

Sushil Kumar, CPA, MBA

June 2012

STRAIGHT TALK

ABOUT SMALL BUSINESS SUCCESS

The newsletter designed to keep you on course to build a successful small business



In our experience, there's something about warm days and balmy evenings that invokes a sense of inner reflection. So as Summer approaches, now is the perfect time to take stock of your life and really think about the differences between wants and needs. It's easy to become so focused on something you want, that you don't realize you could quite easily do without or find an (often more economical) alternative. If you're on a budget, this can make a massive difference to your financial wellbeing. And no matter where you sit on the wealth scale, evaluating your needs and wants is always a valuable exercise.

This month we continue our examination of ten common accounting mistakes business owners make. We also explain three questions you should be asking yourself to end self-sabotaging behavior once and for all.

On the humorous side, we explore an ingenious approach to litigation taken by none other than Abraham Lincoln; perhaps a good reminder that when we become emotionally invested in something it can be hard to look at the big picture. You might just realize that an injustice you're facing isn't worth the effort of pursuing.

Until next month,

Sushil Kumar, CPA

Top 10 Accounting Mistakes Made by Small Businesses-Part 2

Continued from the May issue

5. Being Blasé About Petty Cash

Most businesses run with a small amount of cash tucked away for those regular, inexpensive incidentals. Need a bottle of milk for the office? Take it out of petty cash. Run out of postage stamps? Take it out of petty cash.

A big mistake that people can make is treating petty cash as if it's just 'small change'. That it's not important to accurately monitor or account for what happens with the money. But just because the monetary value is relatively small, doesn't mean you can be blasé.

The simplest form of accounting for petty cash is to require any funds removed to be replaced with a receipt identifying the item purchased and the amount. Once the stash starts getting low you can reconcile the receipts with the amount that was originally there, record those expenses in your accounting system, and top-up the stash. The reconciliation will identify if any funds have 'gone missing' and what your petty cash is being spent on; another piece of information valuable to a business owner and decision maker.

6. Believing Profits = Cash Flow

Positive cash flow is important. But if you're not making a profit, positive cash flow can only go on for so long; eventually the bubble will burst and you'll be in big trouble!

Businesses can quite often operate at a loss while still running with a positive cash flow – at least for the short-term. This tends to happen in businesses that receive payment from their customers but purchase their supplies on credit terms.

On the other hand, if you have to pay your suppliers up-front, but your customers settle their bills with you over a period of time – especially if they're slow payers – you may appear to have a negative cash flow for a period, even if you're running at a profit. In essence, you clearly must have appropriate cash flow to manage your business on a day-to-day basis, but don't make the mistake of believing that cash flow equals profit. To get an accurate representation of how your business is performing, you'll need to be using an accruals accounting method and regularly preparing financial statements. A balance sheet and profit and loss statement should be produced at least every quarter, or preferably every month.

7. D-I-Y Accounting

Small business owners often pride themselves on their ability

to multitask and handle the many different aspects of a business. A lot of the time this includes the accounting and bookkeeping. However, as with legal or medical issues, it's really your best bet to seek assistance from a qualified, trained professional, rather than doing it yourself.

Accounting may seem like a simple numerical exercise, but there is extremely technical legislation at all levels which will apply (or not) depending on a multitude of factors. Simply put, a non-specialist is unlikely to be sufficiently trained across every single aspect to do this job. Hiring a trained, qualified accountant, even if it's only a part-time or consultant position, is well worth the cost. You'll soon be rewarded in both time saved and the prevention of potential errors.



Top 10 Accounting Mistakes Made by Small Businesses-Part 2

Continued from page 1

8. Not Saving Receipts for Small Purchases

Just because the IRS requires you to keep receipts for business travel, meals, and entertainment where the cost is \$75 or more, doesn't mean that anything less than that can be ignored. There are countless businesses who don't think twice about discarding a receipt for less than \$75 – and this can be a huge mistake!

These receipts are indescribably helpful as backup documentary evidence. Not only can they give you peace of mind if you're subject to an audit, but a policy of keeping and recording every single receipt means that you'll be sure that you're claiming every single deduction you're entitled to. Often, people who throw away receipts are doing the equivalent of throwing away cash that the tax-man wanted to refund to them!

9. Too Much Trust, Not Enough Monitoring

While we all hope that the employees we choose to entrust our business to are 'good' people with honorable intentions, a simple look at the world around tells you that isn't always the case. Even if you truly believe the best of your workers, anyone can have a hidden secret, and personal circumstances or tragedies can alter normally upstanding citizens' boundaries and actions. Internal financial controls are the best way to guard against bookkeeper embezzlement and fraud. This is an extremely important issue; businesses that fall victim can go bankrupt! One of the common checks and balances that should be implemented in a business of

any size is the separation of financial duties. You don't want any one single person to have access to your funds, as well as access to the means and opportunity to disguise unauthorized access. While fraud can and still does occur even with separation of duties, it is made much more difficult by the fact



that two or more people would have to collaborate to get away with it.

If you are too small of a business to have such a division of duties, you yourself should step in and monitor what's happening

on a regular basis, and perhaps conduct unannounced random checks of individual transactions here and there.

10. Going Paperless at the Expense of a Paper Trail

Most of us do our best to reduce the negative impact we humans are having on the planet. Many companies have chosen to go paperless to further this aim. However, when it comes to an audit or investigation into your business finances, there is simply no substitute for a good old paper trail.

While I'm all for doing your best to be environmentally conscious and minimizing your impact on the world around us, you don't want to do so at the expense of your livelihood. Computer systems crash. Hard drives can be destroyed or damaged. When it comes to bookkeeping, evidentiary receipts, invoices, and other documentation, this is one area where you should err on the side of caution.

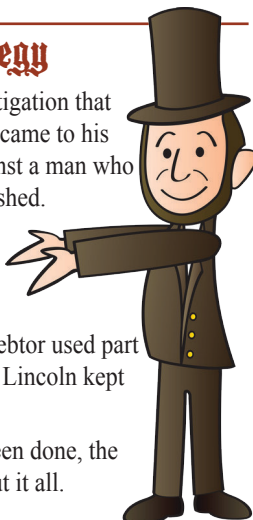
Abraham Lincoln, lawyer: An unusual strategy

As a lawyer, Abraham Lincoln had a reputation for discouraging litigation that could be avoided through other means. One day, though, a client came to his office in an impassioned state, demanding that Lincoln bring suit against a man who owed him \$2.50, despite the fact that the fellow was already impoverished.

The client wanted to sue his adversary for the \$2.50. Lincoln tried to reason with the man, but he refused to back down. So Lincoln asked for \$10 in legal fees up front to begin the lawsuit.

Lincoln then hunted down the debtor and gave him half his fee. The debtor used part of the money to pay off the man who brought the lawsuit against him. Lincoln kept the other half.

And so the client who brought the suit was satisfied that justice had been done, the debtor got out of trouble, and Lincoln probably had a good laugh about it all.



Are You In Need of a Qualified Tax Pro?



If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.

Business Question/Tip:

Q: What is the difference between a Form W-2 and a Form 1099-MISC?

A: Both of these forms are called information returns.

The Form W-2 is used by employers to:

- Report wages, tips and other compensation paid to an employee.
- Report the employee's income tax and Social Security taxes withheld and any advanced earned income credit payments.
- Report wage information to the employee, and the Social Security Administration. The Social Security Administration shares the information with the Internal Revenue Service.

A Form 1099-MISC is:

- Used generally to report payments made in the course of a trade or business to a person who is not an employee or to an unincorporated business.
- Required when payments of \$10 or more in gross royalties or \$600 or more in rents or compensation are made.
- Provided by the payer to the IRS and the person or business that received the payment.



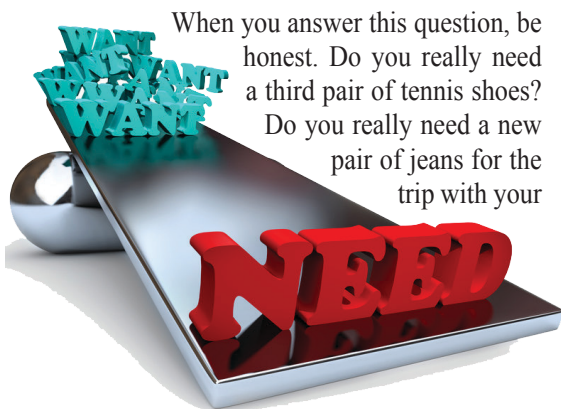
Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business. If you have a question, tip or idea, please call me at (718) 261-2090 or email me at Sushil@bestcpasolutions.com. Perhaps I'll feature you in a future issue!

Do you 'want' it or 'need' it?

Living within your means is a good idea. Actually it is one of the all-time great ideas, but many people find it difficult to do. This is probably because often people get "needs" mixed up with "wants."

In our everyday language, we often say that we "need" something, but the truth is more than likely that we don't "need" the item to survive, we just want it. Once we realize that we do this, we can stop and ask ourselves the crucial question before we buy something: "Is this a need or a want?"



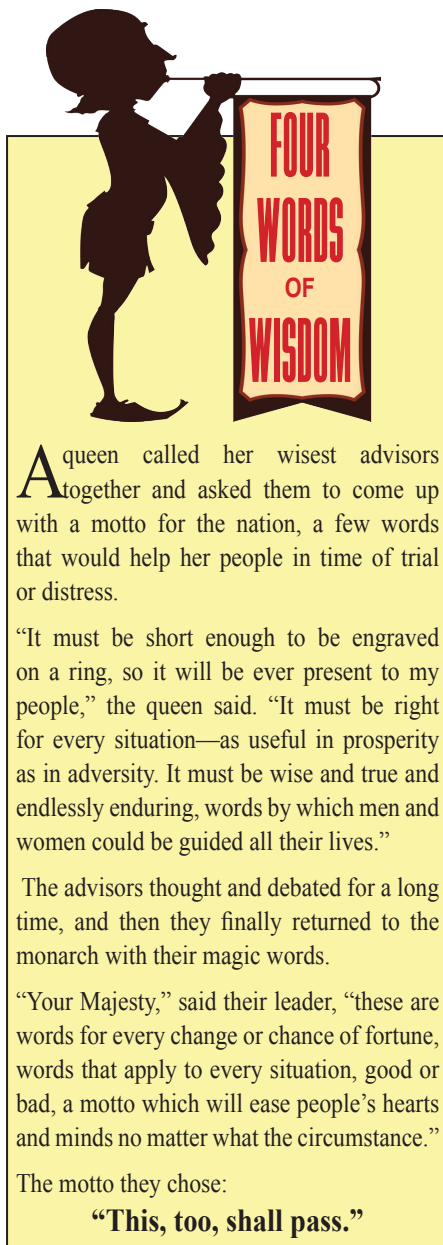
When you answer this question, be honest. Do you really need a third pair of tennis shoes?

Do you really need a new pair of jeans for the trip with your

friends? Even though you need a car, do you need a new SUV—or do you just want one? Most people will probably be surprised at how often they give themselves the idea that they need something through interior self-talk. There's nothing inherently wrong with this, we all do it, but if you're trying to get your budget under control, you may find this type of questioning helpful.

Once you categorize the item in question, then you can decide whether you want to use your money to purchase it. When you think about your purchases in this way, you will find that you spend a lot of money on wants—not needs.

According to an article on the collaborative Web site of the Community Action Partnership and the National Endowment for Financial Education, here's a good litmus test: If the item in question will help you survive, then you need it. If you can put off the purchase, substitute it with something that costs less, or use something you already have at home, then you want it.



Congratulations to Ms. Lynne Shaw, owner of Big Taxi Tours as June's

CLIENT OF THE MONTH.

Ms. Shaw has been a client of our firm for more than 6 years. Big Taxi Tours is a family run business that offers reasonably priced, informative New York tours for over 10 years. The tours include over 50 different locations and are entertaining, full of history, facts and above all guaranteed fun. Their office is located in New York City. To learn more, visit www.bigtaxitours.com

To schedule an appointment please contact Lynne Shaw at lynne@bigtaxitours.com or call (212) 685-8687.



Remember the right words

A man out in the country wanted to buy a horse. He finally found one owned by an elderly farmer. After some bargaining, they finally reached a deal, and the buyer eagerly climbed into the saddle.

"Now there's one thing you should know," the farmer said. "This horse only goes when you say, 'Thank God.' And it only stops when you say, 'Amen.' Remember that now."

"Sure, sure," the man said. "Thank God!" he commanded, and the horse walked out of the corral.

Later, the man wanted to find out how fast his new steed could run. So he said, "Thank God, thank God, thank God!" And the horse took off at a gallop.

Soon the rider noticed that the horse was headed toward the edge of a high cliff. In a panic, he realized that he couldn't remember the word to make it stop. "Whoa! Stop! Cease! Desist!" he shouted desperately. But the horse raced forward.

Just inches from the edge of the cliff, the man finally remembered the word he'd been racking his brain for. "Amen!" he shrieked, and the horse skidded to a stop, overlooking the steep drop into the ravine below.

The man took a breath of relief. "Thank God."



Quotes of the Month

Excellence is a better teacher than mediocrity. The lessons of the ordinary are everywhere. Truly profound and original insights are to be found only in studying the exemplary.

—Warren G. Bennis

If you don't like something, change it. If you can't change it, change your attitude.

—Maya Angelou

The word "user" is the word used by the computer professionals when they mean "idiot."

—Dave Barry

Sygmnd was a poor Austrian whod lost all the vowels in his name in a boating accident.

—Woody Allen

All progress has resulted from people who took unpopular positions.

—Adlai Stevenson



Trinity Tax & Financial Solutions, Inc.

Close **P**ersonal **A**ttention to increasing your profits.

116-16 Queens Blvd • Suite 245

Forest Hills, NY 11375

(718) 261-2090 • www.bestcpasolutions.com

Email: Sushil@bestcpasolutions.com

Member: NY State Society of CPAs

Member: Queens Chamber of Commerce

See What's Inside...

Top 10 Accounting Mistakes Made
by Small Businesses— Part Two

Abraham Lincoln, lawyer: An unusual strategy

Do you 'want' it or 'need' it?

Client Of The Month

Four words of wisdom

Remember the right words