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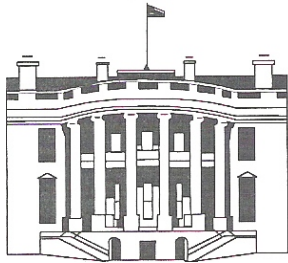


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CENTRAL OFFICE NEWS

By Jo M. Allen, EA, ABA, ATA

MAPA Executive Sec./Treasurer/Editor

Another tax season has come and gone (except for the extensions and all those fiscal year end clients). Next came catch-up time for all that work we let go while we cranked out the tax returns. Now it is summer and I hope each of you finds time to enjoy a nice vacation.

I'm sorry I didn't get out a newsletter for the first quarter of the year. I just couldn't seem to find the time to look for articles and news items of interest. Besides, if your tax season was anything like mine, you wouldn't have had time to read it anyway.

The MAPA Central Office is now back in full swing winding down the 2007-2008 year and preparing for the 2008-2009 year. The first statements for 2008-2009 dues went out in mid-May and many of you have already renewed your membership. For those of you that have not done so, remember you are considered delinquent if your dues are not received by July 1st.

Plans are now complete for the Gear Up seminars. Both of them will be held at the Hilton Hotel and special links have been set up for you to make your hotel reservations. If you plan to attend the Business Entities seminar on September 22-23, 2008 and need a hotel room you may make your reservation by clicking on the following link:

www.hilton.com/en/hi/groups/personalized/JANJHHF-MSAPA-20080921/index.jhtml

If you plan to attend the 1040 seminar and need a hotel room you may make your reservation by clicking on the following link:

www.hilton.com/en/hi/groups/personalized/JANJHHF-MSAPA2-20081102/index.jhtml

If you prefer to make your reservations by phone, the number and deadline for making reservations is on the registration form in the upper right hand corner. Access the registration forms by going to www.msapa.net and clicking on the word Calendar on the left side of the home page. Scroll down to the seminar of your choice and click on the registration form link. Print the registration form, complete it and either mail it with your check to MAPA, PO Box 907, Carthage, MS 39051 or, if registering by credit card, you can fax it to 601-267-4887.

AMBASSADORS AT LARGE

By: Paul H. Tarver

About fifteen years ago when I started my own business, I got the opportunity to write custom programs for clients of a company named Automatic Data Processing (ADP). ADP does a lot of different things including providing payroll processing services to thousands of companies of all shapes and sizes across the world. Often they run across a company that likes to color outside the lines and do things a little out of the ordinary and when they need some specialized programming or custom reporting that can't be handled by the regular ADP computer system, I sometimes get the call to work as a third-party software consultant, which is just a fancy way of saying that I get to help the customer and ADP fit together better.

Over the years I've had the opportunity to work with some really nifty companies such as a chicken processing company in Atlanta called King's Delight; Quikrete, the packaged concrete company; Outdoor Technologies up in Macon, Mississippi; an office furniture manufacturer in Grand Rapids, Michigan; Pat O'Brien's in New Orleans; a bunch of great companies right here in Mississippi and even a Canadian company named Bombardier that manufactured Ski-Do watercraft. Along the way I've written software for the timber industry and worked with foresters all over the Southeast. And a few years back I released a product to help telemarketers comply with the Do Not Call Law that went into effect in 2003 to make sure telemarketers didn't call people who didn't want to be called.

In the course of fifteen years, I've enjoyed meeting and selling my software products to customers in about 28 of these United States and at least two countries and it has been enlightening, entertaining and down right interesting to learn about the different businesses and to become acquainted with lot of good folks just like you and me. They go to work every day to earn a living and whether it is by sitting behind a desk, counting trees in the woods or knocking on doors, by and large they are all honest, hard working folks trying to provide for their families. From Georgia to California to Michigan to New Jersey to Texas to Florida and all in between, there are a lot of good people out there and I've enjoyed getting the opportunity to meet a bunch of them.

Back when I was about to graduate from the University of Southern Mississippi, I noticed a lot of my fellow classmates going on interviews for jobs that would take them away from Mississippi; sometimes a long way away. I thought about it and decided that moving away just wasn't for me. I knew from the time I was about thirteen years old that I wanted to start my own business and I really wanted to do it right here in Mississippi. I felt there were two ways to go: 1) I could go to a big city and try to make good and maybe come back, or 2) I could create my opportunity right here in my home state. The latter option though harder, meant that I could stay near family and if I played my cards right, I might even be able to say one day that I had added something to the economy of Mississippi and maybe in some small way helped improve Mississippi a little bit too.

When I finally started my business and began to get referrals from ADP to perform some job for a client in some other state, I would put on my real radio voice and brush off my best vocabulary taught to me by Ms. Tedder in my senior year of high school and I would call the customer up and begin pitching them on the benefits of agreeing to let me do the job. I would try to ask all the right questions, offer my best suggestions and show them my best manners. If the customer resided in a state right next door, say Louisiana or Tennessee, Alabama or Georgia, it usually went as expected, we'd chat for a while and eventually, I'd get the go-ahead to start working on the project.

But pretty early on, I learned to expect that if the client was outside of the Southeast or at least more than one or two states away from Mississippi about halfway through our conversation they would ask, "Now where did you say you were from?" Without hesitation I would respond, "We're located in Meridian, Mississippi." There'd be a pause on the other end of the line and I always felt they were thinking, "Meridian, Mississippi? They have computers there?" What they usually said was a little more tactful like, "Really! I thought you were from Atlanta or Memphis" or whatever big Southern town came to their mind.

AMBASSADOR AT LARGE - CONTINUED

For me the solution to uncomfortable situations has always been humor, so I'd quickly revert to my native Southern drawl and say, "Yep, we got us a regular ole Sillycon Valley going on down here. Not only have we got computers, last week they installed telephone lines that go BOTH WAYS!" This comment got the customer laughing, broke the tension, and once we had put the stereotypes to bed, we could move on and do some business. Over the last fifteen years, when I've been in that situation and responded that way, I've rarely failed to get the business. And when I got the business, I did everything in my power to give that customer the best programming, the best service, and the best return on their investment that I could possibly give them.

Representing Mississippi in a positive light has always been one of the benefits I've been blessed with. And, if along the way, I have changed just one person's mind about how they view our great state, then I can say I've been successful in accomplishing the goal I set out for myself in college: To make my opportunity right here.

Choosing to stay in Mississippi and build my life and my business here didn't mean I had to isolate myself from the rest of the world. It didn't mean that I couldn't do the same sorts of things I could have done in a city bigger than Meridian. All it meant was that I had to reach out a little further and sometimes work a little harder to overcome people's preconceived notions, but in the end it has been rewarding, exciting and educational.

Yes, I am an unappointed ambassador of my company AND of the Great State of Mississippi. And so is every other business owner who makes the decision to do his or her thing in this state and then take it to the larger world. Business owners in Mississippi are all Ambassadors At Large and every time one of us reaches outside Mississippi and brings business back home, the whole State of Mississippi takes one more step forward.

Paul Tarver has been working in the computer industry since 1984 and has owned and operated two businesses in the Meridian area since 1991. He writes regular articles for websites and newsletters and he appears as a co-host on WMOX AM-1010 on a monthly basis.



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READING FINANCIAL STATEMENTS: THE BASIC THINGS TO LOOK FOR IN ANY BUSINESS

By: Brian Hamilton

Reading financial statements is not just for Wall Street analysts. Entrepreneurs need to be able to read their financial statements to gain insights into how to run their businesses more effectively. Here are some simple ratios and trends your business clients should look for in their business:

1. **The net profit margin** (Net profit before taxes/Sales):

To me, the net profit margin of a business is the most important number to know and really understand. It indicates the efficiency of a business and, often, the scalability of it as well. The net profit margin measures the cents of profit made per sales dollar. I have never analyzed a business where this metric was not pivotal to its health. Even analysts often miss it because they tend to focus on dollars of profit. Let's take two businesses:

| | Business A | | | | | | |
|------------|-------------------|-------|-------|-------|---------|---------|---------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Sales | \$100 | \$200 | \$400 | \$800 | \$1,600 | \$3,200 | \$6,400 |
| Net Profit | \$20 | \$30 | \$55 | \$70 | \$85 | \$120 | \$150 |

| | Business B | | | | | | |
|------------|-------------------|------|------|------|-------|-------|-------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Sales | \$10 | \$30 | \$40 | \$60 | \$100 | \$200 | \$350 |
| Net Profit | \$2 | \$4 | \$5 | \$6 | \$11 | \$18 | \$36 |

Which business is performing better? Some people might select Company A. The company's sales are growing rapidly. The company's profits are also growing significantly. Company B's sales are also growing well and its profits are growing. Notice that Company A has more sales and more profits than Company B. However, I would argue that Company B is doing better (accepting that we are only looking at these particular numbers). See below for the net profit margins of each company.

| | Business A | | | | | | |
|-------------------------------|-------------------|------|------|------|------|------|------|
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Net Profit Margin- Business A | 20% | 15% | 13% | 9% | 5% | 4% | 2% |
| Net Profit Margin- Business B | 20% | 13% | 12% | 10% | 11% | 9% | 10% |

The two companies started out with the same level of net profit margin. Over time, Business B outperformed Business A substantially. Business A runs several risks. It has a low "profit cushion". It is only generating two cents of profit for every dollar of sales. Any decrease in sales can quickly trigger substantial net profit losses. Business B has a better profit cushion built in and can absorb lower sales levels because it is more efficient. In a way, a good net profit margin is insurance against the unknown and downturns. Clearly, the metric also measures how well sales dollars are being managed. Today, even companies that go public don't always demonstrate better operating leverage, as indicated by this key ratio. A notable example is Vonage, which has tremendous sales growth. Yet, the rate of sales growth is eclipsed by the rate of net profit loss. Even a cursory review of the net margin of business would make an investor wary. Entrepreneurs can and should try to add more sales and profits to their businesses, but they also need to watch the net profit margin. If I were to select only one metric to know in a company, this one would be it.

READING FINANCIAL STATEMENTS - CONTINUED

2. **Cash flow from operations** (Appears on the Cash Flow statement):

It is important that entrepreneurs get and read all three financial statements: the Balance Sheet, the Income Statement, and the Statement of Cash Flows. Cash flow from operations appears on the Statement of Cash Flows. Watch for major differences between cash flow and net profits on the Income Statement. There should be strong positive cash flow in any business. Many small businesses show profit on their Income Statements, but they have poor cash flow. There are many reasons for this. Perhaps the company has a substantial amount of accounts receivable. Maybe the business is paying vendors too quickly. Look at the Income Statement and the Statement of Cash Flows concurrently and you will get a lot of insight into how money comes in and goes out of a business.

3. **Sales growth** (The percentage growth in sales from one period to another. $\text{Period 2 sales} / \text{Period 1 sales}$):

Sales growth is an important metric because it shows how products and services are being received by the market and because companies need additional sales dollars to pay for expenses, which continually increase. People sometimes want to know what a good level of sales growth might be. This really depends upon the market the business operates within. Start-up operations need to grow quickly (a company with a sales volume of \$1 for its first year should grow significantly since its sales base is so low). Mature businesses might grow more slowly. Of course, the market and industry must also be considered. Companies in growing markets should do better than other companies. Generally, I like to see "healthy" growth in sales, especially when it coincides with good profits or increased efficiency.

4. **Gross profits and gross margins** (Sales less Cost of Sales/Sales):

This is a neglected metric and often a crucial one if a company has direct expenses captured in the "cost of good sold" section of its Income Statement. The gross margin is similar to the net margin, except that the gross margin measures profit after only considering "cost of sales". It tells us how many cents of gross profit that are generated on each sales dollar. Often, it can give us great insight into whether a business is scalable; whether it can be grown profitably. Gross margin is very important in any business that has direct labor, materials, or inventory costs.

Financial statement analysis is not just for finance geeks. It is for people who want to improve insight into their businesses and make better business decisions.

About the Author:

Brian Hamilton is the Chief Executive Officer and leader of the management team for Sageworks, Inc. The company develops ProfitCents (www.profitcents.com), an application that aids accountants in communicating with clients. Hamilton is the developer of the patented "FIND™" technology, an artificial intelligence technology that converts numbers into words. The author of the SBA publication, "Financing Your Small Business," he can be reached at brian.hamilton@sageworksinc.com or 919.851.7474.

IRS: SOME STIMULUS CHECKS SENT TO WRONG ACCOUNTS

Through the wonders of modern technology some federal economic stimulus checks are being deposited directly into recipients' bank accounts.

A taxpayer reported that he had discovered an unexpected deposit of \$1,800 in his bank account. A review of his bank records revealed that it was a deposit from IRS bearing another taxpayer's Social Security number. He contacted IRS and was told that the deposit was one of 15,000 misrouted checks sent out incorrectly as a result of a computer programming glitch.



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