



HEY. A Guide to Bookkeeping & Basic Accounts



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1. Introduction

This guide has been designed to assist you to set up a bookkeeping system and to use it to help you manage your business finances. It describes what records you should keep and why it is so important for you to keep accurate records that are up to date.

The guide introduces you to the 'Double Entry' convention used by Bookkeepers and Accountants to help you to keep on the right track as well as describing some of the common accounting methods used. This will enable you to undertake simple financial forecasts and create financial statements that outline how well your business is performing.

The guide contains a number of templates to assist you to see how well your business is doing financially and to help you to manage your business during the critical start-up and early growth stages.

Please refer to the accompanying topic guides to assist you to explore and understand a range of related business topics.

This guide is primarily aimed to assist individuals who are thinking about starting their first business venture and/or those who have just started to trade and want to put in place a suitable financial recording and reporting system to help them manage their business finances.

By following the practical steps outlined in this guide it will help you to gain important information and insights about how to put systems in place that will help you to manage your business finances. The knowledge and understanding you gain from the time and effort you put into setting up and using financial recording and monitoring systems will better prepare you to successfully navigate your way through the challenges of setting up and building a successful and profitable business.

It is recommended that you read around the topic area when using this guide to further broaden your understanding of business management. You should also consider speaking to a professional business advisor, bookkeeper and/or accountant who can answer any specific questions you may have.

Other Guides in the Series:

[A Guide to Business Planning](#)

[A Guide to Financial Forecasting \(Cash Flow\)](#)

[A Guide to understanding your Target Market \(Market Research\)](#)

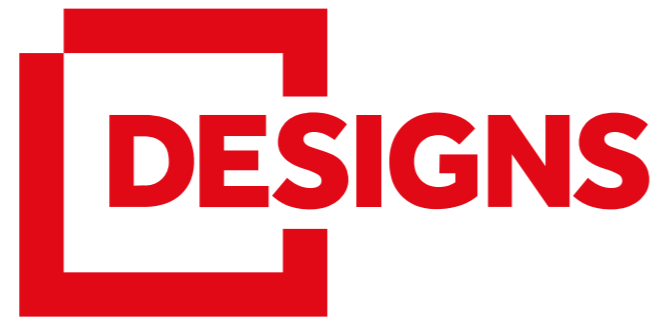
[A Guide to developing a Sales & Marketing Plan](#)

[A Guide to the Marketing Mix \(Media Channels\)](#)

[A Guide to Branding](#)

Intended Readers:

2. Case Study: Designs Signage Solutions



A commitment to investment and innovation has delivered lasting growth for Designs Signage Solutions, with managing director Rob Daysley having launched the business at 18 in his parents' garage and still pursuing new ideas in its 30th year.

Rob admits he likes to take calculated risks, and he's described by the noted business helper and facilitator Professor David Hall as someone who "gets bored when things are going too smoothly".

Rob also recognises the importance of investing in the business – improving the working environment and production facilities and funding the next big idea.

The company, which designs, manufactures and installs signage for retail, corporate, sports stadia and vehicle livery clients across the UK, is perhaps best known in its home city of Hull for the new look emblazoned on the MKM Stadium and Sewell Group Craven Park.

The origins were humble but lucrative. Living at home with plenty of work, a good income and no dependents, Rob hand-wrote tickets for the DIY trade and spent the proceeds. But he also had an eye on the future and he invested the last of his savings on

a unit at the Louis Pearlman Centre and on the digital equipment which the industry was embracing, enabling Rob to offer graphics for vehicles.

Further investment over the years supported a series of moves to larger premises and the development of a team of more than 40. More sustainable water-based digital printers replaced solvents, and the challenge of greater electricity usage was overcome by fitting solar panels on the roof of one of the new buildings at Innovation Drive.

A grant from the LEP assisted growth and Rob has also sourced finance with the help of the bank which has been a partner for more than 20 years. But the bulk of the investment has come from within.

Rob said: "I like to innovate and try new markets and I am quite tech driven, always testing the processes. To do that I invest a lot of the money we make back into the business."

"We don't have to operate out of a facility like this and we don't have to use the latest machinery but it's good to have a nice environment where people can work and it sells the business to visitors."

"The business is an entrepreneurial story of seizing opportunities, taking a calculated risk and finding the money – if you want it you make it happen."

"You have to be agile and confident in what you are doing. I have always had big ideas and I don't rest on complacency. Some people would question me but I would rather invest the profits back into the business."

"You have to be agile and confident in what you are doing. I have always had big ideas and I don't rest on complacency. Some people would question me but I would rather invest the profits back into the business."

Rob Daysley

3. Common Business Structures

A key decision to be made when starting your own business, or becoming self-employed for the first time, is to decide what type of business structure you want to have. There are a number of options, all of which have their merits and differ in legal and taxation terms, but your four key options are as follows:

- Sole trader
- Partnership
- Limited liability partnership (LLP)
- Limited company

Sole Trader

Selecting the sole trader option makes you and your business effectively one and the same thing, from both a tax and legal perspective. This means that you are personally responsible for the business and any debts it incurs.

The profits you make for the period up to the 5th April of each year are declared on your tax return and classed as your personal income for that year, even if your profit is not paid out as salary or into your personal bank account.

Just be aware of changes with Making Tax Digital (MTD). Businesses with a taxable sales turnover over the VAT threshold (£85,000) must follow MTD rules. This means keeping digital records and using specific software to submit your VAT returns. Businesses with a taxable sales turnover below £85,000 will be expected to follow the rules for their first return on or after April 2022. If you're below the threshold you can voluntarily join MTD now.

Self-employed businesses and landlords with annual business or property income above £10,000 will need to follow the rules for MTD for income tax from their next accounting period, starting on or after April 6 2023.

There are benefits associated with operating as a sole trader. They include:

- **Simple set up and administration.** One of the main advantages of operating as a sole trader is how easy it is to set up and run. You have to be VAT-compliant, deduct and pay PAYE and National Insurance to HMRC if you have employees and file a self-assessment tax return, but that's where your obligations end.

- **There are fewer financial restrictions.** It's much easier to take money out of a sole trader business than a limited company. You can take money out of the business as and when it's needed. That's because your personal finances and the business's finances are one and the same.
- **There's greater privacy.** Certain information about limited companies has to be made public. Being a sole trader is different. All the details about the business can be kept private. That provides greater anonymity (for example, if you are running the business in your spare time while being employed) and being a sole trader reduces the costs associated with filing annual accounts.

- **The business is easier to close down.** Closing down a limited company takes time and can be costly, particularly if it has debts. Winding up a sole trader is a relatively simple affair, although if there are debts you cannot repay then it can be problematic

Partnership

A partnership arrangement is similar to that of a sole trader but differs in that it has more than one owner. All partners own an agreed percentage of the profits and the liabilities, so they must pay tax on that percentage. As with a sole trader, each partner's share of the profits is treated as their own income.

There are benefits associated with running a partnership, both when compared to a sole trader and a limited company, namely:

- **Shared responsibility.** Having more business owners allows the financial and operational responsibility for running the business to be shared. Tasks can be assigned according to skills and the individual workload can be reduced.
- **Flexibility.** Conventional partnerships are easier to form than limited liability partnerships (LLP's). The internal structure is also versatile as changes can be made to the legal rights and responsibilities of partners and even to their profit-sharing ratios.
- **Decision-making.** Partners share the decision making which can be beneficial as there are more ideas to choose from, although it can also be problematic if not everyone agrees.

Limited Liability Partnership (LLP)

This type of structure has a mix of the characteristics of a conventional partnership (such as the internal management, tax liability and the distribution of profit) and it also provides the limited liability characteristics of an incorporated company. Limited liability partnerships tend to be used by professional services firms such as solicitors and architects. The benefits include:

- **Tax transparency.** LLPs are generally not taxed as limited companies (corporations), so they do not need to pay corporation tax. Instead, each member is taxed through self-assessment as a self-employed individual.
- **Flexibility.** The internal structure of an LLP is just as versatile as a conventional partnership, so changes can be made to the rights and responsibilities as necessary.
- **Professional standing.** Limited liability can enhance the professional standing of a business over and above a conventional partnership. This can be advantageous when trying to win high-value contracts.
- **It's easy to appoint new members.** Unlike a limited company, there's no share capital in an LLP. That means new members can be appointed without having to issue new shares.
- **National insurance savings.** An LLP does not have to register as an employer if the only people working for the company are members. That can lead to significant national insurance savings.
- **Easier to make decisions.** There aren't any requirements for those involved in LLPs to make decisions by resolution or to hold board meetings or general meetings as is the case in limited companies.

Limited Company

A limited company is a separate legal entity entirely. This means that the company must be formed (or incorporated) and registered at Companies House. It will also have to have certain standard legal documents that govern what it can do and what business it operates in.

The company will be owned and controlled by those who own its shares and you can allocate shares to any number of people when the company is incorporated. You could keep all the shares for yourself, allocate some to others (i.e. your spouse), or sell them ('equity') to raise funds.

This does however require more administration, for example annual accounts being filed at Companies House and an annual corporation tax return. These can be taken care of by a chartered accountant.

Having a limited company comes with significant benefits, which include:

- **Tax efficiency.** Due to the ability to receive income in the form of both salary and dividends
- **Reduced risk.** Liabilities (debts) of the business are separate from that of the owner(s), reducing the risk if things go wrong
- **Image.** A more professional image of the business can be portrayed
- **Flexibility.** Because equity can be sold, limited companies are easier and more flexible when it comes to raising investment and funding.

If you are not sure which is the best business structure for you to use when you set up your first business venture then it is recommended that seek professional business advice from an accountant or financial advisor.

4. Financial Record Keeping

There are plenty of benefits that come from being your own boss, but many small business owners are often daunted by the financial paperwork involved in going it alone. You might think of record-keeping as a chore, but it's crucial for monitoring the money flowing in and out of your business. It's also important to know that it's a legal requirement to maintain accurate business records and you'll need to hold on to them for several years in case Her Majesty's Revenue & Customs (HMRC) ever asks to inspect them. You could be fined up to £3,000 by HMRC or be disqualified as a company director if you fail to keep adequate records.

If you've become self-employed and are wondering what sort of records you need to keep and what's involved in bookkeeping for a small business, this guide will help to give you an insight by walking you through the basics. Having well-organised records will help you to monitor what's happening financially in your business as well as make life easier when you come to file your annual 'self-assessment return' to HMRC.

Record keeping for Sole Traders & Partnerships

If you're self-employed as a Sole Trader or a partner in a Partnership, then you have to keep records of your business income and expenditure. You'll also need records of any other personal income in order to complete your tax return.

Business income: You'll need to record all sales and other business receipts and keep supporting records such as invoices and bank statements. These can be paper copies or electronic versions, stored either on your computer or online using cloud accounting software.

To comply with HMRC's rules, each invoice must have a unique number, along with the date of the invoice and the name and address of both your business and the customer. Each invoice must also include a description of what you're charging for, the date the goods or service were provided, the amount being charged and the total amount owed.

If your business is VAT registered, the invoice must show additional information, including the VAT amount, your VAT registration number and the rate of VAT charged per item.

Business expenditure: You should keep receipts for all your business expenses. These can be paper receipts

or, in most cases, electronic copies such as scanned images or digital photos, provided they show all the information clearly. Similarly, you should also keep records of the purchases of any capital assets.

Other business records: If your business is registered for VAT, there are some additional records you'll need to keep. If your business employs anyone else, you'll need to keep PAYE (Pay As You Earn) records. You'll also need to keep details of any grants you claimed through the Self-Employment Income Support Scheme (SEISS) during the coronavirus (Covid-19) pandemic.

Personal income: You'll need to keep records of any income you've received outside of your business in order to complete the personal parts of your tax return. Depending on your circumstances, these records could include:

- Any P45's, P60's and P11D's and payslips from employment (if for example, you had a full-time or part-time job on top of any work you did for yourself during the tax year).
- Personal bank and building society statements showing interest received
- Original physical / hard copies of dividend vouchers for any UK company dividends you were paid

For more details of all the personal pay and tax records you need to keep see HMRC's guidance at <https://www.gov.uk/keeping-your-pay-tax-records>

Record keeping for Limited Companies

The rules on record-keeping are different if your business is set up as a limited company. There are certain records that you have to keep about the company itself, as well as financial and accounting records.

You'll find more details about running a limited company in HMRC's guidance on company and accounting records at <https://www.gov.uk/running-a-limited-company/company-and-accounting-records>

How long to keep your business records

Sole traders and partnerships must keep business records for at least five years after the 31st January 'tax return' submission deadline of the relevant tax year. For example, the tax return for the 2020-21 tax year was due by 31st January 2022, so you would need to keep records relating to that tax year until at least the end of January 2027.

Limited companies must keep records for at least six years plus the current company financial year. This is also the case if your business is registered for VAT.

For more information on the topic of record-keeping, see HMRC's guidance at <https://www.gov.uk/self-employed-records>

For some detailed examples, refer to HMRC's downloadable guide to keeping records for your tax return at <https://www.gov.uk/government/publications/keeping-records-for-your-tax-return-rk-bk1>



5. Choosing your Financial Record Keeping System

As a beginner without any accounting or bookkeeping qualifications, you will firstly need to decide how you want to complete your records, typically there are three popular options, namely:

Accounting Book: If you're just keeping track of simple accounting records, then an accounting book can be the answer. However, the manual process isn't for everyone, especially with the government introducing the Making Tax Digital (MTD) initiative.

Spreadsheets: They can be a good starting point to get you up and running. Although they're suitable for smaller businesses, you'll find that it could be a challenge maintaining them as your business grows and trying to keep any human errors to a minimum.

Bookkeeping Software: To comply with MTD, you will have to use a bookkeeping application (app) or desktop software. To make the process simpler, look for a solution that takes the confusion out of bookkeeping with easy-to-understand phrasing and the critical features that you'll need. There are lots of free or cheap online bookkeeping systems available, for example:

Google Docs – Free online spreadsheet that has limited functionality but can be accessed via a web browser.

Microsoft Excel – Powerful spreadsheet software is that costs around £80 per year as part of Microsoft Office 365, which also includes Word and PowerPoint.

OpenOffice – Free alternative to Microsoft Office, and includes a spreadsheet package called 'Calc', as well as presentation and word processing software.

KashFlow – Subscription-based online accounting system that includes additional extras such as payroll tools, invoice submission and direct links to your business bank account.

Xero – Online and mobile service that offers bookkeeping tools suitable for small businesses, including the ability to reconcile bank accounts with your ledger.

Quickbooks – Subscription-based online accounting system that includes additional extras such as payroll tools, invoice submission and direct links to your business bank account.

The above list is a small selection of the types of software available, we suggest that you do some research online and/

or speak to a bookkeeper or accountant to see what they recommend for your particular business.

Who will Record your Business Transactions?

As mentioned earlier, you don't need formal degrees or qualifications when it comes to doing the books. Still, here are the main options that are open to you:

Yourself (DIY): You can start to do the bookkeeping yourself, although you will find it easier if you go on a basic bookkeeping awareness course to help you become familiar with some of the terminology and conventions used, such as the 'double entry' recording method. The more you do it yourself for your business, the easier the process can become, especially if you use a simple bookkeeping app to help you. You can essentially take full control and be the bookkeeper for your own business so you don't lose any visibility.

Bookkeeper: A bookkeeper is someone who'll accurately record financial data of a business. They'll make sure that every entry is correct while logging all of the transactions in the books. In simple terms, bookkeepers record and organise all financial data. This can often be done on a part-time basis either monthly, quarterly or even annually.

Accountant: Accountants are mainly responsible for generally overseeing accounts and producing financial statements and tax returns that comply with the law. Accountants will adjust end of each fiscal period to help make more informed business decisions.

Bookkeeping Practices

For any beginner, bookkeeping can seem a little overwhelming at first, but it doesn't need to be. There are some basic practices that you can follow that will help you to get a good start, namely:

Don't leave keeping your Records until the Last Minute: Keep dates and deadlines in mind while creating reminders so you're not doing the books the night before. Do it earlier to avoid mistakes and spend less time looking for essential information.

Keep Records Tidy: Cluttered records with endless bits of paper will make it more difficult to do the books with valuable information all over the place. Keep them organised so you know exactly what to look for without wasting time.

Organise and Store Your Receipts: Set up a folder with separate monthly sections (or use plastic punch-pockets) to keep your Invoices and receipts safe and easy to access. If you store receipts through software, it means you'll finally get that paperless office you've wanted. Everything is in one place and if there's ever an investigation, all of the information related to expenses will be available within your software or app via attachments. So, you'll always be compliant.

Keep Business and Personal Finances Separate: To help you do the books much faster, think about keeping your business and personal finances separate. So, you won't need to look through personal information for business related finances and vice versa. This can be done by setting up a specific bank account for all your business transactions.

Embrace HMRC's 'Making Tax Digital (MTD) initiative: Making Tax Digital is a key part of the government's plans to make it easier for individuals and businesses to get their tax right and keep on top of their affairs. HMRC's ambition is to become one of the most digitally advanced tax administrations in the world. Find out more at: <https://www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital>

Single Entry or Double Entry Recording Method

If you're a small business owner setting up your bookkeeping, you have to make a decision on your system of accounting: single-entry or double-entry?

In this guide, we'll explain the two accounting methods as simply as we can, how they differ and why any of this matters for your business.

Single-entry accounting involves writing down all of your business's transactions (revenues, expenses, payroll, etc.) in a single ledger. If you're a freelancer or sole proprietor, you might already be using this system right now. It's quick and easy and that's pretty much where the benefits of single-entry end. Single-entry doesn't track assets or liabilities, is prone to mistakes and doesn't tell you much about the state or health of your business.

Double-entry accounting is a method of bookkeeping that tracks where your money comes from and where it's going. Every financial transaction gets two entries, a "debit" and a "credit" to describe whether money is being transferred to or from an account, respectively. Each accounting entry affects two different accounts: for example, if you sell a product, your cash account goes up and your inventory account goes down.

When making these journal entries in your general ledger, debit entries are recorded on the left and credit entries on the right. All these entries get summarized in a trial balance, which shows the account balances and the totals of your total credits and total debits. If done correctly, your trial balance should show that the credit balance is the same as the debit balance.

Recording transactions this way provides you with a detailed, comprehensive view of your financials, one that you couldn't get using simpler systems like single-entry. In a nutshell, the double-entry method lets you do modern accounting.

6. Financial Accounting

Any business that wants to survive has to have a plan for accounting. That probably means hiring a professional at some time in the future, but founders also need to know the basics for themselves. Even if you haven't got a clue where to start, you'll need to figure it out - fast.

So far, in this guide, we have covered three key stages of the bookkeeping process, namely:

1. **Evidence Gathering:** producing and/or collecting evidence of business transactions (including receipts for expenses as well as producing your own numbered sales invoices, etc.).
2. **Evidence Processing:** organising the paperwork / digital copies you have collected and storing it safely and securely to avoid the risk of being fined by the HMRC for failing to keep proper business records.
3. **Data Entry:** entering your business transactions (and supporting information) into a suitable recording system (i.e. manual book, spreadsheet or bookkeeping software / app) for review and analysis.

Let's begin with a simple question: why should you care? Unless you've founded an accounting firm, bookkeeping isn't what you're here to do. It's the part you have to do, if you want to keep doing the thing you're actually here to do.

It may seem annoying, but clear books can actually be a wealth of information about your own business. They're a great place to spot inefficiencies, ways to reduce (or increase) spending and they're the first thing any investor or bank wants to see before giving you any money. In short, accounting tells your start-up story.

Financial Accounting – Basic Terms

From balance sheets to income statements, there's no denying that there are new terms and phrases you'll come across. In practice, they're quite easy to understand once the terms are broken down into much simpler definitions. There are many of them, here are five of the most popular bookkeeping terms you should understand.

Expense: This is the fixed, variable, accrued or day-to-day costs that a business may incur through its operations.

Trial Balance: A business document where all ledgers are compiled into debit and credit columns. This is to make sure a company's bookkeeping system is mathematically correct.

Profit and Loss: A financial report which shows the revenue and expenses over a period of time.

Balance Sheet: A report which breaks down your business' financial situation. It includes the assets, liabilities and the capital of the business. Its purpose is to provide a 'snap-shot' to help show what your business owes and owns at a specific point in time.

Chart of Accounts: A full list of accounts used in your business to categorise financial transactions. This is simply a big list of all your accounts showing what kind of transaction in your business is an asset, what's a liability, what's an equity, etc.

Common Types of Financial Transactions

There's a little bit of learning involved that will make getting to grips with bookkeeping much easier in the long run. Some common types of financial transactions are listed below:

Cash: The account where all business transactions pass. This is an important account that often bookkeepers use two journals to track the activity, (i) cash receipts and (ii) cash disbursements.

Accounts Receivable: If your business sells products or services and you don't collect money immediately, then you have receivables. This account tracks the money due from customers. This needs to be kept up-to-date so you can send accurately and timely invoices.

Inventory: The account where all of the products you have in stock are accounted for. The numbers you have in your books should be tested by doing physical counts of inventory on hand.

Accounts Payable: The account that allows you to see what money is leaving or has left the business - and when. This account gives you a clear view of everything you need to pay and makes sure that you don't pay anyone twice.

Loans Payable: The account which tracks and breaks down everything that you still owe and when payments are due for anything that you've borrowed.

Sales: The account where you track all of your incoming revenue from sales transactions. This is another important account, as recording sales accurately and in a timely manner helps to know where your business stands.

Purchases: The account where you track any materials or goods that you have bought for your business. This is a key component of calculating Costs of Goods Sold which you subtract from Sales to find your business' gross profit.

Payroll Expenses: The account where you track salaries and wages paid to your employees. This is often the biggest cost of all for many businesses. Keeping this accurate is essential for meeting tax and other reporting requirements.

Retained Earnings: This account tracks any of your company's profits that are reinvested in the business and aren't paid out to the owners. The earnings here are cumulative, so they appear as a running total of money that's been retained since the company started. It's a good way of tracking how well your business has done over time.



7. Financial Monitoring and Reporting

For most new businesses, back-office processes like accounting are last on the list of things to do. As a new entrepreneur, your priorities will be to figure out your customer's needs, products or services, pricing, payroll and any number of other priorities before you get to financial record-keeping. This is understandable, but it won't last for long.

It is essential as a new business owner that you are able to keep a close eye on what is happening in your business from a financial point of view. This can be done using the detailed accounts that are mentioned above but also by using some commonly used financial reports (statements) that provide a good summary of the financial performance that your business has achieved.

There are a few crucial pieces of documentation that you will need to become familiar with, almost no matter the size or type of business, these are:

General Ledger

Your general ledger is your company's accounting information hub. It records every financial transaction undertaken by the company in its lifetime - both incoming and outgoing.

This includes:

- Revenue / Income
- Expenses
- Assets
- Liabilities
- Equity
- Profits
- Losses

Each of these is known as a ledger account and will then likely be broken down into further detail, to identify credit card payments, employee expenses, payroll and a wide range of other money streams. The basic purpose, other than good record-keeping, is to be able to match credits against debits at the end of a certain period and have them balance (as mentioned in the 'Double-Entry' recording method earlier).

If you find that the total value of credits across all ledger accounts does not equal the value of debits, an error has occurred and this will need to be investigated and corrected.

Cash Flow Statement

The cash flow statement shows you how cash flows in and out of the business during a given period. At first glance, that sounds a lot like the income statement, but it is different.

Items are recorded on the income statement to reflect the value you've gained or lost in a given period, but this reflects the commitments that you and your customers have made to pay, it doesn't state the actual cash you have at any moment in time. For example, you might sign a large contract with a customer and agree payment terms (when they will pay you). The value will appear on the income statement for that period, but because they haven't paid yet it can't go on the cash flow statement until you have actually received that payment.

The cash flow statement reflects the actual cash situation. If a payment hasn't come in or gone out yet, it won't show up on the cash flow statement. For this reason, a company could easily be cash-rich, but report a net loss if they haven't yet paid their suppliers for a few large payments. It's essentially like taxes, the money is in your account, but it's not really yours.

You might also have negative cash flow in a given month, it is important

to see this early and understand what has caused it so that you can take the necessary steps to remedy the situation before it becomes a problem. If a business runs out of cash / credit, then it will no longer be able to pay its way and this can cause a business to fail, so it's vital that you monitor and manage your cash flow regularly.

[Refer to the Guide on Financial Forecasting to better understand how you can do this. The guide contains a template to help you get started].

Profit & Loss (P&L) Statement

The P&L statement sets out your company's earnings versus its losses. It essentially gives an account of the bank balance at the end of a given period, once customers have paid you and you've paid suppliers. This makes the P&L statement one of the most fundamental and important accounting documents for any business.

The income statement begins with revenue, broken down by key revenue sources. For example, a product manufacturing business might choose to include its main product packages, to show which have brought in the most business. You might equally choose to break it down by key markets, if that's more relevant for decision making.

Next, you itemise your main expense categories. It's important to show how much money is spent on what type of business cost, for example, marketing and sales, product development, inventory, or other type of cost.

You can get as granular as you like in this exercise, but the most important line will fall at the bottom: Net Profit (or Loss). You essentially subtract expenses from revenue to show how much the company has profited or lost in a given period. Which, not surprisingly is how the statement gets its name.

[Refer to P&L Template in section 8 of this guide for an example to help to get you started].

Balance Sheet Statement

The balance sheet sets out the company's assets and liabilities. These essentially tell you how financially healthy the business is.

The balance sheet includes three important elements, namely:

Assets: Things the company owns that can be used to create economic value. Usually cash and items in your inventory.

Liabilities: What your company owes as obligations, which detract from the overall value of the business. Includes taxes and outstanding debts.

Equity: This is the value of the business to its owners (including shareholders), once assets and liabilities have been accounted for.

[Refer to Balance Sheet Template in section 8 of this guide for an example to help to get you started].

8. Tax Returns

If you have set up and run a limited company, then technically you are employed by that company, even though you own shares in the company's capital. As an employed person, the way you pay your taxes is pretty straightforward, the business enrolls in PAYE (Pay As You Earn) and the money is taken out of your salary every month. If you have any other sources of income that does not go through the payroll, you may also have to register as self-employed.

If you're a sole trader, freelancer, or other small business owner though, things are a bit different. There's a good chance you won't have employees, so you won't enroll in PAYE, this means that the government won't know how much you're earning and how much tax you should be paying. To resolve this, you need to file a self-assessment tax return.

At its simplest, this states how much money you made in a tax year (which runs from 6 April in one year to 5 April in the following year) and how much you spent on business expenses in that period. You take the expenses away from what you made and this gives your profit/loss, which then dictates how much tax you pay.

That's the basic idea, the government needs to know your finances so it knows how much tax you should be paying. In the past, self-assessment

was done on paper. With the HMRC's 'Making Tax Digital' (MTD) initiative, the vast majority of self-assessment tax returns are now filed online.

Who has to file a Tax Return?

One common question among small business owners is "how much can I make before I have to file a tax return?" Luckily, the answer to this one is simple – £1,000. As soon as your revenue (i.e. the amount your business earned in a tax year) is over £1,000, you need to fill in and submit a self-assessment tax return.

There are also other reasons you might need to file a tax return, such as if you make money from renting out property, or earn income from investments. The full list is given on the gov.uk self-assessment tax return page. Most self-assessment tax returns, though, are filed by small businesses that are either operating as sole traders or partnerships.

Personal allowance – How much can I earn without paying income tax?

While you have to file a tax return as soon as you earn over £1,000, you're unlikely to have to pay any income tax. This is because everyone (whether self-employed or employed) benefits from the personal allowance, a certain amount of

money you can earn without having to pay any income tax. For the 2021-22 tax year, the personal allowance is £12,570

For self-employed people, income tax is charged on their trading profits rather than their salary. So, if you're self-employed and have no other income, your profits have to be above £12,570 before you need to pay any income tax. However, you still have to file a tax return.

How do I Register as Self-Employed?

Most people registering as self-employed won't have been self-employed before, but there are a few exceptions. To register for the first time, there are four steps you need to follow.

1. Register online via gov.uk
2. You'll then receive a letter (yes, even in 2022) which gives you your unique taxpayer reference (UTR) number. This can take several weeks to arrive (and even longer when the HMRC are at their busiest). It is VERY important, you'll need to enter it when you file your return
3. You'll then receive another letter, which gives you your activation code. If you don't receive it or lose it, then you can get a new activation code via gov.uk.
4. Finally, you'll be able to create an online account and be all set to file your tax return.

If you can't register online, then you can fill in the registration form on screen, print it off and post it to HMRC.

When do I need to register by?

Officially, you need to register as self-employed by 5 October in your business's second tax year. So, if you started your business on 6 April 2021, then you would need to register by 5 October 2022. However, there's really no reason to wait this long as soon as you know that you'll be making over £1,000 in the tax year, you should sign up straight away.

What you DEFINITELY shouldn't do is leave it until just before the deadline in January. HMRC gets incredibly busy in January and if you run into any problems with the process, you could end up missing the deadline and being hit with an on-the-spot £100 fine.

So, make sure you're registered nice and early.



1. Profit & Loss Statement (Example):

Company Name	Profit & Loss (P&L) Statement									
	Month 1 January	Month 2 February	Month 3 March	Month 4 April	Month 5 May	Month 6 June	Month 7 July	Month 8 August	Month 9 September	Month 10 October
Account: Yr Ended 31st December 2022	£	£	£	£	£	£	£	£	£	£
Turnover (Income)										
Revenue Stream 1	£1,500.00	£2,400.00	£2,750.00	£3,450.00	£3,305.00	£2,975.00	£3,475.00	£1,980.00	£4,550.00	£4,000.00
Revenue Stream 2		£1,250.00	£2,000.00	£1,250.00	£6,600.00	£2,000.00	£2,000.00		£2,000.00	£4,320.00
Revenue Stream 3			£500.00		£890.00	£1,245.00	£2,245.00	£3,650.00	£800.00	£4,320.00
Revenue Stream 4		£400.00	£240.00	£60.00					£890.00	
Revenue Stream 5	£340.00		-£450.00			-£220.00			£890.00	£1,225.00
Returns, Refunds & Discounts						£16.00				
Interest Income										
Total Net Turnover (Income)	£1,840.00	£4,050.00	£5,040.00	£4,760.00	£10,795.00	£6,016.00	£5,720.00	£5,630.00	£8,240.00	£9,545.00
Less:										
Cost of Goods Sold (CoGS)	£644.00	£1,417.50	£1,764.00	£1,666.00	£3,778.25	£2,105.60	£2,002.00	£1,970.50	£2,884.00	£3,340.75
Vehicle Hire / Delivery Charges	£96.60	£212.63	£264.60	£249.90	£566.74	£315.84	£300.30	£295.58	£432.60	£501.11
Gross Profit	£1,099.40	£2,419.88	£3,011.40	£2,844.10	£6,450.01	£3,594.56	£3,417.70	£3,363.93	£4,923.40	£5,703.14
Less:										
Indirect Expenses (Overheads)										
Advertising & Promotion	£350.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£200.00	£600.00	£200.00
Payroll (Wages/Drawings)	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00	£1,000.00
PAY/NIC Taxation Deductions										
Pension (Auto Enrolment)	£600.00	£600.00	£600.00	£600.00	£600.00	£600.00	£600.00	£600.00	£600.00	£600.00
Directors Remuneration	£325.00	£325.00	£325.00	£325.00	£325.00	£325.00	£325.00	£325.00	£325.00	£325.00
Property Rent	£150.00	£150.00	£150.00	£150.00	£150.00	£100.00	£100.00	£100.00	£100.00	£150.00
Business Rates	£128.00	£128.00	£128.00	£128.00	£128.00	£128.00	£128.00	£128.00	£128.00	£128.00
Energy Costs	£68.00	£68.00	£68.00	£68.00	£68.00	£68.00	£68.00	£68.00	£68.00	£68.00
Utilities										
Telecommunications										
Maintenance & Repairs										
Travel & Subsistence	£54.00	£54.00	£169.00	£54.00	£328.00	£45.00	£54.00	£433.00	£54.00	£54.00
Insurance	£52.00	£67.00	£31.00	£2,500.00	£48.00	£36.00	£78.00	£29.00	£114.00	£24.00
Professional Fees	£15.00	£15.00	£15.00	£15.00	£15.00	£15.00	£15.00	£15.00	£15.00	£15.00
Stationary & Office Supplies	£16.00	£23.00	£89.00	£44.00	£62.00	£17.00	£58.00	£36.00	£22.00	£9.00
Interest & Financial Charges										
General Expenses										
Depreciation	£40.00	£40.00	£40.00	£40.00	£40.00	£40.00	£40.00	£40.00	£40.00	£40.00
Total Indirect Expenses	£2,798.00	£2,542.00	£2,741.00	£2,180.00	£2,890.00	£2,500.00	£2,566.00	£2,900.00	£2,938.00	£2,653.00
Net Profit (before Tax)	-£1,698.60	-£122.13	£270.40	-£2,335.90	£3,560.01	£1,094.56	£751.70	£463.93	£1,985.40	£3,050.14

6 Templates



HEY
Start-
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Hull and
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Department for
Business, Energy
& Industrial Strategy



European Union
European Regional
Development Fund

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