

# THE FINANCIAL EDGE

April 2018



## Expiration Dates

Personal comments by Mary

My husband, Steve, made Mac n Cheese recently. Not an everyday meal in our house. When he checked the expiration date, he was shocked. The date was 2015! It had been in our pantry for 3 years. That discovery sent me to the medicine cabinet to check the over the counter medicines. Another shock - I threw out all but one bottle of cough syrup. I found one bottle dated 2005.

It got me thinking, how many other things or habits I have that have expired. One habit that has expired in our industry is billing by time sheets. My experiences in public accounting clearly stated that the time sheet was master. As a staff person, we accounted for every 6 minutes that we worked. We were measured by how many hours could be charged to the clients we served. Value may have been provided but that wasn't the focus. I have noted the expiration of this habit, we are now moving toward fixed price agreements for the work that we do. The focus is on the results desired and we bill based on the project to get there.

Checking the medicine cabinet was a reality check for me. It is time to take inventory of my daily habits and surroundings and throw out those that have stop being of use. It is always time to change.



Mary Guldán-Lindström



“ Mary gives a dimension of trust, professionalism, integrity, knowledge, and throw that with her accessibility and you have the key issues. You don't want to get yourself in trouble and you want to have a plan for the future. She has the ability to put it all together with the integral pieces that may come at any moment.

Pat Quinn



Your referrals are appreciated and will be treated with utmost care!



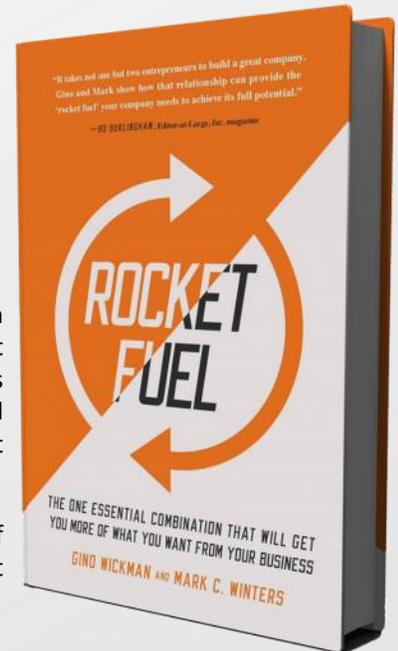
## The Book Review

**Title:** Rocket Fuel  
**Author:** Gino Wickman & Mark Winters  
**Topic:** Business Management  
**Easy to Read:** \$\$\$\$\$ (5 out of 5 dollars)  
**Applicable to Small Business:** \$\$\$\$\$ (5 out of 5 dollars)

**Summary:** The authors do a deep dive on the potential power of a Visionary and an Integrator, as presented in the business management system Traction. They compare this relationship to rocket fuel. This relationship creates a chemical mixture that results in a powerful expansion of force. The book is a how-to-guide to develop and use that relationship to get remarkable results.

**My recommendation:** Fantastic description of the power and struggle of this type of relationship. Perfect for a business owner who has vision but struggles to bring it to life.

**SPECIAL NOTE** – in many cases FOCUS CPA has been able to provide some of the benefits that an “integrator” brings to a business.



Pages: 180 | Published: 2015



## Update on Tax Audits

From October 1, 2016 to last September 30, 2017 the IRS audited almost 934,000 individual income tax returns. That is the lowest number of audits since 2003, according to the recently released 2017 IRS Data Book.

Majority of the audits are “letter” audits issued by a computer as a result of matching tax documents filed with the IRS to the actual tax returns filed. Here are some steps you can take to reduce your chance of an audit:

- ⚙️ Gather **all** your tax documents. Sort through the snail mail that you receive. Go online to PayPal, school, credit card processing, bank, investments and health care accounts. All these activities generate tax documents.
- ⚙️ Verify that the dollar amounts reported is reasonable.
- ⚙️ Verify the tax ID is yours. If you have a business - is the tax document in your social security number or the business ID?
- ⚙️ Use the documents to prepare your tax return.

Don't be surprised if it takes 2 or 3 years to get a tax audit letter on your tax return. The IRS has 3 years from the date you filed your return to question or audit your return, unless fraud is involved. If fraud is involved then there is no time limit.

*When processing returns at FOCUS CPA we do pay special attention to your tax documents to reduce your chance of an audit or a tax notice.*



## Improving the Bottom Line, by Focusing on the Top Line

By Mary Guldán-Lindstrom, CPA

When it comes to sales “**the top line is vanity, the bottom line is sanity**”. Sales do not always lead to profit. In some cases, not making the sale is the best choice. For a business to stay afloat, each sale needs to cost less than the amount charged.

**NOT ALL SALES ARE CREATED EQUAL.** By tweaking your top line, a business can flip the bottom line from a loss to a profit. It is difficult to be all things to all people! By focusing your marketing and sales effort to your most profitable line and utilizing your company’s strengths miracles can happen.

**THE FIRST STEP** is knowing your numbers and your business. Each business is unique. The offerings can be unique, the delivery system, management team and the entire process is different in every business. Identify what you have to work with:

- ⚙️ Identify your current income or sales streams. Break it down into different types of sales. Consider streams such as products, installation, training, warranty, etc.
- ⚙️ Look at each sales stream to see how it contributes to the total sales. For example, product sales may account for 60%, installation 10%, training 25% and warranty 5%. This is your sales mix.
- ⚙️ Determine how much of each income stream you keep to cover your overhead. This is the gross margin by type of sale. For example –
  - ⊕ on product sales, you keep 50% of the sale for overhead,
  - ⊕ for installation and training staffing and training take 75% leaving 25%
  - ⊕ warranty sales may take 10% leaving you 90%

**SECOND STEP** is taking a step back and reviewing your internal situation. Determine which income stream to focus your efforts to get the most benefit.

- ⚙️ Which sales stream can provide the most income to cover your overhead?
- ⚙️ Which sales stream is the easiest for you to sell or promote?
- ⚙️ Which sales stream creates repeat business?

	SALES			SALES W/FOCUS	
	GM%	Sales \$	GM \$	Sales \$	GM \$
Product	50%	\$ 1,000	\$ 500	\$ 1,000	\$ 500
Installation	25%	\$ 100	\$ 25	\$ 100	\$ 25
Training	25%	\$ 500	\$ 125	\$ 300	\$ 75
Warranty	90%	\$ 200	\$ 180	\$ 400	\$ 360
		<b>\$ 1,800</b>	<b>\$ 830</b>	<b>\$ 1,800</b>	<b>\$ 960</b>

**THIRD STEP** – look to the outside and adjust. Unless you have unlimited supply of time, energy, talent and money you will achieve more by focusing on your most desirable sale. Identify your most desirable sale and create a process that works with your most desirable customer.

- ⚙️ Identify the target customer for the desired income stream. Look through your current customers and select the best ones. Note age, location, stage in life, values, philosophies, the pain they are in, the hope they are looking for, etc.
- ⚙️ Identify the benefits you provide – in their terms. Do you reduce their stress, eliminate surprises, make them feel better about themselves, etc.
- ⚙️ Draft a system to attract the best prospects. Then a sales process to present and move them into customers. Next a system to build the relationships and keep them as your customers.

**FOURTH STEP** – take action. Everyone has a sales system in place. It may not be much of one. Start with the biggest hole. Focus on one change at a time. Then build.

**FIFTH STEP** - measure your progress. Measure your sales mix and the applicable gross margin and see the changes.

OVERALL RESULTS	
\$ Increase in total Gross Margin	\$ 130
% Increase in total Gross Margin	16%
\$ Increase in total Sales	\$ -
% Increase in total Sales	0%

At FOCUS CPA we work with business owners to help them work smarter – not harder. Call and setup an appointment for a financial review. They start at \$500 and go up depending on the information we have to work with.

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FOCUS|CPA Inc

117A Packerland Drive  
Green Bay, WI 54303  
Phone: (920) 351-4842  
www.FOCUS-CPA.com

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## Some Thoughts About Taxes

“One difference between death and taxes is that death doesn’t get worse every time Congress meets.” – **Anonymous**

“There is one difference between a tax collector and a taxidermist—the taxidermist leaves the hide.”  
– **Mortimer Caplan, former IRS director**

“Some taxpayers close their eyes, some stop their ears, some shut their mouths, but all pay through the nose.” – **Evan Esar**

“The income tax has made more liars out of the American people than golf has.”  
– **Will Rogers**

“I figured out why Uncle Sam wears such a tall hat. It comes in handy when he passes it around.” – **Soupy Sales**

“Tax reform is when you take the taxes off things that have been taxed in the past and put taxes on things that haven’t been taxed before.” – **Art Buchwald**

“It is more deductible to give than to receive.” – **Henry Leabo**

“An income tax form is like a laundry list—either way, you lose your shirt.”  
– **Fred Allen**

From the old farmer’s almanac - Almanac.com