

Getting the Best Possible Start: Business Start-Up Checklist

Expert knowledge means success

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

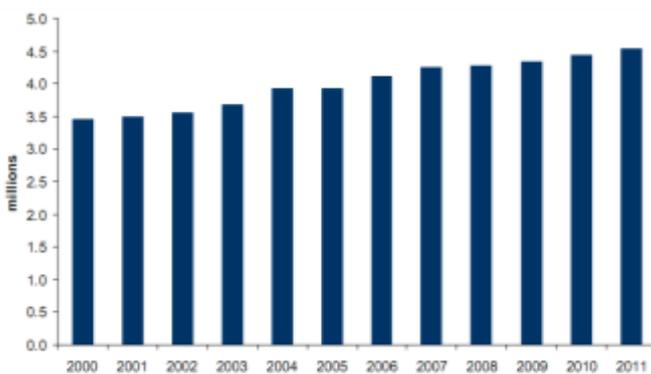
Introduction

Most businesses are, by definition, “small businesses”. The latest small or medium-sized enterprises (SME) statistics published by the UK’s Department for Business Innovation & Skills (BIS) reveals the importance of small businesses to the economy¹. There were 4.5 million business enterprises in the UK in 2011, a rise of 2% over the previous year. These enterprises employed 23.4 million people and had a combined annual turnover of £3.1 billion. Of these:

- Almost two thirds (62.4 per cent) of private sector businesses were sole proprietorships, 27.7 per cent were companies and 9.8 per cent were partnerships.
- Small and medium-sized enterprises (SME) accounted for 99.9 per cent of all enterprises, 58.8 per cent of private sector employment and 48.8 per cent of private sector turnover.
- SMEs together accounted for more than half of employment (58.8 per cent) and almost half of turnover (48.8 per cent) in the UK private sector, at the start of 2011.
- Small enterprises alone (0 to 49 employees) accounted for 46.2 per cent of private sector employment and 34.9 per cent of private sector turnover.

The rise in sole traders and in unregistered partnerships is likely to continue.

Figure 1: Number of private sector enterprises in the UK, start of 2000 - start of 2011.



Most of the growth in the business population has been in the number of 'micro'

businesses employing fewer than ten people and in the number of one-person companies. Changes to tax legislation and Corporation Tax rates are thought to have encouraged both employees and self-employed people to incorporate.

Many small businesses are dependent on large businesses for key contracts and outsourced work. In turn, many of the larger companies are dependent on smaller companies for specialist skills and niche services:

- Many local small businesses are able to survive, and the better ones prosper, as a result of their strong local market knowledge and lower cost structure. In addition, some smaller businesses develop product niches in international markets, aided by advances in communications such as the development of the Internet and availability of fast broadband access;
- But many medium-sized businesses find it hard to compete in the new environment because:
 - they have higher cost structures than smaller businesses;
 - they do not enjoy the price premiums enjoyed by the brand-name products of their larger competitors;
 - they may suffer from the knock-on effects of regulations designed to control the powerful global companies but from which smaller competitors may be exempt.

When businesses start they have no history.

New systems have to be set up. Unless adequate procedures are in place - particularly in accounting matters - company directors and other business owners can fall foul of the law. The checklists covered in the following sections will help you to deal with the various aspects of your start-up business:

1. Preview - your initial thoughts about the business including budget setting and the business format (company, partnership etc.).
2. First Meeting of Directors - plenty of form filling here but all very essential.
3. Accounting Records - crucial to the business but easily underestimated.
4. Statutory Records - what companies need to maintain.
5. Bank Accounts and Cheque Signatories - good discipline with your bank account.
6. Notepaper, Invoices and Name Plates etc., - the information you need to show.
7. Property, Services, Fixtures and Fittings - commonsense points.
8. Health and Safety - Not to be ignored.
9. Insurances and Pensions - getting the right cover.

Changes to accounting, reporting and auditing exemptions

From 8 November 2006, more small financial services businesses are eligible for the small company accounting, reporting and auditing exemptions (that apply for financial years ending on or after 31 December 2006), that allow them to:

- prepare less detailed accounts and directors' reports for their shareholders
- only file a shorter balance sheet at Companies House
- stop having their accounts audited

You may be eligible if your company qualifies as small, does not come under the Investment Services Directive and is one of the following:

- an investment management company - e.g. unregulated collective investment scheme managers
- a personal investment company - e.g. independent financial advisers that do not hold client assets
- a securities and futures company - e.g. corporate advisory firms
- a life and general insurance intermediary
- a mortgage lender, administrator or intermediary
- a service company that usually only carries on regulated activities for firms within the group to which you belong
- an authorised professional firm - e.g. solicitors or accountants approved to give financial advice to clients
- from 6 April 2007 only - some businesses that comply with Sharia law - e.g. home finance providers

For more details see: <http://www.bis.gov.uk/file42612.doc>

10. Contracts of Employment – legislation is becoming more onerous all the time.
11. PAYE – payroll: a tortuous event for every employer but the rules must be observed.
12. VAT - if your turnover exceeds the registration limit and your sales/services are not exempt, registration is compulsory. Under the registration limit, it may pay you to register voluntarily.
13. Taxation – what you need to do about your taxation obligations.

- Customers researched
- Suppliers contacted and terms established
- Competition assessed
- Principal risks listed
- Accounting, monitoring and performance criteria decided

Checklist 1:

Preview

Remember that there are three crucial elements to a successful business:

1. Management
2. Market
3. Margins

You must assess your market and the produce or service you are selling into that market, the profit margin which that market will provide, contingencies and the financing of the business.

Above all, you have to ensure that your management team is responsible, disciplined and has the necessary skills to run a business. Most small business failures are the result of inexperienced management.

This first checklist provides some details of those matters that should be considered by a potential entrepreneur before taking any further steps or consulting banks, accountants, solicitors or other professional advisers.

Tick when completed

Overview:

- Key personnel and areas of management completely covered
- Market for these products/services
- Product(s)/services adequately defined and adequately established
- Workforce identified
- Premises identified
- Facilities (production/office) identified

Projected performance:

- Budget realistic with enough margin to provide for contingencies and tougher market
- Cash flows incorporate contingencies
- Balance sheets projected ahead
- Finance required and its proposed application shown

Form of business structure chosen:

- Sole Trader
- General Partnership
- Limited Liability Company
- Limited Liability Partnership (LLP)

Checklist 2:

First Meeting of Directors (Limited Companies)

If you have completed the 'Preview' section and you have decided to choose the limited liability structure, you will now need to purchase your 'off the shelf' company or form a company personalised to your requirements. This can be done through HMRC, your solicitor or a company formation agency.

Once the company has been acquired or formed, you should follow the procedures given below:

Tick when completed

Check the following changes:

- The change of name to that desired
- Amendments to the main objects clause in the Memorandum and Articles of Association
- Any required increase in the authorised share capital
- The appointment of the new director(s) and secretary and the resignation of the first director and first secretary (who came with the ready made company).

Check that the following documents were produced and noted at the first meeting:

- The original certificate of incorporation
- A copy of the special resolution changing the name of the company
- The certificate of incorporation showing the company's new name
- A copy of the special resolution whereby the company changed the main objects clause of the Memorandum and Articles of Association
- A copy of the ordinary resolution whereby the authorised share capital was increased
- A copy of the Memorandum and Articles of Association
- A resolution appointing the new director(s) and secretary of the company
- Letters of resignation signed by the first director and secretary of the company
- Copies of forms TM01/2 giving notice to the Registrar of Companies of the resignation of the first director and secretary and appointment of new directors and secretary (forms AP01/3)
- Copy of form AD01 giving notice to the Registrar of Companies of a change in the company's registered office address

- Copy of form AA01 giving notice to the Registrar of Companies of a change in the company's accounting reference date
- Cheques in favour of the company for the amount payable in respect of the shares subscribed for by the subscribers
- Transfer forms for the subscriber shares duly signed and stamped
- The form of resolution required by whichever bank you have chosen
- The certificate of non-trading given by the formation agency.

Check that the minutes record that the following resolutions, as appropriate, were passed:

- The appointment of additional director(s)
- The appointment of a chairman
- The appointment of auditors
- The change in address of registered office
- The adoption of the company seal or details of persons who are authorised to sign on the company's behalf
- The change of accounting reference date (financial year end)
- The appointment of bankers of the company
- The stamping, transfer and receipt of cash at par for subscriber shares
- The allotment of additional shares and their entry into the register of members
- The sealing (if applicable) and issue of share certificates.

Registration for VAT, PAYE and notification to HMRC:

- VAT
- PAYE
- TAX

Filing of forms with the Registrar of Companies, as appropriate:

- Resignation of first director and secretary
- Appointment of new director(s) and secretary
- Change in Registered Office address
- Change in Accounting Reference date
- Allotment of additional shares.

Checklist 3:

Accounting Records

Do not underestimate the need to know the financial 'state of play' of your business on a regular basis – at least on a monthly basis.

Ask us for help in establishing the financial records for the production of monthly or quarterly management information. This will provide you with peace of mind (or the knowledge that things are not as they ought to be!) and external credibility, particularly with your bank.

A standard set of records and other considerations is given below. If you need help, HMRC will explain them to you and where appropriate help you set them up. You may need to employ a part-time bookkeeper! Is it in your budget?

Tick when completed

- Cash book
- Petty cash book
- Purchase day book
- Purchase ledger
- Sales day book
- Sales ledger
- Control accounts
- Wages book/deduction sheets
- Register of fixed assets
- Nominal ledger
- System for ordering goods/dealing with purchase invoices
- System for dealing with customers' orders/sales invoices
- Credit control procedures
- Control of workforce and hours worked
- Stock control procedures
- System for regular management information
- Adequate control procedures by management over employees.

Checklist 4:

Statutory Records

A company's statutory records are very important - even though you rarely see them. They are the definitive proof of the company's legal existence and its record of share ownership and directors as well as (through the minute book) showing what decisions were made by the directors.

Tick when completed

- Register of shareholders
- Minutes of directors' and shareholders' meetings
- Register of directors and secretaries
- Register of charges
- Register of directors' interests in shares and debentures
- Register of share or stock transfers
- Register of debenture holders
- Copies of directors' service contracts.

Checklist 5:

Bank Accounts and Cheque Signatories

It is likely that between 80 per cent and 100 per cent of the wealth of your business (income and expenditure) will pass through your bank account. Good relationships with your bank and strict controls over the operation of the account are therefore essential.

Bank all your takings (sales). Avoid the temptation of dipping into the cash till to pay your expenses unless you record everything properly. It distorts the company's reported performance and will catch up with you later.

Tick when completed

- Shop around to find the best deal available for your start-up business – many banks offer no/low charge options in the first year of trading
- Determine who will be cheque signatories and their level of authority and advise the bank accordingly
- Complete the bank mandate form
- Advise the bank of standing orders, direct debits and credit transfers required
- Consider taking professional advice in respect of personal guarantees/charges on assets/debentures
- Agree with the bank the timetable for the production of monthly/quarterly management accounts and debenture figures where appropriate.

Request your bank to:

- Send bank statements on at least a monthly basis
- Provide pre-printed cheques crossed 'Account payee only'
- Provide pre-printed paying in books.

Checklist 6:

Notepaper, Invoices and Name Plates etc.

The design of your logo and stationery can be an important part of your marketing strategy. Letters, invoices, mail shots, statements are all forms of advertising.

In designing the stationery and other marketing literature of a limited company, consideration must be given to the legal requirements detailed below. In addition, you may want to take legal advice on whether the same information should be included in e-mails, on your website and displayed at your premises.

Tick when completed

Information Required: Limited Companies and Limited Liability Partnerships

(This applies to Letters, Orders, Invoices, Cheques, Official Publications and Forms)

- Name of company or LLP
- Country of registration
- Address of registered office
- Registration number at Companies House
- VAT number
- Forename or initials and surname (and nationality of non EEC directors) of either ALL or NONE of the directors.

General Partnerships

- Partnerships are required to state on letters, orders and premises the names of all partners together with the principal office of the partnership, or in some cases indicate where a list of partners may be inspected. Invoices must state the VAT registration number.

Sole Traders

- A sole trader operating under a business name must state on letters, orders and receipts his/her own name and business address. Invoices must state the VAT registration number.

Checklist 7:

Property, Services, Fixtures and Fittings

In your business plan and financial forecasts you will have assumed a starting date for trading. This date may have been chosen to take maximum advantage of a particular event, i.e. trade fair, seasonal uplift (Christmas), or extensive advertising campaign.

More than adequate time must be allocated for obtaining premises, especially if timing is a critical factor. The commercial pressure to obtain access to premises may force you to compromise on the price paid or to give unwarranted covenants - *beware!*

Tick when completed

Premises:

- Determine the size of premises, location and access required and the split between office and factory areas
- Determine whether premises are to be purchased or leased
- Instruct solicitors as appropriate
- Ensure that you understand the company's and your own personal liability in relation to a lease.

Arrange for services to be supplied as appropriate:

- Electricity
- Gas
- Telephone, telex and fax and e-mail and Internet access
- Water
- Photocopiers
- Vending machines
- Refuse collection
- Order appropriate furniture and equipment
- Inform local authority of your presence for rating purposes.

Checklist 8:

Health and Safety

It's very important that you give consideration to the health and safety of employees at an early stage of developing your business plan and financial forecasts.

It's an area easily overlooked by the entrepreneur, but not by the Health and Safety Officer - possibly your largest unbudgeted cost! A checklist is given below:

Tick when completed

- Is all of the plant up to standard with respect to safety and risk to health
- When installing plant the latest good practice for safety has been applied
- Adequate steps have been taken to minimise the danger of injury or ill health by the use of special safety systems such as "restricted access" etc.,
- Where there are known toxic contaminants present, is the work environment regularly monitored to ensure that protection conforms with current hygiene standards
- Safety equipment inspected regularly
- A written "health and safety statement" is required to be made where there are five or more employees.

An employer is required:

- To provide and maintain safe access to a place of business
- To notify and report accidents that occur at work to the appropriate officers of the Health and Safety Executive, and to have clear procedures in preventing the occurrence of accidents
- To keep at each place of work with more than ten employees an accident book with details of all accidents. This book must be kept for three years
- To provide adequate ventilation, together with specific control of dust and fumes where necessary
- To obtain a fire certificate from the Fire Officer where more than 20 people are employed
- To provide first aid facilities in the place of work
- To provide heating and fans etc, as necessary for the well-being of the workforce
- To provide sufficient and hygienic lavatory and washing facilities in all work places
- To provide protective clothing where appropriate
- To provide (and record) appropriate training in the use of equipment.

Checklist 9:

Insurance and Pensions

When considering insurance cover it is normal (via an insurance broker) to obtain competitive quotes. In addition to the comparative costs, take advice on the manner in which the various companies settle on claims. Cheap policies may be the hallmark of insurance companies who argue over paying out claims!

Tick when completed

Review your needs with an insurance broker

Arrange for the following compulsory insurances etc:

- Employees liability - personal injury and property of employees
- Motor insurance - minimum 3rd party for all vehicles
- Stakeholder pensions – for businesses with 5 or more employees

Arrange, or at least consider, the following standard commercial insurances:

- Public liability - personal injury and personal property of the public
- Property damage - fire and theft.
Insurance cover on premises should be based on rebuilding cost NOT market value
- Business - consequential loss of profits resulting from fire, theft etc.
Interruption insurance can include book debts cover, computer damage cover
- Specialist cover - specific to the nature of the business i.e. Export Credit Guarantee Department
- Key man insurance
- Personal health insurance
- Pensions - consider arrangements for yourself and employees.

Checklist 10:

Contracts of Employment

HMRC can (or you can ask your solicitor to) assist you in drafting both standard and specific contracts of employment. The contract gives an opportunity for the company to include terms in addition to those required by law. Advantage should be taken of this opportunity to include a non-cash payment clause allowing the company, at its option, to remunerate by cheque or bank transfer instead of by cash. This would enable the reduction of administrative time, cash holding risks, bank interest and charges, and insurance premiums.

The legal requirements relating to contracts of employment are given opposite.

Tick when completed

- Do you have standard contracts of employment?
- Have you obtained from the Department of Employment the booklet called "A guide for employers - individual rights of employees"?

Do the contracts contain the following matters as required under statute?

- Names of employer and employee
- Date employment commenced
- Whether the employment is continuous with a previous employment or otherwise
- Remuneration or method of calculation
- Intervals at which remuneration is paid
- Entitlement to holidays, including public holidays and holiday pay
- Provisions for sick pay
- Provisions of pensions and pension schemes or otherwise
- Whether a contracting out certificate under the Social Security Pensions Act 1975 is in force
- Length of notice period required by both parties or if the contract is for a fixed term, the date the contract expires
- The job title
- Disciplinary and grievance procedures.

Checklist 11:

PAYE (Pay As You Earn)

The operation of PAYE (together with National Insurance) is a tortuous task for most businesses.

It has to be operated from the day you start to employ people.

HMRC can show you how to operate it properly but if you don't want to run your payroll system, HMRC can undertake this work for you through their payroll bureau service.

Tick when completed

Have you notified HMRC of the company's existence and intention to operate a PAYE system?

Have you asked HMRC to allocate the correct codes to the directors?

Have you received?

Notice of your PAYE and NIC reference numbers.

Have you received the following guides?

Introductions to employers on tax tables, completion of deductions working sheets, new and ceasing employees etc.,

Employee's guide to PAYE

Employer's guide to Statutory Sick Pay (SSP)

Employer's guide to Statutory Maternity Pay (SMP)

Employer's guide to National Insurance Contributions.

Have you familiarised yourself with the following forms?

Deductions Working Sheet

Notification to HMRC where no code has been notified to the employer

Coding forms

Application for authority to refund tax to employee in excess of £50

P45 Details of employee leaving

P14/60 End of year return and employers certificate

P35 Employers annual statement

P11D Return of expenses payments and benefits - Directors and employees earning in excess of £8,500

P9D Return of expenses payments and benefits - Employees earning less than £8,500.

Checklist 12:

Value Added Tax

If your major competitors are small businesses operating below the VAT threshold then (even though your business may be below the registration limit) registering for VAT may create a price disadvantage. However, you can't avoid registration if it legally applies to you.

The VAT rules require detailed accounting records to be kept but these requirements can be met if you keep the books of account as detailed in Checklist 3. VAT and PAYE audits by HMRC are NOT unusual events.

Tick when completed

Register if "YES"

- Does your annual turnover exceed the VAT registration limit (check with us)?
- Do you wish to apply for voluntary registration (i.e. to reclaim net input VAT)?

Other:

- Have you read HMRC booklet "Should I be registered for VAT?"
- Have you considered which retail or other special scheme you should operate?
- Have you applied for registration by completing form VAT 1?
- Have you applied for monthly return period instead of quarterly where appropriate?
- Have you received your VAT registration number?
- Are you eligible for accounting for VAT on a "cash" basis? (check with us for the current annual turnover limit)

Checklist 13:

Taxation

When you start a new business, don't forget that there are several taxation obligations that will apply to you.

Tick when completed

Matters for consideration:

- Have you notified HMRC of the existence of your business - there are obligations to do so within a set timescale - check with us?
- Complete form 64-8 giving HMRC authority to correspond directly with your taxation agent about your tax affairs
- Have you considered a tax repayment (where is your last P45?)?

Further Information

This guide is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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References:

¹ The statistics in this section are taken from the BIS SME Statistics for the UK 2011. The statistics are estimates that relate to the private sector (including public corporations and nationalised bodies) and therefore exclude Government and non-profit organisations. The statistical press release can be read at:

www.bis.gov.uk/assets/biscore/statistics/docs/b/bpe_2011_stats_release.pdf