

BUSINESS VALUATIONS - WHY ACCREDITATION IS IMPORTANT

By Thomas O. Marien, CPA, MBA, CVA

For many years the process to determine the value of a closely held business was more of an “art” than a “science”. Valuers utilized “rule of thumb” calculations and “instinct” to determine a value for a business. The result was a wide range of values based on the same business performance.

In recent years there has been great advancement in business valuation theories and techniques. There is much less variation in the business values determined by valuers who utilize these new techniques. As a result more reliance can be placed on the value placed on the business.

To be sure that the business valuator is up to date on the latest business valuation techniques it is important to learn if the valuator is accredited. Unlike CPA there is no single accreditation for business valuers. Common accreditations in business and the accrediting organization are as follows:

CVA – Certified Valuation Analyst – The National Association of Certified Valuation Analysts

ASA – Accredited Senior Appraiser – American Society of Appraisers

IBA – Institute of Business Appraisers

ABV – Accreditation in Business Valuation – American Institute of Certified Public Accountants

All of these organizations promote the latest in business valuation techniques. To earn the accreditation all organizations require a written examination and the review of a valuation report. There continue to be improvements in business valuation techniques. An accredited business valuator is required to keep abreast of these improvements.

GOVERNMENTS HAVE IDENTITY CRISIS NO MORE!

By Marcia L. Marien, CPA

Many times we have received telephone calls from governmental clients who are being asked for a “determination” or tax-exempt letter. This is a letter that not-for-profit organizations receive from the IRS to verify their nonprofit status. Up until now, governmental entities have had to improvise and have provided copies of their audit reports, state statutes or internally prepared explanatory letters.

Well not anymore! As a special service to government entities, the IRS will issue a “government affirmation letter” free of charge. You may request this letter by calling the IRS at 1-877-829-5500. This letter describes government entity exemption from Federal income tax and citing applicable Internal Revenue Code sections pertaining to deductible contributions and income exclusion. The IRS says most organizations and individuals will accept the government affirmation letter as the substantiation they need.

ENRON, WORLD COM AND YOU!

By Marcia L. Marien, CPA

Although the names of Enron and Worldcom make us think about fraud, auditors have been working for years on new standards to enhance auditor performance with respect to fraud culminating in Statement on Auditing Standards (SAS) number 99. SAS 99 will increase our audit procedures and professional skepticism. This will get us out of the finance office and into other offices to interview your employees, management and board members. If your board has not already had a PowerPoint presentation on SAS 99, contact us. We'll provide the entertainment. You bring the popcorn.

KEEP A TIGHT REIN ON YOUR RECEIVABLES

By Wendy J. Richardson, CPA, MBA

Why? Your cash flow is dependent upon it. A sale is great but if you can't turn the sale into cash in a reasonable amount of time then the costs start mounting. One cost is the short-term borrowing that you are required to take out to cover the time between billing and collection and the other cost is your employee time spent trying to collect on the account.

Start by developing an accurate reporting process. Know when the last bill was sent, the date the last payment was received, the current balance and the days delinquent. Then use that information to contact the customer. Use your credit and collection policy for guidance.

A good credit and collection policy should include getting a credit report on your potential customer. Put potential customers under a microscope before you accept a job or grant them credit. Sometimes the wisest course of action is to say no to the job or no to the sale, as hard as that may be. The preventative measures you take now can head off potential future problems. If you give the impression that the sale is more important than the payment then you are misleading your customer and you are setting yourself up for a collection failure.

Most businesses have outstanding receivables. However, the number of outstanding receivables can be managed so that they do not end up adversely affecting your operations and profits. Have a plan in place for collecting and monitoring; have a

clear policy; check your customer's creditworthiness; send a credit approval notice that indicates the credit limit and follow through.

QuickBooks – Tip of the Quarter

How cool is this? Wherever you are that has a date field – simply tab to the date field – it will be highlighted in blue, then you can use the + and – function keys to advance the date forward or backward. The date will change by one day for each time you press the function key.

MANAGING ACCOUNTS RECEIVABLE IN QUICKBOOKS

By Peggy Dougherty, CQA

QuickBooks will handle Accounts Receivable (A/R) very efficiently if it is used correctly. A/R should be used if you have customers that do not pay you directly or in full when goods and/or services are rendered, in other words, your customer owes you money. If your customer pays you when the job is complete, a sales receipt might be a better choice to use as it both books the sale and receives the money at the same time.

The A/R feature in QuickBooks can be used even if you are a cash basis tax return filer. The A/R should be used to keep track of who owes you money and how long they have owed you this money. In order

to ensure that your A/R listing is accurate, it should be reviewed at least monthly. To do this you would print an A/R Aging Summary (available under Customers & Receivables from the Report Menu). Look for customers with a zero balance, customers that have payments unapplied (a negative amount shows in one or more of the columns on the aging summary) and customers with a negative balance.

How to correct these issues? Customers with a zero balance – Go to "Receive Payments" - type in the customer name with the zero balance. It should show that they have a balance in the upper left corner, but down in the lower right corner there should be unused credits to apply. Simply highlight any invoice that is showing in the "applied to" section and then click on set credits. Check off any credits that are in the window that appears. Then click on "Done". This will bring you back to the Receive Payment window. Click either save and new if you have more to do or save and close if you are finished.

I have run out of my allotted space so... More in the next newsletter or if you are waiting with baited breath, just give me a call and I can go over it with you.

Mileage Rates for 2004

| | |
|------------------|---------------|
| Business Miles | .375 per mile |
| Charitable Miles | .14 per mile |
| Moving Miles | .14 per mile |
| Medical Miles | .14 per mile |

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LEASE VS. PURCHASE?

By Dianna McNeish, CPA

Many clients ask "Should I lease or purchase my next automobile?" As with most tax questions, the answer is "It depends". Each situation has to be analyzed separately. If we were to calculate the better alternative we would need to know all of the details of each deal. The purchase price, down payment, loan/lease term, interest rate, lease mileage limits, etc., are all required to run an accurate comparison. As you can see it is not a simple yes or no answer.

For example, if the vehicle being acquired is to be used for business purposes only and will be completely deducted on your business tax return the lease option might be the way to go. Since lease payments are fully deductible and not limited by depreciation limits on luxury automobiles the annual tax benefit might be greater with the lease option.

Alternatively, if your vehicle weighs over 6,000 pounds it will not be subject to the depreciation limitations. Assuming 100% business use, the entire vehicle could be written off in the year of acquisition. In this scenario purchasing the vehicle will always outweigh leasing.

If you replace your vehicle every two or three years and always have a car payment in your monthly budget the lease option might work better for you. I wouldn't necessarily say this makes the most financial sense but for some it allows the owner to drive a vehicle that they might not otherwise be able to purchase.

For many people the annual mileage limitations put on vehicle leases might prohibit a lease from being the best alternative. You really have to consider your annual mileage requirements. A lot of leases only allow for 12,000 to 15,000 miles per year and for most people these limits might not be realistic.

As you can see, each situation warrants special attention. Please contact our office so we can help you with this decision.

The hardest thing in the world to understand is the income tax.

Albert Einstein

PROPERTY TAX FORM - NO ORGANIZATION IS EXEMPT!

By Marcia L. Marien, CPA

Commercial businesses must file their annual "Declaration of Personal Property" as of October 1st each year. This form is used as a basis for determining how much personal property taxes will be assessed on your business. If you were thinking of purchasing a large piece of equipment, think about doing it October 2nd to delay the taxes for a year! The form is due November 1st.

Nonprofits organizations are not exempt from filing with the assessor!
Most nonprofit organizations exempt from

property taxes must file a form M-3 "Tax Exempt Return" every 4 years with the assessor in the Town where the personal property is located. When was the last time you filed? This could be your lucky year. Please check with your local assessor.

WHO NEEDS THE NATIONAL ENQUIRER?

By Marcia L. Marien, CPA

We used to laugh when we read in the local newspaper that the newspaper was suing a nonprofit organization for their financial records under the Freedom of Information act. They would ask for everything EXCEPT the annual tax return (Form 990). This is one of the only financial records that is required to be open for public inspection. Heavy fines can be placed against the nonprofit if they do not comply with this requirement.

Now, you can check into a nonprofit even easier through a national on-line database of tax returns for nonprofit organizations, www.guidestar.org. After a free registration at the site, you can look at tax returns for national or local organizations. This includes 15,752 nonprofit organizations in the State of Connecticut. Of these, 1,151 are within 25 miles of Norwich!

We estimate that ninety-five percent of the time we can locate the organization that we are looking for. You must remember that some small nonprofits do not need to file an annual income tax return. These are nonprofit organizations earning less than \$25,000 of gross revenues each year.

FINANCIAL INDEPENDENCE

By Wendy J. Richardson, CPA, MBA

No matter what your level of income or wealth, everyone needs a financial plan. Whether your goal is to pay off your credit cards, gain control of your financial situation, buy your first home or save for retirement, you need a plan.

The key to managing your money is knowing where it goes! Creating a budget is your first step. Start with your large expenses, such as rent, mortgage payments and car payments. The large expenses should be fairly easy to account for. Next start estimating your day-to-day expenses; it will take a lot more effort to account for everyday items such as clothing, meals and incidental spending. These items will probably add up to a lot more than you anticipate!

If you really want your budget to be practical then you should include optional expenses such as entertainment and vacations. During the first month or two, keep track of every dollar you spend so that you can see where your money is going and whether your budget figures are accurate. Then see if either the budget or the spending needs adjusting!

Once you have established a budget that you are comfortable with and you feel that you can be successful with, it will be time to set some long-term and short-term financial goals.

FIRM AND STAFF NEWS

We are very proud to announce that **Deb Davidowsky** has recently obtained her Masters of Business of Administration (MBA) from the University of New Haven after working tirelessly at nights and weekends. Connecticut now requires 5 years of schooling in order to sit for the grueling CPA exam.

Speaking of the grueling CPA exam, **Yichun "Carol" Yan** recently passed all four parts of the CPA exam! Carol already has a Masters of Science in Accounting (MSA) from Ohio University.

Peggy Dougherty has been a Certified QuickBooks Advisor each year for the last 5 years. She has recently been certified in the 2004 QuickBooks as well as in the QuickBooks Point of Sale product for retailers.

Paula Fernald has also updated her QuickBooks certification for 2004.

Thomas Marien earned the Certified Valuation Analyst designation in January of 2003.

For the 10th consecutive year, the firm volunteered to run the business end of the **Montessori Discovery School** annual auction. It was a great fundraiser for the school's financial assistance funding.

SOMETHING NEW AT MARIEN + COMPANY - CLASSES!

QUICKBOOKS CLASSES
Using QuickBooks in Nonprofits
Fee: \$60 - September 21

QuickBooks Can Work for You!
Fee: Free - August 26 and October 19

Preparing for Year End
Fee: \$60 - November 17

GASB34 CLASSES
GASB 34 Fixed Asset Classes
Fee: Free - August 12, August 27
and September 23

GASB 34 MD&A Class
Fee: Free - October 21

*Please call for more information or to
reserve your space in class.*

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