

# Business Mastery

*§6 Business Operations*

*Financial Management*

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**By Cherie M. Sohnen-Moe**



# Financial Management

## Personal Budgeting

- Saving Money
- Credit Scores

## Financial Recordkeeping

- What Types of Records Should I Keep?
- Create A Separate Identity
- Business Income
- Business Deductions
- Financial Statements

## Taxes

- Preparing Income Tax Returns
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- Tax Credits
- U.S. State Tax Reporting
- Canadian Tax Resources

## Work Smarter with Barter

- Direct Barter
- Barter Exchanges

## Retirement Planning

- Retirement Plan Options

## Recession-Proof Your Practice

# KEY

## *Terms*

- ❑ Accountant
- ❑ Accounts Payable
- ❑ Accounts Receivable
- ❑ Assets
- ❑ Balance Sheet
- ❑ Barter
- ❑ Budget
- ❑ Capital
- ❑ Canadian Taxes
- ❑ Cash Flow
- ❑ Projection
- ❑ Corporations
- ❑ Credit Score
- ❑ Deduction
- ❑ Depreciation
- ❑ Disbursement

# KEY

## *Terms*

- ☐ Drawing Account
- ☐ Equity
- ☐ Expense
- ☐ 401(k)
- ☐ Form 1040
- ☐ Gift Certificates
- ☐ Gratuity
- ☐ Gross Income
- ☐ Income Tax
- ☐ Ledger
- ☐ Liabilities
- ☐ Net Profit
- ☐ Overhead
- ☐ Partnership
- ☐ Petty Cash Fund
- ☐ *Pro Bono Work*

# KEY

## *Terms*

- ☐ Profit
- ☐ Profit and Loss Statement
- ☐ Recession
- ☐ Retirement Plan
- ☐ Roth IRA
- ☐ Schedule C Profit or Loss from Business
- ☐ Schedule SE
- ☐ Self-Employment Tax
- ☐ Shareholders' Equity
- ☐ SIMPLE IRA
- ☐ SEP-IRA

# KEY

## *Terms*

- ❑ Small Business Administration (SBA)
- ❑ Sole Proprietor
- ❑ Tax Credits
- ❑ Traditional IRA
- ❑ Transaction Privilege Tax License
- ❑ U.S. Taxes

# Personal Budgeting

- The first step to financial freedom is to know where you stand.
  - While many live in denial about finances, a simple antidote is to develop a budget.
  - A personal monthly budget can prevent a lot of financial stress and build a solid financial future.
  - A budget gives you a realistic picture of what you need to earn to cover your expenses.



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# *Personal Budget Expense Checklist*

- ☐ Rent/Mortgage
- ☐ Home Insurance
- ☐ Utilities
- ☐ Telephone
- ☐ Household (supplies, repair, maintenance)
- ☐ Food
- ☐ Health Care
- ☐ Auto Expenses (payments, fuel, repairs, maintenance, insurance)
- ☐ Clothing (purchases, laundry, dry cleaning)
- ☐ Debt Payments (loans, credit cards)
- ☐ Education and Self-Development
- ☐ Entertainment and Travel
- ☐ Miscellaneous

Figure 20.1, *page 280*

# Personal Budgeting (*cont.*)

- Use your budget as a tool to forecast your daily, monthly, and annual expenses, for both personal and business, and plan accordingly.
  - A large part of budgeting is saving.
  - Consider your credit score, which impacts your business.



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# *Money Saving Tips*

- ❑ Don't Go Shopping
- ❑ Live Within Your Means
- ❑ Take Care of What You Have
- ❑ Wear It Out
- ❑ Do It Yourself
- ❑ Anticipate Your Needs
- ❑ Research Value, Quality, Durability, Multiple Use, and Price
- ❑ Buy It for Less
- ❑ Meet Your Needs Differently

# Financial Recordkeeping

- Keeping records is a habit that must be developed
  - Maintaining accurate records is vital for any small business
  - Your bookkeeping can be quite simple if you operate a small sole proprietorship with no employees.
  - All you really need is a bank account, a ledger system with income and expenditure sheets, and a file to store receipts.
  - IRS regulations require taxpayers to keep records and receipts for as long as they may be applicable to the enforcement of tax law.

# *How Long Do I Need to Keep My Business Records?*

■ General correspondence	5 years
■ Bank statements	7 years
■ Receipts	7 years
■ Canceled checks	7 years (for most)
■ Year-end financial statements	Indefinitely
■ Contracts	Indefinitely
■ Licenses and permits	Indefinitely
■ Insurance claims	Indefinitely
■ Tax Returns	Indefinitely

# *Recordkeeping Tips*

- Keep all business-related receipts.
- Pay bills when they're due—unless you receive a discount for early payment.
- Have a separate business checking account.
- Keep thorough financial records as discussed in this chapter.
- Keep lists of inventory, equipment, and furniture.
- Maintain thorough and professional client files.
- Make cash flow projections.
- Keep automobile mileage logs.
- Maintain daily records (e.g., appointment book, activity tracking sheets).
- Prepare monthly bank reconciliations.

# Create a Separate Identity

- A separate business identity is important for personal and financial reasons:
  - Corporations have regulations that require financial divisions between the business and the business owners; yet, many sole proprietors are lax about setting business boundaries.
  - Separate your business and personal bank accounts.
  - Pay business bills by check or credit card for documentation.
  - **Business income** includes all monies received: cash, checks, credit cards, and barter. Record income at least twice a week; daily is preferred.

# Managing Other Income

- **Gift Certificate Finances:** Put at least half of all gift certificate revenue into a savings account and transfer funds into your checking account when certificate is redeemed.
- **Gratuities:** If you do accept them, remember they are taxable.
- **Business Deductions:** Reduce your net profit which in turn reduces your tax liability.

# Business Deductions

- Many businesses overpay income tax; potential deductions include:
  - Business Use of Home
  - Travel, Entertainment, and Gifts
  - Transportation
  - Depreciation
  - Assets Owned Prior to Business Establishment
  - *Pro Bono Work*

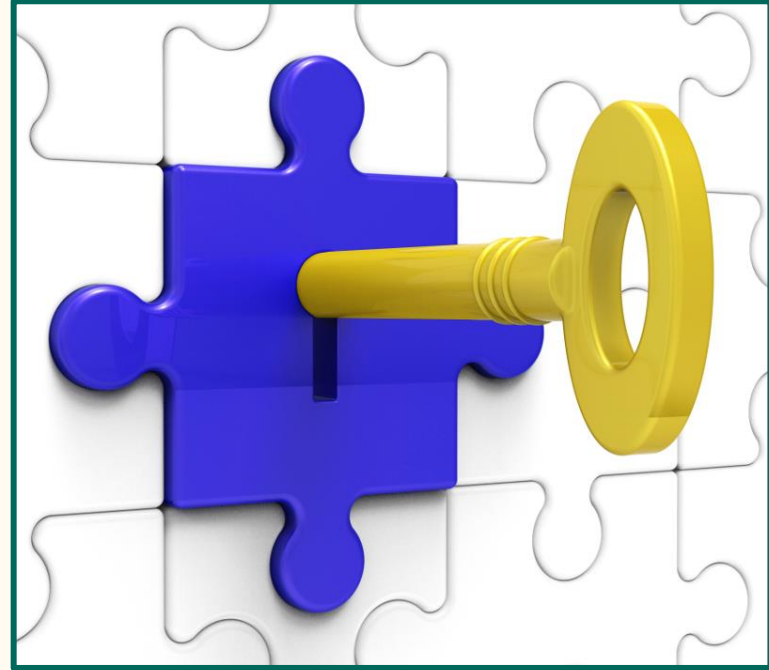


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# *Common Fully Deductible Business Expenses*

- Bank Service Charges
- Maintenance and Repairs
- Business Books and Trade Publications
- Marketing
- Business Insurance
- Office Supplies
- Credit Card Fees
- Online Fees
- Dues
- Postage
- Continuing Education
- Printing and Copying
- Furnishings, Decorations, and Equipment
- Professional Fees
- Interest on Business Debt
- Rent
- License/Certification Fees
- Sales and Excise Tax
- Inventory Cost of Goods
- Samples
- Linen Service
- Telephone and Utilities
- Software Subscription Fees

# *Accounting Definitions*

**Assets:** The total resources (current, fixed, or other) of the sole practitioner or business—tangible and intangible. Assets may include cash in the bank, inventory, goodwill, accounts receivable, and equipment.

**Capital:** Essentially it's the net worth of a business—the difference between the assets and the liabilities.

**Accounts Receivable:** The amounts owed to you by another person or business.

**Accounts Payable:** The amounts you owe another person or business.

**Capital Account:** The total money invested by the owner.

**Depreciation:** The loss in value of an asset over time.

# *Accounting Definitions (cont.)*

**Disbursement:** The act of paying out funds.

**Drawing Account:** Sole proprietors may withdraw cash for personal use. It's similar to a salary except you don't take out withholding taxes (instead you pay self-employment taxes). Withdrawals can reduce the owner's equity.

**Equity:** The monetary value of a property or business beyond any amounts owed on it in debt (e.g., mortgages, claims, liens).

**Journal:** A book for recording complete information on all transactions as they're incurred (e.g., Monthly Expense Disbursements Journal).

**Ledger:** An account book of financial transactions.

# *Accounting Definitions (cont.)*

**Liabilities:** Current and long-term debts of the practitioner or business. Liabilities may include accounts payable, long-term debts (e.g., a car loan), payroll taxes, and credit card balances.

**Petty Cash Fund:** Cash on hand to pay for incidental expenses. Put a voucher in the petty cash drawer and record each transaction. Don't put cash received from clients into a petty cash fund. When the fund is low, make a "petty cash" deposit by cashing a check to bring the fund back to the desired level (most likely between \$20 and \$100). Transfer transactions to your Petty Cash or Disbursements Journals.

**Shareholders' Equity:** The amount owners invested in the company's stock plus or minus the company's earnings or losses since inception.

# Financial Statements


- Formal records of financial activities showing practice's profitability, where money came from, where it went, and where it's now.
    - Income and Disbursement Ledger Sheets
    - Profit and Loss Statements
    - Business Income and Expense Forecasts
    - Cash Flow Statements
    - Balance Sheets
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- Image Courtesy of GraphicStock



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# Taxes

- It's highly recommended to consult with an accountant or tax professional regarding taxation.
  - When preparing income tax returns, you may do them manually, use a tax software, or engage the services of a tax professional.
  - When looking for an accountant, particularly regarding depreciation and underuse of eligible deductions, find an accountant who takes the time to work with you.



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# U.S. Federal Tax Reporting

- Employees receive a Form W-2 (Wage and Tax Statement) from their employers.
- Sole Proprietors must file a Schedule SE, Schedule C, Form 050, Form 1040ES.
- Partnerships file: Form 1065, Form 1065 K-1.
- Corporations file: Form 1120, Form 8109.
- Employers File: Form 941, Form W-2, Form W-3, Form 940, Form 1096, Form 1099.

# Tax Credits

- **Business Tax Credits:** Include actual costs incurred in running a business, hiring people with disabilities, using renewable energy sources, renovating buildings, purchasing alternative fuel vehicles, operating a business in an empowerment zone/renewal community, investing in certain equipment, and for disabled access.
- **Personal Tax Credits:** Include child care or educational expenses.

# U.S. State Tax Reporting

- In the United States, most states and the District of Columbia require you to file a state return if your income is above some minimum requirement.
- A taxation area that practitioners sometimes ignore is state sales tax.
  - Unless you live in a state that doesn't levy sales tax, you're required to collect (and remit) sales tax on product sales—regardless of the volume.

# *Information Needed to Get a Transaction Privilege Tax License*

- Business name
- Business entity (e.g., sole proprietor, LLC, PSC) and date it was established
- Employer Identification Number (EIN) or Social Security Number (SSN) if you're a sole proprietor without employees
- The starting date for collecting sales tax in your state
- The type of products or services to be sold
- The amount of sales tax you estimate you will collect
- If you have more than 1 location, whether you will be filing consolidated returns

# Canadian Tax Resources

- Provincial and Territorial Tax Rates
- Goods and Services Tax (GST)
- Provincial Sales Tax (PST)
- Harmonized Sales Tax (HST)



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# Work Smarter with Barter

- Barter is a cashless exchange of goods and services.
  - Technological advances in electronics (e.g., computers, email, websites, cloud-based software) have expanded barter from a face-to-face interaction to a global transaction.
  - Barter affords you a simple, legal method to conserve cash outlays.
  - Use direct barter when you have equitable, desirable trades
  - Use barter exchanges if you plan to incorporate more than the occasional barter into your practice.

# Retirement Planning

- Whether self-employed or an employee, the steps to a successful retirement are simple:
  - **Develop an effective savings plan:** Save the right amount; save regularly; save in the right accounts.
  - **Create an investment strategy:** Choose the best mix of investments based on your retirement goals and comfort with potential risk.

# Retirement Plan Options

- Tax-deferred retirement plans are valuable because while saving, you delay paying taxes on money earned and contributed to them.
- Types of retirement plans:
  - Employer-Sponsored Plans
  - Simple IRA Accounts
  - Self-Employed 401(k) Plans
  - Traditional IRA
  - Roth IRA
  - SEP-IRAs



# Recession-Proof Your Practice

- Many practitioners find it difficult to earn enough to adequately support their families.
  - A drawback is the finite time you can work with clients.
- Do not only rely on hands-on work.
- Diversification is key to long-term financial success.
- Use specialized equipment and take advanced training.

# Highlights

According to money management experts, the first step to a bright financial future is to transform your attitude toward money.

A monthly budget is a good tool to get a realistic picture of your income and expenses and how the two measure up.

Maintaining accurate records is vital for any small business. Prior to setting up your books, it's wise to consult with a bookkeeper or an accountant.

The two most common mistakes that business people make are doing their own taxes and not setting aside money to pay for taxes.

## Highlights (*cont.*)

To avoid a cash flow crunch at tax time, many practitioners set up a designated bank account to set aside money for tax payments.

Accounting software programs make keeping track of finances and accessing reports easy. Information that might take you minutes or hours to find manually is readily available.

Although time frames for keeping records vary, plan to keep bank statements, receipts and canceled checks for seven years. Keep business documents such as tax returns, insurance claims, licenses, and contracts indefinitely.

## Highlights (*cont.*)

Be sure to keep your personal and business finances separate.

Business income includes all monies received: cash, checks, credit cards, and barter.

Put at least half of all gift certificate revenue into a savings account and transfer the funds into your checking account once the certificate is redeemed.

## Highlights (*cont.*)

Tips/Gratuities are often seen as unethical because of the power differential in a therapeutic relationship. If you decide to accept them, remember they are considered taxable income.

Business deductions reduce your net profit, which reduces your tax liability. Develop a system to accurately track expenses eligible for business deductions.

Financial statements are formal records of the financial activities of a business. They provide a picture of a practice's profitability.

## Highlights (*cont.*)

Tax credits differ from business deductions in that most tax deductions are the actual costs incurred in running a business and the categories tend to remain the same year after year. Tax credits are government incentives to encourage business owners to take socially responsible action or to stimulate the economy. Regulations governing tax credits frequently change.

Consult with a tax accountant for expert advice on both state and federal tax returns. It's a good way to ensure that you don't overlook any business deductions or tax credits.

## Highlights (*cont.*)

Barter affords you a simple, legal method to conserve cash outlays. If you can trade for something you need, then you can use your cash for other purposes.

Retirement planning involves two steps: developing an effective savings plan and creating the right mix of investments. Whatever your age, it's not too soon to start planning for retirement.

## Highlights (*cont.*)

Recession-proof your practice by increasing your income potential through: reducing overhead, increasing your number of billable hours, increasing product sales, hiring support staff to free up your time, or raising your rates. You can also diversify your practice by varying your scope of practice, incorporating additional billable modalities, hiring other practitioners, or teaching.