

Proprietorships, Partnerships, and Small Corporations Getting Organized – Computer generated information What your accountant (and Canada Revenue Agency) would like to see.

Choosing your accounting program

Once you have made a decision to purchase an accounting program, it is a good idea to contact your accountant to give you some guidance to get started. There are a lot of accounting programs available but your accountant may only use one or two of the mainstream accounting programs so it's best to find out which programs your accountant has licences for before you purchase or start using an accounting program.

If you are going to use an accounting program, it is imperative that you use the most current version and update your program on a regular basis. This is the only way your program will remain compatible with your accountant's programs.

If you chose not to update your programs on a regular basis, you should be warned that if your program proves to be incompatible with the versions used by your accountant, the cost reflected in the time taken to do the proper conversions will be added to your accounting bill. With some programs, it sometimes can take up to eight hours to do a conversion. That's a significant amount of time that will be billed to you.

Getting started

Ideally, you should start using an accounting program at the beginning of your fiscal period.

Most programs have premade templates and charts of accounts for different industries. It is probably easiest if you select one of the premade templates that is appropriate for your industry to get started. All of the pertinent balance sheet and income statement accounts will be set up in the template. You may need to add or rename some of the accounts and deactivate others. Your accountant can help with this process.

Tip: It is best to contact your accountant at the beginning of this process rather than waiting and perpetuating errors. If cost is a factor, your accountant can provide you with names of bookkeepers that specialize in setting up new businesses with the appropriate recommendations for software, charts of accounts, and frequency of data entry.

Once you have your chart of accounts set up you are ready to input your data.

Reconciliations

Depending on your volumes, you may decide that you need to enter your information on a daily, weekly or as a minimum, you should enter your information on a monthly basis. At the end of each month you

should prepare the appropriate monthly reconciliations for your bank accounts, your payroll, and sales tax accounts.

Tip: It is best to contact your accountant during your reconciliation process if you are having difficulties.

Tip: If your bank account does not reconcile, there is no integrity with the computerized information you are providing. If the bank does not reconcile and you are audited, CRA may determine that the audit trail is too weak to substantiate your business revenue and expense amounts. CRA will request additional information and backup to substantiate your claims.

Paper back up

You will need to setup file folders or envelopes for each of your expense categories. If you have a significant volume of receipts, you may want to organize your receipts by vendor and/or date. All of your invoices should be filed in the appropriate folders. You will also need folders for your bank statement and reconciliations, capital assets, credit card statements (the individual receipts for expenses should be in the appropriate expense folders).

Tip: CRA does NOT accept bank statements, credit card statements, or credit card receipts as proof of payment. In the event of a CRA audit, CRA will disallow an expense claimed that is not backed up with its original invoice. **KEEP ALL ORIGINAL INVOICES FOR 7 YEARS.**

Tip: Receipts for gifts or promotions should be identified. CRA requires that each receipt be documented with the following information:

- Purpose of the gift/promotion expense
- Recipient of the gift/attendees of promotion event

Tip: CRA requires that each meal and entertainment receipt be documented with the following information:

- Purpose of the meeting
- Who attended the meeting
- The result of the meeting (ie, became a client, placed an order)

Tip: If personal funds are used to finance your business there must be a clearly defined link to the business portion of the financing. All-in-one bank accounts and personal lines of credit are types of financing that the interest portion claimed may be challenged by CRA because there are no definite repayment requirements and usually contain a personal portion.

Tip: CRA requires the following information with regard to travel costs:

- Purpose of the trip
- Number of people travelling

- Personal portion of the trip (costs relating to spouse or children should be deducted from expense). If you travel for a two-day convention to a destination like Hawaii but decide to make a vacation out of the trip and extend your stay to two weeks., then the non-convention days would be considered to be personal, so costs for meals, accommodations for that time frame should not be claimed.
- Result of the trip

Tip: Monthly costs for your home telephone are not allowable. However, the long distance calls made for business purposes on your home phone are allowable.

Tip: With the extensive use of cell phones and internet as a replacement for land line communications, CRA is requesting proof of the business use of cell phones and internet.

Tip: In the event of an audit, CRA may disallow motor vehicle expenses not backed up by a mileage log. The easiest way to keep a mileage log is to have a calendar in your vehicle at all times. On January 1st of each year write down your odometer reading and on December 31st write down your odometer reading. Each time you make a trip for business, jot down the destination and the mileage. At the end of the year total the mileage you drove for business purposes. Then subtract the December 31 odometer reading from the January 1st odometer reading to determine the total kilometers driven for the year. These two amounts will be the ratio used to determine your business use of your vehicle.

Tip: If you use multiple vehicles for your business activities, you should keep a separate log/calendar for each vehicle.

Year end

At the end of your year, you will be ready to provide your accountant with your electronic records. You can save your information on a USB stick, burn a copy to CD, and in some cases you can send your files to your accountant via email.

Tip: Remember to provide your accountant with your user name and password if you have protected your information. Your accountant should be told about the brand of software you are using as well as the year and version of the software. (ie Simply 2011 version d)

Tip: The date you send your accountant your electronic information is the last day you can enter anything into the computer regarding the completed fiscal year end. If you find you have made a mistake, or need to void an entry in that fiscal period, **please do not make any changes to your program**. If you find that adjustments need to be made to your year end information, **contact your accountant** so your accountant can prepare the appropriate entries. Once your accountant has made all of the required year end entries as well as any adjustments provided by you, your accountant will provide you with copies of all of the journal entries you will require to update your data.

Catch up entries

If you have provided your accountant with a copy of your computerized accounting data, you should expect to receive catch up journal entries and your accountant's copy of your year end trial balance. If you do not receive your catch up entries, please contact your accountant as soon as possible to obtain them.

Enter your catch up entries using your year end date (i.e. December 31st). Compare your net income and retained earning balances to your accountant's year end balances. If any balance is different, please contact your accountant immediately. It is better to find the discrepancies and deal with them right away.

Once your year end final numbers match your accountant's final numbers then your year end should be locked down. This procedure eliminates the possibility of accidentally altering the final year end balances. If you aren't sure how to do this step, please contact your accountant. This step should be done routinely at the completion of each year end.

Year end options

You may decide that you would like your accountant to enter the journal entries into your accounting program rather than post them yourself. If you decide to go with this option, you will need to provide your accountant an up to date copy of your data. Ideally, you should provide this information at the end of your business day. Your accountant will post the information the following day and return your updated data to you. **You will not be able to enter any information into your computer system until your accountant has returned your updated data.** Your accountant will return your data and instruct you to lock down your year end.

Accountant's Copy

We do not recommend providing your accountant with the Accountant's Copy of your year end data. The biggest reason is that this copy of your file limits your accountant's access to certain data and significantly limits the ability to correct posting errors effectively.