

## PRODUCTION OF CASH BASIS ANNUAL ACCOUNTS

The purpose of this schedules and the Standard Terms of Business is to set out the basis on which we are to acts accountants and advisors with regard to the production of the entity's financial statements in accordance with the cash basis, and to clarify our respective responsibilities in respect of that work.

For partnerships and sole traders only, from 2013/14 eligible unincorporated small businesses can choose whether to use the UK GAAP or the cash basis to calculate the taxable profits of your entity. If no election is made, the UK GAAP basis is used. All other entities must use UK GAAP.

We will communicate with the person named in **Key Facts** in relation to the entity's affairs having agreed with you that he/she may represent the entity in its financial affairs.

### 1 Your responsibilities

- 1.1 You will inform us, before we start work on your accounts, if there has been a change of circumstances in your business and cash accounting is no longer suitable as the basis of your tax return. You should notify us of this fact as soon as you are able as we may require you to keep records of balances at the year-end (such as amounts owed to you by your customers, owed to suppliers and stock held by you).
- 1.2 If you require a balance sheet and/or accounts prepared on an "accruals basis" (this is a requirement of some finance providers), please let us know as soon as possible as cash accounting may no longer be suitable for you. In summary, to be eligible for the cash basis your annual income must be equal to or less than the VAT threshold (currently £85,000), and you can stay in the scheme until your annual income is the same or more than twice the VAT threshold. However, if you are approaching these limits we would recommend you discuss the matter with us.
- 1.3 You have agreed that your staff will:
  - (a) keep the records of receipts and payments;
  - (b) reconcile the balances monthly with the bank statements;
  - (c) keep a record of time spent working on your business at home, where applicable, and of your total home running costs; and
  - (d) maintain a mileage log for all vehicles used in the business, analysed between business and private mileage.
- 1.4 You are responsible for ensuring that, to the best of your knowledge and belief, financial information, whether used by the entity or for the financial statements, is accurate and complete. You are also responsible for ensuring that the activities of the entity are conducted honestly, and for safeguarding the assets of the entity and for taking reasonable steps to ensure the prevention and detection of fraud.
- 1.5 You are responsible for ensuring that the entity complies with the laws and regulations that apply to its activities, and for preventing non-compliance and for detecting any that occurs.
- 1.6 You have agreed to make available to us, as and when required, all your accounting records and related financial information, including any minutes of partnership/management meetings, necessary to carry out our work. You will provide us with all information and explanations relevant to the purpose and compilation of the financial statements, and you will disclose to us all relevant information in full.
- 1.7 You will approve and sign the financial statements thereby acknowledging responsibility for them, including the appropriateness of the accounting basis on which they are compiled, and for providing us with all information and necessary explanations necessary for their compilation.

- 1.8 Financial statements need to be completed prior to submission of the tax return. Failure to submit the return on time will result in penalties and is likely to result in interest and surcharges. In order to avoid this, we must have your accounting records by the date stated in the **Key Facts**, and queries raised on those accounting records must be answered promptly, otherwise we cannot guarantee the completion of the accounts to ensure the tax return's timely submission.
- 1.9 For partnerships, unless we have been engaged to complete the personal expense claims of the principals, it will be the responsibility of each principal to provide us with any claim that needs to be incorporated on the partnership tax return. This information must be provided by the time that the partnership accounts have been approved by the practice.

## **2 Our responsibilities as accountants**

- 2.1 The financial statements are required to enable profits to be calculated to meet the requirements of the relevant tax legislation and that provide sufficient and relevant information to complete a tax return.
- 2.2 We have a professional duty to prepare accounts that are a fair reflection of your cash basis income and expenditure in the period. We will not be preparing a balance sheet or otherwise adjusting your accounts for accruals or other timing differences (e.g. amounts owed to you by customers or amounts owed by you to suppliers).
- 2.3 We will inform you if, in our opinion, cash accounting is no longer available or suitable for your business, in particular when the level of your cash basis receipts exceeds the permitted amount. At this time, we will discuss with you the changes required to your business records to enable us to prepare accounts using the UK GAAP/"accruals basis" and a new letter of engagement will be issued.
- 2.4 We will compile the financial statements for your approval based on the accounting records that you maintain and the information and explanations that you give us.
- 2.5 As agreed with you (see **Key Facts**), we shall carry out the following accounting and other services:
- (a) write up the accounting records of the partnership/sole trader/trust insofar as they are incomplete when presented to us;
  - (b) complete the postings to the nominal ledger; and
  - (c) prepare the accounts for approval by yourselves.
- 2.6 We will write to you on or around your year-end date to request the information and records we will need to prepare the accounts.
- 2.7 Unless stated in **Key Facts**, we will not be carrying out an audit and accordingly will not verify the assets and liabilities of the entity, nor the items of expenditure and income. To carry out an audit would require additional work to comply with International Standards on Auditing (UK and Ireland) so that we could report on the truth and fairness of the accounts.
- 2.8 We would emphasise that we cannot undertake to discover any shortcomings in your systems or any irregularities on the part of your employees, although we will advise you of any such circumstances that we encounter in preparing your accounts.
- 2.9 The accounting basis on which the information has been compiled, its purpose and limitations will be disclosed in an accounting policy note to the financial information and will be referred to in the accountants' report.
- 2.10 We also have a professional responsibility not to allow our name to be associated with financial information which we believe may be misleading. Therefore, although we are not required to search for such matters, should we become aware, for any reason, that the financial information may be misleading, we will discuss the matter with you with a view to agreeing



appropriate adjustments and/or disclosures in the financial information. In circumstances where adjustments and/or disclosures that we consider appropriate are not made or where we are not provided with appropriate information, and as a result we consider that the financial information is misleading, we will withdraw from the engagement. In these circumstances you agree that we have a right to invoice you for our time spent preparing and discussing the accounts with you and for time spent on any other work that is not completed as a result of our resignation.

- 2.11 We will annex to the financial statements a short report. In accordance with this engagement the report will point out that we have not carried out an audit but have compiled the financial statements on the cash basis from the accounting records and from the information and explanations supplied to us.
- 2.12 To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than you for our work or for the report. If you wish, or are asked, to provide a copy of the financial statements to a third party you must seek our consent before you do this. You are not entitled to disclose our work to a third party without our express permission. We may grant consent subject to certain conditions; however, in every situation where we grant consent, the report must remain attached to the financial statements shown to the third party.
- 2.13 For partnerships, if we have been engaged to complete the personal expense claims of the principals, this will be treated as part of the partnership accounts work. The personal expenses will be [incorporated into the main partnership accounts / detailed separately to the main partnership accounts]\*, and will require individual approval by the principal concerned. We will incorporate the personal expense details on the partnership tax return.