

# The importance of record keeping

## Why keep records?

Keeping accurate and up-to-date records is vital to the success of any business. The business must realise that records kept will be one of the most important management tools it possesses and, therefore, it should be allocated due importance. Many business owners invest a lot of time and effort into the running of their business and yet fail to realise the importance of maintaining good documentation. The business owner is looking for the maximum return from their investment and the maintaining of good records is part of that equation.

For the business to achieve its success and profit, it is necessary for the scores to be kept, as it were. Keeping records is really like score keeping - if you went to a football game where no one kept the score, you would have to ask "what was the point of that whole exercise?" By keeping the score you are able to work out who is winning and whether you are winning at all. Many people do not know the "current score" of their own business because they have failed to realise the importance of keeping good and adequate records.

Any record keeping system should be accurate, reliable, easy to follow, consistent as to the basis used and be very simple. Good record keeping is vital in regards to meeting the financial commitments of the business and providing information on which decisions for the future of the business can be based. While the business maintains records to monitor and record its normal business activities, it is also necessary because of obligations under the taxation laws.

## How will it help you?

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

- Assists you in preparing your financial statements quickly and accurately.
- Provides information to enable the control of cash in the business.
- Provides management information to base business decisions on.
- Contributes promptly to assessing the financial situation of the business at any time.
- Saves a lot of time and effort.
- Keeps a good track of the costs of staff and their performance.
- Measures the business performance against the projections that were originally set down in the business plan.
- Highlights quickly areas where problems could arise and enable remedies to be put in place.
- Fulfils the obligations as to taxation law.
- Assists you in calculating how much tax you have to pay.
- Assists in providing information required by your bankers.
- Helps in detecting thefts within the business itself.
- Provides valuable information and details for the future sale of your business where that is required.
- Increases the chances of the business operating and achieving success.



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## What will your records tell you?

The following check list will give you an idea of some of the things that your records will be able to reveal as far as your business is concerned:

- The income you are generating now and how much income you can expect to generate in the future.
- How much you owe for goods or rent or other expenses.
- How much cash you have on hand and how much cash is tied up in other things such as stock.
- How often you turnover your stock.
- Your gross profit and your net profit.
- How your financial situation compares with last year or with your budgets.
- How much cash is owing to you at any time and how long has it been outstanding.
- What are your actual expenses and overheads compared to your projections?
- Which of your products are making a profit and which are running at a loss?
- How your business compares in financial terms, as well as product quality and service supplied etc, with those of your competitors and with the industry in general.

Good records will keep you on your toes and enable you to monitor every situation. It is no use finding out six months down the track that a particular product has been selling at a loss, or that your sales are 50% less than what was in your budgets, or that you are owed \$50,000.00 more than expected at any particular time of the year. After you have put together a good system for recording, make sure you use the system to help you in the business. Monitor it, protect it and back it up.

## Your legal responsibility

Under tax law anyone carrying on a business must keep full records to explain all transactions. These records must be kept in the English language and must be sufficient to enable the Tax Office to ascertain the correct taxable income of that person or company. These records must be retained for at least five years from the date of lodgement and must be kept where, if necessary, they can be referred to.

If claims are made with the Tax Office then it will be necessary to also keep receipts that verify payments and deductions made. These receipts must show the date of receipt, name of the supplier, the amount involved and a description of what has been bought. For smaller expenses, of course, receipts are not necessary as long as a record is kept in the form of a diary showing the date, amount and purpose. All invoices generated and received must state the words "Tax Invoice" and detail the relevant ABN.

## Further information

The following fact sheets provide further information on these issues:

- Accounting records you should keep
- Business records you should keep
- Control liquidity