

More than just numbers

Why your CPA should know your industry

It's an accepted fact that CPAs understand the intricacies of financial statements, ever-changing tax laws, and various accounting standards and methodologies. But is that a sufficient background for an owner in a particular industry to hire someone as its CPA? When you're in the construction industry, the knowledge and experience of your CPA can make all the difference.

"A CPA should really understand the nuts and bolts of the construction industry if a contractor is truly going to have a valuable business partner in its corner," says Warren E. Hennagin, longtime director of Glenn M. Gelman & Associates, Certified Public Accountants and Business Consultants.

Smart Business asked Hennagin about the value CPAs provide when they thoroughly understand your industry.

What is the value of a CPA who both understands your industry and is aware of current trends and issues affecting it?

The client-CPA relationship should be seen in broad rather than narrow terms. A CPA that thoroughly understands your business can function not only by preparing taxes and financial statements but also by being a valued business consultant and 'quasi' partner. In the construction business, that means understanding virtually anything that has a financial impact on a project or a company. Some of these factors include being able to evaluate various accounting software packages as well as internal company procedures so that proper estimating, bidding, job cost control, change orders and burden allocations are easily and properly handled.

There are also many federally sponsored programs, each with its own set of complex regulations that your CPA might be able to help you navigate through. One such initiative is the Small Business Administration (SBA) 8(a) program for small 'disadvantaged' businesses. Ideally, the CPA firm should also assist the company with its long-term planning, so that the type of entity, systems and other resources will be appropriate for the goals of the company.

What kinds of industry-specific knowledge should your CPA have in order to assist your company?

A CPA for the construction industry should understand new or improved building methods and materials including the



Warren E. Hennagin
Director
Glenn M. Gelman & Associates

increasing desirability of, and prerequisites for, environmentally friendly LEED certification projects. CPAs can help their clients by understanding the nature and scope of all the various insurance risks companies are exposed to, as well as knowing what techniques and cost-saving strategies best protect a company from those risks.

The correct business structure for a company is also important. There are C corporations, S corporations, LLCs and other legal structures available to businesses. Your CPA should help you with the appropriate entity not only for today but also for your long-term goals.

In this current difficult environment, many contractors are now looking to do public work projects. This type of work requires bonding and often has special rules regarding the bidding process. Maximizing your bonding capacity allows you to consider larger, more lucrative projects, but obtaining a bond usually requires a more stringent level of independent CPA involvement. However, even if your bid on a project is not the lowest, you might still get the job because another firm's bid, for one reason or another, is disqualified. A knowledgeable CPA can help you make sure your bid meets all the requirements of the job.

Of course, CPAs should routinely consider the tax implications and strategies that

can be used to improve a company's cash flow and profitability including both carry-forwards and carry-backs.

How does a CPA's thorough and deep knowledge of an industry benefit a client?

A CPA with broad and deep relationships in the industry will likely see the best practices of a wide variety of companies. CPAs will have clients that have faced, and hopefully overcome, significant problems and unusual circumstances. In the field of construction, they will also tend to have more robust and widespread relationships with legal, insurance, surety and banking institutions. All of these industries are increasingly important in today's business climate. For example, the demands of banks and sureties can conflict with the goal of minimizing taxes. Banks and sureties want to see solid earnings and ample working capital and liquidity. An owner's instinct might be to minimize or defer profit in order to reduce that tax burden. A knowledgeable CPA must work with you to manage this delicate balance.

What are the benefits in having a CPA who is familiar with legal issues affecting your industry?

There are definite and substantial benefits when your CPA has a solid appreciation of the legal perspectives that impact your industry. This knowledge can be critical when disputes or other problems arise. Knowing what documentation is needed and what procedures must be followed to protect your rights can make a significant difference in the ultimate resolution of a problem. For example, as soon as an issue regarding a construction claim arises, a contractor should set up a separate job or phase relating to that claim so that all of the costs in question are segregated and isolated from work that is not in dispute. The party with the best recordkeeping is in the best position to prevail in any legal dispute. Setting up proper accounting procedures for the timely processing of change orders can often prevent potentially costly legal disputes.

A CPA that works with the construction industry should be fully immersed in that arena. There is no substitute for industry-specific knowledge and understanding. <<

WARREN E. HENNAGIN, CPA, MS-Tax, CCIFFP, is the director of Glenn M. Gelman & Associates, Certified Public Accountants and Business Consultants. Reach him at whennagin@gmgcpa.com or (714) 667-2600.

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