# TALES FROM THE CRYPT
## JUNE 2007

For any small business owner that actually takes the time to review his or her tax return after their accountant has returned it to them, will find this as appalling as I did.

I was undertaking the arduous process of servicing and preparing the return for a brand new client when I realized something was frighteningly amiss. When we take on a new corporate or business client we spend a great deal of time doing our due diligence, studying the inner workings of each entity so we can completely comprehend how the business owner manages his trade. The only way we can be of true value to our clients, we need the complete picture, nuances such as knowing the owner's managerial style can be invaluable. The bottom line: There is much more to being a great accountant than being just a bean counter!

While on the topic of bean counting...The first thing we tackle in the due diligence process is complete review of the books. For example: Does the balance sheet match all the bank, credit and loan statements to see if the prior accountant was obtaining all the correct information? In specific case, after reviewing my client's balance sheet, I was shocked to discover that it was not only incomplete but also non-compliant. The assets had zeros in all of the columns (cash, security deposits, equipment etc). Holy Audit! The only business that was ever run in such a manner was Cosmo Kramer's, *Kramerica* from the *Seinfeld* television series. Let me assure you that my new client's office was not using milk crates for furniture and old Smith Corona's. There WAS equipment being used.

Adding insult to injury, on the liability side there was no mortgage payable, credit cards payable, sales, and payroll taxes, which are all liabilities of a cash basis taxpayer (understand that only accrual basis taxpayers have accounts payable). After obtaining all my new client's statements for the current year as well as the previous years closing statements, there were balances owed as of year end, which was not indicated on the tax return.

This client also had invested a great deal of money into his business (i.e. capital stock) and once again that column came up zero. After a reconstruction job on the balance sheet that rivaled the work done on *Steve Austin The Six Million Dollar Man*, I realized that the prior accountant did not even bother to take into consideration all of his assets and liabilities. My client also lost out on some deductions, such as checks being written in the current tax year that did not clear until the next.

Making sure a balance sheet and the books are in order will not only help to keep the IRS away but is also necessary if you want to expand. For example: equipment loans, lines of credit etc. Banks are not charities; they are going to demand to see the financials. Not to mention it's the law. The Internal Revenue Service specifically states that if your receipts or assets for the year exceed $250,000, then you must complete the balance sheet per books and not have it look like it was put together by the firm of *Dumb and Dumber*.

In order to make sure your accountant is doing the work he or she is getting paid to do, please ask some minor questions and you may be surprised with the answers.

Are you taking into account all my allowable expenses for the current year? Are you looking at all my credit card statements to make sure I am getting the correct deductions? Are you looking at my loan accounts and taking into consideration all my interest/finance expense? Also, are you taking into consideration the new equipment I purchased or lease? Understand, if you lease equipment, you may have to capitalize the asset because you have the true ownership of the equipment (the difference between and capital and operating lease is beyond the scope of this article) If you capitalize the asset you may be able to section 179 the equipment and reduce your taxable income for the current year.