

THE
BUSINESS
OF
METAL WORKING



JOSEPH FIEBIGER

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INTRODUCTION

My grandfather, an artistic blacksmith, an artisan, emigrated from Germany in 1898. Upon his arrival in America he landed a job as the foreman of The Sexaur Iron Works. When asked many years later what the working conditions were at Sexaur, he replied, “sex hour? Hell! We didn’t even have a coffee break.”

On May 17, 1900, in New York City, at the age of 28 he started his artistic iron works company. My Dad followed him in business; the two of them working together as a very good Father and Son team.

“Opa,” as I always called him, worked on the forge until his eighty eighth year. He said the reason he lived so long was that he saw what water did to iron, so he only drank wine. No kidding, he even brushed his teeth with wine.

I was twenty one in 1965 when my father was taken terminally ill. I did what any loving son of that era would do. I went into the business.

Dad lived for four and half years, though he never returned to the office or the shop. He taught things to me with a pencil and paper and I listened!

The calculator, the computer, the facsimile were not yet even visions in the minds of visionaries. But, curiously, somehow, business was conducted.

My mother would set pads of paper and pencils with the dinner meal. We would talk and sketch. Put in rudimentary terms, first came the design, second came the execution, third came the installation, fourth came billing and fifth, hopefully came payment.

The accountant ran the payroll every Friday. He went to the bank and came with the cash and filled the payroll envelopes. My father said, “Harvey has been

with me for over thirty years, I don't think that he would take advantage of us." Longevity aside, I checked the accountant's pencil footings and verified that the payroll check equalled the net payroll.

My father stressed that to be successful in business one must be knowledgeable in many areas. There is the business of making a product and then there is the "*business of business.*"

We continually tried to answer the age old question of "how much does it really cost per labor hour?"

We discussed how architects and engineers simply multiply the pay rate by three. How do they know? What if they are wrong?

We explored the information put forth by a trade association. Anybody can do the arithmetic calculations of withholding taxes, union benefits, etc. against the total payroll. The association certainly did that, but they took a multiplier of 125% for "shop burden."

Through my thirty years in business, I never understood this 125% "allowance" for shop burden. When I "backed" into the number by comparing it with my calculations, that 125% varied between 55% and 65%.

I still wanted to know the real number. The year was coming to an end. I knew that if I extrapolated the information in the payroll book I could get a relatively responsible number.

I totaled all of the production hours and the amount of wages paid. I totaled all of the expenses on the Income Statement. I divided the amount of total by the number of hours worked. Albeit unsophisticated, I had arrived at an accurate determination of our hourly cost per production hour.

As the years passed I refined this information. I applied it a various ways to not overpay union benefits, not overpay workmen's compensation premiums, not overpay comprehensive, property damage, liability insurance premiums and not overpay utilities' costs.

The advent of the computer showed how logical these routines are. The raw number crunching power of the computer makes the maintenance of these databases easy.

As we enter the twenty first century one can certainly still ascribe to the axiom that "knowledge is power," but one can also truly believe that "computer power provides knowledge."

The information which is presented in this book will enable you save money on many "expense" items; it will also enlighten you in specific areas to generate more money in "revenue" areas.

CHAPTER 1

THE GENERAL LEDGER

If you are not an accomplished bookkeeper / accountant now, using your computer's accounting modules will make you one, easily. The computer is a wonderful teacher. Just pay attention, it knows to debit Accounts Receivable and to credit Sales.

The only seemingly difficult entry is a single sided entry at the close of the fiscal year, when you have to post the profit or loss to retained earnings. The accounting manual will describe this procedure. The multiplicity of other accounting events will be administered to by the computer.

The basis for proper data management is vested in the General Ledger's "Chart of Accounts." The "Chart of Accounts" will differ for various companies, for different accountants and with different accounting programs. Unfortunately, there are some accounting programs on the market which want to do all of your thinking for you. You need a program which allows you to configure it to your needs, not a program where your needs are adjusted to fit the parameters of the program.

All good accounting programs allow you to go forward to a new year without closing the present year. You should run Trial Balances and keep the current year open until you are satisfied that all invoices from vendor's as well as your invoices have been posted.

Payroll and Sales are functions which generate information upon which premiums and taxes are based. As you review that "Chart of Accounts" on the following pages, pay careful attention to the Payroll classifications and the Sales classifications.

The many benefits which are derived from the sequestering of these classifications will be demonstrated and explained. There is power in these numbers, power that is lost if these categories are ubiquitous and undisciplined.

All General Ledger programs offer you the power of “self repeating entries.” Use this power to calculate the monthly allocation of “prepaid assets” and “depreciation” to monthly expenses. This assures accurate monthly statements as well as accurate year end statements.

I believe that the Internal Revenue Service will reinstitute the tax benefits for investing in Pollution Control Equipment. Look for it to reappear with the Investment Tax Credit.

Include it as a General Ledger category and wait patiently.

Trucks and material handling equipment such as fork lifts and bridge cranes are assets which are depreciated. That depreciation expense is calculated as part of the “Hourly Cost of Production.”

How can you justify the cost of a specialized piece of equipment, an element which is not used on each job? Certainly it will be depreciated, but in fairness and to not distort you actual hourly cost, and yet not “give it away,” how do you handle it?

If you are performing work on a time and materials basis, predicated upon the determined hourly labor billing rate, you are not entitled to get paid for it’s use. After all, the customer is paying you for its use as part of that hourly labor charge.

Think about having that equipment owned by a “sister” corporation. A company, not necessarily a corporation, which you own. The Internal Revenue Service certainly allows such instances, providing that they respect “arms length” requirements.

Your “sister” company can rent to you that piece of equipment. You in turn can submit an invoice for that rental with the agreed profit margin in place.

Most insurance carriers will grant insurance to your “sister” corporation with no additional premiums. The two corporations need not have the same calendar year. Don’t think about this too much, the Internal Revenue Service is as smart as you are and any manipulation of revenues and expenses will come out in the proverbial “wash” anyway. Don’t raise any eyebrows.

Miscellaneous Employee Benefits are articles which by contractual agreement are provided by the company for the employee. It is easier to have employees purchase their own work shoes, for example, than for you to maintain a shoe inventory. As an aside, get receipts and keep a calendar record so that no one exceeds the allowed limit. This also is a good place to properly place the cost of all of the coffee and donuts you buy for the employees.

Notice the absence of “Petty Cash.” Have a vendor’s account in Accounts Payable with the name, “Petty Cash” so that checks can be generated for just that, “Petty Cash.” Be disciplined, have every expense identified to an existing account, other than, naturally enough, “Petty Cash.”

The quest for the twenty-first century office, a “paperless office” may entice you to keep your “Petty Cash” vouchers electronically. There are many ancillary routines on the market which will suffice. The electronic “voucher” which is shown here is a product of “HyperCard.”

A revenue agent will love the fact that you don’t just apply monies to a ubiquitous account. Post business lunches to Travel and Entertainment. If those business lunches are under \$25.00 per day, don’t bother keeping receipts. Post coffee

and refreshments to your field employees to Refreshments Expense or to Miscellaneous Employee Benefits. Parking expenses or expenses for public transportation to a job site should be posted to Job Transportation Expenses.

Set up new accounts which are germane to your business, just don't use "Petty Cash" as a General Ledger category.

CHART OF ACCOUNTS

G/L ACCT NO	CATEGORY TITLE
	ASSETS
1020	Cash - Operating Account
1050	Cash - Money Market Account
1055	Equity Holdings
1060	Loans Receivable
1065	Loans Receivable - Officers
1070	Loans Receivable - Employees
1080	Interest Receivable
1090	Exchanges
1100	Accounts Receivable
1110	Work In Progress
1120	Joint Venture Revenues
1130	Allowance For Bad Debts
1140	Split Dollar Life Insurance
1150	Prepaid Federal Corporation Taxes
1160	Prepaid State Franchise Taxes
1170	Prepaid City Franchise Taxes
1180	Prepaid Insurance
1190	Prepaid Purchases
1200	Security Deposits
1210	Joint Venture Capitalization

G/L ACCT NO	CATEGORY TITLE
	ASSETS (Continued)
1220	Goodwill
1300	Inventory
1700	Capital Equipment
1705	Buildings
1710	Leasehold Improvements
1715	Automobiles & Trucks
1720	Machinery - Production
1725	Equipment - Production
1730	Pollution Control Equipment
1735	Material Handling Equipment
1740	Furniture & Fixtures
1745	Data Processing Equipment
1750	Office Equipment
1755	Telephone Equipment
1800	Accumulated Depreciation
	LIABILITIES
2000	Accounts Payable
2020	Payroll Suspense
2100	Federal Corporation Taxes Payable
2110	State Franchise Taxes Payable
2120	City Franchise Taxes Payable
2130	Federal Earned Income Credit

G/L ACCT NO	CATEGORY TITLE
	LIABILITIES (Continued)
2140	F.I.C.A. Payable (Employee)
2150	Federal Withholding Taxes Payable
2160	State Withholding Taxes Payable
2165	Out Of State Withholding Taxes Payable
2170	City Withholding Taxes Payable
2180	Non-Resident City Withholding Taxes Payable
2200	Garnish Payable
2210	Union Dues Payable
2220	State Unemployment Taxes Payable
2230	Federal Unemployment Taxes Payable
2240	F.I.C.A. Payable (Employer)
2260	Sales Taxes Payable
2270	Union Benefits Payable
2500	Loans Payable - Officers
	EQUITY
2910	Capital Stock
2960	Retained Earnings
2970	Current Earnings
	INCOME
3000	Sales - Foreign
3005	Sales - Out Of State
3010	Sales - Tax Exempt Organizations

G/L ACCT NO	CATEGORY TITLE
	INCOME (Continued)
3015	Sales - Capital Improvement
3020	Sales - New York City
3025	Sales - Westchester County
3030	Sales - Rockland County
3035	Sales - Nassau County
3040	Sales - Suffolk County
3045	Sales - Special Projects
3050	Sales - Manufacturing
3900	Commissions
3100	Requisitions
3110	Joint Venture Revenues
3150	Interest Income
3160	Other Income
3170	Finance Charge Income
3180	Returns & Allowances
3190	Miscellaneous Credits
3200	Sales Discounts
	EXPENSES
4000	Beginning Inventory
4100	Purchases - Vendors
4110	Purchases - Subcontractors
4120	Purchases Discounts

G/L ACCT NO	CATEGORY TITLE
	EXPENSES (Continued)
4130	Payroll - Vacation
4140	Payroll - Holiday
4150	Payroll - Sick Leave
4160	Payroll - Jury Duty
4170	Payroll - Bereavement Pay
4180	Payroll - Shop (Regular)
4181	Payroll - Shop (Time & Half)
4182	Payroll - Shop (Double Time)
4190	Payroll - Field (Regular)
4191	Payroll - Field (Time & Half)
4192	Payroll - Field (Double Time)
4200	Payroll - Clerical (Regular)
4201	Payroll - Clerical (Time & Half)
4202	Payroll - Clerical (Double Time)
4210	Payroll - Sales (Regular Time)
4211	Payroll - Sales (Time & Half)
4212	Payroll - Sales (Double Time)
4250	Sales Commissions
4300	F.I.C.A Expense
4310	State Unemployment Tax Expense
4320	Federal Unemployment Tax Expense
4330	Union Benefits Expense

G/L ACCT NO	CATEGORY TITLE
	EXPENSES (Continued)
4400	Shop Supplies Expense
4410	Delivery Expense - Manufacturing
4420	Job Expenses - Miscellaneous
4430	Transportation To Jobs Expense
4500	Ending Inventory
5000	Payroll - Officers
5010	Commissions - Officers
5020	Rent Tax Expense
5030	Occupancy Tax Expense
6000	Advertising Expense
6005	Automotive Expense
6010	Bank Charges Expense
6015	Building Maintenance Expense
6020	Bad Debts Expense
6025	Building Security Expense
6030	Moving Expense
6035	Commissions
6040	Depreciation Expense
6045	Miscellaneous Employee Benefits Expense
6050	Equipment Lease - Automotive
6055	Equipment Lease - Office
6060	Equipment Lease - Shop

G/L ACCT NO	CATEGORY TITLE
	EXPENSES (Continued)
6065	Equipment Maintenance - Office
6070	Equipment Maintenance - Shop
6075	Insurance Expense
6080	Interest Expense
6085	Penalty Expense (Non Deductible)
6090	Photographic Expense
6095	Light, Heat & Power Expense
6100	Medical Plan Expense
6105	Subscriptions Expense
6110	Office Supplies Expense
6115	Postage Expense
6120	Permits & Fees Expenses
6125	Accounting Fees
6130	Legal Fees
6135	Architectural / Engineering Fees
6140	Parking Expense
6145	Rent Expense
6150	Research Expense
6155	Shipping Expense (Office)
6160	Telephone Expense
6165	Gifts, Tips & Donations
6170	Travel & Entertainment
6175	Transportation To Jobs

CHAPTER 2

THE WORK YEAR

How many production hours are there in the work year? How many hours will your employees actually work compared with number of hours for which they will be paid? How much can each employee produce?

The number of production hours will vary, depending upon the vacation time due to each employee.

Generally there are fourteen holidays in the calendar year. These are usually paid holidays for clerical employees and members of shop unions. They are unpaid holiday for sales employees and members of field unions.

The basic fourteen day holiday schedule is:

New Years Day	Day after New Years
*Martin Luther King Day	President's Day
Good Friday	Memorial Day
Fourth of July	Labor Day
*Columbus Day	Election Day
Veterans Day	Thanksgiving Day
Day after Thanksgiving	Christmas
Day after Christmas	

*Note that Martin Luther King Day and Columbus Day are often interchanged.

Vacation can be from less than one week to as many as eight weeks. As we all know, employees with greater time of service, either to your firm or with a union,

are entitled to longer vacation periods. Conventional wisdom usually allows three weeks. Nonetheless, vacation time is a variable. If you wish to change that variable to a constant for a calendar year, simply make a “Vacation Schedule” which allocates the vacation time for each employee.

There are generally five days granted for “Sick Leave Pay.” Often an employee must have 1,600 hours per year or 133 hours per month to qualify. Any balance of unused “Sick Leave Pay” is paid at the end of a determined time period. “Sick Leave Pay” is an annual constant. Note that “Sick Leave Pay” is often exempt from Federal, State and Local withholding taxes.

“Bereavement Pay” and “Jury Duty Pay” have been holding at a yearly allowance of three days for each. Unused “Bereavement Pay” and “Jury Duty” are not paid and there is usually no carry forward.

Conventional Work Year (eight hour work day)

Work Year	260	Days	2,080	Hours	
Less:					
Holidays (14)	14	Days	112	Hours	5.38%
Vacation (3 Weeks)	15	Days	120	Hours	5.77%
Sick Leave Days (5)	5	Days	40	Hours	1.92%
Bereavement Days (3)	3	Days	24	Hours	1.15%
<u>Jury Duty Days (3)</u>	<u>3</u>	<u>Days</u>	<u>24</u>	<u>Hours</u>	<u>1.15%</u>
Total:	220	Days	1,760	Hours	15.38%

Conventional Work Year (seven hour work day)

Work Year	260	Days	1,820	Hours
Less:				

Holidays (14)	14	Days	98	Hours	5.38%
Vacation (3 Weeks)	15	Days	105	Hours	5.77%
Sick Leave Days (5)	5	Days	35	Hours	1.92%
Bereavement Days (3)	3	Days	21	Hours	1.15%
<u>Jury Duty Days (3)</u>	<u>3</u>	<u>Days</u>	<u>21</u>	<u>Hours</u>	<u>1.15%</u>
Total:	220	Days	1,540	Hours	15.38%

There are an additional sixteen and half work days lost each year, per employee, for “coffee breaks,” “wash up periods” and “rest room visits.” Don’t get caught up in this and don’t try to figure out how much they cost. These “breaks” are necessary and proper. Hopefully they won’t be abused, but they are needed.

The equation for determining the approximate “lost time” per day, per employee is:

Morning Coffee Break	10	Minutes Per Day
Before Lunch Wash Up Period	5	Minutes Per Day
Afternoon Coffee Break	10	Minutes Per Day
Before End of Day Wash Up Period	5	Minutes Per Day
Rest Room Visits	10	Minutes Per Day
<u>Total Lost Time Per Day, Per Employee</u>	<u>40</u>	<u>Minutes Per Day</u>
Annual Lost Time Per Employee	132	Hours Per Year
16.5		Days Per Year

This information is useful for revenue generation and will serve no benefit for cost analysis. Specifically, if you are estimating a job where fabrication will take one and half man hours, you can correctly assume the number of units which you can produce in a year or fraction thereof.

CHAPTER 3

PAYROLL

The payroll accounts which you have established in the Chart of Accounts must now be established in the Payroll module. You should establish the following payroll accounts in the Payroll module:

Vacation	Holiday
Sick Leave	Jury Duty
Bereavement Pay	Shop (Regular Time)
Shop (Time & Half)	Shop (Double Time)
Field (Regular Time)	Field (Time & Half)
Field (Double Time)	Clerical (Regular Time)
Clerical (Time & Half)	Clerical (Double Time)
Sales (Regular Time)	Sales (Time & Half)
Sales (Double Time)	Sales Commissions
Miscellaneous Employee Benefits	Transportation to Jobs
Union Due Payable	Garnish Payable

You can easily reimburse employees for their expenses if you include “Miscellaneous Employee Benefits” and “Transportation to Jobs” in the payroll section. Make sure that you establish these as tax exempt categories. Any transaction here is merely an exchange.

As mentioned previously, “Miscellaneous Employee Benefits” are articles which by contractual agreement are provided by the company for the employee.

Naturally, you can reimburse them by entering an Accounts Payable voucher to the vendor, “Petty Cash,” and distributing the expenses to “Miscellaneous Em-

ployee Benefits,” “Transportation to Jobs” or any other applicable category.

You will find that reimbursement from the Payroll module is simple and effective.

It will not take any more clerical time to input the information for an employee who worked four days and was ill for one. That employee will be paid for forty hours (based on an eight hour work day). The entry will be thirty two hours posted to regular time and eight hours posted to sick leave time.

Some unions identify a wage rate for “Triple Time.” There should be no payroll entries at “Triple Time.” “Triple Time” is really “Double Time” which is worked on a holiday. Work performed on a holiday which is paid on a “Double Time” basis should be entered as eight hours at “Double Time” and eight hours as “Holiday Pay.” Often times, “Double Time” and “Premium Time” are synonymous. As you will see these distinctions must be maintained to prevent corruption of the reports which are based upon this information.

If your payroll is run through Friday and the year end falls on Tuesday, run the payroll to end the current year, open a new year and complete the payroll. This eliminates all adjusting entries.

Once you have run the Payroll and the Payroll checks, the Payroll module posts all information to the General Ledger. If you were to run a simple Balance Sheet at this time you will see liabilities for all of the withholding taxes, unemployment insurances, garnishee payments and union dues. Some payroll routines call this a “Payroll Suspense” account and aggregate all categories. The “suspense” account does just that, it keeps you in “suspense” and makes you go hunting for information. Coupled with the “suspense” account is often “Payroll Liabilities,” it too

invites disaster. If you do make an error, you want to be able to track it easily. You will always track it by printing out the Trial Balance, however, printing the Trial Balance is often very time consuming. Proper designation of these General Ledger accounts allows for simple error trapping. Just print out a Balance Sheet.

Most accounting software does not allow checks to be generated from the General Ledger and few programs allow you satisfy these tax liabilities from the Payroll module.

The logical way to handle this situation would be to have each tax liability in an electronic file. This file would generate a check which would satisfy each tax liability. Don't hold your breath, this will not come to software because, I was told by a software company, "the audit trail could get 'fuzzy.'"

Resolution of this is simple and orderly. Set up vendor accounts in Accounts Payable. Once vouchers are entered to these Accounts Payable vendors you will balance the General Ledger and satisfy your tax liabilities with relative simplicity.

Commercial banks are agents for the U.S. Treasury for the receipt of F.I.C.A., Federal Withholding Taxes and Federal Unemployment Taxes. If the combination of the F.I.C.A. and Federal Withholding Taxes exceeds \$3,000 you must tender a "Depository Receipt" and a check for the amount of the liability, within three banking days of the payroll period. If your Payroll is less than \$3,000 you have a greater amount of time.

Don't be lazy with this payment. The penalties and interest are severe. Insist that the bank send you a "date stamped" receipt. It is not uncommon to have a U.S. Treasury Agent appear at your office if you frequently are delinquent.

The following is a specimen "vendors" which have been set up Accounts Payable.

This payment satisfies three different tax obligations. It satisfies the F.I.C.A. Tax for the employee, the F.I.C.A. liability for the employer; finally it satisfies the Federal Taxes Withheld.

AP Code	“Vendor” Name	G/L	Tax Liability
CMB1	Chase Manhattan Bank	2140	F.I.C.A. Employee
	Street Address	2240	F.I.C.A. Employer
	City, State, Zip	2150	Federal Withholding

Note: Friday payroll, tax must be satisfied by the following Wednesday.

NYSWT	N.Y.S. Income Tax Bureau	2160	State Withholding Tax
	Street Address	2170	City Withholding Tax
	City, State, Zip	2180	Non-Resident Withholding

Tax

Note: Friday payroll, tax usually must be satisfied twice monthly, with five grace days.

CMB2	Chase Manhattan Bank	2230	Federal Unemployment Tax
	Street Address		
	City, State, Zip		

NYS-U	N.Y.S. Dept. of Finance	2220	State Unemployment Tax
	Street Address		
	City, State, Zip		

SHOPMN	Local #123	2210	Union Dues Payable
	Street Address		
	City, State, Zip		
COURT	Hon. John J. Jones	2200	Garnish Payable
	Street Address		
	City, State, Zip		

Note: A court appointed receiver will be the recipient of garnished wages. Enter that receiver as a “vendor” and execute the same procedures. Print out and use “Payroll Tax Forms.” These are self explanatory, provide great record keeping and are administered with simplicity.

You will very quickly see how they streamline your processes. You will probably want to make additional forms for additional categories such as union dues, union benefits, workmen’s compensation premiums and both Federal and state unemployment taxes.

As you know, the computer generates a literal plethora of paper. All of the figures which you need are found in the “Payroll Summaries” which are printed with each payroll. Just be careful to use the figures which are “Company Totals” based on the gross company payroll.

Most payroll software will generate Category Totals. As the name implies, these figures represent figures which are applicable to individual categories. Don’t be fooled. Run a Trial Balance and / or a Balance Sheet to as an error trapping procedure.

Once all of the payroll “vouchers” have been entered into Accounts Payable, the tax liability accounts have a zero balance. If there is a balance other than

zero you have make an error. Most likely you have entered an insufficient dollar amount with the “voucher” entry or you made a clerical error.

The “voucher worksheets” which are shown will assist in these entries. Make up similar worksheets for other “vendors” who are the recipients of monies which have been withheld as a payroll function.

PAYROLL TAX FORM

F.I.C.A. & FEDERAL WITHHOLDING

Week Ending _____

THIS IS ONE COMPOUND ENTRY WITH 3 G/L CATAGORIES

VOUCHER: # _____
VENDOR: CMB1
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: None
PRCHS ORDER: None

AMOUNT: \$ _____

(total of account numbers: 2140, 2150, 2240)

2140 FICA Employee \$ _____

2150 FWT Payable \$ _____

2240 FICA Employer \$ _____

PAYROLL TAX FORM

FOR STATE, CITY & NONRESIDENT TAXES WITHHELD

Week Ending _____

THESE ARE 3 INDIVIDUAL ENTRIES

(Note: The individual entry method is beneficial when completing the tax forms.)

VOUCHER: # _____
VENDOR: NYSWT
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: SWT
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: 2160 - State Withholding Taxes Payable

VOUCHER: # _____
VENDOR: NYSWT
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: CWT
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: 2170 - City Withholding Taxes Payable

VOUCHER: # _____
VENDOR: NYSWT
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: YWT
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: 2180 - Non-Resident Taxes Payable

PAYROLL TAX FORM

FEDERAL & STATE UNEMPLOYMENT TAXES WITHHELD

UNION DUES WITHHELD

Week Ending _____

THESE ARE 3 INDIVIDUAL ENTRIES

VOUCHER: # _____
VENDOR: CMB2
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: FUI
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: **2230 - Federal Unemployment Insurance Taxes Payable**

VOUCHER: # _____
VENDOR: NYS-U
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: CWT
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: **2220 - State Unemployment Insurance Taxes Payable**

VOUCHER: # _____
VENDOR: SHOPMN
DIST. DATE: Date of P/R
INV. DATE: Date of P/R
INV. NO.: SHOPMN
PRCHS ORDER: None

AMOUNT: \$ _____
ACCOUNT NO: **2210 - Union Dues Payable**

CHAPTER 4
WORKMEN'S COMPENSATION

Workmen's Compensation premiums are based on the gross wages paid each employee for work which that employee has performed. Overtime labor is calculated at the "straight time" rate. It is incumbent upon the employer to maintain accurate records which isolate instances where employees are paid but have not actually performed any work and occurrences of overtime. Multi-tasking employees should have their wages posted accurately to each category which applies to the tasks which they have performed.

The software which you are using is more than likely generic. It may post the total numbers to a Workmen's Compensation account, but it will not handle the idiosyncratic record maintenance that different companies need. Nonetheless, its ubiquitous nature will certainly provide you with the figures which you need to fulfill your needs.

All we are doing is isolating, per employee, defined areas of wages paid.

Shown on the following pages are specimen annual payrolls and Workmen's Compensation Earned Premium Bills. Study them.

Pay particular attention to the "Adjusted Pay" column. This equation "adjusts" the "Time and Half Pay" and "Double Time Pay" to "regular or 'straight' time." It also excludes "Sick Leave Pay," "Holiday Pay," "Vacation Pay," "Jury Duty Pay" and "Bereavement Pay." This "adjusted figure" is paramount for the proper calculation of the Workmen's Compensation Premium.

The Workmen's Compensation Insurance Policy insures your workers for

work in the workplace. The “workplace” has been defined to include employees traveling to work on public transportation, employees drinking coffee and often times employees at the annual company picnic or Christmas party. Let’s not dwell on the last two, just think about them and your responsibility if you are negligent in those areas.

If an employee is injured always fill out the paper work quickly. There are severe penalties for failure to file a report within the prescribed time period.

The premium is based upon the number of accidents in each work group, each year. Logically enough, the premiums for employees in high risk jobs are higher than premiums for those employees at lower risk. These rates change every year.

Many companies have employees whose daily tasks cross the boundaries which have been established by the insurance carrier as “labor classifications.” The carrier, has by law, the right to apply the rate for the higher classification if there is no isolated breakdown of the classifications.

It is to your advantage to maintain honest and accurate records. If you do not keep these breakdowns, by default, the higher rate will be applied for the gross wages paid to each multi-tasked employee.

Though the definition of “workplace” can be subjective, it can not be stretched to include vacation, holiday, jury duty and bereavement. Any employee injured while on vacation, enjoying a holiday, serving on a jury or being saddened by the loss of loved one, if injured, certainly was not injured while working for the company.

Why then do so many companies pay Workmen’s Compensation premiums for dollars expended to employees for those categories? The reason is two fold: first, they don’t know that the proper sequestering of these accounts will obviate the

premium and second, they assume that because taxes are paid that insurance premiums must be paid also.

There are two specimen Workmen's Compensation Earned Premium Reports shown. The worksheets which generate this information are also shown. The worksheets summarize and post to the "Earned Premium Bill."

One is for the U.R. Nutz Company, uninformed about proper payroll data management, their premium is unnecessarily high.

The U.R. Smart Company has implemented proper payroll data management. Their savings in premium dollars are appreciable.

We always submitted this data to the auditor along with all of the other payroll records. The auditors were always grateful and the premiums were always accurate. Remember, the auditor is not a policeman, he is not there to question your allocation of tasks; he is there to check the recordation of them.

A special caveat now presents itself. Once you have established a routine which assures the accuracy of your records, you may ask your carrier for permission to submit amended "Earned Premium Bills. You can literally go back in time, back five years in most cases and receive a refund based upon the amended "Earned Premium Bills."

Vacation, Holiday, Jury Duty and Bereavement Pay are not open for discussion. It is absolute, they are exempt from premium collection. If an employee were to be injured, he would not be covered. Not in a New York minute, as they say.

PAYROLL WORKSHEET FOR U.R. SMART COMPANY

Production Employees	Regular Time Shop	Time Half Shop	Double Time Shop	Total Wages Shop	Sick Leave	Holiday Pay	Vacation Pay	Jury & Brvmnt	Adjusted Pay Shop	Regular Time Field	Time Half Field	Double Time Field	Total Wage Field	Adjusted Pay Field
Aaron, G	\$1,670	\$0	\$0	\$1,670	3041	3041	3041	3041	3041	5102	5102	5102	\$0	\$0
Black, S	\$22,367	\$1,833	\$16	\$24,216	\$2,269	\$1,614	\$3,465	\$696	\$23,597				\$0	\$0
Carpenter, A	\$27,234	\$2,323	\$394	\$29,951	\$555	\$1,614	\$2,772	\$348	\$28,980				\$0	\$0
Caster, R				\$0	\$120	\$240	\$907	\$0	\$0	\$3,240	\$0	\$0	\$3,240	\$3,240
Cone, R	\$26,272	\$2,412	\$511	\$29,195	\$45	\$1,614	\$3,524	\$696	\$28,135				\$0	\$0
Cooke, W	\$0	\$0	\$0	\$0	\$0	\$0	\$1,824	\$0	\$0				\$0	\$0
Flyer, A	\$17,411	\$1,196	\$393	\$18,999	\$1,105	\$1,440	\$1,980	\$348	\$18,404				\$0	\$0
George, W				\$0	\$0	\$104	\$0	\$0	\$0	\$2,718	\$29	\$0	\$2,748	\$2,738
Gonzalez, J	\$9,465	\$0	\$0	\$9,465	\$0	\$0	\$1,980	\$0	\$9,465				\$0	\$0
Gordon, S	\$1,904	\$0	\$0	\$1,904	\$0	\$0	\$0	\$0	\$1,904				\$0	\$0
Herbert, W	\$27,823	\$1,609	\$79	\$29,511	\$630	\$1,614	\$2,070	\$696	\$28,935				\$0	\$0
Hirt, A				\$0	\$630	\$1,740	\$2,880	\$0	\$0	\$28,122	\$1,824	\$31	\$29,977	\$29,354
James, S	\$26,425	\$1,976	\$16	\$28,416	\$945	\$1,598	\$2,772	\$348	\$27,749				\$0	\$0
Jones, R	\$28,786	\$1,875	\$181	\$30,842	\$252	\$1,740	\$2,844	\$0	\$30,126				\$0	\$0
Kaplan, P	\$33,514	\$621	\$35	\$34,170	\$676	\$1,819	\$4,127	\$0	\$33,945				\$0	\$0
Kennedy, J	\$26,609	\$2,597	\$437	\$29,643	\$1,042	\$1,721	\$2,211	\$0	\$28,559				\$0	\$0
Lawless, J	\$26,771	\$1,976	\$16	\$28,763	\$561	\$1,614	\$2,079	\$0	\$28,096				\$0	\$0
Miller, H	\$0	\$0	\$0	\$0	\$0	\$0	\$182	\$0	\$0				\$0	\$0
Outlaw, R	\$13,171	\$1,986	\$22	\$15,179	\$529	\$1,058	\$62	\$0	\$14,506				\$0	\$0
Paul, W				\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$289,422	\$20,403	\$2,099	\$311,923	\$9,360	\$19,635	\$35,679	\$3,132	\$304,073	\$34,080	\$1,854	\$31	\$35,965	\$35,332

PAYROLL WORKSHEET FOR U.R. SMART COMPANY

Continued

Clerical Employees	Regular Time	Time Half	Double Time	Total Wages	Sick Leave	Holiday Pay	Vacation Pay	Jury & Brvmnt	Adjusted Pay
	8810	8810	8810	8810	8810	8810	8810	8810	8810
Butler, R	\$6,938			\$6,938	\$0	\$224	\$0	\$0	\$6,938
DaVoe, O	\$10,062			\$10,062	\$430	\$344	\$0	\$0	\$10,062
French, T	\$10,272			\$10,272	\$181	\$271	\$0	\$0	\$10,272
Helbing, F	\$13,104			\$13,104	\$640	\$1,792	\$2,560	\$768	\$13,104
Total	\$40,376	\$0	\$0	\$40,376	\$1,251	\$2,631	\$2,560	\$768	\$40,376
Sales Employees	Regular Time	Time Half	Double Time	Total Wages	Sick Leave	Holiday Pay	Vacation Pay	Jury & Brvmnt	Adjusted Pay
	8742	8742	8742	8742	8742	8742	8742	8742	8742
Masterson, W	\$9,548			\$9,548	\$0	\$462	\$0	\$0	\$9,548
Maverick, B	\$17,600			\$17,600	\$0	\$416	\$0	\$0	\$17,600
Total	\$27,148	\$0	\$0	\$27,148	\$0	\$878	\$0	\$0	\$27,148
Executive Employees	Regular Time	Time Half	Double Time	Total Wages	Sick Leave	Holiday Pay	Vacation Pay	Jury & Brvmnt	Adjusted Pay
	8809	8809	8809	8809	8809	8809	8809	8809	8809
Eisner, M	\$156,800			\$156,800	\$0	\$0	\$0	\$0	\$156,800
LaMar, S	\$7,322			\$7,322	\$0	\$0	\$0	\$0	\$7,322
Ruth, W	\$10,400			\$10,400	\$0	\$0	\$0	\$0	\$10,400
Total	\$174,522	\$0	\$0	\$174,522	\$0	\$0	\$0	\$0	\$174,522

PAYROLL WORKSHEET FOR U.R. NUTZ COMPANY

Production Employees	Regular Time Shop 3041	Time Half Shop 3041	Double Time Shop 3041	Total Wages Shop 3041	Sick Leave Shop & Field 3041	Holiday Pay 3041	Vacation Pay 3041	Jury & Brvmnt 3041	Adjusted Pay Shop 3041	Regular Time Field 5102	Time Half Field 5102	Double Time Field 5102	Total Wage Field 5102	Adjusted Pay Field 5102
Aaron, G	\$1,670	\$0	\$0	\$1,670	\$0	\$105	\$0	\$0	\$1,670	\$0	\$0	\$0	\$0	\$0
Black, S	\$0	\$0	\$0	\$0	\$2,269	\$1,614	\$3,465	\$696	\$0	\$22,367	\$1,833	\$16	\$24,216	\$23,597
Carpenter, A	\$0	\$0	\$0	\$0	\$555	\$1,614	\$2,772	\$348	\$0	\$27,234	\$2,323	\$394	\$29,951	\$28,980
Caster, R	\$0	\$0	\$0	\$0	\$120	\$240	\$907	\$0	\$0	\$3,240	\$0	\$0	\$3,240	\$3,240
Cone, R	\$0	\$0	\$0	\$0	\$45	\$1,614	\$3,524	\$696	\$0	\$26,272	\$2,412	\$511	\$29,195	\$28,135
Cooke, W	\$0	\$0	\$0	\$0	\$0	\$0	\$1,824	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Flyer, A	\$0	\$0	\$0	\$0	\$1,105	\$1,440	\$1,980	\$348	\$0	\$17,411	\$1,196	\$393	\$18,999	\$18,404
George, W	\$0	\$0	\$0	\$0	\$0	\$104	\$0	\$0	\$0	\$2,718	\$29	\$0	\$2,748	\$2,738
Gonzalez, J	\$0	\$0	\$0	\$0	\$0	\$0	\$1,980	\$0	\$0	\$9,465	\$0	\$0	\$9,465	\$9,465
Gordon, S	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,904	\$0	\$0	\$1,904	\$1,904
Herbert, W	\$0	\$0	\$0	\$0	\$630	\$1,614	\$2,070	\$696	\$0	\$27,823	\$1,609	\$79	\$29,511	\$28,935
Hirt, A	\$0	\$0	\$0	\$0	\$630	\$1,740	\$2,880	\$0	\$0	\$28,122	\$1,824	\$31	\$29,977	\$29,354
James, S	\$0	\$0	\$0	\$0	\$945	\$1,598	\$2,772	\$348	\$0	\$26,425	\$1,976	\$16	\$28,416	\$27,749
Jones, R	\$0	\$0	\$0	\$0	\$252	\$1,740	\$2,844	\$0	\$0	\$28,786	\$1,875	\$181	\$30,842	\$30,126
Kaplan, P	\$0	\$0	\$0	\$0	\$676	\$1,819	\$4,127	\$0	\$0	\$33,514	\$621	\$35	\$34,170	\$33,945
Kennedy, J	\$0	\$0	\$0	\$0	\$1,042	\$1,721	\$2,211	\$0	\$0	\$26,609	\$2,597	\$437	\$29,643	\$28,559
Lawless, J	\$0	\$0	\$0	\$0	\$561	\$1,614	\$2,079	\$0	\$0	\$26,771	\$1,976	\$16	\$28,763	\$28,096
Miller, H	\$0	\$0	\$0	\$0	\$0	\$0	\$182	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outlaw, R	\$0	\$0	\$0	\$0	\$529	\$1,058	\$62	\$0	\$0	\$13,171	\$1,986	\$22	\$15,179	\$14,506
Total	\$1,670	\$0	\$0	\$1,670	\$9,360	\$19,635	\$35,679	\$3,132	\$1,670	\$321,832	\$22,257	\$2,129	\$346,218	\$337,734

PAYROLL WORKSHEET FOR U.R. NUTZ COMPANY

Continued

Clerical Employees	Regular Time	8810	Double Time	8810	Total Wages	8810	Sick Leave	8810	Holiday Pay	8810	Vacation Pay	8810	Jury & Brvmnt	8810	Adjusted Pay	8810
Butler, R	\$6,938			\$6,938	\$0	\$224	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,938	
DaVoe, O	\$10,062			\$10,062	\$430	\$344	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,062	
French, T	\$10,272			\$10,272	\$181	\$271	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,272	
Helbing, F	\$13,104			\$13,104	\$640	\$1,792	\$2,560	\$768	\$13,104						\$13,104	
Total	\$40,376	\$0	\$0	\$40,376	\$1,251	\$2,631	\$2,560	\$768	\$40,376						\$40,376	
Sales Employees	Regular Time	8742	Double Time	8742	Total Wages	8742	Sick Leave	8742	Holiday Pay	8742	Vacation Pay	8742	Jury & Brvmnt	8742	Adjusted Pay	8742
Masterson, W	\$9,548			\$9,548	\$0	\$462	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$9,548	
Maverick, B	\$17,600			\$17,600	\$0	\$416	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$17,600	
Total	\$27,148	\$0	\$0	\$27,148	\$0	\$878	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$27,148	
Executive Employees	Regular Time	8809	Double Time	8809	Total Wages	8809	Sick Leave	8809	Holiday Pay	8809	Vacation Pay	8809	Jury & Brvmnt	8809	Adjusted Pay	8809
Eisner, M	\$156,800			\$156,800	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$156,800	
LaMar, S	\$7,322			\$7,322	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$7,322	
Ruth, W	\$10,400			\$10,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,400	
Total	\$174,522	\$0	\$0	\$174,522	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$174,522	

U.R. SMART COMPANY, INC.

ANNUAL COMPOSITE
EARNED PREMIUM BILLING

FOR THE PERIOD JANUARY 1, 199X THRU DECEMBER 31, 199X

CODE	CLASSIFICATION DESCRIPTION	PAYROLL	RATE PER \$100	MANUAL PREMIUM
3041	IRON WKS-SHOP-DECORATIVE & FOUNDRIES & DRIVERS-U	\$304,072.75	\$7.52	\$22,866.27
5102	IRON-BRASS-DOOR-SASH ETC. ERECT—U	\$35,331.61	\$8.75	\$3,091.52
8742	SALESMEN-COLLECTORS OR MESSENGERS-U	\$27,148.00	\$0.71	\$192.75
8810	CLERICAL OFFICE EMPLOYEES NOC-U	\$40,376.00	\$0.35	\$141.32
8809	EXECUTIVE OFFICERS N.O.C. ETC-U	\$174,521.60	\$0.70	\$1,221.65
	1. MANUAL RATE PREMIUM			\$27,513.50
	2. EXPERIENCE RATING CHARGE	17% OF ITEM 1	17.00%	\$4,677.30
	3. ADJUSTED MANUAL RATE PREMIUM	117%	117.0%	\$32,190.80
	4. EXPENSE CONSTANT		\$120.00	
	5. TOTAL RATING BOARD PREMIUM			\$32,310.80
	6. STATE FUND DISCOUNT	20% OF ITEM 3	20.00%	\$6,462.16
	7. TOTAL STATE FUND PREMIUM			\$25,848.64

U.R. NUTZ COMPANY, INC.

ANNUAL COMPOSITE
EARNED PREMIUM BILLING

FOR THE PERIOD JANUARY 1, 199X THRU DECEMBER 31, 199X

CODE	CLASSIFICATION DESCRIPTION	PAYROLL	RATE PER \$100	MANUAL PREMIUM
3041	IRON WKS-SHOP-DECORATIVE & FOUNDRIES & DRIVERS-U	\$1,670.25	\$7.52	\$125.60
5102	IRON-BRASS-DOOR-SASH ETC. ERECT—U	\$337,734.11	\$8.75	\$29,551.73
8742	SALESMEN-COLLECTORS OR MESSENGERS-U	\$27,148.00	\$0.71	\$192.75
8810	CLERICAL OFFICE EMPLOYEES NOC-U	\$40,376.00	\$0.35	\$141.32
8809	EXECUTIVE OFFICERS N.O.C. ETC-U	\$174,521.60	\$0.70	\$1,221.65
1. MANUAL RATE PREMIUM				\$31,233.06
2. EXPERIENCE RATING CHARGE		17% OF ITEM 1	17.00%	\$5,309.62
3. ADJUSTED MANUAL RATE PREMIUM		117%	117.0%	\$36,542.68
4. EXPENSE CONSTANT			\$120.00	
5. TOTAL RATING BOARD PREMIUM				\$36,662.68
6. STATE FUND DISCOUNT		20% OF ITEM 3	20.00%	\$7,332.54
7. TOTAL STATE FUND PREMIUM				\$29,330.14

The U.R. Nutz Company paid \$29,330 in annual premiums while the U.R. Smart Company paid \$25,848. The payrolls (gross and net) of each company were identical. The U.R. Smart Company maintained disciplined records and was rewarded by saving \$3,482.

The payroll information should be input into the Workmen's Compensation routines on a monthly basis. This will preserve the integrity of the financial statements; providing you with accurate information on a monthly basis.

Many software programs allow you to export data as text to a file. This file can then be imported to a spreadsheet program. The parameters of programs differ; this procedure is quite easy but it will take experimentation. You will have to determine what effect delimiters and tabs have on both the exporting and importing sides.

You may also choose to not import the file to the spreadsheet and rather "copy" it from the text file and "paste" it into the matrix.

The Microsoft® Excel routines which come with this book are accurate. They can be reconfigured to allow the entry of your information. These routines are relatively simple to write, you may prefer to use them as guides and write your routines which more accurately service your information. Copy the formulas and understand the "handshaking" that is taking place between the various worksheets.

Quite likely you have prepaid the insurance carrier at the inception of the new insurance year. Often times these invoices are split between a "deposit" for the new year and insurance premiums for the previous year.

The amount of the "deposit" is based upon the audit from the previous year. Nonetheless, if you anticipate a downturn in your business, if you do not have as many employees working, you can petition for a reduction in the "deposit" pre-

mium. Now you are armed with a computer routine which allows you to accurately forecast the future. Prepare a “pro forma” worksheet with the information which you forecast, submit it with a letter of explanation to the insurance carrier. They will issue a credit for the reduction of the “deposit.”

When you enter the invoice which combines “Prepaid Insurance” and “Insurance Expense” you must apportion the proper amounts to those two categories. The computer will automatically credit “Accounts Payable” for the total amount while it will debit “Prepaid Insurance” for the “deposit” portion and “Insurance Expense” for the expense portion.

When you generate a check as payment of that invoice, the computer will credit your “Cash” account and debit “Accounts Payable.” Everything is in balance.

Armed with your payroll information you will generate an accurate invoice for your insurance liability. The amount of the invoice may not be as great as the balance in “Prepaid Insurance.” Entering the Account Payable voucher for the vendor will incorrectly increase “Insurance Expense.”

Let us assume that your insurance year ends June 30th. Your insurance carrier has issued an invoice dated July 1st. This invoice is broken down as \$500 for insurance expense for the period ended June 30th and an advance payment (deposit or unearned premium) of \$1,500.

You enter a voucher for insurance carrier’s invoice into “Accounts Payable.” You apportion \$1,500 to “Prepaid Insurance” and \$500 to “Insurance Expense” when you making this entry. Refer to entry number 1 of the “T” charts.

You satisfy this invoice by generating a check in the sum of \$2,000. The computer will credit “Cash” and debit “Accounts Payable.” Refer to entry num-

ber 2 in the “T” charts.

After the last payroll period in July you enter the payroll information and determine that your insurance liability for the period is \$750. Obviously, there is nothing to pay. You have “eaten” into your advance payment. Credit “Prepaid Insurance” and debit “Insurance Expense” in the General Ledger for \$750. Refer to entry number 3.

After the last payroll period in August you determine that your insurance liability for that period is \$800. You have now depleted the balance of the “Prepaid Insurance” account and have added \$50 of additional insurance expense. Once again, credit “Prepaid Insurance” and debit “Insurance Expense” in the General Ledger for \$750. Refer to entry number 4a. Also, enter a voucher for the insurance carrier in “Accounts Payable” for \$50, posting to “Insurance Expense.” Refer to entry number 4b.

After September’s last payroll you repeat this routine. Your routine generates a statement wherein the insurance liability for the period is \$850. As the “Prepaid Insurance” balance is zero, you need only make a voucher entry to “Accounts Payable” for \$850, naturally posting it “Insurance Expense.”

A review of your entries reveals that your insurance liability is \$900 and that you have depleted \$1,500 of prepaid assets. Naturally, you assume that when the invoice for the recent period arrives that it will be identical to your amount. That is highly improbable.

The insurance carrier sends out their own computer generated invoices. They are using the information which they gathered during the last audit plus any information which you have furnished while amending the “Advanced Premium” por-

tion of the July 1st invoice. They do not know how your year is going, ah, but you do!

You know exactly how it is going. Also, you are not about to divest yourself of funds which are non interest bearing and satisfy no liability. Quite curiously, the insurance carrier really doesn't want to you, they just don't want the burden of paying for auditors every three months. They will accept your reports providing they are accurate.

On October 1st you receive an invoice from the insurance carrier for \$1,200. This invoice is for the period ended September 30th, Quarter III. Your reports show that you have liabilities of \$750, \$850 and \$900 respectively for the past three months, sum total for period being \$2,500. You have already paid \$1,500, \$1,200 additionally would bring the total for the period to \$2,700.

Your "Accounts Payable" open item report shows an open balance of \$1,000 for the insurance carrier. Issue a check to the carrier with a letter of explanation and copies of your reports.

Its not that you just saved \$200; the next time you may overpay \$400, you are on top of your business. There are no surprises lurking, the threat of some unknown invoice for an astronomical amount is quite simply not there. Your monthly financial statements are accurate and you truly know what it costs to run your business. You are being fair, you will be treated in a fair manner.

As stated previously, insurance carriers will allow you to amend your records for the past five years. Speak with your agent and submit the amended "Earned Premium Bills." You will be pleasantly rewarded.

Some have said that "the good thing about bad times is that good times are

coming; the bad thing about good times is that bad times are coming.” Being prepared is using the power available to you. You can make the most out of the good times and survive and even thrive during the bad times.

You do not have to have an accounting background to use “T”Accounts. They greatly simplify transactions. Their logic is irrefutable.

The issues of “general insurance” and “wrap around” insurance coverage will be discussed in chapters six and seven.

“T” Accounts

Cash (1020)		Prepaid Insurance (1180)	
	2 \$2,000	1 \$1,500	
	6 \$950		3 \$750
			4a \$750
Accounts Payable (2000)		Insurance Expense (6080)	
	1 \$2,000	1 \$500	
2 \$2,000	4b \$50	3 \$750	
	5 \$900	4a \$750	
6 \$950		4b \$50	
		5 \$900	

Total Debits: \$7,400

Total Credits: \$7,400

CHAPTER 5

THE COST PER HOUR OF PRODUCTION PAYROLL

We have now developed a very precise, very disciplined method of record keeping. It is flexible, allowing for additions and modifications. The generation of the “Overhead Schedule” or “The Cost Per Hour of Production Payroll” can be performed by simply “fooling” your General Ledger software. The same General Ledger routine which generates the “Income Statement” or “Profit and Loss Statement” will produce this information.

Run an “Income Statement” or “Profit and Loss Statement.” You notice that all of the expense categories calculate by percentage from the aggregate “Sales” figure. Its just like learning to compute a batting average in baseball, divide the smaller number by the larger number. The “Income Statement” takes the total of all the “Revenue” accounts and divides that number into “Sales,” “Interest Income,” “Other Income,” et cetera.

Our “Overhead Schedule” will perform the same way. Each expense category will be divided by the larger number: “Production Payroll.” A total number and a percentage will be produced. The percentage is the ingredient for which we are searching.

We will determine the mean average of the direct hourly payroll for production employees. Simply, we will add hourly wage for each employee and divide by the number of employees. Now we will multiply that average by the percentage (see page 52).

For example, average wage per hour: $\$17.85 * 286\% = \51.14 . Bingo, you

now know that if you receive \$51.14 for each our of production labor you will be “breaking even.” You know that all expenses have been included, depreciation, clerical employees, officers’ salaries (depending on which version you run) salaries, office supplies. Everything!!!

Calculate the profit percentage which you think is fair and proper.

Notice that we have made no provision for manufactured items which have been returned due to faulty workmanship. Unfortunately, some companies have to make a provision for this. Though they don’t talk about it, they call what is really an “allowance for repairs and adjustments to manufactured products” merely “adjustments.” If it is a real concern in your business, remedy the problem rather than try to get paid for it. However, if for some reason you can not do that, establish a payroll category and an expense category with a name which is nondescript, such as “product adjustments.” The payroll classification will be for labor expended for these repairs. The expense classification will be for other expenses incurred for these repairs. You should have a “Research and Development” expense account. If these problems are not too persistent, put these costs there until you resolve the problems.

Don’t be part of the ugly adage, “there is always enough time to fix it and never enough time to make it right the first time?”

You can also perform these repairs in a seemingly “unnoticed” way. Merely letting the labor and any expenditures be absorbed somewhere else, with a natural reduction in profit. That reduction being a function of expended labor and expenses with no offsetting sale. But, don’t do it! Mistakes are mistakes, correct them, learn from them. If you sweep them away-they won’t go away!

Embarrassing or not, record the activities properly and minister to them.

After all you want to know the good news as well as the bad news. As previously inferred, errors will automatically reduce profit.

Print out the “set up” routine for the “Income Statement.” Make a copy of the “Income Statement” data file, name the copy “Overhead Schedule.”

Open the “set up” routine for “Overhead Schedule” (which is still a copy of the “Income Statement.”) or “set up” a new statement. The statement will be based on the “Income Statement” format.

Study the “Profit and Loss Statements” (2) and the “Overhead Schedule” which are shown on pages 48-53. Refer to the payroll worksheets which are shown on pages 32-33.

The “Production Payroll” in the “Profit and Loss Statement” appears to be different from the “Production Payroll” in the “Overhead Schedule.” Quite simply, the “Profit and Loss Statement” does not need to calculate the various classifications of payroll, because it is calculating, by definition, “Profit and Loss.” Therefore in the “Profit and Loss Statement” all of the categories of payroll are sub-accounts to the master account “Payroll - Production.”

The basic of fibre of the “Overhead Schedule” is to isolate the categories of labor. “Payroll - Production” is specifically for payroll paid to production employees for the performance of their productive tasks. These are the tasks for which you can generate sales. “Straight time,” “Time and Half” and “Double Time” are included. “Sick Leave Pay,” “Holiday Pay,” “Jury Duty Pay,” and “Bereavement Pay” are isolated and calculated against “Payroll - Production.” This is the basic thesis which creates an accurate method of determining the hourly cost of production payroll.

As you study the “Overhead Schedule” you will wonder why specific percentages applied to various categories are higher than the designated percentage.

The actual F.I.C.A. rate of 6.2% based on the first \$62,700 (1996) of wages to an employee shows up as 2.17% on the “Profit and Loss Statement” and as 11.69% on the “Overhead Schedule.” (\$65,400 in 1997)

The payroll has correctly calculated the amount of F.I.C.A. for both the employee and the employer. The amount of the employer’s F.I.C.A. Expense has been integrated to the General Ledger. The calculation performed in the “Profit and Loss Statement” has divided the F.I.C.A. Expense, \$39,721.20, by “Net Sales” of \$1,883,556.85. The 2.17% result is a function of the relationship of the F.I.C.A. Expense to “Net Sales.”

The F.I.C.A. Expense when calculated against “Payroll - Production” in the “Overhead Schedule” shows the relationship of F.I.C.A. Expense to the payroll you expended for production only. Remember, it has been calculated on “Straight Time,” “Time and Half,” “Double Time,” “Sick Leave Pay,” “Holiday Pay,” “Jury Duty Pay,” and “Bereavement Pay.” Also remember, that it has been calculated on “Payroll - Clerical,” “Payroll - Sales” and “Payroll - Officers.”

The result shows that you must calculate 11.69% over the cost per hour of each production employee’s hourly rate.

This concept repeats itself in other categories. It is the concept that assures accurate determination of cost per hour of each production employee.

The accounts for “Sales,” “Interest Income,” and “Purchases” in the “Profit and Loss Statement” also are “Master Accounts.” As discussed previously, there should be many categories which post to their master.

An auxiliary "Profit and Loss Statement" should be established in the which uses no sub-accounts. This is for internal office use only. It will provide an easy way to extrapolate figures without going to the Trial Balance.

You will want to know in what areas your sales are vested, the breakdown between purchases of materials and "purchases" to subcontractors as well as where income interest is generated.

U.R. SMART COMPANY, INC.

**PROFIT AND LOSS STATEMENT
PERIOD: 12/1/88 TO 12/31/88**

	CURRENT PERIOD		YEAR TO DATE		LAST YEAR		LAST YEAR YEAR TO DATE
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO	
INCOME							
SALES	\$182,242.22	99.99%	\$1,882,143.24	99.92%	\$148,436.92	41.36%	\$1,781,243.24
JOINT VENTURE REVENUES	\$0.00	0.00%	\$0.00	0.00%	\$185,000.00	51.54%	\$0.00
INTEREST INCOME	\$16.35	0.01%	\$1,423.61	0.08%	\$487.54	0.14%	\$2,333.37
OTHER INCOME	\$0.00	0.00%	\$0.00	0.00%	\$25,000.00	6.97%	\$25,000.00
NET SALES	\$182,258.57	100.00%	\$1,883,566.85	100.00%	\$358,924.46	100.00%	\$1,808,576.61
COST OF GOODS SOLD							
PURCHASES	\$53,273.57	29.23%	\$376,530.73	19.99%	\$19,265.24	5.37%	\$141,099.36
PAYROLL - PRODUCTION	\$34,641.00	19.01%	\$415,693.25	22.07%	\$28,281.03	7.88%	\$378,232.82
PAYROLL - OFFICE ADMINISTRATION	\$3,965.50	2.18%	\$47,586.00	2.53%	\$3,852.00	1.07%	\$46,242.21
PAYROLL - SALES	\$2,335.52	1.28%	\$28,026.00	1.49%	\$2,101.25	0.59%	\$27,765.22
F.I.C.A. EXPENSE (EMPLOYER)	\$3,956.53	2.17%	\$39,721.20	2.11%	\$2,527.67	0.70%	\$37,161.36
S.U.I. TAX EXPENSE	\$31.66	0.02%	\$3,383.71	0.18%	\$26.85	0.01%	\$2,664.41
F.U.I. TAX EXPENSE	\$14.09	0.01%	\$1,249.85	0.07%	\$11.76	0.00%	\$1,184.18
UNION BENEFITS EXPENSE	\$20,715.84	11.37%	\$208,603.46	11.07%	\$14,776.57	4.12%	\$206,379.69
SHOP SUPPLIES	\$1,704.19	0.94%	\$25,467.60	1.35%	\$1,716.18	0.48%	\$30,844.77
TOTAL: COST OF GOODS SOLD	\$120,637.90	66.19%	\$1,146,261.80	60.86%	\$72,558.55	20.22%	\$871,574.02
GROSS PROFIT	\$61,620.67	33.81%	\$737,305.05	39.14%	\$286,365.91	79.78%	\$937,002.59
OPERATING EXPENSES							
PAYROLL - OFFICERS	\$14,704.00	8.07%	\$174,521.60	9.27%	\$18,904.00	5.27%	\$211,681.60
RENT / OCCUPANCY TAX	\$0.00	0.00%	\$740.16	0.04%	\$370.08	0.10%	\$1,572.84
ADVERTISING EXPENSE	\$1,712.41	0.94%	\$6,849.64	0.36%	\$0.00	0.00%	\$3,567.84
AUTOMOTIVE EXPENSE	\$1,828.33	1.00%	\$13,378.40	0.71%	\$734.03	0.20%	\$14,036.00

BANK CHARGES	\$0.00	0.00%	\$394.55	0.02%	\$0.00	0.00%	\$65.13	0.00%
BUILDING MAINTENANCE	\$628.20	0.34%	\$3,141.68	0.17%	\$1,443.96	0.40%	\$5,266.11	0.29%
BUILDING SECURITY EXPENSE	\$900.90	0.49%	\$3,165.71	0.17%	\$446.80	0.12%	\$3,532.00	0.20%
CASUALTY LOSS EXPENSE	\$0.00	0.00%	\$5.86	0.00%	\$0.00	0.00%	\$474.40	0.03%
COMMISSIONS	\$2,400.00	1.32%	\$34,400.00	1.83%	\$0.00	0.00%	\$0.00	0.00%
DEPRECIATION EXPENSE	\$5,165.00	2.83%	\$61,991.79	3.29%	\$(3,600.00)	-1.00%	\$20,600.00	1.14%
EMPLOYEE BENEFITS (MISC)	\$1,000.00	0.55%	\$3,654.43	0.19%	\$240.21	0.07%	\$2,429.37	0.13%
EQUIPMENT LEASE - AUTOMOTIVE	\$2,677.66	1.47%	\$18,514.17	0.98%	\$1,080.40	0.30%	\$13,050.81	0.72%
COMPUTER MAINTENANCE	\$344.28	0.19%	\$1,279.36	0.07%	\$0.00	0.00%	\$344.29	0.02%
EQUIPMENT MAINTENANCE	\$0.00	0.00%	\$2,044.23	0.11%	\$0.00	0.00%	\$6,997.84	0.39%
INSURANCE EXPENSE	\$7,368.00	4.04%	\$88,423.05	4.69%	\$18,283.88	5.09%	\$76,518.60	4.23%
INTEREST EXPENSE	\$780.43	0.43%	\$9,365.25	0.50%	\$3,849.57	1.07%	\$7,185.58	0.40%
PENALTY EXPENSE (NON DEDUCT)	\$0.00	0.00%	\$717.87	0.04%	\$1,236.98	0.34%	\$1,325.68	0.07%
PHOTOGRAPHIC EXPENSE	\$81.03	0.04%	\$1,491.46	0.08%	\$15.04	0.00%	\$1,817.03	0.10%
LIGHT, HEAT & POWER	\$1,822.51	1.01%	\$16,845.36	0.89%	\$2,867.32	0.80%	\$18,314.60	1.01%
MEDICAL PLAN EXPENSE	\$848.05	0.47%	\$16,573.62	0.88%	\$558.51	0.16%	\$14,252.23	0.79%
SUSCRIPTIONS EXPENSE	\$40.00	0.02%	\$144.40	0.01%	\$5.28	0.00%	\$481.67	0.03%
OFFICE SUPPLIES EXPENSE	\$599.25	0.33%	\$11,148.62	0.59%	\$675.82	0.19%	\$6,777.78	0.37%
POSTAGE EXPENSE	\$10.00	0.01%	\$841.13	0.04%	\$73.07	0.02%	\$794.51	0.04%
PERMITS & FEES	\$0.00	0.00%	\$320.00	0.02%	\$0.00	0.00%	\$385.00	0.02%
PROFESSIONAL FEES - ACCOUNTING	\$0.00	0.00%	\$1,980.00	0.11%	\$0.00	0.00%	\$8,600.00	0.48%
PROFESSIONAL FEES - LEGAL	\$0.00	0.00%	\$(700.00)	-0.04%	\$700.00	0.20%	\$2,000.00	0.11%
PROFESSIONAL FEES - ARCHITECTURAL	\$0.00	0.00%	\$0.00	0.00%	\$30,340.00	8.45%	\$31,615.00	1.75%
RENT	\$5,000.00	2.74%	\$33,850.00	1.80%	\$2,570.00	0.72%	\$30,840.00	1.71%
SHIPPING EXPENSE	\$356.00	0.20%	\$1,959.56	0.10%	\$258.85	0.07%	\$1,598.60	0.09%
TELEPHONE EXPENSE	\$1,007.26	0.55%	\$7,473.89	0.40%	\$1,231.46	0.34%	\$7,800.24	0.43%
TIPS, GIFTS & DONATIONS	\$1,571.21	0.86%	\$1,971.54	0.10%	\$1,129.49	0.31%	\$2,646.16	0.15%
TRAVEL & ENTERTAINMENT	\$1,394.25	0.76%	\$12,352.01	0.66%	\$1,011.73	0.28%	\$15,645.17	0.87%
TRANSPORTATION TO JOBS	\$2,061.44	1.13%	\$14,629.96	0.78%	\$1,046.65	0.29%	\$6,793.09	0.38%
TOTAL: OPERATING EXPENSES	\$54,300.21	29.79%	\$543,469.30	28.85%	\$85,473.13	23.81%	\$519,009.17	28.70%
NET INCOME:	\$7,320.46	4.02%	\$193,835.75	10.29%	\$200,892.78	55.97%	\$417,993.42	23.11%

U.R. SMART COMPANY, INC.

OVERHEAD SCHEDULE (INCLUDING OFFICERS)

PERIOD: 12/1/XX TO 12/31/XX

	CURRENT PERIOD		YEAR TO DATE		LAST YEAR		LAST YEAR	
	AMOUNT	RATIO	AMOUNT	RATIO	SAME PERIOD	PERIOD	YEAR TO DATE	YEAR TO DATE
PAYROLL - PRODUCTION	\$28,347.93	100.00%	\$339,799.86	100.00%	\$28,281.03	100.00%	\$378,232.82	100.00%
UNION BENEFITS EXPENSE	\$20,715.84	73.08%	\$208,603.46	61.39%	\$14,776.57	52.25%	\$206,379.69	54.56%
PAYROLL - OFFICE ADMINISTRATION	\$3,965.50	13.99%	\$47,586.00	14.00%	\$3,852.00	13.62%	\$46,242.21	12.23%
PAYROLL - SALES	\$2,335.52	8.24%	\$28,026.00	8.25%	\$2,101.25	7.43%	\$27,765.22	7.34%
PAYROLL - VACATION	\$0.00	0.00%	\$38,238.86	11.25%	\$0.00	0.00%	\$36,424.80	9.63%
PAYROLL - HOLIDAY	\$4,628.82	16.33%	\$23,144.00	6.81%	\$0.00	0.00%	\$22,124.45	5.85%
PAYROLL - SICK PAY	\$1,664.25	5.87%	\$10,610.53	3.12%	\$0.00	0.00%	\$10,425.45	2.76%
PAYROLL - JURY & BEREAVEMENT	\$0.00	0.00%	\$3,900.00	1.15%	\$0.00	0.00%	\$3,400.00	0.90%
F.I.C.A. EXPENSE (EMPLOYER)	\$3,956.53	13.96%	\$39,721.20	11.69%	\$2,527.67	8.94%	\$37,161.36	9.82%
S.U.I. TAX EXPENSE	\$31.66	0.11%	\$3,383.71	1.00%	\$26.85	0.09%	\$2,664.41	0.70%
F.U.I. TAX EXPENSE	\$14.09	0.05%	\$1,249.85	0.37%	\$11.76	0.04%	\$1,184.18	0.31%
SHOP SUPPLIES	\$1,704.19	6.01%	\$25,467.60	7.49%	\$1,716.18	6.07%	\$30,844.77	8.15%
PAYROLL - OFFICERS	\$14,704.00	51.87%	\$174,521.60	51.36%	\$18,904.00	66.84%	\$211,681.60	55.97%
RENT / OCCUPANCY TAX	\$0.00	0.00%	\$740.16	0.22%	\$370.08	1.31%	\$1,572.84	0.42%
ADVERTISING EXPENSE	\$1,712.41	6.04%	\$6,849.64	2.02%	\$0.00	0.00%	\$3,567.84	0.94%
AUTOMOTIVE EXPENSE	\$1,828.33	6.45%	\$13,378.40	3.94%	\$734.03	2.60%	\$14,036.00	3.71%
BANK CHARGES	\$0.00	0.00%	\$394.55	0.12%	\$0.00	0.00%	\$65.13	0.02%
BUILDING MAINTENANCE	\$628.20	2.22%	\$3,141.68	0.92%	\$1,443.96	5.11%	\$5,266.11	1.39%
BUILDING SECURITY EXPENSE	\$900.90	3.18%	\$3,165.71	0.93%	\$446.80	1.58%	\$3,532.00	0.93%
CASUALTY LOSS EXPENSE	\$0.00	0.00%	\$5.86	0.00%	\$0.00	0.00%	\$474.40	0.13%
COMMISSIONS	\$2,400.00	8.47%	\$34,400.00	10.12%	\$0.00	0.00%	\$0.00	0.00%
DEPRECIATION EXPENSE	\$5,165.00	18.22%	\$61,991.79	18.24%	\$(3,600.00)	-12.73%	\$20,600.00	5.45%
EMPLOYEE BENEFITS (MISC)	\$1,000.00	3.53%	\$3,654.43	1.08%	\$240.21	0.85%	\$2,429.37	0.64%
EQUIPMENT LEASE - AUTOMOTIVE	\$2,677.66	9.45%	\$18,514.17	5.45%	\$1,080.40	3.82%	\$13,050.81	3.45%

COMPUTER MAINTENANCE	\$344.28	1.21%	\$1,279.36	0.38%	\$0.00	0.00%	\$344.29	0.09%
EQUIPMENT MAINTENANCE	\$0.00	0.00%	\$2,044.23	0.60%	\$0.00	0.00%	\$6,997.84	1.85%
INSURANCE EXPENSE - GENERAL	\$5,212.00	18.39%	\$62,574.41	18.42%	\$18,283.88	64.65%	\$53,094.48	14.04%
INSURANCE EXPENSE - WORK COMP	\$2,154.05	7.60%	\$25,848.64	7.61%	\$1,952.01	6.90%	\$23,424.12	6.19%
INTEREST EXPENSE	\$780.43	2.75%	\$9,365.25	2.76%	\$3,849.57	13.61%	\$7,185.58	1.90%
PENALTY EXPENSE (NON DEDUCT)	\$0.00	0.00%	\$717.87	0.21%	\$1,236.98	4.37%	\$1,325.68	0.35%
PHOTOGRAPHIC EXPENSE	\$81.03	0.29%	\$1,491.46	0.44%	\$15.04	0.05%	\$1,817.03	0.48%
LIGHT, HEAT & POWER	\$1,822.51	6.43%	\$16,845.36	4.96%	\$2,867.32	10.14%	\$18,314.60	4.84%
MEDICAL PLAN EXPENSE	\$848.05	2.99%	\$16,573.62	4.88%	\$558.51	1.97%	\$14,252.23	3.77%
SUSCRIPTIONS EXPENSE	\$40.00	0.14%	\$144.40	0.04%	\$5.28	0.02%	\$481.67	0.13%
OFFICE SUPPLIES EXPENSE	\$599.25	2.11%	\$11,148.62	3.28%	\$675.82	2.39%	\$6,777.78	1.79%
POSTAGE EXPENSE	\$10.00	0.04%	\$841.13	0.25%	\$73.07	0.26%	\$794.51	0.21%
PERMITS & FEES	\$0.00	0.00%	\$320.00	0.09%	\$0.00	0.00%	\$385.00	0.10%
PROFESSIONAL FEES - ACCOUNTING	\$0.00	0.00%	\$1,980.00	0.58%	\$0.00	0.00%	\$8,600.00	2.27%
PROFESSIONAL FEES - LEGAL	\$0.00	0.00%	\$(700.00)	-0.21%	\$700.00	2.48%	\$2,000.00	0.53%
PROFESSIONAL FEES - ARCHITECTURAL	\$0.00	0.00%	\$0.00	0.00%	\$30,340.00	107.28%	\$31,615.00	8.36%
RENT	\$5,000.00	17.64%	\$33,850.00	9.96%	\$2,570.00	9.09%	\$30,840.00	8.15%
SHIPPING EXPENSE	\$356.00	1.26%	\$1,959.56	0.58%	\$258.85	0.92%	\$1,598.60	0.42%
TELEPHONE EXPENSE	\$1,007.26	3.55%	\$7,473.89	2.20%	\$1,231.46	4.35%	\$7,800.24	2.06%
TIPS, GIFTS & DONATIONS	\$1,571.21	5.54%	\$1,971.54	0.58%	\$1,129.49	3.99%	\$2,646.16	0.70%
TRAVEL & ENTERTAINMENT	\$1,394.25	4.92%	\$12,352.01	3.64%	\$1,011.73	3.58%	\$15,645.17	4.14%
TRANSPORTATION TO JOBS	\$2,061.44	7.27%	\$14,629.96	4.31%	\$1,046.65	3.70%	\$6,793.09	1.80%
TOTAL: OVERHEAD EXPENSES	\$93,314.66		\$973,400.51		\$110,485.41		\$943,625.71	
TOTAL: OVERHEAD PERCENTAGE OF PRODUCTION PAYROLL		329.18%		286.46%		397.57%		249.48%

U.R. SMART COMPANY, INC.

OVERHEAD SCHEDULE (EXCLUDING OFFICERS)

PERIOD: 12/1/XX TO 12/31/XX

	CURRENT PERIOD		YEAR TO DATE		LAST YEAR		LAST YEAR	
	AMOUNT	RATIO	AMOUNT	RATIO	SAME PERIOD	RATIO	YEAR TO DATE	YEAR TO DATE
PAYROLL - PRODUCTION	\$28,347.93	100.00%	\$339,799.86	100.00%	\$28,281.03	100.00%	\$378,232.82	100.00%
UNION BENEFITS EXPENSE	\$20,715.84	73.08%	\$208,603.46	61.39%	\$14,776.57	52.25%	\$206,379.69	54.56%
PAYROLL - OFFICE ADMINISTRATION	\$3,965.50	13.99%	\$47,586.00	14.00%	\$3,852.00	13.62%	\$46,242.21	12.23%
PAYROLL - SALES	\$2,335.52	8.24%	\$28,026.00	8.25%	\$2,101.25	7.43%	\$27,765.22	7.34%
PAYROLL - VACATION	\$0.00	0.00%	\$38,238.86	11.25%	\$0.00	0.00%	\$36,424.80	9.63%
PAYROLL- HOLIDAY	\$4,628.82	16.33%	\$23,144.00	6.81%	\$0.00	0.00%	\$22,124.45	5.85%
PAYROLL - SICK PAY	\$1,664.25	5.87%	\$10,610.53	3.12%	\$0.00	0.00%	\$10,425.45	2.76%
PAYROLL - JURY & BEREAVEMENT	\$0.00	0.00%	\$3,900.00	1.15%	\$0.00	0.00%	\$3,400.00	0.90%
F.I.C.A. EXPENSE (EMPLOYER)	\$3,956.53	13.96%	\$39,721.20	11.69%	\$2,527.67	8.94%	\$37,161.36	9.82%
S.U.I. TAX EXPENSE	\$31.66	0.11%	\$3,383.71	1.00%	\$26.85	0.09%	\$2,664.41	0.70%
F.U.I. TAX EXPENSE	\$14.09	0.05%	\$1,249.85	0.37%	\$11.76	0.04%	\$1,184.18	0.31%
SHOP SUPPLIES	\$1,704.19	6.01%	\$25,467.60	7.49%	\$1,716.18	6.07%	\$30,844.77	8.15%
PAYROLL - OFFICERS	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%	\$0.00	0.00%
RENT / OCCUPANCY TAX	\$0.00	0.00%	\$740.16	0.22%	\$370.08	1.31%	\$1,572.84	0.42%
ADVERTISING EXPENSE	\$1,712.41	6.04%	\$6,849.64	2.02%	\$0.00	0.00%	\$3,567.84	0.94%
AUTOMOTIVE EXPENSE	\$1,828.33	6.45%	\$13,378.40	3.94%	\$734.03	2.60%	\$14,036.00	3.71%
BANK CHARGES	\$0.00	0.00%	\$394.55	0.12%	\$0.00	0.00%	\$65.13	0.02%
BUILDING MAINTENANCE	\$628.20	2.22%	\$3,141.68	0.92%	\$1,443.96	5.11%	\$5,266.11	1.39%
BUILDING SECURITY EXPENSE	\$900.90	3.18%	\$3,165.71	0.93%	\$446.80	1.58%	\$3,532.00	0.93%
CASUALTY LOSS EXPENSE	\$0.00	0.00%	\$5.86	0.00%	\$0.00	0.00%	\$474.40	0.13%
COMMISSIONS	\$2,400.00	8.47%	\$34,400.00	10.12%	\$0.00	0.00%	\$0.00	0.00%
DEPRECIATION EXPENSE	\$5,165.00	18.22%	\$61,991.79	18.24%	\$(3,600.00)	-12.73%	\$20,600.00	5.45%
EMPLOYEE BENEFITS (MISC)	\$1,000.00	3.53%	\$3,654.43	1.08%	\$240.21	0.85%	\$2,429.37	0.64%
EQUIPMENT LEASE - AUTOMOTIVE	\$2,677.66	9.45%	\$18,514.17	5.45%	\$1,080.40	3.82%	\$13,050.81	3.45%

COMPUTER MAINTENANCE	\$344.28	1.21%	\$1,279.36	0.38%	\$0.00	0.00%	\$344.29	0.09%
EQUIPMENT MAINTENANCE	\$0.00	0.00%	\$2,044.23	0.60%	\$0.00	0.00%	\$6,997.84	1.85%
INSURANCE EXPENSE - GENERAL	\$5,212.00	18.39%	\$62,574.41	18.42%	\$18,283.88	64.65%	\$53,094.48	14.04%
INSURANCE EXPENSE - WORK COMP	\$2,154.05	7.60%	\$25,848.64	7.61%	\$1,952.01	6.90%	\$23,424.12	6.19%
INTEREST EXPENSE	\$780.43	2.75%	\$9,365.25	2.76%	\$3,849.57	13.61%	\$7,185.58	1.90%
PENALTY EXPENSE (NON DEDUCT)	\$0.00	0.00%	\$717.87	0.21%	\$1,236.98	4.37%	\$1,325.68	0.35%
PHOTOGRAPHIC EXPENSE	\$81.03	0.29%	\$1,491.46	0.44%	\$15.04	0.05%	\$1,817.03	0.48%
LIGHT, HEAT & POWER	\$1,822.51	6.43%	\$16,845.36	4.96%	\$2,867.32	10.14%	\$18,314.60	4.84%
MEDICAL PLAN EXPENSE	\$848.05	2.99%	\$16,573.62	4.88%	\$558.51	1.97%	\$14,252.23	3.77%
SUSCRIPTIONS EXPENSE	\$40.00	0.14%	\$144.40	0.04%	\$5.28	0.02%	\$481.67	0.13%
OFFICE SUPPLIES EXPENSE	\$599.25	2.11%	\$11,148.62	3.28%	\$675.82	2.39%	\$6,777.78	1.79%
POSTAGE EXPENSE	\$10.00	0.04%	\$841.13	0.25%	\$73.07	0.26%	\$794.51	0.21%
PERMITS & FEES	\$0.00	0.00%	\$320.00	0.09%	\$0.00	0.00%	\$385.00	0.10%
PROFESSIONAL FEES - ACCOUNTING	\$0.00	0.00%	\$1,980.00	0.58%	\$0.00	0.00%	\$8,600.00	2.27%
PROFESSIONAL FEES - LEGAL	\$0.00	0.00%	\$(700.00)	-0.21%	\$700.00	2.48%	\$2,000.00	0.53%
PROFESSIONAL FEES - ARCHITECTURAL	\$0.00	0.00%	\$0.00	0.00%	\$30,340.00	107.28%	\$31,615.00	8.36%
RENT	\$5,000.00	17.64%	\$33,850.00	9.96%	\$2,570.00	9.09%	\$30,840.00	8.15%
SHIPPING EXPENSE	\$356.00	1.26%	\$1,959.56	0.58%	\$258.85	0.92%	\$1,598.60	0.42%
TELEPHONE EXPENSE	\$1,007.26	3.55%	\$7,473.89	2.20%	\$1,231.46	4.35%	\$7,800.24	2.06%
TIPS, GIFTS & DONATIONS	\$1,571.21	5.54%	\$1,971.54	0.58%	\$1,129.49	3.99%	\$2,646.16	0.70%
TRAVEL & ENTERTAINMENT	\$1,394.25	4.92%	\$12,352.01	3.64%	\$1,011.73	3.58%	\$15,645.17	4.14%
TRANSPORTATION TO JOBS	\$2,061.44	7.27%	\$14,629.96	4.31%	\$1,046.65	3.70%	\$6,793.09	1.80%
TOTAL: OVERHEAD EXPENSES	\$78,610.66		\$798,878.91		\$93,533.42		\$731,944.11	
TOTAL: OVERHEAD PERCENTAGE OF PRODUCTION PAYROLL		277.31%		235.10%		330.73%		193.52%

We have precisely determined the amount of our total overhead or “burden.” “Overhead” can mean different things to different people, however, “burden” is always understood. The only disallowable category in the “burden” is “Officers’ Salaries.” Study the differences between the two “Overhead Schedules” which are shown. One includes “Payroll-Officers;” one does not.

We will use this “golden” number to arrive at the cost per hour of production payroll, *including* “Officers’ Salaries.”

Schedule of Production Employees

Aaron, G	\$16.77	Black, S	\$16.77	Carpenter, A	\$22.25
Caster, R	\$16.77	Cone, R	\$16.77	Cooke, W	\$16.77
Flyer, A	\$16.77	George, W	\$16.77	Gonzalez, J	\$16.77
Gordon, S	\$16.77	Herbert, W	\$26.35	Hirt, A	\$16.77
James, S	\$22.25	Jones, R	\$16.77	Kaplan, P	\$16.77
Kennedy, J	\$16.77	Lawless, J	\$16.77	Miller, H	\$16.77
Outlaw, R	\$16.77				
Total:	Production Employees		19		
Aggregate:	Cost Per Production Hour		\$339.17		
Average:	Cost Per Production Hour		\$17.85		
Total:	Overhead (Burden)		286.46%		
Total:	Hourly Cost of Production Payroll			\$51.14	
	Profit Allowance			15%	
Hourly Billing Rate:	(286.46% * \$51.14)			\$58.81	

We will now apply the same format which we implemented previously. Here we will determine the hourly cost of production with “Officers’ Salaries” excluded.

Following this an “Overhead Schedule” which *excludes* “Officers’ Salaries.”

Schedule of Production Employees

Aaron, G	\$16.77	Black, S	\$16.77	Carpenter, A	\$22.25
Caster, R	\$16.77	Cone, R	\$16.77	Cooke, W	\$16.77
Flyer, A	\$16.77	George, W	\$16.77	Gonzalez, J	\$16.77
Gordon, S	\$16.77	Herbert, W	\$26.35	Hirt, A	\$16.77
James, S	\$22.25	Jones, R	\$16.77	Kaplan, P	\$16.77
Kennedy, J	\$16.77	Lawless, J	\$16.77	Miller, H	\$16.77
Outlaw, R	\$16.77				
Total:	Production Employees		19		
Aggregate:	Cost Per Production Hour		\$339.17		
Average:	Cost Per Production Hour		\$17.85		
Total:	Overhead (Burden)		235.10%		
Total:	Hourly Cost of Production Payroll			\$41.97	
	Profit Allowance			15%	
Hourly Billing Rate:	(235.10% * \$41.97)			\$48.26	

We have determined that our hourly cost to run our business and to pay the officers is \$51.14. Further, we have determined that the hourly cost, excluding officers’ salaries is \$41.97. Imagine that, \$9.17 per hour to satisfy the officers’ salaries.

Realize that in some contracts, officers’ salaries are excluded or limited. The American Institute of Architects’ (AIA) Standard Contract limits that amount to \$25,000. The assumption being that the officers will “cover” their salary from profits. There are many ways to negotiate this. If some of your officers will be performing tasks which are non administrative and specific to this contract, negotiate for a

portion of their salaries or increase your profit allowance.

Paramount here is that you have irrefutable knowledge.

I once negotiated a large restoration contract with a well known museum in the New York City. The commission had to be performed on a “Time and Materials Basis.” I submitted our “Overhead Schedule” for review with “Officers’ Salaries” set to \$25,000.

The museum’s representative and I discussed all facets of our manifest. He came to “Advertising Expense, \$525.00” and quipped, “a company like yours, you don’t advertise.” I smiled and replied “golf balls, every year I get golf balls with the company name and logo.” He interrupted, “everything is okay, but I want a dozen golf balls.”

He allowed the \$25,000 for officers’ salaries and he also honored work which I would perform which was “hands on.” Time I expended for drawing, supervising in either the shop or field was honored. Time expended for purchasing, billing, time keeping, was not honored.

You must respect understand that if you are billing for “Shop Supplies” as a component of your “burden” and indeed, you are, you should not bill for those supplies. Naturally you may bill for speciality items which have a use and a life explicitly for that project.

Mentioned earlier were the benefits which could be derived from your “sister” company. If the parent company owns and operates a piece of special equipment on a “time and materials” or “cost plus” basis, the parent company can not specifically charge for the use of that item. The equipment is being depreciated; depreciation expense is a factor in determining the “hourly billing rate.”

You could however, rent that equipment from an independent contractor and charge your client for the rental plus a markup for profit. Quite ethically, you can charge your client for rental charges from your “sister” company. The rental fee should be commensurate with or less than that which you would pay an independent supplier.

It seems as if every industry has a “trade association.” It also seems as if each “trade association” tries to tell the “trade” what to do and how to do it. Nobody knows your business as well, hopefully, as you do.

Every accountant knows how to determine every cost of payroll and apply that cost to determining an “hourly cost.” Payroll expenses and other defined costs are fine and will help determine “overhead” but they will not determine the “burden.”

The following are examples of information which is distributed by such a trade association. Everything is orderly and academic. “Straight Time,” “Time and Half” and “Double Time” are calculated precisely. All payroll taxes are calculated well, except that they don’t allow for maximum wages paid for Federal and State Unemployment Insurance.

As you review this you will most probably ask, “why is the ‘burden’ set at 125%” and “where did they get those numbers?” Let’s look.

**NATIONAL ASSOCIATION OF WIDGET MANUFACTURERS
NORTHEAST UNITED STATES**

(Burden = 125%)

Straight Time Labor Rate

1	Wages Per Hour	\$17.859	
2	Vacation (10.75% of line 1)	\$1.20	
3	Sub Total	\$19.779	
4	Sick Leave Time (2.28% of line 1)	\$0.407	
5	Total Wages Per Hour	\$20.186	
6	Maintenance & Operation of Plant & Equipment (125% of Line 5)	\$25.233	
7	Insurance [Comp/Pub.Liab/Prop Damage] (19.599% of line 5)	\$3.956	
8	FICA, SUI, FUI (14.71% of line 5)	\$2.969	
9	Welfare Fund (18.00% of line 1)	\$3.215	
10	Pension Fund (16.21% of line 1)	\$2.895	
11	Annuity Fund (2% of line 1 + \$1.35)	\$1.707	
12	Apprentice Training Upgrading Trust Fund (1% of line 1)	\$0.179	
13	Severance Pay Fund (1% of line 1)	\$0.179	
14	Total Cost Per Hour	\$60.519	
15	Overhead - 10%	\$6.052	
16	Sub Total	\$66.570	
17	Profit - 10%	\$6.657	
18	Total Billing Rate For Straight Time Labor		\$73.228

Premium Time at Time and One Half

20	Wages Per Hour	\$8.93
21	Vacation (10.75% of line 20)	\$0.96
22	Sub Total	\$9.89
23	Sick Leave Time (2.28% of line 20)	\$0.204
24	Total Wages Per Hour	\$10.093
25	Loss of Efficiency (10% of line 24)	\$1.009
26	Insurance [Comp/Pub.Liab/Prop Damage] (5.489% of line 24)	\$0.554
27	FICA, SUI, FUI (14.71% of line 24)	\$1.485
28	Welfare Fund (18.00% of line 20)	\$1.607
29	Pension Fund (16.21% of line 20)	\$1.447
30	Annuity Fund (2% of line 1 + \$.675)	\$0.854
31	Apprentice Training Upgrading Trust Fund (1% of line 20)	\$0.089
32	Severance Pay Fund (1% of line 20)	\$0.089
33	Total Cost Per Hour	\$17.228
34	Overhead - 10%	\$1.723
35	Sub Total - Excess Only	\$18.951
36	Cost Per Hour Straight Time	\$73.228

37	Total Billing Rate For Time & One Half Labor		\$92.178
		Premium Time at Double Time	
38	Wages Per Hour		\$17.859
39	Vacation (10.75% of line 38)		\$1.92
40	Sub Total		\$19.779
41	Sick Leave Time (2.28% of line 38)		\$0.407
42	Total Wages Per Hour		\$20.186
43	Loss of Efficiency (10% of line 42)		\$2.019
44	Insurance [Comp/Pub.Liab/Prop Damage] (5.489% of line 42)		\$1.108
45	FICA, SUI, FUI (14.71% of line 42)		\$2.969
46	Welfare Fund (18.00% of line 38)		\$3.215
47	Pension Fund (16.21% of line 38)		\$2.895
48	Annuity Fund (2% of line 1 + \$1.35)		\$1.707
49	Apprentice Training Upgrading Trust Fund (1% of line 38)		\$0.179
50	Severance Pay Fund (1% of line 38)		\$0.179
51	Total Cost Per Hour - Excess Only		\$34.456
52	Overhead - 10%		\$3.446
53	Sub Total - Excess Only		\$37.902
54	Cost Per Hour Straight Time		\$73.228
55	Total Billing Rate For Double Time Labor		\$111.129

The “Association” has determined its wage rate based upon a hierarchal system. One foreman, one sub-foreman, four mechanics and one laborer, for example.

Approximately 20% has been calculated to allow for paid holidays, bereavement pay, jury duty pay, compensation hearings, rest and washup periods.

The “Maintenance and Operation of Plant and Equipment” is comprised of all shop supplies, all miscellaneous employee benefits, janitorial supplies, hygienic supplies, first aid supplies, hand tools, machinery repairs and depreciation, lockers, etc. How does anyone know that these elements really relate to 125%. The answer is obvious, no one does.

Rather curiously, I backed into a number for this format by extrapolating the number which we generated from own “Overhead Schedule.” The 125% number when modified to be between 55% and 65% works. Nonetheless, it is inexact!

You are in a power strong position by knowing your costs. That is amplified by knowing how your competitors are figuring their costs.

The calculations for different “Premium Times” are very important. They demonstrate the simple thesis that though the employees are paid more per hour; an hour is still an hour. Rent, telephone, light, heat, power, et cetera, still have to apportioned to that hour. In other words, all of the expenses are borne in the “first” hour.

The following “Association” format has been amended to calculate the “burden” at 65%. The wage rate has been calculated from the Employee Register found on page 52.

**NATIONAL ASSOCIATION OF WIDGET MANUFACTURES
NORTHEAST UNITED STATES**

(Burden = 65%)

Straight Time Labor Rate

1	Wages Per Hour	\$17.859	
2	Vacation (10.75% of line 1)	\$1.92	
3	Sub Total	\$19.779	
4	Sick Leave Time (2.28% of line 1)	\$0.407	
5	Total Wages Per Hour	\$20.186	
6	Maintenance & Operation of Plant & Equipment (65% of Line 5)	\$13.121	
7	Insurance [Comp/Pub.Liab/Prop Damage] (19.599% of line 5)	\$3.956	
8	FICA, SUI, FUI (14.71% of line 5)	\$2.969	
9	Welfare Fund (18.00% of line 1)	\$3.215	
10	Pension Fund (16.21% of line 1)	\$2.895	
11	Annuity Fund (2% of line 1 + \$1.35))	\$1.707	
12	Apprentice Training Upgrading Trust Fund (1% of line 1)	\$0.179	
13	Severance Pay Fund (1% of line 1)	\$0.179	
14	Total Cost Per Hour	\$48.407	
15	Overhead - 10%	\$4.841	
16	Sub Total	\$53.248	
17	Profit - 10%	\$5.325	
18	Total Billing Rate For Straight Time Labor		\$58.572

Premium Time at Time and One Half

20	Wages Per Hour	\$8.93	
21	Vacation (10.75% of line 20)	\$0.96	
22	Sub Total	\$9.89	
23	Sick Leave Time (2.28% of line 20)	\$0.204	
24	Total Wages Per Hour	\$10.093	
25	Loss of Efficiency (10% of line 24)	\$1.009	
26	Insurance [Comp/Pub.Liab/Prop Damage] (5.489% of line 24)	\$0.554	
27	FICA, SUI, FUI (14.71% of line 24)	\$1.485	
28	Welfare Fund (18.00% of line 20)	\$1.607	
29	Pension Fund (16.21% of line 20)	\$1.447	
30	Annuity Fund (2% of line 1 + \$.675)	\$0.854	
31	Apprentice Training Upgrading Trust Fund (1% of line 20)	\$0.089	
32	Severance Pay Fund (1% of line 20)	\$0.089	
33	Total Cost Per Hour	\$17.228	
34	Overhead - 10%	\$1.723	
35	Sub Total - Excess Only	\$18.951	
36	Cost Per Hour Straight Time	\$58.572	
37	Total Billing Rate For Time & One Half Labor		\$77.523

Premium Time at Double Time

38	Wages Per Hour	\$17.859	
39	Vacation (10.75% of line 38)	\$1.92	
40	Sub Total	\$19.779	
41	Sick Leave Time (2.28% of line 38)	\$0.407	
42	Total Wages Per Hour	\$20.186	
43	Loss of Efficiency (10% of line 42)	\$2.019	
44	Insurance [Comp/Pub.Liab/Prop Damage] (5.489% of line 42)	\$1.108	
45	FICA, SUI, FUI (14.71% of line 42)	\$2.969	
46	Welfare Fund (18.00% of line 38)	\$3.215	
47	Pension Fund (16.21% of line 38)	\$2.895	
48	Annuity Fund (2% of line 1 + \$1.35)	\$1.707	
49	Apprentice Training Upgrading Trust Fund (1% of line 38)	\$0.179	
50	Severance Pay Fund (1% of line 38)	\$0.179	
51	Total Cost Per Hour - Excess Only	\$34.456	
52	Overhead - 10%	\$3.446	
53	Sub Total - Excess Only	\$37.902	
54	Cost Per Hour Straight Time	\$58.572	
55	Total Billing Rate For Double Time Labor		\$96.474

We have prepared a method of accurately and flawlessly determining our cost, per hour, for manufacturing a product or tendering a service. We have compared our method with a method which is basically accepted on a “cost accounting method.”

We have determined that the average cost per hour for our nineteen production employees is \$17.85.

We have determined that the hourly cost of production, excluding “Officers’ Salaries” is \$41.97, based upon a “burden” of 235%.

We have determined that the hourly cost of production, including “Officers’ Salaries” is \$51.14, based upon a “burden” of 286%.

We have been shown a method of determining costs which are supposed to be similar to ours that produces a cost per hour of \$60.52. We have made a noble attempt at modesty by recalculating this “similar” method. We changed the arbitrary allocation to “burden” of 125% to 65%. Nonetheless, even at 65% the cost only turns into \$48.41. That is still \$6.44 per hour higher than our rate calculated with officers’ salaries excluded.

Very curious, we have not guessed or estimated. We have used the information which resides in our records. We know that we are right. You can be sure that the *real* industry standard lies somewhere between a calculation of 55% to 65%. If your cost is less than that, you are in the driver’s seat.

Do not read any attempt to suggest unethical behavior on the part of any party. These associations provide a good and useful service. They are not issuing a mandate. The knowledge that they impart is just that, “knowledge.”

The specimens which have been depicted are based upon nineteen produc-

tion employees, four clerical employees, two sales employees and three executives. We have determined the hourly billing rate, including officer's salaries and a 15% profit to be \$58.81.

The officers were paid approximately \$175,000 and the corporation had a profit of approximately \$194,000.

Would more production employees increase the profit; would fewer employees reduce the profit? The answers to both are, "yes, but." First blush reveals that if you increased to twenty four production employees, the hourly cost would decrease by approximately 20%. All of the "burden" expenses have remained constant. All salaries have remained constant and the plethora of expenses ranging from "Advertising" to "Travel and Entertainment" have not budged. Theoretically, you have increased your profit by approximately \$39,000.

One of the basic theorems of "Management 101" is the relationship of supervisory personnel to production personnel. Here all of the text book logic is faithfully correct. Basically, "Management 101" states that for every eight workers, one supervisor is required. That ratio, depending upon the idiosyncrasies of the workplace may be 6:1.

The addition of a supervisory employee may obviate the profit. The addition of those employees without additional supervision may overburden your staff and yourself.

Added to the statement, "if you stand still, you go backwards," is the phrase, "grow wild, grow weak," or "if it ain't broke, don't fix it."

You just had year where the corporation made a healthy profit and the officer's were paid well. Bonuses could be issued and, as will be discussed later, contribu-

tions could be made to profit sharing and pension plans. Why take a chance.

The answer is different for everyone, but seemingly, everyone wants to get bigger. Get bigger grudgingly, get bigger with caution, don't let the "tiger have you by the tail." Grow as your market grows.

As you grow, the "Overhead Schedules" which you generate will answer these cost questions for you.

CHAPTER 6
GENERAL INSURANCE

Every company needs insurance, save for those giants who are able and find it economically beneficial to be self insurers. If you are reading this book, you probably need insurance. You truly have everything to lose and nothing to gain by not having adequate insurance.

You must understand the concept of “coinsurance” when obtaining your insurance. Basically “coinsurance” says that you are responsible for that percentage of a loss for which the policy identifies you as a “coinsurer.” You must have adequate coverage or by default, the understated amount of coverage limits will be applied to your “coinsurer” status. In other words, not having the proper insurance coverage is tantamount to having no insurance.

Your comprehensive and general liability premiums can either be based on your payroll or your sales. You must analyze the ramifications of each method.

If your company purchases materials used in the manufacturing of a product, reselling those materials with a high profit, you may choose to have the premium based on payroll. Obviously, if based on sales, you are paying premiums based on goods manufactured by others but upon which you make a profit.

Conversely, if your business is labor intensive and purchases are less than 25% of the sale, you may be wise to opt for the premium calculation to based upon payroll. Information is easily available to determine the ratio of purchases to sales, use it.

Discuss this with your insurance agent, advising him that if you choose the payroll basis, that the premium must be calculated on the production payroll, not on

the gross payroll. You don't want to pay premiums which are based, in part, on "Officers' salaries."

Premiums which are based on "Sales" may often times be calculated on "Gross Receipts." The "Income" section of the "Profit and Loss Statement" gathers income from all sales as well as "interest income" and "other income."

Once again, it is your responsibility to define these categories properly. If you show an auditor the aggregate figure for the generic category "Net Sales" he or she will assume "Sales" and calculate premium on additional income which is not directly related to your business.

You need no satellite routines here. Proper identification of "Interest Income," "Other Income," et cetera will suffice.

Most carriers will allow you to switch methods but will insist that you remain with one method for a prescribed period of time. Some carriers will disallow this choice of methods depending upon the product or service in which your company is engaged.

General Contractors have a little advantage. The first rule is very important. You must have "Certificates of Insurance" from each company with whom you have conducted business. Essentially this means that your carrier can and will subrogate with that company in the event of a loss. It assures that two companies are not paying for the same insurance.

Different fields are treated in different ways. An appreciable savings is offered to those who choose to be diligent.

"Completed products" insurance is necessary. As the years go on, the premiums always increase. Logically, each year you are producing more of a product

which must be insured.

There are companies who have changed their corporate name and structure every five years to merely wipe this slate clean. There are no nefarious ways to carry on good business.

You can negotiate with your carrier for a reduction in the premium. Goods which have been in their natural arena for an extended time period can be assumed to free from risk. To the insurance company they are risk free (though they might not admit it) because each product which you have manufactured is subject to wear and tear. There is need for inspection and often for maintenance.

If your customer filed a claim against you for product failure on a five year old product he would have to show his diligence in inspection and / or maintenance.

Their exposure to manufactured elements in the market place decreases with time. Remember, you do not want to exclude these items from your coverage, or else why have any insurance.

You should include a written report, describing what responsibilities are vested in your customer. Define those responsibilities. There is no need to play “hardball” here, you are going on record to protect your customer, the product and yourself. If necessary this report should outline all safety routines and should always call attention to the fact that service or help in any way, is in only a phone call away. Issue multiple copies.

If your manufactured item has moving parts, you should place highly visible labels on your product. Call everyone’s attention to the fact that this equipment needs to inspected and maintained.

Basically, just be logical and be prudent.

Though the insurance company charges premium for annual addition of products, you are realizing that their thesis is arguable. The quantity of exposure may seem to increase, yet normal wear, tear, inspection and maintenance equate to minimize that exposure through the course of time.

Be wise, discuss these issues with your agent. When he knows that you know the real issues he will be accommodating, or else another company will be.

Automotive coverage is straight forward, have sufficient coverage. Make sure that the carrier receives updated information concerning the drivers who drive your vehicles. This information should include: sex, date of birth, age, type of driver's license (with any exceptions), driver's license number and social security number. Also include the approximate driving which is performed by each employee. Make a simple computer routine which can be updated easily.

Some companies feel the need to purchase "Business Interruption Insurance." This type of insurance provides coverage for losses incurred if a cataclysmic event should occur. This coverage will provide funds to meet your payroll and other expenses. You can insure the loss of profit. You must define "profit" and define it precisely! These are ambiguous areas and need definition before you purchase such coverage.

A "umbrella policy" is exactly what the name implies, extended insurance coverage for all risks, put under an, naturally enough, "umbrella."

You should have, you must have an "umbrella policy." Umbrella policies are the best "bargain" that insurance company's issue. Ask your agent, buy it and don't tell anyone.

When and if you have to submit Certificates of Insurance don't include a

certificate which states the amount of the umbrella policy. Tender that only if pressed, it is really not information that the whole world needs to know. We all know that we live in a litigious society, the company with the most insurance coverage will be sought in any litigation. Simply put, don't help them out!

CHAPTER 7

WRAP AROUND INSURANCE

As the name implies, “wrap around” insurance affords the owner of a large commissioned project to use his power of “plenty” to on save expenditures throughout the life of the commission. Whether it is good, is irrelevant, there may be times when you will be called upon to be so engaged with it. Your involvement need not frighten you, must apply your knowledge of your actual costs and depend upon your ability to maintain accurate records.

Usually a “request for proposal” will be tendered with the proviso that the owner is presently studying the feasibility of placing an “insurance wrap around” in effect. This is your warning.

Know that if the “wrap around” policy is instituted you will be requested to amend your proposal. What was your proposal or estimate is now to be a contractual instrument. Use caution.

The owner’s representative will request that you “back out” all of your insurance costs from your estimate. You are armed with knowledge now; you should have no trouble extrapolating the percentile portion of your insurance costs.

That is the simple part. How are you assured that though the owner is insuring a certain portion of your business, that your regular insurance in intact?

You may have multi-tasking employees and now you have multi-job employees, plus those multi-job employees may performing multi-tasking responsibilities. Sounds confusing, well it really is not. It just requires good record keeping.

The General Ledger’s “Chart of Accounts” has provision for multiple categories of payroll, sales and purchases. All accounting programs will allow the ad-

dition of many more. Establish payroll categories which relate to this “wrap around” job. If your employees will be both “shop” and “field” establish categories for both. Establish a sales category which is specific to billing for this job, establish an account for the specific purchases for this job. Set up accounts for other areas which may need isolation.

You have created a series of devices which will support your positions for all phases of insurance and sales taxes.

The waters can get muddy. Are your trucks and drivers insured as part of the “automobile package.” What if your truck and driver is making four deliveries, the “wrap around” site being one of them. We assume that your truck and driver is insured while going to and coming from the “wrap around” site. But who is insuring the truck and driver to the other sites.

Naturally the “wrap around” portion is providing coverage for the trip to and from the site, but are you covered for the rest of the day? When you enter the payroll each week, allocate the time spent on the “wrap around” to its category and the balance of the time to the appropriate category. These entries have nothing to do with gross pay, withholding taxes, et cetera, but they have everything to do with your display of uncontestable record keeping.

You will not only perform this identification of task and jobs for the driver. You will perform it for all employees and their tasks. George Aaron worked twenty four hours for the “wrap around” job as a “field” man, eight hours as a “shop” man for the “wrap around” job and eight hours as a “shop” man for regular jobs. Enter the twenty four hours to “wrap around - field,” eight hours to “wrap around - shop” and eight hours to “shop.”

Curiously, the “wrap around” package may not even require the distinction. We found it was better to keep the records accurately and not even ask the owner’s representative.

Isolate purchases for the “wrap around” job from regular “purchases.” We do not want to corrupt the “purchases accounts.” The purchases account indirectly handshakes with sales. We want to keep the all facets of the “wrap around” sequestered. Understand the idiosyncratic parameters and make intelligent adjustments.

Remember, there is no benefit to you from being in a “wrap around.” The benefit is and should be to the owner. You have reduced your contract amount which should simply be a “wash.” But you must keep good records. Your carrier, though understanding, is somewhat annoyed by your participation in a “wrap around.”

I marvel at the concept of the “wrap around.” It lives as long as the job lives. Then in theory, the owner’s insurance is in place. But what happens in ten years. The proverbial “little old lady” has slipped and has fallen down. She seeks counsel, many companies, architects and engineers have contributed to the manufacturing of that floor. They were all insured with the “wrap around” policy that does not exist anymore.

If your company is named in a law suit, who is insuring you? Your insurance company has specifically and properly excluded you from coverage for this work. You’ve got a real fight on your hands, replete with legal fees and headaches.

The solution rests in your ability to see the whole picture and to be fair. You know that your insurance carrier was “unhappy” with the “wrap around.” You also are aware that they could do nothing about it for they wanted to maintain your business.

I would wait until we had begun the project and then invite my agent to lunch or golf. I would explain my “proverbial little old lady” theory and ask him to ask the insurance company to pick up the coverage as part of our regular coverage or as part of umbrella coverage.

The first time I did this the company was so impressed that they added the coverage at no cost. The second time they added the coverage at a very nominal fee. The third time, this after a round of golf, they asked if the next time we could recommend them to the owner.

CHAPTER 8

SALES

Sales are the basic “revenue generators” business. The best way to make more money, for some of the lucky ones, is to sell more. There are those who believe that “selling things is easy, making them is hard.”

If you make that which you sell, you have to know, as we have been discussing, how much it costs you to make it. If you reduce expenses you may increase profit. But if you increase Sales you will generate more income and you will make more profit. Quite simply, the great American adage, “Buy low, sell high.”

Use the power of your computer to track sales and sales taxes. As mentioned earlier, have “General Ledger” categories for all types of sales. Have a category for each area. If you export, make certain that you have a foreign classification. Have a classification for each area where the sales tax rate is different, have one for tax exempt organizations and one for resellers and one for manufacturers. A reduced rate of Sales Tax is usually granted to manufacturing concerns.

Do not sell to “resellers” without having the certificate on file. Keep “Resale Certificates” up to date.

Sales Taxes are charged by the State and collected by you. Some states allow companies a small percentage for their record keeping expenses. Nonetheless, if and when you have a sales tax audit, you need to have precise records and all categories of exemption certificates.

Auditors from the Sales Tax Bureaus are, it seems, trying to make money for their state. Well, they are not, they are trying to get every dollar to which the state is entitled. Many states allow the auditor to audit for a three month period and multi-

ply the amount of the infraction by twenty-eight. Twenty-eight representing the four quarters found in seven years.

For example, the results of the audit reveal that there was a \$1,000 error during the audited three month period. Extended out, you have a \$28,000 sales tax liability before the calculation of interest and penalty.

There is nothing open for debate in sales tax audit. There are no questions about expenses and income. Sales tax audits are cut and dried. There is very little room for argument.

You must have good records and you must have the exemption certificates. The isolation of each different geographical area where sales tax rates are different as well as isolating tax exempt organizations and resale organizations are paramount in good record keeping.

Have the information ready for the auditor, if he or she has to dig it out, watch out.

Our firm endured two sales tax audits in its ninety two year history and they were thirty five years apart.

The auditor sat in our office pouring assiduously through our equally as assiduously maintained records. He found nothing for the first three months and decided to continue. He spent four days diligently searching for something.

Finally he gave up, complemented us on our record keeping and advised of two things. First, we were entitled to a credit of approximately \$1,400, for we had charged sales tax on materials only to an out of state commission. Second, that they would not back for another thirty five years.

CHAPTER 10

PURCHASES

Materials which you purchase are often termed “nominal,” “theoretical” and “approximate.” These materials’ costs are usually based upon their weight, their length, their square footage, their cubic footage or their volume. These materials are usually found in industry suppliers’ “handbooks,” or “manuals” which are published by the appropriate industry.

More than likely, before you purchase materials you prepare a worksheet. One would hope that you have prepared a “cutting schedule” or a “layout schedule,” determining how to get the most pieces of the sizes which are required while yielding the least waste. The time spent in such preparation is well worth the money saved from imprudent purchasing.

This worksheet will most likely have the description of each item, the quantity which you require, its weight, length, square footage (if necessary) and other information which is pertinent. This information is always found in the “manuals.” Simple arithmetic calculations using the “nominal” or “theoretical” information will determine weight or length or volume. When the cost per unit is then calculated to that unit, a price is determined.

Often your purchase order will reveal this information, because you put it there. Don’t do that, as you will see. Once you write it down and sign it, it loses its distinction as “nominal” or “theoretical.”

You have determined that you are purchasing 4,244 pounds of a certain material. The cost per pound, as quoted by your supplier is \$0.42. You are expecting an invoice for these materials of \$1,782.48.

The materials arrive and your personnel, using a scale, weigh the entire order. Your gross weight is 3,950 pounds, totalling \$1,659. You just saved \$123.48, seven percent! That when coupled with 1% discount for payment within ten days is a savings of \$140.07.

You have ordered lumber whose lengths are “nominally” fourteen feet. You measure each board and find each one is twelve foot, two inches (12’-2”). You can still use them, but why should you pay for scrap.

You have ordered pipe which are sold in lengths “nominally” of twenty four feet (24’-0”). They are all twenty one feet (21’-0”).

These items are all sold under the banner of “nominal,” “theoretical” or “approximate.” The steel manuals all have disclaimers for tolerance of plus or minus 2%, sometimes even 5%. Most manufacturers have to have disclaimers for the precision of their products, i.e. “weight approximate.”

The steel manual which states that the “Estimated Weight Per Foot Pounds” is 2.67 for 1” round material is just estimating. The disclaimer, at 5% variance means that they know that the weight could be 2.54 to 2.81 pounds per foot.

The cost of the scale or other measuring device for this purpose will most likely pay for itself in short order. The labor required to perform these functions is usually not great. Be your own judge.

Notify the supplier of the facts, “theory has met reality” and apply a credit to the invoice.

Think about asking your supplier for the country of origin for materials which you use for manufacturing. Federal law requires that this information be displayed on some completed foreign products.

Know that you can request and receive “Certificates of Domesticity” for all raw materials which are manufactured in the United States. Many government contracts, Federal, State or Local, require that materials be of domestic origin.

CHAPTER 11

JOBS IN PROGRESS

One way or another, you must record labor and materials which are expended to any and every job. It is just good business. You may or may not wish to share this information with your client / customer.

The establishment of the hourly billing rate provides comfort and stability. You know that your “burden” has been accurately determined. Your competitive posture is not created by your introduction of the margin for profit. The estimate for a difficult job may have labor variables which are based on the degrees of difficulty which are inherent in various tasks. You may choose to “plug in” a “contingency” or to increase the profit. Listen your instincts, either way you stand a good chance of losing this project if you are not prudent.

We all know that figuring jobs is a best an inexact science. Figuring time for many of the tasks is often simple, yet there is always one “Achilles heel.” Many job shops feel that “assembly” is the most difficult; isolated parts’ fabrication being relatively simple.

The job costing routine will, as a by-product, produce a “data base” which is germane to your business. Observe the fruits. Maybe you will determine that you can manufacture an item at so much a lineal foot, or a square foot, or per pound. This information will be valuable as time progresses.

The most apparent disadvantage of a “seamless” or “integrated program” is that you are not in full control. As a principal, you probably take work home with home with you in the evenings. You might want to input those hours into the job costing routine and probably do not even think about increasing your weekly salary.

Most integrated routines will not allow this; the allocation of labor to a job is determined by the hours which are input to payroll.

These “segregated” routines require more clerical work. Their manipulative properties may be beneficial. The computer is just a tool, it does not run you or your business. Which ever way you believe will serve your purpose is the method which you should adopt.

Most routines will differ, however the “constants” should be: “Original Amount of Contract,” “Revised Amount of Contract,” “Work Completed to Date,” the “Balance to Completion” and the “Amount Billed to Date.”

The ability keep job costing precisely offers yet another caveat. The weekly or biweekly “Cash Flow Summary.” This summary should be generated after a payroll period and job costing period have been completed. Obviously all accounting routines and job costing must by synchronized.

The “Cash Flow Summary” shown on page 84 has gathered all of the “jobs in progress.”

The “constants” for each job are identified, per job. The report calculates the totals for each category, giving a company summary which shows these “constants.” Particularly important is the total of the “Balance to Completion.”

The “Balance to Completion” is how much work you have on the “floor” right now. This is good information to have. Once awarded a job, you should enter that job with its “constants”, for the very specific reason to always know how much work is in house, now.

Notice that the “Cash Flow Summary” requires the input of the “Cash” and “Accounts Receivable” accounts. The “Work In Progress” total (\$39,500) has been

calculated by subtracting the total “Billed To Date” (\$49,500) from the total “Completed To Date” (\$89,000). Note that the “Billed To Date”, by definition, has been billed and the computer has credited the appropriate “Sales” account and debited to “Accounts Receivable.”

The “Summary” also requires the input of the Accounts Payable, Unposted Accounts Payable, Unposted Taxes and Unposted Benefits. There should be no need for the unposted accounts, because there should be none. Each of these four should have already been entered into the Accounts Payable. But, its an imperfect world, and if they have slipped through the “proverbial” cracks in the boards, enter them here and assure that you are generating an impeccable report.

You will not believe the story these reports will tell as you keep them and review them. They are truly the thermometer which is taking your company’s temperature.

The power in the job costing routine is to keep control over each job and of equal importance, keeping control of the “shop floor.” An adjunct is its production of not only the balance to completion for each job, but determining the amount of work in place, right now. You may wish to divide the total of the “Balance To Completion” by the hourly billing rate. This will reveal the production hours which are left; in turn that number can be calculated to yield the number of work weeks.

Additional benefits of the job costing program are vested in the establishment of a knowledge base.

SCHEDULE OF WORK IN PROGRESS

JOB NAME	ORIGINAL BUDGET	REVISED BUDGET	COMPLETED TO DATE	BALANCE TO COMPLETION	BILLED TO DATE
American National	\$50,000.00	\$54,000.00	\$22,000.00	\$32,000.00	\$12,000.00
Smith Company	\$75,000.00	\$75,000.00	\$10,000.00	\$65,000.00	\$5,000.00
Charles Wysong	\$12,000.00	\$14,000.00	\$2,000.00	\$12,000.00	\$0.00
Reliable Cabinets	\$125,000.00	\$125,000.00	\$40,000.00	\$85,000.00	\$20,000.00
Atlantic Construction	\$65,000.00	\$62,000.00	\$15,000.00	\$47,000.00	\$12,500.00
TOTALS:	\$327,000.00	\$330,000.00	\$89,000.00	\$241,000.00	\$49,500.00

CASH FLOW SUMMARY

CASH IN BANK	\$23,245.22	ACCOUNTS PAYABLE	\$123,442.42
ACCOUNTS RECEIVABLE	\$235,000.25	UNPOSTED ACCOUNTS PAYABLE	\$500.00
		UNPOSTED TAXES	\$0.00
		UNPOSTED UNION BENEFITS	\$0.00
WORK IN PROGRESS	\$39,500.00		
TOTAL ASSETS	\$297,745.47	TOTAL LIABILITIES	\$123,942.42
TOTAL CASH FLOW	\$173,803.05		

CHAPTER 12

UNIONS

Dealing with unions will try every fibre of your being. You must understand the general personalities and the general life styles of your employees. This is mandatory from both an ethical and management posture. You are neither a judge nor a sociologist, you are an interested observer. Make no mistake, the behavioral patterns of your employees and your ability to interact with them, is of importance to the vitality of your business.

There always has been a pendulum swing in the relationship of labor and management. Often the unions are in a “power strong” position and often there is a diametrical reversal. Many industries rely on unions as a “labor pool.” A simple call to the “business agent” and bingo, workers on the job.

We all know about the abuses which are inherent in the system. If you spend all your time trying to correct those abuses you will not have the time or energy to run your business. Nonetheless, if there were no unions, management would impose its own abuses. This is why, unfortunately, the struggle of the pendulum never ceases. It is human nature.

Rather curiously, the era in which we live, is showing management that it is good business to be magnanimous with employees. Profit sharing plans and performance rewards are proven to increase moral, unity and profit. Be careful if you choose to engage in such noble plans. You must consult the union first, or you may be accused of “union busting,” with a grievance filed with the National Labor Relations Board. Also, unfortunately you must think about bestowing written praise on an employee. Should that employee fall from “grace” it is often difficult to explain.

We have observed the work year, the work day and indeed the work hour. We know about “coffee breaks” and “lost time” and we know not tamper with the “coffee break.” Would you not be pleased if each employee worked, for the sake of argument, seven hours and fifteen minutes in the eight hour day? Of course you would. However, how do handle the employee who works six hours?

When the employees have a “sharing plan” they will not support the “featherbeder” either. Now its their money which is being lost. This is new territory; the parameters are being established as we speak.

This writer firmly believes that four day work week, with a ten hour work day or any other such permutation will never take effect. As the economics edict, “Says Law” defines that “good money drives out bad,” so does “good labor drive out bad labor.” In other words, the “good” workers will basically have two jobs and the “marginal” workers will have a portion of one job.

The workplace is proving, again, as we speak, that it can thrive with the change to the “technological era.” Where once jobs were being “lost” now jobs are being “found.” The worker profile is changing. The worker must now have the ability to be trained in new areas. Do not ascribe to the theorem that “you can’t teach an old dog, new tricks.” You can, you should and basically you have to.

The well managed company of the present era is finding that with the acquisition of computer generated machinery, with the proper training of workers, that production and profit are doubling and even tripling.

You must know the text and *intent* of the Union Contract. Every one of your workers does. An arbitrator will often issue a ruling based upon the “intent” of a clause. You must be aware of this and also be aware of how your employees inter-

pret these clauses. The contract has many tentacles, know them all.

Very, very rarely will a benefit which has been in effect be rescinded. There are no trial periods. The act of reversing a benefit which has been negotiated as part of the collective bargaining process is virtually impossible. There are few “give backs.”

Standards which you set previously and which were never negotiated may be held in force if you choose to discontinue that standard. The classic example is the company “refreshment center.” Many companies have been providing coffee and kitchen provisions for their employees. It is the right thing to do.

As an aside, there is less lost time when the coffee is “in house” than when the employees “clear out” to go to the traveling “coffee wagon.”

Our company was in a situation where employees were pilfering the coffee and supplies. The choice to remove the “refreshment center” was met with resistance, the union claiming that it could not be removed as it was an “existing condition.” The “knee jerk” reaction, “talk about ungrateful” is tempered with logic. It is right and proper for it to be there, yes there is abuse. What is the remedy? The remedy was to put the coffee and supplies in locked cabinets.

This was not a “windmill at which to tilt.”

The most important thing to remember when negotiating is that though you may think that your negotiating for the issue at hand, today’s issue as it were. You are in reality negotiating for the next contract.

Union negotiators do just that, they negotiate. The read body language, they read the philosophical thoughts which you put out. You must be fair, you must be understanding and must not get angry.

You probably will feel that the people with whom you dealing are unfair, not understanding of your business and often get angry. Those are well learned ploys. You may think that they are not smart, but know that they are very “savy.” Their actions, i.e., anger, threat of a strike, et cetera are well thought out and well timed. Think like they think.

They think that your “pockets run deep.” They don’t know how “deep.” This is about compromise, always about compromise. If you bemoan the state of economy or state that your company is “losing” money, it won’t have any effect. Everybody else tell them that. Besides, it puts you in a “power weak” position.

Neither they nor the employees should ever know too much of your business. The employees must always feel secure, they must know that they have a job and will always have a job, assuming of course, that they “work.” If they feel that your business is weak and that there is a possibility of “layoff,” they will slow down. Honestly now, if you were in that position, you would do the same thing. If they feel that you are making a fortune, they will assume other postures which will make your head spin.

Quite simply, live your life the way choose. If you want a Mercedes and can afford it, get it. Just don’t flaunt it. The workers see all, know all and sometimes make faulty judgements with that knowledge.

You can be fair, honest and concerned about the lives of your employees and their families. You can lend them money, you can visit them in hospitals, you can nurse them back to work, you can be empathic to them throughout. You should be caring and concerned. But, don’t be surprised that when “push to comes to shove” and these employees choose a course of action which is determined by the union,

i.e., a strike.

No matter how these employees feel about you and what you have done with them and for them, the union is their “peer group.” Again, do not let this stop you from being the person who you should be.

Nobody wins in a strike, nobody! You will lose money. The workers will never recapture the wages which are lost. You don’t have to “save face,” the union negotiators always have to “save face.” Do not back them in a corner, always realize that they have to “save face” for the “rank and file.” You will surprised to hear the syntax if you “win.” The syntax will somehow be arranged and despite your “victory” you will marvel at how they “won.” A suggestion, keep a wry smile and a closed mouth.

There are varying opinions about belonging to a trade association. You may feel that you have the “power of numbers” by being associated with such a group. Or, you may feel that as an “independent” you have “flexibility.” As an “independent” you may be able to negotiate issues which are particularly germane to your business. Study these arenas, realize that as a member of the group, you are bound by the group. There is no right or wrong here, just preference.

Your office personnel are exposed to the basics of your contract settlements. Quite often they will desire percentage increases which are commensurate with those of the contract settlement. Quite often you will accede to their wishes.

As time goes by and this process is repeated you are in a difficult position. The clerical position which industry acknowledges as a \$12.00 an hour (\$24,480 annually) job is now costing you \$18.00 an hour (\$36,720 annually). The industry standards of the union change with each contract, also they are in a sense, monitored

by the Federal Government's, Davis-Bacon Act.

What are you to do? Your office staff is very close you, yet they are pricing themselves out of jobs. This a dilemma with no answer. Speak openly with these employees so that they see the nature of the beast. Realize that if you replace them, you must start a whole new and costly learning phase. Also, quite pragmatically, if they were to start fresh somewhere else, they would return the bottom of the "pecking order." You should be able to find common ground.

The basic benefits package of many unions is found with Pension, Welfare, Annuity and Vacation Funds. Some unions may have additional funds, i.e., Supplemental Annuity. The Vacation Fund takes on different dimensions.

Usually the employer pays a percentage to the fund based upon the gross earnings of each employee. This percentage is usually equal to 110% of the vacation wages which are due to each employee. The overage is applied to the vacation wages of the disadvantaged and less fortunate or those who are simply, presently unemployed union members.

The unions then pay the vacation wages to the employees from the Vacation Fund. The employees are paid in accordance with the established schedule of time in service (with the union) and vacation weeks appropriately allocated.

The vacation fund issues checks to the employees. Frequently a union official will deliver these checks to the employees. The essence here is that your employees think that the union has paid their vacation wages. Not really worth commenting about, just tuck it away.

Once the checks are issued, the vacation fund pays certain withholding taxes. They pay the employee's share of the F.I.C.A., the Federal Withholding Taxes, the

State Withholding Taxes and the Local Withholding Taxes. Note that they have not paid the employer's share of the F.I.C.A. nor the State or Federal Unemployment Taxes.

The fund then generates a payroll summary which you have to put into your payroll. Also issued are receipts for the vacation fund's satisfaction of certain payroll liabilities. You are to submit those receipts, as "riders," when you file your Federal (941) and State quarterly returns.

Now you must enter all of this payroll information into your payroll. This a delicate procedure. Pick a date which does not conflict with a regular payroll date. Be sure that this date is in the same quarter in which the Vacation Funds checks have been issued. Run a Balance Sheet and a Trial Balance, annotate the print outs "Pre Vacation Fund Entries." Make each entry carefully, check the totals. There is no room for error here. The manner in which your computer routine performs arithmetic functions may differ from the calculations which have been presented. Therefore, do not let your payroll perform withholding calculations. You must override them, inputting the information which has already been determined. This will not be a computer problem, for all payroll routines allow for such "manual" entries.

You must keep employee's record accurately; you must keep the company records accurately. Use caution. Once all of the entries have been made, run the payroll journals to assure accuracy.

Now run a Balance Sheet and a Trial Balance. Annotate the print outs "Post Vacation Fund Entries." Do not be shocked to see that the Cash account has been diminished by the amount of Net Pay for the vacation. The computer has rightfully assumed that you have just run another payroll. You must now reverse these entries.

Use the Trial Balance and identify all of the accounts which have been affected. Perform “adjusting journal entries” (AJE) to correct these accounts. Make certain that you use the same date for the entries which you used for the payroll, your accountant will be most appreciative when performing the quarterly returns.

Once these entries have been executed run a Balance Sheet and a Trial Balance. Annotate the print outs “Post Adjusting - Vacation Funds Entries.” All of the accounts should be restored to their original balances. Check them with the print outs which were annotated “Pre Vacation Fund Entries.”

When you see the Balance Sheet you will get a major eye opener. You will notice that there are liabilities in the F.I.C.A. (Employers), F.U.I. and S.U.I. accounts. The vacation fund has not paid them.

Euphemistically called “standard bookkeeping, ” the liabilities for various taxes has been shifted to you and must be borne by you. The union contract, bargained for in good faith, makes no provision for this. Yet, out of the blue (the first time) and unbudgeted (again, the first time), you are absorbing many thousands of dollars to satisfy these tax liabilities.

Call the Internal Revenue Service. Their position has been that they “don’t care who pays them, they must be paid.”

The unemployment taxes really do not come into fray. All of your employees should have attained the basic cut off amounts. The F.I.C.A. taxes are another issue, many of your employees may not surpass the cut off of \$65,400. Therefore, for the average employee as profiled throughout this writing, you are paying approximately \$178 additionally.

Now the good news. You can negotiate this. You can take a credit when

filing a union report. The union knows that this is wrong. They know that the Vacation Fund can have the posture of “employer.” They have chosen not to so that additional monies can be generated. Many companies simply shrug and tender the checks.

Arbitration is the usual procedure which is implemented to seek a remedy. The arbitrator is an impartial jurist whose judgement is determined to be binding. The main criteria is one of “reasonability.” Will the arbitrator have the ability to be “reasonable” to the wishes of both parties?

The first time an employee has a grievance which is disputed, the arbitrator will historically find in favor of the employee. Rather curiously, the arbitrator looks to the company for having issued directives and protocol of acceptable behavior to employees. If employees have displayed abhorrent behavior and those deeds have not been identified by a company policy, the arbitrator will usually award the employee a “second chance.”

The concept for “work rules and ethical behavior” is shown on the following pages. This is not gospel and should be amended to suit your particular requirements. The workplace of today requires that sexual harassment be defined and the company’s posture for violations be defined. This is not an area about which to be cavalier.

Notice that the Work Rules are followed by a statement of acceptance, signed by the employee. Also notice the “Employee Warning Report.” The “Warning Report” is necessary to show that you issued a warning for inappropriate behavior. These is not a pleasant area in which to dwell, nonetheless it is paramount that you don’t let your dislike for these issues prevent you from ministering to them. Your

temerity will cost you time, aggravation and money.

Those who embark upon the waters of the Internet must also be informed as to proper the proper etiquette. The vernacular term is actually “Netiquette.”

As stated previously, meetings should be held on a periodic basis to discuss these issues. The meetings should be recorded as for date and context.

An arbitrator will not dismiss a sexual harassment charge easily if there is a company policy in place. He or she is more likely to allow pilfering, for though we all know that it is illegal and immoral, if it is not stated in the Rules of Behavior, it may not apply in you company. Unfortunately, the last sentence is true. Do not expect logic to necessarily be applied.

We had a number of instances where arbitrators’ rulings were illogical. We had an instance where an employee, charged with his second offence of pilferage, was excused from pilferage because that which he had pilfered was in close proximity to the garbage dumpster. The arbitrator thought, he said, that the employee may have thought that what he was taking had been discarded.

That same employee however, when charged with making sexually explicit remarks, was censured.

When approximately \$20,000 of hand tools were missing from the Tool Room, we were notified by union’s representative that we should hire a clerk for the Tool Room. The annual salary for that clerk is approximately \$32,000. The options were simple, be a policeman, hire the clerk or buy new tools.

Remember, the union has two positions, “they are right when they are right; they are right when they are wrong.” Always leave them room for a graceful exit, the famous “saving face.” You don’t want to deal with personality issues any more

than you have to, you still have a business to run. You also would rather run your business as a business and not serve as a policeman, watching employee's movements.

Many employers feel that the only absolutely nonnegotiable area in the collective bargaining discourse is that of the establishment of a company funded "Strike Fund." There is no way any self respecting person can shoot his company in its proverbial foot by paying into a fund which is designed to hurt the company.

Your relationship with the union and its members will be successful if you are fair to all and define the parameters. You must show toughness when toughness is needed; you must show compassion when compassion is needed. Sarcasm doesn't seem to work well, we know of company whose principle was censured from saying to an employee, "imagine, having to think and work, all in the same lifetime!" You must try to make what is by definition is an adversarial relationship into a harmonious relationship.

U.R.SMART CO., INC.

STREET ADDRESS

CITY, STATE, ZIP

Work Rules & Ethics

January 1, 199X

Regretfully, we now issue these rules of work, behavior and ethics, implementing them by necessity.

The foreman, assistant foreman and management have the right and obligation to establish necessary work rules and enforce them through a system of progressive discipline. The foreman and management have the right to discipline employees depending upon the nature and severity of the infraction and the disciplinary record of the affected employee. Penalties may include suspension or discharge for violations of these work rules and ethics.

The following WORK RULES COVER BEHAVIOR WHICH IS EXPECTED BY THE EMPLOYEES OF THE COMPANY. Violations will be cause FOR *disciplinary action*.

I Safety, Health & Maintenance

- A) Any unsafe condition must be reported to foreman, assistant foreman, management or office personnel.
- B) Machinery and equipment must be operated safely.
- C) If anything goes wrong with a machine on which you are working, you must report the condition to the foreman, assistant foreman or management immediately.
- D) Machinery and Equipment Shut Downs

- 1) Machinery & Equipment which you have been using must be shut off at the end of the work day.
 - a) Compressed gas lines must be closed and bled.
 - b) Air lines must shut off and bled.
- 2) Storage of Tools
 - a) Electric hand tools must be unplugged.
 - b) Air hand tools must be disconnected from air lines.
 - c) The above type tools and all other tools must be placed in or on your "Tool Cart" or in the Tool Room at the end of each week day (Monday, Tuesday, Wednesday, Thursday).
 - d) Tools must be placed in the Tool Room only at the end of the work day of Friday.
 - e) All shelves in the Tool Room are thoroughly marked. Tools must be returned to the shelves from which they came and for which they are designated.
- 3) Paint equipment must be thoroughly cleaned at the end of each work day.
 - a) Equipment which is not cleaned at the end of the day and which is ruined will be replaced, at your expense.
 - 1) A sum not to exceed \$10.00 per week will be deducted from your wages to satisfy replacement cost.

- E) All volatile materials (thinners, solvents, spirits, etc.) must be covered and placed in safe storage.
 - 1) Open vessels placed in the explosion proof cabinets are not considered “covered.”
 - 2) Rags, wipers, etc. which are have been soaked with volatile substances must be discarded in the fire proof trash container.
- F) All lockers, work stations, tool carts must be kept neat, clean and orderly.
- G) Locker room, bathrooms, shop, tool rooms, halls, yard, etc. must be kept free from litter.

II Attendance

- A) Excessive absenteeism
 - 1) If you will be absent, you must call in by 8:00 A.M. on that day.
 - 2) Excused time for union business will be granted only if the employee has submitted a written request twenty-four (24) hours prior to the proposed absence.
 - 3) Excused time for jury duty will be granted and paid only if the employee has submitted evidence from the court.
- B) Chronic tardiness and early departures will not be tolerated.

III Deportment

- A) Leaving the premises during working hours without permission.
- B) Fighting or disorderly conduct.

- C) Gambling on Company premises.
- D) Use or sale of alcoholic beverages on Company time and / or property.
- E) Use or sale of nonprescription drugs.
- F) Inappropriate Department
 - 1) Vulgar, disrespectful and /or chauvinistic behavior are considered extremely inappropriate. Such behavior will not be considered merely “bad taste” and will not be tolerated.
 - a) Remarks and / or comments to passersby, pedestrians, clients, field personnel and / or the general public which are desultory or inflammatory will be cause for immediate, severe disciplinary action.
 - b) Such incidents jeopardize the Company’s reputation, good will and image. If you have a grievance we invite you to discuss it openly.

IV WORK CONDUCT

- A) The work day is from 7:00 A.M. to 3:30 P.M.
 - 1) Starting time is 7:00 A.M. You are expected to be ready to work at this time.
 - 2) Morning coffee break is from 10:00 A.M. to 10:10 A.M.
 - a) Coffee is a gift from the Company. This is a privilege which if abused will be rescinded.
 - b) Coffee may be drunk at any time during the day. This too is a privilege and if abused will be rescinded.

- 3) Lunch is from 11:55 A.M. to 12:30 P.M.
 - a) The period from 11:55 A.M. to 12:00 Noon is considered a “wash-up” period.
 - b) Kitchen facilities are a gift from the Company. This is a privilege which if abused will be rescinded.
 - 4) Quitting time is 3:25 P.M. The period from 3:25 P.M. to 3:30 P.M. is considered a “wash-up” period.
- B) Hours of work which differ from this schedule must be reported to the foreman, assistant foreman, management or office personnel on the day of occurrence.
- 1) “Time trading”, (i.e.: working through the coffee break [10 minutes] and leaving early [10 minutes]) is allowable. This must be reported to the foreman, assistant foreman, management or office personnel on the day of occurrence.
 - 2) Late arrival or early departure due to unusual conditions must be reported to the foreman, assistant foreman, management or office personnel on the day of occurrence.
 - 3) Time lost which is beyond your control must be reported to the foreman, assistant foreman, management or office personnel on the day of occurrence.
 - 4) Work which is to be performed past 3:30 P.M. and will take less than 1/2 hour need not be authorized. It must be reported to the foreman, assistant foreman or management on the day of the occurrence.

- 5) Work which is to be performed past 3:30 P.M. and will take longer than 1/2 hour must be authorized by the foreman, assistant foreman or management on the day of the occurrence.
- C) Willful damage to Company property and / or equipment.
- D) Failure to obey reasonable orders or to work on assigned jobs.
- E) Willful loitering and / or idling.
 - 1) Upon completion of a task you must ask the foreman or assistant foreman for a new assignment.
- F) Mistakes and / or errors must reported to the foreman, assistant foreman or management immediately.
- G) Theft or misuse of Company property.
 - 1) Parcels, hand bags and luggage may be inspected.
 - a) Police intervention will be invoked if necessary.
- H) The right to infrequently perform small personal jobs and / or borrow company tools and equipment is a gift from the Company.
 - 1) Permission to perform any personal work must be given by the foreman, assistant foreman or management, before beginning any work.
 - 2) Permission to borrow tools or equipment must be given by the foreman, assistant foreman or management, before taking the tools and / or equipment.

V Expenditures

- A) Expenditures of Company money must be substantiated with

receipts. Receipts must be submitted to the foreman, assistant foreman, management or office personnel on the day of purchase.

1) Failure to comply will result in disciplinary action and the forfeiture of reimbursement.

B) Expenditures with Company charge accounts must be substantiated with receipts. Receipts must be submitted to the foreman, assistant foreman, management or office personnel on the day of purchase.

1) Failure to comply will result in disciplinary action.

VI Motor Vehicles

A) Driver of any Company vehicle must visually inspect vehicle before embarking upon and returning from any trip.

1) Inspect for general safety of vehicle.

2) Inspect for safe loading of the “payload.”

3) Inspect for body damage.

B) Abnormalities must be reported to the foreman, assistant foreman, management or office personnel immediately.

C) Any damage to the vehicle must be reported to the foreman, assistant foreman, management or office personnel immediately .

D) Driver is responsible to check the engine oil and radiator water and antifreeze with each filling of gas tank.

E) Parking violations summons must be submitted to the foreman, assistant foreman, management or office personnel on the day of issuance.

1) You will be charged for interest and / or penalties which

accrue on violations which were not submitted.

a) A sum not to exceed \$10.00 per week will be deducted from your wages to satisfy these charges.

F) Work tools, work clothing and / or debris must be removed from the vehicle upon returning to the shop.

G) Use of Cellular Telephones

1) All telephone calls made from cellular telephones must be reported to the foreman, assistant foreman, management or office personnel.

2) You will be charged for indiscriminate personal telephone calls.

a) A call to your family when working late is a permissible personal call.

1) A sum not to exceed \$10.00 per week will be deducted from your wages to satisfy phone charges.

VII Union business

A) Union business which is not germane to this Company may not be conducted on Company property.

U.R. SMART CO., INC.

Street Address
City, State, Zip

Receipt of
Work Rules & Ethics
January 1, 199X

I, _____, have read the Company's "Work
Rules & Ethics", dated January 1, 199X and understand them fully.

Employee's Signature

Date

U.R. SMART COMPANY

Employee Warning Report

Employee's Name _____

Date of Warning _____

Employee's Number _____

Warning

Type of Violation Attendance Carlessness Disobedience Safety Tardiness Work Quality Other Inappropriate Behavior

Violation Date _____
Violation Time _____
Place Violation Occurred _____

COMPANY STATEMENT

EMPLOYEE STATEMENT

Check Proper Box:

I agree with the Company's Statement

I disagree with the Company's

Statement for the following reasons:

I have entered my statement of the above:

Employee's Signature _____

Date _____

Warning Decision

Approved By _____

Date _____

List All Previous Warnings Below

1st Warning

Previous Warning _____

Date _____

Verbal _____

Written _____

2nd Warning

Previous Warning _____

Date _____

Verbal _____

Written _____

3rd Warning

Previous Warning _____

Date _____

Verbal _____

Written _____

I have read this "Warning Decision" and understand it.

Employee's Signature _____

Preparer's Signature _____

Date Prepared _____

Signature of Supervisor _____

Copy Distribution

Employee Union Date _____

Foreman Attorney Date _____

Shop Steward File Date _____

CHAPTER 13

DEALING WITH YOU

You can deal with your clients / customers, you can deal with your vendors, suppliers and subcontractors and you can deal with your employees. How do you do deal with you? Do you know what you want?

Do you know how to achieve your goals?

Where do you want to be five years from now? Where do you want to be ten years? Do you want your children to come into your business?

Are you kind to yourself? Do you like yourself and do you like who you are becoming? Take a good look, you only have to honest to yourself.

If you don't have a dream, it can't come true. It is okay to want to earn a lot of money and it is okay to not want to earn a lot of money. You seem to be taking care of everybody else, are you taking care of you?

You should be paying yourself as high a salary as you can afford without running the risk to thwarting your company's growth. The company must grow, for "if you stand still, you go backwards." Can you think of a better investment than investing in yourself? No, you are the best person in whom to invest. Yet, you must combine the two, the company must grow and you must pay yourself well.

If you do not pay yourself well, the years will slip away and you will be left behind.

Think about a profit sharing plan and a pension plan. They can be "piggy backed" to the combined tune of 25%. All employees who are not participating in a different plan, i.e. union pension plan, are eligible for participation in your plan. You set the vesting period, complying with established guidelines. Think about this

for a minute. Yes, quite fairly you have to provide benefits for employees who have no other source of benefits, but you also get to invest large sums of money for your future.

You can apportion 25% of each vested employee's annual wages to the profit sharing and pension plans. This is a direct reduction of corporate profit. Let us assume that the corporation had "Current Earnings" of \$100,000 for the year. Your salary was \$100,000; the combined salaries of other vested employees was \$90,000.

Your profit sharing / pension plan account would be increased \$25,000 with no tax liability to you at that time. Taxes are charged when these monies are withdrawn from these accounts. The profit sharing / pension plan accounts of the vested employees would be increased \$22,500. The corporation profit would be reduced by \$47,500, leaving a corporate tax base of \$52,500.

The corporate taxes based on the original \$100,000 profit would have been approximately \$33,000, leaving you with \$67,000. The tax liability on \$52,500 is approximately \$17,325. That \$17,325 added to profit sharing / pension plan contributions of \$47,500 total \$64,825. The corporation still has \$35,175 of its original \$100,000; you have \$25,000 of it earning for your future and your employees have their share of \$22,500. "What a good deal, you give it away and you still have most of it."

The profit sharing / pension plans must be administered along specific guidelines. You must consult with different financial advisors to determine which plan best fits your needs.

Some plans are easily tailored to Life Insurance policies, with Life Insurance Companies serving as the financial vehicle. The drawback here is that with

plans which are administered by regular financial institutions you determine the percentage contribution each year. As we have established, the maximum contribution is twenty-five percent. If you have a lean year you may opt to make no contribution or make any contribution which is affordable. Life Insurance structures are just that, structured around life insurance, as such, a fairly appreciable contribution must be tendered each year to pay the portion of the premium which purchases the life insurance.

You must seek proper advise and interview representatives from various financial institutions. You must decide who will administer the accounts, what percentage fee they will charge, if any, for performing their administrative duties. Bear in mind that professional fees for the administration of this account can be appreciable, tax returns must be filed annually and there are legal fees to be incurred at various times.

This resolved, you do, everyone does, need life insurance. What is the best type is anybody's guess. There are policies which can be purchased by your corporation and are owned by your corporation, which insure your life. The "Death Benefit" (what an oxymoron) is paid the beneficiary of your choice.

The corporation pays the premium and allocates a portion of the payment to Life Insurance, an asset, and a portion to Insurance Expense. You are obligated to declare as "personal income" a relatively small portion of the premium. The agent will send you a "P.S. 58" letter which advises the amount of the premium which is to be borne by you personally. The "P.S. 58" is not a form; often times you may have to request it from the company. Do not neglect this, it is important.

You need disability insurance. This is "living life insurance." Interview dif-

ferent sales representatives and different policies from different carriers. Pay the premiums personally. “Disability income” is exempt from Federal, State and Local taxes when the premium is paid personally. Paid with corporate dollars, “disability income” is deemed taxable by all taxing authorities.

Corporate officers are permitted to have an ancillary medical plan, providing that the establishment of such a plan has been recorded in the “Minutes and By-Laws” of the corporation. Naturally the corporation can and does pay all medical insurance premiums for all employees. The officer’s plan allows the corporation to pay the deductible portions of medical bills and pharmaceutical expenses.

Refunds which you receive personally should be submitted to the corporation and deposited to corporation’s cash account. This requires a journal entry where cash is debited and medical plan expense is credited. Don’t get cute here, its a nice perk, which if abused will be most likely be rescinded.

Most successful people in business have certain specific skills. Naturally their personas are different, yet they share a commonality of good language skills. A strong vocabulary, without being pedantic and good grammar do command respect.

“Listening skills,” not “hearing skills,” are also talents which are distributed among the successful.

Also, successful people have a very good knowledge of the history of their field and those who were the trailblazers.

After these basics, all bets are off. The best business people have an instinct as to when to be overly dynamic, when to be firm and when to be understanding. Autocracy in business is not good business. At times it is necessary, after all it is

ultimately your money which is a stake, but those in know use it with caution. “Power abused is power lost.”

Try and see yourself as others see you. Throw out vanity and perceive your business persona as seen through the eyes of those with whom you interrelate. This may at times be painful, nonetheless, the rewards are great. Enlightenment will enrich you despite its early pain. If you are honest with this, you will also benefit from knowing when you are in “power strong” position and when you are not. Again, “power strong” doesn’t mean abuse the “power” it just means be aware and handle it accordingly.

This self perception will assist in ways which you previously did not believe existed. When you see yourself in a “power strong” position when negotiating a contract, use the “power” gently. When that perception reveals a position of “power weak,” make the necessary adjustments. Think back on previous encounters, circumstances where you just acted, acted with no thought. The proverbial light will turn on.

Many corporations require that their executives enroll in a course of “business perception.” Your ability to see yourself through the eyes of all of those with whom you interact is invaluable.

I experienced this during negotiations for our first contract with the Statue of Liberty / Ellis Island Foundation. After many, many sessions of interviews and visits to our work facility I knew that we were in a relatively strong position, but I was not positive. At lunch one day, one of the executives for the Foundation told me, “we are afraid to do it without you.” He continued to explain our strong features and one feature which he thought was fragile.

I mentally backed up and thought, “what is he really saying, I’m in the driver’s seat.” Though I did not share agree their perception of our fragility, I knew to accept their posture, not to argue the point and try to convince them otherwise. Quite diplomatically, I said that I understood how *they* could have such a perception. Together we sought a remedy which was mutually beneficial.

There are many benefits to be bestowed upon the gracious and humble.

CHAPTER 14

TO LEASE OR NOT TO LEASE

This question has different answer for different people at different times. There is no right answer, only what is right for you at a particular point in time. Make careful evaluations of all of the information and read the fine print of any lease contract or bank contract.

Cars and trucks are funny things in business, they don't make any money for you, but you can't make any money without them.

There is usually no appreciable tax difference between the two. The issue of "writing it off" is really moot. Whether you "write off" the lease expense or "write off" the depreciation expense, the results are basically similar.

Purchase a new vehicle with your cash means that you are losing the interest on that money and availability of that money. Purchase a new vehicle with money from a bank loan and you are paying more in interest than the interest you would have received on a simple money market investment. Either way, you own an asset. It will have a residual value. Lease a vehicle and you will be paying as if it were "loan," you usually will not the rights to the asset and therefore no residual value.

There are some companies whose lease plans are structured so that you can purchase the vehicle at the expiration of the lease for five percent of the book value of that vehicle. They depreciate the vehicle at two percent per month for fifty months and allow this "buy out."

Do your homework, do calculations and remember to include the loss of "interest income" on cash expended in the equation.

Keeping apples with apples, the profiles for purchase and bank loan have

Purchase of New Vehicle with Corporate Funds

Cash		\$30,000	
Loss of Interest	5%	<u>\$6,251</u>	
Total: Cost of Vehicle:			\$36,251

Purchase of New Vehicle with Bank Loan

Amount of Purchase		\$30,000	
Downpayment	10%	\$3,000	
Loss of Interest	5%	\$625	
Total: Downpayment & Loss of Interest			\$3,625
Principle			\$27,000
Interest			<u>\$5,478</u>
Total: Cost of Vehicle			\$36,103

Note: Principal		\$27,000
Interest	9%	
Number of Periods	50	
Monthly Payment	\$650	
Total: Principal & Interest		\$32,478

Lease New Vehicle (2% depreciation per month)

Purchase Amount of Vehicle		\$30,000	
Administrative Fee (10%)		\$3,000	
Miscellaneous Fees (2%)		\$600	
Base Amount of Lease		<u>\$33,600</u>	
Deposit (2 months premium)			\$1,344
Loss of Interest	5%	<u>\$280</u>	
Total: Deposit & Loss of Interest			\$1,624
Monthly Payment (2% of \$33,600)	\$672		
Total Payments (48)			<u>\$32,256</u>
Total: Cost of Lease			\$33,880

been calculated at four years, two months. The lease profile is, as stated, based also based on four years, two months (50 months).

The lease agreement at 2% depreciation per month is the best. Not all leasing companies offer this plan and those who do may not offer it with less than four vehicles. As we all know, there are many leasing companies in market, trying to sell you their product. Do the arithmetic calculations and make your decision accordingly.

Assume that the purchased or leased vehicle which is depicted above averages fourteen to sixteen miles per gallon and that gasoline cost approximately \$1.30 per gallon. Insurance coverage is \$500,000 for Bodily Injury and Property Damage, Collision Deductible is \$1,000. The vehicle will be driven approximately 20,000 per year.

The following table was generated from automobile records for such a three year period.

Title	Amount	Amount Per Month	Amount Per Mile
Insurance	\$2,569	\$71.36	\$0.042
Maintenance	\$2,549	\$70.81	\$0.042
Gasoline	<u>\$5,288</u>	<u>\$146.89</u>	<u>\$0.089</u>
Total:	\$10,406	\$289.05	\$0.173

This information will not have much influence on how you do business. Nonetheless, it is easily ascertained from the “scraps from the cutting room floor.” As does all information, it provides knowledge.

CHAPTER 15

LIGHT, HEAT AND POWER

You should have the proper amount of footcandles in the work areas. The footcandles should be measured at various working heights, other than the floor. Consult an expert in the field, usually not an electrical contractor. Proper lighting increases production.

Forced air via space heaters is the most economical source of heat, quite simply because there is no conversion necessary. However it is “dirty” heat and is difficult to get uniformity throughout the work place. Space heaters will not serve well in many production facilities because of the effect which that kind of heat has on the items which are being manufactured. They are disallowed in any environment which must be rated as either “dust proof” or “explosion proof.”

The heating and air conditioning of your facility should be studied. We are embarking into the twenty first century and the technological age has produced many enhancements. Speak with an expert in field, as with lighting, don’t consult with a heating, ventilating and air conditioning contractor.

The single most costly aspect of electricity is for the generation of compressed air. High frequency welding machines do not draw as much amperage for as long a time period as do compressors.

Many manufacturers use compressed air to drive a multiplicity of hand tools as well as isolated sections of machinery. Though the air generated hand tools can be substituted for those which are driven by electricity, they are preferred for a number of reasons. They are lighter in weight and they are not pilfered as often as their electrical counterparts.

Enter now the omnipresent “demand meter.” This device is installed by the utility company under the guise that they have to always have this power available to you. Well, Jesse James was more honest! The “demand meter” is installed in place of the conventional meter if your electric consumption is over a prescribed amount. The utility companies’ have different criteria, but if you have electrical service which exceeds 2,000 Amperes you will most likely have a one installed.

This meter records the your normal electrical consumption and then multiplies by a variable. The variable changes each billing period. While measuring your normal consumption, the meter records the highest consumption used for a fraction of second in the month. That means that if two machines should happen to “kick on” simultaneously, the “demand meter” will get “stuck” at the high range. The multiplier will equate that millisecond’s high reading and apply it to the whole month. See, Jesse James was a saint!

You can call and write any agency whom you choose, but you can’t win. You can sequence different machines which are in series so that they will not “kick in” simultaneously.” You can not however sequence your employees, nor should you want to.

Don’t bother to switch to electrical hand tools; the cost for running them is negligible whether they are driven by air or electricity. Don’t bother converting to a internal combustion engine air compressor either. The engine maintenance and constant filling with fuel render it not only expensive but a real nuisance. Face it, you need compressed air and you have to pay for it.

However, if your building is situated across different lot lines, you can bring new electrical service. You may for example find it advantageous to construct a

“Compressor Room” with isolated electrical service. Depending upon the electrical load calculations either your basic requirements may decrease enough to disqualify you from “demand meter” participation.

Never, never, never accept an “estimated bill” from the utility company for a “demand meter.” Sooner or later you will get such an “estimated bill.” The weather was foul, the door was locked, somehow the “meter reader” did not get the reading. No matter the reason, call the utility company have them reread the meter. It is a good idea to have one of your staff go with him, assuring that the “demand” pointer has been set back to “0.”

You can not overpay an electric bill for a conventional meter. A mistake one month will be automatically caught the next month. Not so the vicissitudes of the “demand meter.”

If you are closing your facility for an extended period, have the meter read when you close and when you reopen. Such attention to a little detail saves a great deal money. You are not being “cheap” here, just smart.

Maintain a “Utilities Log.” Enter the information from the utility company’s monthly invoice into this log. The log makes month to month and this month to same month last year very easy.

When comparing monthly electric charges, we found one month excessively high, for no apparent reason. Minor detective work revealed that two employees had decided to “moonlight.” They were good at hiding their work, had it not been for our utilities “audit” they may not have been discovered for a long period of time.

Your “Utilities Log” will keep you in touch with the cost of your utilities. It will enable you to discern “fact from theory.” Many companies hire electrical con-

sultants to advise on methods of saving power consumption. The consultant calculates the connected loads of all machinery for the specific allotments of time. The calculation reveals a theoretical amount of consumption. Don't trust it.

The "Utilities Log" and your "Job Costing Program" together will enable you to prepare for a sales tax credit on utilities expenses. Many states exclude sales taxes on utilities to company's who manufacture. Note that this exemption is for energy expended in the act of manufacturing. Energy consumed out of the manufacturing area is not excluded.

There is a "cottage industry" with consulting firms who know the guidelines, perform the calculations and submit the necessary applications. You can request a refund for all of the overpayments made in the last five years.

This will not make you rich, but it is good business.

CHAPTER 16

BEING AUDITED

Your secretary has just presented you with the mail. Thumbing through for the most important items, you are slapped across the face with an envelope from the Internal Revenue Service. The envelope just does not look like all of the other envelopes. Your heart beats faster as you pull the letter out, your secretary is waiting by the open door. You read it, the Internal Revenue Service has requested an audit.

What do I do? First, do not get overly excited, second, call your accountant. Review the periods which they are requesting. Make certain the date which they are requesting is acceptable to your accountant's schedule as well as your own. Notify the revenue agent that this time and location, your office, is acceptable.

The revenue agency will give you sufficient time to gather your records. Don't procrastinate, gather them, study them.

The revenue service is going to review your income and expense items and how they relate to you personal income and that of other officers. Excess profits may be declared as dividends, though this a highly negotiable area.

Your best friend in an audit is your "day book" or "diary." The "diary" is as good or better than receipts in many cases. Properly maintained, it gives a daily account of your life in business, where you have gone, with whom you have met, lunched or golfed, etc. Revenue agents like "diaries."

We had an audit with a very personable revenue agent. Our accountant, the revenue agent and this writer sat down before the audit began, had coffee and donuts (refreshment expense) and talked. The agent spoke freely and told us rather

candidly, that for which he was searching. He was going to go in depth to Travel and Entertainment, Petty Cash (there was none, per se), Life and Disability Insurances, Medical Plan, Employee Benefits, and Cash Receipts. Other ancillary areas, he said, may be brought up.

The audit was being performed in January. Our Corporate 1120 return for the year just ended was due March 15th. We knew to file an “extension.” Had that return been submitted, he, by statute, would have to audit it too. Simple enough, just file an “extension;” when he asked if the “return for the year just ended” would be ready, we advised that it was on “extension.” He knows, you know, but its fair and its acceptable.

Remember, you are not only going to have to pay the government something, you are also going to have to pay your accountant. You want this over with quickly, easily and favorably.

All of the records which were required were placed on the conference table, as were my diaries. The agent asked for another cup of coffee and donut, raised both of his arms, said “close the door.” My accountant I exchanged glances; I closed the door.

He looked straight in my eyes and said, “tell me now if you have to pay off. I understand what’s going on in business today. If you pay off for anything tell me now and I’ll forgive it. If you don’t tell me and I find it, I’ll pursue it.” I looked over the to the accountant and replied, truthfully, in the negative.

You can not do good business by doing bad deeds. I had been “hit” as they say, for cash payments. Once, an inspector from the Environmental Protection Agency wanted money to not pursue an air pollution investigation. First, if we were pollut-

ing I wanted to know it. The inspector and I had words and I accepted the “citation.”

I appeared for hearing and was immediately fined \$10,000. The examiner had a curious look on his face as he pronounced the fine, for without taking a breath he said, “do you want to appeal?”

He reached across the table and turned on a tape recorder. He advised me that this was now an appeal and therefore must be duly recorded. He spoke into the recorder and repeated all which had previously occurred.

I explained that I did not think that we were polluting the air, and if we were I really did not want to be. We discussed the procedures which were required, established a ninety day time period for compliance and rescinded the \$10,000 fine.

I hired an engineer and a testing laboratory. A plethora of calculations and readings were taken, reports filed and bingo, we had not polluted. The cost for the professional and laboratory fees was approximately \$800.

Yes, some business people do have to “pay off.” Unless they have businesses in which there is an inflow of cash (the green stuff), where do they get the money? They can take it from their salary and pay taxes on it; some do it that way. There are stories about companies who keep deceased employees on their payrolls, paying those employees and the related taxes and funds as if those people had not died.

Hopefully you are driving a company car, as long as you claim two sevenths (28.6%) personally, the agent will not disallow the automobile expenses associated with that vehicle. The gasoline and maintenance for that vehicle and other vehicles used by officers will get lost in the shuffle.

Though dues to country clubs are no longer tax deductible (fifty percent was

the norm) you can still deduct the cost for entertaining a client. Your diary should support the people you have entertained there and the sales which were generated from those relationships.

Your diary should support the people you have taken to lunch and dinner, also noting the purpose and what sales were engendered.

As mentioned earlier, there should be no "Petty Cash." All of the "Petty Cash" should be integrated into appropriate expense categories.

The "P.S. 58" letters should support your share of the Life Insurance Premium, which you have "picked up" as personal income.

Clothing, no matter what it is or why it was necessary, which you purchased at company expense will be disallowed. Contest it if you must, but you will lose.

So far anything which have done which is related to an expense is subjective. Anything on the expense side is arguable. A discrepancy between the company and the revenue agent will be treated as an increase of corporate profit. The corporate return will be amended, interest will be calculated and a penalty will be imposed.

A discrepancy which relates to your relationship with the company will be treated differently. The corporation will declare a dividend, have the 1120 Corporate return amended, pay additional tax, pay interest on the tax and pay for the imposition of a penalty. Your personal tax return will be amended, the "dividend" being added to your gross income. You will pay the amount of the additional tax, interest calculated on that tax and a penalty.

These dialogs between revenue agents and people in business go on every day. Again, these are arguable areas. A compromise is sought. The government does

indeed want its money, but it doesn't want it at all costs. It also doesn't want a revenue agent spending great amounts of time to recapture amounts of money which will not warrant the time expended.

However, if you have concealed income you don't have an arguable position. This is not open to debate. If you diverted funds from the corporation to yourself and did not report those funds as income you are in trouble. Felonious trouble.

That is why the revenue agent, at the start of the audit, asked that question. I often wondered if he was sincere or was trying to trick me, I'll never know.

That audit went as well as an audit can go. It was not like the Sales Tax audit where we had money refunded. The agent found something, he had to, and we had to give it to him. He could not go back to his office without justifying his two days work.

As the sales tax auditor had told us, this revenue agent, when saying goodbye, having drunk his last cup of coffee, said "we won't be back for a while."

CHAPTER 17

THE TWENTY FIRST CENTURY

So does the twenty first century begin in the year 2000 or the year 2001? Will computer routines be modified to know that “00” is 2000 not 1900? Stay tuned, we will all find the answers to these and many other questions soon enough.

The “technical age” has been changing our lives, I believe for the better. But we have defiled parts of nature, we have polluted and in the twenty first century we must make amends. Amends will indeed be made, because making them is now good business. The “technocracy” will greatly assist in the “clean up.” Where there is a profit motive there is success.

How does your business play a role in the changing times? Understand that there is no good business conducted by “dirty” business. Good business is just that, good business. It takes its lumps, but it thrives and it survives. The “dirty” side of business only stains and ruins the participants and ultimately kills any company which is founded upon that surreptitious behavior. That is not a pontifical statement, that is a truism.

You have a great and wonderful responsibility, employing people. Hopefully making their lives better because you are caring, compassionate, humanistic employer. Your business should be fun, challenging and profitable.

A reporter from *The New York Times* once asked me, “what is the best job which you have ever done?” I pondered for a moment and replied, “I don’t know, I just hope that we haven’t done it yet.”

You should love the challenge not just the money. Being “pushed” beyond

what the limits have been assumed. Allowing and demanding that your employees fulfill that challenge. Yes, they may make mistakes, but that is the price which you must pay to enliven them and get the most from their creative abilities. Support multi-tasking, push them gently, be observant, if someone can not be extended to this limit, so be it, but try. The rewards are great.

Failures are great teachers. We were engaged in a special project which required 25,000 forged iron joints. I had a concept for an electrical resistance machine which would heat a joint precisely. Added to the concept were two hydraulic “push-pull” cylinders which would move the material with great ease and simplicity. First blush revealed that the machine was the “greatest thing since sliced bread.”

When we needed the machine to put the heat to a piece which was curved we were unhappily surprised. The electrical current now chose to go across the curve rather than through it, a fusible link. Electricity always takes the “path of least resistance” and both the manufacturer and I should have known that it would fail. Neither of us did; the manufacturer, true to his word, took the machine back.

Five years later, faced with a similar problem, for the armature bars which support the skin of the Statue of Liberty, the remedy resurfaced. The manufacturer and I had both learned a lot before, now he knew exactly how to fulfill our requirements successfully.

Good business is rewarded. We pushed the proverbial “envelope.” The manufacturer’s pushed the same “envelope.” Their behavior was exemplary. Five years later they received an order for an appreciable sum of money and all of the publicity which they could handle.

CHAPTER 18

THE ENVIRONMENTAL PROTECTION AGENCY

The Environmentally Protection Agency is in everyone's business. We are all citizens of planet earth, the agency is protecting her. Realize your responsibilities, if you violate the planet you will, hopefully, be caught. There is no need to be in such violation to be in business today and to make a profit.

Your customer / client does not want to be associated with a "polluter." They do not want their name associated with nefarious actions. This is evidenced by the major retail companies who do not want their name associated with "sweat shop labor." It is not good business!

Even if you think that this "bleeding hart" stuff, beware. The "superfund" has teeth. Soil contamination is unforgivable. Land which has been despoiled by the deposition of containments must be expunged or it can not be sold with clear title. Even if sold, the purchaser is not responsible if contamination is found. The originator is!

Even deceased, the estate of the polluter, is held responsible for the deposition of those toxic wastes. Succinctly put, one can't make enough profit, no matter how "greedy" one has become, to cover the financial disaster with which you will be encumbered for such a violation.

CHAPTER 19
RIGHT TO KNOW

The “Right To Know Rules” have been implemented so that employee’s have just that “Right.” The problem is that manufacturer’s polysyllabic, technical and pedantic vocabulary render the text totally “foreign” to the people for whom they are intended.

A technical dictionary may help. Nonetheless the syntax is highly idiosyncratic. Materials and components are often referred to by a non generic term, where the generic term is recognizable. You should, actually you must, provide a workstation for “Right To Know” materials. Call the sales people who sell these products, request that they get a “thumbnail sketch” of this information, in a format which will serve its purpose, letting the employees know what is dangerous, what is not and how to deal with those materials in all circumstances.

CHAPTER 20

OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION

The Occupational Safety and Health Administration (OSHA) is yet again a Federal Agency with whom you should have no grievance. We all hear stories about ludicrous events which have occurred with OSHA. Imagine how many more fatalities there would be in the workplace without them.

The easiest way to coexist with OSHA is to comply with their requirements. “Easier said than done,” you say. “I can’t read their mind, how do I know what they require?”

OSHA has a “home page” on the internet, all government agencies do. After all, the internet was established by the government to provide information. You can log on and get any information which you desire. However, if that is too undefined and ambiguous, call your Workmen’s Compensation carrier.

Your carrier will send a consultant to your workplace. Perhaps they do anyway and you think that you have an adversary rather than a friend. The carrier charges no premium for this service, they are engendering safety. Safety means fewer claims, less paper work, reduced premiums and greater profit for everybody. These representatives are literate with the mandates of OSHA. Follow their advice.

Rather autocratically, an OSHA inspector can come into the workplace unannounced and uninvited. He or she can disrupt your day in what is a rude fashion. Be that as it may, it is incumbent upon you to have someone on your staff show them your operations.

Unless you have blatantly and wantonly violated safety codes, OSHA is very fair. Usually the first ten violations are waived, no fines or penalties being imposed.

You must post in a conspicuous place and maintain a “safety log and injury report.” A good place to post this log is in the “Right To Know” center. Inspectors really want to see that you are diligent about safety. Post the minutes of your safety meetings in the area.

You should have a bona fide “First Aid Station.” There are companies who will furnish and maintain this “Station.” They usually will supply First Aid Manuals and even a preliminary course in First Aid. Someone on your staff and your officers should be trained in Cardiac Pulmonary Resuscitation (CPR). The medical supplier will provide useful information in this area. You may even find it advantageous to maintain a medical oxygen emergency kit. Post emergency telephone numbers in conspicuous areas.

You should have a “Safety Committee,” a group of workers, foreman, managers and executives. Designate at least two of those individuals as “Safety Officers.” A routine for inspection of equipment and materials should be outlined, with tasks assigned to different personnel. A log should be maintained.

Print out a company directive stating lifting devices must be inspected before use. Further, state that worn or defective lifting devices must be taken from service. Issue similar statements for use with other equipment or supplies which may be considered either dangerous to use or a hazard.

Make the point crystal clear, your company is concerned about safety. “Safety First!!!” Keep records on file and post copies of those records.

We are embarking into the twenty first century, this an important posture to assume, ethically and legally.

Fire! No matter how prepared you think that you are for a fire, until it hap-

pens, you can not comprehend the relationship of panic, fear and time. Make sure that you have fire extinguishers, all around and that they have signs posted above them. The extinguishers must be the correct type for the area in which they are placed. Subscribe to a fire extinguisher maintenance service, the extinguishers have to work! Keep flammable materials stored safely, in vented cabinets. Keep rags and papers in covered containers, out of harm's way. Do not be cavalier! Do not think that it will not happen in your work place.

Prevention is the best cure, but if a fire starts, your best assurance for no personal injuries and no real damage is effected by prompt, efficient extinguishment. When the fire starts, panic will abound. People in the area must try to stay calm and to think. This is very difficult; panic has set in. The act of finding the fire extinguishers is much harder than one can believe once the fire has started. People can walk by those extinguishers every day for years and not know where to find them in "crunch time."

Have fire drills, but don't just have them for evacuation. Designate two people to call the Fire Department. Have everyone identify the location of the extinguishers. Make people responsible for the proper storage of materials and waste.

Caught quickly and efficiently a fire is just a moderately bad experience. The only way to thwart it is to have the equipment up to date, in place and marked properly.

CHAPTER 21

INDUSTRIAL HYGIENE

Industrial Hygiene is becoming, as it should, a positive force for the work place, the worker and the environment. It is a big brother to the “Right To Know” campaign. The “Industrial Hygienist” will study your operation, assimilate all the data which you present, study the work routines and habits of your employees and make recommendations.

Our firm had been commissioned to fashion all of the new decorative copper elements for the Main Building of Ellis Island. We had invented a new process which enabled copper to “drawn” deeply without losing its original thickness. The “drawing” process required frequent annealing and the application of a lubricant. Once drawn the pieces were cut, welded, ground, filed, sanded and polished.

We had portable air filtration devices to assure that the welding fumes were neither exhausted outside nor were harmful inside. We provided respiration masks, goggles, gloves and milk for all employees. No one complained of any ailment or even of a “sweet” taste in the mouth. The completed pieces were beautiful and were even mildly profitable.

Something nagged me, I didn’t know what it was. What if I was, by omission, doing something wrong. What if somebody got sick. I called our Workmen’s Compensation carrier for advise. They agreed that “discretion is certainly the better part of valor” and arranged for a conference with a representative from “Industrial Hygiene” firm.

The company’s representative arrived with a plethora of papers, instruments, filters, patches, et cetera. He spent the greater part of the day living in the work-

place, measuring air flows, unidentified all of the materials used in our operations, flammable and nonflammable. Identifying air borne particles which were generated by grinding, filing, etc.

Our workplace was a little “United Nations.” We had employees from Algeria, Russia, Romania, Germany, Italy, Puerto Rico, Venezuela and the United States. He interviewed each of the twenty five employees and communicated well with each, employing the use of “broken English.” He constructed a manifest which described each employee and which tasks took up most that employee’s day. Each was given a “patch” which was to be worn throughout the workday for one week.

The hygienist studied the behavioral habits of the office personnel. Desk heights, chair heights, wrist position while working on a computer were analyzed. Ergonomics were discussed. What product is used to clean the coffee pots?

We were left with a repository for “Right To Know” materials in many different languages. We were going to work as usual, each employee wearing his patch, for one week. After the week had expired, the hygienist would analyze each patch, submit a report and have a meeting to discuss all of the events.

Test results in hand the hygienist and observers from his company arrived to the present the information which was derived from the tests. He and his superior had big smiles on their faces when I asked, “well, how did we do?”

Still smiling he said “you did okay.” Then he added, “two of the men have ‘copper disease.’” I went blank. What had I done! But these men were still smiling.

“Okay,” I asked, “what is ‘copper disease?’” The smiles now removed, the hygienist explained that “copper disease” is a mild rash and is of no consequence.

All of the employees gathered to meet with these two gentlemen. The two

employees with 'copper disease' were interviewed; all the information was explained and all questions were answered.

We were presented with certificates which acknowledged our safety records, our concerns and saluting the company's efforts to the burgeoning field of "Industrial Hygiene."

The knowledge which was ingested through this experience was immeasurable. Everyone concerned benefited. The cost for this service was exceptionally fair, approximating \$75 per employee.

We sent copies of all the certificates and reports to our insurance carriers, the union, a trade association and our client.

"Industrial Hygiene" is here to stay, become a participant. Awareness is knowledge.

CHAPTER 22

THE BUSINESS OF BUSINESS

Being in business has been said to be both a blessing and a curse. Some have said that if you are in business you are the “devils” path. Conversely, others have said that you are in the “light of angels.” Both are true. The rewards can be satisfying in many ways, certainly not all of the monetary.

When and if you were on the “outside looking in,” you had a much different impression of what it takes to run a business. You could find fault, you could criticize.

Simply put, there is no good business which is based on bad business. Euphemisms aside, the colloquialism “what goes around, comes around” is a truism. The rewards bestowed upon the “dirty” businessman or women may seem great for a moment, but they are fleeting and leave mass destruction in their wake. Greed can make you an achiever, but more likely it will destroy you. “Greed” as defined in the movie, *Wall Street*, was noble and provided dividends for stockholders. It is not noble, it is a killer.

Ask anyone who has seen “greed” in action. You can not “sugar coat” it. Greed is greed. You have seen mighty Wall Street financiers fall, you have witnessed the fall of politicians. Unfortunately what you do not get to witness are all of the employees, customers and other associated people who are so adversely affected. Notice that many of people who are felled by “greed” contract a severe stress related illness. Is it worth dying for?

Ethics belong in business as they belong in life. You can be a good person, be compassionate, be humanistic, be tough and still make a profit. Business should

be fun. It certainly does not seem as if it could be fun if one had to look over his or her shoulder, worried, “will I get caught.” “Your President’s not a crook!”

Think about the advantage of being a “singles hitter.” “Home run hitters” strike out too much. Think about your reputation, work hard to make it good and keep it good. Do you want to be thought of as one who “nickels and dimes?” No, you would rather be thought of with esteem and respect.

The business of business is honest and it is logical. You can probably be anything which you choose to be; make or sell anything which you chose. Enjoy yourself. Be proud that your actions create a better life for those with whom you are associated.

This is the era of corporation acquisitions. Your “Balance Sheet” probably has a minimal value placed in the “Goodwill” account. Yet if you ever decide to sell your company, “Goodwill” becomes a large ticket item.

Use the power of the computer to enhance your ability to think. Don’t let computer run you, find the happy medium. Learn a spreadsheet program and harness all the information which you see. Have a dream, have fun.

This is not “bleeding heart” stuff. This is fact. If you have trouble accepting it due to its ethical basis, accept this, it’s just good business to do good business.

CHAPTER 23

WHO IS THIS GUY?

I'm a smart guy, "I'm no empty pair of shoes." I'm in business, what can this guy know that I don't? Why should I read this book? Why have I not learned this stuff before? How was this information gathered? Basically, who is this guy and how did he accumulate this information?

All good questions. If you really are a smart guy or gal you have an open mind, this information will be of interest to you. Many of you will know all or some of this information. Nonetheless, it presents another perspective.

This knowledge was gathered empirically and applied to that which was learned academically.

The reasons that many business executives do not know this information is that in good business there is delegation of responsibilities. Often the people to whom responsibilities are delegated will not dig deeply enough to uncover this information. As an executive you may be too occupied with other aspects of your business to sit in on audits from insurance carriers and union funds. You delegate that to your bookkeeper or accountant and review the information. Exacerbating the situation, you probably review at the end of a tiring day.

Yes, you can read a Balance Sheet, a Profit and Loss Statement and other summarizing reports. Do you understand the machinations how that information was compiled and how it was entered?

You can not expect your bookkeeper to have this knowledge and curiously you can not expect your accountant to be literate in some of these fields. Bookkeepers do just that, they keep the books. Accountants administer the data which is pre-

sented, extrapolate this data which allows compliance with all of the requirements of the tax collection agencies. The information which is presented is driven from that which is entered.

As described in the introduction, I entered our family business at the tender age of twenty one. I assumed an active role in every facet of the business. I ran the payroll, I prepared the weekly “Depository Receipt,” I prepared the union reports. I sat in on all audits. I asked questions, questions and more questions.

In the era which preceded the computer, payrolls were maintained in a “Payroll Book” or on “Payroll Cards.” These columnar books could not support many columns. Therefore payroll was maintained in a very rudimentary manner. When I questioned the Workmen’s Compensation auditor as to why we were paying premiums for wages paid, which were for non performance of work, i.e. vacation, holiday, sick leave, the auditor explained that if the payroll records were presented in correct fashion, isolating those categories, per employee, premiums would be adjusted. Wage classifications for multi-tasking employees would also be billed at the applicable rates, he further explained.

I asked the general insurance auditor to run “pro formas” for me, showing the premium based on payroll and those based on sales. He did it as a “social” favor while he had coffee and donut.

I was involved in all the minutiae of running the business. Once the preponderance of this information was gained, once the computer was born and defined record keeping could be initiated, the process of handling minutiae was made easier.

When we invented the “resistance annealing” machine for the Statue of Liberty’s armature bars, we knew that power consumption was extraordinary. We

often joked that we had to “oil the meter” because it was spinning so fast. We set up the new service to power this machine, (there was one machine in our facility in Manhattan and a second machine in the facility on Liberty Island) as a tenant, using our “sister” corporation. The utility company granted this new service and thus we did not corrupt our methods of saving on power consumption.

We occupied adjoining buildings with multiple floors. We had the services split between the buildings and even the floors. Rather than have one “demand meter” for the entire operation, we had one “demand meter” for an isolated portion with two conventional electrical services for all of the other facets of the operations. This was fair and was proven so, for had the conventional services exceeded the utility’s defined parameters they would have installed “demand meters” in those areas. Granted, three separate invoices were submitted for utilities requiring that three checks be issued each month, the money saved was appreciable.

As young boy working for the company my father made me keep a diary. Throughout my twenty eight years of running the company I maintained diaries. As I gathered this information I entered it my diary, faithfully. When the computer came to town, I learned a programming language, “BASIC” and began to write my own routines to harness this information. This was too time consuming and I applauded the arrival of the spreadsheet.

I fell in love with Microsoft Excel. All the information which I wanted to record and disseminate was easily configured to both retain its basic genre as well as amplify it.

Knowledge is indeed power, but equally as important, having knowledge is fun. Think about all that is presented here, amplify it, configure it to your particular

usage.

My father once said, “you don’t have to do everything yourself in business, but you have to know how to do it.” Dig in, learn more, develop more, study more, don’t take “no” for an answer if you have strong convictions. Explore the minutia. Have fun, make money.