

Behind the Counter

Data recording issues

Our firm performs a number of year end engagements for small business corporations that either use a bookkeeper or do the books themselves. The kinds of errors that we see and need to correct time and time again are:

- 1) Items recorded as assets when they are actually liabilities, income or expenses

Interest on investment transactions are routinely left in an asset account instead of being recorded as income where they belong. Income is routinely left on the balance sheet. A good example is the PST commission.

- 2) Items that are recorded as capital when they are actually a repair or Items that are expensed, when they should be capitalized

A good rule of thumb to use is whether or not the purchase will benefit the company for more than one year, if so, then it should be capitalized, otherwise it should be expensed. It is not necessary to capitalize anything under \$500 because the paperwork required is not worth the effort. Copies of all documents that have been capitalized must be kept in a separate file and given to the accountant so that the proper capital cost allowance can be calculated at the fiscal year end.

- 3) Items that are personal and should be recorded against the shareholder instead of being expensed as a business expense.

When reviewing receipts we sometimes get receipts that are actually personal in nature such as meals that are obviously for one person especially if they are fast food. We recently had a client submit their receipts for baby diapers as a business expense.

- 4) Duplicate postings of cheques written

We frequently get postings of the same cheque amount or similar amounts. These items can usually be found when looking at the outstanding cheques of the bank reconciliation. If there are amounts more than 6 months old, it is quite likely that the item has already cleared.

- 5) Items paid by shareholder/owner entered in as debit purchases or cheques

In this case the reimbursement receipts submitted by the owner are entered against the bank account, instead of against the shareholder loan account. A good way to avoid this is to put all the receipts onto an expense report once a month and then just enter the expense report. In

some cases the shareholder/owner may want to receive a cheque in exchange rather than to have it posted in his shareholder contribution account.

6) US transactions

How to record the exchange on a US bank transaction is always problematic. You need to remember that your books are in CDN funds, so you can have an account that is in US funds, but you need to create an adjacent account to hold the exchange amount so that on the whole your books are recorded in CDN funds. Be careful not to mix US and CDN in the same account.

7) Payroll errors

Periodically we experience some issues with T4's and payroll tax remittances. The rule is that if the employee received the cheque in the following year, even though the pay period is in the current year, the income is deemed to have occurred in the following year and the payroll taxes are not owed until the following year.

8) Control Accounts not balancing to the subledgers

Computer systems use a module to record receivables or payables. If someone codes an item directly to either of these control accounts in the general ledger, everything is thrown out of balance. Any adjustments to accounts receivable or payable must be posted through a module.

9) Extraordinary items posted incorrectly

Every so often something might happen in your business that is out of the ordinary and that may never happen again such as the sale of some equipment or perhaps a fire that destroys some equipment. It is better to give your accountant a call in these cases just to find out how to record these items properly and to give your accountant a bit of a 'heads up' as to what is happening with your business. I know I would welcome the information when it happens, rather than trying to have someone 'remember' it at the year end.

Every accounting office is different and has different 'rules of thumb' when it comes to handling these various items so be sure to check with your accountant when you come across these items in your business.

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