L'Arbi Ben M'Hidi University_ Oum El Bouaghi
Faculty of Economics, Business, and Management
Department of Management
3rd Year Financial Management

Financial Records

Financial Records:

All businesses—large and small—must keep records. The main reason businesses keep records is to determine whether they have made a profit or a loss. If a business is not making a profit, it faces a lot of operating pressures. If financial problems cannot be solved, the business may cease to exist. Financial records (also called accounting records) are organized summaries of a business's financial information and activities.

RECORD-KEEPING SYSTEMS:

Businesses handle financial records in various ways. A small-business owner can keep the records personally or employ a full-time or part-time bookkeeper or accountant. Larger businesses establish an accounting department or use an accounting service organization. The record-keeping system a business adopts determines, in part, the way it will handle its records.

Systems for keeping financial records may be simple or complex, and they may require almost no financial knowledge to use or may be highly technical. Today almost all business records systems are computerized. Regardless of the type of record system a company selects, the system must be accurate, keep information safe and secure, and provide timely and accurate information.

Types of Financial Records:

CASH RECORDS:

Cash is constantly coming into a business from customers and other sources, and cash must go out of the business to pay for things purchased. Regardless of how financial records are maintained, businesses follow similar procedures in accounting for cash.

CREDIT RECORDS:

All businesses must deal with money that they receive as a result of the sale of goods or services to customers. Because most businesses sell on credit, they keep records showing what each customer owes and pays. This record is called an accounts receivable record. When a credit sale is made, the salesperson completes an order, which is submitted to the accounting department. The accounting department enters the sale into the accounts receivable record and sends an invoice of the sale to the customer that identifies the payment terms and dates. When payments are made by the customer, the payments are recorded in the business records.

Businesses must also keep records showing money they owe and payments they make for all credit purchases. This kind of record is an accounts payable record. Each time a credit purchase is made, that purchase and its terms are recorded in the accounts payable record. When payments are made to the creditor, they are also recorded so the company has an accurate record of what they owe on each account.

DEPRECIATION RECORDS:

An asset is anything of value owned. Businesses need to have a variety of assets, such as buildings, vehicles, equipment, and inventory, for use in their normal operations.

The value of an asset decreases through use over time. This gradual loss of an asset's value due to age and wear is called depreciation. For example, a Jiffy Lube franchise owner buys a computerized diagnostic tool that costs $16,000. The owner knows from experience that at the end of five years the equipment will not be worth any more than $1,000. The owner estimates, therefore, that the equipment will wear out or depreciate at the average rate of $3,000 a year.

SPECIAL ASSET RECORDS:

Financial statements list assets and their values, but they do not provide detailed information about these assets. As a result, a business must keep special records. For example, a business should maintain a precise record of insurance policies, showing such details as type of policy, the company from which it was purchased, amount, premium, purchase and expiration dates, and the amount to be charged each month as insurance expense. A business also maintains detailed special records for all fixed assets, such as trucks and forklifts. These records provide such information as asset description, date of purchase, cost, monthly depreciation expense, and asset book value. Asset book value is the original cost less accumulated depreciation.

TAX AND PAYROLL RECORDS:

Federal and state income tax laws require every business to keep satisfactory records in order to report its income and expenses, file required forms, and calculate and pay all required taxes. The law requires employers to withhold a certain percentage of each employee's wages for federal income tax purposes. Other payments that employers must make to federal and state governments are for business taxes and government-sponsored unemployment compensation insurance.

For business planning as well as for tax purposes, businesses must keep detailed payroll records for each employee: hours worked, wage or salary rate, regular and overtime wages paid, and all types of deductions and withholding made from the employees' wages. Companies also record the value of benefits paid for each employee such as health insurance, paid vacation, and retirement benefits.

PROTECTING BUSINESS RECORDS:

All financial records of a business, including personal information about customers and employees, must be maintained and retained for many years. Information must be secure from theft and misuse and also should be protected from hazards of nature such as fire, floods, hurricanes, and earthquakes. Also, the growing threat of terrorism offers other types of threats to businesses. Every business, therefore, should have secure areas such as vaults and safe rooms for records and secure areas for computer equipment and data storage. Fireproof and secure filing cabinets and other types of storage devices are also needed for maintaining important and frequently used documents. Methods to provide access to authorized people must be developed while keeping the information from those who are not authorized to access it. Important documents such as mortgages, deeds, leases, contracts, and other critical but infrequently used documents may be better placed in bank safe deposit boxes or other secure locations if there is no adequate protection in the business. Companies protect their computer records by using such precautions as firewalls and passwords to keep out intruders. Most large organizations have security personnel or consultants who regularly review computer systems and look for attempts to “hack” or illegally access information from the computer systems. Companies should also store backup copies of electronic records in a secure off-site location. Service companies rent storage space on their computers or in their climate-controlled data warehouses for safe record archiving and protection.