



# The Gehman COMPASS

Volume 2 Issue 1

Spring 2021 Newsletter

## 4 Steps for Prioritizing Available Cash

*By Verlon Miller*

Designating available cash with precision and intention is critical to the health of a business. Whether a company is enduring a cash shortfall or enjoying a season of plenty, the use of available cash can either advance the company or hinder its success.

We must be intentional with the funds available in a company. While a lack of funds demands that we become intentional with cash on hand, managing the discretionary funds (funds not designated for a specific purpose) is equally critical to protect the company's cash flow needs. Once we realize that available cash has a designated purpose, we will no longer view it as discretionary funds to be spent on a whim.



In this article, I suggest a sequence for prioritizing cash that can help a company accomplish two objectives: 1) Maintain company operations while building a cash reserve. 2) Target the elimination of debt obligations.

The following sequence should be used to prioritize available cash:

1. Pay current bills/accounts payable/payroll down to zero
2. Pay the line of credit down to zero
3. Build a modest cash reserve (3-6 months overhead)
4. Pay off loan amounts entirely to eliminate monthly payments

Each number in the sequence is explained in more detail below.

1. **Current obligations** must be met for the company to continue functioning. These are a priority before other obligations and include all operational expenses such as payroll, payments to vendors, debt payments, utilities, and insurance. Cash must first be directed towards current obligations if the company is to remain open and functional.

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## 1099s after the Deadline

The pressure of meeting the January 31 deadline for 1099s is past. Tax professionals, business owners, and farmers gave a collective sigh of relief. But what if you overlooked reporting a 1099—or several? Or discovered an incorrect address? Learn the answers to common 1099 questions that crop up after the January deadline.

**If a name is missing something minor, should I correct it?** It depends. Generally, missing a middle name or an LLC at the end of a name will not cause a problem with the IRS. In some cases, you may be able to let it go and correct it the next year. The best course of action is to check with your accountant to see if a correction is required.

**How important is an address change?** The IRS does not require a correction for an address update on a 1099. You should update your records and make sure your recipient gets a copy of the 1099. You can enclose the 1099 in a new envelope and mail it to the correct address. If you have a third party who prepares your 1099s, notify them of the address change. They can provide an updated 1099 even if it will not be filed with the IRS.

**I overlooked filing a few 1099s. Now what?** File additional 1099s as quickly as possible. Filing late is

better than not filing at all. If your initial filing was on time, you have proof that your late filing was not intentional. The IRS penalties increase after 30 days and again after August 1.

**How do I correct a Social Security Number (SSN) or Employer Identification Number (EIN)?** Changing a SSN or EIN does take a few extra steps. If you use a third party for 1099 filing, they can handle all the details for you. First, prepare a copy of the original with the amount changed to zero and a checkmark in the corrected box. Then create a new 1099 with the updated SSN or EIN. Both forms must be filed with the IRS and Pennsylvania (other state requirements vary).

**I recently learned that a 1099 recipient passed away last year. Should I void the 1099?** No. The estate of the deceased person will need to report income generated in the last year. Generally, the executor of the estate will contact you if the 1099 needs to be filed with a new name or tax number.

**Should I correct the amount paid?** Yes. Amounts should be corrected as soon as you discover an error. Recipients will be held responsible by the IRS for any income reported on a 1099.

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**We are—**

- » Principled people of character.
- » Committed to doing the right thing for your benefit.





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2. The **line of credit** is the available cash source for needs in the company. Paying it down to zero allows the maximum cash to be available if a need arises in the future. Repayment of the line of credit should take priority over making additional long-term debt payments.
3. A **modest cash reserve** allows a company to function without going back into the line of credit and protects against any negative cash flow cycles. Saving enough cash for 3-6 months of overhead expenses gives sufficient cushion for a company to adjust its business model if a prolonged downturn in business occurs.
4. While **eliminating debt** is certainly the goal, paying off a portion of debt without retiring it completely, will tie up operating cash without removing the payment obligation. From a cash flow perspective, the goal of paying off a loan is to remove the monthly payment and free up that cash for other purposes.

By managing and prioritizing the cash flow in a healthy business, a business owner can provide the cash needed for operations and pave the way for a successful, less stressful future in the company.

*Verlon Miller works as a Business Advisor for Gehman Accounting from his home office in Athens, TN. He and his wife have 5 children and count it a joy to have raised them in the beauty of the southern Appalachians. He has 20+ years' experience in sales and customer service and enjoys working with his clients to improve their profitability.*

## Team Member Spotlight

**Amber Hoover**



**What's your role at GA and how long have you worked for the company?**

» Payroll, 1 year

**What's something most people don't know about you?**

» I love fishing and being on the water.

**What's the most unusual or interesting job you've ever had?**

» Working at an Amish BBQ chicken stand in NJ

**Do you have a favorite quote?**

» Never give up.

**Tell us a little bit about your family.**

» My husband Duane and I have two children, Khloe & Kamden.

**What advice would you give to new hires?**

» Hang in there, there's a lot of information to learn but it takes time.

**Tell us about your last vacation.**

» My family and I went to Florida for a week. We enjoyed fishing and the extra time as a family.

**What chore do you dislike doing?**

» Washing dishes

**What character trait do you admire in others?**

» Patience

**What's on your bucket list?**

» I would love to visit Switzerland.

*"Gehman Accounting shines in the small business area. Their team is unbelievably knowledgeable and can pinpoint the issues. I would not think twice about recommending Gehman Accounting." — Dan Petersheim, Owner, Pine Hill Trailer*

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Making *good judgments*  
when one has *complete data,*  
*facts, and knowledge,*  
is not *leadership*—  
it's *bookkeeping.*

—Dee Hock

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### Tax Season Office Hours —

**New Holland** Mon, Thur, Fri — 7:30–8  
Tue & Wed — 7:30–5:30  
Sat — 8–12

**Mifflinburg** Mon, Tue, Wed, Fri — 7–5  
Thurs — 7–8  
Sat — 8–12

### New Faces at Gehman

Timothy D Forester, CPA — Admin  
Elisabeth L Krueger — Secretary  
Eric S Witmer — Sales Representative  
Anita G Hursh — Payroll  
Michelle M Martinez — Bookkeeping /  
Payroll