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Keeping it Simple

*Small Business Bookkeeping,
Cash Flow, Tax & VAT*

By James Smith BSc ACA

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TAX GUIDE – ‘Keeping it Simple - Small Business Bookkeeping, Cash Flow, Tax & VAT’

Published by:

Taxcafe UK Limited
67 Milton Road
Kirkcaldy KY1 1TL
United Kingdom
Tel: (01592) 560081

Sixth Edition July 2010

ISBN 978-1-907302-24-4

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Introduction

The purpose of this guide is to help owners of small businesses keep basic accounting records, improve their cash flow, complete a self-assessment tax return and understand VAT.

The bookkeeping and accounting chapters start by going over the basics of record keeping for sole traders and gradually build to take account of your legal responsibilities and information needs.

The self-assessment section takes a guinea pig taxpayer and shows how the 'self-employment' tax return pages can be completed with minimum fuss.

The cash flow section contains numerous tips I have picked up over the years and will help your business get paid on time and make sure the money keeps rolling in!

The VAT section starts at ground level, showing you how VAT operates and helping you decide whether to register voluntarily or wait until you are forced to do so. The book gives practical pointers on how to register for VAT and what VAT scheme options exist to help you. The book ends with some suggested strategies you can use to get the most out of the VAT system.

The earlier sections of the book are useful when you are just starting up. Some of the themes covered later on will probably only become relevant after your first year or two of trading.

Section 1

Basic Bookkeeping

Chapter 1

How to Keep Basic Records

Although each business must assess its own record needs, there are certain things that apply to all businesses and the following section sets out the fundamentals.

Separation of Business & Personal Accounts

If you have recently started a business the first thing you should do is open a business bank account. This may sound obvious if you have already done so but many people start off using their personal bank accounts. This makes your record keeping that much harder as you will later have to determine whether each transaction was for personal or business reasons and you are unable to control your accounts with good bank reconciliation.

Most banks offer free banking for start-ups, typically for 18 months and many throw in free advice and other perks. At the time of writing, Santander offered free banking with an internet/postal account, ideal for many small businesses that don't deal with cash. Some of the other banks such as HSBC and RBS are also moving down this route with 'remote banking' accounts available at a much lower cost than traditional branch-based accounts. If you like to bank over the counter these accounts won't, however, be suitable for you.

Records of Your Income

Different businesses receive income from different sources. However, the basic principle does not change: you should keep good records that summarise your sources of income.

For a service company that sends out invoices, this record would simply be a list of invoices issued, as depicted in Figure 1.1

Figure 1.1 Income Spreadsheet

Ref	Description	Date	Amount
INV001	Mr A	01/01/2010	1,000.00
INV002	Mr C	02/01/2010	250.00
Total			1,250.00

- 'Ref' is the sequential and unique invoice number.
- 'Description' gives the client name and possibly the work completed.
- 'Date' is the invoice date.
- 'Amount' is the total invoice value.

A good idea is to keep a copy of all the invoices in a ring binder, in sequential order, detailing the work completed. The above spreadsheet would be your summary accounting record.

For a retail business, totals of the daily or weekly till receipts may be appropriate. The following sections discuss in more detail how to amend the basic record above for your own specific business needs, so don't worry too much if the above layout is inappropriate.

Retaining Your Receipts

A receipt is proof that you bought something. HM Revenue & Customs may require this proof to be produced if you are ever investigated. You can submit secondary evidence, such as proof the payment went through your bank account or credit card statement, but you should not rely too heavily on this method of record keeping.

Keeping Your Receipts in Order

If you just throw your receipts in a carrier bag and hope for the best you will always struggle to keep good accounting records. The first step towards improving your records is to convert your carrier bag into some sense of order.

For example:

- Sort out your receipts into rough date order or by month.
- Number them with a thick marker pen starting with '1' for your earliest receipt. Keep this numbering system running forward so every receipt has a unique number on (say) the top right corner.
- Clip together a bundle of receipts (in numerical order) for every week or month.
- Put each bundle in a separate clear plastic wallet to stop them getting lost. It is helpful to indicate on the outside of the wallet the range of receipt numbers.
- Place in a box file or binder.

Processing Your Receipts

Now that you've got your receipts in order it's time to process them using a basic computer spreadsheet or manual accounts book. You may choose to use some accounting software but this will probably be overdoing it if you are just starting out. Figure 1.2 shows the layout for two example purchases: stationery for keeping your records and this book.

Figure 1.2 Expenses Spreadsheet

No.	Date	Payee	Description	Amount	Stationery	Books	Other
1	05/01/2010	Staples	Office Supplies	59.50	59.50		
2	06/01/2010	Taxcafe	Books	24.95		24.95	
				-			
				-			
				-			
				84.45	59.50	24.95	-

- In the first column 'No.' is the receipt number you have written in the top right corner when putting your receipts in order.
- 'Date' is the date of the invoice.
- 'Payee' is the person you bought the item from.
- 'Description' is the type of item you purchased.
- 'Amount' is the amount of the invoice you paid out (VAT is covered in later sections).
- There are now three further columns 'Stationery', 'Books' and 'Other'. These columns are there to describe the *type* of expenditure you incur and are very powerful and one of the keys to keeping good records.

Over time you will end up with a long list of expenses. Using this spreadsheet you will be able to:

- Easily see your total expenditure.
- See the total spend in a period for any type of item, such as stationery, by looking at the total at the bottom of the relevant column. You can insert subtotals to monitor the weekly or monthly performance.
- Find information. If you know you spent money on stationery, for example, but can't recall who the supplier was, you can quickly review the relevant analysis column and find the supplier and price.
- Find a given invoice. All you need do is find the relevant invoice number in the first column. Assuming you have marked up your invoices in numerical sequence and placed them in a box file they should be easy to retrieve without hours of searching.
- Save money. If instead of typing up your expenses yourself you give them to an accountant, he will charge you for this service. Rates vary widely depending on what firm you use and where you live. However, it is not unusual to pay between £15 and £30 an hour to have an accountancy firm type up your expenses.

Important: This section is fundamental to keeping good records. If you aren't happy with the basic principles listed above I strongly recommend you stop and go back over this section again, perhaps completing some worked examples using your own records. The following sections build on a basic working understanding of the above.

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