

Using Records Management to Enhance Your Business

Records management can be an affordable and easy-to-implement solution for many businesses searching for a competitive advantage through increased efficiency. This is of particular importance to small businesses, where funding is limited and every dollar must be stretched to the breaking point. While many view records management as a low priority task only to be handled at the lowest administrative levels, it is truly the responsibility of all within an organization.

Effective records management doesn't have to start with an expensive computerized DMS (Document Management System), though depending on the size and growth of your business that may be the direction you need to aim. For many small businesses, the following 7 steps will be a great place to start in maintaining better records and saving valuable time, particularly during tax season:

- 1. Keep your business and personal expenses separate.** This is perhaps the most overlooked step in the process. In many cases, this boils down to knowing what expenses are business related and keeping the records that can prove it, i.e. keeping logs for dual business and personal use vehicles and maintaining a separate business phone for a home office. Pay particular attention to recreational expenses, as many improperly try to claim these as business expenses.
- 2. Get sufficient documentation for all business expenses and activities.** In its simplest form, this means keeping all receipts for business expenses and properly labeling or otherwise tying them to the expenses incurred. Fill in any information that is missing or unreadable as soon as possible. In addition to receipts, documentation for such items as insurance, licensing, registrations, and certifications should be maintained. Business plans, market analysis, and operational evaluations should also be stored and updated, as these may be used later to prove profit motive should the question of business vs. hobby losses arise.
- 3. Get a separate bank account for your business - and use it.** Deposit all business income into the account and pay all business expenses from it. Choose a bank that gives you monthly statements and copies of the cancelled checks. This may be a great time to learn about online banking as well! On the topic of checks, using the memo line is a great way to tie the check to the expense it paid for.
- 4. Maintain a separate credit card for business expenses.** Not only does this add to the ease of records management while still maintaining the convenience of using a card, it also adds to the professionalism of your business.
- 5. Keep a log of your business-use assets.** Keep log books on any assets that you use for your business, paying close attention to those that also see personal use. As many small business owners have personal/business use vehicles, this means keeping a log book of the miles used preferably by date and time. Don't make the mistake of thinking that advertising signs on your vehicle means it's entirely a business expense!
- 6. Keep all your business records for a particular tax year together and in one place.** This step could save you or your business money when it comes to the time it saves your accountant or bookkeeper in preparing your tax return or financial statements. Additionally, should you be audited, organized records may very well send a signal to the auditor that you are maintaining an error-free environment and allow the process to move much smoother.
- 7. Keep your business records for the correct length of time.** How long should you retain your tax return information? Are these cancelled checks from last year still needed? There are potentially hundreds of questions similar to these that individuals and business owners alike may ask in regards to document retention. For ease of use, we have prepared a Suggested Records Retention Schedule (See below) for these types of questions. Keep in mind that the suggested times are from the last time the documentation was used, not from when it was originally generated. Should you have a question about an item on or absent from the list, feel free to give us a call for clarification or advice.

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Works Cited

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Suggested Records Retention Schedule

	<u>Retention Period</u>		<u>Retention Period</u>
Accident reports and claims (Settled Cases)	7 yrs	Invoices to customers	7 yrs
Accounts payable ledgers and schedules	7 yrs	Invoices from vendors	7 yrs
Accounts receivable ledgers and schedules	7 yrs	Journals	Permanently
Audit reports of accountants	Permanently	Minute books of directors & stockholders	
Bank reconciliations	1 yr	Including by-laws and charter	Permanently
Capital stock and bond records; ledgers transfer registers, stubs showing issues, record of interest coupons, options, etc.	Permanently	Notes receivable ledgers and schedules	7 yrs
Cash books	Permanently	Option records (expired)	7 yrs
Charts of accounts	Permanently	Payroll records and summaries, Including payments to pensioners	7 yrs
Checks (canceled but see exception below)	7 yrs	Petty cash vouchers	3 yrs
Checks (canceled for important payments, i.e., taxes, purchases of property, special contracts, etc. (checks should be filed with the papers pertaining to the underlying transaction)	Permanently	Physical inventory tags	3 yrs
Contracts and leases (expired)	7 yrs	Plant cost ledgers	7 yrs
Contracts and leases still in effect	Permanently	Property appraisals by outside appraisers	Permanently
Correspondence (routine) with customers and vendors	1 yr	Property records - including costs, depreciation reserves, end-of-year trial balances, depreciation schedules, blueprints and plans	Permanently
Correspondence (general)	3 yrs	Purchase orders (except purchasing department copy)	1 yr
Correspondence (legal and important matters only)	Permanently	Purchase orders (purchasing department copy)	7 yrs
Deeds, mortgages, and bills of sale	Permanently	Receiving Sheets	1 yr
Depreciation schedules	Permanently	Requisitions	1 yr
Duplicate deposit slips	1 yr	Sales records	7 yrs
Employee personnel records (after termination)	3 yrs	Savings bond registration records	3 yrs
Employment applications	3 yrs	Scrap and salvage records (inventories, sales, etc.)	7 yrs
Expense analysis and expense distribution schedules	7 yrs	Stenographer's notebooks	1 yr
Financial statements (end-of-year, other months optional)	Permanently	Stockroom withdrawal forms	1 yr
General and private ledgers (and end-of-year trial balances)	Permanently	Subsidiary ledgers	7 yrs
Insurance policies (expired)	3 yrs	Tax returns and worksheets, revenue agents' reports and other documents relating to determination of income tax liability	Permanently
Insurance records, current accident reports, claims, policies, etc.	Permanently	Time books	7 yrs
Internal audit reports (in some situations, longer retention periods may be desirable)	3 yrs	Trade mark registrations	Permanently
Internal reports (miscellaneous)	3 yrs	Voucher register and schedules	7 yrs
Inventories of products, materials, and supplies	7 yrs	Vouchers for payments to vendors, employees, etc. (includes allowances and reimbursement of employees, officers, etc., for travel and entertainment expenses)	7 yrs