

Good Accounting Practices You Should Follow For Your Business

These are a couple of general good business practices to follow pertaining specifically to maintaining good accounting records:

1. **Do not run personal expenses through your business.** There are good legal reasons why most lawyers will recommend a corporation or partnership to not use their business accounts for personal expenses. If you don't know these reasons, you should consult your attorney. From the accounting side, this practice makes your bookkeeping more difficult and less accurate. In addition, if you get audited and the IRS sees significant personal expenses, it makes your books look more suspect to erroneous deductions and may result in increased IRS audit scrutiny and disallowed deductions.
2. **Maintain a separate checking account for your business.** We always will recommend that you setup a separate account for your business. If you don't and you use one or more personal accounts for your expenses, you run a high risk of not recording all expenses you are legitimately entitled to take.
3. **Maintain a separate credit card for your business.** For the same reasons as #1 and #2 above, we recommend this strongly. In addition, the IRS could deny an interest deduction for the credit card fees if you mix personal and business expenses on one card. They could argue the credit card is personal and disallow all interest charges.
4. **Use a program to track your finances such as QuickBooks.** For those clients for whom we handle the bookkeeping, we already use a professional bookkeeping program, so skip to #5. But for everyone else, you must keep your accounting records so that you can produce a detailed listing of individual transactions that make up a balance on your income statement. If the IRS or any governmental agency audits your books, this is the first thing they will request.
5. **Keep all your receipts for every transaction.** You need to properly document every deduction you take. Part of this documentation is a receipt for every deduction you take. Note that cancelled checks, credit card receipts or credit card statements alone will NOT suffice. In an IRS audit, you must provide proof of payment (cancelled check or amount on credit card statement), what specifically was purchased (this is the part that shows on the actual receipt – not the cancelled check or credit card statement), and the business reason for the purchase.

Please keep in mind the idea of “ordinary and necessary.” This phrase is important; we see many deductions disallowed on audit when the IRS deems the expense not to be ordinary and necessary. An expense is *ordinary* if it's customary or usual in the taxpayer's business. A *necessary* expense is one that's appropriate and helpful in developing and maintaining the taxpayer's business. It need not be essential or indispensable.

On the income side of your income statement, if you deposit any money into the business that is NOT income (such as a loan) you should keep documentation of the transaction such as a copy of the check and a loan agreement between the business and the lender. This will help show the IRS the deposit was not income. Under audit the IRS assumes all deposits are income unless you can prove otherwise.