



NASE Answer Desk

ABCs of Finance

Advice From Financial Specialists



When it comes to your money, let the experienced professionals at ABCs of Finance help you make more and save more. Get the financial advice you need today.

Online:

- Go to www.NASE.org
- In the Quick Link box, enter "ABCs"

The consultants at ABCs of Finance can help your micro-business manage money more wisely.

These professionals offer years of experience in public accounting. As chief financial officers, controllers and treasurers, they understand the accounting and financial issues you face every day.

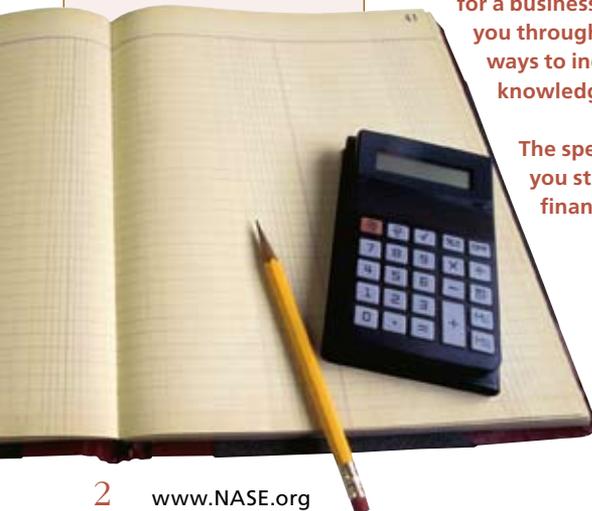
They can help you crunch the numbers to see whether leasing or buying equipment is a better financial deal for your micro-business. They can guide you through setting up a budget and offer ideas to keep your budget on track. They can help you get a handle on cash flow so you can build a stronger business.

No financial matter is too big or too small for the specialists at ABCs of Finance.

If you need help deciding which accounting method to use, the consultants can provide recommendations. If you need to prepare financial documents to apply for a business loan, the professionals will walk you through the process. If you want to find ways to increase your profitability, these knowledgeable advisors can give you ideas.

The specialists at ABCs of Finance will give you straightforward answers to all of your financial and accounting questions.

NOTE: ABCs of Finance provides financial and accounting information pertinent to micro-business owners and the self-employed. It is not intended to replace the role of the accounting or financial professional in your business matters. As always, it is recommended that you discuss your specific circumstances with your own financial advisors.



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Sample Questions & Answers

Get A DBA

What is a DBA? Do I need one for my business? If so, how do I get one?

DBA stands for “doing business as.” It’s known in some states as an “assumed name certificate.” Your DBA is an assumed or fictitious name under which you conduct business.

In many instances, a DBA is required before you can obtain a state or local business license. With a DBA, you can use your assumed business name when opening a business bank account, making payments to suppliers, receiving payments from customers, and entering legal contracts.

In some states, DBA registration is conducted with a state agency, such as the secretary of state. In other states, you register your assumed name at the county level, usually with the county clerk’s office.

You can call your county clerk’s office to find out how DBA registration is handled in your locality.

After you determine where to register your DBA, you must search through the agency’s database to confirm that the business name you want isn’t already taken. These databases may be on computer, paper or microfiche. Searching the databases is usually free.

When you confirm that the business name you want is available, your next step is to complete and submit a simple form. You’ll also have to pay a nominal fee for filing a DBA. The fee generally runs from \$10 to \$50. Filing your DBA gives you legal claim to the business name.

Accounting Software

Can you recommend an accounting software package for my micro-business? Do these packages contain spreadsheets that I might need to calculate some of my information?

You can choose from a number of accounting software packages that are useful for micro-businesses.

QuickBooks from Intuit is used by many small-business owners. It provides all of the financial and tax essentials, but doesn't offer much flexibility.

For more flexibility, Peachtree from Sage Software might be a better a choice. It's also simple to learn.

A-Systems Accounting Software from A-Systems Corporation is worth a look, too. It includes free multi-media training.

All of these products provide excellent accounting functions for micro-businesses. The packages contain information to assist you in recording transactions and preparing reports. They also feature budgeting capabilities that will be tied to the kind of financial information that you record in your general ledger.

Spreadsheets aren't generally part of these packages. You'll need to create those using a spreadsheet package such as Microsoft Excel. But, much of the information in the software packages can be downloaded into Excel.

If downloading data to a spreadsheet is important to you, make sure that the package you select offers this feature. Currently, Peachtree and QuickBooks provide the feature.

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Sample Questions & Answers

New Business Budget

Is it important to prepare a budget for my new micro-business? How do I create one?

Preparing a budget, particularly when starting a new business, isn't just a good idea; it's vital to your success.

Start by purchasing a small-business accounting software package. Use the chart of accounts provided by the software to see the types of expenses you can expect your business to incur.

You'll see expenses such as rent, utilities, insurance, taxes and dozens of other items. Based on your anticipated expenses, plug in dollar amounts for the fixed costs you expect during the next 12 months.

Next, identify customers and related sales volumes. Try to project your revenues for the next 12 months. This is not the time to put your dreams on paper. Be as realistic as you can about your anticipated revenues.

Some expenses, such as employee costs, shipping and raw materials, will vary based on your sales and revenue projections. Try to estimate these varying expenses in your budget as best you can.

Preparing a budget for a new business is largely guesswork. But within a short time, you'll have enough financial information to change from guesswork to realistic estimates.

Accounting Methods

What's the difference between accrual and cash accounting? Which should I use?

The accrual method requires that you record business activity when it occurs, not necessarily when money changes hands, as in the cash basis. Regardless of which accounting method you use, you must use it consistently.

Let's say that you provide Web site design. Using the cash method, you would record income only when you receive payment from your customers. Under the accrual method, you would record income when the obligation exists for your customer to pay you; that is, when the work is completed and you invoice your customer.

Or consider the example of purchasing office supplies. Under the accrual method, you would record the expense as soon as the supplies were received, even if you hadn't paid for them. Under the cash method, you would record the expense only when you write the check to pay for the supplies.

In most cases, both of these methods are acceptable for financial statements and for preparing your tax return.

But, if your business has inventory, you must use the accrual method for your taxes. If your business is a C corporation or a partnership that has a C corporation as a partner, you must use the accrual method. There are certain exceptions to this rule for small companies.

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Financial Ratios

I've heard about financial ratios, but I don't understand them. Can you explain?

Financial ratios are used to evaluate the financial fitness of your business. If you familiarize yourself with these ratios and monitor them regularly, you can better determine if your financial condition is improving or deteriorating.

Here are some of the more commonly used ratios and an explanation of the information they provide.

Profitability measures the returns on assets and equity. It tells you how efficiently your investment is earning income.

- Gross profit margin = $\text{gross profit} \div \text{sales}$
- Net profit margin = $\text{net income} \div \text{sales}$
- Return on Equity (ROE) = $\text{net income} \div \text{equity}$

Liquidity measures your ability to pay short-term obligations.

- Current ratio = $\text{Current assets} \div \text{current liabilities}$
- Quick ratio = $\text{Current assets less inventory} \div \text{current liabilities}$

Leverage measures your degree of indebtedness and your ability to meet long-term obligations.

- Debt ratio = $\text{total liabilities} \div \text{total assets}$
- Debt to equity ratio = $\text{long-term debt} \div \text{equity}$

Activity measures your efficiency in generating sales with your assets.

- Inventory turnover = $\text{cost of goods sold} \div \text{average inventory}$
- Fixed asset turnover = $\text{sales} \div \text{net fixed assets}$
- Total asset turnover = $\text{sales} \div \text{total assets}$

Micro-Loans

Are there loans available specifically for woman- or minority-owned businesses or for low-income entrepreneurs?

Yes, there are numerous organizations that serve those types of micro-business owners. Here are two worth checking out.

Count Me In offers micro-loans to women business owners nationwide. The organization takes into consideration your type of business, prior experience, credit history and how you intend to use the money. The loans range from \$500 up to \$10,000 and are available for startups or existing businesses. You can learn more at the Web site, www.countmein.org.

The Association for Enterprise Opportunity (AEO) is a funding and educational source for micro-business entrepreneurs with limited resources. It works with partners nationwide to provide micro-loans, training and access to markets. To find a lender in your area, go to www.microenterpriseworks.org. In the resource section, you can search for an AEO member near you.

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Investment Choices

How can I select investments that are best for me and my micro-business?

Before you select investments, you must identify your short-term and long-term needs, your appetite for financial risk, and your personal circumstances (age, children, financial state of your business, etc.). These factors are crucial to making smart investment decisions.

For instance, if you are risk averse, you might choose to invest in certificates of deposit that guarantee a return and are insured by the Federal Deposit Insurance Corporation (FDIC). If you want a long-term investment and are willing to take moderate financial risk, you could invest in stocks, bonds or mutual funds.

You can educate yourself about investment choices with books, newsletters and magazines or you can hire a professional to assist you. You can also do both.

If you hire a professional, strongly consider hiring someone who advises you for a fee rather than someone who makes his money by selling investments to you. Using a fee-only financial planner is the best way to be certain that your needs are the top priority. Find a planner you feel comfortable with and one who will freely discuss all fees involved.

If you choose the self-help way, you're in good company. Many do-it-yourself investors feel that they can give their investments the closest attention possible. The problem with this choice is the ongoing time commitment and the intimidation of facing all of the choices alone.

Buying A Business

I want to purchase a small business. How do I know how much it's worth?

Valuing a small business can be quite a challenge. Having an appraisal done will give you the most accurate estimate of the value. But, most small-business buyers find this process far too expensive.

Without an impartial appraisal, you'll need to investigate and evaluate the business.

Obtain tax returns, balance sheets and other financial documents. Also get copies of any ongoing loans, contracts or leases. Ask your tax or financial advisor to review these documents with you.

If the business owns significant assets such as equipment or buildings, determine the condition of those assets and how soon they will need to be replaced. This will give you a feel for the hard assets that are to be purchased.

Next evaluate the cash flow of the business. Look at sales, revenues, expenses and profits. Again, enlist the help of your financial advisor.

Finally, look at the intangible assets. This is known as "goodwill." Does the company have a stellar reputation in the community? Does it have a solid base of loyal customers?

All of these evaluations should give you an idea of the value of the assets that are being purchased and the value of the goodwill.

As you can see, there is no simple way to value a business. It's as much art as science.

Child Care Expenses

I'm self-employed and have a corporation. I work out of my home. If I pay someone to come to the house to watch my son during workdays, can I deduct the cost as a business expense?

Unfortunately, this is one area where being self-employed is less advantageous than being a corporate employee.

Employers generally pay for employee child care through a cafeteria benefit plan. The cafeteria plan must file an annual report with the IRS and can't provide more than 25 percent of the benefits to highly compensated or key employees.

Based on the information you provided, the cafeteria plan is not a possibility for you. However, a portion of your child care costs can be deducted through the Child Care Credit on your personal tax return

If you decide to hire a domestic worker to care for your child, you need to know the rules. Get IRS Publication 503, Child and Dependent Care Expenses. You can download the publication for free from the IRS Web site at www.irs.gov.

Buying A Home

Can I withdraw money from my retirement plan without penalty if I use the money to buy my first home?

Generally, any withdrawals that you make from a qualified retirement plan before you reach age 59 ½ are subject to a 10-percent penalty.

There are exceptions to the rule, but not for buying a first-time home.

However, depending on the type of retirement plan you have, you may be able to borrow money from your plan to purchase your first home. Your plan administrator should have written information that explains when you can borrow funds.

If your retirement plan allows borrowing for a home purchase, be sure to talk to your tax or financial advisor before you make a final decision.

Get Your Questions Answered

How To Ask ABCs of Finance Your Questions



Go to the NASE Web site at www.NASE.org. In the NASE Quick Link box, enter "ABCs."

Or you can:
Go to the NASE Web site at www.NASE.org. On the Business Resources tab drop down menu, click "ABCs."

Use ABCs of Finance as an NASE Member or guest.

Fill in your contact information and ask your question.

You'll receive an e-mail when your reply from ABCs of Finance is ready. Follow the link in the e-mail to your secure online answer.

It's that easy!

Get More Answers From The NASE

Tax Advice From TaxTalk

Get confidential answers to your tax questions from certified public accountants who understand micro-businesses.

- **How do I take the home office deduction?**
- **Do I have to pay estimated taxes?**
- **Can I deduct travel costs as a business expense?**
- **What tax forms do I file as a sole proprietor?**
- **Do I need to pay self-employment taxes?**

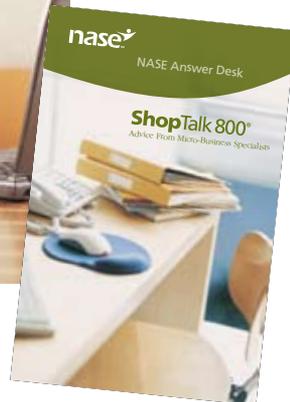
With an NASE Membership, you have unlimited access to the TaxTalk CPAs at no additional cost. Simply ask your questions and receive answers via e-mail within one business day.

Business Advice From ShopTalk 800

The professional consultants at ShopTalk 800 offer straightforward answers to the most perplexing micro-business questions.

- **Should I incorporate?**
- **How do I choose a retirement plan?**
- **Can I get a grant or loan for my business?**
- **What's a low-cost way to market my business?**
- **How do I pay myself?**

NASE Members can ask specific questions and get confidential answers via e-mail or telephone. Best of all, an NASE Membership gives you unlimited access to the ShopTalk 800 consultants at no additional cost.



Estate Planning Advice From EstateTalk

Get online advice about wills, trusts, guardianships, inheritance taxes and more from a licensed attorney.

- **Why do I need a will?**
- **How can I avoid estate taxes?**
- **Can I leave my business to my children?**
- **Who should I name as executor of my will?**
- **What is a living trust?**

Protect your family's future by getting answers to important estate planning questions. An NASE Membership gives you unlimited access to an EstateTalk attorney at no additional cost.



Five Reasons You Should Join The NASE

The NASE delivers the tools, benefits and resources you need to succeed as an entrepreneur.

- 1. Unlimited access to professional consultants who can answer your business questions, at no additional cost**
- 2. Savings on technology, payroll services, e-commerce solutions and more to help your micro-business grow**
- 3. Access to affordable health insurance and life insurance to protect you and your family**
- 4. Roadside assistance, identity theft protection and home office coverage to give you a safety net when you need it most**
- 5. Emergency room and hospital confinement benefits to assist you if the unexpected happens**

Become part of an association that serves more than 200,000 members nationwide. Make a smart choice for you and your micro-business.



**National Association
for the Self-Employed**

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