

Purpose and requirements for keeping financial records essay sample



**ASSIGN
BUSTER**

Keeping accurate and properly managed records will contribute the success of business in following ways:

- Highlights the financial problems and enable remedies to be put in place
- Provides valuable information for the future sale of your business where that is required
- Helps to manage things shortly and saves your time
- Fulfills the obligations as to taxation law
- Provides information of management and helps to take further decisions based on
- Increase the chances of success
- Provides information to enables the control of cash in business

Good records helps you to do the work quicker and enables you to monitor every situation easily. It can helps you to check that if a particular product has been selling as loss or that your sales are 50 % less than your recorded budget or you have earned £10, 000. 00 more than expected budget.

Records must be kept to show an idea of something on which business is concerned such as:

- Detect net profit and gross profit

- Judge that business is running successfully
- Compare financial situation with last year budget and with current budget
- How much you owe for rent or business expenses
- To have an idea about the products that are making profit and that are running at lost
- How often you turnover your stock

Finacial recording can be done in following ways :

- Double entry bookkeeping
- Manual or computerised systems
- The trial balance
- Day books and ledgers

Record keeping system should be accurate, easy to follow and be very simple. Good record keeping is vital in regards to meeting the financial commitments of the business and providing information on which decisions for the future of business can be based. Techniques for recording financial information

Bookkeeping:

The starting point for collecting financial information is to systematically collect records of financial transactions e. g. invoices, receipts etc and to enter these into some form of book keeping system. Bookkeeping records are the routine financial transactions within appropriate account categories. A bookkeeper compiles the information that goes into the system, and the bookkeeping system provides the numbers for the accounting system. For example: a bookkeeper may pay the bills, invoice clients, prepare your BAS and collect debts. Traditionally these records were kept in books referred to as ledgers. For example, there would be a ledger recording purchases, a sales ledger etc. Today these records are typically entered into computer based ledgers.

This information can then be entered at the end of a period of time into a trial balance setting out the relationship between the assets (what a business owns or is owed) and the debits (what the business owes). These two sides will balance – hence the term ‘ balance’ – e. g. trial balance, or <https://assignbuster.com/purpose-and-requirements-for-keeping-financial-records-essay-sample/>

balance sheet. Figures from the trial balance can then be entered into the balance sheet of the business to show the financial position at a particular moment in time, e. g. the year end. By doing your own book-keeping: you'll minimise costs; have more control; and get a better understanding of your financial information and operations. Accounting:

Accounting identifies, measures, analyses, and communicates financial statistics to provide useful information about your business. An accountant uses the financial information to advise you on the big picture about your business performance, and provides strategic advice for improving profitability and building your business. Whichever option you choose for maintaining financial records, it's vital that you can read and understand your own financial statements, and that your financial recording and reporting methods are accurate and comply with relevant legislation. For example: an accountant prepares your end of year accounts, annual depreciation calculations, provides advice on tax minimisation and maximising business deductions, and lodges your BAS.

Accounting systems are typically based on the double-entry recording system, in which every transaction will have two aspects – one on assets and the other on liabilities. Double entry book keeping is the process of recording each transaction twice – as an asset and a liability – in order to be able to set out balances showing the financial state of the business at a particular moment in time. Many small business owners handle their day-to-day book-keeping requirements but consult an accountant for help with reporting functions. Before deciding whether you will manage your own finances or

outsource the process, it helps to understand the difference between book-keeping and accounting.