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ACCOUNTING IS AN ART—AND NOT A SCIENCE!

By Vic Hausmaninger, CPA, CEO, HBLA CPAs

Early in my college education, I remember my Accounting 1A instructor quoting: *"Accounting is an Art and not a Science"*. The phrase always stuck with me but I never really understood the true meaning until many years later. The phrase was given additional meaning in my earlier years of public accounting when a client, having received an answer that said a tax position he wished to take was not supported by the IRS Code, replied: *"That's an unacceptable answer, young man—go back and figure something out!"* I went back to the books and quickly learned that I could find an acceptable alternative that met the requirements of the IRS *and* satisfied our client.

The Creative Approach

I make these introductory comments to introduce the philosophy that HBLA has used to service its clients, privately owned companies and their owners, since the firm's creation in 1985 – to *creatively use information* obtained from being in touch with national and local economic and industry developments, and from financial information obtained from audits, reviews, compilations and tax return services. We use this information to develop suggestions for our clients so they can respond timely to economic and industry developments. This proactive advice allows them to maintain control over operations, maintain or increase profitability (or minimize losses), and reduce current income taxes and future estate taxes. This service approach is summarized in our mission statement – *Making Your Business More Valuable!*

Creative Financial Services

The years starting with 2008 provided ample opportunities to demonstrate to our clients how the *creative use of financial information* obtained through our normal services resulted in recommendations to help them weather the storm caused by the recession and positioned them to be better prepared for the future. Simultaneous with the recession, income and estate tax changes created turmoil. At the last moment, most rates affecting income were extended without change (at least through 2012). The estate tax ended during 2010 and returned in 2011. For a while, this caused confusion for tax advisors, while at the same time, providing opportunities for reducing estate tax burdens (again, at least through 2012).

Here are a few real-life examples:

- In January 2008, before the word "recession" was used by media, but reflecting sensitivity to national and local economic developments, HBLA issued a White Paper to our clients and friends entitled "Responding to the Anticipated 2008

Economic Recession”. In this article we summarized the current economic trends and then went on to make recommendations focusing on capital preservation, cost reductions, and similar areas.
- Following up on the White Paper, we met regularly with clients to address new economic developments, and, where requested, assisted them to implement our published recommendations. In addition, our monthly newsletter continued periodic updates on the economy and other business and tax developments.
- In the latter part of 2009, we issued another White Paper titled “Preparing for the End of the Recession.” The paper discussed the importance of accurate cash forecasting to identify working capital needs. Cash would be needed to replenish inventory and receivables that were significantly reduced during the prior years. Accurate information would be necessary to work with financial institutions to assure adequate sources of financing for the upcoming growth. As we all know, things are moving a little slower than anticipated, but the recommendations and action steps are still applicable.

Many of our clients used selected parts of our White Papers to adjust their operations. One client, in particular, implemented pretty much all of the recommendations. As a result, although their sales dropped by almost 50%, the effect on the bottom line was totally offset by the timely action they took to reduce costs and modify operations. The end result? Even with the reduced level of sales, their net profits actually improved and their working capital position has remained strong and well prepared for the growth ahead.

Creative Tax Services

HBLA takes similar creative approaches to minimize taxes by using many often overlooked benefits available in the Tax Code: various tax credits (research and development, labor, etc.); accounting method choices (cash vs. accrual); selection of entities (LLCs, C-Corporations, S-Corporations; etc.); inventory costing methods (cost, LIFO, etc.); depreciation options (including cost segregation studies, etc.). In addition, we are working with our clients to review existing estate structures to evaluate modifications that should be made before the end of 2012, when major tax changes are anticipated for the future.

Looking back over the years of providing accounting and tax services to our clients, I have found that my Accounting professor was absolutely correct: *Accounting is an Art and not a Science*. May we never lose that perspective and always strive to creatively serve our clients to help them meet their goals and to *Make Your Business More Valuable!*

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