BOOKKEEPERS IRELAND

THE MAGAZINE DEDICATED TO BOOKKEEPING IN IRELAND JUNE 2010

BOOKKEEPING STANDARDS IN IRELAND

OR RATHER THE LACK OF THEM

Anyone can call themselves an accountant in Ireland, but only those who have sat and passed the examinations of a recognised accountancy association and gained a suitable amount of work experience over many years, can call themselves a qualified accountant.

A qualified accountant, with the support of their association can keep themselves up to date with continuing professional development. Their association provides them with technical updates, training opportunities and advice on accountancy topics.

When you use a qualified accountant you expect a certain standard and the accountancy associations have written standards that their members must comply with.

Anyone can call themselves a bookkeeper in Ireland. There is no such term as a qualified bookkeeper in Ireland. There have been attempts to gather bookkeepers under an umbrella organisation, but to date, this has not been successful.

There is a qualification in manual and computerised bookkeeping devised by The Further Education and Training Awards Council (FETAC), the statutory awarding body for further education and training in Ireland. FETAC makes quality assured awards that are part of the National Framework of Qualifications from levels 1-6.

The qualification covers all the major areas a bookkeeper needs to know. One of the weaknesses of the award is that the teacher sets the exam and also corrects the exam. While there is outside sampling of the papers by FETAC, a teacher can teach students to answer the exam questions, rather than teaching them bookkeeping.

This course is still a good starting point for learning bookkeeping. But after the exam is taken and you pass it, you are on your own.

There are many bookkeepers out there, who have learned by trial and error, or a helpful accountant has thought them some items, another experienced bookkeeper has shown them other areas.

.....continued on page 3

In this issue

Price €5.00

Net Price €4.41

vat @ 13.5% €0.59

BOOKKEEPERS IRELAND

The Magazine dedicated to bookkeepings in Ireland

Contact Details:
Tel: 086-8371819

EMail:
BookkeepersIreland@gmail.com
Website:
www.BookkeepersIreland.com

This publication is published to help improve the standard of bookkeeping in Ireland

Editor's Letter

When I left school in 1986 I went to work for an accountancy firm that also had a bookkeeping bureau service. I worked here for two years were I set the groundwork for my knowledge of bookkeeping, doing bookkeeping both manually and computerised and payroll using a pen, calculator and tax deduction cards.

I moved onto to another accountancy practice where I did more accounting than bookkeeping, but also spent a lot of time teaching clients bookkeeping and setting up systems for them.

I gained the ability to understand how a complete accounts system worked from beginning to end. From putting the information from invoices and payments into accounts software and producing a full set of accounts at the end to be signed by the directors, I knew what happened in all that software. When you enter a suppliers invoice, I know where each debit and credit went, which ledgers are affected and the result on the VAT and profit or loss of the business.

I met many bookkeepers by working in accountancy practices. Some were naturals, people who understood the importance of getting things to balance. Some were bookkeepers who simply followed a system and did not know if they were doing anything wrong. They created havoc in the end. But there employer knew nothing about bookkeeping and to find a replacement was inconvenient, so they left the bookkeeper in place and instead kept paying high accountancy fees as each year I came in and fixed all the mistakes.

Many of these bookkeepers fell into the bookkeeping role. Most because they worked in the office and since bookkeeping was not that important and they had software which looked after everything they gave no thought about the role of the bookkeeper and what effect they could have on the business. In the current economic climate, now more than ever we need people who understand the importance of keeping the books in order and up to date. Someone who can explain to their employer the reason behind why we do things that seem so insignificant to the employer, such as getting invoices and receipts for everything.

Let's start training a new generation of bookkeepers and get people to accept that bookkeepers are professionals and should be treated as such. You as a bookkeeper also have to accept that you must act professionally to gain their respect.

continued from from front cover

But these bookkeepers find it difficult to keep up to date. The information they may need can now be found on the Internet, but it is in many places. The Revenue Commissioners website contains much information, but you need to know what you are looking for.

We need a bookkeeping association that can train and educate bookkeepers and set bookkeeping standards

The technicalities of a change in the budget may be too complex to understand just by reading about it. Do you understand how the changes they made in the VAT rules affected builders who were subcontracting to a main contractor. What are the VAT rules for selling to other EU citizens, what VAT rate do you charge them. What is the difference between a VIES and an Intrastat form and is it relevant to a bookkeeper.

Standards are required for the bookkeeping industry and the best way to do this is by having an umbrella bookkeeping organisation. This organisation can set exam standards and determine who can call themselves a qualified bookkeeper.

They can provide continuing professional development for bookkeepers. They can set out what to expect from a bookkeeper, their roles and responsibilities.

Many people think that bookkeepers are responsible for the payroll function. A bookkeeper does not do payroll as standard. It is a completely different role, but in many small businesses they do it anyway. But payroll requires different skillsets. An umbrella bookkeeper organisation can provide training to allow the bookkeeper to perform a role that is usually expected from them and teach and advise them on how to calculate payroll correctly.

Payroll is not a bookkeeping function

If you work as a bookkeeper, you need to show employers that you are a professional that is professionally qualified, has suitable experience and keeps themselves up to date and should be respected as a professional.

Bookkeepers are treated as second class citizens and those who try and provide top class professional services are undermined and underpriced by low cost inexperienced operators.

If you are a business owner, price is not everything. Would you put your health in the hands of an inexperienced person calling themselves a doctor? Then why do you put your finances in the hands of those who are inexperienced. Because there are no standards for you to measure against, download our "Top questions you need to ask a bookkeeper to see if they can do your work correctly".

Directors Wages, Directors Expenses, Directors Loans, Subsistence, Drawings

How to manage them all and not upset the tax man or the auditor

Sole traders and partnerships are different to Limited Liability companies in that they own everything themselves

In this article I will use the term Director and Business owner. Usually a business owner is a director of the business. Sole traders and partnerships are different to Limited Liability companies in that they own everything themselves while in a Limited Liability Company the Director or Business owner owns shares in the business, but has no right to any of the business assets for his own private use. He or she is treated in the business as an employee and has no right to take anything from the company and must follow company law in regards to any transactions with the business e.g. borrowing money from the business.

Directors Salary

A Director gets a salary. It is better to agree a salary at the beginning of the year and if the company performs well over the year, increase it (or decrease it, if necessary). Avoid leaving it to the end of the year to work out what your gross salary should have been. Keep reviewing the amount being paid to the directors and what the cost in taxes will be so that you don't accumulate a big tax bill at the end of the year. By defining what the director's salary is for the year, you will then know the net pay he should be taking home and any money taken above that amount may then be treated as a directors loan.

Directors Expenses

Directors buy stuff for the business using their own money. This could be because the credit limit on his business card was lower than the amount needed to pay for an item, so the director used his own personal credit card to pay for the item. He should then give the invoice to the company and be refunded by the business for the value of the invoice.

On a monthly basis he can list all the items he bought on a claim form and be paid back the money he spent. If the business is not in a position to pay him back immediately, he will become a creditor i.e. someone who is owed money by the company.

Set up a supplier account in your accounts system under the director's name and record all his purchases on behalf of the business here. In this way you will know exactly how much he has to be paid back.

Directors Loans to the company

Business owners usually have to put money into their business to get it started. This may be personal savings, or a personal bank loan. The money is then lodged into the company's bank account for company use. This money is owed back to the business owner which is usually paid back when the business starts making money.

Set up a "Directors Loan" nominal ledger account in the nominal ledger. It should be a long term liability nominal ledger account

NOTE: Keep this money separate from loans from the company to the directors' if there are some.

While a business owner can loan unlimited amounts of money to his business, there are legal restrictions as to how much they can borrow from the business

Directors Loans from the company

While a business owner can loan unlimited amounts of money to his business, there are legal restrictions as to how much they can borrow from the business and are usually restricted to a percentage of the value of the business. So set up a "Directors Loan" nominal ledger account (it is a current asset) and keep this separate from any director's loans to the company if there are any.

Subsistence expenses

In many industries you can claim fixed daily expenses without the need to produce receipts for the expenses. This is normally for lunch expenses. A director may be entitled to these and they should be paid as part of his salary. They are usually tax free and are a cost to the business. A code in the nominal ledger for Directors Subsistence expenses should be set up and when the wages journals are posted, the subsistence expenses will come across in the wages figures automatically.

Drawings

This is the catch all term for money taken from the business that is not defined exactly as to what it is e.g. wages, loans, subsistence etc. This happens where the Director needs to be paid money for his own personal living expenses, but right now he does not know where he will take the money from. The first place to record this information is in the Directors loan account, but if there is none, then set up a drawings account in the nominal ledger under current liabilities. Later on you can transfer the transaction out of this account to the correct account whatever that may be.

Small business owners (directors) would like not to have to give loans to their business or take money out of the business as a loan. They would like to get a salary and be taxed on that. Unfortunately this does not always happen, especially in times of business uncertainty when money is tight.

The key to managing the directors taking money out and putting money into the business is to deal with each transaction as it comes and ensure you record it in the most appropriate account as explained above.

Cost of Sale (Resale) item and Expense (Non Resale) item and how to distinguish which is which?

A simple Profit and Loss account looks like this:

Sales
less Cost of Sales
= Gross Profit
Less Expenses (Overheads)
= Net Profit

From your Gross Profit you can calculate your markup on costs and your profit margin as a percentage of sales. So if you place an expense in your cost of sales or a cost of sale in an expense account, the calculation of your markup and margins will be wrong. So how do we know what is a cost of sale and what is an expense?

A cost of sale is any cost item that directly affects the profit you make on an item you sell

A cost of sale is any cost item that directly affects the profit you make on an item you sell, such as;
The cost of the item
The carriage or freight cost needed to get it to your premises
The carriage or freight cost involved in getting it to your customer
Packing material and related costs

An expense is a cost that indirectly affects the profit you make on an item. Costs you pay for whether or not you sell anything are expenses, such as;
Rent
Rates
Wages
All the overheads needed to keep the business running before you sell anything.

So if you follow the rules above this will help you with most situations. Each business can deal with cost of sales and expenses differently. The important thing is to deal with each item consistently i.e. if you treat something as an expense, always treat it as an expense, don't change it to a cost of sale one month and an expense the next month.

If you are manufacturing your own items or performing some other process to the item you are selling, then the way in which you handle costs will be different.

As you enter an invoice into your accounts system, what you need to think about each time is, does this have a direct or indirect affect on the items I am selling. Then you can determine whether it is a cost of sale or an expense.

Are your wages calculated correctly? Could you be paying too much tax and prsi?

For an employee, each week tax is taken from their pay and they just accept it. For an employer, they pay employers prsi and you just accept it. But is what you are paying calculated correctly and did you know that sometimes an increase in pay actually means you take less home?

For an employee, each week tax is taken from their pay and they just accept it.

Here is how pay is made up

	1	Pension paid by Employer
	2	Employer PRSI
+	3	Benefit in Kind (BIK)
+	4	Gross Salary
-	5	Pension paid by employee
=	6	Taxable Gross Pay (3+4-5)
-	7	Income Tax
	8	Income Levy
-	9	Employee Prsi
=	10	Net Pay after tax and prsi
ADD	11	Non Taxable items
+	12	Travel Pass
+	13	Subsistence
+	14	Mileage allowance
LESS	15	Other deductions
-	16	Credit union deductions
-	17	Income protection schemes
=	18	Net pay left to spend

In calculating all these amounts we need to understand the effects on your pay of

* Pensions paid by employer (PRSA, company schemes)
* Benefit in Kind (Company Cars, VHI paid by employer)
* Pensions paid by the employee (PRSA, company schemes)
* What is the significance of Taxable Gross Pay
* How income tax is calculated using tax credits and cut off rates
* How PRSI is calculated and how important it is to be on the correct rate
* How if you change to a different prsi rate you could take home less money
* What is a non taxable item
* What is the effect of other deductions

+	1	Pension paid by Employer
+	2	Employer PRSI
+	3	Benefit in Kind (BIK)
+	4	Gross Salary
=		1+2+3+4 = Total cost to employer

The above shows the cost of an employee to a business

If the employer pays into a pension fund for an employee, there is no tax or prsi payable on it

1. Pension paid by the employer
If the employer pays into a pension fund for an employee, there is no tax or prsi payable on it. It is still money the business must pay out. The employee does not see any benefit in their pocket immediately as pensions are a long term investment.
An employee could argue for the pension being made part of taxable salary so that he could receive immediate benefit. The benefit would only be after tax and prsi is deducted and the employer would have to pay employers prsi of up to 10.75% on the amount that would have been prsi free if it were a pension amount.

Example:
Comparison showing tax saved and extra tax paid, with pension/without pension

Employer pays into a pension fund for employee
Weekly pension amount 100
Tax nil
Ee prsi nil
Er prsi nil

Employee takes pay as salary instead of pension
Salary 90.30
Tax @ 41% 37.02
Ee Prsi @ 6% 5.41
Net pay 47.87
Er Prsi 9.70
(90.30 x 10.75%)
Where did the €100 salary taken instead of a pension go?
Net pay 47.87
Tax 37.02
Ee Prsi 5.41
Er Prsi 9.70
Total 100.00

Note: The tax man got 52.13 of the 100

2. Employer Prsi
This is paid on taxable income and as an approved pension is not taxable this is to the benefit of the employer. If an employee was willing to take a reduction in their salary of €90.30 their take home pay would be reduced by 47.87 but their employer could afford to pay €100 into their pension fund and it would cost the employer nothing extra.

Benefit in kind was introduced to stop people from avoiding paying tax

3. Benefit in kind
Benefit in kind was introduced to stop people from avoiding paying tax. Items other than money were paid to the employee and were initially not taxable. But now what happens is that the value of the item given to the employee is deemed as income and taxed accordingly.
So if health insurance (VHI €1000) is paid by the employer, then for tax purposes 1000 is part of the gross salary and tax, employee prsi and employer prsi must all be calculated on this amount.
If a company car is provided, the list price of the car is used.
So if the car cost 30,000 the taxable amount is 30% of this value which is 9,000 in this case. The 9,000 is deemed as taxable income. So you have;
Tax €9000 @ 41%
Ee Prsi €9000 @ 6%
Er Prsi €9000 @ 10.75%

4. Gross Salary
This is the salary for the job excluding any other benefits. So when a job is advertised as 40,000 this is the amount excluding pensions, company cars, vhi etc. Commission and bonuses are dealt with in the same way as gross salary.
Commission and bonus are not benefit in kind, they are salary paid in a different way. Instead of being paid an hourly rate or a monthly salary, you are paid a basic + commission = Gross Salary and are taxed accordingly.

Think about how you someone is paid.

As an employer, you should understand that the way in which you pay an employee can either increase or decrease your cost of employing an employee.

* Pensions reduce tax both for the employee and the employer.
* Benefit in kind increases tax both for the employee and the employer.
* Getting that balance of cost versus benefit versus paying unnecessary tax is important

As an employee, you could be paying tax unnecessarily. While a pension is a long term investment, a small decrease in your net pay could result in a doubling in the monetary benefit to you if you do pay in to a pension.

Never forget employer's prsi of between 8.5% and 10.75% must be added to the cost of employing a person. So next time increases are discusses, think about a decrease in gross pay but increases in other benefits and save some employer prsi.

*　*　*

Do you have too many suppliers listed on your system?

The main reason for having a big list of suppliers is because for every invoice you receive, you set up a suppliers account for it

Here are some methods on how to reduce them down and make them manageable.

A. The main reason for having a big list of suppliers is because for every invoice you receive, you set up a suppliers account for it. But you don't need to do that. Here are suggestions on how to deal with these one off suppliers.

B. Set up a Cash Purchase Supplier Account.

For all those one off purchases, put their invoices into this account. Now you have one account that deals with a multitude of suppliers. And because in most cases you pay immediately with a cheque or cash, you don't have to worry about forgetting to pay the account. Examples are car repairs, electricians, and purchases in local shops.

C. Accounts you deal with regularly, but are not given a credit account.

Do set up an account for these types of suppliers, as this will allow you to see how much you transact with them and in the future be in a position to argue for a credit account with them, as you can show you are a good payer and the business is growing with them.

D. Accounts you deal with once or twice a year but every year.

The county council is an example of a supplier you deal with once or twice a year but every year. Do set up an account for them as it makes it easier to administer and allow you to check when and how much you paid them. If you pay motor tax to the county council keep this in a separate suppliers account from the building rates and water rates you pay to the county council.

E. Accounts you have not dealt with in a long time & are unlikely to deal with again.

This can happen when you find a better supplier or where a supplier has gone out of business. Delete suppliers you are not going to use or have not dealt with in a long time and look out for duplicate supplier accounts i.e. accounts set up more than once.

Don't set up a supplier account for every new supplier, unless you are going to deal with them regularly.

Summary:

* Don't set up a supplier account for every new supplier, unless you are going to deal with them regularly.
* Set up a cash purchase account to handle one off purchases
* Set up supplier accounts for suppliers you deal with regularly but get no credit from.
* Check for and delete old and duplicate supplier accounts regularly.
* Set up a cash purchase account to handle one off purchases
* Set up supplier accounts for suppliers you deal with regularly but get no credit from.

* * *

We want and need your feedback

This edition is our first mockup. You are one of the first people to read this magazine and we need your feedback. You don't have to be working as a bookkeeper to get benefits from this magazine. Anyone in an office environment should get something from this magazine, whether you are full time or part time.

Are you studying for the Certificate in Manual and Computerised Bookkeeping, you will get help here.

The purpose of this magazine is provide information on bookkeeping and basic payroll

The purpose of this magazine is to provide information on bookkeeping and basic payroll. We will do some spreadsheet and accounts software tips were appropriate.

This will not be a magazine about corporation tax or tax incentive schemes, Employment Law or Company Law. There will be just enough to keep you the bookkeeper up to date with what is going on in those areas

What you will get to read in this magazine is the real day to day stuff that happens in your office to people doing bookkeeping and payroll such as;
Where do I post this invoice?
Should I set up a new code?
How to deal with the auditor?
Help with VAT returns and VIES?

So bearing this in mind:
Are the articles in this magazine relevant to you?
What would you like to read about?
News from the revenue commissioner?
VAT rules?
Paye and Prsi?
Debtors & Creditors?
The nominal ledger?
Training, Exams, Qualifications?

We really want to know what you need to help you with your work
Send us an email at BookkeepersIreland@gmail.com

This is a radio show on the internet for bookkeepers

BOOKKEEPING PODCAST

You can also listen to our online podcast at www.bookkeepingpodcast.ie
Download it to your computer, ipod or mp3 player, it is free
This is a radio show on the internet for bookkeepers, the only one in the world and focused on the Irish Bookkeeper