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Guide to understanding and Using CPA Services

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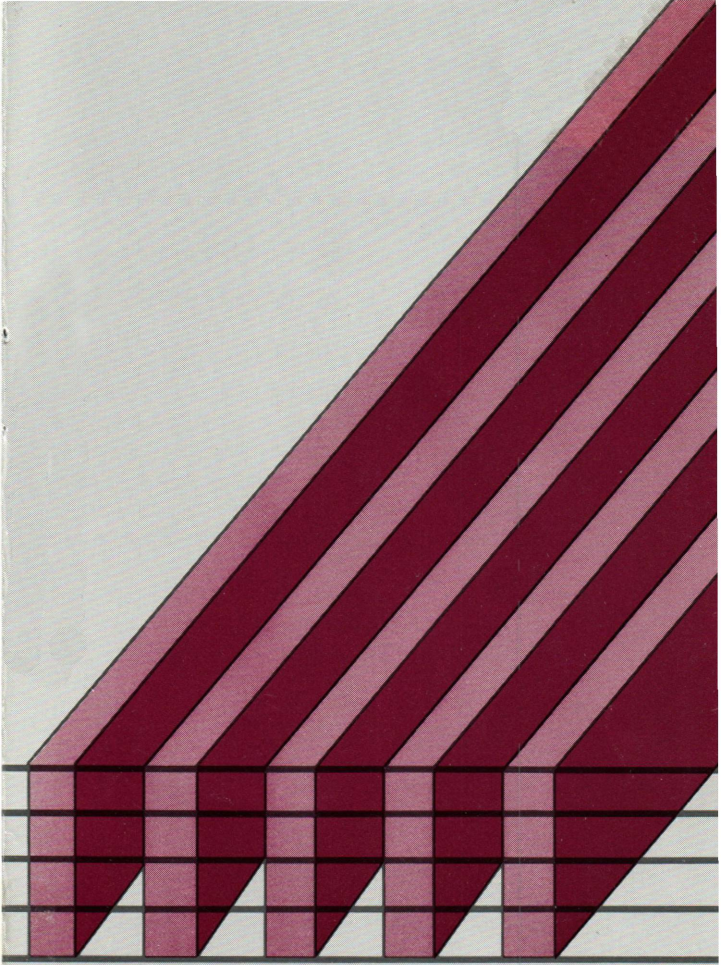


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A G U I D E T O

Understanding
and Using
CPA Services

Certified public accountants (CPAs) function as independent auditors and act as advisors to individuals, businesses, financial institutions, nonprofit organizations, and government agencies on a wide range of finance- and tax-related matters. They are also employed as financial managers in business and industry and hold key positions at various levels in both government and education.

CPAs are professionals distinguished from other accountants by stringent licensing requirements. They must have at least a college degree or its equivalent, pass a rigorous two-day national examination, and meet certain experience requirements to qualify for the CPA certificate and a state license. The American Institute of CPAs (AICPA) mandates continuing education for its members, and many states have similar requirements for CPAs to retain their licenses to practice.

In addition to meeting the profession's technical requirements, CPAs are governed by a code of professional conduct—one of the most exacting of any profession. In 1988, the AICPA's Code of Professional Conduct was substantially revised to strengthen its provisions and to enhance the hallmarks of the profession: independence, objectivity, and integrity. The code emphasizes the CPA's commitment to serving and protecting the public interest.

Quality control is a primary concern of the profession. Thus, in 1988, AICPA members voted to require firms with which they are associated to undergo regular independent reviews of their accounting and auditing practices.

What do CPAs do?

Traditionally, the public has viewed the CPA as being primarily an independent auditor of an entity's financial statements—someone who lends credibility to the data presented by management. The audit function remains a vital part of the profession's role in serving the public interest. However, today's CPA provides a wide range of services, such as reviews and compilations of financial statements for

nonpublic entities. CPAs also may be engaged to apply agreed-upon procedures to items of a financial statement or a nonfinancial statement and issue reports describing their procedures and findings. Other activities performed by the CPA are of a broader nature. The following are some specific services that CPAs provide:

- Recommending tax planning strategies
- Preparing tax returns
- Advising individuals on personal financial planning, including retirement and estate planning
- Assessing a company's internal control and recommending improvements
- Consulting on business problems and advising ways to improve the use of a client's resources
- Assisting in the design and installation of data processing, accounting and management information systems
- Conducting special studies (financing, inventory, cost accounting, credit, and collection) for business, government, and nonprofit organizations
- Helping clients apply for loans and credit by gathering and attesting to information required by lenders
- Working with clients, attorneys, and bankers on mergers, acquisitions, and expansions

Audit, review, and compilation services

In the United States, approximately one person in three owns stock in a publicly held company. More than 51.3 million Americans invest in the 12,000 to 15,000 publicly held companies subject to the jurisdiction of the Securities and Exchange Commission. An even greater number invest in such companies, indirectly, through their pension and retirement funds. Federal laws and regulations require these publicly held companies to issue annual financial statements. These financial statements are audited by CPAs to "provide reasonable assurance" to investors and other users of this information, such as banks and financial analysts, that the financial statements are free of material misstatement.

Auditing is a sophisticated process developed by the accounting profession for the examination of financial statements by CPAs. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in financial statements. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In conducting an audit, CPAs are required to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit offers investors and creditors reasonable assurance that the statements present a company's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

A CPA's opinion is just that—a professional judgment on financial statements prepared by management. The auditor provides *reasonable assurance* that management's presentation is free from material misstatements and was prepared in accordance with generally accepted accounting principles. It takes no position on the quality of management, its policy decisions, or whether the entity may be a good investment.

Audits are by no means just for large, publicly held companies. The financial statements of many small and closely held entities are audited regularly. Independent audits increase the credibility of financial statements and provide entities with the type of assurance usually required when applying for bank loans. Audits also provide information that management may apply in its decision-making process.

CPAs also offer two types of services that are widely used by nonpublic entities: reviews and compilations. In performing reviews, CPAs apply analytical procedures to an entity'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 compilation engagements, CPAs put financial information supplied by clients 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. CPAs represent taxpayers before tax authorities and provide consulting services on various tax issues that affect both individuals and businesses.

Management consulting 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 provided by a CPA firm support a broad range of financial, strategic, and business decisions, such as the following:

- Organizing, planning, and monitoring business activities
- Developing accounting and management information systems
- Assisting attorneys and triers of fact in a litigation engagement
- Consulting on personnel practices, such as recruitment and training
- Valuing businesses and estates

The breadth of management consulting services clearly reflects the diverse needs of clients in today's rapidly changing marketplace. For example, CPAs must now have an extensive understanding of complex business transactions, business planning processes, and the application of accounting and other controls essential to an effective business operation.

Personal financial planning

No matter where you are in your life, you probably need a financial plan. Otherwise, how do you know where you are going and how you will get there? By enlisting the aid of a CPA, you

can arrange your financial affairs to preserve and increase your assets, and plan for important life events. A CPA can provide planning in the financial areas of concern to you, such as the following:

- *Estate Planning*—A CPA can help you with your estate plan so you can be sure your estate pays the minimum taxes necessary, your assets are passed on to those you intend to benefit, your business has a proper succession plan, and special family needs are considered.
- *Retirement Planning*—A CPA can help you develop a plan for your retirement after looking at all the decisive factors—when you want to retire, where you want to live, the amount of income you need, and the decisive amount of savings and investment returns that will get you there.
- *College Funding*—From projecting college costs in future years to explaining the financial aid process, a CPA can help you plan and invest for this important event.
- *Risk Management*—Who can afford to be without proper insurance? A CPA can help you look at all your insurance needs and develop a plan to obtain proper coverage.
- *Investment Planning*—CPAs provide varying levels of investment planning services. Whether you are looking for investment education, guidance in selecting a money manager, or help with selecting investments, there is a CPA who can do the job.

Objectivity and CPA services

Objectivity is one of the hallmarks of CPA services. It is vital when CPAs perform the following services:

- Audit financial statements
- Review or compile 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

Getting the most from accounting services

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

- Do you need help with personal financial problems, individual or corporate income tax returns, retirement planning or estate planning?
- Will your business require help in putting together its financial statements?
- Will your business's financial statements require an audit or a review?
- Which of the following services does your business require—accounting, auditing, tax advice, or management consulting?
- What are the requirements for special financial reports to government agencies?
- Will you need help preparing a personal or 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 colleagues in your field of business. They should be able to recommend CPAs who know your special needs.
- Develop some idea of your plans and objectives before you talk with a CPA. Gather 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. Many of these organizations require adherence to technical and professional standards, thereby helping to ensure the quality of a CPA's services.

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 usually 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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Communications Division

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