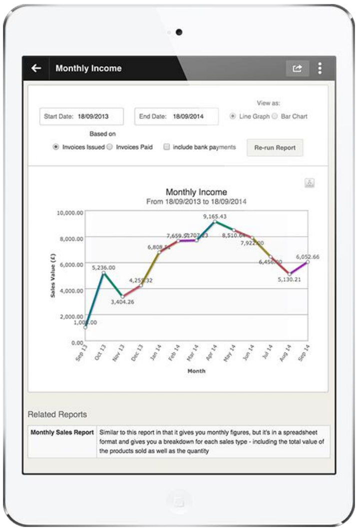
KashFlow
Accounting Software

The essential intro to modern bookkeeping



1. An introduction to modern bookkeeping

Bookkeeping can be a time-consuming, complicated and sometimes tedious process for many a small business owner.

HMRC announced recently that in less than two years, a number of businesses will be required to start keeping track of their tax affairs digitally through their accounting software. By 2020 most business will be required to update HMRC at least quarterly via their digital tax account as part of the Making Tax Digital reforms. Spreadsheets such as Excel will not be a compliant way for businesses to keep records of income and expenditure.

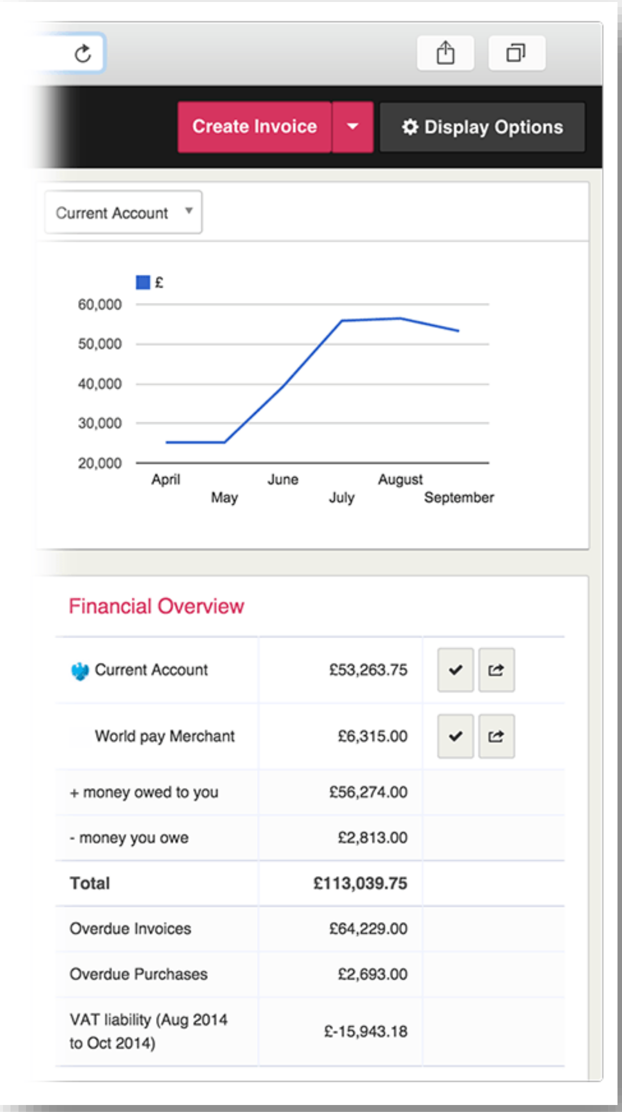
As bookkeeping procedures evolve it's imperative that you have a sound knowledge of current practices in order to keep your business afloat.

With this in mind, we've compiled this handy guide on the basics of bookkeeping to help you balance your books with more confidence.

In this guide we'll introduce you to the fundamentals of double-entry bookkeeping, why your business needs to take your bookkeeping online, the balance sheet, profit & loss, the golden rules of bookkeeping finishing with the key bookkeeping terms to help you get a grasp of the lingo.

2. Making the move online

In 2015, HMRC announced that they are transforming the tax system to embrace the digital revolution. The reform is called Making tax digital and wo;; transform the experience of millions of taxpayers. By 2018, most businesses, self-employed and landlords start updating HMRC quarterly for income tax and National insurance obligations through their accounting software. By 2019 most businesses, self-employed and landlords start updating HMRC quarterly for VAT obligations through their accounting software. By 2020 most businesses, self-employed and landlords start updating HMC quarterly for Corporation Tax obligations through their accounting software. [More info on Making tax digital]



Effectively this will phase out excel spreadsheet bookkeeping, so the message is clear - get online or risk non-compliance.

Online bookkeeping is ideal for those with little or no bookkeeping experience. It means you'll be able to manage your business yourself, or at least in-house, rather than paying hefty bills for outside help from a bookkeeper.

In KashFlow bookkeeping you only have to enter the details once, then the clever number-crunching programme does the rest to produce all the important reports you want.

At the click of a button you'll have all the bookkeeping features that normally take hours to master, such as credit control, an invoicing tool that converts quotes into invoices easily, export and import features and stock control.

In fact, we designed this comprehensive package so that all your record keeping is done and managed in one place.

See how making the switch to online bookkeeping can simplify the process of balancing the books by requesting a 1-2-1 KashFlow demo.
Simply call our friendly team on **0800 133 7927 (Option 1)** who will arrange a date and time convenient to you, or register your interest **here.**

3. Double-entry bookkeeping

Most businesses use a process known as 'double entry bookkeeping' to manage their finances. To the uninitiated, it's a system shrouded in mystery and confusion.

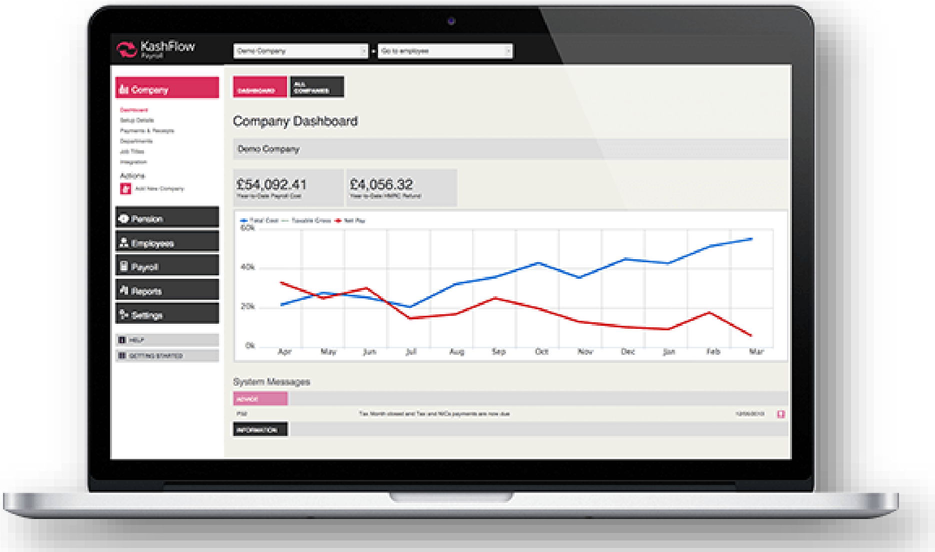
To put it simply, double-entry bookkeeping gets its name because you enter all transactions twice - once as a **debit** entry and once as an equal and opposite **credit** entry. There's two simple things to remember when it comes to debits and credits:

Debits increase **expenditure**, **assets** and **dividends**.

Credits decrease **liabilities**, **income** and **capital**.

Double entry bookkeeping is used by many accountants and bookkeepers because it helps to minimize errors and increases the chance that your books balance.

If you use KashFlow for your bookkeeping, there's no need to enter everything twice, as it's all done for you behind the scenes. When you choose KashFlow software you won't need to try to become adept at accountancy, you can just get on with the serious task of running your business.



4. Balance Sheet

The balance sheet is a hugely important report and is divided into the following three segments:

- **Assets** (often divided into current assets and fixed assets)
- **Liabilities**
- **Shareholder equity or retained earnings**

The balance sheet presents a company's financial position at the end of a specified date and acts as a good reflection of how financially strong a company is.

Primarily it displays what a company owns as well as what it owes to other parties.

This can act as valuable information to the banker who wants to determine whether or not a company qualifies for additional credit or loans.

Balance Sheet for
Date:

Fixed Assets

Total Fixed Assets:

Current Assets

1100	Debtors Control Account
1200	Current Account
9998	Other

Total Current Assets:

Current Liabilities

1201	Petty Cash
2100	Creditors Control Account
2200	Output VAT

Total Current Liabilities:

Current Assets less Current Liabilities:

Fixed Assets + Current Assets less Current Liabilities:

Capital and Reserves

P&L Account

Total Capital and Reserves:

As you might expect from its name, a balance sheet has to balance. The sum of all the assets a company has must be equal to the sum of all liabilities plus capital and reserves. The format of a balance sheet varies – sometimes assets are placed in one column and liabilities and equity in the other.

In KashFlow, the balance sheet is made of fixed assets, current assets, current liabilities and capital and reserves, and all are displayed within a single column.

5. Profit & Loss

Profit & Loss, often referred to as P&L, is one of the key reports that every company currently trading should be producing. However, the P&L represents only one element (namely, the profitability) of a business. It will not, for example, show you, if you are running out of cash as you build stock. For this sort of insight, you're better off looking at the balance sheet.

Profit & Loss account

A Profit & Loss account, shows a company's revenue and expenses over a particular period of time, typically either one month or consolidated months over a year. It details the way in which revenue from selling products or services before expenses are taken out (known as the 'top line') becomes the net profit, or 'bottom line'.

From the net income, the cost of sales (e.g. unit costs, packing and delivery, raw materials etc) must be deducted to produce the gross profit. The net profit is the result after all other expenses such as rent, marketing, wages etc have been accounted for.

Expenses and costs

As well as taking revenues into account for a specific period it also records any expenses or costs incurred by these revenues, such as depreciation and taxes. Its purpose is simple – to show managers and investors whether or not the company made money during the period being reported.

Ascertaining Profit & Loss over a set period of time is very simple within KashFlow. There's more information on the process **here**, but it's simply a matter of going to the Tools & Reports section and running the Profit & Loss Report.

The report will give you the gross profit for the period (which is found by subtracting the cost of sales from the turnover for that period) and the net profit, which is calculated by subtracting expenses for the period from the gross profit.

6. The 'Three Golden Rules of Accounting'

The 'Three Golden Rules of Accounting' allows anyone to be a bookkeeper. Stick by these rules and you won't go wrong.

1. Debit The Receiver, Credit The Giver

Used in the case of personal accounts. When a person gives something to an organization, they must be credit in the books of accounts. The opposite of this is also true, which is why the receiver needs to be debited.

2. Debit What Comes Through, Credit What Goes Out

This is used in the case of real accounts. Real accounts involve machinery, land and building etc. and have a debit balance by default. So when you debit what comes in, you are adding to the existing account balance. Similarly when you credit what goes out, you are reducing the account balance when a asset goes out of the company.

3. Debit All Expenses And Losses, Credit All Incomes And Gains

This is applied to a nominal account. The capital of the company is a liability and has a default credit balance. By crediting all incomes and gains, you increase the capital and by debiting expenses and losses, you do the opposite.

7. Bookkeeping glossary

A

Accounts payable - The account used to track all outstanding bills from any companies or individuals from whom the company buys goods or services.

Accounts receivable - The balance owed to the entity by its customers in respect of sale of goods and services on credit.

Assets - All the things a company has ownership of in to successfully run its business, such as cash, buildings, land etc.

B

Balance sheet - The financial statement that presents a snapshot of the company's financial position. It's called a balance sheet because the things owned by the company (assets) must be equal to the claims against those assets (liabilities and equity).

C

Costs of goods sold – This is all money spent to purchase or make the products or services a company sells to its customers.

E

Equity – All the money invested in the company by its owners.

Expenses - All money spent to operate the company that's not directly related to the sale of individual goods or services.

G

General ledger – Where all the company's accounts are summarized.

I

Interest - The money a company needs to pay if it borrows money from a bank or other company.

L

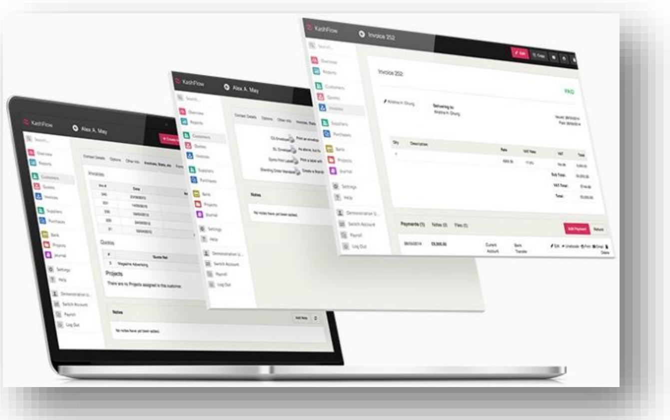
Liabilities - All the debts the company owes, such as bonds, loans, and unpaid bills.

T

Trial balance – How you test to be sure the books are in balance before pulling together information for the financial reports.

8. About KashFlow

KashFlow is award-winning, simple accounting software. A cloud solution with UK based data centres KashFlow's aim is to take away the stress of bookkeeping and accounting, giving small businesses more time focus on what they do best.



Quick and easy to set up with no download required, the software is designed specifically to help small business owners make sense of their accounts.

Currently over 70,000 customers use KashFlow to generate quotes, create fully customisable invoices, balance their books and keep track of their business spend, all with ease and in record time. Being fully cloud based, customers can also take the minutes required to control their accounting wherever they are.

The KashFlow HMRC accredited payroll software processes your company's pay, delivers your employees' payslips, automatically files your RTI submissions and simplifies auto enrolment.

To see how KashFlow can help your business thrive, get in touch today to arrange a 1-2-1 demonstration of the software.

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