

ACCURATE BOOKKEEPING & ACCOUNTING

(805) 579-9044

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Accounting & Tax Tips

Dear Business Owners,

With your busy schedules, it is both likely and understandable that you are unable to keep up on some of the great amount of information which could help you in your business. At Accurate Bookkeeping & Accounting, our aim is to help with this dilemma by passing on a few tidbits on a monthly basis. I expect some of these will turn out to be of use to you.

Accounting Tips:

If your company carries receivables, you should be monitoring your “turnover ratio” or “average days to pay” on a quarterly if not a monthly basis (your accountant can provide you with this data). Extending credit for too long not only reduces your cash flow but lessens the likelihood of getting paid. It has been my experience that the longer someone feels they “didn’t” have to pay the more they feel they “shouldn’t” have to pay. Many times, the only way to get anything collected is to discount the total. That “was” your profit.

Do your vendors offer cash discounts for early payment or volume discounts? If you are current with your payments, ask them what they would require in order for you to receive these discounts. Something as simple as paying in 10 or 15 days instead of 30 will provide you a 1% savings. After 12 months, ask for 2 or 3%. Missing out on a 2/10, net 30, discount is equivalent to paying an annual interest rate of roughly 36%. They, too, need the use of their funds and may welcome early payment by providing these terms. And, don’t forget end-of-year rebates for high volume accounts. They may have certain inventory items they wish to push and will give you a percentage back for using those items.

Personal Tax Tips:

If you are eligible for child or dependent care, you will need the provider’s Federal ID or social security number in order to receive the credit. It doesn’t matter if it is the neighbor who watches your children for several hours in the afternoon, it must be included on the tax form. Don’t wait until the last minute.

When tabulating your cost basis for mutual fund investments, be sure to include dividends and capital gain distributions declared by the investment company. These would be on your end of year statements and should be in the total calculation. When it comes time to sell, it will reduce your tax burden by lowering the overall gain.

Business Tax Tips:

If you use a portion of your home as a home office, it must meet all of the following tests to be deductible. First, the room or area must be used exclusively for the trade or business and must be an identifiable space. Second, it must be used on a regular and continuing basis. Incidental use is non-deductible. Third, there can be no other “fixed location” where substantial administrative or management functions are carried out. Your home office is to be your main command center. This home office must be the principal place for these functions, a place where you meet clients, or it can be a separate structure.

Lastly, if you generate your own 1099 forms, be certain to purchase them far enough ahead that they aren’t sold out at your favorite stationary store come Jan. 31. Your accountant or payroll service can also provide these, but they may also need some lead time and there will be a fee for their service.

Merry Christmas and Happy Holidays,

Steve Trocino
Accurate Bookkeeping & Accounting
stevetrocino@accuratebooks-ca.com
(805) 579-9044