

Accounting for Your Business Credit Card Expenses

Every business has expenses. And with the growing popularity of small business credit cards and low interest rates, many business owners are using them to make purchases.

Tracking and recording expenditures is a process many owners don't like to deal with: accounting for your expenses, keeping track of all of your receipts, making sure they are recorded on your income tax return, etc. Proper recordkeeping of your business expenses can help you save time while allowing you to maximize your allowable deductions when preparing your tax return. Implementing a system for your receipts will not only organize your records but give you the satisfaction of knowing you're accounting for every deduction.

HOW TO TRACK AND RECORD CREDIT CARD EXPENSES FOR YOUR RESTAURANT

If you use a separate business credit card for business purchases, do not put personal items on the business credit card.

The IRS does not approve of mixing business and personal purchases on the same credit card. If paying an item through the business, think to yourself, would you reimburse an employee for this expense if he/she turned in the receipt? If not, you should pay for it personally.

Receipts are needed for all charge card purchases to prove in an audit what the expense is for and that sales tax was paid on the purchase. Without the actual receipt, the expense could be disallowed by the IRS or the State of Wisconsin.

There are two options to report credit card purchases depending on whose name the card is in:

Method One - Company Charge Card (make sure the card is in the business name)

1. At the beginning of each year, create a new manila folder so that each charge card will be filed by year with the receipts attached.
2. Create a separate petty cash envelope to be used for each charge card the business uses.
3. For each charge card purchase, obtain a receipt and mark on the receipt what the expense is for. Then, file the receipt in the monthly petty cash envelope for that specific charge card.
4. At the end of each month (or when you receive your charge card statement):
 - a. File the charge card statement with the receipts attached in the annual folder created in step one.
 - b. Consult with your accountant on how to transmit the information to them to be recorded in the company records.

Method Two - Personal Charge Card

If using a personal charge card for business expenses, treat the business expense charges as items paid in cash by you personally and use an expense report to transmit the expenses to your accountant. The advantage of doing this is as follows:

1. Provides a good audit trail for the IRS. The charge card statements are not verification of the expense for IRS purposes, but the receipts for each item are.
2. Will separate your personal items on the charge card from your businesses expenses.
3. All expenses for charge card purchases are recorded in the proper month. This will allow for all deductions to be taken in the year the purchases were made. (ex: December purchases are deducted in December not in January when the statement is received or later when finally paid).

HELPFUL TIP: Be sure you give your accountant all expenses charged to your credit cards for the year. If you receive a credit card statement on January 20th for the period December 15th through January 15th, be sure to submit to your accountant all items charged through December 31st. These items can and should be deducted for tax purposes in the prior year.

For a detailed reference guide on this topic, contact EWH Small Business Accounting S.C. by email at: info@ewhsba.com or give us a call at 262-796-1040.