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Every year hundreds of new businesses are started. Most of these never achieve the success they deserve, and their owners so desperately crave. One reason for this is that the entrepreneurs behind these businesses don't fully understand the importance of the accounting and tax aspects of their businesses.

This book is designed to help you understand the financial aspects of starting and running a business. We also cover the key Government regulations regarding issues such as business entity selection, employer obligations and tax responsibilities. These issues can be complex and discussing their implications on your business and wealth with a qualified motivated professional is strongly advised.

Please don't hesitate to contact Gordons Knight, Chartered Accountants, if we can be of any help.

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GBP: 10.00

## UNDERSTANDING KEY FINANCIAL ASPECTS OF YOUR BUSINESS

An Easy Guide to Financial,  
Tax & Accounting Considerations  
of Running A Successful Business



**GORDON D'SILVA**  
Tax & Business Expert

**GN**  
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**Dedicated to...**

The committed and hard working team at Gordons Knight  
that support our clients

And

Our clients who are committed to their businesses  
and the communities in which they serve.

And

My family who support me through some long days, and  
hard work, and who help me stay grounded through the  
success we enjoy

**With thanks to**

All the inspirational teachers who have inspired me to be  
the best adviser I can be..

M Gerber, S Covey, R Bandler, J Abraham, R Kiyosaki,  
S Pipe, John Overdurf & Julie Silverthorne, P Dunn, M  
Lloydbottom, The 2020 group and hundreds of others.

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Thank You

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Support material for this book may be found at  
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## **1. Before Starting Up**

It is the ambition of many people to run their own business. In recent years this dream has become a reality for some who have been made redundant, whilst others may decide to start up in business to be more independent and to obtain the full financial reward for their efforts.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimise the risk of failure.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity, disappears, whilst fixed outgoings, such as mortgage repayments, remain. Similarly, other benefits of employment may be lost, such as life assurance cover, a company pension, medical insurance, a company car, regular hours and holidays.

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far.

Remember that business needs both technical skills and business skills. All clients have the technical skills. If they do not have business experience, Gordons Knight, using our Powercircle7 process, can help them make the most of their investment in time, money, energy and risk at an early stage.

This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

### **Important information for users:**

This kit is published for information only. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice from a partner of this firm. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit can be accepted by the directors of the firm.

Please check rates on our website for updates and future years

Look out for these boxes for advice specific to Gordons Knight.

## **2. Selecting a Legal Entity for Your Business**

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree, this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are four basic forms of business organisation. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

### **Sole Proprietorship**

A sole proprietorship is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole proprietorship is combined with the other income of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organisation, except, of course, the normal requirements such as licenses or permits. A sole

proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

## **Partnership**

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognised under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee of the general partners for credit.

A partnership is also required to file an income tax return. A partnership typically does not pay income tax; the information from the tax return is combined with the



personal income of the partners to determine their overall tax liability.

## **Limited Liability Partnership**

The Limited Liability Partnerships Act 2000 change created a new type of business entity, the Limited Liability Partnership ("LLP"). The LLP offers limited liability to its members but is tax transparent and offers flexibility in terms of its internal organisation.

An LLP is a separate legal entity from its members. Therefore, it may enter into contracts and deeds, sue and be sued and grant floating charges over its assets in its own name. This avoids the problems that exist in relation to partnerships, where technically it is often necessary for every partner to be party to certain documents or litigation, and the creation of floating charges is not possible.

The members of the LLP are those persons registered at Companies House as members.

The main "price" paid in return for limited liability is public availability of financial statements. An LLP must file audited accounts (prepared on a "true and fair view" basis) annually at Companies House, which must include the name and profit share of the highest paid member.

In addition the LLP must also file details of the name and address of every member at Companies House. At least two members must be "designated members" responsible for

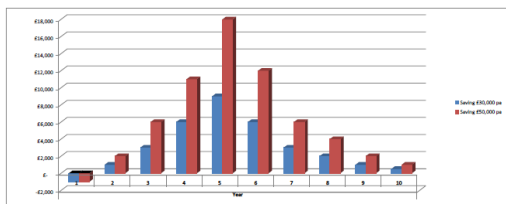
making proper filings at Companies House (and subject to penalties in the event of default).

### ***Our Unique Growth Plan Tax Saving Strategy***

***An Illustration*** (Call for full details and a tailored quote for your circumstances)

Gordons Knight - Expansion Project to Save tax for Start Ups with expected profits of over £30,000 per annum

Saving	Year										Total
	1	2	3	4	5	6	7	8	9	10	
£30,000 pa	£ 1,000	£ 1,000	£ 3,000	£ 6,000	£ 9,000	£ 6,000	£ 3,000	£ 2,000	£ 1,000	£ 500	£ 30,500
£50,000 pa	£ 1,000	£ 2,000	£ 6,000	£ 11,000	£ 18,000	£ 12,000	£ 6,000	£ 3,000	£ 2,000	£ 3,000	£ 61,000



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Provided an LLP carries on a trade or a profession and is not simply an investment vehicle, it is tax transparent - that is, the LLP itself is not taxed on its income or capital gains at all. Instead the members are taxed on their shares of the LLPs' profits and gains, just as partners in a partnership are currently taxed.

This means that the LLP may be more tax efficient than a limited company. This is because ordinarily a limited company is taxed on its income and capital gains and the company's shareholders are taxed on distributions from the company to them, giving rise to potential double-taxation.

LLPs were primarily intended for use by the professions. However, any type of business operating for profit may use LLPs. An LLP may be suitable for use as a joint venture vehicle or as an alternative to a limited company, particularly for small businesses.

### **Limited Company**

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded to the owners of a limited company can be useful.

A limited company must obtain approval from Companies House to use its proposed name. A limited company must also adopt and file a Memorandum and Articles of Association, which govern its rights and obligations to its shareholders, directors and officers.

A limited company must file annual tax returns (“corporation” tax returns) with HM Revenue & Customs.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of share capital, or allowing an individual

to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares. From a tax perspective, the act of incorporation can create advantages via:

Selling the business to the company at market value and paying Capital Gains Tax (CGT) on the gain at 10% instead of the normal rate of tax when funds are withdrawn from a limited company

Saving National Insurance contributions (NICs) by drawing profits as dividends rather than as salary

Should you decide to incorporate your business venture, you should seek advice from Gordons Knight .

We can also assist in forming the company through our appointed agents.

### **Important information for users:**

At the time of writing, there are significant tax benefits in not starting to trade as a Limited Company if the business is of the right type. Please call Gordons Knight on 0208 241 3000 for a personal free consultation to identify what this would mean for you.

## Advertisement



Our “Sorted” bookkeeping, accounts and tax service takes care of the administration of running your business, proving you with data and easy to read reports to run your business.

**Call 020 8241 3000 for more information and a Fixed Fee Quote.**

## **Business Structure – The Pros and Cons**

<b>Company</b>	<b>Sole Trader/Partnership</b>
A company must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost.	There are no formation costs, but a written partnership agreement is advised.
Companies are governed by the Companies Acts. A company must:- <ul style="list-style-type: none"><li>- Keep accounting records</li><li>- Produce audited accounts (if turnover &gt; £6.5m)</li><li>- File accounts and an Annual Return with the Registrar of Companies. This information is available to the public.</li><li>- Keep Statutory Books</li></ul>	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the Inland Revenue tax returns.

<b>Company</b>	<b>Sole Trader/Partnership</b>
Companies may have greater borrowing potential. They can use current assets as security by creating a floating charge.	Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges.
Shares in a company are generally transferable –therefore ownership may change but the business continues.	
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.
Tax is payable on directors' remuneration paid via PAYE on the 19th of the following month. If applicable, higher rate tax is paid by shareholders on dividends under the self-assessment rules.  Corporation tax is	For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and the 31 July following the tax year. For an ongoing business tax for 2012/13 is payable:- first payment on account on 31 January 2014, second payment on account on 31 July 2014, with any final balance due on 31 January 2015. For a start-up business this is slightly different and covered in more detail

payable 9 months after the year-end.	later in this publication.
<b>Company</b>	<b>Sole Trader/Partnership</b>
First year losses in a company can only be carried forward to set against future profits.	Losses generated by a sole trader or a partner can be set against other income of the year or carried back to prior years.
For profits up to £300,000 tax is charged at 20% (2013/14)	Profits are taxed at 40% on taxable income in excess of £32,011 (2013/14)
There is both employers' and employees' national insurance payable on directors salaries and bonuses. The NI charge is greater than that paid by a sole trader/partner, but there is no NI charge on dividends.	A partner/sole trader will pay Class 2 NI of £2.70 p.w. and Class 4 NI dependent on the level of profits.



### **3. Registering with the Tax Authorities**

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.

HMRC is moving towards electronic forms and notifications via the internet. Paper forms are still required in some instances. In the following section we provide links to both downloadable versions of forms and the web links to apply online for various services.

#### **H M Revenue & Customs**

It is necessary to notify H M Revenue & Customs of your existence by completing forms CT41G (companies) or CWF1 (sole traders/ partnerships). You can also telephone H M Revenue & Customs to notify self-employment on 0845 915 4515.

The company form CT41G is sent to all new companies after they are incorporated. The form notifies H M Revenue & Customs of your accounting date, your accountant, and also enables a PAYE (Pay As You Earn Scheme) to be set up, which is a requirement if you are to be an employer.

CT41G (Companies) (download) is available here: -  
<http://www.hmrc.gov.uk/CTSA/ct41g.pdf>

CWF1 (download) is available here: -  
<http://www.hmrc.gov.uk/forms/cwf1.pdf>

If you fail to register within the first three full months of commencing business, you may face a penalty of up to £300 plus a continuing penalty of £60 per day, or £3,000 if information is given negligently or fraudulently by a company.

### **H M Revenue & Customs - NI Contributions Office**

Depending on the level of profit, sole traders and partners have a liability to Class II NIC, and these are payable either quarterly or monthly by direct debit. Class 2 contributions are at a weekly level of £2.70 (where annual earnings are £5,725 or more for 2013/14) and the necessary form to collect Class 2 contributions should be completed at the same time as the form CWF1. Leaflet CF10 'Self-employed people with small earnings' gives full details and an application form for exemption from liability.

CF10 (download) is available here: -  
<http://www.hmrc.gov.uk/forms/cf10.pdf>

## **H M Revenue & Customs – VAT**

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed giving details of all the partners.

VAT 1 and VAT2 (download) available here: -  
<http://www.hmrc.gov.uk/vat/forms-rates/index.htm>

To register online go to  
<https://online.hmrc.gov.uk/registration/>

All businesses with turnover in excess of £79,000 now have to file VAT returns online via the internet, and all new VAT registrations irrespective of turnover after that date need to file electronically.

There are many ways we can help you:-

We can assist you in registering for VAT online  
We can act as your agent and file VAT returns online with you providing us with the figures to be entered  
We can help you implement online filing through software  
We can provide you with accounting software with integrated online filing so you can easily calculate and file the figures

More information can be found at the HMRC website:-  
<http://www.hmrc.gov.uk/vat/ret-online.htm>

Please contact Gordons Knight at 020 8241 3000 if you need any help.

## Tax Calendar

The following summarises some of the more significant filing dates for a corporation using a calendar year end. Many of these requirements also apply to partnerships and sole traders. Naturally, if a year-end other than 31 December is used, some of these dates will vary.

<b>Date</b>	<b>Return</b>
<b>Annual Events</b>	
19 May	Submission of forms P35 and P14's
6 July	Submission of form P11D
19 July	Payment of Class 1A NIC
30 September	Payment of corporation tax for accounts prepared for the calendar year (9 months after the end of the accounting period)
November/ December	Year end tax planning
31 December	Submission of corporation tax return for accounts prepared for the calendar year (12 months after the end of the accounting period)

<b>Date</b>	<b>Return</b>
<b>Quarterly Events</b>	
14 April	Forms CT61 to be submitted – tax deducted/received on interest payments
14 July	
14 October	
14 January	
Quarterly	VAT returns (although these can be monthly or annually)
<b>Monthly Events</b>	
19th	Payment of payroll taxes (under certain circumstances – quarterly)

#### **4. Accounting and Bookkeeping**

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor. Unfortunately, most people don't like to keep the books.

As an owner of a business, you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors and trade creditors, as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or book-keeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your

business and simple enough for you to run it (or supervise the book-keeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for HM Revenue & Customs authorities?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

### Chart of Accounts

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

1. Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?

2. Are fixed assets a significant portion of your business?
3. Will you sell only one product or service or will there be several types of business?
4. Will you have accounts receivable from customers, which you will have to track?
5. Are you going to sell in only one location or will you do business in several places?
6. Are the products you sell subject to value added tax?
7. Do you need to track costs by department?
8. What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business. The amount of time and money a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

### **Cash or Accrual Accounting**

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting, you record sales when you receive the money and account for expenses when you pay



the bills. The increase in the money in “the cigar box” at the end of the month is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous (less tax) for you to do so. Gordons Knight can advise you on the advantages and feasibility of doing this in your particular circumstances.

### **Accounting Records and Record-keeping**

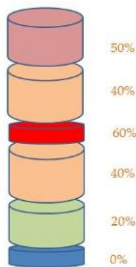
Another question that the owner of a business must answer is “Who will keep the books of the business?” Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. We can help develop a good programme of record-keeping duties for you, your employees and any outside book-keepers you may engage.

### **A Word about Accounting Software Systems**

There are a number of very good and easy to use accounting software systems which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

***Tax Rates you want to be aware of...***



Avoid the higher rates of tax rates with advance planning using good accounting software and bookkeeping

The real value of accounting software becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a “number cruncher”, but as your business adviser, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analysing your business to make it more profitable.

**Important information for users:**

Our clients receive use of award winning online accounting software completely Free of Charge, saving up to £220. Contact Gordons Knight for more information on 020 8241 3000.

## **Internal Control**

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company's assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you are operating as a "one man shop", or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "YES" to the following questions:

1. When my company provides goods or services to our customers, am I sure that the sale is recorded and either the debt is recorded in accounts receivable or the cash is collected?
2. When cash is expended by my company am I sure we received goods or services?

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business.

The solution in your particular instance may be as simple as numbering the sales tickets and being sure all tickets are

accounted for, or reviewing all invoices and time-cards before signing company cheques. These are fundamentals in a well-run business.

As the company grows you will need to consider concepts such as segregation of authority or controlled access storerooms. No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

**Illustrative Chart of Accounts (Sole Trader)**

**FIXED ASSETS - TANGIBLE**

- 0010 Freehold property cost
- 0020 Freehold property depreciation
- 0210 Plant and machinery cost
- 0220 Plant and machinery depreciation
- 0310 Fixtures/fittings cost
- 0320 Fixtures/fittings depreciation
- 0410 Motor vehicles cost
- 0420 Motor vehicles depreciation

**FIXED ASSETS - INTANGIBLE**

- 0700 Investments
- 0900 Goodwill

**CURRENT ASSETS**

- 1000 Stocks and work in progress
- 1100 Trade debtors
- 1103 Debtors and prepayments
- 1200 Bank current account
- 1230 Petty cash

## **CURRENT LIABILITIES**

- 2100 Purchase ledger control
- 2109 Creditors and accruals
- 2200 VAT control account
- 2300 PAYE/NI creditor

## **LONG TERM LIABILITIES**

- 2600 Bank loans
- 2700 Hire purchase creditors
- 2800 Lease purchase creditors

## **CAPITAL AND RESERVES**

- 3000 Capital account - balance brought forward
- 3100 Capital introduced
- 3200 Profit and loss account
- 3300 Drawings

## **SALES**

- 4000 Sales/work done
- 4009 Discounts allowed
- 4100 Export sales

## **OTHER INCOME**

- 4210 Commissions received
- 4230 Rental income
- 4240 Bank interest received

## **COST OF SALES**

- 5000 Purchases
- 5900 Opening stock and work in progress
- 5950 Closing stock and work in progress

## **DIRECT COSTS**

6000 Direct labour  
6300 Packaging  
6400 Duty paid  
6500 Transport insurance  
6600 Sales commissions payable

**OVERHEADS**


7000 Motor expenses  
7100 Telephone  
7200 Wages  
7250 Spouse's wages  
7300 Rent  
7400 Rates  
7500 Heat and light  
7600 Postage, stationery and advertising  
7700 Repairs and renewals  
7800 Insurance  
7900 Bank charges and interest  
8000 Hire purchase interest  
8050 Mortgage interest  
8100 Accountancy fees  
8200 Legal charges  
8300 Use of home as office  
8400 Protective clothing  
8500 Cleaning  
8600 Sundry expenses  
8700 Subsistence  
8800 Profit on asset sales  
8900 Depreciation  
9000 Bad debts written off

This provides an illustrative list – but you can generally create as many accounts as you need for your own analysis and information. Most software packages come with pre-configured codes set up, sometimes generic and sometimes for a specific trade or industry.

Gordons Knight Online Accounting Package has a full list of codes you can choose from.

## Sample reports from the software...

[illegible]

<div>    Milly's Pod Cafe &amp; Catering </div>						
Cash Flow - Monthly (Est V47) DEC 2012						
Using Budget: Budget 2011-2012 (01/01/12)						
	Budget	Actual	Variance	2011 Actual	2012 Actual	2012 Budget
Revenue	750	500	-250	1,400	1,470	280
Total Revenue	750	500	-250	14,000	14,700	2,800.00
Operating Profit (Loss)	2,000	17,200	15,200	15,100	158,800	20,400
Gross Margin and COGS Details						
Cost of Goods Sold	0	0	0	0	0	0
COGS	0	0	0	0	0	0
Gross Margin	750	500	-250	14,000	14,700	2,800
Operating Profit (Loss)	750	500	-250	14,000	14,700	2,800
Operating Profit (Loss)	750	500	-250	14,000	14,700	2,800
Total Capital and Operating	0.00	0.00	0.00	0.00	0.00	0.00
Cash Flow						
Operating	0.00	0.00	0.00	0.00	0.00	0.00
Investing	0.00	0.00	0.00	0.00	0.00	0.00
Financing	0.00	0.00	0.00	0.00	0.00	0.00
Net Change in Cash	0.00	0.00	0.00	0.00	0.00	0.00
Cash Balance at End	0.00	0.00	0.00	0.00	0.00	0.00



## **Value Added Tax**

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

- a) in the United Kingdom
- b) by a taxable person
- c) in the course or furtherance of business and are not specifically exempted or zero-rated

VAT is collected by HM Revenue & Customs and is normally payable quarterly.

### **Registration**

There are two different types of registration - compulsory and voluntary:

#### **A. Compulsory**

A person who makes taxable supplies becomes liable to be registered if:

- a) At the end of any month, the value of his taxable supplies in the period of one year then ending has exceeded the registration limit, which is £79,000 from 01 April 2013.

- b) At any time, there are reasonable grounds for believing that the value of his taxable supplies in the next 30 days will exceed the £79,000 limit.
- c) If, where a business carried on by a taxable person is transferred as a going concern, the taxable supplies for the twelve months prior to the transfer exceed £79,000.

In the most common situation, i.e. (i) above, the person must notify H M Revenue & Customs of the liability within 30 days of the end of the month in which the value of the taxable supplies first exceeded £73,000. If, for example, the value of the taxable supplies first exceeded £73,000 in the twelve months to 31 March, then H M Revenue & Customs must be notified by 30 April and VAT registration would commence on 1 May.

## **B. Voluntary**

In certain circumstances, it is possible to register on a voluntary basis for VAT even though the value of taxable supplies may never exceed £73,000. This is normally only beneficial where the majority of supplies are being made to customers who are themselves VAT registered, e.g. it would not be beneficial for a domestic painter with taxable supplies of £30,000 to be registered, whereas it may be beneficial for a commercial or industrial painter with the same level of supplies.

The other situation in which a voluntary registration might be beneficial is where the supplies are all zero-rated and no VAT is charged on the transaction. All VAT suffered by

the trader on expenses can be reclaimed from H M Revenue & Customs.

In summary, the advantages and disadvantages of a voluntary registration are as follows:

### **Advantages**

- enables input VAT suffered to be reclaimed;
- a VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work.

### **Disadvantages**

- the requirement to prepare VAT returns on a quarterly basis and to submit them and if applicable pay over the VAT due within one month of the quarter end - is the amount of work involved worth it for the amount of input VAT that can be reclaimed?
- H M Revenue & Customs may visit the business about every five years to ensure that VAT is being properly accounted for. There may be penalties for incorrect returns.

### **Important information for users:**

In certain circumstances it may be possible to make an additional profit from VAT registration. Please call Gordons Knight on 0208 241 3000 for a personal free consultation to identify what this would mean for you.

#### a) Taxable Persons

It should always be remembered that it is a person that is registered for VAT and not a business. If a person has two separate different businesses, both with taxable supplies of £40,000, then that person will be required to be registered for VAT and account for VAT at the appropriate rate on the total supplies of £80,000.

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since H M Revenue & Customs have the power to still treat the two businesses as one if strict criteria are not met.

#### b) Taxable Supplies

Taxable supplies are all supplies made by a business either to a third party or to the trader himself (goods for own use), which are not exempt supplies. Taxable supplies therefore include zero-rated supplies.

The major categories of exempt supplies are:

- Land (but not buildings)
- Insurance
- Postal services
- Betting, gaming and lotteries
- Finance
- Education

- Health and welfare

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.



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## **Tax (VAT) Rates**

There are three rates of VAT:

1. 20% (from 4/1/2011)
2. 5% - for certain supplies of fuel and power and sanitary goods
3. Zero-rated - the four main areas of zero-rated goods are:

- Food and agriculture (but excluding pet food and most catering)
- Printed matter, including books and newspapers
- Young children's clothing and footwear
- Passenger transport (but excluding hire cars, taxis and parking)

Any VAT charged by the business, whether at 20% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to H M Revenue & Customs.

## **Input VAT**

Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons output VAT) and is normally recoverable in full by a trader who only makes standard rated or zero-rated supplies.

Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the quarter is deducted from the output VAT charged or collected and the difference is either the amount of VAT due to H M Revenue & Customs or the amount repayable by H M Revenue & Customs. The majority of input VAT is recoverable but there are special rules for:

- cars
- petrol supplied for private usage;
- business entertaining;
- goods sold under a VAT second-hand scheme.

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

## Penalties

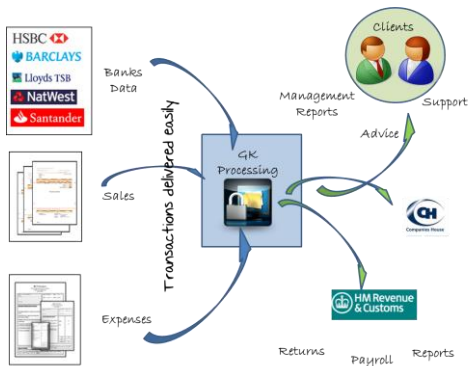
There are penalties for errors in VAT returns. More details can be found at the HMRC website.

<http://www.hmrc.gov.uk/VAT/new-pens-refunds.pdf>

<http://www.hmrc.gov.uk/about/new-penalties/index.htm>.

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### Bookkeeping to give you more Selling Time



## **VAT Checklist**

### **Registration**

- (a) Should the business be registered?
- (b) Is basis of registration correct?
- (c) Are details on registration certificate correct?
- (d) Do procedures exist for notifying H M Revenue & Customs of relevant changes?
- (e) Review position at regular intervals.
- (f) Is the Cash Accounting Scheme for VAT available and would it be beneficial?
- (g) Is the Annual accounting scheme available and would it be beneficial?
- (h) Is the flat rate scheme available and would it be beneficial?
- (i) Is it necessary to register for online filing of VAT returns or is this beneficial?
- (j) Are any of the special schemes for retailers applicable?

### **Preparation of returns**

- (a) Has return been received? If not, then obtain duplicate from VAT Office.
- (b) Review sources of information.
- (c) Prepare draft return.
- (d) Check for accuracy and completeness.
- (e) Submit the return and make payment (if outputs exceed inputs)



## **Input Tax**

- (a) Do any restrictions on input tax exist? If “Yes”, does an agreed method exist and does this method maximise input tax?
- (b) Are invoice additions and calculations checked?
- (c) Is input tax claimed at the earliest tax point?
- (d) Are all claims properly supported? Ensure all supporting invoices kept.

## **Output Tax**

- (a) Are all income heads reflected for VAT accounting?
- (b) Are all potential sources of notional supplies considered?
- (c) Are all potential sources of income (asset sales, etc.) covered by VAT accounting system?
- (d) Is VAT captured at the correct tax point?
- (e) Is VAT correctly applied where appropriate?

As mentioned in the checklist there are various schemes which may be suitable for your business such as the flat rate scheme, annual accounting and cash accounting. We will be pleased to discuss the implications of these schemes with you and help you decide if they may be advantageous in your circumstances.

## **Money Laundering Regulations**

HM Revenue & Customs have responsibility for administering certain aspects of The Money Laundering regulations 2003 particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive 15,000 Euros (approximately £15,000) in a single transaction or a series of linked transactions. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be a HVD you should discuss this with your advisors or visit the H M Revenue & Customs Website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

Further if you believe you may be affected by the Regulations as they related to regulated businesses you should discuss this with your advisors as the penalties for not complying are serious.

## **5. Payroll Taxes**

Irrespective of the form of business in which you operate, if you are going to have employees, then you will have to contend with payroll taxes. The brief summary that follows will give you some guidance in the rules and regulations of H M Revenue & Customs.

### **Helpful publications**

H M Revenue & Customs publish various booklets relating to how PAYE is operated and the legislation that you have to comply with. Not only do you collect and remit PAYE to the Collector of Taxes on behalf of H M Revenue & Customs, you also operate the sick pay scheme and maternity pay scheme. You should run the PAYE scheme in accordance with the legislation and should you fail to comply then H M Revenue & Customs will look to you for the tax or NIC you failed to deduct. This can be costly if you are unable to recover the tax and NIC from the employee.

### **Do you have employees?**

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business “employing” him or her, as that business has to comply with the reporting requirements.

In certain areas H M Revenue & Customs has placed emphasis on reclassifying individuals claiming to be self-employed and has issued leaflet IR56 entitled “Tax: employed or self-employed”. This booklet sets out the questions that should be answered to determine the problem. If you have treated someone as self-employed and subsequently after a routine visit from H M Revenue & Customs it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on you. Therefore it is important to ensure when using the services of self-employed people that they are in fact self-employed. If doubt exists as to the status of an individual, the situation can be clarified with H M Revenue & Customs.

### **The Operation of a PAYE Scheme**

Upon registration H M Revenue & Customs will send to you guidelines on operating PAYE, National Insurance, Statutory Sick Pay and Statutory Maternity Pay (employer’s pack). Included will be a number of forms with which to operate the PAYE and NIC system. You should familiarise yourself with and have supplies of these forms, which are as follows:-

P11	Deduction working sheet
P46	Notification to the Inland Revenue where no code has been notified to the employer and application for coding
P46 (car)	Notification of a car provided for the private use of an employee or a director
P45	Details of employee leaving
P14/P60	End of year return and employers certificate
P35	Employer's annual statement
P38A	Employer's supplementary return
P11D	Expenses and benefits
P9D	Expenses payments and income from which tax cannot be deducted.

In order to calculate the amount of tax and national insurance due by an employee, H M Revenue & Customs will supply you with sets of tables. By reference to the “tax free” tables and an employee’s tax code you will be able to calculate the amount of wages or salary that is not subject to tax. The difference between this figure and the gross amount is the employee’s taxable pay. This can then be calculated by reference to another set of tables. The employer’s and employee’s national insurance is calculated by reference to the gross pay with a third set of tables. Special rules exist for the calculation of national insurance for directors.

The tax and national insurance should be paid to H M Revenue & Customs by the 19th of the month following that in which the salaries were paid.

In most businesses, the directors, and often the employees, have benefits that are not immediately taxed through the PAYE system, the most usual being the provision of a car and possibly fuel. Class 1A national insurance contributions are due on the taxable value of these benefits in kind and are due on the 19 July following the fiscal year in which the benefits are made available. In addition, H M Revenue & Customs requires on an annual basis a form P11D (Return of expenses payments and benefits) for all directors irrespective of income and all employees receiving remuneration, including the benefit in excess of £8,500. For those employees earning less than £8,500 but who receive expense payments and benefits, a form P9D is required.

A form P46 (car) needs to be completed if any employees have been provided with a company car. Up until 6 April 2009 it was necessary to also report changes during a year but this requirement has now been relaxed. H M Revenue & Customs will still require form P11D to be submitted annually in addition to the P46 (car) forms.

## **Payroll Software**

The use of the tables described above can be very time consuming and prone to error so it is recommended that either payroll software or a payroll bureau service is used if you have employees. There are mandatory online filing regulations in place in some circumstances and this requirement is likely to increase in the future. It is also more convenient to file P45 forms for leavers online and to obtain tax code changes direct from HMRC.

Payroll can be complex and time consuming. Gordons Knight offer a bureau facility for processing your payroll and supplying you with reports, payslips etc. This leaves you free to spend your time to earn more. Contact us if you would like further details.

P11d is available here:- <http://www.hmrc.gov.uk/ebu/p11d-2011.pdf>

P46 car is available here:-  
<http://www.hmrc.gov.uk/forms/p46car.pdf>

P11 Working sheet is available here:-

<http://www.hmrc.gov.uk/forms/p11.pdf>

P9d is available here: -

<http://www.hmrc.gov.uk/forms/p9d.pdf>

Details on completing P35 are available here: -

<http://www.hmrc.gov.uk/pay/payroll/year-end/annual-return.htm>

P45 forms are not available for download

HMRC make available a checklist to help ensure compliance with expenses and benefits: -

<http://www.hmrc.gov.uk/agents/toolkits/exp-ben-frm-emp.pdf>

You can register online and obtain more details at the HMRC web site:-

<http://www.hmrc.gov.uk/pay/file-or-pay/fileonline/register.htm>





## **6. Income & Corporation Tax**

Eventually, you will have to deal with income or corporate taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital items. A Chartered Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

### **Choice of Year End**

Which Accounting Year Should I Choose?

If you expect profits to rise steadily year by year, in the case of sole traders/partnerships, an accounting date early in the tax year, for instance 30 April, might be best in the short term, because this will defer the payment of tax on your profit. However, it is important to consider what will happen when you retire. Any accounting date other than 31 March will cause a bunching of your tax liabilities because all your profit that has not been assessed prior to your retirement will be assessed for your final year. There are a number of ways to mitigate the effect of this. You could plan to retire on or shortly after the accounting date, and allow “overlap relief” to reduce the burden. You could build up a reserve to meet the liability, or use the higher profit to permit an abnormally large pension contribution.

On the other hand if you expect to make losses in your early years, an accounting date late in the tax year, for instance, 31 March, will ensure that you get tax relief for those losses as quickly as possible. You would then not be faced with the bunching problem on retirement referred to above.

It will also be necessary to bear in mind the seasonality of your business. As part of the profit for your first period of trading could be taxed twice, it would be unfortunate if a poor choice of accounting date were to accelerate the tax on the profit of your first busy period. In these circumstances it might be preferable to run your first accounts to a date just short of your peak period.

As ever, it is important not to overlook commercial considerations. Your bankers might want to see as healthy a profit as you can manage and this desire could conflict with tax planning. A solution would be to choose a tax efficient tax accounting date, and keep the bank happy with quarterly management accounts.

## **Tax Returns**

### **Companies**

Companies are charged corporation tax at the rate applicable during the financial year (1 April - 31 March). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years.

Level of profits	Financial year		
	2012-13	2013-14	2014-15
£0 - £300,000	20%	20%	TBA
£300,001 - £1,500,000*	Marginal rate	Marginal rate	Marginal rate
£1,500,001 or more	24%	23%	21%

\* Marginal rate will be                      1/100th                      3/400th                      TBA

There are special rules to calculate the tax rates applicable for profits falling between the small companies and normal rates, and are such as to ensure that the tax charge rises progressively.

A company is required to make an estimate of its own liability to corporation tax and pay that liability by the normal due date, nine months after the end of the accounting period, without an assessment being raised.

The company is required to send its completed tax return (form CT600), accounts and tax computation to the Inspector by the filing date, which is 12 months after the end of its accounting period. Penalties will be charged if it is late.

Once the company agrees its liability with the Inspector, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

## **Sole Traders/Partnerships**

Sole traders and partnerships are charged income tax at the rate applicable during the fiscal years (6 April - 5 April).

The rates are as follows:

Rates	Financial year		Tax Bands	
	2012-13	2013-14	2012-13	2013-14
Basic	20%	20%	£0 – 34,370	£0 – 32,010
Higher	40%	40%	£34,371 – 150,000	£32,011 – 150,000
Additional	50%	45%	Over £150,000	Over £150,000

\*10% starting rate for savings income up to £2,710 for 2012/13 & £2,790 for 2013/14. Not applicable if taxable non-savings income exceeds this limit.

There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly rate of £2.70 (2013/14). Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 9% on profits between £7,755 and £41,450 for 2012/13 (£7,605 and £42,475 for 2013/14). There is a further 2% on profits in excess of the upper limits in both financial years.

For the self-employed and those that pay tax on other income such as rents, tax is normally payable in three instalments - the first two instalments are based on the tax paid on the previous year's business tax liability. Therefore half is paid by the 31 January in the year of assessment, the other half by the 31 July in the year following the year of assessment. The third instalment will be any balance due

(payable the following 31 January) or any amount repayable by the Inland Revenue if your final liability is lower than the amounts paid on account.

However – a word of warning when you start up a non-incorporated business.....depending on accounting dates chosen and when you start to trade, you may not pay any tax on profits for some considerable time. As an illustration purpose assume you start to trade on 1 May 2013 and first accounts run to 31 March 2014. You will not pay any tax in July 2013 or January 2014 – nor will you pay any tax in July 2014- so the first tax liability will arise in January 2015. This will be 100% of the tax liability for the period to 31 March 2014 – but, in addition, you will also have to pay 50% of that sum “on account” for the following tax year, with a further 50% in July 2015. You are then however in the six monthly “cycle”.

A lesson to take on board is to ensure that your accounts are prepared as soon as possible after the end of the accounting period. In our example of 5 April year end, if accounts can be prepared before 31 July it will be possible to calculate the tax for the year to 5 April and the July 31 instalment can be adjusted accordingly – downwards if tax due is found to be less. If tax due is actually more for the year, there is at least early knowledge of the tax bill due in the following January. Under self-assessment your income tax return, which encompasses your trading results, needs to be filed by 31 January following the tax assessment year. This date is moved forward to the end of September if you wish the Inland Revenue to calculate your tax liability. We

will however file the returns electronically and perform the tax calculations on your behalf.

## **Tax Credits**

Whilst not specifically related to “tax” despite the name, we will mention Tax Credits at this stage. There are two elements - Child Tax Credit and Working Tax Credit.

Child Tax Credit (CTC) is for families who are responsible for at least one child or qualifying young person. You should claim if you have a child or qualifying young person who usually lives with you. You do not have to be working to claim CTC.

Working Tax Credit (WTC) is for people who are employed or self-employed (either on their own or in a business partnership), who

- get paid for their work and
- expect to go on working for at least 4 weeks

and who are either

- aged 16 or over and responsible for at least one child, and usually working at least 16 hours a week, or
- aged 16 or over and disabled, and usually working at least 16 hours a week, or
- aged 25 or over and usually working at least 30 hours a week, or

- aged 50 or over and are starting work after receiving certain benefits for at least 6 months and usually working at least 16 hours a week, or
- aged 65 or over and work at least 16 hours per week

WTC is made up of several elements which we do not have space to list here.

If you are married or living with a partner you'll need to make a joint claim for tax credits. You can only make a single claim if you don't have a partner.

When starting up it may be that your income precluded you from claiming tax credits in the past. However, income may drop substantially or a “loss” for both income tax and tax credits purposes may be able to be created by claiming allowances on equipment etc. Claims can only be backdated for three months from the date of application so it is advisable to contact the Tax Credits office as soon as possible to make a claim. You may not be immediately eligible based on a provisional calculation which takes into account your income in a prior tax year, but you may become entitled to it at some stage.

Telephone the Tax Credits helpline on 0845 300 3900.

## 7. Cash Planning & Forecasting

Cash is King! The lifeblood of any business is its ability to collect cash and pay bills as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

## Advertisement

Profit Plan on a Page for January 2020																																																																																						
Our Vision																																																																																						
"To Increase Revenue by \$100,000 by 31st December 2021."																																																																																						
<table><tr><th>Underpinning Business Metrics</th><th>Actual</th><th>Target</th><th>Action points</th></tr><tr><td>Client Onboard</td><td></td><td></td><td></td></tr><tr><td>Quota from Quarterly (out of 6)</td><td>5</td><td>5.5</td><td></td></tr><tr><td>Proactive calls / visits</td><td>0</td><td>1</td><td></td></tr><tr><td>Active "Surround Account Days"</td><td>0</td><td>20</td><td></td></tr><tr><td>Team Happiness (out of 5)</td><td>5</td><td>5.5</td><td></td></tr><tr><td>System effectiveness</td><td>80</td><td>75</td><td></td></tr></table>	Underpinning Business Metrics	Actual	Target	Action points	Client Onboard				Quota from Quarterly (out of 6)	5	5.5		Proactive calls / visits	0	1		Active "Surround Account Days"	0	20		Team Happiness (out of 5)	5	5.5		System effectiveness	80	75		<table><tr><th>Sales Business Metrics</th><th>Actual</th><th>Target</th><th>Action points</th></tr><tr><td>Top leads / calling 11</td><td>10 / 20</td><td>10 / 15</td><td></td></tr><tr><td>% converted / follow 11</td><td>0%</td><td>70%</td><td></td></tr><tr><td>Average Price followed / calling</td><td>0</td><td>1000</td><td></td></tr><tr><td>% of new leads / follow</td><td>5 / 8</td><td>5 / 10</td><td></td></tr><tr><td>% of quality</td><td>0000</td><td>10000</td><td></td></tr><tr><td>Lost Clients / Meeting</td><td>5 / 8</td><td>5 / 10</td><td></td></tr></table>	Sales Business Metrics	Actual	Target	Action points	Top leads / calling 11	10 / 20	10 / 15		% converted / follow 11	0%	70%		Average Price followed / calling	0	1000		% of new leads / follow	5 / 8	5 / 10		% of quality	0000	10000		Lost Clients / Meeting	5 / 8	5 / 10		<table><tr><th>Key Results</th><th>Actual</th><th>Target</th><th>Action points</th></tr><tr><td>Sales Month</td><td>\$10,000</td><td>\$20,000</td><td></td></tr><tr><td>Profile before Jan</td><td>\$8,500</td><td>\$1,500</td><td></td></tr><tr><td>Cash Balance</td><td>\$10,000</td><td>\$20,000</td><td></td></tr><tr><td>No of clients</td><td>300</td><td>350</td><td></td></tr><tr><td>Average Price</td><td>\$1,500</td><td>\$1,500</td><td></td></tr><tr><td>ROI/Marketing of each</td><td>10%</td><td>10%</td><td></td></tr></table>	Key Results	Actual	Target	Action points	Sales Month	\$10,000	\$20,000		Profile before Jan	\$8,500	\$1,500		Cash Balance	\$10,000	\$20,000		No of clients	300	350		Average Price	\$1,500	\$1,500		ROI/Marketing of each	10%	10%	
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Thought for the week

Created by: SAP ERP 10 Developer  
Date: 2021-01-01, 2021-01-01 for July in a living view that needs to be updated

*Our Profit Plan on a Page is like a Sat Nav for your business, helping you steer a more direct route to your financial goals...*

*Call 020 8241 3000 for more information.*



The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or their accountant can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

### **Starting the Analysis**

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine-tuned as possible. It may be unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percentage of it. A sales forecast needs to be based on specific facts. These might include your sales history, or the history of similar businesses you have owned or operated, or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your

business, the relative state of the economy and the period over which you will forecast.

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

### **Cash Collections**

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment

and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

## **Disbursements**

Certainly if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first pound of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels? Will you need additional employees? If so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it?

Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be the cost of incorporating your business, a solicitor's fee for drafting partnership and other agreements, the cost to obtain business licences, approval from the taxing authorities, setting up an accounting system, stationery costs, costs of signs or logos etc.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can

provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives that are available to you. Most of the start-up cost which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and built in to your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. You as the owner and operator of the business are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

## **8. Obtaining Credit & Financing Your Business**

If not independently wealthy and perhaps even if you are, eventually, you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or, for instance, the funds you require may be for expansion or working capital during the off season.

Generally, business financing can take two forms; debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

### **How Do I Get the Money?**

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential

investors in much the same way as you sell your product to your customers.

### 1. How much cash do I need?

To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

### 2. What will you do with the money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

### 3. What experience do you have in running your business?

One of the primary reasons for business failure is lack of experience of management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.



#### 4. What is the climate for your type of business and your geographic location?

Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your

accountant as to alternative types of debt or equity financing available.

## **Business Plan**

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided, but are best provided in a logical consolidated format. This format, or business plan, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic.

Gordons Knight have experience in writing business plans and can assist you in the effective drafting of your plan.

### **Important information for users:**

Our Profit Plan on a Page fits on only one sheet of A4 and give you everything you need to focus on daily to maximise sales, margins, profit, cash and business value. Please call Gordons knight on 0208 241 3000 for a personal free consultation to identify what this would mean for you.

## **Financing Alternatives**

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary, we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. Gordons Knight can discuss these and other alternatives in greater detail.

## **Debt Financing Sources**

### **1. Banks**

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis preferring bricks and mortar as security in preference to equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker. Loans from a bank may take several forms such as:

- a) An overdraft limit which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

- b) A short-term loan that is repayable on specified dates.
- c) A term loan for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better, and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in instalments.

## 2. Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

## 3. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before

starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested.

## **Equity Financing Sources**

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of ordinary or preference shares. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

## **Venture Capital Companies**

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

## **Private Individuals**

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth.

## **9. Insurance**

Business insurance, like many types of expenditure, is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service.

Without proper insurance you could lose all the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost – benefit basis like any other commodity that you purchase. Your insurance broker can help you review the amount of coverage your business requires. Usually you will want to insure against risks that could have significant detrimental impact on your business.

This normally would include items such as fire, storm damage, theft, employers, public liability and products liability. Depending on the nature and size of your business it is often a good idea to self insure for all or a portion of certain losses. Often raising the deductible (excess) can have a very favourable impact on the policy premium.

The administrative cost to the insurance company to process small claims is quite high; consequently, the rates typically go down substantially if they are relieved of this expense by insuring losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of cover and varying degrees of deductible amounts.

## **Required Policies**

The insurance cover required by law is employers' liability and third party motor insurance. Your insurance broker can explain the required cover and help you purchase the correct policy. You must be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance cover in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreement relating to these transactions. There are many other types of policies that you may wish to consider. Specific cover is provided by each policy and a qualified insurance broker can explain the related costs in-depth.

Some types of insurance cover that you should consider for your business are listed below.

## **Commercial Liability Insurance**

There are many types of liability your business may need cover for. "Liability" refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability insurance you may want to consider are:-

- **Public Liability** – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.

• **Employers' Liability** – if you are a limited company or employ anyone outside your immediate family, you are required by law to purchase employers' liability insurance. This insurance offers you protection for any liability arising from injury or illness sustained by employees whilst they are working for you.

• **Products Liability** – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.

• **Professional Indemnity** – this cover is usually purchased by “professionals” such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees' professional negligence/wrongful advice.

## **Property Insurance**

There are many different types of property cover but generally businesses will purchase cover for buildings, machinery and stock against fire and other perils such as storm/flood etc and theft. They will also consider covering money, goods in transit and glass. For small businesses cover can be provided on a 'package' basis where certain covers such as money and goods in transit are included in the premium as standard. However, this option is only available for specific occupations/trades and you should consult with your broker for further details.



If you are working from home be aware that generally your ordinary household insurance policy will not provide cover for your business stock and liabilities. Specific policies can be purchased if you are working from home and you should contact your insurance broker for further details.

There are specific policies for property owners who rent out their premises to tenants. These policies provide cover for buildings, liability and loss of rent. Loss of rent cover is usually only provided in the event of an insured peril occurring such as a fire or flood etc.

### **Business Interruption**

This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of your business. Business interruption usually mirrors your property policy and covers the same perils. However, it is possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities.

### **Fidelity Guarantee**

This type of insurance typically covers risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities or similar types of assets, you may well be advised to consider this cover. Certain industries are required to carry this insurance by regulatory authorities.

## **Directors & Officers Liability**

Directors and officers of companies in recent years have been found to be personally responsible for their negligence in the running of their company. Recent legislation has also made company directors liable for their behaviour to the company so that shareholders, creditors, customers and employees can now sue them as individuals.

Directors and officers liability cover provides indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defence of a claim or indemnifying the director where the defence has not been successful.

## **Key Person Protection**

This provides a company with a valuable safety net should serious illness, disability or death curtail the contribution certain “key” people could make to its stability, profitability and success.

## **Identifying a Key Person**

These are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace. Remember, key people come in many guises. They aren't always the Managing Director or other high profile senior managers. Consider other key functions that are necessary to the company's

business when talking key person insurance with your clients.

### When is Key Person Protection Needed?

There are three clearly identifiable situations when key person insurance is most needed.

- To prevent loss of profits
- To protect the repayment of loans
- To safeguard the raising of capital

### **Partnership Protection**

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial wellbeing of the firm will be vital. In addition, there are other problems which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

- the partner's interest may pass to an heir who may not have the necessary skills, experience or interest to continue in the business.
- the partner's interest may need to be turned into cash to pay Inheritance Tax or provide for his or her dependants on death.

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy-in to the partnership.

Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

### **Shareholder Protection**

Like partners, shareholder's shares may pass to an heir who does not understand the company's business or whose interests conflict with those of the other shareholders. Alternatively, the shareholder's interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants. Maintaining control and stability of the company during this often turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

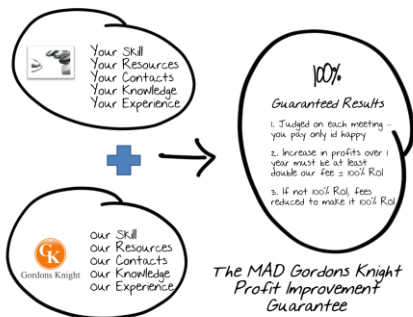
### **Professional Fee Protection Insurance**

H M Revenue and Customs powers have changed and they now have wider scope than ever before to visit business premises and inspect records. The likelihood of enquiries into a taxpayer's affairs appears to be on the increase. The professional fees in dealing with such enquiries can often be costly so it is advisable to "insure" or subscribe to a tax protection service which will fund these fees in the event of an enquiry or visit. Gordons Knight offer such a scheme and full details are available on request.

## Important information for users:

We have tested many experts in the field of insurance. You can benefit from an introduction to one or two of these experts to maximise your protection and safety. Please call Gordons knight on 0208 241 3000 for a personal free consultation to identify what this would mean for you.

## Advertisement – Profit Improvement Offer



## **10. Selecting Professional Advisers**

Starting your own business obviously entails a multitude of decisions, decisions which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilise is the expertise of a specialist. The right accountant and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate attack (you) won't guarantee a winning team without a first rate line of defence. The right accountant and solicitor are your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor, you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to, as they devise strategies to help you to succeed. Over 10 years taking the right advice, the right reviews, and the right decisions can double the value of your business compared to not doing the right things.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

We wish you success and welcome you to the wonderful world of free enterprise.

### **Important information for users:**

Most of our clients have ample skill and motivation in what the business does. However the 2nd skill every business needs is the skill of running and growing a business. If this is you (and it may take 2 years or so to find out), we may be able to help you. Please call Gordons Knight on 0208 241 3000 for a personal free consultation to identify what this would mean for you.

## **11. Computer Accounting Systems for First Time Users**

### **Introduction**

This chapter is intended to alert the business user to areas of information technology that require attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality.

### **Computer Hardware**

The choice of computer hardware involves primarily:- Hard disk size, Processor speed and Memory (RAM).

In general terms go for as much memory and the highest processor speed within your budget. Around £600 plus VAT will be the current price of a business PC.

### **Processor**

The processor, or central processing unit (CPU) is the part of a computer responsible for responding to and carrying out the sets of instructions necessary to perform operations. The clock speed of a processor, measured in Hertz (Hz) is a measure of how quickly the computer can execute these instruction sets. Bandwidth, measured in 'bits', relates to the amount of information that can be handled simultaneously by a processor within a given time. Higher clock speed and bandwidth will therefore yield better performance in a machine.



## Memory (RAM)

Another important aspect to consider when selecting a system is the amount of Random Access Memory (RAM) that a machine has. RAM is comparable to the short-term memory in the brain, as it is a temporary storage solution. Various pieces of information are stored flexibly whilst a program is running so that it can be accessed quickly; a linear storage space would take longer for data to be retrieved. Having more RAM, therefore, allows programs to run faster, so again ‘more is better’.

## Hard Drive

The hard drive of a computer is used as a permanent storage solution and is used to store files and application data. The more storage capacity a hard drive has, therefore, the more information it can contain. The size of a hard drive is measured in bytes; many new desktop computers now come with at least 320Gb of space (3.2 billion bytes) which is more than adequate for most businesses. Portable hard drives are also available if required, adding even more storage capability to your system.

All software programs give their ‘minimum system requirements’ which are the requirements a computer system must meet to run a piece of software. Some programs give details of ‘recommended system requirements’ which will run the software more effectively if your system can meet them. It is therefore recommended that you check that your systems can meet both the

minimum and recommended system requirements of any software applications your business will require.

## **Accounting Software**

Accounting software, like hardware, is now very powerful and comparatively inexpensive (£20pm). Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Networked versions for multi-user use are generally more expensive than single-user versions.

## **Choosing an accounting package**

It is necessary to consider your requirements and what you want to be able to do before buying a package. There are often different levels of functionality in different versions of a program. Consider both the ability to get data into the product and also the reporting requirements that you have.

Consider also “online” packages which will not incur you in any upfront costs – simply pay a monthly fee for its use. These may have integrated payroll too if you have employees in your business.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These

are put together to form a total system for the larger business, usually on a network of a number of PC's.

## **Websites**

Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. There are many options to consider in how this should be addressed. At Gordons Knight we can give some useful independent advice and thoughts in relation to your strategy in this area.

## **Social Media**

The rise of social media in recent years has meant that today there are a plethora of different tools that can be used to the advantage of business owners. This guide will introduce several social media platforms that are currently popular for business use.

### **Important information for users:**

Digital marketing and social media are a key part of most businesses success strategy. Find a great Web company that understands business concept not just digital matters. Our sites are now on page one of Google searches of our chosen terms. It took 4 months for some, but the return on investment makes it worthwhile. Contact them at [www.cwd-web.co.uk](http://www.cwd-web.co.uk) for impartial advice. Or call 020 3468 7160.

## **Twitter**

Twitter is a micro-blogging service whereby users send and receive messages of up to 140 characters in length to each other, known as “tweets”. Users can track the tweets of other users by “following” them, and in turn can have their tweets “followed”; the more followers a user has, therefore, the more visible their tweets are. Twitter is useful as a business tool because it allows you to personally engage with potential and existing customers, monitor what is being said about your company and keep interested parties up-to-date with your company’s newest developments, products and offers.

## **Facebook**

Many people are already familiar with Facebook as a tool for personal networking, but opportunities exist for using Facebook for business purposes. The most prolific of these is Facebook Pages, a flexible space within which users can promote their local business, band or organisation, amongst others. Facebook also offer a number of paid advertising solutions, whereby campaigns can be targeted at Facebook users according to defined demographics such as age, location and interests, which can direct people to the company Facebook Page or an external website.

## **Linkedin**

Billing itself as the world’s largest professional network, Linkedin is designed for users to showcase their professional qualities. Profiles thus include elements such

as professional experience, education and honours & awards, as well as recommendations from other LinkedIn users. LinkedIn is thus a great place to establish yourself as a competent individual within your industry. Moreover, due to the number and diversity of groups on LinkedIn, it can be a great tool for finding and networking with like-minded individuals, as well as discovering potential business partners or additional company personnel.

## **Suppliers**

The computer industry is well known for “here today, gone tomorrow” suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance is a sound insurance for equipment being used for business.

## **Planning and Implementation**

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system.

It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase their own skills.

The following phases of development may be appropriate for a new start-up system:

- Recording of prime entries (Cash Received and Paid; Sales and Purchase Invoices)
- Bank Reconciliations and VAT Returns
- Monthly Adjustments (e.g. Depreciation and Stock Change) producing monthly management accounts
- Sales Invoicing Routines
- Advanced Management Information e.g. detailed analyses of sales and departmental costs
- Sales and Purchase Order Processing with Stock Control

Even at the first stage, the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A “set up procedures list” together with details of typical available reports follows this section.

### **Training and Support**

Training staff on your computer software is essential. Gordons Knight can provide training, on request, tailored to your specific requirements.

## **Security**

The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not taking backups.

Gordons Knight will not only advise on, but also insist that, proper procedures are in place to make your data as secure as is practical.

## **Costs**

Hardware and software is dependent on prevailing market prices. Installation and training is proportional to your requirements and usually charged at an hourly rate.

## **Conclusion**

Gordons Knight have the necessary balance of computing and accounting expertise to help you to both get off to a good start and later to improve your system.

We have good working relations with local service providers who will supply and maintain your equipment. Many will also provide the technical support for networks and, if needed, tailor your software to specific requirements.

## **Installation of Accounting Systems**

1. Consult your accountant! Grants may be available for training.
2. Decide on starting date, consider trial period.
3. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.
4. VAT? Accrual or Cash Accounting.
5. Are departments required for sub analyses?
6. Use a dummy company for practice (Multi-company systems only).
7. Obtain starting trial balance.
8. Obtain starting Sales and Purchase Ledger balances.
9. Enter Trial Balance by journal entry.
10. Enter Sales/Purchase account code, names, addresses, etc.
11. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.
12. Enter live data:
  - a. Sales and purchase invoices



- b. Cash received
- c. Cash paid
- d. Petty cash

13. Consider the need to keep manual records for at least three months and Cash Book for full year.

14. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account.

15. Consider direct production of Sales Invoices. Free text or from stock. If the latter, stocks, dummy or real need to be entered into stock records.

16. Keep a backup disk for each of the five weekdays. Keep a weekend backup off the premises. Backups could be “online” across the internet.

Benefits will be mainly a business that you manage - instead of a business that manages you!

### **Double Entry Principles**

By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated. Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.

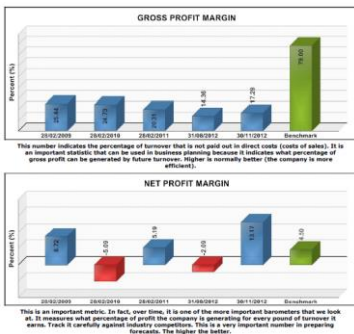
## 12. Management Accountants

Can you imagine going on a long journey without the benefit of your instruments on your dashboard? Fuel, speed, temperature etc. Of course not. Yet many of us run our business without the data that tells us how we are doing.

Management accounts are periodic accounts prepared for you, the management of the business, to help you identify how they have performed during the period, and which areas, if any, require attention and adjustment.

Monthly or quarterly management accounts are essential if you are going to minimise risk, waste and time to achieve your goals.

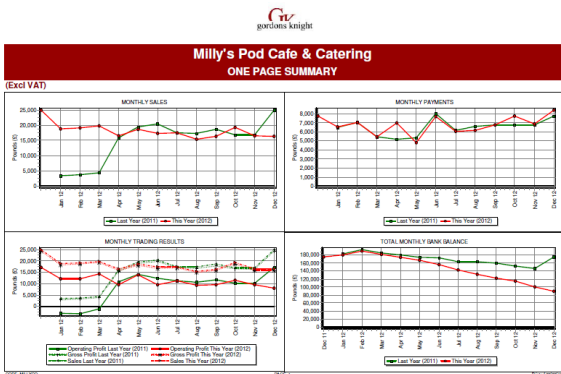
### Sample report



These are different from year end accounts information and accuracy, so quicker and cheaper to prepare, yet provides a significant return on investment.

To maximize the benefit of your management accounts, these should be critically reviewed, assessed and action taken through the medium of a board meetings.

### Sample Reports



Talk to Gordons Knight about preparing Management accounts for your business. 020 8241 3000.

### **13. Board Meetings**

Regular board meetings are critical for business success for small operations that lack the resources of large companies. For a small business that does not have multiple departments and experts in several areas, a regular board meeting will provide a range of impartial opinions that can make difficult business decisions clearer and easier to understand. Having a group to offer support and advice on a regular basis will provide a structure and discipline that may otherwise be lacking.

The input of a person with a different viewpoint can prove invaluable. Simply having a regular review of processes in place will create a method of constant evaluation of business practices, necessary for streamlining and quick reaction to market conditions. One great advantage that small businesses have over larger competitors is the ability to act quickly.

Having a board to assist in the review of the overall health of the business regularly provides a measure of accountability.

In addition to providing guidance and accountability in a predetermined and expected way, a regularly scheduled board meeting provides an impartial and non-emotional setting in which to discuss pertinent issues. Running a business can become an emotional endeavour and being able to present problems and successes to a group of people invested in the success of the company yet distanced from

the everyday ups and downs eliminates some of the emotional cloudiness.

Regardless of the industry or the size of the company, bringing board members together creates an advantage.

For smaller companies without departmental structures, it can be difficult to see the overall flow of the business. The small business owner may not be able to separate an operations issue from an administrative issue simply due to being too close to the problem. Board members can help separate the issues and assist the owners in responding to problems quickly and efficiently, holding the owners accountable to their own commitments.

Even if a small business owner reviews accounts, processes and policies at specific intervals in a disciplined manner, having a group that can guide thinking and make suggestions or provide alternatives allows managers and owners to approach the business from new and helpful angles. Board members can be vital members of the company team. Having regular meetings gives the board members a clear understanding of the company operations and provides managers with a wealth of knowledge and experience. In either case, regularly scheduled board meetings give businesses a competitive edge.

Talk to Gordons Knight about how their Board Meeting service can be used to increase profits, cash flow and business value.

## **Example of Board Meeting Agenda**

- 10 mins – Review monthly historic accounts (FD)
- 05 mins – Review variances
- 15 mins – Review and analyze Key Performance Indicators
- 15 mins – Review SWOT Analysis
- 05 mins – Review results of last months action plan
- 10 mins – Marketing review and brainstorming
- 05 mins – Cash-flow forecast for next 30, 60, 90 days
- 10 mins – Recession strategy review
- 10 mins – Review Marketing, Sales, Operations, IT, HR,
- 10 mins – Agree Action Plans and schedule Next Meeting

## **Testimonial**

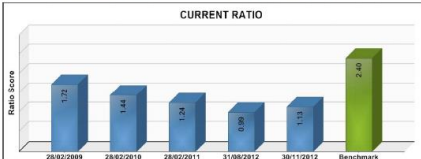
*“This meeting was brilliant. It has brought the focus I have lacked, back to my business. I have learned more in this meeting than the last 10 months of this year. Through the SWOT analysis, we have identified significant issues that will have a dramatic effect on our success. Thank you.”*



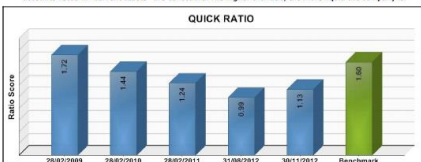
## Sample Reports



**LIMITS TO LIQUIDITY ANALYSIS:** Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



Generally, this metric measures the overall liquidity position of a business. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" are collectible. The higher the ratio, the more liquid the company is.



This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are debtor accounts included in the numerator, they should be collectible. Look at the length of time the company has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the company.

## 14. Useful Names, Addresses & Telephone Numbers

	Address	Tel No
<b>HM Revenue &amp; Customs</b>		
Self Assessment Orderline		0845 9000 404
New Employer's Helpline		0845 607 0143
Subcontractors Helpline		0845 300 0581
Helpline for the Newly Self-Employed		08459 15 4515
Tax Credits		0845 300 3900
<b>National Insurance</b>		
National Insurance Contributions Office	Longbenton, Newcastle upon Tyne NE98 1ZZ	
<b>Miscellaneous</b>		
Companies House	Crown Way, Maindy, Cardiff CF4 3UZ	0870 33 33 636

<b>Sundry Internet Sites:</b>	<b>Website Address</b>
HM Revenue & Customs – Home Page	<a href="http://www.hmrc.gov.uk">www.hmrc.gov.uk</a>
HM Revenue & Customs News	<a href="http://www.hmrc.gov.uk/news">www.hmrc.gov.uk/news</a>
NIC - Information	<a href="http://www.hmrc.gov.uk/ni/index.htm">www.hmrc.gov.uk/ni/index.htm</a>
Government - Central Office of Information	<a href="http://www.coi.gov.uk/">www.coi.gov.uk/</a>
Parliament	<a href="http://www.parliament.the-stationery-office.co.uk">www.parliament.the-stationery-office.co.uk</a>
News providers – BBC	<a href="http://www.bbc.co.uk">www.bbc.co.uk</a>
Institute of Chartered Accountants in England and Wales	<a href="http://www.icaew.com">www.icaew.com</a>
Association of Certified Accountants	<a href="http://www.acca.co.uk">www.acca.co.uk</a>
BT Phone Net UK (UK online directory)	<a href="http://www.bt.com/phonenetuk">www.bt.com/phonenetuk</a>
Royal Mail (Postcodes on line)	<a href="http://www.royalmail.com">www.royalmail.com</a>
UK Street Map	<a href="http://www.streetmap.co.uk">www.streetmap.co.uk</a>
Business-link	<a href="http://www.businesslink.gov.uk">www.businesslink.gov.uk</a>



## **16. Some of Gordons Knight Services Accounts**

- Final Accounts
- Management Accounts

- Tax Reduction Planning
  - Corporation Tax
  - Income Tax
  - National Insurance
  - Capital Gains Tax
- Stamp Duty Land Tax (SDLT)
- Inheritance Tax
- VAT

VAT Aspects

Payroll Services

Start-Up Services

- Business Plans
- Profit Plan on a Page
- Cash Flows

Financial Director Services

- Business Sales
- Coaching & Mentoring
- Solutions
- Meet all deadlines
- Keep the Revenue at bay
- Increasing Profits
- Reduce Tax Bills

Team Building

Leadership

2nd Opinion

Sales Improvement

Goal identification and Achievement

Specialisms

Accounting Software

Online accounts – Kashflow, Xero, FreeAgent..

SAGE

Quickbooks

Problem Solving

Low Profitability

Low Margins

Business Startup

Cash Flow Issues

Clients Specialisms

Recruitments Consultants

Contractors

Building Trades

Web Designers

Marketing Professionals

Therapists

Investors

Haulage Contractors

Franchisors and Franchisees

Digital Trades

## **17. Twelve Top Google SEO Ranking Factors**

(Kindly offered by sponsors of this book –  
[www.websitedivision.com](http://www.websitedivision.com))

People don't really understand that there are many different factors that fall into place when determining where a website ranks in the Google search engine results. Some things to keep in mind when you are wondering why your site doesn't rank well. It is not always just the obvious reasons that are holding it back.

There are many extensive factors that Google uses when determining website rankings. It is very important to get these factors correct, otherwise you could find yourself just wasting your time. It is all about relevancy and earning your visitors and Google's search engine trust over time.

Over the past years by reading Google's Webmaster Guidelines, Google SEO Guides, many industry blogs and by actually doing professional SEO and internet marketing we have gathered data resulting in a short list of the most important Google search engine ranking factors.

Here is the list of our **Top 12 Google SEO** ranking factors to consider:

**1. Age of Domain:** Age of URL is very important. If you just bought your domain a few weeks or even months ago you have a long road ahead of you. The reality is the age of your website helps build trust. If your website has been on-line for several years, chances are you have an established

business.

**2. Domain Hosting:** Where is your site hosted? Find out through your hosting company what continent or country your site is hosted in. This can often times play a large role in search rankings. Always use a reputable hosting company. If your company is UK based then use a hosting company in the UK., We always recommend a dedicated IP when you can. There are virtual dedicated and cloud hosting solutions that are more affordable. Never use the cheapest hosting. The reality is, if you cannot afford hosting you should re-consider the business... this is harsh but very true. :)

**3. Your Neighbours:** If you have a virtual or shared server, used by sites like Godaddy and others, you may be housed with hundreds of websites on one server. Make sure that your neighbours on your server are not classified as spam.

**4. URL Structure:** Make sure your URL structures are very clean. There should not be any random strings of characters at the end of your URL's. This is part of the on site search engine optimization process that we would do for any website.

**5. Content is very important:** To start with, make sure you have text on all your important pages, then make sure it is good text consisting of your targeted keywords spread throughout naturally. In simple terms, ALWAYS write your content for humans, your website visitors first and NEVER write content for the sole purpose of achieving Google search engine rankings. Chances are the content

will not be user focused or provide value to your visitors.

**6. Internal Link Structure:** Make sure your inner pages are linked correctly. Visitors should have easy pathways connecting to your other pages from every page of your website. Make sure the code of your website is verified and keep flash and JavaScript to a minimum, if you can. Make sure the site is clean, easy to use and interlinked to help give the best user experience.

**7. Trust:** Do you at least have a physical address (not PO Box) listed on your website? If you don't. Google likes to see trust factors on websites so anything you can add that could help build trust for your audience will benefit your rankings. We always recommend having a telephone number on each page of your website. Make it easy for people to do business with you, it all starts with establishing trust and that starts with contact information on your website.

**8. Keywords:** Make sure your website is optimized using your keywords. This means any alt tags for images, meta page information and existing content at the very least. Remember to naturally optimize your website based on the content of each page of your website.

**9. Bounce Rate:** Although bounce rate might not seem important if Google sees that nobody stays on your website for more than a few seconds before they leave this could be a ranking problem over time. Make changes to get visitors engaged with your website.

Simple things, like a video, a newsletter sign up, call to actions, etc. These will help improve your bounce rate over time. Make sure you have proper tracking on your website, such as Google Analytics.

**10. Outbound links:** Make sure the websites that you link to are 100% relevant to your business and industry. If you sell animals toys but you are linking to a site that sells shoes that is not very relevant and over time could really impact your rankings. If it makes sense to link to another site, then do so, but remember you could be sending your visitors away from your site.

**11. Inbound Links:** We know this was a list of the top 10, but we have to mention inbound links. The key here is don't buy or exchange links. Market and promote your business on-line to build visitors to your website over time. If you do, then the relevant links will follow!

**12. Changing Constantly** - As the Google algorithm changes there are always new ranking factors that come into play, such as the page load time and many others. I am sure when we re-do this list in 3 months from now, there may be another one or two additional factors and maybe more...

What Next



**You now have 3 choices:**

- 1.** Do nothing and miss out on making real money from your site. Let your competitors get wise to SEO and get there before you.
- 2.** You or your staff carry out SEO by making sure you understand how each and every task is actioned and devote the time and resources to achieve it. Download and read ‘The SEO Experts Guide to SEO’ which we wrote to explain what you need to do. Download it from here:  
<http://www.googleseoexperts.co.uk/seoguide>
- 3.** Get our **SEO Experts** to carry out the SEO for you with the added benefit that we guarantee first page position for your keywords or we give your money back for each keyword phrase that does not achieve a Google first page position within 6 months.

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For a free illustration based on your personal circumstances, simply give us a call on 020 8241 3000  
Email [gds@gordonsknight.co.uk](mailto:gds@gordonsknight.co.uk)



**This Book was created by Gordon D'Silva,  
Director at Gordons Knight  
About Gordons Knight**

Gordons Knight are a firm of Chartered Accountants skilled in helping clients grow their businesses and pay less tax.

We do this through a tried and tested process using both financial and business tools.

The team is led by Gordon D'Silva. Gordon is a self-made very successful business person. Having applied the business rules many coaches only preach, he has the practical knowledge on how to make them work in real life.

“Business does not have to be hard. But you must apply Business Joined-up Thinking, to break through the difficulty.”

Having developed the PowerCircle7 business excellence process, it has proven to improve virtually any business. Its sales, profits, cash flow and business value.

Gordon is driven by customer service and delivering value to his business and personal clients. He loves business, and uses his deep understanding of numbers and business processes to make client businesses more fulfilling for their owners.

The administration team provides great customer service and a responsible approach for client liaison. The teams'

friendliness is only matched by their willingness to help clients get what they want.

The process of accounts preparation is handled through a documented and controlled series of steps that make sure that the accounts are delivered **on time every time** (with clients' cooperation).

Fixed value based fees are central to our offering to clients. For example, if we offer to save you tax, our fee for advising you is only payable if we achieve a tax reduction.

Other services we offer include marketing advice, financial director services and much more. A more complete list is on our website.



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[www.gordonsknight.co.uk](http://www.gordonsknight.co.uk)

## Testimonial

*"I highly recommend the services of Gordon D'Silva and the company.. I have worked with Gordon for over 4 years now, on projects including personal coaching, leadership development for both myself and my team, and business process reengineering work.*

*I can say honestly that Gordon has revolutionized my way of thinking about business, and what it really takes to get results. Specifically, in my former job I was able to double the sales revenue of the company over an 18 month period; and more recently I have started my own business which has grown from zero to 40+ people and turnover of 2 million GBP in under 18 months.*

*I accredit a great deal of the success of my venture to Gordon's mentoring and coaching; and am duly reminded that small changes in different areas of the business can make an extreme difference to the results.*

*Gordon is a great person to work with, engaging, challenging, and fun with a very high level of integrity and an unusually wholesome' approach.*

*I recommend Gordon and his company without hesitation."*

October 2011

Robert Parkinson  
Managing Director





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