ASMAT & CO.

ACCOUNTANTS

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# The New Business Kit

Asmat & Co, Chartered
Accountants

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## CHAPTER 1 – SELECTING A LEGAL ENTITY FOR YOUR BUSINESS

When forming a legal entity, you would have to think of a lot of different factors that would impact your business. This is normally be dependent on the way you would operate i.e. would you be working on your own or with others.

There are different laws and regulations depending on the type of entity you would operate. When forming a business organisation, there are four types of entities you would need to consider which has its own advantages and disadvantages.

### Sole Proprietorship/Sole Trader

An individual would normally operate a sole business would be considered a sole-traders. Being a sole-trader does not mean that this is a separate legal entity but the individual would be held responsible for the assets and liabilities of their business. For tax purposes, the individual would need to combine their income against their expenses and pay taxes on their profits.

Becoming a sole-trader is the simplest method of operating a business as there is no legal paperwork apart from getting a permit to carry out the trade. There is no rules and regulations that the individual would have to follow as they would be held accountable for the business.

### Partnership

When forming a partnership, you would need 2 more partners. Each partner would be held equally responsible for the partnership and would have to operate in accordance to their agreement.. The partnership agreement would have the terms of their shares and the conditions attached to it. Any liabilities held against the partnership would have to be agreed in writings however some creditors may hold the partners themselves accountable if the partnership is small

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. Having a partnership contract would be good for the partners as this would state what is expecting of the partners.
A partnership is a legal entity recognised under the law and, as such, it has rights and responsibilities in and of itself. By forming a partnership, they can sign for credit and purchase items addressed to their name of the partnership.
A partnership is also required to file an income tax return. The partnership form is submitted to HMRC containing only information regarding the partnership as the partners would need to file their own tax return showing their share of profit.

**Limited Liability Partnership (LLP)**

The Limited Liability Partnership ("LLP") offers limited liability to its members( i.e. their personal assets are generally protected from the business' creditors) but like a traditional partnership are tax transparent and offers flexibility in terms of its internal organisation.

An LLP is a separate legal entity from its members. Therefore, it may enter into contracts and deeds, sue and be sued and grant floating charges over its assets in its own name. This avoids the problems that exist in relation to partnerships, where technically it is often necessary for every partner to be party to certain documents or litigation, and the creation of floating charges is not possible.

The members of the LLP would be required to register themselves with Companies House as members. These can me individuals or companies.

The following would need be considered when registering a LLP

- Must be set up as a profit-making business – cannot be used for non-profit enterprises or charities.
- Must have at least two members (partners) at all times.
- At least two partners must be 'designated' members and assume additional legal responsibilities on behalf of the entire LLP and its members.
- There are no shares, shareholders or directors in an LLP.
- Must have a registered office address in the country of incorporation.
- LLPs do not pay corporation tax – each LLP member is taxed through Self-Assessment as a self-employed individual.
- Annual accounts and a confirmation statement must be delivered to Companies House each year.
- Limit of each LLP member's liability is agreed between the members and usually stated in a partnership agreement.
- A partnership agreement is often drawn up to outline the rights, responsibilities and liability of each member, and specify the way in which the LLP should be managed.
- LLPs have a flexible internal structure that can be changed at any time, as often as required.
- LLPs do not have shares to sell and, therefore, cannot receive capital investment in exchange for a portion of ownership of the business from non-LLP members.
- Must maintain a PSC register.

Provided an LLP carries on a trade or a profession and is not simply an investment vehicle, it is tax transparent - that is, the LLP itself is not taxed on its income or capital gains. Instead the members are taxed on their shares of the LLPs' profits and gains, just as partners in a partnership are currently taxed.

This means that the LLP may be more tax efficient than a limited company. This is because ordinarily a limited company is taxed on its income and capital gains and the company's shareholders are taxed on distributions from the company to them, giving rise to potential double taxation in extremely profitable businesses.

**Limited Company**

A limited company is a separate legal entity that exists under the authority granted by statute. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. A limited company must file their accounts to Companies House and HMRC and pay corporation tax on the profit the company has made. The limited company would be held responsible for is liabilities however if a company is very small then the creditors could ask for personal guarantees.

A limited company must obtain approval from Companies House to use its proposed name. A limited company must also adopt and file a Memorandum and Articles of Association, which govern its rights and obligations to its shareholders, directors and officers.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the issue of share capital, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their shares. From a tax perspective, the act of incorporation can create advantages via:

- Selling the business to the company at market value and paying Capital Gains Tax (CGT) on the gain at 10%, with the benefit of entrepreneurs' relief, instead of the normal rate of tax when funds are withdrawn from a limited company

- Obtaining corporation tax relief in the company on amortising the goodwill where the business started after 31 March 2002
- Saving National Insurance Contributions (NICs) by drawing profits as dividends rather
- than as salary
- Deferring tax by leaving profits in the company.

Should you decide to incorporate your business venture, you should seek advice from Asmat & Co. We can also assist in forming the company quickly and cost effectively.

**Business Structure – The Pros and Cons**

| Company/LLP | Sole Trader / Partnership |
|---|---|
| Must be formally incorporated with a written constitution in the form of a Memorandum and Articles of Incorporation. There is, therefore, an initial setup cost. | There are no formation costs, but a written partnership agreement is advised. |
| Governed by the Companies Acts. A company must:-<br>- Keep accounting records<br>- Have the accounts audited *<br>- File accounts and an Annual Return with the Registrar of Companies.<br>This information is available to the public.<br>- Keep Statutory Books showing details of shareholders and directors<br><br>*Your company may qualify for an audit exemption if it has at least 2 of the following:-<br>- An annual turnover of no more than £10.2 million<br>- Assets worth no more than £5.1 million<br>- 50 or fewer employees on average | Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection.<br><br>However, annual accounts are necessary for the HM Revenue and Customs tax returns. |
| May have greater borrowing potential. They can use current assets as security by creating a floating charge. | Sole traders and partners are unrestricted in the amount and purpose of borrowings but cannot create floating charges. |
| Shares in a company are generally transferable therefore ownership may change but the business continues. | The unincorporated business does not carry the same prestige. |
| Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there | |

| | |
|---|---|
| may be a prestige attached to directorship or, to a lesser degree, a partnership in an LLP. | |
| Tax is payable on directors' remuneration paid via PAYE on the 19th of the following month. If applicable, higher rate tax is paid by shareholders on dividends under the self-assessment rules.<br>Unless profits exceed £1,500,000, corporation tax is payable 9 months after the year end. | For a sole trader or partnership, tax is generally paid by instalments on the 31 January in the tax year and the 31 July following the tax year. For an ongoing business tax for 2017/18 is payable: first payment on account on 31 January 2018, second payment on account on 31 July 2018 with any final balance due on 31 January 2019. For a start-up business this is slightly different and covered in more detail later in this publication. |
| First year losses in a company can only be carried forward to set against future profits. | Start-up losses generated by a sole trader or a partner in the first four years can be set against other income of the year or carried back to the three previous years, potentially resulting in a tax refund. |
| Tax is charged at 19%. | Profits are taxed at 40% on taxable income in excess of £33,500 and at 45% on income over £150,000. |
| There is both employers' and employees' national insurance payable on directors salaries and bonuses. The NI charge is greater than that paid by a sole trader/ partner, but there is no NI charge on dividends. | A partner/sole trader will pay Class 2 NI of £2.85 p.w. and Class 4 NI dependent on the level of profits, 9% up to £45,000 and 2% thereafter. |

Many owners of limited companies choose to pay themselves a small salary so as to build up an entitlement to state pension and benefits with the balance of cash extracted as NI free (and in certain cases tax free) dividends.

A new tax charge on dividends was introduced in 2016/17 which reduces the tax advantage of this strategy. The first £5,000 of dividend receipts are tax free with anything over and above this being taxed at 7.5% (32.5% for higher rate tax payers).

For the 2018/19 tax year, the tax on dividends is as follows:

The new lower dividend allowance means that an individual's first £2,000 of dividends are tax free.

Over and above this £2,000 the dividend income is taxed as follows:

- If you have any un-used personal allowance (£11,850 for 18-19) then that element is tax free
- Any dividends in the basic tax band (up to £46,350 for 18-19) attract a tax charge of 7.5%
- Dividends above the basic tax band (over £46,350) are charged at 32.5%
- Any dividends in the upper tax band (£150,000 for 18-19) are taxed at 38.1%.

## CHAPTER 2 – REGISTERING WITH THE TAX AUTHORITIES

As a business owner you would need to ensure that you are complying with the tax authorities. Failure of not registering could result in penalties.

HMRC expects most form and communication to be done online however there are paper forms available. In the following section we provide links to both downloadable versions of forms and the web links to apply online for various services.

**H M Revenue & Customs**
When you register your company with Companies House, HMRC will be automatically be notified and will send you the company details. The form shows your accounting date, your accountant, and also enables a PAYE (Pay As You Earn) scheme to be set up, which is a requirement if you are to be an employer. You can also register online with HMRC to notify self-employment.

Information about CT41G is available here-
https://www.gov.uk/government/collections/corporation-tax-forms

**H M Revenue & Customs - NI Contributions Office**
Class 2 NIC are a fixed weekly amount – £2.85 per week for 2017/18 assuming your profits are above the small profits threshold. The amount of Class 2 NIC due is based on the number of weeks of self-employment in the tax year. So if your self-employment begun on 1 February 2018 you should pay 9 weeks' class 2 NIC, ie 9 x £2.85 = £25.65.

Class 4 NIC are based on the level of your self-employed profits. You are only liable to pay Class 4 NIC if your profits are over a certain level, the lower profits limit. This is £8,164 for 2017/18.

**H M Revenue & Customs – VAT**

You need to consider if it is beneficial to be VAT registered from the outset. The pros and cons are discussed in Chapter 4. If you are registering for VAT, form VAT 1 needs completing, and if you are a partnership, form VAT 2 needs to be completed giving details of all the partners.

To register online go to
https://www.gov.uk/government/publications/vat-application-for-registration-vat1

All businesses now have to file VAT returns online via the internet.

There are many ways we can help you:

- We can assist you in registering for VAT online
- We can act as your agent and file VAT returns online with you providing us with the figures to be entered
- We can help you implement online filing through software
- We can provide you with accounting software with integrated online filing so you can easily calculate and file the figures

More information can be found at the HMRC website:
https://www.gov.uk/topic/business-tax/vat

Please contact us at 02035 988 621 if you need any help.

**Tax Calendar**

The following summarises some of the more significant filing dates for a corporation using a calendar year end. Many of these requirements also apply to partnerships and sole traders. Naturally, if a year-end other than 31 December is used, some of these dates will vary.

| Dates | Return |
|---|---|
| **Annual Events** | |
| 19 April | Final RTI submission due (Payroll) |
| 6 July | Submission of form P11D reporting benefits in kind |
| 19 July | Payment of Class 1A NICs (Tax on benefits) |
| 30 September | Accounts must be filed at Companies House |
| 1 October | Payment of corporation tax for accounts prepared for the calendar year (9months and 1 day after the end of the accounting period) |
| November/December | Pre Year – End tax planning |
| 31 December | Submission of corporation tax return for accounts prepared for the calendar year (12 months after the end of the accounting period) |

| **Quarterly Events** | |
|---|---|
| 14 January | **Forms CT61 to be submitted – Tax deducted / received on interest payments** |
| 14 April | |
| 14 July | |
| 14 October | |
| Quarterly | VAT Returns (Although these can be monthly or annually) |

| **Monthly Events** | |
|---|---|
| 19th | Payment of payroll taxes (if a ‘small’ employer – quarterly) |

**CHAPTER 3 – ACCOUNTING AND BOOKKEEPING**

Most operators would have a good idea on the market in which they are trading in, however one of the most-time consuming exercise would be to ensure that their record books are kept up to date. By keeping the records up to date, it you give you a good idea as to how your business is performing and whether there are any warnings that you would need to address. By taking out any loans, the creditors would may look at your records and your financial statements. The Financial Statements would need to be produced to the tax authorities as well. The necessity for good, well-organised financial records cannot be over-emphasised. By not have a proper organised records can lead to many owners making wrong decisions due to inadequate information.
Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

- Who will be the users of the financial information?
- What questions do I need answered to manage the business?
- What are the KPIs (Key Performance Indicators) within my business and how do I monitor them?
- What questions should be answered for HMRC authorities? It should be noted that HMRC are increasingly making Business Records Checks of those businesses they reckon could have poor records

As your business expands, you may need to have the support of an accountants to ensure all the relevant information is obtained.

**Chart of Accounts**

The basic road map into any accounting system is the chart of accounts. It is this chart that helps establish the information that will be captured by your accounting system, and what information will subsequently be readily retrievable by the system. This tool, like the rest of the accounting systems, needs to be dynamic and should grow as the size and needs of your business changes.

To help establish a good working chart of accounts you need to answer some questions, in conjunction with your accountant, as to how your business will operate and what is important to you. Some of these considerations might be:

- Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?
- Are fixed assets a significant portion of your business?
- Will you sell only one product or service or will there be several types of business?

- Will you have accounts receivable from customers, which you will have to track?
- Are you going to sell in only one location or will you do business in several places?
- Are the products you sell subject to value added tax?
- Do you need to track costs by department?
- What type of government controls or regulatory reporting are you subject to?

Each one of these questions can have several answers and will probably generate more questions. Each answer will have an impact on how the chart of accounts is structured. It may seem that developing a chart of accounts is not particularly high on your list of things to do as you start a new business. The amount of time and money a well organised accounting system may save you can be significant as the need to generate information for various purposes increases. An example of a basic chart of accounts follows this section.

**Cash or Accrual Accounting**

When starting your business you would need to decide whether you want to operate a cash or accrual accounting. Cash accounting is the most simplified method and is easy to understand. Cash accounting is recording all the sales you have made and all the expenses you have paid for, this will give you a good indication of whether your business is making profit or loss.

Accrual Accounting is more complex as you would may need to give credit to your customers to extend the period on when they can pay and you may have bills which are due but not have been paid as of yet. You would need to keep a record of these even if they have not been paid.

Whether you use the cash or accrual basis, it is possible to keep books for income tax purposes on a different basis than for financial statements. It may be more advantageous (less tax) for you to do so. Asmat & Co Accountants can advise you on the advantages and feasibility of doing this in your particular circumstances. Importantly, non-limited company businesses with a turnover equal to or less than £150,000 may employ the cash basis for income tax purposes.

**Accounting Records and Record-Keeping**

One of the other questions you would need to think about if who will maintain the record books. Should it be the owners? Or you may also decide to outsource the bookkeeping to a team of professionals such as Asmat & Co Accountants.

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money.

While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque-signing function and scrutinising certain records. We can help develop a good programme of record-keeping duties for you, your employees and any outside bookkeepers you may engage.

### A Word about Accounting Software Systems

There are a number of very good and easy to use accounting software systems which are commercially available, but none of them will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. This is one of the reasons that the computer has also probably caused more headaches for the owners of modern businesses than any other single cause. If you want to use a computer-based accounting package, either in your own business, with a service bureau, or through your accountant, it is imperative that you generate accurate information to be entered into the system.

The real value of accounting software becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained, not as a “number cruncher”, but as your business adviser, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analysing your business to make it more profitable.

### Internal Control

What is internal control? It is the system of checks and balances within a business enterprise that helps to ensure that the company’s assets are properly safeguarded and that the financial information produced by the company is accurate and reliable. When you are operating as a “one man shop”, or at least handling all of the company’s financial transactions, maintaining good internal accounting control is relatively straight forward.

However, when your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer “YES” to the following questions:

- When my company provides goods or services to our customers, am I sure that the sale is recorded at the correct value and either the debt is recorded in accounts receivable or the cash is collected?
- When cash is expended by my company am I sure we received goods or services and paid the correct amount?

The method used to ensure that these two questions can be answered affirmatively will be widely varied. They are essential stepping-stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets and being sure ALL TICKETS ARE ACCOUNTED FOR or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business. As the company grows you will need to consider concepts such as segregation of authority or controlled access storerooms. No matter what the size of your enterprise, you should consider controlling your business and safeguarding hard earned assets as a priority from the outset.

# CHAPTER 4 – VALUE ADDED TAX

Value Added Tax (VAT) is a transaction tax charged on the sale of goods and services. Most business transactions involve the supply of goods or services and VAT is payable if they are made:

a) in the United Kingdom
b) by a taxable person
c) in the course or furtherance of business and are not specifically exempted or zero-rated

VAT is collected by HM Revenue & Customs and is normally payable quarterly.

**Registration**
There are two different types of registration - compulsory and voluntary:

### A. Compulsory

You must register for VAT if:

- your VAT taxable turnover is more than £85,000 (the 'threshold') in a 12 month period
- you expect to go over the threshold in a single 30 day period

You'll also need to register if you only sell goods or services that are exempt from VAT or 'out of scope' but you buy goods for more than £85,000 from EU VAT-registered suppliers to use in your business.

You may have to register for VAT if you take over a business that's already registered.

### B. Voluntary

It may be possible to register your business for VAT before it crosses the £85,000 threshold.

The other situation in which a voluntary registration might be beneficial is where the sales are all zero-rated and no VAT is charged on the transaction. All VAT suffered by the trader on expenses can be reclaimed from HMRC so net profits will increase. In summary, the advantages and disadvantages of a voluntary registration are as follows:

**Advantages**

- Companies can reclaim VAT that they have paid on goods and services bought from other businesses. This is known as input tax.

- a VAT number can give the impression that a business is larger than it actually is which sometimes can increase the possibility of obtaining work
- Some organisations will not deal with businesses that are not VAT registered
- Voluntary VAT registration can be backdated by up to 4 years if you can provide HMRC with the required evidence.
-

**Disadvantages**

- Charging VAT on certain products and services may be off putting to potential or existing customers, particularly if they themselves are not VAT registered. It is important to ensure VAT registration does not impact the desirability of your product or services by making them appear overpriced.
- If output tax exceeds input tax, a business will be required to pay the difference to HMRC. This could cause potential problems if a business is faced with a large, unexpected VAT bill.
- VAT registration comes with the added burden of extra administration and paperwork. Businesses have to maintain accurate VAT accounting records and invoices, and submit a quarterly VAT return. Although this can be a disadvantage for some, voluntary registration is worth the extra work for many businesses.

**Taxable Persons and Supplies**

a) Taxable Persons

A taxable person is generally a **business, sole trader or professional**. With this status, they are responsible for charging, collecting and paying VAT to the tax authorities, and documenting all this in a VAT return. **Employees** are not treated as taxable persons

It is possible to mitigate the effect of VAT by having one of the businesses operated by a limited company or by a partnership with a relative, but professional advice needs to be taken since HMRC have the power to still treat the two businesses as one if strict criteria are not met.

**b) Taxable Supplies**

A taxable supply is any supply made in the UK which isn't exempt from VAT. Taxable supplies include those which are zero-rated for VAT.

A supply which isn't VAT-exempt is always a taxable supply whether or not the person making it is registered for VAT.

The major categories of exempt supplies are:

- certain selling, leasing and letting of land and buildings (but not lettings of garages, parking spaces or hotel and holiday accommodation)
- insurance
- betting, gambling and lotteries (but not takings from fruit machines)
- providing credit
- certain education and training
- fund raising events by charities
- subscriptions to certain membership organisations
- the services of doctors and dentists
- certain services from undertakers

It is important that at the outset of a business, a trader establishes the VAT status of any supplies being made to avoid mistakes, e.g. the services of a physiotherapist are exempt, whilst the services of an acupuncturist are standard rated.

**Tax Rates**

There are 3 rates of VAT:

- **standard rate** - currently 20%, this rate applies to most business transactions

- **reduced rate** - currently 5%, this rate is charged on domestic fuel and power, and other items such as domestic energy saving products and children's car seats

- **zero rate** - the 0% rate applies to specified businesses, including children's clothes and footwear, books and newspapers, and some food and drink

Any VAT charged by the business, whether at 20% or 5% is known as output VAT and the total charged or collected in the VAT quarter is payable to H M Revenue & Customs.

**Input VAT**

Input VAT is the VART that is added on the purchases you have made for the business. These can be standard rated or zero rated. There is a different ruling for business who make exempt supplies. This is known as partial exemption. When calculating the VAT, you would need to deduct the input VAT against the output VAT. This will be either a payable to HMRC or a recoverable VAT which you will receive from HMRC. The majority of input VAT is recoverable but there are special rules for:

- cars
- petrol supplied for private usage
- business entertaining
- goods sold under a VAT second-hand scheme

To reclaim VAT you have been charged as input VAT, you must hold valid evidence that you have received a taxable supply, which normally means a valid VAT invoice from a registered trader showing his VAT number and the amount of VAT charged.

**Penalties**

There are penalties for errors in VAT returns and also late payments. More details can be found at the HMRC website:
https://www.gov.uk/vat-returns/surcharges-and-penalties

**Money Laundering Regulations**

HMRC have responsibility for administering certain aspects of The Money Laundering Regulations 2007, particularly relating to High Value Dealers (HVDs).

HVDs are those traders who may receive 15,000 Euros (approximately £12,500) in a single transaction or a series of linked transactions. The Regulations principally apply if cash or cash equivalent are offered in settlement.

If you believe you may be a HVD you should discuss this with your advisors or visit HMRC's website at www.hmrc.gov.uk.

Further, if you believe you may be affected by the Regulations as they related to regulated businesses, you should discuss this with your advisors as the penalties for not complying are serious.

## CHAPTER 5 – PAYROLL TAXES

If you decided to employe people to work for you, then you would need to add them onto the payroll and pay their taxes. . If you are trading as a limited company then remember that the directors are also employees. The brief summary that follows will give you some guidance in the rules and regulations of HMRC.

### Helpful Publications

There are guidance available on HMRC's website that will help you to operate your payroll. It is your responsibilities to pay the taxes and national insurances as well as calculating the maternity and statutory sick pay. You should comply with the rules and regulations of HMRC and failure of not complying will result in fines. This can be costly if you are unable to recover the tax and NIC from the employee.

### Do You Have Employees?

Whether an individual is an employee or not in a particular situation is a question of fact depending on the terms on which he works. The question of whether an individual is employed or self-employed is very important for the business "employing" him or her, as that business has to comply with the reporting requirements. The "employer" should not just accept that the worker says he is "self-employed".

In certain areas HMRC has placed emphasis on reclassifying individuals claiming to be self-employed and has issued leaflet IR56 entitled "Tax: employed or self-employed". The booklet sets out the questions that should be answered to determine the problem. If you have treated someone as self-employed and subsequently after a routine visit from HMRC it is clear that they were employees, then the tax and NIC which should have been paid will be assessed on the employer. Therefore it is important to ensure when using the services of self-employed people that they are in fact self-employed. If doubt exists as to the status of an individual, the situation can be clarified with HMRC. HMRC provide an Interactive software tool to help employers and workers at:
https://www.gov.uk/guidance/check-employment-status-for-tax

### The Operation of a PAYE Scheme

Once you have registered for payroll HMRC will send you your registration along with the guidelines on benefits.

Your wold need to add the employees onto your payroll and depending on the type of pay period you have set, this will need to added along with the information on the employees. As of 2018-19 the personal allowance is £11,850 which means most employees would have the tax code of 1185L unless it HMRC has specified which tax code to use.

The tax and national insurance should be paid to HMRC by the 19th of the month following that in which the salaries were paid.

More information on the rates and threshold can be found below:
https://www.gov.uk/guidance/rates-and-thresholds-for-employers-2018-to-2019

**Real Time Information**

A system of real time information (RTI) was introduced to report information electronically to HMRC. This can be weekly, 2 weekly, 4 weekly or monthly. There is no need now to report annually your salary and taxes. You need RTI-enabled software or HMRC's Basic PAYE tools.

Under RTI the employer tells HMRC about tax, NICs and other deductions when or before the payments are made, instead of waiting until the end of the tax yearBy using this method, it would make things simpler and HMRC would have the most up to date and accurate information.

**Benefits**

Most businesses may offer benefits to their employees or even the directors themselves. This is not taxed immediately but you would need to report this at the end of each financial year. Class 1A national insurance contributions (currently 13.8%) are due on the taxable value of these benefits in kind and are due on the 19 July following the fiscal year in which the benefits are made available. In addition, HMRC requires on an annual basis a form P11D (Return of expenses payments and benefits) for all directors irrespective of income and all employees receiving remuneration, including the benefit in excess of £8,500. For those employees earning less than £8,500 but who receive expense payments and benefits, a form P9D is required.

**Payroll Software**

The use of the HMRC-supplied tax tables can be very time consuming and prone to error so it is recommended that either payroll software or a payroll bureau service is used if you have employees. There are mandatory online filing regulations in place in some circumstances and this requirement is likely to increase in the future.

**Auto enrolment**

AE (or workplace pensions) is now mandatory to offer the employees and would be time consuming setting the company up with the pension providers and administrating the payroll. It is vital a qualifying scheme is set up at the appropriate time and that the scheme is administered correctly as there are large fines for business that do not comply.

Payroll can be complex and time consuming. Asmat & Co Accountants offers a service for processing your payroll and auto enrolment supplying you with reports, payslips etc. Contact us if you would like further details.

## CHAPTER 6 – INCOME TAX AND CORPORATION TAX

As a business you would need to pay income tax and/or corporation tax . It can be quite confusing to understand the legislation and being able to apply it. A Chartered Accountant should be consulted when you are dealing with the taxation affairs of the business. The payment of taxation has a direct impact on your cash flow.

### Tax Returns

### Companies

Companies are charged corporation tax at the rate applicable during the financial year (1 April - 31 March). Where a company's accounts period spans two financial years the profits for the period are apportioned between the years.

The rates are as follows:
Year ended 31 March 2017 - 20%
Year ending 31 March 2018 - 19%

The rate is falling to 18% to 31 March 2021.

A limited company is expected to pay their corporation tax within 9 months and 1 days of your accounting period.

A company has the limited of 12 months to file their accounts to HMRC and 9 months to Companies House. Failure of not filing on time will result in penalties. When filing the accounts, you can file these directly through HMRC website (you would need to have a government gateway) or through a third party software. We can help you with the filing.

HMRC may generally have 12 months from the filing deadline to open an enquiry into the company's corporation tax return, otherwise the figures self-assessed are considered final. If additional tax is determined to be payable, interest (and possibly penalties) will be charged on the additional tax due.

Once the company agrees its liability with the inspector, there will be a settlement of any balance due or overpaid. Interest will be charged or paid from the normal due date on the balance.

**Sole Traders/Partnerships**

Sole traders and partnerships are charged income tax at the rate applicable during the fiscal years (6 April - 5 April). The rates are as follows:

| | 2017 / 2018 | Rate | 2018/19 | Rate |
|---|---|---|---|---|
| **Lower** | *see below | 10% | *see below | 10% |
| **Basic – Next** | £33,500 | 20% | £34,500 | 20% |
| **Higher** | £33,501-150,000 | 40% | £34,501-£150,000 | 40% |
| **Additional** | Over £150,000 | 45% | Over £150,000 | 45% |

*10% starting rate for savings income up to £1,000 not applicable if taxable non-savings income exceeds that amount

There may also be a liability to Class 2 and Class 4 National Insurance Contributions, depending on the level of profit in each fiscal year. Class 2 contributions are at a weekly rate of £2.85 (2017/18) Class 4 NI is payable by the self-employed on profits.

Class 4 contributions are levied at 9% on profits between £8,164 and £45,000 for 2017/18. There is a further 2% charge for 2017/18 on profits in excess of the upper limits.

For self-employed the tax is normally due by 31 January and this needs to be paid in full otherwise interest starts to build up. If your tax bill is over £1,000 then HMRC expects you to pay for 50% tax in advance for the next year. An illustration below explains how this would work:

Tax Payable £1,000
Due on 31 January - £1,000 plus 50% advance so total due £1,500
Due on 31 July - £500 (£1,000*50%)

**Tax Credits**

There are two type of tax credits: Child Tax Credit and Working Tax Credit,

Child Tax Credit is paid to help people with the costs of bringing up a child. It is made up of various elements: a family element; a child element; and a disabled child element.

You can normally only get the child element for up to two children. You can only get money for a third (or more) child if they:

- were born before 6 April 2017; or
- they qualify for an exception

Only one household can get Child Tax Credit for each child.

You don't need to be working to claim Child Tax Credit.

Child Tax credit does not include any help with the costs of childcare. If you are working and you are on a low income, you may be entitled to Working Tax Credit and this benefit can include help with childcare costs.
How much Child Tax Credit you get depends on your income and circumstances, for example if your child is disabled.

Working Tax Credit is money provided to boost the income of working people who are on a low income. It does not matter whether you are working for someone else or are self-employed.

To get Working Tax Credit you must:

- get payment for the work you do (or expect to)
- you must work a certain number of hours a week, the number of hours you have to work depends on your circumstances for example your age, health, family responsibilities
- have an income below a certain level (the level depends on your circumstances and the elements of Working Tax Credit you are entitled to).

Working Tax Credit counts as income when working out your entitlement to most other means-tested benefits.

**Child Benefit**
Child Benefit is payable to families with children on the basis of the number of eligible children in the household. It is £20.70 per week for the oldest child and £13.70 per week for subsequent children.

Households who receive Child Benefit where the Child Benefit claimant or their partner's income is £50,000 or over are subject to a specific tax charge if they continue to receive Child Benefit payments. This also applies if another person claims child benefit for a child who normally lives in the high income household. This change does not make Child Benefit a taxable benefit – the benefit itself remains non-taxable.

For those with income between £50,000 and £60,000, the charge is less than the annual Child Benefit amount but gradually increases to 100% of the Child Benefit payments and for people whose income is more than £60,000, the tax charge is 100% of the amount of Child Benefit.

Anyone affected can still claim Child Benefit because even if they opt not to receive payments, their underlying entitlement can help protect entitlement to State Pension and other benefits (by giving them national insurance credits) and it also ensures the child will be automatically issued with a National Insurance number as they approach 16 years old.

Claimants affected by the high income charge must decide whether to receive (or continue to receive) Child Benefit payments or not. If they choose to receive the payments, then the tax charge must be paid. If they choose not to receive Child Benefit payments, then the tax charge will not have to be paid. But the best option depends on individual household circumstances and will need careful consideration. If child benefit payments continue, either the recipient or their partner (depending on their circumstances) will need to declare the payments on their Self-Assessment (SA) return, and if they aren't already in SA they need to register.

## CHAPTER 7 – CASH PLANNING AND FORECASTING

**Cash is King!** The lifeblood of any business is its ability to collect cash and pay bills on time as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price or close the doors and put the company out of business. None of these alternatives are typically what the owners intended when starting the business.

The ability to forecast cash resources and uses is an art and is by no means a well-defined science. None of us have a crystal ball and any cash forecast which is prepared by the management of a company or their accountant can be no more than a guess as to when the customers pay and when your business will pay its obligations. Hopefully, the more effort that is put into cash forecasting the better will be the educated guess and the more accurate the resultant picture of the future operations of your business.

### Starting the Analysis

One of the most significant factors to be considered in your cash flow forecast is the volume of sales that will be generated in the next several months and for the rest of the period for which you intend to forecast. Your sales forecast must be as fine-tuned as possible. It may be unrealistic to assume that there is a million pound market for your product in your area and you will be able to capture a specified percentage of it. A sales forecast needs to be based on specific facts. These might include your sales history, or the history of similar businesses you have owned or operated, or the competition. In your area, what has been the experience of similar operations?

Some of the questions that should be addressed would include what other factors could I control such as adding new product lines, deleting unprofitable operations, adding a new salesperson, or terminating one that is not producing to quota? In preparing a forecast, you must also take into consideration items such as the seasonality of your business, the relative state of the economy and the period over which you will forecast.

Obviously your ability to forecast sales for the next month is better than it is for three to five years from now. The amount of detail that must be included in the cash forecast is really a matter of preference. It can be based on per unit sales extended out by the sales price of each type of unit or an average sales volume per day, week or month of your type of business in its current environment.

### Cash Collections

Once you have determined a reasonable level of sales and you are comfortable with the forecast you have made, you must address questions such as: what percentage of my sales are received in cash, and what portion are credit sales for which I will have to carry amounts in debtors? For those that are debtors based, how soon is the cash collected? Do I have to wait for customers to pay me or do third parties such as Visa or MasterCard or a debt factor take the customer's account and convert it to cash for me with an appropriate discount?

If you are relying on customer payments for collection of debtor balances you must determine what portion of the debts will be collected in thirty days, sixty days, ninety days and thereafter, and what portion, if any, may never be collected. To assume that 100% of your sales will ultimately be converted to cash is probably unrealistic especially considering the current economic environment and the tight cash situations that may face some of your customers.

Other sources of cash may be available in addition to sales. Do you expect to bring in a partner or other investors, or can you borrow money from a bank? When will you receive the cash and how much will you get? Part of your cash flow analysis may be to determine how much investment money or borrowings will be required to operate your business.

Once you are comfortable with the cash receipt side of your business, and the timing of the collections of funds from your sales and other sources, it is necessary to consider the expenses and other cash needs of your business operation.

**Disbursements**

Certainly if your business entails sales of stock, you will have to purchase the merchandise from others or purchase the component parts and pay employees to assemble it. This may require a significant outlay of cash before the first pound of sales is generated and received. You should consider how often and in what amount your employees must be paid and when their payroll taxes must be paid over.

Additionally, you need to know the credit trade terms your creditors are willing to advance to you. Do you have to pay for stock items on a C.O.D. basis or can you pay for them thirty or forty-five days after receipt? What expenses must be paid to allow you to convert purchased merchandise to saleable stock? If your production requires utilities to run machines or supplies that are required, such as consumable chemicals or packing materials that must be purchased prior to the sale of the stock, you should consider the timing of these payments.

In addition to the cost of manufacturing, you should consider whether your productive capacity would allow you to generate enough stock to support the level of sales that you are predicting. If the volume of sales you forecast is above your ability to produce today, what changes in your operating environment must be made to meet the production levels? Will you need additional employees? If so, how much will they cost? Do you have to acquire additional machinery for your shop operations? What is the cost of the machinery and when will you have to pay for it? Do you have enough space to cope with the additional activity?

Once you have determined the cost of operating your production or service facilities, you need to consider what other expenses you must pay to keep the doors of your business open. You typically will have to pay rent for your office or manufacturing facility. You must consider how much the monthly payment is and when it has to be paid. Ask yourself if there will be other cash requirements such as a deposit on first and last month's rent. If you are opening a new business, you must consider what your cash requirements are to make your facility ready for your specific needs and purposes. Will you have to buy or rent furniture? Will you need to make tenant improvements or pay deposits for utilities and other services?

You also need to consider many of the overhead items and costs to open a new business that will hopefully be one-time expenses. This may be the cost of incorporating your business, a solicitor's fee for drafting partnership and other agreements, the cost to obtain business licenses, approval from the taxing authorities, setting up an accounting system, stationery costs, costs of signs or logos etc.

It may seem like the list of costs and expenses to be incurred is endless. It may even discourage you in moving forward with your business endeavour. However, it is imperative to make the list as detailed as possible to ensure that you have sufficient funds to make your operation ready for business prior to running out of cash. The more detailed the list and the more sufficient information you can provide, the less chance there is of unpleasant surprises as you move down the stream to opening your business.

In addition to determining the amount and volume of expenses and cash outlays you will have to make, it is critical to determine the timing of such payments. As we have discussed in other chapters, there may be a variety of financing alternatives that are available to you. Most of the start-up costs which you incur can be delayed or deferred until you can generate the cash from your operations to help pay them. This needs to be carefully analysed and built into your cash flow analysis. However, a good rule of thumb is to assume that you are going to have to pay your expenses sooner than you think and that you will collect your cash slower than you anticipate. If you work with this attitude, any surprises should be favourable ones.

You will also need to consider the impact of VAT. For example if you are VAT registered and make a loss in the first quarter or invest heavily in equipment, there may also be a VAT refund due but this is unlikely to be received until month 5. If you are not VAT registered initially but intend to in the future then you will need to consider the cash implications of this too, you should prepare several versions of the forecasts i.e. worst case, expected and best case and have funding in place to cover all eventualities.

It is also important to regularly review the forecasts and compare actuals with budgets to identify slippage and the need to revise the forecasts. Asking a funder for help well in advance of the requirement shows you have your finger on the pulse and is much more likely to be looked at favourably.

Cash flow projections can be very slow, time consuming and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help. As the owner and operator of the business, you are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly, a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you have not otherwise considered.

## CHAPTER 8 – OBTAINING CREDIT AND FINANCING YOUR BUSINESS

If there is a risk that you may not have the wealth to get cash for your business then you may have to borrow it in order to have the capital for your business.

There are forms of business financing; debt or equity. Debt, of course, means borrowing money. Loans could be either from personal or from corporate investors. Equity relates to selling an ownership interest in your business. By making these sale, you would have to offer the investors additional shares in your business or telling your partners about the deal. For more advice regarding this it would be best to consult either your accountant or solicitor.

### How Do I Get the Money?

There are several questions you would need to ask during the time when you are raising cash for your business. Being able to answer these question could be quite pivotal on how successful your business could be. It is crucial that you can sell your business to potential investors as they will be funding the cash.

1. **How much cash do I need?**

This will entail you to carry out a cash flow plan allowing you to estimate future sales along with any related cost and the timeframe in which you must pay your suppliers. Within your planning you will have to assume a payback period, however if the cash was raised through equity this would not be required. The advantage of the payback period will allow investors to know the value of the business growth and the benefits that they may receive.

2. **What will you do with the money?**

A potential investor will require information on how the money will be spent. Will it be used towards additional manpower or equipment and how will this benefit the company.

### 3. What experience do you have in running your business?

Investors require convincing that you have the knowledge, the experience and the ability to manage both your business and their money. Therefore you will need to show them that through good management/leadership skills you will be able to grow and bring in a return for them.

### 4. What is the climate for your type of business and your geographic location?

The risk your business faces will be increased if you centre your business on the existing/legal conditions that are subject to change in the unforeseeable future. Although your business may show great potential, if the local economy does not do well then it will not be able to support your endeavour. Therefore it is crucial that you are aware of the market conditions your business is based upon.

The above questions (1-4) are what you will have to have answers in order to begin looking for financing. You will need to decide on whether to raise the funds through either debt or share capital. Both the cost and the way your company is treated in regards to tax purposes differ from the way in which you decide to raise your funds. The interest on borrowed money will be deductible however dividends paid on the same investments in shares will not be. There is also no commitment by your company to pay the money back to your shareholders however shareholders will want and have the legal right to have a say in the management of your company.

Once you have made your decision which you believe is appropriate for your business, it will be beneficial to consult with your accountant and also a lawyer to get a clear and more in depth explanation to the alternative types of financing available to you.

**Business Plan**

Your Business Plan should be written in a consistent and consolidated format enabling investors to be able to get an understanding of what your business proposal is. Your devised plan should be viable and realistic if to attract the attention of investors and successfully raise the required funds.

At Asmat & Co we have helped many clients with structuring and drafting out an effective business plan.

**Financing Alternatives**

There are many different alternatives to raising funds, allowing you to choose the best choice for your company. Depending on the nature of your business, finance can be raised through a combination of methods thus allowing you to meet the specific needs of your company.

Below we mention a few conventional methods a start-up can obtain capital. There are more alternatives available which can be discussed in more details at Asmat & Co.

**Debt Financing Sources**

1. **Banks**

Banks are usually the first source of method when it comes to borrowing. When lending to small businesses, banks do it on a secured basis preferring bricks and mortar as security in preference to equipment, stock or debtors. There is a higher chance the bank will accept if you have readily saleable assets. There are different forms of lending the bank can offer:

a) **An overdraft limit** should be for short-term borrowing or emergencies. Authorised overdrafts are arranged in advance. You agree a borrowing limit with your bank, and you can spend money up to that limit through all the normal payment methods. There are often fees even with authorised overdrafts.

b) **A short-term loan** are less than one year to finance your temporary working capital needs.

c) **A term loan** is a monetary **loan** that is repaid in regular payments over a set period of time. Term loans usually last between one and ten years, but may last as long as 30 years in some cases. A term loan usually involves an unfixed interest rate that will add additional balance to be repaid.

Over time your relationship with your bank may get better as your business would be more established you may consider a longer (3 to 5 years) loan which will be payable in instalments.

## 2. Lease Financing

Lease financing is one of the important sources of medium- and long-term financing where the owner of an asset gives another person, the right to use that asset against periodical payments. The owner of the asset is known as lessor and the user is called lessee.

The periodical payment made by the lessee to the lessor is known as lease rental. Under lease financing, lessee is given the right to use the asset but the ownership lies with the lessor and at the end of the lease contract, the asset is returned to the lessor or an option is given to the lessee either to purchase the asset or to renew the lease agreement.

## 3. Trade Credit

Trade credit means many things but the simplest definition is an arrangement to buy goods and/or services on account without making immediate cash or cheque payments.

Trade credit is a helpful tool for growing businesses, when favourable terms are agreed with a business's supplier. This arrangement effectively puts less pressure on cashflow that immediate payment would make. This type of finance is helpful in reducing and managing the capital requirements of a business.

When a business enters into a trade credit arrangement with its suppliers, a limit is usually set, commonly called credit terms. For example, you could set cash, cheque or bank transfer payments to be made within 15 days from the date of the invoice, hopefully allowing you to still qualify for any early payment discount. If payments are not made within the terms, all outstanding amounts are required to be settled within the normal time period set from the date of purchase.

## 4. Invoice Finance

Invoice financing is a general term used for asset based lending products that allow companies to finance slow-paying accounts receivable. There are two ways to finance invoices. The first way is through a sale. Invoices can be sold to a factoring company in exchange for an immediate payment. The second way is using receivables to secure a revolving line of credit through an asset based loan.

## 5. Peer to peer lending

Peer-to-peer lending, also abbreviated as P2P lending, is the practice of lending money to individuals or businesses through online services that match lenders with borrowers. Since peer-to-peer lending companies offering these services generally operate online, they can run with lower overhead and provide the service more cheaply than traditional financial institutions.

**Equity Financing Sources**

A company can finance its operation by using equity, debt, or both. *Equity* is cash paid into the business—either the owner's own cash or cash contributed by one or more investors. Equity investments are certified by issuing shares in the company. Shares are issued in direct proportional to the amount of the investment so that the person who has invested the majority of the money in effect controls the company. Investors put cash into a company in the hope of sharing in its profits and in the hope that the value of the stock will grow (appreciate). They can earn dividends of course (the share of the profit) but they can realize the value of the stock again only by selling it.

Cash obtained by incurring *debt* is the second major source of funding. It is borrowed from a lender at a fixed rate of interest and with a predetermined maturity date. The principal must be paid back in full by the fixed date, but periodic repayments of principal may be part of the loan arrangement. Debt may take the form of a loan or the sale of bonds; the form itself does not change the principle of the transaction: the lender retains a right to the money lent and may demand it back under conditions specified in the borrowing arrangement.

**Venture Capital Companies**

Venture Capital is a form of "risk capital". In other words, capital that is invested in a project (in this case - a business) where there is a substantial element of risk relating to the future creation of profits and cash flows. Risk capital is invested as shares (equity) rather than as a loan and the investor requires a higher"rate of return" to compensate him for his risk.

The main sources of venture capital in the UK are venture capital firms and "business angels" - private investors. Separate Tutor2u revision notes cover the operation of business angels. In these notes, we principally focus on venture capital firms. However, it should be pointed out the attributes that both venture capital firms and business angels look for in potential investments are often very similar.

**Private Individuals**

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs as well as help increase their personal wealth.

## CHAPTER 9 - INSURANCE

Business insurances are one of the costs that most businesses would be required to have to protect themselves and their business. Getting the right cover if fundamental depending on the level your business is at. Failure of not have insurance could lead you to lose money or in the worst scenario your business can go bust. The types and amounts of coverage you purchase must be evaluated on a cost - benefit basis like any other commodity that you purchase. It would be best to speak to your insurance broker regarding this. Normally the type of cover you should look at is what will affect your business such as fire, storm damage, theft, employers, public liability and products liability. Terrorism insurance is another area that is high on many business owners' agendas currently as well unfortunately. It would be best to cover the main aspects of your business depending on the size and nature of the business. Often raising the deductible (excess) can have a very favourable impact on the policy premium. Or processing the claims in the courts can be quite high and the rates typically go down substantially if they are relieved of this expense by insuring losses in excess of a sizeable deductible amount. An insurance broker can provide you with comparative costs for various types of cover and varying degrees of deductible amounts.

### Required Policies

#### Employers' liability insurance

Once you take on your first employee, you are required by law to take out employers' liability insurance. This will protect your employees if they fall ill or are injured in the course of their work. Your insurance certificate must be displayed where your staff can see it.

You don't need employer's liability insurance if your limited company has just one employee, who owns 50% or more of the share capital (i.e. you). If you are a sole trader and do not employ anyone, or you only employ close family members, you should also be exempt.

Even if you don't have any full-time employees, and just occasionally hire staff or use temps or seasonal workers, you must take out cover.

You can be fined up to £2,500 per day if your business doesn't have a suitable employers' liability policy. The size of the potential fine dwarfs the cost of cover so it's not something you should delay.

### Public liability insurance

Public liability insurance is not required by law, but if members of the public come to your premises, or could be hurt in any way by something your business does it's probably a good idea to have cover.

Depending on the type of business you are in, you might find that some organisations will require you to have public liability cover before giving you a contract or allowing you to operate on their premises. For example, if you have a stand at a market, or attend a fair to sell your wares, the organisers may demand you have public liability insurance before they will allow you to attend.

A public liability insurance policy will cover you for any damages claimed, plus legal representation.

**Professional Indemnity (PI) insurance**
Professional indemnity, or PI insurance, gives professional businesses protection against claims made by their clients, for any damage caused by professional negligence.

Many firms, particularly larger organisations, now require you to have PI cover before they will hire you. With this being common practice in many industries, professional indemnity insurance is effectively a must-have insurance for the majority of contractors, consultants and freelancers.

Even if you’re not required to have it by your clients, it is advisable to have professional indemnity insurance if you offer any kind of service to businesses or the public.

**Director’s & Officers insurance**
Director’s & Officers insurance covers the legal liabilities you have as a director of a limited companyand any legal costs if you get something wrong. This type of cover is also frequently referred to as D&O insurance.

**Employee travel insurance**
If you require your employees to travel abroad, you should get them well insured with a reputable company that will look after them in an emergency. Remember to check their **luggage, money and any laptop will be covered.**

Product liability cover
If you make, repair or sell products, you could be held liable for any injury or damage caused by defects.

**Pollution risk insurance**
If you manufacture anything and there’s any risk you might pollute the environment, this will cover the costs of any clean-up operation, plus claims against your business.

## CHAPTER 10 – SELECTING PROFESSIONAL ADVISERS

Having a specialist can be one of the most cost effective tool as you can use their knowledge and expertise. They can help you to save money and take away the financial burden so you can focus on the productivity of your businesses.

Before you decide which accountant or solicitor you want, you would need to look at your business and see what best fits you. You want a specialist who will listen to you. More importantly, you need someone you can and will listen to, as they devise strategies to help you to succeed.

Make sure your solicitors are registered with the Law Society and that your accountants are Chartered (e.g. CIMA/ACCA) and have experience of setting up businesses themselves.

You want to succeed - and you can. By taking the time to make key decisions and enlisting the right players on your team - you will succeed!

**CHAPTER 11 – IT and Social Media**

**Introduction**
This is to make you aware of areas information technology that require attention and action when installing or updating a system.

**Computer Hardware**

Computer hardware is the collection of physical parts of a computer system. This includes the computer case, monitor, keyboard, and mouse. It also includes all the parts inside the computer case, such as the hard disk drive, motherboard, video card, and many others. Computer hardware is what you can physically touch.

**Processor**

A processor is an integrated electronic circuit that performs the calculations that run a computer. A processor performs arithmetical, logical, input/output (I/O) and other basic instructions that are passed from an operating system (OS). Most other processes are dependent on the operations of a processor.

**Memory (RAM)**

Random access memory (RAM) is a type of data storage used in computers that is generally located on the motherboard. This type of memory is volatile and all information that was stored in RAM is lost when the computer is turned off. Volatile memory is temporary memory while ROM (read-only memory) is non-volatile and holds data permanently when the power is turned off.

The RAM chip may be individually mounted on the motherboard or in sets of several chips on a small board connected to the motherboard. Older memory types were in the form of chips called dual in-line package (DIP). Although DIP chips are still used today, the majority of memory is in the form of a module, a narrow printed circuit board attached to a connector on the motherboard. The three main memory circuit boards types containing chips are: RIMMs (Rambus in-line memory modules), DIMMs (dual in-line memory modules) and SIMMs (single in-line memory modules). Most motherboards today use DIMMs.

**Hard Drive**

The hard disk drive is the main, and usually largest, data storage hardware device in a computer. The operating system, software titles, and most other files are stored in the hard disk drive.

The hard drive is sometimes referred to as the "C drive" due to the fact that Microsoft Windows designates the "C" drive letter to the primary partition on the primary hard drive in a computer by default.

While this is not a technically correct term to use, it is still common.

For example, some computers have multiple drive letters (e.g,. C, D, and E) representing areas across one or more hard drives. The hard disk drive also goes by the name *HDD* (its abbreviation), *hard drive*, *hard disk*, *fixed drive*, *fixed disk*, and *fixed disk drive*.

**Internet**

The Internet is a global wide area network that connects computer systems across the world. It includes several high-bandwidthdata lines that comprise the Internet "backbone." These lines are connected to major Internet hubs that distribute data to other locations, such as web servers and ISPs.

In order to connect to the Internet, you must have access to an Internet service provider (ISP), which acts the middleman between you and the Internet. Most ISPs offer broadband Internet access via a cable, DSL, or fiberconnection. When you connect to the Internet using a public Wi-Fi signal, the Wi-Fi router is still connected to an ISP that provides Internet access. Even cellular data towers must connect to an Internet service provider to provide connected devices with access to the Internet.

**Accounting Software**

Accounting software, like hardware, is now very powerful and comparatively inexpensive. Integrated software includes Sales, Purchase and Nominal Ledgers with Sales/Purchase Order Processing and Stock Control in a single suite of programs. Networked versions for multi-user use are generally more expensive than single-user versions.

**Choosing an Accounting Package**

It is necessary to consider your requirements and what you want to be able to do before buying a package. There are often different levels of functionality in different versions of a program. Consider both the ability to get data into the product and also the reporting requirements that you have.

Consider also “online” packages which will not incur any upfront costs – simply pay a monthly fee for its use. These may have integrated payroll too if you have employees in your business. These have the benefit of being accessible remotely (either by you, your employees or your accountants) and can sometimes be linked to your on-line banking.

We have reviewed most of the well-known names in this sector of the market and find, as with many things in life, you tend to get what you pay for.

Modular systems are made up of individual programs for each of the above functions, each of which is more powerful and flexible than the integrated systems. These are put together to form a total system for the larger business, usually on a network of a number of PCs.

**Websites**
Developing and maintaining a website can be as complex and expensive as you care to make it. Careful thought needs to be given before significant time and expense is incurred as to how this aspect of technology be best implemented to suit your business. It is also vital that you invest in 'Search Engine Optimisation' so that customers and potential customers can find your website easily. As many people now access websites on mobile phones or tablets, it is also imperative that your site is 'mobile optimised' so it works correctly on these devices There are many options to consider; at 360 Accountants we can give some useful independent advice and thoughts in relation to your strategy in this area.

**Social Media**
The rise of social media in recent years has meant that today there are a plethora of different tools that can be used to the advantage of business owners. This guide will introduce several social media platforms that are currently popular for business use.

**Twitter**
Twitter is a micro-blogging service whereby users send and receive messages of up to 140 characters in length to each other, known as "tweets". Users can track the tweets of other users by "following" them, and in turn can have their tweets "followed"; the more followers a user has, therefore, the more visible their tweets are. Twitter is useful as a business tool because it allows you to personally engage with potential and existing customers, monitor what is being said about your company and keep interested parties up-to-date with your company's newest developments, products and offers.

Twitter is free although you can pay for adverts that target particular groups of individuals or businesses.

**Facebook**
Many people are already familiar with Facebook as a tool for personal networking, but opportunities exist to use Facebook for business purposes. The most pertinent of these is Facebook Pages, a flexible space within which users can promote their local business, band or organisation, amongst others. Facebook also offer a number of paid advertising solutions, whereby campaigns can be targeted at Facebook users according to defined demographics such as age, location and interests, which can direct people to the company Facebook Page or an external website.

Facebook Pages provides useful statistics covering areas such as the age, sex and geographical location of your followers.

Asmat & Co has been using facebook for many years – why not go to Asmat & Co Accountants and like our page?

**LinkedIn**

Billing itself as the world's largest professional network, LinkedIn is designed for users to showcase their professional qualities. User profiles include elements such as professional experience, education and honours & awards, as well as endorsements from other LinkedIn users. LinkedIn is thus a great place to establish yourself as a competent individual within your industry. Moreover, due to the number and diversity of groups on LinkedIn, it can be a great tool for finding and networking with like-minded individuals, as well as discovering potential business partners or additional company personnel.

As well as a personal LinkedIn profile, you need to set up a company page so that customers or potential customers can see what products or services you provide and keep up to date with the latest news. You can see the Asmat & Co company page by searching for Asmat & Co, Chartered Accountants.

**Apps**

Apps are self-contained programs designed to fulfil a particular purpose and can be downloaded onto a smart phone or tablet. Many businesses develop apps for the use of their customers or staff or to promote their business in general.

**Suppliers**

The computer industry is well known for "here today, gone tomorrow" suppliers. Make sure that you choose one with a good local reputation and never part with money until you have received the goods. Paying extra for on-site maintenance and remote support is a sound insurance for equipment being used for business.

**Planning and Implementation**

Planning and implementation must cover the layout of your accounts, control over the information going in and verification of the information coming out of the system. It will also be necessary to produce the accounting data for entering the opening balances.

Where advanced management information is involved, such as profit and loss by departments, more detailed planning is required. Development of a system can only take place at the pace at which staff are able to increase their own skills. The following phases of development may be appropriate for a new start-up system

- Recording of prime entries (cash received and paid; sales and purchase invoices)

Bank Reconciliations and VAT Returns

- Monthly adjustments ( e.g. Depreciation and Stock Change) producing monthly management accounts

- Sales Invoicing Routines

- Advanced Management Information e.g. detailed analyses of sales and departmental costs

- Sales and Purchase Order Processing with Stock Control

Even at the first stage, the system will produce Aged Debtors and Creditors on a regular basis to enable the business to improve its cash flow.

A “set up procedures list” together with details of typical available reports follows this section.

**Training and Support**
Training staff on your computer software is essential. Asmat & Co Accountants can provide training, on request, tailored to your specific requirements.

**Security**
The popular press would have you believe that it is only a matter of time before a virus attacking your hard disk eats up your data! The most frequent reason for loss of data is not taking backups.

Asmat & Co Accountants will not only advise on, but also insist that, proper procedures are in place to make your data as secure as is practical.

**Costs**
Hardware and software is dependent on prevailing market prices. Installation and training is proportional to your requirements and usually charged at an hourly rate.

**Conclusion**

Asmat & Co Accountants have the necessary balance of computing and accounting expertise to help you to both get off to a good start and later to improve your system.

We have good working relations with local service providers who will supply and maintain your equipment. Many will also provide the technical support for networks and, if needed, tailor your software to specific requirements. We can of course recommend suppliers if needed.

| **Name** | **Address** | **Tel No.** |
|---|---|---|
| **HM Revenue & Customs** | | |
| Self-Assessment Helpline | | 0300 200 3310 |
| Self-Assessment Orderline (for extra pages of the main tax return, help sheets and leaflets) | | 0300 200 3610 |
| New Employer Helpline | | 0300 200 3211 |
| Construction Indrustry Scheme (CIS) Helpine | | 0300 200 3210 |
| Newly Self-Employed Helpline | | 0300 200 3504 |
| Tax Credit Helpline | | 0300 300 3900 |
| VAT Helpline | | 0300 200 3700 |
| National Insurance Self-Employed enquiries | Longbenton, Newcastle upon Tyne NE98 1ZZ | 0300 200 3505 |
| **Miscellaneous** | | |
| Companies House | Crown Way, Maind, Cardiff, CF4 3UZ | 0303 123 4500 |
| **Sundry internet sites** | | |
| Gov.uk (Government services and information) | www.gov.uk | |
| HM Revenue & Customs News | www.hmrc.gov.uk/news | |
| NIC Information | www.hmrc.gov.uk/ni/index.htm | |
| News Providers BBC | www.bbc.co.uk | |
| HM Revenue & Customs – Home Page | www.hmrc.gov.uk | |
| Institute of Chartered Accountants in England & Wales | www.icaew.com | |
| Association of Certified Accountants | www.accaglobal.com | |
| Royal Mail (Postcodes online) | www.royalmail.com | |

## CHAPTER 13 – ABOUT ASMAT & CO