Christopherson Associates

Guide to

GETTING THE MOST OUT OF YOUR ACCOUNTING SYSTEMS FOR SMALL COMPANIES

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PRACTICAL SERVICES *for* BUSINESS DIRECTORS

STEPS TO BETTER ACCOUNTING

One of the hardest tasks faced by small business owners is trying to keep track of the business finances. For the smallest business a spreadsheet or manual record is all that is needed, although as the business grows a computerised accounting system such as QuickBooks and Sage is a must.

There are many pros and cons of each system and each can be used in a variety of ways. Sage is favoured by many accountants generally because they have used it for a number of years, and are therefore more familiar with it. However QuickBooks reporting is far superior and capable of full drill-down from any report right back to originating entries. Current versions of Sage do not facilitate this usually essential feature.

"Off-the-shelf" systems are relatively cheap and easy to install and are often sold on the basis that computerising your bookkeeping is fast, easy to do and that you can be up and running straight away. This is a common myth and most small businesses fail to set up their accounts systems properly. This is because users are not accounts office trained and have no in depth knowledge of accountancy, double entry, control accounts or the software package.

Many businesses even fail to appreciate that errors have been made and the first time that anyone knows that anything is wrong is when the backup and records are given to the accountant at the year end. Any mistakes that have been made, particularly early on, can be extremely complex and very costly to resolve. Even the accountants of the business may struggle to correct these mistakes on the "live" system and end up keeping their own set of balances! Because of this accountants' fees are often much higher than they need to be which may come as a big surprise when a lot of effort and investment has been made in installing and working the accounting software.

If the setting up is carried out correctly and the opening nominal ledger balances together with opening sales and purchase ledger items are entered accurately and agree to the balances that your accountant is working from then there should not be any problems. If good procedures are in place, personnel are properly trained to use the system and you get the system housekeeping in order, it is relatively simple to maintain a good system.

If used correctly business accounts systems are a goldmine of useful management information and are a very powerful tool.

In addition to the usual Profit & Loss accounts and Balance Sheet reports, detailed reports such as budgets versus actual results, accounts receivable by customer, accounts payable by supplier, top revenues by customer and sales and contribution by product may be obtained. You will get this information from your accounts system but this has to be accurate and procedures applied consistently if any figures are to be relied upon.

There is also a legal requirement to keep accurate accounting records. The accounts that you submit to HM Revenue & Customs and, for Limited Companies, Companies House form the basis of your tax calculation each year. Company accounts submitted to Companies House are available to the public.

Very careful planning and analysis of your accounting requirements must be made. Good professional assistance is therefore essential.

This guide is written to help you keep accurate records and get the most out of your system. No two systems are identical but they all follow the same logic. This guide is no way exhaustive nor does it cover stock control, but has been written to help you understand what procedures you need to go through to produce accurate information.

Firstly you need to start off on a good footing with accurate balances that you can reconcile to. You should involve your accountant to make sure that your current system balances have integrity and that all proper procedures and controls are in place.

The statutory accounts include a Balance Sheet and a Profit & Loss Account which are taken directly from your accounts system.

These contain each of the accounts taken from the trial balance of your system which will include totals for:

- Sales Turnover
- Other Income
- Cost of Sales
- Overheads & Expenses
- Taxes
- Dividends
- Fixed Assets Cost & Depreciation to Date
- Bank & Petty Cash Balances
- Trade Debtor Balances (Customers)
- Prepayments
- Wages Liability (Wages Control Account)
- PAYE/NIC Liability (PAYE Control Account)
- VAT Liability
- Trade Creditor Balances (Suppliers)
- Accruals
- Director Loan Accounts
- Accumulated Reserves
- Share Capital

HOW TO PREPARE A BALANCE SHEET AND PROFIT & LOSS ACCOUNT

USING YOUR ACCOUNT SYSTEM

Before you start you need to agree the opening balances on your system at the start of you current financial year with your Accountant.

You need to make sure that all items that we have included in the Task List below have been completed.

- Check each Balance Sheet account in your system's Trial Balance as at the period/month end:
  - Fixed Assets
  - Bank accounts
  - Petty Cash Accounts
  - Stock account
  - Aged Debtors
  - Aged Creditors
  - PAYE & wages balances
  - VAT balances
  - Director Loan Accounts
- Print out the Profit & Loss for the year from the start to the end of your accounts period
- Print out the Balance Sheet as at the year end
- Print out the Nominal Ledger report from the start to the end of your accounts period
- Print out the Aged Debtors (detailed) up to the end of your accounts period
- Print out the aged Creditors (detailed) up to the end of your accounts period
- Complete & print out the Bank Reconciliations at the end of your accounts period.

TASK CHECKLIST

To get the best out of your accounts system the following tasks should be completed:

Daily

- Raise Sales Invoices
- Receive/Enter Customer Payments
- Enter and account for any transfer of monies
- Review and Enter Recurring Entries
- Review and Enter Direct Debits and Standing Orders
- Enter Petty Cash Expenses
- Enter Cashed Cheques
- Enter Supplier Invoices and Credit Notes
- Reconcile all Bank Current and Deposit Accounts
  - Use the bank reconciliation function of your accounts system to agree the balance in your system against your bank statements. If you have online access to your bank statements then reconciliation should be completed daily if possible.
- Make Data Backup
- Verify Data Backup

Weekly

- Process Payroll for Weekly paid staff
- Take Data Backup and store securely

Monthly

- Enter/Raise Payments to Suppliers
- Enter Bank Charges
- Enter Bank Interest Paid
- Enter Bank Interest Received
- Process Payroll for Salaried staff
- Enter payments for PAYE/NIC liabilities to HMRC
- Enter Expense Claims
- Enter Credit Card Expenses and Charges
- Reconcile all Bank Current and Deposit Accounts and print reconciliation reports
- Reconcile Petty Cash Account
- Reconcile Credit Card Account
- Agree Aged Debtor balances against trial balance. Any differences should be found and corrected.
- Create Customer statements
- It is a good idea to also print out and reconcile (check and agree manually) the detailed Aged Creditors report against supplier statements.
- Agree Aged Creditor balances against trial balance. Any differences should be found and corrected.
- Enter adjustments for costs that have been entered on your system but are prepaid, i.e., the expense relates to a period after the date of the entry. Talk to and involve your accountant for the best way to account for and enter prepayments on your system. These costs could include insurance, advertising and subscriptions, etc.
- Enter adjustments for accruals, i.e., any expense that has been incurred but not yet entered on your system. Talk to and involve your accountant for the best way to account for and enter these. These could include telephone, gas and electricity, etc.
- Review your fixed assets reports in the nominal ledger of your system and adjust for any items that need to be written off. Check with your accountant what rates to use.

  There are two methods: Straight Line based on cost price over a number of years and Reducing Balance based on book balance after depreciation to date. Rates may vary but are typically 25% reducing balance for Motor Vehicles, 20% reducing balance for Plant & Equipment and 33.3% straight line for Office Equipment.

Quarterly

- Enter vehicle VAT fuel scale charges
- Prepare VAT Return and agree the balance of the VAT account in your system against your VAT return.

Annually

Ensure that all transactions for the year have been entered and that all bank accounts have reconciled.

Prepare Backup and reports for Accountant. The most important report printouts to be taken are:

- Trial Balance as at the year end
- Profit & Loss for the year from the start to the end of your accounts period
- Balance Sheet Standard as at the year end
- Nominal Ledger from the start to the end of your accounts period
- Aged Debtors (detailed) as at the year end
- Aged Creditors (detailed) as at the year end
- Bank Reconciliations

Christopherson Associates Accounting Systems Services can help you select the best software to meet your particular needs, install it and set it up specifically for your business as well as train your staff to use it so that you have available all the information to be able to control your business at all times.

*If you are interested in any of our Accounting Systems Services please telephone us on **01225 480325** or complete the contact form on our website **www.practicalservices.co.uk** to arrange a free discussion.*

*The author of this article is available for group presentations to your business or organization. If interested, please call us on **01225 480325** to arrange.*

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