

Financial Records

If you run a business no matter how big or small you are required by law to keep financial records. The two most important are records for the Inland Revenue (taxman) or the Department of Customs and Excises (the VAT man). These two Government departments have more power than the police.

You will also have to keep good accurate Financial Records for the business to be run professionally, these records will show weekly, monthly and yearly if the company is making a profit, making a loss!!! Or breaking even.

All businesses exist to make a profit, this profit is used by the owners, directors or partners to 'grow' the business, pay salaries, invest in future growth and pay the above government departments.

Without profit the business will very soon have financial cash flow difficulties.

This could lead to the bank withdrawing funding and support for the business, being unable to pay the government departments, liquidation or bankruptcy for the owners losing their home and assets.

All Financial Records need to be accurate, easy to use, accessible and clear.

At the end of the year you may have to take all your records to an accountant, if your records are in a mess the accountancy firm will charge you to assemble the records, this can be very, very expensive.

There are computer software packages available, these may take a long time to learn, be difficult to 'get to know', difficult to change entries if wrong and expensive, records must be continually 'backed up' in case of computer failure. You must still keep paper records, receipts etc.

A simple accounting book will be all a small business should need, as the business grows and more profit is generated then other forms of Financial Record keeping will need to be investigated in conjunction with the business's accountant.

Financial Records should be updated daily, goods purchased, goods sold, employment records, bills received, invoices sent, money received, invoices paid etc. If records are left, the work becomes tedious and difficult, paperwork, receipts are lost, and information is forgotten.

What type of records would a small business need?

- Bank account in the name of the trader, or trading name, this is so the business transactions do not get mixed up with personal transactions.
- Monthly bank statements, so the trader can keep track of money coming's and going's
- Accounts book or computer accounting software.
- Cash book
- Bank book
- Cheque book
- Tax records and payments, CIS 6 etc
- Tax deductions CIS 4
- VAT records payment and receipts.
- Bank charges
- Sales invoices
- Cash book
- Receipts
- Purchase day book
- Wages and salary records
- Motor expenses repairs, running costs, replacement.
- Telephone
- Postage
- Rent, heat, light, council tax, business rate
- Printing, stationary, advertising
- Repairs and renewals.
- Office equipment repairs and renewals
- Professional fees, accountant, solicitor
- Capital purchases, vans, plant and equipment.

The Small Business would also have to keep business records such as:

- Paid sales invoices
- Un-paid sales invoices
- Paid purchase invoices
- Un-paid purchase invoices
- CIS 24 payment's to sub-contractors
- Copies of hire purchase agreements, lease agreements, contracts, loan agreements etc.

Now we have an idea of some of the records we need to keep and the reasons why, what do they look like?

What is a 'purchase day book'?

Purchase day book										
Date	Details	Inv no	P/L a/c no	Inv total	vat	Net total	Job no	CIS tax	Various	Various
28/11/05	Knott B/supplies	187	B298	£323.13	£48.13	£275.00	254			
15/10/05	J Smith sub cont	197	Sc258	£117.50	£17.50	£100.00	254	£18.00		
08/03/05	A-B Cars	183	c279	£176.25	£26.25	£150.00			car hire	
31/05/05	S S Plum S/Cont	184	P341	£1,321.88	£198.88	£1,125.00	127	£202.50		
Monthly Total										

There are many other forms of Financial Records that need to be kept, a simple book or spreadsheet (computer records will need to be 'backed up' to disc) will be adequate for the small business.

Estimates?

Estimates or quotations?

What is the difference?

An **estimate** is an educated guess at what a job may cost - but it isn't binding on you. To take account of possible unforeseen developments, you should provide several estimates based on various circumstances, including the worst-case scenario. This will prevent your customer from being surprised by the costs.

To work out a quote or estimate you need to know your fixed and variable costs.

These include the cost-per-hour of labour and the cost of the materials you'll require. Your quote or estimate is then calculated according to what you think the job will involve.

You should provide all your quotes and estimates in writing and include a detailed breakdown. This will help to avoid any disputes about what work is included in your overall price.

You may also wish to set an expiry date. Your quote or estimate will no longer be valid after this time, labour, materials, overheads and interest charges may all increase.

A **quotation** is a fixed price offer that can't be changed once accepted by the customer. This holds true even if you have to carry out much more work than you expected. If you think this is likely to happen, it makes more sense to give an estimate. You can also specify in the quotation precisely what it covers, and that variations outside of this will be subject to additional charges.

- Q.1 We have shown a very simple purchase daybook, research and produce other spreadsheet records, you may be required to keep by an accountant.
- Q.2 How would you promote your business?
- Q.3 Can you draw up a business plan to take to your bank or accountant?
- Q.4 Why and when would you charge a customer for an estimate?
- Q.5 You receive an enquiry to do some work, what do you do next?
- Q.6 Draw up simple terms and conditions for an estimate.
- Q.7 You are owed £1000.00 how would you negotiate and obtain payment (legally)?
- Q.8 What are 'overheads'? Show some examples with what you think are the highest / greatest first.