



Professional Service with a Personal Touch  
Accounting • Tax • Financial Planning

*CWR Monthly*

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*As the lazy part of summer begins to take hold of us, now is a great time of year to do some timely tax, accounting and financial planning. All too often we all have a tendency to push something off to the last minute, only realizing afterwards that we could have positioned ourselves better had we only taken the initiative to strategically plan for upcoming events when the impending pressures were not upon us.*

*This month we will continue with the frequently asked question format for our monthly newsletter. Hopefully some topics will arise that will help you in your planning for the upcoming months and years. As I mentioned last month, I am open to try to answer questions that you have been considering and will try to include them in future newsletters.*

*Hope you all have a pleasant summer!*

*Charlie*

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*CWR*

## Frequently Asked Questions

### *Tax*

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**Q. How long should I keep tax related records?**

A. There are no hard fast rules concerning how long records should be kept. Some records such as property records should be kept until the period of limitations expires after you dispose of the property. The normal period of limitations for assessing additional taxes or filing a claim for a refund is 3 years. However, the period of limitations for under reporting your income by greater than 25% is 6 years. As a general rule, it is a good idea to keep most records for 6 years after filing the return.

**Q. Getting ready for tax season is such a pain, how do I know which records I need?**

A. Most tax preparers send their clients a tax organizer a month or so before the filing season begins. This really helps in getting your records together to deliver to your tax preparer. CWR recommends that its clients maintain a tax folder for the entire year, using the categories listed in the previous year's tax organizer to organize their files. This eliminates losing needed documents to support your claims for deduction.

**Q. Can you help me if my return is ever audited?**

A. Yes, as an Enrolled Agent, authorized to practice before the IRS, CWR can represent you fully in the event of a return examination.

**Q. How can I avoid being audited?**

A. There are no easy answers to this question. The fact is that the IRS will exam a certain percentage of returns each year. Some years they focus on certain types of returns, other years they focus on other types of returns. While there is no guarantee that your return will never be audited, good supporting evidence will stand up against the scrutiny of any examination.

**Q. I have a small business and operate out of my home. Can I deduct the expenses for a home office ?**

A. Much depends on the nature of your small business. In most cases, if you have a separate room in your home that is used exclusively for meeting yours clients or taking care of administrative functions of your small business, you can deduct the expenses associated with the use of that portion of your home, regardless of whether you rent or own the home. The best thing to do is to discuss this with your tax advisor who can advise you on the expenses you can deduct and the records you need to keep.

### *Accounting*

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**Q. Why are accounting policies and procedures necessary for my business?**

A. Accounting policies and procedures establish a framework of controls to protect your business. They safeguard assets, ensure transactions are accurately recorded, and provide a system of checks and balances necessary to properly report the true financial condition of your business.

**Q. How do I know if my business is doing well ?**

A. Properly prepared financial statements reveal the financial condition of your business at any give time. In addition, basic financial ratios help you determine how you compare with others in your industry, as well as how equipped your are to maintain your current business or to secure financing to grow your business to the next level. Some of the more common ratios are:

- **Working Capital and Current Ratios**—These ratios measure the liquidity of your business, or more simply, your ability to pay your current debts.
- **Net Profit Margin**—Tells you how well your business is generating profits.
- **Debt to Equity Ratios**—Tells you how much of your business is funded by creditors.
- **Net Worth**—Tells you what your business is worth if all the business debts were paid.

**Q. How can accounting make my business more profitable?**

A. Properly used accounting procedures and financial statements can be very effective management tools. The results can be used to identify trends or to reveal cash drains on your business that do not produce profitable returns. The results can help you determine when and where you need to reduce costs or even if you need to increase your pricing. Accounting measures the financial pulse of your business to determine if your business is healthy or ailing, and if it is ailing what you might need to do to bring it back to health.

## *Financial Planning*

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**Q. What are some basic steps in the personal financial planning process?**

A. Because of the extent of this answer, this will be the only financial planning question that we will address this month. While the answer presented below is not exhaustive by any means, primarily because each person's circumstances differ to some degree, it is our desire that you might gain an overview of the overall personal financial planning process. Hopefully this overview will encourage you to either seek out the services of an objective financial planner or, at a minimum, to begin to develop a workable plan to address the financial responsibilities that you will encounter in your lifetime.

**Step 1 Gathering information and Preparing Personal Financial Statements.**

While the kinds of information needed varies with each person's situation, some of the more common information you would want to look at would be:

- Personal investment information
- Insurance Policies—life, health, long term care, disability, and property and liability policies
- Retirement and other employment benefits
- Tax Information—income taxes, estate taxes and gift taxes
- Wills, Trusts, and other Estate Planning Documents
- Powers of Attorney and related instruments

In summarizing your present financial position, it is helpful to prepare some simplified personal financial statements, much like those businesses use. A good starting point would be to develop a **personal balance sheet**, helpful in assessing your current net worth, and a **personal income statement**, to determine your overall ability to meet your present expenses and your ability to achieve short term objectives. Two other statements that might prove to be helpful in your planning process, as suggested by CWR in last month's newsletter would be developing a **personal budget**, which would provide an advance plan for anticipated expenditures and income, and a **cash flow statement**, to show the sources and timing of a person's or family's cash receipts and of cash outlays.

### **Step 2 Identifying Objectives**

A considerable amount of time should be devoted to this area of the planning process. Some of the areas of consideration should include:

- Protection against personal risks
- Capital Accumulation
- Provision for educational responsibilities
- Provision for retirement income
- Reducing your tax burden
- Planning for your heirs
- Investment and property management

Individual circumstances play a large role into how detailed the planning should be in this area. Suffice it to say, however, that each of the above mentioned items play some role in all of our planning at some point in our lives.

### **Step 3 Analyze your present position and consider alternatives to reach your objectives**

After identifying and setting your personal objectives, you need to analyze your present financial position in relation to these objectives and then consider alternative ways of remedying any deficiencies found.

### **Step 4 Developing and Implementing your personal financial plan**

Once you have set your objectives, analyzed your present financial position and considered alternative ways to correct any deficiencies, you need to develop a workable plan to accomplish those objectives and then to put that plan into action. This is the discipline portion of the financial planning process. It requires commitment, a vision of the objectives that you desire to achieve, and the determination to stay focused on the plan that you have established.

## Step 5 Periodically Review and Revise your plan

No plan should be considered “cast in bronze”. Circumstances change that are unpreventable. There are births, marriages, divorces, deaths, job changes, changing economic conditions, health changes and a host of other factors that may require revision in your original financial plan.

### *Summary*

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*There is an old saying that says that “the only thing certain is death and taxes”. There is a considerable amount of wisdom in this saying. Because in life, change is inevitable. Planning for, adjusting to, and progressing through the changes that life brings us is the challenge that we all face. It is my desire that some of the topics discussed and the principles outlined will help you navigate through some of the waters of financial change that you might encounter along your journey. If there are particular questions that you would like me to address, please feel free to submit them to me either by email or regular mail. You never know, the question you submit might be the very question that someone else needed an answer to that will help them address a specific issue in their life at the time.*

*Til next time,*

Charles W. Register, EA  
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