

Why Should I Keep Records?

Everyone in business must keep records. Keeping good records is very important to your business. Good records will help you do the following:

- Monitor the progress of your business
- Prepare your financial statements
- Identify source of receipts
- Keep track of deductible expenses
- Prepare your tax returns
- Support items reported on tax returns

⊗ **Monitor the progress of your business**

You need good records to monitor the progress of your business. Records can show whether your business is improving, which items are selling, or what changes you need to make. Good records can increase the likelihood of business success.

⊗ **Prepare your financial statements**

You need good records to prepare accurate financial statements. These include income (profit and loss) statements and balance sheets. These statements can help you in dealing with your bank or creditors and help you manage your business.

- An **income statement** shows the income and expenses of the business for a given period of time.
- A **balance sheet** shows the assets, liabilities, and your equity in the business on a given date.

⊗ **Identify source of receipts**

You will receive money or property from many sources. Your records can identify the source of your receipts. You need this information to separate business from non-business receipts and taxable from nontaxable income.

⊗ **Keep track of deductible expenses**

You may forget expenses when you prepare your tax return, unless you record them when they occur.

⊗ **Prepare your tax return**

You need good records to prepare your tax returns. These records must support the income, expenses, and credits you report. Generally, these are the same records you use to monitor your business and prepare your financial statement.

⊗ **Support items reported on tax returns**

You must keep your business records available at all times for inspection by the IRS. If the IRS examines any of your tax returns, you may be asked to explain the items reported. A complete set of records will speed up the examination.