

COMMON ACCOUNTING QUESTIONS
BUSINESSES



CPA GROUP
OF THE ROCKIES

Setting up a business? Looking to enhance what you've already established?
Take a look below at some common questions business owners have.



What business structure should I use?

If you're starting a new business this year, let's talk through your options. The right structure for your new venture will depend on your long-term goals and expectations.

The most common options are sole proprietorship, partnership, LLCs, and corporations. Our team can explain the steps you need to take to form each type of business and the accounting records you'll need to maintain.

What's the difference between an employee and an independent contractor?

The IRS has strict standards for who can be paid as an employee and who is an independent contractor. There are several criteria that must be met to be an independent contractor:

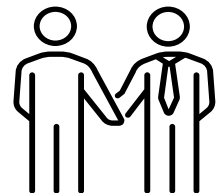
- 1 | The contractor controls how and when they complete their work.
- 2 | The contractor sets their payment rates.
- 3 | The contractor does not receive company benefits (health insurance, vacation pay, etc.).

Other considerations are whether the contractor offers their services to other customers and if they use their own tools to complete the work. Some states have even stricter standards for being classified as an independent contractor.

If you determine that your workers are employees, please let us know if you need assistance processing payroll.

Can I do bookkeeping myself?

You sure can! But should you? We're here to simplify your life and alleviate some of the tasks that bog you down and crush momentum. The first step is to set up a separate bank account for your new business to help you monitor your revenue and expenses. We are experts in all things bookkeeping if you need assistance or want help managing books.



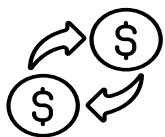
Should I use cash or accrual basis accounting?

If you're looking for simplicity, cash basis is the superior choice. You record your expenses when you pay your bills, and revenue is recorded when you receive the payment. The cash basis of accounting is only available to businesses with less than \$25 million of revenue.

Accrual basis is more complicated, but it can give you a smoother picture of your business's finances. For example, if you pay a \$1,200 annual subscription for software, under the accrual basis, you will record an expense of \$100 each month for software.

How can I lower my taxes?

To lower your taxes, you should make sure that you're recording all relevant and allowable expenses for your business. If you're unsure about certain expenses, put them in an "ask your accountant" expense account, so we can discuss them at the end of the year.



There are several tax credits that apply to different business activities, including research and development (R&D) credits and solar credits. When we prepare your taxes, we will also discuss possible R&D credits.

How do I avoid an audit?

There's no magic formula for avoiding an audit, but making sure that you record all your income and only deduct allowable expenses can help minimize your chances of an audit.

Since you can't avoid the risk of an audit entirely, you should maintain thorough records of all your expenses so you can justify them in case the IRS selects your return for examination.

These are just a few items that have come up several times lately. We're always available to answer additional questions as they arise. Feel free to give us a call or schedule an appointment, so we can discuss your specific concerns.