How Long Should A Business Keep Accounts Payable Records?



Maintaining some sort of paper trail for your business is crucial to protect yourself both legally and financially.

Getting rid of important documents too soon may create legal problems, so that's why it is important to know how to store your documents and how long you should keep them on hand.

Take for example, a situation where you've accidentally thrown away paperwork, like an employment application.

If that employee disputes their position within your company, it will be difficult to fight, because you cannot prove the position they applied and were hired because you lack the appropriate personnel files.

Take time to learn your country's laws about how long you should keep important documents. For now, we are focusing solely on your accounts payable (AP) records.

What is Accounts Payable?

Accounts payable is the accounting term used to describe the goods and services purchased on credit without signing a note payable, also known as a promissory note.

The transactions are recorded in the AP ledger – your liabilities account. The accounts payable process is a vital part of ensuring an organization's financial statements are accurate.

The accounts payable process generally includes:

- The accrual of obligations and expenses that haven't yet been processed
- Keeping precise and complete records in the correct general ledger accounts
- Processing accurate and legit vendor invoices in a timely manner

> *Properly managing your accounts payables is crucial to the success of your organization as it affects your cash flow, supplier relationships, and your company's credit rating.*

Accounts Payable Records Requirements in the United States

If your business is based in the United States, it is important to keep business ledgers and key financial documents on file including profit-and-loss (P&L) statements, accounts receivable, accounts payable, invoices, tax records, bank statements, credit card statements, and more.

Ideally, you need to retain accounts payable records for at least 7 years.

However, if you can extend your retention period without adding to your business expenses, it's always a good idea.

The more documentation you have on hand, the better prepared you will be in the event of an Internal Revenue Service (IRS) audit.

Accounts Payable Records Requirements in Canada

For businesses operating in Canada, the Canada Revenue Agency (CRA) requires companies to retain tax returns and supporting financial documents for at least six years.

This way, you can prove your accounts payable and receivable transactions, should you ever be subject to an audit.

The six-year time-frame applies to both paper and electronics accounts payable records. If documents are kept in a digital format, it must be accessible to the CRA.

If you want to dispose of documentation before the 6 years has passed, you must get written permission from your tax services office using form T137, Request for Destruction of Books and Records.

Filing the form however is not a guarantee that you will receive an exception from the CRA. If you do destroy the records without the exception, you may be prosecuted.

Accounts Payable Records Requirements in the United Kingdom

Businesses operating in the United Kingdom must keep certain financial records for a recommended minimum of 6 years.

Organizations must notify Companies House when records are stored in a location other than the company’s registered address.

Failure to keep those financial records for the required amount of time could cost you a £3,000 fine by the HMRC or disqualification as a company director.

The six-year period for retaining your financial documents begins from the end of the last company financial year the document is related to.

That said, there are some situations where you have to keep it longer. These

include but are not limited to:

- HMRC has initiated a compliance check
- A company tax return was filed late
- Transactions that contain one or more accounting periods

If your company's records are ever lost, stolen, or damaged notify the corporation tax office as soon as possible. Also, note this fact in your company tax return.

Accounts Payable Records Requirements in Australia

For Australian businesses, the length of time required to retain the documents varies depending on the organization or government department.

You are required to retain any and all financial records including personnel records, depreciation schedules, payroll records, receipts, invoices, and tax documents.

For instance, the Australian Taxation Office requires businesses to keep records on hand for at least 5 years from the date they are created.

However, the Australian Securities and Investment Commission (ASIC) requires businesses to keep certain records available for 7 years.

Maintaining Proper Financial Records

Keeping paper-based records this long takes a lot of time, effort, and office space. That's why digital record-keeping is becoming more popular.

It saves office space because you no longer require multiple filing cabinets to hold all of the documents and it saves you money in several ways.

Not only are you saving money on the paper and printer ink required to produce hard copies, but you're also reducing the potential for costly errors that are common with paper-based processes, and increasing employee productivity.

In some situations, businesses keep both a hard copy and a digital copy of certain documents.

There are also some instances where you will have to retain a hard copy of a document such as a contract.

Paper-based document management is not reliable because it is easier to have these documents stolen by identity thieves or misfiled. but, the hard copy helps to validate your electronic records.

Most government departments accept electronic copies of business records but in order to comply, the digital copies have to be a clear copy of the original document.

If you're not sure about whether or not you should keep the record, it's better to have it and not need it, than to need it and not have it. If you have any questions, you can always speak to a CPA.

Your small business accounting records should contain:

- Bills of sale
- Purchase orders
- Bond records
- Profit and loss statements
- Business tax returns and tax payment receipts
- Employment tax records Garnishments
- Canceled checks
- Sales records
- Expense reports
- Property appraisals and property records
- Audit reports
- Accident reports

Accounts Payable Records and Closing Your Business

If your business is not Incorporated such as a sole proprietorship or a partnership, you will still need to keep your financial documents on hand for six to seven years in most countries.

But, if your business is incorporated, you only need to keep the records for two

years from the time you shut down your business depending on local laws and regulations.

Now that you know how long you have to keep accounts payable records on hand, it's time to make sure you have an efficient system for tracking and managing them. The right software can make all of the difference.

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