

Small Business Advancement National Center
 University of Central Arkansas
<http://www.sbaer.uca.edu>
 SBANC Newsletter, January 27, 1998

INFORMATION FOR YOUR SMALL BUSINESS

The Inc. Online Newsletter (<http://www.inc.com>) is another great source of information for your small business. They have a new research tool for entrepreneurs. The Online Sleuth gives you inexpensive, fast access to Dun & Bradstreet credit reports, company information from the Thomas Register, trademark searches, breaking product news, and more. A broad array of information is available courtesy of their partner WinStar Telebase Inc. Take a look in the new Online Sleuth area:
http://www.inc.com/online_sleuth/

THE ADVANTAGES AND DISADVANTAGES OF INCORPORATION

Many entrepreneurs may not fully understand the advantages and disadvantages of incorporation. Paul Dunn, Northeast Louisiana University, Leo Cheatham, Northeast Louisiana University, and Carole Cheatham, Northeast Louisiana University address this topic in their paper, "Small Business Clients Should Take Care--Accountants and Lawyers May Not Understand the Advantages and Disadvantages of Incorporation (1997)."

Choosing whether or not to incorporate usually happens early in a company's planning. Lawyers and accountants are the key professionals that a business owner goes to with the question of whether they should become a corporation or not. This paper suggests that an entrepreneur should research this issue as best they can on their own, because one cannot always be sure to get the best advice simply because the consultant has a law degree or is a CPA.

A couple of reasons to incorporate include: 1) Limited liability to original owners and new investors (owners) and 2) Greater liquidity of investment in the form of stocks, bonds, and other negotiable instruments (Weston & Brigham, 1993). The three writers state that "all stockholders became owners with limited liability since their potential financial risk is limited to their investment in stock." When a company is incorporated, if a stockholder dies, the corporation can continue to function. The aspect of limited liability is that the investors cannot lose more than the amount that they originally invested in the stock. However, in the case of a small corporation, many times business assets are typically inadequate to acquire loans, therefore the owners must put up personal guarantees in order to receive a loan from a lender.

There is a lot to examine when deciding whether to incorporate your small business. To find out more about this in-depth topic, please refer to our web site at:

<http://www.sbaer.uca.edu/docs/proceedingsII/97sbi133.txt>.

You will be able to read the full text by Paul Dunn, Leo Cheatham, and Carole Cheatham.

TIP OF THE WEEK

BASIC REQUIREMENTS FOR ACCOUNTING SYSTEMS

(Taken from "Small Business Management, An Entrepreneurial Emphasis" see below for credit)

An accounting system structures the flow of financial information to develop a complete picture of a firm's financial activities. Conceivably, a few very small firms may not require formal financial statements. Most small firms, however, need at least monthly financial statements, which should be computer-generated. The benefits for using a computer in developing financial information are so great and the cost so low that it makes little sense to do otherwise.

Fulfillment of Accounting Objectives

Regardless of its level of sophistication, any accounting system for a small business should accomplish the following objectives:

- * Provide an accurate, thorough picture of operating results
- * Permit a quick comparison of current data with prior years' operating results and budgetary goals
- * Offer financial statements for use by management, bankers, and prospective creditors
- * Facilitate prompt filing of reports and tax returns to regulatory and tax-collecting government agencies
- * Reveal employee fraud, theft, waste, and record-keeping errors

Generally Accepted Accounting Principles

In seeking to develop and interpret financial statements, an owner-manager must remember that certain generally accepted accounting principles, or GAAPs, govern the preparation of such statements. For example, the principle of conservatism guides accountants; thus, an accountant will typically choose the most conservative method available. For example, inventories are reported at the lower of either cost or current market value. Another principle governing the preparation of statements is consistency, meaning that a given item on a statement will be handled in the same way every month and every year so that comparability of the data will be assured. Also, the principle of full disclosure compels an accountant to insist that all liabilities be shown and all material facts be presented. This principle is intended to prevent misleading any investor who might read the firm's financial statements.

Availability and Quality of Accounting Records

An accounting system provides the framework for managerial control of a firm. The effectiveness of the system basically rests on a well-designed and well-managed record-keeping system. In addition to the financial statements intended for external use with bankers and investors (the balance sheet, the income statement, and the cash flow statement), internal accounting records should be kept. The major types of internal accounting records and the financial decisions to which they are related are as follows:

- * Accounts receivable records: Records of receivables are vital

not only for decisions on credit extension but also for accurate billing and for maintaining good customer relations. An analysis of these records will reveal the effectiveness of a firm's credit and collection policies.

* Accounts payable records: Records of liabilities show what the firm owes to suppliers, facilitate the taking of cash discounts, and allow payments to be made when due.

* Inventory records: Adequate records are essential for the control and security of inventory items. In addition, they supply information for use in purchasing, maintenance of adequate stock levels, and computation of turnover ratios.

* Payroll records: Payroll records show the total salaries paid to employees and provide a base for computing and paying payroll taxes.

* Cash records: Carefully maintained records showing all receipts and disbursements are necessary to safeguard cash. They provide essential information about cash flows and cash balances.

* Fixed asset records: Fixed asset records show the original cost of each asset and the depreciation taken to date, along with other information such as the condition of the asset.

* Other accounting records: Among other accounting records that are vital to the efficient operation of a small business are the insurance register (showing all policies in force), records of leaseholds, and records of the firm's investments outside of its business.

"Small Business Management, An Entrepreneurial Emphasis," Longenecker, Justin G., Moore, Carlos W., Petty, J. William, South-Western College Publishing, Cincinnati, Ohio, 1997, pp. 477-8.

If you have any suggestions about our newsletter or if you have an upcoming small business event in your area, please contact Kim Stubbs (kstubbs@mail.uca.edu).

SBANC STAFF

Dr. Don B. Bradley III
Executive Director and Professor of Marketing
Phone (501) 450-5345 E-mail: Donb@mail.uca.edu

Jeannette Thomas
Project Coordinator
Phone (501) 450-5320 E-mail: Jthomas@mail.uca.edu

Kimberly Stubbs
Assistant Project Coordinator
Phone (501) 450-5373 E-mail: Kstubbs@mail.uca.edu

Celine Birre
Graduate Assistant
Phone (501) 450-5373 E-mail: CB9015@cub.uca.edu

Joanne Price
Student Assistant, Webmaster
Phone (501) 450-5377 E-mail: JLP9278@cub.uca.edu

Rhondi Redmond
Student Assistant
Phone (501) 450-5300 E-mail: RAR1014@cub.uca.edu

Molly Bass
Student Assistant, Webmaster
Phone (501) 450-5377 E-mail: MJB3263@cub.uca.edu

Jay Garrison
Student Assistant
Phone (501) 450-5377 E-mail: JKG9440@cub.uca.edu

Billy Wood
Student Assistant
Phone (501) 450-5300 E-mail: CWW3285@cub.uca.edu
