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The Importance of a Business Bank Account

Many businesses use cash for some transactions. There is nothing wrong with this, but it does cause some problems with recordkeeping and can make it difficult for a bookkeeper to ensure that all transactions are completely and accurately recorded – which is the fundamental goal of a bookkeeping system.

Some businesses operate entirely with cash. This greatly limits ability to do business, because it limits access to larger accounts, limits ability to access credit, and makes it very difficult to have a system that ensures a complete and accurate record of all business financial transactions.

If you have cash income and you want to make sure it is recorded, the best practice is to deposit it to your bank account.

Best Practice: You get cash and credit card payments each week at the farmers' market. Deposit the cash to your bank account each Thursday and let your bookkeeper know that all Thursday cash deposits should be recorded as farmers market receipts.

Okay Practice: You get cash and credit card payments each week at the farmers' market. You use that cash to pay business expenses and you give the bookkeeper the receipts for the business expenses. Your books will under-state your income but will record your expenses accurately. This will make it look like you are less profitable than you really are. It will make it harder for you to budget next year, or to get a loan, or to file accurate tax returns.

Bad Practice: You get cash and credit card payments each week at the farmers' market. You take the cash home to pay personal expenses and you do not give the bookkeeper this information. Your books will under-state your income. This will make it harder for you to budget next year, or to get a loan, or to file accurate tax returns.

If you pay expenses with cash, your bookkeeper will not know about these expenses unless you give them the receipts.

Best Practice: You use your credit card to buy gas and you lose the receipt. Your bookkeeper will see the transaction on your credit card statement and will record it even though you do not have a receipt.

Okay Practice: You use cash to buy gas and keep the receipt. You give the receipt to the bookkeeper. The bookkeeper will not be able to match it to any transaction on your bank account or credit card statement, so they will record it as cash you put into the business and as a business expense. This is fine as long as it was actually personal cash. If it is the same cash that was income from the farmers' market, then your books will start to show sales less than actual and expenses greater than what the business can afford - in other words they will not make sense, and that could make it hard to file accurate tax returns or to get a loan.

Bad Practice: You use cash to buy gas and lose the receipt. Your bookkeeper will never know the transaction happened. You will forget it happened. Your gas expense will be lower than actual. This will make it harder for you to budget next year.

The Bottom Line: Using cash makes it easy to miss income or expenses. The best habit is to deposit cash income into the bank and keep receipts for cash expenses.