

Sushil Kumar, CPA, MBA

May 2012

STRAIGHT TALK

ABOUT SMALL BUSINESS SUCCESS

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



Are you looking forward to the Memorial Day weekend? I'll bet, like me, you're enjoying the anticipation of a few days to sit back and relax. But don't think that my CPA firm's out of the picture until next tax season... my team and I believe in working with you throughout the entire year, not just for a couple of months during tax season. Feel free to contact us at any time for advice or assistance with your business, financial and tax matters.

This month we take a look at ten of the most common mistakes business owners make, plus, I explain what you should do in order to avoid them.

Now is also a good time to remind ourselves of the difference between wants and needs. As consumers, it's easy to become so focused on something that you want, that you don't realize that you could quite easily do without or find an alternative. Keeping our wants and needs in check can make a massive difference in our cash outlay.

On a lighter note, we've got a good range of funnies included, and also take a look at how those fascinating, charismatic people develop and exhibit the charm that others are so often drawn to (and envious of).

Until next month,

Sushil Kumar, CPA

Top 10 Accounting Mistakes Made by Small Businesses

The stats aren't good. According to the U.S. Small Business Administration, for every one hundred new small businesses launched in the U.S., around fifty will go under within the first five years. The primary reason for small-business failure? Poor financial management.

However, there are things you can do to boost your chances of being on the successful side of that statistic. Let's look at ten ways poor financial managers put themselves in such a position and what you can do differently to avoid them.

1. Using the Wrong Accounting Method

There's no hard and fast rule as to whether you should choose the cash or accrual accounting method. That decision is dependent on many factors such as size and scale of your business, whether you buy on credit and extend payment terms to your customers, etc. Typically, the cash method should be used only by smaller, sole proprietor businesses, and those that do not hold inventory. This is because there is more likelihood that you are physically receiving money at virtually the same time as you 'earn' it, and forking out the cash at the same time that you 'spend' it.

As your business grows and becomes more sophisticated, it's usually wise to switch to the accrual-based accounting method. You'll be able to keep track of what times

of the year or month are the most (and least) profitable and base business decisions on that information. You'll know in advance whether you'll have enough money to pay all the bills next month. You'll have an indication throughout the course of the year what your tax situation is likely to be. While there are tax adjustments to be made to convert your accounting profit into taxable income, your profit and loss statement is going to be a much more accurate representation of your business's financial and tax performance under the accrual method.

2. Mixing Business with Pleasure

Now, of course, you can (and people do) conduct all your personal and business matters through the same checking account. But when it comes to finances, it's crucial to keep business funds and personal funds well and truly separate. While this division is vital

for any-sized business whatsoever, it's even more important if your business operates through a company or other separate legal structure.

The first formal step when starting a new venture is to get all the paperwork and legalities out of the way. The very next step is to open a business checking account to which all business income is deposited, and all business expenses are deducted.

From here, you should collaborate with your accountant to come up with a strategy to manage the business's finances, the amount and method that you will 'pay' yourself from the business, and both short- and long-term savings/expansion/expenditure goals for your business. All of these decisions will be based on your budget, forecasts, cyclical and seasonal influences, your plans for major expenditure to grow the business, as well as your personal financial strategy.



Continued on page 2

Top 10 Accounting Mistakes

Continued from page 1

3. Misclassifying Workers

The legal requirements you are obligated to comply with when employing workers differ depending on how those workers are classified. Consider the alternatives:

- ✓ Full-time employees
- ✓ Part-time employees
- ✓ Temporary employees
- ✓ Independent contractors
- ✓ Freelancers
- ✓ Consultants

Getting the classification wrong can be extremely costly because you may be penalized or forced to back-pay the benefits and entitlements that should have applied to your worker. Of the employment categories, in most cases full-time employees are entitled to receive all benefits and part-timers usually receive a proportion of them. Temporary employees and independent contractors don't receive benefits in most cases, and contractors, freelancers, and consultants generally don't fall under the minimum wage, overtime, payroll tax, workers' compensation, and unemployment compensation legislation.

4. Forgetting or Avoiding Basic Account Reconciliations

Bank reconciliations are critical in any business. You absolutely must verify that every transaction that has gone through your bank account (which will be a separate, business-only bank account—see item 2 above) has been recorded in your accounting system for both accountancy purposes, and tax purposes.

Undeniably, you must also verify that all income earned and expenses recorded have actually been paid or received. It's no good making a big profit on paper if you end up with a massive bad debt expense because there's no one checking up to see that the

customers are paying their bills. Finally, it's imperative to regularly scrutinize your accounts and records to identify bank mistakes (hey, they do happen), and your own or employee errors (or fraud) which can add up very quickly. You often hear news stories of people stealing thousands, or hundreds of thousands, (or millions!) of dollars from business bank accounts. Although they can't guarantee your immunity, proper, regular



bank reconciliations can help to identify and deter such behavior.

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.

NEXT MONTH... PART TWO



Charisma, Like Leadership, Can Be Learned

Charisma can be defined as the ability to influence people positively by connecting with them physically, emotionally, and intellectually. And it also can be developed. How? Use these techniques:

Physical connections: Some people have a great physical presence. But while we can't all be tall or handsome, you can do many things to improve your physical charisma by:

- ✧ Improving your overall health
- ✧ Enhancing your eye contact with people
- ✧ Developing a firm handshake
- ✧ Investing in a tailored wardrobe
- ✧ Standing and walking straight with your head held high
- ✧ Learning to smile more often

Emotional connection: This trait shared by charismatic people is probably the most important. Try connecting emotionally with people by:

- ✧ Improving your oral communication skills
- ✧ Improving your writing skills
- ✧ Focusing more on the people you communicate with and less on yourself
- ✧ Listening better
- ✧ Becoming more optimistic in outlook
- ✧ Improving relationships one at a time, starting with those closest to you

Intellectual connection: Charismatic people can engage other people's minds. They take the time to learn and think deeply about the things they learn. You can do the same by:

- ✧ Expanding your reading material to include business interests as well as literary and artistic
- ✧ Taking a class in a subject you don't know enough about
- ✧ Developing and using a better vocabulary
- ✧ Volunteering to train others in your field of expertise

—adapted from the Management Consulting Newsletter



Business Question/Tip:

Q: Can a person make a contribution to a SEP-IRA and a Roth IRA, too?

A: You can make a contribution to both a SEP-IRA and a Roth IRA. However, neither a SEP IRA nor a SIMPLE IRA can be designated as a Roth IRA. Your SEP IRA contribution and Roth IRA contribution can not be made to the same IRA.

Also, your SEP IRA contribution reduces the amount you can contribute to a Roth IRA, however, employer contributions under a SEP IRA do not affect the combined limit on contributions to traditional and Roth IRAs.

When I Was Your Age...

Josh loved golf. One day he arrived at a golf course hoping for a tee time, and the starter asked if he'd mind making up a twosome with another golfer, an elderly man who had a grizzled gray beard. Josh couldn't say no, and they both teed off and started down the fairway.

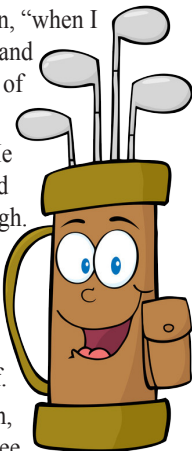
To Josh's pleasant surprise, his partner was a very good golfer, and they played a close game. When they got to the 18th tee, Josh saw a tall pine tree standing directly between him and the green.

"You know," said the old man, "when I was your age, I'd just tee up and hit my ball right over the top of that tree."

Josh took it as a challenge. He selected his club, teed up, and slammed his ball hard and high.

The ball rose into the air, then hit a branch, ricocheted off the trunk, and flew right back to land not three feet from where Josh had teed off.

"Of course," said the old man, "when I was your age, that tree was only 12 feet tall."



All In A Day's Work

A van carrying a dozen movie stuntmen on the way to a film location in the mountains spun out of control on an icy road, crashed through a guardrail, rolled down a 90-foot embankment, turned over, and burst into flames. There were no injuries.



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!



Longer Lives Impacting Retirement

According to studies, life expectancy has increased 30 years in the past century. What that boils down to is that someone who was born in 1900 would only be expected to live 47 years, but someone born in 2002 would be expected to live 77 years. As a matter of fact, the number of centenarians (those who reach the age of 100) could exceed 1 million by the year 2030 and top 4 million by the year 2050, according to U.S. Census estimates.

According to the Census, there are now 60,800 centenarians. The impact? If a couple wants an annual retirement income of \$85,000 and intends to no longer work after age 65, they'll need to have \$838,000 in their savings as a supplement to what they will get from Social Security (that assumes a 7 percent rate of return and 4 percent inflation rate) for 20 years. But if that same couple lives to age 100, they will need one-and-a-half times that much (\$1.3 million) in order to maintain the same lifestyle in their retirement.

CLIENT OF THE MONTH

Congratulations to Ms. Mya Han, owner of 360 MediaWatch as May's Client of the Month. Ms.

Han has been a client of our firm for 6 years. 360 mediawatch is a media monitoring service comprised of experienced research and sales professionals who provide communications professionals with real time media intelligence information delivered via multiple media formats

The office is located in Astoria, NY.

To learn more, visit www.360mediawatch.com



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.



"It's not MY idea... Talk to the team of efficiency experts that the boss hired!"

Quotes of the Month

If you cannot do great things, do small things in a great way.

—Napoleon Hill

Take the attitude of a student, never be too big to ask questions, never know too much to learn something new. — Og Mandino

My breakthrough came very late in life, really only starting when I was 50 years old. But at that time I felt as though I had the strength for new deeds and ideas.

—Edvard Munch

We are what we repeatedly do. Excellence, then, is not an act but a habit. —Aristotle

Whenever anybody turns me down they tell me how talented I am.

— Oscar Levant

And You Thought Guns Were Dangerous

People use all kinds of items as weapons. Here are some of the stranger weapons culled from actual news reports:



- 21-year-old Lyle Burpo robbed a convenience store in Oklahoma City by threatening the clerk with a live snake.

- Peter Lerat, 33, walked into a donut shop in Toronto carrying a Canada goose and threatened to wring the bird's neck unless he was given money. Three weeks later, Lerat tried holding up several Toronto pedestrians with a raccoon, demanding \$50 to prevent him from braining the poor critter with a rock.

- In a bar fight in Rock Island, Ill., one woman hit another on the head with a toilet lid.

- Two North Carolina men were arrested after attempting to rob a gas station with a cup of coffee.

When the cashier resisted, one of the men threw the hot coffee on him and tried to steal the cash from the till. They fled empty-handed into a local swamp, where one of the men was arrested.

- Howard Allen, 39, was sent to jail in the U.K. for armed robbery. His weapon? A banana, wrapped in plastic.



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 One

Charisma, like leadership, can be learned

Longer lives impacting retirement

When I was your age . . .

Client Of The Month

And You Thought Guns Were Dangerous