

Edward Mendlowitz CPA

Call Me Before You Do Anything

The Art of Accounting



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By Edward Mendlowitz, CPA

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Foreword

Lifelong learning is both a hallmark and a habit of a great professional, and a coda enshrined in official CPA standards.

In *Call Me Before You Do Anything: The Art of Accounting*, Ed Mendlowitz shares a lifetime of lessons learned – lessons in professional practice, and lessons in life and character.

They are the lessons tax and accounting professionals are learning the hard way every day. But Ed has already learned those lessons and he shares them here, so others don't have to. As he has through his life as a leader of the profession, Ed shares what he knows, what he thinks, and what he's seen – with generosity, wisdom, and wit.

A second-generation accountant himself, Ed started his education working for his father, “pushing the pencil,” as he might say, doing the hard work that teaches the fundamentals of solid professional skills and the standards of integrity and ethics that inform and inspire to this day.

With candor and humor, we learn as much from Ed's mistakes and setbacks as we do from his triumphs and achievements. We learn from the moment he got fired from one of his first jobs. And we learn from the time he won a high-stakes deal for a client in an inter-continental negotiation that was fraught with brinkmanship and suspense. We learn from the people Ed learned from. And we learn how every day presents a new opportunity to learn to be better – a better professional, and a better person.

Ed will never stop learning. And, lucky for us, he's still sharing what he's learning. This book contains more than 150 chapters, each an essay first published by *Accounting Today*. As this book was going to press, Ed had written his 200th column. So, happily, we won't have to wait too long for the sequel.

Rick Telberg, *Publisher*

Acknowledgements

This book contains three full years of columns posted at www.accountingtoday.com as the Art of Accounting series which are autobiographical in nature with practice management tips I hope colleagues could benefit from.

Writing them has been a pure joy especially recalling many interesting events. However, to do this required the help of many people. Underlying this book is over 50 years of experience and interactions with bosses, fellow workers, staff, partners, colleagues, clients, family, friends, and even some people I did not like dealing with. It has all been great, except when it hasn't, but the unpleasant has been miniscule in the whole scheme of my career. I have been blessed to be part of a great profession. This book attempts in a small way to return some of the help and mentoring I have received.

While I cannot mention everybody that helped me, I do want to point out some of them. All of my Withum partners but particularly Peter A. Weitsen, Frank R. Boutillette, William Hagaman, Jr., John Mortenson, Jim Bourke, Ron Bleich, Ruben Cardona, Brian Lovett, Shree Nadkarni, Don Scheier, Dave Springsteen and Howard Stein.

Colleagues include Martin Abo, E. Martin Davidoff, Joe Picone, August Aquila, Ronald Baker, David Cottle, Gale Crosley, Chris Frederiksen, Karen Koch, Jody Padar, Hitendra Patil and Marc Rosenberg and my former partners Seymour G. Siegel and Paul H. Rich.

Thanks to Rick Telberg for editing and publishing this book in the hope that it will reach students contemplating a career in public accounting and that it would extend the range of fellow professionals that would apply some of what I did to their practice.

Special thanks to Daniel Hood and Michael Cohn, editors at Accounting Today for posting the articles and with just enough editing to stop something stupid from being published.

I am indebted to my son, Andrew, who serves as a perpetual sounding board offering many keen and perceptive suggestions and occasional editing.

My parents, Ellen and Arthur Mendlowitz, created the atmosphere that permitted me to dream and expand my horizons and reach, and I still have that drive to try to do more because of them.

Everything I do, including the columns and this book, is done with the needed support and love of my wife Ronnie and that makes everything worthwhile.

Edward Mendlowitz, CPA

Edward Mendlowitz, CPA, is partner at WithumSmith+Brown, PC, CPAs. He is on the *Accounting Today's* Top 100 Influential People List. He is the author of 26 books, including "How to Review Tax Returns," co-written with Andrew D. Mendlowitz, published by www.CPATrendlines.com and "Managing Your Tax Season, Third Edition," published by the AICPA. Ed also writes a twice-a-week blog addressing issues that clients have at www.partners-network.com. Art of Accounting is a continuing series where Ed shares autobiographical experiences with tips that he hopes can be adopted by his colleagues and that he hopes will encourage students to enter his great profession. Ed welcomes practice management questions and calls from students (but not for jobs) and can be reached at (732) 964-9329 or emendlowitz@withum.com.

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#1

A CPA Looks Back Across the Generations

When I became a partner emeritus, it meant that it was time to slow down and work less.

I started working only two days a week. I thought I would have more time to pursue many of the things I had always wanted to do but never had the time. Since that point, I seem to be busier than I ever was and still have many projects I want to do, but can't seem to get to.

Around that time I was talking to a high school kid at a family gathering and thought he would be interested in finding out more about accounting, and I realized there is nothing out there that explains what an accountant does. Sure, professional societies have plenty of promotional recruiting brochures, but nothing that actually says what a CPA does.

When I was in college I remember reading Rosser Reeves' "Reality in Advertising" and David Ogilvy's "Confession of an Advertising Man" and got some good insights into the world of advertising agencies. Those books did not dissuade me from wanting to be an accountant, but if I didn't become an accountant, I probably would have entered advertising. There are a million books by lawyers of their "glamorous" profession, as well as books by entrepreneurs, politicians, restaurateurs and salespeople, including those who sell life insurance and envelopes (two really inspiring products), along with stock brokers, realtors, investment bankers, and artists, cartoonists and clergymen. And I realized there is nothing about accountants.

So I am making it my duty to show the inside workings of a CPA: what they do; how they get and keep business; service clients and fill needs; hire, train, develop, mentor and retain staff; and the living they make selling confidence and trust, and an occasional tax return and financial statement. Many people start out in public accounting and leave it for various reasons. Some regret that decision and some celebrate it daily. But, have you ever seen a career CPA who

is retiring who says they did not love what they did? They don't exist.

Those who work in public accounting really enjoy the work, the client and colleague interactions, and the everyday challenges they confront. I think that says more about the profession than almost anything else. When I was a kid, while my friends played house, I played accountant. I think I always wanted to be a CPA. My father was a CPA and he seemed to really love what he did. I also noticed while growing up that he received many calls at home from clients seeking his help and advice before they did anything important.

My father was a sole practitioner. He shared an office with my uncle, his brother-in-law, and spent his days at clients' premises doing his work. Thus the evening calls. There were no cell phones or email in those days. Occasionally he got calls at the clients' offices, but then that interfered with getting his work done early enough to get home in time for dinner—hence, the evening calls. My mother typed his tax returns and financial statements so she knew who most of the clients were. My father would share with my mother what the clients wanted to know or do. Living in a cramped Bronx apartment, I usually overheard these conversations, as well as my father's side of phone conversations.

It seemed to me that my father was a very important person. He had to be if all these people needed him to tell them what they should do. This presented my father, the CPA, as a man of power—perhaps a quiet power since he didn't seem to get the overt recognition, but he was in the middle of everything. I started picturing myself as being able to wield power someday—like my Dad! Why are accountants consulted so often by their clients? Well, for one, most business and a lot of personal decisions involve money, and that is the CPA's bailiwick. No one wants to make a decision that will cost them more than it should, or without garnering some tax benefit and without finding out if there might be a better way.

Another reason is that CPAs have a wide range of clients in many different businesses and they accumulate extremely broad experience in industry and the professions, and in dealing with unusual financial situations. And for some reason, successful CPAs have an uncanny ability to transfer their experiences to a myriad of circumstances and then articulate it clearly to present an apparent path for the client to follow.

#2

Learning to Delegate: Slow is Faster

When I was in high school, I spent a few winter Saturdays helping my father and “learning” what a CPA did.

His routine was to go to one client twice a month and another once a month and he spent the fourth (or fifth) Saturday cleaning up correspondence in his office. My work consisted of posting sales to an accounts receivable ledger and rechecking the arithmetic on the client’s handwritten customer invoices.

The postings were interesting because I saw what was being sold, who the customers were, and how quickly or not payments were made to the client. I also got insight into the geographical makeup of the customers and was always surprised when an occasional sale from Midwestern states appeared. This was in the days before computers and actually even before electronic adding machines became common place.

My father used a comptometer so that is what I used, although regretfully I did not learn it fully and had to look at the keys for my entries. The postings worked out well and I was careful to work neatly and slowly since the work was in ink. I was afraid to make a mistake and my father cautioned me to be very careful. He didn’t care how slowly I worked as long as I did not make a mistake. After a couple of months my father told me he had been rechecking what I did and found that I was very careful and he was happy with the good job I did.

I was disappointed to hear that he did not trust me and felt the need to recheck my work. He told me that he was responsible for the accuracy and wanted to make sure there were no errors. He also told me at that time that he was a sole practitioner by choice because he did not like rechecking other people’s work and wasn’t good at delegating or teaching, feeling it would slow him up. If I wanted to be successful in business I would have to learn to delegate

and find a way to check the work without having to look at every entry my assistants would make, he added.

That was a valuable lesson that I took to heart, causing me to start paying attention to the way people worked. I wanted to see if I could find similarities in the way things were done. Doing this made me very process oriented and I became enamored with checklists. I started making up checklists for everything, including packing for a trip and going to a friend’s wedding. When I started working full time as an accountant I discovered that there were checklists for most of what I had to do, but nowhere near what exists now.

Another thing I learned—or rather observed while working for my Dad—was that the amount of errors I found in the client’s additions declined as time went by. I didn’t understand this, and one Saturday I worked deliberately slowly and found about the same amount of errors I did when I had first started helping my father. It took a while to register, but it dawned on me that my proficiency dropped as the work became familiar and routine. I was getting bored. Much later on, when I was in a position to supervise, I tried to shield my assistants from routine and familiar feelings by mixing up the work while trying to get them to work more slowly.

I actually learned why working slower is faster during my first job out of college. I started working for a CPA friend of my Dad and wanted to impress him with my knowledge, diligence and “experience.” I soon realized that the only way to impress him was to finish the work quickly. I was so anxious to get to work that I barely heard the instructions and wanted to delve into the work. I got to the point where I wasn’t able to do anything right and not only embarrassed myself with my boss, but disappointed myself at my ineptitude.

Getting let go after seven weeks was a blessing and a relief. But it also caused me great consternation as to why I was so bad. I did a lot of soul searching and came to two conclusions. The first was that if I was so bad, then maybe accounting wasn’t for me, and the second was that I might not be so bad, but I just did not give myself a chance by not listening to the instructions and then racing through the work. I remembered what my father told me about not making mistakes and that I should work deliberately and slowly.

When I started my next job, I made up my mind that I would listen and make sure I fully understood what I was to do and that I would then do every-

thing two or three times if necessary to make sure I made no mistakes. What happened then was a revelation. I got my work done much sooner than the budgeted time and it was devoid of errors. I quickly got a reputation of doing quick accurate work—when in reality and in my own mind I was working super slowly—double and triple checking my work as I went along.

These insights made me an excellent manager since I worked to develop methods of instruction that took minimum time and held the attention of my trainees, imploring them to work slowly and showing them ways to self-check their work. There is very little in accounting that cannot be self-checked.

#3

The Making of a Consultant

While I was working full-time early in my accounting career, I was also picking up clients whose accounting I did on the side, also known as moonlighting.

One of the clients was a franchised ice cream store. I used to go there one night every quarter to record his checkbook transactions into a regular set of accounting books. Today, in one form or another, this would be done on a computer with software such as QuickBooks, but in those days it was written up in ink by hand.

Using the amounts I entered into the books, I then prepared payroll and sales tax returns and whatever other forms needed to be done. Finally, I would write out the checks, including mine, sit down with the client, chat a few minutes and then leave with my payment. This whole process took me about three hours.

One night, and I still can't explain why, everything I had to do only took a little more than an hour. I felt that if I sat down with the client after that short period and handed him my check, the client might feel I had taken a short-cut on something and perhaps had not earned my fee. It took me a few moments to decide to stay, and try to do something extra to fill in the time.

Since he was an ice cream store, I decided to go through his bills for the last two years and see how many cones he had purchased. I picked this because his sales had steadily increased and I was curious about the increasing volume of what he was selling. I really had no motive but felt this would give me a better handle on how he did business.

Well, I was stultified by the result. He had actually purchased far fewer cones in the current year than in the previous year, but his sales revenues had increased. I equated the cones purchased with cones sold since he bought what he needed when he needed it and kept almost no inventory. I had no clue why this happened.

After thinking about it, I decided to share the result with my client and ask him why this was so, wondering if maybe something that was not accounted for properly. When I told him what I found (not telling him that I just wanted to fill in some time), he seemed puzzled and thought about it for a while. He then said that he thought it could be right because he seemed to be selling more packaged ice cream than cones, but really had no explanation and would need to think about it.

He called me about a week later and asked me if I could stop by some evening, which I did. He told me that he believed the neighborhood could be changing, with unsavory characters hanging around a small park that was across the street from his store. His shop was open until midnight each night. Instead of children coming down at night to buy cones, he had noticed that their parents came down and bought packed pints and quarts. That accounted for the sales growth and explained the drop-off in cones.

He started to keep track of the sales by hour and eventually started closing at 10 pm, reducing some costs. But a long-term projection indicated that the business would decline and lose value and stop being the source of his living. This led to his deciding to sell the business and buy a new franchise in a different area.

I felt that my advice and counsel contributed to his decision and a positive change in his situation. Since then I have always looked for ways to bring something to a client's attention that they might not have thought about. That night made me a consultant.

#4

Value Consulting

People can learn new skills and either do nothing further or use it to grow.

Using my experience from consulting for an ice cream shop, I started to think about doing some extras for clients (see *The Making of a Consultant*). I still had my day job as an accountant and needed to follow the work schedule my boss gave me, but I now knew something and wanted to see how else I could use it.

My next opportunity happened while I was at one of my boss's clients doing my regular work. I noticed a renewal of the client's business insurance and glanced at the policy to see what was covered. I saw that the inventory coverage was about a third of what was shown on the books.

I didn't understand why and wrote a short memo to my boss to tell him this. At my boss's monthly meeting with that client, he asked to see the policy and verified what I told him and showed it to the client, who was dismayed and immediately increased his coverage. About two weeks later, there was a fire in the factory and the insurance recovery was much higher, thanks to me. I was congratulated on what I found by my boss and the client the next time I went there.

My boss told me that from that point forward I should try to find one or two things each time I went to a client, and if I needed extra time, I should take it. My boss's encouragement and my discussions with him about my findings greatly expanded my knowledge, skills and confidence.

Oops, I know you are thinking that the fire was not a natural occurrence. You are wrong! Don't be so cynical. The fire was investigated, and nothing suspicious was indicated. And even though there was an insurance recovery, it never was enough to offset all the losses that occurred as a result of the fire. Further, my handwritten note, along with my boss's meeting, was further "proof" of there being no plan to raise the insurance and cause the fire.

My experience has shown me that almost every businessperson is honest and hardworking and treats their business like an extra, and sometimes better loved, relative. People don't start fires.

Regardless of the coverage, there are lost revenues, profits, opportunities and much nonproductive time in recreating what was there. No one comes out ahead after their business incurs a fire loss.

By the way, I was getting an enhanced reputation from the clients I worked on and better than expected raises from my boss because of my "value consulting."

#5

Call Me Before You Do Anything

I have always told my clients to call me before they did anything major or new financially to see if there was anything tax-wise that could be done to help them.

Nowadays, there is much less tax maneuvering, but much more from a financial aspect, and it is amazing how accountants can help.

One of my clients was offered a job of setting up and managing an American menswear operation for a world-famous ladies designer. The offered salary was about double what he was currently earning.

The licensee was told by the designer that he preferred that my client be hired to establish the business. This was because of my client's expertise, élan and reputation in the menswear area. He was jumping out of his boots with the offer and wanted to see me to find out what his new take-home salary would be and what type of deductions he could take against the income.

After a brief discussion I let my client know that I could have gotten him double what he was offered. My questioning revealed that the whole deal hinged on his acceptance. The licensee was one of the largest menswear manufacturers in Italy, with a worldwide sales organization. The association with that designer would add to the prestige of everything else the company was already doing, and the licensee had agreed to pay a royalty substantially above what was normal or economical given the parameters set for the new business.

I told my client that his salary was peanuts compared to the big picture of what was involved and that since the deal was contingent on the manufacturer delivering him, he had "settled" for much too little. I asked him to try to arrange a meeting for me with the principals and I was sure I could get him much more. This was a Thursday afternoon, and all the principals were in Italy. My client was scheduled to see them the following Tuesday.

I had an Italian-speaking secretary at the time. She called Italy and

arranged for me to attend the meeting with my client. We were on an evening flight to arrive early morning on Tuesday. On Monday and later during the flight, my client and I worked up a financial projection for the new business. This included a startup timeline, startup costs, and a five-year profit and cash flow analysis. The numbers indicated an even greater upfront commitment than we had discussed, and further that the manufacturer could not make money based on the deal they made unless sales were substantially higher than was indicated to my client.

My client was confident he could reach the higher targets. I then made up a second projection showing much higher sales and included a bonus for my client based on the increased sales. Understanding that I might use these projections in negotiating for my client's "revised" salary, I threw in some extra items that I could give up on, keeping focused on what I wanted to get for him.

When we arrived in Italy, we were met at the airport and driven to our hotel to give us some time to freshen up. We would be picked up in another hour.

During the meeting, we learned that there had been no projections or financial models done by the licensee, and my numbers became the base amounts upon which the company was going to be capitalized. The size and scope were, if not complete, then a major surprise to them. We spent the entire day going over the projections and in effect "setting up" the company.

I always have believed that if you couldn't make it come out on paper sitting in the calm of your office, what chance did you have to make it happen under the pressure of running the business, arranging financing, hiring and supervising staff, getting the right sales staff and support, developing and executing a marketing, advertising and public relations plan, opening a showroom, and the myriad other things involved with starting and running a business?

The meeting was held in a stark office with a long narrow table, with my client and me on one side. As the day wore on, a larger and larger group joined the other side. Coupled with them having to excuse themselves many times to speak to the owner, who was in another part of the building, the meeting didn't even touch on my client's salary, which was much larger than what had been previously offered and accepted.

The meeting lasted all day until everyone was totally exhausted and we

broke for dinner. I actually dozed off waiting to be seated in the restaurant since I had hardly slept the night before on the plane because of my number crunching and thinking.

The next morning (Wednesday) started with the controller and CFO introducing their own hastily drawn up overnight projections, which I saw right away had my client's previously agreed upon salary prominently displayed.

I knew there was a noon meeting scheduled with the designer in his studio about an hour's drive away. The meeting here started at 9 am, and I decided it would be better to delay looking at their projections until it was time to leave for that meeting. Since we had a working model at the end of the previous day that we had all agreed was reasonable and set doable objectives and financing amounts that were manageable, I said that there was nothing that could be added by diverting our attention to an entirely new set of numbers and that we should prepare for our meeting with the designer.

The meeting with the designer was to tell him that a deal with my client was agreed to and for him to meet with my client to discuss the clothing line and the marketing of it. I also knew that if we used their alternative numbers, mine would be discarded and theirs would become the benchmark against which I would have to argue. So I sat there and took a position that a deal was struck the night before and there was no reason to go over their numbers, and even if we did, there would be no time to do it carefully and seriously.

They naturally disagreed and we literally sat there for almost two hours, with me refusing to look at their "masterpiece" and with my client sitting next to me busting a gut, feeling he might lose the deal if we didn't go over their numbers. The manufacturer's accountants had a micro attitude toward each entry they had made. The company's general manager had a big picture look and wanted this deal, no matter what!

The arguing for almost two hours was not about the numbers, but was about us looking at them or not. I prevailed because time ran out and the general manager was nervous about how the meeting with the designer would go. In the car ride my client and I were alone with the general manager (and his interpreter) while his staff rode in another car.

I told him we would reduce our proposed compensation package to make him look good with his financial people. But my client still ended up with a

package that was more than three times higher than what he had initially “accepted” and approximately seven times what he had been earning!

Nothing beats understanding the situation, plus some careful preparation.

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