

Accounts - The Basics

What are accounts?

- A profit and loss account showing income, expenditure, and the resultant profit or loss.
- A balance sheet showing assets (equipment, debtors, bank balances) and liabilities (overdraft, creditors, HP liabilities, loans).

Why do you need accounts?

- To enable you to manage your business.
- To understand your gross margin or profit.
- To compare change in costs against a prior year or budget.
- If applicable, to provide to shareholders or partners.
- Companies are required to file accounts annually at Companies House and with their annual Company Tax Return (for corporation tax payable).
- Sole traders (partners) need accounts for their annual tax return.
- If you are borrowing money, lenders will want to see accounts.
- If VAT registered, a basis for quarterly VAT return.

The Basics of Accounts

- Record of bank accounts, petty cash, sales, purchases and VAT (if applicable).
- Records may be
 - manual - cashbook(s)
 - sales and purchases - paid or unpaid
 - spreadsheet - as manual
 - computer software - eg Sage, QuickBooks
- Double-entry bookkeeping
 - based on debits and credits - total debits = total credits
 - sales ledger - lists sales, cash received and debtors (unpaid sales invoices)
 - purchase ledger - lists purchases, payments and creditors (unpaid purchase invoices)
 - nominal ledger - record of sales, purchases, payroll, assets and liabilities.
- From bookkeeping to accounts
 - if computer software is used it will contain the basic sales, purchases and nominal ledgers - and will produce a management P&L and balance sheet. Accountant will take forward to final accounts.
 - if manual, accountant will use as a basis for preparing accounts.

Frequency

- Monthly - ideal to properly manage your business
- Quarterly - to coincide with VAT returns
- Annual - essential