Good Record KEEPING

By Susan Koss

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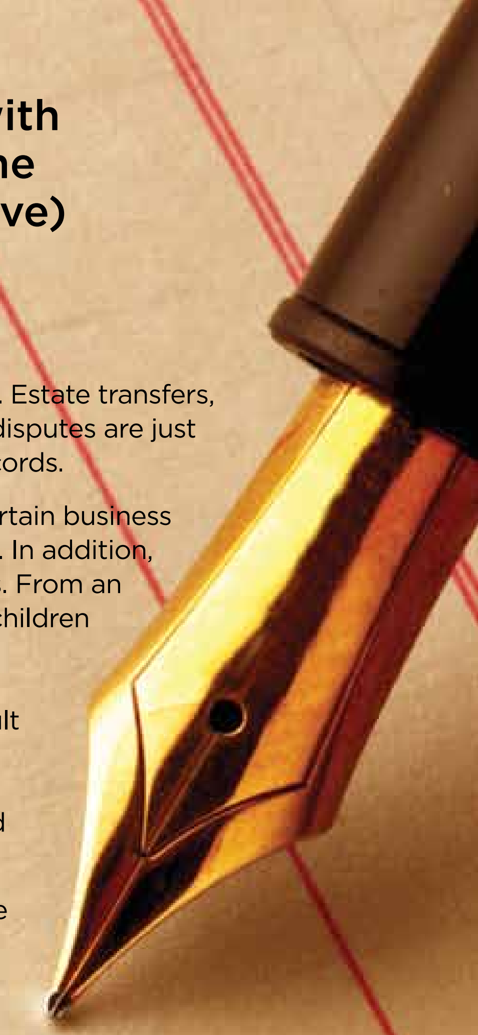
Over the years I have worked with many clients with less than perfect record keeping practices. In some situations, this resulted in avoidable (and expensive) professional fees to straighten out the books and records before any analysis could be performed.



However, poor record keeping holds additional risks which can be even more costly. Estate transfers, a company sale, litigation disputes, IRS and sales tax audits, and partnership value disputes are just a few of the many examples that rely on accurate, complete and timely financial records.

Why are accurate records so important? Imagine an IRS audit that cannot justify certain business expenses. This could result in thousands of dollars charged in penalties and interest. In addition, any potential allegations of fraud from the IRS may trigger more dire consequences. From an estate planning perspective, the gifting of shares in a business to children or grandchildren must address the value of the company in order to value the gift. If the value of the gift is disputed by the IRS as a result of inadequate books and records, it could turn out to be a very expensive "gift" indeed. IRS adjustments to the value may also result in unanticipated tax consequences to any heirs. Another serious consequence of inadequate record keeping can occur when trying to sell a company for a fair price but lacking the financial records to support the financial activity of the business and therefore the desired price.

What should a business owner do to improve the accuracy and completeness of the business records? First, the business owner should perform a self-assessment by assigning the controller, bookkeeper or CFO to provide a document inventory of all key records, their location and retention policies.

Basic records will include support for all transactions of the business including, (but not limited to):

- Monthly financial statements including a balance sheet, income statement and cash flow statement supported by a detailed account general ledger and any subsidiary ledgers or journals which are applicable to the business
- Bank statements from all bank accounts reconciled to the general ledger or financial statements on a monthly basis
- Cash records including cash receipts, records of bank deposits, petty cash records, and check copies
- Sales records including invoices, contracts and agreements with customers
- Purchasing records including all purchases made by the company for any goods and services
- Minutes of Shareholder and Board of Directors meetings
- Deeds, mortgages and bills of sale
- Agreements related to any loans or obligations of the company
- Payroll records including time cards, time reports, payroll journals and year-end W2 statements and employment contracts
- Governance documents of the company

Also, the business owner should consult with his/her financial advisor to evaluate the status of the business' record keeping and determine what recommendations they have for improvement. Do the records include the proper detail for the specific industry? Are there additional industry benchmarks that should be tracked? What else would be expected from the IRS, a potential purchaser, or other shareholders? Time spent now to plan for the future will reap tremendous benefits and perhaps even help improve the value of the business in the long run.