

THE FINANCIAL EDGE

February 2016



Bring Your Heart to Work

Personal comments by Mary

Everyone has a story! I started FOCUS CPA because of a challenging time in my life. In the late 90's my best choice was to close a business. It was a very painful time, financially and personally. Now I want to make sure that no one else goes through that same experience. I take what I do personally. I know it's just business, however business is made up of people. It's the *people* that bring the heart of the business to action.

During this time of year, tax filing season, it is critical to remember why I do what I do. The pace picks up in the office and deadlines loom overhead. It is important that we stop and listen, appreciate the good things and keep in mind what we do accomplish every day. It is a time to hear what has happened to those we have served over the last year and the new ones who have found their way to our business. When we file an annual tax return, their story comes together. The story is in numbers, but behind the numbers are people and actions.

The more we give the more we get back. Achieving more doesn't always bring happiness. Working with great people and helping others to reach their dreams - brings happiness. I encourage you to bring your heart to work.

Mary Guldán-Lindström



"Improving the lives of small business owners" FOCUS CPA inc

What Clients Are Saying...



I am excited about what my future may bring, and I owe much of it to the people at Focus CPA for helping me get there!

*Toni Maretti
Momentum Carnivore Nutrition
Co-owner*

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The Book Review

Title: The E Myth Accountant

Author: Michael Gerber & Darren Root

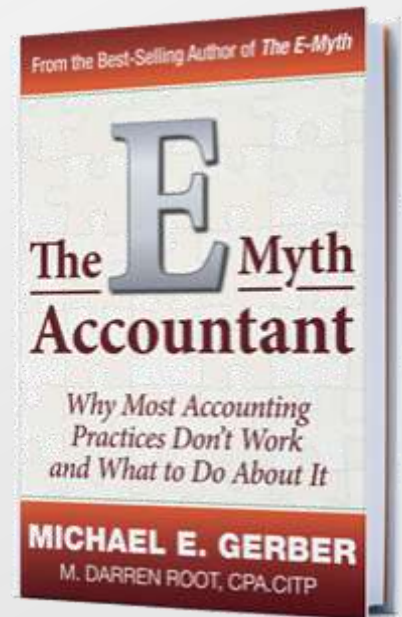
Topic: Business Foundation

Easy to Read: \$\$\$\$\$ (5 out of 5 dollars)

Applicable to small business: \$\$\$\$\$ (5 out of 5 dollars)

Summary: Many technicians start a service business by doing what they always did. This book provides a guideline to design a business that you can succeed with – both professionally and personally.

My recommendation: If you are moving from “technician” to business owner in a professional field this book will help you keep your sanity and increase your financial success.



Pages: 183 | Published: 2011

The Cost of Love— Payments for Agreeing to be Faithful are Taxable

By Mary Guldán-Lindstrom, CPA



After dating for about a year, a couple pledged their fidelity to each other in writing.

The written agreement intended to confirm their commitment to each other and to provide financial accommodation for her. Neither desired to marry, and the agreement was intended to formalize their "respect, appreciation and affection for each other" in the way a marriage otherwise would do. The agreement provides that the parties "shall respect each other and shall continue to spend time with each other consistent with their past practice". It also noted that both "shall be faithful to each other and shall refrain from engaging in intimate or other romantic relations with any other individual". The agreement required him to pay her \$400,000.

Later, he accused her of cheating. They broke up and he sued her. He also filed a yearend informational return (form 1099-MISC), reporting the payment. A state court found that she defrauded him and required her to repay the \$400,000. Still the Tax Court says she owes tax on the amount.

This is an actual court case.



Business Cash Management— Paying the Owner First

By Mary Guldán-Lindstrom, CPA

Personal financial planning stresses the importance of paying yourself first. Financial experts recommend that a person prepare for the future by putting money away for savings and investment. The rest is available to spend. Let's take that same logic and apply it to business.

By segregating the expected profit from the operating cash a business can provide a safeguard to catch or prevent overspending. If the operating checking account is running short a conscious decision is made to transfer money from the profit account. This is a safety valve, a way to protect projected profits.

STEP 1. Build a workable budget and defined profit margin for your business. Let's say, a 30% net margin is what we're aiming at and regular operational overhead is estimated at 60%. This leaves 10% left for directional changes, timing issues, unknowns, rainy days, etc. Having a budget as granular as possible will help clarify issues later. Using the percentages of revenue verses fixed numbers will make this process a whole lot easier.

$$\text{SALES} - \text{DIRECT COSTS} - \text{FIXED OVERHEAD} = \text{NET MARGIN}$$

STEP 2. Every time a sale is deposited break it apart into individual bank accounts. Move 30% into the net margin account and 10% into an operational savings account. The remaining 60% stays in the operational checking account.

STEP 3. The bookkeeper or controller has full control over the operational checking and operational savings. However when they move money from operational savings the owner is alerted as to WHY we need to borrow cash from that account. That's the check-point. "Our receivables are slow to come in, so we need to float payroll, etc."

STEP 4. Anytime the business gets to the point where money is NEEDED to be pulled from the net margin account as a request from the bookkeeper or controller it requires owner authorization and it's time to revisit the budget. Why did this happen? What went wrong that we ran out of cash in our operating and savings budgets? Re-visit and rework your budget to prevent it from happening again.

HERE ARE REASONS WHY YOU MIGHT NEED ADDITIONAL CASH AND REWORK YOUR PERCENTAGES:

- Sales are lower than expected; you will need more to cover overhead.
- Sales are slow to collect and expenses are due before sales are collected. Review customer terms to speed up cash. Establish line of credit to fund no more than 75% of customer receivables.
- Overhead is higher than expected. Evaluate your overhead and adjust your expectations or cut spending.
- Direct costs are higher than expected. Review productivity and pricing. Can you be more efficient? Or do you need to adjust pricing?
- Reassess your operational savings percentage for reasonableness. Be sure to allow for adequate working capital and establish a cushion to handle timing issues.

Keep in mind taxes. Set aside for taxes based on the current profit into another separate account. Pay income tax estimates based on business profits from this account.

This is a tool, just a tool to manage cash. This is the simple version and will only work in a profitable business. Every business deserves to be profitable. For a business to survive in our fast paced economic environment it is critical that they continue to invest in technology, research and development and their people.

**Business Owners –
Need help
maximizing your
financial success?**

**At FOCUS CPA we are
accepting new clients.**

Contact Mary at 351-4842
or Mary@focus-cpa.com to
set up a free initial
appointment to see how we
can improve your situation.

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Did You Know... Why we need a Leap Year?

The next leap day is February 29, 2016, but do you know why it only happens every four years? The Gregorian calendar, which now serves as the standard calendar for civil use throughout the world, has both common years and leap years. A common year has 365 days and a leap year 366 days, with the extra day designated as February 29. A leap year occurs every four years to help synchronize the calendar year with the solar year, or the length of time it takes the earth to complete its orbit about the sun, which is about 365¼ days. The length of the solar year, however, is slightly less than 365¼ days—by about 11 minutes. To compensate for this discrepancy, the leap year is omitted three times every four hundred years.

In other words, a century year cannot be a leap year unless it is divisible by 400. Thus 1700, 1800, and 1900 were not leap years, but 1600, 2000, and 2400 are leap years.

What are your chances of being born on leap day?
About 1 in 1,500.

How many people were born on leap day?
There are about 187,000 people in the US and 4 million people in the world who were born on Leap Day.

- Adapted from www.infoplease.com

