

# Popular Business Misconceptions Cost You Money!

By J. Stephen Pope

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Faulty information costs you money! Which of these popular business misconceptions do you believe?

Popular Misconception #1:  
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"We Only Need Our Books Done Once A Year For Tax Purposes."  
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Are Your Accounting Records Adequate To Run Your Business?  
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Although it is important to keep records for tax purposes, it is not the only reason (or even the primary reason) good accounting records should be kept. Another frequent reason clients request financial statement preparation is to obtain bank financing. Although important, this also is not the primary purpose of keeping good records for your business.

Good recordkeeping will enable you to extract meaningful financial information for your business that will help you to manage it properly. If you can't access this information, you will not be able to manage your business properly. Bad management leads to business failure.

Yes, the primary reason good accounting records should be kept is to produce periodic (at least on a monthly basis) financial statements for management information purposes. Only with this current financial information can you properly manage your business. This information can alert you to declining sales, excessive expenses, tax opportunities, cashflow problems, and many other vital concerns for your business.

To be of value, this accounting system should be set up with meaningful account categories and departments. It may be cost-effective to have an outside accounting service do the monthly

bookkeeping. However, with accounting software that is readily available, you don't have to be an expert bookkeeper to do your own books and extract meaningful financial information.

If you do your monthly statements yourself, it would still be prudent to have your accountant or business advisor help you set up your system and, as well review such information with you to discuss problems and opportunities.

#### Popular Misconception #2:

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"Writing My Hobby Off As A Business Loss  
Saves Me A Lot Of Income Tax!"

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Is Your Hobby A Tax Write-Off?  
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If your business has no reasonable expectation of profit, if it is a hobby and not really a business, you will ultimately fail in your tax objective. Since your losses are being incurred for a hobby and not a true profit generating business, the tax authorities will take the position that you aren't entitled to any deductions. This is a double blow. First, you're losing money. Second, you're denied tax deductions.

It is true, however, that if you enjoy what you're doing, you'll do better at it. You'll be willing to work longer hours and you'll be willing to put up with more hardships in order to make your business a success.

Rather than attempting to have the tax system subsidize your hobby, why not turn that favorite pastime into a real, profit generating business? This is a doubly rewarding. First, you make money at something you love doing. Secondly, the tax authorities legally have to allow your reasonable expenses to earn your now substantial business income.

Prove that you're running a business by running a business. Prepare and follow a proper business plan. Keep good accounting records with at least monthly financial statements to give you the information you need to manage your business. Above all, make money from what you do.

#### Popular Misconception #3:

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"I Don't Make Enough Money to Incorporate!"

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Will Incorporating Really Benefit You?  
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Some persons resist the idea of incorporating themselves because the tax savings may not justify the added costs of incorporation, annual minutes, and extra tax returns. However, incorporation gives advantages that go far beyond tax savings.

Insurance may give you some protection against loss. However, you may suffer business losses and lawsuits that may not be covered. For extra protection, consider incorporating yourself. The limited liability of your own corporation alone may justify the additional cost and complexity.

Corporations may also be used for income-splitting with your family, as well as estate planning and retirement planning objectives. Additionally, corporations lend some credibility to smaller businesses

and may enhance your image and prestige in the eyes of clients or suppliers.

Lower corporate tax rates will generally apply on small business income. Even in loss years, wages can be paid by the corporation to you so that you may utilize personal tax credits available. If unincorporated, these credits might be lost forever. The now larger corporate losses can be carried forward to future (hopefully more profitable) years.

A full analysis of the advantages and disadvantages of incorporation is beyond the scope of this report. However, being incorporated may give you more flexibility and advantages than you originally anticipated. Certainly, it is not prudent to reject it as an option simply because it is more complicated and costly. In fact, it may be one of the best investments you ever made.

#### Popular Misconception #4:

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"I really need an office out.  
Being home-based makes me look amateur!"  
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#### Is A Home Office REALLY Professional?

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Many times small business persons make the mistake of generating unnecessary overhead in order to impress clients and prospects. Often this attitude leads to escalating debt and business failure. One such example is getting an impressive, but expensive, commercial office space.

Customers aren't stupid. They can see when such outside space is necessary or advantageous for them. They can also see when it is a waste of money and designed to fuel your ego. What matters most to clients is whether they are getting cost-effective results or not. If your product or service delivers such excellent value, your customers will be impressed and come back. In contrast, if one allows his ego to get in the way of satisfying the customers' needs, they will go elsewhere.

With the move to telecommuting, downsizing, networked communications, and home-based businesses, operating from your home office is actually smart and trendy. Can you think of a more appropriate location for a consulting firm specializing in home-based businesses? They of all businesses should set the example in cutting unnecessary expenses and operating efficiently.

This is not to say that there aren't any disadvantages to being home-based. One certainly must be well organized, disciplined, and willing to follow good time management principles. This alone could mark you as more professional than other businesses, home-based or not.

Expensive office space is not the answer to reflecting a professional image. If you are truly concerned about your image, offer quality service. Make sure that all your corporate communications (telephone, websites, printed materials, et cetera) reflect the professional nature of your business.

#### Popular Misconception #5:

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"Since we're not seeking financing,  
we don't need a business plan."  
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#### Do You REALLY Need a Business Plan?

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To obtain financing, many persons will prepare a business plan. Although entrepreneurs will go to great lengths to get their loan or capital, these same business persons will not bother to plan ahead very far or analyse their business. Even if you required no additional money, preparing a business plan can help you to succeed in your business.

Running a business without a plan is like going on a trip without a map, sufficient gas, money, or even a destination. Just as you wouldn't go on a vacation without some planning, no business can be successful without it. Putting that plan in writing helps you to think out a strategy for successfully operating and growing your business.

Where is your business today? Where will it be tomorrow? What is your mission statement? What product lines are profitable? Which ones aren't? What business do you think you are in? What business do your clients think you are in? Should you be in a different business? Is your product or service less attractive to your clients? How are competition, global commerce, technological and social changes affecting your company? What is your competitive strength? What are your weaknesses? Who are your biggest competitors? What are their weaknesses and strengths? What is your marketing strategy?

What are your projected income and expenses and cashflow for the next year? How about the next five years? Do you have a capital budget? What determines whether you buy an asset or not? Do you have an exit strategy? How will you manage growth? Do you have a financial plan? Do you have an operations plan? What definite sales and net profit targets have you set for this year and the next five years? What factors could interfere with the attaining of these goals? What contingency plans have you made to deal with such problems?

The purpose of these questions is to get you thinking and planning. If you fail to plan, you plan to fail. Although your accountant or business advisor can help you prepare your business plan, only you can set the appropriate goals and follow through on them. Yes, you definitely need a business plan, not just for obtaining capital, but as a roadmap for your business.

Popular Misconception #6:

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"I like bartering with clients  
because it saves paperwork and taxes."  
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Are You Reporting Barter Transactions?  
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Bartering is an excellent way of doing business. However, contrary to popular belief, some barter transactions are taxable, both for income and sales tax purposes.

Legally, you must maintain adequate financial records for your business. Barter transactions made by your business must be reported to the appropriate taxation authorities and taxes paid. However, transactions between friends not engaging in business with each other may not be taxable.

If you are an auto mechanic and I am an accountant and I swap accounting services for your car repair services, the transaction in this case is most likely taxable, even if we are friends. However, your accounting fees should be deductible as a business expense and so should the business portion of my car expenses. Note also that sales and similar taxes may apply on this transaction.

On the other hand, if I trade accounting services for a vacation for my family, I should really declare

the value of such services as income. The firm supplying the vacation would be able to deduct that value as accounting fees. Any sales or similar taxes would have to be paid on such transaction.

Many persons don't record such transactions. For some, it may be a matter of wanting to believe that you don't need to be bothered with the extra paperwork or taxes. Remember, though, that ignorance of the law is no excuse. Legally, you must keep proper records and pay all taxes due.

Popular Misconception #7:  
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"All My Workers Are Self-Employed, So I Don't Need To Bother With Payroll Or Workers' Compensation."  
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Do You Need To Pay Payroll Taxes?  
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To save on payroll taxes and workers' compensation premiums, many employers arrange their affairs in such a way that those working for them are self-employed, independent contractors. This is good tax planning.

On the other hand, some employers take the position that all those working for them are self-employed, whether they are or not. Although it is tempting to eliminate payroll taxes and workers' compensation premiums, care should be taken to do so legally.

Whether those working for you are employed or self-employed is a question of fact (which can be determined by the Courts). Do you supply the tools and vehicles? Do you determine the working hours? Do you have the right to control how the job will be done? Do you pay a flat-rate or by-the-hour or a salary? Does your worker have other clients?

By asking several such questions, a pattern will emerge as to whether your worker is employed or self-employed. If it turns out that your worker fits all the criteria of an employee, don't say he's self-employed. On audit, you would still be responsible for the payroll taxes (and penalties and interest as well).

Even if your workers are considered independent contractors by the Income Tax Department, it is still possible that they will be considered to be "workers" for purposes of Workers' Compensation legislation. Thus, it is the responsibility of the employer to determine whether such coverage is necessary or not. Failure to obtain proper coverage could subject you to substantial (and unnecessary) costs.

In review, calling someone self-employed, doesn't necessarily make them self-employed. If you have a dog, call it a dog. Your position that your dog is really a cat will not be successful. Likewise, make sure that your position regarding your workers is legally correct.

Popular Misconception #8:  
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"My Accountant Charges Too Much. I Can't Afford It Anymore."  
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Is Your Accountant Worth His Fee?  
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Many business persons view bookkeeping, accounting, and tax preparation as necessary evils. In their view, accounting fees are an expense to be reduced, deferred or even completely eliminated.

A good accountant, however, can give you benefits far in excess of the fees charged. Well-designed accounting systems will enable you to extract meaningful financial information for your business that will help you to manage it properly, avoid business failure, and alert you to declining sales, excessive expenses, tax opportunities, cashflow problems, and many other vital concerns for your business.

Your accountant can save you lots of money with the advice you receive on tax and other business matters. As well, a competent accountant can be a valuable resource in discussing business problems and opportunities with you.

Popular Misconception #9:

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"Nobody Makes Money On The Internet."

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Can You REALLY Profit From The Internet?

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Many people feel that the internet is all hype. Many others feel that it is overrated. Still others are of the opinion that it may be good for some types of business, but not theirs.

Typical comments heard include: "I've lost money on the internet...Major corporations have lost millions...Do you personally know anyone who has made money from the internet?"

However, if you check out the list of recent billionaires, a high proportion of these are internet-related, and many of them under forty years of age. As well as the very rich, you can find many cases of more modest financial prosperity resulting from internet commerce.

It is true that many are losing money on the internet. It is also true that many don't know what they're doing. However, with the proper assistance, you, too, could profit from the net.

\*\*\*\*\*RESOURCE BOX\*\*\*\*\*

J. Stephen Pope, President of Pope Consulting Inc., <http://www.popeconsultinginc.com/> has been supplying his clients with expert small business consulting services for over twenty years.

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