



# Top 10 Tips: Accounting for Small Businesses

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# Separate personal & business finances



## Sole Trader

- ✓ whilst not a legal requirement, I would strongly advise opening a separate bank account:
  - allowable business expenses are easier to track, potentially reducing your tax burden
  - simplifies self assessment filing, saving time & money

## Limited Company

- ✓ legal requirement to have a separate bank account
- ✓ make this one of your first tasks after incorporation
- ❖ there are a wide range of options available & choosing the right account will depend on how your business operates:
  - ✓ take advantage of introductory offers, which can provide fee free banking for up to 18 months for new businesses
  - × don't stick with your current bank, unless they offer the best deal!

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# Cash or accrual accounting



A business can potentially select their preferred accounting method:

## Cash basis accounting

- ✓ most small businesses with an income of £150,000 are eligible
- ✓ you only record income or expenses when you receive money or pay a bill. This means you will not pay Income Tax on money you have not yet received in your accounting period
  - e.g. you invoiced someone on 15 March 2020 but did not receive the money until 30 April 2020. Record this income for the 2020/21 tax year

## Traditional ('accrual') accounting

- ✓ is generally the preferred method, as it recognizes income & expenses in the period in which they are earned or incurred
  - e.g. you invoiced a customer on 28 March 2020. You record that invoice for the 2019/20 tax year - even if you did not receive the money until the next tax year

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# Keep good records



## Sole Trader / Partner in a Business Partnership:

- ✓ you must keep records to evidence all income & expenditure declared on your tax return, including personal income
- ✓ records might include bank statements, chequebook stubs, all receipts for goods & stock, sales invoices, till rolls & bank slips
- ✓ try to do this as you go along & not wait until the year-end!
- ✗ HMRC can charge you a penalty if your records are not accurate, complete & readable

## Limited Company

- ✓ you must keep:
  - records about the company itself
  - financial & accounting records
- ✓ you must keep records for at least 6 years from the end of the last company financial year they relate to

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# Understand your tax liabilities



- ✓ Sole Traders / Partners will both pay Income Tax & National Insurance on business profits
- ✓ tax relief is given to Sole Traders for expenses incurred wholly & exclusively for the business
- ✓ the good news is that for the current tax year (2021/22), you can earn £12,570 before you start paying any Income Tax
- ✓ Limited Companies pay Corporation Tax on taxable profits
- ✓ taxable profits include the money your company makes from:
  - doing business ('trading profits')
  - investments
  - selling assets for more than they cost ('chargeable gains')
- ✓ the current Corporation Tax Rate is 19% & payment for small businesses is normally 9 months & 1 day after the end of your 'accounting period'

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## Track business performance



- ✓ always keep a close eye on the financial performance of your business, so you can identify potential issues at an early stage & take the appropriate corrective action
- ✓ it's easy for operating expenses to start outpacing revenue as your business grows, so keep a close check on these numbers to ensure you remain profitable
- ✓ analyse profitability per client & take action where you identify any client from which you are making little or no money
- ✓ set a realistic budget, against which to measure actual performance
- ✓ whenever possible, ensure you do not rely on just 1 or 2 clients for the success of your business
- ✓ as well as tracking profitability, do not ignore the company's balance sheet, also known as "statement of financial position," which reveals the firm's assets, liabilities & owners' equity (net worth):
  - warning signs include a declining bank balance, increasing accounts receivable & higher stock levels

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## Improve cashflow



### *Too many good small businesses close after running out of money, due to a failure to track cashflow*

- ✓ it cannot be stressed enough how important it is to constantly keep track of the money, which is coming into & out of your business
- ✓ remember profit (an accounting concept) is not the same as cash! Financial reports might show a profit, but if you're selling to clients on credit & they default on payment, your business will struggle
- ✓ prepare & keep cash forecasts up-to-date for the next 6-12 months, so you can plan for large bills (tax, capital expenditure etc.)
- ✓ ensure the credit terms you negotiate with your main suppliers are at least equal to or longer than those offered to your main clients
- ✓ put in place a strategy to accelerate payment from clients:
  - raise invoices on a timely basis
  - consider use of early payment discounts, direct debits, deposits
  - use cloud accounting software, where invoices can be raised, viewed & paid online

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# Know your deadlines



## Sole Trader

- ✓ the key deliverable is your self assessment tax return:
  - last tax year started on 6 April 2020 & ended on 5 April 2021
  - register for self assessment if you're self-employed/sole trader by 5<sup>th</sup> October 2021
  - paper tax returns due by midnight 31 October 2021
  - paper tax returns due by midnight 31 January 2022

## Limited Company

- ✓ after the end of its financial year, a private limited company must prepare: full ('statutory') annual accounts & tax return, while it is also required to file a confirmation statement at least annually
- ✓ first accounts due 21 months after the date you registered with Companies House
- ✓ annual accounts due 9 months after company's financial year end
- ✓ tax return due 12 months after accounting period for Corporation Tax ends

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**Don't forget  
to pay!**



## Self Assessment

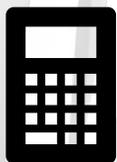
- ✓ you have to make 2 'payments on account' every year, which are advance payments towards your tax bill (incl. Class 4 National Insurance for the self-employed) unless:
  - your last Self Assessment tax bill was less than £1,000
  - you've already paid more than 80% of all the tax you owe
- ✓ each payment is half your previous year's tax bill. Payments are usually due by midnight on 31 January & 31 July
- ✓ if you still have tax to pay, you must make a 'balancing payment' by midnight on 31 January the following year
- ✓ the simplest way to make payment is to access your Government Gateway account (using your UTR) & follow instructions

## Corporation Tax

- ✓ for taxable profits of up to £1.5 million you must pay no later than 9 months & 1 day after the end of your accounting period

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## When to hire Accountant / Bookkeeper



- ✓ if you are a Sole Trader & have a small number of transactions, there may be no need to hire an accountant / bookkeeper
- ✓ if your business is a little more complex & has a larger volume of transactions, you should consider working with a professional
- ✓ when starting a new business I would recommend seeking the advice of a good local accountant / bookkeeper from the very start, as they will likely save you both time & money in the longer term
- ✓ when selecting an accountant / bookkeeper ensure:
  - they have a practice licence with a professional body: ICB, ACCA etc.
  - they have professional liability insurance, so in the unlikely event anything goes wrong, you are covered
  - they clearly detail the services to be provided, the information / documentation you are required to share, plus key deadlines

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# Cloud accounting software

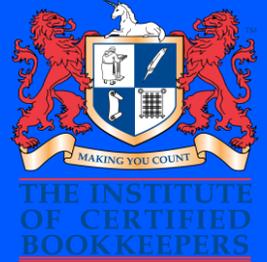


- ✓ for the smallest of businesses with minimal transaction volumes & revenue below the VAT threshold, keeping track of all your income & expenditure on a spreadsheet is probably sufficient
- ✓ for all other businesses I would recommend using cloud based accounting software, such as QuickBooks or Xero

## What are the benefits of cloud accounting software?

- you can access your financial records from multiple devices & from any location with an internet connection
- there's nothing to install or update & all your data is backed up automatically
- allows multiple users to have access, facilitating collaboration between key stakeholders, e.g. your accountant / bookkeeper
- automates / streamlines every day accounting tasks, with financial reports available in real-time
- a basic package can cost from as little as £12 per month, with the most popular plans around £25-£30

**For more  
information**



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