



# Hornbeam Highlights 47

November 2011

## Record Keeping

In the last Hornbeam Highlights, I talked about my commitment to helping clients sort out their record keeping, and how that commitment goes all the way back to when Hornbeam was set up. As fate would have it, within 24 hours of sending out that Highlights, I was in The Treasury listening to a presentation about the latest research commissioned by the OTS (Office of Tax Simplification) into small business needs and attitudes. One theme that was commented upon was that most business people did not feel able to ask their accountant for help with record keeping. It is apparently perceived that Accountants prefer their clients to be in a muddle. (I can't remember signing the Official Secrets Act so hopefully I am not in too much trouble for sharing this with you.)

Now this came as something of a surprise to me. I know that some (quite a few actually) of my local competitors are quite tardy at getting year end updates to their clients, but I have never really believed that this is deliberate. In fact (were I a gambling man) I would bet that most Accountants would claim that they would like to keep their clients up to date, if only they would get the information to the accountant on time.

So I want to reiterate, **our commitment is to help clients keep up to date.** We would rather provide our clients with training and support, and get good quality records that are easy to process, than have a mess to sort out every year. There is a short term cost to this but over time the saving is colossal and we can provide a better service with less cost. There are other advantages, the client has better information, for running the business, decision making, dealing with bankers, customers and suppliers. Also I need to stress again, HMRC have launched a national campaign to find taxpayers who have not kept proper records and can thus be fined up to £3,000. Don't be one of them.

Well no clients came forward for help, but one client put us in touch with a customer and friend of his, who has been in business and serviced by reputable firms for decades. What I found was a perfectly competent office manager, who had never had ANY training or support from the accountant, who was labouring with a sage system on which the year end had not been run for 2010 or 2011.

With two days work we brought this system up to date, with reconciled bank, petty cash, credit card, purchase ledger and payroll, changed year end and new procedures manual written by the office manager as she helped me bring this about.

With J's permission, I am pleased to print this extract from his email which makes the case far more eloquently than I ever could.

"Thank you for all the effort and energy you have donated to sorting my situation out this week.

There are no ways to say thank you. Frankly I have been so p\*\*\*\*d off about the handling of my financial affairs for most of my business life. I was led to believe by my previous accountant that everything was fine and dandy. I suppose she would really.

You would not believe the difference it has made to my office manager, meeting you this week. She has regained her confidence (and bossiness!). And what is more she's actually happy with the situation that you have now helped to create."

# A Question of Philosophy

We took over the accounts of a small client from a large firm of Accountants. Jo asked me to help with understanding the MARS calculation carried out by the previous accountant. A MARS calculation proves that there is depreciation in the overhead element of the stock figure. The second stage of the calculation works out the value of that element of depreciation and adds it back, reducing the stock valuation, and thus deferring tax. The calculation performed by the previous accountant ran to several closely typed pages.

MARS is the name of the corporation (they make Mars bars) that took this issue to court, beating HMRC and presumably reducing their stock value and deferring their tax by millions of pounds.

But the figure in these accounts was about £3,000 so deferring about £600 tax for this company. Our predecessors must have spent at least £300 doing the calculation. In two years the client would be out of pocket, and every year thereafter. Worst of all, the calculation by our predecessors was wrong. HMRC would love to have picked that up and charged penalties and interest.

What client would choose to pay £300 every year to defer £600 once off, if given a sensible choice? Our systems require us to choose the outcome that is appropriate to the size and nature of the client, then find the most cost effective way of achieving that outcome. Surely doing clever things that inevitably cost the client more than the tax saved can never be right?

**Written by Phil Needham**

## **DISCLAIMER**

*Most of the information contained in this Hornbeam Highlights is of necessity greatly oversimplified. We are trying to bring to your attention tax planning and business management opportunities. However, you should not take action based upon this leaflet without obtaining specific professional advice.*

*Whether you are a client or not, if we can provide further help or advice concerning any of the matters covered here, please do not hesitate to telephone us on (01603) 720424.*

