

Should I open a business bank account?

When you are first starting your business it may seem an unnecessary hindrance to worry about how to manage your business transactions if you are starting off small. After all, it's sales that matter, right?

However, it will be much simpler in the long run if you separate your personal finances from those of your business.

When you look back over time and need to analyse income and expenditure, it is much easier knowing that you only have to analyse the transactions in one separate bank account. It certainly makes it less of a chore.

If you don't separate business and personal items then you give yourself an extra job in that you have to identify and analyse each item into business or personal before you can assess your business cash flow. In short you give yourself an extra job.

Another benefit to separating business transactions comes if you decide to give the bookkeeping to someone else at a later date. That person would have a much harder time recognising which items were relevant business transactions because they are not as familiar with your transactions as you would be.

This would mean they would spend more time investigating transactions instead of carrying out the analysis. This of course would mean higher charges, not to mention a lot more questions to you regarding explanations of uncertain items.

Bank charges will be an issue, but currently in the UK there are a number of banks, particularly those operating online accounts, that will let you bank for free.

There are usually conditions however, namely trying to get as many of your transactions made by direct transfer (BACS, D/D etc.). It is just a matter of shopping around for the best deal.

Please don't feel that you have to use the same bank as the one that runs your personal account. It is worth investigating if they will let you have a special deal but don't feel beholden to take it. Competition is rife in the banking industry and with a little persistence you should be able to secure a favourable deal.

A final word, if you do opt to open a separate bank account, then please make sure you put all business items through it. It is easy to pay for an item out of your personal account and then forget to allocate it to business expenditure.

Don't forget that the item will more than likely be tax deductible and you want to make sure it is included in the accounts for your business.

About the author:

Trevor Sadowski has worked in finance departments for the past 23 years and has been a member of the Chartered Association of Certified Accountants (ACCA) since 1994.

Trevor currently provides contract accountancy support through short-term placements or interim management in the UK. To find out more, visit his web site at www.moveaheadonline.com