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## **14 REASONS WHY BOOKKEEPING IS IMPORTANT - INFORMATION FOR CLIENTS**

### **Walsh West Certified Chartered Accountants 2021**

#### **Why is bookkeeping important?**

Bookkeeping is important for helping you maintain accurate financial records. Along with the fact that you are required by law to maintain accurate books and records, one of the best reasons to keep on top of your bookkeeping is that it will save you frustrations later.

One of the biggest reasons that businesses fail is due to poor accounting, if you are still not convinced, take a look at these 14 other reasons as to why bookkeeping is important.

#### **1. Bookkeeping Helps You Budget**

When income and expenses are properly organised, it makes it easier to review financial resources and expenses.

A good budget helps you plan for future expenses and the anticipated resources that would cover those expenses.

#### **2. Tax Preparation**

This scenario might sound familiar. It is time to file your annual tax return and you are scrambling through boxes under your desk for lost paperwork. This can be avoided by the process of simply having an efficient bookkeeping function within your company.

This is important for your personal tax return as well. As a business owner, a large part of your income comes from your business. In order to know how much you earned, you have to know what your business earned first.

#### **3. Organisation**

Being organised is a skill every business owner should have. You should be able to find information regarding your business at any time.



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There are a few parties that are interested in your company's financial records, one being HMRC – If you do not provide accurate timely returns requested by HMRC, that could mean penalties and fees. If you do not provide records requested by investors or lenders, that could mean a stoppage of cash flow and so on.

Bookkeeping is by definition the organisation of financial records, the easier it is to locate those records the better placed you are to exhibit them when they are needed.

#### **4. Analysis**

Bookkeeping is important because it helps with business analysis. It is a tool used by Management to analyse business performance.

The product of bookkeeping is financial statements. Financial statements should be regularly generated and used for analysis.

While analysing financial statements, you can track your cash inflows and outflows.

Bookkeeping gives you information on which business lines are working or not working.

#### **5. Better Decision Making**

With analysis comes better decision making. In order to make the best decisions possible, you need to have access to all available information.

Bookkeeping provides this information. How can you expect to make profitable decisions without financial information to back it up?

#### **6. Planning Purposes**

Bookkeeping presents the past financial performance of your company. In order to plan for the future, you have to have a good understanding of the past. Bookkeeping will give you the clear picture of what exactly works or doesn't work.

#### **7. Easy Reporting to Investors**

Investors want to know the financial performance of your business to be able to want to quantify the value of their investment. Financial statements do just that. The balance sheet, income statement, and cash flow statement all present the value of your business.

The product of bookkeeping is financial statements. Bookkeeping allows investors to have up-to-date and accessible information. Investors will be able to make better, well informed, decisions which is the ultimate purpose of bookkeeping.



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Bookkeeping is not only for current investors but for future investors too. Prospective investors are more likely to invest in your business when you have organised financial information. Think about it, if you were an investor, would you invest in a company that didn't have accessible and organised financial records?

## **8. Financial Management**

Bookkeeping is important because it allows you to take control of your business' finances. Bookkeeping paints a clear picture of how you spend money. You can see outstanding invoices owed by you or your customers.

You will benefit from paying your bills on time and receiving payment for your products or services on time too. It's this delicate balance of cash inflow and outflow that will keep your business going.

## **9. Peace of Mind**

This is one thing that many people do not even think about, as dis-organised books can weigh heavy on your mind as a business owner. With all of the other factors of running a business, your bookkeeping should not be keeping you up at night.

When your books are complete, you can rest easy knowing that your company's financial information is review ready.

## **10. Tracking Profit and Growth**

Bookkeeping is important because it shows your business' profitability. For example, the Profit and Loss statement is one of the financial statements that is prepared from your bookkeeping. On the profit and loss statement you can see whether your business is profitable or not. Without this information, it is impossible to know how well (or not so well) you're doing.

Bookkeeping also helps with tracking growth. Over time, you will accumulate months and years of data. With this data, you can observe trends and gain a greater understanding of your business cycles and compare results across periods for better planning and ultimately plan for profits and growth.

## **11. Better Cash Flow**

Bookkeeping improves your cash flow. The routine recording of revenues, expenses, liabilities, and receivables, will allow you to track when your invoices are paid. As a business, you want to ensure that your sales invoices are being paid in a timely manner. The sooner, the better. Paying your expense invoices should also be done in a timely manner, to avoid incurring any late fees.



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## **12. A Greater Ability to Plan**

Planning is the core of what you do as a business owner. You're always thinking of ways to grow and develop your business.

You should use the information that bookkeeping provides to focus and track your planning.

## **13. Your Records Provide a Snapshot of Your Business**

Bookkeeping provides financial information about your company in the form of financial statements. Financial statements like the balance sheet, profit and loss statement, and cash flow statement all provide financial information for a set period. Together these statements take a snapshot of your business enabling you to see how well your business performed.

## **14. Statutory Requirement**

Lastly, but certainly not least, it is a statutory requirement that you keep financial records for your business. Depending on your legal structure, the law requires you to keep financial records separate from your personal expenses.

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For initial advice about Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at [welcome@walshwestcca.com](mailto:welcome@walshwestcca.com) or via our website [www.walshwestcca.com](http://www.walshwestcca.com) and we will help you.