101 questions to ask your CPA

American Institute of Certified Public Accountants. Division for CPA Firms

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101 QUESTIONS TO ASK YOUR CPA
For small business owners and managers, the services of a CPA can be of unparalleled importance. CPAs are involved in more than financial statements and tax returns — they can provide assistance on everything from estate planning to business financing to leave vs. purchase decisions. In most cases, the CPA is not just another outside professional; he or she is a trusted advisor — and an integral part of the business family.

Ideally, the client/CPA relationship provides ongoing advice, often stimulated by the client’s questions about ways to improve the company’s finances and operations. Intelligent questioning by the client also helps to ensure that together, the CPA and the business owner or manager will solve major problems and capitalize on emerging opportunities.

What kind of questions can clients ask their CPAs? The following are questions that real clients have asked and do ask their CPAs. They can help small companies make the most of the client/CPA relationship.

Inside you’ll find questions on:

- Financing Your Business
- General Management
- Computer Systems
- Tax Planning
- Accounting and General Finance
- Salaries and Benefits
- Personal Financial Planning
FINANCING YOUR BUSINESS

1. I am in the market for a bank loan. What kinds of information should be included in the business plan I present to bankers? How should this information be structured?

2. What are the key differences between debt and equity financing? Which is better for my company?

3. How can I tell if my company has reached the limit of its borrowing capacity? Can I comfortably handle additional debt?

4. What is “asset-based financing”? Is it often a “last resort?” What can I borrow with my asset base?

5. Should financing terms be linked to the useful life of the asset being financed?

6. How can I hedge or protect against a rise in interest rates that could substantially increase my borrowing costs?

What is “subordinated debt?” How can I use it to finance growth even after my company has maximized its bank borrowing?

7. What is “subordinated debt?” How can I use it to finance growth even after my company has maximized its bank borrowing?

8. How does factoring work? Is this a suitable way to raise money for my business? Who offers these arrangements?
9. What is the difference between loans and a line of credit? When does it make sense to obtain a line of credit?

10. Am I a candidate for a venture capital investment?

11. What is "mezzanine financing?" When should I consider it for my business?

12. When is a good time to refinance a commercial mortgage in order to trade down in interest rates?

13. What kinds of questions and/or comments can I expect from bankers as they review my company’s financial ratios and percentages as part of the borrowing process?

14. Should I do all of my borrowing with the same bank or should I cultivate relationships with several institutions?

15. What do my bankers expect from me in terms of financial reports? How can I maintain cordial and productive relationships with them?

16. If my company is facing a cash crunch, how do I know if I should cut costs, borrow money or do both? Which approach is best for my current position?

17. What’s involved in planning for an initial public offering?
18. Should I structure my business as a corporation, a partnership or a proprietorship? What are the relative advantages and disadvantages?

19. What is an “S corporation?” How does it differ from a traditional corporation?

20. What kind of check-writing controls should I have in place to prevent employees from misusing company funds?

21. How can I protect myself against embezzlement or other unauthorized use of funds?

22. Should I have a buy-sell agreement with my partners/shareholders? Should the agreement be funded with life insurance?

23. What kind of people should I ask to join my board of directors? How often should I hold board meetings and how should they be structured?

24. How can I tell if my business insurance is adequate in terms of losses covered and dollar amounts of coverage? Do I need fidelity bond insurance?
25. When buying business insurance, is it best to work with a **broker** representing various carriers or an **agent** tied to a single carrier?

26. How do I prepare **cash flow** statements, and how do I use them as management tools?

27. When I need **larger quarters** for my manufacturing/warehousing/office operations, how should I acquire the space? Should I buy or lease?

28. What kinds of questions should I ask when I negotiate my **lease**?

29. If I buy a **commercial property** should I put it in my name, my spouse’s name, my children’s name or my company’s name? What are the relative advantages and drawbacks of each approach?

30. How can I establish a **succession plan** that ensures continuity in my business when I retire or die?

31. In a **family business** what are reasonable guidelines for employing, promoting and firing family members?

32. Is it a good idea to hold family business **retreats**? How should these sessions be structured?
33. When buying a computer system, should I purchase the hardware or the software first?

34. How do I know when it's time to upgrade my computer system?

35. If I need to upgrade my computer system, should I opt for a series of separate PCs, a local area network (LAN) or a minicomputer?

36. Currently, I use my computer system for number crunching and word processing. Can I use it to manage administrative, sales and manufacturing procedures?

37. We are considering switching our business from manual to computerized bookkeeping. How can we achieve a smooth and accurate transfer to the new system?

38. How vulnerable is my computer data? Do I need to take special precautions to prevent tampering or loss due to accidents or viruses?

39. Considering the price of PCs today, is it more cost-effective to buy or lease them? Does the same hold true for the more expensive mid-range computers?

40. At what point in my company's growth should I consider hiring a director of information systems?
41. What is the Welfare-to-work tax credit and how can I take advantage of it?

42. What are my responsibilities in withholding and remitting employee payroll taxes? What is my personal liability if I fail to comply with the law?

43. When does an independent laborer become an employee for whom I have to withhold?

44. What are my responsibilities in regard to collecting and remitting sales taxes? Are certain types of transactions exempt from these requirements?

45. Under the new law, how do I compute depreciation of my business if it is subject to the Alternative Minimum Tax?

46. How does one determine the deductible value of computer technology donations to charitable organizations?

47. What criteria must an individual or business meet to qualify for a home office deduction?

48. For tax purposes, do I have to run my company on a calendar-year basis? Under what conditions can I change to a fiscal year instead?
49. If I own a "C" corporation, what strategies can I use to minimize exposure to double taxation?

50. If it comes time to sell my company, should I sell the assets "a la carte" or should I sell the whole company as a going concern? Does it make a difference if I sell my stock or the company’s net assets?

51. When can I defer income to next year in order to reduce this year’s tax liability?

52. The IRS has called me in for an audit. Must I go in person or can I ask my CPA to go in my place?

53. Am I pricing my products and services correctly?

54. Which indicators of my company’s financial performance should I be tracking weekly, monthly, annually? Should I calculate these key indicators, or should I ask my CPA to do it?

55. How do my financial ratios and percentages compare with the averages for my industry?

56. How do I calculate the real cost of producing my products and/or services?
When do I need to set up an internal audit function?

57. When is it time to prune low profit items from my product/service line?

58. At what point does a business need a full-time controller? What background should she/he have? Can you suggest guidelines for hiring the right person? Can you help me to identify appropriate candidates?

59. When do I need to set up an internal audit function?

60. As a privately held business, when and why would I need an audit?

61. What is the difference between an audit, a compilation and a review?

62. How much is my business worth? Can you help me with a professional valuation?

63. What can I do to maximize the interest income from my business bank accounts?

64. Should I have large compensating balances in the bank, or am I better off paying higher banking fees and reducing my compensating balances?

65. How do I determine my breakeven point? Why is this critical? What steps can I take to lower the breakeven point?

66. What are five good ways to reduce my company’s operating costs?

67. Should my business be on the accrual or the cash basis of accounting? Why?
68. Should I use the FIFO or LIFO method of inventory accounting? Please explain the relative merits and drawbacks of each.

69. What are the most effective ways to finance inventory? When should I consider these options as opposed to straight cash purchases?

70. Do I need a credit policy? What should it cover and how do I set it up?

71. How can I speed-up the collection of receivables? Should I offer extra discounts for prompt payments?

72. When should I write off a receivable as a bad debt? Is it worth taking the customer to court?

73. When paying my company’s bills, should I take advantage of early payment discounts or pay late and use the float?

74. At what point should I cut off delinquent accounts from additional credit purchases?

75. Are there ways of maintaining marginal-credit accounts as customers without accepting undue risks of non-payment?

76. How long do I need to keep canceled checks and paid invoices? Can you give me guidelines for the retention of all major business records?

77. When should I consider taking my company into Chapter 11? What are some of the major benefits and drawbacks?
78. What is a “flexible benefit” plan? Should I establish one for myself and my employees?

79. Can I use phantom stock to motivate employees without giving them equity in my company? What other alternatives are there to reward key employees?

80. What is an “Employee Stock Ownership Plan (ESOP)” How can I use it as a motivational tool and turn some of my “sweat equity” (as the company owner) into cash?

81. What steps can I take to deal with the rising cost of employee health insurance?

82. Can I reduce benefit costs by using independent contractors in place of certain employees? What are the drawbacks to this approach?

83. Can I skew the greatest bulk of pension benefits to my key employees, or does there have to be an equal distribution of benefits?

84. What are so-called “top-heavy” pension plans? Should I avoid them?

85. What are “rabbi” and “secular” trusts? Do they make sense for my business?
86. Should I establish a 401(k) plan? Should it be funded entirely by my employees or by a mix of employee and company contributions?

87. What is the difference between a “defined contribution” and a “defined benefit” pension plan? Considering my age and income, which one is best for me? What is an “age-weighted profit sharing plan,” and should I consider that option?

88. What forms of stock options make the most sense for myself and my employees? What is the difference between “qualified” and “non-qualified” stock options?

89. How and when should I take deferred compensation?

90. How does the IRS determine reasonable compensation? How can I maximize my income without crossing this threshold?

PERSONAL

FINANCIAL

PLANNING

91. What personal records do I need to keep and where should I keep them?

92. What is the best way to allocate assets for maximum tax efficiency? Do I keep taxable, inefficient funds with high turnovers in my IRA or other tax-deferred account, and conservative, tax-efficient funds in my taxable accounts?

93. Should I set up a trust to accumulate funds for my children’s education? What types of trusts are available? What are the pros and cons of each?
94. How can I lower taxes by shifting income to my children, and how much money can I give to them as gifts?

95. If I want to donate a stock I lost money on to a charity, how should I do this so I can maximize my tax savings?

96. How do I find a great investment advisor?

97. Should I consider making a withdrawal from an IRA to pay college expenses? If I do, will I pay a penalty?

98. If I need to borrow money for personal use, what is the best source: home equity loans, 401(K) loans, banks, finance companies, brokerage firms or insurance policies?

99. What is my risk if I extend the holding period on a stock from 12 to 18 months in order to qualify for a lower capital gains rate?

100. What is “second to die” life insurance, and how does it play a role in estate planning?

101. How does the Roth IRA work? Can my nonworking spouse make a contribution to a Roth IRA if I am covered by my employer’s pension plan?
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