

Guide from

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[Insert a line about your business here]

Essential guide to basic accounting

Accounting is an essential part of running your business. Your business accounts provide a record of how your business has performed financially. Business accounts are also a legal requirement that will allow HMRC to calculate the amount of tax you have to pay. More than that, accounting gives you the data and tools you need to manage cashflow, plan ahead and improve the way your business operates.

**Doing your own business accounts**

If you struggle with the idea of doing your own business accounts, you can delegate small business accounting tasks to specialist employees or use an accountant. But even if finances are not your main skill, every business owner and director should have some understanding of the key accounting concepts and how they can help your business.

**Business accounting basics**

When people think of small business accounting, they tend to think of bookkeeping: the records of all your business transactions (income and outgoings). As a minimum, you have a legal obligation to make sure that you keep adequate records on what you have earned and all of your business expenses. Your bookkeeping records are used to produce your statutory annual accounts and provide you with the information you need to complete your tax returns.

With the right advice from an accountant, you can identify opportunities to minimise tax payments. Accounting also plays a vital role in cashflow management – especially if you sell on credit and need a robust system to help you chase up customers who fail to pay on time.

**Simple business accounting**

Annual accounts are largely produced for the benefit of the tax authorities and any outside investors your business may have. By the time the accounts have been finalised, they are often months out of date. Well-managed businesses also produce management accounts, typically on a monthly or quarterly basis. These give a more up-to-date picture, helping you see the trends in sales, profitability and cashflow. These business accounts help you identify problem areas and opportunities, giving you crucial information to guide your decisions on how to improve future business performance.

**Accounting and business decision-making**

Your accounts can also help you to look further ahead, forecasting your profitability and cashflow as part of your budgeting process. Again, this helps guide your decision-making. In particular, financial forecasts can be a key part of developing or updating a business plan and anticipating future financing needs.

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