

## Business records you should keep

A basic recording system will incorporate either a manual system or a computer system. Whatever system is used, make sure that it is simple and easy to understand, as well as reliable and quick. The basic records you need will include the following:

- 1. Records to record cash movement:** This will usually take the form of a cash book that records cash receipts and cash payments. This information will also enable you to check on your bank balance daily, as well as point out where the receipts are coming from and where the expenses are going. You must also keep a record of your bank account, which will include cheque books, deposit books and bank statements.
- 2. Records to record sales:** Depending on the type of business that you conduct, the records needed to record sale and sales movements could include invoice books, receipt books, cash register tapes, credit card documentation, credit notes for goods returned and a record of goods used by the business owner personally. You should also have a system whereby the sales that are made to your customers who run accounts are recorded to provide the customers name and address and the amount owing by the customer, as well as details of sales to the customer and the length of time that their credit has been extended.
- 3. Records to record purchases:** These will include cheque butts to show the larger purchases, petty cash system for recording smaller cash purchases, receipts obtained for payments made, credit card documents relating to purchases, invoices received as confirmation of purchases and any other documents relating to purchases whether they be copies of agreements or leases etc. Here also there will be a need to maintain a system to record all people that the business buys from (creditors) and this should include the creditors name and address, the amount owed to them, the details of the purchases from them and when the amount is due for payment.
- 4. Records to show expenses:** Expenses are other than the normal purchases of the business and are shown by having cheque butts, receipts, cash register tapes, copies of statements and invoices, credit card documentation, details of payments by cash and log books and exercise books that record other expenses.
- 5. Records to show details of staff and wages:** These records should show full details of wages, employment contracts, tax deducted, fringe benefits, superannuation and details of such things as sick pay, holiday pay and so on. Generally you can use whatever format best suits the business, but it is important to make the records comprehensive and clear in case of any disputes with staff.

The other records that need to be kept relate to stock records, accounts receivable, accounts payable, and other basic accounting records such as the various accounting journals and what is called basic books of account.

## Records required for the end of financial year

**Stocktake:** It is a requirement that stock on hand at the beginning and end of the year be taken into account when working out whether the business has a taxable income for tax purposes. Trading stock includes anything produced, manufactured, acquired, or purchased for the purpose of manufacture, sale, or exchange. Also, if you are a primary producer, it includes livestock.

**List of debtors and creditors:** You should talk with your accountant as to the information that needs to be given to him or her to show details of all your debtors and creditors for the period.

**Depreciation:** You must keep records that record and explain transactions relating to the depreciation (or wear and tear) of assets. Tax law allows you to claim an annual deduction for wear and tear of items used to produce the income shown in your tax return. The items that can be depreciated are numerous and there are different rates for depreciating them. The records you will need to keep include original purchase agreements or tax invoices; a depreciation schedule; the cost of transporting the items to your business (if applicable); and installation costs (if applicable).

If you consult your accountant or business advisor they will be able to assist in setting up such a system so that every area of the business is covered with good recording. Good records will also form the source of information that is passed over to your accountant for the completion of financial figures and taxation, so the correctness, accuracy and tidiness will have an effect as far as a lower cost by the accountant is concerned. When the time comes for you to sell your business the fact that you have good records will weigh heavily in your favour in obtaining the best price.

## How long should you keep records?

The question of how long records need to be retained is set in most cases by law. For example, income tax records must be kept for at least 5 years or for a longer period if the business so requires. It is always a good idea to keep permanent records such as fixed assets acquired, employment, Company Constitution and Minutes etc. In addition, there are other records that you may need to keep which confirm transactions. These involve the following:

### 1. Records to keep when starting a business

When starting a business it is recommended you keep on file such records as:

- Sale and purchase contract.
- Loan agreements.
- Rental agreements.
- Lease agreements.
- Franchise agreements.
- Sale and lease back agreements.
- Trading agreements with suppliers.
- Legal documentation.
- Evidence of deposits with utilities.
- Contracts with telephone companies.
- Business Name registration certificate.



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## 2. Records to keep when buying a business

When buying a business it is recommended you keep on file such records as:

- Profit and Loss statements.
- Balance sheets.
- Bank statements.
- Sale and purchase contract.
- Legal statements.
- Debtors and creditors.
- Schedule of assets.
- Franchise agreements.
- Lease agreements.
- Calculation of goodwill.
- Business profile.
- All correspondence involved in the transaction.
- Final settlement statement.
- Schedule of stock and work in progress.
- Schedule of materials.
- Management agreements.
- Company documentation, if company is taken over.
- Business Name transfer certificate.

### Questions to ask

- Are you happy with the records that you are planning to keep in order to record all your income and expenses and also what you owe other people and what other people owe you?
- Are your records of stock adequate so that at any time you can tell what stocks you have on hand and not run short?
- Have you adequate records to keep track of wages paid to staff as well as the taxation responsibilities involved?
- Is your system such that the preparation of suitable financial statements is possible at short notice?
- Have you discussed your requirements with your accountant and obtained advice as to what records are required?

### Keeping track

It is impossible to keep track of how the business is running unless there are adequate business records being kept. By law, certain records must be kept by every business in order to enable the ascertaining of profits for taxation purposes etc.

Many small businesses feel that the main objective of adequate records is to meet the minimum legal requirements. While some with this attitude still end up making good profits what they don't seem to realise is that they could be missing out on many opportunities for greater profits, through not be "fully in the picture" due to poor records. For others it means that they become aware but too late to avoid impending failure.



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In today's dynamic and competitive marketplace, you can no longer afford to run a profitable business without proper and complete business records. Well-kept records are management tools that assist in losses, managing cash etc. They are also invaluable when putting together information to form the basis for application for loan finance or the sale of the business.

Regardless of the size or type of business, record keeping conforms basically to the accepted accounting principles. We suggest you discuss this fully with your accountant at the beginning before you set up or purchase a business, so that your records are clear right from the start.

## Further information

The following fact sheets provide further information on these issues:

- Accounting records should you keep
- Business management tips
- Business sale contract
- Control against fraud
- Control liquidity
- Control your business records
- Dealing with fraud in your business
- Risk management
- The importance of record keeping