

## CERTIFIED BUSINESS BUILDING ONLINE COURSE - SESSION 9:

- **Bookkeeping**

This is a subject that a lot of business people try to avoid. Bookkeeping is almost as important as your actual business service is. Without proper bookkeeping you are sunk.



If you have been in business for a while you may already have an accountant. If you have an accountant that helps you to itemize then you are on the right track. There are a lot of business people that don't know how to keep track of their expenses in a way that will actually save them money and help them.

If you are just starting out in business and don't have a business accountant yet, or are in business and have an accountant that you really don't think is serving you in your best interest, I have a good accountant that I can recommend to you.

Barbara LaVolpa has been my accountant for 20+ years. She is conservative. She helped me years ago when I was audited 3 years in a row. The first year I had to go to the audit which was a waste of the IRS's time and a waste of my time. It took all day long and the IRS representative went through every single receipt I had. But because I kept receipts the way I was taught by Barbara, they threw out the case. The next year I was audited again and this time I just sent my receipts to Barbara and she went to the audit. Because they saw how I kept my receipts they threw out the case. The third audit was automatically thrown out and I have not been audited since.

If you need someone professional who knows what to do and who is conservative I suggest you get in touch with Barbara. Her email is: [bjlavolpa@att.net](mailto:bjlavolpa@att.net) and her web site is <http://www.taxlady1.com/index.html>. Let her know that you found out about her through JLS and she will tell you about her services and her fees. She's been extremely helpful with business accounting as well as with personal finances and decision making. I highly recommend her.

The one thing I do not recommend is that you try to do your business taxes on your own. I can't tell you how many people I've helped clean up their business taxes because they have not had a professional business accountant to work with and they thought they could do it all by themselves. There are so many laws that change every year that a professional accountant needs to learn. They know the ins and outs of business accounting and know how to keep you out of audit danger.

### **What Types of Expenses Can You Claim in a Business?**

You can claim all money you spend for your business as a business expense. The following are common business expenses:

- **ADVERTISING** –Business cards, flyers, display and classified ads in newspapers, radios & TV ads, etc.
- **BANK CHARGES** -Service fees and checking costs, including check imprinting, overdraft protection, and any costs and penalties from late charges and insufficient funds on Business Account

- **DUES & PUBLICATIONS** -Newspaper and magazine subscriptions and purchases from newsstands, fees of business service clubs, professional associations, and distributorship fees.
- **FREIGHT** -Handling charges, cost of product shipments sent and received, including gifts and special carrier delivery such as UPS, Parcel Post, and Federal Express. (If not included in cost of goods sold.)
- **INSURANCE** (non-home) -Professional liability insurance, computer insurance, insurance on inventory. Health Insurance.
- **INSURANCE** -Business portion of homeowner's insurance for casualty, fire, theft, property damage, and liability. Also, Renter's Insurance. (Subject to gross income limitation)
- **INTEREST** -Business portion of home mortgage interest, interest on business loans, installment payments of business furniture, equipment and credit card interest charges. (Home mortgage interest subject to gross income limitation)
- **LAUNDRY & DRY CLEANING** -Cost of preparing Business portion of home and furnishings for meetings, including draperies, carpets, and cleaning products.
- **LEGAL AND PROFESSIONAL SERVICES** -Payment for business services of all kinds including attorneys, accountants, business managers, and tax service.
- **OFFICE SUPPLIES & POSTAGE** -Stationery, pencils, pens, paper clips, envelopes, file folders, erasers, product order forms, bookkeeping and art supplies. Small equipment items such as pocket calculators, staplers, paper punches, diaries, ledgers, tablets. Stamps for all correspondence, newsletters, IRS audits, business Christmas cards, bills, and all costs of certified, registered and insured mail.
- **RENT** (non-home) -Meeting rooms, outside-the-home office space, storage, and all lease costs.
- **RENT** -Business portion of home rent. (Subject to gross income limitations)
- **REPAIRS** -Corrective maintenance to business property of equipment. Not home maintenance/repair.
- **SUPPLIES** -Groceries for home meetings or entertainment, refreshments, coffeemaker, cups, napkins, toilet paper, linen, interior decorating items, special lights.
- **TAXES & LICENSES** -Business license, excise resale tax. This does not include taxes in products purchased or real estate taxes.
- **TRAVEL** -Traveling costs such as plane, taxi and bus fare. Rental cars, meals (50%) and lodging, tour guide fees and special arrangements while away from home. (Business portion only)

- **MEALS & ENTERTAINMENT** –Business meals (50%). Extra activities such as catering, special refreshments for birthday or anniversary parties, ballgames, sporting events, plays, movies, etc., used in conjunction with business clients. (Keep all receipts. Document with 8 elements of substantiation.)
- **UTILITIES** -Business portion of natural gas and electricity, heating oil, water, and sanitation. (Subject to gross income limitation).
- **TELEPHONE** – All business telephone costs, including service charges, message units, long-distance calls and pay phones. (Log in Daily Diary) Answering service. If separate telephone is installed for business then 100%, otherwise on second phone line only.
- **WAGES** -Payments for services/labor performed. (Could be your child for doing warehouse or office work.) Keep a time card and pay by check.
- **CAR & TRUCK EXPENSE** - Expense for business purposes: lease, insurance, tax, license, maintenance, gas, oil, wash, wax, repairs, replacements, parking and toll fees. (To claim, keep all receipts and keep track of mileage, daily.)
- **ANSWERING SERVICE** - Payment for taking phone messages. Outside service or someone in home. Pay by check.
- **CONTINUING EDUCATION AND MATERIALS** - (School of higher learning, must be accredited or list under training.) All business related courses.
- **CONVENTIONS AND SEMINARS** - Costs of attending or participating in meetings and rallies.
- **DELIVERY** - Any costs incurred delivering product or service, including UPS and other courier service.
- **DEMONSTRATIONS & COMPARISONS** - Products used for demonstration purposes. Portion of groceries used for business meetings. Self-use of products (first time only)
- **GIFTS** - Items given to any prospect, customer or associate, up to \$25.00 annually per person. Documentation necessary. If over \$25, list under incentive or awards.
- **INCENTIVES & AWARDS** – If over \$600 you'll need a Form 1099. Pins, plaques, applicable product discounts, rewards, costs of contests and prizes - anything expended to generate sales, including raffles, drawings and door prizes.
- **MARKET DEVELOPMENT** - Meals and entertainment outside the home. Closely related to sales promotion. (Document with 8 Elements of Substantiation.)
- **MAINTENANCE** - Upkeep of business property (other than vehicles), such as your office, meeting rooms, etc.
- **OFFICE DECOR** - Paintings, pictures, flowers, etc. (Furniture is listed separately.)
- **PEST CONTROL** - Cost of professional service or products purchased to get rid of pests, such as "Raid", rat traps, etc.

- **PRESENTATION/PROPS** - All materials used in presentation. (Slide projector, cost of making slides, blackboards, easels, etc.)
- **SALES PROMOTION** - Business-related meals, recreation, and entertainment incurred outside the home on behalf of clients and yourself. (Document with 8 Elements of Substantiation.)
- **QUALITY CONTROL** - Costs incurred to assure constant quality.
- **REGISTRATION FEES** - All fees incurred in trade shows, licensing, and distributor fees.
- **RESEARCH** - Product demonstration and display items, all "Brand X" products, new products for promotion, and samples.
- **ROOM & BOARD** - Includes costs incurred while traveling.
- **SECURITY** - Guard dog care and feeding, alarms (smoke detectors and fire alarms), padlocks, garage door openers, guns, mace and electronic sensors (including installation and repair). Business portion only.
- **TRAINING** - Costs incurred in printing materials, rental of rooms for training meetings, training tapes and supplies, etc.
- **WAREHOUSE** - Storage costs away from home, such as lockers, garages, dock fees, hanger space, etc.
- **PRINTING** - Reproduction of newsletters, fliers, brochures, business cards, tickets and all copier costs.
- **COMMISSIONS** - Bonuses paid to distributors.
- **SERVICES** - Amounts paid to others to work in your business. If over \$600, you must issue Form 1099.
- **MAJOR EQUIPMENT PURCHASES** – Itemize separately. List date of purchase and cost.

### **How Do You Keep Track of All These Expenses?**

First of all you need to list the business you run. So that would be "Business #1 or B1". Then you would need to list your vendors as businesses which you would list as B2, B3, B4, B5, and so on. As an example, we deal with Nature's Sunshine, Iris Imaging, Iris Supplies, and several other vendors. Each vendor needs to have a number assigned to them for income and expenses. Here's an example of how you can do this:

- B1 Joyful Living Services
- B2 Nature's Sunshine
- B3 Iris Imaging
- B4 Iris Supplies
- B5 Grand Medicine
- B6 Bernard Jensen International

All your income and expenses would need to be listed under these vendors. So if you run an errand to the post office to pick up some Nature's Sunshine orders that you placed last week you would be able to write off the gas and mileage to go to and from the post office to pick up those orders. Of course the orders themselves that you paid for would be a write off. The profit you make on the orders if you sell the products at retail and purchase them at wholesale would be considered income. Everything relating to Nature's Sunshine would need to be listed under B2 according to the list above. This leads us to the next item:

### **Labeling Receipts**

It's very important that you label each and every receipt when you bring them home or to your office. Each receipt needs to have a number on them which specifies the business number (B1, B2, B3, etc.) and the expense number (1, 2, 3, 4, 5, 6, 7 for the expenses listed above). That way if you get audited it will keep you out of trouble. Now that it's October it's going to be a big job to label all your receipts and I suggest you do it right away. Also make files for each company and each expense so you can keep them straight and if you need to find a receipt you can very easily go to that file and find it. It's not good to keep receipts in a pile or in an envelope. I helped someone go through 2 large grocery bags of receipts for the entire year for a preschool. It was such a mess and took me hours to sort everything out. If she had just made files and sorted everything in the first place she would have known exactly what she spent and would not have had to pay me to sort it all out and help her with her taxes.

### **8 Elements of Substantiation**

DATE?	(Date event occurred)
TIME?	(Time event occurred)
PLACE?	(Name of the Place that the event occurred)
PERSON?	(Names of people involved at event.)
BUSINESS RELATIONSHIP?	(Business relationship of people involved.)
BUSINESS REASON?	(Business purpose of event)
AMOUNT?	(Cost of event)
RECEIPT?	(Keep all receipts, especially ones over \$25.00)

### **How to Keep Track of Income and Expenses**

Let's say you make a call to Grand Medicine to find out about a new product that a client wants to order. You find out what you need to find out and then you call your client in New York and speak to them on the telephone for 3 hours. The client wants to order this product, so you charge them \$150 for the product plus \$20 shipping and handling and your process this transaction through your credit card machine. The product only costs \$60 and shipping is only \$5 so you made \$70 profit on the product itself plus \$15 for shipping and handling. You order the product for your client with your credit card and you have it delivered directly to your client.

### **How Do You Claim This On Your Taxes?**

- First of all you can claim an expense of \$60 for B5 Grand Medicine for the cost of the product.
- Next you can claim an expense of \$5 for shipping fees.
- Next you can claim the amount the phone company charges you for the 3-hour phone call.
- Lastly you can claim the bank fee that the bank charges you for the transaction.

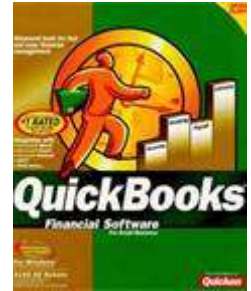
### **Next You Have To Claim Your Income**

- \$70 income for B5 Grand Medicine for your profit on the product.
- \$15 income for profit on shipping and handling fees.
- Your total income on this order for tax purposes is \$85 profit.

This profit does not include the bank and telephone fees that you list separately once you find out what they are.

### **Accounting Software**

Every transaction needs to be kept track of in this way. You can do this as a small business with Quick Books. You can enter transactions every day, weekly, monthly, or whenever it's convenient for you. This will help you keep track of every cent you make and spend.



### **Lesson 9 Assignment**

If you have an accountant and are happy with the service you are receiving you don't have to do anything other than let us know that you are being taken care of.

If you do not have an accountant and you do not itemize your income and expenses please create a list of all your vendors, income and expenses and number them as we have suggested to you. Create your lists and e-mail them to us so we can review them to be sure you are covered with your taxes. We recommend you find a suitable accountant. Your accountant does not need to have an office near you. She/he can be out of the state as long as they know the accounting laws for your state.

Make sure that your receipts all have codes on them. They all need to have the **8 Elements of Substantiation**. Please be sure your receipts are not in a bag but are sorted in a way that you can pull them out at the end of the year easily to complete your taxes.

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Fax: \_\_\_\_\_

E-mail: \_\_\_\_\_

Web: \_\_\_\_\_