

# YEI Summer Fellowship

- Presented by:
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## Agenda:

- **Accounting & Tax Overview**
  - Bookkeeping v Accounting
  - GAAP and Financial Statement Overview
  - Tax Compliance Overview
- **Tax Issues for Start Up Companies**
- **R&D Tax Incentives**



# Bookkeeping vs. Accounting

- Basic differences:
  - Bookkeeping is “*starting at the edges*” (like starting a puzzle... defines a framework and supports the underlying information
  - Accounting and financial reporting “*fills in the middle of the puzzle*”... and focuses on application of Generally Accepted Accounting Principles (GAAP) and external reporting



# GAAP and Financial Statement Overview

- GAAP: Generally Accepted Accounting Practices
- Comprised of
  - Income Statement
  - Balance Sheet
  - Cash Flow Statement
- Together they represent a snapshot of the company at a given point in time, ONLY!!



# GAAP and Financial Statement Overview

## Why a balance sheet?

- To determine Stockholder Value or Book Value
- Tell how much money the company has in the bank and what money it owes.
- Determine what it owns.

## Balance Sheet

- Assets
- Liabilities

Stockholder equity = Assets - Liabilities



# GAAP and Financial Statement Overview

## Why an Income Statement?

- To determine if a company is Profitable or Not.
- How much the company earned, profit margins, consistency and direction of its earnings
- To determine how the company generates revenue

## Income or P&L (Profit & Loss) Statement

- Revenue
- Expenses
- P&L Summary



# GAAP and Financial Statement Overview

## Income Statement

1. Revenue
2. Cost of Goods
3. Gross Profit = Revenue - Cost of Goods
4. Operating Costs and Expenses
5. Net Profit before taxes = Gross Profit - Operating Cost and Expenses
  - EBITA: Earnings Before Interest, Taxes, Depreciation and Amortization
6. Net Profit after taxes = Net Profit before taxes - Interest - Taxes - Depreciation - Amortization
  - P&L



# GAAP and Financial Statement Overview

## Why a Cash Flow Statement?

- To determine if a company is operating with Positive or Negative Cash Flow.
- It tracks the flow of cash IN and OUT of the company
- Tracks spending on capital improvements, investments in future
- Tracks bond and stock sales and repurchases

## Cash Flow Statement

- Operating Activities
- Investment Activities
- Financing Activities





# Tax Compliance Overview

## Federal Tax Compliance -

- C-Corporation - Form 1120
- S-Corporation - Form 1120S
- Partnerships Form 1065 (includes Schedule K-1s)
- Schedule C on Form 1040
  - including single member LLCs

## State Tax Compliance -

- Typically follows federal classification



# Tax Issues for Start Up Companies

- All Tax Entities
  - Choice of Entity
  - Section 195 – Start up Expenditures
  - Stock Compensation (including valuation)
  - Deferred Compensation
  - Cash versus accrual accounting method for tax
  - Grant Income
  - Understanding tax implications of financings
- Partnerships
  - Loss allocations and use of losses
  - Recapture of losses attributable to debt



# R&D Tax Incentives

- Federal Credit
  - R&D Performed in the US
  - W-2 Wages, supplies consumed & consultants
  - Can not be funded
- CT Credit
  - R&D Performed in the CT
  - Federal expenses, plus fringe benefits, and overhead
  - Incremental and non-incremental credit
  - 65% buyback program



# How FML helps early-stage companies

- Implementing/establishing significant accounting principles
- Advising on internal control & financial reporting
- Assisting with financial statement prep & disclosures
- Tax assistance, compliance & incentives
- Audits/Reviews/Compilations



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Q & A Session...



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Thank you!

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