

# Business Management Tips



weeks, during which time the vacationing person has no access to a business or its records.

**Environment of detection.** If an employee or owner believes embezzlement will be discovered in the normal course of business, it is much less likely one would choose to embezzle. Creating an environment of detection is the process of alerting all employees and owners that systems are in place to detect embezzlement and theft, and that such acts will be prosecuted if perpetrated. This can be accomplished through training, one-on-one conversations, and the establishment of a hotline employees and owners can use to report suspected theft.

**Background checks.** Background checks during the hiring process allow a business to determine whether a prospective employee has any criminal history. Many background checks also include credit histories to uncover any financial conditions which may make an employee more likely to steal from a business.

## Reasons Businesses Fail

**Failure rates.** Data from the SBA indicates two in 10 new businesses fail within the first year, and only five in 10 businesses survive five or more years.

**Reasons for failure.** The 10 most common reasons for failure are listed below.

- **Lack of experience.** This can apply to a lack of experience in a specific business or in running a business in general.
- **Insufficient capital.** Sufficient capital must be in place to support a business until cash flow from operations is adequate.
- **Poor location.** Location can be one of the most important factors for business success or failure.

- **Poor inventory management.** Keeping too much inventory uses too much capital unnecessarily, while having too little inventory can lead to shortages and customer dissatisfaction.
- **Over-investment in fixed assets.** Investing too much too quickly in long-lived assets also uses much needed capital in an unnecessary way.
- **Poor credit arrangements.** Lacking access to sufficient, reasonably priced credit.
- **Personal use of business funds.** Business funds should not be used for personal purposes.
- **Low sales.** Poor knowledge of the market can result in lower-than-expected sales.
- **Competition.** Not properly assessing competition can potentially leave a business in a position of needing to compete in a market where it cannot do so and survive.
- **Unexpected growth.** Growth without planning for the consequences can lead a thriving business to failure.

## Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Retirement.
- Significant change in income or deductions.
- Notice from IRS or other revenue department.
- Job change.
- Divorce or separation.
- Marriage.
- Self-employment.
- Attainment of age 59½ or 73.
- Charitable contributions of property in excess of \$5,000.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.

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Tax  Notary  
Express

### Address:

1326 Hegira St NW, Palm Bay, FL 32907

### Business Hours | Phone:

10am-6pm Mon-Sat 321-369-7959

### Email:

rob@taxnotaryexpress.com

angel@taxnotaryexpress.com

**Se Habla Español | Appointments only**



## Business Management Tips

### Online Business Resources

**www.sba.gov.** The U.S. Small Business Administration (SBA) provides programs for businesses in the areas of technical assistance, training and counseling, financial assistance, assistance with government contracting, disaster assistance recovery, advocacy laws and regulations, civil rights compliance, and special interests, such as women, veterans, Native Americans, and young entrepreneurs. The website provides links to numerous information resources.

**www.score.org.** The Service Corps of Retired Executives (SCORE) is dedicated to helping small businesses get off the ground, grow and achieve their goals. SCORE provides volunteer mentors, free confidential business counseling, free business tools, and inexpensive or free business workshops.

#### Websites

www.archive.org	Internet Archive Wayback Machine
www.bizstats.com	Business/Industry Statistics
www.bls.gov	U.S. Bureau of Labor Statistics
www.franchise.org	International Franchise Association
www.usa.gov/business	Small Business Resources

### Business Plans

A business plan is a written document created to detail all aspects of a business on a comprehensive level. The process of writing a business plan requires significant research into each of the topics discussed. In some cases, the process of

researching and writing a business plan will reveal potential problems or lead the individual to choose not to go into business.

A business plan helps to define short- and long-term goals for the business and the methods for measuring the level of success in reaching them. Many banks and investors require a written business plan before lending to or investing in a business. Also, by carefully examining each aspect of a business at its beginning, a business can be structured to create the maximum level of tax advantage for the owners.

Explore the website [www.score.org](http://www.score.org) for assistance with writing a business plan.

### Start-Up Costs and Capitalization

**Start-up costs.** Start-up costs are incurred before the start of operations. Typical expenses include the costs of organization, professional consulting, capital equipment acquisition, and leasing a space.

**Capital.** Cash from the owners or investors is the most common source of capital when beginning a new entity. Business loans are also common and can be secured through private banks or the Small Business Administration (SBA).

**SBA loans.** The SBA is a federal agency which guarantees certain loans and lines of credit made by banks to small businesses. Loans and lines are available for working capital, asset purchase, and debt refinancing needs.

### Use of Budgets

**Annual budget.** Development of an annual budget generally takes place late in the year prior to the year of the budget and is broken down by month. Financial statements from recently completed periods are used to develop estimates for

the budget. Using the budget, costs can be reduced, resources properly allocated, and new goals for the year can be set.

### Internal Control

**Control procedures.** Internal control procedures are designed to safeguard the assets of a business. Without them, dishonest employees or owners can misappropriate assets in the form of cash, property, or supplies with little effort.

**Separation of duties.** Duties which, if conducted by the same individual, would allow for simple concealment of theft should be kept separate. The following are examples of duties that should be performed by different people.

- Receiving, recording, and depositing customer payments.
- Sourcing, approving, ordering, and receiving supplies or merchandise.
- Inputting, approving for payment, and paying vendor bills and payroll.
- Balancing and inputting transactions into bank accounts.
- Counting cash and merchandise on hand at the beginning and end of the day.

Small businesses generally lack sufficient staff to properly separate all duties which should be separated. In this case, increased involvement of owners and management in daily operations of a business can assist in detecting misappropriation of assets.

**Mandatory vacations.** Many schemes to steal from a business require constant, manual intervention by the person perpetrating the scheme. By having and enforcing a mandatory vacation policy, the time a perpetrator spends away from work may allow a scheme to be uncovered in the course of daily operations. Mandatory vacations should be a minimum of two