Record It

Business Records

What to keep

Paper or digital?

In the cloud

So What?

Could you survive without your cellphone and all the information it holds? If you're like most people, you have a contact list, an appointment calendar, and maybe some apps to access your school work or other data online. Many people say that they would be lost without their phones—because without the information that their cellphones contain, these people wouldn't remember their friends' birthdays, their doctor appointments, or their homework assignments. There is simply too much important information for those individuals to memorize. Instead, they let their phones remember the information for them.

Businesses also maintain information electronically or on paper rather than trying to remember every event, transaction, and decision made. That's because if a business forgets or loses important information, it can suffer. The business might lose a lawsuit, misjudge a client's needs, or neglect to pay taxes. And, when a business suffers, its owners, customers, suppliers, and employees suffer, too. So, as an employee, you'll want to know the business information that's important to keep—and why.

Objectives

A. **Describe the importance of business records.**

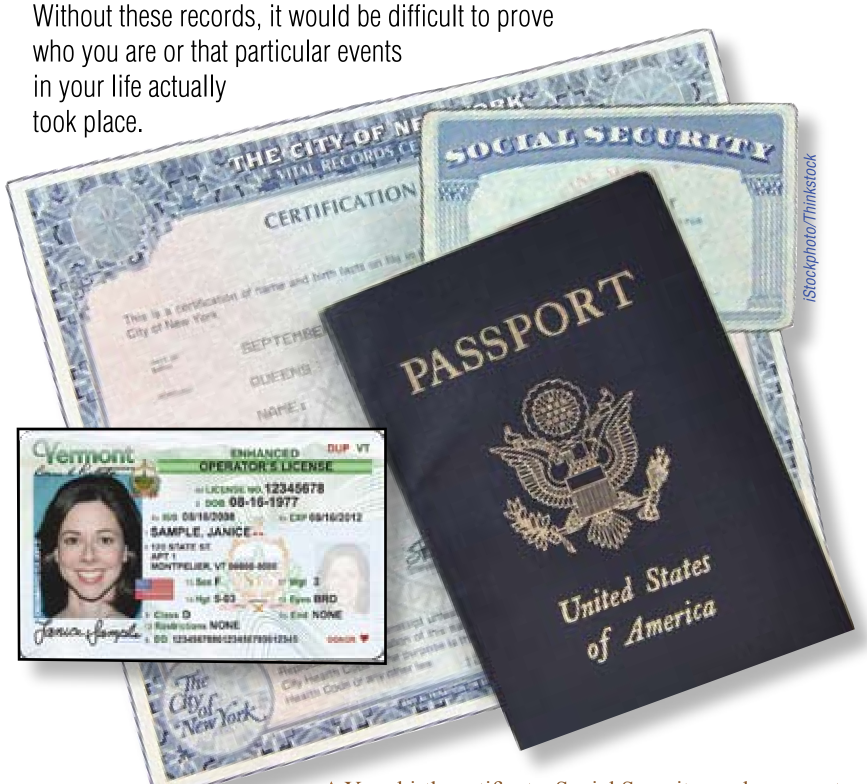
B. **Discuss methods of record keeping.**

Make a Note of It

Do you realize how many records are kept on *you*?

When you are born, you receive a birth certificate and a Social Security number. When you get a driver's license, you receive photo identification. And when you travel outside the country, you obtain a passport to identify your country of origin. If you break the law, your criminal actions are recorded. And, if you get married or divorced, each event is documented. Even when you die, a record is created—a death certificate.

Whether you like it or not, your life's major occurrences are kept on record. Without these records, it would be difficult to prove who you are or that particular events in your life actually took place.



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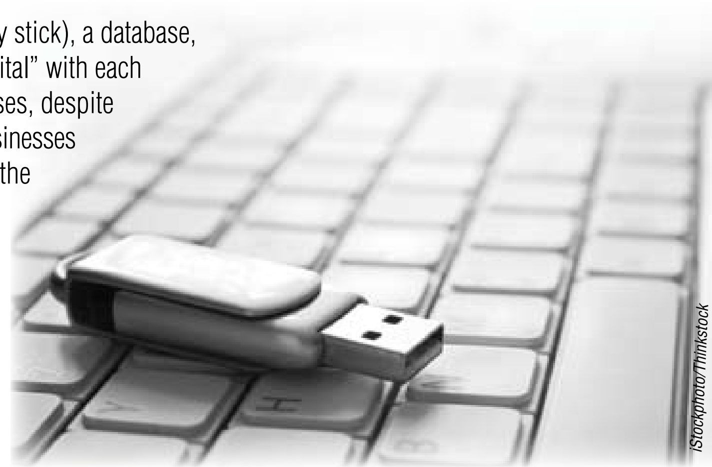
▲ Your birth certificate, Social Security card, passport, and driver's license are all examples of records that help to prove who you are and provide information about important life events.

What business records are

Just as personal records are important for proving what a *person* has done, business records are important for proving what a *business* has done. If a business has spent a particular amount of money, hired a certain person, or promoted a specific product, the record is the documentation, or proof, that it really happened. **Business records**, then, are documents containing information about a business's operations and finances—what it has done with its resources and opportunities.

Business records can be either paper or digital. Paper records must be filed alphabetically or numerically and put in a cabinet, in a drawer, or on a shelf. Digital documents, on the other hand, are housed in a computer-related medium, such as an online backup service (also known as cloud storage), a networked file server, a portable hard drive (a.k.a., a flash drive or memory stick), a database, a web posting, or an e-mail. Although more business records are "born digital" with each passing year, many records still begin their lives in paper form. In some cases, despite the fact that paper records can have a shelf life of a hundred years or more, businesses use electronic imaging software to scan the paper documents and convert the hard copies to digital form for long-term storage.



▲ Digital records can be stored in several different computer-related media, including portable hard drives, cloud storage, networked file servers, databases, web postings, and e-mails.

Why do some businesses convert their paper records to digital form? Because digital records can be retrieved easily, printed or shared when necessary, and stored less expensively. Drawbacks to keeping digital records include:

- Electronic records can become inaccessible due to obsolete technology. For instance, most of today's computers cannot access data stored on a floppy disk. Rather than keeping out-of-date equipment on hand simply to read older files, smart businesses "migrate" their older digital records to current technology whenever feasible.
- Constant use, rough handling, and even age have the potential to damage some electronic media. Since portable hard drives, CDs, and DVDs can break under stress, many businesses make copies of all documents housed on such media and store those copies in another more stable digital form, just in case.

The need for quality records

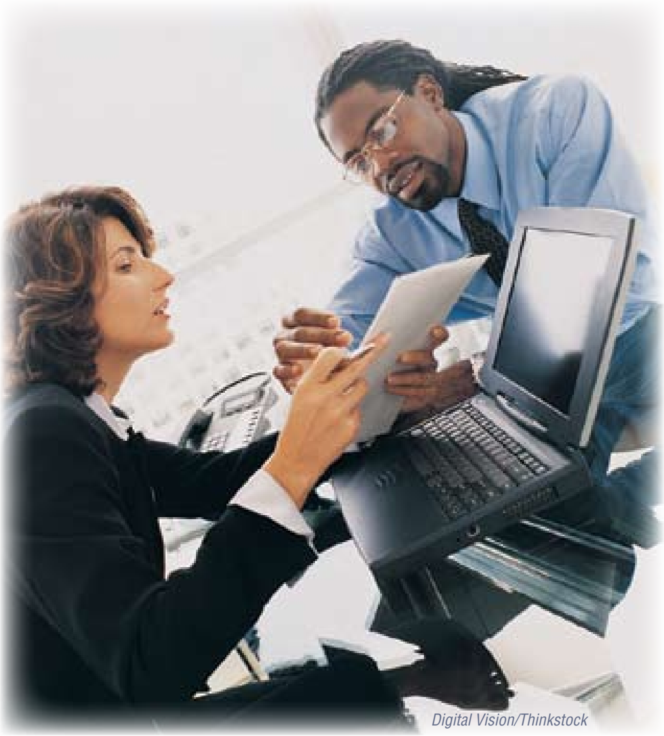
To use today's information at some point in the future, businesses must have quality records—those that are retrievable and reliable. Retrievable records can be accessed when they need to be. They're not out of reach.

An increasingly popular method for storing business records is in "the cloud." Cloud storage involves storing your records in a database maintained by a third party at an off-site database storage facility. How do you access this remote storage system? Via the Internet. Rather than storing your records to your computer hard drive, a flash drive, or other nearby storage device, you upload your files to the Web and then save them to the remote database—"the cloud." To retrieve any files that you've saved to the cloud, simply go online, log into the database, and access whatever records you need.

Reliable records are up-to-date, authentic, and accurate all the time. They're genuine, trustworthy, and useable. They're error-free when they're stored, and they're error-free when they're retrieved. And, by saving paper records in a safe, protected environment and digital records in a "read only" format, businesses can ensure that their records are tamper-free, as well. Can you imagine looking up a client's phone number or address and realizing too late that the information is outdated or wrong? Good record keeping can help businesses avoid such situations.

A record's life cycle

Just like people, records go through a life cycle. A record's life cycle involves being created, stored, retrieved, and then archived or destroyed. For a pool-cleaning service, records are created when a potential customer needs a pool to be cleaned. The pool cleaner stores information about the pool's location, the condition of the pool, the types of cleaners used, the procedures followed, and the customer's payment. When the pool cleaner is hired to clean the same pool later on, these records are retrieved and read, so the pool cleaner can know the type of service previously provided to the customer. If the customer removes the pool altogether, the business may destroy the related records after a period of time. But, if the customer is likely to provide additional opportunities to service pools in the future, the records may be archived—or sensibly stored for the long term.



▲ At the end of a business record's life cycle, business professionals must decide whether to destroy the record or archive it for future use.

Types of records to keep

What determines which records are kept? Two things: the size of the business and the regulatory factors governing it. Large businesses need *more* records than small businesses, but all businesses must keep certain information.

The specific selection of records a business keeps is determined primarily by the regulatory factors affecting that business. An example is the federal Sarbanes-Oxley Act that requires public businesses to comply with specific accounting requirements. If they do not comply, negative consequences will occur. Sometimes, a business will assign a compliance team to ensure the efficient storage and retrieval of required information—to avoid any mishaps.

So, which records are typically kept? Financial, asset, tax, payroll, personnel, inventory, promotional, and legal records, to name a few. Let's take a look at each.

Financial records. Financial records contain information related to the amount of money going into and out of a business. These records usually include all payments received, called accounts receivable, and all payments made, which are known as accounts payable. Financial records also typically include cash records, which show all of the cash coming in and out of the business, and credit records, which identify all of the credit that the business has extended and used.

A business keeps financial records to bill customers accurately, make payments on time, track its income and expenses, prepare budgets, and determine whether or not the business is on target. Businesses also use financial records to build a reputation of creditworthiness and to prepare financial statements for shareholders. Shareholders want to know how well the businesses they own are meeting financial expectations.

Types of Business Records

- Financial records
- Asset records
- Tax records
- Payroll records
- Personnel records
- Inventory records
- Promotional records
- Legal records

Asset records. Not only do businesses keep track of their money, but they also keep track of their furniture and equipment—their assets. Assets enable businesses to operate, and (as such) they are valuable. What information do businesses record about their assets? They record the depreciation of fixed assets (land, buildings, and equipment), and they record the "special details" of assets, too.

Depreciation, an object's lessening in value over time, can be from "wear and tear" or from obsolescence. "Wear and tear" is the natural wearing down of an item through regular or constant use. Your running shoes are a good example. Once you wear them out, they have very little value. Obsolescence is the fading out that occurs as new products or processes are introduced. You see this with the *little* usefulness a typewriter has today. Advances in technology have made it obsolete. Information about when an item is expected to wear out or become obsolete helps businesses determine when to replace particular equipment.

An asset's "special details" help a business determine the asset's type and value. Businesses keep the description of each fixed asset, the date of purchase, the cost of the asset, any monthly depreciation expense, and the asset's book value on record. In addition, businesses hold on to serial numbers, model numbers, brand names—anything that will be helpful later in identifying an item.

"Special details" aren't limited to the assets themselves, however. Businesses also keep the details of insurance policies covering particular assets, such as pieces of equipment. These insurance details include the:

- Type of insurance policy
- Company from which the policy was purchased
- Amount of money the policy is for
- Premium required to maintain the policy
- Purchase date
- Expiration date
- Amount to be charged each month as insurance expense

When a business knows what is covered by insurance, it can respond appropriately (via insurance claims, etc.) when an asset is damaged or destroyed. Businesses don't want to see damaged assets become a total loss.

Tax records. No one—not even a business—wants to pay more tax than is necessary. To avoid overpayment, businesses must keep records to prove their income and expenses. This information is found in the financial records of the company.

For tax purposes, businesses must also record everything they pay their employees and the deductions that are made. Deductions include withholdings such as federal income tax, state income tax, local income tax, Social Security (FICA), and Medicare.

In addition, tax records show what the business has paid for unemployment compensation and for sales tax. The records include any tax forms that were filed in the past and the amounts of quarterly tax payments made.

Keeping tax records helps businesses complete their tax forms and account for everything they have earned and deducted. This helps businesses supply accurate data for government reports.

Payroll records. Payroll records use some of the same information that tax records use—such as what businesses have paid employees and the deductions that have been made. But, payroll records include *more* than just pay and deductions. They include details such as each employee's identification (Social Security number and driver's license), hours worked, regular wages, and overtime wages. These facts help businesses document payroll information.

Personnel records. Just as a student has a permanent record at school, an employee has a permanent record at his/her place of employment. Businesses keep employee information regarding hiring, evaluations, promotions, reprimands, and terminations.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▲ Personnel records help businesses to make decisions regarding hiring, evaluations, promotions, reprimands, and terminations.

Businesses also keep records of personnel policies they expect employees to follow, the training they've provided for particular jobs, and the benefits they've provided for each employee, such as medical or life insurance.

Personnel records are essential to documenting the actions a business has taken regarding an employee—information that may be useful when discussing reasons for a promotion or termination.

Inventory records. For tracking inventory, businesses keep records on the types and quantities of materials or products available and ordered. If a business is a manufacturing firm, it needs to know about the raw materials and supplies used, the work in progress, and the goods ready for sale. If a business is a wholesaler or retailer, it is concerned with finished goods and can quickly determine the color, style, and brand of each item on the sales floor, in the warehouse, and on order. This information aids in maintaining adequate inventory levels.

Promotional records. Promotional records are documents containing information about the various types of communications that businesses use to inform, persuade, or remind customers of their products, images, or ideas. It's important for businesses to know which promotions they've run, including when, where, and how they've run them. This information helps businesses to time their promotions appropriately and to evaluate the effectiveness of each promotion.

Legal records. No matter what businesses say or do, their words and actions can be used in court to defend or convict them. In light of this, almost every business document is a legal record. Some examples include:

- Contracts and agreements
- Business correspondence (e.g., e-mails, faxes, letters, etc.)
- Intellectual property
  - Patents
  - Copyrights
  - Trademarks
  - Trade secrets
- Leases
- Work orders
- Claims
- Permits

With potential lawsuits in mind, businesses save many documents that might be useful in the future—especially those that offer evidence that their policies and procedures are being followed.

TOTAL RECALL

1. What are business records?
2. Describe the difference between paper and digital records.
3. Discuss the benefits of keeping digital records.
4. Discuss the drawbacks of keeping digital records.
5. Explain the importance of keeping quality records.
6. Describe the life cycle of a business record.
7. Name three types of business records.

Summary

Business records are the documents containing information about the firm's operations and finances. Quality records are retrievable and reliable. The size of a business and the regulatory factors influencing it determine which records are kept. However, most businesses keep financial, asset, tax, payroll, personnel, inventory, promotional, and legal records.

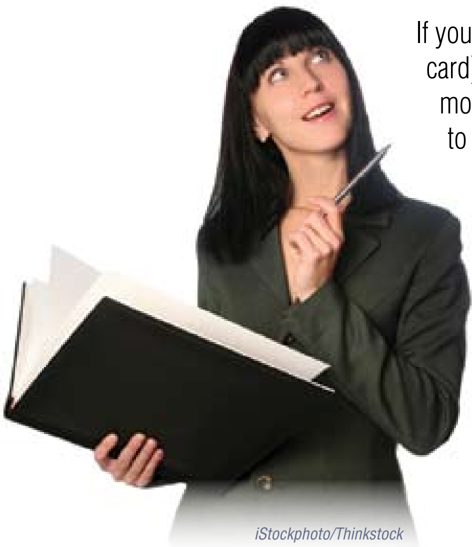
THE GRAY ZONE

Businesses often maintain client information, such as names, addresses, telephone numbers, and e-mail addresses. It is sometimes tempting to share that information with companies wanting access to a particular market—especially if those companies are willing to pay for the information. But, is it the right thing to do?

At first, you might say, "Aren't there laws against that?" In some circumstances, with specific types of information, yes. These situations include accessing records regarding personal health, education, and finances.

But, online information is not always well protected, legally or otherwise. It would be easy for businesses to share or sell consumer information gathered online. Since privacy laws do not address many online situations, what do you think businesses should do?

Jot This Down



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If your favorite aunt neglects to keep a record of your birthday (and forgets to send you a card), you might be disappointed. But, if your bank neglects to keep a good record of the money in your account, you might be *angry*. Some things are just too important to overlook!

A business must know how to keep records. Although one business may have a different record-keeping method than another, all must understand what's involved.

Phases of record keeping

The record-keeping process includes several phases. First, a business must get started—by determining which records to keep, how to keep them, and when they should be destroyed. At the "how to keep them" point, the business must set policies and practices, deciding whether or not the records should be kept digitally and who should be responsible for creating, maintaining, and destroying the records.

The business must then implement the process it has started. This means that everyone in the business needs to know the general plan, and those who are specifically involved need to know the tasks they will be expected to perform to carry out the plan. Implementation includes establishing, communicating, and carrying out procedures—and integrating those procedures with those of every other business department, for a unified effort.

Third, the business needs to monitor its record-keeping process so that it can adjust appropriately as changes occur. With proper evaluation, the business can ensure that its plan is working effectively.

Approaches to record keeping

Businesses can approach the record-keeping process in different ways. Business owners can keep the records personally—something you'll see in small businesses, in which owners will open a business checking account and write down their deposits and payments, for example. Or, businesses can hire an employee to do the work, either full- or part-time. Some businesses are large enough that they establish an entire department to handle the record keeping of something specific (such as financial information). Other businesses outsource their record keeping to a service organization that will handle the tasks for them. One type of service organization is a data processing center, a business that organizes and analyzes information for other companies.

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▲ At the "how to keep them" point in the record-keeping process, businesses must decide whether to keep their records on paper or in a digital format as well as who should be responsible for keeping these records.

Tips for record keeping

All businesses have an approach to record keeping, but not all businesses follow the tips for *good* record keeping:

- Use a system
- Pick a style
- Avoid hazards

Let's take a look at each.

Use a system. Every business should have a workable record-keeping system. The system can be simple or complex, computerized or not—but it must be easy to use. It should be up-to-date and reliable and should allow for quick storage and retrieval of accurate information.

Pick a style. Businesses can keep their records manually or in a computerized manner. Some small businesses use a manual system with standardized forms and even old-fashioned cash-register tapes. (Nowadays, many businesses use paperless methods of recording sales transactions.) Manual systems can work for small businesses, although they may be cumbersome as the businesses grow. Doing things by hand, instead of by computer, takes a lot of time and effort.

Computerized record-keeping systems typically use software to do the "difficult" work. With this style, businesses use computer software to complete calculations and prepare financial reports. You can see the value of this method in keeping inventory records.

With inventory records, businesses can use a computer to record current inventory counts—whether physical or perpetual. Some businesses use a physical inventory system, in which they count all the items in stock once a year. Other businesses use a perpetual inventory system, in which they try to keep an ongoing record of items in stock—and perform a physical count periodically to make sure they're on track. Scanning bar codes can make the process a lot easier. A computer can calculate when the business needs to order more of a particular item.


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▲ Businesses often use computerized record-keeping systems to complete difficult tasks such as completing calculations, preparing financial reports, and tracking inventory.

Avoid hazards. With a system and a style, businesses are ready to keep records. But, they may not be ready for the common, or typical, hazards that may occur—such as fires and thefts. Storing files in fireproof cabinets can help to prevent a fire from destroying vital information. And, using firewalls and passwords can deter information thieves who try to hack into the computer system.

Unfortunately, the *uncommon* disasters are often overlooked, such as harsh hurricanes, powerful tornadoes, and major floods. Businesses need to plan for these potential problems, consider the protection they will need, and determine the ways they can (and should) respond in these situations. Businesses need to ask:

- Where will the company's records be located?
- Will the records be safe and accessible?
- If not, what is the back-up plan?

To protect information from major disasters, businesses need to keep duplicate records, label vital records, back up all computer systems, and store information off site (many miles away).

Make It Pay!

Think of the records your school keeps—and why it keeps them. Can you imagine what could happen if a school accidentally switched the files of two students?

Write down three to five pieces of information you think schools should *never* mix up. Why is it important for schools to maintain this information properly?

Summary

Phases of the record-keeping process include getting started, implementing the process, and monitoring/adjusting the process. Record-keeping approaches include keeping the records personally, hiring an employee or department for the job, and outsourcing the task to a service organization. Record-keeping tips include: use a record-keeping system, select a record-keeping style, and avoid the hazards that can destroy business records.

1. What are the phases of record keeping?
2. Discuss two approaches to applying the record-keeping process.
3. Describe the importance of a record-keeping system.
4. Describe the difference between manual and computerized record keeping.
5. How can a business avoid typical hazards to its records?
6. How can a business avoid uncommon hazards to its records?

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