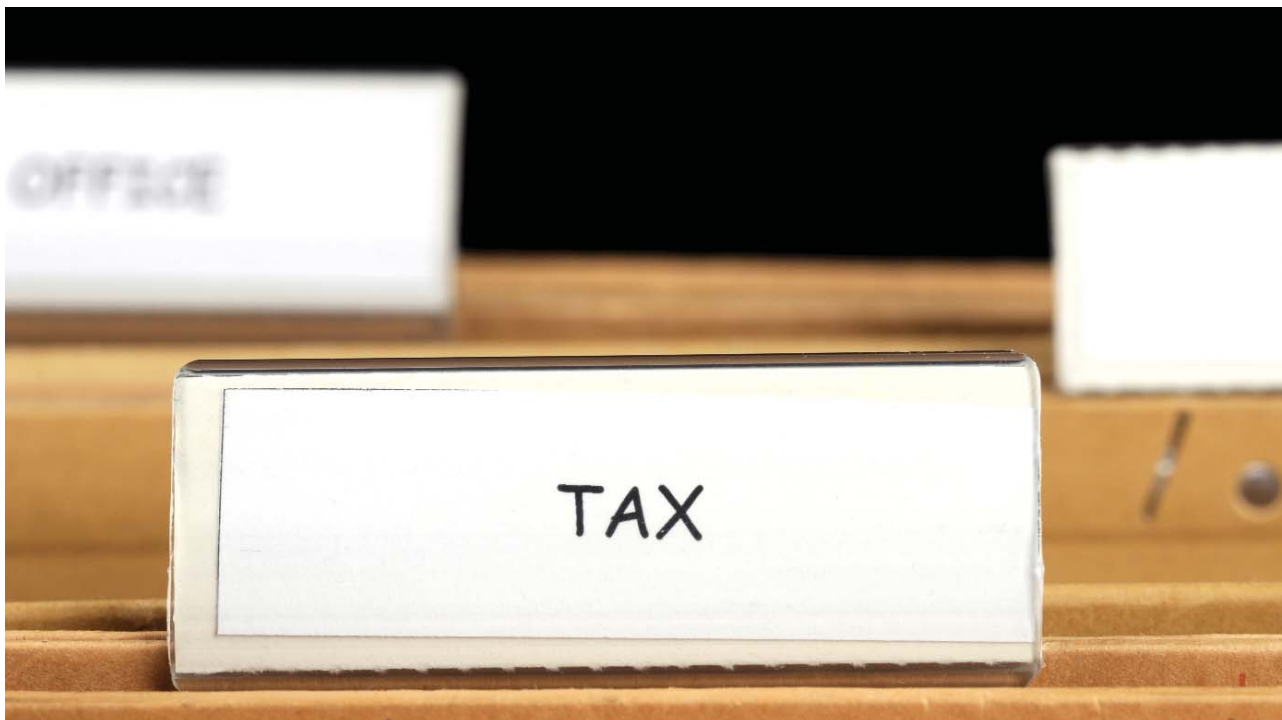
For example, you could consider choosing different forms of borrowing or investment to improve your tax position, take advantage of the tax relief available on personal pension plans, change the timing of visits abroad, or even move abroad to achieve non-resident status.

### HOW DO I FIND OUT MORE ABOUT REDUCING INHERITANCE TAX?

Most transfers of assets are now free from inheritance tax provided the donor survives for seven years after the transfer. However, this tax is complex and needs careful planning. Steps to reduce inheritance tax can result in increased potential liabilities to other taxes, such as capital gains tax.

### SHOULD I BE WORRIED ABOUT CAPITAL GAINS TAX?

If a profit results from selling an asset that is not part of the trading stock of your business, you may be liable for capital gains tax (CGT). Also, if your business is run from home, the exemption from CGT that private houses normally enjoy, could be prejudiced if you seek income tax relief on part of the property's running costs. Planning in advance can help minimise a capital gains tax liability.



# BEYOND THE JARGON

Although we do our best to keep technical terms to a minimum, there are times when there is little or no alternative.

You may have come across a number in this guide and you will be sure to find more in tax literature or when communicating with the tax authorities. This glossary should help to explain some of the key terms that you need to be aware of.

## STATUTORY AUDIT

Limited companies and LLPs which exceed a certain size are required to have a statutory audit of their annual accounts. Some small companies are, however, eligible for exemption from a statutory audit, if their annual turnover is less than £6.5m and their balance sheet total is less than £3.26m.

A statutory audit must be performed by a registered auditor. The Companies Act 2006 requires that every auditor is registered with a recognised supervisory body (RSB). RSBs are responsible for laying down and enforcing rules designed to ensure that statutory audit work carried out by registered firms is conducted properly.

The Institute of Chartered Accountants in England and Wales (ICAEW) is a recognised RSB and many of its member firms are registered auditors. The registered auditor, often a **firm of chartered accountants**, examines the books and records to ensure that the annual accounts give a true and fair view of the company's financial position and operating results. Even when the audit is not a legal requirement, many businesses may choose to have an audit because of the positive benefits it can provide in terms of reassurance and expert advice.

## BUSINESS PERFORMANCE MONITORING

### BUSINESS RATIOS

There is a wide range of ratios that can be used to help understand and interpret the financial position of a business.

- Profitability: is the business making more or less profit?

- Balance sheet: how money invested in the business is moving between one asset class and another.
- Combination of profitability and balance sheet: return on capital employed.

Two particular ratios which are commonly used by new business start-ups are:

- **Gross margin percentage:** the gross margin (sales less direct costs of sales) expressed as a percentage of the sales (also referred to as 'turnover').
- **Break-even point:** the amount of sales per day/week/month required to cover the overhead costs (rent, office salaries, etc). Sales in excess of this figure mean the business is covering its costs and trading profitably.

## PLANS AND BUDGETS

As previously implied, it is desirable to put together a business and financial plan when considering setting up a new venture. This should be done even where you do not need to raise external finance.

If you are looking for external finance, a business plan is essential. It should include details of markets served by the business, history, management, future plans, etc. Similar plans will be required if the owner is considering selling the business. The plan will include a projected profit and loss account, cash flow and a balance sheet.

Budgets are normally used internally to help management to run the business, monitor its progress and develop action plans to achieve objectives. Budgets usually contain the same basic information as plans ie, forecast of profitability, cash flow and financial position. However, budgets usually deal in shorter timescales and can be broken down into weekly, monthly or quarterly periods.

Financial management information is compared with the budget to monitor progress and to decide if changes in planned actions are required. A comparison of financial performance figures with budget, together with key ratios, is often a primary source of information for the effective running of a business.

