

## Preparing Your Business Expense Summary - EZ Method

It is very important that you properly record all of your business expenses. Even if you have a loss you need to include every expense item as you will receive a substantial tax benefit. For some items you may not have done a good job collecting records. The most common deductions are pay phone, tolls, parking, ice, etc. You need to make an effort to do a good faith reconstruction of these costs. To summarize your expenses and fill out our forms you will need a calculator with printing tape and documents for the current tax year as follow:

- Business Bank Statement and Canceled Checks
- Personal Bank Statements and Canceled Checks
- Cash Paid Out Receipts
- Credit Card Statements with any Business Purchases
- Mileage logs
- Day Book or Appointment Calendar to Assist in any Reconstruction of Any Records
- A supply of 3"X5" paper slips
- Several Pencils - Use pencil to fill out the forms so you can erase mistakes easily.

**Audit Trail** - It is extremely important that you be able to prove to the IRS how you arrived at each number you put on Form 1 - Income and Expense. To do this you need to properly prepare your records and then keep them together for at least seven years. The EZ method is simple to use and appropriate for sole proprietorships but is not as desirable for corporations and partnerships. If you have a corporation or partnership, please call us to discuss having our firm prepare a set of double entry books for your firm.

**EZ Method** - Go through the categories in Form 1 and write the description on a 3"X5" slip of paper. If you have a number of expense types unique to your business then prepare a slip for each. For example, if you have a lot of dump fees, then prepare a dump fee slip. Take these slips and spread them over the top of a large table. These are the categories (piles) you will use to fill out Form 1 - Income and Expense. Take the canceled checks from your business account and put them in piles under the appropriate category slip. If your bank provides photo copies of your checks in a reduced size, make an extra copy of each page. Cut these into individual checks and sort them into the appropriate pile. If you do not get canceled checks or small copies or you have lost a bank statement, use your check stubs or check register to prepare a slip for **each check**. On the slip you must write the check number, whom the check was written to, date of the check, and amount. This will be required to keep your audit trail for the IRS. Canceled checks are best.

Go through your personal checks and put the only the ones for business into the correct pile. Take your cash paid outs' receipts and sort those into the proper piles.

**Sub-Contractors/1099** people require a list of each check or payment and additional information - FORM 5.

**Credit Card Statements** present a special problem. Often several different expense categories are covered by the different purchases on one monthly statement. Go through the statement and mark clearly on the page each different type of expense. Total up each category, run two tapes to make sure your math is correct, and do three or four months of statements at one time. Take a 3"X5" slip and write the credit card (MBNA VISA, Bank One MasterCard, etc.) name, dates covered, and amount. Attach the calculator tape to the back of the slip and sort it into the correct pile. If you are missing a credit card statement they are easy to obtain from your bank. Make sure you have a complete set. Watch your dates as the first and last monthly statement of this tax year will have charges outside the current tax year.

(Put your firm contact information in this area.)

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Total up each pile. Run two tapes and make sure your figures agree. You can make notes on the tapes to show correction. You do not have to have perfectly clean tapes. Adjust the total should you have an error in keying your numbers. Staple the tape behind the slip with your category written on it. For small piles you can staple all of the documents to the cover slip with the calculator tapes. Larger piles need to be put into big envelopes and the cover slip with the category and tapes should be stapled on the outside of the envelope. Use the total for each pile and transfer them to Form 1 - Income and Expense for each category.

**Sales** - If you pay sales tax, you would use the Sales Tax Summary - Form 3B. Enter all of your sales tax forms and total up the columns. Run two tapes. If you do not pay sales tax, you should be able to take sales from your deposits in your business and/or personal bank statements. You may have some sales paid in cash that you have not put into your bank account. In the following form you will list those in the Cash column. This column is used only for Cash Sales not deposited into the bank account. If you have a separate bank account for your credit card receipts or more than one business/personal account into which you have deposited business revenue, you will need to make extra copies of one or more of these forms.

**Form 4**

### Deposit Sales Summary Method

Month	Total Deposits	Loans to Biz by Owner/Bank/Others	Cash Sales Not In Total Deposits
Jan			
Feb			
Mar			
Apr			
May			
June			
July			
Aug			
Sept			
Oct			
Nov			
Dec			
<b>Totals</b>			

**Reconstruction of Records** - For expense items such as pay phone expense claimed it is important that you make clear notes on how you determined the amount you are listing. You will find your appointment book, calendar, or day book helpful in jogging your memory. Prepare a 3”X5” slip with the total and sort it into the correct expense pile. Attach your notes on the reconstruction to the back of the slip.

Some of the forms may not provide enough space for your records. Please make additional copies as needed.

***QUESTIONS? Give us a call!***

(Put your firm contact information in this area.)

Client: \_\_\_\_\_ Year: \_\_\_\_\_

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