

Guide from [insert your firm's name here]

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[Insert a line about your business here]

Setting up and maintaining your books

Keeping accurate financial records is a legal requirement that enables the production of end-of-year accounts and tax returns. Well-organised, up-to-date and accurate financial records are essential for sales and cash flow analysis, credit management and stock control.

Most businesses find it easy to handle their own book-keeping needs. A computer-based system is quickest and easiest for all but the simplest businesses.

1. Choosing a system

Realise the limitations of paper-based systems

- Unless your business finances are very simple, a computer-based system will be better. Maintaining and assessing financial records in manual form will cost your business more time and money.
- The HMRC Making Tax Digital requirements being phased in from 1 April 2019 will eventually require you to report your tax returns online using compatible software. This will apply to VAT and self-assessment.
- Think about the growth of your business. Changing to a computer-based system later on will be disruptive.
- Computer-based systems offer increased speed and flexibility. They can take the boredom out of repetitive tasks, but you do need to make sure your financial data is kept safe and secure.

Find out about accounting software packages

- Ask other businesses or your accountant which packages they recommend.
- You can choose to download software to your own network, or use an online (cloud-based) package.
- Well-known options include [Intuit QuickBooks](#), [Sage Business Cloud](#), [Clear Books](#) and [Xero](#).

Ask your accountant for advice

- The right system will make it easier for them to prepare your accounts – keeping your costs down.
- They will also be able to tell you how you should group different costs to make the information useful to you.
- Consider whether you need (or will need) to handle VAT records and returns. If necessary, take advice from your accountant on handling VAT as mistakes can be costly.

2. Setting up your system

You have to record all the money coming into and out of your business, both to keep track of your cash flow and for your tax records. HM Revenue & Customs (HMRC) has a penalty regime which places a duty of reasonable care on businesses, reinforcing the need for good record-keeping.

Create files for keeping sales records

- Non-cash businesses issue invoices for each sale and keep them in two files: Sales Paid and Sales Unpaid.
- Cash businesses use till rolls and point-of-sale systems to record their sales. Records of these also need to be kept.

Create files for keeping purchase records

- Keep two files for purchase invoices: Purchases Paid and Purchases Unpaid.
- Keep a separate box file labelled Petty Cash for receipts for business purchases made using cash.

Open a separate business bank account

- A separate business bank account makes it easier to keep track of your business income and expenses. Do not write personal cheques from this account.
- If possible, try to make all business purchases from this account rather than from your own pocket. For small amounts (eg travel expenses) this might not always be possible.
- Ask for monthly bank statements and keep these stored systematically.

Set up a manual or computerised Cash Book to summarise financial information

- The Cash Book records all money coming into and going out of your business bank account (including cheques and electronic payments).
- Accounting software will automatically include the same functions as a Cash Book. If you opt for a manual system, you can buy an analysis book to use as your Cash Book.
- You need to choose which headings to use to record different kinds of expenses. Ask your accountant for advice.

If necessary, set up a separate book for cash sales

- This record will be similar to your Cash Book, but it will be used for recording the actual cash going into and out of your till.

3. Recording sales

You need a simple routine procedure to keep track of your sales, making it easy to match up invoices, account entries and bank statements.

Issue an invoice every time you make a sale

- Give each invoice an original number (001, 002 and so on) and keep a copy.
- If you are registered for VAT, you must issue VAT invoices.
- File the copy invoice in Sales Unpaid. Put the most recent invoice on top so that the invoices are automatically in order of date.
- You may need a separate system for cash sales.

Note whenever an invoice is paid

- Pay the customer's cheque into your business bank account if the payment is not made electronically.
- Take the relevant invoice from Sales Unpaid and file it in Sales Paid.

- Put the most recently paid invoice on top, so that the invoices are automatically in the order they were paid.

Update your Cash Book once a week

- Look through your paying-in book stubs. Enter into the Cash Book details of all the invoices paid.
- If you are registered for VAT, record separate figures for the value of the invoice excluding VAT and for the VAT amount.
- Check the entries against the invoices in the Sales Paid file. Put a tick against the invoice number on each invoice to show that the details have been entered in your Cash Book.
- If you regularly pay batches of cheques into your bank, you need a separate 'bank' column in the 'money in' section of your Cash Book. This shows the total value of cheques paid in each day, making it easier to check against your bank statement.

Deal with any irregular situations

- If an invoice is amended, issue a new invoice. Write 'Cancelled: see invoice no. xxx' on the original invoice and file it in Sales Paid.
- If partial payment is received, write 'part paid', the date and the amount on the invoice. File a photocopy in Sales Paid and keep the original in Sales Unpaid. When you update the Cash Book, put P by the invoice number (eg P169).
- If you issue a credit note, give the note a number (like an invoice) and file it in Sales Unpaid. When you update the Cash Book, record the details as usual, but put the amount in brackets to show that it is a negative amount that must be deducted from your sales total.

Check through your unpaid invoices once a week

- Chase any that are falling due or are overdue.
- The longer a customer has owed you money, the further back in the Sales Unpaid file the invoice will be.

4. Cash sales

Keep separate records of regular cash sales

- Use a till or Electronic Point of Sale (EPoS) system to record sales. Keep the till rolls or EPoS summaries and use them like sales invoices in your system.
- Keep a separate record (like your Cash Book) of all money going into and out of the till. Reconcile this record daily to check that the amounts add up to the actual cash you have.

Be careful with your records and how you use cash from the till

- If you take cash from the till and spend it, it is easy to lose track. Put a receipt in the till immediately and then treat it like other cash purchases.
- HMRC will always be more suspicious of cash transactions.

5. Purchases

Get an invoice or receipt each time you make a purchase

- File all your bills in Purchases Unpaid in date order, with the most recent on the top.

- If you are registered for VAT, you must have a VAT invoice for all purchases. For small purchases of standard-rated (20% VAT) goods, you can calculate the VAT paid by dividing the total cost by 6.
- Keep a note of any purchase for which you do not have a receipt. For example, if you have no ticket as proof of a train journey, keep a slip of paper saying where you went, when and how much it cost.

When you pay a bill by cheque, write the details on your cheque stub

- Write the date, supplier and amount.
- If you pay several invoices with one cheque, write down each amount and the total.
- If you make the payment electronically, keep full details of this in a similar way.
- Take the invoice from the Purchases Unpaid file and write the date and cheque number on it in the top right-hand corner.
- File the invoice in Purchases Paid in date-of-payment order, with the most recently paid invoice on top.
- If you have a receipt as well as an invoice, staple them together.
- You need a separate system for cash purchases and purchases made by credit card.

Update your Cash Book once a week

- Look through your cheque stubs. Enter the details of the bills you have paid into your Cash Book.
- Check the details against the invoices in the Purchases Paid file. Put a tick against the cheque number on each invoice to show that the details have been entered into your Cash Book.
- Update your Cash Book daily if you have a lot of bills to deal with.

6. Cash purchases

Record any business expense you pay out of your own pocket

- Write details of the purchase on each receipt.

Keep receipts in your Petty Cash file

- File them in date order.

Total all Petty Cash receipts once a month

- Write yourself a cheque for the total.
- Attach the receipts to an A4 sheet and file it in Purchases Paid.

Enter the details in your Cash Book

- Put your own name and 'petty cash refund' as the supplier.
- Break down the total into the different headings you are using. For example, if you spent £10 on stationery and £5 on parking you would enter £15 as the total, broken down into £10 for stationery and £5 for travel.

Treat purchases made by credit card in the same way

- Refund yourself the total of all the business purchases when the credit card bill arrives.
- Staple all the receipts together.
- Enter details in the Cash Book.

7. Checking bank statements

Each month, check your bank statement for items that are not in your Cash Book

- You may have non-sales income for which you have not issued an invoice. For example, you might have taken out a new loan, received a grant, been paid interest on your account or had a tax refund.
- Payments made by direct debit or standing order, bank charges and interest, will not yet be recorded in the Cash Book.

Enter details of any items missing into the Cash Book

- Enter details of all the non-sales income after the entries for money received from sales.
- Enter details of all the non-cheque payments after the list of cheques that have been written that month.

Match each entry in the Cash Book with the entry on your bank statement

- The system you are using to record sales and purchases means that the entries in your Cash Book should be in the same order as the entries on your bank statement.
- Tick off the item in the Cash Book and on your bank statement.
- Make sure that every item on the bank statement has been ticked off.

8. Bank reconciliation

Total all the items appearing in your Cash Book that have not been ticked off

- These are the items that have not yet appeared in your bank statement.
- There might be some money you have paid in that does not yet appear on your statement - for example, customers' cheques that have not yet cleared.
- There might also be money paid out that is not yet on your statement - for example, cheques you have sent to suppliers that they have not yet paid into their accounts.

Calculate your adjusted bank balance

- The adjusted balance is what the bank balance would be if all the money paid in and all the cheques paid out were shown on the bank statement.
- The adjusted balance equals the end-of-month balance shown on the statement, plus money paid in but not included in the statement, less cheques written but not included in the statement.

Reconcile your bank statement

- Write down the adjusted bank balance at the start of the month.
- Add the total sales revenue paid in and other income for the month (taken from your Cash Book).
- Deduct the total payments for the month (taken from your Cash Book).
- This figure should equal the adjusted balance at the end of the month. When it does, you have successfully reconciled your bank account.

Track down any errors

- If you have not reconciled the bank account successfully, you must have made an error somewhere in your book-keeping.

- The difference between the figure you have calculated and the adjusted balance at the end of the month will usually help you to find the mistake.
- For example, if the difference is £5.25, look for a sales invoice, other income or payment entry for £5.25. It should not take too long to find it.

Signpost

- Find out about [Intuit QuickBooks](#), [Sage](#), [Clear Books](#) and [Xero](#).
- Find [VAT guidance](#) or [make a VAT enquiry](#) to HMRC (0300 200 3700).

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