



Small Business Recordkeeping

An electronic handbook
compiled and edited by
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Table of Contents

Monitor The Progress Of Your Business	1
Prepare Your Financial Statements.....	1
Identify Sources Of Your Income	1
Keep Track Of Your Deductible Expenses.....	1
Keep Track Of Your Basis In Property	1
Prepare Your Tax Return.....	2
Support Items Reported On Your Tax Returns	2
Types Of Records	2
Forrester’s Four Types Of Content	2
Transactional.....	2
Business.....	2
Persuasive.....	2
Foundational	2
A Good Record Keeping System	3
Paperwork.....	3
Electronic Filing System	3
Improved Security And Compliance	3
Instant File Retrieval	4
Disaster Resistance	4
Eliminate Paper, Save Money.....	4
How To Organize Electronic Files	5
What Kind Of Records Do I Need To Keep?	5
Supporting Business Documents.....	6
Employment Taxes.....	7
How Long Should I Keep Each Record?	8
Example Company Balance Sheet	9
ACA Member Services.....	11

Everyone in business must keep records. Keeping good records is very important to your business. Good records will help you do the following:

- Monitor the progress of your business
- Prepare your financial statements
- Identify sources of your income
- Keep track of your deductible expenses
- Keep track of your basis in property
- Prepare your tax returns
- Support items reported on your tax returns

Monitor The Progress Of Your Business

You need good records to monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes you need to make. Good records can increase the likelihood of business success.

Prepare Your Financial Statements

You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors and help you manage your business.

- An **income statement** shows the income and expenses of the business for a given period of time.
- A **balance sheet** shows the assets, liabilities, and your equity in the business on a given date.

Identify Sources Of Your Income

You will receive money or property from many sources. Your records can identify the sources of your income. You need this information to separate business from nonbusiness receipts and taxable from nontaxable income.

Keep track of your deductible expenses

Unless you record them when they occur, you may forget expenses when you prepare your tax return.

Keep Track Of Your Basis In Property

Your basis is the amount of your investment in property for tax purposes. You will use the basis to figure the gain or loss on the sale, exchange, or other

disposition of property, as well as deductions for depreciation, amortization, depletion, and casualty losses.

Prepare Your Tax Return

You need good records to prepare your tax returns. These records must support the income, expenses, and credits you report. Generally, these are the same records you use to monitor your business and prepare your financial statement.

Support Items Reported On Your Tax Returns

You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.

Types of Records

- Organizational
- Accounting
- Employee
- Tax
- Customer
- Vendor

Forrester's Four Types of Content

Transactional

- originates outside the organization
- typically related to a business process
- plays a central role in business workflow

Business

- Essential to day to day running
- Internally generated documents

Persuasive

- Marketing
- Customer self service
- Lead generation
- E-commerce

Foundational

- Loan management
- Business ID
- Major decisions
- Asset purchases

A Good Record Keeping System

- Simple to Use
- Easy to Understand
- Reliable
- Accurate
- Consistent
- Timely

Paperwork

Paperwork has been voted the biggest burden for small businesses. A four-drawer file cabinet full of paper holds 18,000 pages. The average office has 19 copies of each document, spends \$20 in labor to file each document, \$120 in labor searching for each misfiled document, loses one out of every 20 documents, and spends 25 hours recreating each lost document. (Pricewater House)

Electronic Filing System

An electronic filing system can help your organization in many ways. Discover some of the benefits of making the switch.

If you're still using the traditional paper filing method, the time has come to consider making the switch to an electronic filing system. Maybe your office is old school? Or maybe your boss just needs a little push in the right direction? Whatever the reason for keeping all of that paper around, take a moment to discover some of the benefits of implementing an electronic filing system in your office.

Improved Security And Compliance

One of the great advantages of an electronic filing system is having the ability to keep files indexed. This means that each document entered into the system is categorized and registered according to specific properties (that your business can define). For example, an HR department may categorize each document by which employee it corresponds to, along with the type of document it is (I-9, W-2, Performance Review, etc) and maybe an expiration date for when that document needs to be renewed or updated. In this way, you are given full control over which employees are able to access specific information. Maybe managers can only access things like attendance records and performance reviews, but your HR director has much broader access permissions.

Whatever business rules may apply in your department and specific situation, an electronic filing system makes it easy to implement those SOP's directly into the system. Taking it a step further, most electronic filing systems include additional

security features that automate compliance. For example, an audit trail is a feature that runs in the background, tracking every action that a user takes within the system, as well as every action performed by the system. This is an important compliance feature for many industries and departments. Password protection, version control and secure file sharing are also features built in too many electronic filing systems that help you comply with regulations automatically.

Instant File Retrieval

The beauty of an electronic filing system is that, since your documents are indexed, file retrieval becomes instantaneous. If you want to pull up the entire file folder for a specific client or employee, don't go rummaging through your filing cabinet; simply begin typing their name into the system. Instantly, you will have their file at your fingertips. What makes this even more powerful is the ability to run a cross-reference search. For example, maybe you want to pull up all performance reviews for all employees since 1/1/2012. Simply leave the employee name field blank, select "performance review" as your document type and limit the date range. You can immediately see how powerful this kind of cross reference search can be for on-the-fly reports, audits, etc.

Disaster Resistance

If you're using a paper filing system, what happens if your office is damaged? You must be very careful to keep backups of all of your files in a separate location - just in case. A disaster, fire, flood or even poor plumbing can result in the loss of your business critical documentation. Electronic systems help keep your files safe in the event of a disaster by using automatic backups. At the end of each day, every document in your system can be automatically synced to a backup drive that resides in a different physical location (maybe one of your satellite offices or a professional data center). This ensures that in the event of a disaster, you can be confident your files are safe.

Eliminate Paper, Save Money

By switching to an electronic filing system you will significantly reduce your office's paper production. This is a good thing for the environment, but also a great thing for your budget. Taking your traditionally paper-based processes to the digital world means reduced lag time, better productivity and ultimately, lower costs for the company. There is no longer a need for paper, ink, filing cabinets, over-nighting time-sensitive documents, etc. All of your document management can be done directly from your electronic filing system. And, with the integration of electronic signatures and online forms, you can truly go paperless with very little effort.

How to Organize Electronic Files

- Mirror Your Paper File
 - a. Have a main folder
 - b. Create a sub-folder
 - c. Then individual files for
 - Billing statements
 - Project notes
 - Email communications
- Create a Naming Convention
 - a. Use names and dates such as Smith_Proposal_7-19-19
 - b. In alphabetical order for easy retrieval
- Clean Out Regularly
 - a. Go through your files once or twice a year to purge anything that has become:
 - Outdated
 - Obsolete
 - Or irrelevant
 - b. Ask yourself why before you save it
 - c. You don't need to keep every email notice & solicitation
 - d. Just save those emails that you will refer back to in the future
- Back Up Regularly
 - a. At least once a week, save all of your files to an
 - External hard drive
 - Disk
 - Online backup service

What Kind of Records Do I Need to Keep?

You may choose any recordkeeping system suited to your business that clearly shows your income and expenses. The business you are in affects the type of records you need to keep for federal tax purposes. Your recordkeeping system should include a summary of your business transactions. This summary is ordinarily made in your business books (for example, accounting journals and ledgers). Your books must show your gross income, as well as your deductions and credits. For most small businesses, the business checking account is the main source for entries in the business books.

Some businesses choose to use electronic accounting software programs or some other type of electronic system to capture and organize their records. The electronic accounting software program or electronic system you choose should meet the same basic recordkeeping principles mentioned above. All requirements that apply to hard copy books and records also apply to electronic

records. For more detailed information refer to Publication 583, Starting a Business and Keeping Records.

Supporting Business Documents

Purchases, sales, payroll, and other transactions you have in your business will generate supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents contain the information you need to record in your books. It is important to keep these documents because they support the entries in your books and on your tax return. You should keep them in an orderly fashion and in a safe place. For instance, organize them by year and type of income or expense.

The following are some of the types of records you should keep:

Gross receipts are the income you receive from your business. You should keep supporting documents that show the amounts and sources of your gross receipts. Documents for gross receipts include the following:

- Cash register tapes
- Deposit information (cash and credit sales)
- Receipt books
- Invoices
- Forms 1099-MISC

Purchases are the items you buy and resell to customers. If you are a manufacturer or producer, this includes the cost of all raw materials or parts purchased for manufacture into finished products. Your supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following:

- Canceled checks or other documents that identify payee, amount, and proof of payment/electronic funds transferred
- Cash register tape receipts
- Credit card receipts and statements
- Invoices

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and a description that shows the amount was for a business expense. Documents for expenses include the following:

- Canceled checks or other documents that identify payee, amount, and proof of payment/electronic funds transferred

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- Cash register tapes
 - Account statements
 - Credit card receipts and statements
 - Invoices
 - Petty cash slips for small cash payments

Travel, Transportation, Entertainment, and Gift Expenses

If you deduct travel, entertainment, gift or transportation expenses, you must be able to prove (substantiate) certain elements of expenses. For additional information, refer to Publication 463, Travel, Entertainment, Gift, and Car Expenses.

Assets are the property, such as machinery and furniture, that you own and use in your business. You must keep records to verify certain information about your business assets. You need records to compute the annual depreciation and the gain or loss when you sell the assets. Documents for assets should show the following information:

- When and how you acquired the assets
- Purchase price
- Cost of any improvements
- Section 179 deduction taken
- Deductions taken for depreciation
- Deductions taken for casualty losses, such as losses resulting from fires or storms
- How you used the asset
- When and how you disposed of the asset
- Selling price
- Expenses of sale

The following documents may show this information.

- Purchase and sales invoices
- Real estate closing statements
- Canceled checks or other documents that identify payee, amount, and proof of payment/electronic funds transferred

Employment Taxes

There are specific employment tax records you must keep. Keep all records of employment for at least four years. For additional information, refer

to Recordkeeping for Employers and Publication 15, Circular E Employers Tax Guide.

How Long Should I Keep Each Record?

Payroll Records	
Checks -Payroll	7
Commission Reports - Salesperson	6
Contractors	3 *
Employee Tip Substantiation	3 **
Employee Withholding Exemption Certificates	10
Payroll Records - After Termination	10
Payroll Register	4
Time Reports	7
W-2 Forms	P
Vacation/Sick Day	4

Insurance Records	
Automobile Insurance Claims	10
Disability Insurance Claims - After Termination	7
Expired Insurance Policies	10
Fire Inspection Reports	6
Insurance Appraisals	6
Safety Records	6

Human Resources Records	
Accident Reports - Settled	7
Attendance Records	7
Dental Benefits	5
Disability Benefits	7
Employee Medical History	7
Employment Application History - Not Hired	3
Family & Medical Leave	3
Garnishments	5
Life Insurance Benefits	5
Medical Benefits	7
Pension Plan Agreement	P
Performance Record After Termination	7
Personnel Files After Termination	7
Personnel Files – Current	P
Profit Sharing Agreement	P
Safety Reports	5
Sick Pay	4
Vacation Files	4
Workers' Compensation Benefits	10

Tax Records	
Cancelled Checks - Tax Payments	P
Correspondence - Tax	P
Depreciation Schedules	P
FUTA/FICA/Income Tax Withholding	4
Income Tax Returns	P
Inventory Reports	P
Payroll Tax Returns	P
Sales Tax Returns	P

Miscellaneous Records	
Receiving Documents	10
Title Papers	P
Vehicle Operating and Maintenance	2

P- Permanent Record * From date of completion of contract ** as long as the contents there-of may become material in the administration of any Internal Revenue Law

Example Company Balance Sheet

Example Company Balance Sheet December 31, 2018

ASSETS

Current assets	
Cash	\$ 2,100
Petty cash	100
Temporary investments	10,000
Accounts receivable - net	40,500
Inventory	31,000
Supplies	3,800
Prepaid insurance	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accum depreciation	(56,000)
Prop, plant & equip - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Trade names	<u>200,000</u>
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u>\$ 770,000</u>

LIABILITIES

Current liabilities	
Notes payable	\$ 5,000
Accounts payable	35,900
Wages payable	8,500
Interest payable	2,900
Taxes payable	6,100
Warranty liability	1,100
Unearned revenues	1,500
Total current liabilities	<u>61,000</u>
Long-term liabilities	
Notes payable	20,000
Bonds payable	<u>400,000</u>
Total long-term liabilities	<u>420,000</u>
Total liabilities	<u>481,000</u>

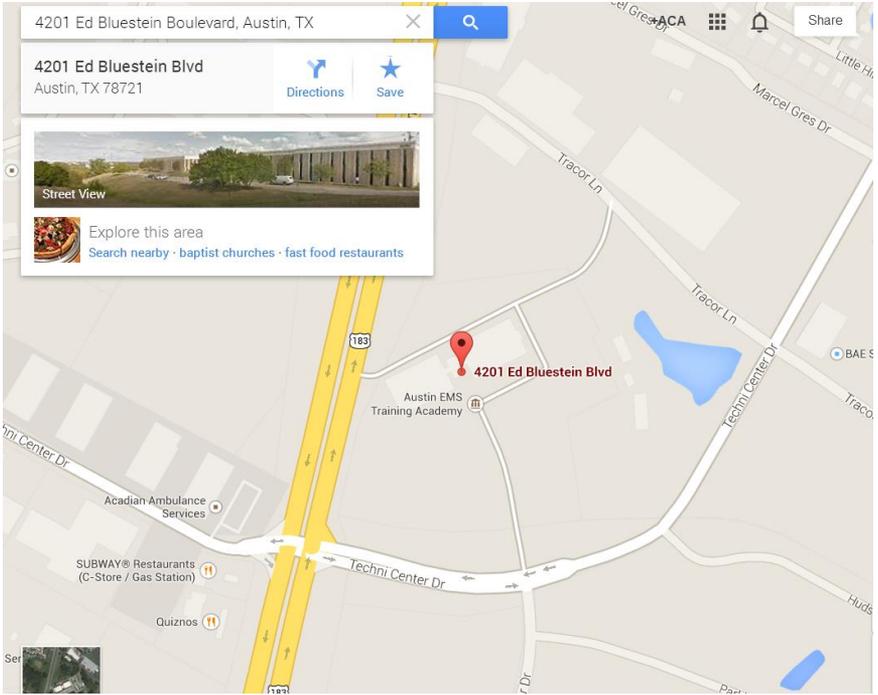
STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The notes to the sample balance sheet have been omitted.

Sources:

Accounting Coach
 NAPO (National Association of Productivity & Organizing
 Organized Joy LLC
 SMEAD



ACA Member Services

1. Business and Technical Consultation
2. Minority Business Enterprise Certification Application, Renewal and Profile Change Process
3. Asian Subcontractor/Sub-consultant Referral Services
4. Upcoming Bid/Event Notifications
5. How to Use COA Austin Finance Online
6. Plans Room Services
7. Plan Reading, Cost Estimating Consultation (RSMeans)
8. Proposal Writing and Bid Submission
9. Assist Vendors in Navigating City Procurement Processes
10. Contract Compliance and Contract Review
11. M/WBE Program Ordinance and Compliance Plan Orientation
12. Translations
13. Liaison Services Between Vendors and City Departments
14. Research Assistance in Current and Past City Solicitations and Winning Proposals
15. Collective Representation to Improve Asian Vendor Utilization

Asian Contractor Association

A non-profit organization serving Asian businesses
in the Greater Austin Metro Area since 2001

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