

APRIL 2009

Tips on financing and liquidity concerns from the PCPS Economic Podcast Series

How are other CPAs — and their clients — weathering the financial storm? The PCPS Economic Podcast Series provides practitioners with timely news on how the widening recession is affecting firms and the small businesses they serve. They feature practitioners from small, medium and large firms engaged in lively discussions about what they are seeing in the marketplace.

The three [**PCPS Economic Podcast Series**](#) presentations cover how to:

- Guide clients through the current economy by focusing on their operations.
- Work with clients on financing and liquidity concerns.
- Navigate the economy by providing them with timely practice management advice.

Last month's PCPS Brief reviewed the advice in the first series of podcasts on operations. The second group of podcasts — on financing and liquidity problems — included practitioners David Morgan, of Lattimore Black Morgan & Cain in Nashville, Tennessee (who is chair of the PCPS Executive Committee); Fred Kostecki of RubinBrown in St. Louis; and Lee Wunschel of LublinSussman Group, in Toledo, Ohio. In their podcasts on financing and liquidity concerns, they discussed term loans, debt reduction and existing and potential bank relationships. Here are some of the takeaway tips from that second podcast series:

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Revisiting Term Loans

- Bankers are demanding more collateral, carefully scrutinizing cash flow and placing more restrictions on loans. In some cases, they are requesting personal guarantees from owners for company financing. This has led some owners to question whether self-financing is preferable to a bank loan, given the loan terms some are facing.
- There is an abundance of private equity available for clients unable to find loans. These financing sources are very selective and perform thorough due diligence on proposals.
- Clients continue to favor variable-rate loans. Even though banks have set floors for these loans, companies consider them to be a good deal since they don't expect rates to rise. Clients with good credit have been able to convert term loans to variable-rate loans, getting a less expensive loan for a relatively low fee. However, this option is only available to the best credit risks.
- CPAs should be alert to the possibility that a client's changing financial situation may violate a loan covenant. Tools for CPAs include an AICPA Audit Risk Alert, [**Current Economic Crisis – Accounting and Auditing Considerations**](#).
- In the past, loan waivers were easy to obtain. As banks become less forgiving, auditors must ask more questions about a company's going-concern issues and whether the client will have adequate financing to meet obligations as they come due in the next year.
- In evaluating going-concern and other issues, the client industry is a key factor. Many auto dealers, for example, are moving into bankruptcy or closing their doors. This has spilled over into other industries that supply parts and services for these dealers. In addition, while many commercial construction businesses were kept busy working on backlogged assignments in 2008, they are expected to experience a downturn in the coming year as that work dries up. The CPA must keep an eye on covenants and potential violations and stay in close contact with bankers to avoid preventable problems.
- The health care industry has been relatively unscathed. However, debt financing and private equity are not as available even in this area as they have been in the past.

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Reducing Debt

- Clients are going back to the basics and examining every expense to improve cash flow and minimize debt. CPAs are advising them to pay closer attention to customer financing terms and customer creditworthiness. Other smart steps include reducing inventory and speeding receivable collection. CPAs are urging those that do not have a formal collection program to institute one and to pay down as much revolving debt as possible.
- Clients should consider shifting to zero-based budgeting in 2009. Instead of basing the budget on last year's numbers, in other words, they start at zero for each item and justify every expense.
- There are clear consulting opportunities for CPAs in helping clients to reduce debt. Although clients may be cautious about spending money on professional fees, CPAs can emphasize the value of an engagement aimed at helping them cut costs, improve cash flow or lower debt.
- CPAs can begin by reaching out to clients to learn how their businesses are doing. The best approach in this contact is to do more listening than speaking. Each solution will be unique, so understanding the client's specific problems is critical to designing the best answer to a client's needs.
- Companies that survive will be much stronger, not as leveraged and in a better position to increase their market share.

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Existing and Potential Banking Relationships

- Bankers seem more willing to lend to companies with whom they have a relationship and whose CPAs they trust. As a result, CPAs are in an excellent position to help clients improve their financing options.
- That said, CPAs' relationships with bankers are changing. Banks that once seemed hungry for business have now sharply reduced their lending and tightened their standards. Banks no longer approach CPA firms seeking to offer financing to their best clients. Instead, they are turning inward and cultivating their existing base of sound clients.
- Ongoing communication with bankers is key. Companies that offer an honest assessment of their financial results will likely be successful in getting more capital, but they may face stricter terms and greater monitoring by the bank. CPAs can take the initiative to maintain good relationships with bankers and help clients to tell their story to lenders.
- In some areas, strong community banks have stepped into the void left by retreating larger banks. Even these lenders, however, demand top creditworthiness, including a solid financial position and good cash flow. Their loans often involve tighter restrictions, lower debt ceilings and higher rates.
- In some markets, banks are approaching CPA firms before the financial statements are ready

to find out if a company will violate its covenant terms. CPAs can help to prevent surprises for both banks and clients by keeping lines of communication open.

- Debt in distress will not likely get refinanced, but companies that can aggressively manage cash flow, scale down capital expenditures and rein in receivables will be in better position to weather the crisis.
- This is a great time for clients to begin building relationships with bankers. CPAs can broker these meetings. Relationships built now will help clients when bankers increase lending in the future. In the midst of an uncertain economy, CPAs can seize the opportunity to meet with bankers to educate them on critical accounting and tax issues.

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Free Infocast: Economic Stimulus Act - The "Must Know" Payroll and COBRA Regulations

Date: April 7, 2009

Time: 2:00-3:30 PM ET

The American Recovery and Reinvestment Act (ARRA) of 2009 provides many new tax incentives as well as new employer requirements. Many educational updates have already addressed various tax credits. But of equal importance are the required employer obligations inherent to ARRA's Making Work Pay provision and the immediate COBRA subsidy requirements. Several requirements are already in effect and applicable to nearly every business (state-dependent), so it is quite possible you have clients currently out of compliance. [Register today.](#)

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