

Why Do You Need a Chartered Accountant?

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1. WHO NEEDS A CHARTERED ACCOUNTANT, ANYWAY?

Who needs a chartered accountant? Big businesses? People with millions of pounds to invest?

Yes, they all need chartered accountants. But so do people like you. For every chartered accountant who specialises in the affairs of the very rich, there are dozens who deal with the tax returns, business accounts, and financial decisions of the people in their locality.

Chartered accountants have come through a rigorous regime of training and examinations, and have wide practical experience which they can use for your benefit. They are the general practitioners of the financial world, with the expert knowledge and integrity to give you high quality advice on any aspect of your financial affairs.

You may only need a chartered accountant to help you with a major financial decision once in a while, or you may need one to help keep your business on track and in the good books of the Inland Revenue. Whatever your financial needs, a chartered accountant can meet them.

- **The general practitioners of finance**
- **For one-off advice on important financial decisions**
- **For ongoing advice if you have complex financial affairs**

2. A CHARTERED ACCOUNTANT FOR YOUR NEW BUSINESS

Too many people don't go and see a chartered accountant until after they have set their business up. That's a waste of his or her valuable expertise. If you talk to a chartered accountant right at the START of the process, when you are just beginning to think seriously about becoming self-employed, you can get vital information about evaluating your business idea, raising finance and minimising taxes that may come too late if you wait.

Ask your chartered accountant for a copy of our free publication *Mind Your Own Business*, or write to the address on the back of this booklet for one. It covers all the main decisions your chartered accountant can help you with when you are setting up in business.

2.1 Business format

Here's some more information on just one of those decisions - should you operate as a sole trader, partnership or limited company?

Sole trader

Sole trader is certainly the easiest way to set up in business. Unless there are special regulatory requirements in your industry, you just start trading! But it is easy to fall foul of other legislation. Do you need to register for VAT? You will almost certainly have to pay national insurance.

And what happens if something goes wrong? You will be personally liable for all the firm's debts. Besides which, operating as a sole trader can be a lonely way to work, with no-one to share the load.

Partnership

Two people running a business together are automatically a partnership, even if they don't have a formal partnership agreement. That means that one partner can sign contracts for the partnership and all the other partners are bound by them. Partners are also liable for all the partnership's debts. You really need to be sure about the people you enter into partnership with - your best friends are not necessarily your ideal business partners.

Limited company

Many people setting up in business think that a limited company is the only way to do it. It's certainly not the only way. Sometimes it may be the best way - but not always. There are strict rules for companies about preparing and publishing accounts, returns have to be filed regularly at Companies House - all of this takes time and costs money. Because a limited company is a different legal 'person' from the people who run it, taking money out of the company has tax consequences, and you may end up paying more than you would as a sole trader.

So deciding how your business will operate is far from straightforward. And this is just ONE of the many decisions you have to make when setting up a business! You need help, right from the start. Talk to a chartered accountant.

- **Talk to a chartered accountant when you first start to think seriously about setting up a business**
- **Sole traders can easily fall foul of legislation on VAT, national insurance, etc.**
- **Partners are individually responsible for partnership debts**
- **Companies are not always the right way to run a business**

2.2 Record keeping

Keeping proper records is not just good business practice - it is now a legal requirement. Even if you are a sole trader, the Inland Revenue can insist on you keeping proper accounting records, and can fine you up to £3,000 if you don't.

If your business has to register for VAT, Customs & Excise will not only insist on you keeping records that allow you to correctly calculate the tax - they will come and check that you have done so! Ask your chartered accountant for a copy of *The Visit* which explains in more detail what happens when the taxman comes to call. Alternatively you can get a copy free of charge from the address on the back of this booklet.

So accounting records may not be the first priority for you, but they are for several government agencies. Since you have to keep them, get some value from them. Make sure that you use them to tell you more than what has happened several months ago - get them to tell you what is happening now, and what might happen in the future.

Management accounts

Of course a lot of the work that chartered accountants do for businesses is about what happened in the previous year. But they can also help you to produce up to the minute management accounts, especially if you have a computerised accounting system. These can tell you what happened last month, even what happened last week. By seeing the trend in your business as it happens, you can spot problems before they become serious.

Of course, as a good business owner, you would soon know if your business was beginning to run into problems. But with all your other responsibilities it might take you a few months to realise that the orders had slowed down or that customers were paying a few weeks later than usual. By the time you can quantify the problem it might be a real threat to your business. If you can identify it quickly through good management accounts, you can deal with it immediately.

Cashflow projections

Let's face it, too many cashflow projections are put together only for the bank manager and tell the story that you want to tell! That's not what a chartered accountant means when he talks about cashflow projections.

The same management accounting systems that tell you what has happened can also tell you what is likely to happen in the next few months. By projecting forward the income from orders coming in now, and the planned expenditure, you can see whether your business is still on course.

Naturally, this will cost money, although for a computerised accounting system the greatest expense is the one-off time costs of setting up the reporting systems. But if you have any doubt

about the value of management accounts and cashflow projections, consider which of these two conversations you would like to have with your bank manager.

‘I’ve just opened my bank statement and had such a shock, I didn’t realise I was so far overdrawn. The trouble is that we’ve just paid for some computer equipment, and a big invoice for work that we did last month won’t be paid until midway through next month. But I really need an immediate £10,000 increase in my overdraft or I won’t be able to pay the wages next week.’

‘We’ve just got a very profitable order in, which will be all we can work on next month. We can’t invoice for it until it is finished, and based on past experience of this customer they will pay about 40 days after invoice. That gives us a potential cash-flow problem at the end of the month after next of about £10,000. We’ve been able to negotiate a longer period of credit on some computers we are ordering, but we will still need to increase our overdraft limit by £4,000 as from two months time. We will probably be back within our normal limit according to our cash-flow forecast within a month, but can you please make it two months to be on the safe side?’

The role of the chartered accountant

A bigger firm may find that it is cost-efficient to have a chartered accountant prepare management figures for them on a regular basis, and advise them on the implications at, say, the monthly board meeting.

A business that has just started may have to watch its costs too tightly to be able to afford this. But if the accounting systems for the business are set up correctly from the outset, it will not be too expensive to have a chartered accountant prepare a template for you to work from, either as a spreadsheet or on your accounting software. Then you can fill in the figures yourself each month, and feel confident that you know the financial health of your business from month to month - and several months into the future.

- **Accounting records aren’t an option, they’re a legal requirement**
- **They don’t have to just be history, they can also be a snapshot of today and a crystal ball for tomorrow**
- **Bank managers are really impressed by the output from good accounting systems**

3. A CHARTERED ACCOUNTANT FOR YOUR EXPANDING BUSINESS

It is not only businesses which contract that fail. A business that expands too fast may run into serious problems, from which it never recovers. If you have an expanding business, ask your chartered accountant for a copy of *Grow Your Own Business*, or write to the address on the back of this booklet for a free copy.

3.1 Controlling costs

If you don't have a budget, you can't keep to it. And if you don't control your costs by checking performance against a budget it is unlikely that you will make a profit.

Your chartered accountant can help you to draw up a realistic budget and show you how to get the necessary information from your management systems to see whether you are sticking to it.

One of the keys to a successful business is an understanding of fixed and variable costs. Your fixed costs are those which will not change if your turnover goes up or down. Taking the lease of business premises is one example, it is an expense which will stay the same whether your turnover doubles or halves. Variable costs are the opposite, they change according to the level of production. A typical example would be raw materials.

Generally speaking variable costs are safer than fixed costs. If your turnover falls, your variable costs will fall with it, and you may make a lower profit. However, if you have significant fixed costs, these could turn your low profit into a substantial loss.

Conversely, if you manage to reduce your variable costs by a sensible investment in machinery, which is a fixed cost, you have the possibility of making significant profits if you can increase turnover. So there is no simple answer to the problem of how fixed and variable costs should be balanced within a business - you need individual advice for your situation from a chartered accountant.

3.2 Internal controls

As a business gets larger, it is impossible for one person to keep the same level of personal control over it. You can't be everywhere at once. But if you don't replace that personal presence with good internal controls, you are going to have problems.

A chartered accountant can make sure that your day to day business activities are designed to prevent errors and provide checks. The errors you need to guard against may be accidental - or they may be deliberate fraud. Either way, good internal control systems can help to prevent them.

- **Chartered accountants can help you balance your fixed and variable costs. That may sound like technical jargon, but it might be the difference between staying solvent and going bust**
- **They can also make sure that, when your business grows too big for you to watch every move your staff make, there are still ways to ensure that they are not making mistakes - or stealing from you**

3.3 Information Technology

Computers have made tremendous changes to the way businesses are run. Activities which used to take days can now be completed in hours. Businesses which used to need a room-full of staff with mechanical calculating machines can now be run by one person and a computer.

But does information technology simply lead to wrong decisions being made with greater speed...? And who can you trust to give you independent advice on computers?

Increasingly businesses are turning to chartered accountants. Not all chartered accountants are experts in information technology, although most have a good working knowledge of accounting software. However, the Institute of Chartered Accountants in England & Wales has a specialist faculty which deals with information technology, and that expertise can be accessed by all members of the Institute.

Accounting software

The most obvious type of software on which to get advice from your chartered accountant is the package that you will use to keep your accounting records. Indeed, you would be very unwise to buy this without talking to your accountant first - after all, he or she has got to work with the output from it!

Chartered accountants see businesses at all stages of development, from one person working off their dining-room table to public companies operating from multiple premises. Obviously the software package which is right for one business will not necessarily be right for another.

That is why it can be such a mistake to buy a system based purely on the recommendation of another user, however honest that recommendation is. Even if their business is the same as yours, they may not be as familiar with computers as you are - or they may be computer experts. Their business may be much larger or much smaller than yours, or they may need a completely different level of information from their accounting system.

Because chartered accountants see so many different combinations of businesses and accountancy software they know what works for different types of business at each stage of their development.

The electronic office

A computer system is more than just a collection of different software packages nowadays. Whilst the paperless office has still not arrived, it is important to choose software packages which will interact easily. For example, you may need to pick up information from your accounting package and drop it into a spreadsheet for further analysis. You may want to take information from a spreadsheet, convert it into a chart or graph, and drop it into a word processed report so that even non-financial experts can understand it.

Or what about home workers who come to the office rarely, if at all? Instead, they can be based at home with a computer, and use the Internet or other communications software to keep in touch with the office. After all, if you are going to use e-mail for most of your communications, it makes little difference whether the person you are communicating with is in the next office or the next county! But your computer systems need to be capable of handling the necessary software, and the computers and software used by your workers needs to be compatible.

Ten years ago the internet was used only by governments and academics. Now it is a business tool. You will almost certainly find that Internet access is desirable, and in many businesses it is essential. Increasingly, small businesses are also finding that a website is a marketing tool that they cannot do without. Again, your computer systems have to be powerful enough to cope with these demands.

Your chartered accountant may not be sufficiently expert in information technology to give you direct advice. However, he or she will have access to the information provided by the IT Faculty, and will be able to ensure that you do not get bad advice from commission driven sales staff.

- **Information technology is a key part of most businesses**
- **Don't buy accounting software without consulting your chartered accountant**
- **The paperless office may not be here yet, but it is nearer than you think**

3.4 Taxation

No-one likes paying taxes. But effective planning to reduce your tax bill requires professional advice. Don't make decisions based on half-understood newspaper articles, or advice from a friend - they can be so wrong that they cost you money rather than saving it.

Running a business does offer some opportunities to legally save tax. But to make the best of them, you need to talk to your chartered accountant before entering into any major transactions, so that he or she has a chance to advise you on the best approach.

You also have to worry about the tax you deduct from your employees' wages. On the whole, they are interested in their take-home pay. However, if you, with your chartered accountant's help, find a tax-efficient way to get cash or benefits into their hands, that can reduce your overall costs.

- **Don't rely on unqualified advice when it comes to tax planning. Chartered accountants know what they're doing**
- **Don't rush into important decisions without talking to your chartered accountant about the tax implications**
- **Do ask your chartered accountant how to save tax when paying employees**

4. A CHARTERED ACCOUNTANT FOR YOUR PERSONAL FINANCES

A lot of people think that you only need a chartered accountant if you run a business. Not true. There are lots of times when you should consult a chartered accountant for your personal financial affairs.

Some people have affairs that are so complex, they need to use a chartered accountant regularly to prepare their tax return and generally advise them. But even if you are not in that category, there are still plenty of times when you could benefit from an hour or two of a chartered accountant's time.

4.1 Why employees need chartered accountants

One of the more complicated areas of taxation is the tax charge on benefits in kind, such as company cars. If your employer suggests that you might like to buy your own car and use it for work, how much extra pay would you expect to get to make the switch worthwhile. Don't know? Your chartered accountant does.

What about a pension? Does your employer have a pension scheme? If so, is it any good? How do you know? Not all chartered accountants give financial advice, but most can give you some general unbiased information about your pension options, and can put you in touch with a reliable adviser.

What about when you change jobs? Do you know what package you should be asking for on termination, or on taking up your new job? Will the moving allowance that you get from your new employer be tax free?

These are all questions that a chartered accountant can help you with. You may face them a handful of times in your career - a chartered accountant deals with these issues regularly. Arrange a meeting to discuss the implications, get the benefit of an hour or two of a chartered accountant's time. Yes you will have to pay - but you will get solid, experienced, authoritative advice.

- **The tax rules on benefits in kind are a minefield for you - but your chartered accountant knows where all the nasty surprises are**
- **Some chartered accountants can give you specific advice on pensions, others will be able to give you some good general pointers and direct you to a suitable adviser**
- **Don't be afraid to pay for an hour or two of a chartered accountant's time in a meeting - it will be money well spent**

4.2 The time of your life

Particular times in your life might make you think more about your finances. If so, why not go and see a chartered accountant to help you take stock?

When you get married, you may not think about inviting along a chartered accountant to the wedding! But it is a good idea to check up on the financial consequences. It might be a good time for parents to make gifts that are free of inheritance tax. You may find that you can reduce your tax bill by moving your savings between you. An hour with a chartered accountant before you say 'I do' might help to pay for the honeymoon!

Buying a house is another time when a chartered accountant could be useful. Which is better - to take a big mortgage and keep your savings invested, or use the savings to reduce the mortgage? There is no one answer that is right for everyone, you need a chartered accountant to advise you.

And finally there is death. Asking a chartered accountant for inheritance tax advice might seem morbid - but your spouse and children won't thank you for your squeamishness. Inheritance tax can make a hard time even worse by creating financial problems. It is a particular problem for couples who aren't married, since they cannot pass assets to each other tax free, but all families should know what the financial consequences of a death would be - and a chartered accountant can explain it to you.

- **Chartered accountants are good people to consult at key points in your life**
- **Don't take out a mortgage until you've had some straightforward advice from a chartered accountant**
- **Don't avoid talking about what happens if there is a death in the family. You need to know what the consequences would be, and discuss them with a chartered accountant**

4.3 Tax returned

And finally, of course, a chartered accountant can help you with your tax return. Why is this the last point in this booklet? Because it is the first one that most people think of. We wanted to show you all the other things that a chartered accountant could do for you first.

Now that self-assessment means fixed deadlines, with penalties for late submission of returns, and a requirement even for non-business taxpayers to keep proper records, it makes more and more sense to use a chartered accountant to fill in your return. He or she has all the knowledge and experience of the system that you cannot find in books. You will only fill in one tax return each year, chartered accountants fill in dozens, and you can benefit from that professional expertise and experience.

Who knows, they may even be able to persuade the Inland Revenue that you have overpaid tax. Then you won't just be sending in your tax return - you'll be getting tax returned!

- **Tax returns are getting more and more complicated. Haven't you got something better to do with your evenings?**
- **Tax returns aren't always bad news. Sometimes the Inland Revenue has to send YOU a cheque**

5. HOW TO CONTACT A CHARTERED ACCOUNTANT

The Institute of Chartered Accountants has district societies covering every region of the country. From the Institute's website, www.icaew.co.uk, look at the "regions" section to find out which region you are in and ring the contact number given. You will be given the names and addresses of firms in your area.