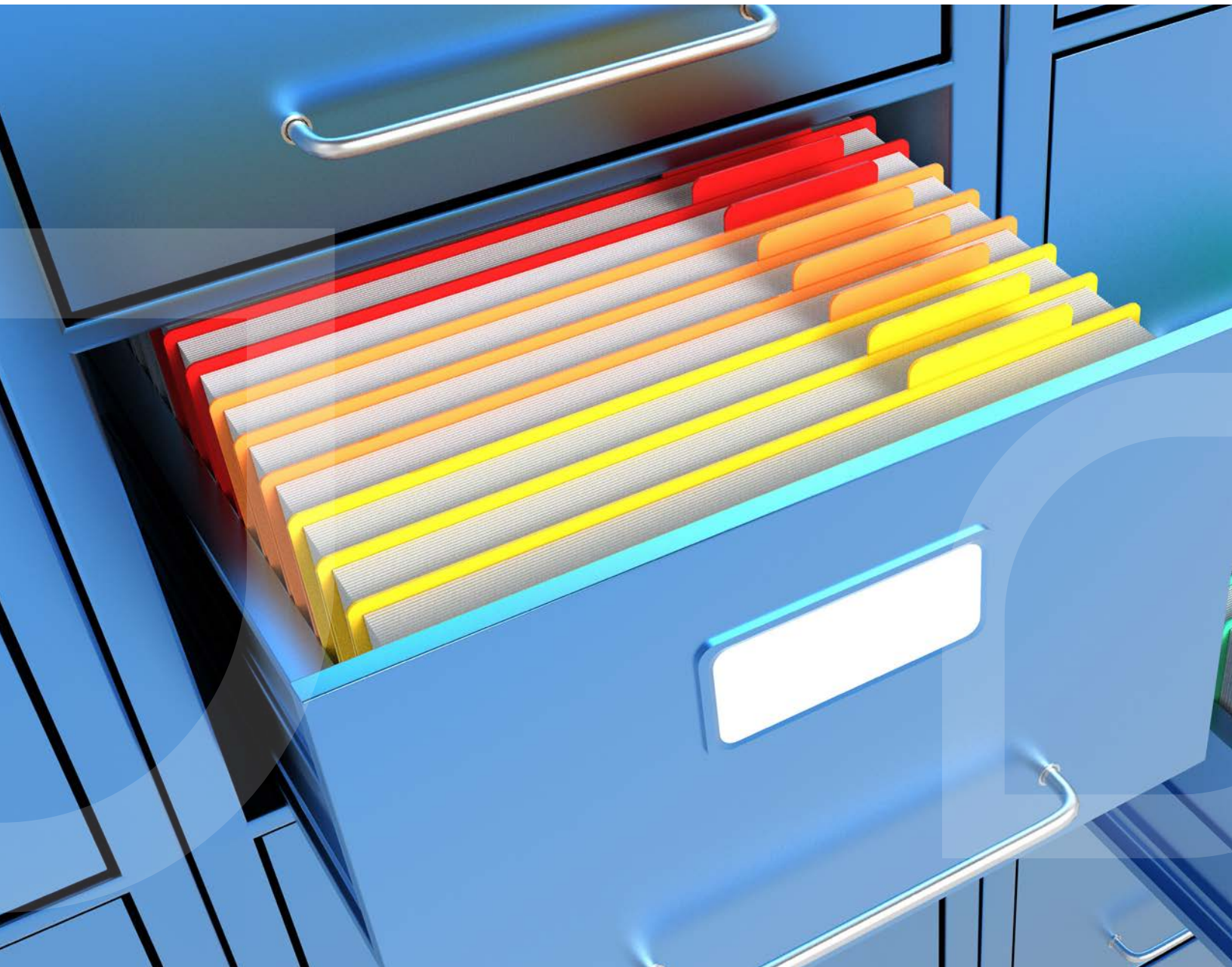


Keeping it clean

Simplify tax time and keep your small business healthy by maintaining good records all year long



Your guide to the importance of keeping your business records clean and up to date

We're happy to see you here, digging into another educational resource developed to offer you valuable information on how to keep your small business accounting records well-maintained all year long.

Let's say it's tax time...

...and you've got your appointment with your tax preparer tomorrow. So, you're trying to figure out exactly what you need to have available.

The trouble is, your books and records are an absolute MESS (yes, with a capital M-E-S-S). It's been such a busy year that you haven't always been able to update items as you should. You figured you could do that around the holidays, but then other things needed to be taken care of, and...well, here you are, and you've been working on this for *hours*.

And right about now, you're starting to panic and wondering how scary your inevitable tax audit will be because obviously, you're not going to clear up this chaos—sorry, CHAOS—by tomorrow, and heaven only knows what you'll owe in penalties!

WHOA! Calm down. This was just a "What if...?" exercise (which clearly worked). But many small business owners go through a variation of this scenario every year, as they realize their books aren't ready for their tax preparers.

That's why we've created this eBook, to help you build a process for keeping your business records clean and pristine. Then you can stop dreading tax time, and monitor the health of your small business year-round.



How to keep your business records clean throughout the year

If you've always thought that keeping your business books and records in shape is something that helps at tax time, you're partially correct. Good recordkeeping can also help you monitor the health of your business, enabling you to spot any possible problems before they become a larger issue.

How? Because keeping thorough and consistently updated records helps make sure that you:

- Have the information you need to run—and grow—your business.
- Identify your business's strengths and weaknesses.
- Know how to manage changes in your business.
- Close out your books quickly at month- and year-end.
- Reduce your tax obligations and maximize your claimed expenses.
- Plan for upcoming tax payments.
- Keep your tax returns clean and less likely to be audited.
- Meet your financial obligations (e.g., loans, vendor costs, employee salaries).

Coming up with a process to keep your records clean can seem overwhelming at first, but the key, as with any worthwhile process, is to break things down into manageable bits. And that's what we'll help you do over the next few pages.

Are sloppy records or bookkeeping causing you problems?

Here are seven red flags that indicate disorganized records may be negatively affecting your business:

- ① **Sales are good, but you're having cash flow issues.**
- ② **Your business expense spending seems unusually high.**
- ③ **There are inconsistencies in financial statements and inventory levels.**
- ④ **You're paying out more money in overdraft fees and other penalties.**
- ⑤ **Vendors refuse to work with you because they're not paid on time.**
- ⑥ **You put off your tax preparer because you can't find the information you need.**
- ⑦ **You have no idea where the health of your business stands.**

 **Good recordkeeping can also help you monitor the health of your business, enabling you to spot any possible problems before they become a larger issue.**

FAQs for better record/ accounting books maintenance

So, as we mentioned earlier, let's break down some of the items you'll need to address to get some organization back into your record/bookkeeping system.

1 How should I maintain my records?

You have several choices for a record and bookkeeping/accounting system:

- Manual recordkeeping (everything on paper: ledger books, receipts, invoices, etc.).
- A computer spreadsheet (e.g., Excel, Google Sheets).
- Online or hosted accounting systems like QuickBooks® Online or Zoho.

You can also outsource your bookkeeping with a bookkeeping service. And, if you already work with an accountant, you may already be set up on a system that integrates with the firm's technology.

Whatever method you choose, though, make sure it works with your business—and that it's easy to use. If it's too complicated, you'll get frustrated and end up back in the same situation.

2 How often should I update my records?

This is an easy answer: every day.

If you absolutely cannot update your books as activity occurs, take a few minutes at the end of the day to record expenses, payouts and other transactions. Your reminder can be as simple as setting an alarm on your phone or placing a basket for receipts and documentation next to your laptop.

3 What kinds of information should I keep?

For taxes and other needs, you should keep or be able to easily access the following documents:

- Cash register tapes
- Deposit information (e.g., cash and credit sales)
- Receipts (or a note showing the expense amount, where and when it occurred, and the purpose of the expense if you don't have a receipt) and receipt books
- Invoices
- Petty cash slips
- Bank and credit card statements
- Credit card receipts
- Proof of electronic funds transfers
- Canceled checks
- Accounts payable and receivable
- Tax filing records, including previous tax returns
- Payroll records, including W-2 and 1099 forms
- Any other documents that back up expenses or deductions (e.g., travel, transportation, entertainment and gift expenses, or full information on any assets such as machinery or furniture that you own and use in your business)

Other information to retain includes (if applicable) client files, contracts (both for your services and for the services you receive from your own vendors), inventory records, vehicle mileage logs, human resources records and your original business documents.

Whatever method you choose, though, make sure it works with your business—and that it's easy to use.

4 How long should I keep the information?

In general, you should keep business tax records for three years per the IRS Period of Limitations. During those three years, you can still amend your tax returns—and be audited by the IRS. However, there are some records that should be kept longer. The IRS provides the following guidelines:

Period of Limitations for income tax returns*

- 1 Keep records for **three years** if situations 4 and 5 don't apply to you.
- 2 Keep records for **three years** from the date you filed your original return or two years from the date you paid the tax—whichever is later—if you file a claim for credit or refund after you file your return.
- 3 Keep records for **seven years** if you file a claim for a loss from worthless securities or bad debt deduction.
- 4 Keep records for **six years** if you don't report income that you should report, and it's more than 25% of the gross income shown on your return.
- 5 Keep employment tax records for at least **four years** after the date that the tax becomes due or is paid, whichever is later.

*From [IRS.gov](https://www.irs.gov)

Occasionally, there are circumstances when property records—deductions such as depreciation or financial gain or loss from sales—will need to be kept longer than three years. Check with your tax professional for more information if that applies to your situation.

5 This is a LOT of information. Can't you just summarize some basic things I should remember to keep my financial records clean?

Of course! Here are five principles that all business owners should keep in mind:

- 1 Document and track your expenses as they occur—not later and definitely not at the end of the year.
- 2 Remain aware of your real-time cash flow status at all times.
- 3 Separate your business income and expenses from your personal transactions.
- 4 Use your up-to-date financial statements to help you create short- and long-term business goals and make decisions.
- 5 Hope you never have an unexpected emergency or disaster—but plan for them anyway with backups for your records stored in a secure offsite location, a disaster plan to cover all contingencies, and an emergency savings cushion to cover expenses.



6 **That's still a lot of work. Isn't there an easier way to keep my records clean?**

As your business grows and you become busier, sometimes you need to let go of certain functions. Records maintenance and bookkeeping are often the first functions a business owner must look at upgrading or outsourcing. Here are some solutions you can consider to reduce the burden.

■ **Upgrade your accounting technology**

Even the smallest businesses are able to automate their accounting functions today, which can help ease the burden of recordkeeping. Accounting software solutions like QuickBooks even integrate with your accountant's tech or your financial institution via the cloud.

■ **Hire a bookkeeper**

Is there someone on your staff with bookkeeping experience? If they're interested, it may be time to consider promoting them to the position of bookkeeper. Bonus: You already trust this employee, are familiar with their abilities—and they're familiar with your business. If this is not an option, consider hiring an outside candidate. Even a part-time bookkeeper can take a lot off your plate.

As your business grows and you become busier, sometimes you need to let go of certain functions.

■ **Outsource your bookkeeping**

Unlike a full-time employee with benefits, when you outsource, you only pay for the outsourced services. These services not only take away the bookkeeping burden, but also offer a qualified expert to provide guidance.

■ **Hire a tax and accounting professional**

Find a practitioner who offers bookkeeping services (not all do). This will provide you with not only a bookkeeper, but also a trusted advisor to provide tax guidance, business advisory and analysis services, and even payroll and auditing. While tax and accounting professionals can cost more than a bookkeeping service, the breadth of expertise you'll receive is priceless.

Make a vow to stay on top of the record-keeping process—or to outsource the function to someone who can—and you can finally put the plans and dreams you've had for your business into action.



Summing it all up

We hope this guide has given you some insight into why keeping your records and books clean is a necessity. Remember, as a business owner, it's up to you to ensure your records are accurate and up to date. It's a big job, but we hope the resources provided in this eBook help you rise to the occasion.

Contact our firm for more information or for help in getting your books in order. Just click the **GET IN TOUCH** button and complete the brief form or give us a call. We look forward to hearing from you!

