

# **BOOKKEEPING AND ACCOUNTING**

## **Basic Bookkeeping Records**

### **Bookkeeping Systems**

The effective financial control of a business starts with a comprehensive financial record keeping system, which may also be called a bookkeeping or accounting system. Businesses establish and maintain financial record keeping systems to:

- record and provide verification of transactions
- monitor and control operational performance and financial position
- enable financial reports to be prepared for management purposes, and for the ATO, the bank and others
- account for GST and other taxes
- comply with legal obligations on record keeping.

### **Recording Transactions**

Transactions are the exchanging of resources with another person or organisation. Examples of typical business transactions are:

- buying supplies for the business
- paying wages to employees for the supply of their labour
- paying rent to the landlord for the use of the business premises
- making repayments on a bank loan.

The resource flowing out of the business in each of these examples is money. The resources flowing into the business in these examples are goods, labour, accommodation and the supply of finance.

Every business has transactions with other people and other businesses that result from the flow of goods and services in and out of the business. Every business should have a system of accurately and efficiently identifying, measuring and recording each transaction.

### **Use Source Documents to Evidence Transactions**

Identifying, measuring and recording each transaction starts with source documents. These are documents used as evidence that a transaction has taken place. Some examples of source documents received by a business include:

- Invoices for goods purchased
  - Rates notices from the local council
  - Telephone bills
  - Bank statements.
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Source documents that a business may create to record a transaction include:

- Invoices sent to customers for goods or services provided
- Purchase orders for goods purchased
- Remittance advice slips sent with cheques to suppliers
- Cheque butts
- Receipts given to customers or clients
- Pay slips for employees.

Source documents generally show the detail of individual transactions, for example, the date, the value in dollars, the other party to the transaction, and what was given in exchange for the dollars. Standard source documents, for example, invoices and remittance advice slips, should be designed to suit the business. Generally these should be consecutively numbered. They may be generated by the accounting software package.

The original source document, for example an invoice, is generally given to the client or customer, and a copy kept by the business. Efficient filing systems should be maintained so that copies of source documentation can be accessed easily if required. Reasons for a business to refer back to source documents include:

- A query from a customer or supplier about an account
- The business querying a customer or supplier about an account
- Requiring further details when preparing financial statements
- Requiring further details when preparing income tax and GST returns
- An audit by the Australian Taxation Office.

### **Cash Receipts and Cash Payments Books**

In a simple record keeping system, the cash receipt and cash payment books (also called journals) may be the only books maintained by the business. More sophisticated systems may also maintain purchase, sales and general journals and ledgers, usually computerised. Most businesses will also have a petty cash float and have a petty cash journal.

Cash books are used to record inflows and outflows of cash through the bank account of the business. Details of cash transactions are entered into a cash book in date order from source documents. The information in the cash book is classified and summarised into categories of expenses and income, and totalled periodically, usually monthly. This information forms the basis of financial reports and statements, and income tax and GST returns.

A separate book may be used for receipts and payments, or the receipts and payments may be kept in separate sections of the one book. Cash books available include:

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- Ruled multi-columned cash books available from newsagents and stationers
- Pre-printed cash books which include examples and instructions (The SBDC stocks a variety of these books)
- The ATO's E-Record electronic system (further information is available under the heading Australian Taxation Office Resources and Requirements below)
- A standard cashbook or general ledger software package. These vary in complexity and price. See further information under the heading Australian Taxation Office Resources and Requirements below. Short courses are available from Tafe and other training organisations on using most of the popular software packages.

It is important to have a system appropriate to the needs of the business. You may need to do some research and seek the advice of your accountant before setting up your system.

### **Outline of a Simple Bookkeeping System**

- Open a bank account in the name of the business
  - Bank all receipts and make all payments through the bank account
  - Write adequate information on cheque butts, including amount, date, classification of expense (eg rent), to whom the cheque was paid (eg management agent's name) and what is being paid (eg March rent). When accounts are paid, write across the account – **Paid** - the date of payment and the number of the cheque used to pay the account. A rubber stamp for this purpose is useful. Paid accounts should be filed in either alphabetical or cheque number order.
  - With a manual system, write up cash books up regularly, rule off at the end of each month and reconcile the cash book balance with the monthly bank statement. Instructions and a format for preparing a bank reconciliation statement are provided in the ATO publication *Record keeping for new small business*. All the analysis columns should be added and cross added to give the current month's totals and the accumulated carry forward balances.
  - With a computerised system, input data regularly and prepare a bank reconciliation statement monthly. Learn how to use all of the features of the system, including its reporting functions.
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- In either a manual or computerised system, make sure that capital items and unusual items are clearly marked in the cash books or computer input data so that they will be correctly identified in financial statements and tax returns. Examples of transactions that should be especially noted are loans from the bank, capital brought into the business and the sale or purchase of assets. Keep copies of supporting documentation on these transactions on a file for your accountant when financial statements or tax returns are next prepared for the business.
- Where appropriate, establish a petty cash float and keep a petty cash book for cash purchases. A format for a petty cash system is provided in the ATO publication *Record keeping for new small business*.
- If you have a retail business and stock is purchased, or wages and other expenses paid from a cash register, maintain records of the cash purchases and the full amount of the sales. The reconciliation of daily sales format provided in the ATO publication *Record keeping for small business* provides an appropriate method. Some businesses prefer to total these cash expenses weekly and draw a business cheque for the amount, and either bank the cheque back into the business account or cash it and return the money to the cash register. Either way has the effect of recording the true sales, purchases and expense figures.

- A business with significant debtors and creditors would generally choose to purchase a standard computer accounting software package. Seek advice on what software will suit your business. Seek advice from your accountant and check to see which packages are compatible with your accountant's system. Refer to the ATO's [Registered Software Facility \(RSF\)](#) Product Register (further information is available under the heading The Australian Taxation Office (ATO) Resources and Requirements below). Research the specifications of the various packages available: much of this information is available on the internet.

*Note: the ATO publication Record keeping for new small business has excellent guidance on bookkeeping systems for small business. See below for further information.*

## **The Australian Taxation Office (ATO) Resources and Requirements**

The ATO Website [www.ato.gov.au](http://www.ato.gov.au) provides information and guidance on record keeping, including the following:

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- **Record keeping for new small business**, a guide for keeping manual records based on receipts and payments (i.e. cash accounting), downloadable from the web, or available from the ATO or from the Small Business Development Corporation. This publication contains sample formats for a cash payments book and cash receipts book, a bank reconciliation statement and details of the type of records that need to be kept.
  - An electronic record keeping package, **E-Record**, downloadable from the website [www.ato.gov.au/erecord](http://www.ato.gov.au/erecord), or available from the ATO on 1300 139 051. E-Record has been developed by the ATO to assist small and micro businesses and non profit organizations keep good business records. It is for those operating on a cash basis of accounting, which are using paper based records and not already using a commercially available accounting package.
  - A **record keeping evaluation tool** available on the website [www.ato.gov.au](http://www.ato.gov.au) for finding out what records your business or proposed business should keep. Existing businesses can also use the tool to evaluate how well the business is keeping its records.
  - The **Registered Software Facility (RSF) Product Register**, which lists packages that comply with Tax Office specifications and test scenarios. Check this information on the ATO website before deciding on a bookkeeping or accounting software package.
  - Information on the free **BizStart Seminars** held by the ATO. These seminars provide guidance on the records required to be kept by small business. Contact the ATO on 1300 661 104 for further information.
- The ATO requires businesses to keep **business records** in writing, in English, for five years. If kept in an electronic medium such as a computer disk or magnetic tape, the records must be in a form that is readily accessible and easily converted into English. There are penalties for not maintaining the required records and for not keeping them for 5 years.

### **Australian Securities and Investments Commission Resources and Requirements**

There is information on the Australian Securities and Investments Commission (ASIC) Website at [www.asic.gov.au](http://www.asic.gov.au) on books and records to be kept by companies. The Corporations Act 2001 requires a company to keep written financial records for 7 years. Financial records kept in an electronic form must be convertible into hard copy. Penalties apply for not complying with the requirements.

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