

How to organise accounting records

When starting a business there will be a vast amount of paperwork that will be received which can quickly build up should it not be organised. With it being a requirement by HM Revenue and Customs to retain six years of financial records, it is important to be organised with the accounting records.

For any business, there are three key areas of accounting records. These are bank statements, sales invoices and purchase invoices.

- **Bank statements** – these are required for all business bank accounts including saving accounts and loan accounts.
- **Sales invoices** – HM Revenue and Customs provide a list of information that must be included on each sales invoice. Additional information is required should the business be a limited company as opposed to a sole trader and if the business is VAT registered.
- **Purchase invoices** – An invoice should be retained for every purchase. If VAT registered, the VAT amount can only be reclaimed with a valid VAT invoice.

The introduction of Making Tax Digital has made it easier for accounting records to be stored electronically. If software is being used for the accounting records, bank accounts can be linked, sales invoices can be raised and purchase invoices can be imported matching it to the relevant expense. Software keeps all records together in one place and any original documents can then be destroyed if no longer needed reducing the amount of physical records being retained.

For those businesses not using software with either paper or electronic copies being retained, a folder for each accounting period split in to five sections as set out below is useful to ensure all customers have paid and suppliers have been paid. Bank statements can be retained in date order, sales invoices in invoice number order and purchase invoices in either date order or supplier order. A spreadsheet or cashbook can then be used to summarise the sales and purchase invoices throughout each accounting or VAT period.

- Section 1 - Bank statements for all bank and loan accounts.
- Section 2 - Sales invoices paid noting payment date.
- Section 3 - Sales invoices not yet paid.
- Section 4 - Purchase invoices paid noting payment date.
- Section 5 - Purchase invoices not yet paid.

For new businesses, there may be accounting records prior to the business bank account being set up. It is important these records are not missed as the majority will be tax deductible expenses. It is ideal to keep these records separate.

If accounting records are not kept for a business, a fine of £3,000 can be issued by HM Revenue and Customs or an individual can be disqualified as a company director. Although business owners may want to focus all their efforts on the work being carried out, record keeping is an important part of being in business.

No matter what method is being used for storing and organising accounting records, it is vital for this to be a routine part of the business and dealt with regularly. The result of any filing system is to ensure any required document can be found easily and quickly.

For more help or advice about any of the ideas covered in this guide, Westcotts is here to help. To contact a member of our team for further advice please find the contact details of your local office on our website by following this link. <https://westcotts.uk/contact-us/>