

# Keeping Business Records Organized

By Carol Topp, CPA

How do you know if your business has been profitable? In theory, you can look at the “books,” the financial records of the business, but only if they are kept up to date. Many small or micro business owners do not know if they made a profit until their tax returns are prepared. By then it is too late to correct mistakes or bad decisions. The financial records of a small business should reflect income and expenses for tax purposes, but they should also tell how the business is performing financially. There are three important types of records that need to be kept:

## **1. Checkbook**

The checkbook is usually the main source for financial entries in a micro business. Keep a separate checking account for your business, using it only for business expenses, not personal spending. When you wish to withdraw money for personal use, write a check to yourself or transfer funds into your personal checking account. Keep all your checkbook statements, canceled checks, and deposit slips. Duplicate checks are recommended because they provide a written record of expenses. Many banks no longer return canceled checks and many are not keeping electronic backups for more than a year.

## **2. Supporting Documents**

Keep supporting documents such as bank statements, sales slips, paid bills, invoices, receipts, and credit card sales slips. These documents contain information that you will need to record in your books and to prepare your tax return. Organize them by categories according to the type of income or expense. Some business owners store receipts by month, but it is better to organize them by category. Categorizing simplifies both locating documents and tax preparation.

An expanding file folder is an excellent yet simple storage system for supporting documents. Use a folder for each category of expense. File receipts into folders after you have recorded them in your bookkeeping system, whether on paper or on your computer. Organize bank statements, official forms and letters into file folders as well. Any remaining folders can be store income documents such as sales receipts and deposit slips.

To make tax preparation simpler, use categories that correspond to the sole proprietorship business tax return, Schedule C Business Income or Loss.

- Advertising. This should include your website fees.
- Transportation. Keep a log of your business miles. The IRS requires a written record; estimates of mileage will not suffice.
- Equipment and software purchases
- Professional fees to accountants and lawyers

- Contract labor to hired professionals such as editors, web designers, etc.
- Office supplies
- Purchases of items for resale (i.e., inventory)
- Shipping supplies
- Utilities including your cell phone and internet bills. These should be prorated for business use only.
- Wages paid to employees and payroll taxes
- Other expenses include bank, merchant and Paypal fees as well as professional development expenses for books and magazines you read or conferences you attend.

### **3. Government Correspondence**

Keep copies of *everything* you mail to the IRS and to state and city governments. File away copies of all forms and checks you write to pay taxes (or use duplicate checks). Save every letter sent to or received from any government agency, especially confirmation of your EIN (Employer Identification Number), vendor licenses and name registration.

Author:

Carol Topp, CPA ([www.CarolToppCPA.com](http://www.CarolToppCPA.com)) consults with small business start-ups, work-at-home moms and teenagers launching micro businesses. Her website has articles, links and ebooks on starting a small business.