Small Business Accounting Software Equals Simple Bookkeeping Spreadsheets

Accounting software is used by accountants to enter many complex financial transactions into the financial books of account and is almost invariably based upon double entry bookkeeping principles. A major advantage to those companies and the finance staff is the extent to which financial information contained in the database can be queried for financial control purposes. An accountant needs to not only ensure the financial records are accurate but also retrieve any part of the accounting records to answer accounting questions on the accounts, provide a legal basis for the transactions and report the financial statements at regular periodic intervals. The small business has different accounting needs which are better described as bookkeeping than accounting. For non limited companies that do not need to produce a balance sheet then a simple income and expenditure account can be produced much simpler using single entry bookkeeping principles. Less financial control is often required from small business accounting software as the bookkeeper is often the owner manager who already has an intimate knowledge of each transaction. Books are still required for tax purposes and a solid requirement of preparing a set of financial books for tax purposes is that each entry is supported by third party evidence. Examples of third party evidence would be sales invoices, purchases invoices and bank statements. Financial transactions where no receipt exists can still be entered in the business books although all transactions not carrying third party evidence could subsequently be disallowed for tax purposes and certainly would be if the amounts entered indicated unusual income or expenditure. Producing an income and expenditure statement using single entry bookkeeping is little more than making two lists of financial transactions. Those lists being one of sales income received from sales invoices or receipts issued to customers and the other of purchase expenditure being from purchase invoices received from suppliers. To record sales income it would not normally be sufficient to simply add up the total of the invoices as such a summation does not leave an audit trail of the items which have been included. A written list of sales invoices does provide an audit trail. Sales accounting for a small business accounting purposes can be either a manual list of the sales invoices or by using a spreadsheet package a list can be made on a bookkeeping spreadsheet. Using a spreadsheet for the bookkeeping has advantages as simple formula can be used to add up the column totals. The essential information to enter for a sales invoice would be the date of the sale, name of the customer, sales invoice number if applicable and optional a brief description of the item sold. In the next column would be the total sales invoice amount. If items like value added tax are required to be accounted for then an additional column would be required to accommodate the vat or sales tax accounting. A further small complication might be if at the discretion of the small business owner additional information was required from the bookkeeping records to indicate the totals of the different types of products and services then additional columns could be incorporated to enter the net sales figures in these columns. There it is then, a simple list of sales invoices to satisfy the sales accounting requirements for a small business where a balance sheet is not required. On the expenditure side of the business the bookkeeping can also be a simple list of the purchase invoices and receipts showing the amount spent. The list should also produce an audit trail by showing the date of the purchase invoice, name of the supplier, purchase invoice for identification purposes and the total amount spent. Usually tax returns are the main purpose of producing small business accounts and invariably some analysis is required to show what the expenses have been spent on. That is not difficult to achieve and as with the sales accounting the owner manager can add additional standard columns to the bookkeeping spreadsheet. The expenditure analysis columns do not need to be a different column for each type of expenditure. It is better to set up and group the analysis columns in general headings which can accommodate all the expenses. Such columns may include stock, other direct costs, premises costs, general administrative costs, transport and delivery costs, repairs and maintenance, travelling and hotel costs, motor costs, bank and legal costs and other expenses. It is better not to enter too many items under a general heading of other expenses as this is more likely to be investigated as the type of expense has not been precisely identified. One important column to also include is for asset purchases as fixed assets usually have different tax rules applying to the claim of the expense against tax and should be separated from other expenditure. Having set up two bookkeeping spreadsheets the task is then to produce the income and expenditure account by collecting the totals of each of the analysis columns. The sales total is the sales turnover from which is deducted the totals of each of the expenditure classification totals with the result being the net profit and loss of the business. Where stock is bought and sold a further adjustment may be required to account for the difference between opening and closing stock. This is done by taking a physical stock check and valuing the stock at the start and end of the financial period. On the income and expenditure account adjust the stock purchases figure by adding the value of the opening stock and deducting the value of the closing stock. The result is not the stock purchases total as shown in the bookkeeping spreadsheets but the cost of the goods which have been sold to produce the sales turnover being reported. Simple bookkeeping for a small business accounting purposes can be two lists of sales and purchases supported with sales invoices and purchases invoices.

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Terry Cartwright, an accountant at DIY Accounting designs UK Accounting Software spreadsheets for companies at http://www.diyaccounting.co.uk/companyaccounts.htm and self employed bookkeeping software http://www.diyaccounting.co.uk/bookkeeping.htm