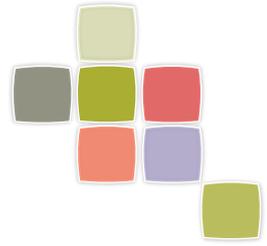


# FINANCIAL DYNAMICS

Chartered Certified Accountants & Business Advisers



## *Business Insights*

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### NO BIG DEAL

We have become quite use to financial scandals in this country. True these have involved the large business sector. There have been charges of profits being overstated, expenses understated and improperly reporting debt, to name a few. Little wonder then that many of these institutions ultimately filed for bankruptcy. The vagaries contributed to creative accounting are not limited to big companies as, in order to avoid a sizeable tax bill, small businesses tend to adopt the technique of understating earnings which can lead to massive problems over the ensuing years.

#### ILLEGAL

Needless to say this is an illegal strategy which can jeopardise the ability of the business to obtain financing for future projects. Indeed, a substantial number of small businesses have turned to their banks to help finance capital expenditure only to be turned down out of hand due to past sales performance. Banks will automatically use previous tax returns in order to measure growth and cash flow. Therefore, if a business consistently shows losses on tax returns, banks will require substantially more collateral or a larger injection of capital before approving a loan.

#### SOLE PROPRIETORS

In the case of sole proprietors, they pay taxes based on business income. If the businesses continually show losses on their tax returns they will have the greatest difficulty in obtaining personal loans as again banks will use self-assessment as qualification. With little or no income reported banks cannot possibly justify lending large amounts without the sole proprietor showing the ability to repay. Additionally, even the refinancing of existing debt may prove difficult to obtain without a secondary source of repayment.

What would happen if, for example, a small business is seeking growth through investors? Another Well, they too will rely on the numbers reported on the tax return. Not reporting income properly brings the integrity and honesty of the business into question causing questions to be asked and the business seen as a potential risk.

#### THE LEGAL WAY

Small business owners can find ways to use profits from their business such as investing them in tax-free retirement funds. This allows the business to properly show the profit potential and still minimize personal income taxes. Proper accounting methods and financial planning will prove to be more beneficial than the short-term results of cooking the books.



"WHAT WAS YOUR ENTRY TO  
ROB PETER TO  
PAY PAUL ALL ABOUT" ?

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For further help and advice  
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