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Your complete do-it-yourself guide

Running your own Business MADE EASY

- Expert's advice and instruction
- Cash flow forecasting
- Sources of funding

Running Your Own Business Made Easy
by Roy Hedges

Edited by Hugh Williams FCA

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For convenience (and for no other reason) 'him', 'he' and 'his' have been used throughout and should be read to include 'her', 'she' and 'her'.

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Being in control

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To determine the success of your business, you will need to put in place some financial targets against which you can measure your performance. This means attempting to predict levels of income and expenditure. After you have commenced trading, review the achievement of your business against these targets. Not only will this review tell you if you are successful, but also it will highlight any problems, rising costs or customers who consistently pay too late, for instance, and will monitor your incoming money. You must keep track of your expenditure, however. It will be difficult to know where you stand if you are lacking any form of fiscal information.

Forecasting your cash flow requirements over the first 12 months and extending this prognosis into the next two to three years will tell you if you need to raise external finance for your business and if so, how much. It's important to update these forecasts on a regular basis. Initially, you can only estimate your requirements, but when trading commences you will be in a position to predict your future needs more accurately.

DEFINITION Working capital is the term used to describe the finance used by businesses for everyday trading purposes.

When calculating how much money is needed to set up your business you must take into account the loss of earnings you will suffer. The everyday expenditure of your private life will not go away. Therefore, it's time to look at your personal requirements. After all, one of the main reasons for going into business for yourself was to improve your overall standard of living!

CAUTION If you don't know how much money is owed to you or by you, you could lose control of the business you worked so hard to create.

Survival income

In general, you would expect your business to make much more money than is necessary to cover the financial demands of everyday private life. Initially, it may take time for your business to generate sufficient turnover to meet the expenditure of the business as well as your income. Therefore, it's essential that you don't withdraw excessive amounts to live on. It's useful to know the minimum amount of money you will need to take out of the business to meet all of your personal expenses over a given period. This is called 'survival income'.

CAUTION When planning survival income always consider a fail-safe element to cover unforeseen occurrences, such as a washing machine breaking down.

To determine survival income, you need to establish who makes up your family unit or the number of people who are dependent upon your income. A typical survival budget must also include any income coming into the household, including income from your spouse/partner, investments or pensions. The resulting total of expenditure over income represents your survival requirements. All items in your forecast should appear net of tax.

Sample survival income budget

Survival Income Budget

For **Period** **£**

Mortgage/rent ______

Council Tax/water rates ______

Fuel (gas/electric, etc.) ______

Telephone ______

Insurance (property/contents) ______

Housekeeping (food, cleaning, etc.) ______

TV licence/newspapers/trade magazines ______

Hire purchase/rental payments ______

Road tax and insurance (motor vehicles) ______

Running expenses (petrol, parking, service) ______

Fares/taxis ______

Clothing ______

Children's expenses (pocket money, etc.) ______

Holidays/Christmas/birthdays ______

Life insurance/pensions ______

National Insurance ______

Pets (food, vet's bills) ______

Contingencies ______

Total expenditure:

Non-business income ______

Family/partner ______

Investments/pensions ______

Other (please specify) ______

Total income:

SURVIVAL INCOME REQUIREMENTS: £
(income less expenditure)

You also need to determine a timescale over which your survival budget will run. Although this is usually done over a year, some people find it easier to work on a monthly basis. There are four segments to a regular budget and these are usually classified as:

- Domestic expenses, such as rent or mortgage, etc.
- Travel and transport costs
- Personal expenditure, such as clothing, professional membership fees
- Non-business income

The survival income budget form, shown on the previous page, is for you to use.

TIP Be realistic in your survival forecasts. The higher the survival income, the more money you will need to take out of the business.

Cash flow forecasting

There are some very notable differences between forecasting profit and cash flow. The profit estimates show the gain likely to be made in any given time span. It answers the fundamental question Will the business be viable? The cash flow conjecture shows the planned dates of the movement of money either in or out of the business.

note Cash is the lifeblood of every business. Without it, your firm would not be able to operate and flourish.

A number of items shown in your cash flow forecast will be identical to those in the profit forecast, although they will be dealt with in a different manner. For example, sales made in June will be invoiced and shown in the June figures. But if they were not paid until two months later, the receipts will be registered in the August cash flow forecasts. This principle also applies to your purchases. For VAT-registered businesses, VAT is not a profit and loss item.

Sample cash flow forecast guide

CASH FLOW FORECAST GUIDE

For DWR Software

PERIOD June 2012 to May 2013

RECEIPTS	**Month:** June		**Month:** July	
	Budget	**Actual**	**Budget**	**Actual**
Cash sales		500	2,000	2,000
Cash from debtors			10,000	11,000
Capital introduced	5,000	5,000		
Total receipts (a)	**5,000**	**5,500**	**12,000**	**13,000**
PAYMENTS				
For goods received	2,100	2,400	9,700	14,800
Salaries/National Insurance	650	900	1,800	2,100
Rent/rates	150	150		
Insurance	350	350		
Repair & renewals				
Heating/light/power			325	475
Postage/printing/stationery	1,000	1,200		
Car/travelling				60
Telephone			210	290
Professional fees				
Capital payments	1,000	2,450	1,000	1,000
Interest charges	75	150	150	200
VAT payable (refund)				
Drawings			1,500	1,250
Total payments (b)	**5,325**	**7,600**	**14,685**	**20,175**
Net cash flow (a – b)	**(325)**	**(2,100)**	**(2,685)**	**(7,175)**
Opening balance			(325)	(2,100)
Closing balance	(325)	(2,100)	(3,010)	(9,275)

It will, however, appear in your cash flow forecasts. Receipts that are not profit and loss items include:

- Loans
- Money invested by the owners
- Capital expenditure

However, the dates these items are due in or out are to be included in the cash flow forecast. Conversely, depreciation is a profit and loss cost to the business but doesn't appear in the cash flow reports.

Seeing your income and expenditure itemised in this manner gives you a clear idea of budgetary requirements. Note that the terms on which you trade will have a direct effect on the cash flow of your business.

The headings of the model on the previous page may differ according to the requirements of your business. From this example you will see arrangements for an additional cash injection will need to be made; perhaps a loan from your bank or other lender would be a viable option.

note

Having enough cash to pay creditors, wages, and other bills as they fall due is vital to your business survival.

Notes on the cash flow forecast

- **Receipts:** the money coming into your business. This will be mainly from sales once your business is established.
- **Payments:** all the money going out of your business. It will include payments to your supplier and capital or rental payments for cars or other equipment needed to run your business. All cash flow payments and receipts will be inclusive of VAT where applicable.

The term 'working capital' is used to describe the day-to-day financial resources used by your business for everyday trading purposes. They consist of:

- **Debtors:** customers to whom you have sold your goods or services on credit and who owe you money.
- **Cash:** the amount of money you have in your till, or deposited in your bank account.
- **Creditors:** the people you have bought from and now owe the price of your purchases.
- **Stock:** the value of materials purchased for resale, or materials to be transformed into finished objects.

Working capital needs to be carefully controlled so that your enterprise can flourish.

Collecting the money due to you on time is important. Every day a customer delays payment your profit margins are eroded, because of the time delay between the purchase of your materials, the time when they are sold and the time the cash is actually received. Such a delay usually leads to a cash flow shortfall, a situation that can affect even those profitable businesses with full order books. It's vital to have enough cash at your disposal to meet these eventualities and thereby avoid the pitfalls of over-trading.

CAUTION

A word of caution about over-trading; a common but unfortunate occurrence for many developing businesses. While sales are an indispensable requisite, a sudden increase can be dangerous, since the more sales you make, the more money you need to purchase materials to support those sales.

Profit and loss forecasting

This forecast should contain information on your income and expenditure, similar to the previous forecast, except that the emphasis is on the profitability of your business. Forecasts usually cover a 12-month period, but can be set at shorter intervals provided that they are eventually collated to produce a yearly one. For periods exceeding a year, you will need to complete a forecast for each annual period.

Sample profit and loss forecast guide

PROFIT & LOSS FORECAST GUIDE

For DWR Software

PERIOD June 2012 to May 2013

RECEIPTS	**Month:** June		**Month:** July	
	Budget	**Actual**	**Budget**	**Actual**
Sales (net of VAT) (a)	14,500	12,250	16,500	17,000
Less direct costs:				
Cost of materials	9,450	8,150	10,750	11,000
Cost of sales (advertising)	800	750	1,000	975
Gross profit (b)	**4,250**	**3,350**	**4,750**	**5,025**
Gross profit margin (b/a x 100%)	**29.3%**	**27.3%**	**28.8%**	**29.5%**
Overheads:				
Salaries/National Insurance	750	950	1,800	2,100
Rent/rates	150	150		
Insurance	75	80		
Repairs & renewals			250	100
Heating/light/power			325	475
Postage/printing/stationery	1,000	600		
Car/travelling				60
Telephone		85	100	140
Professional fees	400	400		
Interest charges	75	110	150	200
Total overheads (c)	**2,450**	**2,375**	**2,625**	**3,075**
Trading profit (b) – (c)	1,800	975	2,125	1,950
Less depreciation	150	125	150	125
Net profit before tax	**1,650**	**850**	**1,975**	**1,825**
Cumulative net profit			3,625	2,675

'Income 20 shillings, expenditure 19 shillings and six pence – result – happiness.

Income 20 shillings, expenditure 20 shillings and six pence – result – misery.'

(Mr Micawber)

It's advisable to show items of expenditure in the months they were incurred. For example, rent for your business premises may only be paid quarterly. However, each quarterly payment represents rent for each month you occupy the building. Therefore, each quarterly bill should be divided by a third and allocated to each month of that quarter. The same procedure applies to telephone accounts and other similar items. The item of depreciation in the profit and loss forecast guide (see opposite) is a means of spreading the cost of machinery, vehicles and other assets over the span of their useful lives.

For those of you who will be VAT registered, Value Added Tax (VAT) doesn't need to be included in your profit and loss forecast. Normally, it doesn't constitute a cost to your business.

If you expect to increase your sales, you must consider the effect this will have on the amount of working capital you will need. However, it should be included in your cash flow forecast. Profit and loss forecasts for your business plan normally take a complete overview of your business. Nevertheless, forecasts can be made on each product or service you offer. This will allow you to discard any unprofitable segment of your business.

TIP Careful forecasting will help you to avoid any unexpected and harmful surprises.

To keep the above specimen as uncomplicated as possible 'work in progress' has been omitted. 'Work in progress' is the term used to describe the value of work or stock in hand that has been completed but not sold. In some businesses, particularly in building and manufacturing, it can be an important part of the profit and loss forecast. This forecast can be adjusted for 'stock' or 'work in progress' by adding to the cost of materials the difference between the value at the beginning and at end of the period. This item should always be accounted for at cost. Your accountant can supply further advice on this topic.

A proportion of your home rent or mortgage, as well as services such as gas and electricity, can be included if you work from home.

Notes on the profit and loss forecast

The definition of sales can be given as the value of stock sold and invoiced, regardless of whether payment has been received or not. Cost of materials is the actual cost, to you, of what you sell – whether you have paid for these items is not relevant. However, this cost of materials doesn't include one-off purchases such as a computer, nor would it appear elsewhere in this forecast, because it's regarded as part of your business's assets.

TIP Review your firm's overheads on a regular basis. Always look for ways to reduce costs.

Overheads will vary from business to business. If you are renting separate business premises, your rent, plus the cost of rates and other expenses, is to be included in your profit and loss report.

Understanding book-keeping

Although items in this section will not be used in your business plan, it's important to have a fundamental understanding of the subject. In the UK you are legally obligated to keep accurate records of all your business activities. An efficient system is an essential part of any well-run business. You will find it an indispensable aid in keeping your firm's finances under control.

An ideal book-keeping system for new or small businesses is to be found in Lawpack's *Book-Keeping Made Easy*. The book starts you off with a basic method of recording all your business transactions, and then takes you into the double-entry methods as your business expands. Furthermore, it explains how to use the information stored within your financial records to your advantage.

TIP Before you commence trading, you should take advantage of the book-keeping seminars organised by your local small business centre, particularly if your book-keeping experience is limited.

If you have a computer, there are also many software packages available. In this section we will only deal with the cash book and purchase ledger; the sales ledger and information about credit control are being handled separately later in this chapter.

Maintaining accurate records will help you in many ways. Not only will you be able to meet your legal obligations, but you will also find it easier to complete your returns to HM Revenue & Customs (HMRC) for Income Tax purposes, not to mention your submissions for VAT.

CAUTION Always keep private money separate from the cash in your business.

You will also need to take data from these records to update your cash flow and profit and loss figures. By exercising control over your finances, you can reduce the workload of your accountant, which in turn will help him to reduce his bills.

TIP Justifiable records are essential if you are going to monitor your performance and control your cash flow.

It's not difficult to keep accurate records, nor should it be time-consuming. At first, all you may need is a few folders in which you will need to retain:

- sales invoices to your customers (if retailing, cash or till receipts);
- purchase invoices from your suppliers;
- bank statements;
- petty cash receipts and purchase slips.

CAUTION Don't forget your firm's petty cash is not to be treated as your personal pocket money.

This system will help you to keep everything in order and up to date. It will prove important when you go to the next stage and introduce book-keeping into the business. These records not only will allow you to keep track of the money coming in and going out, but also will provide instant information on how well you are doing financially.

In theory, the entries in your cash book should mirror the items in your bank statement. You will need to reconcile both against each other, making sure you can account for any difference.

The cash book is the most important book for you to keep. It summarises your daily receipts and payments, and contains the method of payment and names of the parties concerned with each transaction. These transactions can be cash, cheque, standing order, direct debit or credit card. The left-hand pages of your cash book will record money coming in – sales, while the right-hand pages will show the money you paid out – your purchases.

SAMPLE CASH BOOK – RECEIPTS

Date (1)	Customer (2)	Item (3)	Bank (4)	Cash (5)
09.06.12	A. Greendale	Invoice 2103	450.00	
12.06.12	Revenue & Customs	Tax rebate	150.00	
18.06.12	D. Bird	Sale of van	1750.00	
22.06.12	J. Bond	Invoice 2098		38.46
27.06.12	P. Sterling	Deposit		250.00
02.07.12	M. Cash	Invoice 2104	850.00	

Column (1) records the date of when the cheque or cash was received. Columns (2) and (3) note the name of the customer paying you and the reason for the payment. The remaining columns denote whether or not the money has been banked or taken into petty cash.

Now let us look at the payment side of your cash book.

The items marked (1) to (5) record the movement of outgoing cash from your business, stating date, supplier and method of payment. The remaining columns provide an analysis of the types of expenses you are incurring. The number of columns required will depend on the nature of your business.

SAMPLE CASH BOOK – PAYMENTS

Date (1)	Supplier (2)	Item (3)	Bank (4)	Cash (5)	Materials	Wages/NI	Rent	Elec	Print	Phone	Trav
02.06.12	Br Tel	Chq 321	200.00							200.00	
05.06.12	Reed Gar	Fuel		35.00							35.00
12.06.12	P.O.	Stamps	15.00							15.00	
14.06.12	Sharp & Co	Chq 322	147.00							174.00	
18.06.12	HH Prop	D/D	380.00				380.00				
29.06.12	D.Boy	Chq 323	865.45		865.45						

TIP Employing a book-keeper, on either a full- or part-time basis, need not cost the earth. It will, however, leave you free to manage your business and avoid stress.

A purchase or bought ledger book will deal with all your purchases. It's advisable to have two folders – one for purchases paid and another for those unpaid. To simplify matters, a separate page should be used for each supplier. With this record book you can see at a glance what materials you purchase and whether or not you have paid for the goods in question.

note Paying your suppliers on time creates good business relationships. It will also ensure that you always get good service.

Each bought ledger account should be headed with the supplier's name, address and telephone number. Always include the name of your contact and the credit limit you have been granted. On the right-hand side enter details of all your purchases, along with:

- your order number;
- the date of the order;
- special instructions (if any);
- the agreed delivery date.

On the left-hand side of the account you must record each payment you make, noting the date and cheque number.

TIP Knowing exactly how much you owe and when it's due at any particular time will check any overspending.

Total both columns each month. Subtract the amount you have paid from your total purchases. The sum remaining should reconcile with your supplier's statement. To keep track of your purchases, always ensure that you receive an invoice for your purchases and a receipt for any payments. Invoices should be kept in an unpaid folder in date order. When you send a cheque in payment of an invoice, note the date and cheque number on the invoice, in case of any future query. Now place the invoice in the invoices paid folder.

note The manner in which you deal with your bought and sales ledgers should not differ. The only distinction is that one records what you owe, the other what is due to you.

Sales ledger management

If you are a retailer dealing mainly with cash, a sales ledger will be of little use to you. However, you will need to keep a summary of daily sales. Your cash book, described earlier, can be easily adapted for this purpose. For many businesses, the sales ledger will be the most valuable asset – so manage it with care!

Your sales ledger will be arranged in exactly the same way as your purchase ledger, with one account per customer. The main difference between the two is that the sales ledger should contain the name of the person who pays your account, the name and position of the individual who accepts your deliveries, and the person who checks your invoice. This saves time when you need to chase for any outstanding sums due.

TIP To save time and money every month, don't send statements of account to customers with a zero balance. Send the remainder by first-class post.

All sales should be recorded on the left-hand side of your ledger, and all payments received on the right. At the end of each month, add up each column by subtracting the money received from the sales. This will

Sample invoice

PENNY STERLING TOYS

Unit 5, Nonsuch Industrial Estate
Anytown Road,
Anytown WW11 XX22

Tel: 01234 567890
Email: ps@pst.comp Fax: 01234 56789

Invoice No: 123456 **Date:** 7 November 2012

To:

1 Box	12 assorted jigsaw puzzles @ £1.25p each	15.00
3 Dozen	Yo-yos @ £9 per dozen	27.00
4 Each	Playstations® @ £125.60 each	502.40
Subtotal:		544.40
VAT @ 20%		108.88
Total:		653.28

Credit Terms: 30 days from the date of invoice

VAT Registration No: 987 6543 21

determine how much you are owed by each customer. A statement detailing the items sold to the customer and payments received should be sent each month to every customer, but before doing so you should check that your balances agree.

To help you keep control of your sales, always issue an invoice. Invoices should be numbered in sequence and a copy retained for your folder. Copies of your customers' invoices should be kept in sales paid and unpaid folders, to be dealt with in the same manner as outlined in the purchase ledger section. Your terms of trade should be clearly displayed on all communications to your customers, thus avoiding any misunderstanding about when you expect to be paid.

TIP If a customer queries an order or invoice, always treat that complaint with urgency. Outstanding problems such as these are the most common reason for non-payment of an account.

Keep a regular check on your unpaid invoices. Any overdue accounts should be chased persistently but politely. When contacting customers about unpaid accounts, always chase those customers who owe the largest amounts first. If you keep a routine check on outstanding sums due, you won't need to worry quite so much about its age.

TIP Never be afraid to ask your customer for the money owed to you. Otherwise, he will use you as a source of interest-free credit.

While it may not be possible for you to telephone all your customers each month to collect the money due to you, direct telephone contact is the best method to use, particularly for your larger accounts. The smaller accounts should be contacted by a cycle of three or four letters, starting with a gentle reminder and finishing with a serious demand for payment. However, for the best effect, this letter cycle should be varied, or your customer will soon learn to delay payment until the final demand.

note In an average business, 80 per cent of outstanding debt is owed by only 20 per cent of its customers. Chasing larger debts first improves your cash flow.

Late payment can have a devastating effect on the liquidity of small and start-up businesses, so don't let your customers acquire the habit of late payment. Persistent and friendly reminders, preferably by telephone as soon as or before payment is due, should do the trick. If that doesn't work, you have the legal right to claim interest on the overdue amount if it's another business paying you late, unless your invoices or terms of trade say otherwise.

The rate of interest you are able to charge is calculated at the Bank of England base rate plus eight per cent. So if the base rate is four per cent, you can charge your late-paying customers 12 per cent. The rates for calculating interest are fixed in six-monthly periods. The base rate at 31 December is used for debts becoming late between January and June. The rate in force on 30 June will be applicable for the next six months. VAT is unaffected as you can claim on the full amount of the debt including VAT, but VAT is not levied on the interest you claim. In addition, you can also claim for reasonable debt recovery costs including court fees.

To claim interest from wayward customers you should:

- notify the customer in writing of your plans;
- contact habitual late payers to explain how they will be affected and ensure that they understand your payment terms;
- ensure that all invoices show the date when payment is due;
- state that you reserve the right to charge interest on invoices and other documents bearing your terms of trade, even if you don't intend to do so;
- present your late-paying customers with a statement showing that the original sum and interest has been paid, and outlining the interest received.

Never forget that your suppliers are entitled to charge the same interest rates if you fail to pay their accounts as they become due.

Within your sales ledger operation there should be an element of credit management. The aim of credit control is to eliminate the risk of bad debt as much as possible. Controlling credit also means obtaining bank and business references not only from new customers, but also from existing ones, at regular intervals. Beware – your customers' financial standing can change overnight, and it won't necessarily be a change for the better!

TIP Always check out a customer's potential ability to pay before granting credit.

In addition, do ensure that your book-keeping system enables you to issue invoices promptly and indicates when they become overdue. Here are some other helpful hints:

- Clearly set out your terms of trading and don't deviate from them. Make sure that customers are aware of these terms. Notify them of any changes the instant that they occur.
- Keep clear and precise records. If you keep inaccurate accounts or invoices, your customers will have an excuse to delay paying you.
- Collect payments on time by establishing a collection pattern and sticking to it.
- If a customer promises to put a cheque in the post and it doesn't arrive, chase him for it again.
- If routine chasing doesn't produce results, stop further supplies to that customer as soon as it's viable to do so. Moreover, use the services of a reputable collection agency to resolve the situation.

Summing up your finances

Having absolute control of your finances testifies to others that you are committed to the ultimate success of your business and lets them know that you can be relied upon to conduct your business in a professional manner. By making certain that you will be paid on time, you ensure that you have the cash to expand and enjoy your newly-found prosperity.

Knowing your business

From the moment your business begins to trade, you start to collect information about your customers, the type of goods or services they purchase, cash flow and budgets. These are just a few of the many items of information that will be scattered around your business. The problem is collating this data and using it wisely.

The financial information will be found within the book-keeping and accounting methods discussed earlier in this chapter. Other intelligence sources will be located within your:

- **sales invoices:** these will tell you who is buying what, when and why;
- **purchase orders:** these will tell you what your suppliers are charging you and their level of service;
- **customer complaints:** these will let you know what your customers think of your products or service.

One of the most reliable sources of information about your business should come to light if you hold open and frank staff appraisals. The feedback from these will be invaluable to you.

Gathering all the information you can about your business, staff and its customers will give you more control. Furthermore, checking the progress of your business on a monthly basis will allow you to anticipate problems before they arise and resolve them before they can do any harm. In other words, your business will remain sustainable.

A regular review of the information within your firm will reduce business risks and personal liabilities.

Producing good management reports at regular monthly intervals will not mean lots of extra work. It's simply a matter of formalising a simple system to make sure that the key pieces of information are used effectively.

To ensure that your staff collect the information that is important to you at either weekly or monthly periods, distributing a chart on the following lines will go a long way to ensure that every bit of information is at your fingertips when you want it:

Information Required	Where From	Who Collects and Reports	Frequency
Debts	Sales ledger	R Hedges	Monthly

When checking your cash flow forecasts against variances, questions will be raised such as, 'Why did we spend more on stationery this month?' The answer to this question will enable you to keep a control of your spending.

Only collect information that is vital to the success of your business.

Analysing where the money comes from will pinpoint which products or services are selling and those which are not. This, in turn, will let you know if you should:

- increase your marketing for that product or service;
- change the product or service to suit more customers;
- withdraw it from sale;
- develop new products or introduce additional services.

The benefits of this type of system will mean that you should never have more questions than answers, especially if you ensure that your information system is tailored to your business. Using management information will let investors, bank managers and employees know that you are in full control of your business and that it's not the other way around. This will generate confidence in your business and motivate employees.

Good use of the management information you will gather provides a summary of the current state of your business, letting you see at a glance how it's performing. Never be fooled into thinking that your annual accounts and balance sheet will provide an accurate picture of the state of your business. Audited accounts only mirror the financial state of a business on the day they are audited. The next day transactions will take place and the accounts will change – three or four months further on and your business could be in trouble. You need to be aware of pending problems to be in a position to act before they become really serious.

This is the major advantage small businesses have over their larger rivals – they can spot downturns in trade and react to them instantly.

Data protection

Having information and using it to advance your business is one thing, but information in paper or electronic form about customers, employees, suppliers or other business contacts is covered by law.

The Data Protection Act covers the processing of any personal information, which means obtaining, holding, retrieving or disclosing what is held on computers and certain manual filing systems. This also applies to erasing or destroying the information held. If you are processing information using computers, you have to notify the Information Commissioner of the information you are collecting and the reason why you are gathering it. An annual notification fee can be charged; for the current rate, please contact the Information Commissioner's office.

There are many businesses that don't need to notify the Commissioner. You will be exempt if you only process personal information for a limited number of business activities, such as:

- staff administration;
- advertising and marketing your products or services – this also applies if you buy in information for this purpose;
- accounting records – including information on past, existing and potential customers and suppliers which helps you make decisions on whether or not you wish to trade with them. This excludes data obtained from a credit reference agency.

You still need to comply with the Act even though you are exempt from notifying the Commissioner. The Data Protection Act is presented in a series of principles; a full list of these are available on the Commissioner's website at www.ico.gov.uk.

note

To comply with the principles of the Data Protection Act, you will need to work out exactly what information you need and only collect that amount of information.

It's your duty to keep all information up to date and if an individual tells you that his information is inaccurate, you must correct it within 28 days.

Make sure that your information storage systems are secure and that your staff are trained in good information handling practices.

You can also provide individuals with information you hold on them if they make a request in writing. You are able to charge them £10 for providing this information in an understandable format and it must be delivered to them within 40 days of them making a request.

CAUTION

You are not allowed to transfer information outside the European Economic Area unless you are sure that the country has adequate data protection laws or you have the individual's consent.