

Simple book-keeping



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Book-keeping makes your paperwork 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 could soon swallow valuable time as your business starts to grow. 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 your business and all the money going out, both to keep track of your cashflow and for your tax records. In April 2008 a new HMRC penalty regime was introduced 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. Keep them in two files: Sales Paid and Sales Unpaid.

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

- Keep 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 box file labelled Petty Cash.

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

- You can buy an analysis book (a book with several columns on each page) 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 a simple book-keeping system, choosing headings to suit your business.

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 (1, 2, 3 and so on) and keep a copy of each.
- File the 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**, pay the

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:

- Microsoft Money Business and Personal can perform all day-to-day accounting functions, as well as generate up-to-date tax positions and quarterly reports (visit www.microsoft.com/uk).
- Mind Your Own Business (MYOB) offers software designed for small businesses. First Accounts is a package for start-ups and the self-employed, while MYOB Accounting is a more fully featured offering for SMEs. (visit www.myob.co.uk or call 0845 130 3975).
- 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.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.sagesoft.co.uk or call 0800 447 777).
- 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 01580 851000 for details).

customer's cheque into your account, using the paying-in book provided by the bank.

- 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 the Cash Book, 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 in the Cash Book below the entries for money received from sales.

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.
- File the bills in Purchases Unpaid in date

► 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

order, with the most recent on the top.

4.2 When you **pay** a bill, write the date, supplier and amount on your cheque stub.

- If you pay several invoices with one cheque, write down each amount and the total.
- Take the invoice out of the Purchases Unpaid file and write the date and cheque number 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.

- Look through your cheque stubs. Enter the details of the bills you have paid into the Cash Book.
- Check the details against the invoices in the Purchases Paid file.
Put a tick against the cheque number (in the top right-hand corner) to show that the invoice details have been 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.

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:

- 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 Cash purchases

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

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.

- Write yourself a cheque for the total.
- Attach the receipts to an A4 sheet 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 with a business cheque when the credit card bill arrives.
- Staple all the receipts to an A4 sheet.
- Enter details in the Cash Book, with your name and 'credit card refund' in the supplier column.

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 Match each entry in the Cash Book with 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 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 **ticked off**.

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

- Money paid in by you but not yet cleared

“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 and 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

(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**.

- 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. It equals the end-of-month balance showing on the bank statement *plus* money paid in but not on the statement *less* cheques written, but not on the 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. If the difference is £5.25, look for a sales invoice, other income, or payment entry for £5.25. It should not take too long to find it.

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 (15 per cent) goods, you can calculate the VAT paid. Total cost x 15/115 (ie multiply by 3/23).
- 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).

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

Thanks to **Martin Dunne** (Sayers Butterworth, 0207 935 8504); **Glenn Collins** (The Association of Chartered Certified Accountants, 0207 396 5956).

Note

On 1 December 2008 the standard rate of VAT fell from 17.5 per cent to 15 per cent. The reduced rate lasts until 31 December 2009. VAT will return to 17.5 per cent in January 2010

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