

# Keep your Papers (and your figures) in Order

## Why keep good business records

There are a number of reasons for keeping good records of your business transactions.<sup>3</sup>

### *Legal requirement*

The most important reason for keeping good records is that it's a legal requirement for you to do so. By law, the Australian Taxation Office requires you to keep business records:

- for five years after they are prepared or obtained, or the transactions are completed (whichever occurs later); and
- in English, or in a form that tax officers can access and understand in order to determine your tax liability.

You can issue and store records in either paper or electronic form (see below for more details).

There are penalties for not maintaining the required records and for not keeping them for five years. Keeping good records will help you avoid these penalties.

### *Other reasons*

Other reasons for keeping good business records are to:

- make it easier to complete your activity statements and prepare your annual income tax and fringe benefits tax returns;
- monitor the health of your business and be able to make sound business decisions – eg whether you have adequate cash flow;
- demonstrate your financial position to banks and other lenders, and also to prospective buyers of your business; and
- make the best use of your accountant – rather than paying your accountant to sort through a shoebox of paperwork, give them well-prepared records and pay them instead to help you with your business and financial planning.

---

<sup>3</sup> Source – [www.ato.gov.au](http://www.ato.gov.au)

## What records to keep

Find a place to store:

- your daily job and trip records for invoicing
- cheque butts (it's a good idea to have a separate bank account for your business and keep your personal banking separate)
- bank statements
- your bank deposit book
- records of deposits, savings accounts and other liquid assets or securities
- a list of your debtors and creditors
- copies of invoices you've drawn up and presented
- details of bad or doubtful debts and customers who turn out to be credit risks
- copies of invoices you've received and paid
- receipts, including petty cash receipts (if you can't get a receipt, write all the details on a piece of paper and store that)
- details of the equipment you've bought, so your accountant can calculate depreciation
- equipment warranties
- copies of contracts, lease agreements and periodic payment commitments
- insurance papers
- business letters, particularly any about your accounts

Some records are required by law to be kept for a number of years. Check with your accountant.

## What's the best filing system?

It's important to have a filing system that is easy to use and will keep your papers sorted and readily accessible.

A lot of records can be kept in your truck, at least until the end of a trip or the end of the week or the month. You could use an expanding file, a series of large envelopes or some coloured document wallets. Or you could use file boxes if you're accumulating lots of records. They'll stand a bit more wear and tear. It doesn't really matter, as long as they're easy to identify, use and store.

There are a number of ways you could sort your papers, too. It may work best for you to keep all the papers relating to one trip together. Or you could keep the papers for each month separately. Or you may want to sort them into the sorts of categories that you will use in your bookkeeping – eg repairs, fuel, personal expenses and so on.

Regardless of how you choose to file your papers, it's important to make sure none get lost.

## Basic bookkeeping

Below is a list of the things you'll need to do and when you should do them.

There are some more things you could do with your financial records, but these are the basics.

They'll be used by your accountant to draw up your tax return.

And they'll also give you information that you can use to keep track of how your business is going and make decisions to improve its performance. You'll find more information about this in the chapter 'Mind your Financial Business'.

<b>Basic bookkeeping tasks</b>	
<b>Timing</b>	<b>Task</b>
Before you start	Draw up a cash flow budget.
Daily, as necessary	<p>Write cheques to meet due dates.</p> <p>On the cheque butt, write the date, amount, classification of expense (eg fuel), the person or company you've made out the cheque to, and what is being paid.</p> <p>On the invoice, write 'paid', the date and the cheque number.</p> <p>Once they've been paid, file the invoices in either alphabetical order or cheque number order.</p>
Daily	Make a note of all payments either in a small notebook or straight into your cash payments book.
Depending on the number of cheques you receive, this might be daily, weekly or even fortnightly  (Early banking is important for cash flow.)	<p>Deposit cheques.</p> <p>Make a note of the date, the source of the cheque and what it's for, as well as the bank details and amount.</p> <p>File payment advice slips or returned invoices either in alphabetical order or in the same order as in your bank deposit book.</p>
Weekly or fortnightly	Write up all deposits in your cash receipts book.
At the end of a job, weekly or fortnightly  (The sooner you send out your invoices, the sooner you'll have money coming in, especially for smaller customers and one-off jobs.)	Send invoices to your customers.
Monthly	Total all the columns in your cash book and make sure that everything balances.
Monthly	Balance your cheque book.
Monthly	Do a bank reconciliation.
Monthly	<p>Compare actual payments and receipts with your cash flow forecast.</p> <p>Update your forecast with new information, if necessary, and take action to correct any problems.</p>
Every year	Adjust your cash flow budget.

## Cash books

At the very least, you should spend time each day writing down all your receipts and payments.

In bookkeeping jargon, this is called keeping a cash book, which is really two books – a cash payments book and a cash receipts book. That's the proper name, even though hardly any of your receipts and payments are actually in cash. Sometimes, you'll hear a cash book called a cash journal, in which case you'd have a cash payments journal and a cash receipts journal.

You should record all receipts and payments whether they're by cheque, credit card, direct debit, direct credit, EFTPOS or barter.

It's common to actually use one book to record both cash receipts and cash payments – in separate sections, of course. It's up to you whether you want to use one book or two.

### Where to find books and computer software

You can buy cash books ruled into columns from newsagents and stationery shops. Some cash books also contain instructions and examples for you to follow. (The Small Business Development Corporation stocks a number of books like this.)

You can download instructions and sample forms from the Australian Taxation Office website. Go to [www.ato.gov.au](http://www.ato.gov.au) and look for *Record keeping for new small business*. (This is also available from the Small Business Development Corporation.)

Standard computer software packages can also be used to keep your cash journal. For a list of packages that comply with Australian Taxation Office requirements, go to [www.ato.gov.au](http://www.ato.gov.au) and check the Registered Software Facility (RSF).

Or you can download an electronic record-keeping package from the Australian Taxation Office. It's called E-Record and has been developed to help small businesses keep good business records. Go to [www.ato.gov.au/erecord](http://www.ato.gov.au/erecord).

Your accountant will tell you what columns you'll need for recording different types of receipts and payments, or you'll pick it up with experience. At the end of each period (usually each month), the column totals will be used to reconcile your bank statement and will be transferred to your accounting system. So it makes sense to use the same categories in both systems.

## *Cash payments*

For cash payments, you'll need the following columns:

- date
- details (here you'll record the type of expense, such as materials, capital equipment, fuel, insurance, petty cash reimbursement, personal payment, bank charges etc)
- payment type (whether by cash, cheque, EFTPOS etc)
- total payment (record the total amount in this column)

The remaining columns will allow you to split the total so that at the end of the month you can easily see where your money has gone. One column should be used to record the amount of GST you've paid. Also record fuel separately – fuel will be a large component of your costs and it's important to monitor it, keeping an eye on fuel consumption and theft. You'll need a record of both the kilometres you've travelled and the fuel you've used, so that you can apply for the diesel rebate.

Some other examples of useful columns are:

- GST amount
- vehicle expenses
- fuel
- capital expenditure
- other expenses
- private use

If one payment covers more than one type of purchase, record the separate amounts in the appropriate columns – eg if you buy something for your truck using EFTPOS and get some cash out for yourself, you'd record the total amount in the 'total payment' column. Then you'd record the GST amount in that column, the cost of the part in the 'vehicle expenses' column and the amount you drew for yourself in the 'private use' column.

At the end of the month, add up the amounts in each of the various columns and check that the sum of all the GST and other expense columns is the same as the sum of your 'total payments'. If it's not, go back and check your figures. You may have missed a part payment, or added up incorrectly.

## **Cash receipts**

Deciding what columns you'll need for recording your cash receipts will be simpler.

To start with, you'll need:

- date
- details (where the payment came from – eg the name of the company paying you for a job)
- invoice or receipt number (if you've sent someone an invoice, record the number here; if there hasn't been an invoice, you should give the person a receipt and record that number)
- total receipts

Again, you'll need a column for any GST and can divide up the payments – eg to keep track of different customers. The other columns might be:

- GST amount
- amount banked (this should be the same as total receipts but if it's not – eg you may have used some cash for another purpose (although it's best not to do this) – you'll need to note this in the 'comments' column)
- income from customer X
- income from customer Y
- fuel rebate
- comments (record information here that your accountant might need – eg if you've sold a piece of capital equipment or have received a refund from a supplier, these will be treated differently in your tax return; if it's not actual income, it may be subject to capital gains tax)

The receipts that you will need to comment on include loans, capital brought into the business, the purchase or sale of assets and refunds.

At the end of the month, add up the amounts in each of the columns and check that the sum of all the GST and other income columns is the same as the sum of your 'total receipts'. If it's not, go back and check your figures. You may have missed something, or added up incorrectly.

## **Petty cash**

If you buy a lot of small things for cash, you might want to record them in a petty cash book, available from newsagents and stationery shops. Then, you'll only have to make one entry in your cash payments book when you top up your petty cash fund, maybe at the end of the week, or the end of a trip. You'll want to record anything you buy that you can claim as an expense for your business.

## ***Bank reconciliation***

A bank reconciliation for your business is just the same as one you would do for your private bank account. Use the total of the 'banking' column from your cash receipts book and the total of the 'total payments' column from your cash payments book.

## **Cash flow planning and cash flow management**

Cash flow planning is usually considered the job of the 'financial manager' rather than the 'bookkeeper'. But you don't need to have any particular accounting knowledge to do it. Even if you ask your accountant to prepare a cash flow budget for you, you'll be providing the information because you're the one who knows the business. And you're the one who will make the decisions and take action.

It's important to be as accurate as you can. But because you're looking to the future, you won't get everything right, especially first time round. As you get used to how things happen, you'll do a better job. And a good guess is better than no figures at all.

In the same way that you put all receipts and payments into your cash books, whether they were cash or cheque, credit card, direct debit, direct credit or EFTPOS, you'll need to include all receipts and payments in your cash flow forecast.

### ***Why you need a cash flow budget***

Your level of activity will vary from month to month. Your truck will be off the road for servicing for some of the time. Your customers may have busy and quiet times and unless you can find other work to do in the quiet times, your 'sales' will vary. And you'll need to take holidays.

Your sales forecast won't always be accurate. You won't be able to predict when your truck might be off the road for major repairs or when you might not be able to drive because you are sick.

Even when you do know what to expect, the amount of money you receive in any month won't be the same as your sales. You'll have to judge when your customers are going to pay you. Some customers may be slower than others and you'll have to take that into account.

On the other hand, when you buy goods and services on credit, there will be a gap between when you make the purchase and when the money disappears out of your account. Sometimes, you'll be able to choose how to pay what you owe – eg you may spread your insurance premiums over the year, paying monthly or quarterly rather than once a year.

Your cash flow budget will help you save for large ticket items like your tax bill, a new set of tyres or an engine overhaul. If you know when these payments will be made, you can set aside a regular amount each month so that you will have the money when you need it.

### ***What a cash flow budget can tell you***

A cash flow budget can't tell you if your business is profitable or not. But it can tell you which are the months when you'll need more money to pay your bills than you have coming into the business. If this is only for a month or two, you might want to come to a temporary arrangement with your bank for overdraft funds. If it's for more than a month or two, it would be less expensive for you to take out a long-term loan or to look for an injection of capital from somewhere else.

The cash flow budget will also tell you when you have money to spare. You'll be able to see whether that money's going to be needed in the next month or two. If it's not, you may want to consider investing it, either in the business or outside it.

You can also plan when to take time off or when it's a good time to have extra work done on your truck, if you know when your need for incoming cash is expected to be low.

Comparing your actual receipts and payments with your cash flow budget will also help. It's unlikely that your forecast will be 100% accurate – there are just too many things to predict. You won't always be able to take action, but it's important to identify where the differences are. Then you'll know if there is something you can do.

At the very least, you'll know more about your business and be able to improve your forecast next time round. It may be that one of your customers is slower at paying than you would like and there's something you can do to improve the situation in the future. Or the cost of a particular item may be higher than forecast. Again, there may be corrective action you can take, like negotiating a good deal with a particular supplier or always putting things on an account rather than 'impulse' buying.

#### **Improving your cash flow<sup>4</sup>**

Some of the things you can do to help increase your cash flow are:

- Make sure your customers meet your trading terms.
- Follow up customers who don't pay.
- Send your invoices out as soon as you can.
- As well as putting your trading terms (eg 'net 30 days') on each invoice, put the actual date that the payment is due.
- Set things up so that your customers can make payments directly into your business bank account.

---

<sup>4</sup> Based on a checklist in the Small Business Development Corporation's *A Guide for Operating a Small Business*, 2<sup>nd</sup> edition, page 170.

## ***What to include in your cash flow budget***

### **Receipts**

You'll need to separate cash sales and credit sales for each month, because the timing of these receipts will be different.

For each month, enter the sum of any cash payments you expect to receive for jobs you do in that month. Then enter the sum of the credit payments you expect. This is easy if all your customers pay promptly within 30 days, for example. If you send out all your invoices after the end of the month and allow 30 days, move all your expected receipts to two months after the date of the work you expect to do.

Unfortunately, it's not usually as easy as this. You'll find that different customers take different amounts of time to pay you. After you've been in business for six months or a year, you'll have a good idea of how many pay after 30 days, after 60 days and after 90 days. If you don't yet know what the pattern will be, you could make an estimate. This will depend on the terms you allow and how strictly you follow up. For example, you might estimate that 55% of your customers pay at 30 days, 35% at 60 days and the remaining 10% after 90 days.

You can use these figures to calculate how much to enter each month. Using the above percentages as an example, for every \$1,000 of work to be invoiced in February, you'd enter \$550 (55% of \$1,000) in March, \$350 (35% of \$1,000) in April and \$100 (10% of \$1,000) in May.

Next, enter any other cash receipts you expect. If you intend to sell one of your assets, put the expected sale price in the appropriate month. If you receive regular interest from an investment deposit, you would put the expected amount in 'other receipts' for each month.

Finally, calculate total estimated receipts for each month by adding up total cash, credit and other receipts. These will be your cash 'in-flow' figures.

Clearly, if you are just starting your business and you have no cash customers, the totals for the first month or two of trading will be zero. This was reflected in the start-up cost calculations in the chapter 'Getting Started'. It was assumed there that you would need sufficient capital to operate your business for several months without payment.

### **Payments**

Entering fixed payments like insurance premiums, lease fees, loan repayments and rent will be relatively straightforward. You know in advance how much you will have to pay and when you'll have to pay it.

Some payments, like printing and postage, electricity and gas, telephone charges and vehicle repairs, won't be known in advance and you'll have to make an estimate for each month. And some, particularly your vehicle running costs, will vary with the amount of work you do.

The first step in calculating your total cash 'out-flow' for each month is to list all your expense payments. To make things easier, list the most predictable expenses first. Then, list those that you'll have to pay regularly whether your truck is on the road or not. Finally, list those that will change most depending on how much work you do each month.

List capital expenditure items separately because, to some extent, they can be adjusted depending on the results of your calculations.

Below are some categories you might start with. Ignore any that don't apply to your business and add any new ones that you can think of.

Known expenses include:

- loan repayments
- lease payments
- your various insurance premiums
- registration and licence fees
- membership fees and subscriptions
- rent
- the property rates and taxes applicable to your business

Regular or easily estimated expenses include:

- your telephone, mobile phone and radio
- taxes
- bank charges and bank interest
- printing and postage
- accounting and legal fees
- debt collection
- electricity, gas and other property expenses applicable to the business
- wages
- superannuation payments
- donations

It's also a good idea to include an amount for 'contingencies' each month. You should also include provision for future services, because service and repair costs will increase the more kilometres you do in your truck.

Expenses that change according to the amount of work you do include:

- fuel and oil
- services and repairs
- spare parts
- tyres
- supplies such as coveralls and gloves

Capital expenses include:

- planned purchases of equipment
- 'proprietor's drawings', ie the money you take out regularly as the owner of the business

The second step in calculating your total cash 'out-flow' for each month is to enter the appropriate payment against each expense. Then work out the total for each month.

### **Bank balances**

Start with your actual opening bank balance. Once you've done all the calculations, you'll end up with a series of estimated 'closing' bank balances. If you've got an overdraft, your starting balance will be negative. Hopefully, your closing balances will be positive.

### **Calculating how much cash you'll have**

Once you've entered all the amounts you've identified or estimated, and calculated your monthly totals, you're ready to work out how much cash you'll have at the end of each month.

You'll need a worksheet that has 14 columns across. An outline of such a worksheet is shown on the next page.

You can copy or print out the worksheet separately from the 'Useful Forms' chapter of this guide, or download it from the 'Owner-drivers guide' website, [www.dpi.wa.gov.au/ownerdrivers](http://www.dpi.wa.gov.au/ownerdrivers). The Excel version of this worksheet on the Internet provides for extra rows and automatic calculations.

Use the column on the left-hand side to list all the different receipts and payments you've identified. Use the next 12 columns for 12 months. Then you can use the last column on the right-hand side for totals – add the amounts entered against each item and check that this represents your annual spending on that item.

### Cash flow forecast

Month name:	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Category total
Item													
Cash in-flow items													
...													
...													
Total cash in-flow													
Cash out-flow items													
...													
...													
Sub-total cash out-flow													
Capital expenditure													
...													
...													
Total cash out-flow													
Net cash flow (= total cash in-flow minus total cash out-flow)													
Bank balance beginning of month													
Bank balance end of month (= beginning bank balance plus or minus net cash flow)													

### **Action to take**

You've put in all that work. Now what actions should you take?

Negative bank balances at the end of any months in your cash flow forecast mean that you'll have to find money to cover your bills.

There are a number of ways you could do this. You could try to move some receipts forward or some payments back so that the months are more evenly balanced. (See 'Improving your cash flow' box on page 57.) Or you could talk to your bank about a temporary overdraft. If the situation continues, you could arrange longer term finance.

On the other hand, if you continue to have more money in the bank than you need to pay your bills, you could use it elsewhere.

The first thing to do is to create an emergency fund. This should be in a separate bank account, perhaps a savings account. Your emergency fund should have enough money to operate your business for several months and at least three months' worth of living expenses, including your truck payments.

Don't forget to adjust your budget when your situation changes or when new information comes to hand.