The San Fernando Valley Business Journal has once again turned to the experts at gish SEIDEN LLP and SRG, LLP – who are among the leading accountants in the region – to get their assessments regarding the current state of business accounting, economic variables, and the various trends that they have been observing, and in some cases, driving.

What follows is a series of questions we posed to these financial stewards of the Valley area and the unique responses they provided – offering a glimpse into the state of business accounting in 2019 – from the perspectives of those in the trenches delivering financial advice and leadership to the businesses of our region today.
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Are the current administration’s fiscal policies affecting your clients?

WOLFE: Yes, we have several clients impacted negatively by the tariffs on Chinese imports. For example, we have an air filter manufacture whose steel needs is imported from China and a sporting goods manufacturer who relies on its Chinese supplier for a valuable component of the product. This has put pressure on product margins as all of the higher cost of inputs cannot be passed through to customers.

How do you see the general accounting model changing in the immediate future?

GREY: The post-Enron environment resulted in a series of new accounting standards aimed at driving improved financial reporting, but didn’t differentiate between public and private companies. This created significant challenges for non-public companies to provide usable financial information within the existing framework at a reasonable cost. In recent years, there has been greater acknowledgment of the need for financial statements aimed toward the needs of the users and reducing the cost of complying with highly technical accounting rules. This resulted in the creation of accounting alternatives within U.S. GAAP for private companies. Taking this even further, for small- and medium-sized entities (“SMEs”), the ASC has introduced a financial reporting framework for SMEs, which is focused on producing plain-English financial statements that are specifically targeted toward needs of the users of the financial statements for SMEs. The result is financial statements that are more understandable at a lower cost to produce.

Are there any new accounting pronouncements that will greatly affect future financial statements?

WOLFE: Yes, there are new accounting rules for operating leases. Beginning in 2020 for private companies, operating lease liabilities will have to be reported on the balance sheet. The offset will be a right-of-use asset that will depreciate over the length of the lease commitment. Covered under the new rules are all leases in excess of one year in length. While tax law differs significantly from accrual accounting. This difference can yield lower taxable income without impacting the accrual-based EBITDA of the company. We evaluate each company to identify areas where the financial statement and tax reporting can be separated by applying different year-ends and methods of accounting. We use the GAAP and tax rules to our clients’ advantage, while maintaining integrity in all aspects of our reporting. This is another example of our creative, value-added approach to solving our clients’ problems.

What are some of the biggest mistakes companies make when it comes to managing their finances?

WOLFE: We find that some businesses run into a cash squeeze caused by a mismatch of their debt and their assets. Borrowings that are term loans that require monthly principal payments do not fill the need of working capital. Instead, owners find themselves funding working capital because cash flow from operations is needed to meet long-term debt obligations. This scenario, sales growth actually puts more strain on a business’ cash position and owner.

GREY: Companies need to better plan for their financing needs, and more effectively project their covenant performance. This planning helps to confirm and maintain compliance and the conditions required to increase their credit facilities. Companies also need to communicate more frequently with their lenders, in either positive or negative situations. The biggest mistake companies make is that they try to reduce their tax obligation in the same entity that they are using to borrow from the bank. Tax minimization and financial statement optimization are mutually exclusively and cannot be achieved in the same entity. The SRG Advantage is the emancipation of the financial statements from the tax returns, yielding our clients optimal results.

What are some of the top concerns of CFOs and what are some of the biggest mistakes companies make when it comes to managing their finances?

GREY: The regulatory environment has made it more difficult for many of our clients to operate their businesses. The International Tariff issues have caused certain of our client’s significant concern as this impacts their costs and their customers’ order volume. These clients have purchased more inventory than they need which impacts their cash flow. The lenders are tightening credit policies, which exacerbates the problem.

What role can smart accounting play when it comes to helping a company grow its business these days?

GREY: The CPA firm needs to identify growth opportunities and help clients implement strategies to optimize their market share. Short term, mid-term and long-term planning contributes to achieving these goals. Once a comprehensive business plan is developed, our firm will introduce lending institutions, private equity firms or private sources to achieve the goals. The accounting firm is an active partner with its clients in reaching their goals. Continual monitoring of results is a critical contribution of the accounting firm. The business plan and forecast should be monitored and revised regularly to properly plan for the company’s success.

What are some of the things that tech-savvy accountants can do for their clients now that they couldn’t before?

GREY: Our services have evolved to meet the changing landscape of business operations today. We are active in strategic financial consulting, acting at a level of a Chief Financial Officer and, in some cases, as the Chief Executive.
OUR EXPERIENCE
BRINGS YOU IN.
OUR PEOPLE
BRING YOU BACK.

Since 1942, our accountants have counseled medium- and small-sized businesses with the best in accounting, tax and financial advisory. Today, we focus on the same goals: meeting our clients’ needs and exceeding their expectations.

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Management Advisory • Financial Consulting • Specialty Services

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SARGIS ISAVI

Officer. Many of our partners and professional staff have been controllers, CPAs, or CEOs. This seasoned experience at a high level gives our firm a unique ability to meet our clients’ needs. We are also actively involved in the Mergers and Acquisitions activities from the buy and sell side, selecting the appropriate investment banker, and assisting with long-term planning for tax minimization and succession planning. We have developed highly effective strategies to eliminate or substantially reduce estate taxes and regular taxes from the sale. Asset protection is another benefit that flows from an effective structure. Our firm has become global to meet the needs our clients who cover the world.

How are you seeing companies use data analytics differently now than before?

GROSS: With improved technology, I’ve seen a strong move toward business intelligence and data analytics with my clients. They are a lot more digital than before and they are capable of measuring every aspect of their organization, from developing marketing campaigns to planning future expansion, by using the data collected from their customer base, local competition or even social media. One of my clients analyzed the characteristics of their customer base to build out a detailed expansion plan built on targeting customers with the same demographics.

GREY: Data analytics allows for more targeted decision-making and operating efficiencies. The information is being used to help identify and anticipate customer trends and design user experiences and products toward its customer base. At the same time, companies that carry inventory are able to more accurately forecast purchasing needs and reduce slow-moving products, thereby improving cash flows.

What specialties have you or your firm developed over the years and how do you use them to benefit your existing clients?

ISAVI: One of the specialties that we have developed over the years is planning and compliance in the estate and trust area. Having a good estate plan is extremely important. We advise clients about either setting up a trust or will or updating their existing one if needed. Over the years we have become very proficient in preparing estate and trust tax returns. We have also put a lot of effort in to getting to know a number of trust and estate attorneys in the region. We are able to make referrals that are well suited for our clients based on the firm’s location, area of expertise, their fees, years of experience, firm size, etc.

GREY: Our firm has developed value-oriented services that increase our clients’ net after-tax cash flow. We provide tax strategies that reduce taxable income and do not impact the financial statements that commercial banks rely upon to provide credit facilities. We separate tax planning from financial reporting in a responsible creative manner. We can save significant amounts utilizing Cost Segregation, Research and Development Credits, Opportunity Zones, Complex IRC 1031 and 1033 deferred exchanges. In the Estate Tax area, we strive to develop effective strategies to eliminate or reduce the estate taxes through a variety of techniques specifically suited to the needs and desires of our clients. We are trusted advisors serving at top levels in management. Our expertise as Controllers, CPAs and CEOs offers our clients knowledge and experience, which other CPA firms do not possess.

How should companies evaluate the effectiveness of their accounting firms?

GREY: The CPA firm should be a profit center, not a cost to the client. Companies should be receiving services that provide value from their CPA firm. Consistently providing significant value is the best formula for creating a successful relationship with clients. SRG is not a cookie-cutter CPA firm; we offer creative, value-centric solutions for a wide array of needs. Many of our clients want services such as tax minimization, financial statement optimization, assistance with finding debt or capital for their businesses, and increasing their credit facilities. Our high net-worth individuals value having an estate plan that reduces their estate taxes while maintaining control. Public accounting is a client-driven business—whether a client needs strategic business consulting or other services, the CPA must recognize these needs and deliver both cost-effective and quality services to clients.

GROSS: Our firm has a philosophy to hire highly trained professionals, many of them from the Top 20 Firms nationally, which is how many of our partners, principals and managers have come from. We operate as a smaller firm providing personalized attention at all levels. Our clients can obtain the best of both worlds—national firm expertise with local firm attention and pricing. This has been a winning formula for SRG.

BARRY WOLFE

What’s the biggest piece of advice you give your clients when it comes to planning for the future?

GREY: We tell all my clients that future thought is extremely important. You'll blink an eye and ten years will have gone by and you'll wish you had done something productive with that time. My biggest piece of advice to them is “it's never too early.” It's never too early to start saving for the down payment on a house, contributing to a retirement plan like a 401k or an IRA, or planning how you’ll afford that much needed vacation to Hawaii.

GREY: Clients need to adapt to continually changing circumstances. We meet with our clients regularly to review their goals and desires, and to ensure that we are providing them with the maximum value possible. We recommend that our clients who own businesses plan their exit strategy well in advance, as they may need to transition family members or key employees into a succession plan. Exit can be costly, but we have ways of reducing those costs substantially. Our income tax and estate tax methods achieve the transfer while offering our clients maximum control and cash. Many clients want to maximize their entity value and then exit through a sale. We can assist with the sale. We recommend that exit-strategy planning be done many years before it is executed. Having a well-seasoned plan can ensure proper capital gains treatment, avoid inclusion in the client’s taxable estate, and often help avoid paying taxes to the state of California.

ISAVI: The biggest piece of advice we give clients when it comes to planning for the future is to minimize their exposure to tax uncertainty. No one can predict future tax rates, but it is very likely that both Federal and State rates will increase to pay for increased deficits, shortages in government programs such as Social Security and Medicare, and the growing unfunded pension liabilities.

How are you seeing companies use data analytics differently now than before?

At the same time, companies that carry inventory are able to more accurately forecast purchasing needs and reduce slow-moving products, thereby improving cash flows. Consulting. Utilization of technology such as QuickBooks, Skype, and cloud-based technology has enabled us to work with clients in real time and with increased efficiency, while doing so safely via ShareFile for secure data transmission.

Is bigger better? How does the size of firm impact clients?

GREY: Big is not better. Better is better. Our firm has grown to meet the needs of our clients and changes in our client needs. We have affiliated with experts in areas such as State and Local, International, Research and Development, Cost Segregation and Valuations. We have found that we can provide a higher-level service to our clients with the participation of highly seasoned professionals in specialized areas. The increase in the size of our firm has enabled us to attract higher-level professionals who want more opportunity and a faster track to manager, principal and partner. Therefore, our clients receive higher level of service, which is provided in an efficient manner.

How does your firm’s structure meet your clients’ needs?

GREY: Our firm’s philosophy is to hire highly trained professionals, many of them from the Top 20 Firms nationally, which is how many of our partners, principals and managers have come from. We operate as a smaller firm providing personalized attention at all levels. Our clients can obtain the best of both worlds—national firm expertise with local firm attention and pricing. This has been a winning formula for SRG.

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The SRG Advantage™

Growing companies face challenges such as increasing revenue, increasing profitability, managing tax liabilities, and enhancing credit facilities. SRG is a team of business advisors and CPAs highly experienced in helping companies grow faster and optimize results.

Our strategies increase our clients’ net worth and retain more cash. We reduce taxes without impacting financial statements. We introduce clients to our banking and financing partner network.

Out-of-the-box thinking. That’s the SRG Advantage™.

Practice Areas

- Tax Planning & Strategies
- Tax Compliance & Controversy
- Audits & Assurance
- Strategic Business Consulting

Out-Of-The-Box Thinking For GROWING BUSINESSES


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