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Your business is up and running; your website is online and you have found the perfect niche market to start making money.

But then you realize you need to decide one more thing: how to deal with accounting and bookkeeping.

Accurate bookkeeping will save you money and time in the long-run, so it's best to tackle it properly from the beginning. As the saying goes, death and taxes are inescapable, so let's see what your options are and how you can manage your bookkeeping needs in a way that suits your business.

What Are The Basics Of Bookkeeping?

Your bookkeeping obligations vary according to the business set up you have chosen.

Basic Bookkeeping for Sole Traders

As far as keeping accounting records go, sole traders have it far easier than any type of company. In essence, all you need to do as a sole trader is **keep records of all of your income and all of your expenses**.

When it comes to doing your tax return, you can just add these up and enter the figures in the appropriate place on the form.

This means that using a simple profit and loss account and retaining copies of all invoices and receipts (so you can show the tax man should you ever get asked to prove your tax returns are accurate).

It's a good idea to set up a filing system and **number your invoices and receipts** so that you can easily track and record them. Your profit and loss account can be a simple spreadsheet detailing income and expenditure.

It's also a good idea to break down income and expenditure into categories such as advertising costs, banking fees, etc. This will then help you better manage your business and cashflow.

As **sole traders do not need to file any accounts**, this is all you really need to do in terms of basic bookkeeping and a lot of it is just to make your life easier in the long-run.

Basic Bookkeeping for Limited Companies



Unfortunately things are not quite a straight-forward for limited companies as you will need to deal with a more complex set of circumstances such as dividends and PAYE as well as **file annual accounts** with [Companies House](https://www.companieshouse.gov.uk/).

It is also a legal requirement that you stay on top of your company's accounting records and keep historical records for at least 6 years.

The main things you will need to maintain a basic set of accounts are:

- **Sales Ledger** – detailing all income and amounts still owed
- **Purchase Ledger** – detailing all expenditure
- **Wages Book** – Showing all salary payments and National Insurance contributions

From these you will be able to prepare your annual accounts which is a legal requirement for all limited companies.

Generally, your basic bookkeeping responsibilities in the UK involve the following:

- **Keeping track of income and expenses.** This involves receipts for expenses you have made and invoices for work that has been delivered.
- You need to file a **self-assessment income tax** based on your income from your business.
- If you are **VAT-registered**, you need to **complete VAT returns** and payments on a quarterly basis.
- If you have employees, you need to calculate **income tax and national insurance for your personnel**. This is a system called **PAYE** (Pay As You Earn).

Because of the complex nature of preparing accounts, you would generally be advised to use an accountant or bookkeeper to prepare your accounts. Not only will this ensure that all records are accurate but it can also help to [save you money in the way of tax efficiency](#).

It will also **save you a lot of time and headaches** so that you can concentrate your time on making your business a success.

Accountants and bookkeepers can charge anything from a couple of hundred pounds to several thousand pounds for annual accounts to be prepared. You can see the [average accountancy costs for limited companies here](#).

However, for most companies just starting out will be towards the bottom end of that scale as the price will only rise as your transactions become more complex and numerous.

Keep in mind that even if you do **outsource the preparation of your accounts** to an accountant or bookkeeper, you will still need to do some basic bookkeeping yourself.

As with a sole trader, you will need to keep and file away all invoices and receipts and keep a basic profit and loss account in order to track all of the incoming and outgoings of your business.

Doing this will help to save you money on your accountancy bill as it will make the preparation of your accounts much **quicker and easier**.

Bookkeeping, The Simple Way



You can record your bookkeeping manually. Manual bookkeeping is probably best suited for very small businesses with few transactions.

All you need is a few file folders and binders, plus an organising system to keep records of your income (payments, cheques, bank transfers, etc.) and expenses (bills, purchases, receipts, credit card payments, etc.). Keep track of all dates

when your customers or clients paid you and also keep copies of your bank statements.

Manual bookkeeping may not be an automated process but it is a perfectly legal way to keep a record of your income and expenses.

It's the way our fathers and forefathers did it. While not particularly elegant or effective, it works and has done so for many years.

However, it is slow and needs you to be pretty good with numbers and detail-oriented. Otherwise, mistakes can be costly, especially if your company is audited.

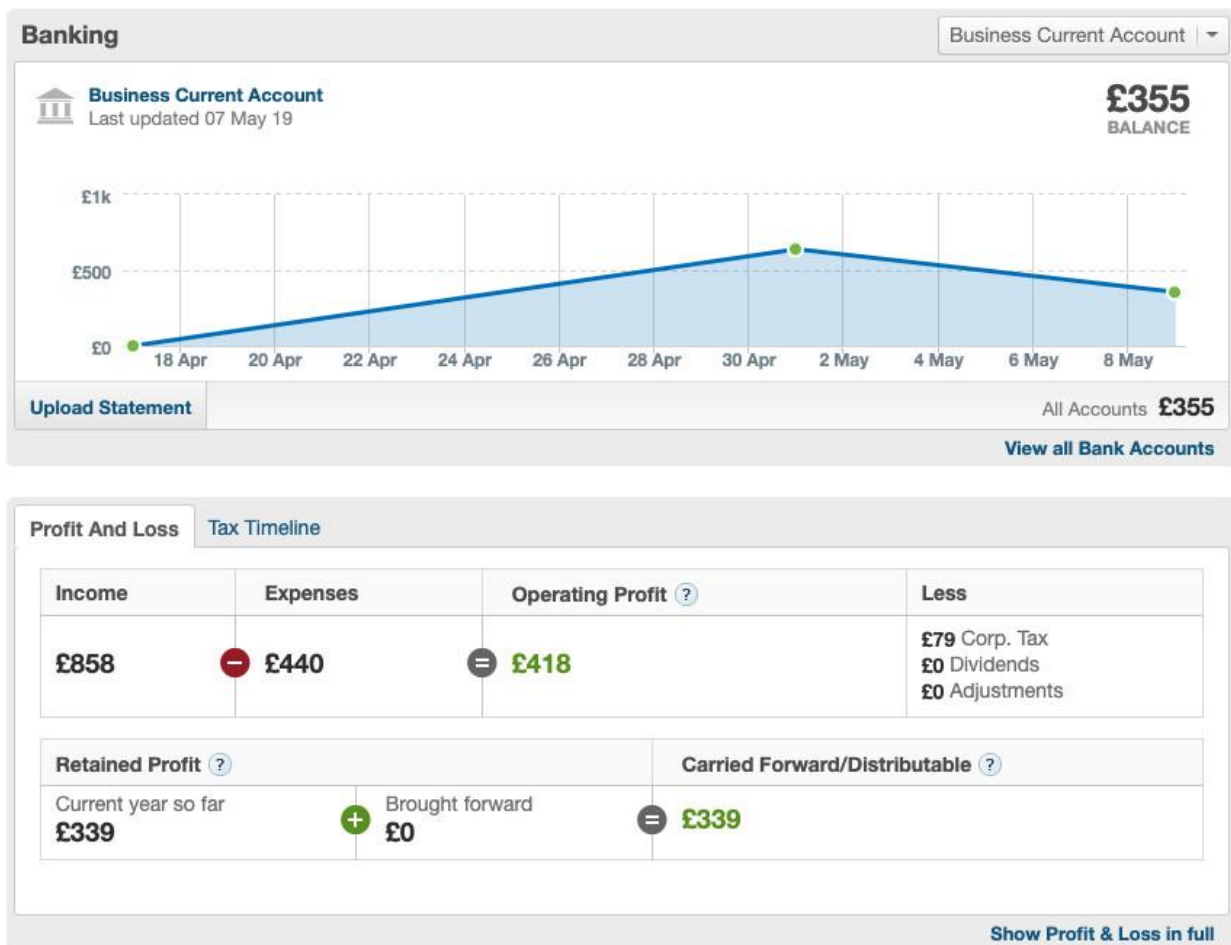
If you wonder where you can learn bookkeeping, there are plenty of courses, both online and through various agencies. The Open University even provides a [free eight-hour online bookkeeping course](#) for those interested in developing some basic skills.

Bookkeeping, The Effective Way

If manual bookkeeping sounds like something from the past century, you can choose to subscribe to an accounting software programme. Several accountancy software packages cater to various business needs and requirements.

[Accountancy software packages](#) save time, money, and effort by helping you record all your transactions.

The best accountancy software will automatically calculate your profits, asset depreciation, PAYE, national insurance, corporation tax, VAT, self-assessment income tax, and many other financial requirements. All you need is to be diligent about entering the right amounts.



Accounting software covers most basic accounting requirements, including:

Keeping track of income and expenditure

This includes invoices, purchases, bills, cheque payments, automatic billing, and recurring payments (think subscriptions). It will also categorise expenses according to their type (for instance, utilities or advertising).

Preparing your records for taxation

Your accounting software will produce all necessary reports in a way that facilitates submission to the tax authorities.

Calculating depreciation of assets

Machinery and fixed assets like furniture and computers have an expected life of several years. Accounting laws usually depreciate their value over three to five years. Accountancy software will do that for you automatically, without you having to worry about making an error in an equation or using the wrong coefficient.

Calculating inventory

Anything that you have in stock should be part of your inventory, or you may be liable for it. This is a particularly valuable service if you are selling physical goods and need to be sure that what you have in physical stock is accurately represented on paper. It will also help you spot any problems within your organization such as inventory going missing.

Taking care of salaries payment and payroll

By preparing all necessary paperwork for PAYE, accountancy software can both save you a lot of time and ensure fewer mistakes. Mistakes which can potentially be pretty costly!

Filing bank reconciliation details

Bank reconciliation is when your business account is matched to your bank statement. Bank reconciliation makes sure that there are no wide inconsistencies between these two. Again, accountancy software can be quite the time-saver in this.

How Much Does Accountancy Software Cost?

Accountancy software packages offer different options, according to your accounting needs.

Prices start at just £6 per month + VAT for a basic accounting package. An average price covering more accounting features needed for a small business could range between £15 and £40 per month. More advanced packages providing for large firms' needs cost hundreds of pounds.

When choosing a software package, read carefully about any limitations and extra costs that are not covered by the subscription fee. Think about package upgrades, number of users covered by your licence, and how many transactions your licence pays for.

Also, consider the time it will take your business to learn the new software package. Lastly, remember to ask what your options are in case of troubleshooting or if you need support.

Bookkeeping, The “Mind-At-Ease” Way

If you don't feel confident to do your bookkeeping yourself, either manually or with the help of accountancy software, you can always hire a bookkeeper or an accountant to do that for you.

You will need to look around and check for prices. However, price is not the only consideration. Bookkeeping and accounting is a serious business and you should feel assured that the bookkeeper you have chosen is both trustworthy and has the required experience and knowledge.

Accurate bookkeeping is essential once you start your business: you could be audited by the government at some point and you need to be confident that everything you are filing is meticulously recorded and precise.

Outsourcing Your Bookkeeping

Going from traditional to online bookkeeping has recently become an easy process for small businesses since online bookkeeping services have emerged.

They are a virtual team of both bookkeepers and accountants that allow you to send your books to them so they provide monthly, quarterly or annual bookkeeping, accounting and payroll services remotely rather than on-site.

How Does It Work?

Usually you will be given simple to use [online accounting software](#) for you to record transactions.

When you send invoices, bank and credit card statements electronically or via post, a bookkeeper will enter your purchase invoices into the system, track and analyse aged creditors and aged debtors from the invoices you may have raised. Your bank and credit card statements will be reconciled.

The Benefits to The Small Business Owner

Business owners need real-time accurate accounting information to manage their business. Below are the benefits to businesses that have their bookkeeping outsourced:

- Online accounting software saves storage costs and space that desktop software would use for backups. All your data is backed up offsite.
- You need less office space to store your paper documents for the next six years. HMRC accept electronic files. So you can upload pdf invoices to a cloud account. Also, you can keep original files, if you want to, and just scan them and send them to the bookkeeping team.

- It cuts the cost on employment benefits to in-house bookkeeping staff.
- It reduces, or completely frees up your own time if you were previously working on the accounts.

Flexible options

Services offered start from providing only the bookkeeping software so you, or your staff members, can do the bookkeeping. Support is given by the provider where they can rectify any outstanding issues.

Another service is where you get the online bookkeeping service team to do your all of your bookkeeping for you.

With this you only use the software for raising invoices and accessing the information they update for you. Or you can combine their services with your own bookkeeping efforts by agreeing, beforehand, to what tasks you or your staff will do and what tasks the virtual team will do.

Pricing

Pricing varies from company to company but, in general, the more complex your business is the more bookkeeping and accounting tasks you will need and so expect to pay more.

For example a sole trader with no employees will only need invoices and bank reconciliation every quarter whereas a business with employees may need prepayments and accruals, depreciation and payroll done on a monthly basis.

Outsourcing business bookkeeping can be indispensable since online bookkeeping services can either replace your bookkeepers and accountants or

supplement your in-house staff members. Online bookkeeping services offer you a trial. Use this to assess what works best for you before you buy.

How Much Does An Accountant Cost?

The price of an accountant varies according to your business requirements.

You can negotiate a monthly payment which will cover specific accounting tasks, including your tax returns. The cost varies but could well reach £100 per month for limited companies.

Having an accountant on a monthly basis may seem expensive, but it means peace of mind: all you need to do is send your paperwork and everything will be taken care of. You won't have to worry about your company's accounts and you know exactly how much it costs.

Alternatively, you can pay your accountant per hour. As for how much a bookkeeper charges per hour, prices start around £15 per hour. You could also pay your accountant according to the task.

For instance, you may choose to personally handle simple income-expenditure recording, but hire an accountant for PAYE or VAT. In this case, it is perhaps better to pay your accountant on a task-basis, with payroll fees reaching £50 per month.

In any case, you can negotiate with a bookkeeper or an accountant depending on your needs and the amount of money you are willing to spend.

Some Basic Bookkeeping Tips



Whether you do your bookkeeping yourself or hire someone else to do it, here are a few useful tips:

Hold on to your receipts and invoices

HMRC requires you to keep them for up to 6 years. Keep them safely and securely for your own records as well, in case you have a disagreement with a client or a customer.

Do your job

Even if you don't do your bookkeeping yourself, you will still need to **do a minimum of filing**. Invoicing your customers or clients and gathering all proof of your expenses is part of your job.

Number your invoices and receipts

This will make things easier to track down, especially if you do your bookkeeping yourself.

Photocopies can help with organisation

Although it is not exactly environmentally friendly, **photocopying receipts and statements** to put them in different filing categories could save you time in the future if you are looking for them.

Put aside time to do your bookkeeping

It can be an hour per week or 10 minutes per day. Whatever way suits you best, reserve some time on a regular basis to do some basic bookkeeping. This will both ensure your accounts' accuracy and avoid having them snowball into an unmanageable heap by the year's end. When it comes to accounting, procrastination is definitely *not* your friend.

Separate your personal banking from your business one

Open a business account which will only handle your business transactions. Use a business credit card and a business cheque book. This way your bank reconciliation will be easier and faster and you will never mix your personal finances with your business ones. It will also give you a clear idea of how your business is doing.

Keep track of cash payments

They can be easy to forget and a nightmare when it's bank reconciliation time. Even if it is in manual format, register your cash payments.

If you use an accountant, **send them all invoices the moment you issue them**. This means you won't have a massive list of unregistered invoices at the end of

the financial year. And it also means that you will have reported all your income, thus avoiding being accused of tax evasion.

Which Is Best For You?

That depends on your business size, needs, and personal preferences. However, many small-business owners may find manual bookkeeping too tedious and hiring an accountant too expensive.

That's why many opt for the middle path: **accountancy software** like [FreeAgent](#). This has the appeal of automatically covering your financial needs at a fraction of the cost of hiring an accountant while speeding up and simplifying your company's bookkeeping.

Whichever path you follow, follow our tips so that you can focus on what your company does best: satisfying your clients!