all you need to get started

small business accounting made simple

flash

small business accounting

Andy Lymer

flash.

For UK order enquiries: please contact Bookpoint Ltd,
130 Milton Park, Abingdon, Oxon OX14 4SB.
Telephone: +44 (0) 1235 827720. *Fax*: +44 (0) 1235 400454.
Lines are open 09.00–17.00, Monday to Saturday, with a
24-hour message answering service. Details about our titles
and how to order are available at www.hoddereducation.com

British Library Cataloguing in Publication Data: a catalogue record for this title is available from the British Library.

First published in UK 2011 by Hodder Education, part of Hachette UK,
338 Euston Road, London NW1 3BH.

Typeset by MPS Limited, a Macmillan Company.

Printed in Great Britain for Hodder Education, an Hachette UK Company,
338 Euston Road, London NW1 3BH, by CPI Cox & Wyman, Reading,
Berkshire RG1 8EX.

Impression number 10 9 8 7 6 5 4 3 2 1
Year 2015 2014 2013 2012 2011

Contents

Introduction

Who this book is aimed at

Many qualified accountants will recommend a similar system to the one discussed in this book when advising smaller business clients. The system is based around business bank statements, from which the figures are then analysed into various categories of income and expenditure. The method is what is referred to as single entry, with each business transaction being entered in the records only once.

The system requires nothing more than pencil and paper, although it does lend itself to being set up using a computerized spreadsheet program, eliminating much of the manual work involved in using a calculator to add up columns of figures.

As well as providing a tried and tested method to handle real business book-keeping, this book also demonstrates, using worked examples, how to keep business financial paperwork. It even provides guidance for completing your annual tax return.

Case studies

It is much easier to understand any system when you can see it in use, so three different case studies are used in this book.

Hardip Singh – builder

Hardip Singh is a builder. He has no permanent staff, but employs casual labourers from time to time.

Mr Singh's office is a table at his home, where he writes up his business records, and where his van and tools are kept overnight. He works on invoice, giving his customers a bill which they pay later. Sometimes he is paid immediately, either in cash or by cheque. He has a trade account with a local builders' merchant, but he also goes to DIY stores where he pays for materials by cheque or by credit card.

Grace Morris – shopkeeper

Grace Morris runs a village shop. The shop is rented, and she and her husband live in the flat upstairs. Mrs Morris's customers pay her as they purchase goods, in cash or by cheque. The exception is newspaper deliveries, for which people come into the shop and settle their bills once every two weeks or so.

Purchases are made partly from a large Cash and Carry store, and partly from wholesalers who invoice her.

Ben Martin – taxi driver

Ben Martin is a taxi driver. He works partly by picking up fares who hail him on the street, and partly by bookings made through another company, Cab-U-Like, which provides him with a two-way radio. He is almost always paid in cash by the customers he picks up from the street. However, when he takes a Cab-U-Like client he is not paid directly, but receives a cheque from Cab-U-Like in the first week of each month for the fares he carried during the previous month. Mr Martin's major running expenses are usually paid by credit card or by cheque, and he pays in cash for minor expenses.

Why this book is different and how to use it

If you have looked at other books on accountancy and book-keeping before buying this one, you will know that they are generally full of accounting jargon. They refer to ledgers and journals and 'double-entry' accounting, and you sometimes feel you need a dictionary by your side to read them. Do you really need to know all of this to handle the finances of a small business? No, of course you don't. Most of these books are not aimed primarily at owners of small businesses, they are written for students taking courses in book-keeping and accounts or set out a version of book-keeping better suited to much larger businesses. However, for many smaller businesses there is often no need to run a double-entry system if you don't want to.

The system described in this book enters accounting transactions using a single entry, and the series of case studies will guide you and also show you how to cope with some quite complex transactions.

At the end of your business year, you have a choice. If you choose to pay for an accountant to deal with your tax affairs, you can present him or her with a complete set of records, fully totalled and cross-referenced.

Alternatively you can deal with your own tax affairs. The records produced under the system here are designed so that they will produce the figures you will need to enter on your tax return, which has to be sent each year to HM Revenue & Customs.

1

your bank account

In this chapter the central role of the bank account as a tool for fully and accurately accounting for your business is explored. You are encouraged to keep a separate bank account for your business (not just your private account), to help make your accounting significantly easier in practice. Using internet banking is common these days, so we conclude the chapter with a brief discussion of how banking this way will help your business in practice.

Why you need a business bank account

For a small part-time business where customers pay in cash, a separate bank account for the business might not be needed. However, many successful businesses use a second (non-personal) bank account to undertake their business transactions. Once the number of business transactions rises above about a dozen or so each month (both purchases and sales combined) a more formal system for the recording and analysis of transactions is needed. By using a bank account solely for the business, separate from the owner's personal bank account, it is much easier to check the accounting records against the business bank statement, since all transactions must appear both in the records and on the bank statement.

Another good reason for using a separate business bank account is that it provides a degree of independent evidence for HM Revenue & Customs. Tax inspectors are wary of businesses conducted wholly or mainly in cash.

There are two other reasons why you might need a designated business account. The first is if you trade under a name other than your own. Banks normally accept cheques made payable only to the named account holder for a personal account. The second reason is if your business needs an overdraft facility. Banks will invariably ask why borrowing facilities are required, and are unlikely to grant business overdraft facilities for a personal account.

Case studies

So, how do the businesses in the case studies organize their banking needs?

Grace Morris would not be able to pay a cheque made out to 'Village Stores' into her personal account. In any case she needs to be able to pay in quite a lot of cash. She has therefore chosen a former building society that offers free business banking, as long as the account remains in credit, including facilities for paying in cash locally. The account is in the name of 'Grace Morris t/a Village Stores'.

The abbreviation 't/a' means 'trading as', allowing her to pay in cheques that are made out to either 'G Morris' or to 'Village Stores'. This can save her a lot of hassle in getting cheques redone when people use the wrong name.

Hardip Singh trades under his own name, but needs an overdraft facility to allow him to pay suppliers for materials and labour that he can bill to the customer only once a building job is completed. He therefore needs a business account with a bank. He did not use the bank that holds his personal account, however, but instead asked other local builders. He found that several of them used a bank that had a branch in the local high street and where the staff understood the financial issues that face all builders.

Like Mrs Morris, Ben Martin cannot use a personal account because of the amount of cash that he banks each day. However, if he worked mainly for Cab-U-Like clients, so that most of his bankings came in the form of a single monthly cheque from Cab-U-Like, he might have been able to utilize a private account. However, given the cash factor, Mr Martin also uses a business bank account at a high street bank.

Internet banking

Internet banking, available for businesses as well as for individuals, lets you view your account balances, transfer funds between accounts, and pay bills and wages online. Online bank statements are also available.

Internet banking can provide small businesses with a number of advantages in terms of ready access to their bank accounts, rapid processing of bills, ability to set up payments in advance, change standing orders and direct debits, and so on. Many businesses find using internet banking improves their efficiency in handling their accounts.

2

a simple cashbook

At the heart of the simple accounting system proposed in this book is what is called 'the cashbook'. As its name might suggest, this is an accounting record you keep of everything you do with the cash belonging to your business – both spending it and receiving it. This chapter introduces you to the cashbook, shows you the basics of how to create one and outlines how to keep details of your various business transactions using it.

Confusingly, a cashbook does not normally show what has happened to the cash in your business, it shows what has happened to money you have paid into or taken out of the bank. If you want to think of it as a bank book that is fine, but it is referred to here as a cashbook because that is what it will be called by an accountant or the tax inspector.

In essence, a cashbook is not much more than a detailed bank statement. It brings together in a single business record all the information normally put on cheque-book stubs and paying-in slips to identify exactly what payments have been made and what receipts have been received.

Hardip Singh's simple cashbook

In the Introduction you met Hardip Singh, a builder. Figure 2.1 shows his bank statement for the month of June.

The following further information is as recorded by him on his cheque-book stubs, plus it shows the regular standing orders paid out from the account.

* Cheque 1000234 was to High St Garage for diesel for his van.
* Cheque 1000235 was to the Anytown Courier for an advertisement.
* Cheque 1000236 was to Browns for stationery.
* Cheque 1000237 was to Smarts Builders' Merchants for supplies, of which £30 was for use in his own home.
* Cheque 1000238 was to Jones Plumbing for supplies.
* Cheque 1000239 was to Post Office Limited for car tax (Road Fund Licence) on the van.
* Cheque 1000241 was to Print Presto for business cards and letterheads.
* The standing order payment to County Leasing is the monthly instalment on the lease contract for the van, and the payment to Magnificent Mutual is for his personal pension.

* The direct debit payment to NICO is to the National Insurance Contributions Office for his Class 2 National Insurance Contributions (NICs). Your total might not be the same as Hardip's is here, as this varies from year to year.
* The payment to H. Singh is the money he takes out of the business each month for his living needs and private use; it is known as monthly 'Drawings' and is paid into his personal bank account.

		Debit	**Credit**	**Balance**
1 June	Balance b/f			2150.25
3 June	s/o County Leasing	345.22		1805.03
8 June	Ch 1000234	28.34		1776.69
10 June	Dep 6000132		396.75	2173.44
10 June	Ch 1000236	25.68		2147.76
12 June	s/o H. Singh	500.00		1647.76
14 June	Charges	42.30		1605.46
18 June	Ch 1000235	43.69		1561.77
18 June	Ch 1000237	692.59		869.18
20 June	Dep 6000133		2750.00	3619.18
21 June	DD NICO	28.40		3590.78
23 June	Ch 1000238	254.00		3336.78
23 June	Ch 1000239	150.00		3186.78
28 June	Ch 1000241	82.38		3104.40
30 June	DD Mag. Mutual	100.00		3004.40
30 June	Balance b/f			3004.40

Figure 2.1 *Hardip Singh's bank statement.*

Mr Singh issues an invoice from a pre-numbered duplicate book for each building job done (see Figure 2.1).

* Deposit number 6000132 was a cheque from Mr Henderson paying invoice 121.
* Deposit 6000133 was a cheque for £2,000 from Mr Peters paying invoice number 118, a cheque for £600 from Dr Bull paying invoice number 119 and £150 in cash from Mr Blunt paying invoice number 123.

Mr Singh writes his cashbook up at the end of each month when he receives his bank statement. He uses a two-column cashbook, so that he can enter subtotals, and he writes receipts on the left-hand page and payments on the right. Figure 2.2 shows his Payments page for June.

PAYMENTS

3 June	s/o County Leasing	(Motor)		345.22
8 June	234 High St Garage	(Motor)		28.34
10 June	236 V G Browns	(Administration)		25.68
12 June	s/o H. Singh	(Drawings)		500.00
14 June	Charges	(Finance charges)		42.30
18 June	235 Anytown Courier	(Advertising)		43.69
18 June	237 Smarts	(Cost of Sales)	662.59	
	237 Smarts	(Drawings)	30.00	692.59
21 June	DD NICO	(Drawings)		28.40
23 June	238 Jones Plumbing	(Cost of Sales)		254.00
23 June	239 Post Office Limited	(Motor)		150.00
28 June	241 Print Presto	(Administration)		82.38
30 June	DD Magnificent Mutual	(Drawings)		100.00
30 June	Total			2292.60

Figure 2.2 *Hardip Singh's payments.*

Notes

1. Each entry shows the cheque number, the payee to whom the payment was made, and the type of expense (shown in brackets). Some of these will be obvious; for example Road Fund Licence and petrol are classed as 'Motor'. Some will not be so obvious, such as 'Cost of sales'. The reason for using these specific headings rather than choosing ones that may be more appropriate to Mr Singh's business is that they are the ones he will need to use when filling in his tax return. By using these categories right from the start, filling in the tax return will be made much easier. The types of payment to be included in each category are set out in the next chapter.
2. Money taken out of the business for the owner's personal use is 'Drawings' and this will include payments to the owner's pension plan, and any tax and national insurance payments. The latter are not expenses of the business, they are the owner's private liability.
3. As long as cheques run in a numerical sequence from one cheque book to the next, only the last three digits may be needed.
4. The total payment to Smarts included £30 of materials that were for Mr Singh's private usage, and so must be recorded as drawings. Be careful always to do this when you take materials for your own use or you'll get into trouble with your tax reporting where you must get this right. Two cashbook entries are thus made for the same cheque, with amounts in the first column that add up to the subtotal amount of the cheque, which is entered in the second column.
5. All the payments shown are inclusive of any VAT charged.

Mr Singh's Receipts page (i.e. the left-hand page to his cashbook) for June is shown in Figure 2.3.