



charteredaccountants & **business**advisers

Your Business Records....



.... write it down and make a record

MORE THAN ACCOUNTANTS



If you run a business or work for yourself

The precise records you need to keep to meet legal requirements will depend on the type of taxes you need to pay and the size and complexity of your business. It is up to you to ensure that your tax return and VAT records, if you're VAT registered, are complete.

You'll need to:

- set up a system for keeping records in the first place
- Write them up regularly/frequently throughout the year
- keep them for as long as necessary

Generally speaking, you'll need to keep evidence of all income and outgoings associated with your business or trade and, if you trade in goods, records of all sales and purchases made in the course of the trade. For help setting up a record-keeping system go to www.businesslink.gov.uk/businessrecords

Typical records you may need to keep

We will normally expect you to:

- record all sales and other business receipts as they come in, and keep the records
- keep supporting records, for example, invoices, bank statements and paying-in slips to show where the income came from
- record all purchases and other expenses as they arise and ensure, unless the amounts are very small, that you have, and keep, invoices for them
- keep a record of all purchases and sales of assets used in your business
- record all amounts taken out of the business bank account, or in cash, for your own or your family's personal use
- record all amounts paid into the business from personal funds, for example, the proceeds of a life assurance policy.

Remember that sales include:

- goods taken from stock for your own, or your family's consumption, that are not paid for in cash
- goods or services supplied to someone else in exchange for goods or services (barter transactions).

Even if you do not record these through a till, you will need to make a record, at the time the transaction takes place, of the goods taken or supplied, and their retail selling price.

Bank and building society accounts

You need to keep all bank and building society statements and passbooks for any account into which any money from your business has been paid or credited, or out of which you have drawn any money for the business. If you do not have a separate business bank account, you need to keep records of which transactions were personal and which were business.

Unless your business is small or has few transactions, it would usually be helpful to maintain a separate bank account or accounts for the business.

Personal drawings

You should keep a record of any money you take for your own or your family's personal use from:

- business cash
- your business bank account, or
- your personal bank account if you do not have a separate business bank account.

If you withdraw money by cheque, an entry on the cheque stub will be enough to show that this is for personal use.

Money from private sources used in your business

You should keep a record of any private money brought into the business and where it came from (a legacy, a bank loan, friends or family, or the proceeds from, for instance, a life assurance policy).

Stock and work in progress

At the end of your accounting year you should carry out a stocktaking exercise to identify the costs of your stock and/or work in progress, record the costs, and keep the record. You can get professional stocktakers to do this for you. Keep their report.

Payments to employees

If you are an employer you will also need to keep records to back up any deduction in your accounts for wages, payments, benefits and such like, relating to your employees. More advice can be found at:

www.hmrc.gov.uk/paye/payroll/day-to-day/records.htm

We will carry out compliance checks and ask to see these records. You can get more advice on compliance checks at **www.hmrc.gov.uk/compliance/cc-fs1.pdf**

Payments to subcontractors in the construction industry

If you make any payments to subcontractors you will also need to keep records to back these up. The HMRC booklet CIS340 Construction Industry Scheme – Guide for contractors and subcontractors gives more details about this.

Using record books (or spreadsheets)

The most suitable types of books you should use to summarise all your business transactions will depend on the nature and size of your business. For most businesses it is good practice to keep during the year:

- a cash book (a summary and analysis of all bank account entries or cash receipts, payments and drawings)
- a petty cash book, or some other simple record of your petty cash transactions.

If you run a larger business it may be useful for you to keep other account books as well. Your accountant, if you have one, can advise you on what extra books you should keep. If you do not have an accountant, you can ask us for advice.

After the end of the year, you or your accountant may need to prepare other records to show how your business records have been used to arrive at the figures in your tax return.

Whatever record books you keep, you will find it easier if you write them up frequently. Amounts paid into, or taken out of, the petty cash should be recorded when the transaction goes through.

Expenditure without back-up evidence

You should back up all your expenditure with bills or other evidence. If, exceptionally, you do not get a receipt for some **small** items of cash expenditure, such as taxi fares or tips, you should make a note as soon as you can of the amount you spent and what it was for.

Common points of difficulty

Motor vehicles and other assets used for business and private purposes

If you use the same vehicle for both business and private purposes, you should keep enough details to enable you to split your total expenditure between business and private use. Usually it will be enough to keep a record of business and private mileage and split the vehicle running costs in the same proportions.

There may be other assets that you use for both business and private purposes, for example, a house or shop premises that includes a flat. Again, you should keep enough details to enable you to split your total expenditure between business and private use.

Examples of records recommended for different business types

Retail shop

You should keep:

- till rolls or other forms of electronic record of sales
- details of any other income, for example, commission for the National Lottery or football pools
- a separate record of
 - * any goods taken for your own or your family's personal use, or provided in exchange for other goods or service
 - * any other items not rung through the till, such as commission from football pools or dry cleaning, or rent from the flat above the shop
 - * any cash taken out of the till to pay small business expenses
- bills/invoices for purchases and expenses
- a record of stock on hand at the end of the year
- all bank and building society statements, passbooks, cheque stubs and paying-in slips which include tails of business transactions
- cash books
- details of any private money brought into the business
- details of any money taken out of the business bank account, or in cash for your own or your family's personal use
- details of any assets used for both business and private purposes
- if you are registered for VAT, you will need to keep additional VAT records. Go to www.hmrc.gov.uk/vat/managing/returns-accounts/accounts.htm

Subcontractors in the construction industry

You should keep a record as you go along of all the money due to you from contractors and anybody else you do work for.

Your record should show:

- the name of the contractor or client
- how long you worked for them for every contract or job
- the amounts you have received
- any amounts that are due to you.

You should keep copies of all invoices you issue. You will also need to keep details of the costs of the materials that you used to do the job.

If you have been paid under deduction, that is, with an amount taken off your payment, on account of your tax and national insurance bill, your contractor should have given you a Payment and Deduction Statement (PDS) for each payment you have received. The PDS should show how much you have been paid and how much has been deducted from your payment. If you haven't been given these statements, you should go back to the contractor and ask for them as you will need them to help you prepare your tax return. You are not, however, required to send them in with the return.

You will need to keep bills for any items you claim as business expenditure and separate details of private and business mileage if you use your own car or van for business.

You need to keep all passbooks and statements from bank and building society accounts you use for your business transactions, along with paying-in books and cheque stubs.

You should also keep details of:

- any private money paid into any bank or building society account that you use for your business
- any amounts you take out of that account, or in cash, for your own or your family's personal use.

If you make payments to other subcontractors in the construction industry, you need to operate the Construction Industry Scheme on all payments made to those subcontractors. Where you are required to make deductions from any payments to your subcontractors, you should ensure you provide them with Payment and Deduction Statements (PDSs). You can find more advice about the Construction Industry Scheme on the HMRC website at **www.hmrc.gov.uk/cis**

Manufacturing firm (limited company)

We would expect you to have:

- cash books
- petty cash books
- order notes and invoices
- copy sales invoices
- details of any other business income received
- bills/invoices for purchases and expenses
- a record of stock on hand at the end of the year
- details of bank and building society accounts used for business transactions
- details of any private money brought into the business
- details of money taken out of the business bank account or in cash for your own or your family's personal use
- as an employer, records to back up any deduction in your accounts for wages, payments, benefits and such like, relating to your employees (including the director(s))
- accounting records (including details of assets, liabilities, income and expenditure)
- details of any assets used for both business and private purposes.

If you are registered for VAT, you will need to keep additional VAT records, go to **www.hmrc.gov.uk/vat/managing/returns-accounts/accounts.htm**

These are just examples of the types of records it would be sensible for you to keep.

They cannot cover every situation. If you are in any doubt, please contact us.

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