

# TRENDLINES

FEBRUARY/MARCH 2011

## Returning to the source

A strong cash flow begins with your customers

## A creeping problem

Don't let a bad personal credit rating sneak up on you

## MONEYLINES: NEWS BRIEFS FOR BUSINESSES

## Practical Perspectives

Couple considers options with 529 plan

# RSSM

**ROSEN SEYMOUR SHAPSS MARTIN & COMPANY LLP**

*CERTIFIED PUBLIC ACCOUNTANTS & PROFITABILITY CONSULTANTS*

*757 THIRD AVENUE*

*NEW YORK, NY 10017*

*TELEPHONE (212) 303-1800 FACSIMILE (212) 755-5600*

*E-MAIL [info@rssmcpa.com](mailto:info@rssmcpa.com) WEBSITE [www.rssmcpa.com](http://www.rssmcpa.com)*

*AN INDEPENDENT MEMBER OF POLARIS INTERNATIONAL*



# RETURNING TO THE SOURCE

## A STRONG CASH FLOW BEGINS WITH YOUR CUSTOMERS

The importance of maintaining strong cash flow is something business owners think about often. But where does cash flow originate? Although this may seem a simple question, it's one that often gets lost in the hubbub of trying to keep dollars moving toward the bottom line. The truth is, the source of every company's cash flow is its customers — and it's with them that you can pinpoint ways to keep your business liquid.

### Check your receivables

First look at *when* your customers are paying you. Yes, improving accounts receivable (A/R) collections is generally the most immediate way to improve cash flow.

Review industry norms when it comes to payment schedules. If you're requesting payments later than your competitors are, it may be time to shorten your cycles to get money coming in faster. Step carefully with your most important or



largest customers, however. You don't want to rock the boat unnecessarily.

Re-evaluate your technology, too. Many, if not most, companies have implemented an automated collection system that generates invoices when work is complete, flags problem accounts and generates useful financial reports. If your A/R system is out of date or underused, your cash flow may suffer from a lack of pertinent information and poor follow-up.

Last, a word on collection agencies. A customer sent to collections is likely lost forever, plus unlikely to serve as a positive referral source. And third-party fees may consume much of the collected amount.

So customers should be sent to collections only if these consequences are acceptable — which may be the case in a variety of circumstances. For example, if you have chronic collection problems with a customer, you may be better off collecting what you can now through an agency and not having to deal with the customer in the future.

Come up with a set of "must send" criteria that soundly and objectively drive your decision. Also, remember that you typically may write off an uncollectible outstanding debt as an ordinary business expense on your tax return as long as it's properly documented.

### Strengthen your relationships

It's not unusual for most of a company's cash flow to originate from a handful of key customers. Ideally, this wouldn't be the case — you would

have a large stable of dependable payors that rarely complain and speak highly of your products or services at every opportunity. But, particularly for smaller businesses, this ideal is hard to reach.

***Strengthening relationships with key customers may not increase your cash flow, but doing so may stabilize it.***

For this reason, another way to promote cash flow is to strengthen your relationships with key customers. You may not necessarily *increase* your flow, but you may *stabilize* it. For example, look into whether you can offer value-enhancing add-ons (helpful information, discounts on other services) to select customers. Also, offer rewards for referrals.

Special (lower) pricing for key customers is another way to keep your best payors in the fold. But don't cut margins so low that even the slightest mistake could trigger a financial disaster. And avoid price

wars with competitors, because such endeavors can ultimately lower profitability — even if you're the "winner."

In addition, refocus on customer service. Although maintaining and, if possible, boosting cash flow is important, be sure to consider how any related decision will affect customers. One way to ease procedural or service changes: Empower employees who most frequently interact with customers with the authority to make things right should confusion arise or a mistake occur. This is something that often falls by the wayside when, for example, businesses make staffing cuts to lower payroll costs and preserve cash flow.

### **Market yourself wisely**

Another group of customers who could help your cash flow aren't really customers at all — at least not yet. They're prospects. And to haul them in, you're going to need to undertake some marketing efforts. Before you start marketing to anyone, however, pinpoint the type of prospects you're looking for. Specifically, estimate what your net profit will be after subtracting your cost to serve a prospect.

## **Where is your cash going?**

Before you or any business owner can identify ways to improve your cash flow, you need to ask a simple question: "Where is our cash going?"

Begin by going line by line through your annual budget and reviewing all of your company's expenditures. If you've been too busy to maintain a budget, it's probably time to reinitiate that effort. Although budgeting can be tedious, it's critical to sound cash flow management. Having a sensible budget is helpful strategically as well, enabling you to ensure that your spending decisions align with your company's goals.

You should also create a cash flow statement. This is a report specifically designed to track your company's net increases or decreases in cash. It factors in the revenue inflows and outflows of daily business operations, asset purchases or sale proceeds, and financing activities. And because the report excludes noncash accounting items, you can use it to pinpoint cash flow problems before they get out of hand.

Ideally, you should generate a cash flow statement monthly. But creating it quarterly or even annually is better than not doing so at all. Ask your CPA for help getting started. In many cases, you can use your accounting software to maintain a cash flow statement once it's been formatted.

Prime targets should be those who will likely buy a substantial volume with enough frequency to provide a steady revenue stream over time rather than those who may be one-time or infrequent purchasers. They also should be potential targets for cross-selling other products and services.

Naturally, you'll also need to conduct a cost-benefit analysis of any marketing campaign. Granted, you have to, as the cliché goes, spend money to make money. But it would be counterproductive to hurt your cash flow long-term in an effort to strengthen it.

Recently, social media platforms such as Facebook and Twitter have beckoned companies as low-cost marketing tools. And, indeed, they can be useful in maintaining your visibility with

existing customers (assuming they're tech savvy) and promoting your knowledge in your field. But, generally, social media is, by definition, a "mass communication" platform. So it isn't likely to snag you that one big customer. For that, you'll need a more carefully targeted campaign.

### **Begin at the beginning**

By this point, many companies have trimmed their operations and workforces to the extent possible. So, instead of looking to boost cash flow by cutting more costs, go back and begin at the beginning. The dollars your business earns originate with your customers. So look to nurture and grow those relationships as much as you can. □

---

---

# A CREEPING PROBLEM

## DON'T LET A BAD PERSONAL CREDIT RATING SNEAK UP ON YOU

During unsettling economic times, you may find debt piling up faster than you think. Just a few late payments can significantly hurt your credit score. And, even if you're keeping up with your payments, you face another credit rating risk: increasing vulnerability to credit card fraud and identity theft simply by having your account numbers in circulation more.

### **Knowing the score**

Your credit score represents your creditworthiness and risk as determined by the credit bureaus. A

poor score is typically anything under about 620; an excellent rating generally is a score of 720 or higher.

A poor score can result in creditors charging higher interest rates, imposing greater restrictions on loan amounts or even denying you the opportunity for loans altogether. When calculating a credit score, the bureaus typically review information pertaining to opening and closing of credit card and loan accounts, payment history, legal judgments, bankruptcy filings and tax liens.

## Reporting for duty

Protecting your credit rating begins with requesting copies of your credit report annually. Make sure you get a report from all three major credit-reporting agencies: Equifax ([equifax.com](http://equifax.com)), Experian ([experian.com](http://experian.com)) and TransUnion ([transunion.com](http://transunion.com)).

The Fair and Accurate Credit Transactions Act allows you to obtain one copy free of charge from each agency annually. You can order them online through the authorized central website: [annualcreditreport.com](http://annualcreditreport.com). Consider spacing out report requests every four months (rather than requesting them all at once), so you're aware of any changes to your credit history throughout the year.

Note that your credit score won't be included in your free credit reports. Generally, you must pay the credit-reporting agencies a fee to obtain your score.

*Habitually reviewing your monthly credit card statements can help you catch errors and fraudulent activity.*

## Catching any culprits

When you receive a credit report, review it carefully. Start by verifying your personal identification information. Creditors may make errors when entering your information for a credit or loan application.

Next, look for any inaccuracies or information that could drag down your credit score. To correct discrepancies, provide supporting documentation



and a letter of explanation to all three credit-rating agencies.

## Covering all the bases

Habitually reviewing your monthly credit card statements can help you catch errors and fraudulent activity, including identity theft, before it hurts your credit score. If you're billed for credit card charges you didn't make, dispute the charge within 60 days to limit the potential for it to adversely affect your credit rating.

If you believe your identity has been compromised, promptly call the credit card company to explain the situation, stop authorization of future charges on the account and request that they issue you a new account number and card.

Then submit required forms — available through the Federal Trade Commission ([ftc.gov](http://ftc.gov)) — via certified mail to report the theft and close the unauthorized account. Request a return receipt and letter from the credit card company acknowledging the fraudulent claim and stating that the company has closed the account and relinquished you from the fraudulent debt. Keep the letter as proof of the creditor card

company's action. (The preceding steps aren't legally required but are highly recommended by the FTC.) Also report the theft to local law enforcement and obtain a copy of the police report.

Last, contact one of the three major credit bureaus. Request that the agency put a fraud alert on your credit file to require creditors to contact you before opening any new accounts in your name or making changes to your existing accounts. The agency you contact will then notify the other two agencies to place fraud alerts on your credit file.

### Threatening everyone

A bad credit rating, whether due to delinquent payments, credit card fraud or all-out identity theft, is a threat to everyone. If you've gotten lax in monitoring your credit reports and credit rating, make it a renewed priority this year. Although you may eventually be able to improve your credit score and recover amounts lost to fraud, the immediate hit to your cash flow could create inconveniences and stress that you probably don't need right now. □

---

---

## MONEYLINES: NEWS BRIEFS FOR BUSINESSES

**Help available for small-business owners looking to implement and maintain retirement plans.** Although many companies have cut just about everything they can to control expenses, retirement plans are still a valuable way to attract qualified job candidates and retain valued employees. If you own a very small company that has yet to offer a retirement plan, be advised that the Department of Labor, in cooperation with the IRS, now offers a set of automatic enrollment 401(k) plans that make implementation relatively simple. And if you're having trouble keeping up with your plan maintenance, you may be able to outsource this task at an affordable cost.

**Want a federal contract? Consider subcontracting!** When the topic of federal contracting comes up, one may assume a construction project is involved. But Uncle Sam spends billions a year on goods and services as well. Survey data released in American Express OPEN's Victory in Procurement report reveals that small companies that have acted as subcontractors have had more success in winning federal jobs than businesses that have tried to go it on their own. So if a government job is a potential moneymaker for you, don't be afraid of the "subcontractor" label.

**Smart phones may soon surpass laptops for business users.** Many of your company's employees may own a smart phone, and many of them might already be using those devices for business purposes — or may want to. In fact, an October 2010 report from technology experts Forrester Research indicates that, by 2015, roughly 50% of the devices used on corporate networks will be mobile ones. You might want to start anticipating the cost advantages and security risks of this trend now.



# COUPLE CONSIDERS OPTIONS WITH 529 PLAN

Five years ago, Bob and Marjene opened a 529 plan for their newborn son. For the first couple of years, they were pleased with its performance. But, with the economic downturn of 2008, their plan took a substantial hit. In fact, it remains \$10,000 “underwater” — that is, current value is \$10,000 less than the amount they’ve contributed. They visited their financial advisor to discuss the matter.

Their advisor said the situation was not unusual. Many 529s have lost value. But he urged them not to give up on their 529 without considering all the good it can still do.

## **Friendly reminders**

Above all, the advisor recommended that Bob and Marjene give their 529 plan more time. Their son likely won’t be going to college until 2024, so there are still many years for the account to recover and grow. Plus, as account owners, they have some control over the investments in the plan. Reconfiguring it a bit may help put them on solid ground more quickly.

The advisor also reminded the couple of their plan’s major benefit (assuming the plan does recover and grow): When their son reaches college, they’ll be able to make withdrawals — including the earnings — tax free to pay qualified higher education expenses, such as tuition and fees, books, and, generally, room and board.

Their advisor also noted some benefits of continuing to contribute to the plan. Although 529 contributions aren’t tax deductible on their federal return, their state allows a deduction. (Not all states do, however.) Plus they can avoid the “kiddie tax.” It requires children age 18 and younger (generally



23 and younger, if full-time students) to pay tax on unearned income at their parents’ marginal tax rates.

## **Desperate measures**

If, however, Bob and Marjene really need the money or are desperate for a large tax deduction, their advisor did have one option: Because their 529 is underwater, they could withdraw its funds, close the account and claim the \$10,000 loss as a miscellaneous itemized deduction. Because they wouldn’t be withdrawing any earnings, they’d incur no taxes or penalties. And the deduction could substantially lower their tax bill.

Their advisor added that miscellaneous itemized deductions are deductible only to the extent they exceed 2% of adjusted gross income. And there could be alternative minimum tax risks that they’d need to explore.

## **Slow and steady**

Like any investment vehicle, their advisor concluded, 529 plans need to be ridden slow and steady if at all possible. Bob and Marjene opened the account for an important reason and should manage it carefully. □



757 THIRD AVENUE  
NEW YORK, NY 10017

TELEPHONE (212) 303-1800  
FACSIMILE (212) 755-5600  
E-Mail [info@rssmcpa.com](mailto:info@rssmcpa.com)

VISIT US AT OUR WEBSITE  
[www.rssmcpa.com](http://www.rssmcpa.com)

AN INDEPENDENT MEMBER OF POLARIS  
INTERNATIONAL



**Partners**

Corey D. Bell	212-303-1038
Michael Bernstein	212-303-9017
Steve Bibas	212-303-1091
Steven J. Eller	212-303-1051
Jay B. Goldberg	212-303-1817
Martin L. Greenberg	212-303-1822
Isidor Hefter	212-303-1833
Dov Klein	212-303-1020
Gabriel G. Lengua	212-303-1090
Bernard P. Lewites	212-303-1801
Robert A. Modansky	212-303-9027
Matthew D. Murphy	212-303-1029
Avery E. Neumark	212-303-1806
Patrick Nunziante	212-303-1040
David W. Ostrow	212-303-1002
Frank A. Petitto	212-303-1037
Alfred M. Pruskowski	212-303-9009
Mitchell J. Rubin	212-303-9072
Fred Shapss	212-303-1056
Hilton L. Sokol	212-303-9022
Neil A. Sonenberg	212-303-1886
Eric Tunis	212-303-1832
Alan M. Willinger	212-303-1011

*Rosen Seymour Shapss Martin & Company LLP* (“RSSM”), listed as one of the Top 100 Accounting and Consulting firms in the United States and Top 25 in the New York Metropolitan area, is a full service Certified Public Accounting firm. RSSM offers services on both a national and international level through our membership in Polaris International, a worldwide association of independent accounting firms.

In addition to the traditional services of accounting, auditing, tax planning & preparation, RSSM offers consulting services including:

- Bankruptcy Support
- Business Valuation
- Employee Benefits, Human Resources, Executive Compensation, Executive Search & Retirement Planning
- Estate Planning
- Financial Due Diligence & Transaction Advisory Services
- Forensic Accounting & Litigation Support
- International Accounting & Taxation
- Management Information Systems
- Mergers & Acquisitions
- Outsourcing
- Personal Financial Planning/Elder Care Consulting
- SEC Filings & Compliance

Our clients are widely diversified and include: real estate, manufacturing, construction, wholesalers, wine & beverage, importers & distributors, apparel, modeling agencies, publishing & printing, insurance, broker dealers, hedge funds/investment partnerships, non-for-profit organizations, retail, service & trade contractors, as well as attorneys, physicians and other professionals, including high net worth individuals.

The firm’s extensive and practical experience offers clients a two-fold advantage: we help our clients operate and expand successfully, while helping to minimize taxes so as to retain profits. In other words, we help our clients make money and keep it!

Our extensive and practical experience assists our clients to operate and expand successfully, while minimizing taxes and retaining more of their profits.

***Vision and Solutions that Foster Growth and Preserve Wealth***

