

Accounting and book-keeping

Record keeping

No matter what type of business it is, or in what form it trades, it is essential that a business keeps proper accounting records which are sufficient to explain all of the business's transactions.

For a limited company, the Companies Act 1985 governs the standards of the accounting records. Amongst other things it stipulates that they should be sufficient to show and explain the company's transactions and can disclose with reasonable accuracy at any time the financial position of the company at that time. Although smaller entities will have much less sophisticated records than large plcs, the Companies Act still means that the directors should keep up to date with their bookkeeping.

For a sole trader or a partnership the need is exactly the same. Not only do accurate records provide information on how well the business is performing, they also provide the basis for the figures on the self assessment tax return. This means that by law they have to be accurate. Tax law says that everyone who pays tax must keep the records they need to fill in a tax return. If you do not keep records, it is impossible to show what you have earned and what you have spent. By law, you must keep all your records for at least five years from the latest date for sending back your tax return, but it is up to you to decide how you keep them.

Your Tax Office may decide to look into your tax return or claim. If it does, it may want to look at your records. It will save you time if you can show that the records you have kept are complete and accurate. It can also save you money as you can be fined up to £3,000 for each year that you fail to keep proper records.

For a new business, or indeed many established ones, accounts and bookkeeping are seen as a bureaucratic nightmare full of unexplained jargon and form filling. It is essential that a new business gets to grips with its record keeping both to comply with the law and, more importantly, so that its performance can be monitored. The exact records you need to keep will depend on the types of income or gains, tax deductible expenses, personal allowances, other deductions and reliefs you put on your tax return or claim. Whatever records you keep, they should be good enough for you to fill in your tax return or claim accurately.

If you claim business expenses, you will need to keep the necessary records to back them up. For example, if you use part of your home for work, you will

need to keep sufficient records to back up the proportion of heating and lighting costs that relate to your business and your private use.

On occasion you may not be able to obtain evidence (such as a receipt) for cash expenses, especially where the amounts are small. If this happens, recording is still important. A note should be made as soon as possible of the amount you spent, when you spent it and what it was for.

Accounting records can either be written manually or computerised. The best method depends on the individual needs of the business but overall computerised bookkeeping, if done properly, can save time and effort and produce better information. There are many reputable software companies which provide reasonably easy to use bookkeeping programmes. However with all bookkeeping programmes, some training is normally necessary especially for those unfamiliar with accountancy.

If you transfer details from paper records onto a computer, you will still normally have to keep the original paper records unless you microfilm them or use an optical imaging system. You do not have to print everything out, as long as the information in the original documents can be recovered from the computer and satisfies the other rules for record keeping.

The well known software companies also provide full training and support for their products but this can be costly. Your accountant can normally provide training at a lower price or recommend a specialist who is equally cost effective. It is also well worth contacting your local business link for advice on bookkeeping courses. These will cover both manual and computerised records and many of the courses will be free to new start ups (www.sbs.gov.uk).

As an alternative to coping yourself, there are many agencies who will do the bookkeeping for you and leave you to get on with running the business. Your Chartered Certified accountant will also normally provide this service or recommend a good agency. Always remember to agree a fixed price and to ensure that you know exactly what you are getting for your money. This is especially important when the bookkeeping involves additional services such as payroll and VAT returns.

Your accountant wants you to pay only as much tax as you owe Inland Revenue. However, if you cannot show sufficient evidence of your income and outgoings, you could end up paying more tax than necessary.

Accounts

Accounts normally fall into two sections:

- year end accounts - these are produced annually for the 12 months up to the business year end, say 31 March each year. The primary function

is to provide figures for the tax returns and if the business is also a limited company then the annual accounts, or details from them, are required to be filed at Companies House. It is fair to say that the vast majority of businesses use an accountant to prepare the year end figures. This is because this process is a highly technical area and although you can assist in keeping the records accurately and up to date, a qualified accountant can ensure that the accounts are finalised properly and conform with all legislation.

- monthly or quarterly accounts - sometimes known as management accounts these are produced much more frequently for specific purposes. For instance the performance of the business needs to be constantly monitored and outside users such as banks and other lenders may request this information. These accounts do not generally have to be produced by law but it is important that they are as accurate as possible so that the true position of the company can be assessed. Again the involvement of a Chartered Certified accountant will help in this process.

Tax returns

For the self employed, self assessment was meant to make the tax system more understandable and user friendly. However despite the useful information available from the Inland Revenue, most self employed people engage an accountant to fill in their tax return and calculate the tax payable.

If the tax return is sent in by 30th September of each year, the Inland Revenue will calculate the tax for you. However this still means that accounts need to be prepared first and in any case most people will want the calculations checked by a professional.

A limited company also needs to fill in a tax return but this is distinct from the directors' personal returns. The company return uses figures from the accounts and is also the basis of the tax calculation for the year.

Once your accountant has calculated the tax liability he/she can tell you the exact amounts to pay and when they are due. In the case of a tax refund being due, your accountant can also organize this.