

## **Preventative Accounting - by Dan Sautner**

It would seem that after centuries of double-entry bookkeeping, nothing more could be said about accounting. Up until now that was probably true, but now accounting has to move to the next step. Instead of just speaking about the past in the format of numbers, we must begin adapting numbers to actions in the future. We must help our customers prevent problems, hence the new term - Preventative Accounting.

Preventative Accounting seeks to help people do better, rather than analyze why they have failed. The products of accounting should not be used simply to understand what went right and what went wrong. The current statements that are produced by accountants are nothing more than a historical look at past decisions. The numbers themselves, even when compared to historical results, budgets, and industry averages, simply represent the cooling corpse of the business that was transacted yesterday. Preventative Accounting focuses on more - preventing problems and identifying opportunities.

To begin with, Preventative Accounting only focuses on the important numbers. Our statements do not have as much detail. We refuse to fracture important numbers like wages into so many small sub-categories that the importance is diluted to the point where a really important number becomes a series of small and unimportant numbers. We want to keep the focus narrow and sharp.

Speaking of small and unimportant numbers, get rid of them. My mother tried to teach that if I took care of the pennies, the dollars would take care of themselves. Well, she was wrong. Take care of the big numbers; small numbers cannot help you. Changing my postal expense 100 percent has the same effect as changing my gross profit margin one tenth of a percent. Focus on the important, changeable number that can guide you into making more money.

I am always amused by the amount of detail current statements go to in describing fixed expenses. Got a line called rent? Got a five year lease? Got current month and year-to-date for the numbers? When was the last time you learned anything here? Is it not time that we simply grouped the costs of opening the door in the morning into "Costs of Opening Door Each Month"? It is great to know that my electric bill is up, but until I learn how to control the weather outside, it isn't much use.

I am only slightly suggesting that we should move to a three account format of "Cash In", "Cash Out", and "Cash Left." Most customers in small business would do better with this concept. More so than with the immense detail provided on the premise that more is better. I have actually heard other accountants discuss how to "fatten up" the product. I have never heard a client complain of too little paper, just about meaningless paper. Preventative Accounting decreases the paper and increases the discussions.

Preventative Accounting wants to focus the attention of the small business owner on things that are up-coming. First, we want to see the tax liabilities, how much they are and when they are due.

Unlike other suppliers who will quickly remind you of a late payment, the government won't come around until the liability is too deep, and they will want their money immediately. Besides, name another payment that has the ability to increase by ten percent if you are one day late. These payments prevent tax and compliance problems.

Preventative Accounting means taking the accounting to the client, not the client bringing paper to us. We pick up the work and we deliver the work. Accounting relates to reality, and if the person preparing and using the numbers cannot do it in the place the numbers are created, it becomes academic. How can I talk about inventory growth when I am not in the place where the inventory is kept? How about advertising expenses? It makes more sense to speak about them when I can see the results of the traffic they have generated. The days of taking time out of the business of making money to trundle down to the accountant's office are over. Accounting, to be useful, to be preventative, should come to you.

Preventative Accounting also means getting things on time, which is to say early. Our clients need to save for big cash pay-outs. It does them no good whatsoever to get the sales tax remittance form the day before it is due. The same is true for the payroll tax remittances. It is better to get these large dollar outlays earlier than you need them in order to "prevent" penalties and cash shortages.

On time also means "in time." We believe that customers need the information while it is fresh enough to institute change. There is no real point in discussing the margin for last year when I can only change the margin for this year. If my labor costs are rising too quickly, I need to know now; this way I can prevent losses.

In the Preventative Accounting world we are looking for opportunities for tax savings throughout the year. The best tax person in the world cannot change the past, and once key dates expire or transactions are completed, nothing can help. You can reduce taxes with Preventative Accounting.

Preventative Accounting also means looking past the numbers into the business at hand. Is cash being used properly? Is the client periodically looking for a better price from suppliers? Is the company staying abreast of price changes in its suppliers and competitors? These are the issues that good accounting can provoke. Searching for opportunities is a basic of Preventative Accounting.

Finally, Preventative Accounting seeks not only to talk about the past, but to influence the future. It does this through close, regular contact with the accountant in order to prevent problems and identify opportunities. It may seem like a change, but we prefer to think of it as a return to the basics of customer service.