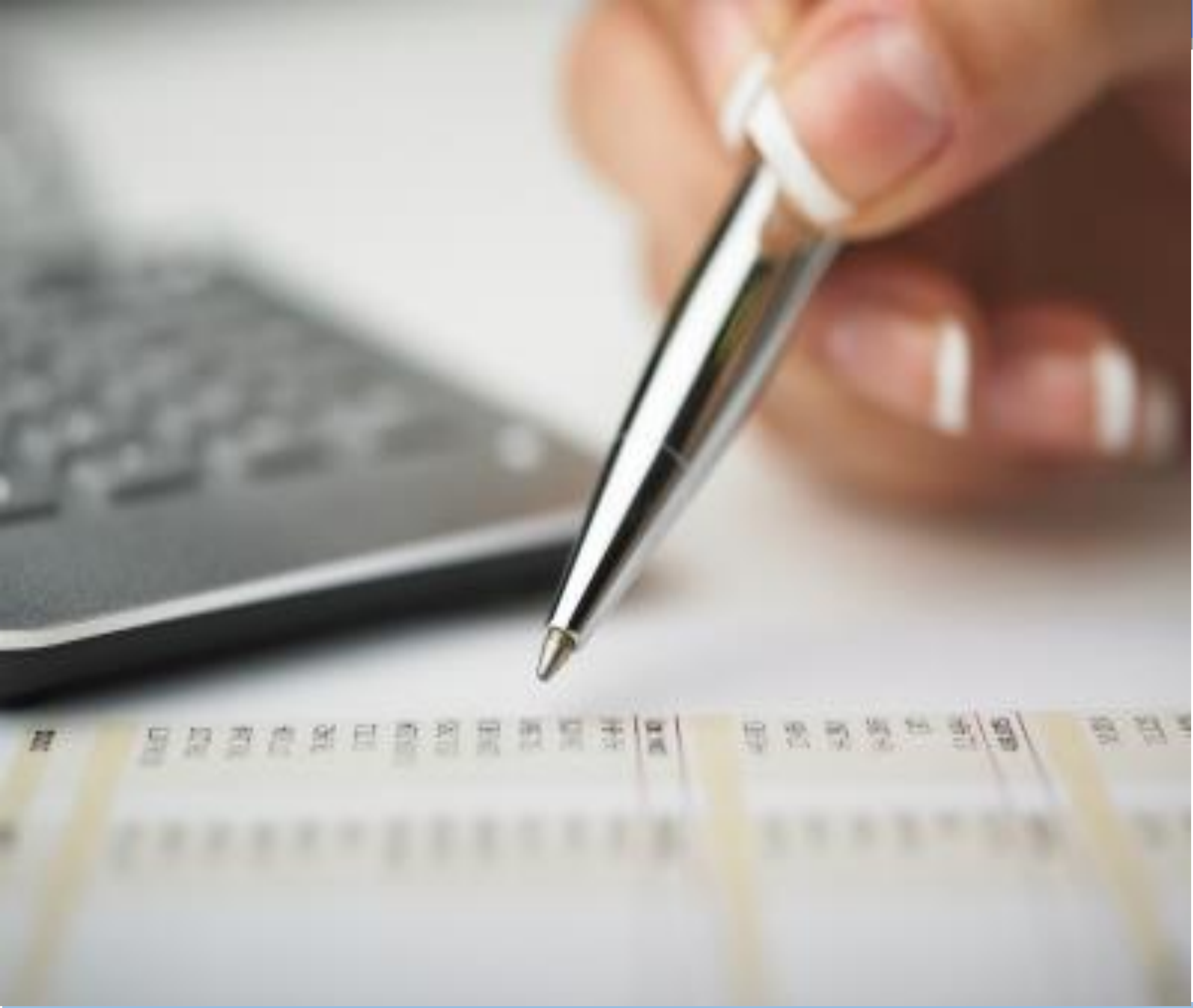

Bookkeeping Guide

By Albatross Accounting

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INTRODUCTION

It's the first rule of running a business: you need to make money for it to stay afloat. And that means keeping an eye on it is vital to your business' survival and eventual success. Accurate and frequent bookkeeping is *essential* to this.

WHAT IS BOOKKEEPING?

Bookkeeping is the process that both stabilises and regulates the financial cash flows within your business. It is the recording of all the financial transactions of a business, and these transactions can include purchases, sales, and receipts. It is for this reason that bookkeeping as a process falls under the umbrella of accounting, a broader term for the recording, measurement, and presentation of the financial information.

A bookkeeper carries out these responsibilities:

Establishing accounts	**Establishing chart of accounts**	**Verifying, allocating and post transactions.**
Reconciling entries	**Maintaining general ledger**	**Balancing general ledger**
Maintaining historical records	**Preparing financial reports**	**Compiling with government requirements**

These tasks can either be carried out by someone within the business such as yourself, or a hired bookkeeper or accountant. That being said, many choose to take on their own bookkeeping duties and avoid paying excess fees for a professional. However, only a few businesses are eligible for this - these tend to be smaller businesses with fewer transactions to record and smaller numbers to juggle.

WHO IS THIS GUIDE FOR?

Albatross Accounting guide to doing your own bookkeeping is aimed at those that have the potential to do so. This includes those who own a small business or are self-employed and can therefore carry out these tasks.

SHOULD YOU DO YOUR BUSINESS' BOOKKEEPING YOURSELF?

Saving money and staying aware of your business' financial circumstances are clear benefits to those that choose to do their bookkeeping. However, this is only an option for those that own or work within a small business due to the simplicity of the calculations and statements required when compared to the needs of larger businesses.

Alongside this drawback is the potential for errors which can leave your business at risk of financial penalties, and the loss of time that could be spent on bettering your business in other ways instead of completing this process. That being said, bookkeeping and accounting software like ***QuickBooks Online*** and ***AutoEntry*** has transformed bookkeeping for small businesses, handing back control to your team and simplifying the process as a whole.

Simply put, it depends on your business and the responsibilities of the person who would be carrying out the bookkeeping.

WHAT WILL THIS GUIDE COVER?

Bookkeeping can often appear a complex muddle of different stages, steps, and calculations to those with limited knowledge and experience of bookkeeping and accounting. We wanted to change that, and lay out the key terms of bookkeeping in a clear, step-by-step way.

This bookkeeping guide won't simply cover the steps you should take to complete your bookkeeping duties - it will also explore the daily, monthly, and yearly tasks you need to consider, the type of bookkeeping you should undergo for your specific business, and whether you should utilise software alongside your own calculations.

A glossary is also included to ensure your team can keep on top of the jargon.

AN OVERVIEW OF THE ENTIRE BOOKKEEPING PROCESS

Defining bookkeeping is a simple feat. What *really* makes bookkeeping complicated for those looking to do it themselves is the number of stages within the process to consider. In that case, we thought it best to set out each and every stage involved with bookkeeping for small businesses.

1. Setup your business accounts	The fundamental first step of bookkeeping is understanding your business accounts and the jargon attached. But knowing *how* to set them up is often more complicated. This is where bookkeeping software comes in.
2. Decide on a bookkeeping method	The method you choose depends on your business and will be explored later in this guide; it can either be single-entry bookkeeping or double-entry bookkeeping. The method you choose will impact the bookkeeping steps you need to follow.
3. Record financial transactions	This encompasses determining the accounts that will be debited and credited. This is a vital stage of the process, and accuracy is fundamental to correctly carrying out this process.
4. Balance the books	This is the final stage, and in simple terms is about ensuring the account debits and credits match.

Throughout this entire process, storing your records safely and securely means you can complete your bookkeeping accurately and avoid wasting time on what can be a stressful process. Bookkeeping software can assist with this, providing a place to store records of receipts and other key data.

More specifically, there are several tasks within these duties that we recommend you complete daily, monthly, quarterly, and annually in order to stay on top of your finances.

Daily	- Consider whether you have enough money in your business in order to cover your outgoing payments
Weekly	- Prepare and send out invoices - this will allow you to keep an eye on the cashflow into the business - Record transactions in your bookkeeping software or manual alternative, e.g. in an Excel spreadsheet - File documents and receipts - Review cash flow
Monthly	- Run your business' payroll and make payments to HMRC - Review incoming payments - Frequently check bank statements to look for mistakes and check cash flow - Review outgoing and VAT payments
Quarterly	- Make VAT payments if you complete this on a quarterly basis
Annually	- Complete self-assessment tax return at the end of the year (for sole traders) - File company accounts every year with Companies house (for limited companies)

WHAT KIND OF BOOKKEEPING SHOULD YOU DO FOR YOUR BUSINESS?

No two businesses are the same - it's for this reason that there are 2 bookkeeping methods to choose from that depend on the size of your business.

SMALL TO MEDIUM ENTERPRISES

Small businesses - as they have less complex and fewer transactions - are suited to a small team or one person performing their bookkeeping duties. This can include freelancers or virtual assistant bookkeepers. **Single-entry bookkeeping** should be used for small businesses as this system records cash sales and business expenses that are paid when incurred.

This form of bookkeeping is not common among most businesses as the bookkeeping entries under this system don't match transactions to the corresponding accounts. This can in turn make tracing any revenue and expenses difficult. Therefore, many small businesses use bookkeeping software as they are simple, user-friendly, and can handle bookkeeping functions for those with limited bookkeeping knowledge.

Also, small businesses should opt for as opposed to accrual accounting. This means you record a transaction when cash changes hands.

BIG OR GROWING BUSINESSES

As there will be a higher number of transactions made with bigger businesses, the nature and scale of the bookkeeping will increase in both size and complexity. It is thus suggested that a bookkeeper should be hired rather than the owner or an employee carrying it out on top of their normal duties.

It follows that in-house bookkeeping should be used by such businesses due to the constant support on hand, and the greater amount of support on offer with a team devoted to your business - this is especially true given the need for accuracy when running such big numbers.

Double-entry bookkeeping should also be used with big businesses or businesses that collect their income through accounts receivable, and receive merchandise and inventory or credit. Growing or bigger businesses should opt for **accrual accounting** when purchases or sales are recorded immediately, even if the cash doesn't change hands until later.

Aside from the business' size, the business's sector and purpose also matters.

Restaurants, for example, require inventory management and insight into total monthly operational costs, whereas manufacturers on the other hand need invoice and expense tracking.

A STEP-BY-STEP GUIDE TO BOOKKEEPING

1. SETUP YOUR BUSINESS ACCOUNTS

Traditional bookkeeping and accounting used a general ledger to record accounts. But these days, spreadsheets and software have taken the place of the manual method.

Spreadsheets are the most basic option, and can simplify some of the calculation process but requires more knowledge than desktop or cloud-based bookkeeping software. Alternatively, a bookkeeper can be hired. From there you can follow the software's guidance, or carry out the steps explained in the guide manually with the spreadsheet.

As with many complicated topics like bookkeeping and accounting, there are a number of individual cogs that come together in the process that we have to define. And vital to setting up your accounts is *understanding* the accounts. There are 5 types of accounts:

Account type	Description	The accounts included within this
Assets	The cash and resources owned by the business.	Accounts receivable, cash, equipment, inventory, supplies, real estate
Liabilities	The obligations and debts owed by the business	Accounts payable, interest payable, unearned service revenue
Revenues or income	The money earned by the business	Interest income, rental income, sales income
Expenses or expenditure	The cash that flows out of a business to pay for goods and services	Insurance expense, interest expense, rent expense, supplies expense, utilities expense
Equity	The value remaining after liabilities are subtracted from assets - this represents the owner's interest in the business	Dividends, retained endings, owner's capital

2. COMPLETE YOUR SINGLE OR DOUBLE-ENTRY BOOKKEEPING

The next step is choosing the type of bookkeeping method that best fits your business and ensuring you are recording transactions in the correct way for the method. This was outlined previously in this guide.

Single-Entry Bookkeeping

This method typically doesn't require software as it is a simple method that just records the flow of income and expenses via your cash book or a spreadsheet.

If your business requires single-entry bookkeeping, you should first ensure your cash book (a spreadsheet that records transactions) is accurate and up to date.

To complete single-entry bookkeeping, make sure that each entry has a date, a description, a reference such as an invoice number, the income and expenses, and the bank balance (the running balance of your income and expenses which changes each time a new transaction is recorded).

A bank reconciliation is also recommended as it matches the cash balances on the balance sheet to the amount of money in your bank statement.

Here's an example of single-entry bookkeeping with a cash book:

Date	Description	Reference	Income	Expenses	Bank Balance
01/02/2019	Web hosting fees	1		£30.00	£200
02/02/2019	Sale X	2	£25		£225
02/02/2019	Sale Y	3	£45		£245

Double-Entry Bookkeeping

Due to the complexity of this method, it is often recommended that one uses software or hires a bookkeeper to complete it accurately. But to those up for the challenge, it involves you entering all your transactions twice instead of once.

It encompasses balancing your **debits** and **credits** - by having equal credits and debits in the right accounts your books can stay balanced. This is where the 'accounting equation' comes in:

Assets = Liabilities + Equity

It is the basis of double-entry bookkeeping, and it states that your assets should always equal your liabilities and equity.

Let's say, for example, you purchase stationary for your office. This means you spend an asset - your business' money - to buy another asset - the stationary. In your company's books you will have to adjust the cash account and the stationary account. The former will have a debit (it increases the value of the stationary account) and the latter will have a credit (it decreases the value of the cash account).

Here's an example of double-entry bookkeeping:

Accounts	Debits	Credits
Stationary account	£100	
Cash account		£100

3. BALANCE THE BOOKS

This is the final step in bookkeeping. Essentially, it requires you to tally up account debits and credit quarterly or annually and make sure the totals match, or, make sure the books are balanced.

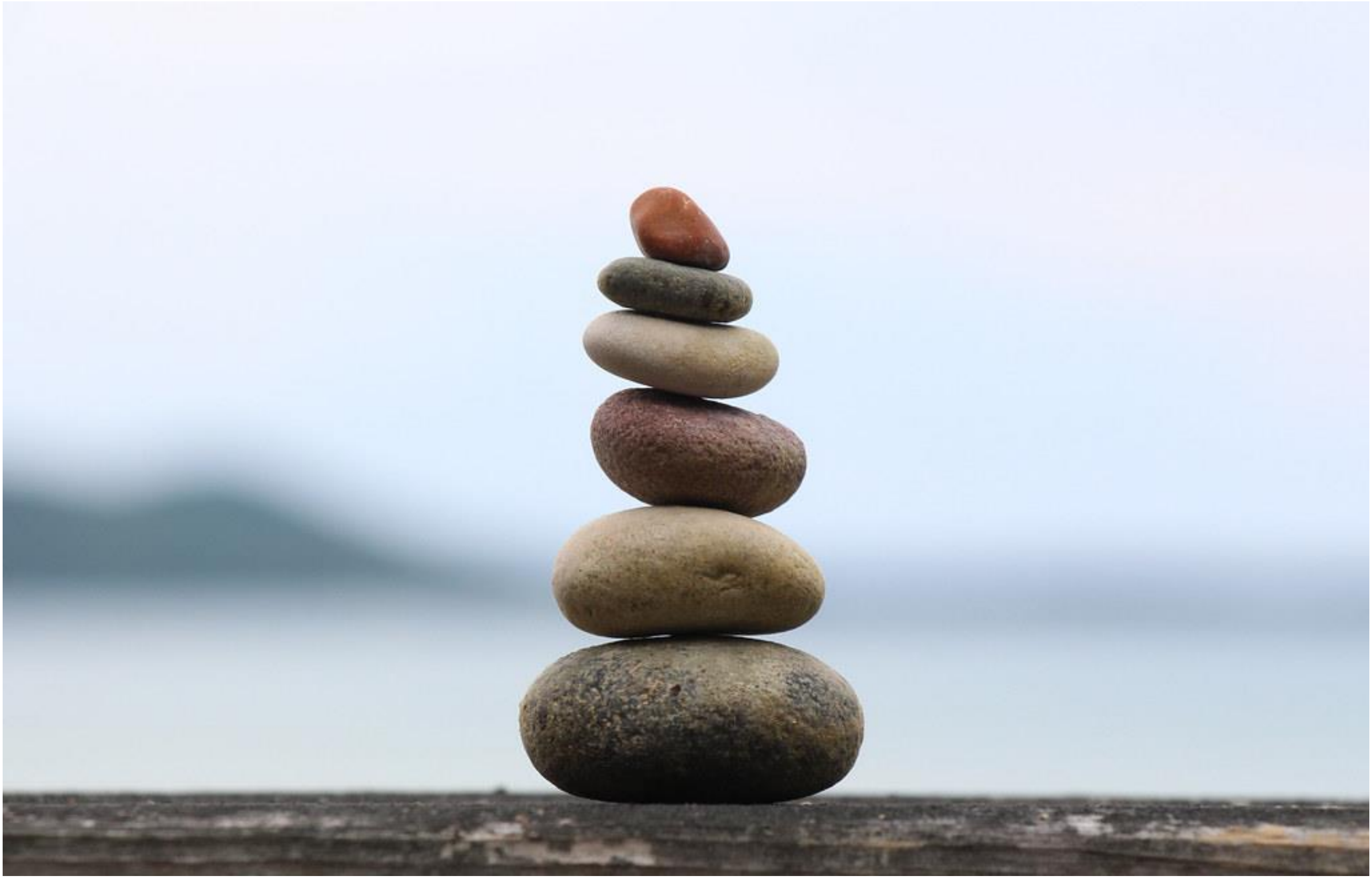
Throughout the course of your bookkeeping you have been recording debits and credits to your accounts as 'entries'. At the end of the period, these entries will be posted to the accounts in the general ledger and you will adjust the account balances accordingly.

For example, if your cash account has £300 in debits and £1000 in credits, you would adjust the cash account balance by £700 as a decrease. Once you've completed this process for each account in the ledger, you will have an **adjusted trial balance**.

When these account types are combined, the adjusted balances should satisfy this equation:

Assets = Liabilities + Equity

If they do not, there is an error in your ledger or in your entries.



4. PREPARE FINANCIAL REPORTS

Having completed the bookkeeping processes, the financial reports and statements that showcase the health of your business need to be drawn up. From there decisions regarding your business can be made, and the financial details recorded put to use.

The most common financial reports bookkeepers need to create includes:

The balance sheet	This summarises your assets, liabilities, and equity. It should satisfy the accounting equation. Its purpose is to provide insight into your business' current health and determine its position, i.e. will it expand or need to reserve cash.
Profit and loss statement	(Also known as the income statement.) This statement breaks down revenues, costs, and expenses. Its purpose is to compare your sales and expenses, and then allow your team to make forecasts about your business.
Cash flow statement	This is similar to the profit and loss statement, but it doesn't include non-cash items. Its purpose is to show where your business is earning money and is spending it, and its ability to pay its bills.

CONCLUSION & GLOSSARY

Bookkeeping is a necessary albeit complicated process that requires the frequent recording of transactions and calculations. Just because you *can* do your own bookkeeping, doesn't necessarily mean you *should*.

By handing over the complex process to a world-class accounting firm like Albatross Accounting or allowing software like Quickbooks, Xero or other to guide you through the process and do the bookkeeping for you, you can free up more time to dedicate to your business, all the while ensuring that your bookkeeping and accounting is accurate, completed on time, and free of errors.

Why not take your bookkeeping into your own hands, and pass it over to the experts?

GLOSSARY OF TERMS

Balancing the books	This involves assets, liabilities, and equity. Assets are what the company owns, such as inventory and accounts receivable. Liabilities are what the company owes such as business and bank loans, and other debts. Equity is the ownership that an owner or any investors have in the firm. The equation to balance the books - AKA 'the accounting equation' - is: Assets = Liabilities + Equity
Income Statement	This statement covers revenue, expenses, and costs. Revenue is the income a business receives from selling its products or services. Expenses are the money spent to run the business, such as salaries. Costs is the money a business spends to manufacture a good or service.
Bank reconciliation	This is the process that explains the difference between the bank balance shown on a business' bank statement, and the corresponding amount in the business' accounting records.
Depreciation accounting	This is the method of allocating the cost of a tangible or physical asset over its life expectancy.
Claim business expenses	This allows you to reclaim some of your expenditures.
Fixed asset accounting	Fixed assets are recorded on part of your balance sheet. They need to be written off or depreciated over time
Payroll	You will need to account for payroll. This can be done through payroll software, or through the calculators and information HMRC provides.
Journal entry	Adjusting the ledgers is required when you need to transfer an amount of money from one account to another.
Sales and purchases invoices	It is a legal requirement that a sales invoice be raised when a product or service is sold to a customer. A purchase invoice is when you buy something from a supplier - you need to make sure there are no mistakes.

Get in touch

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