

# GUIDE TO SMALL BUSINESS RECORDKEEPING



To make your business #CPAPOWERED,  
call today and let's get started.



**Monheit Frisch Group** PLC  
— Monheit Frisch CPAs PLC —  
Monheit Frisch Wealth Management LLC

When starting a small business, taking the time to set up your recordkeeping system properly, right from the beginning, will save you time and money down the road — and could make the difference between success and failure.

Certified public accountants (CPAs) are experts in small business finance including taxes, financial reporting, business advisory, personal financial planning as well as bookkeeping and payroll processing.

According to CPAs, good recordkeeping preparation and planning can:

- Make tax preparation easier. Back-up documentation may save you taxes, interest charges and penalties if the Internal Revenue Service (IRS) ever questions your return.
- Allow you to comply with multi-state taxes, such as sales taxes (including internet sales) and payroll taxes.
- Give you a better handle on your overall financial position, how your business is performing and help your CPA identify financial and tax planning opportunities.
- Create efficiencies throughout the business by spending less time locating documents and information.
- Provide your successor with a roadmap to your financial affairs if you die or become incapacitated.

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## **BASIC CONSIDERATIONS**

One of the first things you will need to determine is whether to use a traditional paper filing system, an electronic filing system or a combination of the two. You should carefully consider the pros and cons of each type of system in light of your business needs and resources.

## **CONVENIENCE AND FLEXIBILITY**

To keep up with your recordkeeping, it's important to build a system that is convenient. Electronic records are very easy to transport. You can move the equivalent of boxes of paper documents with the click of a mouse via encrypted email or a secure portal. When stored in the Cloud or a secure portal, you can work on them from home, the airport or the beach. CPAs work with both electronic and physical records, but your CPA will have specific recommendations due to the requirements for business recordkeeping in your state and/or within your industry. Be sure to consult with your CPA to find the recordkeeping system that best suits your needs.



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## RELIABILITY

Paper files are extremely reliable, provided you follow documented protocols for setting up and maintaining them. They are not susceptible to server failures or power outages. Nor are they dependent on the ongoing support of a systems vendor. Paper files, however, are susceptible to floods, fires and other natural disasters. It's difficult and costly to maintain redundant backups of paper records. Although electronic media can also be easily damaged or destroyed, redundant backups are generally easily made and recovered.

## SECURITY AND PRIVACY

Identity theft, fraud, privacy law violations and numerous other crimes have been enabled by electronic recordkeeping systems. Even some of the most sophisticated electronic security systems have been compromised. As a business owner you have a responsibility under multiple laws and regulatory bodies to protect the confidentiality and security of your customer's records. Electronic records can be kept secure when proper measures are taken to protect privacy, but this is an entirely different process from keeping filing cabinets locked and installing an office security system. Because you are legally responsible for your data, you should NOT depend solely on your electronic recordkeeping systems vendor to ensure the security of your electronic records.

## STORAGE

When it comes to storage, electronic files clearly have the advantage. The longer you're in business and the more you grow, the more burdensome the space requirements for paper records. Many businesses resort to offsite records storage both to save space and to mitigate the risk of records being destroyed. At some point, paper records typically need to be shredded, which is labor intensive and costly.

## COSTS

The cost of electronic record storage has become highly affordable compared to traditional paper-based systems. Some original documents should still be kept in paper copies, but the vast majority can be digitized.

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## **FILE LOCATION AND ACCESS CONTROL**

Although your filing system will need to be tailored to meet the needs of your specific business, the following elements can help you avoid common pitfalls.

### **STANDARD PROTOCOL**

When it comes to filing, almost everyone has his or her own ideas about how they'd like to see the files organized. If left unchecked, one person's innovation soon becomes another's frustration. Set a standard protocol for every type of file, then teach, monitor and enforce it.

### **CENTRAL LOCATION**

For security and emergency purposes, keep all files in one central location that can easily be accessed without being dependent on a single person. The same principle applies to electronic files, which should be kept on a shared server or Cloud provider's system rather than on an individual's PC workstation.

### **LIMIT ACCESS**

Access to files should be limited to only those who have a specific business purpose for doing so and security protocols should be set up accordingly. An advantage to most electronic recordkeeping systems is that a date and time stamp log is automatically generated each time a user accesses a file. If you implement an electronic system, you should periodically review access logs and follow-up on any unusual activity.

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## **SAFE DEPOSIT BOX**

Documents that are difficult or costly to replace should be kept in a safe deposit box. Your safe deposit box should hold any records of ownership such as deeds and titles and original business documents such as articles of incorporation, corporate resolutions, bylaws, partnership agreement, minutes from annual meetings, loan documents and so on. Because access to your safe deposit box could be delayed in emergency situations, keep copies in a clearly marked paper or electronic file. Additional copies should be held by your attorney.

## **FINANCIAL OVERVIEW**

With your recordkeeping system in place, prepare a procedures manual explaining it for employee training purposes and in case someone outside the business needs access due to a long-term illness or other emergency. Be sure to include the location of important documents as well as insurance policy information. You should also list bank and investment accounts, as well as all credit accounts with account numbers. Also, you should list information on other debts, including mortgages and loan documents. Give a copy of this manual to trusted family members, your attorney, CPA and trustees, if any.



## WHAT TO KEEP AND FOR HOW LONG

Early on it may be tempting to keep everything. But over time the cost and liability of storing old documents — either in paper copies or electronically — can become significant. Rather than waiting until you run out of room or are frustrated by storage bills, you should implement a document retention policy. Your CPA can offer his her own experience as well, based on knowledge of your industry and/or state, and can advise you with specific recommendations for records retention.

While your recordkeeping system will be unique to your business, certain subjects are universal. For most small businesses, the categories that follow make up much of their financial paperwork. Since incomplete or sloppy records in these areas can cause you major trouble and expense, getting them under control is a good place to begin.

ACCOUNTING	YEARS*
Accounts Payable Ledger	7
Accounts Receivable Aging Reports	7
Accounts Receivable Invoices	7
Accounts Receivable Ledger	7
Accounts Written-off	7
Authorization - Accounting	5
Balance Sheets	P
Bank Deposit Slips	3
Bank Reconciliations	7

ACCOUNTING	YEARS*
Bank Statements	7
Budgets	3
Canceled Checks	10
Canceled Dividend Checks	P
Cash Book	P
Cash Disbursement & Receipt Record	P
Cash Sales Slips	7
Charge Slips	7
Charts of Accounts	P



ACCOUNTING	YEARS*
Check Register	P
Expense Reports	7
Financial Statements	P
General Ledger	P
Investment - Sales/Purchases	P
Journal Entries	P
Petty Cash Records	7

ACCOUNTING	YEARS*
Profit/Loss Statements	P
Purchase Order	7
Subsidiary Ledger	P
Trial Balance	P
Vendor Invoices	7
Voucher Check Copies	7



<b>CORPORATE RECORDS</b>	<b>YEARS*</b>
Amendments	P
Annual Reports	P
Articles of Incorporation	P
Audit — Internal	6
Audit Reports — Public	P
Board of Directors — Committee	P
Board of Directors — Minute Book	P
Bylaws	P
Capital Stock Certificates	P
Capital Stock Ledger	P
Capital Stock Transactions	P
Charter	P

<b>CORPORATE RECORDS</b>	<b>YEARS*</b>
Contracts — After Termination	P
Contributions	7
Correspondence — Accounting	5
Correspondence — General	P
Dividend Register and Canceled Dividend Checks	P
Election Records	P
Financial Statements	P
Organizational Charts	P
Partnership Agreement	P
Stockholders — Minute Book	P
Stock Transfer Records	P

<b>FIXED ASSETS</b>	<b>YEARS*</b>
Depreciation Schedule	P
Inventory Records	P
Plans and Blueprints	P
Plant Cost Ledger	P

<b>FIXED ASSETS</b>	<b>YEARS*</b>
Property Appraisals	P
Property Register	P
Records for Property Subject to Depletion	P

<b>HUMAN RESOURCES</b>	<b>YEARS*</b>
Accident Reports — Settled	7
Attendance Records	7
Dental Benefits	5
Disability Benefits — After Expiration/Settlement	7
Employee Medical History	7
Employment Application — Not Hired	3
Family & Medical Leave	3
Garnishments	5
Life Insurance Benefits	5
Medical Benefits	7

<b>HUMAN RESOURCES</b>	<b>YEARS*</b>
Pension Plan Agreement	P
Performance Record — After Termination	7
Personnel Files — After Termination	7
Personnel Files — Current Employees	P
Profit Sharing Agreement	P
Safety Reports	5
Sick Pay	4
Vacation Files	4
Workers' Compensation Benefits	10

<b>INSURANCE</b>	<b>YEARS*</b>
<b>Automobile Insurance Claims</b>	<b>10</b>
<b>Disability Insurance Claims Contract— After Termination</b>	<b>7</b>
<b>Expired Insurance Policies</b>	<b>10</b>

<b>INSURANCE</b>	<b>YEARS*</b>
<b>Fire Inspection Reports</b>	<b>6</b>
<b>Insurance Appraisals</b>	<b>6</b>
<b>Safety Records</b>	<b>6</b>

<b>LEGAL</b>	<b>YEARS*</b>
<b>Bill of Sale</b>	<b>P</b>
<b>Business Permits</b>	<b>P</b>
<b>Claims and Litigation</b>	<b>P</b>
<b>Contracts</b>	<b>P</b>
<b>Copyrights</b>	<b>P</b>
<b>Correspondence — Legal</b>	<b>P</b>
<b>Deeds/Titles</b>	<b>P</b>

<b>LEGAL</b>	<b>YEARS*</b>
<b>Leases/Canceled</b>	<b>10</b>
<b>Licenses</b>	<b>P</b>
<b>Mortgages</b>	<b>P</b>
<b>Notes Receivable — Canceled</b>	<b>10</b>
<b>Patents</b>	<b>P</b>
<b>Stock and Bond Record</b>	<b>P</b>
<b>Trademarks - Registered</b>	<b>P</b>

<b>PAYROLL</b>	<b>YEARS*</b>
Checks - Payroll	7
Commission Reports — Salesperson	6
Contractors	3 years from date of completion of Contract
Employee Tip Substantiation	3, **

<b>PAYROLL</b>	<b>YEARS*</b>
Employee Withholding Exemption Certificates	10
Payroll Records — After Termination	10
Payroll Register	4
Time Reports	7
W-2 Forms	P
Vacation/Sick Pay	4

<b>TAXES</b>	<b>YEARS*</b>
Canceled Checks — Tax Payments	P
Correspondence — Tax	P
Depreciation Schedules	P
FUTA/FICA/Income Tax Withholding	4

<b>TAXES</b>	<b>YEARS*</b>
Income Tax Returns	P
Inventory Reports	P
Payroll Tax Returns	P
Sales Tax Returns	P

MISCELLANEOUS	YEARS*
Receiving Documents	10
Title Papers	P

MISCELLANEOUS	YEARS*
Vehicle Operating and Maintenance	2

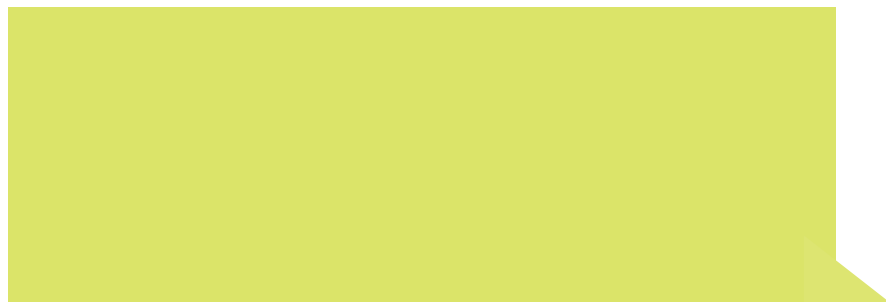
\* P = Permanent Record. Recommended document retention times from “The Record Retention Guide,” Massachusetts Society of CPAs, Inc., 2010.

\*\* As long as the contents there-of may become material in the administration of any Internal Revenue Law.

## SETTING UP YOUR BOOKKEEPING SYSTEM

Your instinct may be to just set up bookkeeping system “from a box” of purchased software or from the Cloud. However, before you set up your system, you’ll want to talk to your CPA about purchasing software that is right for your type of business and easy to use.

Your CPA can help you design the proper chart of accounts that will give you key information on your business and will save you time in the long run. If you plan to manage your books in-house, making the investment in a system that works with that of your CPA could prove to be more strategic when seeking advice and easier when it comes to closing the year end, generating financial reports and filing income tax returns.







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