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Guide to understanding and Using CPA Services

CPA Communications Council

American Institute of Certified Public Accountants (AICPA)

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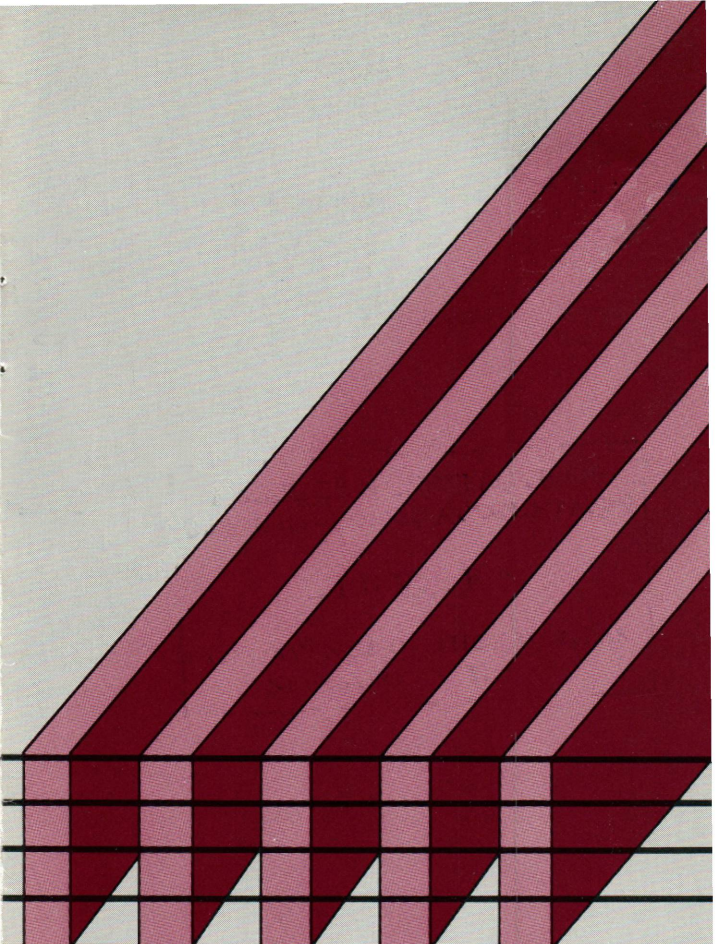
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A G U I D E T O

Understanding
and Using
CPA Services

Certified public accountants (CPAs) act as advisors to individuals, businesses, financial institutions, nonprofit organizations and government agencies on a wide range of finance-related matters. CPAs also work as financial managers in industry, education and various levels of government.

CPAs are professionals, distinguished from other accountants by stringent licensing requirements. They must have a college degree or its equivalent, pass a rigorous two-and-a-half day national examination and meet certain experience requirements to qualify for a state license. Many states also have continuing education requirements for CPAs to retain their license to practice.

In addition to meeting the profession's technical requirements, CPAs are governed by a code of professional ethics which is among the most exacting of any profession.

The CPA profession is concerned about quality control. Many firms volunteer to undergo regular peer reviews of their systems for maintaining quality in their accounting and audit practice. Those reviews, conducted by practitioners from other CPA firms, scrutinize the procedures used by the firm under review to determine that its work meets applicable professional standards.

What do CPAs do?

CPAs provide audit, review and compilation services for businesses. They also provide tax assistance, management advisory services and estate and personal financial planning. Here are some specific services CPAs provide:

- prepare tax returns
- recommend tax planning strategies
- advise individuals in personal financial planning, including retirement and estate planning

- review a company's accounting system and recommend improvements
- consult on business problems and ways to improve the use of a client's resources
- assist in the design and installation of data processing and management information systems
- conduct special studies (financing, inventories, cost containment, credit and collection) for business, government and nonprofit organizations
- help clients apply for loans and credit by gathering and preparing information required by lenders
- work with clients, attorneys and bankers on mergers, acquisitions and expansions

Audit, review and compilation services

In the United States, nearly one person in five owns stock in a publicly owned company. More than 42 million Americans hold stock in approximately 10,000 publicly owned companies. Laws require those companies to issue annual financial statements. For the protection of investors, those statements are audited, usually by CPAs.

Auditing is a sophisticated process developed by the accounting profession for the examination of financial statements by CPAs. It consists of gathering and evaluating evidence to test the conformity of the statements with generally accepted accounting principles. An audit offers investors and creditors reasonable assurance that the statements present a company's financial position and results of operations in conformity with those principles.

Audits are by no means just for large, publicly held companies. The financial statements of many small and closely held companies are audited regularly. Audits add credibility to financial statements and provide a type of assurance usually necessary in applying for bank loans. Audits also provide information that is important for management decision making.

CPAs offer two types of services that are available only to nonpublic companies: review and compilation. In performing reviews, CPAs apply analytical procedures to a company's financial statements and make certain inquiries of management. Review procedures, which are substantially less comprehensive than those performed in an audit, enable CPAs to express limited assurance on conformity of the financial statements with generally accepted accounting principles. In compilations, CPAs put financial information supplied by the client into the form of financial statements but do not express any assurance on the statements.

Tax assistance

As tax advisors, CPAs prepare tax returns for individuals and businesses and assist them in developing their tax planning strategies to achieve tax economies. CPAs represent taxpayers before taxing authorities and provide tax consulting services on a broad range of financial and investment decisions.

Management advisory services

CPAs play a vital role in assisting businesses to improve the use of their resources and increase their efficiency. The technical knowledge and business experience available in a CPA firm provide the basis for a broad range of management advisory services. These include:

- assisting in organizing, planning and monitoring business activities
- developing data processing and management information systems
- consulting on personnel practices, such as recruiting and training

The breadth of management advisory services reflects a clear response to the changing needs of clients. For example, the effective use of the computer requires CPAs to have an extensive understanding of data processing technology, business planning processes and the application of accounting and other controls essential to an effective system.

Estate planning

Estate and inheritance taxes can consume a significant portion of a family estate. CPAs possess the knowledge and expertise to develop estate plans to build and preserve assets during a person's lifetime and to reduce the impact of estate and inheritance taxes. In providing estate planning advice, CPAs frequently participate as important members of estate planning teams that may include attorneys, trust officers, insurance agents and investment counselors.

Personal financial planning

Any change in lifestyle, such as a marriage, divorce, the birth of a child, or an inheritance, can signal the need for financial advice. By enlisting the help of a CPA, individuals can arrange their financial affairs to preserve and increase the assets available now and in the future. CPAs' knowledge of taxes and estate planning enables them to provide valuable assistance as financial advisors to individuals and families. CPAs can also assist in preparing applications for loans and lines of credit.

Objectivity and CPA services

Objectivity is the hallmark of CPA services. It is vital when CPAs:

- audit financial statements
- review or compile unaudited financial statements
- prepare income tax returns
- suggest tax planning opportunities
- design new information systems
- assist in preparing financial forecasts
- consult on business and financial matters.

As accountants and auditors, CPAs provide assurance that financial statements present an entity's financial position and results of operations in conformity with established principles. As tax advisors, estate and financial planners and management advisors, CPAs provide services that are important to healthy businesses, sound personal finances and properly planned estates.

Getting the most from accounting services

All CPAs meet substantially the same basic education, training and licensing requirements, but they do not all provide the same range of services. Therefore, when looking for a CPA, you should analyze your present and future financial needs and consider questions like these:

- Do you need help with personal financial problems, income tax returns, retirement planning or estate planning?
- Will your company require help in putting together its financial statements?
- Will your company's financial statements require an audit or a review?
- Which of the following services does your company require—accounting, auditing, tax advice or management consulting?
- What are the requirements for special reports to government agencies?
- Will you need help preparing a business loan application?

Choosing a CPA

When looking for a CPA, consider the following:

- Ask your lawyer, banker, insurance agent or investment advisor for recommendations. Speak with people in the same field as yours. They should be able to recommend CPAs who know your special needs.
- Before you talk with a CPA, have some idea of your plans and objectives. Compile information about business or personal financial decisions under consideration so you can ask specific questions.
- Make sure the CPA is licensed to practice in your state.
- Ask what professional organizations the CPA belongs to and how active he or she is in those organizations.

Select your professional accounting advisor carefully. A long-term working relationship between you and your CPA can help you take an informed, consistent approach to personal financial and business problems and help you meet your financial goals.

The determination of fees

CPAs normally base their fees on the time required to perform the services. There are no "fee schedules" common to the profession. Talk frankly about fees. Find out how much you will pay to have work performed by a staff accountant who is under the supervision of a CPA or by higher level employees such as a supervisor, manager or partner. Fees depend on the type of services you require, the prevailing costs in the community and the complexity of your work.

CPAs and clients often sign an engagement letter in advance of the work performed to avoid misunderstandings. The engagement letter describes in detail the services to be rendered, fee ranges and the other terms and conditions of the engagement.

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