

Newsletter

INTRODUCTION

SPRING IS IN THE AIR ! Winter is winding down and that dreaded date, April 15, 2004, is just around the corner. We have included in this issue some tax tips for your information.

Also, this issue's technical topic continues with the business interruption explanation, Operating Expenses and Net Income or (Loss).

Please continue to let us know what you think of our newsletter. You can e-mail us at ron@sanderfordcpa.com. If you wish to receive this newsletter by email please send us your e-mail address.

Thank you for your support.

OUR FIRM

Sanderford & Associates, P.A. was founded by Ron Sanderford in September 1996. Ron graduated for Southern Adventist University in December 1982 and has over twenty years of forensic accounting experience. Ron received his CPA Certification in Florida and Georgia in 1985 and 1986, respectively. Ron received his certification as a Certified Fraud Examiner in 1996. Ron gained his forensic accounting experience by working for Campos & Stratis (Atlanta, Georgia) and Shore & Azimov (Tampa, Florida). Ron has always provided forensic accounting services to the insurance community and insurance defense law firms. **For more information on our firm please visit our web site at www.sanderfordcpa.com**

BUSINESS INTERRUPTION / LOSS OF INCOME

We will present an explanation of the Business Interruption Calculation in six articles:

1. SALES PROJECTION
2. COST OF SALES & GROSS PROFIT
3. OPERATING EXPENSES & NET INCOME (LOSS)
4. CONTINUING & NON-CONTINUING EXPENSES
5. LOSS OF INCOME CALCULATIONS
6. EXTRA EXPENSES
7. CO-INSURANCE FACTORS

In Volume 1, Issue 1, we discussed the general methodology of projecting sales. In Volume 2, Issue 1, we discussed the cost of sales and gross profit for the loss of income calculation. This article continues the business interruption explanation and discusses the **Operating Expenses and Net Income or (Net Loss)**.

Operating Expenses generally fall into two general categories: 1) **Fixed Expenses**; and 2) **Variable Expenses**. **Fixed expenses** are those expenses that are generally the same amount every month and do not increase or decrease in conjunction with sales or the volume of business. **Variable expenses** are those expenses that fluctuate up or down as sales or business volume increases or decreases. There are times when an operating expense can be semi-fixed or semi-variable. For the purpose of this article we are considering the operating expenses as either fixed or variable.

Net Profit as defined in most insurance policies is Net Income or (Net Loss). Net Income or (Net Loss) is calculated by subtracting the operating expenses from the gross profit.

Operating Expenses and Net Income or (Net Loss)

OPERATING EXPENSES

Fixed Expenses

Fixed expenses are not fixed in the sense that they do not fluctuate or vary. Fixed expenses can vary from month to month, but not in conjunction with sales or the volume of business.

An expense could be a fixed expense for one type of business and a variable expense for another type of business. For example, utilities for a retail or service company that occupies office space would be a fixed expense for that business. On the other hand utilities for a manufacturing company that utilizes the utilities in the manufacturing process would be a variable expense.

Some examples of fixed expenses are: bank charges, insurance, interest, rent, office supplies, office and administrative salaries and telephone.

Fixed expenses are usually projected utilizing a monthly average that is generally based on a yearly total for the respective expense item.

Variable Expenses

Variable expenses generally increase or decrease with the level of sales or the volume of business.

Some examples of variable expenses are: credit card fees, contract labor, postage & delivery, supplies, commission, royalties and franchise fees.

Variable expenses are usually projected by multiplying the respective variable percentage times the sales. The variable percentage is generally based on the respective expense to sales percentage calculated from the year-end totals.

Payroll and payroll taxes are both fixed and variable depending on the employee's job. For example, an employee who works exclusively on

producing a company's product, would be considered direct labor which would be a variable expense. On the other hand an employee who works in an administrative office would be a fixed expense. Payroll is usually projected based on a historic average of the employee's wages or the most recent wages paid. Payroll taxes are projected based on the historic percentage of payroll taxes to salary & wages. The payroll tax percentage is multiplied times the payroll to arrive at the appropriate amounts.

Unusual or One Time Expenses

Some historic expenses could be unusual or one time expenses. These expenses must be analyzed to determine if the expenses should be considered when making the projection for the items.

Examples of unusual or one time expenses may include a one time legal expense or settlement, a one time major repair that is expensed rather than capitalized and depreciated or a major advertising program that is not expected to continue into the future.

NET INCOME / (NET LOSS)

Projected Net Income / (Net Loss) is arrived at by subtracting the projected operating expenses from the projected gross profit.

SUMMARY

It is important to understand the insured's business operations and to analyze all the operating expenses. This information will allow one to project the operating expenses and net income or (net loss) during the period of restoration.

The above information is not intended to be all-inclusive. Furthermore, the above information is presented as a learning tool and is general in nature. The insured's policy of insurance and all related coverages should be considered when measuring a loss of income claim.

Toll Free (877) 471-2912 * www.sanderfordcpa.com

Insider information

Sanderford & Associates. P.A. will be having an open house at our new office on March 30, 2004, from 4:00 p.m. to 7:00 p.m. Please come by and visit us at 8315 Gunn Highway Tampa, Florida 33626. If you need directions please call (813) 920-1795.

Tax Tips

The tax tips provided in this newsletter are for informational purposes only. You should contact your personal tax professional to determine the appropriate tax advice for your situation.

Tax Tips—continued

If you file an automatic extension you are required to pay the taxes owed BY April 15th. If you do not pay the taxes owed with your automatic extension you are subject to penalties and interest. The extension is good through August 15th. If you need an additional extension you must provide the IRS with an acceptable reason.

Effective January 1, 2004, the new mileage rate for business miles increased from 36 cents per mile to 37.5 cents per mile.

For 2004 tax year the maximum Traditional IRA tax deduction is \$3,000. If you are over 50 the maximum IRA tax deduction goes up to \$3,500.

SEMINARS

Ron Sanderford presented Loss of Income / Business Interruption and Extra Expense issues at the Windstorm Insurance Conference February 6, 2004, in New Orleans, Louisiana.

Ron Sanderford will be presenting Loss of Income in a changing economy at the Southeastern Claims Executive Association Conference, April 5, 2004, in St. Petersburg, Florida.

Ron Sanderford will also be presenting Financial Motives / Arson for Profit at the 26th Annual IAAI, Florida Chapter Fire/Arson Conference convention, May 16, 2004, through May 21, 2004, in Palm Beach Gardens, Florida.

OUR SERVICESBusiness Interruption

- Net Income (Loss) & Continuing Expenses
- Gross Earnings Calculations
- Loss of Rental Income
- Loss of Individual Earnings
- Extra Expenses

Property Damage

- Business Personal Property
- Building Loss
- Values at Risk / Coinsurance Analysis

Inventory / Stock Loss

- In Sight / Out of Sight
- Obsolescence

Employee Dishonesty

- Fidelity Bond Loss

Fraud / Arson Loss

- Financial Motive
- Arson for Profit
- Concealment Analysis
- Analysis of Financial Condition

Third Party Liability

- Personal Injury
- Loss of Income
- Wrongful Death

Environmental Claims

- Damage Measurement

Worker's Compensation

- Income Verification

Litigation Support Services

- Expert Testimony
- Consulting

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