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# Key Accounting Questions Answered

When Pam Bauer spoke to MANA's Upstate New York Chapter meeting last fall, attendees were reminded of the importance that accurate bookkeeping and accounting practices play in the success of their agencies. Through a series of questions and answers, Bauer, president of Abacus Accounting Solutions, Inc., Webster, New York, took her listeners through a number of the key areas that today's independent manufacturers' representative had better keep uppermost in mind.

Among the key areas she covered in her presentation was the importance of the rep firm having a business plan. The importance of such plans has long been emphasized by MANA, and Bauer echoed that message as she explained, "Business plans serve as the 'road map' of your enterprise. Simply stated, it shows you how to get where you want to go. If that isn't important enough, business plans assist the rep in avoiding unnecessary surprises that could put a company out of business — in a hurry. Such plans also ensure that the agency owner has thought through his venture and possesses a clear vision as to how he is going to achieve stated goals."

***"Business plans serve as the 'road map' of your enterprise."***



Among the chief elements of a well-thought-out business plan, according to Bauer, are a(n):

- Executive summary.
- Company profile and mission statement.
- Competitive analysis.
- Marketing strategy.
- Staffing requirements.
- Financial assumptions and projections.

(It should be noted that each of these elements is explained in depth in a number of publications that are available from MANA: [www.MANAonline.org](http://www.MANAonline.org).)

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## Agency Business Structures

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In another area of importance to reps — business structures — Bauer explained that some of the more common forms of agency business structures reps are involved with are:

- Sole proprietorships and DBAs — These two are the simplest forms a business can take. Schedule Cs are used to report the rep's business income and expense. "All profits are taxed at the owner's personal

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tax rate. They do not have liability protection.”

- S Corps, LLCs, LLPs — These represent the next simplest form of business. “They report their respective income and expenses in either form 1120S or 1065. The profits and some of the other non-business deductible items are then passed through to the individual shareholders on a schedule K1. These items are then taxed at the shareholder’s personal tax rate.

- C Corps — The most complex form a business can take. “All business income and expenses are reported on form 1120. All profits are taxed at that time at the business’ tax rate and paid through the business.”

After covering some of the critical bookkeeping/accounting steps an agency should take at the outset of opening its doors, Bauer went on to cover in a question-&-answer format many of the common areas of concern reps have. Some of those areas follow:

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### Travel & Entertainment

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Among the more common questions asked in this area is, “When is travel not a business deduction?” According to Bauer, “Costs for transportation, lodging and meals are generally deductible if the expenses are reasonable and necessary, and if the trip is primarily for business.”

Several questions were posed regarding what meals are deductible in the course of business travel. Bauer explained, “If a lunch with an employee is to discuss business, or reward the employee — and it is reason-

Abacus Accounting Solutions, Inc., Webster, New York, provides comprehensive bookkeeping and tax service for small- to mid-sized privately held companies throughout the country. They do this through their web site: [www.abacusaccountingsolutions.com](http://www.abacusaccountingsolutions.com). Abacus also provides financial analysis and comparison to industry standards to their clients on a monthly basis that outlines how a company is doing with regard to meeting respective goals. This is accomplished through e-mail. Abacus Accounting Solutions, Inc. is a progressive accounting solutions company that believes in passing the savings they see in productivity on to their clients.

able and necessary — then 50% of it is deductible. In addition, meals that are eaten alone on the road are only deductible if they are part of a business trip, and then only 50% of the cost is deductible. In order for it to be considered a business trip, you must be away long enough to need to rest (usually overnight). If you travel by ocean liner, cruise ship, or other form of luxury water transportation for business purposes, there is a daily limit on the amount you can deduct. Please check with your tax preparer for the details.

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### Automobile Expenses

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Since all manufacturers’ reps spend a good deal of their time on the road in their automobiles, one area of special interest to chapter meeting attendees was automobile expenses — and how to keep track of them.

Among the areas of importance that the accounting executive covered were:

- The current mileage rate for all business miles driven is 37.5 cents per mile.
- Automobile users must either use the current mileage rate times miles driven, or actual expenses as they relate to business use of the vehicle. “You will also need to keep a log verifying the miles. The actual expenses that are involved in the business operation of your vehicle are gas, oil, repairs and maintenance, etc.”
- When the question of leasing vs. buying a car was raised, Bauer offered, “When you lease a vehicle, you expense the current year’s lease payments for the life of the lease. When you buy a vehicle you must depreciate the expense over the life of the vehicle. This can vary, so check with your tax professional. Usually it’s somewhere between three and five years.”
- And finally, on the question of business and personal use of a vehicle, she explained, “You need to keep track of how many miles you have used your vehicle for business or assign a percentage of the actual cost based on business use. Then you would just do the math — mileage or actual.”

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### Personal vs. Business Expenses

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In a discussion of what results when a rep runs all of his business expenses through a personal bank account, Bauer emphasized the continued importance of keeping accurate records. “IRS experts say expenses must be kept separately, diligently. Good records will assist you in monitoring the progress of your busi-

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ness, preparing your financial statements, identifying sources of receipts, keeping track of deductible expenses, and preparing your tax returns and supporting items reported on those returns. If you run everything through one bank account this becomes next to impossible.

“Also, the law has a rule for corporations. It is

called ‘Not piercing the corporate veil.’ By this they mean that if you mix your personal with your business assets and liabilities (i.e., bank accounts and loans) you are no longer behaving like a real corporation and therefore should lose your corporate status. This means that you are no longer legally protected by that veil.”

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