

## Client Document 2 - Common Questions

### **How do we know that we have all your business transactions?**

We assume that all of your business transactions are found on your business bank statement. It is therefore important that you follow these two rules:

- All business financial activities (deposits & charges) are ran through the business bank account. You should not make a business purchase with a personal check, because we'll never see it.
- Only business transactions should be ran through the business bank account. You should not make a personal purchase with a business check. This way, when we review your business bank statement, we know all the transactions on it are for business purposes.

If you accidentally use your business bank account for a personal purchase, or vice versa, please let us know so we can make the necessary adjustments.

### **What is it that we do each month in QBO?**

Each month we perform a bank reconciliation. The word "reconcile" means to make one thing the same as another. In this case, we're making your accounting books in QBO the same as your business bank statement. This is done by adding the previous month's transactions found on the bank statement into QBO. We then classify these transactions to the appropriate financial account and make journal entries where needed. Lastly, we run comparison reports to the previous period to look for inconsistencies. Once we're satisfied that the accounting records and financial statements looks good, we notify you that your financial statements (the Balance Sheet and P&L) are ready.

### **How do I take out money from my business for personal reasons?**

This is called an owner's draw. There are a few things to remember about taking an owner's draw:

- Don't take out more than your year-to-date Net Income (profit), unless we've discussed this with you. You can find this number at the bottom of both the Balance Sheet and the P&L.
- Make draws in even numbers. If you need \$873.65 to pay a personal bill, withdraw \$1,000. This helps us identify it as an owner's draw, because most charges aren't even numbers.
- Once we put you on payroll, we'll consult with you on how much to withdraw each month (Owner's draws are separate from payroll).
- One large monthly draw is preferable to several smaller draws.
- Unless we have you on a set monthly withdrawal amount, it's a good idea to email us each month with a list of all owner's draws.

### **How do I keep track of my business miles?**

There is a free app that tracks your mileage (disregard if you're using actual expenses). Here's the link: <https://www.mileiq.com/>. Please send us your login credentials so we can view your monthly mileage.

### **What is the CPA's role in determining if an item is a legitimate business expense?**

If the question doesn't have a clear-cut answer we'll give you our advice, let you choose, and then make notes. You are welcome to disregard our advice, however, if you're ever audited and the IRS challenges you on the accounting for this item, we will stay silent. The IRS may take our silence as a tacit acknowledgment that we agree with them on their challenge.

### **I don't understand the Profit & Loss Statement and Balance Sheet.**

Here's a video of Robert explaining both reports: <https://www.youtube.com/watch?v=X7qqOOz48xg>.

Here's him explaining the Balance Sheet in greater detail:

<https://www.youtube.com/watch?v=CCqigEldtXI>.

### **Do I have to keep receipts?**

You should keep every business receipt, especially if it's over \$75. You can take a picture of it easily with the QBO mobile app so you also have a digital copy of it. I make sure when I'm making a business purchase that there's a paper trail so I often use a debit card. If I lose the receipt, the transaction is still listed on my bank statement (I keep an electronic copy of your bank statements). The IRS wants to know the following regarding business expenses, and a bank statement shows most of what they want:

- Amount, Date, and Place: All three are shown on the bank statement
- Purpose – often implied on bank stmt, i.e. a charge at Office Max is probably for office supplies

If an expense seems reasonable and you can show the IRS the charge on a bank statement, they may allow it, however, they don't have to without a receipt. The IRS does not require receipts for expenses less than \$75 that were not for lodging. You need to keep business receipts for 3 years after the tax return filing due date. To make that simpler to keep track of, just keep business receipts for 4 years.

### **I lost your contact information**

No problem. Find an email from us and click on the 3 dots underneath our email signature. This opens our contact information. It also has a link to schedule appointments with us.

### **Do I use my personal bank account or my business bank account to make payments to the IRS?**

You will make IRS payments from your personal account because your business is a flow-through entity (all profits flow through to the owner). Therefore, the owner owes all the income tax, not the business.

### **Why form a LLC or Corporation?**

There are two main reasons for forming a LLC or Corporation:

- Forming a separate legal entity gives business owners limited liability in the event of (1) a lawsuit against the business, or (2) company debt delinquency. The only thing the owner can lose is their original investment.
- LLC's and Corporations can elect to be taxed as an S Corporation. This allows us to better manage Self Employment Tax.

### **What is the Corporate Veil?**

When we filed Articles of Organization or Incorporation, your business became a separate legal entity from yourself. It is often said that there now exists a corporate veil separating the business owner from the business. It's important that you always treat the business as a separate legal entity, or a judge can "pierce the corporate veil" and say that the company and the owner are one and the same. To prevent this from happening, ensure that you do the following:

- Do not use the company bank account to purchase personal items, and vice versa.
- Keep financial records detailing your business transactions.
- Ensure your marketing materials state the business name, followed by the appropriate legal extension "LLC, Inc, Corp, etc."