

Firstly, an introduction. Who am I?

As you know my name is Chris Edwards, and as you will have seen from the Business Club web site and/or membership list, I am an accountant trading as

## **C.T.EDWARDS      Certified Accountant**

Most importantly I am a Registered Auditor – which means that not only can I undertake audits, but I am also a authorised signatory for items such as bank reports, earnings statements, charity accounts where the signatory must be more than just a qualified accountant. (Regrettably this also requires me to comply with additional regulation, monitoring and Continuing Professional Development.)

I am literally a sole trader (well, almost literally because I must count my wife as an employee), and I operate from my home in Darnford Moors, on Boley Park, Lichfield - Tel: 01543 263915.

I began my career on the last day of 1962 at a small family firm (with about 15 staff) in the Birmingham City centre, qualifying in 1969 . I then joined a civil engineering client for a short period, before moving to Peat, Marwick, Mitchell (now KPMG) in 1974. I remained with KPMG until October 1991, when I decided that I could just as easily do for myself what I was doing for 45 partners.

At present I have some 66 Business clients (limited companies; partnerships; sole traders; charities; churches and clubs) + another 50 personal tax clients. The businesses covered include manufacturing; vehicle repair; construction; farming; solicitors; education; retailers; consultancy; debt collection and alternative medicine.

I am pleased to say that most have come from referrals: only 3 or 4 have come from advertising in Thomsons or Yellow Pages (and 1 of those turned out to be a neighbour).

## WHAT INFORMATION YOUR ACCOUNTANT NEEDS FROM YOU

Silly as it sounds, there is no simple answer to this question – but I think that is what you'd probably expect me to say!

It depends on what you want your accountant to do.

For the purpose of this presentation I have assumed we are looking at annual accounts and tax, and I suggest there are 3 basic categories –

INCORPORATED BUSINESSES (ie limited companies)

UNINCORPORATED BUSINESSES (eg sole traders; partnerships)

TAX RETURNS

Whilst the basic information requirement is similar, each of these will have additional criteria and requirements – although, inevitably they are likely to be linked.

In addition there will be sub-categories of work that the accountant (or on occasions, book keeper) will be called upon to carry out.

- Setting up an accounting system
- Basic day to day record keeping
- Payroll
- VAT Returns
- Management Accounts
- Cash flows
- Profits forecasts (shown separately because they are different!)
- Investment Advice (if registered under the Financial Services Act)
- Pensions Advice (if registered under the Financial Services Act)

Believe it or not, the starting point for your accountant will be the books and records that you keep. The better those records the less your accountant's bill should be – Don't forget that the major product that the average accountant sells is time, and so if your records are not up to the accountant's required standards either they will be returned to you or the bill is likely to be substantial.

Most accountants these days utilise proprietary accounts packages which do a lot of the thinking, but for these packages to work at their optimum the input (your accounts information) has to be in a specified format. (I recently received a mail shot from a firm offering monthly/annual accounts preparation via the internet: the information would be sent to and produced in India!). This approach may not suit you. Personally I try to work with my clients' accounting records – for which I would recommend improvements if appropriate – because my guiding principal is that they are their records and they have to be able to understand them. If your accountant insists on a system that is difficult or too time-consuming for you to operate or understand, then I suggest that one or the other has to change.

All businesses should be keeping basic Cash Book records detailing all money coming into and being spent by the business. Ideally these cash book records should be totalled and analysed over headings appropriate to your business; and it may be that such records are all that is needed for your business.

These cash book records need to cover both transactions passing through your bank account, and any cash receipts or payments (usually called petty cash) that do not hit the bank.

If your business is bigger then you may also need to keep ledger accounts for each of your customers and suppliers so that you can keep track of how much is owed to and by the business. If you do, then you must also

- keep the appropriate day books recording sales and purchases – and ideally these day books should be analysed across headings applicable to your business.
- Regularly make a list of the sums owed – especially at the year end, but ideally for each month end of your financial year.

This is best done in conjunction with a Control account which deals with the monthly totals coming in and going out and is used to check your lists of sums owed.

If you employ people, you must keep accurate payroll records covering all employees, including (or especially) casual workers. The Tax year ends on 5<sup>th</sup> April, and as this date is unlikely to coincide with your annual accounts yearend, this means that your accountant will probably need to be given your current payroll records as well as last year's.

If you are VAT registered, you will need to prepare VAT Returns – which you should keep copies of (together with any working papers).

Finally, in the basic records section, if you hold stock or work in progress, then at your year-end at least you should prepare a reasonably detailed stock valuation. Large fluctuations in your stock levels year on year would have a dramatic impact upon your accounts!

Remember that to produce accurate accounts you have to tell your accountant everything – or at least as much as you can remember at the time, and which is legal! Accountants are, I believe, required to be “whistleblowers” if they come across illegal activities.

Contrary to popular opinion, accountants are not blessed with mystic powers. So if, for instance, you replace your car (or a piece of plant) and finance it through an HP or leasing agreement, all your accountant will see are the changes in monthly instalments going out of the bank. He needs to see both the HP agreement and the car purchase and sale documents.

Similarly, if there is a bank or other loan, statements, these days, are usually only provided on an annual basis – which again is unlikely to coincide with your year end.

Finally, in order to produce reasonably accurate accounts, the accountant needs to try and ensure that any transactions that relate to the year under review are included in the accounts. To achieve this, the accountant should review the invoices and records for the 2 or 3 months following the year end.

For your assistance I have produced summaries of what I consider are accounting records that should be provided to the accountant. These are based upon a Sage accounting system, but hopefully cover everything that I have mentioned (and more).

## THE ADDITIONAL REQUIREMENTS

### Limited companies

- Are given an Accounting Reference Date – ie the date to which their accounts are to be made up each year. Initially this is set as the last day of the month in which the company is incorporated (or created).
- Are required by law to file their accounts at Companies House, and thus available for public inspection, within 10 months of their year end. (7 months if a Public Company)  
It is proposed that this deadline will be shortened to 7 months, and facility to file abbreviated accounts (basically just a Balance Sheet) is also to be withdrawn at that time.
- Account formats are defined in legislation and require specific additional information to be included by way of note. Because of this, most small businesses leave the accounts production to their professional accountants.
- Are driven by forms. Any changes in particulars require a form to be submitted. Eg Annual Returns: new directors, resignation of directors, changes of address of directors: Change of Accounting Reference date
- Are required to pay tax on their profits 9 months and 1 day after their year end; however, the actual Tax Return need not be filed until 12 months after the year end
- There is now a nil rate band of tax for companies whose taxable profits do not exceed £10,000 per annum. If you take dividends from your company instead of salary then this is unlikely to be of any benefit to you.
- If your company does pay dividends then provided your overall taxable income does not take you into the higher rate bracket, then no more tax will be payable.
- Limited companies with turnover in excess of £1m (at present) are required to have an audit. This necessitates more work on the part of your accountant (and a lot more forms for the accountant to fill in) and extra comfort for third parties using your accounts, but may not, in practical terms, necessarily provide you with any more information.

### Sole Traders and partnerships

- Are not required by law to prepare accounts, but do need accounts information for various purposes (including Tax Returns, satisfying bankers, obtaining credit, supporting VAT Returns).
- Choose their own year end, but once established, are expected to produce annual accounts (if appropriate) made up to that date each subsequent year

- For Tax return purposes you will include on your Return the results from the annual accounts that end within the fiscal year (ie the 12 months ending 5<sup>th</sup> April)
- Accounts are not available for public inspection. The proprietors need only show or provide them to who they wish to have them.
- An individual may have several separate businesses. Each should have a separate set of accounts, but for VAT purposes they are all added together and the entries go on one Return.
- Similar rules apply to partnerships, but the partners in each business must be exactly the same for “grouping” to take place. If there are different (or additional) partners a separate VAT Return is required.

### Personal Tax Returns

- Individuals are required by legislation to notify the Inland Revenue of any changes in their circumstances that may affect their tax position. The normal time limit for such notification is, I believe, the beginning of October following the end of the fiscal year in which the income arose.
- For new business, this notification is substantially shorter, and there is a specific form to be used.
- Normally any higher rate taxpayer, director or self employed person will automatically receive a Tax Return each year.
- If you are required to file a Tax Return
  - It deals with all of your income from all of their sources
  - You have until 31<sup>st</sup> January following 5<sup>th</sup> April to file it
  - If you do not have all the necessary supporting Tax Return sheets, it is your responsibility to obtain them
  - You normally pay any tax on 2 dates - by 31<sup>st</sup> January and 31<sup>st</sup> July
  - The 31<sup>st</sup> January payment will also include any balancing payment required in respect of the previous year ending 5<sup>th</sup> April
  - If you submit your return by 30<sup>th</sup> September then the revenue will kindly calculate your tax liability and tell you what it is in time for you to make your January payment.
- Partnerships have separate Returns to be filed, although they have the same submission date.
- I believe the Chancellor changes various tax rules each year to keep everybody on their toes, but also so that it is difficult to keep track of just how much tax we are all paying!

## **BOOKS & RECORDS REQUIRED FOR AUDIT**

### Nominal Ledger

Annual P & L  
Annual BS  
TB at year end  
Back up disks -  
    1 Before year end  
    2 Current position  
N L Activity      If possible  
                  (Covering the 12 months to year end)

### Bank

Cash book      **(including 2-3 months after year end)**  
Bank statements  
Cash book receipts

### Petty cash

Petty cash  
Receipts

### Debtors

Aged debtors @ year end  
Aged debtors now  
Invoices      **(including 2-3 months after year end)**  
Monthly sales day book **(including 2-3 months after year end)**  
Monthly adjustments (contras etc)  
Details pf debts w/off or considered doubtful

### Creditors

Aged creditors @ year end  
Invoices      **(including 2-3 months after year end)**  
Monthly purchase day book **(including 2-3 months after year end)**  
Monthly adjustments (contras etc)

### Wages

Wage records for the year  
PAYE records  
P35 at 5th April  
Correspondence with Inland Revenue

## STOCK

- Schedule of stock at year end
- Details of slow moving & obsolete items

## VAT

- Copies of the returns
- Details of any inspection visits
- Details of any assessments/adjustments made

## GENERAL

- Details/copies of any new loan/HP/Lease agreements
- Lease/rental agreement for warehouse
- Minutes of directors & shareholders' meetings
- Details of changes in share capital
- Details of other matters which may affect the accounts