

Why is record keeping important?

1. PERSONAL INFORMATION RECORD KEEPING: PERSONAL LIFEBOOK:

Your personal data room is a place where you keep all your important documents, whether online or in a physical file. But since we are talking technology here, let's stick to online storage because this gives you access benefits over the manual systems. I use my paid Google Drive for this purpose. You can choose a platform that works for you.

So, what should be in your personal data room (or what some call a lifebook?) Your personal data room should include:

- Your latest bank statements (and actually take time to review your bank statements)
- Your latest payslip
- Certified copies of your passport, permit and/or ID documents
- Certified copies of your birth certificates
- Medical records for yourself and your dependents
- Your latest income tax assessment and other supporting documents. We are now approaching the 2020 tax season and by this time, all documents you need to file your tax return should be in your data room already.
- Your latest statement of assets and liabilities. This is so that you keep track of your net worth at all times.
- Investment and insurance policies
- If you run a business, your latest financial statements and management accounts. When you look for funding, funders will ask for these.
- Title deeds and registration documents for your vehicles.

- Wills and testaments.

A personal data file is important because:

Personal example: One day I went to a dealership to buy a car I wanted to put on Uber. The sales agent gave me a list of things he needed to process my application for the car. I said, “hang on. I have a few documents I put together already, please check if there is anything I missed.” He was surprised that I had everything they needed. This was made easy because I keep a personal data room for myself. All my latest documents are in place. Of course, credit is not afforded simply because you are organised, but this made life easier and the process went quicker.

Now I know some of you could be “judging” me for going to buy a car on credit. But, here is the thing, I do not believe in **bad debt**. I recently cleared all my bad debts. I believe in **good debt**. Bad credit is loans that take money away from you. Good credit is debt that brings in income or that you pay off using other people’s money. For example, that uber car was intended to pay for itself. The day I realised the uber model was not working for me, I sold the car. Another example of good debt that you pay off using other people’s money (what they call OPM) is getting a rental property on a mortgage (bond). If you get your location right, that property will pay for itself and even quicker.

Why else is a personal data room important:

- You will have all your essential documents in one place and if your data room is online then you can access it from anywhere in the world and from any device.
- In cases of emergencies, you will not have to run around to get your documents when (e.g. applying for finance or other life-essential requirements). Also, remember some bankers love dealing with organised people. When you appear unorganised, when you try to get good credit, they may perceive you as a risk or a time-waster (because you are reacting to their requests and not being proactive.)
- It will make it easier for your loved ones once you are no longer there because there is no need for them to run around looking for your documents. Your documents are in a single place and up to date.
- Putting together your personal data-room may also help you discover policies, bank accounts or investments that you had forgotten about but that you do not need anymore.
- You may also discover credit cards or retail shops' cards that you no longer use but where you are still charged certain fees. You will have an opportunity to destroy these cards and close all accounts that you no longer use.
- Going through your bank statements may help you identify unauthorised transactions. This will help you save and cut unnecessary costs.

NB: Share this personal data room with someone you trust and love. This is important because if anything happens to you, then that person knows where to get all your policies to make life easier for the ones you left behind. If you can afford it, this person can be your lawyer.

You can learn about business data rooms [here](#).

Business financial record keeping: Notes to explore:

Like the personal data room, businesses also need a data room where you keep important records for your business. A company's data room is significant, especially in as far as funding, investments, mergers and acquisitions are concerned. This is important because:

- It saves you time if you are to talk to investors for financial injection into your business. I must point out here that you do not have to give investors too much information. Give them what they ask for. Giving them too much information may open up a can of worms that was not intended to come out. But, at the same time, you must be honest and transparent. So, I am saying here get the balance right between being honest and transparent and giving too much information.
- Just as we discussed under a personal data room, you will appear organised and will not be viewed as a time-waster. Why?
- Because when it is time to seek investments, you are not reacting to requests for information. You already have the information and data that most investors will need in order for them to make informed decisions. From my experience, it is

better to deal with a prepared company, one that has proactively put their house in order, than one that put their house in order through reaction.

- While going through the process of constructing a company's data room, a company may identify any gaps in key functional areas of their business. This way, the business can proactively address these gaps before seeking out investment. Areas one may focus on may include strategy, financial management, compliance, etc)
- You can read more [here](#).

What are financial records keeping?

This is the process of keeping track of your financial transactions and financial documents. Financial transactions and documents may include but not limited to invoices, bank transactions, supplier invoices, contracts and other documents.

Cloud accounting:

Simply put, this is the use of accounting systems that can be accessed over the internet and whose storage is on the cloud. In other words, there is no need for one to install software on their desktop computer. Examples of cloud accounting platforms include but are not limited to Xero, Sage One, Quickbooks and Wave (which I would recommend for personal financial record tracking.)

But why cloud accounting?

I know some are still using Excel to keep track of their business transactions and business records are stored on their computer hard drive. I am not discouraging you from using them, but I just want to show you you should be moving to cloud accounting:

- You can access your financial records from anywhere in the world, all you need is internet access.
- Nothing to worry about if your computer breaks, you can just get a new computer and you continue working as if nothing ever happened. No information is lost.
- You stay connected to your data and accountants. No need to travel to their offices for you to have access to your financial information, which you can now access online from any device and from anywhere in the world as long as you have access to the internet. **Give example, I once turned down a client because he wanted me to travel to him every week to pick up a box of slips and invoices.**
- If you are always on the road making expenses on the road, no worries, you can just take a photo of your slips and send them to your accounting system, just like that. **Give examples here.**
- Your suppliers can also email your invoices directly to the accounting system, saving you a lot of time in the process. **Give Hubdoc example.**
- You can connect the accounting platform directly with your bank. This means as you transact on the bank, your transactions are pulled into the system. Now, this is also very secure. So, no need to worry about security issues.
- Unlike Excel, it does not break. No formulas break. No need to press control save every five minutes because the platforms save data as you go.
- You can access your financial data in real-time.
- These days there are funders like Lulaland that can give your business funding by just having access to your Xero account (accounting software). In the traditional world, you would have to prepare numerous documents that you have to send to the bank before you can be considered for funding.

- You can have multiple people working in the accounting platforms at the same time and each can have their own level of access (what they are able to do on the system.) You cannot do this on Excel or on manual systems.
- You have access to a market place for Apps that can plugin into the system and help you to do things that the system cannot do.
- I personally use Xero, the other function I love is it's the ability to automatically chase after outstanding invoices after a specific period has elapsed before being paid.

Proper Accounting records and tax:

The case is Africa Cash & Carry (Pty) Ltd v The Commissioner for the South African Revenue Service. The facts of the case were as follows:

- The business is a cash business and generates a lot of cash from its operations
- In a particular year, SARS (the revenue collector) raised estimated assessments for Income tax and VAT (telling the company how much to pay in tax and VAT.)
- Including interest and penalties, the estimated amount due to be payable to SARS was a total of R600 million.
- The taxpayer objected to SARS. On the version of the taxpayer and their experts, the taxpayer was liable for at least R68 million
- When SARS rejected their objection, they approached the tax court. Their argument was that of prescription, which essentially says a certain number of years has passed and their debt should be scrapped.
- There was a discussion around whether the correct method of determining the taxes was correct. SARS determined the taxes due on the best possible method since the taxpayer did not maintain proper accounting records.

- Their appeal was dismissed and the original estimate by SARS held.
- The taxpayer ended up paying R1 billion to SARS, as a result of an additional 200% penalty added by the tax court.
- You can read more about this case [here](#).

The main points here are:

- You need to maintain proper records or you can face penalties and interest of up to 200%
- SARS requires you to keep financial records for 5 years.
- It is important to keep proper accounting records and to comply with all the tax laws of the land.

About the author:

Lazarus Kasek Magora, CA (SA), is the CEO at Eva Financial Solutions (a digital accounting and consulting firm) and Co-founder and member of BCA (a group of CAs seeking to help each other solve real-life problems and to develop each other through information sharing.)

Contact details:

Company: Eva Financial Solutions

Position: CEO

lazarus@evafinancialsolutions.co.za

021 823 9684



