September 2013

Volume 9, Issue 1

Leslie A. Cesario, Ltd. Monthly Newsletter

1313 Marengo Court • Naperville, Illinois 60564-9505 • (630) 961-9602 • Fax (630) 961-9953

Who Gets Your IRA

The designated beneficiary listed on your IRA account beneficiary form determines who gets your IRA. This is true even if your will or trust names different beneficiaries. You may have filled out that beneficiary form long ago and no longer remember who you designated as your beneficiary. Perhaps your family circumstances or marital status have changed. Whenever your family circumstances change, you need to review your beneficiary designations. You may have named an ex-spouse as your beneficiary and now may not want him or her to receive your IRA.

If you are recently remarried and want your IRA account to go to your children, your new spouse may have to sign a waiver of rights to your retirement benefits. Otherwise, the IRA might go automatically to your new spouse. This is also generally true for employer plan benefits.

If you have a trust and want the IRA proceeds to go to the trust, then you need to name the trust as the beneficiary. There is no tax advantage to naming a trust as the beneficiary of an IRA. Of course, there may be a non-tax-related reason, such as controlling a beneficiary's access to the money; thus, naming a trust rather than one or more individuals to inherit the IRA could achieve that goal. However, that is not typically the case. Naming a trust as the beneficiary of an IRA eliminates the ability for multiple beneficiaries to maximize the opportunity to stretch the required minimum distributions (RMDs) over their individual life expectancies.

Worse yet is if your IRA does not have a designated beneficiary. When there is no beneficiary form on file, you are really rolling the dice. Your retirement assets will go to whomever the IRA trustee has named for you in the default language in the documents for the account.

When you fill out the beneficiary designation form, you have the opportunity to also designate one or more contingent beneficiaries who will inherit the IRA if the primary beneficiary has passed away before you do. For example, you could name your spouse as the primary beneficiary and your child and brother as next in line if your spouse pre-deceases you. This is a safety net of sorts in case you don't get around to changing the primary beneficiary after that person passes away.

Don't take chances; make sure your IRA beneficiary designations are up to date and correctly specify who you want to get your IRA in the event of your death. Call this office if you have any questions.

Who Claims The Child?

Claiming a child can provide significant tax benefits. When couples divorce or separate, or even if the parents were never married, the question arises: who gets to claim the kids?

This sometimes presents a nightmare for tax preparers. This is because often both parents will claim the same child, and in this modern era of e-filing, the first one to file and claim the child will be accepted for e-file and the second to file will be rejected regardless of who is rightfully entitled to claim the child. If the second parent to file is legally eligible to claim the child, then that parent must file a paper return and provide proof of eligibility to claim the child's exemption. This sometimes requires an elaborate array of documentation and can be quite a pain.

Another leading cause of problems are family court judges who will award the child's tax exemption to the parent who is not qualified to claim the child under federal tax law. Rulings by family court judges cannot trump federal tax laws.

So, who legally, according to federal tax law, is entitled to claim the child? Well, the Internal Revenue Code says the parent with whom the child resided for the longer period of time during the tax year gets to claim the child's exemption. This seems simple enough, but some parents have joint custody and they begin counting time by the hour and minute. However, when it comes to determining with whom the child resided the longest, the IRS looks at the number of nights the child sleeps in each parent's home. If that turns out to be an equal number of nights, the tax rules include a tiebreaker that gives the child's exemption to the parent with the higher adjusted gross income (AGI).

However, a child is treated as the qualifying child of the noncustodial parent if the custodial parent releases a claim to the exemption to the non-custodial parent. The custodial parent can do this on an annual basis or for multiple years. However, the custodial parent should be cautious about releasing the exemption for multiple years. The release can be revoked but the revocation does not become effective until the tax year following the year the non-custodial parent was provided a copy of the revocation. The IRS provides Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, for this purpose.

A number of tax benefits are at stake by claiming the child, including:

- The child's exemption that produces a $3,900 tax deduction in 2013.
- A potential $1,000 child credit for children under the age of 17.
- For children attending college, the education credit (up to as much as $2,500) goes to the parent who claims the child's exemption regardless of who pays the tuition.
- For children under age 13 the parent that claims the child's exemption is the one that gets to claim a tax credit for childcare expenses while working.
- Claiming a child under the age of 19 can substantially increase the earned income tax credit if the taxpayer otherwise qualifies.
- Claiming a child can also help a single individual qualify for the more beneficial head of household filing status.

Caution: Some of the benefits phase out for higher income taxpayers. Where possible, parents should seek professional assistance to determine what makes sense financially for both parents. Please contact this office for additional information.

Partnership, S-Corp and Trust Extensions End September 16

Article Highlights

- September 16 is the extended due date for partnership, S-corporation, and trust tax returns.
- Late-filing penalty for partnerships and S-corporations is $195 times the number of partners or shareholders during any part of the taxable year, for each month or fraction of a month.

- Late-filing penalty for trust returns is 5% of the tax due for each month, or part of a month, for which a return is not filed up to a maximum of 25% of the tax due.

If you have a calendar year 2012 partnership, S-corporation, or trust return on extension, don't forget the extension for filing those returns ends on September 16, 2013.

Pass-through entities such as Partnerships, S-corporations, and fiduciaries (trusts, estates) pass their income, deductions, credits, etc., through to their investors, partners, or beneficiaries, who in turn report the various items on their individual tax returns. Partnerships file Form 1065, S-corps file Form 1120-S, and Fiduciaries file Form 1041, with each partner, shareholder, or beneficiary receiving a Schedule K-1 from the entity that shows their share of the reportable items.

If all of the aforementioned entities could obtain an automatic extension to file their returns on the same extended date as allowed to individuals, it would be difficult for individuals to meet the filing deadline without estimating the pass-through information and then later filing an amended return when the actual data was received.

To overcome this problem, the automatic extension period for partnerships and trusts is set at 5 months, thus providing individual taxpayers with a month's grace period to complete their individual 1040 returns. The original due date for calendar year S-corporation returns was March 15, and they are allowed a 6-month extension period, making the due date for these returns also September 16. Thus, individual S-corp shareholders also have a month to finish up their individual returns.

An S-corporation or partnership which fails to file on time is liable for a monthly penalty equal to $195 times the number of persons who were partners, or shareholders for S corps, during any part of the taxable year, for each month or fraction of a month for which the failure continues. These penalties can be substantial.

Trusts are subject to a penalty of 5% of the tax due for each month, or part of a month, for which a return is not filed up to a maximum of 25% of the tax due.

If this office is waiting for some missing information to complete your pass-through return, we will need that information at least a week before the September 16 due date. The late-filing penalties are substantial, so please call this office immediately if there are anticipated complications related to providing the needed information so a course of action can be determined to avoid the potential penalties.

Caring for an Elderly or Incapacitated Individual

With individuals living longer, we frequently find ourselves in the position of caregiver for elderly or incapacitated individuals. Whether you're caring for an incapacitated or elderly spouse, an elderly parent, or even a child, understanding potential tax advantages can relieve some of the financial burden associated with being a caregiver. The following are some tax aspects of taking on the care of an elderly or incapacitated individual.

Dependency exemption — You may be able to claim the cared-for individual as your dependent, thus qualifying for an exemption deduction. To qualify:

- You(1) must provide more than 50% of the individual's support costs,
- The individual must either live with you or be related,
- The individual must not have gross income in excess of the exemption amount ($3,900 for 2013),

- The individual must not file a joint return for the year (unless neither spouse would have a tax liability if separate returns were filed and the joint return is filed only to claim a refund), and
- The individual must be a U.S. citizen or a resident of the U.S., Canada, or Mexico.

> *(1) If the support test can only be met by a group (several children, for example, combining to support a parent), a "multiple support agreement" form can be filed to grant one of the group members the exemption, subject to certain conditions.*

Medical expenses — If the cared-for individual qualifies as your dependent or medical dependent (2), you can include any medical expenses you incur for the individual along with your own when determining your medical deduction.

Amounts paid to a nursing home are fully deductible as a medical expense if the principal reason that a person stays at the nursing home is medical in nature, as opposed to custodial or other care. If a person is not in the nursing home principally to receive medical care, only the portion of the fee that is allocable to actual medical care qualifies as a deductible medical expense. However, if the individual is chronically ill(3), all of the individual's qualified long-term care services, including maintenance or personal care services, are deductible.

> *(2) A medical dependent is an individual who doesn't qualify as your dependent only because of the gross income or joint return test; you can still include these medical costs with your own.*
>
> *(3) A chronically ill individual is one certified by a physician or other licensed healthcare practitioner (e.g., nurse or social worker) as unable to perform, without substantial assistance, at least two activities of daily living for at least 90 days due to a loss of functional capacity, or as requiring substantial supervision for protection due to severe cognitive impairment (e.g., memory loss or disorientation). Of course, a person with Alzheimer's disease qualifies.*

Filing status — If you aren't married, you may qualify for "head of household" status by virtue of the cared-for individual. If the cared-for individual: (a) lives in your household, (b) you pay more than half of the household costs, (c) the individual qualifies as your dependent, and (d) the individual is a relative, you can claim head of household filing status. If the person you're caring for is your parent, he or she does not need to live with you as long as you provide more than half of your parent's household costs and he or she qualifies as your dependent. For example, if a parent is confined to a nursing home and you pay more than half of the cost, you are considered as maintaining the principal home for your parent.

Household employee issues — If you hire individuals to help you care for an elderly or incapacitated individual in your home, you must treat them as employees, issue them a W-2 form, and withhold and remit certain payroll taxes to the IRS and your state. If you use a service company that sends its employees to provide care services, the service company will handle the payroll issue for these employees, relieving you of that responsibility. If you plan to hire help, please call this office to discuss your options in more detail.

Dependent care credit **—** If the cared-for individual qualifies as your dependent, lives with you, and physically or mentally cannot take care of him or herself, you may qualify for the dependent care credit for costs you incur for this individual's care to enable you and your spouse to go to work. However, the same expense cannot be used as both a medical expense deduction and for the dependent care credit.

If you experience financial difficulties in funding the care, the tax code provides some specialized relief as described below. Generally, these forms of relief should be considered only when no other reasonable alternatives exist.

Reverse mortgage as alternative to nursing home — It is often desirable for an elderly person to remain in his or her own home with proper in-home care rather than entering a nursing home. A reverse mortgage loan may make this a feasible alternative to a nursing home. If this approach is taken, don't forget that household help is deductible in the same manner as nursing home expenses. In addition, household employees must be paid by payroll.

Exclusion for payments under life insurance contracts — Any lifetime payments received under a life insurance contract on the life of a person who is either terminally or chronically ill are excluded from gross income. A similar exclusion applies to the sale or assignment of a life insurance contract to a person who regularly buys or takes assignments of such contracts and meets other qualifying standards.

The tax benefits and regulations related to caring for someone are complicated. If you are a caregiver and would like to discuss your situation and options further, please call our office.

Renting Your Home or Vacation Home

If you own a home in a vacation locale – whether it is your primary residence or a vacation home – and are considering renting it out to others, there are complicated tax rules referred to as the "vacation home rental rules" that you need to be aware of.

Generally, the tax code breaks a "vacation rental" into three categories, each with a different treatment for income and expenses:

- **Rented Fewer than 15 Days** – If you rent your home for fewer than 15 days during the tax year, the tax code says that you do not need to report the income and that you can still deduct 100% of the property taxes and qualified mortgage interest as an itemized deduction. Yes, you heard me correctly: the government is actually allowing you to ignore the income, regardless of the amount, if you rent the home for fewer than 15 days during the year. This rule offers some opportunities for substantial tax-free income, especially for more expensive homes. Here are some examples:
    - *Rental as a film location* **–** Typically, film production companies will pay substantial amounts (thousands per day) for the short-term use of homes as movie sets. Individuals with unique properties can register with a local film location company.
    - *Home in a vacation locale* **–** Individuals with homes in popular tourist or vacation locales can rent their homes out to vacationers in their area while they are on vacation themselves.
    - *Home in the area of a special event* – When a one-time or special event such as a major sports event (think the Super Bowl) or convention comes to town, hotel rooms may be scarce or even fill up. Homeowners in these locations may want to rent their homes short-term during the activity while getting out of town to avoid the crowds.

However, be careful – if the rental goes over 14 days, the income is no longer tax-free. When calculating the number of days, the definition of a day is generally "the 24-hour period" for which a day's rental would be paid. Thus, a person using a dwelling unit from Saturday afternoon through the following Saturday morning would generally be treated as having used the unit for seven days even though the person was on the premises on eight calendar days.

Even though the income is tax-free, the property tax and interest for the period is still deductible, directly related rental expenses such as agent fees, utilities, post-rental cleaning, etc. are not deductible.

- **Rented 15 Days or More** – When the home is rented 15 days or more, the income must be reported However, the tax treatment depends upon how many days you used the home personally:

    - *Personal Use More Than 10% of the Rental Days* – In this scenario, no rental tax loss is allowed. Let's assume that the personal use of the home is 20%. As for the remaining 80%, it is used as a rental. The rental income is first reduced by 80% of the taxes and interest; if, after deducting the interest and taxes, there is still a profit, the direct rental expenses (such as the rental portion of the utilities, insurance and any other direct rental expenses) are deducted, but not more than will offset the remaining income. If there is still a profit, you can take depreciation, but it is again limited to the remaining profit. **End result:** No loss is allowed, but any remaining profit is taxable. The other personal 20% of the interest and taxes is deducted as an itemized deduction subject to mortgage interest and Alternative Minimum Tax (AMT) limitations. Take note that if the rental income becomes less than the business portion of the interest and taxes, the balance of the interest and taxes is still deductible as home mortgage interest and taxes.

    - *Personal Use 10% or Fewer of the Rental Days* – In this scenario, the home's use would be allocated into two separate activities, a rental and a second home. Let's say that the home is used 5% for personal use: 5% of the interest and taxes are treated as home interest and taxes that can be deducted as an itemized deduction. The other 95% of the interest and taxes are rental expenses, combined with 95% of the insurance, utilities, and allowable depreciation and 100% of the direct rental expenses. The result is a deductible tax loss, which is combined with all other rental activities and limited to a $25,000 loss per year for taxpayers with adjusted gross incomes (AGI) of $100,000 or less. This loss allowance is ratably phased out between $100,000 and $150,000 of AGI. Thus, if your income exceeds $150,000, the loss cannot be deducted; it is carried forward until the home is sold or there are gains from other activities that can be used to offset the loss.

When figuring the personal use days, include days used by an owner, co-owner, or family member of the owner/co-owner as well as days used under a reciprocal arrangement. However, you can exclude "fix-up" days, which are days spent repairing and maintaining the property.

Word of Caution – Beginning in 2013, passive rental income is subject to the new 3.8% tax on net investment income that is part of the Affordable Care Act ("Obamacare"). So if the net result from renting the home is a profit, in addition to being subject to regular tax, the profit will also be subject to the net investment income tax. The gain from the sale of your primary home (in excess of the allowable home gain exclusion) and the gain from the sale of your second home (even if you never had rental income from it) are also subject to the 3.8% tax on net investment income in addition to the capital gains tax.

A number of other rules apply to special situations not covered here. If you have questions about how the vacation rental rules will apply to your unique circumstances, please give this office a call.

Tax Benefits for Military Personnel

If you're a member of the U.S. Armed Forces, there are many tax benefits that may apply to you. Special tax rules apply to military members on active duty, including those serving in combat zones. These rules can help lower your federal taxes and make it easier to file your tax return. Here are some of the more prominent of those benefits:

Combat Pay Exclusion—If you are an enlisted member of the military serving in a combat zone you can exclude from taxation your pay for any month (one day of a month counts as a full month) you serve in a combat zone. An officer's exclusion is limited to the highest rate for enlisted personnel. This exclusion is automatically computed by the military and the excludable amounts will not appear on your W-2 form. If you qualify for an Earned Income Tax Credit (EITC) you may elect to include or not include the excluded combat pay in the EITC computation, thus allowing you the benefit of maximizing the credit with or without the exclusion while the excluded income remains tax free.

Moving Expenses—To deduct moving expenses, a military taxpayer usually must meet the general time and distance tests that apply to all taxpayers. However, if you are on active duty and move because of a permanent change of station, you do not need to meet those tests. A permanent change of station includes: a move from the military member's home to his or her first post of active duty, a move from one permanent post of duty to another, and a move from the last post of duty to the member's home or to a nearer point in the United States. The move must generally occur within one year of ending active duty service.

Reservists' Travel Deduction—If you are an Armed Forces reservist who travels more than 100 miles away from home and stays overnight in connection with service as a member of a reserve component, you can deduct travel expenses as an adjustment to gross income. This is in lieu of deducting those expenses as a miscellaneous itemized deduction (subject to the 2% of AGI limitation). Thus, you can take this deduction even if you do not itemize your deductions. The deduction includes unreimbursed expenses for transportation, meals (subject to the 50% limit), and lodging, but the deduction is limited to the amount the federal government pays its employees for travel expenses.

Combat Zone and Qualified Hazardous Duty Area Extensions—For military taxpayers in a combat zone or qualified hazardous duty area, the deadlines for taking actions with the IRS are extended. The extension is for 180 consecutive days after the last day the military taxpayer was in a combat zone or qualified hazardous duty area or the last day of any continuous qualified hospitalization for injury from service in the combat zone or qualified hazardous duty area. In addition, the 180 days is also extended by the number of days that were left for the individual to take an action with the IRS when they entered a combat zone or qualified hazardous duty area.

Extension To Pay Tax When Not In a Combat Zone—A member of the Armed Forces may delay payment of income tax (but not the employee's share of Social Security and Medicare taxes) that becomes due before or during military service. To qualify, the service member must be performing "military service" AND notify the IRS in writing that his or her ability to pay the income tax is materially affected by the military service.

If the IRS approves the request, the service member will be allowed up to 180 days after termination or release from military service to pay the tax. If the tax is paid in full by the end of the deferral period, no interest or penalty will be charged for that period.

Home Mortgage Interest & Taxes—You can deduct qualified mortgage interest and real estate taxes as an itemized deduction, even if they are paid with nontaxable military housing allowance pay. The home mortgage interest is, however, still subject to the general rules for deducting home mortgage interest.

Home Sale Gain Exclusion—Taxpayers are allowed to exclude $250,000 ($500,000 if filing a joint return with a spouse and both qualify) of gain from a home sale if it was owned and used as a principal residence for two of the five years prior to the sale. The following special rules apply to military personnel:

- *Reduced exclusion*—If you sell your primary residence and do not meet the two-out-of-five-years ownership and use tests due to a move to a new permanent duty station, you may qualify for a reduced maximum exclusion amount.
- *Extended test period* —You may choose to suspend the 5-year test period for ownership and use during any period you serve on qualified official extended duty. The period of suspension cannot last more than 10 years and cannot be suspended for more than one property at a time.

Uniform Deduction—If you itemize your deductions you can deduct the costs and upkeep of certain uniforms that regulations prohibit you from wearing while off duty. However, you must reduce your deduction by any reimbursement you receive for these costs.

Signing Joint Returns—Both spouses normally must sign joint income tax returns. However, when one spouse is unavailable due to certain military duties or conditions, the other may, in some cases, sign for both spouses, or will need a power of attorney to file a joint return.

If you have questions related to these and other benefits provided to members of the military, please give this office a call.

Tips for Employers Who Outsource Payroll Duties

Many employers outsource their payroll and related tax duties to third-party payers such as payroll service providers and reporting agents. Reputable third-party payers can help employers streamline their business operations by collecting and timely depositing payroll taxes on the employer's behalf and filing required payroll tax returns with state and federal authorities.

Though most of these businesses provide very good service, there are, unfortunately, some who do not have their clients' best interests at heart. Over the past few months, a number of these individuals and companies around the country have been prosecuted for stealing funds intended for the payment of payroll taxes. Examples of these successful prosecutions can be found on IRS.gov.

Like employers who handle their own payroll duties, employers who outsource this function are still legally responsible for any and all payroll taxes due. This includes any federal income taxes withheld as well as both the employer and employee's share of social security and Medicare taxes. This is true even if the employer forwards tax amounts to a PSP or RA to make the required deposits or payments. For an overview of how the duties and obligations of agents, reporting agents and payroll service providers differ from one another, see the Third Party Arrangement Chart on IRS.gov.

Here are some steps employers can take to protect themselves from unscrupulous third-party payers.

- Enroll in the Electronic Federal Tax Payment System and make sure the PSP or RA uses EFTPS to make tax deposits. Available free from the Treasury Department, EFTPS gives employers safe and easy online access to their payment history when deposits are made under their Employer Identification Number, enabling them to monitor whether their third-party payer is properly carrying out their tax deposit responsibilities. It also gives them the option of making any missed deposits themselves, as well as paying other individual and business taxes electronically, either online or by phone. To enroll or for more information, call toll-free 800-555-4477or visit www.eftps.gov.
- Refrain from substituting the third-party's address for the employer's address. Though employers are allowed to and have the option of making or agreeing to such a change, the IRS recommends that employer's continue to use their own address as the address on record with the tax agency. Doing so ensures that the employer will continue to receive bills, notices and other account-related correspondence from the IRS. It also gives employers a way to monitor the third-party payer and easily spot any improper diversion of funds.
- Contact the IRS about any bills or notices and do so as soon as possible. This is especially important if it involves a payment that the employer believes was made or should have been made by a third-party payer. Call the number on the bill, write to the IRS office that sent the bill, contact the IRS business tax hotline at 800-829-4933 or visit a local IRS office. See Receiving a Bill from the IRS on IRS.gov for more information.
- For employers who choose to use a reporting agent, be aware of the special rules that apply to RAs. Among other things, reporting agents are generally required to use EFTPS and file payroll tax returns electronically. They are also required to provide employers with a written statement detailing the employer's responsibilities including a reminder that the employer, not the reporting agent, is still legally required to timely file returns and pay any tax due. This statement must be provided upon entering into a contract with the employer and at least quarterly after that. See Reporting Agents File on IRS.gov for more information.
- Become familiar with the tax due dates that apply to employers, and use the Small Business Tax Calendar to keep track of these key dates.

The key issue here is that you, the employer, are ultimately responsible for the payments even if the third party agent misappropriates the funds. Please call this office if you have any questions.

25 Accounting Terms You Should Know

It's back-to-school time. Why not take a page from the kids' books and do some learning of your own?

QuickBooks is easy to use, intuitive and flexible. But it is not an accounting manual or class or tutorial. If your business is exceptionally uncomplicated, you might get by without knowing a lot about the principles of bookkeeping.

Still, it helps to understand the basics. Here's a look at some terms and phrases you should understand.

Account. You'll set up financial accounts like checking and savings in QuickBooks, but in accounting terms, this refers to the accounts in your Chart of Accounts: asset, liability, owners' equity, income and expense.

NAME	⚡	TYPE	BALANCE ...
10100 · Checking	⚡	Bank	60,436.47
10300 · Savings	⚡	Bank	17,910.19
10400 · Petty Cash		Bank	500.00
11000 · Accounts Receivable		Accounts Receivable	91,239.43
12000 · Undeposited Funds		Other Current Asset	2,136.69
12100 · Inventory Asset		Other Current Asset	43,282.38
12800 · Employee Advances		Other Current Asset	832.00
13100 · Pre-paid Insurance		Other Current Asset	4,050.00
13400 · Retainage Receivable		Other Current Asset	3,703.02
15000 · Furniture and Equipment		Fixed Asset	34,326.00
15100 · Vehicles		Fixed Asset	78,936.91
15200 · Buildings and Improvemen		Fixed Asset	325,000.00

Figure 1: A QuickBooks Chart of Accounts

Accounts Payable (A/P). Everything that you owe to vendors, contractors, consultants, etc. is tracked in this account.

Accounts Receivable (A/R). This account tracks income that hasn't been realized yet, like outstanding invoices.

Accrual Basis. This is one of two basic accounting methods. Using it, you record income as it is invoiced, not when it's actually received, and you records expenses like bills when you receive them. Using the other method, **Cash Basis**, you would report income when you receive it and expenses when you pay the bills.

Asset. What physical items do you own that have value? This could be cash, office equipment and real estate. In QuickBooks you'll be managing two types. **Current Assets** are generally used within 12 months (or you could convert them to cash in that length of time). **Fixed Assets** refers to belongings like vehicles, furniture and land, property that you probably won't use up in a year and which usually depreciates in value. Depreciation is very complex; you may need our help with that.

Average Cost. This is the inventory costing method that programs like QuickBooks Pro and Premier use to calculate the value of your stock.

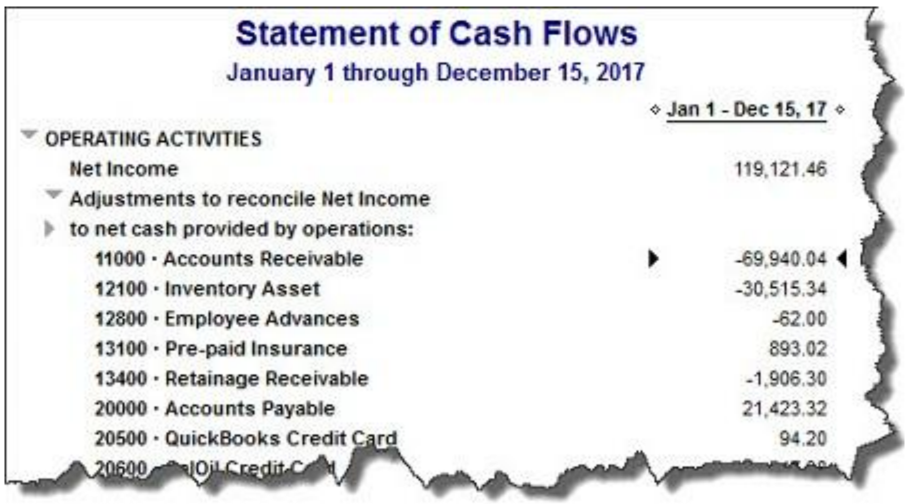

Figure 2: QuickBooks provides a Statement of Cash Flows report.

Cash Flow. This refers to the relationship between incoming and outgoing funds during a specific time period.

Double-Entry Accounting. This is the system that QuickBooks uses – that all legitimate small business accounting software uses. Every transaction must show where the funds came from and where they went. Each has a **Credit** (decreases asset and expense accounts) and **Debit** (decreases liability and income accounts) which must balance out (other types of accounts can be affected).

Equity. This refers to your company's net worth. It's the difference between your assets and liabilities.

General Journal. QuickBooks handles this in the background, so it's unlikely you'll ever be exposed to it. We sometimes have to create General Journal Entries, transactions required for various reasons (errors, depreciation, etc.) that contain debits and credits. Please leave that to us.

Item Receipt. You'll create these when you receive inventory from a vendor without a bill.

Job. QuickBooks often associates customers with multi-part projects that you've taken on, like a kitchen remodel.

Net income. This is your revenue minus expenses.

Non-Inventory Part. When you purchase an item but don't sell it or you buy something and resell it immediately to a customer, this is what it's called. It's merchandise that isn't stored by you for future sales.

Payroll Liabilities Account. QuickBooks tracks federal, state and local withholding taxes, as well as Social Security and Medicare obligations, that you've deducted from employees' paychecks and will remit to the appropriate agencies.

Figure 3: QuickBooks helps you track and remit Payroll Liabilities.

Post. You won't run into this term in QuickBooks. It simply refers to recording a transaction within one of your accounts.

Reconcile. QuickBooks helps you with this. It's the process of making sure your records and those of your financial institutions agree.

Sales Receipt. This is how you record a sale when payment is made in full during the transaction.

Statement. You'll generally use invoices to bill customers in QuickBooks, but you can also send statements, which contain transaction information for a given date range.

Trial Balance. This standard financial report tells you whether your debits and credits are in balance. Should you run this report and find a problem, let us know right away.

Vendor. With the exception of employees, QuickBooks uses this term to refer to anyone who you pay as a part of your business operations.

These are just a few of the terms you should recognize and understand. We hope you'll contact us when you need help understanding how the accounting process fits into your workflow.