

# Well, the accountant just told me I don't owe any taxes, because I didn't make money last year!!

Over the years, I have seen the monthly financials from dozens and dozens of HVAC/plumbing firms. Many are well done, allowing the owner to use them as a tool for operating their business. But recently I have seen some that provide erroneous information or misleading information. Let's start with some basics of the monthly income statement.

You will notice in example 1, that the basics of an income statement consist of Income (stuff sold) minus direct costs (labor, materials, permits, and other direct costs) equals the gross profit (what you made before paying for the cost of operating the business) minus the operating expenses (rent, telephone, gasoline, utilities, and so on) equals the profit (or loss).

If you now look at example 2 you will see the same company, but without all the numbers displayed to give the owner the true operating information he needs. You will note depreciation (the useful value of trucks and equipment are less each month) is missing. The direct labor is not in direct costs but in operating costs. "So what", you say. To consistently use the operating statement numbers to run the business, the costs that are directly related to doing the jobs must be tracked against the sales. There are target percentages within the industry to strive for to be a highly profitable business. If you do not enter the numbers in a format which is consistent with the industry and accounting standards, then you can not compare your percentage numbers to the industry norms.

Now you may ask how these numbers get put into the incorrect location or don't show up at all. My accountant never said I need to change them or show them. Well, this may come as a surprise, but you need to change your accountant or change your accountant. What do I mean? Your accountant believes his job for your firm is to do the yearend financials for calculating the taxes you own the IRS and State tax authority. Perhaps you originally hired him for this purpose only, or perhaps you're not getting what you paid him to do for your company. Your accountant needs to be a member of your management team! He needs to be helping you understand the financial side of your business and how you can use the financial side to operate the business on a daily basis. He's probably not doing this now. So what do you need to do? Either change what your accountant is doing for you or change accountants. But I've had "Bob" for twenty years as my accountant. I'm afraid I'll have problems if I change accountants. Bob is doing a good job with my taxes. All these answers are BULL!!

A good accountant will help you or your bookkeeper setup the system so monthly you have correct information to operate your business. He will advise you annually, semi annually, quarterly of how to understand the meaning of the numbers and give you suggestions on what to do to improve the numbers. A good accountant will help you put more money to the profit line of the operating statement. Will it cost more money? Maybe. Will I have difficulty finding a new accountant? Maybe. Will it be easy to find a good accountant? Maybe. But who said operating a business is easy, without risk, and decision free? Not the successful businesses of today. Only those who have not tried it.