

ACCOUNTING FOR YOUR BUSINESS

Good record keeping — a constant and detailed knowledge of expense, income, and profit or loss — is the first step toward the profitable management of your business.

Record Keeping

An owner must keep and utilize detailed records to successfully manage the business. Keep basic records. Never rely on memory, close personal contact with the business or on some simple system that you believe replaces basic records.

Make effective use of the basic records that are kept. Many owners fail to use inventory records for changes in buying or merchandising policies and charge account records for customer analysis and sales promotion.

Without adequate records, it will be impossible for your business to effectively handle purchasing, inventory control, credit, collections, expense control, personnel, production control and other aspects of management. Any experienced owner knows that it is just common sense to keep an accurate, written record of every business transaction. A lack of proper records will prevent you from knowing how your business is doing, and the first indication that something is wrong may come too late. Records will help you prepare your income taxes, obtain loans. Records also aid in planning for the future based on financial facts rather than guess work.

Trade associations often provide guidelines or accounting records tailored to a particular type of business. There are also a variety of records and record keeping systems available at bookstores. It is suggested you use some type of computer based program tailored to your needs. There are a number available on the market today that combine accounting (accounts payable, receivable, and payroll) as well as word processing and data base, or some combination of these.

Every business should have up-to-date records which provide the following information:

- Accurate records of sales and operating results, fixed and variable costs, profit or loss, inventory levels and credit and collection totals.
- Comparisons of anticipated business performance with actual business performance.
- Financial statements, such as profit and loss, cash budget and balance sheet.
- Tax returns and reports to the government.

- A method for uncovering employee thefts, material waste, or record-keeping errors.

Your essential records should include the following information:

- Daily summary of cash receipts taken from cash register tapes, charge slips, and sales receipts.
- An expense ledger tallying both cash and checks for accounts payable, payroll, rent and other recurring expenses.
- An inventory system showing shipments received, accounts payable and the amount of inventory on hand.
- An employee record listing hours worked, pay and withholding deductions for both full-time and part-time employees.
- An accounts receivable record for credit sales.

The Internal Revenue Service does not require specific accounting methods, records, or systems. However, the IRS does require that you maintain permanent records that clearly show income, expenses and other deductions. These records must be accurate and reflect taxable income and allowable deductions. Records also must be kept for inspection at any time by IRS officers.

Accounting Methods

Choose either the cash or accrual method of accounting to reporting the income and expenses of your business. Your choice should be made after discussing the matter with your bookkeeper or accountant. Here are some of the differences.

The Cash Method

The cash method of accounting is generally used by individuals and small businesses.

Income: With the cash method, all items of income received during the year are included in gross income.

Expenses: Usually you must deduct expenses in the tax year that you actually pay them.

The Accrual Method

The purpose of the accrual method of accounting is to match the income and expenses in the period in which they occur.

Income: Under the accrual method, all items of income are included in gross income when earned, even though they may be received in another tax year.

Expenses: If you are a business that uses the accrual method of accounting, you deduct business expenses when you become liable for them, whether or not you pay them in the same year. All events that set the amount of the liability must have happened, and you must be able to figure the amount of the expenses with reasonable accuracy.

Hiring a Bookkeeper and an Accountant

It is highly recommended that you hire both a competent bookkeeper and a professional accountant. Spend the time necessary to find the right bookkeeper and accountant for your needs. Get referrals from people in your type of business. Trade associations, management consultants, business associates and friends are also good referral sources.

Remember, it's not necessary to hire an accountant to do your day-to-day bookkeeping, but your bookkeeper must have adequate experience and qualifications to handle the record keeping needs of your business.

It is also a good idea to contract the services of a professional accountant to provide important advice and help in determining what records to keep, the most economical way of maintaining the records, techniques on how to insure against paying unnecessary taxes and the most efficient system of cash flow management. An accountant's advice is helpful in keeping track of inventory, so that your business will always have enough on hand for customers but not more than prudently necessary. The accountant will also suggest methods for depreciating assets and maintaining current balance sheets and income statements.