



Switch to Online Accountancy

**The art of good bookkeeping**



Whether you are a sole trader, partnership or limited company, the art of bookkeeping is essential to understand, if not master.

When two thirds of businesses fail within the first year, knowing your figures will help your business to survive its most vulnerable period.

Whether you use a manual, computer or web based solution, the basic principles of bookkeeping are the same.

## **Why should you do bookkeeping?**

Bookkeeping is not just about preparing figures for your accountant to process the accounts – although, we do find it useful! Bookkeeping is about keeping track of the finances; what you've been paid, who has paid you and what items you have purchased.

Knowing what has happened in the past helps you with decisions you may make in the future. You can easily plan what expenditure you can expect to incur, how much money you need to earn and ultimately, what you can afford to spend in the future.

So let's take a look at what you should be doing.



## A record of every transaction

Whether it is a sale or something you've purchased, you should have an invoice, receipt or, if cash based business, a takings sheet that can be relied upon to validate the item.

HMRC will always request source records to check against Tax or VAT.

Therefore, it is essential everything is kept.

### **Sales:**

Whenever you make a sale you should issue a sales invoice to the customer and keep a copy for your own records. If cash based business, record on a manual takings book or check against your till rolls.

HMRC will always cross reference the total of sales invoices to the amount banked and if there are any discrepancies they will want to know where it is!

### **Purchases:**

If you make a purchase always request an invoice or receipt, no matter how small – it's surprising how these small purchases can mount up!

If you are missing a receipt it can still be claimed if sufficient evidence is available that you actually made a payment. However, you will need to record the fact you haven't got the invoice for your future reference.

### **Bank Transactions:**

You will find that not every purchase will have an invoice. Those payments made directly from your account via SO or DD may not have a corresponding invoice. However, these can still be claimed as long as there is evidence that it was business related.

### **Other Income & Expenditure:**

From time to time your business will generate other income or expenditure that is outside the scope of normal trading activity. Such items may not have corresponding documentation so it is vital to ensure you record them accurately and keep any information on them you may have.

Items may include:

**Income:** Bank interest, tax refunds, loan or grants.

**Expenditure:** Bank charges or interest, taxes, loan payments and wages.

## Day to Day Tasks

### Separate paid & unpaid

Might seem obvious but ensure you separate out which invoices are due for payment and which have already been paid. You will want to monitor those not paid irrespective of whether they are sales or purchase related.

### Sales Invoices

You should regularly monitor all invoices that remain unpaid. You should know which customers have not paid, how long the debts have remained outstanding and the current status of the account.

Not chasing, monitoring or being fully in control of trade debtors can have serious consequences for a business. A slowly rising debtor balance creates cash flow problems very quickly and can mean lack of money to make purchases.

### Purchase Invoices

The same principle applies with purchase invoices. Knowing how much money you owe suppliers is vital in order to budget for future expenditure.

It is important you do not let the amount you owe to suppliers (HMRC being one) increase steadily. An ever increasing creditor balance seriously affects future cash flow when debts start being called in.

### Update account system

Updating your accounts package regularly – at least once a month, will ensure you have up to date figures for your business and can plan future growth or activity confidently.

Depending on whether you use the accounts package as a cashbook or you record sales and purchase invoices and pay them off determines how you use an accounts system.

However, ensuring the bank account balances with your paper bank statement and you have a record of what is owing and owed within the business will ensure an on-going understanding of the finances.

## **VAT Implications**

If your business is registered for VAT, you may need to make some changes to how you operate.

### **Sales**

You need to ensure you issue invoices that state the VAT number and ensure you separate the VAT element out in the invoice.

### **Purchases**

HMRC clearly states that if you do not hold a valid purchase invoice then you are unable to claim VAT on the amount.

