



Shoe Box Bookkeeping - Is This How To Run Your Business?

Would you rather clean the bathroom then do your bookkeeping? Do terms like "straight-line depreciation," "accrual basis" and "home office deduction" cause you to break out in a cold sweat? Don't worry -- you're not alone.

Millions of small business owners dread bookkeeping. So much so, in fact, that shoebox accounting will soon be listed as a valid accounting method (not really, I made that part up). I thought that with a new fiscal year around the corner for most of us, it might be a good time for an article on how to make bookkeeping as painless as possible.

Why shoebox accounting is NOT a good idea!

If you need reasons, here are three.

1. You really have no way of knowing how well (or how poorly) your business is doing. Sure, you have an "idea." But wouldn't it be nice to really know where your money goes, and how much you've received in the last three... six... twelve months?
2. If you are ever audited, good records will make the experience proceed much more smoothly than if you hand the CRA auditor a shoe box full of paper, pennies and pocket lint.
3. If you have an accountant prepare your tax return at the end of the year, he or she will spend much less time on it (and you will save much more money) if your information is organized.

Okay, so you agree that some basic bookkeeping is probably a good idea. Now what? Below are some quick tips to help you manage the task.

Bookkeeping Tips

- Set up some basic files to help you keep track of important documents:
 1. Bank accounts, Credit Cards, Utilities, LOC, Automobile
 2. Bills to be paid from vendors and suppliers
 3. Paid invoices (by vendor for larger organizations, or tax category for smaller ones).

If your organization is small enough, consider purchasing a three-ring binder with pocket folders. Label each folder with a tax category -- auto expenses, advertising, etc. When you make a payment, file the invoice or receipt in the appropriate folder. File your tax return in the front and start a new binder each year. You now have a permanent tax record.
 4. Customer files – client files with a log for each client.

Set up a sub-file for permanent items such as agreements and contact information and another for invoices.

- Keep your personal and business expenses separate with separate bank accounts and credit cards.

- **Automate!**

Learn a basic bookkeeping application such as Intuit's QuickBooks or Microsoft Money. This will enable you to balance your bank statement with a click (or two) of the mouse. These programs are inexpensive and easy to use, and they will let you roll your year-end totals into tax software to simplify tax preparation.

- If you work from your home, don't forget to save receipts and utility bills to back up your home office deduction! Examples of items you may be able to deduct for your home office: expenses for telephone, power, water, gas. Pay only from vendor invoices; if you pay from vendor statements, you run the risk of paying again when the invoice comes in.
- Pay your bills on time to maintain good credit. Take advantage of early payment discounts only if the discount exceeds the rate you earn on money in your account.
- Use electronic bill payment if possible. You will save on stamps, envelopes and time. Most systems will let you schedule the bill to be paid at a point in the future. If paying your bills manually, prepare them when you receive them, then note the date the bill should be mailed on the outside of the envelope.
- Set aside some time each day to handle bookkeeping tasks. This will make the entire process more manageable than if you do it monthly, quarterly, etc.
- Have a basic understanding of current tax regulations so you are aware of what may qualify as a business expense and what won't. This will save you time as you prepare your return (or work with a tax professional).

This information is intended only as a guide for organizing your bookkeeping tasks. It is not accounting advice; please consult your accounting professional with any specific questions you may have.

Please keep the above information in mind when setting up a new business or organizing an existing small proprietor type business. If you are incorporated a complete set of books is required by law to be furnished.

Any questions or comments please contact Dynamic Business Solutions and we will be happy to provide the necessary guidance to get you and your business on track for accounting purposes.