



# New Coops: Accounting & Taxes

Presented by and ©: Bruce Mayer, CPA

# Career Development

- Food coop staff then bookkeeper
- MBA in Accounting
- Public Accounting – CPA
- Work with non-profits
- Coops from coast to coast

# FCI Webinar

- Presentation developed specifically for pre-opening food coops
- There are different issues for worker, purchasing, and other kinds of coops

# Accountant's Definition of Coop

- A business owned and democratically controlled by the people who use its services and whose benefits are derived and distributed equitably on the basis of use. (P3)
- Earnings are allocated to members based on the amount of business they do with the cooperative.

# Business Characteristics

- A cooperative is not a non-profit or tax exempt organization
  - Profits are required to provide reserves and capital for renovation or expansion.
- But may have to incorporate that way and work around it to be a coop

# Accounting

- When to start keeping books
  - Open bank account is beginning
- Software
  - Only for start-up phase
    - Excel
    - Quicken
  - For construction phase and store operation
    - QuickBooks
      - Online
    - MAS 90 - Sage
    - MS Dynamics GP

# Accounting

- Reporting
  - Pre-open – cash, amount of equity & number of owners
  - Once the store is open – cash, gross margin, labor
  - Cost/Benefit
    - Information costs money
    - But lack of information leads to poor decisions

# Accounting

- Start-up Phase
  - What to keep track of:
    - Cash in bank at opening of period
    - Plus cash deposited
    - Less cash spent
    - Equals cash in bank at end of period



# Accounting

- Start-up Phase
  - Categories of deposits
    - Income
      - Sales
      - Donations
      - Member fees
    - Equity
      - Member investments
    - Loans

# Accounting

- Start-up Phase
  - Categories of spending
    - Salaries
    - Administrative
    - Marketing, advertising
    - Events
    - Repayment of loans or equity
    - Transfers between accounts

# Accounting

- For construction phase and operations:
  - CoopMetrics chart of accounts
    - Uniformity, comparability
    - Not specifically for GAAP or tax
  - Start-up costs are not capitalized
    - Legal, consulting
    - Marketing
    - Labor
  - Capitalize only tangible assets

# Accounting

- The big difference for a coop: Equity
  - Preferred shares
  - Member shares
  - Retained patronage dividends
  - Retained earnings
- Maintain detailed records for each owner
- Spreadsheet for preferred shares
- Database of owner name, address, investment, retained patronage amount

# Accounting

- Internal Controls
  - Safeguard assets
    - Fraud happens!
  - Cash disbursements – money out
  - Cash receipts – money in
  - Bank reconciliations
  - Segregation of duties
    - Bookkeeper is check on system
  - [www.grocer.coop/accountingpractices](http://www.grocer.coop/accountingpractices)

# Taxation

- Payroll
  - Use an outside service
    - Consequences of errors are high
  - Employees vs. contractors
    - Based on control
    - Project manager is very likely an employee
  - Wage & hour rules
  - Follow rules for benefits
    - Health insurance
    - Fringe benefits
  - Issue required 1099s for payments for services of \$600 or more

# Taxation

- Sales
  - Indiana sales tax of 7% plus up to 2% for local taxes
  - Groceries exempt
  - Register with Department of Revenue when expect taxable sales
  - Once open compliance takes work

# Taxation

- Property
  - All jurisdictions have some form of tax on property
  - Need to find who to report to
    - Assessor
    - Personal property section



# Taxation

- Income
  - Federal rules –
    - File 1120-C – Coop return
    - No late penalties if owe no tax
    - Basic rate is 15% (up to \$50,000 of profit)
  - State rules
    - Indiana has 8% rate based on federal taxable income

# Taxation

- Income – Key Issues
  - When to start filing?
    - From date of incorporation
    - Often delayed until have bank account
    - May need to file for back years
  - Year-end – does not have to be December
  - Federal initial due date 2.5 months after year-end
    - Extend an additional 6 months
  - Board is responsible for filing

# Taxation

- Income – Key Issues
  - Donations and grants
    - Are taxable income
    - Only exception is from a government for property
  - Is owner money equity or fee?
    - Equity is spelled out in bylaws – not taxable
    - Fee is taxable for income tax and probably sales tax

# Patronage Dividends

- Compute earnings after year end
- Return earnings to patrons based on business done with the coop
  - After holding back reserves as needed
  - Paid in cash and equity allocations
- Governed by federal tax law, articles of incorporation, bylaws and state law.

# Patronage Dividends

- Recipient of patronage dividend
  - Personal use patronage dividend not taxed at all
  - Retained portion in members name
- [www.cdsconsulting.coop/patronagedividend](http://www.cdsconsulting.coop/patronagedividend)

Thank You!

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