

Record Keeping - Best Practices Documentation Guidelines

The most important reason for keeping good records is cost. The more organized and easier your records are to understand, the less time it takes to process them. The direct result is a decrease in the amount of time that it takes for your accountant to prepare your financial statements and/or tax return at the end of the year. The time savings translates directly into cost savings. Your records tell the story of your business, when they are in good order it is an easy read that supports the legitimacy of your business transactions. This is especially important if you want to sell your business, attract an investor, apply for financing or become subject to audit by the CRA. Preparing for these types of situations proactively will save you a lot of time, money and worry, and is certainly worth the effort that you put in to keeping a good set of books.

First and always, it is best practice to keep business and personal transactions separate by having business bank accounts and credit cards. Out-of-pocket expenses are certainly acceptable, but the more transactions that are processed through the company's financial instruments the better.

Following are some general guidelines to help assist you in preparing your receipts for processing. Depending on the number of receipts that you have, it can be helpful to organize them also by date and category.

- 1) **All** transactions require support (i.e. invoice, receipt, print-out of on-line transactions, etc). Unsupported transactions on bank and credit card statements are generally considered ineligible by Revenue Canada. The exception to this is recurring monthly transactions – such as membership fees. In this case the supporting documentation would be an original agreement or contract stating the amount and date of the monthly charge. This agreement would need to be kept on file.
- 2) Receipts/Invoices for sales. If you are collecting money for business, you should be issuing an invoice or sales receipt to your customer. A duplicate copy on file will support your bank deposits as well as provide backup in the event that the customer requires a copy. A good practice to get into is writing the date and type of payment received on the invoice/document (i.e. October 5/11, Chq #123, paid in full).
- 3) Bank deposit slips:
 - Cheque number or cash amount, customer and amount should be on the deposit slip, bank receipt or (printed) on-line receipt – every deposit must have a paper receipt.
- 4) Receipts for travel are easier to process when grouped together. Note the destination, dates and reason for the trip (i.e. name of training course or conference or if you were prospecting clients or assets). Receipts would include:
 - Hotel accommodations – if you utilized private non-commercial accommodation, depending on your situation, there may be an allowance that can be claimed so please indicate if this was the case
 - Rental car agreement/receipts
 - Fuel receipts if you have rented a vehicle – if you drove your personal vehicle, please follow the instructions for vehicle receipts

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- Air fare receipts (must include the breakdown of the fare if you are a GST registrant so the ITC can be claimed)
 - Meal receipts (follow general instruction on meal receipts)
- 5) Meal receipts are handled differently depending on the type of meal that it is. Most meals fall into the category of “Meals and Entertainment”, and this includes meals with business associates, clients and prospective clients. If the meals are part of a business trip, it is handy to include them with other travel receipts.
- If cash was paid, please note "cash" on the receipt as well as the full amount paid (including tip)
 - Write who the meal was with and an indication of why (i.e. Joe Meatball, prospective investor)
 - Both the itemized meal receipt (CRA requires this) and the debit/credit card receipt must be kept
- 6) Parking receipts:
- Indicate method of payment (cash, Visa, etc.)
 - Indicate the client/event/circumstances
 - Parking and speeding tickets can be used as a business expense provided you were working at the time. These expenses, however, are not eligible with respect to tax – they are added back to your income when determining the tax liability.
- 7) Expenses related to the use of your personal vehicle can be accounted by two different methods, the kilometer method or the percentage method. If your business is incorporated you may use either method. If you are operating as a sole proprietor, only the percentage method can be used. Regardless of the method, you are required to use a log.
- The kilometer method is simply payment per “business use” kilometer. Receipts are not required when using this method. Vehicle expenses (listed below) cannot be claimed separately, they are included in the per kilometer rate.
 - The percentage method is simply the percentage of business kilometers in a period multiplied by the expenses in the period. Eligible expenses include:
 - i. Fuel
 - ii. Insurance
 - iii. Registration
 - iv. Licensing
 - v. Repairs and maintenance

Tip: Mileage logs no longer have to be a messy, cumbersome hand written book! There are technologies available to assist you maintain a log easily. A search at the App Store, for example, has several results for the iPhone. Alternatively, there are devices like Odotrack that can be purchased and kept in the car (odotrack.ca). It can either sync to your computer or upload the information to the internet for easy reporting and convenient storage.

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- 8) Review purchase receipts for clarity; if it is not clear from the description what was purchased please provide a description and/or category of the expense.
- 9) If there is more than one person making out-of-pocket purchases, receipts should be marked in some way so that the purchaser can be identified (i.e. initial on the top right hand corner).
- 10) If a person is making purchases for more than one business entity, the relevant entity should be noted on the receipt.
- 11) It is highly recommended that personal items be receipted (purchased) separately so that receipts do not have to be split. This takes extra time and results in extra expense to you!
- 12) If your personal credit card is used for a significant number of business transactions, and you carry a balance, then a portion of the credit card interest can be expensed. In order to calculate the eligible portion copies of the statements need to be provided and kept on file for support.

General Expense Categories

- Advertising
- Meals and entertainment
- Bad debts
- Insurance
- Interest
- Business tax, fees, licenses, dues, memberships and subscriptions
- Office expenses
- Supplies and materials
- Small tools and equipment (generally under \$200)
- Legal, accounting, and other professional fees (this includes professional development / training)
- Management and administration fees
- Rent
- Maintenance and repairs
- Salaries, wages, benefits
- Property taxes
- Travel
- Telephone and utilities
- Delivery, freight and express
- Motor vehicle expenses

You can include any reasonable expense that you incurred in the effort to earn revenue in your business. Using your good judgment will save time and money!