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November 2007

Criser, Gough, & Parrish

Small Business Alert

“Working together for you.”

Five Common Accounting Mistakes of Home-Based Businesses

1. **Neglecting to systematically and regularly put aside enough money for estimated taxes**, which normally must be paid April 15, June 15, September 15, and January 15. If you find yourself scrambling around for money to meet estimated taxes, or if you frequently decide not to send in estimated taxes, you need to reconsider your accounting systems.

2. **Not keeping complete expense receipts for tax purposes.** When you're buying business items while traveling, or while hurriedly picking up supplies, it's easy to misplace sales receipts, or neglect to notate the transaction properly in your checkbook. Not having sales receipts could prove costly if you were ever audited. Not keeping proper records can make tax-time calculations difficult.

Consider making all business transactions on a charge card set up solely for that purchase. This card would never be used for personal, non-business purchases. Your monthly statement for the card would serve as an accurate accounting, enabling you to list dollar amounts and types of purchases. (**Note:** you still need to save your receipts!) Some credit card companies even offer special credit cards for small businesses. These usually supply a free year-end total for tax purposes. If you're worried about running up debt on the card, discipline yourself to write out a check for the amount of each purchase immediately after arriving home.

If you find that you can't maintain the discipline to immediately write out a check, or too often don't have enough money in your checking account to cover purchases, you'll soon find that your card's balance is getting uncomfortably high. In this case, stick to writing checks for your business purchases. But don't put receipts in the bag with the items you've purchased, or in your pocket. Instead, store the receipt right in the checkbook. It will then be very noticeable when you arrive home, where you can put it immediately into a file folder reserved for this purpose. At the time of purchase, make a notation in your

checkbook for the purpose of each check. This will help you tally different expense categories at year-end when you're calculating your taxes.

3. **Not recording the source of checks deposited.** Simply write in your checkbook the source of each deposit, recording the payer and check number for each check. If some deposits contain too many checks to notate separately in your checkbook, write down the details on a separate piece of paper and record it along with your other checking account records.

4. **Not having adequate systems in place for billing customers and for keeping records of overdue payments.** Since these two activities are integral to a business, you'll need to set up a method to determine with great accuracy and timeliness exactly whom you've billed and when their payments are overdue.

5. **Not having a system to easily and accurately keep track of billable hours spent working for customers.** Set up a reliable system that allows you to easily record the time spent on each job. No system will be accurate if you, yourself, do not make a point of recording the exact amount of time spent on each job.

There are several ways to set up systems to avoid each of the five mistakes. Perhaps most advisable is to work with an accountant who is experienced with helping small businesses. An accountant can help you establish systematic procedures and can suggest appropriate software and other tools that will help make your financial life simpler.

(Source: Accreditation Council for Accountancy and Taxation)

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IRS Pursuing Small Businesses to Close "Tax Gap"

The IRS is pushing its small business auditors to increase the number of exams they complete in an effort to reduce the "tax gap," which the agency defines as the difference between taxes owed and what taxpayers actually pay in a timely manner.

The IRS estimated the tax gap for 2001 at \$345 billion, the most recent year for which an estimate is available.

President Bush's 2008 budget had 16 separate proposals designed to reduce the tax gap. One would require reporting on credit and debit card payments to merchants, allowing merchants to have an annual summary of their credit card receipts. The information would also go to the IRS.

The National Small Business Association recently launched an initiative and web site to stop the IRS from targeting small business in its efforts to reduce the tax gap.

The NSBA said the "extraordinary complexity of the tax code," and not small businesses, is to blame for unpaid taxes. The site is www.preventirsabuse.org.

(Source: Small Business Tax News, 7/07)

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QuickBooks does **not** support any of its versions earlier than 2007 when used with Microsoft's new operating system Vista.

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Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

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