



who don't want to follow them.

Just because many of these left-brained disciples of the numerical universe don't sling a guitar doesn't mean they don't have the business perspective to help you run your music store's financial operations. In fact, while you do gain valuable input from other financial advisors like your attorney and banker, it is your accountant that will most likely have the greatest ongoing impact on the financial direction of your business.

Many business owners only turn to their accountants during tax season or for help preparing year-end financial statements. This is a mistake. Financial advice from your accountant is invaluable at various times throughout the year and the life cycle of your business. So let's discuss the different types of accountants, the times that you need an accountant, how to find the right accountant and many of the other questions you've been dying to ask about accountants.

*Q: How do you drive an accountant completely insane? A: Tie him to a chair, stand in front of him and fold up a road map the wrong way.*

## Choosing the Right Car Parking Attendant (CPA)

**B**ean counters; Pencil-Necked Geeks; IRS Henchmen; Pocket-Protected Desk Warriors; and, my favorite, the ever-popular Anal-Retentive Dweebs with Sponge-Like Personalities that Resemble a Soap Dish.

These and scores of other jocular names have plagued accountants since the first one was discovered.

*Q: Who was the first accountant?*

*A: Why, it was Adam, of course. After all, he did make the first entry.*

Yet it seems unfair that accoun-

tants should be ridiculed for choosing what most consider a tedious and uninteresting career of adding-up numbers, pushing a pencil and wrestling with the conflict between unpopular (and complicated) tax laws and their clients

### The Real CPA (Certified Public Accountant)

*Q: What's the definition of an "extroverted" accountant? A: One who looks at your shoes instead of his own when talking with you.*

Let's start by discussing the differences between a CPA and a non-certified accountant. While a non-certified accountant is essentially a well-trained bookkeeper, a CPA must go through a rigorous process



to obtain the CPA designation. Before receiving the designation of CPA, the candidate must have a four-year college degree (five years in some states); pass a rigorous multi-part exam on accounting practices, theory, auditing, law and ethics; and log at least two years of on-the-job training in accounting, auditing and taxes. And after earning the CPA designation, they must complete at least 40 hours of continued education and training every year of their career.

According to the American Institute of Certified Public Accountants (the professional organization that administers the CPA exam), there are more than 130,000 CPAs currently in public practice in the United States. But that number is dwindling, and fewer college graduates are choosing a CPA career for many reasons: the continued rigors of the CPA exam, complicated and ever-changing tax laws, tougher auditing and reporting standards, the litigious nature of many clients and the annual drain on the CPA's family life during tax season. Given this trend, finding the "right CPA" is going to become increasingly difficult (and probably more expensive).

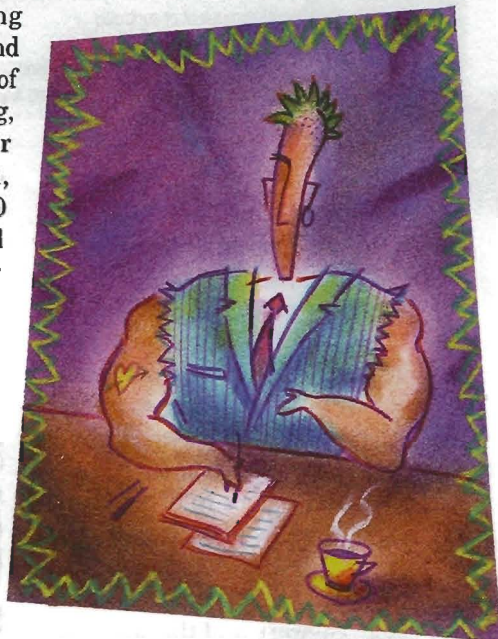
Beware: Given the various disciplines and areas of expertise that clients expect their CPA's to possess (accounting, auditing, tax compliance and planning, management consulting, business valuations, estate planning, investment counseling, forecasts and projections, business planning, etc.), the day of the sole-practitioner CPA is swiftly ending. Individual CPAs are being forced to either specialize in certain industries and/or specific areas of practice, join larger firms that offer more varied services or simply get out of public accounting.

## Taking Care of Business

*Q: What does an accountant use*

*for birth control? A: His personality.*

Over the long haul, your CPA should serve as your most trusted financial advisor. If you can't rely on



your existing CPA firm to provide input on key financial decisions like those listed in Chart #1 (see page 32), it might be time to find a new firm that can help you over the major financial humps you're sure to face as you grow your business and battle the enemy (local competition, "big box" retailers, internet and catalogue retailers, etc.).

## Finding a CPA

Finding a CPA is pretty easy. Finding a "good" CPA requires some inquiry. Finding the "right" CPA requires both research and time.

There are a few things that you should do if you're in the market for a new CPA firm. Talk to your banker and attorney because they have a vested interest in who you select as a financial advisor. Talk to other retailers in your area; even some friendly competitors (especially if they're using the same accounting software as you). You can call your state's Society of CPAs for a complete listing of the firms in your area. You can even surf the internet to find CPA

firms by geographic location and expertise (check out [www.cpaaffirms.com](http://www.cpaaffirms.com)). I suppose you can even hang out in places where CPAs hang out (i.e. office supply stores, your local IRS office, the city morgue).

## What to Look for in a CPA

*Q: What's the definition of a good accountant? A: One who when asked "What's 2+2?" responds "Whatever you want it to be."*

As you search for the right CPA for your music store, the first rule of thumb is to take your time. Don't settle on a CPA just because they happen to be your friend or because their office is conveniently located near your store. Your goal is to find a CPA who not only has the expertise to prepare financial statements and tax returns but also possesses an understanding of the accounting and tax quirks of music retailing. They should also be able to provide insight and smart recommendations to help you better run your business. Here's five important factors to consider in your search for the right CPA:

**1 Industry Expertise.** While it may not be necessary to find a CPA who works with 10 other music stores, you certainly don't want to hire a firm that specializes in dairy farming or waste sewage plants. Make sure the CPA or their firm has strong experience in retail accounting and taxation.

**2 Honest Objectivity.** You will often hear CPAs speak of two important ethics that are the cornerstone of their profession: independence and objectivity. CPAs are required and taught to be independent (free from conflicts of interest) and objective in their thoughts, recommendations and actions with regard to their clients' business affairs. Therefore, it is vitally important to find a CPA who not only adheres to these ethical standards, but is also willing to ask



hard (and often sensitive) questions in regards to your financial and decision-making abilities. You don't want your CPA to be a "yes-man" if your business is headed in the wrong direction.

3

**Financial Reporting Expertise.** Your CPA firm should be capable of not only deliver-

ing various financial-reporting services, but also capable of preparing their reports and footnote disclosures in conformity with industry standards.

4

**Tax Expertise.** Even if the CPA serving as your contact to their firm doesn't

have tax expertise, someone in their firm should possess the skills necessary to help you meet your tax-reporting obligations. Just like with financial reporting, there are a few out-of-the-ordinary issues that affect the taxation of music retailers (i.e. taxation of rent-to-own contracts).

5

**Similar Business Style and Compatible Personality.** You may find a CPA who

meets all of the aforementioned criteria, however, if your business styles differ (i.e. your CPA laughs at you when you ask a question) or you're not comfortable working together (i.e. your CPA thinks musicians are the by-product of a gene pool exposed to large doses of radiation), the relationship probably won't last very long. You may want objectivity, but you don't want someone who butts heads with you on the smallest decisions or is ultra-conservative and tries to talk you out of anything new or different.

### How Much Does a CPA Cost?

Ask a group of CPAs and they'll tell you "not enough." Ask a group of retailers and they'll tell you "too much." If you've worked with a CPA in the past, you know their services aren't free. And they shouldn't be. CPA firms make money by provid-

#### Chart #1—Your CPA should be consulted before making any of these critical decisions:

1. Setting up or changing your legal entity.
2. Leasing vs. purchasing a major asset.
3. Opening, acquiring or closing a retail location.
4. Borrowing money from a bank or raising equity from investors.
5. Purchasing or changing the computer system used to run store operations and accounting tasks.
6. Hiring an internal accountant or controller.
7. Selling all or a part of your business.
8. Establishing or changing your employee benefit plan.
9. Establishing a buy/sell agreement between you and any other owners or purchasing "Key-Man" life insurance.
10. Planning for succession and estate taxes.

ing financial services to businesses like yours. The value of these financial services is measured by the dollars you save through their advice, the taxes you don't pay because of their planning and the funds you acquire from their influential bank presentations. What you need to figure out is the fine line between what you can afford to pay a CPA and what you can't afford to do without in terms of services and advice.

CPA fees can vary widely depending on the expertise of the individual doing the work and the size and geographical location of the firm. You can generally expect to pay \$75 to \$100 an hour for a sole proprietor CPA; \$100 to \$200 an hour for a partner in a local CPA firm; \$200 to \$250 an hour for a partner in a regional firm; and \$250 to \$400 an hour for a partner in a national firm. Staff level CPAs generally range from \$40 to \$150 an hour, depending on their experience. Bear in mind, a good CPA firm will use qualified staff to do much of the routine accounting and tax work in order to keep the overall fees at a reasonable level.

### Cost vs. Value

**Q: What's the definition of an accountant? A: Someone who knows the cost of everything and the value of nothing.**

A good CPA will save you money by developing tax minimizing strategies, identifying and resolving problems that plague your retail operations and helping you grow your business in a controlled and profitable manner. But I believe the "best" CPA is someone who will not

only do all of the above but will also educate you in the process—thereby allowing you to help yourself along the way. For example, by learning to read and interpret financial statements, you can anticipate profits and problems before they occur. This, in turn, allows you to utilize your CPA for high-level services (retail consulting, business plans, forecasts, tax and estate planning, etc.), instead of as a glorified book-keeping service.

### Some Final Thoughts

Choosing the right CPA is one of your most important business decisions. The days of being forced to use a local CPA are swiftly nearing an end. Banks and business owners alike are beginning to recognize the importance of finding a CPA who understands your business and can communicate that understanding so that decisive action and business decisions can be made in a timely fashion. In-depth industry knowledge—coupled with the latest computing technology—can put the right CPA firm at your doorstep. Most importantly, take the time to find the one who will provide the appropriate level of service and expertise to help you run your business more efficiently. Did you notice how I never described the "perfect" CPA? That's because they don't exist.



Alan Friedman, C.P.A., provides accounting and financial services to music industry clients. He is a frequent NAMM University speaker and can be contacted at 866-521-3790.