Recordkeeping for Small Business

Alberta Economic Development and Tourism
Foreword

Recordkeeping for Small Business is designed to provide a general introduction to the basics of recordkeeping.

It is one in a series of guides which has been developed and published by Alberta Economic Development and Tourism (ED&T) to assist small business owner/operators in Alberta. The other guides are the following:

- Starting a Small Business
- Starting a Home-Based Business
- Marketing for Small Business
- Managing a Small Business
- Financial Planning for Small Business

These publications are available at all ED&T offices listed in the back of this publication.

Before setting up or changing your recordkeeping system, you may wish to consult with an accountant, lawyer, business mentor, business management consultant, government agency, educational institution, business or other association suitable to your type of business.

Various federal, provincial, and municipal agencies also provide counselling and advice on recordkeeping for small business. Please check for services in your area.
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INTRODUCTION

While not the most exciting or creative aspect of running a small business, recordkeeping is nevertheless a critical part of your business operations. Recordkeeping need not be overly time consuming, if properly organized and done on a regular basis.

The Importance of Clear and Accurate Records

Keeping clear and accurate records will contribute to your business success in the following ways:

- More easily prepare your financial statements
- More easily assess your business’ financial situation
- Control your cash
- Measure actual business performance against your original projections and goals
- More quickly recognize new problems, challenges, and opportunities as they arise
- Keep close track of business operations, including the performance of your employees
- Make more informed business decisions
- Have quick access to important information
- Save time and effort
- Fulfill your recordkeeping obligations under Canadian tax laws and other government regulations

How to Set Up Your Recordkeeping System

The key to turning your business records into a valuable management resource is organization. An effective recordkeeping system is easily recognized as the following:

- Uncomplicated, logical and user-friendly
- Thorough and accurate
- Easily accessible
- Integrated into your daily business routine
- Consistent with the size and nature of your business

This publication is intended to help you set up an easy-to-use recordkeeping system. In One, you will learn a simple bookkeeping method that will keep track of all your daily business transactions and help you prepare financial statements. Two deals with how to set up a payroll system for your employees and how to track their work performance. Three looks at other forms of recordkeeping, including inventory, safety, and customer service records.
There are many other sources from which you can get additional help and advice regarding setting up your recordkeeping system:

1. A professional accountant or bookkeeper, as well as your banker, can help you determine the best way to set up your records in order to meet both the needs of your particular business and your legal responsibilities under Canadian tax law and other government regulations.

2. The business sections of libraries and bookstores also contain valuable information on setting up and keeping your records.

3. If your business has a personal computer, there are many excellent recordkeeping and bookkeeping packages available.

4. Revenue Canada Taxation provides several useful booklets that cover many of the taxation issues and recordkeeping requirements for new small businesses.
One: Bookkeeping

Bookkeeping can be defined simply as keeping daily records of business financial transactions. These records include a daily cash sheet, accounts receivable and accounts payable ledgers, and a synoptic (combined) ledger. “Synoptic” is derived from the Greek word meaning to “see everything at once”. A synoptic ledger is sometimes referred to as a combined journal, a combined ledger, or a general ledger. Each of these ledgers will be discussed in some detail later in this chapter.

Though few people actually look forward to posting entries in the various ledgers, if your day-to-day bookkeeping is put off or ignored, it could become unmanageable and inaccurate. If you don’t have the time, the inclination, or the aptitude to do it yourself, discuss the problem with your accountant and find an affordable and satisfactory solution.

It is important that you make a habit of bookkeeping every day, perhaps every morning with your coffee. It only takes a few minutes, and it will help you to make better informed business decisions.

*Bookkeeping records are kept for three main reasons:*

1. To keep track of your business’ money, particularly if you are in a business where a significant amount of cash is involved on a day-to-day basis.

2. To keep track of your business’ daily, weekly, and monthly financial performance, as necessary, and to assess whether this performance is meeting your expectations, projections, and goals.

3. To provide your accountant, if you plan to use one, with the necessary information to quickly and accurately prepare your income tax returns and to produce financial statements as required under Canadian tax law. The Income Tax Act states that you must file a balance sheet and an income statement each taxation year. For more information on financial statements, refer to ED&T’s *Financial Planning for Small Business*.

**Hiring an Accountant**

Because of the complexities of today’s business world, many small businesses hire accountants. Your accountant will help you set up a bookkeeping system that allows easy access to the information needed to do the following: prepare your financial statements, do tax planning for your business, and complete your income tax returns.

Some accountants have professional designations, others do not. In Alberta, chartered accountants (C.A.’s), certified general accountants (C.G.A.’s), certified management accountants (C.M.A.’s) or registered public accountants (R.P.A.’s) all belong to associations which govern conduct, set uniform exams and qualification standards, and keep their members informed of developments within the industry.
Choosing an accountant who’s right for you and your business is an important business decision. Ask other small business owners who their accountants are and if they are happy with them. In addition, the Institute of Chartered Accountants, the Certified General Accountants Association of Alberta, and the Society of Management Accountants of Alberta all provide a referral service.

Remember that accountants are highly skilled professionals, and they charge accordingly. Having your accountant do the day-to-day bookkeeping for your business is not an efficient use of their time or your money. Anything you can do to save their time will reduce your accounting costs.

You can maximize the value of your accountant’s time by following this procedure:

**Step One** - Ask your accountant to outline what records you should keep and how you should maintain them.

**Step Two** - Decide who will do the basic, day-to-day bookkeeping for your business. You can do one of the following:
- do it yourself
- assign it to another staff member
- hire an outside bookkeeper, usually on a part-time basis

**Step Three** - Provide your accountant with your bookkeeping records so they can complete the highly skilled tasks of preparing your financial statements and tax returns.

Your bookkeeping records should include a daily cash sheet, an accounts receivable ledger, an accounts payable ledger, and a synoptic (general) ledger.

**Your Daily Cash Sheet**

If your business makes sales on a daily basis, then you need controls on the cash received. It’s your money, so learn how to protect it. Remember the term “cash” also includes cheques, money orders, and credit card slips.

Inadequate cash records can result in the following:
- A recordkeeping and accounting headache
- Added time and expense preparing financial statements
- Overpayment (or underpayment) of income tax
- Employee dishonesty

Sales should be recorded on a cash sheet, such as in the example which follows.
Sample Daily Cash Sheet

Date: October 1, 1995

<table>
<thead>
<tr>
<th>A. Opening Balance</th>
<th>100.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>B. Collections:</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>425.00</td>
</tr>
<tr>
<td>Less: Sales on Account</td>
<td>-110.00</td>
</tr>
<tr>
<td>Net Cash Sales</td>
<td>315.00</td>
</tr>
<tr>
<td>GST</td>
<td>22.05</td>
</tr>
<tr>
<td>Accounts Receivable Collected</td>
<td>250.00</td>
</tr>
<tr>
<td>Less: Sales Returns</td>
<td>-15.00</td>
</tr>
<tr>
<td>GST on Returns</td>
<td>-1.05</td>
</tr>
<tr>
<td>Total Cash Received Today</td>
<td>571.00</td>
</tr>
<tr>
<td></td>
<td>571.00</td>
</tr>
<tr>
<td>C. Total Cash Available (A+B)</td>
<td>671.00</td>
</tr>
<tr>
<td>D. Cash Paid Out Today</td>
<td></td>
</tr>
<tr>
<td>Petty Cash</td>
<td>5.00</td>
</tr>
<tr>
<td>Miscellaneous Purchases</td>
<td>120.00</td>
</tr>
<tr>
<td>Total Paid Out Today</td>
<td>125.00</td>
</tr>
<tr>
<td></td>
<td>125.00</td>
</tr>
<tr>
<td>E. Net Cash (C-D)</td>
<td>546.00</td>
</tr>
<tr>
<td>F. Actual Cash Count</td>
<td>545.00</td>
</tr>
<tr>
<td>G. Cash Short or Over</td>
<td>-1.00</td>
</tr>
<tr>
<td>H. Opening Float Tomorrow</td>
<td>99.00</td>
</tr>
<tr>
<td>I. Bank Deposit (F-H)</td>
<td>445.00</td>
</tr>
</tbody>
</table>

In this example, total cash available (C) was calculated by adding the opening float (A) to the cash sales and other cash collected (B). Total cash available came to $671. During the course of the day, $125 was used for expenses and purchases (D), leaving $546 net cash (E).

When the actual cash was counted (F), there was only $545, leaving a cash discrepancy of -$1. A $99 opening float for the following day (H) was kept on hand, and $445 was deposited in the bank.
Bookkeeping

Your daily cash sheet must account for all the cash that flows into the business each day. Don’t get excited if you are out only small amounts on a given day. If there are larger discrepancies or consistent shortages, then you need to determine the cause and correct it.

The frequency of bank deposits will depend on both the amount of cash collected and your proximity to the bank. All banks maintain a 24-hour deposit service. Do not keep large amounts of cash on hand.

If your local stationery stores do not carry daily cash sheets closely resembling our example, check with other stores, or make one yourself and either have it photocopied or printed at your local printers. Remember, you will be using one every day, so make sure you run off at least several hundred at a time.

Your Accounts Receivable Ledger

If your business sells to customers on credit, then you should have a separate accounts receivable ledger. Customers receiving credit should each be assigned a page (or pages) in the ledger, and their names should be arranged alphabetically.

The following is a sample page from an accounts receivable ledger. This type of ledger is inexpensive to buy and is available at most stationery stores.

Sample Accounts Receivable Ledger

Customer Name: Customer, John
Address: 1604 Pine Street, Anywhere, AB.
Phone: 123-4567
Credit References: Main Bank
Credit Limit: $500

<table>
<thead>
<tr>
<th>Date</th>
<th>Reference</th>
<th>Charges</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 14, 1995</td>
<td>Invoice #7145</td>
<td>110.00</td>
<td></td>
<td>110.00</td>
</tr>
<tr>
<td>November 2, 1995</td>
<td>Credit return</td>
<td></td>
<td>12.00</td>
<td>98.00</td>
</tr>
<tr>
<td>December 5, 1995</td>
<td>Invoice #7216</td>
<td>342.00</td>
<td></td>
<td>440.00</td>
</tr>
<tr>
<td>December 31, 1995</td>
<td>Cheque #924</td>
<td></td>
<td>200.00</td>
<td>240.00</td>
</tr>
</tbody>
</table>

Each customer’s name, address, telephone number, credit references, and credit limit should appear clearly at the top of each page. A credit limit is set to ensure excessive amounts of credit are not given.

The rest of the page is used to record the credit business you have conducted (and are conducting) with this customer. In this example: the customer charged $110 on October 14, returned $12 of the merchandise on November 2, charged an additional $342 on December 5, and mailed a payment cheque for $200 on December 31. This left a balance owing of $240.
Each month your accounts receivable should be “aged” according to the date of the invoice. This means that each of your customer accounts should be listed according to the amounts owing in the current (1-30 days), over 30 days, over 60 days, and over 90 days categories.

This will immediately show you which accounts are overdue and which require extra follow up. If you are using accounts receivable as security for a line of credit from a chartered bank, the bank will almost certainly request an aged list of accounts receivable each month.

Sample Aged List of Accounts Receivable

Date: September 20, 1995

<table>
<thead>
<tr>
<th>Customer</th>
<th>Current</th>
<th>Over 30 days</th>
<th>Over 60 days</th>
<th>Over 90 days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abigail Apple</td>
<td>16.50</td>
<td>64.18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bruce Biscuit</td>
<td>3532.82</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>John Customer</td>
<td>240.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fly by Night Airlines</td>
<td></td>
<td></td>
<td></td>
<td>416.00</td>
</tr>
<tr>
<td>Semi-Slow Payers Ltd.</td>
<td>64.50</td>
<td>82.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rubber Cheque Co.</td>
<td>10.40</td>
<td>61.10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>266.90</td>
<td>3661.50</td>
<td>82.10</td>
<td>477.10</td>
</tr>
</tbody>
</table>

This example shows two accounts in the over 90 day column. After exhausting normal effort to collect on these receivables, they may have to be written off as bad debts. Additional credit should not be given on such accounts. Before taking any action, however, confirm that these accounts are actually overdue, and aren’t still on the books due to some clerical or accounting error on your part. Both you and your bank should take note of which accounts are delinquent and what percentage of total receivables they represent.
Your Accounts Payable Ledger

Each supplier from whom your business purchases goods or services for later payment should have a separate page (or pages) in your accounts payable ledger. The names of these suppliers should be arranged alphabetically and filed in a separate book or binder.

This type of ledger is inexpensive to buy and is available at most stationery stores. The following is a sample page from an accounts payable ledger.

Sample Accounts Payable Ledger

Name: ABC Company
Address: 123 Fir Street, Anywhere, AB.
Phone: 456-7890
References (contacts): My Bank

<table>
<thead>
<tr>
<th>Date</th>
<th>Reference</th>
<th>Charges</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 13, 1995</td>
<td>Invoice #6901</td>
<td>910.00</td>
<td>910.00</td>
<td></td>
</tr>
<tr>
<td>November 7, 1995</td>
<td>Invoice # 7214</td>
<td>312.00</td>
<td>12222.00</td>
<td></td>
</tr>
<tr>
<td>November 30, 1995</td>
<td>Cheque #214</td>
<td>416.00</td>
<td>806.00</td>
<td></td>
</tr>
</tbody>
</table>

As you can see from this example, an accounts payable ledger looks very similar to an accounts receivable ledger. In this example, your business charged $910 worth of merchandise on October 13, and a further $312 on November 7. On November 30, you send a payment cheque of $416, leaving you a balance owing of $806.

You can see at a glance how much you owe each supplier and when the last cheque was sent. Any disputes regarding payment (or non-payment) of invoices can be quickly solved if you maintain up-to-date accounts payable records.

To find the total owing to all your suppliers, add the balances owing to each supplier.

Your Synoptic (General) Ledger

Bookkeeping records can be combined or condensed to give you better control of your records. In fact, many small businesses have only one journal or ledger. This is called their synoptic ledger.

The number of columns the ledger will have depends on the scope of your business and how often the various transactions occur. A typical synoptic ledger is used in the following example and is available at most stationery stores at a reasonable cost. Pages can be continually added, thus the ledger will last for an indefinite period of time, regardless of the numbers of entries made.
## Sample Synoptic Ledger

<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>Bank</th>
<th>Sales</th>
<th>Accts Receivable</th>
<th>Accts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In</td>
<td>Out</td>
<td>Bal</td>
<td>Chg</td>
<td>Payment</td>
</tr>
<tr>
<td>1</td>
<td>Bal Fwd.</td>
<td>100</td>
<td>2118</td>
<td>4457</td>
<td>3471</td>
</tr>
<tr>
<td>2</td>
<td>Oct 13 Daily Cash Sheet</td>
<td>571</td>
<td>99</td>
<td>445</td>
<td>2563</td>
</tr>
<tr>
<td>3</td>
<td>Cash Over</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>ABC Co.</td>
<td></td>
<td></td>
<td></td>
<td>910</td>
</tr>
<tr>
<td>5</td>
<td>Smith &amp; Co.</td>
<td>712</td>
<td>1851</td>
<td>712</td>
<td>3669</td>
</tr>
<tr>
<td>6</td>
<td>Stanley Landlord</td>
<td>500</td>
<td>1351</td>
<td>500</td>
<td>1351</td>
</tr>
<tr>
<td>7</td>
<td>Receiver General</td>
<td>312</td>
<td>1039</td>
<td>312</td>
<td>1039</td>
</tr>
<tr>
<td>8</td>
<td>Equip. Sales Ltd.</td>
<td>400</td>
<td>639</td>
<td>400</td>
<td>639</td>
</tr>
<tr>
<td>9</td>
<td>Larry Jones</td>
<td>275</td>
<td>364</td>
<td>275</td>
<td>364</td>
</tr>
<tr>
<td>10</td>
<td>NSF C. Bouncing</td>
<td>21</td>
<td>343</td>
<td>21</td>
<td>4348</td>
</tr>
<tr>
<td>11</td>
<td>NSF I. Seeyalater</td>
<td>38</td>
<td>305</td>
<td>38</td>
<td>4386</td>
</tr>
</tbody>
</table>

**Line 1.** Since we are assuming this is an existing business, there are balances to carry forward.

Cash on hand to start the day's business was $100.00  
Balance at the bank was $2118  
Total accounts receivable were $4457  
Total accounts payable were $3471

The columns for accounts payable and accounts receivable act as a control for your accounts payable and accounts receivable ledgers. In this example, all of the individual accounts in the accounts receivable ledger should total $4457, and similarly the payables should total $3471.

**Line 2.** All relevant numbers from the daily cash sheet are entered into the synoptic ledger each day. Check the sample daily cash sheet to see the source of these numbers.

**Line 3.** Each day, there may be cash left over or cash short. This number comes from the daily cash sheet and is treated either as other income or as miscellaneous expense.

**Line 4.** Goods were received from ABC business totalling $910. Accounts payable increased by $910, as did the amount owing to ABC business in the accounts payable ledger. A further $910 entry is made under the purchases column, to show that it was a purchase not an expense.
Line 5. Cheque #47 in the amount of $712 was sent to Smith & Business to pay for merchandise that had been previously charged. This reduces the accounts payable by $712. A corresponding entry for the $712 payment is also made on the Smith & Business page in the accounts payable ledger. The bank balance is also reduced by $712.

Line 6. Cheque #48 was written to Stanley Landlord to cover the August rent of $500. A brief notation describes the expense. As with all cheques written on the business account, the bank balance is also reduced by the corresponding amount.

Line 7. Cheque #49 remitted the employee payroll deductions to the Receiver General. (Payroll will be covered in chapter Three of this guide.)

Line 8. Cheque #50 was used to purchase $400 worth of equipment from Equipment Sales Ltd.

Line 9. Cheque #51 was given to employee Larry Jones for a week's wages. (Payroll and employees are discussed in chapter Three.)

Line 10. Let's assume Mr. C. Bouncing, one of your regular charge customers, has written a cheque for $21 which your bank has returned NSF (not sufficient funds). Take the $21 out of your bank balance and show your accounts receivable increasing by the same amount. Also add the $21 to Mr. Bouncing's account in the accounts receivable ledger.

Line 11. Let's assume Mr. I. Seeyalater, not one of your regular charge customers, has written an NSF cheque of $38. Take the $38 out of the bank balance and show it as a miscellaneous expense. Should Mr. Seeyalater make good on his payment at some later date, this will appear in your daily cash sheet, and the synoptic column for miscellaneous expenses would show a negative amount of $38, indicating that the expense had been recovered.

This would conclude your synoptic entries for October 13. The next day, the same procedure would be repeated.

Petty Cash

Many companies make petty cash available for small, miscellaneous day-to-day expenses. A cheque is made payable to petty cash and is written up as a miscellaneous expense in the synoptic ledger. The money from the cheque is placed in a cash box, and cash is withdrawn as needed for items such as postage or coffee.

Always get a receipt when you use petty cash. If this is not possible, place a note stating what the money was used for in the cash box with other receipts. Cash and receipts in the cash box should always total the amount of the petty cash float. Each time you replenish the cash, remove the receipts, categorize them, and place them in a petty cash receipts envelope.

GST Records

Your business will also have to keep accurate GST records. As the following example shows, this is simply a matter of keeping track, on a daily basis, of the GST collected and the GST paid.
# Samples of GST Records

1. You owe GST

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Cash In</th>
<th>Cash Out</th>
<th>GST Collected</th>
<th>GST Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 2</td>
<td>Antique Bath</td>
<td>10700</td>
<td></td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Mar. 4</td>
<td>Heating fuel</td>
<td></td>
<td>321</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Mar. 6</td>
<td>Reception desk</td>
<td></td>
<td>428</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Mar. 8</td>
<td>Install Shower</td>
<td>1284</td>
<td></td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Mar. 15</td>
<td>Telephone</td>
<td></td>
<td>107</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Mar. 16</td>
<td>Install plumbing</td>
<td>32100</td>
<td></td>
<td>2100</td>
<td></td>
</tr>
<tr>
<td>Mar. 20</td>
<td>Gas trucks</td>
<td></td>
<td>1070</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Mar. 22</td>
<td>Accounting fees</td>
<td></td>
<td>214</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Mar. 28</td>
<td>Repair trucks</td>
<td></td>
<td>321</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>2884</strong></td>
<td><strong>161</strong></td>
</tr>
</tbody>
</table>

2. GST refund due

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction</th>
<th>Cash In</th>
<th>Cash Out</th>
<th>GST Collected</th>
<th>GST Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 2</td>
<td>Antique Bath</td>
<td>10700</td>
<td></td>
<td>700</td>
<td></td>
</tr>
<tr>
<td>Mar. 4</td>
<td>Heating fuel</td>
<td></td>
<td>321</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Mar. 6</td>
<td>Reception desk</td>
<td></td>
<td>428</td>
<td>28</td>
<td></td>
</tr>
<tr>
<td>Mar. 8</td>
<td>Install Shower</td>
<td>1284</td>
<td></td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Mar. 15</td>
<td>Telephone</td>
<td></td>
<td>107</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Mar. 16</td>
<td>Install plumbing</td>
<td>32100</td>
<td></td>
<td>2100</td>
<td></td>
</tr>
<tr>
<td>Mar. 20</td>
<td>Gas trucks</td>
<td></td>
<td>1070</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Mar. 22</td>
<td>Accounting fees</td>
<td></td>
<td>214</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Mar. 28</td>
<td>Purchase trucks</td>
<td>53500</td>
<td></td>
<td>3500</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>2884</strong></td>
<td><strong>3640</strong></td>
</tr>
</tbody>
</table>
In the first example, the amount of GST collected exceeds the amount paid. At the end of the business quarter, the business remits the difference to the government. In the second example, all the transactions are the same, except for a major purchase of two service trucks. Here, the GST paid exceeds that collected, so the business is due a GST refund.

You can also record the GST you collect or pay on your synoptic ledger. As with all tax records, all relevant GST books and records must be kept for six years.

**Balancing Your Books**

For your books to balance,

1. Daily cash and bank columns on your synoptic ledger should agree with bank records. For example, the amount entered on your daily cash sheet should equal the amount of money deposited in the bank. And the amount of money your synoptic ledger says you have in the bank, after all debits and credits to your bank account are recorded, should be the same as what you actually have in the bank (with bank adjustments). Your bank balance as shown on your synoptic ledger can be verified each month when you receive your bank statement and cancelled cheques.

2. Both your accounts payable and your accounts receivable ledgers should agree with entries in your synoptic ledger. For example, at any given time, the total amount owing your business from customers listed in your accounts receivable ledger should equal the accounts receivable amount listed in your synoptic ledger.

There is nothing magical or difficult about balancing your books. In fact, there's nothing else your books can do but balance if you write down every transaction as described throughout this chapter.

*Here's a few final reminders. When keeping your synoptic ledger, make sure you do the following:*

- Transfer all items from your daily cash sheet
- Remember to post the cash over or cash short
- Enter (post) all changes made in your accounts payable and accounts receivable ledgers
- Post and explain all cheques written
- Write notes on the ledger (to yourself and your accountant) when necessary

**Bank Reconciliation**

To prevent you from writing NSF cheques, and to enable you to identify excess funds that you can use to reduce your accounts payable, it is important that you are at all times “reconciled” with the bank. To be reconciled with your bank simply means that you know the “true” amount of your bank balance at all times, including between bank statements. If your synoptic ledger is up-to-date, it will give you an accurate daily record of your reconciled bank account.
Two: Payroll and Personnel Records

Payroll Records

All but the smallest businesses will, at some point in time, have employees besides the owners. Federal law requires that, as an employer, you must collect, on behalf of the government, Unemployment Insurance premiums, Canada Pension Plan contributions, and personal income taxes.

To keep track of employee payroll, you will need the following:

1. A log book to record the hours your employees worked, their gross pay, and the amount of payroll deductions that you made. You can find these types of payroll books at most stationery stores.

2. The appropriate forms from Revenue Canada, including Payroll Deductions Tables.

Calculating Payroll Deductions

Suppose your business has ten employees you pay by the week. One of your employees, Larry Jones, worked 40 hours for your business at a rate of pay of $10 per hour.

Calculating his gross pay and payroll deductions involves the following steps:

1. First, you calculate his gross pay for the week as $400. (40 hours x $10 per hour.)

2. Turning to your source deduction tables, you can determine the amount of his payroll deductions on his weekly earnings of $400. Let’s assume his Canada Pension Plan (CPP) deduction is $10 and his Unemployment Insurance (UIC) deduction is $15.

3. Income tax is deducted on taxable income, not on gross income. Larry’s taxable income is therefore $375 ($400 gross pay minus $10 CPP and minus $15 UIC).

4. The income tax deduction table tells you that on $375 of weekly taxable income, $100 must be deducted for income tax.

5. Larry’s total deductions are therefore $125 ($10 CPP, $15 UIC, and $100 income tax).

6. Larry’s net income (and the amount of the cheque that you will write him) is $275 (that is $400 gross pay minus a total of $125 payroll deductions).

You must enclose a payroll record with your employee’s cheque. Payroll records, much like the sample payroll record that follows, are available at stationery stores. They give your employees a record of deductions made on their behalf.
Sample Payroll Record

Employee: Larry Jones  Week of: October 4-11, 1995

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>400</td>
</tr>
<tr>
<td>Overtime</td>
<td>0</td>
</tr>
<tr>
<td>Holiday Pay</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Wages</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>

Deductions:

<table>
<thead>
<tr>
<th>Deduction</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Pension Plan</td>
<td>10</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>15</td>
</tr>
<tr>
<td>Income Tax</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total deductions</strong></td>
<td><strong>125</strong></td>
</tr>
</tbody>
</table>

Net wages: 275

Calculating Employer Contributions

As an employer, you must also make Canada Pension Plan and Unemployment Insurance contributions on behalf of your employees. Your responsibilities are the following:

- Match the total of all your employees’ CPP contributions
- Pay 1.4 times the total of all your employees’ UIC contributions (for example, if the monthly total is $100, you would be required to pay $140)

How and When to Pay Revenue Canada

Every employer is required by law to remit employee payroll deductions, plus employer contributions, no later than the 15th day of the month following the month in which the employee was paid. Penalties will be incurred if payment is made late.

If you are a new employer, you must contact Revenue Canada to obtain an employer’s remittance number and the appropriate forms. However, do not delay the remittance until you obtain an employer number. Instead, send a certified cheque or money order, payable to the Receiver General for Canada, to your district taxation office. Include a letter explaining that this is a new remittance and stating the pay period covered.
Health Care Premiums

All employers with five or more employees including owners and partners, are required to form an employee group for payroll deductions of medicare premiums. These medicare deductions should be recorded in your employee log book and on the employee’s payroll record. For more information, contact Alberta Health.

Workers’ Compensation Payments

To ensure that workers are compensated when they are injured at work, employers must contribute funds on behalf of their employees to the Workers’ Compensation Board. Payment amounts vary depending on the employer’s payroll and the risk associated with the type of industry. These payments should also be recorded in your employee log book. For more information, contact the Workers’ Compensation Board.

Paying Yourself and Hiring Contract Employees

If your business is incorporated and you are drawing a salary, then you must make all the appropriate deductions, except UI payments, and keep all the appropriate records just as you would for any other employee.

If you hire people on contract, you are not responsible for collecting payroll deductions. However, Revenue Canada has strict guidelines for who qualifies as an employee.

For more information on paying yourself and hiring contract employees, refer to ED&T’s Starting a Small Business.

Personnel Records

As you hire more employees, it becomes more important to keep individual employee files. With other business issues on your mind, you will not want to rely on your memory for the following important information:

- The date they began working for your business
- Their starting and current rate of pay
- When they had their last pay raise
- Their resume and references
- Performance appraisals including whether they have met sales or production targets
- Their overall work attitude
- Customer and co-worker compliments and complaints
- Attendance records including how often they are late for work and how much sick or injury time they take
- Outstanding holiday pay or holiday time
Payroll and Personnel Records

*Up-to-date personnel files can also be used as a management tool to help you do the following:*

- Evaluate and compare the individual strengths and weaknesses of your employees
- Identify employee performance areas that need improvement, both on an individual and on a collective basis
- Determine which employees are the most valuable to you, particularly if you must reduce staff
- Determine which employees are entitled to raises
- Complete employee performance appraisals. For more information on employee relations and performance appraisals, refer to ED&T’s *Managing a Small Business*

**Keeping Resumes on File**

It is also valuable to keep a file of the resumes of people who have applied to work for your business. When you need to hire new employees (or to hire someone on contract) you can quickly refer to this file. Only keep the resumes of those you think would make suitable employees. Some companies separate the top two or five resumes and call these people first if they have a job opening.
Three: Other Important Records

Clear, accurate, user-friendly bookkeeping and payroll records are essential to the efficient operation of your business. Keeping these records is also your legal responsibility.

There are other important types of records that you should consider keeping.

Customer Service Records

Customer service is an important part of your business and an essential element of your marketing efforts. Customer service records will help you gauge whether or not your continuing efforts to satisfy your customers’ needs are working and where improvements can be made.

*Customer service records could include the following:*

- The number of customer complaints (or compliments) per week/month/year
- The nature of the complaints (were they product or service related?)
- The number of returns (and of which particular items)
- The number of repairs made under warranty

Business Safety Records

If your business involves hazardous activities and conditions, it is necessary and beneficial to keep business safety records. This is usually done simply by tracking and recording the number and nature of on-the-job injuries suffered by your employees per month/year. Business injury statistics are sometimes expressed as the total number of injury-related work hours lost by your employees per month/year.

*Business safety records can be used for the following:*

- To determine insurance rates
- To enhance public relations (if stats are low and/or decreasing)
- To identify safety problems and look for solutions

Inventory Records

If you operate a small retail or service business, a large part of your capital may be tied up in inventory (stock). Keeping control of your inventory involves knowing how much and what kind of stock you have on hand. For more information on inventory management and decision making, refer to ED&T’s *Managing a Small Business.*

There are two main methods for keeping records of your stock: physical inventory and gross margin. Physical inventory involves counting and listing the number and value (both at cost and at retail price) of all items on the premises.
Other Important Records

Between physical inventory counts, the gross margin method can be used to estimate the value of inventory. The gross margin method is a less time-consuming and less accurate method of determining stock on hand.

Here’s a simple example of how the gross margin method works:

For the purposes of this example, let's assume the following:

- Inventory at the beginning of the month was $9,000 (at cost, not retail)
- Inventory purchases during the month totaled $11,000 (at cost)
- Sales for the month totaled $15,000
- You sold your products at a price that was 35% higher than what you paid for them (this is your markup)

First, add the beginning inventory ($9,000) and the purchased inventory ($11,000) to arrive at the total inventory available for sale during the month ($20,000).

If your markup on the merchandise you sell is 35%, then the cost of sales (the percentage of the selling price you spend purchasing the merchandise) is 65% (100% - 35%).

If your sales for the month were $15,000, then the cost of the goods sold during the month would be $9,750 (65% of $15,000).

Your month end inventory at cost would then be $10,250 ($20,000 - $9,750).

If markup percentages vary between departments within your business, each department’s inventory should be calculated separately.

Many small retail and service businesses use cash registers which, through a coding system, can assist in inventory control. Some cash registers are able to record — by classification or department — beginning and ending monthly inventories.

Over a long period, a series of monthly inventory reports can help you determine if your business is making money and help you make better buying and selling decisions.

Departmentalizing

If you are in the retail or service business, you may want to organize your business records by department. For example, a small clothing store operator may want to divide his business records into men’s, ladies’ and children’s wear departments. Departmental purchases and sales records can be used as the basis for monthly departmental operating statements.
Appendix A: Recordkeeping Checklist

1. Are your personal financial affairs and business financial affairs clearly separate? Do you have a separate bank account for your business? [ ]
2. Does your bookkeeping system meet the needs of your accountant? [ ]
3. Can you easily track your business’ money and its financial performance? [ ]
4. Is someone assigned to do your day-to-day bookkeeping? [ ]
5. Are your records up-to-date? [ ]
6. Does your accountant spend the majority of his or her time on basic bookkeeping, or on the more skilled tasks of preparing your financial statements and tax returns? [ ]
7. Have you established a good working relationship and do you communicate well with your accountant? Does he or she answer your questions to your satisfaction? [ ]
8. Does your daily cash sheet usually balance, or are there major discrepancies? [ ]
9. Can you easily access information on the money you owe (accounts payable) and the money others owe to you (accounts receivable)? [ ]
10. Do you reconcile your bank account at least once a month? [ ]
11. Do you pay invoices and expenses by cheque? (Cheques provide an easy record for you and your bank and the cancelled cheque can act as a receipt). [ ]
12. Do you file a copy of all your customer sales invoices? (From time to time, these will be used to look up invoice totals, stock numbers, or quantities ordered). [ ]
13. Do you keep a file of all invoices and bills that are paid? [ ]
14. Does your payroll system work well? [ ]
15. Are you remitting payroll deductions to Revenue Canada on time? [ ]
16. Do your personnel records give you a clear picture of the strengths and weaknesses of your employees? [ ]
17. Do you keep business safety records and customer service records? [ ]
18. Do you have a clear idea of how much inventory you have on hand? [ ]