Everything you need to know about small business accounting

Introduction

If you're running a small business, having a solid grip on all money-related matters is key. To succeed, you must utilise and manage all your resources closely - especially money.

Which is why every entrepreneur should have at least a basic understanding of how small business accounting works.

But accounting doesn't have to be complicated or time consuming! In fact, thanks to digitalisation, business owners can now keep their accounting records on the go.

As a small business owner, you probably have a lot of questions:

Is my business profitable? Are we meeting our budget goals? Where can we cut our expenses? What tax payments should I be concerned about?

If all of this feels slightly overwhelming, don't worry. This is exactly why we have created this guide.

This eBook will answer these questions, offer insight into how you can avoid common accounting pitfalls, explain accounting processes and provide expert accounting tips.

What’s inside

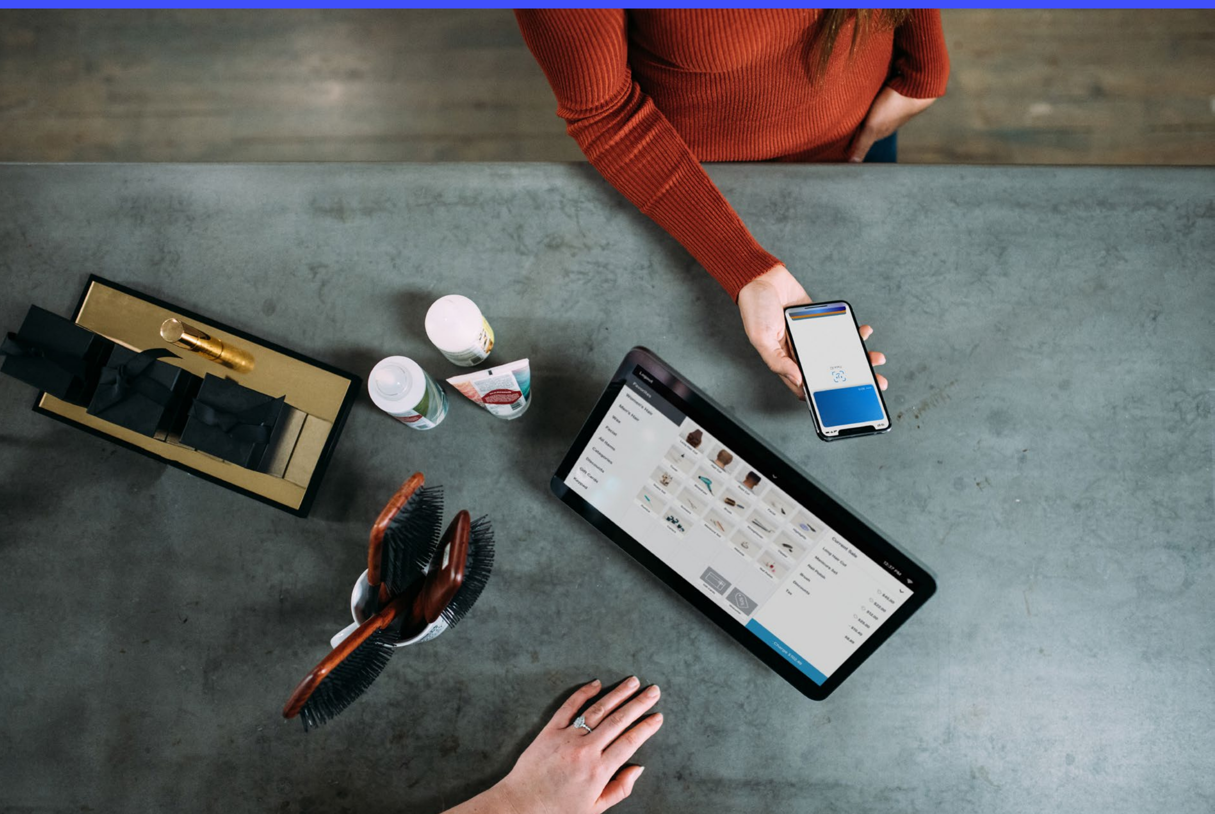
CHAPTER 1

How to open a business account

One question we often get is "should I open a separate business account?"

By organising your business accounts separately, you'll keep your finances organised and remain compliant with HMRC's rules.

In this chapter, we'll walk you through the benefits of having separate business and personal accounts, the different types of accounts, how to open a business account and whether you should hire an accountant for your financial business needs.



Why you should open a business account

As well as being a legal requirement for private limited companies, separating personal savings and business funds helps small business owners incur fewer errors that can later turn into expensive mistakes.

Let's look at the top benefits of opening a business account:

- **Accurate bookkeeping:** Mixing personal and business accounts can make separating business and personal transactions difficult. This can lead to inaccurate figures, which will skew your financial statements (such as Profit & Loss and Cash Flow) later down the line.

- **Helps you look professional:** Treating your business as a separate entity makes it appear more professional and credible. Whether you're making payments to suppliers or collecting payments from your customers, a separate business account can boost the credibility of your business.

- **Protection against HMRC enquiries and bank penalties:** HMRC, the body responsible for the collection of taxes, advises all small businesses to maintain a separate business account.

If you have registered your business as a limited company, it is illegal to use this bank account for both personal and business expenses, and could potentially lead to an enquiry from HMRC.

If you are registered as a sole trader, whilst it's not illegal to use the same account, your bank may penalise you for making significant business expenses on your personal account.

Now you know why you should open a separate business account, let's go into how to do it.

Step 1: Choose an account

The first step is to find a business account that meets your specific business needs.

Some businesses might look for a business account that provides a line of credit, while others might be more interested in features like Mobile Cheque Deposit or Deposit Reconciliation. It's also important to know about any fees and other charges.

While doing your research, you may find that some offer to open your account free of charge, but some of these may charge more fees per transaction.

It may seem easier to open a business account with the same company that you're already using for personal bank account, but experience tells us that this is not the case. Make an informed decision based on fees, customer service, and whether you prefer online or in-person communication.

We've created a pricing comparison table on our website, which you can check out here.

Note: Keep in mind that any bank fees charged to a business account are considered a business expense and are tax deductible.

Step 2: Open an account

Once you've chosen a banking provider to open an account with, you'll need to provide some key information.

Although the required documents largely depend on the structure of your business, you'll likely need to provide the following to get started:

- Proof of identity
- Proof of address
- Business name
- Full business address
- Contact details
- Estimated annual turnover
- Companies House registration number

  (for limited companies and partnerships)
- Business plan (in some cases)
- Personal financial situation (in some cases)

Many banks require you to visit them in branch. You'll often have hours taken out of your day and have to wait up to 7 days to have an account opened. At Tide, our mission is to make business banking seamless. Learn how you can open an account in minutes here.

Note: Business owners with a clean credit history are more likely to be accepted for a business bank account than those with poor credit history. (Note: Tide does not run credit checks, meaning there's a higher chance you'll get accepted).

Step 3: Verification

Congratulations! You've successfully opened a business account. To confirm that your account is up and running, carry out a test transaction to make sure everything is setup correctly.

Expert insights

Insights author: Finlay Everington is Director at **SAS Micro**, an accountancy and taxation firm that empowers entrepreneurs to launch and grow their small businesses.

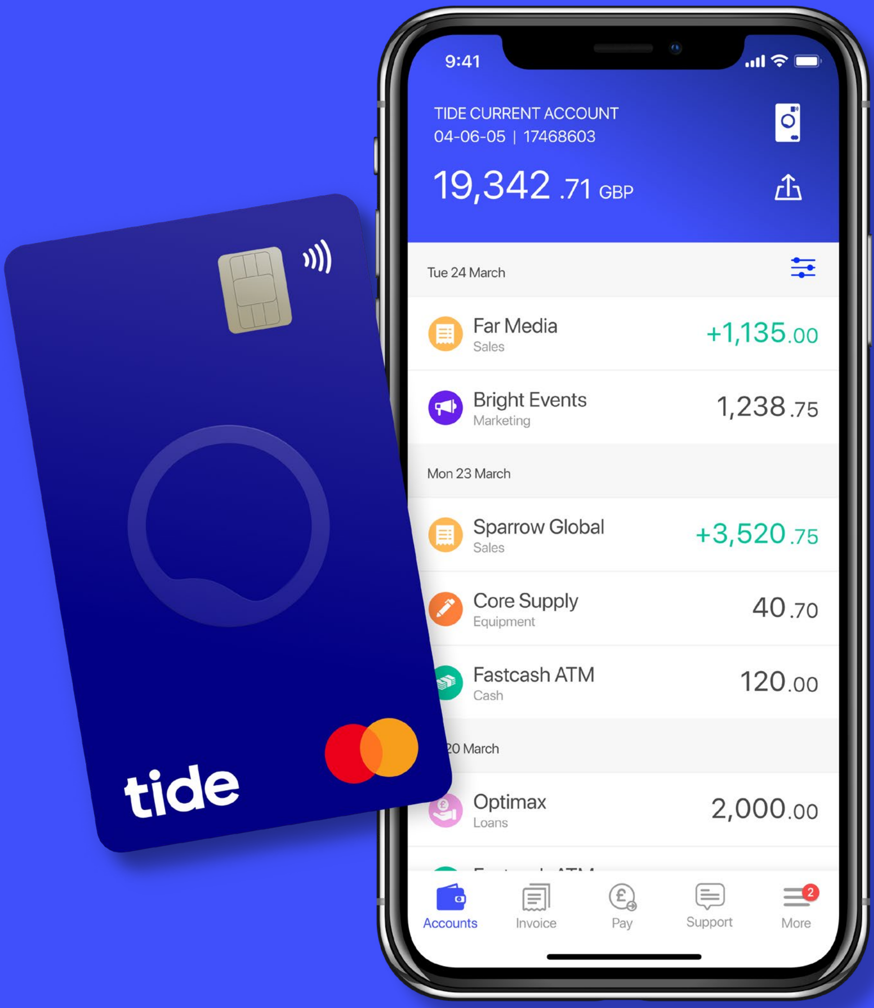
Should you hire an accountant?

Hiring an accountant in our increasingly technological and legislative times has become more than just paying a firm to keep you compliant; it's about working collaboratively to achieve your business goals.

A proactive accountant will introduce you to new ideas, time-saving software, tax efficiencies, and innovative ways to not only differentiate your business, but to operate efficiently and effectively.

An accountant may not have all the answers, but where their own expertise ends, they will be able to introduce you to a trusted partner to provide more specific and expert advice as required. Our more senior clients often compare us to the bank managers of old, empowering clients with the resources they need to successfully navigate through those big financial decisions.

So, your accountant should be far more than just annual financial statements. They should be your first point-of-contact to run through new ideas.



Open a business account in minutes

Powerful, simple and helpful.
Tide gives business owners their time back.

Open an account

CHAPTER 2

How to get your bookkeeping in order

Organising your finances can be a daunting task, especially when transactions are being carried out daily. Keeping your books, transactions and expenses in order requires patience and commitment.

In this chapter, you'll learn what bookkeeping is, how to set up a bookkeeping system and how to avoid some common mistakes.

What is bookkeeping?

Recording: Each financial transaction should be entered into the bookkeeping system on a daily basis, along with a document that describes what it is. This works as an audit trail for the transaction.

Each transaction (or "record") generally has two entries; a debit entry and a credit entry. It works as an error-detecting system and is widely known as the double-entry system.

Organising: The second part of the definition is related to 'organising' all your transactions. Once you enter raw data in a system, you're basically organising everything in a systematic form for future use.

Bear in mind, there's a technical difference between accounting and bookkeeping. Accounting oversees business progress and makes sense of the data compiled by the bookkeeper by building financial statements.

How to set-up a bookkeeping system

As a business owner, you'll need a system to record and track these transactions. This will help you create financial statements and forecasts for your business.

Here are the steps you can follow to set up a bookkeeping system:

1. Choose a bookkeeping system

There are generally two types of bookkeeping systems you can choose from, manual or digital.

Manual bookkeeping requires a lot of paperwork; from taking care of receipts to handling registers and going through the hassle of storing them. Plus, there's always a risk of human error while entering data manually and security can be compromised if a register is misplaced.

Digital bookkeeping systems, on the other hand, ensure better security and a reduced risk of errors. Everything is online and can be accessed at any point in time.

Generally, we recommend finding a digital system to keep track of all your accounting (including bookkeeping).

2. Choose how to record financial transactions

There are generally three ways to record transactions:

- Manually or by hand
- Using a software
- Hiring an accountant

If you choose to manually record data, there's a chance you'll spend hours on these bookkeeping tasks. Hiring an accountant and using accounting software will keep things organised while providing you with peace of mind that everything is being taken care of.

3. Select the best software

Choosing the right accounting software for your needs depends on a number of factors. These include mobile integration, security, price, value-added services and customer support.

If you're a small business owner, chances are you'll need a solution that gets everything done and doesn't break your bank. Check out our list of the best small business software to find one that fits your needs.

Additionally, our business banking app allows you to auto-categorise your transactions and easily integrates with several accounting solutions such as Xero, Sage and FreeAgent.

4. Set up a Chart of Accounts (COA)

The COA is a list of accounts that shows classifications of where you record the income and expenses of the company.

You can assign transactions to different accounts to keep them organised and ensure balanced books. Some examples of accounts include cash, revenue, rent, supplies, utilities, accounts payable and accounts receivable.

5. Select the best software

Once you've set up a bookkeeping system, make sure you've automated as much as possible in order to increase your productivity and minimise errors.

Here are some common tasks you should look into automating:

- Integrate your accounting software with your bank account so payments can be made through the system and you can give your accountant easy access to everything they need
- Raise invoices and recurring payments
- Categorise common transactions

Common mistakes to avoid

Bookkeeping is one of those tasks you can't afford to ignore. It can be easy to slip behind and lose control if you don't keep a keen eye on your transactions.

To help you keep on top of things, here are some of the most common bookkeeping mistakes you should avoid.

1. Poor record keeping

Ignoring small day-to-day expenses can lead to issues around cash flow and tax management in the future. Collectively, these small expenses amount to a lot and it isn't the best idea to ignore them.

It's recommended to record transactions as they occur. This will save the hassle of preparing financial statements at the end of the month.

2. Not reconciling on a regular basis

Reconciliation is the process of aligning your books with your bank statements to account for any differences between the two records.

Carry out reconciliation on a monthly basis, so you can keep your records up-to-date. This will also allow you to take care of discrepancies ahead of time.

3. Not having backups

While digital accounting is a godsend, it can be easy to lose hard copies of records (such as receipts and invoices). This can lead to a loss of data if something ever goes wrong.

It is always recommended to keep a copy of all business transactions. For example, you could export transactions from your accounting system into a spreadsheet to ensure everything is backed up. Make this a habit by creating a monthly process that exports your transaction data.

4. Mixing business and personal spending

You'd be surprised at how often business owners use their personal debit cards to pay for official expenses. Avoid doing this, as it could create confusion when settling private bills later down the line.

Set up a separate business account and make sure that you save plenty of capital. This will make sure you're well funded for any surprise expenses.

If you do accidentally make a personal expense from your business account, make sure you categorise it as so.

5. Neglecting VAT

Avoid paying significant fines by registering for Value Added Tax (VAT) when you need it. VAT is a 20% sales tax added to most goods and services, and you must register if you exceed (or expect to exceed) £85,000 in annual revenue.

It's equally important to collect and report it in your books. Incorrect entries drive up the 'amount' of sales and overstate the sales taxes due. Avoid paying extra tax by making sure VAT is attributed against relevant transactions.

CHAPTER 3

How to calculate your taxes

Every business is required to pay tax. Not being able to do so can mean the death of your business.

In this chapter, we will discuss in detail the UK tax system and how to work out different tax payments for small businesses.

UK tax system

The UK has one of the most thorough tax codes in the world, with more than 11,500 pages.

All individuals are subject to pay taxes depending on their assumed ability to pay; the higher the income, the greater the tax.

Basic UK taxes include income tax, property tax, capital gains taxes and VAT. This system applies to all over the UK, with some differences in Scotland.

All taxes received go directly to HMRC and local councils, who in turn spend that money for the benefit of the society - such as improvement in law enforcement agencies, construction of roads, and developing healthcare facilities.

There are generally two types of tax:

1. Direct taxes

These taxes are levied directly on the income or overall profit of the individual. Whatever you earn over the financial year is subject to a specific tax rate depending on your income.

Some direct taxes include:

- Corporation tax
- Capital gains tax
- Inheritance tax
- Income tax

2. Indirect Taxes

These are levied on the goods and services consumed by an individual, from toothpaste to restaurant bills. The most widely known type of indirect tax is VAT.

UK tax year

UK tax year dates are set from April 6 of one calendar year to April 5 of the subsequent year. For example, as of writing the last tax year ran from 06/04/18 - 05/04/19.

How to calculate out your tax

Knowledge of taxation is important for any small business because of the direct involvement of the government.

Here's a list of some taxes applicable to small businesses in the UK:

1. Corporation tax

If you're a limited company who has just made business profits, you're liable to pay a 19% tax on your profits to the government.

Corporation tax must be paid within 9 months and one day after a company's accounting period ends. This tax type does not apply to sole traders.

2. Income tax

Income tax is paid only on the profit made by the business for sole traders.

But if you're a limited company and draw a salary above the annual personal allowance (£11,850), income tax will be paid at source through your company's PAYE scheme.

3. VAT

If your business is making sales in excess of £85,000 annually, you have to register your company for VAT regardless of your business type.

Tax is paid quarterly once registration has been completed. VAT returns must be submitted to HMRC and paid online within 37 days after the end of the quarter.

4. National insurance

National insurance is money paid to the government for state pension entitlement and public services.

Similar to income tax, NI contributions due will be taken via PAYE and have to be paid by January 31 of each year.

5. Business rates

This type of tax is only applicable if you're running a business from an office or a shop.

Business rates are similar to council taxes, where you'll be sent a rate bill from your local authority a month or two before the start of the financial year.

Similar to income tax, NI contributions due will be taken via PAYE and have to be paid by January 31 of each year.

Making tax digital

The UK government's recent initiative is the Making Tax Digital (MTD) program. It aims to make submitting tax returns easier by helping companies automate payments and returns.

Through this system, HMRC aims to comprehensively simplify tax administration and attempts to put a stop to any tax evading activities. This will not only decrease the costs incurred by HMRC, but also make it easier for taxpayers to file their taxes.

Sending digital records directly from a company's current accounting software will lower the risk errors and prevent companies from facing extra costs.

Through this system, all tax information will be organised in a unified database where companies will be able to track their tax activities.

As of now, HMRC is making tax digital for VAT and income tax:

- VAT: Companies with a turnover of more than £85,000 are required to digitally store their records and use software to submit their VAT returns for VAT periods that started on or after April 1, 2019.

- Income tax: This is a part of HMRC's pilot phase where a handful of businesses and agents are storing and providing records to the authority.

Note: A fully digitalised system will be up and running by April 2020.

Want to learn more about Making Tax Digital?
Read more about what it is and how it affects you on our blog

CHAPTER 4

How to setup invoices

Any time a good is sold or a service is rendered, businesses create and issue an invoice to their clients to get paid at a later date. Knowing how to set up, create, and send invoices is important for any small business owner.

In this chapter, you'll learn what invoices are, what's included in them, how to ensure timely payments and how to successfully handle late payments.

What is an invoice?

An invoice is a non-negotiable commercial instrument issued by a seller to a buyer that specifies the amount and cost of a product or service.

It includes payment terms, such as the amount and due date, and mentions any discount or premium that was offered or charged by a seller.

Most accounting software let you easily generate invoices to send to buyers. Tide members can quickly create and pay invoices directly from the app.

What's included in an invoice?

Invoices generally include basic information on the seller and customer. Some of this information will vary depending on your payment terms and type of business. Here's a list of things to include in your invoice:

- Invoice number or reference ID
- Date of purchase
- Date of when the invoice was generated
- Item description
- Unit cost and quantity (if applicable)
- Names, contact details, and addresses of both parties
- Terms of payment (discounts, premiums, due date, payment method, etc.)
- Applicable taxes
- Total payment due

Here's an example of what an invoice looks like:

Your logo

Duncan Bond
5th Floor
54 Clerkenwell Road

E16 7LF

ducan@gmail.co
+77909672343

John Smith

Great Catering Ltd
john.smith@greatcatering.com
29 Alie Street
London

W1 3LN

Invoice

Invoice reference: Invoice0919
Issue date: 29 May 2019
Payment due by: 12 Jun 2019

Item	Amount
Food delivered	£630.00
Catering staff	£750.00
Total	**£1,380.00**

Amount due	£1,380.00

How to pay:

Please send your payment by bank transfer direct to our Tide account:

Account number: 55234534
Sort code: 234567
Reference: Invoice0919

This invoice was generated using Tide: business banking re-designed. For more information visit www.tide.co

How to ensure your invoice gets paid on time

The way you create and send an invoice impacts how buyers react to it. Here are four tips to increase the chances of your invoice getting paid on time:

1. Clarify the payment terms

Make sure you communicate payment terms with your client or customer. Whether they have to pay 50% in advance or pay in installments, ensure there's clarity on both sides. Setting expectations ahead of time sets the foundation for strong business relationships.

If your client has agreed to your payment terms from the outset, there's a great chance you'll get paid on time.

2. Offer early payment incentives

Motivate clients to pay early by offering discounts. For example, you can offer a 2% discount if they pay you before March 25th when the original due date is set to March 30th.

3. Automate invoicing and follow-ups

Use technology to your advantage. Mobile apps have made it super easy for small businesses to invoice their clients at any given time of the day, regardless of where they are.

Most accounting software use an effective follow-up process to ensure timely payments. They automatically send out reminder emails to clients before or near the payment due date.

4. Request advance payments

When two companies begin their working relationship, trust must be established and maintained. This is why business owners often request a percentage of the total payment in advance as sort of a guarantee that both companies will go ahead with the deal.

5. Set penalties for late payments

You can also set penalties for late payments from clients. If they don't pay on time, you'll be compensated for it. For example, a 1% penalty fee per delayed day could be a term you include in your contract.

Don't feel guilty about it: you did the work and deserve to be paid on time! Just lay out your expectations and the terms early on.

Expert insights

Insights author: **Stephen Mix** is the Director at **IMS Accounting**, where they help contractors get a handle on their finances through mentorship, tax and accounting services.

3 top tips for ensuring clients pay on time

1. Confirm receipt of invoice:

Within 24 hours of sending an invoice, follow up with the appropriate people and have them confirm that they have received the invoice and ask if there are any queries. Common delaying tactics are to deny they received the invoice in the first place or to wait until the payment is due before querying the amount charged. This helps nip all of that in the bud.

2. Break up the chase with different people

Sometimes it can be awkward to maintain a client relationship and chase payment at the same time, so you avoid chasing. Breaking it up with different people allows you to play good cop/bad cop to get around this. If you work alone, there's no harm in asking a friend to pretend to work for your company or create a "finance@" email address to send pushy emails chasing payment.

3. Don't be shy to chase

Many people hold back from chasing payment because they don't want to seem desperate or rude, even when it is overdue. Bear in mind that if someone does not pay you within the terms of the invoice, they are not acting in line with the agreement you have made together. It is good business practice to ask for payment and you are within your rights to expect them to honour their part of the deal.

CHAPTER 5

How to track your expenses

In this chapter, we'll show you the importance of tracking your business expenses, identify major expense categories and walk you through the process of tracking your expenses.

Why track your small business expenses

Business expenses are costs incurred from running your business. They are tax deductible and netted against your business' income.

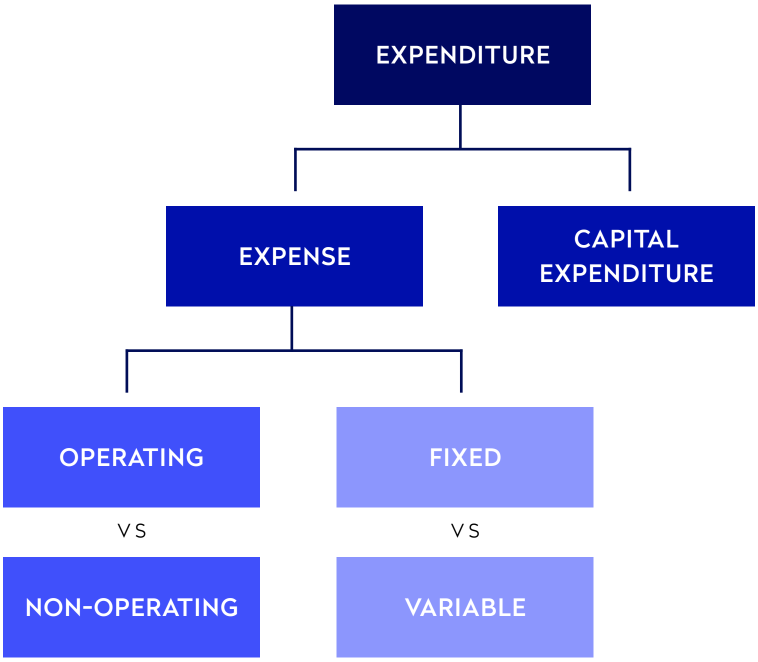
Business expense tracking has the potential to define the success of your business. A study by CBS Insights showed that **29% of startups fail because they run out of cash, making it the second most common reason why startups fail.**

Expenses play an important role in business profitability. Tracking expenses can highlight areas where most of your money is going. This knowledge can help you take measures to cut down on extra costs and remain profitable.

Major expense categories

To track your expenses more effectively, it's important to be aware of the different expense categories to better organise your finances

Here are some of the major expense categories for small businesses:



1. Capital expenditure & expense

Capital Expenditure (or CAPEX) is the expense that a company incurs on buying, maintaining and improving its fixed assets, such as buildings, equipment or land.

2. Operating & non-operating expense

Operating expenses (or OPEX) are the ongoing costs for running a business. These costs are incurred by the business on a day-to-day basis.

Here are some examples of OPEX:

- Administrative expenses
- Office supplies
- Marketing and advertising
- Rent and utilities
- Salaries and benefits
- Depreciation and amortisation

Non-operating expenses, on the other hand, aren't related to a business' core operations.

Here are some examples of Non-OPEX:

- Interest
- Taxes
- Impairment charges

3. Fixed & variable expense

Fixed expenses, as the name suggests, stay fixed even if a business increases its production. For example, the rent on your office building stays the same regardless of how many goods you produce.

Variable expenses will change based on the number of goods produced. For example, the commission given to employees on making a sale will increase as more products are sold and decrease as less items are sold.

Here are a few examples of fixed costs:

- Rent
- Insurance
- Interest payments
- Salaries and benefits

Here are a few examples of variable costs:

- Transaction fees
- Commissions
- Raw materials

Note: Some expenses can be fixed or variable depending on the business. For example, email marketing software counts as a fixed marketing expense, as it's purchased as a monthly subscription. Whereas one-off advertising campaigns, for example in an industry magazine, would count as a variable marketing expense.

Allowable vs. disallowable business expenses

Some expenses are allowable (not subject to tax) while others are not. It depends on whether tax authorities consider certain expenses as part of your taxable income or not.

This area can often cause confusion. To clarify, here are some examples of what can be claimed as an expense when doing your small business accounting:

- **Labor:** Full-time employees, independent contractors, consultants and freelancers all fall within this category.
- **Rent, utilities, phone and supplies:** Rent, bills and other office expenses can be deductible as a business expense. If you work from home, a percentage of your bills and rent can be claimed against the business.
- **Business travel:** If the purpose of a trip is for business (e.g. meeting suppliers or clients), then you can claim it as an expense.
- **Transportation:** Record when, where and why you used any vehicle for business and keep any rental receipts.
- **Benefits, education and training:** If you offer your employees dental insurance or the opportunity to further their education or learn new skills, these can be deductible business expenses for you and/or your employees.
- **Entertainment:** You're allowed to claim £150 a year per employee for entertainment (which includes yourself). For example, your Christmas party, if open to all employees that costs under £150 per employee, would count as an expensable entertainment event. Note that you cannot claim any entertainment expenses if you're a sole trader.
- **Food:** Business lunches with clients are deductible at 50%, as are employee lunches taken whilst travelling for business purposes.
- **Advertising and marketing costs**

What can't you claim as a business expense?

Here is a list of outgoings or costs that are NOT deductible as business expenses:

- Fines and penalties: The most common fines for small business owners are for failure to file by the due date and late payment which can't be claimed as an expense.
- Political contributions: You can't deduct contributions your business made to a political party or candidate.
- Hobby related expenses: If you belong to a country club, social club or fitness facility, your dues are not a deductible business expense.

Looking for a more comprehensive list of business expenses?
Learn more in our beginner's guide to small business accounting.

CHAPTER 6

How to setup a payroll system

At some point in your entrepreneurial journey, your business will outgrow you. You only have so much time in the day, so hiring employees will be a natural evolution in your business.

In this chapter, you'll learn about what PAYE is, and how to set up payroll to make sure your employees get paid. We'll also cover the different types of records your company should keep, and what to do if those records are lost or stolen.

Introduction to PAYE

Payroll refers to the process of calculating an employee's pay. Whereas "Pay As You Earn" (or PAYE) is the system used by HMRC to collect Income Tax and National Insurance from your employees.

As an employer, you're required to do the following through PAYE:

- Payment to employees: Including salary, wages, commission and bonuses.

- Deduction from employees: Including tax, National Insurance and student loan repayments.

- Report to HMRC: This has to be done on or before the pay day; payroll software works out anything and everything you owe and you'll have to pay out each month. In case you want to claim any reductions, you'll have to send a report to HMRC.

- Note: If none of your employees are paid £118 or more a week, there's no need to register for PAYE. However, payroll record-keeping is still necessary.

Choose how to run payroll

1. Hire an accountant

If you're considering hiring a professional accountant, discuss the services they'll be offering you. They should take care of the basics, such as keeping employee records, providing pay cheques and making payments to HMRC.

Note: If you choose this option, you're still legally bound to complete all PAYE tasks.

2. DIY

Since small businesses are already on a tight budget, you may choose to set up and run payroll on your own.

The first thing you'll need to do is register yourself as an employer with HMRC. You'll be required to provide details about your employees and follow a process from there.

Here's the complete process you'll need to follow in order to set up payroll:

- **Step 1:** Registration – get registered with HMRC and get a PAYE Online login.
- **Step 2:** Choose a payroll software – this will enable you to record employee details, calculate pay and deductions, and report to HMRC. HMRC provide a list of approved software providers including free payroll software if you have fewer than 10 employees and paid-for payroll software.
- **Step 3:** Collect and keep records.
- **Step 4:** Share employee details with HMRC.
- **Step 5:** Record pay, make deductions, and report to HMRC on or before the first pay day.
- **Step 6:** Pay what you owe and claim any reductions.

Keeping records

Record-keeping is an important part of the payroll process. You need to keep them for three years from the end of the tax year they relate to. HMRC may even run a background check to see if your payments are accurate.

Here's a list of things you must collect and record:

- Payment to employees and deductions
- Claims and payments to HMRC
- Employee leaves and sick absences
- Tax notices and benefits/expenses

In case something goes wrong and you lose all the data, you must communicate to HMRC as soon as possible. This way, they'll know you don't have the knowledge of what you owe and they'll be able to help you.

Wrapping up

For a small business owner, a basic knowledge of small business accounting is essential.

If you're on a budget, like most small businesses are, consider handling all your accounting and bookkeeping with the use of accounting software. It's more efficient and a lot less expensive than hiring a professional accountant.

Open a business account in minutes

Powerful, simple and helpful.
Tide gives business owners their time back.

Open an account

Learning new terms and accounting jargon all at once can be a bit overwhelming.

This is why we have created a chapter-by-chapter glossary with complete definitions to help you make the most of this eBook.

Chapter 1: How to Open a Business Account

Account: A record or statement of financial expenditure and receipts relating to a particular period or purpose.

Bookkeeping: The activity or occupation of keeping records of the financial affairs of a business.

Cash flow statement: A type of financial statement that shows how changes in balance sheet accounts and income affect cash and cash equivalents, and breaks the analysis down to operating, investing, and financing activities.

Credit: A person's ability to obtain goods or services before payment, based on the trust that the agreed payment will be made in the future.

Deposit: A sum of money paid into a bank or building society account.

Entity: A thing with distinct and independent existence.

Expenses: The cost incurred in or required for something.

Fees: A payment in return for services rendered.

Finance: A large amount of money and its relative management.

Financial snapshot: Financial overview of the business.

Fund: A sum of money saved or made available for a particular purpose.

HMRC: Stands for Her Majesty's Revenue and Customs. HMRC is responsible for the collection of taxes.

Payment: An amount paid or payable.

Profit and loss statement: A type of financial statement that summarises the revenues, costs, and expenses incurred during a specified period, usually a fiscal quarter or year.

Revenue: The total income generated by an organisation through the sale of goods or services.

Savings: The money one has saved, especially through a bank or official scheme.

Transaction: An agreement between two or more parties that causes a change in the asset, liability, or net worth account of the business.

Chapter 2: How to get your bookkeeping in order

Accounts payable: The money owed by a company to its creditors.

Accounts receivable: The money owed to a company by its debtors.

Audit trail: A system that traces the detailed transactions relating to any item in an accounting record.

Chart of Accounts (COA): A list of accounts that shows classifications where you record the income and expenses of a company.

Credit entry: An accounting entry that either increases a liability or equity account, or decreases an asset or expense account.

Debit card: A card allowing the holder to transfer money electronically from their bank account when making a purchase.

Debit entry: An accounting entry that either increases an asset or expense account, or decreases a liability or equity account.

Double entry system: The double entry system of accounting or bookkeeping means that for every business transaction, amounts must be recorded in a minimum of two accounts.

Financial statement: These are written records that convey the business activities and the financial performance of a company.

Invoice: A list of goods or services provided along with the total payment due at a later date.

Reconciliation: The process of lining your books up with your bank statement to account for any differences between the two records.

Sales journal: A specialised accounting journal which is also a prime entry book used in an accounting system to keep track of the sales of items that customers (debtors) have purchased on account.

Chapter 3: How to calculate your taxes

Tax: A compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions.

Value Added Tax (VAT): A consumption tax placed on a product whenever value is added at each stage of the supply chain, from production to the point of sale.

Chapter 4: How to set-up invoices

Advance payment: A part of a contractually due sum that is paid or received in advance for goods or services, while the balance included in the invoice will only follow the delivery.

Discount: A deduction from the usual cost of something.

Penalties: A punishment imposed after there has been a breach in terms of contract.

Premium: A sum added to an ordinary price or charge.

Chapter 5: How to track your expenses

Capital expenditure (CAPEX): The expense a company incurs on buying, maintaining and/or improving its fixed assets, such as buildings, equipment, land etc.

Operating expense (OPEX): The ongoing cost of running a business. These costs are incurred by a business on a day-to-day basis.
Fixed expenses/costs: Costs that don't vary as the number of goods produced changes.

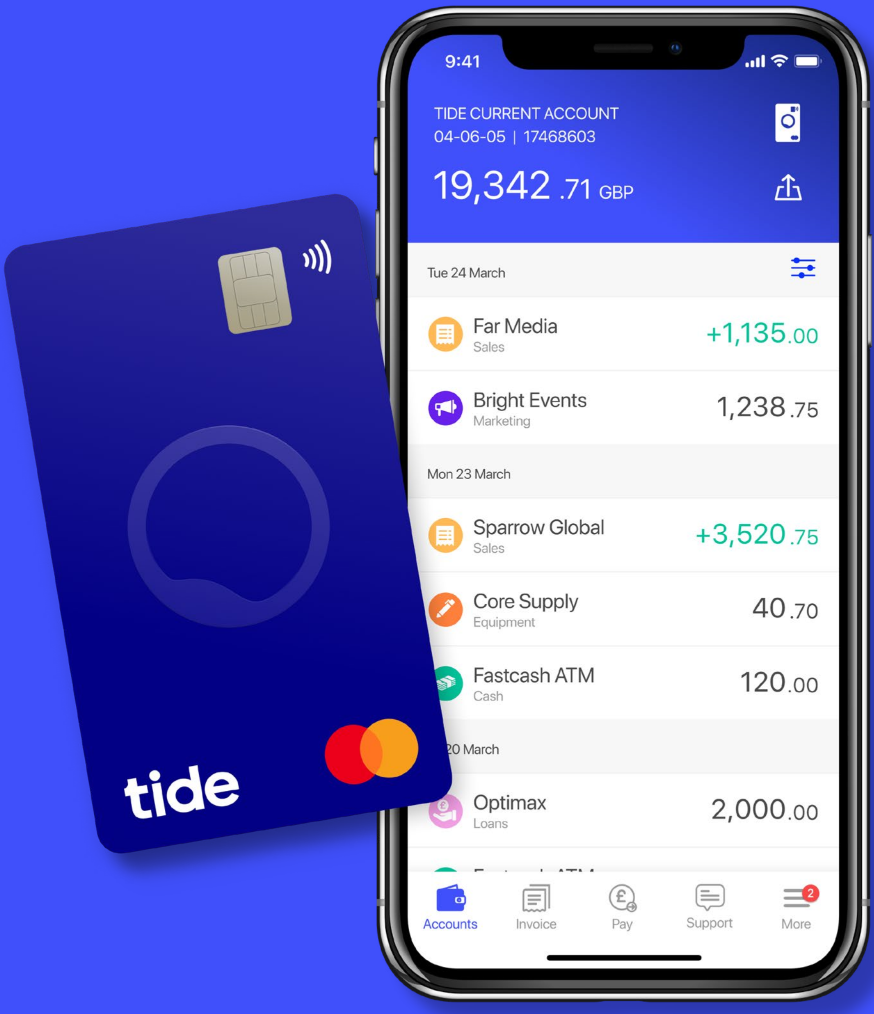
Variable expenses/costs: Costs that vary as the number of goods produced changes.

Chapter 6: How to set-up a payroll system

PAYE: Stands for Pay As You Earn.

DIY: Stands for Do It Yourself.

Payroll: A list of a company's employees and the amount of money they are to be paid.



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