

Finance

By Daniel M. Isard

The Case for Accountants

Most small business owners do not understand accounting. You do not have to comprehend the complex intersections of the general ledger, the balance sheet and the resulting income statement. Many think that the reason to do accounting is to file accurate tax returns. Accurate tax returns are important, but the reason to do accounting is to have the data to know what is driving or impairing your business.

The bigger issue is that it's more important to look at business operations than going through the motions of completing a tax return. With up-to-date financials I can see if a business is hitting its budget, and if not, why not. If it is exceeding the budget I can see if there is a changing trend. By blending the operational data with the financial data I can get down to a molecular level of business understanding. So, I don't have to concede a bad year, I can fix it. I know what to fix. I can see a problem while it is still an annoyance, long before it becomes a fracture.

The problem for you is simple. You assume all accountants are the same. They are no more the same than all funeral homes are the same. About 90 percent of all people performing public accounting are in the business of recording facts. These people take what you did and

put it in the right column. They don't tell you if something is out of whack because it is not their job. They don't know enough about your business to notice if a ratio is wrong. Only about 10 percent are proactive. They integrate the accounting with tax planning. These 10 percenters look to plan effectively and balance the ying and yang of cash flow, tax, budget, ratios, balance sheet, valuation and operations. They are expensive, but they are worth it! If you don't have one of these, now is when you are going to have a tear come to the corner of your eye wishing you did.

When evaluating an accountant, there are 10 checkpoints to consider:

Real Time

Nothing strikes me more as being stuck in the 1950s than the accountant that comes on site after the checkbook has been reconciled. In the real world, accountants can sit

in their cubbyholes in their offices and do all they need to do to keep your financial records up to date. The data can be accessed remotely and in real time.

Communication

If you get a profit and loss statement or balance sheet sent to you monthly and the report is accompanied by a form letter, you have a problem. You should be alerted about any problems that are starting. My company does the analysis on a quarterly basis for clients, as we know that while mortality or market share can shift month by month, it's normalized over a quarter.

Chart of Accounts for Funeral Business

The chart of accounts is the way you organize your profit and loss statement. Each type of business has different categories of importance. I

have done work on more than 300 business types. I used to specialize in collection agencies at the same level of expertise as I do in funeral service. I would no more use the chart of accounts for a collection agency, which is a high variable cost business, than I would for a funeral home, which is a high fixed cost business.

Balance Sheet is Up to Date

Too often in a small business the accountant focuses on the income statement or profit and loss statement. They pay attention to cash, accounts receivables and some liabilities. He or she may not adjust inventory frequently – thinking it really doesn't change. However, that omission can cause you to pay more in taxes! We need to respect the balance sheet just as much as the profit and loss statement.

Method of Recognizing Income/Expense

There are two types of methods for recognizing income and expenses. They are:

- a) Cash method
- b) Accrual method

You need them both. The accrual method for business data analysis and the cash method for tax planning. This is the perfect one-two punch. The problem is most accountants don't want to print out two forms from their computer. All it requires is unchecking a button on the setup page.

Business Entity Analysis

I see people all the time with the wrong type of business entity. I see some unincorporated firms that should be incorporated. I see some incorporated as a C corporation that should be an S corporation and vice versa. I see many that are LLCs because that is the fad. Just because you have been one type of entity doesn't mean that is the right one for now.

Get Depreciable Assets Working for You

Some assets increase in value and some decrease in value. Some assets

may not change in real value, but for accounting purposes they decline in value due to depreciation. Let us get it together and figure out who or what type of business entity should own what type of assets. Paying taxes is flexible. You can plan, legally, how much to pay. We all do that. Some do it better than others.

Retirement Plan is Up to Date

Nothing is more complex since the IRS and Department of Labor simplified retirement plans. The objective of these "simplified" retirement plans was to shift the investment risk to the individual participant. Furthermore, we wanted to encourage people to use more profit sharing oriented rules rather than pension rules. So, there are about seven different plans, and each has about five key component structures that can alter the amount contributed, and who, within the plan, that amount goes to. If you have had a plan for more than five years, chances are, it isn't right for you. If it is a plan set up by an insurance company, get a second opinion.

Budget Planning

Nothing is more boring than budget planning. To create a budget

takes making an educated guess of expected revenue and expenses. However, budget planning is the keystone to your greatest chance of profitability. Budget planning is the first step to setting your prices. Most funeral directors just take a pencil and add a percentage amount to their current prices. Many do something even sillier, which is to look at their competitor's prices and go a bit higher or lower. The only thing they should be looking at is their budget, which will indicate overhead and what pricing should be. Your accountant should be doing this on an individualized basis.

Passion

Can you hear my voice in your head as you read this article? I hope you can. I hope you hear me stutter as I try to get the words out fast enough. I hope you can see my hands shaking at the computer keyboard because I want you to learn from this. Your accountant should be someone who is not afraid to say "no." He or she should educate you and stand on the table and do a dance if you are making a mistake. If you don't have an accountant with passion, find one. •

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