

Self Employment Handling and Accounting for Cash

Some businesses operate almost entirely through cash (i.e. a small corner shop) and others rarely handle cash (i.e. an Accountant's Practice).

When ever there are cash transactions care must be taken to note the cash received and to account for it in the accounts.

All sole traders will be asked if they will take cash, as many customers love to think they may get a job cheaper if they pay with cash. HMRC are very aware of this, and will compare turnovers and lifestyles to ensure that cash transactions have not been occurring.

From time to time, investigations into certain sectors will take place, and one of the key queries HMRC will ask is "how does the client handle cash?"

- Cash should always been accounted for, and where possible banked as a cash item under a separate banking slip.
- When a business is entirely cash orientated, banking each day's takings as a separate slip allows for easy reconciliation with the till roll receipts.
- The invoice should be annotated as "cash received".
- Cash payments made for expenses should be marked as "cash".
- A petty cash system should be set up if large numbers of cash transaction are made, and petty cash receipt issued for expenses reclaimed.
- Where cash is taken out of the bank it must be marked as petty cash.
- When the client has used their own cash to pay for work expenses, this should be offset against any drawings in the year end accounts.

Being clever with cash leads to mistakes being made. When someone is driving about in a quality vehicle and only turning over £20,000 pa, the tax man will ask how they can support their lifestyle.

A wise accountant will always ask a client whether there have been any cash transactions in the past year, the onus is on the client to answer the question as they see fit.