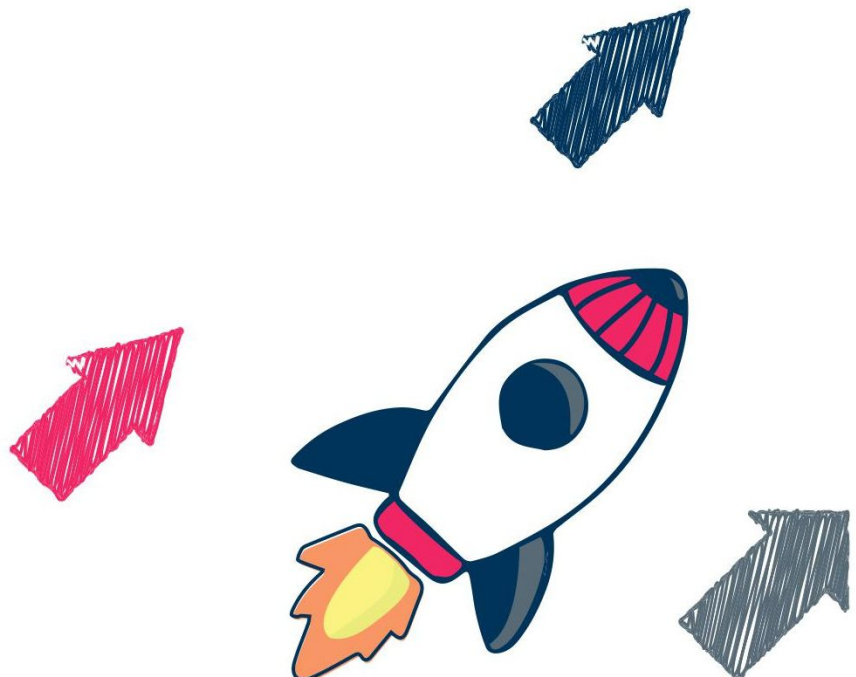




Helping Businesses Grow Since 1997

Build your business on solid foundations

5 Essential bookkeeping tasks which will support your long-term growth



Executive summary

Many businesses grow organically out of a hobby, a passion or a sudden discovery of a gap in the market. Because of this 'organic' development, few small enterprises carry out the necessary accounting activities right from day one. Instead, these get added on in an ad hoc fashion as the business scales up.

While this organic approach is perfectly acceptable to begin with, there comes a time in any small business's development that it needs to formalise its approach. Only once you have your bookkeeping foundations in place, can you really begin to grow a stable and secure enterprise.

This guide is aimed at small business owners whose businesses have reached this more mature stage. It will provide you with the essentials you need to know around tax, accounting and record keeping to help you grow long term.



Accounting basics for ambitious businesses: 5 STEPS

It's an exciting time to be an entrepreneur. According to the Federation of Small Businesses, there was 5.5 million private sector businesses in the UK¹ last year – the highest number on record. Of these firms, 99.9% were small or medium enterprises (SMEs). Ever more entrepreneurs are launching their own companies – from builders to drivers to freelance web designers.

However, while being their own boss is a dream for many, not all these businesses will necessarily succeed. One study found that four in ten companies fail to make it past the five-year mark². Although this may feel like a discouraging figure, it is important to take a sober approach to growing a business. By getting the basics in place early, you have the confidence that the business is built on solid foundations, and avoid any nasty surprises down the line.

One of the most important foundations to have in place is your bookkeeping and accounts. By keeping good accounts from the early days of your business, you will be setting yourself up to succeed.

However, many entrepreneurs report loathing bookkeeping and accountancy tasks, feeling they take too much time and that they fear making mistakes³.

This need not be the case. By following the guidance in this booklet, you will have the confidence that you have the correct processes in place. Of course, there is always much more you can do to shore up your financial foundations, but the guidance included here will provide essential reading as you grow.

We provide an overview of five essential areas you need to have covered to ensure you have solid foundations in place.

¹ FSB. UK Small Business Statistics. Available online: <http://www.fsb.org.uk/media-centre/small-business-statistics>

² Small Business. Business Failure: Four in ten small companies don't make it five years. Available online: <http://smallbusiness.co.uk/business-failure-four-ten-small-companies-dont-make-five-years-2533988>

³ TD Bank. Press Release. Available online: <https://mediaroom.tdbank.com/releases?item=135272>

1 Self-assessment

What is it?

Self-assessment is the process whereby self-employed people and business owners work out all their income and expenses over the course of the year, and declare this to HMRC – the taxman. Based on your self-assessment submission, HMRC will decide how much tax you owe, as well as any repayment you might be refunded.

The tax year runs from 6th April to the next 5th April. You then have until 31st of January of the following year to file your tax return and pay your bill. Failure to file your return by the deadline will result in a fine.

HMRC may ask to see evidence of the income and expenses you have declared, so you should keep all business records for up to six years.

How do you do it?

You can submit a tax return online, or by filling in a paper form that you can download from HMRC's website. Nowadays most people submit their tax returns online - not only because it's easier to edit, but you get longer to file the return.

Checklist

- *Register with HMRC and tell them what kind of business you are by 5th October following the end of the tax year in which you started the business*
- *Fill in personal details as well as information about your income and expenses*
- *Submit your online return by midnight on 31st January or 31st October if filing a paper return*
- *Pay the tax you owe before midnight on 31st January*

Key dates

5 th April	5 th October	31 st October	31 st January
End of the tax year.	Date by which you must register for self-assessment if you are a sole trader or partnership.	Deadline to submit a paper return.	Deadline to file your return online and pay what you owe.

2 Record keeping

What is it?

'Records' are all the receipts and expenses that represent the money coming into and going out of the business. This includes your invoices, as well as all your receipts for bills, rent, wages and equipment. HMRC does not always require you to share your records with them, but they may ask to see proof of your income and expenditure when you make your tax return, and there are significant fines if you fail to come up with them.

How do you do it?

For every transaction your business makes, there needs to be an accompanying invoice or receipt. The most sensible thing to do is to keep all your invoices and receipts on file somewhere, and preferably in digital format to make it easier to search for them.

Checklist

- *Every time the business buys anything, keep the receipt and store it somewhere safe. If you receive a paper receipt, use your smartphone to take a photo of and store it in a folder on your computer or online*
- *Same goes for bills and invoices. Each time you invoice a client, store a copy somewhere secure on your computer, or in a cheap or free online file share like Google Drive, OneDrive or Dropbox*
- *As you go, try and keep an up to date spreadsheet that contains all your income and outgoings. This will make it much easier when you come to fill in your self-assessment*

Types of records

Sales and income	Business expenses	VAT records	PAYE records	Personal income
How much and who from.	All receipts for everything – from equipment to your office rent to a coffee with a client.	If you're registered to pay VAT.	This includes all payments to your employees (for any type of business).	Any other sources of income besides your business.

3 Bank accounts

What is it?

If you started your business as a 'thing on the side', chances are you would have just begun accepting payment into your regular personal bank account.

However, you really need to open a separate bank account to manage the money earned from the business. This makes accounting a lot easier, letting you see what money has come in and out of the business much more easily.

How do you do it?

You have two options here. Most banks offer 'business accounts' which you pay a monthly fee to use. The benefit is that you can potentially get extra credit and other advantages. Shop around, as many have excellent starter rates.

Alternatively, you could just open a regular current account for free. You probably won't get the same amount of credit or a large overdraft so easily.

Checklist

- *Shop around for the best business bank accounts or simply open a separate current account*
- *Ensure all your clients send money direct to that account*
- *Potentially explore opening separate accounts for money in and expenditure*
- *Also, consider opening a savings account to set aside cash for tax*



4 Setting money aside to pay your taxes

What is it?

As your business grows, it's very sensible to set money aside for tax as and when payment comes in. Whether you do this for each individual invoice that is paid, or do it at the end of the month, it will mean you avoid the risk of spending all your income, then not being able to pay your tax bill.

How much you need to put aside depends very much on the kind of business you have set up. For sole-traders and partnerships, you will simply need to set aside a specific percentage, depending on your earnings. However, if you've set up a limited company, your payments may be more complex.

How do you do it?

It's generally a good idea to have a separate bank account where you syphon off a percentage of your income, depending on what you expect profit will be. Do this by:

- *Adding up your income*
- *Adding up your expenses*
- *Subtracting the expenses from your income to get an estimate of your profit*
- *Put aside a portion of that money for tax. Should be at least 20%*

There are two kinds of tax that may apply to you:

- *Income tax. This is the basic tax and varies depending on how much money you earn*
- *National Insurance contributions. These vary depending on the kind of business you run and the profit you make*



5 VAT

What is it?

VAT (value-added tax) is an additional tax the government levies on a whole range of products and services. You will need to add VAT to your prices if you are likely to turn over more than £85,000 in a 12-month period. VAT is currently at 20% on sales, and so you will need to add this as a percentage to the upfront cost that your clients pay. That said, when it comes to paying VAT, the payment is 20% on sales minus VAT reclaimed on expenses, so you may not end up having to pay as much VAT overall.

There are exceptions on certain goods or services, yet these are subject to change. If your business is exempt, you will not need to add VAT to your prices. The categories of products and services that are exempt from VAT can change, so speak to an accountant to find out whether you need to charge VAT or not.

How do you do it?

You need to register with HMRC when you reach the limit in any 12-month period. If, for instance, at the end of June, you realise that you will have turned over more than £85,000 in the last 12 months, you need to register this with HMRC in the next 30 days to avoid a fine.

Checklist

- *Review your rolling revenue every month to see how close you are to the limit*
- *On reaching the limit, declare the change to HMRC by filling in a VAT form on their website*
- *Notify customers of the new prices you will be charging*
- *Collect the additional 20% in a separate bank account*
- *Pay your VAT quarterly (in most cases) on HMRC's website*

Building your business on solid foundations

When you're starting out, getting to grips with accounting can feel like the last thing you really want to do. With all the energy you spend on setting up the business itself and finding then doing work, dedicating the time to getting the basics of accounting in place can easily slip down your priorities list.

However, if you really want to grow, you need to get these basics in place. Fortunately, as this guide has shown, it's not necessarily too difficult to do so. Practically all these activities can be completed online in the comfort of your own home, and require little more than a calculator to complete.

You will need to put certain regular processes in motion – from setting aside a percentage of all your earnings for tax to recording all your expenses in a spreadsheet. However, these will soon become second nature. With these basics in place, you'll be set to grow and achieve your ambitions.

An accountant can help save you time and money

As you grow, you will find yourself dealing with more and more complex accounting tasks – from paying staff to saving yourself money by taking a salary and dividends. By talking to professional accountants, you can be sure these tasks are completed on the right dates, in line with HMRC's requirements and in the most tax efficient way possible.

DSL work with thousands of small businesses to achieve their targets for growth. We can help you grow by ensuring your accounting is done correctly in the Direct, Simple and Logical way.

**Call us for free from mobile
or landlines on 0800 77 234 22
to see how we can help your
business grow**

**The Direct, Simple and Logical
accounting partner to help
drive your business
forward.**



Contact us today for Direct, Simple and
Logical advice from our friendly team:

-  0800 77 234 22
-  ask@dslaccounting.com
-  dslaccounting.com
-  115b Warwick Street, Leamington Spa, CV32 4QZ