



ACCOUNTABILITY SERVICES
ACCOUNTING • TAXES • BUSINESS CONSULTING

There's More to Your Numbers Than Your Tax Return

Many independent professionals and business owners mistakenly lose focus on the *numbers* until it's time to pay their yearly taxes. Tax returns, however, do not necessarily represent the true financial health of your company.

In fact, tax returns represent only a slice of your real financial picture. Here are some important reasons why you **should not** focus solely on the results of your tax returns:

1. The recognition and measurement of income and expenses differ widely among businesses based on entity type, tax guidance, and management decisions. Therefore, two similar companies could have very different tax outcomes.
2. Tax returns are prepared in compliance with IRS and state taxation codes. The numbers on your tax returns are adjusted to fit into those guidelines and do not follow generally accepted accounting principles. If tax returns provided a true picture of a company's financial health, then publicly traded companies would need only to provide stockholders with copies of their tax returns!
3. Your tax return takes into consideration tax deductible items only. For instance, your business may have incurred health insurance premiums which may not be tax deductible. Also, many business meals, client appreciation, and auto expense deductions are reduced, therefore, inflating profits for tax purposes.
4. You lose month-to-month comparisons of key metrics, including checkpoints on your business plan. By becoming aware of these fluctuations, you will have the time to investigate the drivers of these changes, if they are not evident.
5. Your accountant typically completes your tax return 15 to 20 months after the start of the year. By waiting for the results of your tax return before you decide to implement changes, you may lose significant time and opportunities. In today's fast-paced market it is essential to address business problems when they arise, not a year and a half later.

6. Tax returns don't give you comparative financial ratios. And, they don't provide you with the numbers needed to generate these ratios:
 - a. Profitability Ratios - measure the success of your company's ability to generate profit.
 - b. Liquidity Ratios - measure your company's capacity to pay its debts as they come due.
 - c. Leverage Ratios- indicate the long-term solvency of your company.
 - d. Operations Ratios - evaluate how well your company manages its assets.

7. At some point you may need to apply for a line of credit, or finance an expansion or major purchase. Your banker will need past and current copies of your Balance Sheet, Income and Cash Flow Statements.

These seven strong reasons underscore why you should focus on your numbers more than once a year at tax time. To get a true understanding of the health of your company, review and learn to understand your finances on a monthly basis,

Work with a tax preparer who will step outside of the tax box and offer you more than just your yearly tax return. Get the end-to-end integrated guidance and oversight you need from a financial team.

Accountability Services is a full-service accounting, tax and consulting firm that caters to family and privately owned companies. The firm was founded in 1997 in Seattle, WA.
