

Simple book-keeping



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Good book-keeping makes your paperwork — such as VAT and tax returns — easier. It provides a system that tells you — and your accountant — exactly what is going on.

Whether you use a manual or computer-based system, the same principles apply. It is worth deciding if you are going to computerise your accounts at an early stage. A traditional paper-based system will rarely be suitable for many start-ups, as the accounting function will soon start to swallow valuable time. If you start with computerised accounts, there will be no need to go through the time-consuming process of transferring your paperwork onto a computer package. This briefing covers:

- How to record business income and payments.
- How to use your bank statement to check that you have not made any mistakes.
- Tips for cash businesses such as shops.

1 What do you need?

You have to record all the money coming into and out of your business, both to keep track of your cashflow and for your tax records. An HM Revenue & Customs penalty regime is in force which places a duty of care on businesses, reinforcing the need for good tax records. To do this you will need:

1.1 A record of every **sale**.

- Cash businesses, such as shops, will use till rolls and point-of-sale systems to record sales.
- Non-cash businesses should issue an invoice for every sale.

Update your accounts whenever an invoice is paid. If you are keeping manual records, keep invoices in two files: Sales Paid and Sales Unpaid.

1.2 Invoices or receipts for every **purchase**.

- Enter invoices into your accounts system.
- For manual records you will need two files: Purchases Paid and Purchases Unpaid.

1.3 Records of payments into and out of your **bank account**.

- Open a separate business bank account.
- Ask for monthly bank statements.

1.4 Records of payments made by **cash**.

- Keep receipts for cash purchases in a Petty Cash box.

1.5 A **Cash Book** for summarising the information. Cash Books come in hard copy and electronic forms.

- You can buy an analysis book from a business stationer. This can be used as a hard-copy Cash Book.
- If you have accounting computer software (see box), it will perform the same functions as a Cash Book.

This Cash Book, whether hard copy or electronic, simply records all the money coming into and going out of your bank account. Your accountant can help you set up your book-keeping system.

2 Sales

You need a simple routine procedure to keep track of your sales.

2.1 Every time you make a sale, issue an **invoice**.

- Give every invoice an original number and keep a copy of each.
- File hard copy invoices in Sales Unpaid. Put the most recent invoice on top. The invoices will automatically be in date order.

2.2 When an invoice is **paid**, make a note of how it was paid (cash, cheque, BACs etc). Pay the money into your account, using the paying-in book provided by the bank.

Choose software wisely

As there is a variety of accounting software on offer, picking the right package can limit technological growing pains. Ask other businesses or your accountant which packages they recommend. Some of the most popular packages are:

- Mamut offers software designed for small businesses. Mamut Enterprise is a package for the self-employed, while Mamut Accounting is a more fully featured offering for SMEs (visit www.mamut.com/uk/accountingsystems/ or call 0800 032 5616).
- QuickBooks offers all day-to-day functions, along with customisable invoicing and supplier tracking and an electronic invoicing and payment facility. Three packages are offered (visit www.quickbooks.intuit.co.uk or call 0845 606 2161).
- Sage Software offers a variety of accounting software solutions for many kinds of business. Five core packages can be augmented with additional modules to suit the individual firm's needs (visit www.sage.co.uk or call 0800 44 7777).
- Simply Books is designed as an easy-to-use package specifically for very small businesses and sole traders. It offers all standard book-keeping facilities as well as VAT processing and analysis. It is accredited by the Institute of Chartered Accountants in England and Wales (visit www.simplybooks.net or call 0845 456 0365 for details).

- On the stub of the paying-in slip write the date, invoice number(s) and amount(s).
- Take the invoice from the Sales Unpaid file. Write 'paid' plus the date in the top right-hand corner.
- File the invoice in Sales Paid. Put the most recently paid invoice on the top. The invoices will automatically be in the order they were paid.

2.3 Once a week, **update** your Cash Book or software package.

- Look through your paying-in book stubs. Enter into the Cash Book details of all the invoices paid.
- Check the Cash Book entries against the invoices in the Sales Paid file. Put a tick against the invoice number on the invoice to show that the invoice details have been entered into your Cash Book.

2.4 Once a week check through your unpaid invoices and **chase** any that are falling due. Everything will match. Invoices are in the same order as entries in your accounts, which is in the same order as your bank statement.

3 Non-sales income

3.1 From time to time your business will have **other income** apart from sales. This might include:

- New loans or grants.
- Interest on your deposit account.
- Equipment disposals.
- Tax refunds.

3.2 You will not receive invoices for all of these, but they will appear on your **bank statement**.

- Every month enter details of these exceptional transactions into your accounts package or Cash Book.

4 Purchases

4.1 Every time you make a purchase, ask for an **invoice** or a **receipt**.

- Keep a note of all purchases for which you do not have a receipt.
- Enter the invoices and receipts into your accounts. File the bills in Purchases Unpaid in date order, with the most recent on the top.

➤ The **Best Small Business Accounts Book** takes the reader through the practical steps of setting up and running company accounts. Call 01981 251621 or your local WH Smith to order.

➤ The **Twinlock Complete Accounts Book** is simple to use and includes guidance notes and worked examples. Contact your local business stationer to order.

“ Good book-keeping enables you to keep an eye on how your business is doing at any point in time, as well as ensuring that you keep on top of your various obligations with HM Revenue & Customs.”
Martin Dunne, Sayers Butterworth

4.2 When you **pay** a bill, make a note of the date, supplier and amount.

- If you pay several invoices in one payment, write down each amount and the total.
- Take the invoice out of the Purchases Unpaid file and write the date and how it was paid in the top right-hand corner.
- File the invoice in Purchases Paid in date-of-payment order.
- If you have a receipt, as well as an invoice, staple them together.

4.3 Once a week **update** your Cash Book or accounting programme.

- Enter the details of the bills you have paid into the Cash Book.
- Check the details against the invoices in the Purchases Paid file as each is entered into your Cash Book.

Everything will match. Invoices will be in the same order as entries in the Cash Book, which will be in roughly the same order as entries on your bank statement.

5 Cash purchases

5.1 Pay the cash out of your **own pocket**.

Irregular situations

A If an invoice is **amended**:

- Issue a new invoice.
- Write 'Cancelled: see invoice no. 'xxx' on the original invoice and file it in Sales Paid.

B If **partial payment** is received:

- Enter the amount received against the invoice in your accounts.
- Write 'part paid', the date and the amount on the invoice.
- File a photocopy in Sales Paid and keep the original in Sales Unpaid.
- When you update the Cash Book, put P by the invoice number, eg P169.

C If you issue a **credit note**:

- Give the note a number, like an invoice and file it in Sales Unpaid.
- When updating the Cash Book, record the details as usual but put the amount in brackets to show that it must be deducted from the sales total.

5.2 Write **details** of the purchase on the receipt.

5.3 Keep the receipts in your **Petty Cash** file.

5.4 Total all the **petty cash** receipts monthly.

- Pay yourself for the total amount.
- Staple the receipts together and file in Purchases Paid.

5.5 Enter the details in the **Cash Book**.

5.6 You can treat purchases by personal **credit card** in exactly the same way.

- Refund yourself the total of all the business purchases when the credit card bill arrives.
- Staple all the receipts together.
- Enter details in the Cash Book.

6 The bank statement

Every month compare your bank statement and Cash Book. After any errors are corrected, both balances should be the same.

6.1 **Check** each entry in the Cash Book against the entry on the statement.

- If you regularly pay batches of cheques into your bank, you need a 'bank' column in the 'money in' section of your Cash Book. This shows the total value of money paid in each day, which will match the figures shown on your bank statement.

6.2 Payments made by direct debit, BACs or standing order will not yet be **recorded** in the Cash Book. Nor will bank charges and interest.

- Enter the details in the Cash Book below the list of entries for cheques which have been written out that month.
- Then tick off the item in the Cash Book and on the bank statement.

6.3 Make sure that every item appearing on the bank statement has been **checked**.

6.4 Some items will **not yet** appear on the bank statement.

- Money paid in by you but not yet cleared (eg customers' cheques).
- Cheques you have sent to suppliers which have yet to be paid into their accounts.

6.5 Calculate the adjusted **bank balance**.

“Setting up and maintaining books may appear to be a daunting and time-consuming process, but the effort is worthwhile. A regularly updated and accurate set of books is a clear indication of a well-run business. Remember, potential customers or suppliers may request a copy of your accounts to give them a sense of who they might be dealing with. It is essential that books are kept properly. If in doubt, you should consult a professional accountant.”

Glenn Collins,
The Association
of Chartered
Certified
Accountants

- The adjusted bank balance is what the bank balance would be if all the money paid in and all the cheques paid out were shown on the bank statement.

6.6 Reconcile the bank statement.

- Write down the adjusted bank balance at the start of the month.
- Add the total sales revenue paid in and other income for the month (taken from your Cash Book).
- Deduct the total payments for the month (taken from your Cash Book).
- This should equal the adjusted bank balance at the end of each month.

When the figures agree, you have successfully reconciled your bank account.

If the figures do not agree, there is an error. You will need to check through the Cash Book to find the error.

7 VAT

If your business registers for VAT you will need to make some changes.

7.1 There will be very few complications on the **sales** side.

- You must issue VAT invoices.
- You should enter the details of the VAT in a separate column in the Cash Book.

7.2 The golden rule is that you must have a VAT invoice for all **purchases**.

- For small purchases of standard-rated (17.5 per cent) goods, you can calculate the VAT paid. Total cost x 17.5/117.5 (ie multiply by 7/47).
- Enter the details of the VAT in a separate column in the Cash Book.
- Enter the total under 'total' in the Cash Book, enter the total less VAT under the individual heading (eg stationery).

Contact HM Revenue & Customs for free leaflets on every aspect of VAT (0845 010 9000 or visit www.hmrc.gov.uk).

8 Cash businesses

If, like a shop, you sell for cash — as opposed to allowing customers to pay after a credit

period — the basic principles are much the same.

8.1 Shops face two particular **problems**.

- If you take cash (from sales) and spend it (eg on wages), it is easy to lose track of what is going on.
- The tax office (and the VAT office, if you are registered) will always be more suspicious of cash.

8.2 However, there are simple **steps** you can take to avoid any complications.

- Keep your till rolls or EPoS cash summaries. Use them like sales invoices in your book-keeping.
- Keep a separate record of all money going in and out of the till. Reconcile this record daily or weekly to check that the amounts add up to the actual cash you have.
- If you use money from the till for a purchase, put the receipt in the till immediately.

Expert contributors

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Note

The standard rate of VAT fell from 17.5 per cent to 15 per cent between 1 December and 31 December 2009. VAT returned to 17.5 per cent in January 2010

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