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The Development of the Business Plan for Baker Accounting and Tax Service

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**THE DEVELOPMENT OF THE BUSINESS PLAN
FOR
BAKER ACCOUNTING AND TAX SERVICE**

MARSHA P. BAKER, B.S., C.P.A., A.A.P.,

**An Abstract Presented to the Faculty of the Graduate
School of Lindenwood College in Partial
Fulfillment of the Requirements for the
Degree of Master of Science**

1993

ABSTRACT

This thesis will focus on the study of developing a business plan for a small home-based accounting and tax service.

Statistics indicate that the failure rate for new businesses is high. Research indicates that the main reason for the high rate of new business failures is lack of planning. Specifically, many entrepreneurs feel that preparing a formal business plan is not necessary and thus fail to plan for significant factors that impact their businesses.

The purpose of this study is to research all aspects of beginning a home-based accounting and tax service in preparation for writing a business plan for Baker Accounting and Tax Service.

Once the business plan was prepared, two business

executives were asked to read the business plan and provide comments to indicate additional research or restructuring to improve the quality of the plan.

The results of this research has rendered a business plan for Baker Accounting and Tax Service.

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Degree of Master of Science**

1993

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Chapter I

INTRODUCTION

Accounting, finances, budgets, controls... these are terms that make an entrepreneur cringe. The entrepreneur is a risk taker who is motivated to excel with his particular expertise in the industry in which he is starting a business. The thought of being controlled by tedious, monotonous, pencil pushing tasks such as recordkeeping generally does not appeal to the entrepreneur. Many new entrepreneurs often start a business by producing and marketing their products with little regard as to how they are really fairing. Although the accounting function is a mundane task, it is often overlooked as an important management tool to provide the entrepreneur a clear picture of how his business is doing. Often the owner of the business feels that he is so intimately involved with operations that he has his pulse on the business and can be a fair

judge of his company's condition.

Make up of Firms

The accounting industry is comprised of many different types of firms that meet a variety of the business owner's needs whether the company is just starting out or it is a Fortune 500 company. The accounting industry consists of two types of firms, certified and non-certified. Certified Public Accounting (CPA) firms range from the "big six", which generally meet the needs of the larger business entity, to the sole practitioner CPA with all sizes of firms in between. The other type of firm is the non-certified public accountant which generally grows from a large tax preparer base.

A Certified Public Accountant must pass a rigorous battery of tests. The State Boards specifically design these tests to be extremely difficult to ensure that anyone possessing a CPA is in fact knowledgeable and qualified. Along with the

recognized credentials certification brings, a CPA has the ability to represent a client in tax court, where a non-certified public accountant cannot.

Extensive research indicates that supplying reasonable accounting services to fledgling businesses is needed and presents a good business opportunity. Just as an example, one small leasing company had a big six firm prepare a consolidated corporate tax return. The charge was \$3000.00. The next year they awarded their business to a sole practitioner. His charge was only \$800. This was a charge that the company could much more readily afford. As a side note, the big six firm did not even prepare the return correctly (McGhee).

Research reveals some local accounting firms have identified and targeted their market towards the established small business which can easily afford their monthly fees. Although this is surely driven from the CPA's liability regarding the accuracy of the

financial statements, they tend to have overlooked the new fledgling business that can not yet afford their rates (Deal).

The entrepreneur is often inexperienced with accounting concepts. There exists a market niche in targeting the new fledgling business emphasizing statement analysis to accompany the standard financials. Interpretation of the financial statements can only serve to further educate the new entrepreneur about these concepts. Sound interpretation will assist him in realizing the impact various balance sheet and income statement line items have on his operations.

Instead of wasting precious time on a function that is not of their expertise, the owners can glean insight from the interpretations and make decision affecting operations based on their expertise with their products and industry.

History of Accounting

Accounting has been around for thousands of years.

The earliest records dating back to 3000 B.C. have been traced to the ancient Babylonian Sumerian and Assyrian civilizations. Tables have been found recording legal contracts and even a crude ledger system to record the activity of small businesses and farmers (Chatfield, 4).

The double entry accounting system that is currently used today originated in the 13th century in Italy with the rise of Mediterranean commerce. The double entry accounting system means that each entry is recorded twice. Once as a debit and once as a credit. This method facilitated the calculation of profit and equity figures. These emerging accountants emphasized that double entry bookkeeping provided a built in check on the correctness and completeness of ledger postings (Chatfield, 46). Through the centuries double entry accounting, financial statements and the accounting profession continued to emerge into what is known today. Often the entrepreneur must sometimes feel

that accounts have taken the spotlight and actual operations are secondary. With all the rules and regulations it is easy to feel that way and lose sight of the important management tool that accounting and financial statements provide. Many critics today find basis for their positions as business entities' focus more and more on making the financials "look" better.

Industry Analysis

During 1992, the accounting, auditing and bookkeeping services industry employed a total of 570,000 employees. This figure encompasses owners and employees of firms employing thousands to the single person sole proprietor. Gross receipts for the industry in 1992 totalled \$38 billion. This was a total increase of 8.6% over 1991. The U.S. Industrial Outlook 1992, shows a strong growth period in the accounting industry in the period 1986 through 1988. This is contrasted by a low growth in 1989 through 1991 which realized a 2% increase in earnings. This sharp

decline in growth is attributable to the economic downturn, and the increased number of bankruptcies from the savings and loans and other related businesses (53-1).

Certified public accountants are held responsible for the accuracy of their work and are held accountable even if their clients provide them fraudulent data. In light of the liability present, CPA firms have become very selective with regard to the firms they offer to serve.

The U.S. Industrial Outlook predicts that the industry will recover from the previous business failures and continue prior growth patterns (53-2).

The book, Service Industries USA, indicates that as of 1989 there were 86,171 accounting firms nationwide. Missouri had 1,397 firms, with 9,600 total employees and gross revenues of \$490 million. Of these 1,397 firms, 623 (45%) of them are sole proprietors. More specifically, St. Charles County has 23 firms (10

sole proprietors, 43%) with 101 total employees and annual revenue of \$3.8 million (61).

The 1991 Fee and Income Survey compiled by the National Society of Public Accountants, provides national and regional statistics, as well as demographics profiling the small accounting firm.

The survey queried members who are owners of smaller accounting firms, data of interest was taken from the north central region which is comprised of Missouri, Kansas, Illinois, Indiana, Ohio, Michigan, Minnesota, Wisconsin, Iowa, Nebraska, North Dakota, And South Dakota. The firms are listed by type of practice (sole proprietor, partnership or corporation), region, community size, gross income, number of staff members, and gender (NSPA, 2).

The statistics highlighted in this thesis focus on the sole proprietor, (north central region), from moderate sized cities, with one full time staff person.

Data indicate that the small accounting firm is

predominantly male oriented with only 16% of the firms being owned by females. The sole practitioner is generally an Enrolled Agent (IRS) with only 11.7% of the respondents being Certified Public Accountants (non-licensed). The mean tenure of operation was 19.5 years with the owner having an average age of 52.5 years. Some 52% of the sole practitioners have completed a 4 year degree with an additional 22.8% completing post graduate work (NSPA, 4).

For the North Central Region, the sole practitioner had a mean gross income of \$96,135 with an estimated net income of \$41,911. This income was derived from the following mix of services: tax returns: 55.8%, write up work 31.5%, statements 5.4%, auditing 1.8% and consulting 2.2%. The average hourly rate for these services are: tax services \$53.22, write up work \$38.87, financial statements \$47.49, auditing \$43.77 and consulting \$52.62 (NSPA, 12).

The survey also indicated that of the federal

income tax returns filed, the sole practitioner derived 92% of the tax work from individual tax returns. The average fee for a 1040 itemized return was \$127 (NSPA, 12).

Products Offered

The primary purpose of any product an accountant can offer his client is accurate information. The business owner should have useful, accurate information about his business which is easy to understand, and will allow him to make good business decisions about his operations. Paul Resnick, in his book, *The Small Business Bible*, Resnick lists seven things that a good accountant can do for the small business. According to Resnick, an accountant should set up an accounting system that is appropriate for the company, help organize and supervise staff to avoid unwitting chaos, provide timely statements, review financial controls, prepare accurate and timely tax returns, and lastly, provide an experienced hand in small business operating problems (47).

This list can be categorized into four types of

basic products with specific sub-components to meet each entrepreneur's needs. These four basic products are: financial statement preparation, tax services, consulting and audit services.

Financial Statement Preparation can be just simply preparing the balance sheet and income statement on a periodic basis or providing further detailed services such as write up services meaning that the accountant takes the "raw data" from the company and inputs and prepares the general ledger and financial statements. The accountant can also provide detailed services such as account reconciliation. Many small business owners, are in great need for assistance in reconciling their checking accounts. For someone with no accounting back ground, this can prove to be a very difficult, time consuming task (Resnick, 50).

Payroll can also be another valuable service the accountant can offer the small business. Payroll taxes and filing all the related state and federal forms can

be ominous for the small business owner. Most accounting software programs offer an integrated payroll package as well. Payroll services can be a good, inexpensive service to offer to clients to assist in retaining clients as they grow (S.C.O.R.E.).

Consulting covers a wide range of services. It can be as simple as complimenting the financial statements with ratio and financial statement analysis to assistance with computer software selection and conversion. Consulting is a key area in which the successful accountant must provide outstanding service. The small business owner relies on the accountant to provide insight into operations where the owner may be weak. The entrepreneur is very knowledgeable about his particular business, but may not know much about establishing internal controls or streamlining office operations.

Consulting can also cover the the vast world of computers. This may mean simple assistance in setting

up a data base for their client list to writing a spreadsheet to assist them in recapping their monthly activity, or it may mean assistance with converting from one software system to another.

Another consulting opportunity in helping the new business is assistance in writing the business plan. An informal survey taken of a dozen small businesses in the area showed that not one had invested the time to write a business plan. The concept of a business plan can seem overwhelming, assistance in this area could assist the small business owner in getting on the right track from the beginning (Williams, 44-50).

Tax preparation is a vital part of any accounting practice. Not many accountants can thrive without a good tax base of clients. Statistics show that half of the business generated from small accounting practices come from tax work. Taxes and the IRS are very ominous to the entrepreneur and the accountant can provide an invaluable service to the small business. Tax service

usually consist of filing the standard personal, partnership or corporate returns. However many business need assistance in filing payroll, sales tax, unemployment, pension and other returns related to the small business (Williams,44-50).

Auditing is another area that the accountant can offer assistance to the small business owner. The small business owner may only need audit services when requesting financing, or he may be growing and feels that a review of internal controls and operations is needed. Auditing comprises the specific products: compilation review or audit. The compilation is the most basic and involves a cursory review of the statements and operations. It can often consist of a study of one specific area of the company, such as receivables or inventory. The review is broadened in scope and depth when a comprehensive audit is performed. The audit generally results in the accountant rendering an opinion about the company's

overall health (Williams, 44-50).

What ever products the accountant offers the small business owner, the accountant must provide quality, accurate, and timely services to assist the small business owner in successfully operating his business.

Start up Costs

Albert S. Williams, a CPA who has been assisting other CPAs in starting their own practice, notes that "a founding practitioner can anticipate from spending anywhere from \$2,000 to \$10,000 for furnishings and equipment. Monthly business expenses will probably range from \$1,000 to \$3,000 a month." Start up expenses and working capital has to be very carefully estimated. Initial purchases of \$5,000 and annual expenses of \$24,000 offset by fees of only \$30,000 will quickly make the new practitioner realize his need for additional financing the first year. Williams also notes that "CPAs are thought to be good credit risks, and, as a rule, banks will be receptive to loan

proposals from CPAs. The CPA should, however, put the same amount of effort into his proposal as he would for a client" (80).

Dorothy Marshall, CPA, feels that high priced office furniture and equipment are not essential. Spending your start up money wisely can avoid some expensive mistakes. She encourages new practitioners to be creative in furnishing their office. For example, a few strategically placed lamps will give the cheapest furniture an aura of plushness. She also noted that her credenza was in fact two small file cabinets holding up a wide piece of wood. (Marshall, 18) Exhibit 1, shows a break down of start up costs for an accountant starting out on his own. Going in debt to purchase office furniture isn't a must. Starting the business on a shoestring budget isn't easy, but it is possible. One way to avoid having a large investment in office furnishings is simply avoid seeing clients in the home, but rather visiting them at

EXHIBIT I

START UP COSTS FOR A SOLE PRACTITIONER

Furniture	
Desks and chairs	
Reception room chairs	
Coffee table	
Lamps	
Bookshelves	
Filing cabinets	
Art	
	4,000
Office Equipment	
Photocopier	
Microcomputer	
Laser printer	
Software	
Fax machine	
Coffee room supplies	
Office supplies	
	8,500
Library Costs	
Tax services	
Compilation and review guide	
Other publications	
	1,500
Public Relations	
Stationery and business cards	
Announcements	
Postage	
	1,000
Other Start Up Costs	
Two months rent deposit	
Legal advice	
Registration fees	
Insurance	
	4,000
Other Working Capital	
Available cash as needed	
	9,000
Total Start up Costs	<u>31,000</u>

SOURCE: AICPA Publication 102.04

their location instead. Building travel time into your billing hours can be a very smart move. This not only alleviates sales on premises which is generally a local zoning violation, but saves valuable start up capital (Marshall, 17).

Summary and Statement of Purpose

Accounting has been around for thousands of years. From its early development, it was recognized as a critical tool for any business. Today, the accounting industry consists of many sized firms from the "big six" to the sole proprietor. Industry analysis shows that the accounting industry has experienced a decline during the past few years, but is predicted to rebound strongly. The accounting industry offers as its four main products, financial statement preparation, payroll, consulting, tax preparation, and auditing, Start up costs can range from \$2,000 to \$10,000. Going in debt to start up an accounting practice is not a necessity. Industry analysis indicates that there is

potential for new business in this industry. The purpose of this study is to investigate the design and implementation of a business plan for a successful accounting business.

Chapter II

LITERATURE REVIEW

The Importance of a Business Plan

At a recent seminar sponsored by the Service Core of Retired Executives (SCORE), an organization of retired executives who assist beginning businesses, the chapter chairman stated that the majority of people starting their own business do not prepare a business plan (SCORE). A business plan is critical to the successful start up and continued operations of any business. The absence of planning which includes investing time and effort into a business plan is most assuredly the formula for failure.

The concept of a business plan is hardly new, large businesses have been employing this tool for years, not only in start ups, but in expanding markets or products, acquisitions, mergers, or expanding operations into foreign markets. What is new, is the

emphasis of the small entrepreneur beginning to take the concept of a business plan seriously. Today an entrepreneur requiring financing is finding it necessary to produce a business plan for his potential lenders to read (Siropolis, 162).

There are three main purposes for writing a business plan. First, is to provide a lender with detailed information on all aspects of the company's operations. The more time, effort and details that are put into developing a business plan will indicate to the lender that the entrepreneur is serious about beginning this enterprise, thus encouraging the lender to consider your request more seriously (Pinson,3).

Secondly, the business plan details how capital funding will be used within the company to meet the goals identified in the business plan. Thirdly, and most importantly, the business plan forces the new business owner to think of every aspect of the business and allows for the opportunity to properly plan and make informed decisions. The business plan is the blue

print of the business, and it will also keep the business on track and focused when operations begin. Once written, the business plan is not something to be shelved, it is a key tool in the form of a "living document" to be used and updated frequently. Pinson says, "the business that fails to plan, plans to fail" (Pinson, 3).

Entrepreneurial Aptitude

The first element needed for a successful venture is entrepreneurial aptitude. Entrepreneurial aptitude is the ability to accept risks, and willingness to make one's own decisions.

Nearly everyone dreams of being their own boss, setting their own hours, getting rich, and making their own decisions. Many people even try to begin a venture on their own. According to the American Home Business Association there are 13 million full time home businesses in the United States, and another 14 million part time home businesses. There are about a million

starts each year (Brabec, 25). Unfortunately, statistics tell us that a great percentage of those who try do not succeed. The American Home Business Association states that half of those who begin a business fail within the first five years of operation. Research shows that lack of proper planning, specifically developing a business plan is attributed to the majority of business failures. It takes a combination of proper planning and the entrepreneurial spirit to make a venture successful (Brabec, 18).

Often, one thinks of entrepreneurs as individuals with zeal and spirit (Siropolis, 43). Entrepreneurs vary in psychological make up, but one common thread is the desire to make their own decisions. Entrepreneurs are risk takers and sometimes do not properly evaluate their options in making a decision (Burstiner, 5).

Most authors of business planning books encourage an individual to understand one's motives for wanting to start a business. A home based entrepreneur must

enjoy spending time at home, be goal oriented, and understand finance (Brabec, 21). It is essential that the entrepreneur possess a clear understanding of themselves including the talents, traits and personality characteristics they possess. The entrepreneur must be able to deal with rejection and criticism. One must enjoy finishing a job. The entrepreneur must be organized, self confident, and have strong interpersonal skills, along with a willingness to work hard, and motivation to do self study (Brabec, 20).

After some self evaluation, if one can positively identify with these traits, chances are that you are a good candidate to start a business. The initial process involves understanding the industry, planning the business' development, and researching every aspect of the business to ensure success.

Business Philosophy

A business philosophy is an essential element that must be defined and clearly stated before the entrepreneur forges ahead with the business plan. A clear and concisely written statement of the firm's philosophy will provide the cornerstone of the business. It will create harmony and continuity in all actions of the firm. It will serve to be a standard of measure for growth and achievements, providing a focus for long and short term planning, and furnish a clear direction for marketing strategies. A well defined philosophy statement will clearly communicate the firm's direction and strength of management and commitment to quality products and services. The AICPA states in its Philosophy publication for beginning practitioners that:

The degree of efficiency with which you manage your practice may well be taken as an indication of your professional skill. Therefore, the manner in which your firm organizes, schedules and controls work flow is not strictly an internal affair. An efficient practice increases its capacity to serve clients and contributes to the finan-

cial success of the firm. An inefficient operation will diminish a client's confidence in your ability to provide effective service. Commitments made and broken, needless interruptions which prolong an engagement, poor billing practices, and delays in submitting reports are all evidence of inefficient operations. Clearly, advisers to business should operate successful businesses themselves (pg. 2).

FINANCING CONSIDERATIONS

Financing is often the most critical element facing the start up of a new business. Many businesses fail due to undercapitalization or lack of adequate working capital. There are many avenues to pursue in securing adequate financing and each of these will present advantages as well as drawbacks. Careful investigation before requesting or accepting financing will enable the entrepreneur to make a wise business decision in this critical area (Lasser, 10).

When searching for financing the entrepreneur has two basic choices. He can seek capital through equity sources, and be prepared to give up part ownership and control of his company, or he can seek out commercial lending sources such as banks or venture capitalists to

fund his enterprise (Lasser, 10).

Equity financing involves sharing profits, and often part of the control of the company. Relatives, friends, co-workers, employees, or professional investors are all sources of equity capital. It should be noted that great care must be taken in selecting the right equity investors for the business. Some may demand a voice in the business operations and eventually want greater control. In general, it is important to maintain the controlling interest in the company (Lasser, 11).

The major commercial lending sources available are banks, venture capitalists and Small Business Investment Companies (SBIC). It is sometimes beneficial to seek government assistance from the Small Business Administration (SBA) (Steinhoff, 154).

Banks are a very conservative source of financing. From the start, it is important to establish a strong working relationship with a loan officer, even if financing can not be obtained

immediately, a strong relationship with the bank will enable the entity to get advice for future lending possibilities, and increase options for later expansion. Before a bank will lend any funds, the entrepreneur must be able to show a well prepared business plan, the ability and experience to run the business, and strong credit history to prove credit worthiness (Greene, 26). Prior to applying for any loans, obtain as much information as possible on the banks lending practices. This includes both written and unwritten practices. This can avoid misunderstandings and prevent key loan personnel from becoming frustrated with the application package, and/or the entrepreneur individually. These actions are part of the development of a good working relationship with the loan officer as noted earlier. Banks offer a wide variety of loan products to suit most financing needs (Lasser, 16).

Listed below is a list of the most commonly used bank loan products:

Signature Loans: are generally a small, short term loan that is unsecured. The bank will only make signature loans to their strongest customers. An unsecured loan means that if the business owner defaults on the loan and is not able to repay, the bank has no recourse against the owner. A secured loan gives the bank the rights to the property behind the loan if the business owner should default on a secured loan (Lasser,16).

Line of Credit: can be either secured or unsecured depending on the arrangement. This is perhaps one of the most important arrangements a start up business should have, yet is often overlooked. The bank approves the business owner for a maximum loan. The entrepreneur is allowed to borrow up to that limit as needed. The terms for this loan are generally predetermined. Once the loan is repaid, the business owner can access these funds when ever it is necessary. The line of credit is generally an open-ended loan, meaning reapplication and approval are not necessary

each time the line is accessed (Lasser, 16).

Term Loans: can vary in length from 30 days to 15 years. The term loan is usually close ended, meaning that once repaid it can not be accessed again, and a new application for credit must be made. The term loan usually is collateralized with inventory or equipment, so if the business defaults, the bank has rights to the secured collateral (Lasser, 16).

Accounts Receivable financing: an established business can collateralize a loan with its accounts receivable. The bank will generally loan up to a certain percentage of the receivables on a short term basis. There are many ways to write this type of note. The bank may wish to collect the funds outstanding, or it may wish for the owner to do so (Steinhoff, 150).

Venture Capital is a group or a private investor that funds new companies. Venture Capitalists usually want a very large return and therefore only want to invest \$500,000 or more. If the company can not project sales of more than \$20 million within the first

decade, they will not be interested (Stienhoff, 155).

The Small Business Investment Act allowed the formation of private, for-profit companies to fund small business ventures. These SBIC's can offer short term secured loans, usually secured by property for five years or less, or they can also offer equity financing. Be wary of the equity financing as these SBIC's often require board representation, and often demand to participate in the management of the company (Siropolis, 265)

The **Small Business Administration** (SBA) is a government agency that offers assistance in starting as well as funding a small business. Not all businesses are eligible for aid. By law, radio, television stations, and liquor stores are among some businesses that can not receive aid. In addition to these restrictions, many other small businesses may be ineligible. To receive aid from the SBA, the entrepreneur must prove that financing is not available from other sources. The SBA generally only grants

requests over \$350,000, and wants the entrepreneur to invest 30% of the total financing. The SBA doesn't actually lend funds to the small business owner, but rather guarantees a bank loan. If the loan goes into default, the SBA has guaranteed to repay your bank note. As the SBA is an agency of the federal government, the request for funding could easily become tied up in red tape and delay start up or expansion. However, if already in business, and a disaster hits such as a tornado or hurricane, the SBA will be the most likely source of funding (SCORE).

The key to obtaining any financing whether from equity sources or lending sources is the ability to convince the investor of one's ability to successfully and soundly run the company. This is usually best communicated through a thorough, in-depth business plan.

Business Structure

There are three basic types of legal business

structures in which to organize the business. They range from the very simple to the extremely complex. Careful consideration must be given to this very important aspect of organizing a business to ensure that operations are efficient and properly protected with respect to taxation and legal issues (Siegel, 30).

The simplest form of organization is the Sole Proprietorship. This type of organization is owned and operated by one person. It is the least expensive structure to begin and end, and there are fewer legal restrictions. The sole proprietor has the most flexibility, but the least protection against personal liability. (Siegel, 31) The start up is very easy in completing a few forms with various state and local agencies to register the business. The net income or loss flows through the individual's personal tax return by adding Schedule C to the return. The tax rate for The sole proprietor is lower than that for corporations. The sole proprietor also must file Self Employment, Schedule SE, to pay self employment tax.

The sole proprietor does not pay social security tax through withholdings or unemployment tax on himself. There are also disadvantages with regard to retirement planning for the sole proprietor. (Siegel, 33) Lastly, the sole proprietor does not have an unlimited life. When the individual running the company dies, the sole proprietorship is legally dissolved, and can not be passed on to other family members or workers (Siegel, 33).

The next legal form of business organization is the Partnership, a legal business relationship which two or more people agree to share ownership and management of a business. This may be a way of raising capital, and providing additional resources into the business. For tax purposes the income or loss also flows to the partners individual tax returns. Partnerships are fairly easy to establish, and is generally done to specify the investment and role of each of the partners in the business.

There are however many disadvantages in organizing

as a partnership. There is unlimited liability that can be incurred by either partner unless specifically stated in the partnership agreement. There is difficulty in changing partners, and there are many legal and accounting issues when one withdraws or dies (Siegel, 34). Many partners begin a business without an agreement thinking that it is not necessary, but when conflicts arise, the lack of a formal agreement can often be the cause of the end of business operations (Siegel, 34).

The third type of legal structure is the corporation. The corporation is a legal entity in itself where the other types previously discussed are legal structures for the individual taxpayer. The corporation is composed of share holders that own stock in the corporation. Forming a corporation is complex and often requires an attorney to complete the paperwork and filing needed. However, given the protection that the corporation offers, the cost of incorporation is usually well worth the investment.

According to John Elsoffer Chairman of the local S.C.O.R.E. chapter, incorporation can be accomplished for under \$1,000.00 (SCORE).

The corporate structure offers the shareholders limited liability in the amount of their investment in the corporation. The corporation shields the shareholders from liability unlike the sole proprietorship and the partnership. The corporation also has an unlimited life span. That is the corporation is not required to be dissolved upon the death of a shareholder (Siegel, 36).

The corporate structure also offers a few disadvantages: the tax rate for corporations is higher, and the earnings from a corporation are taxed twice. First on the corporate level, then on the individual share holder's level when dividends are paid out.

There is another form of the corporation called an 'S' Corporation that offers advantages of both the corporation and the sole proprietorship. The 'S' Corporation, also known as the Sub-chapter S

Corporation, allows shareholders to be shielded from unlimited liability, have earnings flow through to the individual shareholder's tax return, and be taxed at the individual's rate, thus avoiding double taxation. The 'S' corporation is also complex to start up and typically requires a lawyer. There are many restrictions for an entity to qualify as an 'S' corporation. For example, the 'S' corporation may only have a maximum of 35 shareholders. Of those shareholders there may be no foreign investors, other corporations, or sophisticated investors included. The 'S' corporation is only allowed to issue one class of stock (Siegel, 39).

The 'S' status is often chosen by investors who feel that the corporation will have heavy losses during the first few years and the losses will flow through to the individual shareholder's return (Siegel, 40). A corporation may switch back and forth between regular corporation and "S" status every five years.

The highlights of each type of legal structure are

presented in Exhibit 2.

Operations for the Service Oriented Business

There are many details that must be handled in the initial start up of a business, such as location, licensing, insurance, professional services like accounting or legal consultation. Each of the above decisions that must be made will have a significant impact on the success of the business. Researching each facet will provide the solid information with which to make good decisions.

EXHIBIT 2**LEGAL FORMS OF BUSINESS**

SOLE PROPRIETOR**ADVANTAGES:**

1. Controlled by owner
2. All profits to owner
3. Little regulation
4. Easy to start
5. Earnings personally taxed

DISADVANTAGES

1. Liability Unlimited
2. Limited resources
3. No continuity at retirement or death

PARTNERSHIP**ADVANTAGES**

1. Joint Ownership
2. Access to more money
3. Earnings personally taxed
4. Limited regulation

DISADVANTAGES

1. Conflict of authority
2. Liability Unlimited
3. Profits divided
4. No continuity at retirement or death

CORPORATION**ADVANTAGES**

1. Limited liability
2. Ownership interest transferrable
3. Legal entity
4. Continuous life
5. Status in raising funds

EXHIBIT 2 CONTINUED**DISADVANTAGES**

1. Regulated by states
2. Costly to form
3. Limited to chartered activities
4. Double taxation

SUBCHAPTER S**ADVANTAGES**

1. Receives all advantages of a corporation
2. Electing corporation taxed as sole proprietor

DISADVANTAGES

1. Highly regulated by states and IRS
2. Restricted to certain kinds of businesses and limited number and qualifications of stockholders

Source: Brabec, Barbara. *Homemade Money: The Definitive Guide to Success in a Home-based Business*. White Hall: Betterway Publications, 1989. p 24.

Choosing a Name for your Business

Selecting the name for the business is one of the most important decisions to be made. It must properly represent the business, as well as project a positive

image. The name chosen can not currently be in use. The name of the business must be short and concise. It must communicate what the business does to potential clients. Experts warn that names that are cute, clever, or use initials, for example T & T Company should be avoided. They often can cause difficulty in dealing with vendors, and are easily misunderstood, or are not taken seriously. The name should tell customers about you and your services (Brabec, 49).

Business Location—the Home Based Business

Location is an extremely important decision to make when starting out. Research indicates that many businesses fail due to a poor choice of location. Many business owners simply choose their locations for the wrong reasons, such as convenient to their home. Any business should consider the following factors when choosing a location: closeness to company markets,

competition, cost factors, demographics, parking, and trading-area size (Burstinger, 82).

Marshall, in her article "Starting Your Own Practice", indicates that many CPAs choose to begin their practice in their home. This can be an advantage in reducing start up costs as often the CPA will go to see clients rather than them coming to an office (Marshall, 16).

The obvious advantages that are extremely appealing for the home-based business is it offers independence, flexibility in child care, and the financial advantages can have a significant impact in terms of savings in start up costs.

However, there are also many considerations that may deter one from being successful at home. Working at home can cause isolation from peers, stress of working alone, and the impact of working over 40 hours per week in the residence may significantly impact the family. It may be easy to allow a professional image to slip, as well as unconsciously allowing family,

friends and neighbors to diminish time availability. Before choosing this option of basing the business in the home, it is best to be aware of the advantages as well as the pitfalls to ensure success (Pinson, 45). Development and adherence to plans and scheduling of activities take on critical meaning in this type of business environment.

Zoning and Licensing

In beginning any business no matter which legal structure chosen it is necessary to register with many federal, state and local agencies to properly establish the business. Failing to thoroughly investigate the registration, licensings and zoning requirements will undoubtedly cause headaches and possibly financial losses in the future in paying fines and penalties that could have easily been avoided (Brabec, 33).

One of the first calls to make is to the local

city hall for a business license. A business license will add credibility in dealing with vendors and wholesalers. Next, filing form SS4 will notify the IRS of the start up of the business; they will issue a separate tax identification number for the business. It is also necessary to register with the State to obtain a tax identification number. Additional licenses may be required, for example, if goods are being sold, a Sales Tax license is needed and a bond will need to be posted to obtain this license. If the business is not operating in the owners name, it will also be necessary to register your business name with the Secretary of State (SCORE).

Zoning is also a significant consideration in starting a business, especially with a home-based business. There are four basic types of zoning allowed in most municipalities: residential, commercial, industrial, and agricultural. Most zoning laws are aimed at insuring that the neighborhood will not be changed. Most common restrictions placed on home-based

businesses are: no on site sales, space limitations, no deliveries, no storage of inventory, no business signs, and no employees other than family (Brubec, 34). A home-based accounting service could easily be structured so that it would not violate any of these zoning restrictions.

Risk Management Considerations

Risk management is simply analyzing the risk factors associated with the business, and determining the amount of insurance that is needed to protect operations against the potential impact of these risks. Business insurance comes in many forms and depending on the nature of the business, there may be special policies designed to protect the business' interests. It would be nearly impossible to cover every possible loss situation, not to mention extremely costly too. It is necessary to identify the major risks facing a business, and shop around for the best coverage for the

premium dollar. Some of the major risks facing most businesses are: losses due to fire, storms, floods and other major natural disasters, claims resulting from negligence, workers compensation insurance, and health insurance if the business has employees. (Lasser, 302). The major types of commercial insurance offered are identified below:

Property Insurance is designed to protect the business from loss of or damage to property owned. Property insurance usually covers the property for nearly all perils except for a few situations such as earthquake, flood, nuclear contamination, wear and tear, and war. In most cases property insurance has a deductible (SCORE).

Business personal property insurance covers against loss on machinery, equipment, fixtures, supplies and leasehold improvements and other property for which the entrepreneur is legally liable. Standard coverage in this area is called Sound Value which is the actual cash value of the property. This

is not necessarily book value of the property. Sound Value is an estimate of the amount of which similar items in similar conditions may be procured (SCORE).

Stock Insurance covers unsold merchandise, inventory and raw materials. This includes the business' costs which may include cost of materials as well as labor charges. This insurance also covers stock belonging to others for which you are legally liable, or prior to loss, which you may have assumed some liability (SCORE).

Public Liability Insurance protects from liability imposed by law from bodily injury, and property damage occurrences, both on the business premises and away from the premises. Most insurance companies offer an umbrella policy that covers losses due to product failure, contractual liability, and liability imposed by law. A policy in the amount of \$1 million is not unreasonable these days (SCORE).

Business Interruption insurance will cover operations in the event that a disaster interrupts

operations, and a loss of income is experienced. For example, if a tornado demolished the place of business, and it took 3 months to rebuild, the business interruption insurance would pay the business the normal income that would have been made during that period (Lasser, 306).

Automobile coverage protects from liability imposed by law from bodily injury and property damage occurrences out of ownership or use of vehicles licensed for the road. Another type of auto insurance is the uninsured motorist coverage which protects you against bodily injury caused by a motorist who is not protected by insurance (SCORE).

Worker's Compensation Insurance covers obligations to employees should they experience a work related injury. The Worker's Compensation Act requires the employer to carry this type of insurance.

After assessing your risks, study insurance costs, compare many policies and companies so that the business has the maximum coverage for the least amount

possible. Most literature recommends that all policies are covered with a single agent. In the event of a loss, multiple policies and overlapping coverages may cause headaches in having claims paid. Insurance is an important, yet complex subject that no business can afford to be without (SBA MP28).

Developing the Financial Plan

Paul Resnick, in his book, *The Small Business Bible*, states that, "One of the primary causes of small business disaster is the failure to keep appropriate, accurate, up-to-date accounting records and controls, and to use them to manage the business" (111).

Many entrepreneurs do not realize that the lack of effective accounting records and controls is a significant management problem. Many small business owners rely on their accountant to produce financials for them at the end of the year or at tax time. This brief snapshot of their position is not enough

information to provide them an accurate picture of how they are doing. Those business owners that only want to see their tax picture are even in more trouble given all the variances between standard accounting practices and tax laws. The following is a brief explanation of the important financial statements and what information they can provide to a small business owner (Siropolis, 112).

Income statement shows the performance of a company during a given period of time. Simply put, identifies sales made and expenses incurred. The difference between sales, or revenues and expenses is net operating income. This tells the business owner how much he actually made during that accounting period. Income statements should be produced at least quarterly, and preferably monthly to really give the business owner an accurate picture of the company's performance. It is an excellent control tool to check actual performance against projected goals and identify early unhealthy trends such as a rise in expenses, or

cost of goods sold. Comparing financials from month to month can trigger questions and further investigations of line items that may signal trouble (Siropolis, 335).

The Balance Sheet summarizes the company's health at the end of an accounting period. It provides account balances for assets, liabilities and equity. While this information as a snapshot is somewhat useful it is an excellent control tool. Through the use of ratio analysis, discussed later in this chapter, analysis of the balance sheet can be an early warning system to potential problems if the statements are produced often enough. For example, review of the balance sheet may indicate that inventory and accounts receivable are growing while cash is shrinking. Further analysis may point to a collection problem as well as an ordering problem that is beginning to severely impair working capital, or cash, the life-blood of the small business (Siropolis, 340).

Cash Management is a critical tool that must be

employed in the small business. Most small businesses at one time or another have a cash problem. Failing to plan for these shortages or starting the business without adequate cash can often lead to disaster. Cash management can not be accomplished by review of the financial statements. Depending on the type of accounting method chosen to set up the books with, the cash or accrual method, the financials may not present an accurate picture of the company's cash flows (Resnick, 142).

The cash method records entries at the time they occur. For example, when purchasing inventory and the vendor gives 10 days credit, the purchase of these goods is not recorded until the check is sent (Lasser, 80).

The accrual method records the purchase at the time the goods are received, rather than the time they are paid for. This may seem like a small difference, but the impact of actual costs at the end of an accounting period can be material (Lasser, 82).

The cash flow statement is another good report to have prepared on a monthly basis. It identifies the sources of new cash as well as the uses of cash. The cash flow statement removes all the accounting considerations such as accruals and depreciation. The cash flow projection should be prepared on a monthly basis. The cash flow projection identifies new cash coming in and cash needed during the month to meet payroll or service debt. The projection should always be analyzed against the actual statement of performance to allow the owner to make adjustments or spot trends early (Burtiner, 223).

The Proforma Income Statement is the basis of the financial plan. It is a lot like the cash flow projection, however it deals with all the accounting considerations and projects profits for an accounting period. To begin with, the proforma should "budget" operations for the first 12 months maintained as the business progresses. Actual performance should constantly be measured against the proforma and

specific reasons why actual performance did not hit or exceeded the proforma must be identified. This management tool can not be overlooked (Stienhoff, 109).

Pricing and the Break Even Analysis are important factors, especially for the first year of business. Performing a break even analysis for the business during the first year of operation can help target the billable rate that should be charged rather than relying on what the competition is charging. After all, the overhead and circumstances may be very different from the competition. If the billable rate is significantly different from the competition this will send up a clear signal for reevaluation of the decision to enter the industry (Eder, 33).

The Break Even analysis consists of two factors: fixed and variable costs. Fixed costs are costs that will be incurred whether or not any billable hours have been incurred. Fixed costs might consist of rent, utilities, equipment purchase, or lease payments on a vehicle. These costs will not change with the

increased volume in the business (Lasser, 63).

Variable costs are cost associated with volume. For example, a larger business volume will dictate an increased usage in office supplies, or increased mileage recorded for client trips. Calculating the projected fixed and variable expenses for the firm for the first year will render the minimum dollar amount of billable hours that must attain to maintain operations without borrowing funds (Lasser, 64).

Pricing with this strategy in mind can be very helpful to set the billable rate. To determine the billable rate one must first determine the following: total expenses that are budgeted, total draw the owner has budgeted to take from the business plus taxes. Then determine a collection ratio (a percent of uncollectable billed hours). Then estimate billable hours, being careful to be realistic in estimating the amount of time one must devote to business development (Eder,33). The formula to calculate this is shown in Exhibit 3.

EXHIBIT 3

CALCULATION OF BILLABLE HOURS

ESTIMATED EXPENSES	\$20,000
OWNERS DRAW	20,000
TAXES DUE	7,000

TOTAL CASH REQUIRED	47,000
DIVIDED BY COLLECTION RATIO	80%

TOTAL GROSS BILLING REQUIRED	59,000
DIVIDED BY BILLABLE HOURS	1,500

HOURLY BILLING RATE	\$40.00

Source: Eder, Bernard, B. "Accountant's Fees." The Practical Accountant. May 1986, 33-34.

Ratio Analysis

One of the most useful, yet neglected management tools around is Ratio Analysis. Ratio Analysis compares one account or group of accounts with another on the balance sheet or income statement. If used properly, Ratio Analysis can identify problems early on, track trends in the business, assists in realizing relationships between accounts, and lets one know how the business is faring compared to the competition. Most lending sources will require the calculation of

some ratios. (Lasser, 60) Ideally, ratios should be an integral part of the monthly financial statement preparation. Some of the most helpful ratios are discussed below.

Ratio Analysis, an example

To better demonstrate the importance of ratio analysis, Baker Auto Leasing and Sales is presented as an example for ratio analysis. Baker Auto Leasing is a small company that brokers and leases automobiles to individuals and small companies. Its niche in the market is to serve small companies that only have a small leasing fleet that the larger leasing companies would not be interested in. The company also markets to individuals who are members of area credit unions, working through established programs with various credit unions.

Baker Leasing and sales has been in operation since 1990. For the first two years the company did not show a profit. The company has been profitable

during 1991 and 1992.

The company shops for its customers and locates the ideal car. The company has financing arrangements with two area banks and several local credit unions. The company does not purchase any cars until they have a firm deal. The company buying in volume from the dealers can buy at a substantially lower prices than the customer is able to obtain at the dealership. The company then adds a standard brokerage fee to each sale. The company can also service the lease customer with competitive rates and service.

The following pages present the 1992 year end financial statements for the company along with a ratio analysis explaining each item for a better understanding of ratio analysis and the importance of including this with the financial statements.

Liquidity Ratios can provide quick information on how easy it is for the business to turn assets into cash. Tracking liquidity ratios over time can quickly help to determine whether the company is stalling or

soaring. The larger the ratio, the better chance the company has to weather tough times when little cash is flowing in (Burstiner, 68).

The Current Ratio is calculated by dividing current assets by current liabilities. Current assets are cash, receivables, inventory, and other short term items due in less than one year. Current Liabilities are payables, and short term notes due within one year. As a general rule, a ratio of 2:1 is desired. This means that the business has the ability to liquidate assets, and pay current debts with cash left over. A decrease in this ratio over time can be a signal of potential problems (Burstiner, 221).

The Acid Ratio is a more significant indicator of the firm's ability to liquidate its debts. It is calculated by dividing cash, negotiable securities and receivables by current liabilities. Notice that this ratio excludes inventory, as it can be difficult to quickly turn to cash and should be greater than 1:1.

Profitability Ratios provide a quick picture of

how profitable the company is. Profitability ratios are generally expressed in a percentage rather than a fraction or proportion (Burstinerr, 222).

The Profit to Sales Ratio is calculated by dividing net profit after taxes by net sales. Net profit is profit remaining after expenses and taxes. Net sales are sales remaining after returns and other directly related expenses. This ratio reflects the percentage of profit earned from every dollar of sales (Burstiner, 221).

Return on Assets is calculated by dividing net profit by average assets. This ratio indicates how well management employs the assets in the pursuit of becoming a profitable business (Burstiner, 221).

Inventory Turnover, is calculated by dividing cost of goods sold by average inventory at cost. This ratio is a good indicator of how many times the business is turning inventory over during an accounting cycle. Obviously, as the lower the number, the longer the inventory is on the shelf costing the business

**EXHIBIT 4
RATIO ANALYSIS**

**BAKER AUTO LEASING AND SALES
INCOME STATEMENT
FOR YEAR ENDING 12/31/92**

Income	
Brokered Sales	4,372,216
Lease Fee Income	41,321
Lease Interest Income	23,248
Miscellaneous Income	9,027
Gain on Sale of Assets	5,786
Total Income	4,451,598
 Expenses	
Brokered Sales	4,241,913
Lease Expense	3,556
Option Expense	17,382
Advertising	4,380
Salaries	65,975
Employee Benefits	15,896
Commissions	12,210
Rent	12,000
Telephone	4,828
Office Supplies	4,550
Data Processing	122
Owned Auto Expense	2,634
Professional Fees	2,710
Interest on Autos	972
Interest on Leases	18,824
Auto Depreciation	2,900
Organizational Expense	1,241
Insurance Amortization	7,236
Furniture/Fixture Amortization	1,027
Training/Seminars	2,053
Publications	1,267
General Miscellaneous	235
Meals/Entertainment	943
Franchise Tax expense	199
Total Expenses	4,425,053
Net Income	26,545

**EXHIBIT 4
RATIO ANALYSIS**

**BAKER AUTO LEASING AND SALES
BALANCE SHEET
FOR YEAR ENDING 12/31/92**

ASSETS		LIABILITIES	
Cash	69495	Accounts Payable	28927
Security Deposits	40430	Note Payable Leases	300880
Acct Receivable	6650	Note Pay Owned Auto	6435
Owned Auto	9115	Security Deposits	40430
Furniture/Fixture	1854	Unearned Income	44981
Leasetek	1070	Total Liabilities	421653
Prepaid Insurance	134	Par Value Stock	16000
Orgazational Cost	1759	Paid In Surplus	64000
Professional Dues	400	Cumulated Earnings	-19841
Lease Receivable	339341	93 Earnings	24978
Brokered Autos	36542	Total Equity	85137
Total Assets	506790	Total Debit and Equity	506790

EXHIBIT 4 RATIO ANALYSIS

LIQUIDITY RATIOS

CURRENT RATIO

<u>Current Assets</u>	112687	
Current Liabiliti	35362	3.186669

Given the nature of a leasing company, Baker Leasing is very liquid and has the ability to repay its short term debt three times.

ACID RATIO

<u>Current Assets-In</u>	76145	
Current Liabiliti	35362	2.1533

The company maintains two cars in inventory, ready to sel Even with the inventory subtracted, Baker Leasing has the ability to repay current debts two times with current assets.

LEVERAGE

DEBT TO TOTAL ASSETS

<u>Total Debt</u>	376672	
Total Assets	506790	0.743251

Baker Leasing has a low debt compared to assets. Unearned income was not considered in this ratio as it is deferred income and not due to any party at the company's liquidation.

TIMES INTEREST EARNED

<u>Profit before taxes plus int c</u>	46,341	
Interest Charges	19,796	2.340927

ACTIVITY

INVENTORY TURNOVER

<u>Sales</u>	4,413,537	
Inventory	36542	120.7798

Taking this ratio at face value is misleading. The company only holds two autos in inventory that are likely to turn quickly. The company generally does not buy an automobile until it has an order and deposit from the customer. Delivery is generally made within 24 hours.

This ratio demonstrates the importance of reviewing all notes presented with the financial information.

EXHIBIT 4
RATIO ANALYSIS

FIXED ASSET TURN OVER

<u>Sales</u>	<u>4,413,537</u>	
Total Assets	12039	366.6033

Given the nature of the company, it is evident by this ratio that the company operates with the minimum amount of amount of fixed assets possible. The company operates on a low profit margin and cannot afford to invest in heavy fixed assets.

TOTAL ASSET TURN OVER

<u>Sales</u>	<u>4,413,537</u>	
Totals Assets	506790	8.708808

Again, the company operates with minimum capital investment. The bulk of the company's assets are in Lease Receivables. This investment is constantly returning a steady cash flow to the company.

PROFITABILITY RATIOS**PROFIT TO SALES**

<u>Profit after tax</u>	<u>26,545</u>	
Sales	4,413,537	0.006014

The company operates on a very small profit margin depending on volume to generate the profits for the company. The company can generally sell autos to customers at a price less than the customer can obtain at the dealer.

Given the nature of a leasing company, the company is not showing any tax liability as the depreciation on the autos it owns (shown as lease receivables on the financials) has created a large loss carryforward situation, and therefore no tax liability is shown on the financials.

RETURN ON TOTAL ASSETS

<u>Net Profit after</u>	<u>26,545</u>	
Total Assets	506790	0.052379

The company has a low return on assets due to the low profit margin. The company carries a large Lease receivable balance. The company makes money from the receivables through the spread between the rate from the bank and what it gets from the customer. As Baker Leasing is a new company, its profitability will increase over time as the leases begin to roll off and the company is able to sell the autos as a gain.

EXHIBIT 4
RATIO ANALYSIS

RETURN ON NET WORTH

Net profit after	26,545	
Net worth	<u>85137</u>	0.311792

During the first two years of operations, the company experienced large losses while building a customer base. The company has been profitable for the past two years. The ratio appears high, but as capital continues to grow, this ratio will decrease.

Source: Resnick, Paul. The Small Business Bible. New York: John Wiley and Sons. 1988.

money rather than generating profits (Steinhoff, 95).

Accounting Software

A necessary tool for any accounting service is a strong, flexible accounting package. There are several packages to choose from currently on the market. They range from the very sophisticated and expensive to the very affordable yet very adaptable low-end accounting packages. The research completed in this area focuses on the low-end accounting packages.

The five packages researched (Exhibit 5) were Act 1, DacEasy Accounting PeachTree, Profitwise, and Bedford Accounting. These packages range in price from \$100 to \$250. They all meet the basic accounting needs, and generally go a step further to provide analysis and special report features. (August, 187).

Act 1 appears to handle most accounting needs, although not smoothly. PC Magazine noted that:

"Act 1 is a good accounting system for businesses with more than basic bookkeeping Needs. Its ability to design formats for checks, invoices, and statements is a plus

for initial implementation. The integration of check reconciliation and inventory are well implemented. If speed and ease of use are an issue for your company, then look elsewhere" (August, 189).

Bedford Accounting was written with the small business in mind. It sets low limits on parameters such as 3 digit account numbers and vendor numbers. This package does not offer many of the standard functions offered by DacEasy or PeachTree. Their literature touts that it is easy to get up and running, however for the larger or growing company desiring any management reporting, this package appears to be lacking (August, 189).

Profitwise appears to be a strong package which was rated very highly by PC Magazine. It offers many strong features, however not as many as Peachtree or DacEasy. One strong feature of this package is that there is a high end package for the user to progress into (August, 192).

DacEasy originally started out as a high-end package. DacEasy was rated as the editor's choice in

PC Magazine. DacEasy offers multi-entity accounting to produce financials for several companies. DacEasy also offers a full line of complementing products such as payroll check writing, word processing, and a database. Actual experience with this package has indicated that this is very flexible to use (August, 199)

Peachtree III is a package that offers a lot of value and features for its \$199 list price. It has the ability to close the gap between itself and the high-end packages (August, 205).

The Marketing Plan

Another critical area of business planning is the marketing plan. Many small business owners start a business without properly analyzing who their customers are and the potential of the market. An initial limited success selling their wares may lead them falsely into a business with no potential. The ability to understand the customer base and identify a unique niche in the market is paramount.

EXHIBIT 5

**ACCOUNTING SOFTWARE
FEATURES AND BENEFITS ANALYSIS**

	DAC	ACT 1	PEACH	PROFIT	BEEDF
GENERAL					
List Price	150	180	199	229	249
Discount Price	121*		210*	125	117
Hard Disk Required	Y	Y	Y	Y	Y
RAM required	640	256	512	640	384
Posts submodules in summary or detail	SUM	BOTH	BOTH	SUM	NEITHER
Customized forms	N	Y	N	N	N
ACCOUNTS PAYABLE					
PROGRAM PARAMETERS					
Max invoices per payment	10	65,535	UNLIM	UNLIM	24
Max number bank accounts	UNLIM	65,535	9	UNLIM	1
Max number A/P vendors	UNLIM	65,535	UNLIM	UNLIM	999
A/P vendor code structure	10 A/N	15 A/N	6 A/N	6 A/N	3 NUM.
Max number of A/P accounts	1	65,535	9	UNLIM	1
FEATURES					
Total purchases last year	Y	N	N	Y	N
Date and amt. of last purchase	Y	Y	Y	Y	N
Last check number, amt., date	Y	Y	Y	Y	Y
Quick add vendors	Y	Y	Y	Y	N
Prints 1099	Y	Y	Y	N	N
Processes recurring batch pymts	N	N	Y	N	N
Automatic purges inactive vendor	N	N	Y	N	N
Automatically selects invoices due date/vendor	Y/Y	Y/Y	Y/Y	Y/N	Y/N
Vendor specific payments	Y	Y	Y	Y	N
Check reconciliation	Y	Y	Y	N	N
Prints standard messages on remittance advices	Y	Y	Y	Y	N
Looks for Duplicate invoices	N	Y	OPT	Y	N
Cash basis accounting	Y	Y	N	Y	Y
Calc discounts based on due date	Y	Y	Y	Y	N
Creates a one time vendor	Y	Y	Y	Y	N
REPORTS					
Cash projection by due dates	N	Y	Y	Y	N
Year to date vendor detail report	N	Y	Y	Y	Y
Cash requirements report	N	Y	Y	Y	N
ACCOUNTS RECEIVABLE					
PROGRAM PARAMETERS					
Maximum number of customers	UNLIM	65,535	UNLIM	UNLIM	999
A/R customer code structure	10 A/N	15 A/N	6 A/N	6 A/N	3 A/N
Max number A/R accounts	1	65,535	39	UNLIM	1
Number tax codes/rates per cust	UNLIM	65,535	UNLIM	3	NONE
FEATURES					
Date and amount of last sale	Y	Y	Y	Y	Y
Customer and amount of last sale	Y	Y	Y	Y	N
Customer billing address	Y	Y	Y	Y	N

EXHIBIT 5

	DAC	ACT 1	PEACH	PROFIT	BEDFD
Average days to pay	N	N	Y	N	N
Processes recurring batches	Y	Y	Y	N	N
Customer specific billing cycle	N	Y	Y	Y	N
Customer specific payment terms	Y	Y	Y	Y	N
Automatically computes fin chg	Y	Y	Y	Y	N
Commissions paid	N	Y	N	N	N
Shipping method	Y	Y	N	Y	N
On order amount \$	N	Y	Y	N	N
Year to date fin charges	N	Y	Y	N	N
Highest balance	N	Y	N	Y	N
On line look up of credit info during order	Y	Y	N	Y	N
On line look up of alternate ite an quant. on hand	Y	N	N	Y	N
Checks credit limit	Y	Y	Y	Y	N
Converts quotes to orders	N	Y	N	N	N
Tracks and fills back orders	Y	Y	Y	Y	N
Maintains non inv items	Y	Y	N	Y	N
REPORTS					
Sold serial/lot numbers	N	N	Y	Y	N
Limits stmt prntg for past due	N	N	N	Y	N
Sales analysis by customer	Y	Y	Y	Y	N
Past due aging	Y	Y	Y	Y	Y
Year end statement	Y	Y	N	N	Y
Sales analysis by product	Y	Y	Y	N	N
Detail deposit slip for cash	N	N	Y	N	N
Cash discounts	Y	N	N	N	N
Customer price quotes	N	Y	N	N	N
GENERAL LEDGER					
PROGRAM PARAMETERS					
Max number accounts	UNLIM	65,535	UNLIM	UNLIM	500
Account code structure	30 A/N	15 A/N	5 A/N	12 A/N	3 NUM.
Max number of companies	UNLIM	65,535	UNLIM	UNLIM	UNLIM
Max number subaccounts	UNLIM	65,535	99 DPT	10	999
Max number of journal entries	UNLIM	9999	UNLIM	UNLIM	UNLIM
FRATURRS AND FUNCTIONS					
Automatic reversing entries	Y	N	Y	N	N
Automatic recurring entries	Y	Y	Y	Y	N
Consolidations	Y	Y	Y	N	N
Suspends processing of unbal amt	N	N	Y	Y	N
Enters next years budget during current year	N	N	Y	Y	N
Performs stndrd mthly allocation	N	Y	Y	N	N
RRPORTS					
Statement of cash flow	Y	Y	N	Y	N
User defined balance sheet	Y	Y	Y	Y	N
User defined income statement	Y	Y	Y	Y	N
Reports by journal type	Y	Y	Y	Y	Y

EXHIBIT 5

	DAC	ACT 1	PEACH	PROFIT	BEDFD
INVENTORY					
PARAMETERS					
Max number inventory items	UNLIM	UNLIM	UNLIM	UNLIM	499
Inventory item code struct	14 A/N	15 A/N	15 A/N	10 A/N	3 NUM.
FRATORKS					
Year to date cost of sales	Y	Y	Y	Y	N
Substitute part number	Y	N	N	Y	N
Dual unitys	Y	Y	Y	N	N
Committed quantity	Y	Y	Y	N	N
Last sale date	Y	Y	Y	N	N
Multiple Vendors same items	Y	Y	N	Y	Y
Inventory costing					
Average cost	Y	Y	Y	Y	Y
Standard cost	Y	Y	Y	Y	N
LIFO/FIFO	N	Y	Y	N	N
Specific	Y	Y	Y	Y	N
Number of price lev	3	6	3	1	1
Discount % and quan	Y	Y	Y	N	N
Markup pricing	N	N	Y	Y	N
Fractional pricing	Y	Y	Y	N	Y
Standard unit of measure	N	Y	Y	N	N
Parts list of component	Y	Y	Y	N	N
Transfers to warehouse	N	Y	N	Y	N
Alternate vendor info	Y	Y	N	Y	N
REPORTS					
Inventory price list	Y	Y	Y	Y	Y
Serial number aging report	N	N	Y	N	N
Inv turn tred report	Y	Y	Y	N	N
Inv sales rept	Y	Y	Y	Y	N
Inv activity report	Y	Y	Y	Y	N
Inv commitment	Y	Y	Y	N	N
SYSTEM FEATURES					
Reporting priv by password	Y	N	Y	Y	N
Max char for password	8	8	8	12	3
REPORTS					
User name w/password	N	N	N	Y	N
APPLICATION MANAGER					
Supports point of sale	N	Y	Y	N	N
Pgs up/down through screen print	Y	N	Y	Y	Y
Context sensitive help screens	N	N	Y	N	N
SYSTEM MANAGER					
Imports data	Y	Y	N	Y	N
Read/writes deminted ascII	Y/Y	Y/Y	N/Y	N/Y	N/Y
Read/writes .sdf ascII files	N/N	Y/Y	N/Y	N/Y	N/Y
Read/writes .dbf files	N/N	Y/Y	N/Y	N/Y	N/Y
Read/writes .wrk files	N/N	N/N	N/Y	N/Y	N/Y
Mailing labels	Y	Y	Y	Y	Y
PROGRAM MODIFICATION					
Source code available	N	Y	Y	N	N

EXHIBIT 5

	DAC	ACT 1	PEACH	PROFIT	BEEDF
MODULES INCLUDED	Y	Y	Y	Y	Y
GENERAL LEDGER	Y	Y	Y	Y	Y
ACCOUNTS RECEIVE	Y	Y	Y	Y	Y
ORDER ENTRY	Y	Y	Y	Y	
INVENTORY	Y	Y	Y	Y	Y
PURCHASING	Y	Y	Y		
CUSTOM REPORT WRITER	Y	199	100	W/GRAP	W/GRAP
PAYROLL	99	Y	Y	Y	Y
FIXED ASSETS			Y	Y	
JOB COST			Y	Y	
FUND ACCOUNTING		199			
GRAPHICS		199		199	129
DATA QUERY			99		
TECHNICAL SUPPORT					
Toll Free Number Available	Y	Y	Y	N	N
Technical Fee Support Per Hour	75	75	60	95	100
TRAINING					
Training at vendor's location	Y	Y	Y	Y	N
Training manuals	Y	Y	Y	Y	Y
On line tutorials	Y	N	Y	Y	Y
Video Training	Y	N	Y	N	N
CAPACITIES					
Max number of open months	19	14	1	13	12
Max number fiscal periods	13	13	13	13	365
Number prds detail is maintained	19	15	12	12	1 FIS YR
Transaction limit	99M	100 M	99M	99M	20 M
Database size	UNLIM	65,535	UNLIM	5 MB	N/A

LEGEND

* Indicates discount price of bonus package

A/N = alpha numeric

\$99M = \$99 million

Source : PC Magazine April 10, 1990 202-205
and vendor promotional material.

Defining the Market is the first step in developing a marketing plan. Knowing exactly what the business has to offer, and what benefits it will offer the customer will help hone, and target the market analysis, as well as assisting in product refinement. For example, when Sal's Snowblowers decided to open up a franchise in Key West, Florida, the company may have over estimated the demand for snowblowers in this area of the country.

Defining the company's mission will allow one to see what is unique about the business and allow the entrepreneur to focus on the company's strengths. It will help define the scope of the business and will also allow one to zero in on who the target customers really are. In our fast-paced society, a cleaners offering pick up and deliver service in a more affluent area will capitalize on the strength of convenience and advertize its unique service to increase business.

Target Marketing is simply identifying customers, their wants and needs, habits and associated

demographics. Thorough analysis will save the small business owner from making many expensive marketing mistakes. Some businesses take the "shotgun" approach and market to everyone. For the small business owner, it is generally impossible to be successful with this strategy. It wastes valuable marketing dollars that will not produce the sales targeted for the period (Burstiner, 37). A small local deli that chooses to spend its advertising budget on television rather than the local area paper can only purchase a small amount of air time rather than possibly a year's worth of weekly ads in the local paper.

Although no marketing is easy, industrial marketing research can be easier as customers are much easier to identify. Customers can be located through trade journals, area business statistics, advertising media such as the yellow pages, and of course networking with other professionals can be an invaluable source of referrals. Mike Bukowski, a Michigan CPA quickly found that his clientele grew

through networking with other professionals, and referrals from other clients. Mike discovered that none of his clients found him through the yellow pages (Michigan. 19).

Once the business owner has a firm grasp on his target market, understanding the competition is critical. The importance of knowing who the business is up against cannot be understated. The entrepreneur must know each business that is either directly or indirectly in competition with him. The entrepreneur must know as much detailed information about them as possible, for example, how long they have been in business, estimate their volume, and number of employees. After this analysis, the entrepreneur must assess the business climate and determine if there is still enough room in the market for his company as well as focus on what this new business can offer that is unique in the industry. Scoping out the competition doesn't have to be difficult. To locate the competition, the yellow pages is a great place to

start. From there the U.S. Census Bureau publishes County Business Patterns that consists of the number of firms in your industry, broken down by employee size and revenues. Once the entrepreneur has a general idea of the competition, shopping the major players in the area will provide a greater insight into the local market. Make a list of their strengths and weaknesses. This will assist in analyzing the new business and improve weak areas (Brabec, 65).

Developing the marketing plan: After you understand the customer base and the competition, its time to bring the financial plan and marketing plan together by establishing your sales objectives and building your proforma income statement from there. Once sales objectives have been identified along with estimated expenses, potential profitability quickly comes into view. The proforma will quickly demonstrate how aggressive the marketing plan has to be to target customers to meet sales and profit goals.

As noted earlier, an accounting firm grows more by

referrals rather than advertising, for that reason research focused on networking opportunities and developing strategies to get the customers to be the sales force. Jackie McGhehey, a Michigan CPA noted that initially in starting her business she did not have time for community organizations, but as her business grew, she realized the importance of involvement not only to establish a strong relationship with the community, but it was also a great source of referrals (Michigan, 20). The community offers many sources of potential referrals such as attorneys, bankers, insurance agents, as well as acquaintances in churches, civic and social clubs, homeowner's associations, professional organizations, and special interest groups (Williams, 46).

Other important methods of advertising consist of: press releases, advertising in local trade journals, and sending announcements to people apt to be interested in the new business. Enclose business cards, and schedule personal contacts with "high

procurement-probability" clients. Consider brochures and news letters and speaking engagements. Keep high visibility foremost in mind in developing the clientele (Williams, 83).

Summary and Problem Statement

The greater percentage of business failures can be directly attributable to lack of planning. Proper planning and preparation of a business plan can avoid costly mistakes. Being aware of what is required to successfully run a business will allow the entrepreneur to be objective in assessing the the company's strengths and weaknesses. Keeping focused and developing priorities by continually reviewing and updating the business plan will keep the company on track.

Running a small business is ultimately about effective management, in understanding the priorities, direction, and development of the firm. Being successful has nothing to do with luck, but rather

following strategies, and developing a plan to produce results for the company.

CHAPTER III

METHODS AND EVALUATION

Material

The plan presented in appendix A is the culmination of many hours of careful research and study to develop a business plan for a home-based accounting, tax preparation and computer consulting concern. Currently the company, Baker Accounting provides tax and accounting services on a very limited basis. There is a strong desire to take this business and properly develop it into a full time opportunity. Developing a business plan that could be implemented in the near future was the goal of this project.

The proposed business would provide accounting, tax and computer consulting to the very small or new company in St. Charles County. This business would be home based to reduce overhead and not disrupt family

routines. A three year business plan was developed to take the business from a part time concern with no current clients to a full time concern with 10 accounting clients that have financial statements prepared on a monthly basis.

The business has identified a niche in the market in serving new or the extremely small businesses that can not afford to the retain a CPA firm. Baker Accounting and tax service, as an integral part of the financial statement preparation, will provide the new entrepreneur an analysis of his financial statement and trend analysis when data is available. The company possesses strong talent and abilities in operations and can provide the new business assistance in developing office/accounting operations while creating strong internal controls.

The company also possesses strong computer talent and can assist the new entrepreneur with developing cost/benefit analysis, analytical spreadsheets, or even assist in developing the necessary worksheets in the

basic business plan.

The company's strength will lie in excellent customer service. The business plan has developed policies and procedures that will facilitate personalized customer service. For example, the phone should be answered on the second ring and any phone calls that need to be returned will be required to be returned within 24 hours.

The one area of weakness for the proposal is tax preparation. Tax preparation is currently performed on a limited basis. Providing quality service to clients would require additional training and experience. The plan calls for additional tax schooling. As well as a working arrangement has been established with a local CPA specializes in tax preparation. The arrangement will have the local CPA provide tax preparation services to the clients of Baker Accounting. The other benefits of the arrangement will provide Marsha Baker the opportunity to gain tax preparation experience as well as accumulate hours toward obtaining a Missouri

CPA license.

The owner of the firm, Marsha Baker is a Certified Public Accountant and currently holds a license in Texas and a certificate in Missouri. The requirements for licensing are different in the State of Missouri and it will be necessary for her to work for a CPA for several years on a part time basis to obtain her license in Missouri. The business plan outlines the steps that will be taken to achieve a license in Missouri.

The main key to success in this business will be the ability to develop and retain new clients. The manner in which this will be achieved effectively will be networking. It will be crucial to the organization to join several local organizations such as the Chamber of Commerce and the the local chapter of the National Association of Women Business Owners.

The goal driving this research is to ultimately develop a business plan for a small bookkeeping, tax, and computer consulting concern. In accomplishing this

goal, personal experience gained in industry, as well as a strong academic background were effective in developing concepts and selecting research strategies.

Subjects

For this project, two evaluators were selected to review the business plan presented in the appendix of the project. The evaluators selected would be able to provide honest, critical feedback that would be used to improve the project.

The first evaluator, John Elsoffer, is currently the president of the local chapter of SCORE. SCORE is made up of retired executives that work with new entrepreneurs to assist them in obtaining statistics and reviewing business plans and providing direction. The local chapter of SCORE presents a one day seminar that teaches the new or potential entrepreneur about all the aspects of starting a small business. Elsoffer teaches the majority of this seminar. He also performs

most of the reviews of business plans that are submitted to him.

Elsoffer holds a bachelors degree in counseling. He is an entrepreneur who has started three successful small businesses and is currently researching his fourth start up. Elsoffer's past experience has provided him a strong ability to analyze business plans and determine the areas that require additional attention.

The second evaluator of the business plan was R. Douglas MacMorran. MacMorran currently holds a Bachelor of Science degree in Accounting from Missouri Southern University. He has also completed the Graduate School of Bank Investments, and National Commercial Lending Graduate School, sponsored by the American Bankers Association. He has been the president of two banks and the Senior Vice President of a large area credit union. MacMorran is currently the president of Sklar Resources, a company that specializes in project management while concentrating

in collections. The company is structured so that each city where the company is located is a subsidiary of the parent corporation in California, but operates independently. The St. Louis office is less than one year old. MacMorran's current role, has him performing many of the same functions as an entrepreneur. He has developed the business plan for the company. Along with one other employee of the company they have developed a firm client base in the St. Louis area. MacMorran has had 25 years experience with financial institutions. Having been a bank president, he has had strong commercial lending experience.

Instrument

The instrument chosen to evaluate this project was the personal interview. The objective of having the evaluators read the business plan was to assess the plan's feasibility and correct any material discrepancies to make the business plan a viable concern. Other instruments such as a questionnaire or

introduction letter asking for personal comments were considered, however it was determined that these methods would only get limited feedback and valuable insights might not be noted in either of these methods.

Procedure

The interview with Elsoffer was completed over the telephone. On the morning of October 15, 1993, Elsoffer discussed the plan at length. The call took approximately 45 minutes. The week before, Elsoffer received a copy of the business plan and was asked to complete the review within a week. The plan was mailed on Friday, October 8, 1993 and received on Tuesday October 11, 1993.

Elsoffer reviewed my plan assuming it was a business plan for the start up and operation of the business rather than a request for financing. Elsoffer began with general comments and then highlighted specific sections of the plan noting areas of concern or improvement.

MacMorran was interviewed over lunch on Friday, October 23, 1993. The lunch meeting took approximately two hours. MacMorran received the plan in the mail on Tuesday, October 12, 1993. He made many notes on the plan for review during the meeting.

CHAPTER IV

RESULTS

As noted in Chapter three, this project was reviewed by two evaluators, R. Douglas MacMorran and John Elsoffer. Both evaluators were interviewed at length. This chapter presents their comments about the business plan.

John Elsoffer

Elsoffer's general comments started with the fact that he felt that the project was "good boot-strapping operation." By this he meant that the business plan was prepared without initially seeking financing. He feels strongly that a small service operation such as the operations presented in the business plan should not rely on outside financing when first starting operations.

As Elsoffer is the president of the local chapter

of SCORE, he has the opportunity to review many business plans. He noted that the plan presented for Baker Accounting and Tax Service was far more advanced than he is accustomed to receiving. He stated that it was obvious that much time and research had gone into this project.

Elsoffer also commented on the marketing segment. He emphasized the need to concentrate on growing the business through referrals. He thought that the insight presented in the marketing section was exceptional. Elsoffer provided several examples of local entrepreneurs that were very successful using only networking and referrals as their sole source of marketing.

Elsoffer did have some specific comments on how the plan could be improved. These comments are as follows:

1. He felt that section 1.2 and section 3.0 were redundant. He challenged the plan to be more

distinctive and specific in presenting the product. In the plan submitted, these sections read as follows:

1.2 MISSION

Baker Accounting and Tax Services is an accounting firm whose mission is to provide quality accounting and bookkeeping services at reasonable rates to small businesses, while generating cash and profits, and increasing the value of the company.

3.0 PRODUCTS SUMMARY

Baker Accounting and Tax Service provides accounting, tax services and computer consulting to the very small or just beginning business, this includes small credit unions as well. Tax services are also offered to individuals.

Elsoffer felt that these sections were redundant, and not specific enough. Jokingly he said he's waiting to read a business plan that states that the company will sell inferior products at a high price and provide poor service. He encouraged the plan to focus more on specifics such as the company's policy to return all phone calls with in 24 hours and write thank you notes to current clients for referrals. He asks the question,

"What is the business going to do differently than other firms in the area?", and "Do you know exactly what you are selling?". The answer to these questions will greatly assist in enhancing the marketing section providing a stronger focus on client development.

2. The second concern was in the presentation of the organizational costs. He recommended expensing all the start up costs immediately, rather than amortizing the costs over 60 months.

3. He commented that for the purpose of having a "road map" for the company's use to implement business, the plan was fine. However, should financing be required the plan would need additional work to show the determination of the amount of capital required. The format he suggested is as follows:

	TOTAL START UP COSTS
ADD	(TOTAL INCOME LESS EXPENSES)

	TOTAL CAPITAL REQUIRED
LESS	OWNER INVESTMENT

	FINANCING REQUIRED

4. The plan states how the owner has scheduled hours to gain a CPA license within several years. Elsoffer feels that this is a waste of time. He feels that the market is mature with CPA firms going after the larger companies, however the market is wide open for small firms and individuals to provide accounting services to the very small firms. Elsoffer feels that the business plan presented has identified a niche and has great potential to become a successful business.

In conclusion, Elsoffer felt that the business plan presented was very viable and was disappointed to know that it was for a culminating project and would not be implemented in the near future. He felt that there was a tremendous need in the St. Charles area for accounting services and encouraged thought toward implementing this plan. As an added note, Elsoffer stated that he was in the process of updating the training material for the "How to start your own business" seminar and asked permission to use portions of the plan in the training material.

R. DOUGLAS MACMORRAN

MacMorran had insight from a different perspective into the plan. MacMorran was a previous employer and has insight into the personnel involved in this business plan. Overall, MacMorran felt that the plan was a good, solid workable plan. If anything, it was too conservative and if implemented would become a full time entity within 12 months given the drive of the owner. He noted that the plan was thorough and well thought out.

MacMorran's specific comments were as follows:

1. MacMorran felt that the plan to obtain a Missouri Certified Public Accountant's license was reasonable and necessary.

2. The marketing plan presents a good understanding that marketing is the main key to success, however the plan could be more aggressive in this area. The plan needs to be more detailed in how networking will be executed and how other avenues of

advertising will be used.

3. In section 3.3 PRODUCT LITERATURE, MacMorran questioned the necessity of literature. If mass marketing would be used, then the proforma must be changed to reflect additional postage costs. Also the plan should note specifically who will be targeted in these mass mailings.

4. The company should be as professional as possible and not rely on the home phone to conduct business. A second phone line should be added.

4. MacMorran felt that the capital plan had to be revised. The current capital plan in Table 4, outlines the following procurements over the next two years:

SCHEDULE OF CAPITAL EXPENDITURES

DATE	ITEM	COST	LIFE	AMORT/MONTH
1/94	START UP	1500	60	25 PER MONTH
6/94	LASER PRINTER	1500	36	42 PER MONTH
6/94	MICROSFT WORD	300	36	8 PER MONTH
1/95	FAX	700	36	20 PER MONTH
1/95	COPIER	3000	48	63 PER MONTH

MacMorran felt that beginning a business without a fax machine and copier was unrealistic and would facilitate great inefficiencies and poor time management.

5. Table 2 presents an analysis of billable hours to determine the minimum hourly billable rate. This calculation takes total cash required and divides by a collection percentage to obtain total gross billing required. The collection percentage used was 80%. MacMorran felt that 80% was a very conservative estimate of collections and for the purposes of determining a billing rate, was probably acceptable. However, if in reality the actual collection ratio was less than 95%, this should alert the business to a potentially critical collection problem and should be constantly monitored and addressed immediately should the receivables begin to grow on a monthly basis.

In conclusion, MacMorran thought the plan was very good and challenged Marsha Baker to seriously consider implementing the plan.

Conclusion

The comments received from both evaluators were greatly appreciated and incorporated into the final business plan presented in the appendix. Both evaluators' comments were candid and constructive in assisting the business plan to become a more viable concern.

CHAPTER V

DISCUSSION

Summary

Both evaluators provided extremely useful ideas and suggestions to further refine and develop the project. Their past experience in industry provided them a tremendous ability to analyze and critique the plan. Neither evaluator appeared to hold back any criticisms or thoughts in light of a personal interview.

Both evaluators provided very positive general comments that the plan was well researched and would work if implemented. They were both disappointed to learn that this was a project for a thesis, and there were no immediate plans to implement this business.

The one area where additional work was needed was in the area of marketing. As noted earlier in this project, the key to success will be marketing efforts as the talent for running a tight operation and

providing a quality project are already in place. Both evaluators suggested that marketing be more detailed in the plan.

Both evaluators had specific suggestions about the plan that should be further considered. Each item below is addressed as follows:

1. Elsoffer felt that sections 1.2 and 3.0 were redundant. They have been rewritten as follows:

1.2 MISSION

Baker Accounting and Tax Service was formed to assist the small entrepreneur with accounting, tax and computer consulting services. Baker Accounting will achieve outstanding customer service by providing personalized service to fit every client's needs and specific operations.

3.0 PRODUCT SUMMARY

Baker Accounting and Tax Service offers basic financial statement preparation and accounting services along with tax preparation and computer consulting. These services are personalized to meet the needs of each client. As an integral part of the financial statement preparation service, Baker Accounting will provide financial statement analysis and trend analysis where possible.

Elsoffer also asked two questions to assist in focusing the marketing effort. The first question was, "What is the business going to do differently than other firms in the area?". Baker Accounting and Tax Service is committed to taking a personal interest in each client. Their individual operations will be understood and integrated into their accounting needs. Past research in discussing accounting services with small entrepreneurs indicates that they were expected to fit the service offered rather than the accounting service fitting their needs. Baker Accounting also has substantial experience in operations in industry. This experience will prove beneficial to small clients just starting that have no knowledge of financial operations. They will have a resource provided to answer questions and assist in analysis when necessary.

The other question asked by Elsoffer was "Do you know exactly what you are selling?" Baker Accounting and Tax Service is selling financial services, but more importantly the company is selling consulting services

that offer convenience and piece of mind to small businesses that do not have the time or resources to have an accountant on staff.

2. Elsoffer questioned the validity of amortizing organization costs over 60 months rather than as incurred to reduce the tax effect during the first few months of operations. Elsoffer is assuming that the company will be a cash basis company and expense items as incurred. However, the company will be an accrual basis company. The decision for this was based on the fact the the company will have low expenses to produce the product and additional expenses in later years will also reduce taxes. According to Generally Accepted Accounting Principals, when using the accrual method, it is preferred to have organizational costs amortized over 60 months.

3. Elsoffer wanted to clarify the purpose of the business plan. As the plan requires no outside financing, the plan is complete as presented. It is understood that additional work would be required

should financing be needed.

4. Elsoffer noted that he did not feel that it was necessary to obtain a CPA license and that he was aware of several non-certified accountants that were very successful. Although this is probably true, the business plan has not been revised to remove this. As Marsha Baker holds a Texas license, it would be prudent to seek a Missouri License. Being a Certified Public Accountant carries many serious responsibilities to maintain certain ethical standards. Obtaining a Missouri CPA would eliminate any questions that the State Boards might have as in this area.

1. MacMorran felt that the plan to obtain a CPA was necessary. It has not been altered in the plan as suggested by Elsoffer.

2. There was a concern from MacMorran that the marketing plan was not aggressive or specific enough. Section 5.1.2 has been added to list specific action items that must be achieved to become a successful

entity.

MacMorran also felt that other avenues of advertising should be pursued. At this phase in the development of the business, networking appears to be the best and strongest avenue to client development. Through networking and joining various community organizations, the opportunity for additional advertising will present itself and be pursued at that time.

3/4. The proforma has been revised to include additional postage and a second phone line as suggested by MacMorran.

5. The capital expenditure plan was a concern as the purchase of a fax machine and copier were not to be procured until 1995. This has been revised to be procured instead in 1994.

6. The analysis of billable hours noted that the collection rate would only be 80% of total hours billed. This figure was used to calculate a conservative billing rate and not under bill for work

done. In reality the company would not allow the charge off rate to near 20%.

Conclusion

The evaluators provided strong insight into the plan offering solid suggestions for improvement or clarification. The majority of their suggestions were incorporated into the plan. The plan presented in the appendix of the project has been developed thoroughly and would facilitate the implementation of the plan into a viable business concern.

Limitations

The goal of this project was to develop a business plan that would become a viable concern should it be implemented. In performing the research for this project certain limitations were encountered that made certain assumptions necessary in the preparation of this plan.

Statistics for non certified firms were extremely difficult to obtain without significant cost.

Statistics were finally obtained from a 1991 survey. However, the statistics were already compiled and no raw numbers were available to calculate statistics specifically for this project.

Along the same line, statistics for St. Charles county were not readily available. The St. Charles Chamber of Commerce compiles statistics, however they are only for the benefit of their membership. The book, County Business Patterns, provided very general counts of types of companies, more specific data was desired.

Although much research was performed to become familiar with the local competition only limited information was available. This is for obvious reasons. Information such as billing rates and client mix were not readily available from everyone.

If this project is pursued, additional statistics would be desired to ensure the plan's feasibility.

Suggestions for Future Research

Should serious consideration be given to implementing this plan further research would be necessary in the following areas:

Incorporation procedures—Incorporation requires much foresight and knowledge of all the options available to incorporate and the best options available to the company. Also in this process, selection of a lawyer is an integral part of the management team and should be selected very carefully. This aspect of the business is a very detailed procedure that requires knowledge to properly execute the necessary functions to properly incorporate.

Electronic Tax filing is a product that would require development to offer to the individual tax clients. This product is gaining great popularity and will keep the firm competitive in the individual tax arena.

Financing—The current plan presented does not require any outside financing. However if this plan is

actually implemented, it would be prudent to seek a line of credit from a bank to protect against unplanned opportunities or problems that may temporarily drain working capital and require an immediate inflow of funds. Seeking financing would require additional work on the business plan to request the line of credit.

Statistics-If this plan is actually implemented, additional research will be performed to gain a firmer idea of peer ratios to be attained and verify actual operating numbers of profit, expenses and average hourly billing for non-certified firms in the St. Charles area.

APPENDIX A

BAKER ACCOUNTING AND TAX SERVICES INC.

**4160 ATTLEBORO CT.
ST. CHARLES, MISSOURI
63304-5515**

(314)926-2661

Corporate Officers

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**Plan issued October 1993
Copy number Two of Four
Prepared by: Marsha Baker**

BAKER ACCOUNTING AND TAX SERVICES

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BAKER ACCOUNTING AND TAX SERVICES INC.

1.0 EXECUTIVE SUMMARY

-Baker Accounting and Tax Services Inc. is a newly formed corporation that provides quality Accounting, Tax, Bookkeeping Payroll, and Computer consulting services. It has its home office in St. Charles (MO). Its services are marketed to small businesses mainly in the St. Charles area. The company has also identified a secondary niche providing accounting services to small area credit unions who can not afford to have accounting expertise on staff.

-This three year business plan is part of our regular business planning process. We revise this plan annually.

-Our keys to success and critical factors for the next year are, in order of importance:

-Client development.

-An aggressive marketing strategy through networking.

-Financial controls and cash flow planning.

Baker Accounting and Tax Services Inc. is a newly formed company that will incorporate in early 1994. Marsha Baker is currently employed full time in industry. This venture has been formed to allow her the opportunity to start her own small business on a part time basis, and be able to devote full time efforts to this venture within three years. Sales projections will grow to \$27,000 within three years.

1.1 OBJECTIVES

1. To develop a minimum client base of 10 clients that will receive regular monthly accounting services by the end of 1994.
2. To become a home based viable concern.

3. To grow to sales of \$7,000 by the end of 1994.
4. To grow to sales of \$27,000 by the end of 1996.
5. To work at this concern full time in 1996.

1.2 MISSION

Baker Accounting and Tax Service was formed to assist the small entrepreneur with accounting, tax and computer consulting services. Baker Accounting will achieve outstanding customer service by providing personalized service to fit every client's needs and specific operations.

2.0 COMPANY SUMMARY

Baker Accounting and Tax Services offers accounting and bookkeeping services as well as computer consulting services developed to assist the very small entrepreneur already in business and those just starting out. It will provide them with timely accounting information and management reporting information regarding the performance of their business venture. Its customers are intelligent entrepreneurs who want useful, uncomplicated accounting information and management reporting with as little investment of time and money possible. The company will incorporate in Missouri in 1994.

2.1 COMPANY OWNERSHIP

Baker Accounting and Tax Services Inc. will be a privately held Missouri Corporation by early 1994. Marsha Baker, its founder, is the majority owner. Several members of the board of directors also hold minority stock positions.

2.2 COMPANY HISTORY

Baker Accounting and Tax Service was founded in 1991 as a sole proprietorship registered in St. Charles (Missouri) as Baker Accounting Services, owned and operated by Marsha Baker. It was originally founded to provide lease accounting services to a small area credit unions.

Having established a proper lease accounting system for a small credit union, Baker realized the potential of providing accounting services to small entities that could not afford nor desire to afford large C.P.A. firms to provide accounting expertise. To further substantiate this, contact with several small local retailers in the St. Charles area indicated

the need for accounting services at reasonable rates.

In 1993, Marsha Baker, and Randy Baker, and Paul Polette subscribed to purchase stock in the organization when it incorporates in 1994.

2.3 COMPANY PRODUCTS

Baker Accounting and Tax Services Inc. offers complete financial services that exist due to a combination of market needs:

- There are many very small businesses in the St. Charles area that require accounting services.
- Most of these companies need accounting services to provide meaningful data about the current performance of their business.
- Few of these entrepreneurs have the time, inclination or expertise to develop this needed data on a timely basis. They need customized reports and information to be able to determine the status of their operations.
- Baker Accounting and Tax Services Inc. provides reasonable, customized accounting information, tax services, and computer consulting, customized to the exact needs of defined small business users.

2.4 COMPANY LOCATIONS AND FACILITIES

Baker Accounting and Tax Service Inc. operates from the home office of Marsha Baker. This property is located at 4160 Attleboro Ct, St. Charles, MO 63304

3.0 PRODUCTS SUMMARY

Baker Accounting and Tax Service offers basic financial statement preparation and accounting services along with tax preparation and computer consulting. These services are personalized to meet the needs of each client. As an integral part of the financial statement preparation service, Baker Accounting will provide financial statement analysis and trend analysis when possible.

3.1 PRODUCT DESCRIPTIONS

Financial Statement Preparation offers general ledger preparation from source documents in order to complete financial statements, including detailed services such as account reconciliation. Baker Accounting and Tax Services Inc. will customize each service to specifically meet each client's needs. A standard part of the preparation will be a written analysis of the financials with trend analysis where possible.

Consulting. Baker Accounting and Tax Service provides a unique advantage over other firms in that ratio and financial statement analysis will be a standard part of any financial statement preparation. Our firm can also go more in depth, streamlining operations, designing custom spreadsheets, establishing or reviewing existing internal controls, assisting with computer implementation, or assisting the entrepreneur in writing the business plan.

Tax preparation will be provided to individuals and small businesses. Both individual 1040's, and corporate returns will be offered. The company will also perform out of state returns as well as other miscellaneous returns such as Sales tax returns, Payroll withholding returns and Franchise tax returns.

3.2 COMPETITIVE PRODUCT (SERVICE) COMPARISON

In the St. Charles area, there are many small firms both certified and non-certified that offer accounting and tax services to both small companies and individuals. In talking with many of these small accounting and tax firms, many have carved their own niche in the market and specialize in a specific industry.

Baker Accounting and Tax Service Inc. has identified a niche in the market by providing services to very small businesses in the area. Our firm realizes that there is a lot of competition in the market. The key to success will be personalized service. Baker Accounting and Tax service intends to really assist the small business owner with understanding his financials by providing a very detailed analysis of the company's financial statements. Table 1 lists the non certified firms in the St. Charles area.

EXHIBIT 6**ST. CHARLES AREA ACCOUNTING/TAX FIRMS
NON CERTIFIED
SURVEY**

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NAME/ADDRESS	PHONE	NOTES
Accutax 4200 N Cloverleaf Drive St. Peters, MO	281-0564	No information available
Avondale Accounting	725-4546	No information available
Cash Accounting 1915 McNair Place St. Charles MO	925-2221	No information available
Clemmer & Associates 1523 Old Highway 94 St. Charles, MO	946-1523	In buisness 10 years, 4 employees 50% tax/acconting work No niche, has a variety of clients No rate quote given Increases buisness by referrals
Comprehensive Accounting 1550 Wall Street St. Charles, MO	946-9550	Harry Hathaway, owner \$95 for basic tax return, \$100/ ac Increases buisness by referrals
Moon Accounting 800 1st Capital Drive St. Charles, MO	946-7177	Michelle Moon, owner In buisness 5 years Started by doing husbands accounti Rate \$45 hour Increases buisness by referrals
Robert Myers 3930 Old Highway 94 St. Charles, MO	926-8060	Out of business
Tom Ohlms 910 Jefferson St. Charles MO	949-2280	In buisness 30 years, 7 employees Increases buisness by referrals
Wall & Co 639 Timberidge St. Chalres, MO	947-6850	In buisness 4 years, 2 employees Increases buisness by referrals
Waxman & Solomon 300 N Main St. Charles MO	949-5777	Answering machine

YOUR FORMULA FOR SUCCESS...

- ✓ **Bookkeeping**
- ✓ **Financial Statements**
- ✓ **Payroll**
- ✓ **Tax Returns**
- ✓ **Electronic Filing**
- ✓ **Computer Consulting**

**Baker
Accounting
&
Tax Service**



3.3 PRODUCT LITERATURE

MARSHA BAKER, president of Baker Accounting and Tax Service has over 10 years experience in the accounting industry. She has had exposure to many different areas in accounting such as tax preparation, financial statement preparation and analysis, not for profit, governmental, and lease accounting. This variety of experience works for you to meet any need.

ACCOUNTING SERVICES are designed exclusively to meet your company's needs. This service will provide you the basic financial statements in the time interval best for your company. As an integral part of your statement preparation, we provide a written review of your statements. This analysis provides you a clear picture of your financial health. This service can also track trends to help you make optimal decisions in your business.

PAYROLL. Keeping up with the ever changing withholding laws can be confusing. Let us take the stress out of your payroll processing. We can prepare your payroll as well as make your tax deposits for you. It's the most convenient way to process your company's payroll.

TAX PREPARATION. Most business decisions you make can affect your tax bill. Baker Accounting and Tax Service can help you minimize your taxes thereby enhancing your profitability. Our tax services include:

- ✓ Planning to reduce all taxes
- ✓ Consulting on tax implications of your business decisions
- ✓ Tax return preparation
- ✓ Individual and business returns
- ✓ Out of state returns
- ✓ Sales tax, payroll, Franchise Tax and other returns

COMPUTER CONSULTING. Often today's business decisions require in depth analysis. Baker Accounting and Tax Service can assist in a wide variety of computer applications. These include Spreadsheet preparation and analysis, Database Management, automating routine functions, or installing or converting to a new system.

JUST GETTING STARTED? One of the most time consuming tasks in starting a business is the preparation of a business plan. Let Baker Accounting and Tax Services assist you in developing your business plan. Our experienced staff can make this function easy to complete and full of vital information to get your business off to a running start.

**Call today for a free consultation
(314) 926-2661**

BAKER ACCOUNTING AND TAX SERVICE



- ✓ **Accounting services**
- ✓ **Tax consultation in your home or business**
- ✓ **Individual and business returns**
- ✓ **Very reasonable rates**
- ✓ **Day, weekend and evening appointments**
- ✓ **10 years experience**



Call now for a free consultation (314) 926-2661
Located at 4160 Attleboro Place, St. Charles, MO

3.4 PRODUCT (SERVICE) SOURCING

For financial statement preparation, analysis, and computer consulting, Baker Accounting and Tax Service is equipped to supply this service with its own resources. The company has made arrangements to have tax support for corporate and involved 1040 returns for 1994. In 1995 and 1996, the tax area of this concern will be expanded and developed. This should decrease the need for outside assistance.

3.5 PRODUCT TECHNOLOGY

The basics of accounting have not changed for many years. However, the Financial Accounting Standards Board (FASB) is constantly reviewing and recommending changes in handling of various accounting concepts. Baker Accounting and Tax Service will stay current with these changes by attending seminars offered by such organizations as the Missouri Chapter of the American Institute of Certified Public Accountants.

Congress and the Internal Revenue Service are constantly changing tax laws and procedures. It is imperative that any accounting and tax firm stay current with all changes in this area. There are many tax subscription services that provide constant updates to keep the small business current.

Software development is another area with a lot of potential. Marsha Baker has indepth knowledge of the PC and many application packages currently in the market such as Lotus, Excel, Smart, and various data base products and word processors.

The company will also stay competitive by offering products such as electronic filing for tax returns and the possibility of offering electronic mail to clients.

3.6 FUTURE PRODUCTS

Baker Accounting and Tax Service Inc. will provide tax services under the direction of Terry Bates and Associates. Terry Bates is a local CPA who will support the tax service. Mr. Bates is a member of the Board of Directors. In 1994 and through 1996, Marsha Baker will continue to pursue tax training to further develop this product line. This tax training along with working for a CPA firm that focuses on tax preparation will provide Baker the necessary experience to prepare tax returns on her own.

Currently, Marsha Baker holds her Certified Public Accountant's certificate in Missouri. The Missouri State Board of Public Accountancy requires two years experience working for a public accounting firm. This equates to 4,000 hours. Marsha Baker has developed a plan to work for Terry Bates and Associates during tax season for several years in order to obtain her license in the state of Missouri and become a certified firm. In 1996, she will pursue working part time for a CPA doing audit and write up work to accelerate the cumulation of her 4,000 hours.

Below is the anticipated schedule of hours by year, in order to obtain a license for Marsha Baker:

YEAR	HOURS WORKED	CUMULATIVE HOURS
1994	400	400
1995	400	800
1996	1,200	2,000
1997	1,200	3,200
1998	800	4,000

4.0 MARKET ANALYSIS SUMMARY

The 1992 U.S. Industrial Outlook indicated that over the past several years the accounting industry has experienced very small growth trends. This is mainly attributable to an increased number of bankruptcies from the savings and loan industry. The Outlook did show however a growth of 8.6% in 1991 and predicted that future growth over the next few years would surpass that figure. The National Society of Public Accountants 1991 Income and Fee survey indicated that income increased 21.8% from its 1988 survey. Both sources indicate that the overall the growth outlook for the Accounting industry looks very positive.

4.1 INDUSTRY ANALYSIS

The U.S. Industrial Outlook for 1992, indicated the accounting, auditing, and bookkeeping services industry employed a total of 570,000 employees. Total revenues for this industry for 1991 was \$38 Billion. This is a decrease from the late 1980s. Many firms have disappeared due to mergers of larger firms down to the "Big Six" from the "Big Eight",

as well as the Savings and Loan scandal has also caused many accounting firms to disappear.

The Outlook indicates that the economic downturn of the early 90s will affect the industry and produce almost no growth for the next few years with the industry picking up in the next three to five years and showing stronger growth. Bankruptcies are projected to exceed 900,000 in 1991 will have a long term effect on the industry by having fewer clients in the market, but will produce a short term need for accounting services during these bankruptcies. The Outlook predicts a steady growth over the next few years of between 5-8%.

The 1991 Income and Fee Survey from the National Society of Public Accountants indicated that the average gross income for accountants in public practice was \$178,773. The survey also showed that the average gross income for a sole proprietor was \$104,447.

The accounting industry has many players that meet industry's diverse needs. The products are basically the same. The key to success in this industry is providing accurate customized accounting and tax information. The successful firm will distinguish itself in the market by offering attentive exceptional service.

4.1.1 INDUSTRY PARTICIPANTS

The accounting industry is a mature industry characterized by low but steady growth rates, low barriers to entry, and many small competitors. There are two basic types of firms in the industry. They are:

The Certified Public Accounting firms. These firms range from the "Big Six" firms with hundreds of offices and employees world wide and revenues in the millions to the other end of the spectrum of a single CPA venturing out on his own. The smaller firm may only have the CPA himself as the sole employee or at most a limited clerical staff.

The other type of firm is the non-certified firm. This type of firm can range from a franchised operation such as H&R Block to the one person firm who performs tax preparation.

Service Industries USA indicates that the state of Missouri has 1,397 accounting firms. This represents 2% of the total firms nationally. These firms employ 9,600 employees with total revenues of \$490 million. Of these firms, 623 are sole proprietors and 228 are partnerships.

County Business Patterns for 1988 indicates that there are 35 accounting and

bookkeeping firms in St. Chares County. Twenty of these firms are sole proprietors with less than 4 employees. County wide revenues totalled \$3.9 million in 1988.

The 1991 Income and Fee Survey from the National Society of Public Accountants indicated that for the North Central Region, which includes Missouri, the average Gross Income for a Sole Proprietor was \$96,135, with an estimated net income of \$41,911. The average sole proprietor employs 2.1 staff. The survey also showed that the sole proprietor derived 51% of his income from tax work.

4.1.2 MARKET SEGMENTATION

The accounting industry focuses on service to the customer. Every accounting firm realizes that each client's needs are different and flexibility in service is vital to survival in the industry. The most basic segmentation is by size of the client.

The larger the client, the more complex the needs will be in areas of financial reporting, tax preparation and the need for auditing. The larger clients usually have the resources to process their own payroll or perform indepth analysis on special projects that arise.

The smaller client has needs for many more basic services beyond financial statement preparation. The smaller client may not have the in-house expertise to process payroll or properly analyze a major equipment purchase or analyze the effects of a proposed business change. The smaller accounting firms can serve the needs of the smaller client by offering these services at reasonable rates.

4.1.3 MAIN COMPETITION

The St. Charles area has a few large CPA firms, many small CPA firms and several non certified firms. In shopping these firms, the average cost to prepare a federal tax return with a 1040, schedule A and C was about \$95. I also inquired about whether their firm prepares books on a periodic basis. The average cost was \$100 a month.

4.2 INDUSTRY KEYS TO SUCCESS

The key to success in the accounting industry is service. It is clear that someone in business should have the ability to perform the basic accounting and tax functions. The basic product does not provide room for a lot of flexibility or creativity. Therefore the

difference depends on customer service. Taking a genuine interest in each client and determining the type of financial information that would best meet his needs will make Baker Accounting and Tax Service stand out from the others.

When shopping the competition, the initial response I got from inquiring into costs indicated which owners were on the ball. I spoke mainly with receptionists. It was difficult to get a price quote out of a few and several did not even take the initiative to take my information to have the owner follow up with me.

Baker Accounting and Tax Service will succeed by offering outstanding customer service, concentrating on marketing and developing strategies to stay competitive. Defined in the marketing strategy are policies that will foster strong customer service.

5.0 STRATEGY AND IMPLEMENTATION SUMMARY

Our strategy is based on serving niche markets well. The St. Charles business sector is growing. Identifying new and start up businesses and offering them assistance with their business plan development as well as financial statement and tax preparation.

5.1 MARKETING STRATEGY

Our marketing strategy will consist of networking. Research indicates that most CPA's recruit most of their new clients from professional contacts, advertising had little effect on the businesses' growth. To further support this, in interviewing the local St. Charles non certified firms all listed referrals as their single best source of new business.

Specifically, Baker Accounting and Tax Service will focus on networking through three avenues. First, there are several sources to identify new entrepreneurs, such as the monthly S.C.O.R.E. seminars, the Small Business Incubation Center, and City of St. Peters Business Development Center. Secondly, networking through various professional organizations such as the Chamber of Commerce, and the local chapter of National Women Business Owners. Thirdly, and most importantly, Baker Accounting and Tax Service will seek referrals from its client base.

5.1.2 MARKETING ACTION PLAN

The above marketing plan will be implemented with the following actions:

1. Place advertisement in the yellow pages.
2. Attend a minimum of two meetings a month such as the Chamber of Commerce and the National Association of Women Business Owners meetings.
3. Develop a monthly action plan that includes:
 - follow up with any perspective contacts at organizational meetings
 - identify an industry for perspective clients
 - make a minimum of 10 contacts to increase client base
4. Develop incentive program for current clients that refer other clients
5. Write personal thank you note to clients for referrals
6. Participate in at least one committee function per year to assist in community development.
7. Continue to attend Credit Union chapter meetings to cultivate a client base of small credit union clients.

5.1.3 PRICING STRATEGY

The 1991 Fee and Income Survey from the National Society of Public Accountants indicates that the average sole practitioner in Missouri charges an average of \$46.68 dollars an hour.

Baker Accounting and Tax Service will begin business by charging an average of \$40 per hour. Some services such as monthly financial statement preparation will be a set monthly fee of \$100 per month. This lower rate will allow the new, small business owner the opportunity to access professional accounting services.

The following is an analysis of billing hours necessary to cover budgeted expenses for the next three years. This analysis shows that the necessary billing rate is significantly less than the actual rate of \$40 per hour in 1994. This will assist the company to better position itself to add additional clients and a part time clerical staff when necessary.

EXHIBIT 7**DETERMINATION OF BILLABLE HOURS
(IN LIEU OF A BREAK EVEN ANALYSIS)**

	1994	1995	1996
Estimated expenses	3,376	6,498	6,960
Owner's Draw			14,400
Taxes due	844	1,120	1,248
Total Cash Required	4,220	7,618	22,608
Divided by Collection Ratio	80%	80%	80%
Total Gross Billing Required	5,275	9,522	28,350
Divided by Billable Hours	600	624	1,451
Minimum billing rate	\$8.38	\$15.26	\$16.72

5.2 PHILOSOPHY OF PRACTICE

The successful accounting firm realizes that its client base is its most valuable asset and will excel in service and satisfying their clients needs. The company feels so strongly about this that policies will be an integral part of daily operations:

1. Quality Professional Services. The company will operate as professionals by performing nothing less than quality service to every client, ensuring total satisfaction of every client.
2. Ethics of Practice. The company will operate in the spirit of the highest professional ethics basing its conduct on the Professional Code of Ethics.
3. Training. The company is dedicated to continuous education in both the technical

area as well as maintaining excellence in serving its clients.

4. Attention to Clients. The company will strive to communicate to the clients that they are important to the firm. We will accomplish this by:

A. Telephone response rules. The phone will be answered within two rings. Should it be necessary in the early years to supplement calls with an answering service, phone calls will be checked three times daily and returned within 24 hours, and in most cases, sooner.

B. Thank you notes will be sent to each client that refers a potential client

C. Clients will receive a personalized gift during the holiday season with a personal note thanking them for their business.

5.3 STRATEGIC ALLIANCES

The company has already made several contact with local CPA's. Many larger firms concentrate on clients in a small number of industries. If a client is too small for the larger firms, they refer the smaller clients to smaller firms. Several contacts have been made with local St. Charles firms.

5.4 COMPANY MILESTONES

Milestone	Date
1. Incorporate	Jan 94
2. Add Fax and Copier to office	Jan 95
3. Obtain first accounting client	Dec 93
4. Obtain tax prep experience	Jan-April 94 (Work for Terry Bates)
5. Attend tax school	Aug -Dec 94
6. Obtain 5th accounting client	Oct 94
7. Gain additional tax prep exp.	Jan-April 95
8. Seek Computer consulting clients	Jan 95
9. Obtain 10th accounting client	Oct 95

6.0 MANAGEMENT TEAM

Marsha Baker

President and founder.

Baker worked for 10 years in many facets of the accounting industry and has had vast exposure to many different areas in accounting. This allows her to more easily assist the small business owner.

MSA in Finance, from Lindenwood College, St. Charles Missouri, 1993.

CPA obtained in Texas 1987. Currently licensed in Texas, certified in Missouri.

BS in Marketing from Southwest Missouri State University, 1982.

Dale Carnegie Institute, 1993.

6.1 MANAGEMENT TEAM GAPS

Baker Accounting and Tax Service has currently identified gaps in the following areas:

-Tax preparation. To compensate, the company has lined up two CPA's to assist with difficult returns. Also the president will pursue training and practical experience over the next two years in taxation.

-Marketing. Although Marsha Baker has a degree in Marketing, she has little practical experience with front line marketing. The company has enlisted the assistance of Paul Polette, President of Book Lures Inc. to assist with marketing efforts. Also Marsha Baker has attended Dale Carnegie Institute to develop her sales skills.

-Advertising/Copy. Marsha Baker has made contact with Paula MacMann president of ECI. Ms. MacMann currently prepares catalogs, brochures and newsletters for various companies and has agreed to assist the company in this area.

7.0 FINANCIAL PLAN SUMMARY

Marsha Baker intends to begin this business on a part time basis and within two years grow into a full time concern. The company does not want to assume any debt at this point, however the company does plan to pursue a small line of credit from a bank to cover any unexpected expenditures. This will be accomplished by mid 1994.

By 1996, Marsha Baker plans to pursue this business on a full time basis, noting the increase in hours allocated on the man power analysis in 1996.

The company already has office space in the president's home. The company has already procured a PC and printer and has some furniture. Capital expenditures have been carefully planned to avoid debt and cash depletion.

The following assets were included in the business at start up:

EXHIBIT 8

BAKER ACCOUNTING AND TAX SERVICE

SCHEDULE OF ASSETS AT INCEPTION OF BUSINESS

JANUARY 1, 1994

ASSET	COST
486 ACROS PC	2,400
PANISONIC PRINTER	400
SOFTWARE	500
MISC OFFICE SUPPLIES	300
DESK/CHAIRS	200
	<u>3,525</u>

7.2 FINANCIAL PLAN ASSUMPTIONS

The following assumptions were made in developing the proforma:

1. Each accounting client obtained would require monthly statement preparation with an average billing of \$100 per month.
2. Tax income in 1994-95 would be derived by working for a CPA during tax season at a rate of \$15 per hour.
3. No computer consulting would be pursued until 1995.
4. Expenses were budgeted at a minimum to optimize fee income. Funds were budgeted heaviest in the marketing area for mailing and meeting expenses to facilitate networking.

EXHIBIT 9

BAKER ACCOUNTING AND TAX SERVICE

SCHEDULE OF CAPITAL EXPENDITURES

DATE	ITEM	COST	LIFE	AMORT	1994	1995	1996
1/94	Start up Costs	1,500	60	25	300	300	300
1/94	Fax	700	36	20	240	240	240
1/94	Copier	3,000	48	63	750	750	750
6/94	Laser Printer	1,500	36	42	125	250	250
6/94	Microsoft Wd	300	36	8	50	100	100

BAKER ACCOUNTING AND TAX SERVICES INC.
 PROFORMA INCOME STATEMENT
 1995

INCOME	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC	TOTAL
ACCOUNTING	500.00	500.00	500.00	500.00	600.00	700.00	700.00	800.00	800.00	900.00	1,000.00	1,000.00	8,500.00
TAX	400.00	600.00	800.00	600.00									2,400.00
CONSULTING	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
PROF MGMT	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
TOTAL INCOME	1,000.00	1,200.00	1,400.00	1,200.00	700.00	800.00	800.00	900.00	900.00	1,000.00	1,100.00	1,100.00	12,100.00
EXPENSES													
OFFICE SUPPLIES	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00	360.00
MILEAGE	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	180.00
SOFTWARE	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	180.00
PHONE	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	420.00
STATIONARY	125.00			25.00			25.00			25.00			200.00
POSTAGE	50.00	20.00	20.00	20.00	50.00	20.00	20.00	20.00	50.00	20.00	20.00	20.00	330.00
TRAINING								400.00					400.00
RENT COSTS	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	960.00
AMORT FIX	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	2,862.72
START UP COSTS	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	300.00
AMORT IRS	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	84.00	1,008.00
PROF. DUES	150.00				150.00			150.00					450.00
MISC. EXP.	30.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	250.00
TOTAL EXPENSES	877.56	562.56	562.56	587.56	742.56	562.56	587.56	1,112.56	592.56	587.56	562.56	562.56	7,900.72
NET	122.44	637.44	837.44	612.44	(42.56)	237.44	212.44	(212.56)	307.44	412.44	537.44	537.44	4,199.28
TAXES	24.49	127.49	167.49	122.49	0.00	47.49	42.49	0.00	61.49	82.49	107.49	107.49	839.86
NET INCOME	97.95	509.95	669.95	489.95	(42.56)	189.95	169.95	(212.56)	245.95	329.95	429.95	429.95	3,359.42

BAKER ACCOUNTING AND TAX SERVICES INC.
PROFORMA INCOME STATEMENT
1996

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT.	OCT.	NOV.	DEC	TOTAL
INCOME													
ACCOUNTING	1,000.00	1,000.00	1,000.00	1,000.00	1,100.00	1,300.00	1,400.00	1,500.00	1,700.00	1,800.00	1,800.00	2,000.00	16,600.00
TAX	1,800.00	2,000.00	2,400.00	2,400.00									8,600.00
CONSULTING	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	1,800.00
PROP MGMT	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
TOTAL INCOME	3,000.00	3,200.00	3,600.00	3,600.00	1,300.00	1,500.00	1,600.00	1,700.00	1,900.00	2,000.00	2,000.00	2,200.00	27,600.00
EXPENSES													
OWNERS SALARY	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	1,200.00	14,400.00
OFFICE SUPPLIES	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
MILEAGE	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	240.00
SOFTWARE	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00	180.00
PHONE	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	420.00
STATIONARY	100.00	20.00	20.00	100.00	20.00	20.00	100.00	20.00	20.00	20.00	20.00	20.00	510.00
POSTAGE	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	240.00
TRAINING					100.00			300.00					400.00
NETS COSTS	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	960.00
AMORT FIX	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	238.56	2,862.72
START UP EXP	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	300.00
ADVERT IRS	83.33	83.33	83.33	83.33	83.33	83.33	83.33	83.33	83.33	83.33	83.33	83.33	1,000.00
PROP. DUES	150.00				150.00			150.00					450.00
MISC. EXP.	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	600.00
TOTAL EXPENSES	2,066.89	1,836.89	1,836.89	1,916.89	2,086.89	1,836.89	1,916.89	2,286.89	1,836.89	1,866.89	1,836.89	1,836.89	23,162.72
NET	933.11	1,363.11	1,763.11	1,683.11	(786.89)	(336.89)	(316.89)	(586.89)	63.11	133.11	163.11	363.11	4,437.28
TAXES	186.62	272.62	352.62	336.62	0.00	0.00	0.00	0.00	12.62	26.62	32.62	72.62	887.46
NET INCOME	746.49	1,090.49	1,410.49	1,346.49	(786.89)	(336.89)	(316.89)	(586.89)	50.49	106.49	130.49	290.49	3,549.82

**BAKER ACCOUNTING AND TAX SERVICE
 PROFORMA BALANCE SHEET
 DECMEBER 31**

ASSETS	1994	1995	1996
CASH	4,755	12,117	19,620
ACTS REC	500	500	500
FURN/FIX	9,300	9,300	9,300
LESS DEPR	2,613	5,475	8,338
ORG EXP NET	1,200	900	600
TOTAL ASSETS	13,142	17,342	21,682
LIABILITIES			
ACTS PAY	328	1,168	1,959
EQUITY			
PAR VALUE	5,000	5,000	5,000
PAID IN CAP	6,800	6,800	6,800
EARNINGS	1,014	4,373	7,923
TOTAL EQUITY	12,814	16,173	19,723
TOTAL LIAB/EQUITY	13,142	17,342	21,682

**BAKER ACCOUNTING AND TAX SERVICES INC.
 PROFORMA CASH FLOW STATEMENT
 1994**

INFLOWS	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC
BEGINNING CASH	8,000.00	3,010.00	3,620.71	4,391.42	5,034.14	5,034.14	5,384.14	5,676.85	5,626.85	5,676.85	4,049.56	4,382.27
ACCOUNTING	100.00	100.00	200.00	200.00	300.00	300.00	400.00	400.00	200.00	500.00	500.00	500.00
TAX	600.00	700.00	800.00	700.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONSULTING	0.00	0.00	0.00	0.00	0.00	50.00	50.00	50.00	50.00	50.00	0.00	50.00
PROP MGMT	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
TL INFLOWS	8,750.00	3,860.00	4,670.71	5,341.42	5,384.14	5,434.14	5,884.14	4,176.85	3,926.85	4,276.85	4,599.56	4,982.27
OUTFLOWS												
CAPITAL PURCH	5,200.00					1,800.00						
OPERAT. EXPEN	753.56	452.85	492.85	520.85	563.56	513.56	470.85	813.56	513.56	490.85	480.85	490.85
LESS AMORT	213.56	213.56	213.56	213.56	213.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56
TL OUTFLOWS	5,740.00	239.29	279.29	307.29	350.00	2,056.00	207.29	550.00	250.00	227.29	217.29	227.29
ENDING CASH	3,010.00	3,620.71	4,391.42	5,034.14	5,034.14	5,384.14	5,676.85	5,626.85	5,676.85	4,049.56	4,382.27	4,754.98

BAKER ACCOUNTING AND TAX SERVICES INC.
 PROFORMA CASH FLOW STATEMENT
 1995

INFLWS	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC
BEGINNING CASH	4,754.98	5,140.98	6,041.98	7,142.98	8,018.98	8,239.98	8,740.98	9,216.98	9,267.98	9,838.98	10,514.98	11,315.98
ACCOUNTING	500.00	500.00	500.00	500.00	600.00	700.00	700.00	800.00	800.00	900.00	1,000.00	1,000.00
TAX	400.00	600.00	800.00	600.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONSULTING	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
PROP MGMT	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
TL INFLWS	5,754.98	6,340.98	7,441.98	8,342.98	8,718.98	9,039.98	9,540.98	10,116.98	10,167.98	10,838.98	11,614.98	12,415.98
OUTFLOWS												
CAPITAL PURCH												
OPERATING EXP	877.56	562.56	562.56	587.56	742.56	562.56	587.56	1,112.56	592.56	587.56	562.56	562.56
LESS AMORT	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56
TL OUTFLOWS	614.00	299.00	299.00	324.00	479.00	299.00	324.00	849.00	329.00	324.00	299.00	299.00
ENDING CASH	5,140.98	6,041.98	7,142.98	8,018.98	8,239.98	8,740.98	9,216.98	9,267.98	9,838.98	10,514.98	11,315.98	12,116.98

BAKER ACCOUNTING AND TAX SERVICES INC.
 PROFORMA CASH FLOW STATEMENT
 1996

INFLWS	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC
BEGINNING CASH	12,116.98	13,313.65	14,940.32	16,966.98	18,913.65	18,390.32	18,286.98	18,201.65	17,843.32	18,169.98	18,566.65	18,993.32
ACCOUNTING	1,000.00	1,000.00	1,000.00	1,000.00	1,180.00	1,500.00	1,400.00	1,500.00	1,700.00	1,800.00	1,800.00	2,000.00
TAX	1,800.00	2,000.00	2,400.00	2,400.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CONSULTING	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00	150.00
PROP MGMT	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
TL INFLWS	15,116.98	16,513.65	18,540.32	20,566.98	20,213.65	19,890.32	19,886.98	19,901.65	19,743.32	20,169.98	20,566.65	21,193.32
OUTFLOWS												
CAPITAL PURCH	0.00	0.00	0.00	0.00	0.00	30.00	32.00	35.00	0.00	0.00	0.00	0.00
OPERATING EXP	2,066.89	1,836.89	1,836.89	1,916.89	2,086.89	1,836.89	1,916.89	2,286.89	1,836.89	1,866.89	1,836.89	1,836.89
LESS AMORT	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56	263.56
TL OUTFLOWS	1,803.33	1,573.33	1,573.33	1,653.33	1,823.33	1,603.33	1,685.33	2,058.33	1,573.33	1,603.33	1,573.33	1,573.33
ENDING CASH	13,313.65	14,940.32	16,966.98	18,913.65	18,390.32	18,286.98	18,201.65	17,843.32	18,169.98	18,566.65	18,993.32	19,619.98

**BAKER ACCOUNTING AND TAX SERVICE
RATIO ANALYSIS**

	1994	1995	1996
Current	16.00	10.80	10.27
Acid	16.00	10.80	10.27
Debt to Assets	0.02	0.07	0.09
Fixed Asset Turn	0.80	1.30	2.97
Total Asset Turn	0.56	0.70	1.27
Profit to Sales	0.14	0.28	0.13
Return on Total Asset	0.08	0.24	0.16
Return on Net Worth	0.08	0.26	0.18

MAN POWER ANALYSIS

1994

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC	TOTAL
ACCOUNTING	4	4	8	8	12	12	16	16	8	20	20	20	148
TAX	40	47	53	47	0	0	0	0	0	0	0	0	187
CONSULTING	0	0	0	0	0	2	2	2	2	2	0	2	10
PROP MGMT	2	2	2	2	2	2	2	2	2	2	2	2	24
CLIENT DEV	2	0	0		25	30	28	28	30	24	26	24	217
TOTAL HOURS	48	53	63	57	39	46	48	48	42	48	48	48	586

TOTAL HOURS AVAILABLE	48	48	60	60	48	48	48	48	48	48	48	48	600
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PERCENT HOURS BUDGETED 98%

1995

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC	TOTAL
ACCOUNTING	20	20	20	20	24	28	28	32	32	36	40	40	340
TAX	24	35	47	35	0	0	0	0	0	0	0	0	141
CONSULTING	2	2	2	2	2	2	2	2	2	2	2	2	24
PROP MGMT	2	2	2	2	2	2	2	2	2	2	2	2	24
CLIENT DEV	5	5	5	10	15	15	15	12	12	10	10	10	124
TOTAL HOURS	53	64	76	69	43	47	47	48	48	50	54	54	653

TOTAL HOURS AVAILABLE	60	60	60	60	48	48	48	48	48	48	48	48	624
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PERCENT HOURS BUDGETED 105%

1996

	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP.	OCT.	NOV.	DEC	TOTAL
ACCOUNTING	33	33	33	33	37	43	47	50	57	60	60	67	553
TAX	120	133	160	160	0	0	0	0	0	0	0	0	573
CONSULTING	5	5	5	5	5	5	5	5	5	5	5	5	60
PROP MGMT	2	2	2	2	2	2	2	2	2	2	2	2	24
CLIENT DEV	10	10	10	25	25	25	25	25	25	20	20	20	240
TOTAL HOURS	170	184	210	225	69	75	79	82	89	87	87	94	1,451

TOTAL HOURS AVAILABLE	200	200	200	200	200	200	200	200	200	200	200	200	1,690.67
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PERCENT HOURS BUDGETED 86%

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