

Behind the Counter

Record Keeping for the Small Business

A very important part of the business, other than making sales and paying employees, if you have them, is the record keeping for the business. There are many reasons for record keeping. As a new business owner you might want to keep track of the income that you are making, to make sure that your business idea was actually the money maker that you thought it was, or you might want to make sure that you are not spending too much on product or freight, or other services. Record keeping will tell you where your income is coming from and where your expenses are going. If your records are good, perhaps you can make better business decisions and it may be easier for you to get a bank loan. If you wanted to sell your business, you would need records that would back up your claims that the business was profitable making it easier to sell or to bring in a new partner. The main reason for recordkeeping is for tax purposes. The Canada Revenue Agency has a publication that specifically talks about record keeping requirements and it can be found on the CRA website at <http://www.cra-arc.gc.ca/E/pub/tg/rc4409/rc4409-e.html> . If you would like to order the publication it is number RC4409. This publication answers questions such as What are records? Methods of keeping records? How long do you need to keep your records? And what your responsibilities are for record keeping. To summarize, records are required to be kept for Income taxes, GST, PST, CPP and EI. If your records are good, they can help to keep track of the expenses and credits that you can deduct and will help you if the Canada Revenue Agency decides to pick your file for an audit. On the other hand, if you have poor or no records, you may have to pay a penalty and you may be disallowed deductions for expenses that you cannot provide supporting documentation for.

Normally you need to keep records for 6 years from the date of the last tax year. For example, we just finished filing taxes for 2007, so you would need to keep your records from 2001 onwards. The publication lists all the exceptions.

Records are usually considered the source documents such as invoices, purchase receipts, contracts, bank deposit slips, cancelled cheques, cash register slips, credit card receipts, minutes of meetings and share transactions. Usually these source documents are then summarized into some sort of record keeping system. This system can be a manual system where you might use a synoptic journal which is one large book with a lot of columns to keep records of your transactions by type. This type of record keeping is probably sufficient for the small home proprietorship business with not very many transactions.

The system can also be a modified manual system, thanks to the invention of the spreadsheet program, where you would develop the spreadsheet into columns and you would record your daily transactions onto the spreadsheet. You could set up formulas to automatically total and cross foot your columns and rows. This type of record keeping would also be sufficient for a small proprietorship.

You could decide to keep records electronically on one of the software programs available in the marketplace today. I would suggest that if you are keeping Inventory of more than 20 products, you probably need an electronic program to help you keep track of the inventory, specifically the costing so that you can set proper pricing. Trying to keep track of inventory costing on a manual system can be a nightmare and is very labour intensive.

There used to be a lot of differences between the types of accounting software, but since a lot of the smaller software companies are now being bought out by the bigger firms, the differences are becoming less and less and more of a user 'bells & whistles' nature than of a processing nature. There are different levels of software available for different levels of users and businesses. For example, Quicken is a software program developed for the home where a member of the household would be able to track household expenses and balance a personal bank account.

Simply also has an entry level program at an entry level price for an Entrepreneur. This version of the software will allow you pick a certain type of business, set up your financial accounts and statements, but you don't need to know anything about accounting. The entry screen is simply structured to say 'Cash In' and 'Cash Out', so it becomes very easy to enter data. The drawback with this version is that you will not be able to go behind the scenes and add any accounts – you are stuck with the accounts that the program gives you. Simply also provides a next level up where you again pick a type of business and a generic set of accounts. Financials are set up by the program for that type of business, but then you can also go in and add accounts. Quickbooks is another popular program used by small businesses and it is considered by some easier to use than Simply, however, I have found that there are less accounting controls with Quickbooks and that you really need a strong accounting background to be able to use the program correctly. The next level up would be a more robust program such as ACCPAC or Microsoft Great Plains Dynamics that allow you to pick and choose and combine detailed modules depending on what your business does. These are usually required for specialized types of inventory or service businesses and can be quite expensive. Finally, you can have a program customized for your business.

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