GUIDE 4

Record-Keeping and Bookkeeping Essentials

Building reliable company records from day one

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Good bookkeeping is not simply an administrative requirement carried out for the accountant at the end of the year.

It tells you whether the company is profitable, whether customers are paying, what tax is accumulating and how much cash is genuinely available. Where the records are incomplete, decisions are made from the bank balance alone, which can give a dangerously optimistic picture.

Starting with a disciplined process is considerably easier than rebuilding a year's records after the event.

Use a separate company bank account

A limited company is a separate legal entity, so it should operate through its own bank account.

Customers should pay the company, and company costs should be paid from the company account wherever possible.

Avoid using:

- The company account for routine personal spending
- Personal accounts for receiving company sales
- Multiple payment platforms that are not reflected in the bookkeeping
- Cash transactions without supporting records
- Personal credit cards for regular company expenditure unless there is a clear reimbursement process

Occasional crossover can be corrected, but repeated mixing of personal and company money creates director's-loan issues and makes the records less reliable.

Connect the bank feed

Where possible, connect the business bank account directly to the accounting software.

A bank feed imports transactions, but it does not complete the bookkeeping by itself. Transactions still need to be:

- Matched to invoices or bills
- Categorised correctly
- Supported by documentation
- Reviewed for VAT treatment
- Reconciled to the bank statement
- Distinguished from transfers, loans and personal transactions

Automation speeds up the process, but it cannot determine the commercial meaning of every transaction without accurate source information.

Raise sales invoices promptly

Invoices should be raised in the company's legal name and contain the required business information.

A typical invoice should include:

- The company's legal name
- Company number
- Registered office or appropriate business address
- Customer details
- Invoice number
- Invoice date
- Description of the goods or services

- Amount due
- Payment terms
- Bank details
- VAT information where the company is VAT-registered

Using sequential invoice numbers and consistent descriptions creates a clear audit trail.

Delayed invoicing delays cash collection and can distort the company's view of monthly performance.

Record sales from every source

Turnover includes more than invoices raised through the accounting system.

Depending on the business, sales may also arrive through:

- Card processors
- Online marketplaces
- E-commerce platforms
- Cash
- Direct Debit providers
- Finance platforms
- Foreign payment accounts
- Personal accounts used accidentally
- Contra or credit arrangements

The accounting records should reconcile back to the full value of the sales, not merely the net amount reaching the bank after fees or commissions.

For example, where a payment processor collects £1,000 from customers and deducts a £25 fee, the records will generally need to show £1,000 of income and a separate £25 cost, rather than recording only the £975 bank receipt.

Keep purchase invoices and receipts

A bank statement proves that money moved. It does not necessarily prove what was purchased, whether VAT was charged or whether the cost had a business purpose.

For each purchase, retain:

- The supplier invoice or receipt
- The date
- The amount
- The VAT information
- The business purpose
- Evidence of payment where relevant

Ask suppliers to address invoices to the company. Where a receipt is unclear, add an explanation while the transaction is still fresh.

Uploading documents regularly is much more reliable than searching emails and drawers shortly before a deadline.

Understand the difference between an invoice and a payment

An invoice records that money is owed. A payment records that money has moved.

They are related, but they are not interchangeable.

Where bookkeeping is maintained on an invoice basis, the accounts should normally show:

- Sales owed by customers
- Costs owed to suppliers
- Payments received
- Payments made
- Outstanding balances
- Credit notes
- Bad or disputed debts

Simply coding every bank receipt as sales and every payment as an expense can duplicate transactions where invoices and bills have already been entered.

Reconcile the bank

A bank reconciliation confirms that the balance in the accounting software agrees with the actual bank statement.

This process identifies:

- Missing transactions
- Duplicated entries
- Incorrect dates
- Unpresented payments
- Transfers posted as income or expenses
- Transactions entered to the wrong account
- Bank-feed interruptions
- Opening-balance errors

A bookkeeping system can appear complete while still carrying an incorrect bank balance. The reconciliation is therefore a core control, not an optional tidy-up.

Keep track of money owed by customers

Unpaid invoices are not merely a bookkeeping issue; they represent cash the company has earned but has not collected.

Review aged receivables regularly and establish a consistent credit-control process.

This may include:

- Clear payment terms
- Automated reminders
- Personal follow-up
- Deposits or staged billing
- Credit limits
- Suspending work where accounts remain unpaid
- Escalating disputed invoices promptly

Sales growth without cash collection can increase pressure rather than improve the business.

Keep track of supplier liabilities

Supplier bills, finance agreements, tax liabilities and accrued costs should be recorded even where they have not yet been paid.

This creates a more realistic picture of the company's financial position.

A bank balance of £30,000 does not mean the company has £30,000 available to distribute where it also owes £8,000 of VAT, £5,000 of Corporation Tax and £12,000 to suppliers.

Reliable bookkeeping separates cash held from cash genuinely available.

Director's loan account

Transactions between the company and its director should be recorded through a director's loan account where appropriate.

This account may include:

- Money introduced by the director
- Company expenses paid personally
- Money repaid to the director
- Personal expenses paid by the company
- Transfers not treated as salary or dividends
- Other amounts owed between the parties

The balance should be reviewed regularly. An unexplained or overdrawn director's loan account can create tax and legal complications.

VAT records

Where the company is VAT-registered, its records must support the VAT treatment applied.

This includes:

- Valid VAT invoices
- Sales VAT
- Purchase VAT
- Credit notes
- Imports and exports
- Reverse-charge transactions
- Business and private use
- VAT adjustments
- Digital links required under Making Tax Digital for VAT

Not every supplier charging an amount described as “VAT” means the company can automatically reclaim it. The purchase must meet the relevant conditions and the evidence must be valid.

Payroll records

Where the company employs staff or pays directors through payroll, it should retain records including:

- Gross pay
- Deductions
- Net pay
- PAYE and National Insurance
- Pension information
- Employee details
- Starter and leaver information
- Statutory payments
- Benefits and expenses where applicable

Payroll changes should be communicated before the pay run, not after employees have been paid.

Assets, stock and finance

Larger purchases should be identified separately from ordinary expenses.

The company should maintain suitable information for:

- Equipment
- Vehicles
- Machinery
- Computers
- Stock
- Hire-purchase agreements
- Leases
- Loans
- Assets sold or scrapped

A monthly finance payment may contain capital, interest and charges, each of which may need a different accounting treatment.

Stock-based businesses should also have a process for counting and valuing stock at the year end.

How long records must be retained

Company accounting records generally need to be kept for six years from the end of the financial year to which they relate. Longer retention may be required in certain circumstances, including where a transaction spans more than one accounting period, an asset is expected to last more than six years, a return was submitted late or HMRC has opened a compliance check.

Records may be maintained electronically, provided they remain complete, legible and accessible.

A workable monthly routine

A useful monthly bookkeeping process is:

1. Upload all purchase invoices and receipts.
2. Raise or import all sales invoices.
3. Import sales from external platforms.
4. Match bank transactions.
5. Reconcile every bank and payment account.
6. Review unpaid customer invoices.
7. Review unpaid supplier bills.
8. Check payroll and tax balances.
9. Review the director's loan account.
10. Investigate unusual or uncategorised transactions.
11. Save copies of bank statements.
12. Review profit, cash and upcoming liabilities.

This is usually more effective than allowing transactions to accumulate until a VAT quarter or year end.

What we need from you

Accounting software does not remove the need for context.

We need you to tell us about:

- New bank accounts
- Loans and finance agreements
- New employees
- Asset purchases
- Personal use
- Cash transactions
- Overseas sales or purchases
- Changes in business activity
- Unusual one-off transactions
- Money introduced or withdrawn
- Contracts or arrangements that affect the figures

Where something looks unusual to you, it is likely to look unusual to us as well. A short explanation at the time can avoid significant work later.

The practical rule

Bookkeeping should allow another informed person to follow what happened, why it happened and how it was treated.

A transaction list without invoices, explanations or reconciliations may look busy, but it is not a complete set of records. The commercial value comes from turning those transactions into information you can rely on.

Limited-company directors are legally responsible for maintaining company and accounting records, preparing annual accounts and completing the Company Tax Return, even where an accountant performs the underlying work.

Need advice tailored to your company?
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