



Book-keeping and Accounts

Martin Quinn

Praise for Book-keeping and Accounts for Entrepreneurs

'A useful, concise book which covers the basics well.'

PROFESSOR JOHN BURNS, UNIVERSITY OF DUNDEE



‘Keeping the books’

Chapter Four

In this chapter, I introduce what is commonly referred to as 'keeping the books'. As you trade, the detail of each business transaction needs to be captured and recorded somewhere. This captured information is the basis for the preparation of a set of accounts (financial statements) for a business. The chapter describes how business transactions are recorded in a manual format. Once you know how this works you may want to use a software package which can make more efficient use of your time. I give an example of one such package towards the end of this chapter.

The books of prime entry (day books)

As this rather official title suggests, the books of prime entry are the 'books' where business transactions are first recorded from source documents like invoices and cheques. The term 'day books' is a more common term and is the one I like to use. They are called day books as, in a manual book-keeping system, each type of business transaction would have a separate hardback type book where the records are written each day. Such books are still available to buy in any good office supply store. They are usually called 'analysis books'.

In other words

The **books of prime entry** are the first place that business transactions are recorded in a business. They may be a 'book', or, more commonly now, accounting software.



The following sections give examples of what each of the day books looks like. The most common day books are:

- sales day book – which records credit sales;
- purchases day book – which records credit purchases;
- cash receipts book – which records cash received from customers and other sources;

- cheque payments book – which records payments made by cheque/debit from the business bank account;
- petty cash book – which records minor cash expenses;
- general journal – which records any other transaction not captured in other day books.

The data for each day book comes from various 'source documents', like sales invoices, suppliers' invoices or cheque books.

Time saver

Make sure you complete or receive a source document for every business transaction. It saves lots of time later, when you're trying to remember the details of the transaction.



The VAT factor

Tax authorities like to see good records in a business. Taxation, particularly Value-Added Tax (VAT), is something which a business may need to collect on behalf of the tax authorities. Normally, there is a turnover (sales) threshold above which a business must register for VAT (currently £67,000 in the UK). Assuming your turnover will be above such a threshold, this raises two requirements for your business: (1) you need to capture any VAT in a business transaction and record it separately, and (2) if you don't keep good records from day one, you might find yourself very quickly having problems. I am at pains to emphasise these two points as I have seen a number of businesses run into trouble. One business did not bother to register for VAT initially and ended up with a £300,000 liability within 12 months. For convenience, the day books I describe below assume the business is registered for VAT. If not, you just leave out any columns labelled 'VAT'.

Time saver

Use spreadsheets for your day books instead of analysis books. It saves quite a lot of time adding up numbers.



Sales day book

The sales day book records sales made on credit to your customers. Sales invoices are the source documents for this day book. It is likely that credit sales will comprise the majority of your sales, unless you are in a retail business. Figure 4.1 shows a sales invoice from the business of Trilby Traders to John Adams (both fictitious names).

FIGURE 4.1

Invoice		Inv No: 134
Trilby Traders 123 High St, Anytown		20-Oct-08
Invoice to: John Adams 80 Low St, Othertown		
	£	
Goods		1,000
Vat @ 15%		150
Invoice total		<div>1,150</div>

Sales invoicing

You can prepare sales invoices in many ways. Some businesses often start with simple pre-printed duplicate invoice books. You could also

Figure 4.3 shows some more invoices I have created and recorded in the sales day book. Each invoice is recorded in a similar manner to the first example. You will notice the net amount of each invoice is recorded under a column depending on the rate of VAT on the invoice.

FIGURE 4.3

Trilby Traders

Sales day book

				<i>Sales (£)</i>		<i>Sales (£)</i>
<i>Date</i>		<i>Ref.</i>	<i>Total (£)</i>	<i>15%</i>	<i>25%</i>	<i>VAT (£)</i>
20/10/2008	John Adams	134	1,150	1,000		150
21/10/2008	James O'Toole	135	375		300	75
22/10/2008	Mary Carpenter	136	50		40	10
23/10/2008	Fred Smith	137	2,500		2,000	500
23/10/2008	Joseph Hunt	138	1,250		1,000	250
24/10/2008	Edward Henry	139	345	300		45
31/10/2008	John Adams	140	(115)	(100)		(15)
			5,555	1,200	3,340	1,015

You might have also noticed that the transaction for John Adams on 31 October (in Figure 4.3) is shown as a minus figure. This means that a credit note was issued to him, perhaps for goods returned by him. Traditionally, goods returned by customers are entered in a sales returns day book, which would have a very similar layout to a sales day book. In practice, recording a return in the manner depicted in Figure 4.3 is acceptable unless you specifically want to be able to identify returns. You might want to do this if returns are of a high value or occur quite often. Tracking returns in detail may help you identify underlying problems with your product. If you are a service business, returns are irrelevant but you still might need to issue credit notes to customers, for instance if you overcharged a customer in error.