

LBCA Chartered Accountants

Guide to Basic Record Keeping

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Set up a basic record-keeping system

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Set up a basic record-keeping system

Introduction

Whatever kind of business you run, you are required by law to keep financial records relating to it.

There are a number of business benefits to be gained from keeping records. It saves you time, and therefore money, whenever you need figures to back you up. You can be confident that you're only paying the tax you owe. It also helps you keep up to date with how much you owe and how much you are owed.

This guide shows you how to meet your legal obligations and set up a basic system that works for you.

What should my system include?

There are four basic sets of financial records that will help you run a tight business - the cash book, the sales ledger, the purchase ledger and the wages book. See the pages in this guide on:

- [the cash book/spreadsheet](#)
- [the sales ledger/spreadsheet](#)
- [the purchase ledger/spreadsheet](#)
- [the wages book/spreadsheet](#)

The law states that all business owners must keep financial records and retain them for **six years**.

Although the level of record keeping required may vary from business to business, it should include:

- all receipts and expenditure
- all goods purchased or sold

There are no rules about the format you must use to record your figures - those kept on paper are just as valid as those stored on computer.

What's important is that you keep accurate, relevant financial records and update them on a regular basis. You may have to pay a penalty if you're unable to back up the statements made in your VAT and income tax returns.

Small businesses may be able to take advantage of the simplified record-keeping requirements

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afforded by the VAT flat rate scheme. See our guide on [VAT accounting schemes: the basics](#).

The cash book/spreadsheet

The cash book is the final record of all the money that comes into and goes out of your business - often referred to as cashflow.

To complete your cash book, you'll need to collect and hold on to:

- cheque book stubs
- cancelled cheques
- bank paying-in books
- bank statements
- copies of your own invoices
- receipts and delivery notes
- your suppliers' invoices
- receipts for all cash purchases, till roles, etc
- remittance advice slips from customers
- copies of payments made or received using online banking systems

Divide your cash book - or spreadsheet - into two sections: payments and receipts. Listing sales and purchases separately is sensible. Once you have a turnover of more than £70,000 it will help you calculate your VAT liability - the difference between tax paid and collected.

In both sections you should record the following:

Date	Payee	Cheque number (and invoice number for receipts)	Amount	Type (for payments)

Recording the type of expense will help when filling in your annual tax return. Whether as a self-employed individual, or as a company, you will need to be able to distinguish between 'allowable' expenses and 'non-allowable' expenses. See our guide on [expenses and benefits: the basics](#).

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It is important to check the individual entries in your cash book with the bank statement to pick up items such as bank charges or credit transfers paid directly into your bank account for sales. If you pay by cheque, you should also check that these have been properly credited by your suppliers.

Small, simply structured businesses may find this cash book sufficient. However, keeping a sales ledger and purchase ledger will enable you to record sales, purchases on credit, and keep track of amounts owed to you from sales and by you for purchases. This will make it easier to monitor your cashflow.

The sales ledger/spreadsheet

A sales ledger records:

- the sales your company has made
- the amount of money received for your goods or services
- money owed at the end of each month

It's a useful business-planning tool, enabling you to monitor and chase slow payers and see which customers are most profitable. It will also help you file your VAT return. For more details on VAT, see our guide - [introduction to VAT](#).

Date of invoice	Customer name (including individual within company if relevant)	Invoice number	Net total	VAT (if charged)	Gross total	Date invoice paid

How do I use my sales ledger?

Every time you invoice a customer, record it in the sales ledger - do this regularly, at least once a week. Each week or month, you can add up the total amount of sales invoiced by you, also called turnover (an important business statistic).

By recording the amounts paid by customers in the sales ledger you will also be able to identify the money owed to your business. Any customers that have exceeded your payment terms can then be chased. All those owing you money should remain on the ledger until their debts have been cleared.

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To support your sales ledger you need to retain copies of your invoices. These must be kept on file or on computer for **six years**. It will assist tracing sales invoices if you give each sales invoice a number and record this number against an entry in the ledger.

The purchase ledger/spreadsheet

A purchase ledger records all purchases made by your business.

It helps you to monitor:

- your business' outgoings
- how much money you owe at any one time

In addition, it gives you a record of your most regular suppliers and how much you have spent with each.

It will also help you file your VAT return. For more details on VAT see our guide - [introduction to VAT](#).

A purchase ledger should record the following:

Date received	Supplier's name	Reference number (or your company's purchase order number)	Total paid	VAT charged (if any)	Date paid

How do I use my purchase ledger?

By recording in the purchase ledger payments you have made, you will be able to identify the amount unpaid. Each time a payment is made, note it in the "Date paid" column. You can add up the totals on a regular basis to see how much you owe. Any creditors should remain on the purchase ledger system until payment is made.

It is a good idea to number each bill when you receive it and record this number against an entry in the ledger. It is also advisable to file the bills in numerical order. That way, you will be able to easily retrieve the bill if a query arises at a later date.

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The wages book/spreadsheet

If you employ staff, you will need to keep a record of all salary payments made, including National Insurance contributions (NICs). HM Revenue & Customs (HMRC) provides a form P11 for you to record these details.

You can use the P11 as the basis of your wages record.

Deductions Working Sheet P11 Year to 5 April 2004 Employer's details in CAPITALS

Box A Employer's name

Box B Inland Revenue office name

Box C Surname

Box D First two surnames

Please keep this form for at least 3 years after the end of the year to which it relates, or longer if you are asked to do so.

Note 1 For guidance on completing the P11 see the Employer's Help Book. For guidance on Statutory Sick Pay, see booklet CAS0 and Employer's Help Book. What to do if employer is sick; E16; for Statutory Maternity Pay and Statutory Paternity Pay, see Employer's Help Book; E17; and for Statutory Adoption Pay see Employer's Help Book; E18. If you need further assistance, please contact the Employer's Helpline on 0800 7142 142.

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window

Why do I need to keep wages records?

- Calculating your employees' NICs will be straightforward. HMRC requires all employers to do this on a monthly or quarterly basis. See our guide on [how to manage National Insurance](#).
- You will have a single, detailed record of one of the most significant costs for most small businesses.
- You will be able to easily answer any staff questions you may receive when they come to do their own self-assessment income tax returns.
- You will be able to prove that you pay the national minimum wage and equal pay for work of equal value should you need to.

Computerising financial records

A computerised system can save you a great deal of time. It will allow you to add, delete, amend and share your data easily and will recalculate your running totals for you.

Computerising your accounts can also have wider business benefits. It will allow you to file government returns (such as VAT and tax returns) online as well as potentially enhancing your business' ability to communicate online with customers for applications such as e-invoicing.

Choosing a software package

You can either use your computer's standard spreadsheet package or you can buy an accounting software package.

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Sole traders with simple bookkeeping needs may find 'money management' software sufficient, eg Microsoft Money.

Accounting packages have been developed to meet the needs of most small businesses. Well-known packages include:

- Sage Instant Accounting and TAS Books
- Intuit QuickBooks and QuickBooks Pro, Regular and Accountant
- Pegasus Capital Gold

More advanced accounting packages are sold in 'modules', with each one handling an aspect of financial management. Most businesses buy at least three modules (sales, purchase and nominal ledger). Well-known packages include:

- Sage Line
- Pegasus Opera

Remember if you are using an accountant, your software packages should be compatible.

If you are registered for VAT, your system must enable you to meet your legal obligations to:

- account for VAT properly
- provide information to inspectors should they visit you
- keep records in the required detail for the required length of time

For more information see our guide on [accounting software](#).

Hints and tips

To keep good control of your financial record-keeping, get into these good habits.

Hints and tips

What you need to do	When
Record sales in the sales ledger	daily or at least weekly
Record payments received in the sales ledger	daily or at least weekly

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Record purchases in the purchase ledger	daily or at least weekly
Record payments made in the purchase ledger	daily or at least weekly
Reconcile the sales and purchase ledgers	every month
Chase all outstanding payments	as soon as they are overdue
Check your cash book against your bank statements and your sales and purchase ledgers against your cash book	every time you receive a bank statement

And try the 'four S' approach:

S is for...system - spend time setting up a system which you stick to. Allocate a regular time every week/month to deal with your financial administration, or make it a key task for a trusted employee. File your records logically - put receipts in date-marked envelopes or folders and file bank statements in order.

S is for...separate - one of the biggest mistakes business owners make is to mix their personal and professional finances. It is best to treat the business as a separate person, from which you only take income in the form of wages, dividends and in claiming back business expenses against receipts. So keep it separate - and simple.

S is for...security - the fewer people involved in your record-keeping, the fewer the errors that are likely to creep in. Make it very clear whose responsibility it is to maintain records. It is a good idea to password-protect your computer records, and only divulge the password to a small number of people.

S is for...(safe) storage - even if you choose to keep all your records on a computer, it is vital that you keep a regular (weekly, if not nightly) electronic back-up, and a paper copy elsewhere. Store records that cannot be copied, such as chequebook stubs and paying-in books, in a fireproof box.

Here's how I established an effective record-keeping system

Michelle De Bruyne

Set up a basic record-keeping system

AmHealthy Limited - Opens in a new window

Michelle's top tips:

- "Track everything. Even small amounts of spending add up."
- "Develop a system you can work with."
- "Keep a routine for doing your records and don't let it slip."

Michelle De Bruyne used an accountant to set up her limited company, AmHealthy, which markets a herbal nutrition programme. However, she decided to do her own bookkeeping. Good organisation, she says, has helped her track the progress of her business as well as look after her customers.

What I did

Devise a filing system

"It's very easy in this business to know what payments are coming in because customers often purchase a complete one-month nutrition programme. It's the small costs, like local advertising and postage that are harder to keep track of. There are lots of small receipts.

"I put all my receipts into appropriately labelled plastic sleeves in a lever arch folder that's also divided on a month-by-month basis. If something is paid for by cash, the receipt goes into the cash sleeve; if by bank account, into the bank-account sleeve; and if by credit card, into that sleeve. Every time I get a receipt, I make a decision about which folder it goes into. Also, if the receipt doesn't state what was purchased, I immediately write on it what it was for.

"In fact, all paperwork to do with the business is kept in an ordered filing system. It's especially important as the business is a limited company and I know the obligations that brings."

Separate business from domestic expenses

"Because I run my business from home, there are often mixed expenses. For example, I might have bought one item for the business alongside all my food for the week. All those expenses add up too, so I tag the business items on the receipt with a tick and that then goes into the relevant sleeve too."

Use a computer and back up data regularly

"Our bank gave us an accounting package when we opened our business account and that has proved very helpful. It allows for categories such as marketing, administration, telecoms and stationery, so I can enter the relevant figures from the filed receipts directly into the relevant category. It really helps me keep track of how much I'm spending, on postage for example.

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"I keep customer-order records on the system too. It's such a prompt for me to know who's buying what and when. It's important marketing information. I back up the computer records at least once a month."

What I'd do differently

Think about a system before I started up

"I was very disordered when I first started. Now I file receipts as I get them and when I receive statements, I use that as a prompt to enter data on to our accounting system and to reconcile things. Developing a routine has been very helpful. An early investment in files and computer software does pay dividends later."

[Read more case studies that describe first hand how people tackle real-life challenges and opportunities](#)

Helplines

HMRC Newly Self-Employed Helpline

0845 915 4515

HMRC New Employer Helpline

0845 60 70 143

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Related web sites you might find useful

[Online courses on computer and software from learndirect business - Opens in a new window](#)

[Chartered accountants directory from the Institute of Chartered Accountants in England and Wales - Opens in a new window](#)

[Download specimen form P11 from HMRC \(PDF, 145K\) - Opens in a new window](#)