

BOOKKEEPING FOR SMALL BUSINESSES

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The keeping of financial records will aid a business to monitor its own performance, but of course is also a legal necessity to do.

The maintaining of sets of books or records enable the owner/partner/directors to establish at any given time the state of profitability of the company, to give the most important example. It will allow the monitoring of actual sales (as against targeted sales), of the amount of money owed to the business, and of the amount of money owing by the business. The entrepreneur can know at any given time the state of the bank balance, or of the level of borrowing by the business perhaps – in summary, of its relative liquidity at that particular time.

LEGAL REQUIREMENTS

The legal necessity will arise in the first place so that the business can be assessed for Income Tax and Corporation Tax. Secondly, if its turnover exceeds a certain limit – currently £20,000 per annum for the supply of services and £40,000 for the supply of goods, the business must register for VAT. Proper records need to be kept, therefore, in order that VAT returns may be made at the proper time. Finally, if the business is a legal entity – a limited company for example – it is required to make Annual Returns, together with the accounts of the company, to the Register of Companies, as well as submit audited accounts to the Inspector of Taxes in support of the profit or loss shown on the tax return.

FINANCIAL RETURNS

Even the smallest of business will automatically generate a basic minimum of financial records. It will issue and receive invoices and statements for goods supplied and for goods purchased by the business. It will hold a Bank account, for which it will receive statements at given intervals. It will write cheques, for which it will have the cheque stubs as a record. It will receive cheques and cash which it will pay into the bank account, the record for which will be in the business' lodgement book. These are the basic documents from which a set of books can be made.

SALES BOOK

In the first place, a Sales (Day) Book should be kept. This will record all the sales made by the business, showing also the amount of VAT charged on each sale if the business is registered for VAT, and therefore the amount in turn payable to the Revenue. From this book a Sales Ledger can be built up, which will in addition show when each sale has been paid for, and what customers need to be reminded that their accounts are overdue for payment.

PURCHASE BOOK

Similarly, a Purchase (Day) Book/Purchase Ledger will show the purchases of goods and services by the business, and when these have been paid for or need to be paid. It will also show the amount of VAT paid on each purchase, which if the business is registered for VAT can be deducted from the VAT payable to the Revenue on sales.

CASH BOOK

Thirdly, a Cash Book will record all payments made by the business, and all receipts of money to the business. This book will be of fundamental importance in keeping a regular check on income and expenditure, and therefore of how much money a business has available at any given time.

PETTY CASH BOOK

A Petty Cash Book also needs to be kept to record all the smaller incomings and outgoings of each (notes and coins) within the business.

WAGES AND SALARIES

Finally, a separate record needs to be kept of the wages and salaries paid by the business, in order that Returns and payments of tax and PRSI may be made to the Inspector of Taxes at the required times.

AUDITING AND ACCOUNTANCY

Everyone running a business is obliged to keep proper books and records. In addition, a limited company is required by law to appoint auditors. While a sole trader or partnership are not obliged by law to do so, it is practically a necessity for any business to employ the services of an accountant. From the records enumerated above, the accountant will be able to prepare all the necessary financial statements (PROFIT and Loss Account, Balance Sheet, etc.) that business will require.