

How to bring bookkeeping in-house

A step-by-step guide



accountingWEB



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Introduction

In the aftermath of the Covid pandemic, the world is reopening and business owners are keen to make up for lost time.

After so much upheaval in the past 18 months, business owners want to get back to doing what they do best and that usually isn't their bookkeeping. They're keen to get back to income-generating work and accountants are keen to make sure they're on top of the numbers.

With Making Tax Digital (MTD) changes for voluntarily VAT-registered businesses just around the corner in April 2022, the smartest accounting practice owners are looking to make themselves even more indispensable to clients and seizing the opportunity to build an in-house bookkeeping service.

Looking further ahead to April 2023, MTD for Income Tax Self Assessment (MTD ITSA) is going to force even more business owners - and their accountants - to be much closer to the numbers in near real-time. To meet quarterly filing obligations, accountants are going to depend on clients to keep their books up to scratch. Since many traders lack the skills or will to do it themselves, the argument for in-house bookkeeping is even stronger.

As businesses recover from the pandemic and adjust to new requirements of MTD, there's a huge opportunity for accountants to add new services and build closer relationships with clients they may usually only speak to once a year. This guide suggests that it's time accountants added bookkeeping services to their portfolios and offers practical, step-by-step suggestions on how to deliver those services effectively and profitably.



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Step 1:

Get VAT clients ready for April 2022 deadline

Since 2019, accountants will already have switched any clients over the VAT registration threshold onto MTD compliant processes.

Any voluntarily VAT registered businesses, with turnover below the VAT threshold of £85,000 will also need to keep records digitally and submit their VAT returns using MTD-compatible software by 1 April 2022.

Although accountants have been speaking to their clients about MTD for years, these remaining clients, the smallest businesses, are likely to include those who are the most resistant to the transition and the most budget-conscious. They probably also include the clients who need the most help getting back on their feet after the pandemic, who don't have time to focus on their bookkeeping, and who perhaps are burying their heads in the sand about the state of their business finances.

This challenge brings opportunities for accountants to re-engage with those clients and build deeper relationships as we support them through the two impending MTD deadlines.

Clients below the VAT threshold may be unaware that MTD rules will apply to them. Accountants need to reach out now to educate small business owners who need to be ready for April 2022. This could be as simple as a quick phone call, email, or letter. You could also consider running a training session or workshop in person or online.

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Step 2:

Get non-VAT clients ready for quarterly reporting

MTD for ITSA is going to be a major change for unincorporated businesses (sole traders and partnerships) and landlords with total business or property income above £10,000. The transition will also force accountancy practices to change their internal processes to accommodate the new workflows and timelines.

For many business owners, it will be the first time they've needed to keep digital records or use accounting software. They are going to need a lot of education and training to adapt and change the way they work.

The submission deadlines will be tight. Each trading or property business will have to submit a quarterly report of income and expenses in defined categories just one month after the end of each quarter. A finalisation statement for each business will also be due by 31st January after the tax year-end.

This is a much more involved process than many business owners will be used to or might be expecting. For accountancy practices this will mean the end of only engaging with certain clients once a year, and could lead to fundamental changes in how you charge clients.

The changes will also bring opportunities and open the door to potential clients who have never needed an accountant before.

“For many business owners, it will be the first time they've needed to keep digital records or use accounting software.”



Step 3:

Offer outsourced bookkeeping to clients

Every accountant instinctively understands the adage, “Garbage in, garbage out”. Some clients may have responded to their accountant’s prompts and successfully taken on responsibility for digital record-keeping. With continuing support and training, these clients should be able to continue doing their own books under the new MTD for ITSA regime.

Many owners of unincorporated businesses and landlords want to keep their accountancy costs low and have never sought to engage with their accountant more regularly than at the year-end, if at all. Convincing these individuals to outsource their bookkeeping may be the best answer to ensure their tax submissions are accurate and timely. Here are some of the key arguments in favour of this approach:

1. Lack of accounting knowledge

Small business owners aren’t (usually) bookkeepers and could leave themselves open to numerous risks as they move from spreadsheets and paper records to MTD compliant processes.

2. Reliability and consistency

Accountants have a huge role to play in ensuring the records that feed into clients’ tax submissions are complete and accurate. Small business owners

who are unaware of all the regulations are much more likely to encounter last-minute omissions and mistakes that prompt panic calls to their tax advisers.

3. Better understanding of the business’s finances

Poor bookkeeping processes and business records make it impossible for owners to grasp how well their business is performing. Getting involved earlier and using the data to compile timely reports not only saves time and money on compliance, but helps business owners to make better business decisions.

We have a choice. Accountants can either engage with clients and prospects now to get them ready for the transition to MTD or expect a flurry of disorganised files of paperwork arriving in the office next year.

The benefits of bringing bookkeeping in-house

The perception of the bookkeeper is changing and small business owners are finally learning the value of outsourcing to a bookkeeper to free up their time. So why wouldn't accountancy practices bring bookkeeping in-house?

As well as creating a recurring revenue stream for firms that currently may only invoice clients once a year, offering an in-house bookkeeping service offers many other benefits for accountants:



More control over deadlines

By working more closely with clients throughout the year, we're ready for the new reporting requirements under MTD. Being on top of the books means practices can smooth out workloads to prepare timely reporting and additional services for clients with less stress.



Staying in touch more regularly

Having control over the books strengthens the relationship with your clients and builds trust. As you get to know your clients better, there are more opportunities for conversations about their business goals and objectives, creating space for further services...



Springboard for advisory services

Those regular conversations allow you to open clients' eyes to services that let you help them take control of their budgets, costings, cashflow, or even to advise on tax planning.

The benefits for clients

Most clients see bookkeeping as a necessary evil. If they don't have the knowledge and expertise to file their accounts, they feel they have no choice but to engage the services of an accountant.

Clients fear missing a deadline, facing a fine, or not being aware of new regulations. The current annual service model offered by many accountants gives them little peace of mind. The annual filing cycle causes stress for clients who don't know exactly what they are going to be asked to provide and when, and they're usually in the dark about what their tax bill is likely to be.

Providing an in-house bookkeeping service with regular reporting - whether that's monthly or quarterly, helps clients to reduce the anxiety of missing something important.

Being in touch with their accountant regularly gives small business owners:



Certainty about their tax liabilities

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Understanding on how their business is performing

Lorem ipsum dolor sit amet.



Help to plan for the future

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Step 4:

How to deliver profitable bookkeeping services

Where accountants have failed to fulfil the bookkeeping needs of their clients, many bookkeepers have built up successful businesses filling that gap. And they're expanding the scope of what they offer as part of a revolution now taking place in the bookkeeping market.

Ambitious bookkeepers are moving on from producing weekly or monthly books to providing the day-to-day finance functions businesses are looking for. Rather than creating a race to the bottom with pricing, this trend has helped bookkeepers build relationships and prove their value to businesses.

Bookkeeping is no longer about trading time for money. Accounting apps and integrations are being improved all the time, removing the need for so much manual data entry, and in fact, simplifying accounts work to ensure practices have the most robust, up to date data possible. Having control over the source data streamlines the other accounting and tax preparation tasks to improve the firm's efficiency and profit margins.

In addition, bookkeeping doesn't need to be carried out by qualified accountants. What's important is an understanding of bookkeeping and the software being used, common sense and good communication skills. An approachable trainee accountant

or bookkeeper can be managed to deliver the majority of the bookkeeping leg-work, creating a highly profitable arm of the business.

Traditionally, practices that were focused on compliance work, derived much of their revenue from producing the annual accounts. In-house bookkeeping presents an opportunity to generate recurring monthly revenue in addition to the annual fee.

Proposal software helps price bookkeeping work on a transactional basis rather than on the traditional hourly rate that many practice owners have relied on in the past. This makes sense for clients, who get a predictable amount of support each month for a fixed fee they can build into their budgets. In contrast, clients sometimes begrudge having to pay an annual fee to their accountant as well as a tax bill to HMRC that may be higher than they were expecting. Monthly upfront billing can improve a client's cash flow as well as that of the accountancy practice.



Step 5:

Strengthen relationships with clients

Small business owners are fed up with only hearing from their accountant only once a year. The fastest-growing practices are speaking to their clients monthly or even weekly and bookkeeping is the key to this level of relationship.

Whether you speak to clients in person, via a webchat or on the phone, regular contact helps you move beyond the small talk, allowing you to get to know your clients on a deeper level to understand their goals and dreams and to put you in a place where you can best help them.

These conversations are what give you insights into what your clients are striving for, at a level that just can't be reached when you only meet your clients occasionally.

By its nature, bookkeeping requires us to be in touch with our clients more frequently. There's a need to chase missing paperwork, and as MTD approaches, to communicate with our clients about the next submissions.

Simply by communicating regularly, practices can build closer relationships with clients.

Practices that nurture their bookkeeping clients in this way with open, consistent communication lines will encourage them to get in touch with their contacts at the firm to discuss their goals and challenges. The accountant will genuinely become their trusted adviser rather than somebody who bothers them once a year, and the resulting bond will encourage them to stick with the firm for longer and refer any friends or peers looking for a new accountant.

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Step 6:

Streamline the annual workflow

One of the big challenges for practices is the bunching of work around the 31 January self assessment deadline and the 31 March and 31 December year ends.

This often simply comes down to waiting for clients to pull together their records or to physically get the paperwork into the office. No matter how often we chase these clients and remind them of the deadlines, we are at the mercy of their schedules, which can test the ability of even the most organised practices to manage their time and workloads.

Bookkeeping software and applications allow for missing item lists to be sent on a weekly basis. This helps to train the client into understanding the importance of providing timely information and creates good habits. When providing digital receipts and invoices becomes a habit, it is no longer seen as a chore and again improves the client-accountant relationship.

Taking control of when the accounts are ready to be prepared will allow the accountant to manage their schedule to minimise this bunching of work.

Most of the compliance work will already have been done - the VAT returns filed and the bank reconciled - so filing the annual accounts simply becomes an additional step in a regular process.

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Step 7 and beyond: **What next?**

For practices that want to add a bookkeeping function to their service offering, the first step is to define and segment your existing client base.

Some clients will stand out as the most in need of more regular support. Book a review to discuss their goals for the business, the current challenges, what motivates them, and then ask some detailed questions about the bookkeeping.

Find out who is doing the bookkeeping currently, and how they feel about the time and effort it takes. This may open doors to discuss how you can support them with a bookkeeping service, to give them confidence that things will be done correctly from a technical point of view, but also giving them time back to focus on their business.

Then look at how a bookkeeping service could be delivered through your practice. Who will staff it? What are the roles and responsibilities of those involved? What software will help you provide the most efficient service?

One of the challenges of implementing bookkeeping for any client is bringing the bookkeeping up to date at the beginning. If the bookkeeping process has been non-existent or poorly managed in the past, there may be a large time commitment involved in bringing

the accounts up to date before you can move forward with routine monthly bookkeeping. Staggering onboarding of clients is important.

There may be clients you can roll your new service out to immediately. Once those clients have been identified, take a systematic approach to work through the rest of your client list, setting up client calls, or running a webinar explaining how your bookkeeping service works, what's involved, and invite clients to speak to you about getting a quote.

“Book a review to discuss your client’s goals for the business, the current challenges, what motivates them, and then ask some detailed questions about the bookkeeping.”



Build in-house bookkeeping into your MTD plan

With MTD around the corner, there's a huge opportunity for accounting practices to deliver bookkeeping services to their clients. This is an important time for small businesses. The pandemic has resulted in the formation of a large number of new businesses. Some business owners don't have the experience or knowledge of how to keep their records accurately, and many small business owners and individuals are unprepared for the changes ahead.

Some new business owners may be unaware of their obligations or the impending changes. They will be looking for an accountant to support them, but may not have found the approachable practice that they would like to support them as they grow their business.

Whether they want to or not, the smallest business owners are going to need to get much more familiar with their numbers with the requirement to start making quarterly income tax submissions.

There's going to be a shift in the way businesses need to do things - moving from paper to MTD compliant software being the most obvious. But MTD for ITSA is also going to require a mindset shift.

Change is tough. Supporting clients during this period of change brings huge opportunities for practices to develop relationships, build trust and help clients build their businesses.

Bookkeeping has changed. As discussed, It's no longer a simple trade of time for a low hourly rate. Automation through apps and integrations supports accountants and bookkeepers in preparing slick accounting records with minimal manual data entry. Done well, bookkeeping is a profitable service that can open doors for conversations with clients about further services and opportunities to work together.

Offering bookkeeping as a service is a brilliant opportunity to get to know your clients better, ensure their records are of good quality, get control over your processes, and build a more profitable business.

You and your clients will be both happier and more profitable. It will not be easy but nothing worthwhile ever is. Timely, accurate bookkeeping is the key to fixing all your current gripes with your practice and clients.

“Change is tough. Supporting clients during this period of change brings huge opportunities for practices to develop relationships, build trust and help clients build their businesses.”



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