

2024



Fundamental Accounting Practices for the Small Business Owner

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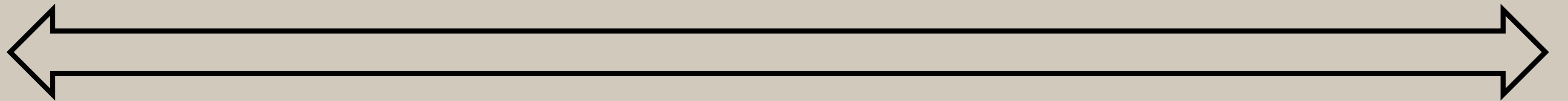
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Purpose of Financial Reporting

- ❑ Product of the accounting process = **Financial Reporting**
- ❑ Provide information that is **useful** in decision making
- ❑ How is important – but **why** is crucial



Past

Measurement of
performance

Present

Make better business
decisions

Future

Anticipate needs and set
goals

Key Principles of Accounting

- ❑ Basis of accounting – Cash vs. Accrual
- ❑ Revenue recognition
- ❑ Economic entity principle
- ❑ Matching principle
- ❑ Measurement principle
- ❑ Full disclosure principle

Typical set of financial statements:

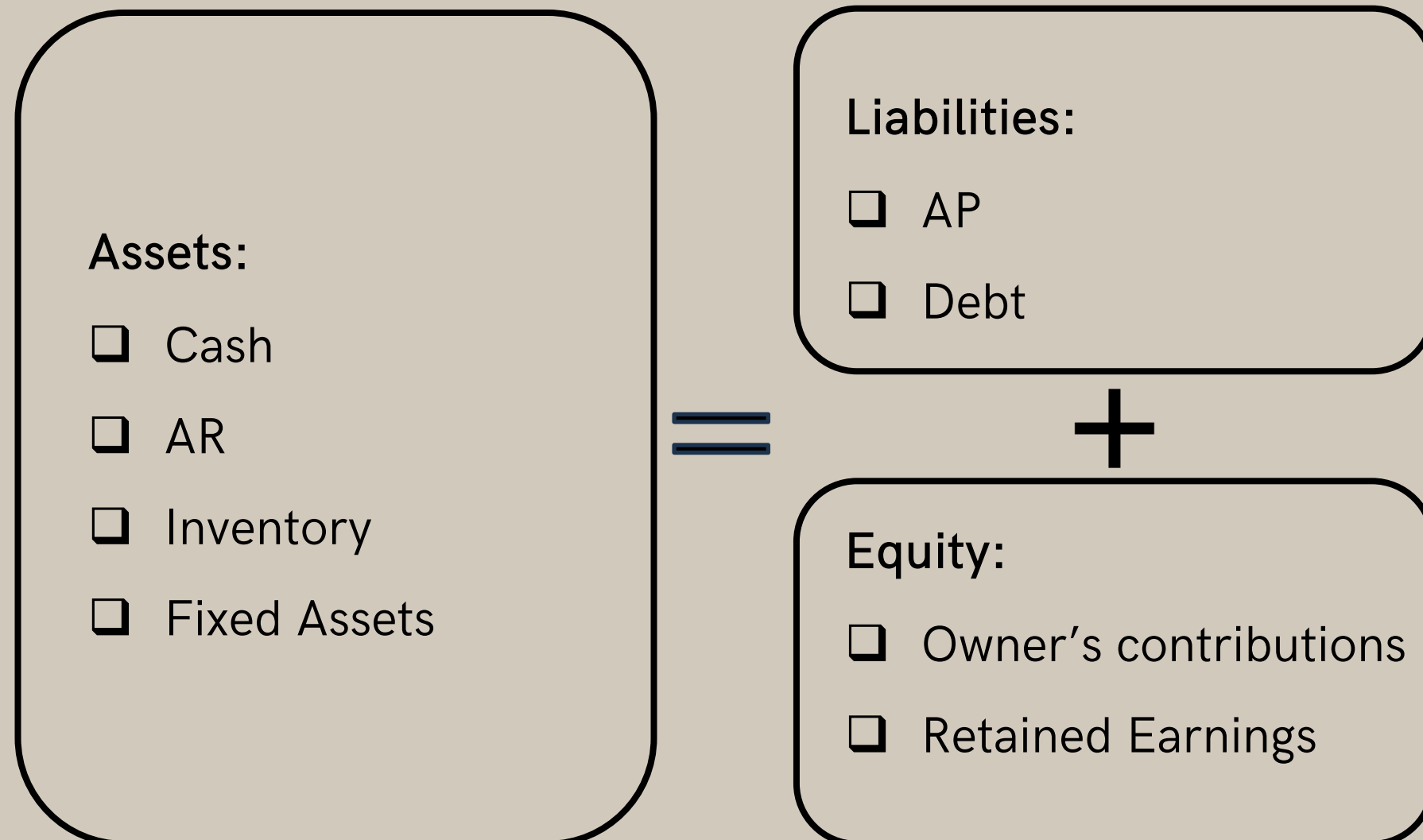
- ❑ Balance sheet
- ❑ Income statement
- ❑ Statement of changes in owner's equity
- ❑ Cash flow statement
- ❑ Notes to the financial statements



Balance Sheet



- ❑ Point in time – also known as a “snapshot”
- ❑ Assets: Items of value & future economic benefit
- ❑ Liabilities: Current & future economic obligations
- ❑ Equity: Owner’s interest in total assets



Key Metrics:

- ❑ Current ratio (**liquidity**)
 - ❑ Current assets/current liabilities
- ❑ Inventory turnover (**efficiency**)
 - ❑ COGS/Average Inventory
- ❑ Debt to equity (**solvency**)
 - ❑ Liabilities/Owner’s equity

Income Statement



- ❑ Over time- also known as a **profit & loss**
- ❑ Revenue - Expenses = **Net Income**
- ❑ Gross income: **Bread & Butter**
- ❑ Net income: **bottom line** after all expenses

Sales	1,000
Cost of Goods Sold	400
Gross profit (loss)	600
<i>Operating expenses:</i>	
Selling, general & administrative	300
Payroll and related costs	50
Rent	25
Depreciation	10
Operating income	215
Interest expense	(35)
Other income	5
Tax	(15)
Net Income	170

Key Metrics:

- ❑ Gross margin
 - ❑ Gross profit/Sales
- ❑ Profit margin
 - ❑ Net income/Sales
- ❑ Time interest earned
 - ❑ EBIT/Interest expense

Principles of Budgeting



- ❑ Fundamental component of financial planning
- ❑ Budgeting outcomes
 - ❑ Resource allocation
 - ❑ Expense control
 - ❑ Cash flow management
 - ❑ Decision making

How to start a budget process:

1. Set clear goals
2. Gather accurate financial information
3. Identify revenue sources
4. Evaluate fixed vs. variable expenses
5. Create a 1-year outlook

1-Year Outlook

- ❑ Sales & Expenses Forecasts
- ❑ Identify seasonality
- ❑ Cash flow projections
- ❑ Include contingencies

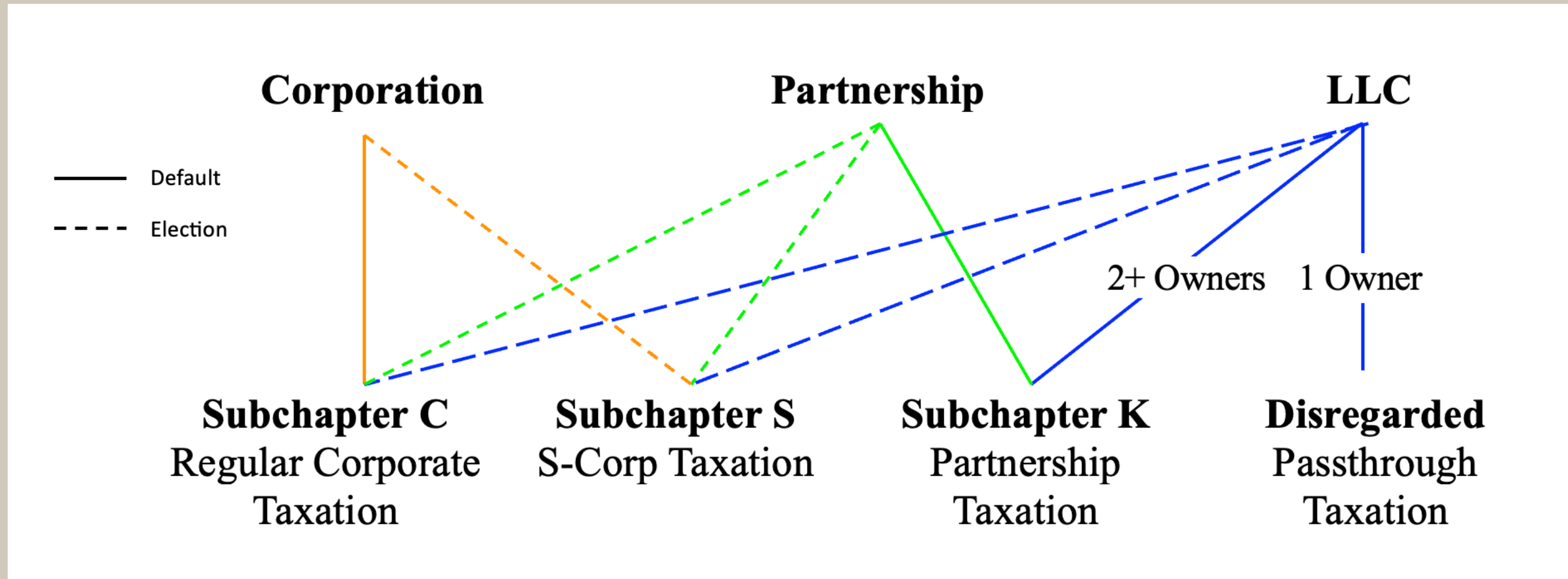
Taxes & Compliance



- ❑ Maintenance of financial records
- ❑ Classification of expenses
- ❑ Employee vs. contractors
- ❑ Understand your different tax obligations
 - ❑ Federal
 - ❑ State
 - ❑ Local
 - ❑ Sales
 - ❑ Payroll
 - ❑ Self-employment



Entity Taxation ↗



Taxation Pros & Cons		
Business Structure	Pros	Cons
Subchapter C Taxation <i>Corporation/Partnership/LLC</i>	<ul style="list-style-type: none"> □ Limited liability □ Unlimited number of shareholders □ Preferred for IPO and outside investors □ Perpetual existence 	<ul style="list-style-type: none"> □ Double taxation □ Difficult and expensive to start □ Increased regulation and oversight
Subchapter S Taxation <i>Corporation/Partnership/LLC</i>	<ul style="list-style-type: none"> □ Limited liability □ Pass-through entity □ Perpetual existence □ No corporate taxes □ Reduces self-employment tax 	<ul style="list-style-type: none"> □ Strict shareholder qualifications and standards □ U.S. owners only □ Recognition varies by state
Partnership Taxation <i>Partnerships/MMLLC</i>	<ul style="list-style-type: none"> □ Pass-through entity □ No corporate taxes □ Easy/inexpensive to set up 	<ul style="list-style-type: none"> □ Unlimited personal liability (depending on partnership classification) □ No perpetual existence □ Must create an official partnership agreement
Disregarded <i>SMLLC/Sole Proprietor</i>	<ul style="list-style-type: none"> □ Pass-through entity □ No corporate taxes □ Easy/inexpensive to set up □ Minimal reporting requirements 	<ul style="list-style-type: none"> □ Unlimited personal liability □ Difficult to get business financing □ No perpetual existence

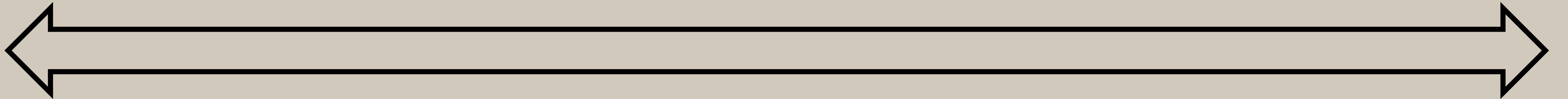
Important Tax Dates

Quarterly Estimates:

- ❑ Q1 - 4/15/24 ❑ Q3 - 9/15/24
- ❑ Q2 - 6/15/24 ❑ Q4 - 1/15/24

Safe harbor rules:

AGI less than \$150k (MFJ) on PY return, must pay:	AGI greater than \$150k (MFJ) on PY return, must pay LOWER of:
90% of actual tax owed in current year	90% of actual tax owed in current year
100% of PY tax owed	110% of PY tax owed



January 31, 2024

Information returns such as W2s, 1099s, and 940s

March 15, 2024

S Corporations & Partnerships

April 15, 2024

C Corporations, LLCs & Individuals



THANK YOU

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