



ENTREPRENEUR CURRICULUM

Session 5



This Week

Session 5

Accounting, Human Resources, Legal, Taxes & Insurance

During this 3-hour session, for the first hour, the facilitator will lead an interactive discussion on the Participants' greatest challenges and how to address them with better compliance and internal controls. We will examine best practices in Human Resources, Accounting, Taxes and Insurance. During the second hour, we will be joined by a panel consisting of a HR consultant, accountant, attorney and a financial advisor. They will share their experiences, take questions and offer advice. During the third hour, we will discuss the final presentation template.

Homework will be assigned to be submitted by the next class.



Agenda

Learning Session 5

Facilitator: Will Holmes



1

**Welcome/ Cash Flow & Presentation
Check-In**

2

**Presentation: Human Resources,
Accounting, Taxes & Insurance**

3

Panel Discussion

4

Q&A, Wrap Up and Homework Reminder



Important

Session 5

If you learn nothing during this session, congratulations! You have protected your business! This info is based on the common challenges that most businesses face.

Please price your products and services so that you can hire a professional and do your research to protect your business.

We recommend being aware of this info and delegating the management of these responsibilities to qualified professionals.



Human Resources

9 HR Essentials Business Owners should be familiar with:

- 1 Major Federal Labor Laws** - (Fair Labor Standards Act, Occupational Safety and Health Act, Consumer Credit Protection Act and many more...) <https://www.dol.gov/general/aboutdol/majorlaws>
- 2 State Laws** - (Wages, MOSHA, Safety, Worker Classifications) <https://www.dllr.state.md.us/labor/>
- 3 (Federal Guidelines) 1099 or Employee?** - <https://www.irs.gov/businesses/small-businesses-self-employed/independent-contractor-self-employed-or-employee> If it is still unclear whether a worker is an employee or an independent contractor, Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding PDF can be filed with the IRS. The IRS will review the facts and circumstances and officially determine the worker's status.
- 4 (State of MD Guidelines) 1099 or Employee?** - <https://www.dllr.state.md.us/labor/wagepay/wpempindcont.shtml>, <https://www.dol.gov/agencies/whd/fact-sheets/13-flsa-employment-relationship>



Human Resources

Business Owners should be familiar with:

- 5 Unemployment Insurance** - To provide temporary monetary assistance to eligible workers who become unemployed through no fault of their own and who are able to work, available for work, actively seeking and willing to work. <https://www.dllr.state.md.us/employment/unemployment.shtml> and <https://www.dllr.state.md.us/employment/clmtguide/uiclmtmpamphlet.pdf>
- 6 Worker's Compensation Laws** - Worker's Compensation covers medical treatment, disability and death benefits in the event an employee is injured or dies as a result of his work with that business. An employer that fails to secure workers' compensation insurance for all covered employees may be subject to a penalty not to exceed \$10,000. <https://www.wcc.state.md.us/>
- 7 Purchasing Worker's Compensation Insurance** - <https://www.ceiwc.com/>
- 8 Importance of Employee Documentation** - <https://www.eeoc.gov/employers/recordkeeping-requirements>



Human Resources

Business Owners should be familiar with:

9 Payroll

How to calculate payroll tax obligations and submit tax payments:

- A. **Data collection:** When an employee is hired, you need to collect withholding tax information on Form W-4. Employers must withhold federal income tax and may withhold dollars to pay for company-provided benefits.
- B. **Calculating net pay:** The net amount of employee pay is the gross pay less tax withholdings, less any benefit payment withholdings. You'll also calculate withholdings for Medicare tax and Social Security tax.
- C. **Payments:** You must pay the employee's wages by check, or via direct deposit to a bank account



Human Resources

Business Owners should be familiar with:

Payroll...

- D. **Reporting:** A tax filing for federal tax and state tax withholdings must be submitted to the IRS and the state department of revenue. Retirement plan contributions, state unemployment payments, Medicare taxes and Social Security taxes are reported to other entities.
- E. **Withholding payments:** All of the tax and benefit payments must be forwarded to the taxing authorities, retirement plan firms and other benefits providers. <https://www.irs.gov/businesses/small-businesses-self-employed/depositing-and-reporting-employment-taxes>



Accounting

11 Best Accounting Practices and Resources

- 1** Have an expert set up your systems to avoid costly accounting errors.
- 2** Accuracy is important to partners, lenders, IRS and other stakeholders. Set up processes that allow you to reconcile your numbers.
- 3** Define your process and gradually switch from separate spreadsheets to integrated data sources.
- 4** Choose a bank that has online banking that connects to accounting software, point of sales integration, CRM, website and reporting tools.



Accounting

Best Practices and Resources

- 5 Use accounting software that integrates with your key tools!
 - QuickBooks: <https://quickbooks.intuit.com/accounting/>
 - Wave: <https://www.waveapps.com/>
 - Zoho Books: <https://www.zoho.com/books/>
 - Xero: <https://www.xero.com/>

- 6 Automate your invoicing. This can often be accomplished in your accounting software.

- 7 Hire a bookkeeper (to manage transactions) and an accountant (to review transactions, prepare financial statements and adjust financial records). Segregate duties to prevent theft and create a manual that outlines your processes.



Accounting

Best Practices and Resources

- 8** Keep your business and personal funds separate (different accounts for personal, business, sales tax, withholding and estimated state and federal taxes).

- 9** Establish essential reporting and metrics (Cash Flow, Profit Loss, Balance Sheet, Monthly/ Quarterly Statement, Cost per Lead, Cost Per Sale, Cost per Employee).

- 10** Understand your true labor costs beyond hourly wages or salary (Include payroll taxes, worker's comp, insurance, benefits, training, probationary period, recruiting...).

- 11** Start each fiscal year with a budget for expenses and sales projections to make profit.



Key Terms

We will discuss where each of these terms are reflected on **balance sheets and profit & loss statements**. Then we will have Q&A with our expert.

- Assets
- Liabilities
- Income
- Expenses
- Owner's Draws
- Partner Distribution
- Retained Earnings
- Loans
- Interest



What is a Balance Sheet?

A balance sheet is a financial statement that shows a company's **assets, liabilities, and equity at a specific point in time.**

- **Assets** are anything of value that a company owns. This could **include cash, inventory, equipment, and real estate.**
- **Liabilities** are debts that a company owes. This could **include accounts payable, loans, and taxes.**
- **Equity is the difference between a company's assets and liabilities.** It represents the owners' investment in the company.



What is a Balance Sheet?

The balance sheet equation is **Assets = Liabilities + Equity**

This means that the total value of a company's assets must always equal the total value of its liabilities and equity.



Key Terms

Now, let's discuss where each of these terms are reflected on **balance sheets**.

- **Assets**
- **Liabilities**
- **Income**
- **Expenses**
- **Owner's Draws**
- **Partner Distribution**
- **Retained Earnings**
- **Loans**
- **Interest**



Balance Sheet- Assets

Assets are on the left; liabilities and stockholders' equity are on the right.

- **Cash and cash equivalents:** This includes cash on hand, as well as money deposited in bank accounts and money market accounts.
- **Accounts receivable:** This represents money that is owed to the company by its customers.
- **Inventory:** This is the value of the goods that the company has on hand that it plans to sell.
- **Prepaid expenses:** These are expenses that the company has already paid for, but that have not yet been used. For example, prepaid rent would be considered a prepaid expense.
- **Property, plant, and equipment:** This is the value of the company's long-term assets, such as equipment, buildings, and land.



Example Corporation Balance Sheet December 31, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment - net	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	(56,000)
Property, plant & equipment - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Other intangible assets	200,000
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u>\$ 770,000</u>

LIABILITIES

Current liabilities	
Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
Accounts payable	20,900
Accrued compensation and benefits	8,500
Income taxes payable	6,100
Other accrued liabilities	4,000
Deferred revenues	1,500
Total current liabilities	<u>61,000</u>
Long-term liabilities	
Notes payable	20,000
Bonds payable	375,000
Deferred income taxes	25,000
Total long-term liabilities	<u>420,000</u>
Total liabilities	<u>481,000</u>

Commitments and contingencies (see notes)

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.



Balance Sheet- Liabilities

Assets are on the left; liabilities and stockholders' equity are on the right.

Examples:

- **Accounts payable:** This represents money that the company owes to its suppliers.
- **Current or Short-term debt:** This is any debt that the company is due to repay within one year.
- **Long-term debt:** This is any debt that the company is due to repay after one year.

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Balance Sheet- Income

Assets are on the left; liabilities and stockholders' equity are on the right.

Income is reflected on the balance sheet indirectly through the retained earnings account.

Retained earnings are the cumulative net income of a company that has not been paid out to shareholders as dividends. Net income is the difference between a company's revenues and expenses over a period of time.

When a company earns income, its net income is added to the retained earnings account on the balance sheet. This increases the company's equity.

Conversely, when a company loses money, its net income is negative and is subtracted from the retained earnings account on the balance sheet. This decreases the company's equity.

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Balance Sheet- Expenses

Assets are on the left; liabilities and stockholders' equity are on the right.

Expenses are not directly reflected on the balance sheet. The balance sheet is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. Expenses are recorded on the income statement, also known as the profit and loss statement, which shows a company's revenues and expenses over a period of time.

However, expenses can have an indirect impact on the balance sheet. For example, if a company incurs an expense that requires it to pay cash, the company's cash balance will decrease.

Additionally, if a company incurs an expense that creates a liability, such as accounts payable, the company's liabilities will increase.

Next slide for more...

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Balance Sheet- Expenses

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Another example:

Assets:

Cash: \$100,000

Accounts receivable: \$20,000

Inventory: \$50,000

Total assets: \$170,000

If the company incurs a \$10,000 expense for the purchase of inventory, this will reduce the company's cash balance to \$90,000. Additionally, it will increase the company's inventory by \$10,000.

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Balance Sheet- Owner's Draws

Assets are on the left; liabilities and stockholders' equity are on the right.

Owner's draws are reflected on the balance sheet as a reduction of the owner's equity in the business. Owner's equity is the portion of the business that belongs to the owner. It is calculated by subtracting all liabilities from assets.

When the owner withdraws money from the business for personal use, it is recorded as a debit to the owner's draw account and a credit to the cash account. This reduces the owner's equity in the business.

Example:

Equity

Owner's capital: \$155,000

Less: Owner's draws: \$10,000

Net equity: \$145,000

Next slide for more...

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Balance Sheet- Owner's Draws

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Equity

Owner's capital: \$155,000

Less: Owner's draws: \$10,000

Net equity: \$145,000

In this example, the owner has withdrawn \$10,000 from the business for personal use. **This has reduced the owner's equity in the business from \$155,000 to \$145,000.**

It is important to note that owner's draws are not an expense of the business. They are simply a reduction of the owner's equity.

Owner's draws can be an important way for business owners to compensate themselves for their time and effort.

Next slide for more...

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Balance Sheet- Partner Distribution

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Partner distributions are not directly reflected on the balance sheet. The balance sheet is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. Partner distributions are a reduction of the partners' equity in the business, not an asset, liability, or expense.

However, partner distributions can have an indirect impact on the balance sheet. For example, if a partner withdraws a large amount of cash from the business, this may reduce the company's cash balance, which is an asset.

Additionally, if a partner withdraws more money than they are entitled to, this may create a liability for the company to the other partners.

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Balance Sheet- Retained Earnings

Assets are on the left; liabilities and stockholders' equity are on the right.

Retained earnings are reflected on the balance sheet as a component of equity. Equity is the portion of a company's assets that belongs to its shareholders. It is calculated by subtracting all liabilities from assets.

Retained earnings are the cumulative net income of a company that has not been paid out to shareholders as dividends.

They are a measure of how much money a company has earned over time that it has reinvested in the business.

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Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.



Balance Sheet- Loans

Assets are on the left; liabilities and stockholders' equity are on the right.

Loans are reflected on the balance sheet as a liability. A liability is a debt that a company owes to another party. Loans can be short-term or long-term, and they can be secured or unsecured.

Short-term loans are typically repaid within one year, while long-term loans are repaid over a longer period of time, such as five or ten years. Secured loans are backed by collateral, such as inventory or equipment, while unsecured loans are not backed by collateral.

All types of loans are recorded as liabilities on the balance sheet. The amount of the loan is recorded as a liability, and the interest on the loan is recorded as an expense on the profit and loss statement.

Example Corporation Balance Sheet December 31, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment - net	
Land	5,500
Land improvements	6,500
Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	(56,000)
Property, plant & equipment - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Other intangible assets	200,000
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u>\$ 770,000</u>

LIABILITIES

Current liabilities	
Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
Accounts payable	20,900
Accrued compensation and benefits	8,500
Income taxes payable	6,100
Other accrued liabilities	4,000
Deferred revenues	1,500
Total current liabilities	<u>61,000</u>
Long-term liabilities	
Notes payable	20,000
Bonds payable	375,000
Deferred income taxes	25,000
Total long-term liabilities	<u>420,000</u>
Total liabilities	<u>481,000</u>
Commitments and contingencies (see notes)	

STOCKHOLDERS' EQUITY

Common stock	110,000
Retained earnings	220,000
Accum other comprehensive income	9,000
Less: Treasury stock	(50,000)
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.



Balance Sheet- Interest

Assets are on the left; liabilities and stockholders' equity are on the right.

Interest is not directly reflected on a balance sheet. A balance sheet is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time.

Interest is an expense, and expenses are not shown on the balance sheet.

However, interest can have an indirect impact on the balance sheet. For example, interest expense can reduce a company's net income, which is a component of equity. Net income is shown on the Profit Loss Statement.

Interest payable, which is the amount of interest that a company owes to its creditors, is a liability that can be shown on the balance sheet under current liabilities.

Example Corporation Balance Sheet December 31, 2022

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,200
Short-term investments	10,000
Accounts receivable - net	39,500
Other receivables	1,000
Inventory	31,000
Supplies	3,800
Prepaid expenses	1,500
Total current assets	<u>89,000</u>
Investments	<u>36,000</u>
Property, plant & equipment - net	
Land	5,500
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Buildings	180,000
Equipment	201,000
Less: accumulated depreciation	<u>(56,000)</u>
Property, plant & equipment - net	<u>337,000</u>
Intangible assets	
Goodwill	105,000
Other intangible assets	<u>200,000</u>
Total intangible assets	<u>305,000</u>
Other assets	<u>3,000</u>
Total assets	<u>\$ 770,000</u>

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Current liabilities	
Short-term loans payable	\$ 5,000
Current portion of long-term debt	15,000
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Total long-term liabilities	<u>420,000</u>
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Commitments and contingencies	

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Less: Treasury stock	<u>(50,000)</u>
Total stockholders' equity	<u>289,000</u>
Total liabilities & stockholders' equity	<u>\$ 770,000</u>

The accompanying notes are an integral part of this statement.



Key Terms

We will discuss where each of these terms are reflected on **profit & loss statements**.

- Assets
- Liabilities
- Income
- Expenses
- Owner's Draws
- Partner Distribution
- Retained Earnings
- Loans
- Interest



What is a Profit & Loss Statement?

The Profit & Loss or Income Statement is one of the main financial statements of a business. Other names for the income statement include:

- Statement of Income
- Statement of Operations
- Statement of Earnings
- P&L Statement
- Consolidated Statement of Income (operations, earnings)

Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



What is a Profit & Loss Statement?

The Profit & Loss or Income Statement reports:

- Revenues
- Expenses
- Gains
- Losses
- Resulting Net Income which occurred during the accounting period shown in its heading

Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Assets



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Assets are not directly reflected on a profit and loss statement. A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Assets are shown on a company's balance sheet, which is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. Assets are resources that a company owns or controls and expects to benefit from in the future. **Examples of assets include cash, accounts receivable, inventory, and property, plant, and equipment.**

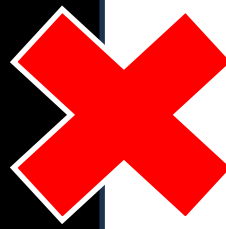
Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Liabilities



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Liabilities are not directly reflected on a profit and loss statement.

A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Liabilities are shown on a company's balance sheet, which is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. Liabilities are debts that a company owes and expects to pay in the future. **Examples of liabilities include accounts payable, notes payable, and long-term debt.**

Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Income

The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Income is reflected on a profit and loss statement as revenue. Revenue is the total amount of money that a company generates from sales during a period of time.

Revenue is typically the first line item on a profit and loss statement, and it is often referred to as the "top line."

It is important to note that revenue is not the same as net income. Net income is the difference between revenue and expenses, and it is often referred to as the "bottom line."



Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx



See notes to the financial statements.



Profit & Loss- Expenses


The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Expenses are reflected on a profit and loss statement as a **deduction from revenue**. This means that the total amount of expenses is subtracted from the total amount of revenue to arrive at the net income.

Expenses are typically divided into two categories: operating expenses and non-operating expenses.

Next slide for more...

Example Corporation Income Statement Year ended December 31, 2022



Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	<u>\$ xx</u>

See notes to the financial statements.



Profit & Loss- Expenses


The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Expenses are typically divided into two categories: operating expenses and non-operating expenses.

Operating expenses are the costs that a company incurs in the course of doing its regular business activities. **Examples of operating expenses include cost of goods sold, selling and administrative expenses, and research and development expenses.**

Non-operating expenses are the costs that a company incurs that are not directly related to its regular business activities. **Examples of non-operating expenses include interest expense, tax expense, and gains and losses from the sale of assets.**

Example Corporation Income Statement Year ended December 31, 2022

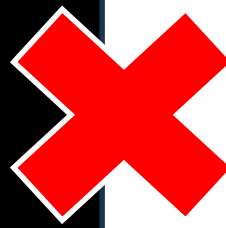


Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	<u>\$ xx</u>

See notes to the financial statements.



Profit & Loss- Owner's Draws



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Owner's draws are not reflected on a profit and loss statement. A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Owner's drawings are a reduction of the owner's equity in the business, not an expense. **They are typically recorded on the balance sheet**, which is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time.

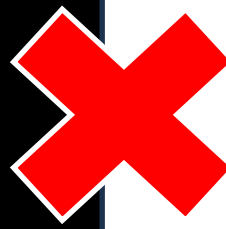
Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	<u>\$ xx</u>

See notes to the financial statements.



Profit & Loss- Partner Distribution



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Partner distribution is not directly reflected on a profit and loss statement. A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Partner distribution is the process of allocating the profits and losses of a partnership to the individual partners. **This is typically done based on the partnership agreement, which will specify how the profits and losses will be shared.**

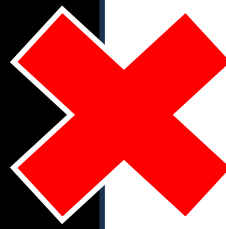
Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Retained Earnings



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Retained earnings are not directly reflected on a profit and loss statement. A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Retained earnings are the cumulative net income of a company that has not been paid out to shareholders as dividends. **Retained earnings are shown on the balance sheet**, which is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. **Retained Earnings are a measure of how much money a company has earned over time that it has reinvested in the business.**

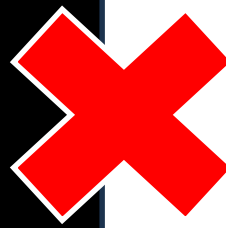
Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Loans



The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Loans are not directly reflected on a profit and loss statement. A profit and loss statement, also known as an income statement, shows a company's revenues and expenses over a period of time. It is used to calculate a company's net income, which is the difference between its revenues and expenses.

Loans are reflected on the balance sheet, which is a financial statement that shows a company's assets, liabilities, and equity at a specific point in time. Loans are a liability, which means that they are a debt that the company owes to another party.

Short-term loans are typically repaid within one year, while long-term loans are repaid over a longer period, such as five or ten years. Secured loans are backed by collateral, such as inventory or equipment, while unsecured loans are not backed by collateral.

Example Corporation Income Statement Year ended December 31, 2022

Operating revenues	\$ xxxx
Operating expenses	xxx
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	x
Income before income tax expense	xxx
Income tax expense	x
Net income	\$ xx

See notes to the financial statements.



Profit & Loss- Interest


The Profit & Loss or Income Statement reports revenues, expenses, gains, losses, and the resulting net income which occurred during the accounting period shown in its heading.

Interest is reflected on a profit and loss statement as an expense. Interest expense is the cost of borrowing money.

It is typically reported as a line item under the "operating expenses" section of the profit and loss statement.

Interest payable, which is the amount of interest that a company owes to its creditors, is a liability that can be shown on the balance sheet under current liabilities.

Example Corporation Income Statement Year ended December 31, 2022



Operating revenues	\$ xxxx
Operating expenses	<u>xxx</u>
Operating income	xxx
Nonoperating revenues, expenses, gains, losses	<u>x</u>
Income before income tax expense	xxx
Income tax expense	<u>x</u>
Net income	<u><u>\$ xx</u></u>

See notes to the financial statements.



Taxes

8 Tax Essentials Business Owners Need to Know...

Your business will need to meet its federal, state, and local tax obligations to stay in good legal standing. Your business structure and location will influence which taxes your business has to pay.

- 1 Choose Your Tax Year** - (Calendar Year: 12 consecutive months beginning January 1 and ending December 31 OR Fiscal Year: 12 consecutive months ending on the last day of any month except December) <https://www.irs.gov/businesses/small-businesses-self-employed/tax-years>
- 2 Income Tax** - Employees pay income tax. Income tax is made up of federal, state, and local income taxes
- 3 Employment Tax** - Employment Tax includes federal income tax, social security and Medicare taxes and Federal Unemployment (FUTA) Tax. Business Owners must deposit federal income tax withheld and both the employer and employee social security and Medicare taxes. You also must report on the taxes you deposit, as well as report wages, tips and other compensation paid to an employee. <https://www.irs.gov/businesses/small-businesses-self-employed/depositing-and-reporting-employment-taxes>



Taxes

Business Owners Need to Know...

- 4 Self Employment Tax** - Self-employment tax is a tax consisting of Social Security and Medicare taxes primarily for individuals (like you) who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners.

As a self-employed individual, generally you are required to file an annual return and pay estimated tax quarterly. Self-employed individuals generally must pay self-employment tax (SE tax) as well as income tax. <https://www.irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes>

IRS Schedule C: (calculate net earnings from self employment) <https://www.irs.gov/forms-pubs/about-schedule-c-form-1040>

IRS Schedule SE (calculate self employment tax): <https://www.irs.gov/forms-pubs/about-schedule-se-form-1040>



Taxes

Business Owners Need to Know...

- 5 Estimated Tax Payments** - Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments. If you are in business for yourself, you generally need to make quarterly estimated tax payments. Estimated tax is used to pay not only income tax, but other taxes such as self-employment tax and alternative minimum tax.

If you don't pay enough tax through withholding and estimated tax payments, you may be charged a penalty. You also may be charged a penalty if your estimated tax payments are late, even if you are due a refund when you file your tax return.

<https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes>



Taxes

Business Owners Need to Know...

- 6 Sales Tax** - A sales tax is a consumption tax imposed by the state government on the sale of goods and services. A conventional sales tax is levied at the point of sale, collected by the retailer, and passed on to the government. Sales tax is calculated by multiplying the purchase price by the applicable tax rate. The seller collects it at the time of the sale. Most states tax some services, and some states tax many services. However, taxation of services is the exception rather than the rule. Few states tax the services of a doctor, dentist, or attorney. Services performed in connection with sale of tangible personal property are often taxed. For more info on what should be taxed by retailers, visit <https://www.marylandtaxes.gov/business/sales-use/index.php>
- 7 Maryland** - Businesses in Maryland are required to collect Maryland's 6 percent sales tax and or 9 percent alcoholic beverage tax whenever a taxable purchase is made. If you make sales in Maryland, you will need to obtain a sales and use tax license. To obtain one, complete a Combined Registration Application. The application provides a one-stop method for registering a variety of tax accounts, including the sales and use tax license. <https://interactive.marylandtaxes.gov/webapps/comptrollercra/entrance.asp>



Taxes

Business Owners Need to Know...

8 Business Personal Property Taxes

In Maryland there is a tax on business owned personal property which is imposed and collected by the local governments. Responsibility for the assessment of all personal property throughout Maryland rests with the Department of Assessments and Taxation.

Personal property generally includes furniture, fixtures, office and industrial equipment, machinery, tools, supplies, inventory and any other property not classified as real property.

The Personal Property Division information page of the SDAT Web site contains links to forms and instructions, brochures, exemptions, tax rate charts and more.

[If you do not file this report annually you will not be in Good Standing with the state!](#)



Insurance

8 Insurance Essentials Business Owners Need to Know...

- 1 Professional Liability/ Errors and Omissions** - covers a business against negligence claims due to harm that results from mistakes or failure to perform.
- 2 Product Liability** - covers a business against lawsuits due to damages caused by one of its products.
- 3 Workers Compensation** - covers medical treatment, disability and death benefits in the event an employee is injured or dies as a result of his work with that business.
- 4 Cyber Security** - designed to mitigate losses from a variety of cyber incidents, including data breaches, business interruption, and network damage.



Insurance

Business Owners Need to Know...

- 5 Property** - covers equipment, signage, inventory and furniture in the event of a fire, storm or theft.
- 6 Vehicle** - covers company vehicles used and vehicles should be fully insured to protect businesses against liability if an accident should occur.
- 7 Business Interruption** - compensates a business for its lost income if a disaster or catastrophic event causes a business's operations to be interrupted, or if staff can't do work in the office, manufacture products or make sales calls.
- 8 Bonding** - Certain businesses need financial guarantee insurance before large contracts to be awarded. This protects the client in case you don't finish the project.

Learn more at <https://www.entrepreneur.com/article/241026>, <https://www.cisa.gov/cybersecurity-insurance>, https://content.naic.org/cipr_topics/topic_federal_insurance_office_fio.htm



Questions & Answers





Panel

Panel:
**Accounting, Human
Resources, Legal,
Taxes, and Insurance**

Next Week

Session 6



Preparing for Capital & Essential Financial Documentation

During this 3-hour session, for the first hour, the facilitator will lead an interactive discussion on the Participants' greatest challenges and how to address them with accessing capital from various sources and preparing the financial documentation and narratives necessary to attract funding. During the second hour, we will be joined by a panel of lenders, investors and accountants who will share their experiences, take questions and offer advice.

Homework will be assigned to be submitted by the next class.

