Hello. I’m introducing our third speaker. My name is Sarah Miller. I would like to introduce Ms. Leslie Michael. Leslie is a Certified Public Accountant. She also holds the American Institute of Certified Public Accountants’ Personal Financial Specialist designation. She is owner of the firm Michael Associates, LLC, where she focuses on tax planning for individuals and their families, trusts, investments, and family businesses.

Leslie graduated from Indiana University with a B.S. in Accounting and a B.A. with Distinction in Spanish. She began her career in financial planning at Ernst & Young, where she held the position of Principal in the Tax and Personal Financial Planning practice. While at Ernst & Young, Leslie was instrumental in developing the financial planning services for corporate executives and in developing estate planning strategies for her clients.

Following her employment at Ernst & Young, Leslie worked with a local financial planning organization before starting her own firm in 2002. Leslie currently serves on the AICPA Personal Financial Planning Executive Committee and is Vice Chair of the Indiana
CPA Society Financial Services Section. Thanks so much for being on the call today, Leslie.

L. Michael

Thank you very much. I guess I’d like to begin. I’m going to talk about the importance of accounting and tax planning and to really echo what Claudia and Sheila have already said. Now that you’ve decided that having a business is right for you and you’ve prepared for your business, you’ve done your business plan, you’ve capitalized it, it’s formed; you’re really ready to run it now.

A significant part of having a successful business is good accounting and tax planning because that is going to be one of the critical keys to your being one of those 10% that survive. Paying attention to the accounting and tax planning will let you know how your business is doing every single day. You’ll know if you can afford to buy new pieces of equipment, to rent space, what kind of products to buy. You’ll know how many items it takes per sale, what kind of service revenue you have to have to cover your expenses, if you can hire a new employee and what that employee’s going to cost, not just in their wages, but also in the taxes and the benefits that go along with having employees. You’ll know what your fixed costs are and what your variable costs are.
So knowing that that’s important, how do you go about doing that? Well, I’d probably like to make my first assumption here, [which] is that you did not go into business because you wanted to spend your entire day keeping the books. It’s important, and you will work 24/7, but the books are not what you wanted to spend your time on. The second assumption I’d probably make is that even though you did a thorough business plan, one of the areas you probably did not drill down on is your software costs for accounting systems and possibly the level of accounting consulting that you’re going to need to get started and maintain your business.

So having said that, it’s really important to engage a CPA, an accountant, to work with you as you start your business. Preferably this person’s already aware of what you’re doing through helping you with your business plan, providing that either externally to the business or helping you think through your own process for your internal aspects. You’re going to want to work with a CPA who has a strong accounting and tax knowledge in your business. When I say that, I mean specifically your type of business, whether you are manufacturing, retail, service, not for profit.
I guess at this point it might be good to say that not all accountants are the same. There are accountants that specialize in auditing; there are accountants that specialize in tax; there are accountants that work with Fortune 500 firms, small firms, all across the board. So it’s really critical that you are working with someone who understands your business and your industry.

After all, I think that Sheila said this is your business, it’s your money, it’s what’s important to you. So some of the criteria that you might use to determine who you should work with as a CPA, you’d be looking for their experience, the number of years they have been practicing, the industries they focus on, the size of clients that they work with -- are they Fortune 500 or are they mom and pop shops, middle markets?

Look to communication. How do they communicate with you? Do they communicate in writing? Do they call back frequently? Do the interviews. Just like Sheila said, you need to talk with several people that maybe you’ll get recommendations from friends, from relatives, from other small businesses in your Chamber of Commerce.
Interview several people. Are they understanding your questions? Do you understand their answers? Is this someone that works with you, that will give you guidance to help you work through your decisions so you’re working through them together? Because the accounting and your daily decisions should not be a mystery to you.

There are many different types of accountants, as I said earlier, but even beyond just working with various industries, a CPA, a Certified Public Accountant, is an individual who has a degree in business accounting, but has also passed rigorous testing and education experience requirements and is licensed in the various states. This person must maintain continuing education requirements every year to stay current within their industry. There are also people who are accountants who are not Certified Public Accountants. That doesn’t take away from their experience, but they haven’t gone to be licensed.

Then there are individuals that we might put into the category of bookkeeper. These are people who may or may not have a degree. It could be just what they’re choosing to do, but typically what the bookkeeper category means is that this is a person on a day-to-day basis who would help you record your transactions, might take
care of your payroll, do your bank reconciliations, print off trial balance sheets, income statements, those kinds of daily activities. So one of the things that you will work through with your advisor is what level of support do you need and where you get that appropriate support. One of the things that will be very critical to your setup is working with your CPA to guide you to the appropriate software that you’ll need to record your business transactions.

Again, here it’s important that the software programs you choose fit your business. Does your business manufacture? Do you have inventory? Do you retail products where you don’t really produce them? Do you need point-of-sale type accounting? Do you take credit card payments? All different kinds of software that are things that usually you can run within your own business will have various capabilities. You need to decide which one is going to fit your business. You’ll need to decide who’s going to do what with the accounting software.

In a small business you’re trying to control your costs, and that’s good, but you don’t want to be pennywise and pound-foolish, so you need to decide who’s going to do the records. Are you going to do them and forward them on to an accountant? Are you going
to have a bookkeeper come in once a week, put things together, put
together monthly statements? How are you going to set that up?
Some of the key pieces of information that you’re going to want
out of your accounting records are you’re going to want monthly
statements to show you what’s your gross profit, what’s your net
profit, what your expenses are, how do they compare to your
budget, how do they compare to your business plan when you
review that.

You’re going to want to know certain ratios that are generally
important to banks when they are looking at you for credit. It’s
nice if you also know how to compute those, have ability to get to
those ratios so that you know before the bank does how you’re
doing, because it’s critical for you to stay on top of your records.
You’ll want software that has information at your fingertips.
Maybe you can have a daily report that will tell you where your
inventory stands, where your sales stand, or your credit lines stand,
or your cash in the bank.

The CPA is going to work with you on setting up procedures.
They’ll work with you on setting up internal reports, external
reports. Some businesses might need to prepare what are called
compilations. That’s a report that you will use to understand where your business is. It’s not an auditor report.

There are three levels of reports that are used externally. They are compilations, reviews, and audited financial statements.

Depending on the size of your business, the types of loans, the investors, creditors, whatever your structure is, certain parties may designate that they want to see those types of reports, and your CPA is going to work with you on getting those together.

Another area that I really wanted to touch on--and we don’t have much time left--is that your CPA is also going to work with you on your recordkeeping and compliance with regard to the federal and state laws. We touched on employment taxes, employees. That is really important--to get yourself registered with the state, with the federal, so that you remit your payroll taxes either monthly or semi-weekly according to whatever schedule you need. That is clearly one area that you do not want to fall back [behind] on or get in trouble with.

Register with your state for the withholdings, for the unemployment taxes. Understand your overtime rules by state, by industry; withholding for regular pay, for supplemental pay. All of
these things your CPA is going to work through with you, as well as simply understanding what it now means to be an employer versus an employee, and understanding the federal withholding, the FICA taxes, Social Security taxes.

As employees, that other half of the Social Security taxes and Medicare is typically hidden from us because they are paid by our employer. Now that you’re the employer, that’s a cost that you have to factor into the price of your product or service.

Another critical part—is the CPA working with you with the taxes according to your structure? Corporations pay their own estimated taxes, but if you’re called a pass through entity, an S-corp, a limited liability company, a partnership, that income passes through to the individual owners. Therefore, that’s going to impact your individual taxes, change your estimated tax payments. You need to work with a CPA for the tax planning for that. Be aware of all the income [tax] deductions that you’re entitled to so that you don’t end up in a penalty situation.

I think--before I close--another important point that I would want to mention is the absolute necessity to keep a Chinese wall between your personal records and your business records, even if
you’re a sole proprietorship. Even maybe more importantly, the business has to have a checking account. You should avoid trying to reimburse yourself. If it’s a business expense, pay it out of the business account; if it’s personal, pay it out of the personal account. Sometimes you do have to do reimbursements and, if so, then make sure all the documentation you keep, you keep all of your receipts. It’s absolutely important to maintain that separation between personal and business. There are many more things, but in [the] essence of time, I think I’ll close right there.

J. Walstedt

Thank you very much, Leslie, for those useful tips. I just want to remind our listeners that this call will be posted in audio and transcript form sometime after the call. So if you weren’t able to get everything down, you’ll have another chance. Now I’m going to ask the operator, Jennifer, to give us instructions on how to ask a question. Jennifer.