

SMALL BUSINESS OWNER'S HANDBOOK

PART V: RECORD KEEPING FOR A SMALL BUSINESS

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Introduction

While not the most exciting or creative aspect of running a small business, record keeping is nevertheless a critical part of your business operations. Record keeping need not be overly time consuming, if properly organized and done on a regular basis.

The Importance of Clear and Accurate Records

Keeping clear and accurate records will contribute to your business success in the following ways:

- More easily prepare your financial statements
- More easily assess your business' financial situation
- Control your cash
- Measure actual business performance against your original projections and goals
- More quickly recognize new problems, challenges, and opportunities as they arise
- Keep close track of business operations, including the performance of your employees
- Make more informed business decisions
- Have quick access to important information
- Save time and effort
- Fulfill your record keeping obligations under Canadian tax laws and other government regulations

How to Set Up Your Record keeping System

The key to turning your business records into a valuable management resource is organization. An effective record keeping system is easily recognized as the following:

- Uncomplicated, logical and user-friendly
- Thorough and accurate
- Easily accessible
- Integrated into your daily business routine
- Consistent with the size and nature of your business

This guide is intended to help you set up an easy-to-use record keeping system

- **Bookkeeping:** A method that will keep track of all your daily business transactions and help you prepare financial statements
- **Payroll:** To track your employees and their work performance
- **Other** Looks at other forms of record keeping, including inventory, safety, and customer service records

There are many other sources from which you can get additional help and advice regarding setting up your record keeping system:

1. A professional accountant or bookkeeper, as well as your banker, can help you determine the best way to set up your records in order to meet both the needs of your particular business and your legal responsibilities under Canadian tax law and other government regulations.
2. The internet, business sections of libraries and bookstores also contain valuable information on setting up and keeping your records.
3. There are many excellent record keeping and bookkeeping software packages available.
4. Canada Revenue Agency provides several useful booklets that cover many of the taxation issues and record keeping requirements for new small businesses.

Bookkeeping

Bookkeeping can be defined simply as keeping daily records of business financial transactions. These records include a daily cash sheet, accounts receivable and accounts payable ledgers, and a general (combined) ledger.

Though few people actually look forward to posting entries in the various ledgers, if your day-to-day bookkeeping is put off or ignored, it could become unmanaged and inaccurate. If you don't have the time, the inclination, or the aptitude to do it yourself, discuss the problem with your accountant and find an affordable and satisfactory solution.

It is important that you make a habit of bookkeeping every day, perhaps every morning with your coffee. It only takes a few minutes, and it will help you to make better-informed business decisions.

Bookkeeping records are kept for three main reasons:

1. To keep track of your business' money, particularly if you are in a business where a significant amount of cash is involved on a day-to-day basis.
2. To keep track of your business' daily, weekly, and monthly financial performance, as necessary, and to assess whether this performance is meeting your expectations, projections, and goals.
3. To provide your accountant, if you plan to use one, with the necessary information to quickly and accurately prepare your income tax returns and to produce financial statements as required under Canadian tax law. The Income Tax Act states that you must file a balance sheet and an income statement each taxation year. For more information on financial statements, refer to Financial Planning for Small Business.

Hiring an Accountant/Bookkeeper

Because of the complexities of today's business world, many small businesses hire accountants or bookkeepers. Your accountant will help you set up a bookkeeping system that allows easy access to the information needed to do the following: prepare your financial statements, do tax planning for your business, and complete your income tax returns.

Choosing an accountant who's right for you and your business is an important business decision. Ask other small business owners who their accountants are and if they are happy with them. In addition, the Institute of Chartered Accountants, the Certified General Accountants Association of Saskatchewan, and the Society of Management Accountants of Saskatchewan all provide a referral service.

Remember that accountants are highly skilled professionals, and they charge accordingly. Having your accountant do the day-to-day bookkeeping for your business is not an efficient use of their time or your money. Anything you can do to save their time will reduce your accounting costs.

Daily Sales Summary

Record:

1. What items sold. Categorize your product and/or services. Tracking which items were sold enables you to make more informed:
 - Inventory management decisions
 - Marketing decisions
2. Method of payment. Separating the method of the payment will make reconciliation easier. The amounts of each should be totaled and recorded daily. The different methods of payment include:
 - Cash or cheques
 - Debit payments
 - Credit card payments
 - Accounts receivable

Your Daily Cash Journal

Inadequate cash records can result in the following:

- A record keeping and accounting headache
- Added time and expense preparing financial statements
- Overpayment (or underpayment) of tax
- Employee dishonesty

Items to record in your cash journal:

- All deposits including those from sales
- Debit payment deposits
- Credit card deposits
- Account receivable payments
- All written cheques
- Electronic funds transfers through your bank account
- Pre-authorized debits from your chequing account
- Bank charges
- Petty cash reimbursements

Bank Reconciliation

To prevent you from writing NSF cheques, and to enable you to identify excess funds that you can use to reduce your accounts payable, it is important that you are at all times "reconciled" with the bank. To be reconciled with your bank simply means that you know the "true" amount of your bank balance at all times, including between bank statements. If your general ledger is up-to-date, it will give you an accurate daily record of your reconciled bank account.

- Compare the monthly bank statement to your monthly cash journal
- Those transactions that show up on one statement but not the other are outstanding

Reconciliation occurs when:

- The ending balance on the bank statement plus the outstanding deposits (from your cash journal) less the outstanding cheques (from you cash journal) equals the ending balance of your cash journal

Your Accounts Receivable Ledger

If your business sells to customers on credit, then you should have a separate accounts receivable ledger. Customers receiving credit should each be assigned a page (or pages) in the ledger, and their names should be arranged alphabetically.

The daily amount recorded in your accounts receivable ledger should equal the daily amount recorded in your daily sales summary.

The following is a sample page from an accounts receivable ledger.

Customer Name: Customer, John
Address: 1604 Pine Street, Anywhere, AB.
Phone: 123-4567
Credit References: Main Bank
Credit Limit: \$500

Date	Reference	Charges	Credit	Balance
October 14, 1995	Invoice #7145	110.00		110.00
November 2, 1995	Credit return		12.00	98.00
December 5, 1995	Invoice #7216	342.00		440.00
December 31, 1995	Cheque #924		200.00	240.00

Each customer's name, address, telephone number, credit references, and credit limit should appear clearly at the top of each page. A credit limit is set to ensure excessive amounts of credit are not given.

Each month your accounts receivable should be "aged" according to the date of the invoice. This means that each of your customer accounts should be listed according to the amounts owing in the current (1-30 days), over 30 days, over 60 days, and over 90 days categories.

This will immediately show you whom accounts are overdue and which require extra follow up. If you are using accounts receivable as security for a line of credit from a chartered bank, the bank will almost certainly request an aged list of accounts receivable each month.

Petty Cash

Many companies make petty cash available for small, miscellaneous day-to-day expenses. A cheque is made payable to petty cash and is written up as a miscellaneous expense in the general ledger. The money from the cheque is placed in a cash box, and cash is withdrawn as needed for incidental items such as coffee.

Always get a receipt when you use petty cash. If this is not possible, place a note stating what the money was used for in the cash box with other receipts. Cash and receipts in the cash box should always total the amount of the petty cash float. Each time you replenish the cash, remove the receipts, categorize them, and place them in a petty cash receipts envelope.

Your Accounts Payable Ledger

Each supplier from whom your business purchases goods or services for later payment should have a separate page (or pages) in your accounts payable ledger. The names of these suppliers should be arranged alphabetically and filed separately.

To find the total owing to all your suppliers, add the balances owing to each supplier.

Goods and Services Tax (GST) Records

Your business will also have to keep accurate GST records. As the following example shows, this is simply a matter of keeping track, on a daily basis, of the GST collected and the GST paid.

1. You owe GST

Date	Transaction	Cash In	Cash Out	GST Collected	GST Paid
Mar. 2	Antique Bath	10700		700	
Mar. 4	Heating fuel		321		21
Mar. 6	Reception desk		428		28
Mar. 8	Install Shower	1284		84	
Mar. 15	Telephone		107		7
Mar. 16	Install plumbing	32100		2100	
Mar. 20	Gas trucks		1070		70
Mar. 22	Accounting fees		214		14
Mar. 28	Repair trucks		321		21
Total				2884	161

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2. GST refund due

Date	Transaction	Cash In	Cash Out	GST Collected	GST Paid
Mar. 2	Antique Bath	10700		700	
Mar. 4	Heating fuel		321		21
Mar. 6	Reception desk		428		28
Mar. 8	Install Shower	1284		84	
Mar. 15	Telephone		107		7
Mar. 16	Install plumbing	32100		2100	
Mar. 20	Gas trucks		1070		70
Mar. 22	Accounting fees		214		14
Mar. 28	Purchase trucks		53500		3500
Total				2884	3640

In the first example, the amount of *GST* collected exceeds the amount paid. At the end of the business quarter, the business remits the difference to the government. In the second example, all the transactions are the same, except for a major purchase of two service trucks. Here, the *GST* paid exceeds that collected, so the business is due a *GST* refund.

You can also record the *GST* you collect or pay on your general ledger. As with all tax records, *GST* books and records must be kept for a minimum of six years.

Provincial Sales Tax (PST) Records

PST is recorded the same way *GST* is; however, some of the products/service your business offers may be PST exempt. Contact the Saskatchewan Department of Finance for specific product/service exemptions.

Payroll and Personnel Records

Payroll Records

All but the smallest of businesses will have employees besides the owners. Federal law requires that, as an employer, you must collect, on behalf of the government, Employment Insurance premiums, Canada Pension Plan contributions, and personal income taxes.

It is important to track and record the following items:

1. The paycheques issued to each employee. With every paycheque the employee must have an itemized record describing:
 - The total number of hours worked and the time frame worked
 - The rate of pay
 - Vacation pay (if paid out, record on the employee's stub; if it is not paid out each time, record under vacation payable)
 - Overtime
 - Statutory holiday pay
 - Employees CPP, EI, and income tax deductions
 - Other deductions (benefits, pensions, RSPs, etc)
2. The employer's portion:
 - CPP portion (equals the employees portion)
 - EI portion (is 1.4 times the employees portion)
 - All employee benefits including pensions and RSP contributions
3. The total monthly amount remitted to Canada Revenue Agency.

Hiring the services of a bookkeeper or a payroll firm is highly recommended.

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Example:

Employee: Larry Jones Week of: June 2-8, 2012

Hours worked	40
Hourly rate	\$10.00
Wages	\$400.00
Overtime	\$0.00
Holiday Pay	\$24.40
Total Wages	\$424.40

Deductions:	Employee's Portion	Employer's Portion	Remitted to CCRA
CPP	\$13.62	\$13.62	\$27.24
EI	\$9.34	\$13.08	\$22.42
Income Tax	\$27.60		\$27.60
Net Wages	\$373.84	\$26.70	\$77.26

How and When to Pay Canada Revenue Agency (CRA)

Every employer is required by law to remit employee payroll deductions and plus employer contributions. Payments must be received by CRA on or before the remittance due dates. Due dates vary depending on the type of remitter the employer is. Penalties will be incurred if payment is made late.

If you are a new employer, you must contact CRA to obtain an employer's remittance number and the appropriate forms. However, do not delay the remittance until you obtain an employer number. Instead, send a certified cheque or money order, payable to the Receiver General for Canada, to your district taxation office. Include a letter explaining that this is a new remittance and stating the pay period covered.

Workers' Compensation Payments

To ensure that workers are compensated when they are injured at work, employers must contribute funds on behalf of their employees to the Workers' Compensation Board. Payment amounts vary depending on the employer's payroll and the risk associated with the type of industry. For more information, contact the Workers' Compensation Board.

Paying Yourself and Hiring Contract Employees

If your business is incorporated and you are drawing a salary, then you must make all the appropriate deductions, except EI payments, and keep all the appropriate records just as you would for any other employee.

If you hire people on contract, you are not responsible for collecting payroll deductions. However, Canada Customs and Revenue Agency has strict guidelines for who qualifies as an employee.

Human Resources Records

As you hire more employees, it becomes more important to keep individual employee files. With other business issues on your mind, you will not want to rely on your memory for the following important information:

- The date they began working for your business
- Their starting and current rate of pay
- When they had their last pay raise
- Their resume and references
- Performance appraisals including whether they have met sales or production targets
- Customer and co-worker compliments and complaints
- Attendance records including how often they are late for work and how much sick or injury time they take
- Outstanding holiday pay or holiday time.

Other Important Records

Clear, accurate, user-friendly bookkeeping and payroll records are essential to the efficient operation of your business. Keeping these records is also your legal responsibility.

There are other important types of records that you should consider keeping:

- Customer Service Records
- Inventory Records
- Safety Records
- Departmentalizing

Customer Service Records

Customer service is an important part of your business and an essential element of your marketing efforts. Customer service records will help you gauge whether or not your continuing efforts to satisfy your customers' needs are working and where improvements can be made.

Customer service records could include the following:

- The number of customer complaints (or compliments) per week/month/year
- The nature of the complaints (were they product or service related?)
- The number of returns (and of which particular items)
- The number of repairs made under warranty

Inventory Records

If you operate a small retail or service business, a large part of your capital may be tied up in inventory (stock). Keeping control of your inventory involves knowing how much and what kind of stock you have on hand. For more information on inventory management and decision-making, refer to *Small Business Owner's Handbook Part II: Managing a Small Business*.

There are two main methods for keeping records of your stock: physical inventory and gross margin. Physical inventory involves counting and listing the number and value (both at cost and at retail price) of all items on the premises.

Business Safety Records

If you operate a small retail or service business, a large part of your capital may be tied up in inventory (stock). Keeping control of your inventory involves knowing how much and what kind of stock you have on hand. For more information on inventory management and decision-making, refer to *Small Business Owner's Handbook Part II: Managing a Small Business*.

There are two main methods for keeping records of your stock: physical inventory and gross margin. Physical inventory involves counting and listing the number and value (both at cost and at retail price) of all items on the premises.

Between physical inventory counts, the gross margin method can be used to estimate the value of inventory. The gross margin method is a less time-consuming and less accurate method of determining stock on hand.

Departmentalizing

If you are in the retail or service business, you may want to organize your business records by department. For example, a small clothing store operator may want to divide his business records by separating the men's, ladies' and children's wear departments. Departmental purchases and sales records can be used as the basis for monthly departmental operating statements.

Record Keeping Checklist

Yes No

- 1. Are your personal financial affairs and business financial affairs clearly separate? Do you have a separate bank account for your business?
- 2. Does your bookkeeping system meet the needs of your accountant?
- 3. Can you easily track your business' money and its financial performance?
- 4. Is someone assigned to do your day-to-day bookkeeping?
- 5. Are your records up-to-date?
- 6. Have you established a good working relationship and do you communicate well with your accountant? Does he or she answer your questions to your satisfaction?
- 7. Does your daily cash sheet usually balance, or are there major discrepancies?
- 8. Can you easily access information on the money you owe (accounts payable) and the money others owe to you (accounts receivable)?
- 9. Do you reconcile your bank account at least once a month?
- 10. Do you pay invoices and expenses by cheque? (Cheques provide an easy record for you and your bank and the cancelled cheque can act as a receipt).
- 11. Do you file a copy of all your customer sales invoices? (From time to time, these will be used to look up invoice totals, stock numbers, or quantities ordered).
- 12. Do you keep a file of all invoices and bills that are paid?
- 13. Does your payroll system work well?
- 14. Are you remitting payroll deductions to Canada Customs and Revenue Agency on time?
- 15. Do your personnel records give you a clear picture of the strengths and weaknesses of your employees?
- 16. Do you keep business safety records and customer service records?
- 17. Do you have a clear idea of how much inventory you have on hand?

Final Considerations

Top 14 Record Keeping Tips

1. Remember that your accountant's time is your money. Instead, hire a bookkeeper or keep records yourself.
2. Do not throw away cancelled cheques.
3. File your copy of your sales invoice either numerically or by customer, whichever is more logical.
4. Keep a file of all invoices and bills that are paid.
5. Perform a bank reconciliation each month.
6. Periodically, count the inventory on hand.
7. Review accounts receivable on a regular basis and at year-end, determine those that are uncollectible.
8. Register for GST and PST.
9. Discuss your financial statements with your accountant.
10. Remember to keep your business affairs separate from your personal affairs. OPEN a separate chequing account (very important).
11. Pay all transactions by cheque if possible; it is easier to keep track of cheques.
12. Detail deposit slips and keep a copy for your records.
13. If your books don't balance, try dividing the amount (that your out) by nine.
14. If your business is not as profitable as you expected, don't be afraid to ask for assistance.