

Set up and Maintain your Books

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Financial Compliance for Co-operatives and Social Enterprises

Introduction

A well managed business will ensure it knows where all of its income has come from and where all of its expenditure has gone. The business must keep effective and efficient books of accounts and ensure someone has responsibility for ensuring this task is completed. In line with the need to inform Companies House, the financial books should allow for the production of a profit and loss account, a balance sheet and good practice suggests a viable cash flow forecast. These will also provide you with the information to complete your tax returns. Maintaining proper and efficient accounts will ensure financial control of the business helping to make proper and viable decisions

1. Reasons for Book Keeping

The Legal Requirement

Under the new system of self assessment, the keeping of books and proper financial accounts is a must and it's illegal not to. Companies House will require the production of a profit and loss account along with a balance sheet. To be able to produce these financial statements, proper and accurate information must be kept. This will also ensure that the business is keeping control of its finances, helping it to make proper and viable decisions about its future.

Control of Business

It's almost impossible to know whether you are making a profit or a loss, having to pay bills, collect money from people who owe you, etc if you don't keep books. Well organised, regularly maintained financial records are essential to sales and cash flow analysis. Your books should provide you with a reliable gauge of your business's performance and financial health. Failure to keep accurate, up-to-date financial records could result in poor decision making.

Cost Effectiveness

Most business's find it easy to handle their own book keeping needs if they ensure someone has the responsibility for ensuring this task. This requires understanding some basic principles and use of a few straightforward methods. Being able to understand and follow these steps producing well presented books will reduce your accountant's bills.

General Rules for Book Keeping

- It is essential that you retain all receipts, sales and purchase invoices, credit card slips and bills.
- Keep a close eye on your business bank statements
- Don't use pencil – use pen as this rules out any suspicion if you are ever inspected by the tax office
- Don't use tippex – for the same reason above
- Keep up-to-date – regularly up-dating the books, once a week or even once a day if necessary, ensures that it all doesn't become too much!
- Keep all bank statements.

2. Choose a system

Methods for keeping books

Some businesses use a paper-based system, however, this can be time-consuming and the alternative is a computer-based system. There is a wide range of affordable easy-to-use packages specifically intended for small businesses and sole traders.

Ask for advice

Your accountant can suggest a suitable manual or computer based system for your business. The right system will make it easier for them to prepare your accounts – again keeping the cost down!

Your accountants will be able to tell you how you should group different costs to make them relevant and useful to you.

Your accountant can advise you whether you need (or will need) to register for VAT.

3. Set up your system

Create files for keeping sales records

For a non cash business create two files, one for Sales paid and one for Sales Unpaid. When issuing invoices for each sale, file a copy in a logical order (e.g. invoice no, date issued etc) in the Sales Unpaid file. Once you have received payment for these invoices transfer the copy into the Sales paid file, again in a logical order.

For a cash business you will usually use till rolls or receipts to record your sales. Keep these records in a logical order.

For non cash businesses, your board will need to determine the businesses credit terms, e.g. how long your customers have to pay invoices you issue to them. This is important to manage the business's cashflow.

Create files for keeping purchases

Purchases are the things your business buys. Again keep two files for all purchase invoices that you receive, one labelled purchases paid, the other purchases unpaid. Again a logical order for filing these is important. Should you have any queries, keeping a consistent and logical order will make finding information much easier.

You may wish your business to make cash purchases and therefore a petty cash system will need to be set up. This should be kept for small purchases under an approved amount agreed by the board. A separate file labelled Petty Cash should be kept which will keep all receipts for business purchases made by cash.

Business Bank Account

A separate bank account makes it easier to keep track of your business income and expenses. Therefore it is important to keep business accounts separate from personal accounts and all business transactions should be made through this account. You need to ensure proper financial standing orders are in place to protect the business bank account. This will normally take the form of agreeing two signatories on cheques, arranging standing orders and direct debits. Ask your bank to send monthly bank statements and keep these filed safely in a logical order (bank statement No, date of statement).

The Cash Book

The cash book records all money coming into and going out of your business bank account. Keeping this book of entry up-to-date will help you to keep track of your cashflows.

Both manual and computer based accounting systems include a Cash Book. Your accountant can advise you on how best to record this information.

4. Record Sales

Issuing Invoices

Every time you make a sale you must issue an invoice, giving each invoice an original number (e.g. 001, 002 and so on) and keep a copy. File your copy in your Sales Unpaid file.

When an invoice is paid?

On receipt of payment use the paying-in book provided by the bank. On the stub of the paying-in slip write the date, invoice number(s) and amount(s). Take the relevant invoice from the Sales Unpaid file, mark the invoice with the date payment received and cheque number and file it in the Sales Paid file.

Cash Book Entry

Once a week or more regularly if required, update your cash book with your sales details. Look through your paying-in book stubs and enter into the cash book details of all the invoices you have received payment for. Check these entries against the invoices in the Sales Paid file. Again mark the invoice with a tick to show that the details have been entered into the cash book.

Dealing with irregular situations

If you need to amend an invoice, issue a new invoice. Then clearly mark the original invoice '*Cancelled see invoice No*'. File this in the Sales Paid file.

If you receive part payment of an invoice write 'part paid', the date and amount of payment on the invoice. Taking a copy, put the copy in the Sales Paid file and the original back in the Sales Unpaid file. When updating the cash book, put a 'P' by the invoice number.

If you need to 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 and must be deducted from your total sales amount.

Dealing with Unpaid invoices

You should regularly check through your invoices unpaid file, ideally once a week and chase any that are falling due or are over due. It would be a good idea to set up a standard statement template that you can send to your customers as a reminder to them of how much is outstanding.

Recording of Cash Sales

Keep separate records of regular cash sales. Using your till rolls or receipts system to record the sales list all the money going into and out of the till. Reconcile this daily to check that the amounts add up to the actual cash you have. Money coming in – money going out = cash in till.

5. Record Purchases

When an invoice is received.

Each time you make a purchase ensure that you get an invoice or a receipt. File all your bills in your Purchases Unpaid file, ensuring that the information is filed in a logical order.

When you pay an invoice

When you pay a bill or invoice by cheque write the details on the cheque stub. Write the date, supplier and amount. If you pay several invoices with one cheque, write down each individual amount and the total. Take the invoice from the Purchases Unpaid file and write the date and cheque number clearly on the invoice. If you have a receipt as well as an invoice staple the two together. File the invoice in the Purchases Paid file.

Cash Book Entries

Once a week or more regularly if required, update your cash book with your purchases details. Look through your cheque stubs and enter the details of the invoices and bills you have paid into your cash book. Check the details against the invoices in the Purchases Paid file. Again mark the invoice or bill with a tick to show that the details have been entered into your Cash Book.

Handling Cash Purchases

Cash purchases should be made through the businesses petty cash system. Pay for the item out of your own pocket ensuring you get a receipt. Keep all receipts in your petty cash file. Write a cheque to yourself reimbursing yourself for the amount. Attach all the receipts to an A4 sheet marked petty cash and file it in Purchases Paid file. Enter the details in the Cash book putting your name and 'petty cash refund' as the supplier.

6. Reconcile your Bank Statement

Every month you should match your cash book and bank statements with each, ensuring both balances are the same.

Check your 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 loan, received a grant, been paid interest on your account. You may have payments made by direct debit or standing orders, bank charges and interest, all of which have not yet been recorded in the Cash Book. Enter all these missing details into the cash book.

Matching your Bank Statements and Cash Book

Going through your cash book, match each entry in the Cash Book with the entry on your bank statement, ticking all the items in your Cash Book that appear on the bank statement. Once you have marked all the items that appear on the bank statement you may have items that are still in your Cash Book that have not been ticked off. These are items that have not yet appeared in your bank statement. There might be some money you have not paid in that does not appear yet or even customer cheques that have not cleared. There might also be money paid out that is not yet on your statement or cheques sent to suppliers that have not yet been paid into their accounts.

Calculate your Bank Balance

You will need to adjust your bank balance to show 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 the month balance (closing balance) on the bank statement, plus money paid in but not included in the statement, less cheques written but not included in the statement.

The Reconciliation

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) and 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.

Tracking down errors

If you have not reconciled successfully there must be 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 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 that amount

7. VAT registered Business

If your business is registered for VAT you will need to make some changes to the guide outlined above. You must issue VAT invoices and account for VAT in a separate column. You must have an invoice for all purchases and again account for the VAT in a separate column. For more information on VAT contact HM Revenue and Customs (HMRC - www.hmrc.gov.uk) or your Accountant.

SUMMARY

This guide should give your business a basic idea of how to set up and maintain your books. Should your business have more detailed requirements, further information can be obtained from The Wales Co-operative Centre.

Further Information

The Centre publishes a range of Guides providing some further information. In addition, if there are questions you would like answered or you wish to speak to someone directly, please feel free to contact the Centre at the address below or one of the addresses or telephone numbers given on the back page of this Guide. You can also visit our website at www.walescoop.com.

The following Wales Co-operative Centre Guides are available:

- A Guide to the Wales Co-operative Centre
- Adopting a Structure – a Legal Guide
- Making it Happen - A Guide to Business Planning
- A Guide to Employing People
- The Well Managed Business

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