

### 3. Your Chart of Accounts

#### Capital Expenses

- Certain expenditures are categorized as capital expenses. This includes items purchased that will appear on your balance sheet as "fixed assets." Unlike "current expenses," fixed assets are not written off in the current month, but are depreciated over a period of time. Fixed assets include, but are not limited to, purchases of real property, office equipment, furniture and fixtures, and improvements.
- Following is a guideline as to the type of expenses which are considered capital expenses and the length of time over which the IRS stipulates that they must be depreciated. The length of the period which can be claimed as a depreciation expense is given by month, as indicated in the right-hand column of the table below.

Category / Item	Depreciation Period	Amount of the initial cost that can be claimed as depreciation expense per month
LEASHOLD IMPROVEMENTS: This includes improvements to the premises, such as electrical, plumbing work.	39 Years	Divide the initial cost by 468
OFFICE EQUIPMENT: Dryer	5 Years	Divide the initial cost by 60
Computer	5 Years	Divide the initial cost by 60
Printer	5 Years	Divide the initial cost by 60
Scanner	5 Years	Divide the initial cost by 60
Modem	5 Years	Divide the initial cost by 60
ROUTER	5 Years	Divide the initial cost by 60
COMPUTER SOFTWARE	3 Years	Divide the initial cost by 36
CLEANING EQUIPMENT: Vacuum Cleaner	5 Years	Divide the initial cost by 60
Stapler	7 Years	Divide the initial cost by 84

Other tangible property costing over \$500 should be depreciated as well (check with your accountant or obtain a ruling from the IRS). Tangible property will appear on your balance sheet as "fixed assets."

- Note that we have not included automobiles here since we assume you will be either reimbursing employees for using their own automobiles,

or leasing (rather than purchasing) company vehicles. Should you provide company vehicles which have been purchased, you should check with your accountant to determine how they may be depreciated and what amount may have to be claimed for personal use (either by you or your employees).

- Any interest paid in connection with the purchase of capital expense items is normally deductible as incurred. Service contracts purchased in connection with the purchase or lease of tangible property are normally expensed over the period of the service contract.
- Leasing tangible property has two potential benefits: (1) it may provide the opportunity to conserve capital and (2) a non-capital lease cost can usually be written off as a business expense. As you may wish to discuss this alternative with your accountant. *NOTE: A "non-capital lease" is one which is specifically identified as such in the lease agreement.*
- NOTE: Accounting principles are normally subject to change from year to year so that information presented here may not be current at the time you view this presentation. This information is provided as a guideline only and should be checked with the IRS or qualified tax professional for current deductions and categorization of expenses.

### Your Balance Sheet

A balance sheet is composed of two primary elements: (!) your assets, which are divided into "current" and "long term" assets and (2) your liabilities, which are also divided into "current" and "long term". The "net worth" is the net worth of your business by subtracting your liabilities from your assets. List all assets and liabilities which will be identified on your balance sheet included there under:

#### ASSETS

**Cash** This is the amount of cash you may keep on hand in your business checking account to pay for out of pocket expenses such as treating a staff to a pizza, buying a birthday cake for an employee, paying COD charges on a delivery, postage, and other minor miscellaneous expenses.

- ♦ **Checking:** The total funds in your business checking account after deducting all outstanding checks which have not yet cleared the bank.



- The table we exhibited earlier in this presentation identifies the term over which fixed assets are depreciated. For purposes of your balance sheet, deduct the allowable used portion of depreciation from the original purchase price to determine the current value of the item at the end of the period.
- For example, if you paid \$2,000 for a computer and depreciate it over a five year period on a straight-line basis (i.e. the capital cost per year). If you have had this equipment for one year, you will have depreciated it 20%. It would appear on your balance sheet as a fixed asset with a value of \$1,600 at the end of that fiscal period. The "accumulated depreciation" in this example would appear as a contra asset following the listing of the fixed assets on your balance sheet.

- ❖ **Deposits:** In addition to the assets discussed previously, your final fixed asset identification on your balance sheet should be the total of all deposits you have made to other companies for services. For example, you are required to reimburse your telephone company for using their equipment, or you may have security deposits on a car or paid rent on office space, or for anything else that is reimbursable to you at some future time. The total of these deposits will be identified by the following:

**TOTAL ASSETS:**

- The total assets will be the sum of your current assets plus your fixed assets plus your business accounts receivable (only) = the company's net worth. This should be determined by subtracting the following outstanding long-term liabilities from the total assets.

**CURRENT LIABILITIES:**

The total of all amounts due for goods or services which remain unpaid at the end of the period are included here. However, do not include any long-term liabilities outstanding for the payment on loans or payments on bonds and notes as these amounts will appear under "current liabilities on notes payable" or "notes payable" as follows.

- ❖ **Accrued FUTA Taxes:** Un-remitted federal unemployment insurance taxes. You are required to contribute .8% on the first \$7,000 in wages earned by each employee during a calendar year.
- ❖ **Accrued SUTA Taxes:** Outstanding state unemployment insurance which are due but not paid at the end of the period.

This amount varies by state and your history of unemployment insurance claims. In Florida the minimum is 2.4% on the first \$7,000 an employee earns in a calendar year.

- ❖ **Payroll Taxes Payable:** This current liability pertains to withholding taxes and social security taxes deducted from your employees, along with your share of FICA taxes that have not been remitted at the end of the period. Your employees' share of FICA is 6.2% of the employees' wages for Social Security and 1.45% for Medicare (total of 7.65% that you and your employees contribute and remit as your share).
- ❖ **Sales Tax:** If you are required to collect state sales tax on your service in your state, you will indicate a liability for any unremitted sales tax owing at the end of the period.
- ❖ **Current Portion of Long-Term Liabilities:** This amount will be current or payable within the next 12 months. It includes on long-term business contracts, such as finance contracts, that include balances owing at the end of the period. These liabilities are not current, but these amounts will appear under "long-term liabilities" and "current portion of long-term liabilities".
- ❖ **Accounts Payable:** This includes amounts for expenses incurred during the period for which invoices had not been received at the end of the period, as well as accrued payroll taxes for employees that were not actually paid at the end of the period.

**LIABILITIES**

**Non-current** long-term total outstanding amount due at the end of the period after current balances due will have been paid. This includes (1) obligations on long-term capital leases or finance contracts. (2) obligations that are generally not considered a long-term liability because they are due within the next 12 months, so do not include your future lease obligations when calculating your long-term liabilities.

- To determine your company's "equity" (or net worth), simply add up the total of your current and fixed assets and deduct the total of your current and long-term liabilities. You should review your company's balance sheet once a month to monitor its current financial position.

**Your Profit & Loss Statement**

- The second portion of your financial statement is the Profit and Loss statement, also often called an Income Statement. This report will provide you with financial information you need to prudently manage your business month by month and year by year. Not only should it track your total revenues and expenses, to be effectively used as a management tool it needs to present this information in a manner that will help you use the information to run your business. Your Profit and Loss statement should be formatted as follows:

**INCOME:**

- It is important that you identify your sources of revenue based on the type of clients you serve and the work you perform for them. Therefore, under the INCOME heading you should identify your monthly income under the following headings:

- ❖ Onetime cleaning
- ❖ First-time cleaning
- ❖ Biweekly cleaning
- ❖ Weekly cleaning
- ❖ Other cleaning services
- Special services (e.g., cleaning of drapery, delimiters, and other household items)
- Other income (e.g., bank interest, CD's or interest charged on your own money, etc.)

By tracking your various sources of income you can determine how much is contributing to your overall revenues as a percentage of total income.

**EXPENSES:**

- It is very important that you review your actual results for each expense on every single month in order to identify strengths and weaknesses in the operation of your business. While some expenses vary from one month to the next, you need to be aware of these variations and take corrective measures as appropriate. **YOU CANNOT EFFECTIVELY MANAGE YOUR BUSINESS WITHOUT HAVING ACCESS TO CURRENT AND ACCURATE FINANCIAL INFORMATION.** Your Monthly P&L statement is a valuable management tool.

- THE NUMBERS ON YOUR PROFIT AND LOSS STATEMENT NEED TO REFLECT THE EXPENSES INCURRED FOR THE CURRENT PERIOD WHETHER OR NOT THEY HAVE BEEN ACTUALLY PAID DURING THE CURRENT FISCAL PERIOD. For example, if you issue payroll checks on the 1st day of the month in payment for the last week of the previous month, the expense was incurred during the prior month and must be allocated to the prior month. Conversely, if you issue a check for insurance in one month which is in payment for a year, you only include 1/12th of the amount in your monthly P&L (the prepaid portion appearing as a "Prepaid Expense" on your Balance Sheet).

- ❖ **Direct Cleaning Payroll:** This is the "gross" amount paid to your cleaning staff for the current period (gross payroll less payroll deductions), excluding any deductions for "employee incentive programs" (including your award programs that are not part of any formal program). Determine the weekly

- ❖ **Continuing Education:** This is for expenses incurred in connection with staff training or seminars attended by your employees.

- ❖ **Employee Incentives:** Expenses on bonuses, commissions, etc. which are above and beyond the standard incentive program are included in Direct Cleaning Payroll.

**Payroll Taxes:** Your share of FICA (Social Security and Medicare at 7.65% of gross payroll), FUTA (Federal Unemployment Tax at 7.65% of gross payroll) and SUTA (State Unemployment Insurance at your specified current rate) are payable only on the first \$7,000 of annual income during a calendar year. Do not include your employees' share of payroll taxes in this number (although it will appear as a liability on your Balance Sheet).

**Workers Compensation Insurance:** If you have made an advance payment for coverage for a period of time that has yet to expire, here again you only include that portion of the payment which applies to the current period. Since your rate is a specified percentage of payroll, depending on your state's rate and on your claims record, you should simply calculate the number using this known % of payroll.

- ❖ **Insurance:** Your general liability insurance must also be amortized over the term of coverage. Again, if you pay an

annual premium in advance during the current period you do not expense the entire premium in the current month but divide the annual premium by 12 and expense only the portion of the premium that applies to the current period.

❖ **Cleaning materials and vacuum repairs:** To accurately determine your actual cost of materials and supplies used during the current period, you arrive at this expense as follows:

➤ Take the cost of your beginning inventory of cleaning materials and supplies at the start of the current period, add the cost of purchases made during the current period, and subtract the inventory on hand at the end of the current period. Otherwise, you will get an accurate picture of the actual cost of cleaning materials and supplies used during the current period.

➤ You may order cleaning materials and supplies on credit and pay for them in the current month and not include them in the current month's expense for anything but the month in which you receive them. If you throw out cleaning materials and supplies, you should expense them with an expense for the month and no expense for the next two months.

➤ Depreciation for vacuum cleaners and other equipment are written off over a period of five years in the month that they are incurred.

➤ Depreciate vacuum cleaners purchased during the current period over a five year period at the rate of 2% of purchase price per month (in other words, 24% expense annual to 1/60 of the initial cost on a monthly basis and on the statement). However, any un-depreciated cost can be written off prior to five years when the vacuum is put out of service (junked).

➤ This category includes refunds made to clients for cleaning services and for reimbursements to clients for broken items or other damage not covered by or claimed on insurance.

➤ Many owners include the cost of T-Shirts, golf (polo) shirts, and aprons under "cleaning materials" or miscellaneous. However, this should be shown as a separate item. New shirts and aprons should be included in "inventory" as an asset and those issued out should be expensed during the period.

❖ **Miscellaneous:** This is a "catchall" category for small expense items or infrequently occurring expenses, including items paid out of petty cash, coffee service, staff treats (such as sodas,

coffee and other items provided for your staff), etc. Other items which might normally be identified individually on a P&L Statement that you should include here (due to the minimal expenses you're likely to incur in connection therewith) are: bad debts (uncollectible invoices), bank charges, donations, dues and subscriptions, entertainment expenses, fleet control, business licenses, repairs and maintenance of property and office equipment (but not vacuum repair costs, which are included in cleaning supplies and equipment repairs), penalties (generally meaning late fees).

- ❖ **Office supplies:** Client invoices, stationery, business cards, paper supplies, staples, staplers, floppy disks, disc storage trays, paper tape, basic and dot-matrix printer and copier cartridges, pens, pencils, hole punches and other items used in the office. Do not include the cost of things identified as capital assets and expected to be depreciated over time.
- ❖ **Transportation expenses:** Expenses connected with related equipment incurred during the current period and be included here if you reimburse or pay for employees for gas, mileage, repairs, etc.
- ❖ **Owner's remuneration:** Your total personal remuneration, including assistance and other office help should be included here. Do not include any salary paid to the owner. We refer to the total remuneration earned during the period which has not previously been paid out during the current fiscal year.
- ❖ **Advertising:** All advertising expenses incurred during the current period, regardless of whether or not paid during the current period.
- ❖ **Property:** Including any common area maintenance fees, the current month's rent and related CAM fees (if applicable).
- ❖ **Maintenance & Repairs:** This category includes expenses incurred in connection with office equipment or repairs to property. It does not include vacuum repair costs, which are identified under Cleaning Supplies & Equipment Repairs. You may also include equipment service contracts in this category.
- ❖ **Professional:** Fees paid or payable to outside professionals for accounting, legal and/or payroll service during the period.

- ❖ **Recruiting expense:** Help wanted advertising, finder's fees (compensation for another employee referring a new hire), and wages and payroll burden paid or payable to new employees for non-income producing (office) training during the period.
- ❖ **Telephone and utilities:** Pertaining to the period's charges, whether paid or not at the end of the period.
- ❖ **Depreciation & Amortization:** This is what you will expense the current allowable portion of depreciation on those items identified earlier on. In the event you have a lease on furniture and/or equipment that can list the expense here as it is incurred. (Note: A lease is one that has been designed with a nominal buy option at the end of the cost of the equipment, usually spread almost evenly over the term of the lease.)
- ❖ **Non-Capital Lease Expense:** This is the amount that is leased based on a fair market value at the time the lease is a non-capital lease. Expenses for a non-capital lease may be recorded as follows:
- ❖ **Meals and Entertainment:** Any expenses incurred relative to an entertainment, meeting, seminar, including travel and other out of pocket expenses.
- ❖ **Interest Expense:** This is the amount of interest on notes payable (including bank notes or finance contracts), credit card charges, bus-related credit card purchases, or other incurred obligations.
- ❖ **Salaries and Wages:** Salaries paid or owing to you or your partner for the current period.

Documents relating to  
Your Chart of Accounts

Sample Chart of Accounts

Sample Balance Sheet

Sample Profit & Loss Statement

**SAMPLE**