

Martin Quinn

brilliant

Book- keeping

How to keep your
business efficient
and cost-effective



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this is a lot of effort for such a small amount of money. I agree! However, there may be instances where not keeping some form of petty cash system could create problems for you. Here are two examples.

First, any cash payments to employees could be deemed as income and thus taxable (see Chapter 6 for more on pay). Some years ago, I had to create a petty cash book for a small haulage business. In this case, drivers were often on longer trips and needed money for meals or overnight accommodation. The amounts were small and did not warrant drivers having credit cards, so they were given cash. Following a tax inspection, the business had to use a petty cash system for the drivers' expenses as the tax inspectors were not happy with cash being paid to employees without any supporting records.

The second example, while involving a small amount of petty cash, is a great example of the need to keep good records. In this case, the business made quarterly refund claims from a foreign VAT authority. The average refund amount was £100,000 per quarter. Each time the claim was sent, the postage (approximately £2) was recorded in the petty cash book, but without a receipt attached. One claim to the VAT authority went missing and this was not discovered for more than 12 months. The VAT authority had a 12-month time limit on claims. The business pleaded with the authority and they agreed that the claim could be resubmitted on proof of postage of the original claim. I'm sure you can guess what happened next. Yes, as no proof of postage/receipt was attached to the petty cash voucher the company could not resubmit the claim and thus lost the money, all £100,000. This example is a great reflection of what good book-keeping, even on the small things, can prevent.

Discounts and returns

Discounts

In the same way your business might give customers a discount, suppliers often will also offer discounts. This is called *discount received* and should be recorded separately. For example, many suppliers will give a discount for early payment. Normally, discounts are not recorded in the purchases day book but in the cash book, which you'll learn about in Chapter 5.

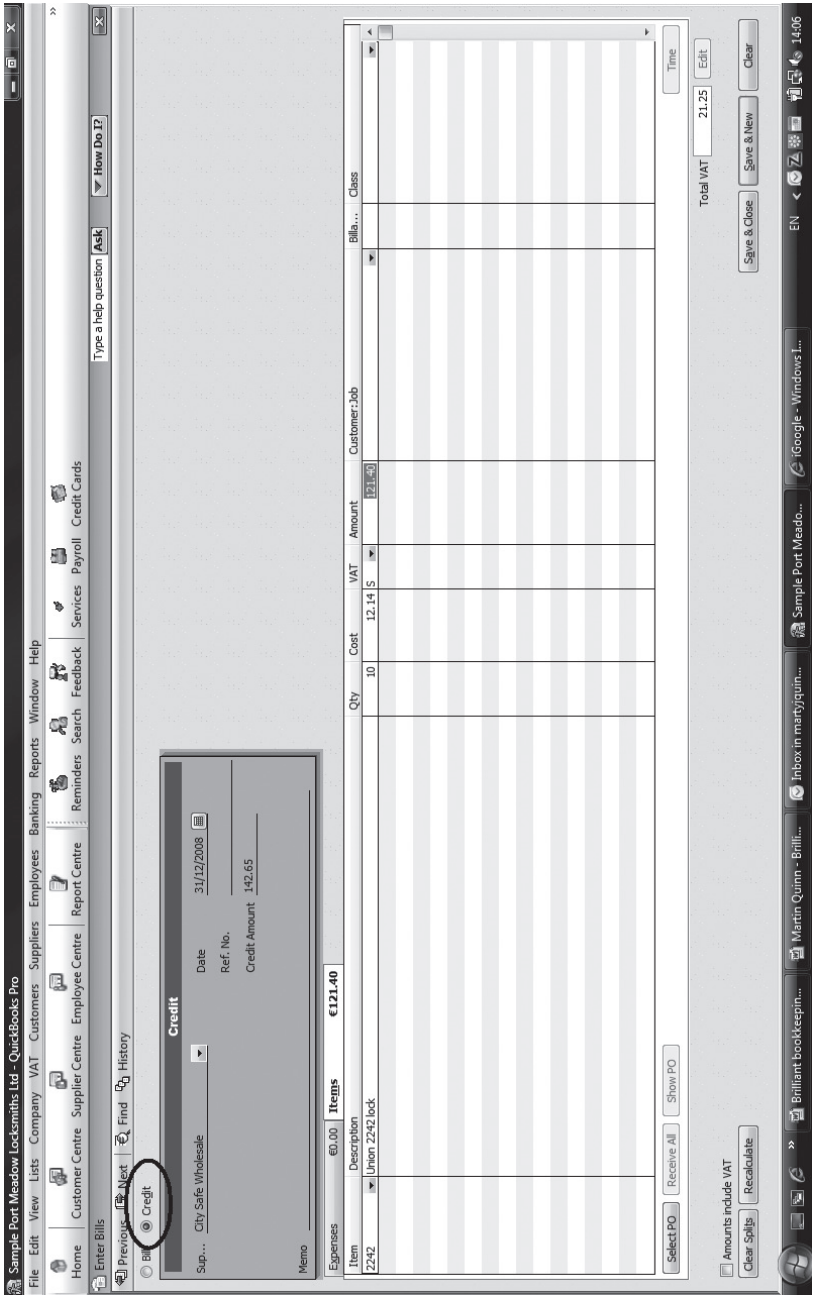


Figure 4.6 Entering a credit note in QuickBooks

Returns

If goods bought are faulty, incorrect or poor quality, it is normal to return them to the supplier. The supplier then issues a credit note, which reduces the amount owed to them. Returns are recorded in a *purchases returns day book*, which would have a layout just like the purchases day book shown in Figure 4.1. The purpose of recording returns separately is to use the information to query suppliers on issues such as quality, incorrect deliveries, etc. If the volume of returns to suppliers is low it might not be worthwhile keeping a purchases returns day book at all. In QuickBooks, the return of an item is entered in a similar way to a bill, except the option for credit is selected (see Figure 4.6).

Keeping track of returns of purchased goods is quite common where businesses follow strict quality control schemes. Again, consider the business needs before deciding whether or not you need a greater level of detail on returns. If you're using software like QuickBooks, as you can see, it is not too difficult.

Monitoring trade payables

We have seen in Chapter 3 that keeping track of what customers owe is important. Likewise, keeping an eye on what you owe suppliers is also important – although you might want to direct your attention to getting cash from customers first.

Once you record all credit purchases and expenses in a purchases day book or in some software it is possible to determine how much you owe each supplier – remember that every purchase gets posted to an individual supplier account. Of course, to get an up-to-date balance of what is owed to a supplier, you'll also need to record payments (see Chapter 5), discounts and returns. As with monitoring trade receivables, using software really helps the book-keeper to monitor trade payables. An aged payables report is usually a standard feature of accounting software. Figure 4.7 shows an aged payables report in QuickBooks.

In this example, you can see the amounts owed to suppliers according to the age of the debt. Each supplier might offer different credit terms, so this report can be a little misleading. However, it does allow a book-keeper easily to assess how long suppliers are owed money and subsequently pay

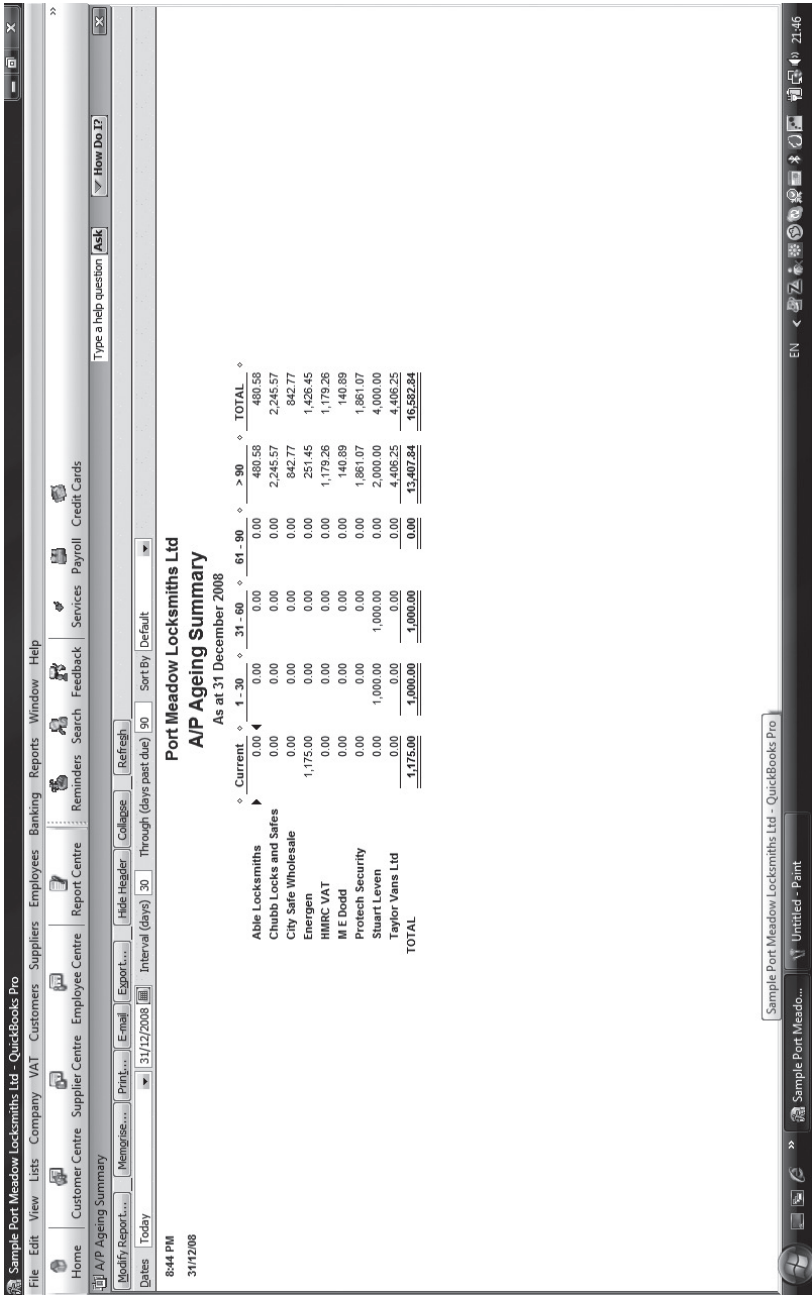


Figure 4.7 Aged payables report in QuickBooks

Sample Port Meadow Locksmiths Ltd - QuickBooks Pro

File Edit View Lists Company VAT Customers Suppliers Employees Banking Reports Window Help

Home Customer Centre Supplier Centre Employee Centre Report Centre Reminders Search Feedback Services Payroll Credit Cards

Pay Bills

Select bills to be paid

Show bills ☐ Due on or before 10/01/2009 ☒ Show all bills

Sort Bills By Supplier

Type a help question Ask How Do I?

<input checked="" type="checkbox"/>	Date Due	Supplier	Ref. No.	Amount Due	Credits Used	Amount To Pay
<input type="checkbox"/>	25/09/2008	Chubb Locks and Safes	53547	2,252.83		0.00
<input type="checkbox"/>	08/09/2008	City Safe Wholesale	9235 (I)	700.12		0.00
<input type="checkbox"/>	11/09/2008	City Safe Wholesale	9235 (II)	142.65		0.00
<input type="checkbox"/>	11/09/2008	Energen		251.45		0.00
<input type="checkbox"/>	07/01/2009	Energen	1345	1,175.00		0.00
<input type="checkbox"/>		H&B VAT	3	1,179.26		0.00
<input type="checkbox"/>	29/09/2008	M E Dodd	2356-4	140.89		0.00
<input type="checkbox"/>	25/08/2008	Protect Security	3242	1,685.24		0.00
<input type="checkbox"/>	19/09/2008	Protect Security	3348	175.83		0.00
<input type="checkbox"/>	01/09/2008	Stuart Leven		1,000.00		0.00
<input type="checkbox"/>	01/10/2008	Stuart Leven		1,000.00		0.00
<input type="checkbox"/>	01/11/2008	Stuart Leven		1,000.00		0.00
<input type="checkbox"/>	01/12/2008	Stuart Leven		1,000.00		0.00
<input type="checkbox"/>	15/09/2008	Taylor Vans Ltd	23481	4,406.25		0.00
				16,116.52		0.00

Select All Bills

Credit Information for Highlighted Bill
Supplier Chubb Locks and Safes
Bill Ref. No. 519547

Go to Bill

Payment Method
Cheque

Payment Date
31/12/2008

Number of Credits
Total Credits Available 14.26

Set Credits

Current Account
Ending Balance 8,235.88

To be printed
Assign cheque no.

Pay Selected Bills Cancel

Backup for Windows Monitor

Figure 4.8 Selecting supplier invoices for payment in QuickBooks

them. In fact, most accounting software will automatically suggest which suppliers should be paid. This is based on the credit terms granted by the supplier. The amounts to be paid can then be chosen – see Figure 4.8.

once you have collected money, you should do your best to pay suppliers

In Figure 4.8, you can see the supplier invoices that are due for payment. This listing can then be used to draw up cheques or make electronic payments. Paying suppliers on time is important. Obviously, your business requires cash to be able to pay suppliers, so most businesses put great effort into getting customers to pay on

time. This clearly is a must do and once you have collected money, you should do your best to pay suppliers.



brilliant tip

Try to adopt a regular and systematic approach to paying suppliers. Always pay your most important suppliers first and then work down the list. This ensures your business will be less likely to experience suppliers not delivering important materials/services you need due to monies owing.

VAT returns

Most businesses register for VAT and effectively become tax collectors. You've seen in Chapter 3 how VAT on sales is charged and recorded and in this chapter how VAT on purchases and expenses is recorded. VAT can also be recorded in the petty cash book and the cash books (see Chapter 5). Let's ignore these for now and see what we need to do with VAT.

Here's an example based on UK VAT, but the core idea is the same in other countries where VAT is charged. In the UK, the VAT amounts on sales and purchases are recorded on a form called a VAT 100. The form is more commonly referred to as a 'VAT return'. This form can be completed manually, but nowadays is more likely to be filled out online through HM Revenue & Customs' website (www.hmrc.gov.uk). Whether online or paper-based, there are a number of input boxes to complete on the form. Only the more common input boxes are dealt with here.