

Tips, Tricks, & Techniques

Expense Concepts



Funding: No need to have a separate fund for expenses. Pay all expenses for club activities out of club funds, tax-deductible or not. Member dues are not just for investing. Expenses are expected and necessary for the partnership's purpose of education and investing.

Assessments: No need to assess special fees for expenses. If cash is needed, whatever extra members contribute should be posted as payments to buy units for them. These contributions need not be equal, nor come from every member. See Treasurers Tips - Payments and Fees.

Tax-Deductible: Accounting software, supplies, postage, membership & club dues, administration, and educational books, etc. are tax-deductible.

Non-Deductible: Pizza, cards, flowers, etc.

Allocation: By membership share. The IRS assumes partnership expenses will be allocated by membership share. If not, explicitly say so in your Partnership Agreement or By-Laws. Expenses allocated by membership share reduce the value of each unit, so everyone's value gets reduced the same percentage regardless of size.

Mutual funds allocate expenses by share, not by shareholders. When you sell a stock for a nice gain, it isn't divided equally by member, it increases the value of all units. If sold at a loss, all units are reduced. Why should a partnership expense be any different?

Equally by member, each member's account is reduced by the same number of units, which is unfair for members holding fewer units. They would be paying a larger percentage of their account toward the expense than larger owners.

Equal allocation of expenses works only if each and every member of the club gets the same benefit, like dinner out if all attend, or membership dues if everybody renews. This has the effect of each one paying their own. If some don't participate, to be fair those who do should write a separate check for their share,

not entered in the club books. Trivial non-deductible expenses like cards or flowers can be paid by the club since the club is doing it, or handled out of a cigar box not included in the club's books, if desired, your choice. That covers the why, now let's look at how.

Entering Expenses:

Software for all three programs does the same thing, in each, you choose:

- Date - when check was written
- Account - paid out of bank or broker funds
- Tax status - deductible or non-deductible
- Allocation - default is by membership share. If the club voted for equal on any item, check or select that option

For NCA3, the just issued new program, it looks like this

Enter New Transaction

Transaction Date:

Select Transaction Type:

Select Account:

Amount:

Equal Allocation:

Deductible

Non-Deductible

Remarks:

In NCA2 desktop,



New Cash Transaction

[Help](#)

Transaction Date:

Transaction Type:

Cash Account:

Equal Allocation

Amount:

Source:

In NOCA, the Online Accounting, under Cash Accounts/Expense

Date	<input type="text" value="7/20/2005"/>	Date of the expense.
Amount	\$ <input type="text"/>	The amount of the expense.
Account	<input type="text" value="Bank"/>	Account from which funds were drawn to pay the expense.
Tax status	<input type="text" value="Deductible"/>	Only expenses directly related to investing activities are deductible. (e.g. pizza for a club meeting is not tax deductible, copies of reports for your members are deductible)
Distribution method	<input type="text" value="By ownership share"/> (What's this?)	Enter whether this expense should be equally divided by all members of the club or by weighted ownership share (percentage) in the club. For example, if the expense is for copies of reports given out at a meeting, then a 'by member' expense might make sense. If the expense is for bond insurance covering the total portfolio, then it might make sense to distribute the expense 'by ownership share'.
Comments	<input type="text"/>	