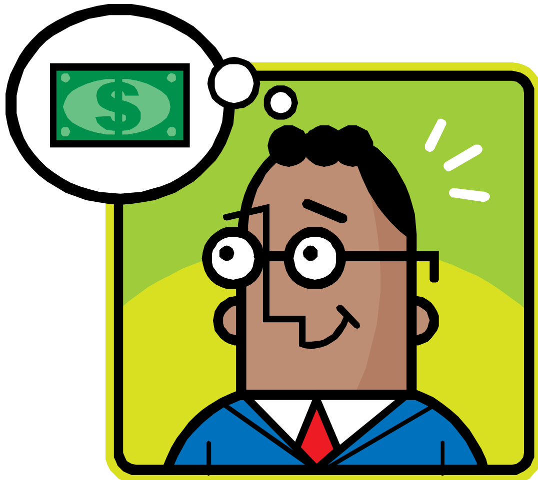


Why have an accounting system?

Steve Nelson, CPA and author of QuickBooks for Dummies

(1) Tax law requires your business to have a financial accounting system that works. Watch this webinar ***Your Guide to an IRS Audit*** at www.irsvideos.gov/audit/ more webinars available at www.tax.gov.

(2) Common business sense requires a financial accounting system because business owners who do not have an accounting system simply do not succeed. Are you pricing your products for profit?

(3) You must make your business decisions based on your financial statements – grow your business with the profits from the business.

Many new businesses get into financial trouble because they don't have a good record keeping system. Organizing your finances can seem overwhelming, but QuickBooks can really help you understand your cash flow; which is the core financial activity of any business. You can also quickly run profit and loss statements and a balance sheet. Understanding these financial statements will help you learn how to operate a profitable business! You are in business to ***Build Wealth not Debt***! If you do not understand accounting you can take an online course at www.ed2go.com/redriver/.

Jackie Jacobi, Business Trainer – Red River Technology Center

580.255.2903 ext 271 or jjacobi@rrtc.edu

QuickBooks – Manage Your Business like a Pro

www.community.intuit.com

The steps below will have you up and running your QuickBooks program fast (follow the steps exactly as they are listed). You first have to learn how QuickBooks thinks so you can put the data in so your reports will run correctly. You must follow certain steps in QBs in order for your reports to run correctly! For QB reports to be correct you must set up the chart of accounts correctly and post the entries to the right account, this is the biggest mistake I see in QB users (does the account flow to the P&L or the Balance Sheet - when you first input data immediately check the reports to see if the account flows to the P&L or Balance Sheet). The best option is to let me set up your chart of accounts and work with you on imputing the data from your first bank statement. If you have already filed a tax return we can use your Schedule C to find the accounts to set up. Contact me and I will be happy to help you set up your QB file: Jackie Jacobi (580) 255.2903 ext 271 or jjacobi@rrtc.edu.

1. Go to www.community.intuit.com then click on Get Help Locally; then Women's Resource Center; then Learn More then Financial Management Basics – a video tutorial.

2. Go to www.community.intuit.com then click on Live Events. Look for Previous Live Events and click on View past events. Watch the following webinars in the order I have them listed. You will find them either under the Small Business or Intuit Products tabs. You will need to register for a free account to watch the webinars (write down your username and password).
   - Understanding the QuickBooks Chart of Accounts
   - Sole Proprietor Accounting Made Easy
   - The Top 15 Bookkeeping Errors Small Business Owners Make
   - Customizing QuickBooks Reports

3. You are now ready to start learning in the QuickBooks program. Open the Sample Company file in QB. Click on Help (top bar on the right) then Learning Center Tutorials. Watch all these tutorials and then you will be ready to set your company file up in QB.

4. Go to File; then New Company and Start Interview. QB will give you a sample Chart of Accounts. The best thing to do is delete everything on this chart of accounts that you will not be using. You can add sub-accounts and other accounts as you need them. Learn how to use Help in QB. Please call me I will help you get your company set-up correctly!!

5. Or you can Learn QB Online at www.ed2go.com/redriver cost is $89 each.

6. The biggest problem I see when setting up the chart of accounts is getting the account correct. The following two pages will help with this problem.

What type of account should I use?

There are two main types of accounts in the QuickBooks chart of accounts:

- Income and expense accounts
- Balance sheet accounts

Income and Expense Accounts

Income and expense accounts track the sources of your income and the purpose of each expense. When you record transactions in one of your balance sheet accounts, you usually assign the amount of the transaction to one or more income or expense accounts. For example, not only do you record that you took money out of your checking account, but you keep track of what you spent the money on (utilities or office supplies).

Account type	Purpose
Income	Categorizes money earned from normal business operations, such as product sales, service sales, and discounts to customers.
Other income	Categorizes money your business earns that is unrelated to normal business operations, such as dividend income, interest income, and insurance reimbursements.
Expense	Categorizes money spent in the course of normal business operations, such as advertising and promotion, office supplies, insurance, legal fees, charitable contributions, and rent.
Other expense	Categorizes money your business spends that is unrelated to normal business operations, such as corporation taxes and penalties, interest, and legal settlements
Cost of goods sold	Tracks the direct costs to purchase or produce the items that your business sells, such as cost of materials, cost of labor, subcontractors, and shipping.

Note: *QuickBooks does not display balances for income and expense accounts in the Chart of Accounts. To see these balances, go to the* ***Reports*** *menu, click* ***Report Center****, and then click the* ***Company & Financial*** *category. You can also select the income or expense account in the chart of accounts and click* ***QuickReport****.*

Balance Sheet Accounts on following page.

Balance Sheet Accounts

QuickBooks provides 10 types of balance sheet accounts to choose from as you create and add to your Chart of Accounts. Use the type of account that best describes the type of data you are tracking.

Account type	Purpose
Bank	Tracks money you have in your cash accounts. Create one for each cash account, such as petty cash, checking, savings, and money market. (When you create a new bank account, leave the opening balance at zero. Its opening balance will be created automatically when you transfer funds from another account.)
Accounts receivable (A/R)	Tracks money your customers owe you on unpaid invoices. Most businesses require only the A/R account that QuickBooks automatically creates after you create your first invoice.
Other current asset	Tracks the value of things that you can convert to cash or use up within one year, such as prepaid expenses, employee cash advances, inventory, and loans from your business.
Fixed asset	Tracks the value of significant items (consult your tax professional for a minimum dollar amount) that have a useful life of more than one year, such as buildings, land, machinery and equipment, and vehicles.
Other asset	Tracks the value of things that are neither Fixed Assets nor Other Current Assets, such as Goodwill, long-term notes receivable, security deposits paid, and land.
Accounts payable (AP)	Tracks money you owe to vendors for purchases made on credit. Most businesses require only the A/P account that QuickBooks automatically creates after you create your first invoice.
Credit card	Tracks credit card purchases, bills, and payments. Create one for each credit card your business uses.
Other current liability	Tracks money your business owes and expects to pay within one year, such as sales tax, security deposits/retainers from customers, and payroll taxes.
Long-term liability	Tracks money your business owes and expects to pay back over more than one year, such as mortgages, long-term loans, and notes payable.
Equity	Tracks money invested in, or money taken out of, the business by owners or shareholders. Payroll and reimbursable expenses should not be included.

The IRS 1040 Schedule C is on the following two pages. Sole-Proprietors and LLC's will attached this form to their personal tax return. Set up your chart of accounts in QB with the same expense categories as what is listed on the Schedule C and your P&L report will give you the information to put your Schedule C at the end of the year. You should also set up a Fixed Assets List in QB so your accountant will know how to depreciate your assets.

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., generally must file Form 1065 or 1065-B.

▶ Attach to Form 1040, 1040NR, or 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

2010

Attachment Sequence No. **09**

Name of proprietor	**Social security number (SSN)**
A Principal business or profession, including product or service (see instructions)	**B Enter code from pages C-9, 10, & 11** ▶
C Business name. If no separate business name, leave blank.	**D Employer ID number (EIN), if any**

E Business address (including suite or room no.) ▶

City, town or post office, state, and ZIP code

F Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2010? If "No," see instructions for limit on losses ☐ Yes ☐ No

H If you started or acquired this business during 2010, check here . . . ▶ ☐

Part I Income

1	Gross receipts or sales. **Caution.** See instructions and check the box if: • This income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, or • You are a member of a qualified joint venture reporting only rental real estate income not subject to self-employment tax. Also see instructions for limit on losses. . . . ▶ ☐	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42 on page 2)	4	
5	**Gross profit.** Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	**Gross income.** Add lines 5 and 6 . . . ▶	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
				20	Rent or lease (see instructions):		
10	Commissions and fees	10		a	Vehicles, machinery, and equipment	20a	
11	Contract labor (see instructions)	11		b	Other business property	20b	
12	Depletion	12		21	Repairs and maintenance	21	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		22	Supplies (not included in Part III)	22	
				23	Taxes and licenses	23	
				24	Travel, meals, and entertainment:		
				a	Travel	24a	
14	Employee benefit programs (other than on line 19)	14		b	Deductible meals and entertainment (see instructions)	24b	
15	Insurance (other than health)	15		25	Utilities	25	
16	Interest:			26	Wages (less employment credits)	26	
a	Mortgage (paid to banks, etc.)	16a		27	Other expenses (from line 48 on page 2)	27	
b	Other	16b					
17	Legal and professional services	17					

28	**Total expenses** before expenses for business use of home. Add lines 8 through 27 . . . ▶	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Attach **Form** 8829	30	
31	**Net profit or (loss).** Subtract line 30 from line 29. • If a profit, enter on both **Form 1040, line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13** (if you checked the box on line 1, see instructions). Estates and trusts, enter on **Form 1041, line 3.** • If a loss, you **must** go to line 32.	31	

32 If you have a loss, check the box that describes your investment in this activity (see instructions).

• If you checked 32a, enter the loss on both **Form 1040, line 12,** and **Schedule SE, line 2,** or on **Form 1040NR, line 13** (if you checked the box on line 1, see the line 31 instructions). Estates and trusts, enter on **Form 1041, line 3.**

• If you checked 32b, you **must** attach **Form 6198.** Your loss may be limited.

32a ☐ All investment is at risk.

32b ☐ Some investment is not at risk.

Part III Cost of Goods Sold (see instructions)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation . . . ☐ Yes ☐ No

35	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	35	
36	Purchases less cost of items withdrawn for personal use	36	
37	Cost of labor. Do not include any amounts paid to yourself	37	
38	Materials and supplies	38	
39	Other costs	39	
40	Add lines 35 through 39	40	
41	Inventory at end of year	41	
42	**Cost of goods sold.** Subtract line 41 from line 40. Enter the result here and on page 1, line 4	42	

Part IV Information on Your Vehicle.

Complete this part **only** if you are claiming car or truck expenses on line 9 and are not required to file Form 4562 for this business. See the instructions for line 13 to find out if you must file Form 4562.

43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ____ / ____ / ____

44 Of the total number of miles you drove your vehicle during 2010, enter the number of miles you used your vehicle for:

a Business ________________ b Commuting (see instructions) ________________ c Other ________________

45 Was your vehicle available for personal use during off-duty hours? . . . ☐ Yes ☐ No

46 Do you (or your spouse) have another vehicle available for personal use? . . . ☐ Yes ☐ No

47a Do you have evidence to support your deduction? . . . ☐ Yes ☐ No

b If "Yes," is the evidence written? . . . ☐ Yes ☐ No

Part V Other Expenses.

List below business expenses not included on lines 8–26 or line 30.

______________________________		
______________________________		
______________________________		
______________________________		
______________________________		
______________________________		
______________________________		
______________________________		
48 **Total other expenses.** Enter here and on page 1, line 27	48	

Financial Statements Can Warn of Problems

Financial statements can serve as an early warning signal to business problems or opportunities that need your attention. If you do not understand accounting you can take an online course at www.ed2go.com/redriver/. Learn how to calculate and use key financial ratios to compare the month-to-month and year-to-year changes in your company's performance. All business, large or small, can benefit from tracking certain business ratios. If you are intimidated or confused by business ratio concepts, don't be embarrassed to ask your accountant for help. Ask him or her every month, if necessary, until you finally get comfortable with the necessary information. It's the change in your business ratios that should assist you in making sound business decisions.

Questions to ask your Accountant

1. Do you just prepare the tax return or do you also look for and educate your clients on ways they can reduce their tax liability?

2. Are you open ALL YEAR or just during the tax season? It is important for business owners to have the ability to meet with their accountant or bookkeeper frequently throughout the year.

3. Do you help your clients calculate and understand the following business ratios:
   Gross profit margin – this ratio is computed by dividing gross profit by net sales. Gross profit is the difference between sales and cost of goods sold. An unsatisfactory gross profit percentage is a major factor in many business failures.
   Net profit percentage – this is computed by dividing net profit by net sales. Unincorporated businesses should make an allowance for the owner's compensation before making industry comparisons.
   Operating expense ratio – this is computed by dividing the operating expenses by net sales. An increase in this ratio from one period to the next should serve as a warning to management.
   Return on investment – this is computed by dividing net profit by total equity (assets minus debts). This measures the overall profitability of the company. A large ratio which increases annually is, of course, desirable.

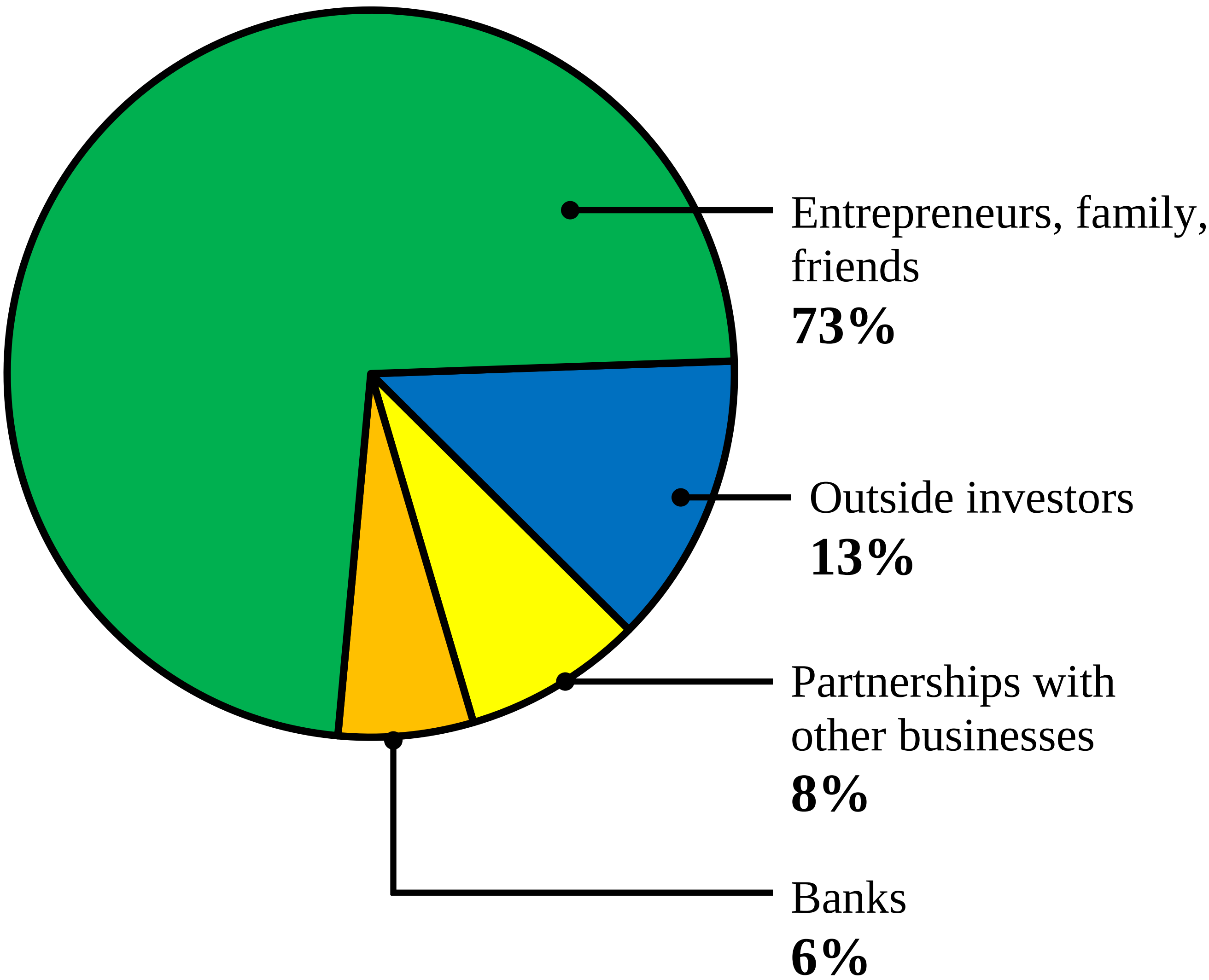
4. How often during the year are you willing to meet with your clients? (This is usually a client initiated visit; at least quarterly or at the very least semi-annually)

5. Could you represent me before the IRS (audit) if it became necessary? Are you a Certified Public Accountant (CPA) or Enrolled Agent (EA)?

6. If I do not want or need an accountant or bookkeeper to keep my monthly books, but do need help with payroll and the proper payroll reporting do you provide this service?

Sources of Money

Where the money comes from to start a business.



Source: Adapted with permission, Inc. magazine, (August 1994).

Finding Funding for Your Business

by Paul Bozzo, of 10X Consulting Group January 5, 2010
www.the10XGroup.com

Banks focus most often on existing businesses (3 to 5 years old) that have strong cash flow and are looking to expand and grow their business. Banks are looking for solid profitability and a strong possibility for future growth. Banks want to get a good rate of return, with little risk and a pretty good guarantee that the loan will be paid back. Banks don't want to lend money to start-ups or troubled businesses – so apply for a line of credit early and establish a good banking relationship. Banks decision to lead money is 70% based on credit history and the financial statements (profit and loss; balance sheet; and cash flow) of the small business as well as the entrepreneur.

Normal funding sources come in this order:

(1) Founder, Friends and Family
(2) Bank or Credit Union (they want the entrepreneur's skin in the game ie $$)
(3) SBA (they are required by law to take collateral)
(4) Private Equity – Angel Investors or Venture Capital
(10% is the desired rate of return)

Start-Up Funding Hierarchy:

1st – the first $100,000 of investment usually comes from the founder.
2nd – the second $200 to $250,000 usually comes from friends and family.
3rd - Angel Investors (they want entrepreneurs time and personal resources invested) or Venture Capital

Top Mistakes Existing Business Owners Make When Seeking Funding:

They look too late – look for credit lines when business is good – look early and often. Remember Cash is King!

Clearly understand your needs – do not underestimate how much you need – projections are usually too low.

Financial statements must be impeccable – work with a CPA to make sure they meet industry standards and ratios.

Keep your business plan current – it is a working document to be used to develop your business and marketing strategy.

A line of credit is a good thing for any business.

What the Banker Evaluates – The Six C's

Character – The degree to which a borrower feels a moral obligation to pay his/her debts, measured by the credit and payment history. Will he/she try to honor the loan agreement even when difficult financial times arise?

Capacity to Pay – A subjective determination made by a lender based upon an analysis of the borrower's financial statements and other information. The lender wants to know: Does the borrower have the ability to repay the debt? Can he/she honor the loan agreement even in difficult times? Will sufficient cash flow be generated to service the debt? (You can now get a free credit report from www.AnnualCreditReport.com and learn about your FICO score at www.myfico.com; Bankers look at both of these reports.)

Capital – The amount of capital in a business is equal to the total of capital from debt and equity. Lenders prefer low debt-to-asset and debt-to-worth ratios and high current ratios. These indicate financial stability. Lenders want to know your net worth and the financial position of the company.

Collateral – An asset owned by the borrower, but promised to a lender against non-payment of the loan. The amount of collateral varies from lender to lender. The closer the collateral value is to the loan amount, the more comfortable the lender will be that the loan will be repaid. What assets can you pledge as security for the debt? Certain assets, such as receivables and inventory, make very good collateral for short-term debt, while other assets, such as plant and equipment, make good collateral for long-term debt.

Conditions – General economic, geographic and industry conditions expected during the time the debt is outstanding. How will the economic conditions affect the firm's ability to generate the cash needed to service the debt? Some firms are very cyclical in nature, and their cash flows fluctuate closely with the economy. For such firms, when the economy is bad, so is the cash flow generated. In the Oil Belt, for example, bankers have been reluctant to lend funds against oil revenues because such revenues have been especially unpredictable.

Confidence - A successful borrower instills confidence in the lender by addressing all the lender's concerns on the other Five C's. Their loan application sends the message that the company is professional, with an honest reputation, a good credit history, reasonable financial statements, good capitalization and adequate collateral.

Sources and Types of Funding *

Where to Borrow

Getting credit for a business can be a dilemma because until you've developed a good track record with business credit, many commercial banks and other traditional lenders will be reluctant to extend credit to you.

In order to identify the type of financial institution most likely to lend to your business, it's helpful to pinpoint which of the four early stages of development your business is in.

Stages of a Developing Business

Stage one businesses are start-ups.

Stage two businesses have business plans and product samples but no revenues.

Stage three businesses have full business plans and pilot programs in place.

Stage four businesses have been in operation for some time and have documented revenues and expenses.

Lenders suggest that rather than approaching a bank, owners of businesses in stages one and two should seek financing from informal investors. Such sources of funding may include friends or relatives, partners, local development corporations, state and local governments offering low-interest micro loans, private foundations offering program-related investments, credit unions featuring small business lending, and universities with targeted research and development funds.

Lenders say that businesses in stage four, and some in stage three, are sufficiently developed to approach a commercial bank or another traditional lender for a loan.

If your business is in stage three or four and you intend to approach a commercial bank, lenders suggest that you first submit an application to a bank with which you have an established relationship. If you do not have an established relationship with a bank, lenders recommend that you ask an experienced accountant or lawyer to contact a bank and present your proposal.

Also, keep in mind that you must choose a legal designation—sole proprietorship, partnership, of corporation—and execute the necessary documentation for your small business before approaching a bank or another lender.

* Source: *The Credit Process: A Guide for Small Business Owners* by the Federal Reserve Bank of New York

Entrepreneurship is a way of thinking that has the ability to recognize problems, analyze creative solutions, focus on new opportunities and lead with a vision toward the future." Jackie Jacobi – Red River Technology Center

Entrepreneur's have <u>Positive Attitudes</u> and are <u>Proactive.</u>

What do I mean by a Positive Attitude? I will quote Scott Hamilton, Figure Skating Olympic Gold Medalist who battled cancer – "The only true disability in life is a bad attitude".

What do I mean by Proactive? The definition of proactive is acting in anticipation of future problems, needs or changes. Entrepreneurs passionately and aggressively pursue their dream; they do not sit around and expect someone else to solve their problems and make it happen. They are life long learners and consult with their advisory team, but they implement the action plan.

Your Success will never exceed your Personal Growth!!

My job is to challenge you to think and provide you with the information and resources so you can make educated and informed business and financial decisions. -- Jackie Jacobi, Business Trainer – Red River Technology Center