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A founders' guide to finance, tax and accounting

What tax you need to pay

and how to avoid fines

How to set up your accounting

and whether you need an accountant

How to build a cashflow forecast

with a free working template

What's in this Guide?

01.

Introduction

Welcome to this guide to the financial side of running a startup. It should help you get to grips with your numbers and ensure you're paying the right tax in good time, so you can get on with building your business.

Most of us start new businesses out of passion, a commitment to making a change, a brilliant opportunity, or for a different lifestyle. Whilst running your own venture is exciting and challenging, there are a large number of legal, tax and accounting commitments which you as a founder need to be aware of. It is the boring stuff, but essential and in many cases legally required of you as a business owner, as well as someone who is self-employed.

Healthy financial management of your business will make your life much easier as a founder, and provide useful insight into financial performance, helping you make the right decisions for you and your business.

If after reading this guide, you still have questions about the financial side of running your business, then you can always reach out to us at Virgin StartUp for support.

Dhruvin Patel, founder of Occushield

Getting Started

Good financial and legal management of your business starts with good record-keeping. Whilst it may seem like a small detail, keeping and tracking your bills, invoices, bank statements, Loan agreements, tax returns and legal documents, means you'll save time when it comes to tracking these down. If your startup is a Limited Company and you're a Director, you are required by law to keep records of the businesses finances, as well as general governance of the business itself. If you're a sole trader, you're required to keep documents and track expenses.

Records you need to keep for your personal and business tax:

- Sales invoices
- Receipts for payments made
- Receipts for business expenses
- Invoices and receipts for VAT records
- PAYE (Pay As You Earn) records if you employee people

There are a number of different apps and services which can plug into each other to help with good record-keeping, including popular services like Xero for online accounting and Dext for expenses management.

Introducing M-Track from Virgin Money

If you're looking for somewhere to bring together your key business tools, M Track is a new insights dashboard and forecasting tool from Virgin Money which gives you all the vital data you need in one place. From accounts to ecommerce, HR and digital marketing, M Track connects to business apps to help you track all areas of your business performance. It's free for Virgin Money Business current account holders and they're rolling it out now.

The benefits of using M-Track

Stay in control of your business
Keep your cashflow in check by viewing it in real-time, helping you make spending decisions.

Get connected
View your data all in one place. Connect Sage, Xero, Quickbooks, Google, Shopify and more to your dashboard.

Help your business grow
Use insights to help you spot opportunities to maximise your business' potential.

Personalise to suit your needs
Simply drag and drop the sections to arrange them in the order you find most useful. Select dates and values to display what you want to see.

Find out more about M Track by clicking here

Be prepared

Better planning means you have more time to focus on what matters, whether that's sales, managing a team or growing your brand. Put aside time each week and month to manage your finances, update records and file your receipts. You'll thank yourself when you're not scrambling around each month to find those missing bits and pieces!

TIP: Apps like DEXT help you file your receipts, you can set up an email address to automatically forward any invoices and receipts to, as well letting you take photos on your phone of paper receipts.

Seek advice

The financial side of running a business can be the most difficult to manage if you're not a trained accountant, or particularly good with numbers. Not all of us are - so make sure to find help when you need it.

There are lots of resources online, but it may be a good use of funds to hire an account, or small accounting firm, to manage your books, payroll and taxes for you. This will save you stress, time and money if you're not confident with these matters.

If you're considering hiring accounts, check out Finerva accountancy services for founders. They offer a good package for new founders to manage your accounts, as well as advice and articles to

02.

Tax

There are a number of taxes that startups and founders have to pay.

Whether you're a sole trader, freelancer or company Director, ensuring that you stay up to date with not only how much you owe, but also the deadlines and frequency of payments, will provide smoother financial planning in the long run. If you fail to pay the right amount of tax on time, you could face interest charges and penalties - so, let's avoid that.

The following provides an introduction to the main taxes that you and your business will be liable for. As with everything regarding tax, if you're still unsure about something, seek advice to avoid missing out on important steps and facing penalties.

Business Taxes

This section relates to tax which your business needs to pay, and the following section covers you as an individual.

VAT

Value Added Tax, or VAT, is a tax that's added to the sale of goods and services. The most common rate of VAT is 20%, which you'll notice on lots of the bills you pay.

If your startup's turnover is over £85,000 per year, you must register for, and charge VAT for its goods and services. You'll then need to pay your VAT bill to HMRC quarterly.

Once you've registered for VAT with HMRC, you can also reclaim any VAT yo u've had to pay on business purchases.

Some goods and services are exempt from VAT, and others have a reduced rate of 5%, such as books or children's clothing.

When should I register my business for VAT?

If your turnover exceeds £85,000 per year, or if you think that it will, you should register for VAT in advance.

How do I register for VAT?

Our friends at the British Business Bank have put together this handy guide which takes you through how to register for VAT https://www.startuploans.co.uk/business-advice/registering-for-vat/

How much VAT should I charge?

The rate of VAT you charge depends on your business. There are 3 different rates of VAT, but most goods and services are charged at the standard rate of 20%. You should charge this rate unless the goods or services are classed as reduced or zero-rated. To find out if your business is included in this category, see the full list with HMRC here: https://www.gov.uk/how-vat-works/how-much-vat-you-must-charge

Business Rates

If your startup is registered as a Limited Company, you need to pay Corporation Tax based on its profits each year. This is a legal requirement, and your business needs to declare how much Corporation Tax is due once you file your annual accounts.

If, at the end of the financial year, you've calculated that you don't owe any Corporation Tax, you still need to let HMRC know.

Whether you need to pay Business Rates depends on the type of business you have, and whether it has a physical location like an office or a shop. The costs vary on the location and value of the property, just like your Council Tax.

If you're typically working at home, don't have a permanent office, shop or production facility, you're unlikely to have to pay Business Rates, but always check with HMRC or your local authority to be sure.

Click here to estimate your Business Rates with HMRC

Business Rates are handled differently if your property is in Scotland, Wales or Northern Ireland, and you should always contact your local authority for information.

There are many ways to claim tax relief on Business Rates, especially for small businesses, social enterprises and charities. For example, if the value of the premises is under £15k, you won't pay any Business Rates on it, and if you only use one property for your business you may be eligible for relief. Check out this guide from HMRC to find out more: https://www.gov.uk/apply-for-business-rate-relief

Personal tax for founders and how to pay yourself

As a founder, how you pay yourself from your company depends on the structure you've chosen for your business.

Legally, there are 3 ways that your business can pay you money:

01. It can pay you a salary for the work you do.

02. It can pay you the profits of your business, whether as a sole trader or a shareholder.

03. It can pay you back for any expenses you incurred personally

Limited Company - If you set up a Limited Company, as a founder you'll likely be a Director of the business, which means your financial and tax obligations differ to if you're set up a a Sole Trader. As a company Director and shareholder, you are required to put the interests of the company ahead of your personal interests.

Pip Murrary, founder of Pip & Nut

Sole Trader - If you're registered as a sole trader, this means you don't have to register your business with Companies House or submit annual accounts.

As a Sole Trader, you get to keep 100% of the profits of your business if you chose to do so, however it means that you personally are liable for businesses losses. This means that, in the unfortunate event that business has debts it cannot pay, your personal possessions including property could be used by creditors tor reclaim debts. You can empty people, but remain the sole owner of the business and you need to register as

If you want the company to pay you or anyone else a salary, expenses or benefits, you must register the company as an employer, which you can do here: https://www.gov.uk/register-employer

The type of income tax you need to pay as a founder depends on the legal structure you've chosen for your business.

If you're a sole trader, you need to pay income tax on your business profits. This is alongside any other taxable income you may have, including from a rental property. If you're registered as a sole trader, you need to pay National Insurance Contributions from your income.

If you're a company Director, you pay income tax on any salary you are paid from your business, and you'll pay tax according to the same tax thresholds as any employee in a company. In this case, income tax is collected via PAYE (Pay As You Earn) and paid directly to HMRC.

If you're a company Director and you own shares, you are entitled to dividends from the profits of the business based on these shares. You will have to pay income tax on these dividends, and the tax rate you pay will depend on your other income.

Founders may choose to take a combination of a wage plus share dividends if the business is profitable.

If you take more than £10,000 in a year from dividends, you need to register for Self Assessment with HMRC.

Making sure your personal tax affairs are in order is an important part of being a founder, and responsible financial management of your business is vital when it comes to applying for Loans or external funding.

Here's an example from HMRC which shows how much tax you'd owe based on taking a combination of wage and dividends from your business, accurate as of 2022.

You get £3,000 in dividends and earn £29,570 in wages in the 2022 to 2023 tax year.

This gives you a total income of £32,570.
You have a Personal Allowance of £12,570. Take this off your total income to leave a taxable income of £20,000.

This is in the basic rate tax band, so you would pay:

20% tax on £17,000 of wages
no tax on £2,000 of dividends, because of the dividend allowance
8.75% tax on £1,000 of dividends

03.

Accounting for startups

Keeping on top of your startup's finances can help it survive and ultimately thrive. Whilst all founders shouldn't expect to become experts in accounting, it's really helpful to have a solid grasp of the principles to keep things on track.

Accounting methods

There are two main accounting methods for startups; **accrual** and **cash**.

The **accrual** method tracks your transactions even if they haven't been executed yet. For example, you've invoiced a client for work but haven't received the payment. It also shows future debts which you haven't paid yet.

The **cash** method reconises funds as they are received of paid. Only businesses which have a turnover of £150,000 per year can use the cash accounting method.

If you aren't sure which accounting method is right for you and your startup, consult a qualified accountant.

Main financial statements

Most startups will have three main financial statements:

The balance sheet

This spreadsheet will show your assets and liabilities and capital, which are the foundation of your startup. An **asset** is something of value which the business owns, for example cash in the bank, property, stock and property. **Liabilities** are the debts and obligations of your business has, like loans and taxes owed. **Capital or equity** is stockholders equity in the business, for example if you invested £10,000 into your business, it would sit on your balance sheet.

Here's a brief example below:

ASSETS	
Cash	£5,000
Stock	£3,000
Laptop	£1,000
Phone	£500
Total assets	£9,500
LIABILITIES	
Start Up Loan	£10,000
Accounts payable	£4,500
Taxes payable	£3,500
SHAREHOLDER EQUITY	
Capital stock	£10,000
Total liabilities and equity	£28,000

Download a free balance sheet template from the Start Up Loans company

British Business Bank

Profit & Loss (P&L) Statement

Your Profit and Loss Statement, referred to as a P&L Statement, is key to evaluating your performance as a startup. You'll need an up to date P&L Statement as part of loan applications, as well as other funding routes, so it's essential that it's accurate.

At its most simple form, your P&L is your **revenue** (how much is coming in) minus your **expenses** (how much is going out). What is left is your **net income**.

A P&L includes the **Cost of Goods**, or **Cost of Sale**. This refers to the expenses involved in producing what your startup sells. If you sell a physical product, like a canned drink, then the ingredients and can, along with the labour involved in making the drink, are counted towards your Cost of Goods.

Your P&L will then show your earnings before taxes , and then subtracts your taxes due to give you your **net income or net profit.**

Let's look at an example from the CFI.

	A–B	C	D	E	F	G	H	I	J
1	© Corporate Finance Institute. All rights reserved.	Historical Period				Forecast Period			
2	Financial Model	2014	2015	2016	2017	2018	2019	2020	2021
60									
61	Income Statement								
62									
63	**Revenue**	118,086	131,345	142,341	150,772	165,849	182,434	200,678	218,739
64	Cost of Goods Sold (COGS)	48,004	49,123	52,654	56,710	69,657	78,447	88,298	98,432
65	**Gross Profit**	70,082	82,222	89,687	94,062	96,193	103,987	112,379	120,306
66	**Expenses**								
67	Marketing, Advertising & Promotior	22,658	23,872	23,002	25,245	28,194	31,014	34,115	37,186
68	General & Administrative	10,125	10,087	11,020	11,412	15,000	15,000	15,000	15,000
69	Depreciation & Amortization	18,150	17,205	16,544	16,080	7,504	9,003	10,203	11,162
70	Interest	2,500	1,500	1,500	1,500	3,000	3,000	1,000	1,000
71	**Total Expenses**	53,433	52,664	52,066	54,237	53,699	58,017	60,318	64,348
72	**Earnings Before Tax**	16,649	29,558	37,622	39,825	42,494	45,970	52,062	55,958
73									
74	Taxes	4,858	8,483	10,908	11,598	11,898	12,872	14,577	15,668
75	**Net Earnings**	11,791	21,075	26,713	28,227	30,596	33,099	37,484	40,290
76									

TIP

The difference between 'gross profit' and 'net income'

Gross profit represents the income or profit remaining after the production costs have been subtracted from revenue.

Net income indicates a company's profit after all of its expenses, including taxes, have been deducted from revenues, and is referred to as 'the bottom line'.

Cashflow statement

A cashflow statement shows the cash coming in and out of your business over a given period. It's organised into **operating activities**, like the net income of your business, **investing activities** like acquiring a property, and **financing activities**, such as investment or debt funding.

How to create a cash flow forecast

Plans ≠ reality. A cashflow forecast is a financial model which helps you predict what your startup costs and sales will be, usually with a minimum 12 month view, which helps you manage your business accordingly.

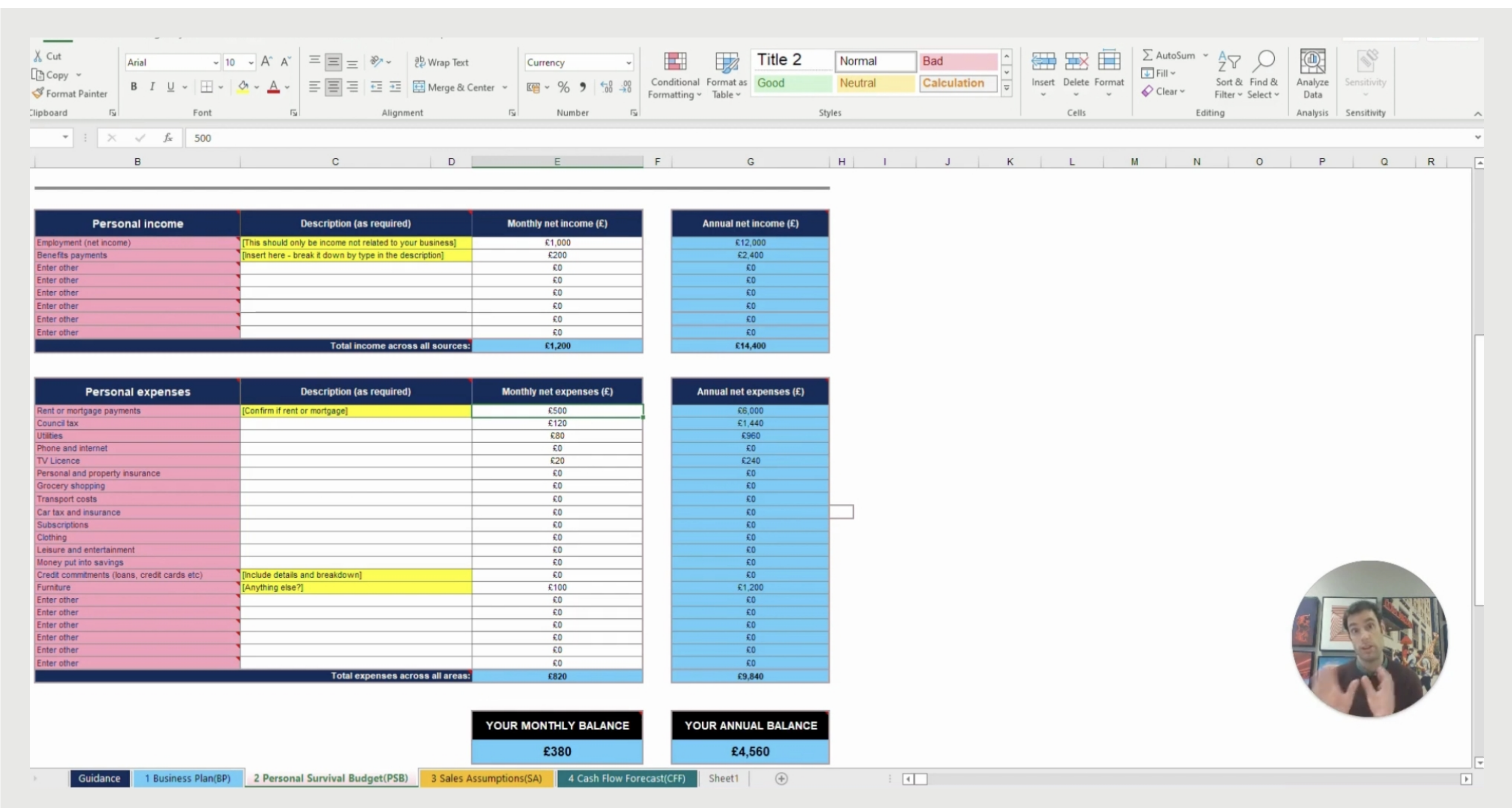
For a cashflow forecast to be useful, you should regularly update it and compare your projections to actuals, which will help with future forecasting efforts.

Free interactive cashflow forecast template

When you apply for a Start Up Loan with Virgin StartUp - you need to pull together a cashflow forecast for your business . To make this easier, we've created a comprehensive template which you can download for free here: https://virg.in/cashflowforecast

For a step-by-step walkthrough on how to fill the cashflow forecast template, watch this video featuring Sam Lehane from Virgin StartUp: https://www.youtube.com/watch?v=hsC2zow1CxM

If you want to find out more about how a Start Up Loan and mentoring can help with your business, visit www.virginstartup.org



10 tips for managing cashflow in your new business

Poor cashflow is one of the key reasons for business failure among new startups. So if you want your new venture to start the business journey with the most stable financial foundations, you need to have your cashflow management in shape right from the outset!

Starting a new business requires passion, drive and – most importantly – a truly robust business idea. But to make a success of that core commercial idea you need to also have a core grounding in the basics of good financial management. Cash is king, and it's the entrepreneurs and founders who grasp this simple truth that will see their enterprise go the distance.

To help you get on control of your start-up cash, we've listed 10 key elements that should be on your cashflow checklist.

01. Make cashflow central to your business plan!

Cashflow is about ensuring cash inflows outweigh cash outflows – and that cash process needs to be built into your financial model and business plan at the most fundamental level.

Research your overall running costs (think overheads, costs of production, payroll spend, business taxes etc.) and come up with an income target that covers the expenditure on operating cash outflows. With your estimated operating costs and revenues included in your model, you're already putting cashflow at the centre of your plan.

02. Set a milestone for breaking even

Positive operating cashflow is your key goal – providing enough liquid cash in the business to trade, cover your costs and (eventually) to break even and realise a profit from the business.

To set a long-term profit target, consider the profit number you're aiming for, the timescales for breaking even, and how you'll generate this surplus while also maintaining your positive cashflow position. And bear in mind that most startups will take several years of trading to turn a profit or pay out dividends to directors etc.

03. Stay lean and keep costs low

Being proactive about reducing costs is vital. The smaller your operating costs are, the better your cashflow position will become – reducing outflows and boosting your inflows.

The temptation for many startups is to dive straight into the funding pot and start racking up costs on more employees, bigger offices and the latest tech and equipment. While investing directly in the future of the business is good, spending for the sake of it will come back to bite you – so focus on cost management, run the business lean and reduce every cost you can do.

04. Make pricing work for you

Pricing your products/services right generates the income you need. So it's critical to do your homework and set the best price for the market and your cashflow needs.

Set your prices too high and customers won't bite – meaning you miss your sales targets, revenues slump and you don't generate the required cash inflows. Put your price point too low and you won't generate enough revenue – resulting in plenty of sales, but an income level that doesn't cover your operating costs effectively.
Find the sweet spot between 'quality product' and 'competitively priced' and ensure you produce the required revenues you set out in your business plan.

05. Use technology to stay in control

It's easy to stay in control of your finances with cloud accounting. Cloud platforms like Xero, Quickbooks and Sage provide a simple online way to record, track and monitor your finances.

Using a cloud accounting system to run the business:
Helps you record all your costs, expenses and income accurately
Provides you with real-time financial data around your cash
Allows integration with a host of cashflow, credit control and payment apps.

06. Get paid as quickly as possible

Getting paid on time can be a huge issue for startups – and when your invoices don't get paid on time, that has a serious knock-on effect on your cash position.

Using online invoicing software speeds up payment times – and most of the popular cloud accounting platforms will include online invoicing as standard. Your bills go out directly to customers via email, with payment buttons that link to your choice of payment gateway, whether that's PayPal, GoCardless or Square etc.

07. Keep in control of debtor tracking

Managing your debt is incredibly important for a new business. Recent figures show that UK SMEs are owed £26.3 billion in overdue payments – and when aged debt racks up, that has a seriously negative impact on your cashflow.

Run aged debtor reports on a regular basis and keep a proactive focus on which customers owe you money, how much that amounts to and how overdue that payment is.

Having a clear credit control policy also helps, by making your payment terms clear and setting the expectation that your startup anticipates its customers settling payment on time, every time.

08. Run regular cashflow statements

Your cashflow statement is the key hub for cash management. It's where you see your operating, investing and financing cashflows broken down in the most granular way.

Cashflow apps and reporting solutions will allow you to specify a prior period – whether by week, month, quarter or year – and show you the historic data on your cash income and costs across the business. By running these statements regularly, you will begin to see the dips in income, the spikes in expenditure and the overall pattern of your cashflow.

Having that clear overview helps keep you in control of your current cash situation, while also allowing you to plan more effectively for future periods.

09. Forecast cashflow for future periods

Knowing your cashflow position in the future is invaluable. Whereas your cashflow statement tells you what happened in the past, a cashflow forecast gives you an accurate understanding of the future path of your cash inflows and outflows.

Forecasts take the historic financial data from your cloud accounting software, and extrapolate the data forward in time. This gives you a means to peak through the 'cashflow crystal ball' and spot the potential cash issues before they happen – keeping the whole business on track.

10. Use the latest smart cashflow tools

Software tools move your cashflow into a practical reality – using the latest in technology to help you manage your cashflow promptly, effectively and with minimum hassle.

Manually keeping on top of the various elements of cashflow, debtor tracking and aged debt can become a complex task. But with a smart cashflow tool like Fluidly, the benefits of automation, artificial intelligence (AI) and smart data analysis come into play.

With built-in reminders and notifications to keep you and your finance people in control, our intelligent cashflow app becomes the financial reporting engine for the whole business.

Keep your startup growing with smart cashflow tools

With your startup in a positive cashflow position, you give your business the best chance to evolve, grow and scale-up effectively – and the hard work of maintaining positive cashflow is all taken care of when you put Fluidly at the centre of your finance system.

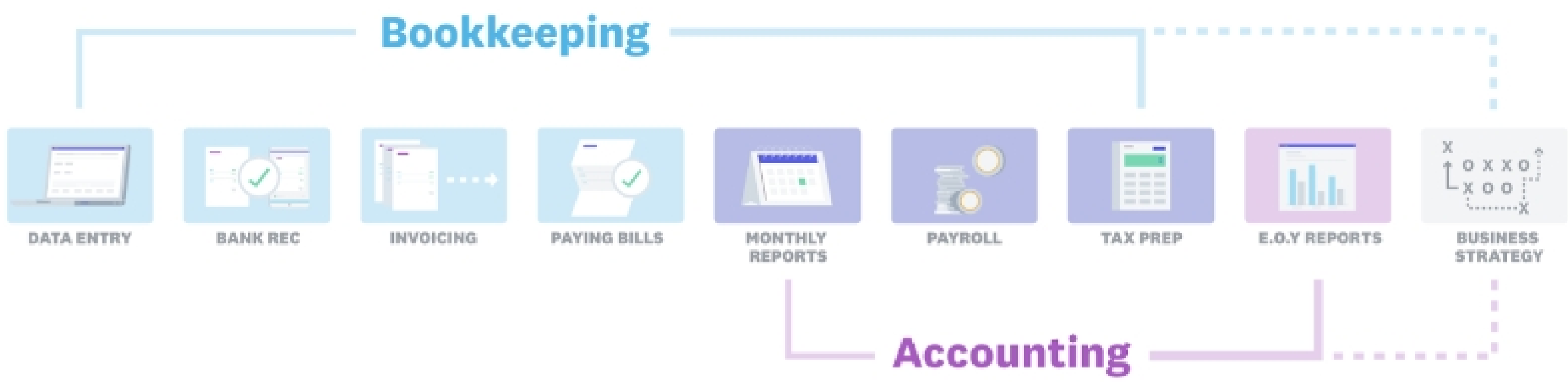
Planning and forecasting planning from Fluidly is included free for customers using M Track from Virgin Money. Find out more here

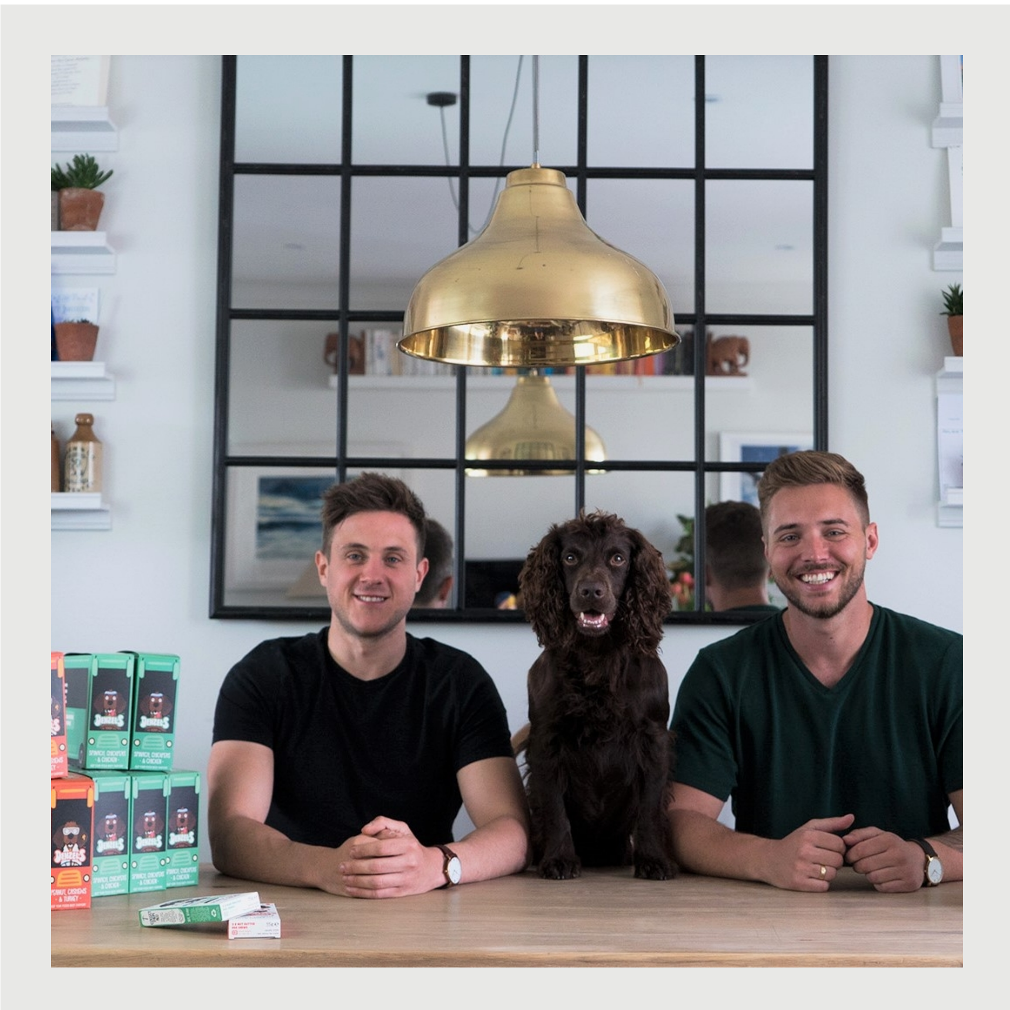
From Fluidly

Bookkeeping

Bookkeeping is the processes of keeping records of your expenses and income, as well as other financial activities, and is traditionally performed by a **bookkeeper**, who'll regularly summarise this activity into monthly reports called **management accounts**.

This handy image from Xero explains the difference between bookkeeping and accounting.





Nathan Perry and James Lacy, co-founders of Denzel's

04.

Accounting software

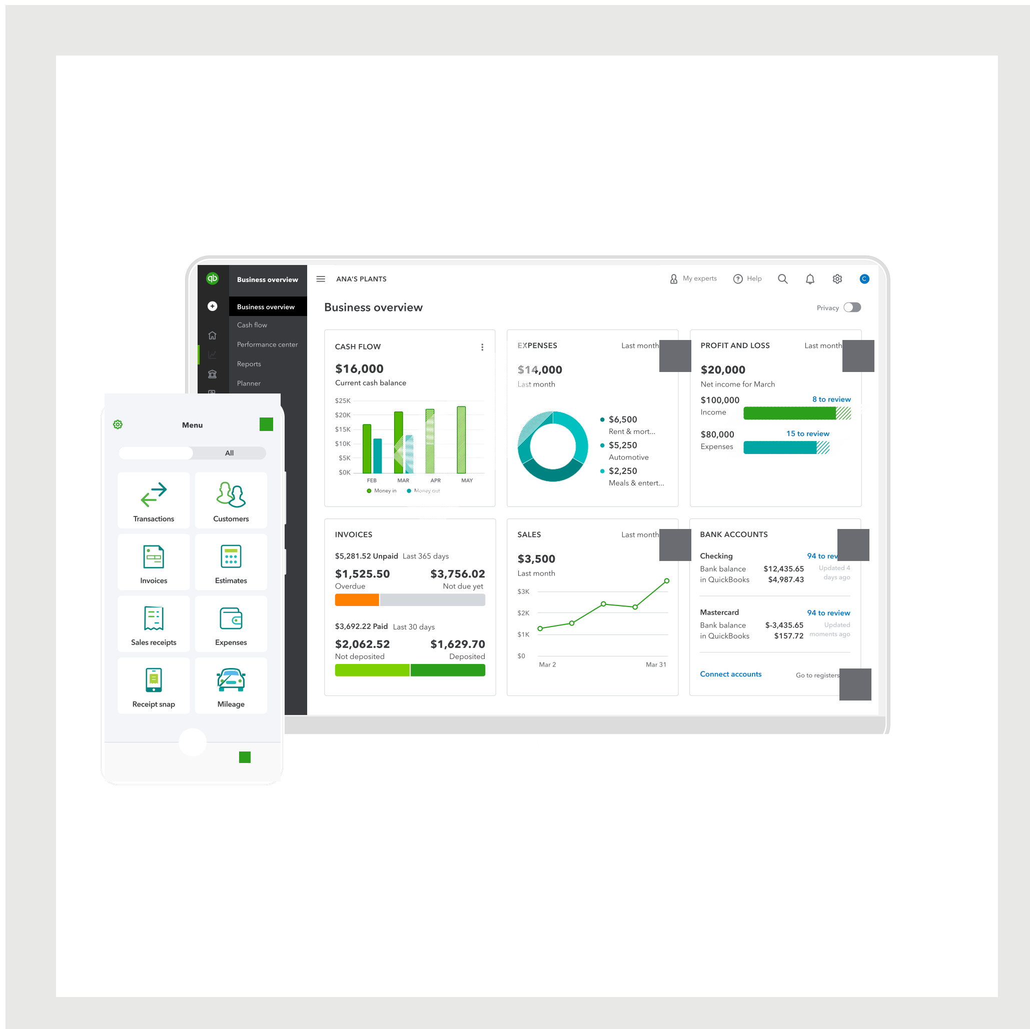
As you can see, keeping track of you startup's finances isn't straightforward, and involves a lot of processes and records. However, new technology means that it is easier than ever to make day-to-day accounting more straightforward.

There are a number of quality, secure and easy to use software solutions which connect directly to your business bank account and ecommerce platforms like shopify, to mean that they automatically record transactions. They also alow you to upload expenses like receipts straight from your phone. These services can calculate and create VAT submissions, as well as offer a snapshot of other taxes due.

Whilst we don't recommend one piece of software of another, services like QuickBooks, Xero and FreshBooks are very popular and have similar features, functionality and costs.

You can either pay for and manage the accounts yourself, or sometimes an account will include the cost of these services into theirs.

You can pay anything from £0 to £25 per month for a basic package.



Quickbooks

Payroll

Hiring your first employee is an exciting step for any founder, and will help with sharing your workload and adding much needed resource.

But employing people comes with its own costs and tax requirements, so it's helpful to fully understand these before you commit to hiring.

Important: You should do this even if you're only employing yourself as the only director of a limited company.

How much does employing someone cost?

This depends on how you employ them. If you're hiring a freelancer, you just need to pay their invoices and expenses, the former of which may include VAT.

If you're hiring permanent staff, along with their base salary, you'll need to account for:

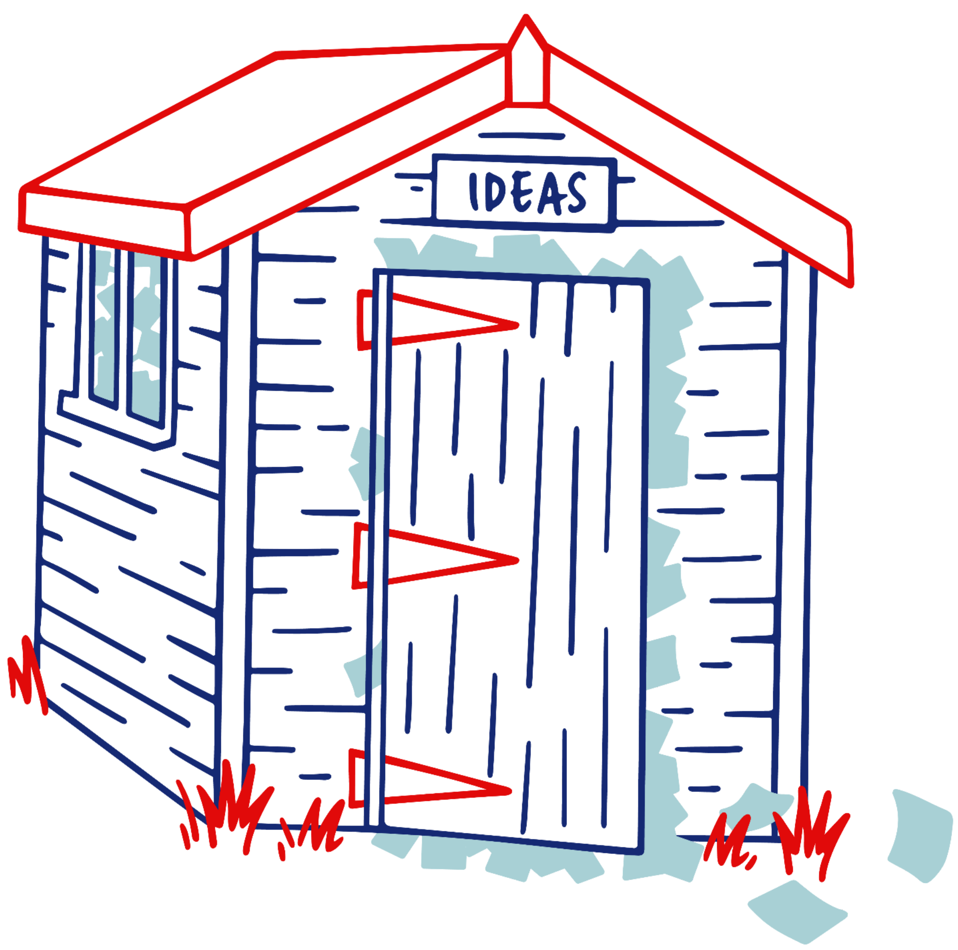
Recruitment fees
Recruitment fees vary from free for listing one job on LinkedIn, to between £150 - £700 to list on some websites for a month. Recruitment consultants will charge a % fee of the successful candidates annual salary.

National Insurance
As detailed above, as an employer you need to pay National Insurance Contributions for your staff.

Employers' liability Insurance
As en employer, you need to get Employers' Liability insurance, and your policy must cover you for at least £5 million. This type of interesance will help you pay compensation if one of your staff gets injured at work or becomes ill because of the work they do for you.

Pensions
As an employer, you have a legal right to offer a pension programme. You will have to make minimum contributions to your staff's pensions, which will be a percentage of their salary.

Once you're ready to employ people, you need to register as an employer with HMRC and get your PAYE (Pay As You Earn) reference number.



Paying staff

Once you hire someone, you'll need to set up a payroll system to pay your weekly or monthly salaries.

Having a payroll software system that's integrated with your accounting platform has a number of advantages, and the leading cloud accounting providers all offer payroll functionality – either as standard, paid for on a 'per employee basis' or bought as an additional add-on module.

To get the best from your payroll:

Keep your records up to date – ensure you're updating the time worked, hourly rates or monthly salary bands, so the payroll run is working from the right data.

Review each payroll run – allow time to review the payroll run and update any changes since the previous week/month – minimising the chance of errors.

Send electronic payslips – be sustainable and send online, cloud-based payslips, rather than wasting time and money printing out hard copies.

Pensions

Every UK employer must put eligible staff into a workplace pension scheme and pay into it.

There are a number of pension providers you can set up your pension with, including Nest - set up by the government to help small businesses manage their pension schemes.

You must enrol any employee aged between 22 and the state pension age, and who earns at least £10,000 a year.

An employee must be enrolled into a pension scheme from the first day they start work and make contributions to the scheme. If staff become eligible, such as their salary increases above £10,000, you need to enrol them within six weeks.

As a business, you need to pay the equivalent of 3% of their earnings into the pension fund.

Your business can face heavy fines if you fail to set up a workplace pension.

About this Guide

This Guide was produced for Virgin StartUp by Goldfish, with contributions from Virgin Money and Fluidly.

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