

## Defense Mechanisms

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By Michele Marrinan

Cindy Ball knows how painful a tax audit can be. As the office manager of Schodack Septic & Trucking Inc., she recently underwent a New York State sales tax audit of the company owned by her husband, Fred. She wound up pulling out the paper trail on nearly every transaction the auditor asked her for. When the auditor wanted tax-exempt receipts from qualified customers, off Cindy ran to fetch them.

It's difficult to estimate the cost of an audit. According to the American Institute of Certified Public Accountants in New York City, the price tag depends on a variety of factors, including the type and location of the business and the time of year. An audit also takes time away from the business. You can't run your business if you spend half the day answering an audit officer's questions.

"I just want to choke her," Cindy said of the auditor last summer, while she was in the depths of audit hell. Even so, she admits that the audit would have been much more arduous had there been no computerized records. "It was definitely easier," she says. "When [the auditor] sat with me I could look up everything for her."

Last year, the Balls computerized the financial records for their six-employee firm in Castleton on the Hudson, N.Y. As a result, Cindy was able to provide six months of computerized records. She found out what far too few small-business owners already know: That computerizing their financial records can save them a lot of hassle in the event of an audit.

In their simplest form, accounting software packages can be used as check ledgers. In their most complicated form, they can be used to track accounts receivable and accounts payable, calculate quarterly tax payments, generate profit-and-loss statements, and track inventory and purchase orders. Even shrink-wrapped software programs like QuickBooks and Peachtree can help you keep financial matters within easy reach. That could mean big savings, considering that the cost of an audit is measured largely by the time it takes away from your business.

### When Push Comes to Shove

"Few businesses are keeping good records because at the end of the day, after you've spent 60 hours running your business, who has time to do the accounting side?" says Robert Walsh, CPA/PFS, CFP, of Lighthouse Financial Advisors in Jersey City, N.J. "For a lot of small-business owners, it's an expense, and you can't justify hiring an accountant at \$200 an hour because you just don't have the cash flow."

It's a good idea, however, to find an accountant or a bookkeeper with an accounting background. They know the ins and outs of record keeping and audit defense. Many will also install accounting software and provide training. For instance, when travel and entertainment expenses got out of hand at xynoMedia Development, CEO Lena West enlisted the help of two accountants for her Yonkers, N.Y.-based technology consultancy.

"The accountant counseled us to get a system in place," West says. "We would have probably survived an audit because we were not doing anything illegal, but it would have been a tough go for us. We would have devoted a lot of time and energy to that audit, and it would have been a cost for us."

West's accountant set her up with QuickBooks and Peachtree, though she admits she's not sure exactly how the combination works. West, her two employees, and her network of independent consultants simply input their own expenses. But West does know one thing: It works. She says that she's confident her accountants could satisfactorily answer an auditor's questions without giving away too much information.

## **Find a Match**

Finding a system that works for your business could be as simple as a trip to the local office superstore. "I've gone into businesses that have paid \$3,000 to \$4,000 on a custom-made software program that is causing nothing but problems," says Brian Wiese, owner of By the Book Solutions Inc., a financial technology firm in Albany, N.Y. "Make sure that a custom-made software program is really necessary. The majority of businesses I've run into that have custom software packages end up throwing them out and sticking with something like QuickBooks because it can do the same thing." Tools are only as good as the people using them. Financial software packages are no different. Wiese says that lack of information can seriously handicap your accounting system.

"The more information, the better," he says. "Type in as much information about a transaction as you can, information that could bring it back to memory. Using that simple little [description field] can make a world of difference in trying to jog your memory about a transaction. It makes it easier to explain what expenses are and what they're for."

Another stumbling block can be finding information once you've input it. That goes for electronic records and the considerable paper trail that you'll need to back up your electronic records during an audit. "The biggest problem many businesses have is finding the information the auditor is looking for," Wiese says. "Being organized means having a filing system that's simple."

## **Smart Move**

Implementing QuickBooks was a no-brainer for West. In order to protect her growing consultancy from a possible audit, she realized that a financial accounting system was necessary. Without it she would have been unable to easily access her financial records for an audit officer's review.

The tough part was convincing her employees that it was necessary. "People didn't want to get used to a new system," she says. "They were being old fogies about it, but there was no technical or tactical reason why we should not have been using this system. I told them to get over it. There are a few things you just don't fool around with, and the IRS is one of them."

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