

# CHOOSE A GOOD ACCOUNTANT

A GOOD NUMBER CRUNCHER IS VITAL TO YOUR FINANCIAL SUCCESS. SHOULD YOURS BE AN INSIDE EMPLOYEE OR AN OUTSIDE PROFESSIONAL?

BY RON EDMONDS

**M**any small business owners don't consider selecting an accountant to be a very important business decision. That can be a crucial mistake.

I can tell you many stories in which my clients didn't have the right accountant—and others in which the right accountant made all the difference in the world.

One client with more than \$2.5 million in annual revenue used a bookkeeper from a national tax preparation service to prepare his financial statements. The only problem was she got sick and ended up a full year behind in preparing monthly financial statements. (Actually, that wasn't the only problem...) Another client relied on a part-time CFO to fill the need. At one point, he was there one day per week. When times got tough, the client cut the part-time CFO back to

a couple days per quarter. That didn't quite work.

Most small businesses have one main advisor they go to for serious business advice. For some, that advisor is their accountant. For others, it's an attorney. For others, it's an industry consultant or a business coach. I've seen each of those possibilities work very well, but you do have to have an accountant, whether it's an inside employee or an outside professional.

*continued on page 36*

*continued from page 34*

To determine which set-up works best for you, consider what you need from your accountant. Of course, you must have an accountant or tax professional to prepare your tax returns. That's only the beginning, but sadly, in many cases, that's where the relationship between a small business and its accountant begins and ends.

### CONSIDER YOUR NEEDS

What do you need an accountant for beyond tax compliance? Here are a few things that come to mind:

› **Tax planning.** Tax planning is never easy for a business, but it's become extremely challenging in the current political environment. It's hard to plan when taxes and tax rates are uncertain and change frequently. You need an accountant who follows what's going on legislatively and at the Internal Revenue Service (IRS) and other taxing authorities.

› **Tax audits and controversies.** You need an accountant or other tax professional who can help you avoid problems, help resolve issues as they develop and guide you through an audit when necessary.

› **Accounting systems.** You need an accountant to help you set up an appropriate accounting system for your business. The real purpose of that accounting system is to give you the information you need to run your business. Many business owners and some accountants understand that. If you can't get accounting system advice from your accountant, where are you going to get it? There are some alternatives, such as consultants, who may or may not be accountants, who specialize in implementing accounting systems such as QuickBooks for small businesses. Nationally, there are a handful of consultants who specialize in implementing these systems specifically in landscape services businesses.

› **Financial statements.** Your accountant should make sure you have access to accrual-based financial statements (i.e., ones that match

revenue to the time period it was earned and expenses to the periods in which they're incurred). Usually, your accountant will compile, review or audit those financial statements. This is a frequent problem area, as tax-oriented accountants often will compile income tax-based financial statements that are cash basis, which are not much help in understanding how the business is performing financially. You also may be getting them very late, probably about the time your extended tax return is due. When it comes to running your business, that's ancient history.

› **Business advice.** Your accountant will develop an in-depth knowledge of your business and has done the same for many other businesses. You should

CPA. You may find an accountant with credentials, such as a public accountant or an enrolled agent who can serve you well, but make sure their skills extend beyond tax compliance.

› **Look at the range of experience.** Either your accountant or his firm should bring a range of experience, including tax compliance, tax planning, accounting systems and financial statement preparation. Be sure to ask about those qualifications.

› **Check industry experience.** Ideally, your accountant will have specific industry experience or be willing to gain industry knowledge through continuing education or using industry information available from trade groups. You also can share information from trade magazines with your

## MANY COMPANIES MAKE THE JUMP TO AN IN-HOUSE ACCOUNTANT WHEN THEY REACH \$3 MILLION TO \$5 MILLION IN ANNUAL REVENUE.

receive value from that experience. Your accountant should be able to advise on such topics as budgeting and working capital management.

### IDENTIFYING A WINNER

So how do you find an accountant who meets your needs? Here are some suggestions:

› **Look at qualifications.** You may want a certified public accountant (CPA). A CPA has four to five years of education, passed a challenging comprehensive examination and agreed to follow professional and ethical standards, including continuing education. But not all CPAs are alike. For example, I passed the CPA exam nearly 35 years ago and practiced as a CPA for many years. But I have never prepared a corporate income tax return for a client. Not once.

Your business may not require a



accountant to inform them of industry developments. Your financial statements should be prepared on a basis similar to other companies in your industry.

► **Ask for referrals.** One of the advantages of participating in trade associations is having a working relationship with your peers, sometimes even your competitors. You may be able to ask for a referral to an accountant with exactly the qualifications and experience you need. Accountants are bound by a high level of ethics, including maintaining client confidentiality, so it's usually not a problem to use an accountant who serves other similar businesses in the area.

► **Check references.** I recommend asking for—and checking—references for any accountant you're considering. They may not be of great value (who would give you an unhappy client as a reference to call?), but you can pick up information about how well an accountant actually performs. Do they meet deadlines? Are they accessible? Are they knowledgeable about issues?

► **Evaluate your accountant from time to time.** Choosing an accountant is not necessarily a one-time proposition. Like most other business relationships, it's a good idea to periodically evaluate whether your accountant is meeting your needs. Your needs now may be different than they were when you were a start-up. The accountant who served you so well in the beginning may not be the best fit for you now. Many companies wait too long to make a change.

At some point, it will become time to consider adding an in-house accountant. There's no magic formula, but many companies make that jump when they reach \$3 million to \$5 million in annual revenue. After taking the step, many business owners say it was the single best decision they ever made to improve their business and they wish they'd done it years earlier.

When you make that move, you should have the in-house expertise to better manage your business. As we've established, managing the relationship with your outside accountant can be

complicated. Most companies still need an outside accountant when they have an inside one, but there's a side benefit: Your inside accountant probably will be responsible for helping you manage your relationship with your outside accountant.

Selecting an accountant carefully is likely to pay dividends for your busi-

ness—some obvious ones and others less so. It's an important step in the process of building the foundation for business success. **LM**

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