

How Do I Prepare My Accounts?

You need to prepare accounts so you can work out what profit or loss you have made from your self-employment. These should show all of the income and expenses from your business for the period of the accounts.

If you are using accounting software the accounts will be prepared for you.

The accounts can be prepared under one of two methods and these are the **cash basis** or the **accruals basis**.

What is the Accruals Basis?

Historically this is how all accounts were prepared in the UK. In simple terms this means that all income and expenses that relate to the accounting period are included in the accounts, whether they are paid or not.

For example, if you have a year end of 31 March and you raise an invoice to a client on 28 March that invoice would be recorded as income regardless of whether it was paid before or after 31 March.

Similarly, if you pay insurance on 1 January to cover the full year to 31 December only 3/12's of the premium would be included in the accounts to 31 March. The remaining 9/12's will be recorded in the following year.

What is the Cash Basis?

The cash basis is much simpler in that only the income that is received and spent during the accounting period is included.

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What Should My Accounts Look Like?

Below is an example of what a simple profit and loss account using the cash basis may look like. Don't worry if you don't have all of the categories below, or have different classes of expenditure as each business is different:

Sales (turnover or income)	20,000
Less cost or sales:	
Materials	<u>(4,500)</u>
Gross profit	15,500
Marketing	1,750
Travel	400
Working from home	120
Sundry	50
Entertaining clients	75
Capital equipment	<u>500</u>
	<u>2,895</u>
Net profit	<u>12,605</u>

The profit above is £12,605 but this is not the taxable profit. The cost of entertaining clients is not an allowable expense for tax purposes and should not be taken into consideration when preparing the tax return. The taxable profit is £12,680.

Capital Expenditure

The cost of capital items such as a new laptop can be treated as an expense when using the cash basis as above.

This is not the case for the accruals basis when capital items are treated differently, and tax relief is given via capital allowances claims. Please ask for advice if you are using the accruals basis and wish to claim capital allowances.