

## **Behind the Counter – June 2, 2010**

### Keeping Records

One of the requirements for individuals and small businesses alike is the requirement to keep orderly records. CRA's publication 'Guide for Canadian Small Businesses' which is a 'must read' for anyone starting a business, lists 5 reasons to keep records. They are: 1. Good records can help you identify the source of your income; 2. Well-kept records can mean tax savings; 3. Well-kept records can prevent most of the problems you might encounter in an income tax or GST/HST audit; 4. Your records will keep you better informed about the financial position of your business; and finally 5. Proper records may help you get loans from banks and other creditors.

The requirement to keep good records brings up the question of how does one go about keeping good records and who will be responsible to keep those records. In some cases, you, the business owner have taken some bookkeeping courses and are totally comfortable with the recordkeeping portion of the business as well as the many other duties that face you when you run your own business. In other cases, you may need to look for a bookkeeper. In every case where there is a sole proprietorship or a limited company I would suggest that you have a designated professional look over your books at your year end and prepare your yearly tax return.

The next question is whether to use a computer system or a manual system. If you don't have many transactions a manual system is probably ok. If you want professional looking invoicing and you don't want to have to rekey everything from a manual spreadsheet into an accounting system, you would probably want an accounting system.

Using accounting software adds just one more level of complexity to the management of your business. If you are not computer or accounting savy, it might be more cost effective in the long run to have an experienced bookkeeper or accountant do the system setup for you as well as the bookkeeping. This way you will be freed up to do the other things in your business that need to be accomplished such as sales and attracting clients.

On the other hand, both Simply and Quickbooks have a simpler version of software that will allow the use of plain English for the menu items so that it is easy to understand where to enter an item based on the kind of transaction that is happening.

Bookkeeping is currently not a regulated profession however bookkeepers who are serious about their professionalism can join an organization called the Institute of Professional Bookkeepers in Canada. This organization will also help you to locate a bookkeeper in your area. Their web page is located at <http://www.ipbc.ca/>. Alternatively, some of the accounting offices in the area will also take on

bookkeeping engagements and if they don't, perhaps they have developed a relationship with one or several bookkeepers in the area that they could recommend.

Bookkeepers should be able to put together a balance sheet and an income statement. They should also be able to let you know which of your customers have not paid you yet and how many days their account has been outstanding. They should also be able to give you a monthly list of the bills that you need to pay. Bookkeepers should be able to balance your bank and credit cards on a monthly basis.

Bookkeepers need to be able to determine the difference between a business expense and a personal expense. Bookkeepers love going through all the debit slips and determining what was purchased and allocating the costs to the various expense accounts.

The software programs that the bookkeeper uses should easily interface with the software program that your accountant uses to prepare the year end financials and income tax return. Most important is the relationship that you will have with your bookkeeper. You need to decide whether you will meet with your bookkeeper on a monthly or quarterly basis to go over the results. Will you drop off your records at your bookkeeper's office or will they work in yours? Your bookkeeper can be a real aid to help you identify trends that are happening with your business so you should develop a good relationship with your bookkeeper.

Unfortunately, in my practice I have come across several small businesses who have tried to do the bookkeeping themselves without having any bookkeeping or accounting knowledge and I have come across others that have hired bookkeepers who should have picked another profession. In both cases we have had to either redo the books or spent so much time deciphering what was recorded that we could have redone the work. Unfortunately, the client ends up paying twice for the same work.

I know that in a great majority of new businesses, the record keeping aspect of managing the business is overlooked. However, if the business records are accurate, then the business can enjoy savings in many other areas.

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