

University of Mississippi

eGrove

Association Sections, Divisions, Boards, Teams

American Institute of Certified Public Accountants (AICPA) Historical Collection

1992

101 questions to ask your CPA

American Institute of Certified Public Accountants. Division for CPA Firms

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_assoc



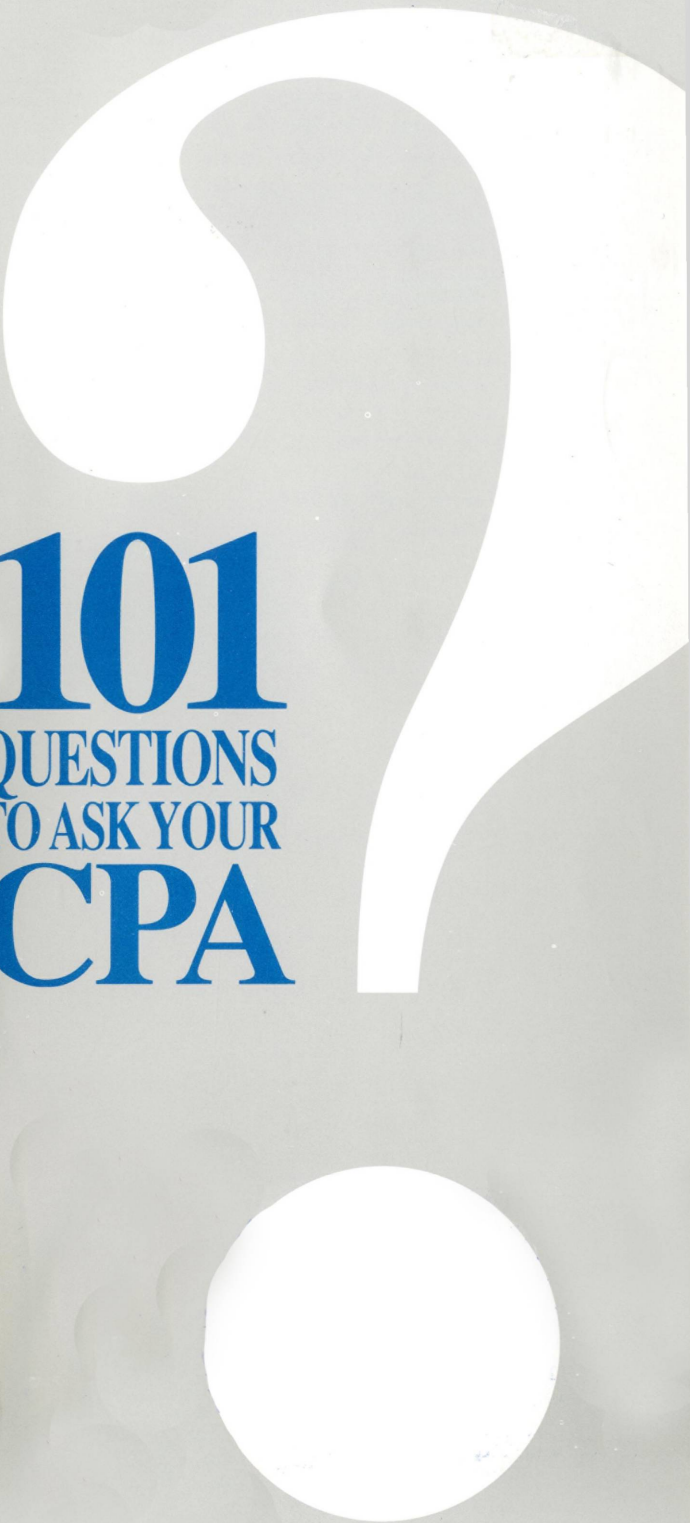
Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Division for CPA Firms, "101 questions to ask your CPA" (1992). *Association Sections, Divisions, Boards, Teams*. 2.

https://egrove.olemiss.edu/aicpa_assoc/2

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Association Sections, Divisions, Boards, Teams by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.



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 lease 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 is a two-way street. The CPA 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 that 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?
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 it 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**?

General Management

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?

Computer Systems

33. When **buying** a computer system, should I purchase the hardware or the software first?
34. How do I know when it is time to **upgrade** my computer system?
35. If I need to upgrade my 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**?

Tax Planning

41. Does it make sense to own business-related assets personally and **lease** them to my company? What are the tax advantages, disadvantages and caveats?
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. How can I minimize my **estimated tax** payments without making myself vulnerable to penalties?
46. Is it always tax-wise to **accelerate payables** and to postpone the generation of receivables at year end?
47. To what extent can I **accumulate cash** inside of my company rather than declaring dividends and paying taxes on them?
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. What is an “**estate freeze**?” Does it make sense for business interests?
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**?
51. What are the most common **mistakes** and/or oversights companies make in attempting to reduce their tax liabilities?
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?

Accounting and General Finance

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?
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 he/she 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 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?

Salaries and Benefits

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 available 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 are the differences among “term,” “whole life” and “universal life” **insurance**? Which option is best suited to my needs?
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 give stock in my company to my **children** on a tax-advantaged basis?
95. How much money do I need to set aside to **retire** comfortably and help my survivors with my estate taxes?
96. What is “**dollar-cost averaging**?” Is it a good way to invest money?
97. What can I do if a “burned-out” **tax shelter** is producing phantom income?
98. If I need to **borrow** money for personal use, what is the best source: banks, finance companies, brokerage firms or insurance policies?
99. Are there special benefits and/or risks in securing **home equity** loans? Please explain.
100. What is “second to die” life insurance, and how does it play a role in **estate planning**?
101. Should I invest in an **IRA** even if I am not eligible to make contributions on a pre-tax basis?

About the Private Companies Practice Section

This brochure has been prepared and published by the Private Companies Practice Section (PCPS), a voluntary association of 6,500 CPA firms that primarily serve private companies. PCPS is part of the Division for CPA Firms of the American Institute of CPAs. The AICPA has more than 305,000 individual members.

The PCPS serves as an advocate for local and regional CPA firms and the clients they serve, communicating their perspective and concerns to professional standard setting bodies with an effective and unified voice. The PCPS also maintains stringent membership requirements and a national practice monitoring program for member firms, the results of which are available to the public.

For more information about PCPS or the Division for CPA Firms, call 1-800-CPA-FIRM (in New York state: 212-575-6446).

Division for CPA Firms AICPA



AICPA *"The Measure of Excellence"*
American Institute of Certified Public Accountants

990101