

RECORD-KEEPING GUIDELINES

(For self employment and partnerships ONLY)

It may surprise you to realise that, under normal circumstances, you only have to report to one Statutory Body – HM Revenue & Customs (HMRC). For many businesses the primary purpose of preparing accounts is therefore to calculate the profit for tax purposes. If you are VAT-registered, the following principles also broadly apply.

HMRC may, at any time, enquire into your accounts and extend any corrections backwards for up to six years (longer under special circumstances). They seek to collect the Right Tax, and this phrase has a meaning in Law. In practice this means they must satisfy themselves that you have declared all your business income and that you have not overstated your expenditure or allowances.

As your accountants, our job is to prepare the accounts from all the information and explanations you provide. We will always act in your best interests to maximise reliefs and allowances in order to reduce the tax bill to a minimum *but* we can only act within the law, which broadly means that where there is doubt, the benefit goes to the Revenue.

The following are some guidelines on various aspects of your relationship with HMRC via us as your accountants. In anticipation of Revenue Enquiries - these happen to everyone from time to time - following these guidelines will go a long way towards making things quicker, avoiding stressful interviews and of course reducing your costs to a minimum.

You must keep adequate records to support the accounts and ultimately the entries on the Tax Return that *you* sign as true and accurate. This means 'primary' records (bills, receipts and invoices - collectively known as 'vouchers') supported by bank and/or credit card statements (and the relevant cheque and paying-in books) for both expenditure *and* income.

Note that if you make business payments from any private accounts or credit cards, you must keep statements for these as well and you must be prepared to produce them for examination.

You should also keep a 'cash book', which is a summary record of income and expenditure by any method - basically your declaration of **business** transactions. Note that diaries, organisers etc. form part of these records. Destruction of such records is a serious offence.

If you do not provide us with vouchers and proper evidence, we cannot support the figures you provide.

INCOME - *It really is not in your interests to leave any doubts about your income.* Generally, all work you do should be properly invoiced even if the person for whom you are doing the work does not require a bill. Cash as well as deposits into the bank should be clearly cross-referenced to the invoice and Cash Book.

EXPENDITURE - A basic principle is that expenditure must be incurred 'wholly and exclusively' in the course of the business. For items such as telephone, motoring and use of home as an office, there needs to be some form of record that supports the calculation of the business use proportion. Please see our separate guidance sheet, 'Business Use Computations'.

Many types of expenditure are open to different interpretations depending on the nature of your business. You must be prepared to justify all business expenditures if there is any ambiguity of purpose.

Do not hesitate to consult us for advice as to how these guidelines apply in your particular circumstances.

Guidance provided by:

TIM PHILLIPS & Co. Ltd trading as Tim Phillips & Co., Accountants

Registered Office: Cart House 2, Copley Hill Business Park, Cambridge Road, Babraham, Cambridge CB22 3GN
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RECORDING BUSINESS INCOME – A BRIEF GUIDE

Sales

This means what you charge for the work you do, even if you do not *sell* items as such. It is a record of the date you did the work or made the sale and how much you have actually earned, irrespective of when you get paid for it.

How this is recorded will depend very much on the nature of your business and for many, the cash book (in whatever form) will be adequate. More formally, there would be a duplicate book to give the customer the top copy and keep the carbon copy for your own records; each sale is then entered in a book in the order that the sales were made. Of course many businesses now do this on a computer in some form. Ideally, you end up with either a list of 'sales' or a sequential file of copies of sales invoices.

Cash Book

This means a list of amounts received (it does not have to be a book, as such) to establish and distinguish business income from non-business income, to indicate the method of payment and where the money is lodged. In this sense, 'cash' is used to mean any method of payment *on the date the payment is actually received*. This is not necessarily the same date that the income arose (e.g. sending out a bill and waiting for payment) although it often is depending on the nature of your business.

Bank and Credit Card Statements

Apart from cash receipts, for each sale it must always be possible to cross-reference it with the cash book entry and an entry on a bank statement. When paying in several amounts in one go, the cash book and the paying-in slip are vital in tracking the individual incomes from each sale.

Accounting for Cash

If you receive payments in cash, these need to be clearly distinguished in the cash book.

What constitutes acceptable records of business income?

For HMRC purposes, it simply needs to be clear that all sales are accounted for in terms of lodgements in the bank and/or cash received. Any non-business lodgements in the bank must be clearly identifiable. The cash book can be used for this, for example by having a second column.

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RECORDING BUSINESS EXPENDITURE – A BRIEF GUIDE

Cash Book

This means a list of expenditure payments (it does not have to be a book, as such) to establish and distinguish business expenditure from non-business expenditure, and to indicate the method of payment. In this sense, 'cash' is used to mean any method of payment on the date the payment is actually made. This is not necessarily the same date that the liability was incurred (e.g. mail order items with 30 days credit) although it usually is (e.g. petrol paid for the moment it is supplied). It is effectively a claim for business expenditure and will also form the basis of the analysis for VAT purposes, if applicable.

Vouchers

This means all the bills, receipts and invoices relating to expenditure items. These provide varying degrees of detail:

- The total paid only (if VAT is applicable, this can only be accounted for if a VAT number is given).
- Where applicable for VAT, a net amount, a VAT amount and a gross amount.
- Some also automatically provide enough information to establish the method of payment (e.g. cheque, cash, card).
- Some also automatically provide enough information to establish the method of payment and the specific account from which the payment came.
- Some or all may be annotated by hand at the time or in retrospect to give an indication of the method of payment and/or the account from which they came.

Bank and Credit Card Statements

Apart from cash payments, for each transaction it must always be possible to cross-reference the voucher and cash book entry with an entry on a bank or credit card statement. Statements from all accounts from which business payments are made form part of the business records even if business income is never lodged into those accounts.

Accounting for Cash

Items paid for using cash are accounted for by matching actual cash payments from the Cash Book with cash Vouchers. Alternatively, a separate record of cash transactions can be kept. Since there are, by definition, no bank statements to support cash payments, a comparison is often made between amounts of cash drawn from the bank, any income received in cash and the total amount of cash spent on business purchases.

What constitutes acceptable evidence for business expenses?

For Inland Revenue purposes, an expense claim is only usually acceptable if there is a voucher AND it is possible to establish that the payment has actually been made. However, there is some scope for flexibility; for example, if there are only 11 mobile telephone bills available but there are twelve direct debit payments clearly shown, the missing bill is likely to be accepted.

For VAT purposes, an expense claim can only be accepted if there is a proper VAT invoice AND it is possible to establish that the payment has actually been made.

Note that what constitutes allowable business expenditure is a separate consideration irrespective of the acceptability of the records.

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