



**GUIDE TO -**

**AVOIDING BOOKKEEPING PROBLEMS IN YOUR  
BUSINESS !**



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## **WHY IS BOOKKEEPING FOR YOUR BUSINESS SO IMPORTANT ?**

Bookkeeping is the practice of recording and tracking the financial transactions of a business i.e. traditionally refers to the day-to-day upkeep of a business's financial records.

Bookkeepers regularly summarise this activity into reports that show how the business is doing.

### **1. Legal Requirements**

With a limited company, the company director(s) are legally and personally responsible for ensuring that annual statutory financial statements (or accounts) are prepared,

### **2. VAT**

'Making Tax Digital (MTD)' regime has been recently introduced and will become more important over the coming years. It will be increasingly important as it will be more real time i.e. missing invoices or errors will be more clear to HMRC, as well submit your quarterly VAT returns to HMRC by the relevant deadline(s), thereby avoiding any unnecessary default periods, late filing penalties or interest.

### **3. Customer Relationships**

As part of managing your cashflow and ensuring that there is some element of credit control in place, it is important that you clearly understand what has been invoiced to your Customers AND what is yet to be paid (or part paid).

### **4. Supplier Relationships**

You need to understand what is due to be paid to your suppliers and when it requires to be paid. Also ensuring that you obtain invoices from Suppliers against any or all payment made to Suppliers as this will ensure that you are able to claim the right amount of VAT on your VAT returns

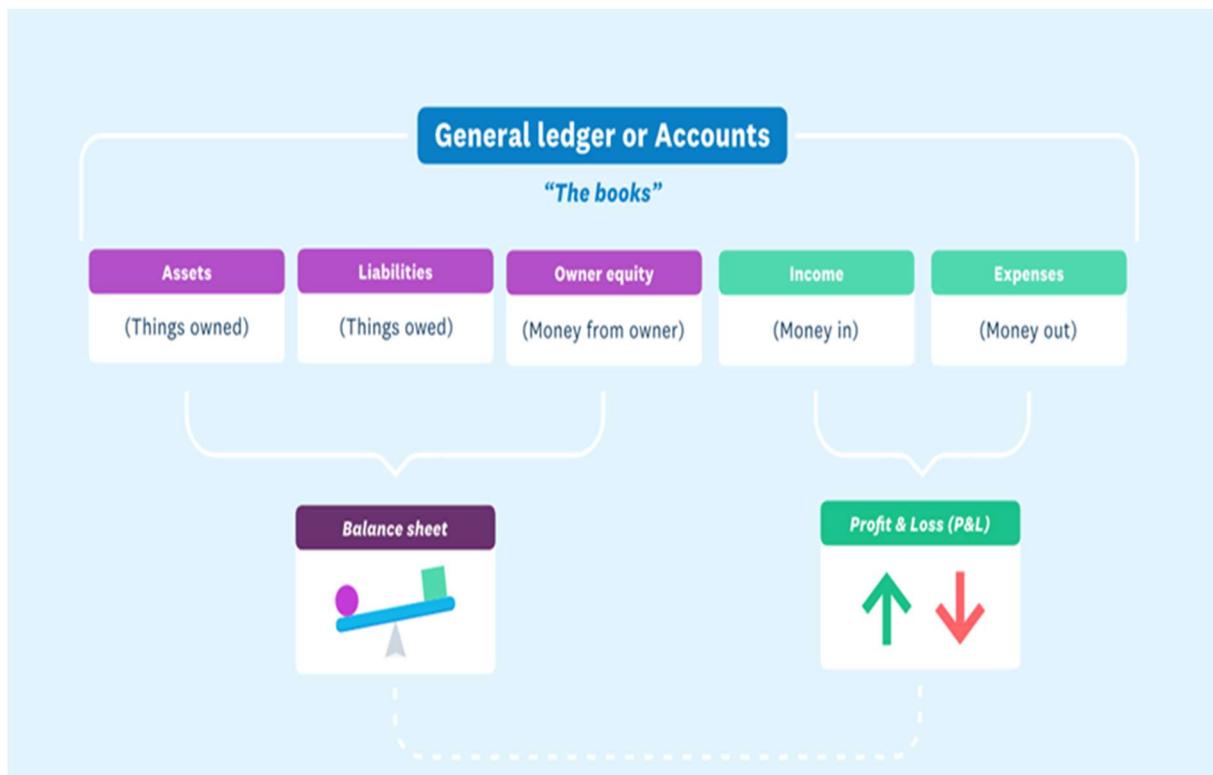
### **5. Key Figures**

Identifies financial and other risks facing growing business at an early stage, allowing them to be managed or mitigated ahead of time

If you have a growing business and may require funding within the next 12 months, now is the time to consider your requirements and also to understand your options.

## WHAT ARE THE KEY FINANCIAL REPORTS (FOR YOUR BUSINESS)

- **Profit & Loss** – shows your business income along with all of the costs of running the business i.e. shows if the business is making a profit or a loss
- **Balance sheet** – used to clarify if your bank accounts are reconciled etc
- **Aged Creditors** – shows the amounts that are due and payable to your suppliers (on the date of the report)
- **Aged Debtors** – shows the amounts that are due and payable by your customers and how long it has been awaiting payments





## KEY ACCOUNTANCY AND BOOKKEEPING TERMS

### Customers

Someone to whom you have sent a (sales) invoice for your goods or services.

### Debtor (or Debtors Report)

A customer to whom you have sent out a (sales) invoice and which currently remains unpaid or outstanding in Xero/QuickBooks.

### Suppliers

Someone from whom you have bought goods or services and have (should have) received an invoice from.

It's very important to record/keep all the purchase invoices we are receiving from the suppliers. The main reason is for VAT purposes. To claim correct amount of VAT we have to keep the records of every VAT invoices ( just in case HMRC inspection ) obligatory every business in UK needs to keep the records up to **6 years from the end of the last company financial year they relate to.**

### Creditor (or Creditors Report)

Someone from whom you have (should have) received an invoice from, but which remains unpaid in Xero/QuickBooks.

### Business Expenses vs Supplier Invoices

An expense is an 'out of pocket' minor cost that is paid by debit card or cash, and is generally non VATable or with minimal VAT on the cost, and doesn't generate a formal invoice'.

An invoice is a formal document received from a VATable supplier for a larger business cost, and generally paid within specified credit terms (14/30) days

### Petty Cash

This refers to a fund of money that's allocated to cover small, everyday office business expenditures. The cash is usually kept in a money box within the office & record is kept whenever money is taken from the petty cash fund with receipts used as proof of purchase.

Typical examples would be to cover an employee purchasing some bottles of water for a meeting or work-related postage costs

### Personally Paid Expenses/Personal Credit cards

If client paying for a business expense from personal CC **THIS IS NOT PETTY CASH** that's directors loan more likely ( common mistake )



### **Directors loan**

This is where monies are taken from a company bank account to, or for the benefit of, that director, and these monies are not specifically for the payment of salary or dividends.

### **Payment 'Allocations'**

Where a payment has been made to a Supplier then 'matching' the payment against the invoices that has been paid, is referred to as 'allocating the payment against that invoice.'

### **Payments on Account (POA)**

Where a part payment is made against a Supplier invoice, but the invoice has not been paid in full, then the payments when it is 'Matched' against the invoice, it is referred to as a Payment On Account (or POA).

Obviously a final part payment will need to be made against that invoice and will then be 'allocated' against it to pay it off in full.

### **Bank Reconciliation**

This is where all the transactions in a bank (or similar) account have been (accurately) input into Xero/QuickBooks and the balance on the account in Xero/QuickBooks matches that of the bank statement.

### **Profit & loss**

This is the key financial report that reflects all of the 'day to day' business income and costs that have been input into Xero/QuickBooks for the month/quarter/year to date, and indicates whether the business is making a profit or loss.

### **Making tax digital**

This is HMRC's ongoing project, which will progress from VAT returns (which it covers now) through to all business and personal taxes, and which will compulsorily require all companys' and individuals' information to be linked with and/or submitted directly to HMRC via accountancy software (such as Xero/QuickBooks).

### **Deleting Invoices**

It's very important to make clients aware that constantly deleting invoices is not right approach.



## **THE SAKURA 'BEST PRACTICE' MONTHLY BOOKKEEPING PROCESS**

**STEP 1** – Prepare all of your Invoices to your Customers for the month ('**Sales Invoices**')

**STEP 2** - Obtain and input all of your Supplier Invoices and receipts ('**Purchase Invoices**')

**STEP 3** – If **NOT** connected via '**Open banking**' (daily auto import of bank activity), import transaction

If **ON** '**Opening banking**', then go straight to **Reconciling all** of the transactions i.e.

- Match to Suggested Invoice
- Find the right Matched Invoice or
- Create a new bank transaction

**STEP 4** – Ensure that all Current, Savings, Paypal, Stripe, GOCardless, Other accounts are reconciled and match the balance per the bank statement

**STEP 5** – Resolve any Suspense or unidentified transactions

**STEP 6** – Other i.e. input any salary journals from the payroll reports

## THE 7 PROBLEMS RESULTING FROM POOR BOOKKEEPING

1. ***Breach*** of Company law requirements
2. ***Backlog of documentation*** and processing of transactions
3. Higher rate of ***'bad debts'*** – non payment of Customer invoices
4. ***Late or inaccurate VAT*** returns each quarter – stress to submit by deadline, errors in return or little purchase VAT reclaimed
5. ***Legal action*** or 'breaks' in supply from ***Supplier*** – due to late or non payment of invoices
6. No knowledge of available ***cash*** or any control over ***cashflow***
7. ***Higher accountancy fees*** due to late or error strewn bookkeeping affecting VAT returns, end of year accounts etc