



Basic Bookkeeping

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Why Keep Records?

- Good records will keep you informed about the past and present financial position of your business.
- Good records will keep you in control and give you the information needed to make good business decisions.
- Good records will satisfy Canada Revenue Agency, Canada Pension Plan, Employment Insurance, Department of Finance, Harmonized Sales Tax, WorkSafe NB, etc. and facilitate correct and timely remittances.
- Good record keeping increases a new business' chances of survival and an established business' chances of staying in business and earning good profits.

What Record Keeping System Should I Use?

A good record keeping system should be simple to use, easy to understand, reliable, accurate, consistent, and designed to provide information on a timely basis.

The legal requirement concerning financial records specifies only that they be a permanent, accurate and complete record of your daily income and expenses. There are many types of record books and bookkeeping systems available. For example:

Double Entry Bookkeeping: This is the system taught in most high school and college bookkeeping and accounting classes. Each transaction is recorded twice, one account is *credited* with the given dollar amount and a second account is *debited* by an equal dollar amount. This is an excellent system but often formal training and practice will be needed to understand and master it.

Commercial Bookkeeping Systems: These are available through stationery outlets and are usually a package system with instructions and forms to use.

One-Write Systems: These are copyrighted systems that are set up using carbon-backed cheques. As you write the information on a cheque, it also transfers the data to a record system.

Computerized Systems: There are several excellent programs available. These programs offer the speed and capacity of computers as well as the ability to produce daily updated financial

statements. One should be careful, however, that they are not buying expensive software programs or computer equipment that has more capacity than they need. Most small businesses grow into the need for a computerized system; usually as a means to control larger volumes of inventory or transactions.

Single Entry Bookkeeping: A single entry system means every dollar transaction is recorded only once, either as income or expense, an asset or a liability. All entries are recorded on a one page synoptic journal or also called a revenue and expense journal. The system is simple, easily understood, and thus requires little training. This is the system we will be describing in the example that follows.

Setting Up a Record Keeping System

(We are assuming the start of a new small business.)

Steps:

1. Register your business name. Obtain a local business licence from your municipality and, if required, register for the Harmonized Sales Tax. If you have employees, register with the Canada Revenue Agency and WorkSafeNB.
2. In order to keep your business separate from your personal affairs, open a separate business account at your local bank. Order numbered cheques with stubs to record cheque details and obtain a deposit book. With this type of account, ensure that your bank will be mailing you a statement along with your cancelled cheques every month so that you can perform bank reconciliations.
3. At a stationery store, buy a columnar record book. These are available in 1 to 36 or more columns. The number of columns you need will be determined by the number of expense accounts you choose to use. We are using twelve columnar paper in our example. (It will not matter if you do not use all the columns). Also purchase a generic numbered invoice book and a numbered purchase order book. You may consider ordering an ink stamp with your company name and address for use in personalizing your invoices, purchase order books, receipts and even your cheques if they are not printed with your business name on them. Also helpful is a small record book to record vehicle expenses and business travel expenses.
4. Acquire a copy of Canada Revenue Agency's [Business and Professional Income Tax Guide](#), publication T4002. This guide describes what are eligible business expenses and provides information on depreciation, home-based business expenses, vehicle expenses, etc. You will also require remittance forms, rates and regulations for HST, income tax, employment insurance and WorkSafe NB.

Single Entry Bookkeeping

Each page will record the transactions for the month and the monthly totals from each column will be calculated. You will use at least one page for every month of the year. Depending on the number of transactions, you may need several pages for each month. In these cases, calculate the sub-total at the end of the page and carry forward the sub-total to the top of the next page.

Use the first three columns to record the date, particulars of the transaction and the cheque number. Try to pay all bills with a numbered cheque and make sure you fill in the particulars on the cheque stub (i.e. what was purchased, date, and invoice number). Also, put your cheque number and date on the paid invoice. Making this a habit will be helpful if you ever have to trace a transaction.

The next two columns are for revenues and expenses. Each transaction will be entered in one of these columns. Revenues refer to money coming into the business from sales. Expenses represent payments the company is making and, as such, are an outflow of money.

The remaining columns are a breakdown and categorization of the revenue and expense columns. These will vary from business to business. Generally, you will need sufficient expense columns to represent the expenses you most often write cheques for. If a cheque is only needed once a year for a particular expense, it may not warrant setting up an individual column. Instead, you may want to include a *miscellaneous* column.

In our simple example, we break down the revenue entries into sales and HST columns. Certain businesses may need a different sales breakdown. For example, a garage business may categorize sales as fuel, parts, labour, and confections. The expenses in our example are broken down into inventory, rent, telephone, office supplies, insurance and miscellaneous. Other common expense columns that you may wish to include are accounting, legal, advertising, business tax and licence, repairs, vehicle, utilities and wages.

Example

This example revenue/expense journal shows May entries for the fictional Acme Supply Company (the company that supplies Willie Coyote® with equipment). This example shows the second page for May and therefore starts with the column sub-totals from the first page.

Example transactions are as follows:

1. Cheque No. 56 for \$121.00 dated May 26 to Bob's Stationery to pay for envelopes and letterhead.
2. Cheque No. 57 for \$1 536.00 dated May 27 to Parachute Supply for ten parachutes for inventory and resale.
3. Cheque No. 58 for \$230.00 dated May 27 to CelTel for cellular phone bill.

4. Cheque No. 59 for \$580.00 dated May 28 to All Insurance for yearly liability insurance coverage.
5. Bank deposit May 28 for \$2 796.94 for invoices 36, 37, 38 and cash sales for May 26 to 28.
6. Cheque No. 60 for \$545.00 dated May 29 to W. Coyote for refund of invoice No. 37 (defective parachute).
7. Cheque No. 61 for \$26.10 dated May 26 to Joe Acme to pay owner for small petty cash purchases in May. (Small cash purchases for postage or parking, etc., which do not warrant a cheque should be paid by the owner and the receipts held until the end of the month or until there is a reasonable total to issue a cheque.)
8. The monthly bank statement was received. A comparison was made of the cheques and deposits listed on the bank statement, and reconciled with the entries we have entered in the revenue and expense columns. A transaction of \$15.80 was recorded which is the May bank charges on Acme's business account.

When the columns are totalled at the end of the month, the total under *Expenses* should equal the sum of all the expense breakdown columns. The *Revenues* total should equal the sum of all of the monthly revenue breakdown columns. This is used to test and balance your books, insuring amounts and entries were made correctly. The receipts, paid invoices and other statements should be stored in a manner that allows easy retrieval as needed. One method is to staple all monthly receipts together, put them in an envelope and file them in chronological order.

Expanding the Single Entry Bookkeeping

Since the above example illustrates transactions that may occur in a simple business, a twelve column chart is adequate. However, if you find that more columns are needed, up to 36 columns can be used. For example, you may need to record wages paid out and you may need columns for owner's wages, employee wages, employment insurance, CPP and income tax. Also you may have capital purchases you wish to record under *Land, Buildings, Office Equipment, Shop Equipment, etc.*

The single entry system is very flexible. If you find that you need more columns than are available, you may elect to use separate journals for *Expenses, Revenues, Sales on Account, Payroll, and Accounts Payable.*

Financial Statements

Using the month end totals, you or your accountant should be able to prepare financial statements, such as a profit and loss statement quite easily.

Final Advice

In order to maintain control, business record keeping entries should be completed daily. To ensure their completion, regular time should be set aside for them. In a new business start-up, an entrepreneur often wears many 'hats' and sales and customers often take priority over record keeping. This being the case, it may be wise to train a spouse or part-time employee to handle the bookkeeping for your business. Ensure that this task is always done by the same person, for the sake of consistency.

Hiring an accountant during your business start-up may be advantageous as he or she can help answer questions you may have regarding bookkeeping. Some type of introductory training in accounting is also recommended if you are unfamiliar with accounting processes.

Acme Supply Company Revenue and Expense Journal

Month: May 2010 - Page 2				
Date	Transaction	Cheque No.	Revenues	Expenses
	Balance Forward		2 317.18	3 894
May 26	Bob's Stationery	56		121
May 27	Parachute Supply	57	1 536.00	
May 28	CelTel	58		230
May 28	All Insurance	59		580
May 29	Deposit			2 796.94
	Invoice 36, 37, 38			
	Cash Sales			
	HST			
May 29	W. Coyote Refund No. 37	60	(545)	
May 29	Joe Acme - Owner	61		26.10
	(Petty Cash)			
May 29	Bank Charges			15.80
Month end Total			4 569.12	6 402.90

Revenues Breakdown			Expenses Breakdown				
Sales	HST	Inventory	Rent	Phone	Office	Insurance	Miscellaneous
2 108.63	208.55	3 300	500		15		79
					121		
		1 536					
				230			
					580		
2 500							
66							
	230.94						
(500)	(45)						
							Petty Cash
							26.10
							Bank Charges
							15.80
4 174.63	394.49	4 836.00	500	230	136	580	120.90

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