

The Right Accounting System

Garvey & Garvey uses its expansive accounting knowledge and experience to identify all ramifications so you're empowered to decide what best serves you long term.

Challenge

A potential client was referred to us because their previous accountant had tangled their income and payroll tax affairs. They were looking for an accounting firm that could manage their income tax situation and act as an adviser on financial, tax, and general business related matters.

It became apparent to us that client's accounting information system was unreliable. We recommended a change in accounting system which the client initially resisted. We worked with client's original information system and untangled their income tax situation as well as provided information and explanation on areas of profitability, cash flow, and tax matters.

Results

Client began to expand rapidly, accepting multiple large contracts. Cash flow suffered and the client did not understand how this could happen given the procurement of the multiple large contracts. We again suggested a different accounting information system with proper project costing and the client accepted our suggestion. We installed the new accounting system and trained with client's staff, (many of which did not have strong accounting backgrounds) to ensure that they would get the most from their new system.

The client agreed to an arrangement where we would meet on a monthly basis to review and help maintain their accounting system, as well as meet with key employees to discuss financial and tax related matters. We discovered that client was not meeting the profit margins from which proposals were derived. Furthermore, we

provided breakeven analysis to show client the level of revenue producing activities necessary for client to achieve profitability at the margins included in proposals. It was immediately apparent to the client that it likely could not achieve the level of revenue producing activities that would be necessary at the profit margins included in proposals.

The client is still in the process of figuring out areas of focus with regard to project procurement, but they are doing it with a complete understanding of the inter-connectedness of profit margin and volume. They will no longer accept projects with profitability levels that cause breakeven points to exceed their capacity for revenue producing activity. At the time of this writing, the economy is in a diminished state, however the client has started to achieve months of profitability and positive cash flow.