

Ask a CPA



PRESENTED BY THE DALLAS CPA SOCIETY



Bill Moss, CPA
President & Founder, CFO Services*
billmoss@sbcglobal.net
1720 Timberway Drive, Richardson, TX 75082
214-914-3972

CASH MANAGEMENT

Q: Why is cash management the cornerstone of success?

A: Available cash is the first step to financial health. The existence or lack of cash dictates the need for borrowing. Borrowing creates risk for an organization and impacts profitability. In small companies, cash is crucial to meet the day-to-day activities like paying payroll or vendors. It is an issue that consumes large amounts of management's time and generally is the catalyst to business failures. In large companies cash is critical to avoid the need for borrowing in order to bolster profitability and generate greater returns to its owners. Many large companies "self-finance" by expediting their accounts receivable and extending their accounts payable. This helps to keep "cash in house" to use for the daily operations and thus avoiding the need to borrow.

It sounds easy, but it is not. The "balancing act" necessary to maintain the optimum cash lies in cash forecasting and solid planning. By knowing your future cash needs, in terms of how much and when, will allow you to plan where the needed cash will come from.

Many businesses fail today, largely due to the lack of adequate cash planning and monitoring. Put together your cash plan today and enjoy the fruits of tomorrow!



Janae Chamblee, CPA, BCB, CBI
First Business Resources, Inc.*
jc@first-biz.com • www.first-biz.com
8117 Preston Road, Suite 300, Dallas, Texas 75225
214-363-7774

SELLING THE PRIVATELY HELD COMPANY

Q: As an Owner, which transaction mistakes are the most common and how do I avoid repeating them when I sell my company?

A: The most common mistakes that I see Owners make in preparing their company for sale are:

- **Poor Financial Reporting:** Two years of audited financial statements are preferred. Very clean compiled statements will suffice.
- **Change of Focus:** Owners often spend too much time focusing on the selling process. Do not neglect the day-to-day operations of the business.
- **Failure to Seek Professional Help:** Retain qualified professional assistance from your CPA, transactional attorney, and business intermediary.
- **Above Market Pricing Expectations:** Understand the true market value of your company. Establish a realistic "Go-to-Market Price". Negotiate transaction terms to achieve these objectives.
- **Myopic View of the Company:** Owners should take a critical look at their company from a prospective Buyer or Lender's viewpoint.
- **Impatience and Lack of Transaction Structure Flexibility:** Allow twelve months to complete the selling process. Deal structure and terms are as important as price.



John Eads, CPA
Smith, Jackson, Boyer & Bovard, PLLC
jeads@dallascpas.com • www.dallascpas.com
9400 N. Central Expressway, Suite 420, Dallas, Texas 75231
214-373-8900

TAX DEPRECIATION BENEFITS

Q: Are there any tax advantages for my business in purchasing machinery costing \$300,000 and placed in service by October 15, 2004?

A: Yes, you could get a tax depreciation deduction in 2004 of approximately \$204,500, generating a substantial tax savings. The maximum amount deductible as elected under the Section 179 in 2004 is \$102,000 (\$105,000 for 2005). This deduction is also limited to the taxable income of your trade or business and is reduced by the amount of eligible property you placed in service that exceeds \$410,000. In 2006 the maximum amount is reduced to \$25,000.

The second major piece of the tax depreciation deduction included in your 2004 calculation is Bonus Depreciation. Your machinery would need to be new "original use" property and have a useful life of less than 20 years. This deduction is limited to 50% of your cost. The eligible cost is \$198,000 after you have taken the Section 179 deduction. Therefore, your bonus depreciation is \$99,000. This benefit expires at the end of 2004. There is also a planning opportunity with certain leasehold improvements that could qualify under this tax benefit.

The third piece of the remaining cost of your machinery is depreciated under normal depreciation rules.



Keith C. Kakacek CPA, CPCU, ARM
President, Nitty-Gritty Solutions, Inc.*
keith_kakacek@ngsemail.com • www.nittygrittysolutions.com
9101 LBJ, Suite 700, Dallas, TX 75374
972-437-1711 ext. 201

MANAGING RISK

Q: Should I worry about managing risk?

A: Now more than ever! Risk management isn't just about insurance. Catastrophe takes many forms – some identifiable, some not. Insurance coverage protects companies from loss due to circumstances that can be defined. Protection against the effects of the "unforeseen" is just as important as the defense against the ramification of the "seen."

A "total solution risk management program" not only results in significant savings in time and money, but also provides the assurance that all elements of risk are appropriately and adequately addressed.

All businesses and nonprofits need to develop and implement a risk management program that addresses their specific needs and circumstances. The components are:

- Identify the types and amounts of coverage the organization needs based on its industry and history of claims.
- Evaluate current hard and soft costs associated with the present risk management program.
- Determine the appropriate level of insurance coverage and other risk management tools that achieve the results the entity wants and needs.
- Explore appropriate self-funding alternatives that are in the best interest of the company.

* This firm is not a CPA firm

The Dallas CPA Society, Texas Society of Certified Public Accountants (Dallas Chapter) is a not-for-profit professional association serving approximately 6,200 CPA members in the Dallas and surrounding 13 counties. For information, please visit our Web site at www.cpadallas.com. Need a CPA? Call 972-960-8311.