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Fact Sheet HE 7111

## Record Keeping<sup>1</sup>

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Money is the lifeblood of any business. Keeping track of its flow coming into and going out of your business is essential to survival, growth and profit. But the truth is, many business people see record keeping as a necessary evil and devote as little time to it as possible. In fact, record keeping can be a positive experience when you get information about the business that is accurate, organized and up-to-date. The law does not require any particular method of record keeping. However, good management of a home business requires good records.

### HOW TO START

Before you start to operate your business, decide who will keep the records — you or someone else. Frequently, the individual business owner will keep the books. That gives a better appreciation of what is happening in the business and keeps you current. Also, you become familiar with the system. Sometimes an employee, a spouse or other family member or outside bookkeeping or accounting service will do the record keeping. This is usually satisfactory if the individual is qualified, keeps you informed, and keeps the books current. Regardless of who keeps the records, you must review them periodically to know what is going on and how the business is doing. Know and understand your financial records.

Your records should help you to:

- identify sources of receipts

- prevent omission of deductible expenses
- determine depreciation allowances
- take advantage of capital gains and losses
- establish earnings for self-employment tax
- select the type and arrangement of your books that
- seem suitable for your type of business
- figure your correct tax liability
- explain items reported on tax forms
- document entertainment, travel, and other expenses relating to your business

Good records must also be permanent, accurate and complete. They must clearly show income, deductions, credits and employee information. Furthermore, they must be available to officials of the Internal Revenue Service for inspection at any time.

To maintain good records you should:

- retain copies of records until statute of limitation for that type of document has expired

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- store all canceled checks, paid bills and duplicate deposit slips in a safe place
- deposit all business receipts in a separate bank account
- make all disbursements by check

Work with an accountant in setting up a good record keeping system. Their services can save you money. They are knowledgeable of existing tax laws and changes as they occur. They can advise you on long range financial planning and plans for expanding your business.

Keep your record system:

- simple to use
- easy to understand
- reliable
- accurate
- consistent
- timely

### **SIMPLE RECORD KEEPING SYSTEM**

A record keeping system need not to be complicated to be functional. The four basic records you need when you begin your home business are sales records, cash receipts, cash disbursements and accounts receivable.

There are a number of one-write, duplicate check and pegboard systems available commercially. Some are prepared with instructions and forms designed for specific kinds of businesses; others are for small business use in general. You can examine some of these systems at office supply stores. In addition, some trade associations, manufacturers and wholesalers offer specially designed record keeping systems to their members or customers. The SBA publication, "Record Keeping Systems," (SBB 15) lists many such systems. You can get a copy of it from the U.S. Small Business Administration.

Use your business checkbook as the simplest system for all financial transactions. Record the details of the transaction on each deposit slip. Pay all expenditures by checks drawn on an account kept

strictly for the business and reconcile it monthly as soon as the bank statement arrives. Record payments for inventory, supplies, employees' salaries, business travel, rent, utilities and other expenses in the checkbook by date, amount, payee and purpose. A bank charge is entered in the same manner as a check that has no check number.

### **Minimum Record Keeping System**

Include the following elements in whatever record keeping system is used:

- Incoming Merchandise
  - Copies of purchase orders to suppliers
  - Verified packing lists or receiving log (when the orders are received)
  - Inventory sheets or record
- Outgoing Merchandise (or Services)
  - Sales slips (cash and charge)
  - Work order
- Incoming Money
  - Checking deposits
  - Credit customers' accounts (accounts receivable)
  - Invoices (accounts payable)
- Outgoing Money
  - Check register
  - Petty cash vouchers
- A Record of Equipment and Depreciation

### **Expanded Record Keeping System**

As you make plans to expand your business, increase your record keeping to include these ten items:

#### **Cash Receipts Journals**

Records all cash received.

Cash Disbursements Journal

Records expenditures and identifies how and why money was spent, including petty cash.

Sales Ledger

Records and summarizes monthly income.

Purchase Ledger

Records the purpose of merchandise bought for processing or resale.

Payroll Ledger

Records wages of employees and their deductions for income tax, Social Security, and other.

Equipment Journal

Used to identify assets such as equipment, office furniture, motor vehicles, fixtures, and others along with their depreciation schedule (be sure to record the serial and model number of all equipment).

Inventory Ledger

Records the investment in stock (this is necessary in order to arrive at a true profit on financial statements and for tax purposes).

Accounts Receivable Journal

Records the payments and balances of credit customers.

Accounts Payable Journal

Records what the business owes its creditors and suppliers.

Check Register

Keeps track of all expenditures by date, name and amount.

**SOURCE**

Gibbs, Janett A. and William A. Thomas. *Home Business*. Cooperative Extension Service, University of Georgia.

Rowe, Barbara R. and Marion T. Bentley. *A Home Based Business Workshop: Financial Recordkeeping*. Cooperative Extension Service, Utah State University, 1987.