

MAXIMIZING YOUR BUSINESS POTENTIAL



SMALL BUSINESS

ACCOUNTING KIT



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UNDERSTANDING THE BASICS OF FINANCIAL STATEMENTS

How do you assess the financial health of your business? A proactive approach allows you to pinpoint issues before they become serious problems. At the same time, you can identify additional areas of profit by staying on top of the numbers.

If you only refer to your bank account for the basics, you're ignoring the most powerful financial tools in your accounting arsenal: **the Income Statement, Balance Sheet, and Cash Flow Statement**. These provide the most comprehensive view of your business and are essential for long-term success.

However, as a small business owner, your expertise isn't in accounting – so how do you interpret the data to your advantage? The following is an overview of the key financial statements and how they can be used to make decisions.

Income Statement

Your Income Statement, often referred to as a Profit and Loss (P&L) Statement, is useful to gauge the overall performance of your business. A well-maintained Income Statement will detail how profitable your business actually is. It also directs ways to increase profitability areas, such as cutting unnecessary expenses or focusing on certain products or services.

A small business Income Statement will also show your profits to indicate potentially reinvesting in your business to pay your own salary or to cover any outstanding debt. Should you require additional funding, investors will review your Income Statement to assess the level of risk involved in extending credit or capital.

Income Statement Comparison Reports

If you're able to access comparison reports of your Income Statement, that's even better! For example, you're looking at your Income Statement from this June, and you're also able to access your Income Statement from last June. Another example of this would be looking at your year-to-date for this year and your year-to-date from a year ago.

Balance Sheet

Your Balance Sheet summarizes key financial information on a given date rather than over time and is a good indicator of stability and liquidity. The main components include business assets (what you own or control), liabilities (what you owe, including debts, loans, and payments), and owner's equity (what is yours when it's all hashed out).

A Balance Sheet may seem a bit overwhelming at first. However, it can help you determine the net value of your business, current and long-term debt, asset management and liquidity ratios (how well you can turn an asset into cash), and changes in things like cash, accounts payable and receivable, equity, inventory, and retained earnings.

Balance Sheet Comparison Reports

Ultimately more useful for Income Statements, comparison reports are also available for Balance Sheets. Their main purpose for Balance Sheets is to see if you're worth more money now than you were the year before. You'll be looking at one period and comparing it to the same period of the prior year.

Cash Flow Statement

Cash flow can make or break a business. Cash Flow Statements aren't popular with small business owners because it's difficult to understand that your business can be profitable and still have cash flow issues. You can have no money in the bank but still have profit and owe tax – and your bottom line and your bank balance aren't necessarily going to be the same.

A dedicated Cash Flow Statement allows you to account for delinquent or missing payments and determine if you have enough money for expenses. In addition to helping you gauge whether your business has the funds to stay afloat, it can also indicate if you need to secure additional capital to purchase inventory or fund seasonal expenses.

Because Cash Flow Statements can be difficult to understand, they are often left out. However, the statements can be produced with some accounting software, and some accountants may provide them for you and explain them to you upon request.

Want to learn more about financial statements? Visit our Resources Center at www.rcncpas.com for information about how a monthly accountant can use financial statements to offer advice in various areas, red flags to look out for on your self prepared statements, and other similar accounting, tax, and payroll topics!



2023 TAX RETURN CALENDAR

June 17, 2024

Estimated Quarterly Payment: The second 2024 estimated quarterly payment for profitable corporations is due today.

September 16, 2024

Final Deadline For Extended Partnerships and S Corporations: If you were granted an extension on your 2023 taxes, today is the final deadline to file forms 1120S and 1065.

Estimated Quarterly Payments: The third 2024 estimated quarterly payment for profitable corporations is due today.

October 15, 2024

Final Deadline For Extended Individual and C Corporation Tax Returns: If you were granted an extension on your 2023 taxes, today is the final deadline to file forms 1040 and 1120.

January 15, 2025

Estimated Quarterly Payments: The final 2024 estimated quarterly payment for profitable corporations is due today.

Check Employee Information:

- Verify that employees' names are spelled correctly.
- Verify that employees' addresses have been reported and are current.
- Verify that employees' social security numbers have been reported and are correct.
- Remind employees to fill out new Form W-4 for changes and if previously 'exempt'.

Report Special Procedures:

- Request any special year-end reports needed.
- Report any uncashed checks that need to be voided.
- Report any special payroll runs separate from normally scheduled runs.

Report Additional Compensation & Benefit Information:

- Report payments to independent contractors for processing Forms 1099-NEC
- Report any taxable compensation not previously submitted through payroll:
 - Tip allocations
 - Third-party sick pay
 - Cash awards and bonuses
 - Non-cash awards and bonuses
 - Non-qualifying moving expense reimbursements
 - Non-accountable business expense reimbursements
- Report payments to independent contractors for processing Forms 1099-NEC
- Report any taxable compensation not previously submitted through payroll:
 - Personal use of company vehicle
 - Personal use of company cell phone
 - Disability premiums, if company policy requires it
 - Dependent care benefits over the allowable limit (usually \$5,000)
 - Group term life insurance over the allowable limit (\$50,000 of coverage)
 - Education not related to employee's job or over the allowable limit (\$5,250)
 - S-Corp shareholders fringe benefits (i.e. health insurance premiums, HAS contributions)
 - Any other taxable benefit provided to an employee by the company

Check Employee Information:

Whether you currently work with a small business accountant or wonder if you should be, many business owners don't realize that reaching out for help prior to a business decision (even a small one) can result in tax savings, cost cutting, and potential opportunities for profitability. Here's a list of when you should be in contact with an accountant:

- Before starting, buying, or selling a business
- Before planning for the year ahead
- Before collecting documents for annual tax purposes
- If you receive tax information or correspondence from the government
- If you're having problems with creditors, debtors, expenses, or stock
- If you're facing an audit
- When you're looking for new ways to save money
- When you need to attract new business
- When you have questions about your financial reports
- Before purchasing new equipment or property
- Before purchasing vehicles for your business
- Before cutting down income to lower tax liability
- If you're planning future expansion
- If you're not sure whether to purchase or lease equipment
- If numbers aren't adding up right in your accounting software
- When you're considering offering benefits for employees
- When you have questions about your individual tax responsibilities
- When you have questions about depreciation
- Before you create a budget
- Before you create and hire for a new position
- Before you renew vendors for another year
- If you are experiencing cash flow issues
- If you have any questions about changes to tax laws
- If you need clarification on the definition between repairs and maintenance
- When you need to secure additional financing
- When you fall behind on your books
- Whenever you have a financial question that may impact your business

