

# It's Time For a Checkup

## Don't Skip a Beat When it Comes to Your Financial Health.

By Steve Mangan, CPA

*Special to New Business Minnesota*

For most new entrepreneurs, running their business will require they wear multiple hats. Since you can't wear all of them at the same time, your success will depend on choosing which ones fit you best and which one can you get someone else to wear when necessary.

If you know your strengths and weaknesses, you already know where you're going to need help. Focus on what you do best. Engage others for your weaknesses.

### Assemble Your Team

Your team should consist of legal, accounting, insurance and financial professionals. (Friends and family don't count.)

When you first form your business, the importance of sound legal advice cannot be underestimated. Properly prepared minutes and other incorporation documents not only will minimize your risk exposure, but could also clarify any potential tax liabilities. When in the process of procuring a loan, lenders are more likely to extend credit to companies whose records are in conformity with best practices.

For your ongoing operations, however, you should involve a Certified Public Accountant. They have earned the CPA designation through knowledge and experience and can assist in a variety of business roles, from accounting to solidifying your business plans and lending credibility to your financial goals.

### Warning Signs

With more than 25 years experience



working with businesses large and small as a CPA and business advisor, I have encountered certain business traits and habits that have resulted in financial disaster. Let me pass on to you a few of the

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warning signs every new business and small business should be aware of and how to counter them to stay on track.

**Poor Record Keeping.** For those of you having experienced this dilemma, it's been the same scenario for years. The only difference is you may have outgrown the shoebox and graduated to the copy paper box.

*Solution:* Seek help early on. There is

no better time than now to visit your CPA about ways to best organize your records. We have access to organizational tools and strategies to fit your business and can help devise the best solution.

**Comingling Personal and Business Expenses.** Corporations and partnerships should not pay personal expenses from a business checking account. To do so may expose the owners to unnecessary tax consequences. The IRS often times uses "Tracing Rules" when determining what is considered business and what is personal. When a company expects to be reimbursed for personal expenses, such requests should be formally documented and be authorized. Such actions should be part of the organizations minutes or bylaws.

The same warning goes for undocumented loans to/from the corporation. CPAs spend a significant amount of time sifting through details of shareholder transactions. Also be aware that loans between shareholders don't happen without the IRS getting a piece of the action. Imputing interest on loans that you thought was "interest free" could result in devastating tax consequences.

*Solution:* Determine – in advance – what type of financing the owners may have to provide and prepare notes to document the transactions. Security or collateral will help support the credibility of the transaction. Spell it out in your organizational documents and follow it.

**Retained Earnings Don't Tie to the Tax Return.** This is another time-consuming activity for CPAs. It involves an analysis of transactions that posted in error to the company's equity account or were not posted at all. Often times this

results from software that offers little or no controls.

**Solution:** Ask your CPA about things that “don’t seem right” or with questions about your software setup. While some CPAs bill for telephone calls, many find it more profitable to provide help throughout the year and minimize time spent fixing problems during their busy season.

As the accounting profession moves to a new era of International Accounting Standards, the use of worksheets, schedules and checklists become more important for documentation in supporting tax and legal issues. Things can change quickly. CPAs stay on top of new rules and new interpretations of old rules.

### Build a Roadmap

Not everyone will go down the same path in business. Your plan/roadmap should be divided into two parts: short-term goals that focus primarily on the here and now and long-term goals that emphasize longevity and prosperity. In order to monitor and measure your success, goals need to be written out.

Share your goals with those who an interest in your success. You will not only become more energized yourself, but will create a feeling of self worth to those involved. It will show your business partner that you’re a team player who is interested in win-win results. It will demonstrate management skills to your banker, who will see the profile of an organization that will likely continue and grow. Sharing goals with your spouse creates a sense of foresight and future. And for your accountant, it solidifies organizational skills and reliability.

### Write a Business Plan.

Without a playbook, winning a football game would be an impossible task.

Incorporate goals you’ve written with other important factors that will affect the success of your business.

### Determine your market.

Ask yourself, “What is it that I do or sell that makes my business stand out from others?” Just because you designed a school

ing on your type of business, various factors can affect the bottom line.

Whatever method you use to arrive at this revenue, take the time to write down the assumptions you considered. For example, rain days for construction; potential union strike for electrical workers, and temperature fluctuations for HVAC mechanics.

### Monitor your progress.

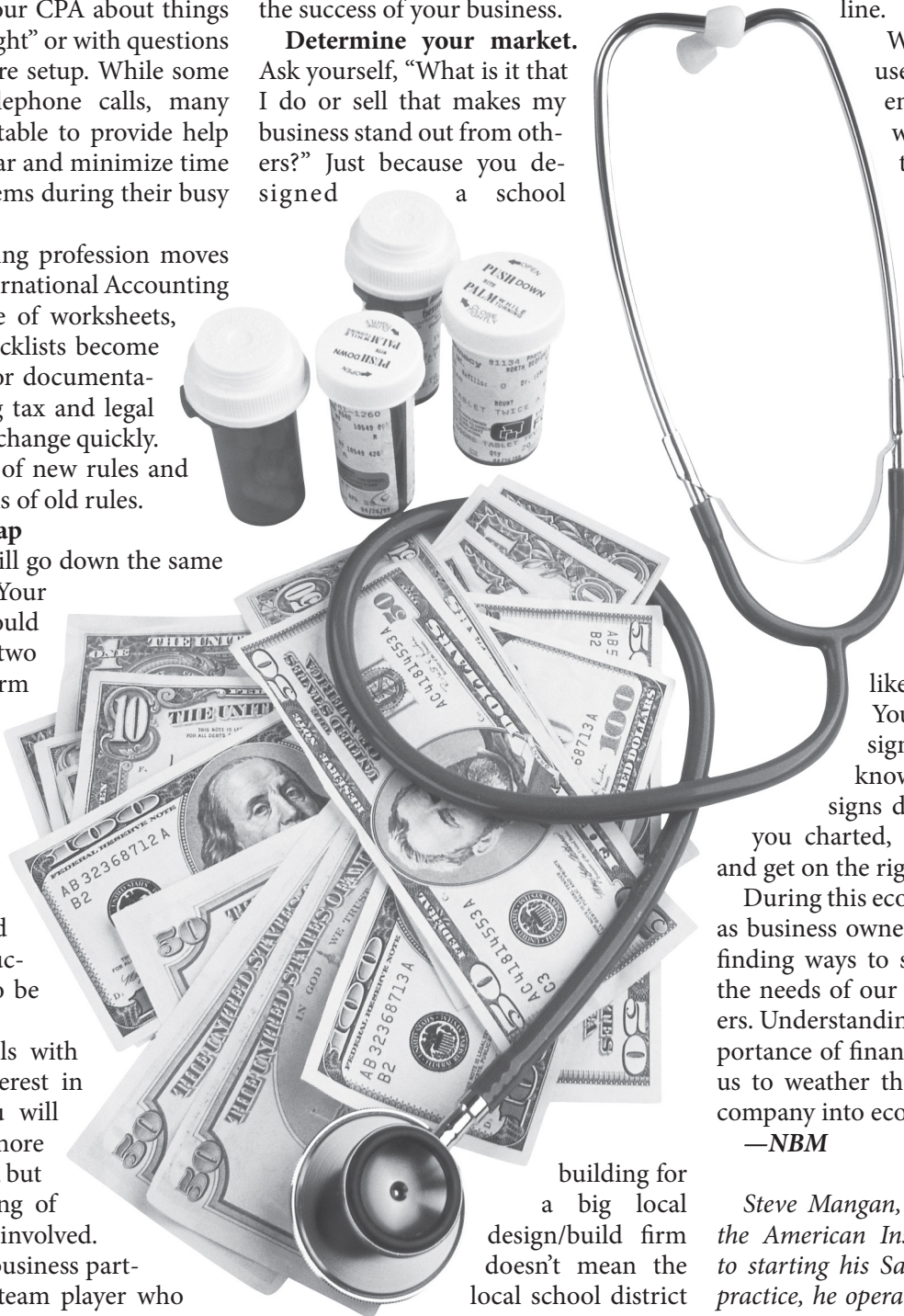
Having gone through the time and expense of goal setting and plan development, there is nothing more important than staying the course. It’s like planning a car trip. You monitor the road signs and mile markers to know where you are. If the signs don’t match the course you charted, you can turn around and get on the right road again.

During this economic uncertainty, we as business owners are challenged with finding ways to survive while meeting the needs of our clients and stakeholders. Understanding the need for and importance of financial planning can help us to weather the storm and lead our company into economic prosperity.

—NBM

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building for a big local design/build firm doesn’t mean the local school district will hire you for their project.

**Know your competition.** The Internet is a fantastic source of information to help determine how big your piece of the pie will be. Do your research.

**Establish a budget.** There is no better time than the present to create your foundation for success. The most crucial element of your budget lies with determining your sales projection. Depend-