New Business Kit

Financial, Tax and Accounting Considerations of Starting a New Business

Expert knowledge means success

Contents

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 In addition, some of the information in this publication may be out of date.

Before Starting Up

It is the ambition of many people to run their own business. In recent years this dream has become a reality for some made redundant, whilst others may decide to start up in business to be more independent and to obtain the full financial reward for their efforts.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimise the risk of failure.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity, disappears, whilst fixed outgoings, such as mortgage repayments, remain. Similarly, other benefits of employment may be lost, such as life assurance cover, a company pension, medical insurance, a company car, regular hours and holidays.

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors, most important is the need to critically review all aspects of the business proposition before progressing too far.

This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

Selecting Professional Advisers

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost-effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first-rate quarterback (you) won't guarantee a winning team without a first rate line of defence. The right accountant and solicitor is your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to as they devise strategies to help you succeed.

You want to succeed - and you can. By taking the time to make key decisions and enlisting the right players on your team - you will succeed! We wish you success and welcome you to the wonderful world of free enterprise.

Please Read This First

This New Business Kit is published for information only.

It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice from your accountant, lawyer or other advisor.

No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit can be accepted by us or our personnel.

Notes and to do’s

Reference	Matter	Cleared

Notes and to do's

Reference	Matter	Cleared

Selecting the Right Legal Entity

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual, or very often by a husband and wife. A sole proprietorship is not considered to be a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole proprietorship is combined with the other income of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organisation, except, of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

Partnership

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is an entity recognised under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee from the general partners for credit.

A partnership is also required to file an income tax return. A partnership typically does not pay income tax; the information from the tax return is combined with the personal income of the partners to determine their overall tax liability.

Limited Liability Partnership

The Limited Liability Partnerships Act 2000 created a new type of business entity - the Limited Liability Partnership ("LLP"). The LLP offers limited liability to its members but is tax transparent and offers flexibility in terms of its internal organisation. LLP's have been available for use since 6 April 2001.

An LLP is a separate legal entity from its members. Therefore, it may enter into contracts and deeds, sue and be sued and grant floating charges over its assets in its own name. This avoids the problems that exist in relation to partnerships, where technically it is often necessary for every partner to be party to certain documents or litigation, and the creation of floating charges is not possible.

The members of the LLP are those persons registered at Companies House as members. The main "price" paid in return for limited liability is public availability of financial statements. An LLP must file accounts (prepared on a "true and fair view" basis) annually at Companies House, which must include the name and profit share of the highest paid member.

In addition, the LLP must also file details of the name and address of every member at Companies House. At least two members must be "designated members" responsible for making proper filings at Companies House (and subject to penalties in the event of default).

Please Read This First

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations.

There are four basic forms of business organisations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Provided an LLP carries on a trade or a profession and is not simply an investment vehicle it is tax transparent – that is the LLP itself is not taxed on its income or capital gains at all. Instead the members are taxed on their shares of the LLP's profits and gains, just as partners in a partnership are currently taxed.

This means that the LLP may be more tax efficient than a limited company. This is because ordinarily a limited company is taxed on its income and capital gains and the company's shareholders are taxed on distributions from the company to them, giving rise to potential double-taxation.

LLP's were primarily intended for use by the professions. However, any type of business operating for profit may use LLP's. An LLP may be suitable for use as a joint venture vehicle or as an alternative to a limited company, particularly for small businesses.

Limited Company

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded the owners of a limited company can be useful.

A limited company must obtain approval from Companies House to use its proposed name. A limited company must also adopt and file a Memorandum and Articles of Association, which govern its rights and obligations to its shareholders, directors and officers.

A limited company must file annual tax returns ("corporation" tax returns) with HM Revenue & Customs (HMRC).

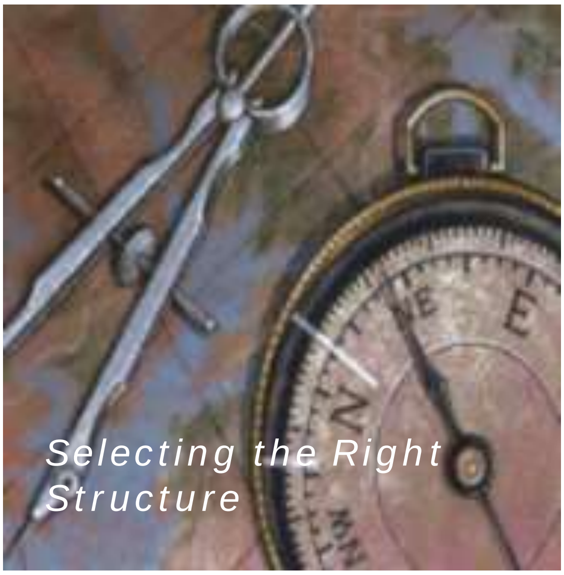
Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of share capital or allowing an individual to sell or transfer their interest in the business.

It also provides for business continuity when the original owners choose to retire or sell their shares.

The rates of corporation tax tend to favour the limited company route as a means of paying less tax.

The potential savings by going down the company route do need consideration. However, it is also necessary to consider other factors beside the tax implications and professional advice should be sought.

Should you decide to incorporate your business venture, you should seek advice from us.



Companies Act cuts red tape

The Companies Act 2006 brought in sweeping changes to company law. Various red-tape cutting provisions which aim to simplify company law are expected to save UK companies up to £250 million a year and include:

- Simplifying the rules for forming a private company.
- Removing the requirement for a company secretary in private companies.
- Removing the requirement for private companies to hold an AGM.
- Greater acceptance of electronic communications for resolutions/decisions.
- Moving the Annual filing deadline from 10 months to 9 months.

Auditor related provisions include:

- Empowering shareholders to question auditors and identify the individual lead auditor.
- Empowering shareholders to agree to limit auditors' financial liability.
- Inclusion of the new offence of "recklessly or knowingly including misleading, false or deceptive matters in an audit report".

Other provisions include:

- Clarifying director's duties.
- Allowing directors to file a service address rather than a home addresses.
- Removing the rules on providing financial assistance to potential/actual shareholders.

Business Structure – Brief Summary

Company	Sole Trader/Partnership
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.	There are no formation costs, but a written partnership agreement is advised.
Companies are governed by the companies Acts. A company must:- - Keep accounting records; - Produce audited accounts (if turnover exceeds a certain level); - File accounts and an Annual Return with the Registrar of Companies. This information is available to the public; - Keep Statutory Books.	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for HM Revenue & Customs tax returns.
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.
Shares in a company are generally transferable – therefore ownership may change but the business continues.	Not applicable – transferring an interest in a sole trader or partnership is much more complex.
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. There may be personal prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 19th of the following month. If applicable, additional tax is paid by shareholders on dividends under the self-assessment rules. Corporation tax is generally payable 9 months after the year-end.	For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and the 31 July after the end of that tax year, with any final balance due on 31 January after the end of the tax year.
Losses in a company can usually be carried back one year or carried forward to set against future profits.	Trading losses generated by a sole trader or a partner can be set against other income of the year, or carried back or forward – check with us for the latest details.
There are two main rates of corporation tax: The Small Profits Rate and the Main Rate of Corporation Tax – see: http://www.hmrc.gov.uk/rates/corp.htm – or check with us for the latest details.	Profits are taxed at basic rate or higher rate on taxable income (after deducting allowances and reliefs). There is a second higher tax rate for profits over a certain figure – check with us for the latest details.
There is both employers' and employees' national insurance payable on directors salaries and bonuses. The NI charge is greater than that paid by a sole trader/partner.	A partner/sole trader will pay Class 2 NI and Class 4 NI dependent on the level of profits.

Business Structure – Detailed Summary

Attributes	Partnership	LLP	Limited Company
Seal	None.	Optional.	Optional.
Registers	No.	No (except of debentures).	Yes.
Annual Return	No requirement.	Yes – filing at Companies House.	Yes – filing at Companies House.
Accounts requirements and public filing etc.	No statutory requirements.	Usually the same as a limited company with accounts in prescribed format. Some audit exemptions and small company exemptions. No directors' report. If profits of LLP more than £200,000 disclose the profit attributable to the member with the largest share*. No presentation of accounts to a General Meeting, but they have to be sent to members. * only applies to large and medium sized LLPs	Filing accounts in prescribed format. Some audit exemptions and small company exemptions. Accounts to be sent to members each year.
Auditors	No.	Same as for a limited company.	Subject to exemptions.
Charges and registration	No.	Yes, can be created and registered.	Yes, can be created and registered.
Striking off etc.	Not applicable.	Yes.	Yes.
Insolvency Act provisions	Unlimited liability of every partner for all debts of the business. Act doesn't generally apply.	Limited liability, generally as for a limited company. Members contribute up to amount agreed. Insolvency Act applies. Special provision enabling the Court to order clawback of funds siphoned off from an insolvent LLP.	Limited Liability of Members Insolvency Act applies.
Is it a corporate body?	No (but difference in Scotland).	Yes.	Yes.
Capacity to operate	Unlimited.	Unlimited.	May be restricted by objects.
Taxation on income	Taxed as a partnership.	Taxed as a partnership.	Shareholders and directors pay personal tax on money extracted from the company and the company pays corporation tax on undistributed profit.
Registration at Companies House	No for English general Partnerships (1890 Act) but 1907 Act Limited Partnerships are required to register at Companies House.	The incorporation document, in a form approved by the Registrar will state partnership name, RO address and names and addresses of members and whether they are designated members. A statement of compliance is required instead of a statutory declaration. Other changes largely mirror limited company forms.	The Form IN01 Application to register a company must be submitted to the Registrar of Companies. Companies House must be notified on form AP01 of the appointment of a new director (TM01 for termination), on form AP03 (form TM01 for termination) of the appointment of a new secretary and changes in name or address etc. on form CH01 (directors) and form CH03 (secretary).
Constitution Agreement	Optional. In default, partnership law applies certain assumptions.	Optional, but in practice one will be necessary. Partnership law does not apply but default elements may apply in the absence of provision by agreement. The agreement is private to the members and is very flexible.	Compulsory, available on public record. Model Articles, in form of Table A etc, are available.
Number of members	Minimum of 2 (can include a company).	Minimum of 2 (can include a corporation).	Minimum of 1 (can be a corporation).
Share Capital	None.	None.	Yes (except for guarantee companies
Capital Maintenance	No restrictions. No minimum contribution.	No restrictions. No minimum contribution.	A company is formed with an authorised capital: it can be increased but usually cannot be reduced.
Decision making procedures	As in agreement, otherwise partnership law applies (every partner may take part in the management - except in limited partnerships).	As provided for in Members' Agreement. Totally flexible. Partnership law does not apply but elements may apply in absence of provision by agreement.	Heavily regulated.
Directors	None.	None. But concept of "designated members" applies for certain matters.	From 1 October 2008 all companies whether private or public must have at least one director who is a natural person who is at least 16 years old.
Secretary	None.	None.	Yes and it can be a person or a company but a private limited company does not have to have a company secretary but it can choose to include in its articles a requirement to have one.
Name restrictions and requirements	No registration of name.	Yes, similar restrictions to those relating to limited companies.	Yes.
Who can commit the organisation	Every partner in usual way of business of kind carried on by partnership unless no authority and 3rd party knows this.	Any member, unless he had no authority and third party know this.	Board of Directors.

Registering with the Tax Authorities

HM Revenue & Customs

It is necessary to notify HMRC of your existence by completing forms CT41G (companies) or CWF1 (sole traders/partnerships). The form notifies HMRC of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn Scheme) to be set up, which is a requirement if you are to be an employer.

If you fail to register within the first three full months of self-employment (that is, by the end of the third month after the month you started) a penalty of £100 will be levied.

The Finance Act 2004 included a legal requirement for companies to register, and within a similar time limit. The initial penalty for not doing so is £300.

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed later. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed giving details of all the partners.

HMRC NI Contributions Office

Depending on the level of profit, sole traders and partners have a liability to Class II NIC, and these are payable either quarterly or monthly by direct debit. Class 2 contributions are at a weekly level of £2.40 (where annual earnings are £5,075 or more for 2010/11) and the necessary form to collect Class 2 contributions should be completed at the same time as the form CWF1. Leaflet CA02 'National Insurance contributions for self-employed people with small earnings' gives full details and an application form for exemption from liability.

For further information, see:
For sole trader and partnerships:
http://www.hmrc.gov.uk/sa/register.htm
For companies:
www.hmrc.gov.uk/ct/getting-started/new-company/start-up.htm

Tax Calendar

The following summarises some of the more significant filing dates for a corporation using a calendar year end. Many of these requirements also apply to partnerships and sole traders. Naturally, if a year-end other than 31 December is used, some of these dates will vary.

Annual Events

Date	Return
19 May	Submission of forms P35 and P14's
6 July	Submission of form P11D
19 July	Payment of Class 1A NIC
30 September	Payment of corporation tax (9 months after the end of the accounting period)
November/December	Year end tax planning
31 December	Submission of corporation tax return (12 months after the end of the accounting period)

Monthly Events

Date	Action
19th of each month	Payment of payroll taxes (under certain circumstances this may be quarterly)

Quarterly Events

Date	Action
14th of January, April, July and October	Forms CT61 to be submitted for tax deducted/received, on interest payments
Quarterly	Quarterly VAT Returns (although these can be monthly)

Please Read This First

A significant task for the new business owner is assuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities.

Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.

Accounting and Bookkeeping

Important Note

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor.

Unfortunately, most people don't like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or book-keeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the book-keeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for HM Revenue & Customs authorities?

Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

1. Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?
2. Are fixed assets a significant portion of your business?
3. Will you sell only one product or service or will there be several types of business?
4. Will you have accounts receivable from customers, which you will have to track?
5. Are you going to sell in only one location or will you do business in several places?
6. Are the products you sell subject to value added tax?
7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business; the amount of time and money which a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

Work Closely with Your Accountant

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

Cash or Accrual Accounting

The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in "the cigar box" at the end of the month is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

More importantly, HMRC will insist on accounts being prepared on an accruals basis.

Whilst VAT can, if certain conditions are met, be accounted for on a cash basis (requiring cash records) the annual accounts would still need to be prepared on an accruals basis (for the purposes of income or corporation tax).

Accounting Records and Record-Keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. Your company's accountant can help develop a good programme of record-keeping duties for you, your employees and any outside book-keepers or accountants you may engage.

A Word about Computers

The computer is probably the single, most valuable, invention for bookkeeping and accounting since the advent of double entry bookkeeping. If your business includes any of the following, then a computer would be a useful tool in your business:

1. Many repetitive or routine tasks.
2. Lots of paperwork, i.e. suppliers' cheques, sales invoices, purchase orders, mailing labels.
3. Lots of general correspondence.
4. Written reports, contracts, newsletters, catalogues or brochures.

We know about both your business and computers and can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer.

There are a number of very good, easy to use, accounting software systems which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

The real value of the computer becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a "number cruncher", but as your business adviser, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analysing your business to make it more profitable.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company's assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you are operating as a "one man shop" or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and the debt is recorded in accounts receivable or the cash is collected?
2. When cash is expended by my company, am I sure we received goods or services?

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets and being sure all tickets are accounted for or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business. As the company grows you will need to consider concepts such as segregation of authority as well as employee fidelity bonds or controlled access storerooms.

No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

Small business myths busted

Research by the DTI (now BIS) found that the general public overestimates the degree of risk involved in starting their own business, deterring some from taking the next step. Launching a campaign to dispel these myths, the SBS has published a document *"Myths surrounding starting and running a business"* that includes the following eight common myths.

MYTH: Around the same number of entrepreneurs buy an existing business as start from scratch.

FACT: Three-quarters of firms are started from scratch.

MYTH: It takes years to start a business from scratch.

FACT: Most businesses are established within six months.

MYTH: The rejection figure for business loan applications is significantly higher than it is.

FACT: Overall, only 10-20 per cent of applications are rejected.

MYTH: A business plan is the most essential element in start-up.

FACT: Business owners often rate obtaining finance as the most important element (although a business plan is often necessary to obtain finance).

MYTH: It is difficult to make an adequate living from a start-up, particularly in the first year.

FACT: Initial estimates of income in the first year of trading turn out to be only half of the figure actually achieved by small businesses.

MYTH: Small firms spend half their time dealing with red tape.

FACT: Businesses estimate that they spend around five hours per week dealing with bureaucracy.

MYTH: Most small firms fail within the first year.

FACT: 80%-90% of small firms are still trading 12 months after start-up.

MYTH: There are significant tax advantages to being self-employed.

FACT: While there are definite tax breaks for the self-employed, tax gains may be lower than expected.

Source: SBS – 13 Dec 2005

Illustrative Chart of Accounts

FIXED ASSETS - TANGIBLE
0010 Freehold property cost
0020 Freehold property depreciation
0110 Leasehold property cost
0120 Leasehold property depreciation
0210 Plant and machinery cost
0220 Plant and machinery depreciation
0310 Fixtures/fittings cost
0320 Fixtures/fittings depreciation
0410 Motor vehicles cost
0420 Motor vehicles depreciation

FIXED ASSETS - INTANGIBLE
0700 Investments
0900 Goodwill

CURRENT ASSETS
1000 Stocks and work in progress
1100 Trade debtors *
1103 Debtors and prepayments *
1200 Bank current account *
1230 Petty cash *

CURRENT LIABILITIES
2100 Purchase ledger control *
2109 Creditors and accruals *
2200 VAT control account *
2300 PAYE/NI creditor *

LONG TERM LIABILITIES
2600 Bank loans
2700 Hire purchase creditors
2800 Lease purchase creditors
2900 Other loans

CAPITAL AND RESERVES
3000 Capital account - balance brought forward
3100 Capital introduced
3200 Profit and loss account
3300 Drawings

** denotes control accounts*

SALES
4000 Sales/work done
4009 Discounts allowed
4100 Export sales

OTHER INCOME
4200 Royalties received
4210 Commissions received
4220 Insurance claims
4230 Rental income
4240 Bank interest received

COST OF SALES
5000 Purchases
5900 Opening stock and work in progress
5950 Closing stock and work in progress

DIRECT COSTS
6000 Direct labour
6100 Goods outward costs
6200 Goods inward costs
6300 Packaging
6400 Duty paid
6500 Transport insurance
6600 Sales commission's payable
6700 Royalties payable

OVERHEADS
7000 Motor expenses
7100 Telephone
7200 Wages
7250 Wife's wages
7300 Rent
7400 Rates
7500 Heat and light
7600 Postage, stationery and advertising
7700 Repairs and renewals
7800 Insurance
7900 Bank charges and interest
8000 Hire purchase interest
8050 Mortgage interest
8100 Accountancy fees
8200 Legal charges
8300 Use of home as office
8400 Protective clothing
8500 Cleaning
8600 Sundry expenses
8700 Subsistence
8800 Profit on asset sales
8900 Depreciation
9000 Bad debt write off

Value Added Tax

Registration

There are two different types of registration - compulsory and voluntary:

Compulsory Registration

A person who makes taxable supplies becomes liable to be registered if:

1. At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is £68,000 from 1 April 2009.
2. At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £68,000 limit.
3. If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed £68,000.

In the most common situation, i.e. (1) above, the person must notify HM Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded £68,000. If, for example, the value of the taxable supplies first exceeded £68,000 in the twelve months to 31 March, then HMRC must be notified by 30 April and VAT registration would commence on 1 May.

Voluntary Registration

In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £68,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered, e.g. it would not be beneficial for a domestic painter with taxable supplies of £30,000 to be registered, whereas it would be beneficial for a commercial or industrial painter with the same level of supplies.

The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from HMRC.

Advantages and Disadvantages

In summary, the advantages and disadvantages of a voluntary registration are as follows:

Advantages

- It enables input VAT suffered to be reclaimed;
- A VAT number can give the impression that a business is larger than it actually is; and
- This sometimes can increase the possibility of obtaining work.

Disadvantages

- There is a requirement to prepare VAT returns on a quarterly basis and to submit them (usually) within one month of the quarter end - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?
- HMRC may visit the business about every five years to ensure that VAT is being properly accounted for.

Taxable Persons and Supplies

Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate different businesses, both with taxable supplies of £40,000, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of £80,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since HMRC have the power to still treat the two businesses as one if strict criteria are not met.

Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies.

Please Read This First

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

(a) in the United Kingdom;
(b) by a taxable person;
(c) in the course or furtherance of business and are not specifically exempted or zero-rated.

VAT is collected by HM Revenue & Customs and is normally payable to them by businesses quarterly.

The major categories of exempt supplies are:

- Land (but not buildings)
- Insurance
- Postal services
- Betting, gaming and lotteries
- Finance
- Education
- Health and welfare

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.

VAT Rates

There are three rates of VAT:

- Standard
- Reduced (for certain supplies of fuel and power and sanitary goods);
- Zero

The four main areas of zero-rated goods are:

- Food and agriculture (but excluding pet food and most catering);
- Printed matter, including books and newspapers;
- Young children's clothing and footwear;
- Passenger transport (but excluding hire cars, taxis and parking).

You can check with is for details of current rates of VAT or visit the HMRC website at: http://www.hmrc.gov.uk/vat/forms-rates/rates/rates.htm

Any VAT charged by the business is known as output VAT and the total charged or collected in the VAT quarter is payable to HMRC after deducting VAT incurred (input tax).

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies. Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the quarter is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to HMRC or the amount repayable by HMRC.

The majority of input VAT is recoverable but there are special rules for:

- Cars
- Petrol supplied for private usage
- Business entertaining
- Goods sold under a VAT second-hand scheme

To reclaim VAT you have been charged as VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

Special Events

VAT was originally described as a simple tax but has gradually become more and more complicated over the last 20 years with changes to the operation of VAT every year.

It is not always possible to calculate each quarter's VAT liability by merely deducting input VAT incurred from 1/6 of the sales income and professional advice needs to be taken in the following situations:

- Importing and Exporting - either within or outside the European Union;
- Partial Exemption, i.e. where a business makes some exempt supplies, all the input VAT incurred is not necessarily recoverable;
- Retail Schemes, i.e. where both zero rated and standard rated supplies are made which cannot be separately identified at the point of sale;
- Land and Property;
- Cash Accounting;
- Self-supplies;
- Second-hand schemes for motor cars, used boats, antiques, horses and ponies and others.

Penalties

The impact of penalties has been considerably reduced since the early 1990's and the possibility of any business suffering a serious misdeclaration penalty for an innocent error on their VAT returns is low.

The two most important penalties still in existence which every business should be aware of are:

(1) Late registration penalty for not registering for VAT at the correct time. The penalty is based on a percentage of the VAT due between the date of registration and the date that the person was required to be registered and the percentage increases dependent upon the lateness of the registration. The penalty is in addition to the VAT that is due.

(2) Default surcharge for traders that are persistently late in either submitting VAT returns and/or making payment of the liability due. The penalty is based on a percentage of the VAT due and is on a sliding scale. Surcharge notices will not be issued for less than £400 except where the rate of surcharge is 10% or more.

VAT Checklist

Registration

- ☐ Should the business be registered?
- ☐ Is the basis of registration correct?
- ☐ Are the details on registration certificate correct?
- ☐ Do procedures exist for notifying HMRC of relevant changes?
- ☐ Review the position at regular intervals.

Preparation of Returns

- ☐ Has a Return been received? If not, then obtain duplicate from VAT Office;
- ☐ Review sources of information;
- ☐ Prepare draft Return;
- ☐ Check for accuracy and completeness;
- ☐ Make payment (if outputs exceed inputs).

Input Tax

- ☐ Do any restrictions on input tax exist?
  - If "Yes", does an agreed method exist?
  - Does this method maximise input tax?
- ☐ Are invoice additions and calculations checked?
- ☐ Is input tax claimed at the earliest tax point?
- ☐ Are all claims properly supported?
  - Ensure all supporting invoices are kept.

Output Tax

- ☐ Are all income heads reflected for VAT accounting?
- ☐ Are all potential sources of notional supplies considered?
- ☐ Are all potential sources of income (asset sales, etc.) covered by the VAT accounting system?
- ☐ Is VAT captured at the correct tax point?
- ☐ Is VAT correctly applied where appropriate?

Money Laundering Regulations

HM Revenue & Customs have responsibility for administering certain aspects of The Money Laundering Regulations particularly relating to High Value Dealers (HVDs).

A high value dealer (HVD) is any business prepared to accept high value payments for the sale of goods. A high value payment (HVP) is a payment of at least €15,000 (or equivalent in any currency) in cash for goods, whether it is in a single transaction or in several instalments. If you intend to accept such payments (this includes circumstances where your customer deposits cash directly into your bank account), then you will need to register. You must not accept a HVP unless you are included on our register.

If you do not intend to accept HVPs, you should consider having a written policy to this effect and ensure that your employees are aware of this policy.

If you believe you may be a HVD you should discuss this with your advisors or visit HMRC Website at:
www.hmrc.gov.uk

Further if you believe you may be affected by the Regulations as they related to regulated businesses you should discuss this with your advisors as the penalties for not complying are serious.

Payroll Taxes

Helpful publications

HMRC publish various booklets relating to how PAYE is operated and the legislation that you have to comply with. Please visit the information for employers on HMRC's website at www.hmrc.gov.uk/employers

Not only do you collect and remit PAYE to the Collector of Taxes on behalf of HMRC, you also operate the Department for Work and Pensions sick pay scheme and maternity pay scheme for the DWP. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then HMRC will look to you for the tax or NIC you failed to deduct. This can be costly if you are unable to recover the tax and NIC from the employee.

Do you have employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business "employing" him or her, as that business has to comply with the reporting requirements.

There are a number of forms used to operate the PAYE and NIC system. You should familiarise yourself with and have supplies of these forms, which are as follows:
In certain areas HMRC has placed emphasis on reclassifying individuals claiming to be self employed and has issued leaflet IR56 entitled "Employed or self employed". This booklet sets out the questions that should be answered to determine the problem. If you have treated someone as self employed and subsequently after a routine visit from HMRC it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on you. Therefore it is important to ensure when using the services of self employed people, that they are in fact self-employed.

If doubt exists as to the status of an individual, the situation can be clarified with HMRC.

The Operation of a PAYE Scheme

It is advisable to visit HMRC's website to understand the basics of operating a PAYE scheme:
http://www.hmrc.gov.uk/paye/intro/basics.htm

The tax and national insurance should be paid to HMRC by the 19th of the month following that in which the salaries were paid.

In most businesses, the directors, and often the employees, have benefits that are not immediately taxed through the PAYE system, the most usual being the provision of a car and possibly fuel. Class 1A national insurance contributions are due on the taxable value of these benefits in kind and are due on the 19 July following the fiscal year in which the benefits are made available. In addition, HMRC requires on an annual basis, a form P11D (Return of expenses payments and benefits) for all directors irrespective of income and all employees receiving remuneration including the benefit in excess of £8,500. For those employees earning less than £8,500 but who receive expense payments and benefits, a form P9D is required.

A form P46 (Car) needs to be completed quarterly on 5 July, 5 October, 5 January and 5 April if any employees have been provided with or have changed their company car.

There are a number of forms used to operate the PAYE and NIC system. You should familiarise yourself with and have supplies of these forms, which are as follows:

P11	Deduction working sheet
P46	Notification to HMRC where no code has been notified to the employer and application for coding.
P46(Car)	Notification of a car provided for the private use of an employee or a director.
P45	Details of employee leaving.
P14/P60	End of year return and employers certificate.
P35	Employer's annual statement.
P38A	Employer's supplementary return.
P11D	Expenses and benefits.
P9D	Expenses payments and income from which tax cannot be deducted.

Please Read This First

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll taxes. The brief summary in this section will give you some guidance to the rules and regulations of HM Revenue & Customs.

Income Tax and Corporation Tax

Choice of Year End

Which Accounting Year Should I Choose?

If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date and allow "overlap relief" to reduce the burden. You could build up a reserve to meet the liability or use the higher profit to permit an abnormally large pension contribution.

On the other hand, if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 March, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to chose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

Tax Returns

Companies

Companies are charged corporation tax at the rate applicable during the financial year (1 April - 31 March). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years.

There are two main rates of corporation tax: The Small Profits Rate and the Main Rate of Corporation Tax – see: http://www.hmrc.gov.uk/rates/corp.htm – or check with us for the latest details.

There are special rules to calculate the tax rates applicable for profits falling between the small profits rate and the main rate and are such as to ensure that the tax charge rises progressively.

Marginal Relief changes from 1 April 2010

From 1 April 2010 onwards, the terminology used to describe some Corporation Tax rates and reliefs changed. For ease of understanding, the changes are shown below:

- Small Profits Rate - previously Small Companies' Rate
- Marginal Relief - previously Marginal Small Companies' Relief
- Standard fraction - previously Marginal Small Companies' Relief fraction
- Ring fence fraction - previously Marginal Small Companies' Relief fraction (ring fence profits)

Under Corporation Tax Self-Assessment, a company is required to make an estimate (or use the actual figure) of its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period, without an assessment being raised. The company is required to send its completed tax return (Form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late.

Please Read This First

Eventually you will have to deal with income or corporation taxes.

The taxation legislation is extensive and can be confusing for an individual starting a business. This section does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital allowances.

An accountant should be consulted when you are dealing with the taxation affairs of the business.

Remember: the payment of taxation has a direct impact on your cash flow.

Once the company agrees its liability with HMRC, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

Larger companies pay tax in instalments.

Sole Traders/Partnerships

Sole traders and partnerships (and income of members of an LLP) are charged income tax at the rate applicable during the fiscal years (6 April - 5 April).

There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. The latest rates and income bands on which NIC is payable, can be found on the HMRC website at:
http://www.hmrc.gov.uk/rates/nic.htm

For the self-employed and those that pay tax on other income such as rents, tax is normally payable in three instalments - the first two instalments are based on the tax paid on the previous year's business tax liability. Therefore, half is paid by 31 January in the year of assessment, the other half by 31 July in the year following the year of assessment. The third instalment will be any balance due (payable the following 31 January) or any amount repayable by HMRC if your final liability is lower than the amounts paid on account.

Filing deadlines for your tax return are:

- 31 October: all paper returns: If you send a paper tax return it must reach HMRC by midnight on 31 October. You only have longer than this if you received the letter, telling you to send a tax return, after 31 July. In this case you'll have three months from the date you received that letter.
- 31 January: online returns: Your online tax return must reach HMRC by midnight on 31 January. You only have longer than this if you received the letter, telling you to send a tax return, after 31 October. In this case you'll have three months from the date you received that letter.
- There's an earlier deadline of 30 December if you want HMRC to collect any tax you owe through your tax code. You now can ask for this if you owe less than £3,000. Please show this clearly on your tax return. HMRC will try to collect the tax due through your code, but they can't always do so.

Cash Planning and Forecasting

Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine-tuned as possible. It may be unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percentage of it. Your sales forecast needs to be based on realistic estimates. These might include your sales history or the history of similar businesses you have owned or operated or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

Obviously, your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, your must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and

Cash Is King!

The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or an outside consultant can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.
Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

Disbursements

Certainly, if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first pound of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels. Will you need additional employees, if so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. Typically, you will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month’s rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be a solicitor’s fee for drafting partnership agreements or incorporating your business, the cost to obtain business licences, approval from the taxing authorities, setting up an accounting system, stationery costs, costs of signs or logos.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives that are available to you. Most of the start-up cost which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and built into your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. You as the owner and operator of the business are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

We have included a worksheet as an exhibit opposite - this may assist you in developing a cash flow analysis. Bear in mind however, this worksheet does not include all the items that should be considered in preparing your cash flow analysis but should help raise many of the questions which you need to ask yourself before deciding how much cash will be required to establish and operate your business and what period of time must elapse before you can expect to pay back the lender or return profits to your investors.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

VAT

If you are VAT registered (compulsory for businesses with sales in excess of the statutory limit), your sales receipts will include "Output" VAT and some of your costs will include "Input" VAT. The net receipt of VAT has to be paid over to HMRC (usually) each quarter. If, however, your sales are zero rated, you will be able to claim back the VAT on your purchases. The basic calculation is not as difficult as is often made out.

PAYE

If you employ people you will have to deduct tax from their pay and pay it over to HMRC in the following month. For a forecast it is sufficient to put the gross figure in the cash flow forecast as it automatically includes PAYE.

Schedule D

If you are the proprietor of a business that is not a limited company, your wages are part of the profit of the company and referred to as "drawings". The tax that you pay will be based on the profit of the company not the amount that you take out. It is advisable to pay a sum into a deposit account each week to provide for this tax that will be due after your year-end - and it could be a lot of money. Ask your accountant about this! Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

Example Cashflow Worksheet

Bloggs & Bloggs

12 Months Ended December 20XX

	January	February etc etc.
INCOME		
Cash received from account customers	-	-
Cash sales	-	-
Other Income	-	-
Capital introduced	-	-
Bank loan/hire purchase finance introduced	-	-
VAT Repayment	-	-
Total Income	-	-
PAYMENTS		
Fixed Asset Additions	-	-
Direct costs	-	-
Wages/Payroll	-	-
Rent	-	-
Rates	-	-
Light and heat	-	-
Repairs and renewals	-	-
Insurance	-	-
Motor expenses	-	-
Advertising	-	-
Postage	-	-
Freight and Duty	-	-
Printing and stationery	-	-
Carriage	-	-
Packing	-	-
Travel	-	-
Catalogues and marketing	-	-
Small tools and equipment	-	-
Telephone	-	-
Sundry expenses	-	-
Professional Charges	-	-
Bank Charges	-	-
Credit card charges	-	-
Overdraft Interest	-	-
Payment to HMRC for PAYE/NIC		
Loan/HP Repayments	-	-
Drawings	-	-
VAT Payment		-
Total Payments	-	-
NET INFLOW / (OUTFLOW)	-	-
BALANCE at start of month	-	-
BALANCE at end of month	-	-

Obtaining Credit and Financing for Your Business

How Do I Get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. How much cash do I need?

To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

2. What will you do with the money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

3. What experience do you have in running your business?

One of the primary reasons for business failure is lack of experience of management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

4. What is the climate for your type of business and your geographic location?

Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Business Plan

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided but are best provided in a logical consolidated format. This format, or business plan, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic. We have experience in helping business owners to write business plans and can assist you in the effective drafting of your plan. Please ask for this publication:
28-Business Plan and Checklist

Please Read This First

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or for instance, the funds you require may be for expansion or working capital during the off season.

Generally, business financing can take two forms, debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. Please contact us so that we can discuss these and other alternatives in greater detail.

Debt Financing Sources

1. Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis using equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be a banker. Loans from a bank may take several forms such as:

- An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected;
- A short-term loan that is repayable on specified dates;
- A term loan for the purchase of a specific asset such as a computer, large item of equipment or property.

As your relationship with your banker becomes better, and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in instalments.

2. Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

3. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instance before you pay for them. The trade credit you build today will be relied upon by other suppliers as you attempt to establish yourself with other suppliers in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of ordinary or preference shares. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. A venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what he must receive at the time his investment will be sold to allow him to achieve the rate of return he deems necessary.

Based upon the operating projections you provide, discounted based on his experience, he will estimate what your company might be worth at the time his investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company he must own to realise the return he desires. At this point, the "horse trading" generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve his investment goals and have some control over how his money is spent. This will often be achieved by voting power and representation on the Board of Directors at the same time a venture capitalist wants to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals, often called "Business Angels", may believe that the success of your business may enhance theirs as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contracts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

Insurance

The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity that you purchase. Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general and product liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies that you do buy. Often, raising the deductible can have a very favourable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

Required Insurance Policies

Very little insurance coverage is mandatory. The only insurance coverage typically required by law is public and employers liability. Your insurance advisor can explain the required coverage, the rating systems, and help you purchase a policy.

You must also be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies that you may wish to consider. The specific coverage provided by each and a qualified insurance broker can explain the related costs in depth.

Some of the types of insurance coverage that you might consider for your business are listed in the next column.

Different Types of Insurance

Liability Insurance

There are many types of liability your business may need cover for. "Liability" refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability you may want to consider:

- Public Liability - This will protect you from liabilities from a Third Party (other than your employees) including bodily injury, damage to their property or loss suffered as a result of negligence that may occur during the normal operation of your business;
- Employers' Liability - If you employ anyone outside your immediate family, you are required by law to purchase employer's liability insurance. This offers you protection for any liability arising from injury or illness sustained by employees while they are working for you;
- Product Liability - Product Liability covers you if any products that you sell or provide are faulty or defective. In the event that you provide a product and it is defective and someone suffers a loss as a result of that product, they are entitled to pursue you for compensation. For example, if you supply a television and it blows up causing damage to someone's property they will be entitled by law to sue you for compensation;
- Professional Indemnity - This cover is usually purchased by "professionals" such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees' professional negligence/wrongful advice.

Property Insurance

There are many different types of property cover but generally businesses will purchase cover for buildings, machinery and stock against fire and other perils such as storm/flood etc., and theft. They will also consider covering money, goods in transit and glass. For small businesses cover can be provided on a 'package' basis where certain covers such as money and goods in transit are included in the premium as standard, however this option is only available for specific occupations/trades and you should consult with your broker for further details. If you are working from home be aware that generally your ordinary household insurance policy will not provide cover for your business stock and liabilities. Specific policies can be purchased if you are working

Please Read This First

Business insurance, like many types of expenditures is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your business.

from home and you should contact your insurance broker for further details. There are specific policies for property owners who rent out their premises to tenants. These policies provide cover for buildings, liability and loss of rent. Loss of rent cover is usually only provided in the event of an insured peril occurring such as a fire or flood etc.

Landlord Insurance

If you rent your property to tenants then you will need a specialist landlords' insurance.

As a landlord you face the risk of having to fork out the costs in the event that your property is damaged and you are not insured.

Life Insurance

Life insurance can be a useful policy to have for small business owners who are looking for increased peace of mind over the security of their family and business if they were to die.

Many large companies also offer benefits packages which offer life insurance - the self employed need to be in a position to negotiate their own cover and a life insurance policy should be one of these insurance types.

Motor Trade - Products, Sales and Servicing Indemnity (PSSI)

Products, Sales and Servicing Indemnity is a packaged cover that is usually provided with employer's liability and public liability insurance. PSSI is formed of three different covers:

- Products will cover you in the event that you are pursued for selling defective goods;
- Sales Indemnity has the same purpose as products liability but it kicks into effect with second hand goods and ones which fall outside the manufacturers warranty, it is usually associated with used car dealers;
- Servicing Indemnity will cover you in the event that you are pursued for defective workmanship. For example if you were a car mechanic and forgot to re-attach the breaks properly and the client had an accident as a result of the breaks not working.

Business Interruption

This coverage, as the name implies, covers the loss of revenues your business would generate if you were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shutdown of operations.

Employee Fidelity Bond

This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by Regulatory Authorities.

Directors' and Officers' Insurance

Directors and officers of companies in recent years have been found to be personally responsible for their negligence in the running of their company. Recent legislation has also made company directors liable for their behaviour to the company so that shareholders, creditors, customers and employees can now sue them as individuals.

Directors and officers liability cover provides indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defence of a claim or indemnifying the director where the defence has not been successful.

Although this is a relatively new cover in the insurance market, it is strongly recommended for limited companies and you should seek the advice of your broker for quotations.

Key Person, Partnership or Shareholder Protection and Pension Considerations

Key Person Protection

Key man insurance provides a company with a valuable safety net should serious illness, disability or death curtail the contribution certain "key" people could make to its stability, profitability and success.

Key man insurance is a type of insurance which few medium and small companies have in place, while many large companies have key man insurance in place but only for directors - i.e. the real key players in the company have not been identified.

Identifying A Key Person

Key Persons are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace.

Remember, key people come in many guises. They aren't always the Managing Director or other high, profile senior managers.

Consider other key functions that are necessary to the business when talking key person insurance with your brokers.

When Is Key Person Protection Needed?

There are three clearly identifiable situations when key person insurance is most needed.

- To prevent loss of profits;
- To protect the repayment of loans;
- To safeguard the raising of capital.

Partnership Protection

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial well being of the firm will be vital. In addition, there are other problems which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

- The partner's interest may pass to an heir who may not have the necessary skills, experience or interest to continue in the business;
- The partner's interest may need to be turned into cash to pay Inheritance Tax or provide for his or her dependants on death.

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy-in to the partnership. Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

Shareholder Protection

Like partners, shareholder's shares may pass to an heir who does not understand the company's business or whose interest's conflict with those of the other shareholders. Alternatively, the shareholder's interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants.

Maintaining control and stability of the company during this often turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

Overview

Insurance is like any other product that you purchase. Before purchasing it you should consult with more than one broker as to your needs for protection. You should discuss insurance needs with acquaintances in the same or related business as yours. Before buying coverage you should check out the reputation of the company that is underwriting the policy.

Pensions

Some arrangements that you may already have or be familiar with:

- Stakeholder Pensions;
- Small Self-Administered Schemes - SSAS and SIPPs;
- Executive Pensions;
- Personal Pensions;
- Retirement Annuities;
- Final Salary;
- Money Purchase.

On 6 April 2006 (often referred to as A-Day), new simplified rules came into effect around how pensions are taxed, offering simpler and more flexible retirement arrangements and removing the differences between some of the different types of pension listed above.

Among the changes that apply from April 2006, are the following:

- A Lifetime Allowance [Fund] limit;
- An annual Contribution Allowance;
- Any tax-free cash benefits limited to 25% of the fund;
- The minimum age normal benefits can be taken was increased to age 55 from 2010;
- No return of Capital on Death after age 75.

Stakeholder Pensions

Since October 2001, all employers with more than four employees have been required to nominate a stakeholder pension arrangement to which their employees can contribute. The following groups of employees are exempt from this requirement:

- Employees who would normally qualify to become members of an occupational pension scheme not more than 12 months after starting work, or on attaining age 18;
- Employees who qualify for membership of a group personal pension with no exit charges to which the employer contributes at least 3% of basic pay;
- Employees who earn less than the lower earnings limit in any week in the last three months;
- Employees who are within five years of the normal pension age under an occupational pension scheme but could otherwise join;
- Employees who have worked for the employer for less than 3 months;
- Employees who have been offered membership of an occupational pension scheme and have declined to join or who have left the scheme and are now unable to rejoin.

The Pensions Regulator can fine employers who do not comply.

If after 8 October 2001, an employer employs more than four employees for the first time, it has three months in which to designate a Stakeholder scheme.

It is strongly advised that you consult with an independent financial advisor about any matter concerning pensions.

Computer Accounting Systems for First Time Users

Hardware

The choice of hardware involves primarily:- Hard disk size (storage space), Processor speed and Memory. In recent years, prices have dropped dramatically as specifications have risen, and a typical PC package may now include a CD/DVD or Blu-ray writer, a low glare Thin Film Transistor (TFT) screen, USB ports for easy attachment of external devices and integrated wireless network capability.

The inclusion of fast processors, high storage memory and disk in laptops, improved battery life and a reduction in the unit's weight have made the modern laptop ideal for mobile working.

Printers

For accounts purposes, a "dot matrix" printer will produce copies of invoices and payslips if these facilities are being used. Laser printers are affordable for quality letter printing but, of course, only produce one copy at a time.

For colour printing, inkjet printers represent good value but the price of colour lasers has also dropped so significantly that they can now be considered as standard office printers. Modern printers may also include fax, copy and scanning services.

Software

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Prices range from £99 to £600 for this type of program running in "single user" mode. Networked versions for multi-user use are generally more expensive.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PCs.

These systems are for businesses with turnovers of perhaps £1 million upwards.

Microsoft and their "Office" software package and Windows operating system is practically universally used on PCs nowadays. Accordingly, most other software producers have now produced Windows versions of their own packages. Microsoft Office includes word processing, spreadsheet and database software and will be suitable for most business environments.

New technology, notably e-mail and the Internet continues to significantly impact on our lives, both socially and commercially.

Getting on to the Internet is a relatively simple and inexpensive process. Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. There are many options to consider in how this should be addressed.

We can give some useful independent advice and thoughts in relation to your strategy in this area.

Suppliers

The computer industry is well known for "here today, gone tomorrow" suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance is a sound insurance for equipment being used for business.

Planning and Implementation

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase their own skills.

Please Read This First

A business user choosing a computer system for the first time has to give detailed consideration not only to the purchase of the hardware and software but to the installation of the system and the training of staff. The proprietor of the business will need to make a solid commitment in both time and money in order to reap the benefits.

This section is intended to alert the business user of computers to areas needing attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality!

The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (Cash Received and Paid; Sales and Purchase Invoices);
- Bank Reconciliations and VAT Returns;
- Monthly Adjustments (e.g. Depreciation and Stock Change) producing monthly management accounts;
- Sales Invoicing Routines;
- Advanced Management Information e.g. detailed analyses of sales and departmental costs;
- Sales and Purchase Order Processing with Stock Control.

Even at the first stage the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A "set up procedures list" together with details of typical available reports follows this section.

Training and Support

Training staff who are to use the computer is essential both to get off to a sound start and to make progress. We can provide training, on request, tailored to your specific requirements.

We also offer telephone and e-mail support for those problems that can be quickly resolved in this way.

Security

The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not taking backups.

We will not only advise on, but also insist that, proper procedures are in place to make your data as secure as is practical.

Costs

Hardware and software is dependent on prevailing market prices. Installation and training is proportional to your requirements and usually charged at an agreed rate.

Conclusion

We have the necessary balance of computing and accounting expertise to help you to both get off to a good start and later to improve your system.

We also have good working relations with local computer companies who will supply and maintain your equipment. Many will also provide the technical support for networks and, if needed, tailor your software to specific requirements.

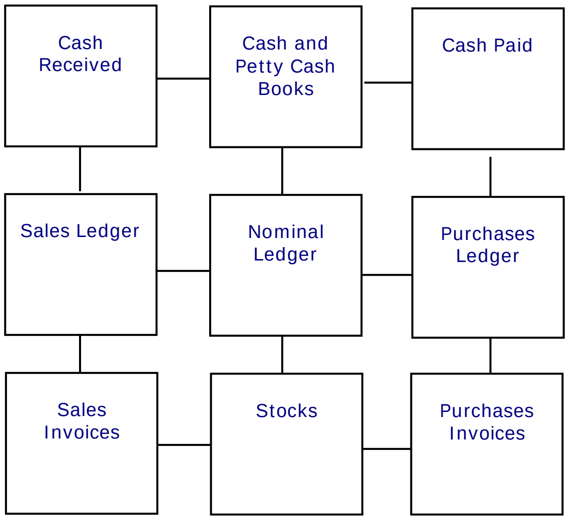
Installation of Accounting Systems

1. Consult your accountant! Grants may be available for training.
2. Decide on starting date, consider trial period.
3. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.
4. VAT? Accrued or Cash Accounting.
5. Are departments required for sub analyses?
6. Use a dummy company for practice (Multi-company systems only).
7. Obtain starting trial balance.
8. Obtain starting Sales and Purchase Ledger balances.
9. Enter Trial Balance by journal entry.
10. Enter Sales/Purchase account code, names, addresses, etc.
11. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.
12. Enter live data:
    - Sales and purchase invoices
    - Cash received
    - Cash paid
    - Petty cash
13. Continue to keep manual records for at least three months and Cash Book for full year.
14. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account.
15. Consider direct production of Sales Invoices. Free text or from stock. If the latter, stocks, dummy or real need to be entered into stock records.
16. Keep a backup disk for each of the five weekdays. Keep a weekending backup off the premises.

If you follow this advice, the benefits are that you will have a business that you manage - instead of a business that manages you!

How an Accounting System Works

Typical Block Diagram



Double Entry Principles

By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated.

Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.

Useful Names, Addresses and Telephone Numbers

HM REVENUE & CUSTOMS		0300 200 3300
Self Assessment Orderline		0300 200 3600
New Employer's Helpline		0300 200 3200
Subcontractors Helpline		0300 200 3210
Helpline for the Newly Self-Employed		0300 200 3504
Working Tax Credit/Child Tax Credit		0345 300 3900

NATIONAL INSURANCE		
National Insurance Contributions Office	Benton Park View, Newcastle upon Tyne NE98 1ZZ	0191 213 5000

MISCELLANEOUS		
Companies House	Crown Way, Maindy, Cardiff CF14 3UZ DX 33050	0303 123 4500 enquiries@companies-house.gov.uk

SUNDRY INTERNET SITES:	
HM Revenue & Customs – Home Page	www.hmrc.gov.uk/home.htm
HM Revenue & Customs– Employers Information	www.hmrc.gov.uk/employers/index.shtml
Government News Network	www.govnet.com
NIC - Information	www.hmrc.gov.uk/nic/index.htm
HM Revenue & Customs – VAT Information	www.hmrc.gov.uk/vat
Parliament	www.parliament.the-stationery-office.co.uk
Government - Central Office of Information	www.coi.gov.uk
News providers – BBC	www.bbc.co.uk
Institute of Chartered Accountants in England and Wales	www.icaew.co.uk
Association of Certified Accountants	www.acca.org.uk
BT PhoneNetUK (UK online directory)	www.bt.com/phonenetuk
InfoSpace	www.infospace.com
Thomson Local	www.thomsondirectories.com
Royal Mail (Postcodes on line)	www.royalmail.co.uk
UK Street Map	www.streetmap.co.uk

Conclusion

You now have a handy reference guide to starting a business. With it you should be able to successfully handle many of the problems encountered in starting and running a business. Always remember to seek professional advice in areas that you are not sure. The benefit will far outweigh the cost. Good luck!

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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.

Important Notice

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