

Business Street Smarts



Michael Field

Business
Street
Smarts
WORKBOOK

By

Michael Field, CPA JD

TABLE OF CONTENTS

MODULE 1: FOUNDATION.....	1-1
MODULE 2: BUILDING FINANCIAL STATEMENTS.....	2-1
MODULE 3: READING FINANCIAL STATEMENTS.....	3-1
MODULE 4: ANALYZING FINANCIALS USING RATIOS.....	4-1
MODULE 5: TRACKING WHERE THE MONEY WENT.....	5-1
MODULE 6: PROFIT BOOSTING STRATEGIES.....	6-1
MODULE 7: TAX REDUCTION STRATEGIES.....	7-1
MODULE 8: THINK LIKE A THIEF.....	8-1

MODULE 1:

FOUNDATION

“You can only build as high up, as your foundation is deep.”

- Unknown



Business Street Smarts

ATTENTION:

Module 1 relies on pictures starting after page 1-3 of this Workbook which you'll need to follow along with when prompted.

Module 1

Chart of Accounts

- 1 **Balance Sheet**
- 2 **Assets / Debit**
- 3 Bank Account
- 4 Accounts Receivable
- 5 Inventory
- 6 Fixed Assets

- 7 **Liability / Credit**
- 8 Accounts Payable
- 9 Credit Cards
- 10 Line of Credit
- 11 Notes Payable

- 12 **Equity / Credit**
- 13 Common Stock
- 14 Distributions
- 15 Retained Earnings
- 16 Owner Draws
- 17 Capital Accounts
- 18 Net Income

- 19 **Income Statement**

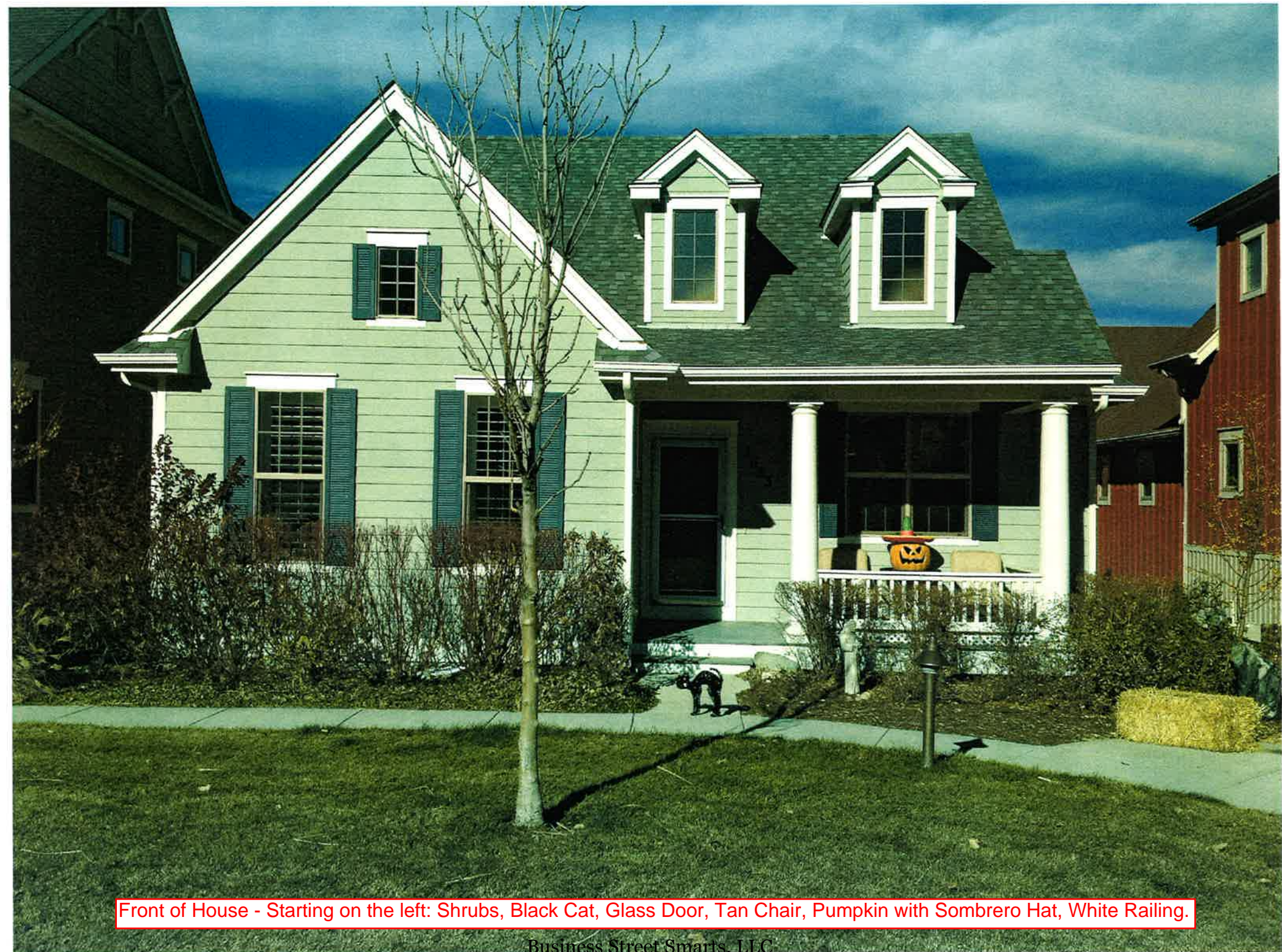
- 20 **Income / Credit**
- 21 Sales
- 22 **Expenses / Debit**
- 23 Cost of Goods Sold
- 24 (Gross Profit)
- 25 Advertising
- 26 Automobile Expense
- 27 Depreciation
- 28 Insurance
- 29 Interest
- 30 Meals & Entertainment
- 31 Office Supplies
- 32 Printing
- 33 Professional Fees
- 34 Rent
- 35 Repairs & Maintenance
- 36 Telephone
- 37 Travel
- 38 Taxes
- 39 Wages
- 40 (Net Income)

List chart of accounts from memory

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	
31	
32	
33	
34	
35	
36	
37	
38	
39	
40	

List house list hooks from memory

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	
31	
32	
33	
34	
35	
36	
37	
38	
39	
40	



Front of House - Starting on the left: Shrubs, Black Cat, Glass Door, Tan Chair, Pumpkin with Sombrero Hat, White Railing.



Entering the front door. No hooks to use in this picture.



Living Room - Starting on the left: Brown Leather Chair, Lamp on top of Speaker, TV, Brown Coffee Table, Tan wrap around Couch.



Living room from another angle.

Business Street Smarts, LLC



Transition image going from the living room to the kitchen.



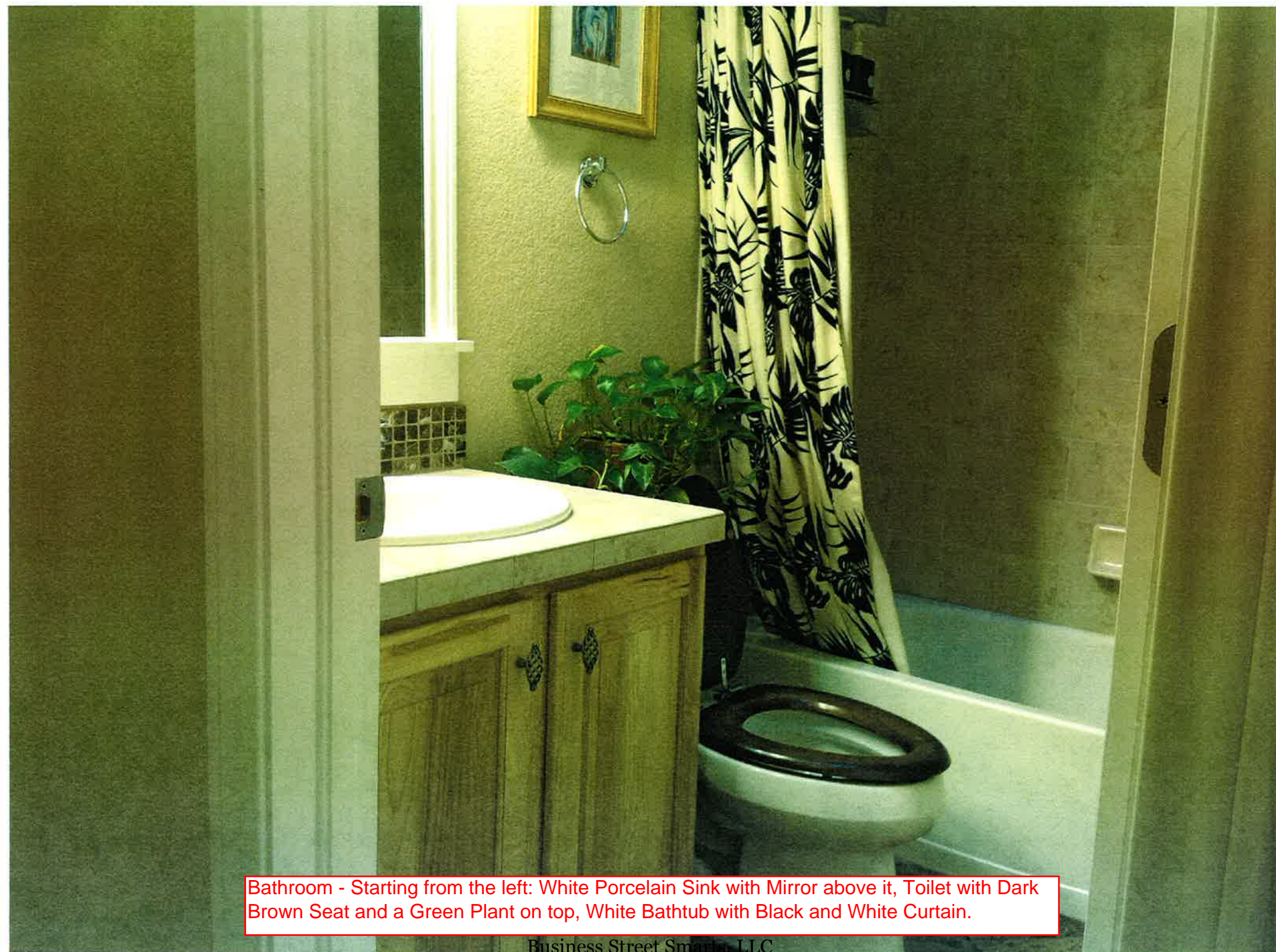
Kitchen - Starting from the right: Red mixer with Silver Bowl, Stainless Steel Dishwasher, Sink with Window above it, Black and Silver Microwave, Stove with 2 Pots and a Pan on top, Silver Toaster on a Wooden Butchers Block, Refridgerator.



Kitchen from another angle showing the front of the refrigerator.



Hallway to the left of the Kitchen and Refrigerator. The open door on the right is the Bathroom. The closed door at the end of the hallway is to the Bedroom.



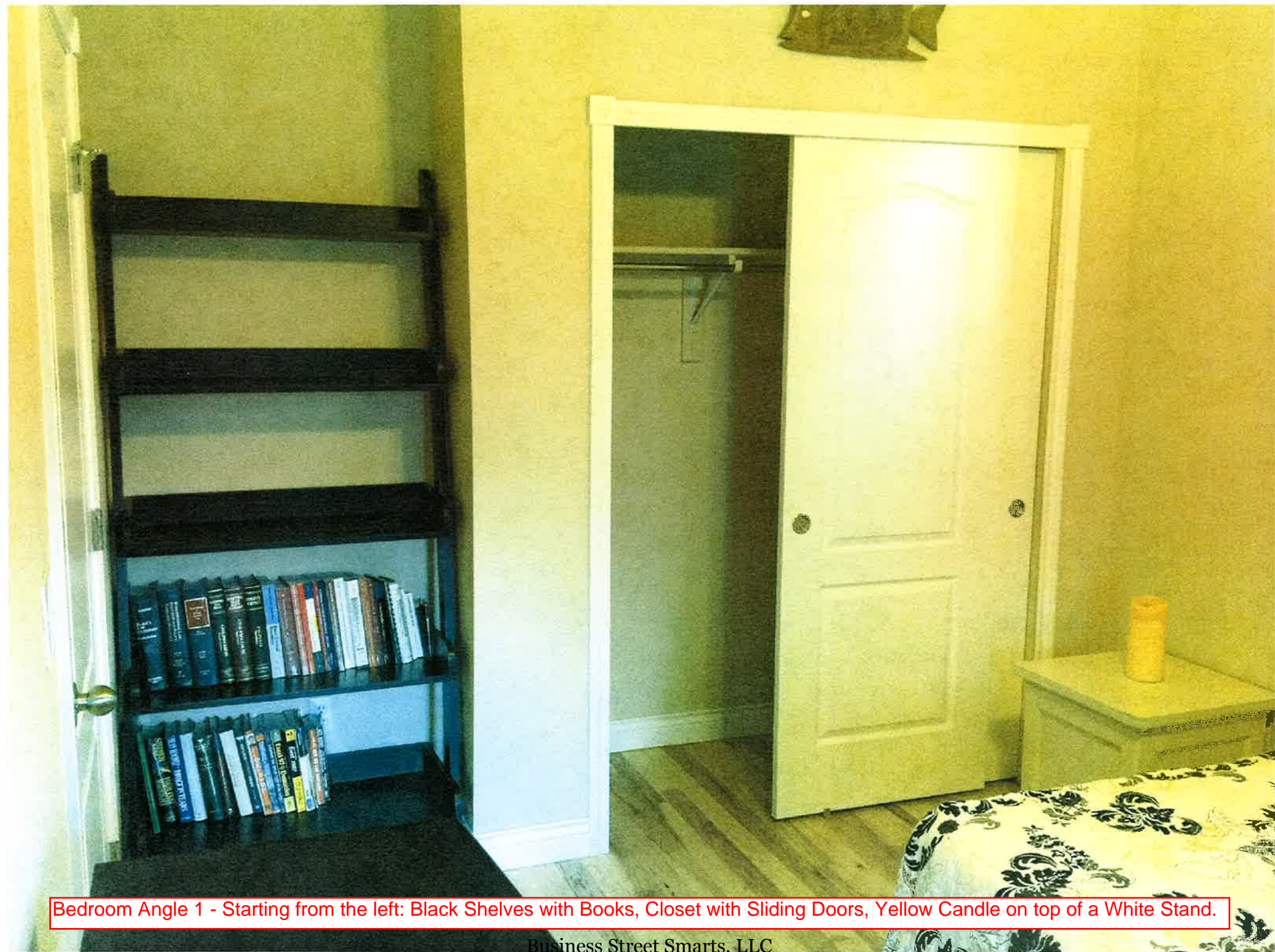
Bathroom - Starting from the left: White Porcelain Sink with Mirror above it, Toilet with Dark Brown Seat and a Green Plant on top, White Bathtub with Black and White Curtain.



Door to the Bedroom. On the left is the small Washer & Dryer Room.



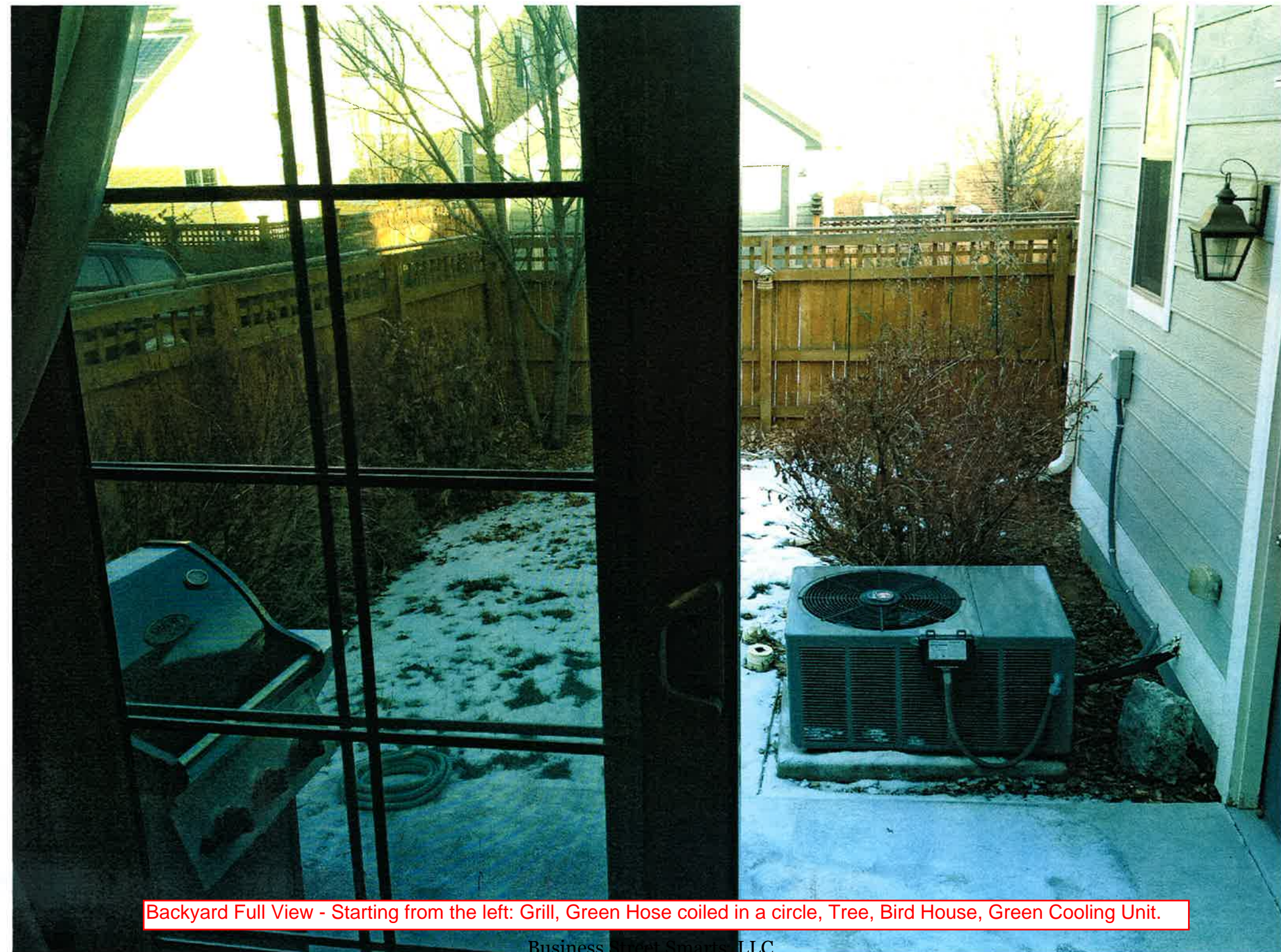
Washer & Dryer



Bedroom Angle 1 - Starting from the left: Black Shelves with Books, Closet with Sliding Doors, Yellow Candle on top of a White Stand.



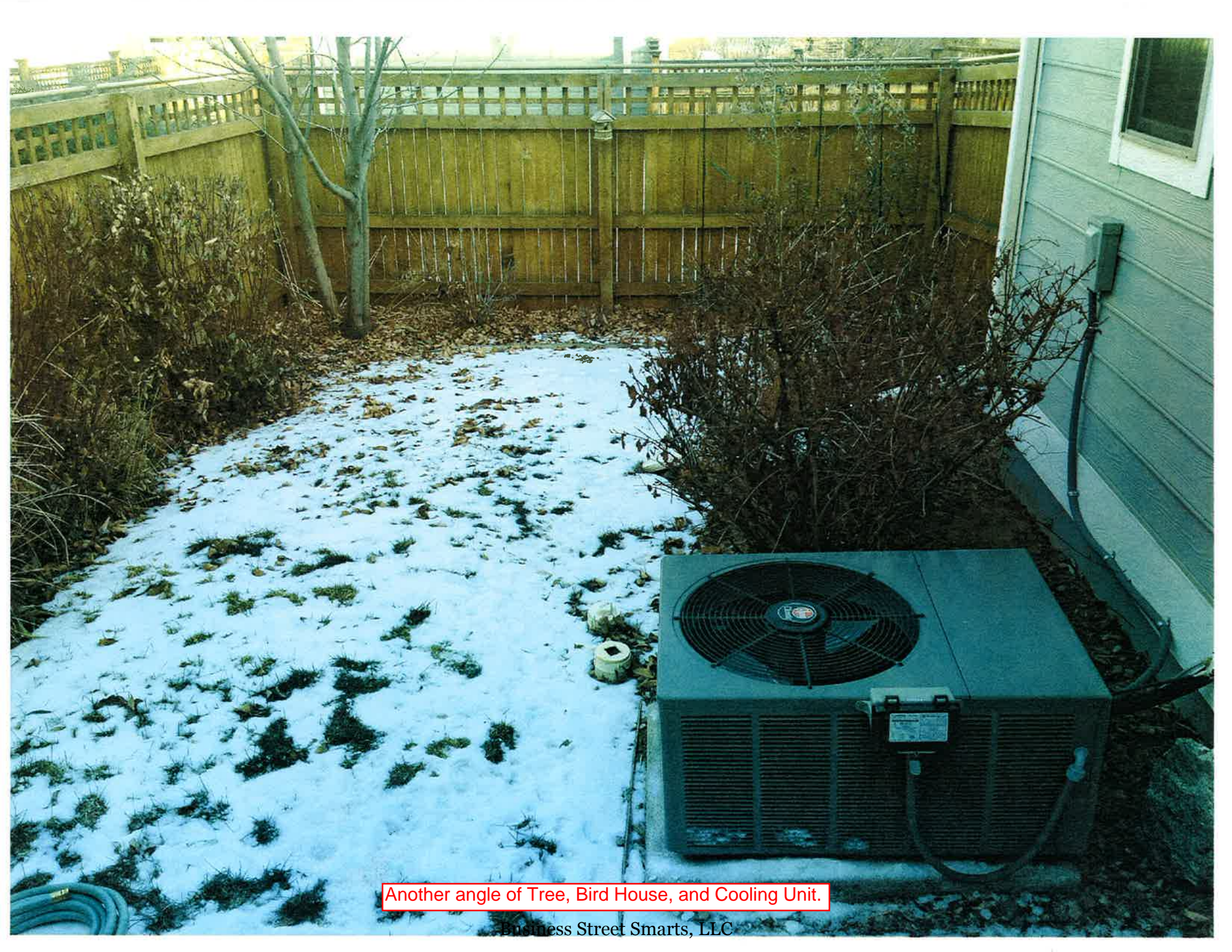
Bedroom Angle 2 - Starting from the left: Bed, Sliding Glass Door with Black Curtains, Black Dresser, Picture.



Backyard Full View - Starting from the left: Grill, Green Hose coiled in a circle, Tree, Bird House, Green Cooling Unit.



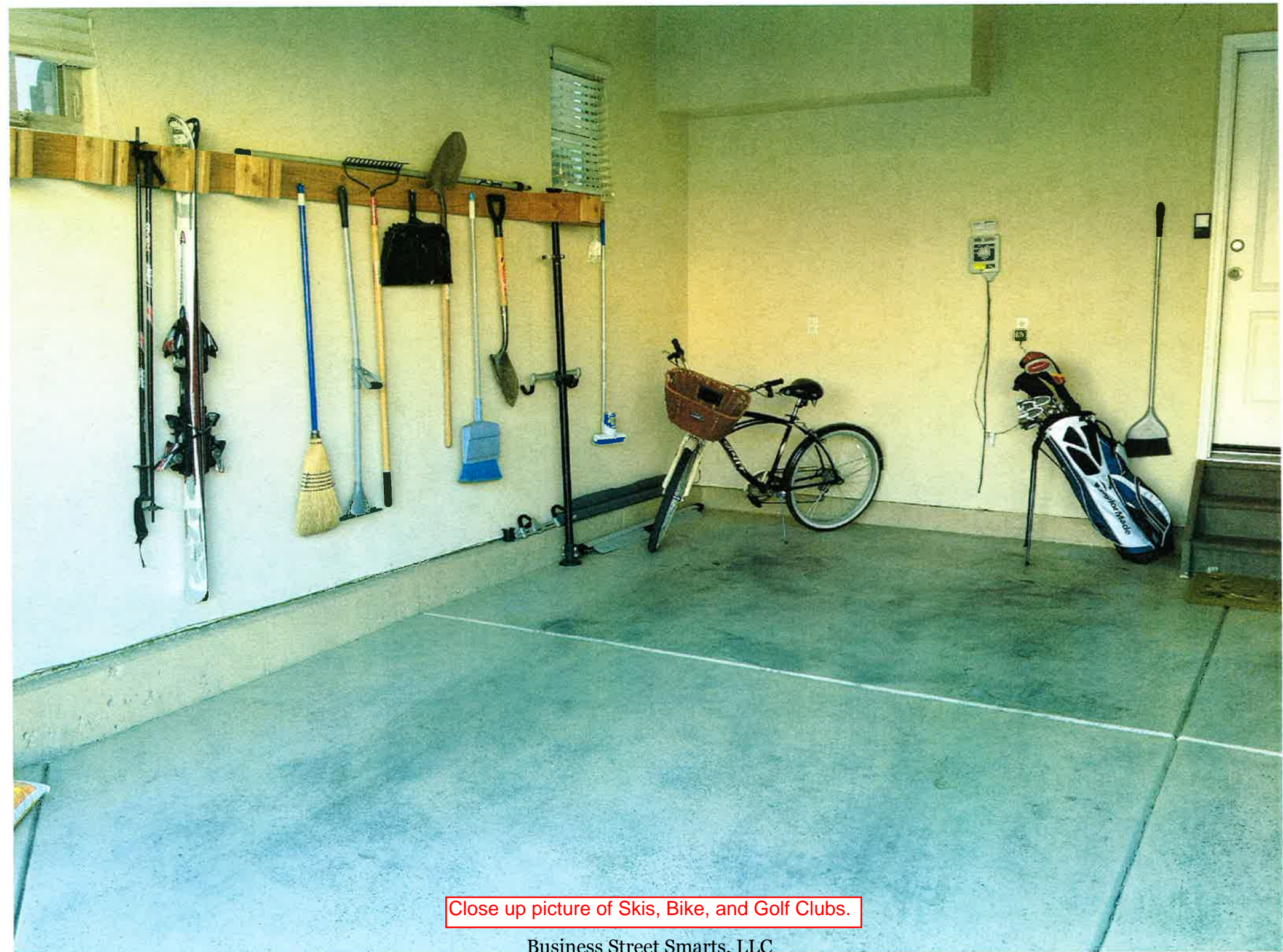
Close up picture of Grill and Hose.



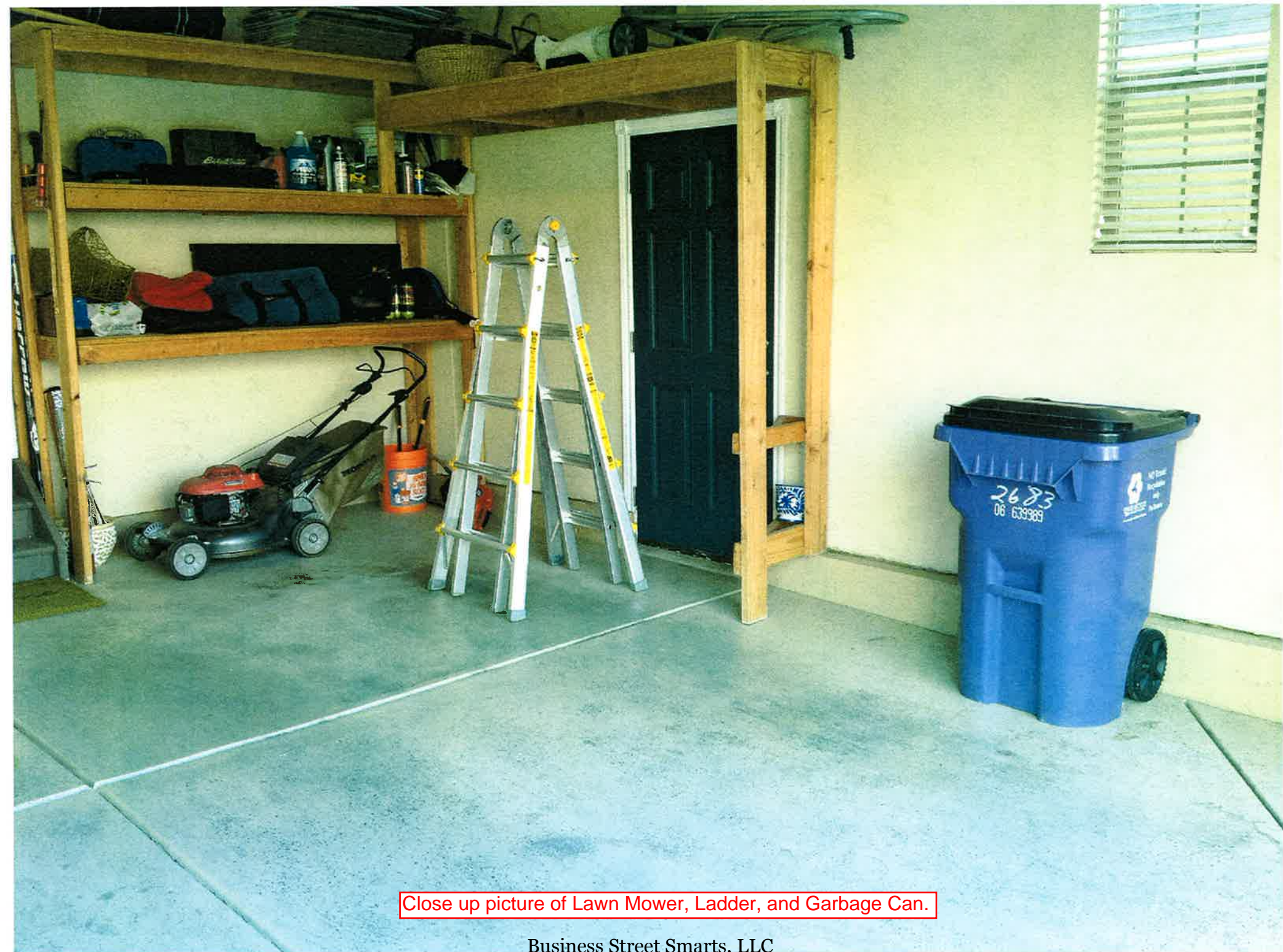
Another angle of Tree, Bird House, and Cooling Unit.



Garage Full View - Starting from the left: Skis, Bike, Golf Clubs, Lawn Mower, Ladder, Garbage Can.



Close up picture of Skis, Bike, and Golf Clubs.



Close up picture of Lawn Mower, Ladder, and Garbage Can.

List chart of accounts from memory using house list hooks

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
29	
30	
31	
32	
33	
34	
35	
36	
37	
38	
39	
40	

MODULE 2:

BUILDING FINANCIAL STATEMENTS

“Smart people make mistakes.

Wise people learn from their mistakes.

Geniuses learn from the mistakes of others.

The more clarity you can get, the less likely you’ll make mistakes.”

- Unknown



Module 2

Effect of Debits and Credits

<u>Account</u>	<u>Debits</u>	<u>Credits</u>
Assets	Increases	Decreases
Liabilities	Decreases	Increases
Equity	Decreases	Increases
Income	Decreases	Increases
Expenses	Increases	Decreases

Assets and Expenses - Debit is the normal balance for these accounts.

Liability, Equity, and Income - Credit is the normal balance of these accounts.

Recording business transactions on your financial statements

1 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Bank Account	2,000.00	
Sales		2,000.00

Company performs work and customer pays your company \$2,000 the same day which you deposit into your bank account.

2 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Telephone	150.00	
Bank Account		150.00

Paid \$150 for telephone bill.

3 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Accounts Receivable	10,000.00	
Sales		10,000.00

Invoice customer \$10,000 for work performed. Our company is waiting for payment.

4 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Bank Account	10,000.00	
Accounts Receivable		10,000.00

Customer paid \$10,000 we invoiced them for.

5 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Inventory	2,500.00	
Bank Account		2,500.00

To record the purchase of Inventory.

6 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Cost of Sales	2,500.00	
Inventory		2,500.00

To record the sale of Inventory.

7 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Fixed Assets	40,000.00	
Notes Payable		40,000.00

Purchase of vehicle with a loan.

8 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Fixed Assets	2,000.00	
Bank Account		2,000.00

Company paid \$2k down payment on vehicle.

9 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Depreciation	5,000.00	
Accumulated Depreciation		5,000.00

Record depreciation expense on vehicle for the year.

10 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Insurance	500.00	
Accounts Payable		500.00

Record Insurance Bill received.

11 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Accounts Payable	500.00	
Bank Account		500.00

Record payment of insurance bill.

12 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Office Supplies	200.00	
Credit Card		200.00

Bought paper with credit card.

13 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Credit Card	200.00	
Bank Account		200.00

Pay credit card.

14 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Credit Card	1,000.00	
Bank Account		1,000.00

Pay credit card.

15 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Advertising	1,000.00	
Credit Card		1,000.00

Charged \$1,000 for Advertising.

16 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Bank Account	20,000.00	
Line of Credit		20,000.00

Borrowed \$20,000 from Line of Credit.

17 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Line of Credit	5,000.00	
Interest	50.00	
Bank Account		5,050.00

Pay a portion of LOC with interest.

18 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Bank Account	1,000.00	
Common Stock		1,000.00

To record the purchase of \$1,000 worth of Common Stock.

19 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Distributions	500.00	
Bank Account		500.00

Owner took \$500 of Distributions.

20 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Retained Earnings	500.00	
Distributions		500.00

1/1/16 close out of prior year Distributions to Retained Earnings.

21 <u>Account</u>	<u>Debits</u>	<u>Credits</u>
Capital - Smith	250.00	
Capital - Jones	250.00	
Owner Draws		500.00

1/1/16 close out of prior year Owner Draws to the partner Capital Accounts.

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	<u>2,000.00</u>
Total Current Assets	<u>2,000.00</u>
TOTAL ASSETS	<u><u>2,000.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	<u>2,000.00</u>
Total Equity	<u>2,000.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>2,000.00</u></u>

Bob's Business, Inc.
Profit & Loss
January through December 2015

	<u>Jan 1, 15</u>
Income	
Income	2,000.00
Total Income	<u>2,000.00</u>
Gross Profit	2,000.00
Expense	0.00
Net Income	<u><u>2,000.00</u></u>

Bob's Business, Inc.

Balance Sheet

As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	<u>1,850.00</u>
Total Current Assets	<u>1,850.00</u>
TOTAL ASSETS	<u><u>1,850.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	<u>1,850.00</u>
Total Equity	<u>1,850.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>1,850.00</u></u>

Bob's Business, Inc.
Profit & Loss
January through December 2015

	<u>Jan 1, 15</u>
Income	
Income	2,000.00
Total Income	<u>2,000.00</u>
Gross Profit	2,000.00
Expense	
Telephone Expense	150.00
Total Expense	<u>150.00</u>
Net Income	<u><u>1,850.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	<u>1,850.00</u>
Total Checking/Savings	<u>1,850.00</u>
Accounts Receivable	
Accounts Receivable	<u>10,000.00</u>
Total Accounts Receivable	<u>10,000.00</u>
Total Current Assets	<u>11,850.00</u>
TOTAL ASSETS	<u><u>11,850.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	<u>11,850.00</u>
Total Equity	<u>11,850.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>11,850.00</u></u>

Bob's Business, Inc.
Profit & Loss
January through December 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Gross Profit	12,000.00
Expense	
Telephone Expense	150.00
Total Expense	<u>150.00</u>
Net Income	<u><u>11,850.00</u></u>

Bob's Business, Inc.

Balance Sheet

As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	11,850.00
Total Checking/Savings	<u>11,850.00</u>
Total Current Assets	<u>11,850.00</u>
TOTAL ASSETS	<u><u>11,850.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	11,850.00
Total Equity	<u>11,850.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>11,850.00</u></u>

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Gross Profit	12,000.00
Expense	
Telephone Expense	150.00
Total Expense	<u>150.00</u>
Net Income	<u><u>11,850.00</u></u>

Bob's Business, Inc.
A/R Aging Summary
As of January 1, 2015

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>
ABC	10,000.00	0.00	0.00	0.00	0.00	10,000.00
TOTAL	<u>10,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>10,000.00</u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	<u>9,350.00</u>
Total Checking/Savings	<u>9,350.00</u>
Other Current Assets	
Inventory	<u>2,500.00</u>
Total Other Current Assets	<u>2,500.00</u>
Total Current Assets	<u>11,850.00</u>
TOTAL ASSETS	<u><u>11,850.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	<u>11,850.00</u>
Total Equity	<u>11,850.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>11,850.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	9,350.00
Total Checking/Savings	<u>9,350.00</u>
Total Current Assets	<u>9,350.00</u>
TOTAL ASSETS	<u><u>9,350.00</u></u>
LIABILITIES & EQUITY	
Equity	
Net Income	9,350.00
Total Equity	<u>9,350.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>9,350.00</u></u>

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	2,500.00
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Telephone Expense	150.00
Total Expense	<u>150.00</u>
Net Income	<u><u>9,350.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	9,350.00
Total Checking/Savings	<u>9,350.00</u>
Total Current Assets	9,350.00
Fixed Assets	
Fixed Assets	40,000.00
Total Fixed Assets	<u>40,000.00</u>
TOTAL ASSETS	<u><u>49,350.00</u></u>
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	<u>40,000.00</u>
Total Liabilities	40,000.00
Equity	
Net Income	9,350.00
Total Equity	<u>9,350.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>49,350.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	7,350.00
Total Checking/Savings	<u>7,350.00</u>
Total Current Assets	7,350.00
Fixed Assets	
Fixed Assets	42,000.00
Total Fixed Assets	<u>42,000.00</u>
TOTAL ASSETS	<u><u>49,350.00</u></u>
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	<u>40,000.00</u>
Total Liabilities	40,000.00
Equity	
Net Income	9,350.00
Total Equity	<u>9,350.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>49,350.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	7,350.00
Total Checking/Savings	7,350.00
Total Current Assets	7,350.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	44,350.00
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	40,000.00
Equity	
Net Income	4,350.00
Total Equity	4,350.00
TOTAL LIABILITIES & EQUITY	44,350.00

BOB'S BUSINESS, INC.
Depreciation Expense

Federal

01/01/2015 - 12/31/2015

System No.	Description	Date In Service	Life	Cost / Other Basis	Sec. 179/ Bonus	Beg. Accum. Depreciation	Current Depreciation	Total Depreciation	Net Book Value
VEHICLES									
1	NEW VEHICLE	1/1/2015	5.0000	42,000.00	0.00	0.00	5,000.00	5,000.00	37,000.00
Subtotal: VEHICLES				<u>42,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>37,000.00</u>
Less dispositions and exchanges:				0.00	0.00	0.00	0.00	0.00	0.00
Net for: VEHICLES				<u>42,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>37,000.00</u>
Subtotal:				<u>42,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>37,000.00</u>
Less dispositions and exchanges:				0.00	0.00	0.00	0.00	0.00	0.00
Grand Totals:				<u>42,000.00</u>	<u>0.00</u>	<u>0.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>37,000.00</u>

Bob's Business, Inc.**Profit & Loss**

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	2,500.00
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Depreciation Expense	5,000.00
Telephone Expense	150.00
Total Expense	<u>5,150.00</u>
Net Income	<u><u>4,350.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	7,350.00
Total Checking/Savings	7,350.00
Total Current Assets	7,350.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	44,350.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	500.00
Total Accounts Payable	500.00
Total Current Liabilities	500.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	40,500.00
Equity	
Net Income	3,850.00
Total Equity	3,850.00
TOTAL LIABILITIES & EQUITY	44,350.00

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	2,500.00
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Depreciation Expense	5,000.00
Insurance Expense	500.00
Telephone Expense	150.00
Total Expense	<u>5,650.00</u>
Net Income	<u><u>3,850.00</u></u>

Bob's Business, Inc.
A/P Aging Summary
 As of January 1, 2015

	<u>Current</u>	<u>1 - 30</u>	<u>31 - 60</u>	<u>61 - 90</u>	<u>> 90</u>	<u>TOTAL</u>
All Purpose Insurance	500.00	0.00	0.00	0.00	0.00	500.00
TOTAL	<u>500.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>500.00</u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	6,850.00
Total Checking/Savings	6,850.00
Total Current Assets	6,850.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	43,850.00
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	40,000.00
Equity	
Net Income	3,850.00
Total Equity	3,850.00
TOTAL LIABILITIES & EQUITY	43,850.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	6,850.00
Total Checking/Savings	6,850.00
Total Current Assets	6,850.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	43,850.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
Credit Card	200.00
Total Credit Cards	200.00
Total Current Liabilities	200.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	40,200.00
Equity	
Net Income	3,650.00
Total Equity	3,650.00
TOTAL LIABILITIES & EQUITY	43,850.00

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	<u>2,500.00</u>
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Depreciation Expense	5,000.00
Insurance Expense	500.00
Office Supplies	200.00
Telephone Expense	<u>150.00</u>
Total Expense	<u>5,850.00</u>
Net Income	<u><u>3,650.00</u></u>

Bob's Business, Inc.**Balance Sheet**

As of January 1, 2015

Jan 1, 15**ASSETS****Current Assets****Checking/Savings****Bank Account** 6,650.00**Total Checking/Savings** 6,650.00**Total Current Assets** 6,650.00**Fixed Assets****Fixed Assets** 42,000.00**Accumulated Depreciation** -5,000.00**Total Fixed Assets** 37,000.00**TOTAL ASSETS** 43,650.00**LIABILITIES & EQUITY****Liabilities****Long Term Liabilities****Notes Payable** 40,000.00**Total Long Term Liabilities** 40,000.00**Total Liabilities** 40,000.00**Equity****Net Income** 3,650.00**Total Equity** 3,650.00**TOTAL LIABILITIES & EQUITY** 43,650.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	5,650.00
Total Checking/Savings	5,650.00
Total Current Assets	5,650.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	42,650.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Credit Cards	
Credit Card	-1,000.00
Total Credit Cards	-1,000.00
Total Current Liabilities	-1,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	39,000.00
Equity	
Net Income	3,650.00
Total Equity	3,650.00
TOTAL LIABILITIES & EQUITY	42,650.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	5,650.00
Total Checking/Savings	5,650.00
Total Current Assets	5,650.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	42,650.00
LIABILITIES & EQUITY	
Liabilities	
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	40,000.00
Equity	
Net Income	2,650.00
Total Equity	2,650.00
TOTAL LIABILITIES & EQUITY	42,650.00

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	2,500.00
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Advertising	1,000.00
Depreciation Expense	5,000.00
Insurance Expense	500.00
Office Supplies	200.00
Telephone Expense	150.00
Total Expense	<u>6,850.00</u>
Net Income	<u><u>2,650.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	25,650.00
Total Checking/Savings	25,650.00
Total Current Assets	25,650.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	62,650.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	20,000.00
Total Other Current Liabilities	20,000.00
Total Current Liabilities	20,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	60,000.00
Equity	
Net Income	2,650.00
Total Equity	2,650.00
TOTAL LIABILITIES & EQUITY	62,650.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	20,600.00
Total Checking/Savings	20,600.00
Total Current Assets	20,600.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	57,600.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Net Income	2,600.00
Total Equity	2,600.00
TOTAL LIABILITIES & EQUITY	57,600.00

Bob's Business, Inc.

Profit & Loss

January 1, 2015

	<u>Jan 1, 15</u>
Income	
Income	12,000.00
Total Income	<u>12,000.00</u>
Cost of Goods Sold	
Cost of Sales	2,500.00
Total COGS	<u>2,500.00</u>
Gross Profit	9,500.00
Expense	
Advertising	1,000.00
Depreciation Expense	5,000.00
Insurance Expense	500.00
Interest Expense	50.00
Office Supplies	200.00
Telephone Expense	150.00
Total Expense	<u>6,900.00</u>
Net Income	<u><u>2,600.00</u></u>

VEHICLE LOAN

Compound Period : Monthly

Nominal Annual Rate : 5.000 %

CASH FLOW DATA

Event	Date	Amount	Number	Period	End Date
1 Loan	01/01/2015	40,000.00	1		
2 Payment	02/01/2015	754.85	60	Monthly	01/01/2020

AMORTIZATION SCHEDULE - Normal Amortization

	Date	Payment	Interest	Principal	Balance
Loan	01/01/2015				40,000.00
1	02/01/2015	754.85	166.67	588.18	39,411.82
2	03/01/2015	754.85	164.22	590.63	38,821.19
3	04/01/2015	754.85	161.75	593.10	38,228.09
4	05/01/2015	754.85	159.28	595.57	37,632.52
5	06/01/2015	754.85	156.80	598.05	37,034.47
6	07/01/2015	754.85	154.31	600.54	36,433.93
7	08/01/2015	754.85	151.81	603.04	35,830.89
8	09/01/2015	754.85	149.30	605.55	35,225.34
9	10/01/2015	754.85	146.77	608.08	34,617.26
10	11/01/2015	754.85	144.24	610.61	34,006.65
11	12/01/2015	754.85	141.69	613.16	33,393.49
2015 Totals		8,303.35	1,696.84	6,606.51	
12	01/01/2016	754.85	139.14	615.71	32,777.78
13	02/01/2016	754.85	136.57	618.28	32,159.50
14	03/01/2016	754.85	134.00	620.85	31,538.65
15	04/01/2016	754.85	131.41	623.44	30,915.21
16	05/01/2016	754.85	128.81	626.04	30,289.17
17	06/01/2016	754.85	126.20	628.65	29,660.52
18	07/01/2016	754.85	123.59	631.26	29,029.26
19	08/01/2016	754.85	120.96	633.89	28,395.37
20	09/01/2016	754.85	118.31	636.54	27,758.83
21	10/01/2016	754.85	115.66	639.19	27,119.64
22	11/01/2016	754.85	113.00	641.85	26,477.79
23	12/01/2016	754.85	110.32	644.53	25,833.26
2016 Totals		9,058.20	1,497.97	7,560.23	
24	01/01/2017	754.85	107.64	647.21	25,186.05
25	02/01/2017	754.85	104.94	649.91	24,536.14
26	03/01/2017	754.85	102.23	652.62	23,883.52
27	04/01/2017	754.85	99.51	655.34	23,228.18
28	05/01/2017	754.85	96.78	658.07	22,570.11
29	06/01/2017	754.85	94.04	660.81	21,909.30
30	07/01/2017	754.85	91.29	663.56	21,245.74
31	08/01/2017	754.85	88.52	666.33	20,579.41

VEHICLE LOAN

	Date	Payment	Interest	Principal	Balance
	32 09/01/2017	754.85	85.75	669.10	19,910.31
	33 10/01/2017	754.85	82.96	671.89	19,238.42
	34 11/01/2017	754.85	80.16	674.69	18,563.73
	35 12/01/2017	754.85	77.35	677.50	17,886.23
	2017 Totals	9,058.20	1,111.17	7,947.03	
	36 01/01/2018	754.85	74.53	680.32	17,205.91
	37 02/01/2018	754.85	71.69	683.16	16,522.75
	38 03/01/2018	754.85	68.84	686.01	15,836.74
	39 04/01/2018	754.85	65.99	688.86	15,147.88
	40 05/01/2018	754.85	63.12	691.73	14,456.15
	41 06/01/2018	754.85	60.23	694.62	13,761.53
	42 07/01/2018	754.85	57.34	697.51	13,064.02
	43 08/01/2018	754.85	54.43	700.42	12,363.60
	44 09/01/2018	754.85	51.52	703.33	11,660.27
	45 10/01/2018	754.85	48.58	706.27	10,954.00
	46 11/01/2018	754.85	45.64	709.21	10,244.79
	47 12/01/2018	754.85	42.69	712.16	9,532.63
	2018 Totals	9,058.20	704.60	8,353.60	
	48 01/01/2019	754.85	39.72	715.13	8,817.50
	49 02/01/2019	754.85	36.74	718.11	8,099.39
	50 03/01/2019	754.85	33.75	721.10	7,378.29
	51 04/01/2019	754.85	30.74	724.11	6,654.18
	52 05/01/2019	754.85	27.73	727.12	5,927.06
	53 06/01/2019	754.85	24.70	730.15	5,196.91
	54 07/01/2019	754.85	21.65	733.20	4,463.71
	55 08/01/2019	754.85	18.60	736.25	3,727.46
	56 09/01/2019	754.85	15.53	739.32	2,988.14
	57 10/01/2019	754.85	12.45	742.40	2,245.74
	58 11/01/2019	754.85	9.36	745.49	1,500.25
	59 12/01/2019	754.85	6.25	748.60	751.65
	2019 Totals	9,058.20	277.22	8,780.98	
	60 01/01/2020	754.85	3.20	751.65	0.00
	2020 Totals	754.85	3.20	751.65	
	Grand Totals	45,291.00	5,291.00	40,000.00	

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	21,600.00
Total Checking/Savings	21,600.00
Total Current Assets	21,600.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	58,600.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Common Stock	1,000.00
Net Income	2,600.00
Total Equity	3,600.00
TOTAL LIABILITIES & EQUITY	58,600.00

Bob's Business, Inc.**Balance Sheet**

As of January 1, 2015

	<u>Jan 1, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	21,100.00
Total Checking/Savings	<u>21,100.00</u>
Total Current Assets	21,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	<u>37,000.00</u>
TOTAL ASSETS	<u><u>58,100.00</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	<u>15,000.00</u>
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	<u>40,000.00</u>
Total Liabilities	55,000.00
Equity	
Common Stock	1,000.00
Distributions	-500.00
Net Income	2,600.00
Total Equity	<u>3,100.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>58,100.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2016

	<u>Jan 1, 16</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	21,100.00
Total Checking/Savings	<u>21,100.00</u>
Total Current Assets	21,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	<u>37,000.00</u>
TOTAL ASSETS	<u><u>58,100.00</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	<u>15,000.00</u>
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	<u>40,000.00</u>
Total Liabilities	55,000.00
Equity	
Common Stock	1,000.00
Distributions	-500.00
Retained Earnings	2,600.00
Total Equity	<u>3,100.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>58,100.00</u></u>

Bob's Business, Inc.
Balance Sheet
As of January 1, 2016

	Jan 1, 16
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	21,100.00
Total Checking/Savings	21,100.00
Total Current Assets	21,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	58,100.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Common Stock	1,000.00
Retained Earnings	2,100.00
Total Equity	3,100.00
TOTAL LIABILITIES & EQUITY	58,100.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2015

	Jan 1, 15
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	20,100.00
Total Checking/Savings	20,100.00
Total Current Assets	20,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	57,100.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Owner's Draw	-500.00
Net Income	2,600.00
Total Equity	2,100.00
TOTAL LIABILITIES & EQUITY	57,100.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2016

	Jan 1, 16
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	20,100.00
Total Checking/Savings	20,100.00
Total Current Assets	20,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	57,100.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Owner's Draw	-500.00
Capital - Smith	1,300.00
Capital - Jones	1,300.00
Total Equity	2,100.00
TOTAL LIABILITIES & EQUITY	57,100.00

Bob's Business, Inc.
Balance Sheet
As of January 1, 2016

	Jan 1, 16
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	20,100.00
Total Checking/Savings	20,100.00
Total Current Assets	20,100.00
Fixed Assets	
Fixed Assets	42,000.00
Accumulated Depreciation	-5,000.00
Total Fixed Assets	37,000.00
TOTAL ASSETS	57,100.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
Line of Credit	15,000.00
Total Other Current Liabilities	15,000.00
Total Current Liabilities	15,000.00
Long Term Liabilities	
Notes Payable	40,000.00
Total Long Term Liabilities	40,000.00
Total Liabilities	55,000.00
Equity	
Capital - Smith	1,050.00
Capital - Jones	1,050.00
Total Equity	2,100.00
TOTAL LIABILITIES & EQUITY	57,100.00

MODULE 3:

READING FINANCIAL STATEMENTS

“The businessperson with the fewest blind spots always wins.”

- Keith Cunningham



Module 3

Bob's Business, Inc.
Balance Sheet
 As of December 31, 2012

	<u>Dec 31, 12</u>	
ASSETS		
Current Assets		
Checking/Savings		
Bank Account	170,000.00	
Total Checking/Savings	<u>170,000.00</u>	
Accounts Receivable		
Accounts Receivable	225,000.00	
Total Accounts Receivable	<u>225,000.00</u>	
Other Current Assets		
Inventory	171,000.00	
Total Other Current Assets	<u>171,000.00</u>	
Total Current Assets	566,000.00	
Fixed Assets		
Fixed Assets	658,500.00	
Accumulated Depreciation	<u>-32,500.00</u>	
Total Fixed Assets	<u>626,000.00</u>	
TOTAL ASSETS	<u>1,192,000.00</u>	Matches Total Liabilities and Equity below
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable		
Accounts Payable	156,000.00	
Total Accounts Payable	<u>156,000.00</u>	
Other Current Liabilities		
Credit Card	24,000.00	
Line of Credit	72,000.00	
Note Payable - Current	<u>90,000.00</u>	
Total Other Current Liabilities	<u>186,000.00</u>	
Total Current Liabilities	342,000.00	
Long Term Liabilities		
Notes Payable - Long Term	<u>384,000.00</u>	
Total Long Term Liabilities	<u>384,000.00</u>	
Total Liabilities	726,000.00	
Equity		
Common Stock	400,000.00	
Net Income	<u>66,000.00</u>	
Total Equity	<u>466,000.00</u>	
TOTAL LIABILITIES & EQUITY	<u>1,192,000.00</u>	Matches Total Assets above

Bob's Business, Inc.
Profit & Loss
 January through December 2012

	<u>Jan - Dec 12</u>	<u>% of Income</u>
Income		
Income	1,000,000.00	100.0%
Total Income	<u>1,000,000.00</u>	<u>100.0%</u>
Cost of Goods Sold		
Cost of Sales	640,000.00	64.0%
Total COGS	<u>640,000.00</u>	<u>64.0%</u>
Gross Profit	360,000.00	36.0%
Expense		
Advertising	6,600.00	0.66%
Automobile Expense	22,000.00	2.2%
Depreciation Expense	32,500.00	3.25%
Insurance Expense	13,000.00	1.3%
Interest Expense	15,000.00	1.5%
Meals and Entertainment	8,800.00	0.88%
Office Supplies	4,800.00	0.48%
Printing	4,200.00	0.42%
Professional Fees	20,000.00	2.0%
Rent Expense	14,400.00	1.44%
Repairs and Maintenance	12,500.00	1.25%
Telephone Expense	4,500.00	0.45%
Travel Expense	7,500.00	0.75%
Taxes	18,200.00	1.82%
Wages	110,000.00	11.0%
Total Expense	<u>294,000.00</u>	<u>29.4%</u>
Net Income	<u><u>66,000.00</u></u>	<u><u>6.6%</u></u>

Bob's Business, Inc.
Balance Sheet
As of December 31, 2013

	Dec 31, 13
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	165,000.00
Total Checking/Savings	165,000.00
Accounts Receivable	
Accounts Receivable	275,000.00
Total Accounts Receivable	275,000.00
Other Current Assets	
Inventory	185,000.00
Total Other Current Assets	185,000.00
Total Current Assets	625,000.00
Fixed Assets	
Fixed Assets	716,000.00
Accumulated Depreciation	-71,500.00
Total Fixed Assets	644,500.00
TOTAL ASSETS	1,269,500.00
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	172,000.00
Total Accounts Payable	172,000.00
Other Current Liabilities	
Credit Card	15,000.00
Line of Credit	60,000.00
Note Payable - Current	93,000.00
Total Other Current Liabilities	168,000.00
Total Current Liabilities	340,000.00
Long Term Liabilities	
Notes Payable - Long Term	445,000.00
Total Long Term Liabilities	445,000.00
Total Liabilities	785,000.00
Equity	
Common Stock	400,000.00
Distributions	-13,900.00
Retained Earnings	66,000.00
Net Income	32,400.00
Total Equity	484,500.00
TOTAL LIABILITIES & EQUITY	1,269,500.00

Bob's Business, Inc.
Profit & Loss
 January through December 2013

	<u>Jan - Dec 13</u>	<u>% of Income</u>
Income		
Income	1,200,000.00	100.0%
Total Income	<u>1,200,000.00</u>	<u>100.0%</u>
Cost of Goods Sold		
Cost of Sales	798,000.00	66.5%
Total COGS	<u>798,000.00</u>	<u>66.5%</u>
Gross Profit	402,000.00	33.5%
Expense		
Advertising	10,200.00	0.85%
Automobile Expense	21,000.00	1.75%
Depreciation Expense	39,000.00	3.25%
Insurance Expense	20,400.00	1.7%
Interest Expense	16,800.00	1.4%
Meals and Entertainment	14,400.00	1.2%
Office Supplies	11,400.00	0.95%
Printing	7,800.00	0.65%
Professional Fees	14,400.00	1.2%
Rent Expense	18,000.00	1.5%
Repairs and Maintenance	23,400.00	1.95%
Telephone Expense	6,000.00	0.5%
Travel Expense	6,600.00	0.55%
Taxes	21,000.00	1.75%
Wages	139,200.00	11.6%
Total Expense	<u>369,600.00</u>	<u>30.8%</u>
Net Income	<u><u>32,400.00</u></u>	<u><u>2.7%</u></u>

Bob's Business, Inc.
Balance Sheet
As of December 31, 2014

	<u>Dec 31, 14</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	70,000.00
Total Checking/Savings	<u>70,000.00</u>
Accounts Receivable	
Accounts Receivable	250,000.00
Total Accounts Receivable	<u>250,000.00</u>
Other Current Assets	
Inventory	230,000.00
Total Other Current Assets	<u>230,000.00</u>
Total Current Assets	550,000.00
Fixed Assets	
Fixed Assets	748,750.00
Accumulated Depreciation	-120,250.00
Total Fixed Assets	<u>628,500.00</u>
TOTAL ASSETS	<u>1,178,500.00</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	175,000.00
Total Accounts Payable	<u>175,000.00</u>
Other Current Liabilities	
Credit Card	15,000.00
Line of Credit	65,000.00
Note Payable - Current	110,000.00
Total Other Current Liabilities	<u>190,000.00</u>
Total Current Liabilities	365,000.00
Long Term Liabilities	
Notes Payable - Long Term	460,000.00
Total Long Term Liabilities	<u>460,000.00</u>
Total Liabilities	825,000.00
Equity	
Common Stock	400,000.00
Distributions	-137,450.00
Retained Earnings	84,500.00
Net Income	6,450.00
Total Equity	<u>353,500.00</u>
TOTAL LIABILITIES & EQUITY	<u>1,178,500.00</u>

Bob's Business, Inc.
Profit & Loss
 January through December 2014

	<u>Jan - Dec 14</u>	<u>% of Income</u>
Income		
Income	1,500,000.00	100.0%
Total Income	<u>1,500,000.00</u>	<u>100.0%</u>
Cost of Goods Sold		
Cost of Sales	1,020,000.00	68.0%
Total COGS	<u>1,020,000.00</u>	<u>68.0%</u>
Gross Profit	480,000.00	32.0%
Expense		
Advertising	15,000.00	1.0%
Automobile Expense	34,500.00	2.3%
Depreciation Expense	48,750.00	3.25%
Insurance Expense	16,500.00	1.1%
Interest Expense	27,000.00	1.8%
Meals and Entertainment	19,500.00	1.3%
Office Supplies	18,000.00	1.2%
Printing	10,800.00	0.72%
Professional Fees	34,500.00	2.3%
Rent Expense	21,750.00	1.45%
Repairs and Maintenance	33,000.00	2.2%
Telephone Expense	6,000.00	0.4%
Travel Expense	15,000.00	1.0%
Taxes	27,750.00	1.85%
Wages	145,500.00	9.7%
Total Expense	<u>473,550.00</u>	<u>31.57%</u>
Net Income	<u><u>6,450.00</u></u>	<u><u>0.43%</u></u>

Bob's Business, Inc.
Balance Sheet
As of December 31, 2015

	<u>Dec 31, 15</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	130,000.00
Total Checking/Savings	<u>130,000.00</u>
Accounts Receivable	
Accounts Receivable	300,000.00
Total Accounts Receivable	<u>300,000.00</u>
Other Current Assets	
Inventory	250,000.00
Total Other Current Assets	<u>250,000.00</u>
Total Current Assets	680,000.00
Fixed Assets	
Fixed Assets	800,000.00
Accumulated Depreciation	<u>-178,750.00</u>
Total Fixed Assets	<u>621,250.00</u>
TOTAL ASSETS	<u><u>1,301,250.00</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	200,000.00
Total Accounts Payable	<u>200,000.00</u>
Other Current Liabilities	
Credit Card	20,000.00
Line of Credit	70,000.00
Note Payable - Current	115,000.00
Total Other Current Liabilities	<u>205,000.00</u>
Total Current Liabilities	405,000.00
Long Term Liabilities	
Notes Payable - Long Term	530,000.00
Total Long Term Liabilities	<u>530,000.00</u>
Total Liabilities	935,000.00
Equity	
Common Stock	400,000.00
Distributions	-4,350.00
Retained Earnings	-46,500.00
Net Income	17,100.00
Total Equity	<u>366,250.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>1,301,250.00</u></u>

Bob's Business, Inc.
Profit & Loss
 January through December 2015

	<u>Jan - Dec 15</u>	<u>% of Income</u>
Income		
Income	1,800,000.00	100.0%
Total Income	<u>1,800,000.00</u>	<u>100.0%</u>
 Cost of Goods Sold		
Cost of Sales	1,211,400.00	67.3%
Total COGS	<u>1,211,400.00</u>	<u>67.3%</u>
 Gross Profit	 588,600.00	 32.7%
 Expense		
Advertising	9,900.00	0.55%
Automobile Expense	39,600.00	2.2%
Depreciation Expense	58,500.00	3.25%
Insurance Expense	33,300.00	1.85%
Interest Expense	41,400.00	2.3%
Meals and Entertainment	18,000.00	1.0%
Office Supplies	13,500.00	0.75%
Printing	7,200.00	0.4%
Professional Fees	30,600.00	1.7%
Rent Expense	28,800.00	1.6%
Repairs and Maintenance	29,700.00	1.65%
Telephone Expense	11,700.00	0.65%
Travel Expense	21,600.00	1.2%
Taxes	34,200.00	1.9%
Wages	193,500.00	10.75%
Total Expense	<u>571,500.00</u>	<u>31.75%</u>
 Net Income	 <u><u>17,100.00</u></u>	 <u><u>0.95%</u></u>

Bob's Business, Inc.
Balance Sheet
As of December 31, 2016

	<u>Dec 31, 16</u>
ASSETS	
Current Assets	
Checking/Savings	
Bank Account	140,000.00
Total Checking/Savings	<u>140,000.00</u>
Accounts Receivable	
Accounts Receivable	320,000.00
Total Accounts Receivable	<u>320,000.00</u>
Other Current Assets	
Inventory	275,000.00
Total Other Current Assets	<u>275,000.00</u>
Total Current Assets	735,000.00
Fixed Assets	
Fixed Assets	820,000.00
Accumulated Depreciation	-243,750.00
Total Fixed Assets	<u>576,250.00</u>
TOTAL ASSETS	<u>1,311,250.00</u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	220,000.00
Total Accounts Payable	<u>220,000.00</u>
Other Current Liabilities	
Credit Card	25,000.00
Line of Credit	60,000.00
Note Payable - Current	110,000.00
Total Other Current Liabilities	<u>195,000.00</u>
Total Current Liabilities	415,000.00
Long Term Liabilities	
Notes Payable - Long Term	540,000.00
Total Long Term Liabilities	<u>540,000.00</u>
Total Liabilities	955,000.00
Equity	
Common Stock	400,000.00
Distributions	-20,000.00
Retained Earnings	-33,750.00
Net Income	10,000.00
Total Equity	<u>356,250.00</u>
TOTAL LIABILITIES & EQUITY	<u>1,311,250.00</u>

Bob's Business, Inc.
Profit & Loss
 January through December 2016

	<u>Jan - Dec 16</u>	<u>% of Income</u>
Income		
Income	2,000,000.00	100.0%
Total Income	<u>2,000,000.00</u>	<u>100.0%</u>
Cost of Goods Sold		
Cost of Sales	1,320,000.00	66.0%
Total COGS	<u>1,320,000.00</u>	<u>66.0%</u>
Gross Profit	680,000.00	34.0%
Expense		
Advertising	30,000.00	1.5%
Automobile Expense	29,000.00	1.45%
Depreciation Expense	65,000.00	3.25%
Insurance Expense	33,000.00	1.65%
Interest Expense	44,000.00	2.2%
Meals and Entertainment	16,000.00	0.8%
Office Supplies	26,000.00	1.3%
Printing	16,000.00	0.8%
Professional Fees	40,000.00	2.0%
Rent Expense	30,000.00	1.5%
Repairs and Maintenance	36,000.00	1.8%
Telephone Expense	16,000.00	0.8%
Travel Expense	19,000.00	0.95%
Taxes	46,000.00	2.3%
Wages	224,000.00	11.2%
Total Expense	<u>670,000.00</u>	<u>33.5%</u>
Net Income	<u><u>10,000.00</u></u>	<u><u>0.5%</u></u>

Bob's Business, Inc.
Profit & Loss
January through December 2016

	<u>Jan - Dec 12</u>	<u>% of Income</u>	<u>Jan - Dec 13</u>	<u>% of Income</u>	<u>Jan - Dec 14</u>	<u>% of Income</u>	<u>Jan - Dec 15</u>	<u>% of Income</u>	<u>Jan - Dec 16</u>	<u>% of Income</u>
Income										
Income	1,000,000.00	100.0%	1,200,000.00	100.0%	1,500,000.00	100.0%	1,800,000.00	100.0%	2,000,000.00	100.0%
Total Income	<u>1,000,000.00</u>	<u>100.0%</u>	<u>1,200,000.00</u>	<u>100.0%</u>	<u>1,500,000.00</u>	<u>100.0%</u>	<u>1,800,000.00</u>	<u>100.0%</u>	<u>2,000,000.00</u>	<u>100.0%</u>
Cost of Goods Sold										
Cost of Sales	640,000.00	64.0%	798,000.00	66.5%	1,020,000.00	68.0%	1,211,400.00	67.3%	1,320,000.00	66.0%
Total COGS	<u>640,000.00</u>	<u>64.0%</u>	<u>798,000.00</u>	<u>66.5%</u>	<u>1,020,000.00</u>	<u>68.0%</u>	<u>1,211,400.00</u>	<u>67.3%</u>	<u>1,320,000.00</u>	<u>66.0%</u>
Gross Profit	360,000.00	36.0%	402,000.00	33.5%	480,000.00	32.0%	588,600.00	32.7%	680,000.00	34.0%
Expense										
Advertising	6,600.00	0.66%	10,200.00	0.85%	15,000.00	1.0%	9,900.00	0.55%	30,000.00	1.5%
Automobile Expense	22,000.00	2.2%	21,000.00	1.75%	34,500.00	2.3%	39,600.00	2.2%	29,000.00	1.45%
Depreciation Expense	32,500.00	3.25%	39,000.00	3.25%	48,750.00	3.25%	58,500.00	3.25%	65,000.00	3.25%
Insurance Expense	13,000.00	1.3%	20,400.00	1.7%	16,500.00	1.1%	33,300.00	1.85%	33,000.00	1.65%
Interest Expense	15,000.00	1.5%	16,800.00	1.4%	27,000.00	1.8%	41,400.00	2.3%	44,000.00	2.2%
Meals and Entertainment	8,800.00	0.88%	14,400.00	1.2%	19,500.00	1.3%	18,000.00	1.0%	16,000.00	0.8%
Office Supplies	4,800.00	0.48%	11,400.00	0.95%	18,000.00	1.2%	13,500.00	0.75%	26,000.00	1.3%
Printing	4,200.00	0.42%	7,800.00	0.65%	10,800.00	0.72%	7,200.00	0.4%	16,000.00	0.8%
Professional Fees	20,000.00	2.0%	14,400.00	1.2%	34,500.00	2.3%	30,600.00	1.7%	40,000.00	2.0%
Rent Expense	14,400.00	1.44%	18,000.00	1.5%	21,750.00	1.45%	28,800.00	1.6%	30,000.00	1.5%
Repairs and Maintenance	12,500.00	1.25%	23,400.00	1.95%	33,000.00	2.2%	29,700.00	1.65%	36,000.00	1.8%
Telephone Expense	4,500.00	0.45%	6,000.00	0.5%	6,000.00	0.4%	11,700.00	0.65%	16,000.00	0.8%
Travel Expense	7,500.00	0.75%	6,600.00	0.55%	15,000.00	1.0%	21,600.00	1.2%	19,000.00	0.95%
Taxes	18,200.00	1.82%	21,000.00	1.75%	27,750.00	1.85%	34,200.00	1.9%	46,000.00	2.3%
Wages	110,000.00	11.0%	139,200.00	11.6%	145,500.00	9.7%	193,500.00	10.75%	224,000.00	11.2%
Total Expense	<u>294,000.00</u>	<u>29.4%</u>	<u>369,600.00</u>	<u>30.8%</u>	<u>473,550.00</u>	<u>31.57%</u>	<u>571,500.00</u>	<u>31.75%</u>	<u>670,000.00</u>	<u>33.5%</u>
Net Income	<u><u>66,000.00</u></u>	<u><u>6.6%</u></u>	<u><u>32,400.00</u></u>	<u><u>2.7%</u></u>	<u><u>6,450.00</u></u>	<u><u>0.43%</u></u>	<u><u>17,100.00</u></u>	<u><u>0.95%</u></u>	<u><u>10,000.00</u></u>	<u><u>0.5%</u></u>

Bob's Business, Inc.
Profit & Loss
January through December 2016

	<u>Jan - Dec 16</u>	<u>% of Income</u>
Income		
Income	2,000,000.00	100.0%
Total Income	<u>2,000,000.00</u>	<u>100.0%</u>
Cost of Goods Sold		
Cost of Sales	1,280,000.00	64.0%
Total COGS	<u>1,280,000.00</u>	<u>64.0%</u>
Gross Profit	720,000.00	36.0%
Expense		
Advertising	11,000.00	0.55%
Automobile Expense	29,000.00	1.45%
Depreciation Expense	65,000.00	3.25%
Insurance Expense	22,000.00	1.1%
Interest Expense	28,000.00	1.4%
Meals and Entertainment	16,000.00	0.8%
Office Supplies	9,600.00	0.48%
Printing	8,000.00	0.4%
Professional Fees	24,000.00	1.2%
Rent Expense	28,800.00	1.44%
Repairs and Maintenance	25,000.00	1.25%
Telephone Expense	8,000.00	0.4%
Travel Expense	11,000.00	0.55%
Taxes	35,000.00	1.75%
Wages	194,000.00	9.7%
Total Expense	<u>514,400.00</u>	<u>25.72%</u>
Net Income	<u><u>205,600.00</u></u>	<u><u>10.28%</u></u>

MODULE 4:

ANALYZING FINANCIALS USING RATIOS

If you can't measure something, then you can't manage it.

- Wise saying



Module 4

Analyzing the numbers through Ratios

1 Current Ratio

Current Assets / Current Liabilities

Current Assets
Current Liabilities

Measures a company's short term liquidity and its ability to pay current debt when due.
Strong when between 1.2 - 2

2 Quick Ratio

Current Assets - Inventory / Current Liabilities

Current Assets - Inventory
Current Liabilities

Strong when at 1 or more

3 Working Capital

Current Assets - Current Liabilities

Current Assets -
Current Liabilities =
Working Capital

Measures the excess cash the company has compared to the current debt it needs to pay.

4 Accounts Receivable Turnover

Annual Credit Sales / Average Accounts Receivable

Annual Credit Sales
Average A/R

Measures how fast or slow the company takes to collect money for their sales.

5 To translate this into days it takes to collect divide 365 by the A/R Turnover Ratio.

365
A/R Turnover Ratio

6 Daily Sales Calculation

Total Annual Sales
365

7 Calculate how much cash you can free up by collecting sales timely.

Daily Sales
x # of days eliminated to
collect A/R

8 Inventory Turnover Ratio

First calculate the Average Inventory

Beginning Inventory +
Ending Inventory
2

9 Inventory Turnover Ratio

This ratio measures the number of times inventory turns over through being sold during the year.

Higher the number the better.

Cost of Goods Sold
Average Inventory

10 Number of Days Inventory is held before sold

365
Inventory Turnover Ratio

11 Debt Ratio

This tells us if we have too much debt by measuring the amount of assets financed with debt.

Total Liabilities
Total Assets

12 **Debt to Equity**

This tells us how much of the company assets are funded by liabilities vs how much is funded by the owners.

Total Liabilities
Owner's Equity

It also tells us the borrowing capacity for future needs like expansion projects.

13 **Sales per employee**

Tells us if we may be over or under staffed.

Total Sales
Total # of Employees

14 **Gross Profit Margin**

Tells us how much of each sales dollar is left to cover operating expenses and contribute to profit.

Gross Profit
Sales

15 **Net Profit Margin**

The net profit margin measures how much of each sales dollar is left after paying all expenses.

Net Income
Sales

16 **Return on Investment**

This measures the owners return on the money they have invested in the company. It measures how well the company did earning money for its investors.

Net Income
Owner's Equity

MODULE 5:

TRACKING WHERE THE MONEY WENT

“No one starts out in business with clever business skills. These skills must be learned.”

- Michael Field



Module 5

Cash Flow Analysis. Where did the \$ from the profits go?

Step 1: Look at the net income on the P&L. See P&L in the workbook.

Question: Where did these earnings of \$200k go?

Step 2: Compare the current year's Balance Sheet with the previous year's Balance Sheet. If P&L is from 1/1/16 - 12/31/16 then previous year's B.S. is 12/31/15 (always the day before the start of P&L) and current year's B.S. is 12/31/16 (always the last day of the P&L date range).

If P&L is from 6/1/16 - 6/30/16 then previous period B.S. is 5/31/16 and current year B.S. is 6/30/16.

Review Balance Sheet in the workbook.

Step 3: Review Cash Flow Analysis on page 5-3 in the workbook.

When cash flow is tight there are several places to look when trying to raise cash.

1. Speed up the timing on collecting receivables
2. Delay paying payables
3. Increase productivity
4. Decrease expenses
5. Increase revenue
6. Take on debt or make a capital call from the investors/owners
7. Sell assets like machinery, equipment, and buildings and lease instead

1. Speed up the timing on collecting receivables

Switch from invoicing bi-weekly or monthly to weekly.

Begin accepting major credit cards.

Allow customers to pay electronically and online with a credit card.

Offer a 1 to 2% discount off what customers owe you if they pay you today or within 5 days.

Don't offer payment terms that exceed 30 days.

Charge late fees or interest to discourage consistent late payments.

Make sure your software is charging interest as of the date of the invoice, not as of the due date.

Review credit policies and consider losing credit eligibility rules in place.

Review your list of repeat late paying customers and make them pay C.O.D. (cash on delivery).

Have regular meeting to discuss A/R.

Send monthly statements to your clients and remind them when they're past due.

After 45 days, call the client.

Establish when you can expect to receive the payment. Offer the credit card option if appropriate.

If payment doesn't arrive as promised, follow up. After 60 days, suspend the client's account.

If you get to 90 days, send a 90-day statement. After you send it out, contact the client a final time.

Refer the account to a collection agency or, depending on the amount involved, to your attorney.

Collection agencies charge around 30% or more of the amount they collect.

Last resort: factor your receivable (sell them to a company that buys receivables). Expensive option.

Borrow against your receivables from a bank as this is much cheaper.

2. Delay paying payables

Benefit: No need to borrow additional funds.

Consequence: This can potentially harm relationships with vendors.

Ask your vendors for longer credit terms.

If your vendor offers you a discount for paying early then take it.

Inventory control such as just in time delivery helps cash flow.

Pay company bills with credit cards to delay the timing bills need to be paid.

Weekly Future Cash Flow

How much cash is in the bank today.

How much cash is expected to be received next week?

How much cash is needed for expenses next week?

If cash is short, determine if you need to borrow on your LOC, make collection calls, or delay paying bills.

Cash Flow Analysis		
In this exercise of tracking where our earnings went, we start with our current year net income and determine where this money has gone by comparing the current year Balance Sheet with last year's Balance Sheet.		
Net Income for this year	200,000.00	From last # of P&L
Decrease in Checking/Savings	(38,316.50)	We've identified that 38k of the net income is still sitting in cash so subtract from Net Income
Increase in A/R	(73,664.84)	More A/R means increase in sales on P&L but we haven't received the money yet so subtract
Increase in Inventory	(17,916.19)	\$ was spent to obtain more inventory than we had the prior year so subtract
No change in Employee Advances	-	
Decrease in Pre-paid Insurance	893.02	Less Prepaid Insurance means less cash spent on Insurance so add back
Increase in Furniture & Equipment	(11,500.00)	\$ was spent to buy \$11,500 of Equipment this year so subtract cash from Net Income
Increase in A/D	35,000.00	This offsets the Depreciation expense of \$35k on the P&L since depr has no cash effect
No change in Security Deposits	-	
Increase in A/P	13,536.92	More A/P means we received a deduction on the P&L but haven't paid for it yet so add back
Increase in Credit Card	2,500.00	More CC means we received a deduction on the P&L but haven't paid for it yet so add back
Increase in Payroll Liabilities	5,404.45	More Payroll Liab means we received a deduction on the P&L but haven't paid for it yet
Increase in Sales Tax Payable	885.45	More Sales Tax Pay means we received a deduction on the P&L but haven't paid for it yet
Decrease in Van Loan	(16,290.52)	\$ was spent to pay off the Van Loan to 0
Decrease in Utility Truck Loan	(5,600.00)	\$ was spent to pay down the Utility Truck Loan
Decrease in Pickup Truck Loan	(7,500.00)	\$ was spent to pay down the Pickup Truck Loan
Decrease in Construction Equipment Loan	(2,431.79)	\$ was spent to pay down the Construction Equip Loan
Decrease in Office Building Loan	(30,000.00)	\$ was spent to pay down the Office Building Loan
No change in Capital Stock	-	
Increase in Shareholder Distributions	(55,000.00)	\$ was taken by owners
Sum	-	Must come to zero

Bob's Business, Inc.**Balance Sheet**

As of December 31, 2016

	<u>Dec 31, 16</u>	<u>Dec 31, 15</u>	<u>\$ Change</u>
ASSETS			
Current Assets			
Checking/Savings			
10100 · Checking	60,169.06	23,881.72	36,287.34
10300 · Savings	17,910.19	15,881.03	2,029.16
Total Checking/Savings	<u>78,079.25</u>	<u>39,762.75</u>	<u>38,316.50</u>
Accounts Receivable			
11000 · Accounts Receivable	78,640.54	4,975.70	73,664.84
Total Accounts Receivable	<u>78,640.54</u>	<u>4,975.70</u>	<u>73,664.84</u>
Other Current Assets			
12100 · Inventory	32,201.23	14,285.04	17,916.19
12800 · Employee Advances	770.00	770.00	0.00
13100 · Pre-paid Insurance	4,050.00	4,943.02	-893.02
Total Other Current Assets	<u>37,021.23</u>	<u>19,998.06</u>	<u>17,023.17</u>
Total Current Assets	<u>193,741.02</u>	<u>64,736.51</u>	<u>129,004.51</u>
Fixed Assets			
15000 · Furniture and Equipment	34,326.00	22,826.00	11,500.00
15100 · Vehicles	78,936.91	78,936.91	0.00
15200 · Buildings and Improvements	325,000.00	325,000.00	0.00
15300 · Construction Equipment	15,300.00	15,300.00	0.00
16900 · Land	90,000.00	90,000.00	0.00
17000 · Accumulated Depreciation	-145,344.60	-110,344.60	-35,000.00
Total Fixed Assets	<u>398,218.31</u>	<u>421,718.31</u>	<u>-23,500.00</u>
Other Assets			
18700 · Security Deposits	1,720.00	1,720.00	0.00
Total Other Assets	<u>1,720.00</u>	<u>1,720.00</u>	<u>0.00</u>
TOTAL ASSETS	<u>593,679.33</u>	<u>488,174.82</u>	<u>105,504.51</u>
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable			
20000 · Accounts Payable	26,636.92	13,100.00	13,536.92
Total Accounts Payable	<u>26,636.92</u>	<u>13,100.00</u>	<u>13,536.92</u>
Credit Cards			
20500 · Credit Card	2,500.00	0.00	2,500.00
Total Credit Cards	<u>2,500.00</u>	<u>0.00</u>	<u>2,500.00</u>

Bob's Business, Inc.**Balance Sheet**

As of December 31, 2016

	<u>Dec 31, 16</u>	<u>Dec 31, 15</u>	<u>\$ Change</u>
Other Current Liabilities			
24000 · Payroll Liabilities	5,404.45	0.00	5,404.45
25500 · Sales Tax Payable	185.40	-700.05	885.45
Total Other Current Liabilities	<u>5,589.85</u>	<u>-700.05</u>	<u>6,289.90</u>
Total Current Liabilities	34,726.77	12,399.95	22,326.82
Long Term Liabilities			
23000 · Loan - Vehicles (Van)	0.00	16,290.52	-16,290.52
23100 · Loan - Vehicles (Utility Truck)	14,336.91	19,936.91	-5,600.00
23200 · Loan - Vehicles (Pickup Truck)	15,141.00	22,641.00	-7,500.00
28100 · Loan - Construction Equipment	11,911.32	14,343.11	-2,431.79
28900 · Mortgage - Office Building	266,283.00	296,283.00	-30,000.00
Total Long Term Liabilities	<u>307,672.23</u>	<u>369,494.54</u>	<u>-61,822.31</u>
Total Liabilities	342,399.00	381,894.49	-39,495.49
Equity			
30100 · Capital Stock	500.00	500.00	0.00
31400 · Shareholder Distributions	-55,000.00	0.00	-55,000.00
32000 · Retained Earnings	105,780.33	69,707.54	36,072.79
Net Income	200,000.00	36,072.79	163,927.21
Total Equity	<u>251,280.33</u>	<u>106,280.33</u>	<u>145,000.00</u>
TOTAL LIABILITIES & EQUITY	<u><u>593,679.33</u></u>	<u><u>488,174.82</u></u>	<u><u>105,504.51</u></u>

Bob's Business, Inc.
Profit & Loss
 January through December 2016

	<u>Jan - Dec 16</u>
Ordinary Income/Expense	
Income	
40100 · Construction Income	570,197.39
40500 · Reimbursement Income	2,119.80
Total Income	<u>572,317.19</u>
Cost of Goods Sold	
50100 · Cost of Goods Sold	17,172.14
54000 · Job Expenses	165,299.14
Total COGS	<u>182,471.28</u>
Gross Profit	389,845.91
Expense	
60100 · Automobile	6,992.32
60600 · Bank Service Charges	125.00
60900 · Depreciation Expense	35,000.00
62100 · Insurance	20,125.09
62400 · Interest Expense	663.06
62700 · Payroll Expenses	120,347.21
63100 · Postage	104.20
63600 · Professional Fees	250.00
64200 · Repairs	1,525.00
64800 · Tools and Machinery	2,820.68
65100 · Utilities	2,269.31
Total Expense	<u>190,221.87</u>
Net Ordinary Income	199,624.04
Other Income/Expense	
Other Income	
70100 · Other Income	146.80
70200 · Interest Income	229.16
Total Other Income	<u>375.96</u>
Net Other Income	375.96
Net Income	<u><u>200,000.00</u></u>

Cash Flow Statement					
Week Ending	2014 Year-End	6-Jan	13-Jan	20-Jan	27-Jan
Week No.		1	2	3	4
Checking	\$ 50,000.00	\$ 66,000.00	\$ 16,500.00	\$ 59,000.00	\$ 17,000.00
Savings	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00
LOC					
Total Cash Accounts	\$ 60,000.00	\$ 76,000.00	\$ 26,500.00	\$ 69,000.00	\$ 27,000.00
Income					
Client #1		\$ 15,000.00			\$ 15,000.00
Client #2		\$ 6,000.00		\$ 5,000.00	
Client #3			\$ 20,000.00		
Client #4			\$ 8,000.00		
Client #5				\$ 45,000.00	
Interest Income					
Other Income (LOC)					
Sale of Assets					
Transfer from Savings					
Total Revenues	\$ -	\$ 21,000.00	\$ 28,000.00	\$ 50,000.00	\$ 15,000.00
Expenses					
Payroll			\$ 15,000.00		\$ 15,000.00
Subcontractors	\$ 500.00	\$ 2,500.00	\$ 3,000.00	\$ 2,000.00	\$ 2,000.00
Distributions	\$ 2,000.00		\$ 2,000.00		
Bills Paid		\$ 60,000.00		\$ 40,000.00	
Interest Expense (LOC)	\$ 2,500.00		\$ 2,500.00		
Paid Bills from Savings					
Transfer to LOC					
Transfer to Savings					
Total Expense	\$ -	\$ 5,000.00	\$ 77,500.00	\$ 7,500.00	\$ 57,000.00

MODULE 6:

PROFIT BOOSTING STRATEGIES

If you only focus on the things you like in business, your business is going to suffer.

- Wise saying

BUSINESS
STREET SMARTS

Module 6

Account Analysis & Cost Reduction Strategies To Dramatically Increase Your Bottom Line

Danny's story: 1) 7' tall map used to visually see truck routes, 2) used smaller trucks to save gas and insurance, 3) stopped selling trucks each year at a loss, 4) changed procedures of loading the trucks to reduce overtime and hours worked weekly, 5) saved the company over \$120,000 / year, 6) earned himself a hefty raise.

UPS driving strategy is to start in the middle of the route and only make right turns to save time at red lights and gas while speeding up the delivery time.

The following list is not comprehensive. This section will help you generate your own ideas for improved efficiencies and cost savings ideas for your company.

The questions you ask will determine where you focus and how you think. Ask better questions to get better answers.

General rule: **the cost savings must not negatively effect quality within the company.**

Get your workers involved with the implementation of these changes.

There are times when you will have to spend money in order to save money.

In this section, focus on the question, "How can I apply this to my business today"?

Bank Accounts

Make deposits immediately to start earning interest.

Use a deposit scanner to eliminate physically taking checks to the bank.

Do not incur over draft charges.

In the past a sweep account could earn you a higher interest rate.

Today you can set up a high yield online savings account with a higher rate of return than a sweep account can. www.bankrate.com

Excess money in the bank can be used to pay down debt which saves on interest expense.

Look for missing & duplicate checks to determine if a check has been stolen.

Take over the checkbook and check signing to view what is going out of the business.

Maintain relationships with more than 1 banker.

Example of bank that saved a company \$20,000 by having them charge all the bills they pay. The bank split the merchant processing fee with the company. A win, win.

Accounts Receivable

Increase speed of your collections.

Every bad debt starts out as a slow pay. Stay on top of collections.

Require credit applications to evaluate their credit worthiness. Have someone other than the sales rep approve the customer.

Require questionable credit customers to pay in advance.

Look at customer's industry. If it is unstable, adjust payment terms to COD.

Invoice via email.

Accept payment via your website.

Match the payment of your sales rep's commission with the receipt of payment from the customer.

To incentive a delinquent customer to pay today, offer to waive the interest or offer a discount for paying today.
All future sales to this customer requires payment in advance or COD.
ID slow paying customers and adjust their terms if needed. Require advance payment or COD.
Offer the ability for the customer to prepay in equal installments prior to your next sale with them.
To accelerate payment, offer a 1-2% discount if customer pays within 10 days.
Invoice more often. Instead of monthly, switch to bi-monthly or weekly.
Charge 18% annual interest for invoices not paid within 30 days. State this on your invoice.
Work with your customer by waiting to charge their credit card the day after their statement cut off. This gives them 30 days before their next statement plus another 15-20 grace period to pay their credit card.
Accept ACH payments to avoid credit card fees upon collection.
Delinquent A/R: issue a reminder letter after 30 days; issue a firm notice after 60 days along with a phone call; after 90 days send a stern letter.
Over 120 days inform them a 1099 Form will be issued which will require them to pay income tax on your unpaid bill.
Repossess the items that have not been paid for after 120 days.
Consider selling the receivable to a debt collection company or pursue the debt in court.
Team up with other business owners and pool your uncollectible receivables to negotiate a lower rate charged by the collection company.
Factor your receivables. Understand this is expensive money. Only do this when strapped for cash.
<u>Inventory</u>
Valued at cost on the balance sheet.
Review how often an inventory count is taken and discuss with your CPA if it is often enough.
Goal is to have a fast turnover time. Holding on to inventory costs your company money.
Inventory management software is available. Search Google for one that fits your company.
Excess inventory ties up your money.
<u>Fixed Assets</u>
Consider buying used equipment. Look for companies that are remodeling or closing their business for quality equipment at a deep discount.
Shop the internet for the best deal.
Buy vehicles 1-3 years old with 10k - 30k miles instead of brand new.
Recycle old computer with seller or manufacturer.
Sell old office equipment instead of sending them to the junkyard.
When buying new equipment, pass on the extended service contracts.
Review your asset listing from your tax return. Tell your tax preparer about any items you no longer have to avoid personal property taxes being assessed on assets you don't have.
Expenses are often hidden in fixed assets and can skew a company's true performance.
<u>Accounts Payable</u>
Don't pay bills until they are due. This keeps operating cash in your bank longer.
Pay bills online to control the date the money is drawn from your account and eliminate the cost of a paper check & stamp.
Monitor your accounting software to discover double payments on the same bills.
Request the most favorable payment terms available from vendors, such as 30 - 60 days to pay their bill.
Pay early if a 1% - 2% discount is offered for early payment.

Track promised discounts from vendors to verify they show up on their bills.
Compare prices you are paying with what is offered online.
Get price quotes in writing.
For services only estimates may be available. Ask for a ceiling amount they will not go over.
Check the local better business bureau to verify your vendors are reputable.
Negotiate a vendor's list prices.
Before placing a large order you can test the vendor with a small order first to see how it goes.
Stay away from vendors that only accept cash.
Verify when a vendor states something is standard practice in his industry. This is often used to stop you from negotiating.
If a vendor won't offer you credit, build credit with them by starting with a small credit amount and work up from there.
When developing a new relationship with a vendor, pay them early in the beginning. Fast payment creates long relationships.
<u>Credit Cards</u>
Pay credit cards in full every month to avoid interest charges.
Pay off credit cards with a line of credit if current cash flow doesn't allow you to pay in full.
If you must use credit cards that you can't pay in full each month, add the interest rate to the account name in your accounting software so you know which one charges the most interest and pay this one down first.
For example: Chase Credit Card - 18%; Discover Credit Card - 15%
Shop for credit cards that offer great kickbacks. Chase Safire Preferred is one option with great rewards.
Visit www.creditcards.com or google credit cards to compare all your options.
<u>Notes Payable</u>
Verify your debt to equity ratio is healthy and within your industry standard.
Review loan agreements to make sure you are in compliance. Look for debt to equity limits the bank may impose or if they require your accounts receivable to be X amount and current.
Paying off debt early saves the company interest expense. Principal payments reduce the debt on the balance sheet. Principal payments on debt does not provide an additional deduction on the P&L.
Consolidate short term loans into 1 longer term loan to obtain a lower interest rate.
SBA loans have some of the lowest rates if you qualify: www.sba.gov
Don't use hard money (private loans from a wealthy investor). Interest rates are exhorbinate and have pre-payment penalties.
Close unused lines of credit to eliminate the annual bank fees.
If necessary, sell off some business assets or sell some business stock to reduce your debt.
Reduce dividends paid to shareholders to pay down business debt.
If your debt to equity ratio is too high, don't take on new debt. Instead, lease instead of buy new equipment if needed.
Don't use debt that has pre-payment penalties.
When losing money, getting more money merely subsidizes your problem and rewards bad business habits.
Compound interest used in loans works against your business.
Pay debt bi-weekly instead of monthly.
Pay extra principal on your debt each month. To pay 1 extra payment a year, divide your monthly payment by 12 months and apply that amount each month as additional principal payments.

Join a barter program. Look into www.imsbarter.com
Set up an online ordering system to cut sales costs.
Focus on repeat sales.
When loyal customers are tempted to shop around, lower your prices enough to reward their loyalty.
Ask your customers if they have suggestions on what else you can provide for them.
Price setting is important. Start in the mid-range and make adjustments from there.
For online sales, use promotions like "For Today Only".
Measure the success of your new sales strategies. Rule out other factors when analyzing its success.
Avoid sales reps selling on thin margins just so they can make the sale.
Time for a price increase? Try raising prices 10% and see what happens.
Have contests among the sales staff to make sure they know their customers and that they are asking them the right questions.
Use a customer relations management software like www.salesforce.com to manage relationships.
Outsource sales tax when in multiple jurisdictions. Www.avalara.com
<u>Customer Service</u>
Retaining existing customers saves money since it can cost more to develop a relationship with a new customer.
Don't let the bottom line interfere with satisfying your customers.
Don't cut items that negatively affect the customer.
Don't make cuts that decrease the quality of your customer service.
<u>Returns</u>
Reduce the amount of returns by placing a notice on the product to call you before returning the item. Often the problem can be resolved without having it returned.
To avoid fraudulent returns, make a policy requiring an original receipt to obtain a refund and set a time limit such as no returns after 30 days from purchase.
Only offer in store credit instead of refund of cash refunds.
Don't give a refund until their check clears if they paid by check.
Quality products lead to fewer returns. Monitor your quality often.
<u>Cost of Goods Sold</u>
COGS is the expense deduction taken when inventory is sold.
Analyze the actual labor costs involved in production. Include the cost of training, supervision, errors, etc.
Consider a production facility closer to where your raw materials come from.
Recycle some parts of the production process for use in another department.
Ask customers what bells and whistles on your product are really used or even wanted by them.
Determine what features you can eliminate which customers won't miss.
Determine what features you can add that will increase your customers' willingness to pay more.
Don't assume that the way things have always been made is the only way to do it.
Don't replace a quality component with a cheaper one of inferior quality unless it doesn't affect the overall quality of the finished product.
Speed up your operating cycle by using materials quickly after receiving them.
Dell computers example - they sell their computers before they even make them .
Review your processes for redundancy and waste.
Listen to those who aren't thrilled with their job. They may be motivated to find better ways to do it.
Reduce your energy costs by turning off machines not in use and turning off lights at the end of every day.

Cross train employees so that production doesn't slow if an employee becomes ill or suddenly quits.
Use just in time delivery of parts to the assembly line.
To run a lean production facility, question every step of every process in the production line and scrutinize whether it is necessary, efficient, or wasteful.
Employees will miss overtime pay, so you can create a bonus program that rewards quality work on the production lines. The cost savings created by implementing lean practices more than make up for the bonuses paid.
To grow larger, become smaller. Sell off portions of your business that aren't in line with your main business. Trying to do too many different things at once can blur your focus and hamper growth.
Some companies realize that they shouldn't try to be all and do all in their markets.
Utilize the power of your workforce by setting up a suggestion program: set up an account like suggestions@yourcompany.com
Tie managers bonuses to the number of accepted suggestions.
<u>Advertising / Marketing</u>
Determine the annual budget based on your industry standard reflected as a % of sales. I.e. advertising expense should be 5% of gross revenues.
Measure the results of each ad campaign. Rule everything else out before you attribute the increase in sales to the advertising.
Yellow pages has a tracking system that counts all the customers that call from seeing that ad.
Advertising medium that works for one company may not work for another.
Survey customers to find out how they found out about you. Doctor's offices include this in their initial medical questionnaire form by asking how they found them.
Try marketing towards your most profitable customer base for a quarter and measure the results.
Know your ideal customer by asking relevant questions:
1) What need in their life does your product or service satisfy?
2) What is the age, education level, or occupation of your ideal customer?
3) What is their financial status?
4) What features of your product or service are most important to your ideal customer? Why?
5) Where do they live?
6) Where do they go to shop for a product like yours?
Type up a marketing strategy plan and include dates you begin implementing each strategy and for what duration each one runs. Update this as you learn what works and what doesn't.
Use a tag line to let your customers know what sets your company apart from the competition.
Jimmy Johns subs differentiates themselves from Subway by having speedy service and they deliver.
Benjamin Franklin plumbing companies stand apart from their competition by being on time.
You don't have to have the lowest rates in order to set yourself apart.
Use hand outs with your company logo. Must be high quality and something people will actually use and won't throw away.
Barter your services with an advertising agency or radio station in exchange for air time. Be flexible in case they only want to barter a portion of the fees.
Write articles for a trade publication to get your name out there.
Buy ad space after the deadline has passed. They may need to just fill space. Have your ad ready to go.

Consider sharing the cost of advertising with another company.
When involved in the community with charitable organizations, display that for customers to see.
Direct mailings - target your ideal customer. Example of contractor using list of people that have pulled building permits to mail them a flyer about their services.
Consider specialty newsletters from local businesses, free newspapers, and college newspapers.
Utilitize your website. Visit www.bigstockphoto.com for inexpensive stock photos to use on your website.
www.businessknowhow.com - the marketing link has the latest advertising strategies.
Subscribe to every search engine out there, even the smaller ones.
Keep your website fresh with new information.
Make sure your website is fast when clicking around in it.
Have enough information on your company for them to make an informed decision.
Offer the ability to compare similar products on your site in a side by side format.
Swap banner ads with another site that sells complementary products to yours.
When coming up with what to say about your business, answer this question: Ours is the only product that ____ (fill in the blank with a meaningful buyer benefit here).
Focus on the strength you come up with and use it in your advertising campaign.
To get advertising results, the choice of media is the most important advertising decision, next is what you say. The least important, oddly, is how you say it. Creativity still counts, but it's not nearly as important as where you say it and what you say.
<u>Automobile Expense</u>
Keep the tires in all company vehicles properly inflated to maximize fuel efficiency. Check them weekly.
Use compact cars that get great mileage and have low maintenance for salesmen.
Determine with your CPA if the actual expense method is more beneficial or if the standard mileage rate is.
This is a target area for IRS audits so keep accurate records. Use a log book or use your calendar to track business mileage.
Buy vs lease
Reasons to buy: 1) you end up with an asset once it's paid for, 2) better to buy if you intend to drive it for more than 4 years, 3) you can drive over 10k - 12k miles per year unlike a leased vehicle.
Reasons to lease: 1) lower monthly payments, 2) easy to trade in every couple years for a new one, 3) easy to dispose of when it's time for a new car.
<u>Bank Charges</u>
No overdraft fees should occur.
Bank fees such as check processing fees are often negotiable.
Merchant service fees of 3% that are charged for processing credit cards can often times be passed on to the customer. If the customer pays by cash or check then they save this 3% fee.
Mercurypay.com is one of the lowest merchant service fees available.
<u>Dues & Subscriptions</u>
Join a trade organization in your industry. They usually have great discounts and travel benefits.
Visit www.nase.org
<u>Insurance</u>
Ask you banker if you can get a better rate on your loan by paying your insurance policy in full.
Determine with your insurance agent that your vehicles are properly classified.

Determine employees are properly classified for workers compensation.
Have a solid safety program that focuses on eliminating workplace injuries. This helps reduce workers comp insurance.
Review your insurance policy each year to make sure you aren't insuring assets you no longer own.
Make sure you aren't double insuring any assets that are covered under two separate policies.
Buy enough insurance to replace what you have. Be careful not to over insure. Determine replacement values.
Consider raising deductibles to save on premium costs.
Consider dropping collision coverage on cars over 5 years old.
Find out if any cars qualify for discounts because it is less likely to be stolen or less costly to repair.
Make sure your application and other documents have no errors or misleading info or they can rescind the policy which leaves you uninsured when you need to file a claim.
When using an insurance broker to shop, pay them a flat fee and not a commission.
Make sure your insurance company does not charge an additional monthly fee for paying via credit card each month. Switch to automatic withdrawal from your bank monthly. This should not incur additional fees.
Look into the H.S.A for health insurance for reduced premiums.
Ask your payroll provider if they offer health insurance. They buy in bulk and can offer low rates.
Payroll providers also may offer H.R. support.
Insurance is a commodity so shop for the best price.
<u>Office Supplies</u>
Join Sam's Club or Costco to buy in bulk.
Use reusable cups instead of disposable cups.
Shop businesses that are going out of business for heavily discounted cleaning supplies.
Store paper files as electronic copies instead.
Know how much it costs to print each document between the cost of paper, toner, and wear on the printer.
Pharos Systems at www.pharos.com helps companies print less.
Keep office supplies locked up so they don't walk out the door with employees.
Reuse large envelopes and file folders. Paper with little printed on it can be used in the fax machine.
Print on both sides of the paper when you can.
Replace paper newsletters with electronic newsletters.
Accept hand written changes to typos for internal memos.
Start a recycling program for all paper products including junk mail.
Pay bills online to save on paper checks. www.mycheckfree.com for an online payment option.
efax.com to fax through your email. No fax machine needed.
Unsubscribe from junk mail, go to www.ciwmb.ca.gov/bizwaste/officepaper/mailreduce.htm .
Set up fax to email so you can choose to print from your email or save the document electronically and never have to print. Also no more tracking down missing faxes.
Instead of mailing documents, scan and email them instead. This saves postage and supplies.
Use your smart phone to shop for the best prices at a store. Free app is Google Shopper. Showing a competitors lower price to the store you are in will usually get you that price so no need to travel to the other store.
<u>Pension plan expenses</u>
If you have under 100 employees, a Simple Plan may be a great option and it's cheaper to administer each year compared to a 401k.

Encourage all participants to maximize their annual pension contributions.
Review example under Notes Payable to understand how compound interest works for you with investments.
When setting up a new pension plan, let your CPA know to take the start up credit you may be eligible for.
<u>Postage and shipping</u>
Lease a postage meter from Pitney Bowes to eliminate trips to the post office.
Priority mail with USPS offers free envelopes and boxes. www.usps.com . Online click-n-ship.
www.stamps.com Print postage at your desk.
Call your local post office for info on how you can streamline your mailing process for efficiency and reduced cost.
Look into bulk mail programs to save on mass shipping.
Use your own Fed X account # when having others ship to you to avoid them from marking it up on you.
Reduce customer phone calls by setting up an order tracker on your website so they can see the shipment status.
Send nonurgent items via mail instead of hand delivering which uses company resources.
Put your shipping out to bid.
Find out when your customer really needs the product you are mailing. If no rush use a slower method of delivery which is cheaper.
Consider building up a cash reserve for claims instead of purchasing insurance on all the items you ship.
Shredding your used office paper makes for great packing materials.
Keep packing material you get from shipments you receive and use them for your later shipments.
Email info as opposed to mailing whenever you can.
Review the company's shipping process for wasted efforts and inefficiencies.
Have your company trucks pick up items from a supplier on their way back to save shipping costs.
Compare the shipping rates between suppliers when the cost of the product is not a factor.
Charge a restocking fee to discourage returns.
Join a co-op with others in your industry to combine your orders. Bigger orders can negotiate bigger discounts.
<u>Printing</u>
Save money by purchasing ink cartridges that are remanufactured, cleaned, and refilled.
Only re-print pages that have changes in a document.
Print on both sides of the page to save paper.
Print addresses directly onto envelopes to eliminate the need for a label.
Turn in empty ink cartridges to Office Depot, Office Max, or Staples to receive in store credit or gift cards. Let your staff know they can turn in their empty cartridges to your company and you'll dispose of them.
<u>Professional fees</u>
<u>Legal</u>
Be organized when working with your professional advisors. Don't request items to be re-emailed.
Email questions to make the most efficient use of their time and allow them to get prepared. Their follow up can be via phone since often times additional questions will arise and a dialog can resolve these the fastest.
www.nolo.com
Find an attorney and accountant that is a good fit. Ask for referrals to find a good one of each.
Ask your attorney for a budget and a maximum they will not exceed before starting work.
Require 6 minute billing increments instead of 15 minute increments.

Review their detailed bill for accidental double billing of time and associate attorney fees that are working on your case for their own experience or are just learning.

Come prepared with all the paperwork you'll need for meetings.

Bring duplicates to avoid law firm photocopy charges.

Communicate the whole story to your attorney, even info that is negative towards your case.

Ask your insurance agent if your litigation costs are covered if you win or lose.

Mandatory arbitration can avoid expensive litigation.

Mediation is voluntary and non-binding, unlike arbitration.

Do not discuss details of an employee's termination, especially via email.

When a legal issue arises, get your attorney involved right away.

Accounting

Having accurate books requires less adjustments by your CPA and keeps your tax prep fee down.

Review the prior year CPA adjusting journal entries to anticipate that you can make the same before handing over the books.

Schedule your CPA to visit the first week of January to clean up the books before they prepare the tax return or before they start an annual audit.

Once you give your books to your CPA to prepare your taxes, don't make any more entries or adjustments to that year. It is closed. Changes cost you money.

Provide all the requested information to your CPA at the same time. Don't piece meal documents 1 at a time. Picking up and putting down your file adds extra time to their preparation which translates into a bigger fee to you.

Communicate with your CPA when they are preparing your company audit or preparing your tax returns and ask what you can do to make their job easier to maximize efficiencies.

Review your chart of accounts for accounts that are no longer used or are duplicates. This can lead to coding errors and makes your financials difficult to read.

Stay current with your bookkeeping.

Have procedures for receiving and routing invoices. Inventory counts may not be needed weekly, maybe only monthly?

When a controller or CFO leaves, temporarily bring your CPA firm in to help close the books each month.

If your banker requires audited financials each year, ask if they'll accept reviewed financials instead.

If owners are thinking of selling, get audited financials for at least the previous 3 years before the year of sale.

Outsource your payroll processing. You will avoid penalties and numerous IRS and state payroll notices.

Compare Paychex, Insperity, Surepayroll, Paycom, and others for the best fit for your needs.

Switch weekly payroll to bi-monthly to save on processing fees.

Tech Department

Backup your data daily and store off-site.

Clean the inside of your computer every 6 month with a can of compressed air to help extend the life of the CPU.

Use power surge strips to protect from power surges.

Look into using Cloud Technology. This eliminates the need for a server.

www.maxmyspeed.com to clean up a slow running computer.

Upgrade your technology if it will help you do business faster, smarter, or cheaper.

Rent

Fill dumpsters completely before having them emptied.

Keep dumpsters locked.

When remodeling or building, make sure you choose materials that are easy to maintain and clean.

Look into refinishing rather than replacing office items. www.therefinishingtouch.com

Stay compliant with OSHA and local building codes to save from being fined.

Try to renegotiate your rent when there is a fair amount of available office space out there.

Pre-paying a long term lease can allow you to negotiate a discount.

Sublet unused or freed-up space.

Use plants and bright paint to improve the look of any cheaper space. Fake plants don't require a water lady.

Look into purchasing your own building to start building equity.

Repairs & Maintenance

In general, if a repair costs over 50% of the replacement value then skip the repair and buy a replacement.

Centralize tool storage so staff has access to the same set of tools.

Consider having tools be officially checked out and returned each day.

Uniquely mark company owned tools to deter theft.

Make sure your staff knows about your approach as to when spare parts are needed.

Telephone

Look for overbilling by the phone company.

Make sure only customers are calling your toll-free numbers.

Shop toll-free rate suppliers.

Make sure you are using wi -fi on your business smart phone when available so you don't use up your data which costs money vs free wi-fi.

Sign up for international phone plans before you travel.

Buy some time on Skype and use this method to communicate while overseas. Go to www.skype.com to set this up. You can use this on your phone and not be charged by your carrier or you can use on your computer.

Consider only reimbursing employees for a flat amount each month instead of covering the whole monthly phone bill.

Negotiate deeper discounts based on the number of employees you have on the company plan. Shop carriers.

When it's time to upgrade your phone, sell your old phone on ebay for the highest price. Erase your info by resetting the phone to the factory setting.

Use your smart phone to shop for the lowest prices. Use the Google Shopper app.

Travel

Booking travel inhouse helps reduce costs and can reduce employee theft.

One theft scheme is for an employee to buy 2 plane tickets, 1 online for the cheapest price another the day of travel which is 3-4 times more expensive. Then the employee submits the more expensive ticket for reimbursement even though he got it refunded by the airline right after purchasing it.

Instead of traveling, conduct a meeting via Skype or GoToMeeting or Zoom instead.

Ship only the product and videoconference a demonstration instead of traveling for a live demonstration.

There are times when you need to make a personal visit and should travel.

Know what your competitors are doing. If they are wooing the same client in person then you should too.

Think of travel as a luxury to be used for the really important times.

Go to must attend functions but determine if you can skip a day at the beginning or at the end and save the hotel and meal expenses.
Set a budget for a business trip. Let the employees know how much is allowed to be spent.
If the employee wants to stay in a cheaper hotel and eat less, he can keep the excess amount in the budget.
If he chooses to stay in the pricer hotel and eat well, he can use up all the budget but if he runs over, it's at his own expense.
Join a travel club for discounted rates.
Check into available package deals that include airfare, hotel, and car rental.
<u>Flying</u>
Direct flights generally cost more than connecting flights.
Book the flight at least 3 weeks in advance for the cheapest prices.
Look for online deals on a Tuesday or Wednesday when the airlines offer their lowest rates.
Compare all the airlines through www.kayak.com
Southwest airlines has some of the lowest prices only offered on their website: www.southwest.com
The time of day can affect the price of the flight.
Flying on Saturday can save on travel costs.
Leaving on a Saturday and returning on a Monday is the least expensive of the days to depart and arrive.
June is typically the most expensive month to fly domestically and the least busy and cheapest months to fly are usually January, February, September, and October.
February and March are the cheapest months to fly internationally.
Let your staff keep the frequent flier miles earned as a perk.
<u>Hotels</u>
Consider hotel sharing amongst travelers of the same sex.
Contract with a hotel chain for a discount.
Use frequent stay programs and require that all earned rewards be used during company travel.
Google frequent stay programs and compare the different options available.
<u>Meals & Transportation</u>
Set a per-meal limit and have a policy on what the company will not pay for, such as alcohol or lobster.
Take shuttles instead of a cab or limo from the airport to your hotel.
Use the business credit card to book travel such as car rental to save over online prices.
<u>Utilities</u>
Contact your utility company and ask for energy efficient changes that can be made to reduce your bills.
Ask if you're eligible for any rebates.
If you have a choice of utility providers, compare their costs and perks.
Have your employees turn off their computers, monitors, copiers, lights (even in the bathroom), and turning down the air/heat after hours.
Ask employees for their suggestions on how to cut back on energy costs.
Assign someone to take a walk around the building and double check that all lights and office machines are turned off at night.
Route all weekend faxes to one machine instead of leaving them all on over the weekend.
Buy inexpensive occupancy sensors that can turn off lights when no one is in a room.
Replace high-energy light bulbs with low-energy fluorescent bulbs.
Visit www.energy.gov for more info on energy efficiency methods.

Solar energy eliminates your utility bill. Excess energy produced can be sold back to the utility company.
Energy efficiency consultants are available and are paid based on the amount of money they save the company.
Heating and Air Conditioning
If not automated, manually turn down heat when no one is in the building. Install programmable thermostats.
Cover factory ventilation fans with plastic during the winter.
On hot sunny days, draw curtains or shades down to deflect the sunlight coming in.
Install awnings on southern and western facing windows.
Install solar window shades and curtains to deflect sun in the summer and draw warmth in the winter.
Regularly maintain your furnace/heating system and your cooling system to run proper and reduce your bills.
Window film and tint can reduce heat from the sun by nearly 80%. It pays for itself in 3-4 years.
Water
Use low flow bathroom fixtures.
Restaurants should not serve water at the start of a meal unless requested by the patrons.
Waste
The EPA Environmental Protection Agency has a website to help you plan for your business's waste reduction by helping you to reduce it, reuse it, or recycle it.
www.epa.gov/oppt/p2home/assist/sbg.htm
Website
Include phone #, address, directions, etc.
Include a phone # to access a live person to speak to.
Learn how your website performance stacks up at www.gomez.com
Set up a place on your company website where customers can leave feedback about their experience with you.
Have common forms, documents, manuals and brochures available on your website.
Reward customers for visiting your website by posting website only specials or coupons they can print and bring to a retail location.
Make your website show up on the first page of a search but being #1 is not imperative.
Include your web address on your company invoices.
Place links on your website to the sites of companies that provide compatible products and services.
Write articles about your industry, product type, or something related to the use of your product. Offer it at no charge to e-zines, online newsletters, and other local media sources.
Become a blogger to get your name out there.
Visit www.1and1.com to create your own website.
Wages
Hiring
Hire slow and fire fast.
Start a referral program for your current employees by offering an incentive for them to refer quality employees.
Post job notices online with Monster, Career Builder, Jobs, Jobing, and other free sites.

Clearly state the minimum educational and work experience requirements so you don't end up with hundreds of resumes from unqualified people costing you time to sort through them all.

Stay informed of other local or regional employers who are downsizing and try to snag quality employees from them.

Another company's HR dept may be willing to identify employees meeting your needs whom they will be laying off.

If a potential candidate lives far away, use video conferencing to interview them. You will save on airfare, hotel costs, and time. You can also save the conference to video so it can be replayed for other managers to gain their feedback.

College interns can be great short-term sources of employment at reasonable wages. They aren't eligible for benefits, their wages are less than regular employees, and when done they can't file unemployment.

Switch weekly payroll to bi-monthly to save on processing fees.

Call references to verify work history and dates of employment to discover potential discrepancies.

Check the previous company's websites and use phone numbers found online for employment verification.

Confirm specific skills via technical questions about their skills or you can even test their computer skills.

Perform a background check on all new hires as a condition of being hired. www.beenverified.com

Training and meeting issues

Decrease training costs by starting a standardized system of training. Develop training manuals that outline how to do each job.

To start have each employee type up their daily tasks they perform for one month.

Document your training sessions on video so you can replicate the same training in the future consistently.

Ask new hires for their overall observations. They may see cost-cutting measures easier.

Some payroll providers like Insperity offer free classes for staff to improve work skills.

Benefits

100% fully paid healthcare.

Telecommuting.

Fully paid sabbaticals.

4 day work week at 10 hours a day.

On site gym.

Tax free tuition reimbursement up to \$5,250 per year.

Half day Friday's all year round.

Discounts on in store purchases.

Group term life insurance.

Parking pass or transit pass.

Frequent flyer miles.

Moving expense reimbursements.

Retirement planning services.

Employer provided cell phones.

Dependent care plans for those with children.

Pension plans such as a 401k or Simple Plan.

Employer provided automobiles.

Floating Holidays.

Insurance Benefits

Set limits on insurance benefits. If an employee wants more insurance, have them pay the difference.

Shop insurance carriers for the best rates. Remember payroll providers offer deep discounts by pooling your staff with all the other employees they service.
Offer options to employees who want fewer benefits in exchange for more salary.
Reward employees with a % of the savings when they use their spouse's insurance plan.
Not all companies pay for 100% of their employee's health insurance. Some only pay for a %, such as 50% - 75% and the employee has the rest withheld from their paycheck to pay the balance.
One way to reduce the cost of insurance is to exclude dental and vision insurance.
<u>Paid Time Off</u>
Do not allow vacation to carryover from year to year or you'll pay more if paid out after a pay raise.
Set a cap on how much sick time can be banked and rolled over to the next year.
Don't allow employees to cash in unused sick days or you are just asking for sick employees to show up to work.
You want your employees to use their sick days when they are sick so they don't get others in the office sick.
Offer paid time off (PTO) instead of sick and vacation time.
<u>Incentive and Other Creative Benefits</u>
Allow employees to trade their benefits for things they value more.
If an employee uses his spouse's health insurance, let them exchange it for more vacation time, PTO, or even unpaid time off.
You can have an ala carte system: they can choose more personal days, more sick time, or choose to have more of their insurance premiums paid by the company.
Change to a 4 day workweek at 10 hours a day.
Allow employees to work from home several days a week.
Dutch work weeks have you work 9 hours a day and take off every other Friday (and 1 hour early every other Thursday).
<u>Retention</u>
Employees who stay with a company are cost-cutters since they don't have to be replaced.
Make quality a part of your company's culture and emphasize it during meetings.
When employees do chose to leave, find out why they are leaving.
Recognize and reward employees for their loyalty, not just productivity or attendance.
Management should be interested in their employees by knowing their names and asking how their weekend was.
One company buys Christmas gifts for their full time staff's kids.
Managers should ask employees what they think on issues the company is working on and listen to their feedback.
Give regular feedback on employee's performance instead of just once a year during their annual review.
This gives them a chance to improve their weaknesses and it gives management an opportunity to observe if they are in fact improving.
For creative based companies, use the Google 20% rule which allows workers to spend 1/5 of their time on any project they choose.
<u>Productivity</u>
The work flow is interrupted by too many meetings. Ask if you really need to meet as often as you do.
Example of the law firm that discussed the same delinquent receivable for months not realizing they could have earned those fees back 8 times over had they used that time to perform billable work.

Hand out an agenda before a meeting so people are prepared.

Long distance meetings

In lieu of traveling for long distance meetings, hold your meeting over the internet using a power point presentation.

www.meetings.com, join.me, or www.thinkofit.com to review software for web conferencing.

www.zoom.com

Productivity Issues

Give new employees a training manual before they start so they are prepared for their training.

Before hiring a new employee, find ways to produce more without a new person on the payroll.

Start by adding 1 new task for each worker.

Let your employees in on the real value of their output. If you have a big project, let them know this will net the company \$200k in profits so let's do a great job, get it done, and get paid on the job.

Observe how much time each employee spends doing their job to reveal who is efficient and who is not.

Use commissions to motivate and improve performance.

Productivity Killers

Constant complainers waste their time and others who listen to them.

Office gossip is another time waster and can create unnecessary conflicts between employees.

Limit smoke breaks and personal phone calls.

Computer time wasters: internet surfing, reading the news, reading personal emails, playing computer games, facebook.

Nonwork internet surfing can result in up to 40% loss in productivity.

Out of date computers slow down productivity. Replace or upgrade every few years.

Block off a period of time to respond to emails so they don't constantly interrupt your work flow.

Have a daily to do list and prioritize based on what needs to be completed first.

Challenge your staff to come up with cost savings methods for the company. Ask them to share their ideas at your weekly or monthly meetings.

Their ideas may lead to higher bonuses or reduced layoffs.

Give the employee a bonus proportionate to a % of the savings that their tip helped save the company in dollars.

Firing

Instead of firing to cut costs, consider other options first.

1. Decrease the # of office hours. This reduces the cost of your hourly staff obviously since they will be working less hours. You can also adjust your salary employees annual pay based upon the reduced hours they will be working. There are 2,080 work hours in a year (40 hours per week x 52 weeks). If you reduced your daily work day to 6 hours, that removes 2 hours per day or 10 hours per week. 10 less hours per week / 40 normal work hours in a week is a 25% decrease. Salaries could be temporarily decreased by 25% based on this adjustment.

2. Instead of reducing salaries, determine if you can generate enough in savings by halting all pay raises for the next quarter or the next year. It's easier for employees to live on what they are currently making as opposed to taking a pay cut.

3. Implement a new policy which requires unpaid time off. This is called a furlough which means it is a temporary layoff from work. Let your staff know this is only temporary until things turn around. Play with the numbers to determine how much will be saved if you require 1 furlough a month, 2 a month, 1 a week, etc.
4. Consider a pay cut across the board for every employee. Employees are often willing to give up some of their pay to avoid losing their job. In order to maintain employee morale, it's imperative that the owners and upper management also take pay cuts and make sure the lower paid employees know the higher paid employees are taking a pay cut as well.
This is a great way to boost profits immediately. Try this for example: cut management salaries by 5%; drop CEO and VP salaries 10%; then add monthly profit bonuses based on profits; when monthly profits beat last year's by 10%, give a 10% bonus; when 5% give 5%, and when 20% give 20%; watch requests for expenditures drop; now everybody will be rowing in the same direction.
5. Another creative way to divide up the pain of employees giving up some of their pay is to rotate them from full time to part time. For instance, divide your workforce into 4 even groups and every week on a 4 week cycle, 1 group will work part time.
6. You could offer a small bonus in exchange for employees to take an extended unpaid vacation. This could be an attractive offer to those with young kids who want to take the summer off to be with their family and at the same time they can avoid paying day care expenses.
7. Encourage or require your highly skilled employees to take a sabbatical (an extended period of leave). These people are typically hard to locate and expensive to replace in the future so use this when you want them to come back after a short break from work. You may need to keep them on your health insurance for this to be an a palatable offer. This is a great option for people finishing graduate school or for someone that wants to start a family.
8. Instead of using flat bonuses as employee incentives, switch to a model that bases their compensation on their performance. If you have salepeople on salary, convert their pay to be commission based. That way they are motivated to work harder and bring more sales through the door. Otherwise there is little incentive to do any more than the next guy because he won't make anymore anyways. Increasing his pay won't negatively impact the bottom line because he will have brought more work to the company.
9. Have the top executives trade some of their salary for stock options. That way they share in the productivity of the company. If the company isn't profitable, their pay will reflect this. This is a great motivator from the top down to make the company more productive and profitable.
10. Stop replacing any departed employees for 180 days and see what happens. Your remaining employees might prefer keeping the work themselves and getting bigger bonuses.
11. Another way to avoid layoffs is to ask employees to consider retiring early. A great perk to the company when they retire is that there are no unemployment costs involved (ie they can't claim unemployment therefore your unemployment rate with the state does not go up.)
12. One of the best ways to reduce your payroll is to cut human resources in half. 1 company did this and shortly thereafter lost a wrongful termination suit that cost them about \$45k, but the reduction to their payroll resulted in \$850k in savings from reducing the HR dept. What a fantastic bargain.
To avoid having excess staff to fire, use temporary employees through an agency.
Cut the least productive workers first.
Keep a good relationship with employees you lay off by offering them a re-hire incentive if they come back in the future.
Don't lower your company's standards to accommodate a bad employee's poor performance.
By not lowering the bar they'll either fix what's wrong on their end or they'll leave.
Hold all employees to high standards from day one.

The first moment you observe poor performance, start the documentation process and communicate the issues with the employee on a regular basis. Documentation will minimize the threat of a wrongful termination suit.

Use a follow up email to the employee outlining your discussion to supplement the documentation process.

Don't misclassify an employee as a manager to avoid paying overtime.

If someone is hurt on the job and is receiving workers' compensation, have them work for you in another roll that they are capable of. This reduces your costs for workers' compensation.

Make sure you have an employee manual in place. You can start with a template available at:

<https://templatelab.com/employee-handbook-template/>

Making business decisions is an art, not an exact science. Some trial and error is needed at times.

Make this section your own and add to it.

MODULE 7:

TAX REDUCTION STRATEGIES

“Taxes are one of our largest expenses every single year. It’s not how much you make in business that matters; it’s how much you keep.”

- Michael Field



Module 7

Understanding Taxes

A business must file income tax return each year.

A calendar year business ends on December 31st each year.

A fiscal year business ends the very last day of any month other than December if a C Corporation.

Business Entity Options - see chart

All 4 of these entity types use the numbers from the business' financial statements to prepare the tax return.

The Income Statement is used to determine the taxable income and the Balance Sheet is a part of all the business tax returns except the Sole Proprietorship.

C corps must pay estimated quarterly taxes or it could be subject to underpayment penalties and late pay penalties. Estimates may be based on previous year's income tax.

C corps are inclined to report as little income as possible. The C corp pays tax on its earnings and then the shareholders pay tax on the wages taken **and** dividends taken which means this entity is subject to **double taxation**

The C Corporation is a great choice when a business plans to go public.

S Corporations & Partnerships

Both of these are pass-through entities. This means they NEVER owe income tax but rather the business tax return generates a K-1 to pass the income to the owners.

The business income is only taxed once which is at the owner's personal tax rate. No double tax like a C corp.

Businesses usually distribute at least enough money for the owners to pay tax on the income. 30-35% is common.

Most business owners pay tax in through quarterly estimated tax payments during the year.

No matter what type of business structure you've chosen for your company, some form of income from that company will show up on your personal tax return.

Distributions Misconception

There are 2 main ways of paying yourself from your corporation: 1) Salary & 2) Dividend Distributions.

An owner of an S corp is taxed on their Wages aka Salary taken and their share of the net income from the business, NOT the dividends taken.

The IRS doesn't care if an S corp owner takes out \$1 in Distributions because that's not what you are taxed on.

S corp owners and partners in a partnership pay taxes on the total Net Income of the business whether or not they take the dividends or draws.

It is also possible for an owner to receive distributions from the company and not have any taxable income from the company.

Distributions are under the Equity section of the Balance Sheet which means Distributions DO NOT reduce a company's net income.

Phantom profits occur when a partner has taxable income from the company but doesn't receive any money.

This can occur when the partners decide to leave all the cash in the business to finance growth, or because there's just not enough cash to go around.

A business, whether a pass through entity or a taxable corp, may distribute all, part, or none of its profit for the year to its owners.

C corp owners want officer salaries as large as possible to reduce the corporate taxable income. Dividends in a C corp spells double taxation.

S corp owners are better off tax wise by keeping their salaries as low as possible, except when trying maximize their pension plan.

Salary is taxed at a higher rate than S corp K-1 earnings because salary is subject to employment taxes but S corp K-1 earnings are not.

It's more beneficial for S corp shareholders to take money out through higher dividends and lower salaries.

The IRS requires S corp and C corp owners to take a reasonable salary, ie the market rate to replace you.

State Taxes

A common misconception is that if a business incorporates in one of the 7 states with NO state income tax that they won't owe any state income tax. That's not how the state tax system works however.

A state taxes income based upon where it is earned, not merely where the business is incorporated.

Payroll Taxes

Every company that has employees must pay payroll taxes. The payroll taxes are made up of the following: 1) Social Security tax, 2) Medicare tax, 3) Unemployment tax to the IRS and your State, and 4) Workers compensation.

An employer is required to match the amount of Social Security & Medicare Taxes withheld from the employee.

These taxes are based ONLY on earned income, such as wages and earnings of a self employed person. Payroll taxes are not assessed on portfolio income (interest, dividends, capital gains) or passive income (rental properties or limited partner investments).

See the example of an employee's paycheck in the workbook.

What is Deductible

The IRS states that a business can take a deduction for any expense that is ordinary and necessary in carrying on any trade or business.

Ordinary expenses are ones that are normal, common, and in line with industry standards.

Necessary expenses are ones that are appropriate and helpful.

Every dollar of expense translates into a reduction of income, and less income means a lower tax bill.

Unlike your personal expenses, almost every business expense is tax-deductible to some degree.

A deduction is not the same as a credit. A credit is MUCH more valuable than a deduction.

See list of example business expense names.

Automobile Expense

There are 2 options when calculating this expense: 1) the actual expense method or 2) the standard mileage method.

1) The actual expense method includes adding the vehicle to the books as a fixed asset and depreciating it. It also includes the cost of repairs and maintenance, tires, fuel, oil, insurance and registration fees.

2) The standard mileage method is a flat amount to be deducted per business mile driven. The amount has been under .60 cents per mile for some time. To find out the current rate go to www.irs.gov and type in the search field "standard mileage rate" and look for the current year in the search results.

The payment of the standard mileage to any company worker, including owner employees, is deductible to the company and tax free to the employee since it is a reimbursement to the employee, not income.

The standard mileage method DOES NOT factor in parking fees and tolls for business use so these can be deducted in addition to the standard mileage rate, unlike the cost of gas, R&M, oil, tires, insurance, and depreciation.

If a company has 5 or more vehicles used for business at the same time you can only use the actual expense method.

It's best to keep your business use above 50% when using the actual expense method or some excess depreciations could become taxable.

A company can convert from using the standard mileage method to the actual cost method any year but they can't convert from the actual cost to standard mileage method unless the vehicle is removed from the books via selling it or distributing it to an owner.

Commuting miles are NOT deductible. These are miles driven between a taxpayer's home and work. But if you work out of your home, there are no commuting miles.

You can't convert nondeductible commuting miles into deductible miles by conducting business in the car via taking business calls on your cell phone or having advertising materials displayed on the car, although you do receive an advertising deduction for the cost of the car signage.

There is an exception which allows commuting miles to be deductible when going between home and a temporary work location.

Document Business Use

To track the auto expense regardless of the method used you need to track both 1) the total miles driven for the year and 2) the total business miles driven for the year.

Since Automobile Expenses are focused on during every IRS audit it's really important to keep good records.

Track the business use in a log book or trip sheet near the time the vehicle is driven (don't wait later than one week or you could lose the deduction in an audit for not following the contemporaneous record keeping rule).

Instead of using a log book another option is to include your appointments in your computer calendar. Total the mileage for each trip and tally them up each month. Include the time, place, and business purpose for each trip.

Mileage tracker apps: TipLog, MileIQ, and Mileage Tracker.

One option is to keep a mileage log for 3 consecutive months to prove the number of business miles in relation to the total miles driven. Then you apply that percentage to either your actual car expenses for the year or your mileage for the year when using the IRS mileage rates.

Time is of the essence when documenting auto expenses. That means document it within a week of the expenditure.

No need to track miles when the vehicle is a delivery truck, flat bed truck, dump truck, farm vehicles like a tractor, moving vans, and any truck or van that has been specially modified so it is likely not used for personal purposes like a van that carries inventory or equipment in the cargo area.

When using the actual expense method your tax accountant needs to back out the personal portion the driver used on the vehicle. This should be included in the employees W-2 wages at the end of the year.

Business Gifts

Gifts given to anyone in the course of business such as customers, clients, or employees is limited to \$25 per person per year.

Many gifts are actually promotional expenses, which are not subject to this \$25 per person per year limitation. Flowers or gift certificates may actually be marketing expenses or client relations expenses which are NOT subject to the \$25 per person per year limit like Gifts are.

Meals & Entertainment (Entertainment is no longer deductible as of 2018)

Meals & Entertainment are only 50% tax deductible. This includes meals during business travel as well.

Some M&E is 100% deductible. These include things like company parties, picnics, birthday cake for an employee, taking the staff out to lunch to welcome a new hire on their first day, a holiday party, etc. These are considered social or recreational expenses and not all employees need to be present for this to be 100% deductible.

Careful you code these expenses correctly as "Employee Functions" or your tax preparer could overlook this and you might only receive partial deduction.

Another instance when the cost of Meals is 100% deductible is when they are provided by the company to the general public.

For instance, a real estate agent can deduct the full cost of free dinners provided to potential clients who attend a sales presentation.

Entertainment Facilities

There is no deduction for the expense of owning or renting an entertainment facility. For example, if a company owns a condo at the base of a ski hill, the costs associated with owning the condo are not deductible.

Club Dues

Club dues with the purpose of providing entertainment to members or guests are not deductible. This includes dues to country clubs, golf and athletic clubs, airline, hotel, and business luncheon clubs. Business meals and entertainment expenses incurred at these clubs are 50% deductible however.

Dues paid to business leagues, trade and professional associations, those are deductible.

Travel

Expenses for the cost of transportation, meals and lodging for business travel away from home, which includes the entire city or general area where you conduct business. It's irrelevant where your family is located when determining one's tax home.

These expenses also include the cost of an Uber or Lyft to travel to and from the airport to the hotel and then to the customer or client, baggage fees, tips, car rental.

Dry cleaning and laundry are deductible while traveling but are not deductible any other time.

All travel expenses are deductible when it is entirely for business.

If the trip is primarily for business, ie you spend more time on business activities than personal activities, then all travel expenses are deductible except costs associated with personal activities.

To determine this, count the number of days spent conducting business compared to the number of non-business days. If there are more business days than nonbusiness days then you have a deduction.

<p>A business day is any day where you do business, any amount. Document what you did for business each day and track this in your calendar which is often the easiest method. Also hold onto any literature and business cards you collect while on business trips.</p>
<p>If the trip is primarily for personal reasons, the entire cost of the trip is nondeductible, but any business related expenses while on the trip are deductible such as the expense of a meal when conducting business.</p>
<p>If a spouse or friend joins you on the business trip, in order for their portion to be deductible they need to be an employee of the company and there needs to be a business purpose for them to travel with you. Otherwise their travel expenses are not deductible.</p>
<p>Accountable Plan</p>
<p>To make sure reimbursements to employees for travel and meals are NOT treated as taxable income to them, the employee needs to provide receipts to the employer within 60 days of the time of reimbursement. Any excess reimbursement made to the employee needs to be repaid within 120 days after the expense was paid or incurred.</p>
<p>If no receipt or other documentation is provided to the employer then any reimbursements are considered paid under a <u>Nonaccountable Plan</u> and is taxable income to the employee.</p>
<p>One common example of this is a flat monthly reimbursement of some amount for a car allowance.</p>
<p>Record Keeping</p>
<p>Keep REALLY GOOD records for travel and meals. Although there is a special rule called the Cohan rule that sometimes allows estimates of certain business expenses to be used as evidence under IRS audit, this does NOT apply to automobile, travel, or meals.</p>
<p>An IRS agent knows businesses need these receipts or the business loses the deduction so this is where they start every audit focusing on. The other area they verify each audit is the reported revenue.</p>
<p>Keep ALL receipts for these expenses. The receipts need to <u>include the amount, time, place, and business purpose</u> of the expense. That means you will need to write a pithy remark on the receipts regarding who was there and what the business was in regards to.</p>
<p>Keep hotel receipts. A credit card statement is not sufficient evidence for a lodging expense.</p>
<p>There is an exception though. For travel expenses (other than lodging), gifts, and listed property such as vehicles, receipts are generally not required for expenses under \$75. But you still need to document the amount, time, place, and business purpose. This can be done in the memo section of your accounting ledger.</p>
<p>Electronic receipts are just as valid as paper receipts. This includes an email or fax of an airline itinerary or receipt.</p>
<p>Meals and incidental expenses while away from home can be documented using a per diem rate instead of the actual cost.</p>
<p>Be sure to hold onto receipts and tax related documents for 7 years as a general rule of thumb.</p>
<p>Per Diem Rates</p>
<p>Instead of keeping records of actual expenses for each business trip, you can take a deduction based on a per diem rate. They cover the costs of meals, lodging and other incidental expenses. The rates vary depending on location.</p>
<p>This method eliminates the need to track actual expenses for these travel expenses and employees can be reimbursed based on the per diem amounts.</p>
<p>You still need to document the time, place and business purpose for the trip.</p>
<p>The 50% tax deductible rule is still applicable for these reimbursed meals and incidental expenses.</p>

A per diem is available for lodging except if the business is a sole proprietor (files Schedule C to report income tax) or an employee. Sole proprietors need to use the actual cost method and keep receipts.

You can even switch methods used for claiming these expenses, although the same method must be used for all days within any single business trip.

Visit www.gsa.gov and click on Per Diem Rates on the left to find the rates based on your travel location.

Uniforms

Uniforms are deductible ONLY if they are BOTH 1) required as a condition of employment, and 2) not usable for everyday wear.

Examples of deductible uniforms are protective clothing such as safety boots, safety glasses, hard hats and work gloves. Also shirts, shoes, ties, and hats with the business logo, scrubs of a doctor, firefighters uniforms, etc.

Not deductible is a \$5,000 Armani suit bought specifically for wearing during business presentations because the suit can be worn for everyday personal wear. It is considered a personal non-deductible expense.

Depreciation

Depreciation is the expense you receive for big ticket purchases that both 1) cost more than \$2,500, and 2) is expected to last more than 1 year.

The purchase is capitalized meaning it shows up on the Balance Sheet under Fixed Assets. The deduction is received through an expense called Depreciation.

The deduction is prorated over the life of the asset.

Some examples of Fixed Asset purchases that are depreciated and their life in years for tax purposes include:

3 year assets - Software purchased from a store

5 year assets - Computers, copiers, vehicles

7 year assets - Office furniture, fixtures, and equipment

15 year assets - Land improvements like sidewalks, roads, fences, etc.

27.5 year assets - Residential rental real property

39 year assets - Nonresidential rental real property

Land DOES NOT depreciate so back out 15-20% of total real property purchase price for land.

Example: New Equipment costs \$7,000. It has a 7 year life from the list above under office furniture. $\$7,000 / 7$ year life = \$1,000 depreciation deduction each year for 7 years.

Section 179

This allows a business to expense certain property in full all in the 1st year it is placed in service.

This reduces business income taxes substantially.

A business can buy a fixed asset with a loan and still get a tax deduction for the whole asset under Section 179.

Fixed assets that qualify for Section 179 include most all 3 year, 5 year, and 7 year assets.

Fixed assets that DO NOT qualify for Section 179 include most 15 year, 27.5 year, and 39 year assets such as buildings and their attached components like air conditioning and heating units, and property used less than 50% for business. Also, NO assets purchased in a rental business are ever eligible for Section 179.

IRS Publication 946 has a thorough list of assets and their useful lives.

There are several limitations when claiming this deduction. The deduction can't cause an overall loss to the company and the amount is capped each year.

Home Office Expense

When your home is your only work space, you can take a home office deduction. You can only have 1 office.

To qualify for this deduction, you must use part of your home regularly and exclusively for business purposes.

So a desk in your bedroom does not qualify. It must be a separate room.

You also must use that spot as your principal place of business.

Regular means at least 10 hours per week. Conducting a meeting once a week in the home office is not enough.

If audited, the IRS can physically inspect the office in the home.

Typical deductions include a portion of your mortgage interest and property taxes, rent payments, utilities, insurance, HOA, etc.

If your home office is 100 sq feet in your 1,000 sq ft home, 10% of the above expenses will be deductible for business purposes.

Simplified method for home office deduction = \$5 x sq ft used for business up to a max of 300 sq ft.

- max deduction under this method is \$1,500 (\$5 x 300 sq ft max)

Nondeductible expenses

1/2 of Meals are nondeductible. This includes Meals incurred while traveling as well.

Business gifts over \$25 per recipient per year is nondeductible.

Life insurance premiums on key officers and executives.

Fines & Penalties are nondeductible.

Federal and state taxes for pass through entities (S corp and Partnerships) are not deductible to the company.

Federal income tax is not deductible for a C Corporation either.

Some related party transactions may be nondeductible such as charging rent above FMV to your business to shift income. The transaction must be an arm's length bargain.

Net Taxable Income Calculation

A business is taxed on their P&L and NOT on their Balance Sheet and NOT on the amount of money sitting in their bank account at the end of the year.

In order to understand how a business' taxable income is calculated, we need to know a little about accrual basis and cash basis of accounting.

Accrual basis and cash basis only differ in the timing of when you record income and expenses.

Accrual basis accounting means the financials include Accounts Receivable (A/R) and Accounts Payable (A/P).

When A/R is included that means there is income recorded when the sales occur on the P&L that has not yet been received.

And when A/P is included that means there are expenses recorded on the P&L that have not yet been paid.

With the accrual method, income and expenses are counted when they happen, regardless of when the money is actually received or paid.

Cash basis accounting means the financials DO NOT include A/R and A/P. Cash basis taxpayers report income when payment is received as opposed to when they invoice for the work and they report expenses when they are actually paid as opposed to when the bill was received.

In general, if your company typically has more receivables than payables, then it's better to be on the Cash Basis for tax purposes. That's because you don't want to pay taxes on income you haven't yet received.

However, if your payables typically exceed your receivables then it's better to be on the Accrual Basis for tax purposes. This allows a tax deduction for expenses not yet paid for.

In many circumstances a company can track their books on the Accrual Basis but pay taxes on the Cash Basis.

See the Taxable Income Calculation example in the workbook.

Tax Planning

Buy equipment eligible for Section 179 to reduce taxable income.

Only make big purchases if your business needs the item, not for the sake of saving some taxes.

Loan repayments are never deductible, although the interest portion is.

Postpone billing clients near the end of the year so the money doesn't come in until early the next year.

Look into matching pension contributions with company money.

Request that your credit cards, loan statements, and all bank accounts use a cut off date of the last day of the month to help match accounts to statements at the end of year.

If you'd like to pay more tax then claim more inventory. If you'd like to pay less tax then claim less inventory.

Add the owners kids on the payroll to shift taxable income to their lower tax brackets.

They should be over 7 years old and have a job description. Track their hours worked weekly. Pay them a reasonable wage and deposit the checks into the kids separate bank account for IRS audit purposes.

If the business is a Sole Proprietorship, then there is no payroll tax owed on the kids pay if they are under 18. All other business entities need to withhold and match payroll taxes.

The child's standard deduction eliminates tax on that amount.

Have the child contribute up to \$6k to a tax deductible IRA to exclude that amount from income tax.

Be sure the wages are reported on a W-2 at the end of the year and NOT a 1099 or the child could be subject to self employment tax and the tax savings would be mitigated.

If the business owner is in a high income tax bracket it might make sense to have the child pay tax at their lower tax rate. This moves income from your high tax bracket to their lower tax bracket.

This works for a hiring a parent that is in a low income tax bracket.

If you have young children that need day care while you work, you can add a Dependent Care Plan as a fringe benefit which allows employees, including owner employees, to exclude up to \$5,000 from gross income.

If payments for business expenses are made through a personal bank account instead of with business funds, be sure to record the expense on the company books or it could get overlooked.

Consider pre-paying some expenses before the end of the tax year. There is a safe harbor rule that allows taxpayers to pre-pay expenses up to 12 months in advance without IRS challenge.

Some common expenses to prepay include rent on office space and machinery, postage machine funds, business insurance, and lease payments on business vehicles.

Your business still receives a current year deduction even if the landlord/insurance agent does not receive payment until next year.

In order to prove the payment was made in the current year, send the check by certified or registered mail so it shows the date that it was mailed and delivery receipt shows the date the vendor received the check.

Use credit cards to pay for bills at year end since the day you charge a purchase to your business credit card is the day the expense is deductible, even though the credit card won't be paid until the following year.

<p>Have your holiday party or office meeting at your home and charge FMV rent to yourself. This gives your company a 100% deductible tax write off for the holiday party and it is tax free to you because there is a special rule which disregards rental income each year if the rental activity is 14 days or less each year.</p>
<p>If a spouse is working for the business but is also collecting Social Security, take them off payroll or reduce their salary substantially so you aren't paying FICA tax.</p>
<p>Know that the spouse will be foregoing the opportunity to fund additional pension money and traveling with your spouse for business creates a hurdle for deducting their expenses. Also, your health insurance provider may require some wages each year to be eligible for their plan.</p>
<p>In order to be eligible for Social Security retirement benefits, you need 40 credits (10 years of work). Wage earners and self-employed taxpayers earn 1 credit for each \$1,410 of earnings in 2020, up to a maximum of four credits per year.</p>
<p>For example, if a worker earns \$5,640 in the first 2 months of 2020, he receives 4 credits (4 x \$1,410).</p>
<p>Set up buildings, land, and expensive equipment into a separate LLC and have the operating business rent these items. Rental income is not subject to FICA taxes and money can be saved by structuring your company this way.</p>
<p>If you are a silent partner make sure that the partnership agreement requires distributions to cover a portion of any attributed phantom income (often this is a flat 30% of each owners share of net income).</p>
<p>Use a 1031 exchange (aka like kind exchange) to defer paying tax on the sale of an asset.</p>
<p>The property must be held for business or investment.</p>
<p>Children of owners can qualify for an annual tax-free education assistance up to \$5,250 if the child is over 21, are a legitimate employee of the business, and are not dependents of the owners.</p>
<p>You need a written plan drawn up and the business can't discriminate between employees that receive this benefit.</p>
<p>Education that is required to maintain or improve skills does not require a written plan and it is not subject to the \$5,250 annual limit per employee.</p>
<p>In an S corp the owners should not take out all the income through Officer Wages. Although there must be reasonable wages paid to officers, they should also be taking payment in the form of Dividend Distributions.</p>
<p>Update your fixed assets each year with your CPA firm by letting them know not only what new assets were purchased, but also what assets have been disposed of so personal property assets are not overstated.</p>
<p>Since a corporation is required to have an annual meeting of the board of directors each year, the cost of that meeting is a legitimate business expenses of the corporation.</p>
<p>It's perfectly acceptable to conduct an annual board meeting in a travel destination in order to be away from the stress of the business and to think clearer.</p>
<p>If your spouse or children are also legitimate employees, their travel is also deductible.</p>
<p>Make sure you are taking advantage of the Qualified Business Income Deduction. It's also called Section 199A and it allows you to deduct 20% of your qualified business income from being taxed.</p>
<p>Since the S corp and Partnership tax returns never owe business income taxes since the earnings are passed through to the owners, the taxes from these entities need to be paid during the year at the individual level.</p>

Individual taxpayers can pay taxes in 2 different ways: 1) through wage withholdings, and 2) through quarterly estimated tax payments.
Payments must be at least equal to either: 1) 90% of the tax shown on the current year tax return, or 2) 100% of last year's total tax (110% if the taxpayer had adjusted gross income on their 1040 of over \$150,000).
Quarterly estimates are due: 1st - April 15, 2nd - June 15th, 3rd - September 15th, 4th - January 15th
Your tax preparer will need to calculate how much you need in wage withholdings and quarterly estimates if you are an owner in a pass through entity.
If you are having trouble paying off some debt such as your credit card debt, you could increase your federal and state withholdings so you get a refund and use that money to pay down the debt each year.
An extension gives additional time to file a tax return but NOT more time to pay the balance owed.
<u>Pitfalls to Avoid & Other Tips</u>
Pay owners their loans to the company before paying them a salary.
<u>Employees (EE) vs Independent Contractors (IC)</u>
No payroll taxes owed on pay to IC unlike wages paid to EE. This is about an 8% savings to the company.
ICs are not entitled to benefits either which is an additional cost savings.
Facts and circumstances determine how a worker is classified.
There are several factors to consider when determining if a worker is a) an independent contractor or b) an employee.
1) If the employer controls how the work is done, this indicates the worker is most likely an employee. This is especially true when a worker must follow instructions about when, where, and how to work, such as needing prior approval before moving forward with a job.
2) when training is provided to perform a job in a particular manner, this supports an employee relationship
3) employees depend on their employer to provide a place to work, tools, equipment and materials to do their job. Independent contractors normally have their own tools and equipment to do the job.
4) employees work for one company at a time and do not make their services available to the public, unlike an independent contractor.
5) employees are paid by the hour or by salary. Independent contractors are usually paid by the job or receive a commission.
6) an independent contractor should have a written contract agreeing on the job to be performed, method of payment, how expenses are handled, etc.
7) benefits such as health insurance, pension plans, and vacation are only paid to employees.
8) a temporary relationship is indicative of an independent contractor. An indefinite one suggests an employee.
When in doubt on how you should treat a worker, consult with your CPA or business attorney for advice.
Form 8919 allows IC to have company pay the extra payroll taxes when they are incorrectly classified as an IC.
Disgruntled workers often trigger a state or federal audit of worker status when paying as IC instead of EE.
Some true IC workers may push to be treated as an EE so they can claim unemployment on your company as soon as they are done working for you. This increases your state unemployment tax rate.
Unemployment is NOT free to a company. The company ends up paying in more to the Unemployment system to cover previous claims from ex-employee claims.
Issue 1099s to ICs at the end of the year. Obtain a W-9 from the IC before work starts.
Use Publication 1976 under "Do you qualify for relief under Section 530" on the irs.gov website when under IRS audit of IC treatment.

Outsource payroll to avoid penalties and interest on payroll tax payments.
Never borrow from payroll tax deposits to fund your business. Penalty is 100% of taxes owed and individuals are personally liable, no corporate protection available here.
Verify that all of your company payroll taxes are being paid by looking at your account online by registering with the IRS's Electronic Federal Tax Payment System (EFTPS) at www.irs.gov . Once registered you can see physical proof of your tax payments in the IRS register for the last 18 months.
Don't make the mistake of thinking a credit card statement is sufficient to support a deductible expense. This just proves you paid the money. You still need to show receipts if ever audited. Don't forget to include details such as who and why for meals.
Keep your business and personal bank accounts separate to preserve corporate liability protection.
If the company is low on funds, loan the corporation the money from your personal account. Or pay with your personal funds and fill out an expense reimbursement form to leave a trail.
Don't do a flat reimbursement for expenses like mileage or it is taxable on your W-2 as compensation. Fill out an expense report to make it a tax free reimbursement. This was discussed under Accountable Plans.
Just because 2 or 3 or more partners or shareholders make the same amount of money does not mean their tax liability will look the same.
The fastest way to get audited as an S corp is to file an 1120S with little to no amount showing on Line 7 for Officer's Wages when there is positive net income.
The IRS requires a reasonable amount of wages be paid to S corp owners that perform services. There is an exception for an officer that performs only minor services or no services at all.
Pay an owner what the company would pay someone else to replace him or her for the duties they perform.
If you do receive a notice from the IRS or state, inform your CPA right away as they are time sensitive.
Late filing penalties are normally waived if it's your first time being late.
To keep the corporate veil in place, a company must hold board meetings and document the minutes from those meetings.
Minutes can include: 1) establishment of banking relationships and any changes to them, 2) loans from either a Shareholder or 3rd party, 3) the sale or redemption of stock shares, 4) payment of dividends, 5) authorization of salaries or bonuses for officers and key executives, 6) any asset purchases, sales, or leases, 7) buying or merging with another company, 8) changes in Articles of Incorporation or Bylaws, 9) election of a new corporate officer and directors, and 10) any significant decisions recently made or items being contemplated.
There are some other events that can trigger piercing the corporate veil.
1) Under capitalizing a company can be grounds for piercing the corporate veil.
2) Torts committed by the shareholder such as assault, battery, trespass, fraud or other wrongdoing (for example, the sole shareholder takes out all profits, leaving the corporation without enough money to pay its creditors).
3) failure to follow corporate formalities in running the business (ie shares are never formally issued, directors meetings are not held, or a shareholder commingles personal and company funds).
Usually at least 2 of the above factors must be present for the court to pierce the corporate veil. The most common combination is the inadequate capitalization of the company plus the failure to follow corporate formalities.

Keep your company's legal status current with your Secretary of State's office each year. If the status is delinquent and your company is named in a lawsuit, the owners can be exposed to personal liability since the Inc or LLC is not actively protecting the owners at the time of the lawsuit.

Make sure you consult with your tax CPA before you chose a business entity structure.

Make digital copies of your receipts and then you don't need to store the original receipt. You don't even need a scanner. You can take a digital photo of your receipts with your iPhone, iPad, Droid, and other smartphones.

Shoeboxed.com is an application that will copy and keep track of receipts.

www.bradfordtaxinstitute.com

C Corporation Form 1120 (Has its own Tax)		Corporation pays the tax AND individual pays tax on wages and dividends Pays tax calculated on Form 1120
S Corporation Form 1120S (No Tax)	K-1	Individual pays the tax ; NO separate business tax Form 1040 (Individual rate but No S/E Tax)
Partnership (LLC, LLP, LP, are all Partnerships) Form 1065 (No Tax)	K-1	Individual pays the tax ; NO separate business tax Form 1040 (Individual rate + S/E Tax if a General Partner)

S corp W-2 wages are reported on Line 1 of the 1040 and K-1 (or net income) is reported on Line 7 of the 1040.
S corp and Partnership business return activity flows through to the individual return via Form K-1.

The C corp is the only business structure that pays its own tax. All others have income reported to the owners via K-1 and they pay the tax.
The S corp and Partnership income will flow through to the owner's individual tax return via a Schedule K-1 based on their ownership %.
Losses in a C Corp do NOT flow through to the owners personal tax return but losses DO flow through to the owners when set up as an S Corp or Partnership.

S Corp vs Partnership Example					
	<u>S Corp</u>		<u>Partnership</u>		
Net Income	100,000		100,000		
Reasonable Salary For Owner	<u>(40,000)</u>		<u>-</u>		
Taxable Income From Business	60,000		100,000		
Income subject to FICA	40,000		100,000		
Social Security & Medicare Taxes (employee + employer sides)	<u>15.20%</u>		<u>15.20%</u>		
FICA Taxes	6,080	-	15,200	=	(9,120)
Net income is the same for both examples.					
A reasonable salary is required to be taken by owners in an S corp. Salary is never taken in a Partnership, only Guaranteed Payments.					
The salary is subject to both sides of the FICA tax so there is no cost savings by taking a salary, however it is required by the IRS.					
The taxable income for the S Corp of \$60,000 is only subject to ordinary income taxes on the owners individual tax return, NOT FICA tax.					
The taxable income for the Partnership of \$100,000 is ALL subject to ordinary income taxes AND FICA Tax!					
That means the savings comes from the FICA taxes not owed on the S Corp Net Income.					
K-I earnings from an S corp aren't subject to SE taxes on the individual owner's tax return.					
In an S corp, you don't want a high Shareholder salary because every \$10k of salary can cost you and your corp more than \$1,500 in employemnt taxes on top of regular income taxes. Dividends are subject only to income taxes. By switching that \$10k from salary to dividends, you keep that \$1,500 in your pocket instead of sending it to the IRS.					
Factors to consider besides the tax differences:					
1) An S corp is not as flexible as a partnership. A partnership can have special allocations of income to a partner. S corps must take distributions out in proportion to their ownership %.					
2) S corps must pay reasonable wages to owner employees.					

List of Taxes	
1	Accumulated Earnings Tax
2	Ad Valorem Tax
3	Building Permit Tax
4	Capital Gains Tax
5	CDL license Tax
6	Cigarette Tax
7	Corporate Income Tax
8	Dog License Tax
9	Estate Tax
10	Excise Tax
11	Federal Income Tax
12	Federal Unemployment Tax (FUTA)
13	Fishing License Tax
14	Food License Tax
15	Fuel Permit Tax
16	Gasoline Tax
17	Gift Tax
18	Hunting License Tax
19	Inheritance Tax
20	Inventory Tax
21	IRS Interest Charges IRS Penalties (tax on top of tax)
22	Liquor Tax
23	Local Income Tax
24	Luxury Taxes
25	Marriage License Tax
26	Medicare Tax
27	Net Investment Income Tax
28	Personal Property Tax
29	Property Tax
30	Real Estate Tax
31	Recreational Vehicle Tax
32	Road Toll Booth Taxes
33	Road Usage Taxes (truckers)
34	Sales Tax
35	School Tax
36	Service Charge Tax
37	Septic Permit Tax
38	Social Security Tax
39	State Income Tax
40	State Unemployment Tax (SUTA)
41	Tangible Taxes
42	Telephone Federal Excise Tax
43	Telephone Federal Universal Service Fee Tax
44	Telephone Federal, State and Local Surcharge Taxes

45	Telephone Minimum Usage Surcharge Tax
46	Telephone Recurring and Non-recurring Charges Tax
47	Telephone State and Local Tax
48	Telephone Usage Charge Tax
49	Toll Bridge Taxes Toll
50	Tunnel Taxes
51	Trailer Registration
52	Utility Taxes
53	Vehicle License Registration Tax
54	Vehicle Sales Tax
55	Watercraft Registration Tax
56	Well Permit Tax
57	Workers Compensation Tax

List of Due Dates

Income Tax Return Deadlines

C Corp	4/15	If a calendar year end. Otherwise 15th day of 4th month following end of tax year.
S Corp	3/15	If a calendar year end. Otherwise 15th day of 3rd month following end of tax year.
Partnership	3/15	If a calendar year end. Otherwise 15th day of 3rd month following end of tax year.
Individual	4/15	

Payroll Tax Return Deadlines

940		1/31
941	4/30, 7/31, 10/31, 1/31	
State Unemployment	4/30, 7/31, 10/31, 1/31	
W-2s & W-3		1/31
1099s		1/31

Entity Comparison Chart

	<u>C Corporation</u>	<u>S Corporation</u>	<u>Partnership</u>	<u>Sole Proprietorship</u>
IRS Tax Return Form	Form 1120	Form 1120S	Form 1065	Schedule C of Form 1040
Description	A business entity that carries its own legal status, separate from its owners.	A corporation can elect to be taxed as an S corp by filing Form 2553. Can only have 1 class of stock. No more than 100 shareholders. Can't have another corp as a shareholder. Distributions must be taken in proportion to ownership %.	2 or more owners. LLC with 2 or more owners files a partnership tax return. Partnership can elect to be taxed as a corporation.	Can only have 1 owner. Single member LLCs are treated as Sole Proprietorship for tax purposes.
Taxation	C corp pays tax on its profits. When shareholder takes profits from the corp, the distributions are taxable distributions (double taxation).	An S corp is taxed similar to a partnership. Income and expenses flow through to shareholders. Income is taxed to the shareholder whether or not distributed.	Business income and expenses flow through to the partners. Income is taxed to the partner whether or not distributed.	Net profit or loss is calculated on Schedule C and is reported as income or loss on the owner's Form 1040.
Wages & SE Tax	Shareholders who perform services for a corp, including officers, are treated as employees. Wages are subject to payroll tax and withholding. Wages paid to employee shareholders must be reasonable. Dividend distributions are not subject to SE tax.	An employee shareholder of an S corp receives wages for services performed. These wages must be reasonable. An owner's share of business income is passed through to the shareholder and taxed for income tax purposes but not for SE tax purposes. Double taxation on profits is avoided.	A general partner's share of business income, including guaranteed payments, is subject to SE tax. A limited partner's share of business income is not subject to SE tax unless they perform services for the business.	The owner is subject to SE tax of 15.3% on net income. Owner can only deduct 1/2 SE tax as an adjustment to income on Form 1040.
Personal Liability	Shareholders are not liable for debts incurred by the corp. Liability is generally limited to the amount invested.	Shareholders are not liable for debts incurred by the corp. Liability is generally limited to the amount invested.	General partner is personally liable for all partnership debt. Limited partner's liability is usually limited to her investment in the partnership (ie if they invest \$10k they can only lose \$10k).	The sole proprietor is liable for all business debts and actions. Therefore use an LLC.

A sole proprietor can only have 1 owner. When a sole proprietor takes on a partner they become a Partnership by default. Incidentally, a Partnership can elect to be taxed as an S corp (confusing I know). However an S corp can never elect to be treated as a Partnership.

However, a C corp can have just 1 owner. This does NOT mean the C Corporation is a sole proprietor. Those are 2 different entities and it's either 1 or the other, never both!

There are rules regarding C corporations you must follow.

Never place potential appreciating assets in a C corp or an S corp. Use an LLC to hold appreciating assets.

The right to incorporate only comes from the state governments. You cannot incorporate under federal or city government, only under state law. You can incorporate in any state, but you may also have to be "accepted" into other states as a "foreign" corporation when doing business in additional states other than the state the company is originally incorporated in.

Every company that is set up must have a business purpose and that purpose can NOT merely be to pay less taxes!

The purpose of this entity overview is not to make you a complete expert. Rather, use this info to see if there could be an issue and then seek the right advisors.

There are no blanket answers as to which entity is best as different circumstances preclude this from being accurate each instance.

Consult a CPA or tax attorney on the best business structure for your business.

Payroll Tax Example				
Employee Paystub				
<u>Employee's check broken down</u>				
Gross Wages	1,000.00			
Federal Withholdings	(200.00)	}		
Social Security Tax (6.2% of gross wages)	(62.00)			
Medicare Tax (1.45% of gross wages)	(14.50)		347.25	Government receives this \$
State Withholdings	(65.00)			
Local Tax	(5.75)			
Net Paycheck to Employee	652.75		<u>652.75</u>	Employee receives this \$
			1,000.00	Total paycheck
<u>Company matches 2 of the payroll taxes</u>				
Social Security Tax (6.2% of gross wages)			62.00	Government receives this \$
Medicare Tax (1.45% of gross wages)			14.50	Government receives this \$
			<u>1,076.50</u>	
Federal Unemployment Tax - .6%			6.00	Government receives this \$
State Unemployment Tax				
- this tax varies by state ; assume 3.5% rate			<u>35.00</u>	Government receives this \$
Total Cost of Paycheck to Employer			<u>1,117.50</u>	
Note: Social Security Tax is capped each year. You can google maximum Social Security tax and the current year to find the current year maximum.				
Every employee starts over with 0 wages on January 1.				
Medicare Tax has no cap or maximum wages it applies to.				
Federal Unemployment Tax is assessed on the first \$7,000 of wages each year. This resets on January 1 each year.				
State Unemployment Tax normally has a maximum as well. This varies by state. It can range between \$10,000 - \$25,000 for example.				

<u>Taxable Income Calculation</u>		
Income		1,000,000
Expenses		<u>(700,000)</u>
Net Income (last # from annual P&L)		300,000
1/2 of Meals (even when traveling)		2,500
Penalties and Fines		300
Life Insurance for owners		3,200
Accrual to Cash Adjustment		<u>(50,000)</u>
- (A/R increased by \$50,000 over last year)		
Taxable Income		256,000
Tax Rate		<u>0.30</u>
Tax		76,800

List of Common Business Expenses

1	Accounting
2	- Auditing
3	- Bookkeeping
4	- Tax planning
5	- Tax preparing and filing any tax returns
6	- Cost of government investigation of any tax returns
7	- Cost of defense against any IRS or state agency audits or challenges
8	Accounts Receivable, worthless (bad debt)
9	Achievement awards - requires a plan
10	- Longevity award
11	- Safety award
12	- Sales award
13	Advances made to employees or salespeople where repayment is not expected
14	Advances to employees canceled as a bonus
15	Advertising
16	- Newspaper
17	- Magazine
18	- Radio
19	- Internet
20	- Other media
21	- Prizes and other expenses in holding contests or exhibitions
22	- Contributions to various organizations for advertising purposes
23	- Cost of displays, posters, etc. to attract customers
24	- Publicity
25	- Holiday presents to customers or prospects - de minimis rule
26	Alterations to business property, if minor
27	Amortization
28	Attorney's fees and other legal expenses involving
29	- Tax strategy
30	- Drafting of agreements, resolutions, minutes, etc.
31	- Defense of claims against the business
32	- Collection actions taken against others
33	- Any other business-related legal activity
34	Auto expenses for business purposes, such as:
35	- Damage to auto not covered by insurance
36	- Gasoline
37	- Oil
38	- Repairs & Maintenance
39	- Washing and waxing
40	- Garage rent
41	- Interest portion of payments
42	- Insurance premiums such as fire, theft, collision, liability, etc.
43	- Lease payment

44	- License plate
45	- Driver's license fee
46	- Depreciation
47	- Wages of chauffeur
48	- Section 179 deduction, for qualified vehicle
49	Bad debts - if previously taken into income
50	Baseball/softball/soccer team equipment for business publicity
51	Board and room to employee:
52	- All meals and lodging if for employer's benefit
53	- Temporary housing assignment
54	Board meetings
55	Bonuses as additional compensation to employees
56	Bookkeeping services
57	Building expenses, used for business, such as:
58	- Repairs to building
59	- Janitorial service
60	- Painting
61	- Interest on mortgage
62	- Taxes on property
63	- Water
64	- Waste removal
65	- Depreciation on building
66	- Heating
67	- Lighting
68	- Landscaping
69	Burglary losses not covered by insurance
70	Business, cost of operating office
71	Business taxes - except federal income taxes
72	Cafeteria plan - requires a written plan
73	Capital asset sale - losses
74	Car and taxi fares
75	Casualty damages, such as:
76	- Fire
77	- Storm
78	- Hurricane
79	- Drought
80	- Forest fire
81	- Freezing of property
82	- Impairment or collapse of property
83	- Ice
84	- Heat
85	- Wind
86	- Rain
87	Charitable contributions
88	Checking account bank charges
89	Child care - requires a written plan
90	Children's salaries

91	Christmas presents to employees, customers, and prospects for advertising or publicity purposes, or goodwill, or if customary in the trade
92	Collection expenses including attorney's charges
93	Commissions on sales of securities by dealers in securities
94	Commissions paid to agents
95	Commissions paid to employees for business purposes
96	Commissions paid to your salesforce
97	Condemnation expenses
98	Contributions (deductible if made to organizations founded for the following purposes, subject to some limitations):
99	- Religious
100	- Charitable
101	- Scientific
102	- Literary
103	- Educational
104	- Prevention of cruelty to children and animals
105	Convention expenses, cost of attending conventions
106	Cost of Goods
107	Credit report costs
108	Day care facility
109	Depletion
110	Depreciation
111	Discounts allowed to customers
112	Dues paid to:
113	- Better Business Bureau
114	- Chamber of commerce
115	- Trade associations
116	- Professional societies
117	- Technical societies
118	- Protective services association
119	Education assistance - requires written plan
120	Embezzlement loss not covered by insurance
121	Employee functions, such as:
122	- Dances
123	- Outings
124	- Christmas parties
125	- Shows or plays
126	Endorser's loss
127	Entertainment expenses - <u>NO LONGER DEDUCTIBLE AS OF 1/1/18</u>
128	Equipment, minor replacements
129	Equipment purchases costing under \$2,500
130	Equipment repairs
131	Exhibits and displays, to publicize your products
132	Expenses of any kind directly chargeable to business income, such as:
133	- Renting of storage space
134	- Safe deposit boxes
135	- Upkeep of property

136	- Books to record income and expenses or investment income
137	Experimental and research expenses
138	Factoring
139	Fan mail expenses
140	Fees for passports necessary while traveling on business
141	Fees to accountants
142	Fees to agents
143	Fees to brokers
144	Fees to investment counsel
145	Fees to professionals for services rendered
146	Fees to technicians
147	Fire loss
148	Forfeited stock
149	Freight charges
150	Gifts to customers - limit \$25
151	Gifts to organized institutions, such as:
152	- Charitable
153	- Literary
154	- Educational
155	- Religious
156	- Scientific
157	Group term insurance on employees' lives
158	Guarantor's loss
159	Health insurance
160	Heating expense
161	Hospitals, contributions to
162	Improvements, provided they are minor
163	Insurance premiums paid
164	Interest on loans of all kinds for business purposes, such as:
165	- On loans
166	- On notes
167	- On mortgages
168	- On bonds
169	- On tax deficiencies
170	- On installment payments of auto, furniture, etc.
171	- On margin account with brokers
172	- Bank discount on note is deductible as interest
173	Inventory loss due to damages
174	Investment counsel fees
175	Lawsuit expenses
176	Legal costs
177	- In defense of your business
178	- In settlement of cases
179	- Payment of damages
180	License fees
181	Lighting
182	Living quarter furnished employees for business's benefit

183	Lobbying costs
184	Losses, deductible if connected with your business or profession, such as:
185	- Abandoned property
186	- Accounts receivable
187	- Auto damage caused by fire, theft, heat, storm, etc.
188	- Bad Debts
189	- Bank closed
190	- Bonds
191	- Buildings - damaged
192	- Burglary
193	- Business ventures
194	- Capital assets
195	- Casualties: fire, theft, heat, storm, etc.
196	- Damages to property or assets
197	- Deposit forfeiture, on purchase of property
198	- Drought
199	- Embezzlements
200	- Equipment abandoned
201	- Forced sale or exchange
202	- Foreclosures
203	- Forfeitures
204	- Freezing
205	- Goodwill
206	- Loans not collectible
207	- Theft
208	- Transactions entered into for profits
209	Maintenance of business property
210	Maintenance of office, store, warehouse, showroom, etc.
211	Maintenance of rented premises
212	Management costs
213	Materials
214	Meals, subject to limitation
215	Membership dues
216	Merchandise
217	Messenger service
218	Moving cost
219	Musician expenses
220	Net operating loss - may be carried forward indefinitely against future years' income
221	Newspapers
222	Office expenses, including:
223	- Wages
224	- Supplies
225	- Towel service
226	- Heating and lighting
227	- Telephone
228	- Repairs

229	- Refurnishing, minor items
230	- Decorating
231	- Painting
232	Office rent
233	Office rent - portion of home used for business
234	Office stationery and supplies
235	Passport fees
236	Pension plans - must be properly drawn
237	Periodicals
238	Physical fitness center
239	Plotting of land for sale
240	Postage
241	Professional society dues
242	Property depreciation
243	Property maintenance
244	Property repairs
245	Publicity expenses
246	Real estate expenses of rental or investment property, including:
247	- Taxes on property
248	- Insurance
249	- Janitorial service
250	- Repairing
251	- Redecorating
252	- Painting
253	- Depreciation
254	- Supplies
255	- Tools
256	- Legal expenses involving leases, tenants, or property
257	- Bookkeeping
258	- Property management
259	- Utilities
260	- Commissions to secure tenants
261	- Maintenance - heating, lighting, etc.
262	- Advertising for tenants
263	- Cost of manager's unit, if on site and at employer's convenience
264	Rebates on sales
265	Refunds on sales
266	Rent settlement - cancel lease
267	Rental property expense, such as:
268	- Advertising of vacant premises
269	- Commissions to secure tenants
270	- Billboards and signs
271	Rent collection expense
272	Rents paid, such as:
273	- Business property
274	- Parking facilities
275	- Safe deposit boxes

276	- Taxes paid by tenant for landlord
277	- Warehouse and storage charges
278	Repairing of business property, such as:
279	- Alterations, provided they are not capital additions
280	- Casualty damages, replaced, provided they are not capital additions
281	- Cleaning
282	- Minor improvements
283	- Painting
284	- Redecorating
285	- Repairing of furniture, fixtures, equipment, machinery, and buildings
286	- Roof repairs
287	Royalties
288	Safe deposit box rental
289	Safe or storage rental
290	Salaries (including bonuses, commissions, pensions, management fees)
291	Sample room
292	Selling expenses, such as:
293	- Commissions and bonuses as prizes
294	- Discounts
295	- Prizes offered in contests
296	- Publicity and promotion costs
297	- Rebates
298	Services, professional or other necessary for conducting business
299	Social Security taxes paid by employers
300	Stationary and all other office supplies used
301	Subscriptions to all trade, business, or professional periodicals
302	Supplies, office or laboratory
303	Taxes, all taxes paid except federal income taxes, such as:
304	- City gross receipts tax
305	- City sales tax
306	- State gross receipts tax
307	- State sales tax
308	- State unemployment insurance tax
309	- Federal Social Security tax
310	- State unincorporated business tax
311	- Real estate tax
312	- Tangible property tax
313	- Intangible property tax
314	- Custom, import, or tariff tax
315	- License tax
316	- Stamp taxes
317	- Any business tax, as a rule
318	- Auto registration tax
319	- Safe deposit tax
320	- Membership dues tax
321	- Gasoline tax
322	- Admission tax

323	Telephone
324	Traveling expenses (includes: meals, Uber, Lyft, rail fare, airfare, tips, telephone, laundry and cleaning)
325	Unemployment compensation taxes paid by employer
326	Uniforms furnished to employees
327	Wages
328	Workmen's compensation fund contributions

MODULE 8:

THINK LIKE A THIEF

“An ounce of prevention is worth a pound of cure.”

- Benjamin Franklin



Module 8

Think Like A Thief

You need to always be on the lookout for fraud, just like a Casino watching its tables.

Most common motivations to steal:

1. Living beyond their means
2. An overwhelming desire for personal gain
3. High personal debt; personal financial problems
4. Feeling underpaid therefore he/she has resentment for the company; Job Dissatisfaction
5. A strong challenge to beat the system
6. Excessive gambling habits
7. Undue family or peer pressure
8. Drug or alcohol addiction

The more educated the person with a high position held in a company, the more they can steal.

Audits by your CPA firm is the least successful method of detecting fraud.

Employees reporting fraud is the most common way fraud is discovered so encourage them to report fraud.

LISTEN to employees that tip off a potential fraud and investigate immediately.

The different positions and categories include: 1. Cashier, 2. Bookkeepers / Controllers, 3. Rank & File Employees, 4. Expense Reimbursements, 5. Refunds, 6. Kickbacks & Corruption, 7. Managers & Executives, and 8. Financial Statement Fraud.

Cashiers

Skimming - sales are never recorded then pocketed by the cashier.

No Sale opens the cash register but doesn't record a sale. Too many of these are a red flag. Require manager present to enter No Sale.

Post sign saying "If you don't receive your receipt you get a free X".

Watch for unclosed register drawers. Drawer must be locked shut after every single sale.

Require a manager to Void a Sale.

Let manager know why this process is in place so they are more alert to possible thefts.

Rubber stamp managers end up unknowingly assisting in the theft.

The presence of a manager or supervisor near the cash register helps deter theft.

Cashier may steal from a co-workers register while they step away.

Track overages and shortages by employee in order to reveal a shortage pattern.

Place camera's over registers and let staff know a security company monitors each transaction.

Skimming can happen by worker opening for business during closed hours.

Ticket salesperson may re-sell tickets and pocket the re-sold ticket money since no trail of 2nd sale.

Watch for unusual nervousness in those that handle money.

False discounts such as coupons may be used to justify less daily sales.

Wait staff can add additional tips to credit card tip line.

Register tapes should never go missing or be tampered with.

Have a policy requiring a review of others work.

Accomplice can "buy" merchandise using cashier to give deep discount or not charge for the sale.

Bookkeepers and Controllers

Deposits can be stolen. Employees signature will show as person that endorsed the deposit.
When stolen customer deposit is recorded in books the deposit will not reconcile since it never clears bank.
Cash account ends up out of balance. Only gets discovered if someone else looks at the bank reconciliation.
Look for offsetting adjustments that attempt to cover up the deposit that will never clear.
Using Debits and Credits it would look like this. Record the deposit:
Debit the bank account by \$10,000
Credit A/R by \$10,000
Debit Discounts by \$10,000 (an Expense or contra Income account)
Credit the bank account by \$10,000
When he goes to reconcile he'll check off the debit of \$10,000 for the false deposit and the credit of \$10,000 for the false discount which cancel each other so the missing deposit appears to have cleared the bank.
Instead of running fake payment through bank, bkpr might credit A/R and debit an expense.
Need separation of duties.
1 person receive cash and check payments then prepare a deposit slip for the bank.
A different person should take the deposits to the bank. A copy of the deposit slip should stay with the person that made out the deposit slip. That way it can be matched to the bank receipt.
Steal deposit from day 1 and replace it with the deposit from day 2 so always 1 day behind.
Review deposits sitting in "Deposit in Transit" account to make sure the deposit really clears the bank.
Customer payment may be stolen when bkpr knows customer balance is about to be written off.
Short term skimming - steal deposit money for short period to earn interest then deposit into business bank.
It's much easier to steal cash than it is to steal checks because checks leave a trail of evidence behind.
Look for thief's identity within the endorsement on the back of the stolen check (provided by your customer).
They may use a false name or fake company called a Shell company when endorsing the stolen check.
Name used may be similar to your company - ABC vs. ABC Enterprises. Easier to deposit stolen checks.
Look at Secretary of State's website for who registered the company to determine the employee involved.
Don't allow checks to leave the Pay to the Order line blank.
PayPal does not distinguish between a private and a commercial bank account for deposits.
Bank accounts can be deleted from PayPal covering up their trail.
Keep deposit money in a locked, secure location until taken to the bank.
Same for blank company checks.

Stealing company checks

Don't let same person sign checks, make deposits, and reconcile the bank statement.

Person in charge of reconciling bank accounts are in best position to conceal theft.

Accounts used to hide fraudulent checks usually have lots of transactions and have high balances.

Cost of Goods Sold, Travel, Office Supplies, Intercompany Liability, and rarely reviewed accounts are popular.

Fake evidence - photocopy blank check, print legitimate vendor onto photocopied blank check for backup.

Change vendor to themselves and print onto real check. Change vendor on books back to previous vendor.

Stealing by overstating amount of a legitimate vendor check on books and write difference to themselves.

That will the books will balance with the bank statement.

If someone else reconciles this should be revealed.

AP clerk held onto vendor check after printed and signed until they called for payment. Said it had been mailed but he will cancel 1st check and have a new check issued.

Intentionally put vendor checks in wrong mailing envelopes and do the same thing as above.

Intentionally overpay or double pay vendor and request a refund check which bookkeeper then takes.

Because company isn't expecting a refund it's less obvious money has been stolen.

Look through your vendor list in your accounting software and look for payments to vendors for exact same amount. Match up invoices to these payments. Verify signatures on back of checks deposited.

Bank statements can be altered therefore download directly from bank website to verify bank rec.

Vendor checks can be stolen out of the outgoing company mail.

Thief may set up shell company with name close to your company name - XYZ v XYZ Consulting.

This makes it easier to deposit the stolen checks.

Don't leave space after amount typed on checks or it could be altered to add zeros.

Erasable ink may be used to obtain signature on a check and then change who the check is made out to.

Don't allow checks to be made payable to Cash.

Don't pre-sign checks or sign a check with no payee filled in even if signer goes out of town.

Fraudulent checks may be buried amongst legitimate checks to obtain a signature.

They may wait until signer is rushed so they don't pay close attention to what they are signing.

May say the mailman is waiting and she needs signature right away.

Real signature may be photocopied onto transparency and then copy signature onto checks. Perfect forgery.

May pay personal credit card through the company to steal company funds.

December and January are months closely reviewed by auditors so often thief skips stealing these months.

Detection & Prevention Techniques

Require a different person to reconcile bank from person that writes & signs checks and makes deposits.

This is called separation of duties. Ideally a company will have 1 person prepare the checks and another person is needed to sign the checks so all payments are reviewed before they can be issued. Once the check is signed the preparer of the check should not be allowed to handle the check from that point on.

Smaller companies struggle with this and that's what makes them most vulnerable.

Download bank statement online.

Match amount of check, check #, and payee on books with cancelled check plus endorsement signatures.

Bookkeeper must be required to take vacation of at least 1 week (consecutive days, Mon - Fri).
Have someone else trained to do their job during this time off.
A second person might notice anything unusual that may lead to the discovery of fraud.
Bookkeeper stealing may turn down a promotion if they are stealing.
Watch for peculiar behavior such as oversensitive to others reviewing accounting records.
Create an atmosphere of uncertainty by using surprise audits.
Listen closely to customer complaints about their account showing a balance due when they have paid.
Verify your gross profit percentage matches your markup on sales. Compare to previous periods.
Look into dramatic changes.
Compare your GP % to industry standards from your trade association or www.bizstats.com .
Mail checks immediately after they are signed.
Keep vendors addresses secure so someone can't have the checks mailed to themselves or their PO Box.
Periodically rotate the person in charge of cutting and recording checks.
Require a 2nd signature when checks are over a certain dollar amount like \$5,000.
Set a maximum dollar amount for checks that your company's bank is not allowed to accept.
Consider signing up for Positive Pay with your bank. You give them a list of checks and they only honor those checks.
Pay bills electronically when you can to avoid using paper check.
Bill.com can help you pay bills online without having to write checks.
Keep your company checks in a locked drawer, cabinet, or safe. Don't leave them in plain view.
Don't hire someone who has a theft charge show up on their background check.
Make sure all voided checks listed on the company books do not clear the bank statement.
Call the bank and stop payment on missing checks.
Verify checks made out to employees are valid (other than payroll checks).
Scrutinize checks with double endorsements on the back, especially when 1 of signers is an employee.
Tell your bank you don't allow dual endorsements or require the bank to verify a dual endorsed check before cashing.
Review checks that appear to have an altered endorsement signatures.
Don't allow returned checks to be delivered to the person that prepared the check.
Stamp "For Deposit Only" on the checks that come in and then prepare a list of the money received before giving it to the person that makes the daily bank deposits.
Have a different person count the inventory other than the person in charge of maintaining those records.
Have your auditors or other employees who don't work in the warehouse take a surprise inventory count and compare this with your inventory records.
Before you pay a supplier be sure to first match up your purchase orders with what was received.
Require 2 different manager signatures before writing off old outstanding receivables.
Document what collection efforts were made.
Pay attention to office gossip for leaks of who is stealing.
Look for photocopies of invoices or purchase orders. Copies are often used when forged or tampered with.
Look for vendor invoices in sequence, i.e. #1003, #1004, #1005. Are you their only customer?
If the invoice numbers are so far apart from one another this can also indicate a fake invoice.

Find a suspicious invoice? Call the phone # to verify it exists. Look up address on Google Maps street view.
PO Boxes are often used for shell companies. Look up the business online. No website is a red flag.
Review journal entries made to the bank account for theft concealment.
Review journal entries made to Accounts Receivable, Bad Debt Expense, & Inventory for theft concealment.
<u>Payroll Theft</u>
Employees should receive payroll check net of taxes withheld.
Verify employees aren't receiving a net check equal to the gross check amount. This means the company is paying for the payroll tax withholdings of the employee.
Know your employees pay rate or salary to verify payroll is accurate.
Bookkeeper can intentionally overpay federal and state payroll taxes from company money & claim on their W-2.
Monitor that the payroll tax deposits are being made - www.irs.gov. Click on EFTPS on the right hand side or you can search for it in the search box.
You can search up to 16 months of payroll tax deposit history using this system or you can call the IRS and ask them for the payroll tax deposit history to verify what has been paid.
Ghost employees don't work for the company but are getting paid.
Past employee may be left on the payroll while checks are diverted to thief's bank account.
Have someone that doesn't work in the payroll dept. hand out payroll checks & require ID from employees.
For direct deposit, review list of employees, addresses, bank account #s, SSNs and look for duplicates.
Ghost employee often won't have any taxes withheld or any other normal deductions.
<u>Rank and File Employees</u>
Fraudulently increase pay by inflating # of hours worked or have friend punch in when they aren't at work.
Overstate hours worked during higher paid shifts.
Have supervisor monitor who is punching in during shifts.
Signed timecards should be delivered by manager to payroll, not delivered by the employee.
Increase pay by changing their pay rate. Need access to payroll records for this. Usually through an accomplice.
If paid on commission there's motivation to create fake sales or another employee's sales to increase commission.
Vacation time can be increased by misreporting time taken off.
Intentionally over purchase inventory and take excess for personal use.
<u>Expense Reimbursements</u>
Example of buying cheap flight with personal funds but submitting receipt for more expensive flight for reimbursement.
Claiming personal expenses as though they were business related.
Compare expense reports to employees work schedules to make sure they actually worked those days.
Require original receipts instead of photocopies.
Look for receipts from same vendor making sure they aren't in sequential order.
Expense submitted by employee may have been paid by the client he was with.
Request a copy of his credit card statement to prove they paid the bill and not the client.
Supervisor stole by making his staff overstate their expense reimbursements then they had to pay him the amount they were overpaid.

Staff may be afraid of losing their job if they tell on their boss.
Compare expense reimbursements to previous periods to verify they are reasonable and comparative.
Require expense reports to be reviewed before they are paid. Less likely to steal when monitored.
Make a habit of reviewing expense reimbursements before an employees review.
Require all expense reports to include an original receipt with date and time along with an explanation of the expense and how it is business related.
<u>Refunds</u>
Employee may issue their own credit card a refund from the company.
Manager compared 3-4 months of credit card merchant statements next to each to discover the fraud.
Issue refunds to accomplices and split the money.
Be very suspicious when records are missing. A thief knows that no records stops the trail that leads to them.
Be sure to closely review the supporting documents for refunds and voided transactions.
Keep track of refunds by employee and investigate ones with higher than normal occurrences.
Look at refunds or voids when the amount is just under the limit that requires a manager's review.
Post signs advising customers to examine their receipt.
Call random customers that recently received a refund to verify they received a refund.
If a customer wants a refund and their check hasn't cleared your bank, wait until it clears first.
<u>Kickbacks & Corruption</u>
This type of fraud usually leaves no paper trail making it difficult to detect.
Kickbacks can be travel, entertainment, vacation, 3rd party debt repayment, free drinks, etc.
Example of trading free rides for free drinks at the bar.
Example of borrowing money from a friend and paying it back early at an unprorated annual % rate.
Employee may push through an overpriced or fake invoice in return for a vendor kickback.
Corrupt employee working with a vendor to defraud your company removes competition and low prices & high quality.
Bid rigging - vendor and employee team up to make sure that vendor wins the job.
Ownership interest in vendors by employees should be disclosed to your company.
<u>Managers / Executives</u>
These positions can easily approve payments for fake invoices to their Shell Companies.
When authorization is needed over a certain amount they usually keep thefts below this threshold.
To verify company is not a shell company go to your states Secretary of State's website to look up the company's registered agent. It may be under an employee's name or their spouses maiden name.
PO Boxes are a red flag to companies A/P departments since it can signal fraud.
Use Google Maps to view the physical location of the address to determine if it is a home or a commercial building.
A personal residence should be looked into further.
Try calling the phone number and ask questions about the business to verify it is legitimate.
A thief would prefer to invoice for services than for goods.

Financial Statement Fraud

Least common type of fraud but by far the most costly.

Culprits normally include owners, executives, and managers.

Example of Barton Watson who submitted fraudulent financial statements to obtain \$100 million in bank loans.

Overstate Reasons

If their salary, bonuses, or stock value are tied to performance then they want better results than actually occurred.

If publicly traded then analysts expect you to meet or surpass their expectations or your stock suffers.

Management tried a new strategy that failed. Cook the books to cover up the real results.

Certain financial marks may be required to satisfy loan covenants or loan may be due in full immediately.

Company is trying to obtain a new loan. The better the numbers look the easier it is to obtain the loan.

To attract new investors.

Understate Reasons

Pay less income taxes. The lower the net income the less income taxes are owed.

To devalue the company for calculating the value during a buyout of a partner or ex-spouse.

Management has maxed out their bonuses based on existing performance. Defer excess earnings to next year.

Inflated Sales

Fake sales to real or fake customers.

Add sales to existing real invoices.

Record bank loan \$ received as revenue instead of liability (both accounts carry a credit balance).

Look for abnormally fast growth or unusually high profitability.

Compare against previous comparable periods and to industry standards. www.bizstats.com

Ask questions when you see lots of activity with related parties.

Fake sales often show up in A/R aging report under 90 or 120 days out.

Uncollectible A/R should be written off as bad debt.

Next year's sales may be recorded on this year's books to inflate sales.

Fixed Assets

Record a purchase as a fixed asset instead of an expense improves the P&L results.

Fixed assets generally need to cost over a certain dollar amount, usually \$1,000 or more and it needs to last more than 1 year.

Companies are able to report profits using this method even when in fact they are operating at a loss.

WorldCom miscoded \$11 billion of expenses as fixed assets making them look more profitable than actual.

Wall Street predictions was the motivation. Stock value would decrease if numbers weren't reached.

Private companies are motivated to pay little income taxes so the expense purchases that should be capitalized as a fixed asset.

Look closely at the company's capitalization and amortization policies and make sure they are following them.

Inventory

To reduce taxes a business owner may falsely decrease inventory thereby increasing cost of sales to show less profit.

To improve financial statements you would do the opposite. Falsely increase inventory & decrease COS.

This improves Balance Sheet, Income Statement, and Gross Profit %.

To conceal overstated inventory people have stacked empty boxes in their warehouse during counts.

To cover up inventory being stolen by an employee they may adjust inventory down for what is left after theft.

Red Flag - when COS rises faster than sales do. Gross Profit % is lower than previous periods.

Did your vendor prices go up? Is someone stealing Inventory?

Have Inventory counted by people that are not also in control of the record keeping.

Accounts Payable & Expenses

To improve the financials you would defer recording expenses until the following period so net income isn't reduced.

To pay less taxes it is beneficial to report expenses early. Record January's expenses in December.

Less debt makes the financials look better and healthier than more debt.

Less debt increases the value of a company.

Omitting expenses or loans are more difficult to detect.

Revenues need to be recorded when they are earned and Expenses need to be recorded when they are incurred.

To cover up missing expenses just throw away the bills and don't record them on the books.

Accounts Payable which is a debt to the company is reduced and the expenses are both understated.

Example of dentist that was overstating his dental practice value because he forgot to record Accounts Payable.

Loans

Improve Balance Sheet by reporting current debt as long term debt.

Example of Adelphia Communications hiding \$2.3 billion of bank debt by shifting to subsidiaries.

They created the illusion that debt had been paid off when really it had just been shifted to other related entities.

In the end the 2 brothers that stole millions got between 15 and 20 years of federal prison time.

Closing

Example of Crazy Eddie implementing a number of these schemes discussed.

Skimmed sales when it was a private company to reduce taxes.

Moved cash to foreign bank account.

Once they went public they deposited some of the skimmed money into the company to show increased fake sales.

False vendor credits were recorded against Accounts Payable.

Inventory was recorded on the books but some of the purchase invoices were not,

Double counted Inventory by moving merchandise from 1 store to the next in middle of night during audit.

Staff manually increased auditor's Inventory count when auditor walked away from their desk.

Reports were shredded. A lost report was a safe report.

Inventory was overstated by \$80 million.

Eddie Antar sold his stock for \$74 million when financials were manufactured to look stellar.
Eddie stole with a pen instead of a gun.
Spent years in jail for his crimes.
If you suspect fraud at your company and feel its time to call in a professional consultant to assist, look for one that is a Certified Fraud Examiner (CFE). They have specific training in this area.
Tips from a fraud hotline are the most effective means of detecting fraud.
The hotline needs to be confidential and easily accessible, especially at night and on the weekend which is when most fraud is reported.
If you do discover fraud at your company, if there is no substantial punishment for the thief then you are not deterring future fraud.
When deciding the thief's fate, think about what's best for the community in the situation you are dealing with.
Some people pass on prosecuting criminally but manage to damage a thief professionally.
If you are unable to collect the stolen money from the employee issue them a 1099 for the amount they stole.
If they are going to get away with the stolen money they may as well be taxed on it.
Good Luck using all your new financial tools!

List of Websites and Apps referred to in the program

www.nerdwallet.com	Resource for best banking and credit cards
www.bankrate.com	Resource for best banking and credit cards
www.fundinghero.com	SBA offers low interest rates to those that qualify
www.imsbarter.com	Barter program
www.salesforce.com	Customer relations management
www.avalara.com	Sales tax management
www.bizstats.com	Business statistics to compare your business
www.bigstockphoto.com	Stock photos
www.istock.com	Stock photos
www.dreamstime.com	Stock photos
www.businessknowhow.com	Marketing strategies
www.mercurypay.com	Payment processing for credit/debit cards
www.nase.org	National Association for the Self Employed
www.pharos.com	Reduce unnecessary printing
www.mycheckfree.com	Pay bills online without using checks
www.usps.com	Shipping resource
www.stamps.com	Shipping resource
www.nolo.com	Legal reference website
www.maxmyspeed.com	Clean up your computer to run faster
www.therefinishingtouch.com	Refinish current furniture instead of buying new
www.skype.com	Inexpensive way to communicate
www.gazelle.com	Sell old cell phones here
www.cexchange.com	Sell old cell phones here
www.nextworth.com	Sell old cell phones here
www.ebay.com	Sell old cell phones here
www.zoom.com	Web conferencing software
www.gotomeeting.com	Web conferencing software
www.meetings.com	Web conferencing software
www.joinme.com	Web conferencing software
www.thinkofit.com	Web conferencing software
www.gotoassist.com	Access another computer remotely for free
www.logmein123.com	Access another computer remotely for free
www.showmypc.com	Access another computer remotely for free
www.kayak.com	Shop for the lowest priced airline tickets
www.southwest.com	Shop for the lowest priced airline tickets
www.energy.gov	Energy efficiencies
www.beenverified.com	Background checks
www.shoeboxed.com	Copies and tracks receipts
www.bill.com	Pay bills online without using checks
www.gsa.gov	Most current per diem rates
www.bradfordtaxinstitute.com	Tax rules and deductions resource
www.irs.gov	Internal Revenue Service website
www.similarweb.com	See you competitor's website traffic