New Business Kit

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Before Starting Up

It is the ambition of many people to run their own business. In recent years this dream has become a reality for some who have been made redundant, whilst others may decide to start up in business to be more independent and to obtain the full financial reward for their efforts.

Whatever the reason for considering setting up in business, a number of dangers exist.

A major concern must be the risk of business failure despite considerable effort and finance having been put into the venture. Time spent in making the decision and thinking through your plans will minimise the risk of failure.

Think carefully about ceasing to be someone else's employee. Certainty of income, both in terms of quantity and regularity, disappears, whilst fixed outgoings, such as mortgage repayments, remain. Similarly, other benefits of employment may be lost, such as life assurance cover, a company pension, medical insurance, a company car, regular hours and holidays.

Consider the views of your family and friends. Their support is essential. It is important they understand that the administrative and financial requirements of running a business can be time consuming and stressful.

Success in business depends on many factors; most important is the need to critically review all aspects of the business proposition before progressing too far.

This kit highlights many of the practical points that require consideration before trading begins. It cannot cater for every possibility and decisions should be supported by appropriate professional advice.

For information of users:

This kit is published for information only. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice from a partner of this firm. No responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this kit can be accepted by Glacken Accountants.

Selecting a Legal Entity for your business

Selecting a Legal Entity for your business

One of the first major decisions you will have to make as you start your new business is the form of legal entity it will take. To a large degree this decision may be dictated by the way you have organised your operations and whether you intend to work on your own or in conjunction with others.

The form of entity you choose can have a significant impact on the way you are protected under the law and the way you are affected by taxation rules and regulations. There are three basic forms of business organisations. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes.

Sole Proprietorship

A sole proprietorship is typically a business owned and operated by one individual. A sole proprietorship is not considered to be a separate legal entity under the law, but rather is an extension of the individual who owns it. The owner has possession of the business assets and is directly responsible for the debts and other liabilities incurred by the business. The profit or loss of a sole proprietorship is combined with the other income of an individual for income tax purposes.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organisation, except, of course, the normal requirements such as licenses or permits. A sole proprietorship typically does not have any rules or operating regulations under which it must function. The business decisions are solely the result of the owner's abilities.

Partnership

In a partnership, two or more individuals join together to run the business enterprise. Each of the individual partners has ownership of company assets and responsibility for liabilities, as well as authority in running the business. The authority of the partners, and the way in which profits or losses are to be shared, can be modified by the partnership agreement. The responsibility for liabilities can also be modified by agreement among the partners, but partnership creditors typically have recourse to the personal assets of each of the partners for settlement of partnership debts.

The rights, responsibilities and obligations of partners are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership.

A partnership is a legal entity recognised under the law and, as such, it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee of the general partners for credit.

Partnerships are obliged to prepare accounts and submit them to the Revenue Commissioners

A limited partnership can be created where one or more partners limit their liability to the amount of money they invest in the business.

Limited Company

A limited company is a separate legal entity that exists under the authority granted by the Companies Acts. A limited company has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file tax returns and pay taxes on income it derives from its operations.

Typically, the owners or shareholders of a limited company are protected from the liabilities of the business. However, when a limited company is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded the owners of a limited company can be useful.

A limited company must file accounts at the Companies Registration Office.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale 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.

Should you decide to incorporate your business venture, you should seek advice from Glacken Accountants.

Business Structure - The Pros and Cons

Company	Sole Trader/Partnership
A company must be formally incorporated with a written constitution- the Memorandum and Articles of Association. There is an initial setup cost, and the business name needs to be registered at Companies Registration Office.	The business name needs to be registered at Companies Registration Office, but otherwise there are minimal formation costs. However, a written partnership agreement is advised.
Companies are governed by the companies Acts. A company must:- -Keep accounting records -Produce audited accounts, unless eligible for Audit Exemption. -File accounts and an Annual Return with the Companies Registration Office. This information is available to the public. -keep Statutory Registers and Minute Books.	Sole traders and partnerships are not required by law to have annual accounts nor to file accounts for inspection. However, annual accounts are necessary for the Revenue self assessment tax returns.
Companies 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.	
Incorporation does not guarantee reliability or respectability but gives the impression of a soundly based organisation. Personally, there may be prestige attached to directorship.	The unincorporated business does not carry the same prestige.
A company pension plan has greater flexibility and higher limits for deduction against profits for payments.	
Losses in a company can be offset sideways against all income in the same year on a value basis and can then be carried forward to set against future profits of the same trade.	Losses generated by a sole trader or a partner can be set against other income of the year or carried forward to future years.
All funds withdrawn must be by salary or dividend and an immediate tax charge arises to the company when payment is made.	Taxation, including PRSI and the Universal Social Charge (USC), is calculated on profits under the self-assessment system.

Registering with the Authorities

Registering with the Authorities

A significant task for the new business owner is ensuring that the business is properly complying with the extensive tax and information filing requirements imposed by the various authorities. Problems and penalties could arise if the new business is not registered with the appropriate tax authorities in a timely fashion. While this chapter is not intended to be an all-inclusive list of filing requirements, it summarises some of the more prominent requirements common to most businesses.

Revenue and Companies Registration

It is necessary to notify the Revenue of your existence by completing a taxes registration form. For sole traders and partnerships this is form TR1. The form notifies the Revenue of your liability to Income Tax, and also enables a PAYE/PRSI (Pay As You Earn) Scheme to be set up, which is a requirement if you are to be an employer. It also enables registration for VAT. VAT is considered in more detail in Chapter 4.

Form RBN1 needs to be completed by a sole trader (Form RBN1A for a partnership) to register any business trading name and this is filed at Companies Registration Office with a fee of €40 (or filed online for €20).

If a company is being set up, form TR2 needs to be completed for the Revenue Commissioners and a form A1 needs to be completed and sent with the Memorandum and Articles of Association and a fee of €100 to the Companies Registration Office (€50 if filed online). If the trading name is different from the company name then form RBN1B needs to be completed and sent to Companies Registration Office with a fee of €40.

The forms referred to above can be obtained at the links below:-

TR1	http://www.revenue.ie/en/tax/vat/forms/formtr1.pdf
TR2	http://www.revenue.ie/en/tax/vat/forms/formtr2.pdf
A1	http://www.cro.ie/ena/cro_forms_tt.aspx#faq3
RBN1	http://www.cro.ie/ena/forms_r_bnames.aspx
RBN1A	http://www.cro.ie/ena/forms_r_bnames.aspx
RBN1B	http://www.cro.ie/ena/forms_r_bnames.aspx

Accounting and Bookkeeping

Accounting and Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, solicitor, or inventor. Unfortunately, most people don't like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organised financial records cannot be over-emphasised. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on 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 book-keeping 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 book-keeper). Questions you should ask in developing an accounting and financial reporting system are:

1. *Who will be the users of the financial information?*
2. *What questions do I need answered to manage the business?*
3. *What questions should be answered for the Revenue Commissioners and other authorities?*

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information.

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:

1. *Will your business have stock to account for? If so, will it be purchased in finished form or will there be production costs?*

2. *Are fixed assets a significant portion of your business?*

3. *Will you sell only one product or service or will there be several types of business?*

4. *Will you have accounts receivable from customers, which you will have to track?*

5. *Are you going to sell in only one location or will you do business in several places?*

6. *Are the products you sell subject to value added tax?*

7. *Do you need to track costs by department?*

8. *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 which 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

One of the decisions to be made as you start a business is whether to keep your records on a cash or accrual basis of accounting. The cash basis of accounting has the advantage of simplicity and almost everyone understands it. Under the cash basis of accounting, you record sales when you receive the money and account for expenses when you pay the bills. The increase in the money in “the cigar box” at the end of the month is how much you have made.

Unfortunately, as we all know, the business world is not always so easy. Sales are made to customers and you sometimes must extend credit. Your business will incur liabilities which are due even though you may not have received the invoice or have the cash available to pay them.

Most users of financial statements such as bankers and investors are used to accrual-basis statements and expect to see them. Once you become familiar with them, they provide a much better measuring device for your business operations than cash-basis statements.

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. Glacken Accountants can advise you on the advantages and feasibility of doing this in your particular circumstances.

Accounting Records and Record-keeping

Another question that the owner of a business must answer is "Who will keep the books of the business?" Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

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 book-keepers 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 the computer 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 straightforward.

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:

1. *When my company provides goods or services to our customers am I sure that the sale is recorded and the debt is recorded in accounts receivable or the cash is collected?*

2. *When cash is expended by my company am I sure we received goods or services?*

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 as well as employee fidelity bonds 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.

Illustrative Chart of Accounts (Sole Trader)

FIXED ASSETS - TANGIBLE

0010	Freehold property cost	
0020	Freehold property depreciation	
0110	Leasehold property cost	
0120	Leasehold property depreciation	
0210	Plant and machinery cost	
0220	Plant and machinery depreciation	
0310	Fixtures/fittings cost	
0320	Fixtures/fittings depreciation	
0410	Motor vehicles cost	
0420	Motor vehicles depreciation	

FIXED ASSETS - INTANGIBLE

0700	Investments	
0900	Goodwill	

CURRENT ASSETS

1000	Stocks and work in progress	
1100	Trade debtors	*
1103	Debtors and prepayments	*

1200	Bank current account	*
1230	Petty cash	*

CURRENT LIABILITIES

2100	Purchase ledger control	*
2109	Creditors and accruals	*
2200	VAT control account	*
2300	PAYE/PRSI creditor	*

LONG TERM LIABILITIES

2600 Bank loans
2700 Hire purchase creditors
2800 Lease purchase creditors
2900 Other loans

CAPITAL AND RESERVES

3000 Capital account - balance brought forward
3100 Capital introduced
3200 Profit and loss account
3300 Drawings

SALES

4000 Sales/work done
4009 Discounts allowed
4100 Export sales

OTHER INCOME

4200 Royalties received
4210 Commissions received
4220 Insurance claims
4230 Rental income
4240 Bank interest received

COST OF SALES

5000 Purchases
5900 Opening stock and work in progress
5950 Closing stock and work in progress

DIRECT COSTS

6000 Direct labour
6100 Goods outward costs
6200 Goods inward costs
6300 Packaging
6400 Duty paid
6500 Transport insurance
6600 Sales commission payable
6700 Royalties payable

OVERHEADS

7000 Motor expenses
7100 Telephone
7200 Wages
7250 Wife's wages
7300 Rent
7400 Rates
7500 Heat and light

7600 Postage, stationery and advertising
7700 Repairs and renewals
7800 Insurance
7900 Bank charges and interest
8000 Hire purchase interest
8050 Mortgage interest
8100 Accountancy fees
8200 Legal charges
8300 Use of home as office
8400 Protective clothing
8500 Cleaning
8600 Sundry expenses
8700 Subsistence
8800 Profit on asset sales
8900 Depreciation
9000 Bad debt write off

This provides an illustrative list – but you can generally create as many accounts as you need for your own analysis and information. Most software packages come with pre-configured codes set up, sometimes generic and sometimes for a specific trade or industry.

Value Added Tax

VALUE ADDED TAX

VAT is a tax on consumer expenditure and is ultimately paid by the final customer. Most business transactions involve the supply of goods or services and VAT is payable if they are made:-

In the Republic of Ireland;
By a taxable person;
In the course or furtherance of business and are not specifically exempted or zero rated;
To unregistered EU customers.

VAT is collected by the Collector General and is normally payable bi-monthly.

Registration

VAT registration is necessary if the annual business turnover (excluding VAT) is likely to exceed the following annual limits (wef 1 May 2008):-

€75,000 in respect of supplying goods

€37,500 in respect of supplying services

Registration may also be necessary if you are in receipt of taxable services from abroad or if you are a foreign trader doing business in the State.

There are certain circumstances where it is not compulsory, but still advisable to register.

Tax Rates (as at 1 January 2012)

The standard rate has increased from 21% to 23% as from 1 January 2012 but there are reduced rates of 0% and 13.5%, together with a special 5.2% flat rate on livestock (live cattle, horses, sheep, goats, pigs, deer,) greyhounds and hire of horses. The 13.5% rate applies to certain fuels, building and building services, certain newspapers etc. Some other goods and services are exempt. As from July 2011, a new 9% VAT rate arises on certain tourist related activities.

Any VAT charged by the business is known as output VA, and the total charged or collected in the VAT period is payable to the Collector-General.

Input VAT

Input VAT is the VAT that you are charged on your business purchases and expenses (the other persons output VAT) and is normally recoverable in full by a trader who makes supplies within the scope of VAT. Businesses that make some exempt supplies (known as partially exempt businesses) have different recovery rules. The total input VAT suffered in the bi-monthly VAT period is deducted from the output VAT charged or collected and the difference is either the amount of VAT due or the amount repayable to Revenue.

The majority of input VAT is recoverable but there are special rules for certain transactions.

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.

Special Events

VAT was originally described as a simple tax but has gradually become more and more complicated over the last twenty years with changes to the operation of VAT every year.

It is not always possible to calculate each quarter's VAT liability by merely deducting input VAT incurred from the VAT arising on sales. Professional advice needs to be taken in any case of doubt, including the following situations:

- Importing and Exporting - either within or outside the European Union;
- Retail Schemes, i.e. where both zero rated and standard rated supplies are made which cannot be separately identified at the point of sale;
- Land and Property, where great care is needed;
- Cash Accounting;
- Self-supplies;
- Second-hand schemes for movable goods, works of art, collector's items and antiques, sales of trade in vehicles by motor dealers and sales of agricultural machinery by dealers.

Penalties

Interest on overdue tax is charged on a daily basis and this also applies to overclaims of VAT.

VAT Checklist

Registration

(a) Should the business be registered?
(b) Is basis of registration correct?
(c) Are details on registration certificate correct?
(d) Do procedures exist for notifying the Revenue Commissioners of relevant changes?
(e) Review position at regular intervals.

Preparation of returns

(a) Has return been received? If not, then obtain duplicate from VAT Office, or alternatively register with the on-line Revenue system ROS.
(b) Review sources of information.
(c) Prepare draft return.
(d) Check for accuracy and completeness.
(e) Make payment (if outputs exceed inputs)

Input Tax

(a) Do any restrictions on input tax exist?
- If "Yes", does an agreed method exist?
- Does this method maximise input tax?
(b) Are invoice additions and calculations checked?
(c) Is input tax claimed at the earliest tax point?
(d) Are all claims properly supported?
- Ensure all supporting invoices kept.

Output Tax

(a) Are all income heads reflected for VAT accounting?
(b) Are all potential sources of notional supplies considered?
(c) Are all potential sources of income (asset sales, etc.) covered by the VAT accounting system?
(d) Is VAT captured at the correct tax point?
(e) Is VAT correctly applied where appropriate?

Money Laundering Regulations

There are many aspects to the Money Laundering Regulations 2003 but in particular attention is drawn to those relating to High Value Dealers (HVDs).

HVDs are those traders who may receive €15,000 (or equivalent in any currency) for goods, whether it be 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.

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.

Payroll Taxes

PAYROLL TAXES

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll taxes. The brief summary that follows will give you some guidance in the rules and regulations in connection with PAYE/PRSI.

Helpful publications

The Revenue Commissioners publish various booklets (in particular IT 50) relating to how PAYE/PRSI and the new Universal Social Charge (USC) is operated and the legislation that you have to comply with. These are referred to collectively as payroll taxes. All employers must ensure that they have adequate systems in place to ensure collection of all payroll taxes at source by reference to current year legislation.

Should you fail to comply then the Revenue Commissioners will look to you for the amounts you failed to deduct. This can be costly if you are unable to recover the amounts 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.

In certain areas the Revenue Commissioners have placed emphasis on reclassifying individuals claiming to be self-employed and have issued the leaflet "rev_dsw" entitled "Employed or self employed – a guide for tax and social insurance". http://www.revenue.ie/en/tax/it/leaflets

This 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 the Revenue Commissioners it is clear that they were employees, then the tax etc which should have been paid will be assessed on you. 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 the Revenue Commissioners.

The Operation of a PAYE Scheme

Upon registration, the Revenue Commissioners will send to you guidelines on operating PAYE/PRSI.

Included will be a number of forms with which to operate the PAYE/PRSI and benefits in kind system. You should familiarise yourself with and have supplies of these forms, which are as follows:-

TDC	Tax Deduction Card (working sheet)
P46	Notification of new employee to the Regional Revenue office
P45	Details of employee leaving
P60	End of year return and employers certificate
P35	Employer's annual statement
P35L/P35L/T	Employer's supplementary returns
P50	Employee's application for refund of tax during unemployment
P30	Bank Giro payslip remittance form for PAYE/PRSI contributions

In order to calculate the amount of PAYE due by an employee, the Revenue Commissioners will supply you with a copy of the employees' standard rate cut off point and tax credit certificate. In 2012, for the first time, details of how to apply the USC on a cumulative basis will also be supplied.

By reference to this certificate and to standard rates of PRSI applicable as provided by the Department of Social and Family Affairs, you will be able to calculate the amount of total payroll taxes arising and to be deducted from an employees' gross salary.

The payroll taxes so deducted are then paid to the Collector-General by the 14th day of the next calendar month following that in which the deductions were made. Payment can be by direct debit. An extended deadline date of the 23rd day of the month applies when paying on-line via ROS.

Benefits in kind are also taxed through the PAYE system.

Income Tax and Corporation Tax

INCOME TAX AND CORPORATION TAX

Eventually you will have to deal with income or corporation taxes. The taxation legislation is extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business, nor does it detail all the expenses you can claim for, nor does it give details of allowances available on the purchase of some capital items. A qualified accountant or tax advisor 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.

Companies

Companies are charged corporation tax at the rate applicable during the financial year. Where a company's accounts period spans two financial years, the profits for the period are apportioned between the years.

The Corporation Tax rate is 12.5% for trading income and 25% for passive income such as rents or investment income.

Payment obligations depend on whether the company is a "small" company or a large company:

(i) Small company

This is a company with a liability of less than €200,000 in the previous accounting period. In this case a company can pay an amount equal to 100% of the previous years' liability on the 23rd day of the second-last month of the accounting period (i.e. 23rd November where there is a December year-end) with the balance due on the pay and file date in relation to that period, i.e. where there is a December year-end by 23rd September in the following year.

(ii) Large company

This is a company with a liability in excess of €200,000 in the previous year and here preliminary tax is payable during the year itself in two instalments – again we will take a December year-end as an example:

(i) On 23 June of that year it must pay 50% of the prior year liability or 45% of the current years' tax arising.

(ii) On 23rd November it must pay a balance of tax to ensure that in total 90% of the overall tax due is payable on this date

(iii) The balance is then paid on submission of the Tax Return on 23rd September in the following year.

Note that exemptions can arise for new start up companies and professional tax advice must always be sought in cases where you think this may arise

All dates mentioned here assume that Returns and payments are made on-line via ROS

Sole Traders/Partnerships

Sole traders and partners in a partnership business are charged income tax at the rate applicable during the financial year ending 31st December. The rates are currently as follows:

	2011and 2012	***Rate***
Single person	*€32,800*	20%
Then		41%

Under self-assessment regulations, your income tax return (which encompasses your trading results) needs to be filed by 31 October following the year of assessment. When filing via ROS, this deadline will invariably be extended to the 15th/16th November.

For start-ups and on admission of partners the rules are complex; you should refer to a qualified accountant or tax advisor for specific advice.

Penalties

There are penalties for late submission of returns and for late payment of tax.

Cash Planning and Forecasting

CASH PLANNING AND FORECASTING

CASH IS KING! The lifeblood of any business is its ability to collect cash and pay bills 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 an outside consultant 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 customers 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 licences, 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 cost which you incur can be delayed or deferred until you can generate the cash from your operation to help pay them. This needs to be carefully analysed and built in to 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.

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. You as the owner and operator of the business 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.

We have included a worksheet as an exhibit following this chapter that may assist you in developing a cash flow analysis. Bear in mind however, this worksheet does not include all the items that should be considered in preparing your cash flow analysis but should help raise many of the questions which you need to ask yourself before deciding how much cash will be required to establish and operate your business and what period of time must elapse before you can expect to pay back the lender or return profits to your investors.

The following tax matters require consideration as part of the preparation of your cash flow forecast:

Personal Tax

If you are the proprietor of a business that is not a limited company, your wages are part of the profit of the company and referred to as "drawings". The tax that you pay will be based on the profit of the company not the amount that you take out. It is advisable to pay a sum into a deposit account each week to provide for this tax that will be due after your year-end - and it could be a lot of money. Ask your accountant about this!

Many businesses go bust because they fail to provide for the taxes that are payable. Make sure that it does not happen to you!

Obtaining Credit and Financing for Your Business

OBTAINING CREDIT AND FINANCING FOR YOUR BUSINESS

If not independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or, for instance, the funds you require may be for expansion or working capital during the off season.

Generally, business financing can take two forms; debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a company, issuing of additional shares to investors. It is typically a prudent idea to consult with your accountant, as there are many significant legal ramifications to such a step.

How Do I Get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

1. How much cash do I need?

To answer this question you will have to do some serious cash flow planning, which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to build into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don’t need to pay it back but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

2. What will you do with the money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment or to hire additional employees or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

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

One of the primary reasons for business failure is lack of experience of management. You will need to convince your investors that you have the knowledge, experience and ability to manage your business and their money at the level at which you expect to operate.

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

Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or share capital. There are positive and negative aspects to each type. The cost to your company of each type of funding is different, as is the way in which they are treated for tax purposes. The interest on borrowed money is deductible by a business for tax purposes, which reduces the effective cost to your company. Dividends which you might pay on the same investment in shares would typically not be tax deductible by your company. In selling shares there usually is no firm commitment by your company to pay the money back but your shareholder will want, and generally will have, a legal right to have a voice in the management of your company. When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is probably a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Business Plan

Typically, a potential lender will want to know all about you and your proposed venture. Many of these details will have already been provided, but are best provided in a logical consolidated format. This format, or **business plan**, is a document that enables the investor to readily obtain an understanding of your proposal. It follows that in order to successfully raise funding, the business plan should be commercial and realistic.

Glacken Accountants have experience in writing business plans and can assist you in the effective drafting of your plan.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the summary, we will only mention a few of the more conventional methods for a young company to obtain capital, though the possibilities are many. Glacken Accountants can discuss these and other alternatives in greater detail.

Debt Financing Sources

1. Banks

The first source of funds, which typically comes to mind when borrowing money, is a bank, which is why they are in business. Banks typically lend to small businesses on a secured basis preferring bricks and mortar as security in preference to using equipment, stock or debtors. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be a banker. Loans from a bank may take several forms such as:

a) **An overdraft limit** which is reviewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.

b) **A short-term loan** that is repayable on specified dates.

c) **A term loan** for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better and your business becomes established, you may consider a longer (3 to 5 years) loan which will be payable in instalments.

2. Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature which can be resold if necessary. Leases often run for a period of three to five years and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

3. Trade Credit

A very important source of financing for your company may be from the creditors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or, in some instances, they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and sell your product to your customers, in some instance before you pay for them. The trade credit you build today will be relied upon by other suppliers as you attempt to establish yourself with other suppliers in the future. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of ordinary or preference shares. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or companies. The investors are often represented by a management group that evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require.

A venture capital firm sometimes requires a 300 to 500 percentage return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections or fail altogether. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what he must receive at the time his investment will be sold to allow him to achieve the rate of return he deems necessary.

Based upon the operating projections you provide, discounted based on his experience, he will estimate what your company might be worth at the time his investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor. The last step for a venture capital company in determining pricing is to calculate what percentage of the company he must own to realise the return he desires. At this point, the “horse trading” generally begins. As a general rule you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve his investment goals and have some control over how his money is spent. This will often be achieved by voting power and representation on the Board of Directors at the same time a venture capitalist wants to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry. Remember a venture capital investor becomes a member of your team.

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. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contracts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much quicker than a venture capital firm and typically has only his own interests to serve as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with, and often have personal, financial and tax motivations to consider.

Insurance

INSURANCE

Business insurance, like many types of expenditure, is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost – benefit basis like any other commodity that you purchase. Your insurance broker can help you review the amount of coverage your business requires. Usually you will want to insure against risks that could have significant detrimental impact on your business. This normally would include items such as fire, storm damage, theft, employers, public liability and products liability. Depending on the nature and size of your business it is often a good idea to self insure for all or a portion of certain losses. Often raising the deductible (excess) can have a very favourable impact on the policy premium. The administrative cost to the insurance company to process small claims is quite high; consequently, 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

The insurance cover required by law is employers' liability and third party motor insurance. Your insurance broker can explain the required cover and help you purchase the correct policy. You must be aware that the terms of your building, office lease or mortgage may require you to carry certain kinds of insurance cover in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreement relating to these transactions. There are many other types of policies that you may wish to consider. Specific cover is provided by each policy and a qualified insurance broker can explain the related costs in-depth.

Some types of insurance cover that you should consider for your business are listed below.

<u>Commercial Liability Insurance</u>

There are many types of liability your business may need cover for. "Liability" refers to your legal obligation to pay compensation and costs awarded against you in respect of loss or damage sustained by a third party. Types of liability insurance you may want to consider are:-

- Public Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or loss/damage to their property that may occur during the normal operation of your business.

- Employers' Liability – if you are a limited company or employ anyone outside your immediate family, you are required by law to purchase employers' liability insurance. This insurance offers you protection for any liability arising from injury or illness sustained by employees whilst they are working for you.

- Products Liability – this will protect you from any liabilities to a third party (other than your employees) for bodily injury or damage to their property that may occur from the products you have sold or supplied.

- Professional Indemnity – this cover is usually purchased by "professionals" such as IT consultants, surveyors, accountants, solicitors etc. This cover will protect your legal liabilities to third parties arising from your or your employees' professional negligence/wrongful advice.

PROPERTY INSURANCE

There are many different types of property cover but generally businesses will purchase cover for buildings, machinery and stock against fire and other perils such as storm/flood etc and theft. They will also consider covering money, goods in transit and glass. For small businesses cover can be provided on a 'package' basis where certain covers such as money and goods in transit are included in the premium as standard. However, this option is only available for specific occupations/trades and you should consult with your broker for further details.

If you are working from home be aware that generally your ordinary household insurance policy will not provide cover for your business stock and liabilities. Specific policies can be purchased if you are working from home and you should contact your insurance broker for further details.

There are specific policies for property owners who rent out their premises to tenants. These policies provide cover for buildings, liability and loss of rent. Loss of rent cover is usually only provided in the event of an insured peril occurring such as a fire or flood etc.

BUSINESS INTERRUPTION

This covers loss of income/revenue or additional expenditure incurred following a disruption to the operation of your business. Business interruption usually mirrors your property policy and covers the same perils. However, it is possible to add additional perils to your business interruption cover such as food poisoning or failure of utilities. Your broker will be able to provide you with advice regarding this cover and the possible extensions.

FIDELITY GUARANTEE

This type of insurance typically covers risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities or similar types of assets, you may well be advised to consider this cover.

Certain industries are required to carry this insurance by regulatory authorities.

DIRECTORS & OFFICERS LIABILITY

Directors and officers of companies in recent years have been found to be personally responsible for their negligence in the running of their company. Recent legislation has also made company directors liable for their behaviour to the company so that shareholders, creditors, customers and employees can now sue them as individuals.

Directors and officers liability cover provides indemnity to the company in respect of the costs it incurs in indemnifying a director against the successful defence of a claim or indemnifying the director where the defence has not been successful.

Although this is a relatively new cover in the insurance market, it is strongly recommended for limited companies and you should seek the advice of your broker for quotations.

OVERVIEW

Insurance is like any other product that you purchase. Before buying cover you must ensure that your broker has been approved by the Financial Services Authority and that the insurance company that is being quoted is financially stable. Your broker will have access to this information and will be happy to provide you with details.

This is just a brief outline of the basic insurance you may require. Each business is different with individual requirements and in view of the ever changing legislation and insurance markets, you should always consult with a qualified insurance broker for advice.

KEY PERSON / SHAREHOLDER / PARTNERSHIP PROTECTION

KEYPERSON PROTECTION

This provides a company with a valuable safety net should serious illness, disability or death curtail the contribution certain “key” people could make to its stability, profitability and success.

IDENTIFYING A KEY PERSON

These are the people whose special knowledge, skills or enterprise are vital to the continuing survival of a business - people who are difficult to replace.

Remember, key people come in many guises. They aren’t always the Managing Director or other high profile senior managers. Consider other key functions that are necessary to the company’s business when talking key person insurance with your clients.

WHEN IS KEY PERSON PROTECTION NEEDED?

There are three clearly identifiable situations when key person insurance is most needed.

- To prevent loss of profits
- To protect the repayment of loans
- To safeguard the raising of capital

PARTNERSHIP PROTECTION

The death of a partner can be extremely damaging to any business. The ability to continue trading and maintain the financial well being of the firm will be vital. In addition, there are other problems which may have to be faced, in the absence of property provision in the Partnership Agreement and insurance cover:

- the partner's interest may pass to an heir who may not have the necessary skills, experience or interest to continue in the business.
- the partner's interest may need to be turned into cash to pay Inheritance Tax or provide for his or her dependants on death.

Raising the finance to buy a partner's interest may involve the sale of assets or finding someone who can afford to buy-in to the partnership.

Finding a suitable replacement and raising the money can be difficult and time consuming. If unsuccessful, the partnership may even have to be dissolved. It is clear that partners need to retain continuity, stability and control of the business whatever the eventuality. This can be achieved by making adequate legal and financial provision.

SHAREHOLDER PROTECTION

Like partners, shareholder's shares may pass to an heir who does not understand the company's business or whose interests conflict with those of the other shareholders. Alternatively, the shareholder's interest may need to be converted into cash to cover Inheritance Tax liabilities or provide for dependants. Maintaining control and stability of the company during this often turbulent time is key to its continued success. By taking the appropriate legal and financial steps shareholders can be confident that the future holds no surprises.

PENSIONS

Some arrangements that you may have already have or are familiar with:

Occupational/Employee Pension Schemes
Personal Retirement Savings Accounts (PRSA)
Retirement Annuity Contracts (RAC)
Approved Retirement Funds
Etc

There are limits to the amounts that can be paid into pension plans and this can be quite complex to calculate. Special rules also apply to Proprietary Directors in limited companies. Specialist advice should be sought with regard to pension funding. Tax planning in relation to such matters is also essential.

Selecting Professional Advisers

SELECTING PROFESSIONAL ADVISERS

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilise is the expertise of a specialist. The right accountant, tax advisor and solicitor can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

Make sure that the individual you choose to assist you is both qualified and experienced – remember, the cheapest advisor is **rarely** if ever the best!

As any coach can tell you, having a first rate attack (you) won't guarantee a winning team without a first rate line of defence. The right accountant and solicitor **is** your best defence. Their expertise can help save you money that in turn can be used to increase profits.

When enlisting the expertise of an accountant and solicitor, you want a specialist suited to meet your specific needs. You want a specialist who will listen to you. More importantly, you need some you **can** and **will** listen to as they devise strategies to help you succeed.

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!

We wish you success and welcome you to the wonderful world of free enterprise.

Computer Accounting Systems for first time users

COMPUTER ACCOUNTING SYSTEMS FOR FIRST TIME USERS

Introduction

This chapter is intended to alert the business user of computers to areas needing attention and action when installing or updating a system. It is not intended as a complete DIY handbook covering every eventuality!

Computer Hardware

The choice of hardware involves primarily:-Hard disk size, Processor speed and Memory (RAM).

Processor

The processor, or central processing unit (CPU) is the part of a computer responsible for responding to and carrying out the sets of instructions necessary to perform operations. The clock speed of a processor, measured in Hertz (Hz) is a measure of how quickly the computer can execute these instruction sets. Bandwidth, measured in ‘bits’, relates to the amount of information that can be handled simultaneously by a processor within a given time. Higher clock speed and bandwidth will therefore yield better performance in a machine.

Memory (RAM)

Another important aspect to consider when selecting a system is the amount of Random Access Memory (RAM) that a machine has. RAM is comparable to the short-term memory in the brain, as it is a temporary storage solution. Various pieces of information are stored flexibly whilst a program is running so that it can be accessed quickly; a linear storage space would take longer for data to be retrieved. Having more RAM, therefore, allows programs to run faster, so again ‘more is better’.

Hard Drive

The hard drive of a computer is used as a permanent storage solution and is used to store files and application data. The more storage capacity a hard drive has, therefore, the more information it can contain. The size of a hard drive is measured in bytes; many new desktop computers now come with at least 320Gb of space (3.2 billion bytes) which is more than adequate for most businesses. Portable hard drives are also available if required, adding even more storage capability to your system.

All software programs give their ‘minimum system requirements’ which are the requirements a computer system must meet to run a piece of software. Some programs give details of ‘recommended system requirements’ which will run the software more effectively if your system can meet them. It is therefore recommended that you check that your systems can meet both the minimum and recommended system requirements of any software applications your business will require.

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 you in any upfront costs – simply pay a monthly fee for its use. These may have integrated payroll too if you have employees in your business.

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 PC's.

Websites

Developing and maintaining a website can be as complex and expensive as you care to make it. A great deal of 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. There are many options to consider in how this should be addressed. At Glacken 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.

Facebook

Many people are already familiar with Facebook as a tool for personal networking, but opportunities exist for using Facebook for business purposes. The most prolific 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.

Linkedin

Billing itself as the world's largest professional network, Linkedin is designed for users to showcase their professional qualities. Profiles thus include elements such as professional experience, education and honours & awards, as well as recommendations 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.

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 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. Glacken 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.

Glacken 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

Glacken 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.

They have good working relations with local computer companies 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.

Installation of Accounting Systems

1. Consult your accountant! Grants may be available for training.

2. Decide on starting date, consider trial period.

3. Set up nominal ledger accounts, Balance Sheet and Profit and Loss Layout.

4. VAT Accounting.

5. Are departments required for sub analyses?

6. Use a dummy company for practice (Multi-company systems only).

7. Obtain starting trial balance.

8. Obtain starting Sales and Purchase Ledger balances.

9. Enter Trial Balance by journal entry.

10. Enter Sales/Purchase account code, names, addresses, etc.

11. Enter Sales and Purchase Ledger balances by posting directly to Sales/Purchase control account.

12. Enter live data:
    a) Sales and purchase invoices
    b) Cash received
    c) Cash paid
    d) Petty cash

13. Consider the need to keep manual records for at least three months and Cash Book for full year.

14. Reconcile Bank Statement with Cash Book and Computerised Bank Control Account.

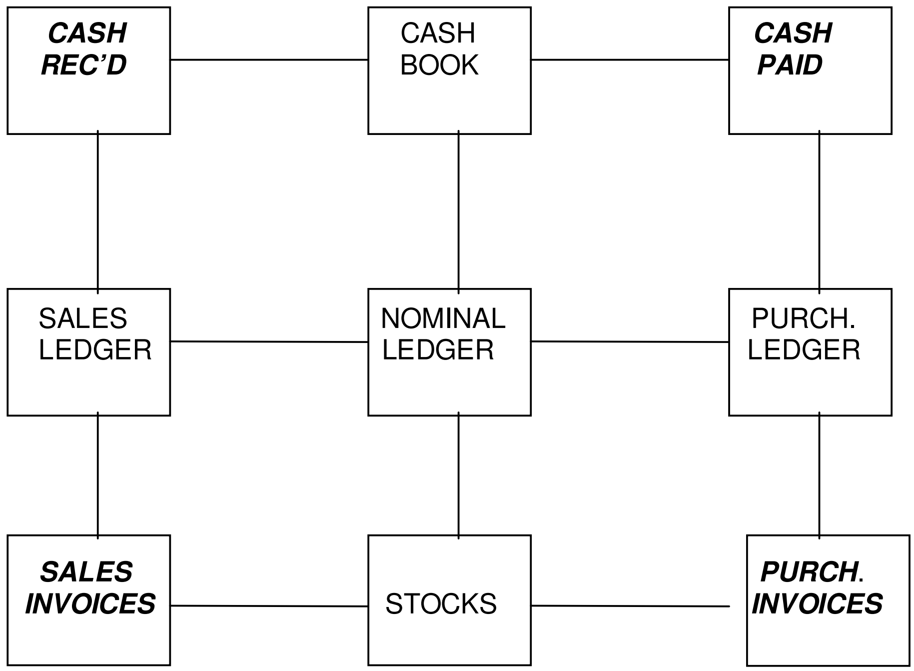
15. Consider direct production of Sales Invoices. Free text or from stock. If the latter, stocks, dummy or real need to be entered into stock records.

16. Keep a backup disk for each of the five weekdays. Keep a weekending backup off the premises. Backups could be “online” across the internet.

Benefits will be mainly a business that you manage - instead of a business that manages you!

ACCOUNTING SYSTEMS

TYPICAL BLOCK DIAGRAM



Double Entry Principles

By entering a Sales Invoice in the Sales Ledger, the customer's account, the Sales Ledger Control Account (agreeing the total of the individual sales ledger balances to the total debtors in the trial balance), the VAT Account, and the Sales Account in the Profit and Loss Account are all automatically updated.

Posting Purchase Invoices, Cash Received and Cash Paid all complete the double entry and update Control Accounts.

Useful names addresses and telephone numbers

Chapter 12 – Useful Names, Addresses and Telephone Numbers

Name	Address	Telephone Number
REVENUE COMMISSIONERS	9/15 Upper O'Connell Street, Dublin 1. www.revenue.ie	01 865 5000
MISCELLANEOUS		
Small Firms Association	84-86 Lower Baggot Street, Dublin 2 www.sfa.ie	01 660 1011
ISME	17 Kildare Street, Dublin 2 www.isme.ie	01 662 2755
Chambers of Commerce of Ireland	17 Merrion Square, Dublin 2 www.chambersireland.ie	01 661 2888
Companies Registration Office	Companies Registration Office Parnell House, 14 Parnell Square Dublin www.cro.ie	01 804 5200

ABOUT GLACKEN ACCOUNTANTS

Glacken Accountants is a firm of Accountants and Registered Auditors based in Ballina, Co. Mayo. The firm is led by Tracey Glacken, a certified public accountant.

Glacken Accountants provides audit services, financial statements preparation, taxation, business planning and company secretarial services to clients.

If you would like to find out more please visit www.glackenaccountants.com or contact Tracey at 096 73880.

ABOUT THE 2020 GROUP

The 2020 Group is the UK's largest voluntary membership organisation for accountants and tax professionals with over 1,000 member firms. We have members in the UK, Ireland, USA, Canada, South Africa, Slovak Republic, Cyprus and Australia. These firms are the cutting-edge go-ahead practices that are committed to growth. They are looking for additional revenue streams while still offering traditional services.

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GlackenAccountants
registered auditors & accountants