Simply Business

How to calculate turnover for your business

By Josh Hall

Taking stock of how your business is doing can often feel overwhelming – what, exactly, is a good indicator of how well things are going, and how do you work it out?

Turnover is a useful measure of a business's health, though it's often confused with profit. We'll talk you through what is meant by business turnover, and how to calcuate it.

- Business turnover definition
- What's the difference between turnover and profit?
- How to calculate turnover for your small business
- Why is turnover in a business important?
- Further reading

Business turnover definition

Turnover is the total sales generated by a business in a specific period. It's sometimes referred to as gross revenue, or income. It's different to profit, which is a measure of earnings.

Turnover is one of the key measures of a business's performance. It's used throughout the life of a business, from planning and securing investment, through measuring performance, to valuing a company in the event of a sale.

What's the difference between turnover and profit?

Turnover in a business is not the same as profit, although the two are often confused.

Turnover represents the total income of the business during a set period of time – that is, the 'net' sales figure. Profit, meanwhile, is a measure of the earnings that are left after any expenses have been deducted.

To complicate things further, there are also two different ways in which profit might be measured. Gross profit refers to sales, minus the costs of the goods or services sold – that is, the sales margin.

Net profit, meanwhile, is the figure that's left over during a specific period after all expenses (such as administration and tax) have been deducted.

There are also a few other potential definitions of turnover, depending on the type of business you run. For example, 'turnover' can also refer to the proportion of employees that leave a business within a specific period, also sometimes known as 'churn'.

If you offer credit to customers or clients, you might also measure 'accounts receivable turnover' – that is, the length of time it takes your customers to pay.

How to calculate your turnover

It's relatively simple to work out your turnover. Provided you're keeping accurate records (which are vital for tax purposes), you should be able to easily add together your total sales. Remember that turnover is measured over a specific period, for example a tax year.

To work out gross profit, simply deduct the costs of sales from your turnover. To work out net profit, take your net profit and deduct all other expenses. Don't forget your tax liabilities Here's an example calculation:

Turnover: £50,000
Cost of goods sold (COGS): £20,000
Operating expenses: £15,000

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Gross profit: £30,000
Net profit: £15,000

Why is turnover in a business important?

It's important that business owners understand their turnover, primarily in order to work out what is required to generate the levels of profit you're aiming for.

If your gross profit is low compared with your turnover, you might consider ways to reduce the costs of sales – for example by renegotiating contracts with suppliers.

If your net profit is low as a proportion of turnover, you might look at efficiencies throughout the business. For example, are there savings you can make on administrative expenses?

Or are you sure that your tax planning is as watertight as it could be, and that you're claiming all your business's allowable expenses?

Further reading

A guide to going self-employed in the UK

If you're thinking of going self-employed, we've got some tips for getting started

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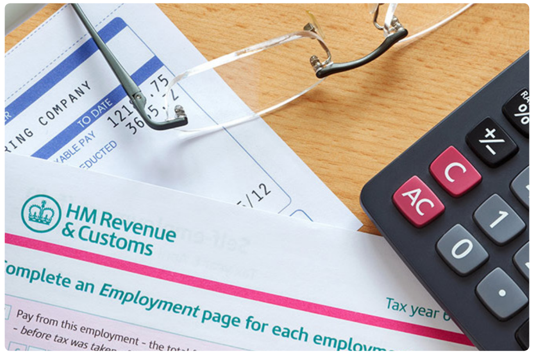

The small business guide to Self Assessment tax returns

We've broken down what you need to know for a stress-free Self Assessment.

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What type of business insurance do I need?

Read about the reasons why business owners may need business insurance.

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