

Business Record Keeping For Accounts and Tax

Running a business that complies with the law and common business sense requires the setup and maintenance of some form of accounting system. For any accounting system to succeed, it is vital that some method of keeping account of the financial comings and goings be established, and that records be kept somehow to present a true accounting picture for tax purposes. For the small business owner, this is undoubtedly a burden, but it's important nonetheless to establish an efficient accounting procedure from the start in any business.

Record keeping is an essential part of business life for a number of reasons: for audit, preparation of accounting documents, as the basis for strategic decision making, and in preparing investor prospectus documentation. That said, there are still a number of small business owners that don't keep appropriate tabs on their finances, which can cause the occasional headache when the taxman comes knocking.

To maintain sufficient accounting records, you should firstly adopt a policy of keeping receipts and cheque stubs as evidence of monies coming in and out. These should be compiled daily, entered onto a central spreadsheet, and filed for later reference by date. This should enable you to prepare a basic cash flow account, showing monies coming in offsetting monies going out on a day-to-day basis. Keeping on top of this can be a great help in dealing with the administrative side of running your business.

You should also calculate a monthly profit and loss account, taking into consideration the cash flow statements you prepared daily and any other financial information relevant to your business. Calculate gross profit initially by subtracting direct costs of sales from the total sales figure – the total amount you sold less what it cost to sell those goods in terms of raw materials. After that, you can continue to find your net profit figure by deducting all other expenses relevant to your business, including heating and lighting, wages and interest repayments. This will give you your net profit figure and allow you to see how much money you've made over the given sampled period.

Finally you should also frequently prepare a balance sheet as part of your accounting system, which keeps a note of all the assets and liabilities of your business. In accounting terms, only short term liabilities are included (i.e. liabilities to expire within 6 months) in the deduction from total assets – long term liabilities are added as if they were considered an asset.

Keeping appropriate accounting records in business is as vital as marketing, operations, or customer service, particularly when it comes to submitting statutory accounts and tax returns. Not only is it good business, but it is also your legal responsibility to make sure you're up to speed with your record keeping and accounting documentation, to prevent deemed tax evasion or fraud. Likewise for auditing purposes, appropriate documentation prevents any problems or any embarrassing investigations or notes in the auditors' report, thus it makes good all-round business sense to maintain suitable records.

About the Author

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