



BUSINESS PURPOSE CAPITAL STRUCTURE NEXUS ACCOUNTING SYSTEM PLANNING

## J&L ACCOUNTING SERVICES, INC

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### Initial Interview Process

- (1) Business Purpose
- (2) Ownership/Capital Structure
- (3) Business Nexus
- (4) Accounting System
- (5) Financial and Tax Planning

#### (1) ***BUSINESS PURPOSE***

<http://www.census.gov/eos/www/naics/>

Sector #	Description
<a href="#">11</a>	Agriculture, Forestry, Fishing and Hunting
<a href="#">21</a>	Mining, Quarrying, and Oil and Gas Extraction
<a href="#">22</a>	<a href="#">Utilities</a>
23	<a href="#">Construction</a>
31-33	<a href="#">Manufacturing</a>
42	<a href="#">Wholesale Trade</a>
44-45	<a href="#">Retail Trade</a>
48-49	Transportation and Warehousing
51	Information
52	Finance and Insurance
53	Real Estate and Rental and Leasing
54	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises
56	<a href="#">Administrative and Support and Waste Management and Remediation Services</a>
61	Educational Services
62	<a href="#">Health Care and Social Assistance</a>
71	Arts, Entertainment, and Recreation
72	Accommodation and Food Services
81	Other Services (except Public Administration)
92	<a href="#">Public Administration</a>



## (2) Ownership/Capital Structure

*(Courtesy of the U.S. Small Business Administration.)*

<http://www.sbaonline.sba.gov/>

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so consult with an accountant and attorney to help you select the form of ownership that is right for you. In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of structure you are willing to deal with.
- The business' vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to reinvest earnings into the business.
- Your need for access to cash out of the business for yourself.

### **Sole Proprietorships**

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibilities for running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages of a Sole Proprietorship:

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship:

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.



- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially deductible as an adjustment to income).

Federal Tax Forms for Sole Proprietorship:  
(only a partial list and some may not apply)

- Form 1040: Individual Income Tax Return
- Schedule C: Profit or Loss from Business (or Schedule C-EZ)
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Form 4562: Depreciation and Amortization
- Form 8829: Expenses for Business Use of your Home
- Employment Tax Forms

## Partnerships

In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, and what steps will be taken to dissolve the partnership when needed. Yes, it's hard to think about a breakup when the business is just getting started, but many partnerships split up at crisis times, and unless there is a defined process, there will be even greater problems. They also must decide up-front how much time and capital each will contribute, etc.

Advantages of a Partnership:

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages of a Partnership:

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.



- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Types of Partnerships that should be considered:

1. General Partnership

Partners divide responsibility for management and liability as well as the shares of profit or loss according to their internal agreement. Equal shares are assumed unless there is a written agreement that states differently.

2. Limited Partnership and Partnership with limited liability

Limited means that most of the partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions, which generally encourages investors for short-term projects or for investing in capital assets. This form of ownership is not often used for operating retail or service businesses. Forming a limited partnership is more complex and formal than that of a general partnership.

3. Joint Venture

Acts like a general partnership, but is clearly for a limited period of time or a single project. If the partners in a joint venture repeat the activity, they will be recognized as an ongoing partnership and will have to file as such as well as distribute accumulated partnership assets upon dissolution of the entity.

Federal Tax Forms for Partnerships:

(only a partial list and some may not apply)

- Form 1065: Partnership Return of Income
- Form 1065 K-1: Partner's Share of Income, Credit, Deductions
- Form 4562: Depreciation
- Form 1040: Individual Income Tax Return
- Schedule E: Supplemental Income and Loss
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Employment Tax Forms

## Corporations

A corporation chartered by the state in which it is headquartered is considered by law to be a unique entity, separate and apart from those who own it. A corporation can be taxed, it can be sued, and it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.



Advantages of a Corporation:

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
- Can elect S corporation status if certain requirements are met. This election enables company to be taxed similar to a partnership.

Disadvantages of a Corporation:

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have more paperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductible from business income; thus it can be taxed twice.

Federal Tax Forms for Regular or "C" Corporations:

(only a partial list and some may not apply)

- Form 1120 or 1120-A: Corporation Income Tax Return
- Form 1120-W Estimated Tax for Corporation
- Form 8109-B Deposit Coupon
- Form 4625 Depreciation
- Employment Tax Forms
- Other forms as needed for capital gains, sale of assets, alternative minimum tax, etc.

**Subchapter S Corporations**

A tax election only; this election enables the shareholder to treat the earnings and profits as distributions and have them pass through directly to their personal tax return. The catch here is that the shareholder, if working for the company, and if there is a profit, must pay him/herself wages, and must meet standards of "reasonable compensation". This can vary by geographical region as well as occupation, but the basic rule is to pay yourself what you would have to pay someone to do your job, as long as there is enough profit. If you do not do this, the IRS can reclassify all of the earnings and profit as wages, and you will be liable for all of the payroll taxes on the total amount.

Federal Tax Forms for Subchapter S Corporations:

(only a partial list and some may not apply)



- Form 1120S: Income Tax Return for S Corporation
- 1120S K-1: Shareholder's Share of Income, Credit, Deductions
- Form 4625 Depreciation
- Employment Tax Forms
- Form 1040: Individual Income Tax Return
- Schedule E: Supplemental Income and Loss
- Schedule SE: Self-Employment Tax
- Form 1040-ES: Estimated Tax for Individuals
- Other forms as needed for capital gains, sale of assets, alternative minimum tax, etc.

### Limited Liability Company (LLC)

The LLC is a relatively new type of hybrid business structure that is now permissible in most states. It is designed to provide the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. Formation is more complex and formal than that of a general partnership.

The owners are members, and the duration of the LLC is usually determined when the organization papers are filed. The time limit can be continued, if desired, by a vote of the members at the time of expiration. LLCs must not have more than two of the four characteristics that define corporations: Limited liability to the extent of assets, continuity of life, centralization of management, and free transferability of ownership interests.

Federal Tax Forms for LLC:

Taxed as partnership in most cases; corporation forms must be used if there are more than 2 of the 4 corporate characteristics, as described above.

In summary, deciding the form of ownership that best suits your business venture should be given careful consideration. Use your key advisers to assist you in the process.

### (3) *BUSINESS NEXUS*

#### Doing Business In:

- Virginia <http://www.virginia.gov/business>
- Prince William County <http://www.pwcgov.org/business/Pages/default.aspx>
- Fairfax County <http://www.fairfaxcounty.gov/business/>
- Loudoun county <http://www.loudoun.gov/index.aspx?nid=933>
- District of Columbia <http://dmped.dc.gov/page/doing-business-in-dc>
- Maryland <http://www.choosemaryland.org/startbusiness/Pages/default.aspx>



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(4) *ACCOUNTING SYSTEM*

**10 Reasons Why You Should Use QuickBooks**

QuickBooks is the ideal business accounting software for small to mid-sized business owners. Here's 10 reasons why you should be using QuickBooks.

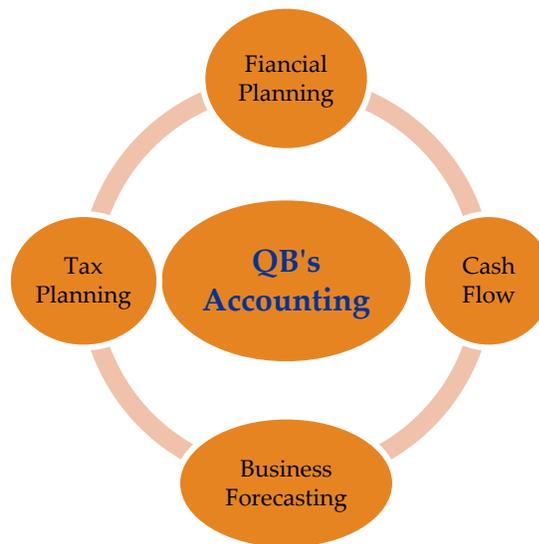
- (1) You save time on bookkeeping and paperwork because many of simple bookkeeping tasks are handled automatically making it easier to run your business.
- (2) You can easily generate the reports with the information you need, so you always know where your business stands. You instantly know whether you're making money and whether your business is healthy.
- (3) You save money because QuickBooks is so affordable. You can use it to run a \$5 million or a \$25 million business for a few hundred bucks. PC accounting software is truly one of the great bargains in business.
- (4) Your business can grow with QuickBooks. QuickBooks will help you design a business plan to use when trying to secure a small business loan or line of credit or to plan for the future. QuickBooks will create a projected balance sheet, profit and loss statement and statement of cash flows in the format recommended by the U.S. Small Business Administration.
- (5) You can customize QuickBooks to work the way you want. QuickBooks is specifically designed to be flexible and adaptable to a wide range of small businesses. To broaden its appeal, QuickBooks has recently added customized accounting packages for Contractors, Retailers, Health Care Professionals, and Non-Profit organizations.
- (6) You can rest assured knowing that QuickBooks is a stable, reliable and proven product. Hundreds of thousands of small businesses throughout the world have chosen QuickBooks as their accounting software. You can't go wrong with a software program with such an extensive installed user base.
- (7) You save typing time and errors by sharing data between QuickBooks and over 100 business applications. You can even share data with popular programs, such as Microsoft Excel, Word, Outlook and ACT.
- (8) You will get paid faster with QuickBooks online payments. E-mail an invoice or statement and with QuickBooks Online Billing, your customer can easily pay you with a credit card or bank account transfer. No more waiting for the check in the mail!
- (9) You can easily accept Credit Cards. With QuickBooks Merchant Account Service, you can accept credit cards with ease. QuickBooks Merchant Account Service is the only credit card acceptance service integrated with QuickBooks software, which means you don't have to enter



the same data twice. No additional software or hardware is required. Your customers can use Visa, MasterCard, or American Express.

- (10) You can pay your bills and bank online. Setup your current bank account in QuickBooks, and you're ready to pay your bills without licking envelopes, sticking stamps, or printing paper checks. Just write checks in QuickBooks as you normally would, then click a button and your participating bank does the rest! Pay anyone in the U.S. from your credit card companies to your pizza service. Online Banking also lets you download your monthly statement from your participating bank directly into QuickBooks for easier reconciliation.

(5) **FINANCIAL AND TAX PLANNING**



Having an accounting software package is not the end-result in maintaining the legendary “**good books**”. Accurate, consistent and reliable accounting procedures will give you and your CPA a vital basis for your Financial Data. This will allow you to manage your business on a day-to-day basis and your long-term objects. A CPA should be used to offer advice based on the information within your accounting software on topics such as profit improvement, tax planning, cash flow etc. and they will also act as a buffer between you and the taxman.

- ② **Business Forecasting.** (1) Are your *Financial Ratios* in line with your type of business operation; (2) are you in compliance with all Federal and State(s) compliance requirements and (3) do you *want/need* to be in the back office to manage the end results or working with customers/clients to achieve your objectives?
- ② **Cash Flow.** (1) Can your bottom line sustain business operations; (2) will the use of short or long term business credit affect your personal credit and (3) how much can I “withdraw”?
- ② **Tax Planning.** (1) Are you doing tax planning – as your taxes are being processed; (2) what type of *Retirement Plan* is most suitable for you and (3) is there such a thing as a “successful audit” by the IRS, State/County or Local Agencies?