



# Make the Most of Your Accountant's Services

Poor Management is Usually the Reason For a Failing Company,  
and Your Accountant Can Be An Invaluable Ally

By Joseph Arkin, CPA, MBA

The small businessman usually retains an accountant to handle his books in order to properly and timely file tax returns and other required governmental forms, to keep a rein on employees' handling of funds and to render financial advice.

Terms of engagement may vary in this respect and it would be enlightening to briefly review some of the terms under which you can hire an accountant.

**1. Write-up:** If your business is very small and you cannot afford nor do you need the services of a bookkeeper, you can have your accountant perform what is known as a "write-up." In this situation you perform some small bookkeeping chores as outlined by the accountant and after the close

of each month he will visit your premises and make the necessary entries in your original journals (sales, purchases, cash receipts and disbursements, etc.) and post to the general ledger and take a trial balance. He will also reconcile your bank statement and prepare all necessary interim tax returns. This work can, under certain circumstances, be done quarterly or semi-annually.

**2. General Ledger Write-Up:** In this type of engagement either you or a bookkeeper makes the entries as outlined above after which the accountant does the posting to the General Ledger and reviews the bank reconciliation. He can prepare the interim tax returns or check copies as prepared by your bookkeeper.

**3. Audit:** The accountant will come in monthly, quarterly or even annually to audit the books and records as kept by your bookkeeper and office staff. He will follow standardized procedures and will either render an unqualified certified report, or he will only perform minimal auditing procedures and issue a statement with a disclaimer of opinion. In plain words, he will not vouch for the figures as shown on the statement.

The nature and size of your business operation and the ease by which inventory, equipment or cash funds can be stolen has to be your guide as to what kind of audit you can afford.

In these days of high taxes, governmental controls over various phases of business operations, tightness of

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money, it is downright foolish for any businessman to conduct his books on a do-it-yourself basis, or skimping on an accounting fee and take less service than that required for the health and well-being of the business.

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**This is what you should expect of your accountant:**

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**Provide Information:** Your accountant should provide financial information as to your net worth and the results of operations for the period. He should issue guidelines as to what changes should be made in record keeping to more accurately render financial information.

**Interpretation:** The accountant should explain the balance sheet and operating figures and interpret some of the figures. For instance, he can by use of ratios show whether or not collections are lagging, or if warehouse inventory is turning over at a satisfactory rate.

**Assist in Management Decisions:**

Are you planning to purchase additional equipment? You should discuss this first with your accountant, perhaps he'll show you a better way to handle a temporary overload, or have your present employees work overtime with existing equipment in lieu of tying up capital in new machinery.

In the area of hiring help you can ask if it is better to put on more employees or have your present crew work overtime. The premium pay for overtime has to be measured against difference in labor taxes, compensation insurance and fringe benefits.

With interest rates still a problem it would be wise to consult your accountant when you find that interim borrowing is necessary. He might, after examining costs and alternatives, show you that borrowing on your insurance policies at 5%, or taking a passbook loan on a savings account, will save money over a straight interest bank loan, or discount loan where the

interest rate on an effective basis can run from 13 to 18 percent, per annum.

Also in the area of management assistance, your accountant should be able to render an opinion about your gross profit ratio, the size and age of your inventory and whether or not certain steps should be taken with regards to moving, advertising promotions, introduction of new product line, etc. In fact more and more, the accountant is taking on the mantle of being a management consultant and losing the old stereotype of being just the overseer of your books and records.

**Development of Budgets:** An accountant can provide an operating budget, or even specialized budgets (sales, for instance) and prepare cash flow projections to determine if your business possesses an adequate supply of the cash required.

**Verification of Books and Control Installations:** Employee theft and embezzlement in this country is at an

all-time high. By various tests and audit checks, the accountant can uncover stealing. He can also devise inventory controls and alert management if tests show that inventory is "missing". Ever alert to the problems in this area, the accountant by the nature of his background, training and experience can devise systems to thwart dishonest employees.

Need money? You cannot borrow without furnishing a lender financial information—and in this respect it is the accountant's responsibility to issue financial reports.

**Tax Advice:** Before you embark on certain business ventures or enter into transactions, the tax aspect should be explored. For example, if you are purchasing the business of an adjacent neighbor to secure additional space, your accountant can show your lawyer how to allocate the purchase price to give you the best tax deal—you can allocate part of purchase price to "leasehold" which is tax deductible by amortization over the life of the re-

maining lease, as opposed to other allocations.

You always read about loopholes and how the rich avoid the payment of taxes by legal means. Even though yours may be a relatively small business, you too can save on taxes in a legal manner by timing purchases and sales of securities, by selling your

business on the installment sale plan, by using certain accelerated methods of depreciation, by using the special 20% depreciation tax credit, and by other little tax gimmicks.

But, the time to do any of this is before entering into the transaction. Post-changes of contract terms to save taxes is the area where most savings

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attempts go down the drain. Ask first and follow the tax advice of your accountant—if the question is involved have him ask the IRS for an advance ruling, or let him consult with a tax attorney to come up with a mutually drawn plan to legitimately save taxes.

**Miscellaneous Services:** This catch-all category can indeed include checking on your attorney. Most lawyers receive a smattering of tax courses in law school and in the course of their practices have little need to keep abreast of the latest tax developments. So, let your accountant review your will, let him check on buy-sell agreements, let him check on the ownership of your insurance policies—all with a view to the best tax situation.

Of special interest would be a review of your insurance policies. While the accountant does not possess the skills of a licensed life agent, nor the skills of a licensed casualty agent, he does have a certain knowledge of insurance. And best of all, he has no axe

to grind. He doesn't earn any commissions from the sale of insurance as does the agent, and he is prohibited by the rules of his professional societies from accepting any commissions in connection with his clients' contacts. Thus, his survey will be objective and he'll look for duplications, incorrect ownership (for estate tax purposes), incorrect beneficiary (dividend trap in buy-sell policies) and in the long run he'll work with your agent or broker, not against these fellow professionals.

If you are convinced by now that there are many things you should expect of your accountant, make a pledge to review the present terms of the engagement you have with your accountant to see if you are getting all you should be. If not, arrange for additional services, even at the expense of renegotiation of the present fee structure.

It should be kept in mind that each year the Small Business Administration and Dun & Bradstreet report that

*the primary reason for business failures is poor management.*

You can be sure that much of this stems from the lack of contact with an accountant before certain commitments are made. Before going into business, consult an accountant about the rent being asked for premises, the overhead in relation to projected sales. Buying a business? Don't even consider making a purchase no matter how attractive the terms until you've had the books of the seller inspected.

It is impossible for your accountant to become your full-time management consultant, but his services can be more fully utilized if you accept the dictum that a good part of financial planning and managerial direction can stem from programs he establishes.

If you are not satisfied with your present accountant, or are actively seeking the services of a qualified accountant, you can do one of several things. You can call the local Society of Certified Public Accountants and ask for a recommendation, you can ask a local businessman to recommend the services of his accountant. Yes, a Certified Public Accountant will charge more than the uncertified person. But, the CPA has proved to the State that he possesses the skills necessary for licensing, that he will abide by a strict code of conduct, and lastly, he can represent you before the U.S. Treasury department, when and if such representation is needed.