Nagel on Finances: Accounting and accountability

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RIO RANCHO, N.M. — Every tax season seems to have its own unique characteristics.

The past two years have been particularly troublesome because of COVID Relief legislation.

To be sure, though, all tax seasons have much in common. Long hours, deadlines, taxpayer anxieties over unanticipated amounts due and lack of planning and organization are always present.

Unfortunately, one of the most common challenges we experience this time of year is “bad books.”

If you own a business, pay close attention. If you do not, read this to help your friends and family members who do.

The famous Italian mathematician Luca Pacioli is credited with being the father of modern double-entry accounting — in 1494! It occurred to me recently that 527 years should be sufficient time to learn how to avoid bad books.

We are simply without excuse. Today, modern tools have made Pacioli’s 500-year-old idea a much more simplified process using computers and software. Maybe too simplified.

The great marketing giant, Intuit, sells its QuickBooks software by promoting the notion that it is so user friendly, anyone can use it. Therein lies the danger.

Like Nobel’s invention, dynamite, it is simple to use, but when used incorrectly, it can produce horrible results.

Good accounting for business activity demands a fundamental knowledge of the basics of the profit motives behind commerce. Understanding the double-entry concept is a good start, but must be made complete by understanding how bank activity is separated into assets, liabilities, equity, revenue and expense.

Applying the profit equation here is fundamental. It is not a political statement.

Good books produce good financial statements. Good financial statements tell a very important story about your very important organization.

The results create opportunities to maximize revenues, minimize expense and, therefore, increase profits, even cash flow. This is my point.

On the contrary, bad books create fiction, even deception. In business, failure to know the truth can be terminal.

Bad books can lead to bad decisions. Bad books can create dangerous compliance issues, like unreported income or invalid expense deductions, both potential crimes.

Bad books this time of year are often the primary cause of unexpected delays in tax filings and unplanned expenditures to fix bad accounting.

Here is my concern. As the economy re-opens and pent-up demand skyrockets (as commonly predicted), good accounting will be imperative for managing the effects of rising prices caused by labor and material shortages.

New opportunities will surface because of technical innovation.

Eagerness to expand comes naturally in a good economy. Expansion requires capital. Lenders and investors will require good financial statements before risking their capital.

Handsome exit strategies are likely to surface. And we all know, taxes are expected to increase.

Be prepared or be left behind.

Get ahead of the challenge now by investing in your business's accounting skills and tools — a nominal investment guaranteed to pay a good return.

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