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Understanding CPA services

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Understanding

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CPA

SERVICES

A FEW WORDS ABOUT THE AICPA

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA) IS THE NATIONAL PROFESSIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS. THE INSTITUTE WAS FOUNDED IN 1887, AND MARKED THE ORGANIZATION OF THE ACCOUNTING PROFESSION IN THE UNITED STATES. THIS IS A SIGNIFICANT MILESTONE, RECOGNIZING THE EMERGENCE OF ACCOUNTANCY AS A PROFESSION DISTINGUISHED BY ITS EDUCATIONAL REQUIREMENTS, HIGH PROFESSIONAL STANDARDS, STRICT CODE OF PROFESSIONAL CONDUCT, LICENSING STATUS, AND COMMITMENT TO SERVING THE PUBLIC INTEREST. THE AICPA CURRENTLY NUMBERS 305,000 MEMBERS IN PUBLIC PRACTICE, INDUSTRY, GOVERNMENT AND EDUCATION.

THE MISSION OF THE AICPA IS TO ACT ON BEHALF OF ITS MEMBERS AND PROVIDE SUPPORT TO ASSURE THAT CPAs SERVE THE PUBLIC INTEREST IN PERFORMING QUALITY PROFESSIONAL SERVICES. IN FULFILLING ITS MISSION, THE AICPA PROVIDES MEMBERS WITH A BROAD RANGE OF PROGRAMS TO HELP THEM MAINTAIN AND IMPROVE THE QUALITY OF ACCOUNTING, AUDITING, TAX, PERSONAL FINANCIAL PLANNING AND MANAGEMENT CONSULTING SERVICES.

THROUGH ITS AUDITING STANDARDS BOARD, THE AICPA ISSUES AUDITING STANDARDS. ACCOUNTING PRINCIPLES ARE ESTABLISHED BY THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB), AN INDEPENDENT BODY WHOSE MEMBERS COME FROM THE ACCOUNTING PROFESSION AND THE BUSINESS COMMUNITY. WHILE THERE ARE SEVERAL OTHER SOURCES OF ACCOUNTING GUIDANCE, FASB IS THE PREMIERE ACCOUNTING STANDARD-SETTING BODY. ACCOUNTING STANDARDS FOR GOVERNMENT ENTITIES ARE SET BY ANOTHER INDEPENDENT BODY, THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB).

SPECIFICALLY, THE AICPA:

- DESIGNS, CREATES AND GRADES THE UNIFORM CPA EXAMINATION.
- DEVELOPS AUDITING STANDARDS, REVIEW GUIDES, AUDIT RISK ALERTS AND OTHER GUIDANCE TO HELP CPAs PERFORM AUDITS.
- SETS STANDARDS FOR COMPILATION AND REVIEW ENGAGEMENTS.
- SETS STANDARDS FOR CONSULTING SERVICE ENGAGEMENTS.
- PROVIDES GUIDANCE TO MEMBERS ON PERSONAL FINANCIAL PLANNING AND TAX PRACTICES.
- ENFORCES A STRINGENT CODE OF PROFESSIONAL CONDUCT.
- CONDUCTS A PROFESSION-WIDE, MANDATORY PROGRAM OF INDEPENDENT REVIEWS OF THE AUDIT AND ACCOUNTING PRACTICES OF CPA FIRMS.
- CONTRIBUTES TO ACCOUNTING EDUCATION THROUGH AN ONGOING RELATIONS-WITH-EDUCATORS PROGRAM, AN ACCREDITATION SYSTEM FOR COLLEGE ACCOUNTING PROGRAMS, A MINORITY FACULTY SEMINAR AND MINORITY SCHOLARSHIP PROGRAMS.
- DEVELOPS AND DISTRIBUTES MATERIALS TO ENCOURAGE HIGHLY QUALIFIED INDIVIDUALS TO BECOME CPAs AND PROMOTES THE AVAILABILITY OF APPROPRIATE EDUCATIONAL PROGRAMS.
- PROVIDES CONTINUING PROFESSIONAL EDUCATION COURSES AND CONFERENCES FOR ITS MEMBERS ON A WIDE RANGE OF SUBJECTS.
- PUBLISHES THE *JOURNAL OF ACCOUNTANCY* (A MONTHLY MAGAZINE) AND *THE CPA LETTER* (A MONTHLY NEWSLETTER), AS WELL AS AN EXTENSIVE RANGE OF TECHNICAL PRACTICE AIDS AND PUBLICATIONS, NEWSLETTERS AND BROCHURES.
- REPRESENTS THE INTERESTS OF THE CPA PROFESSION IN WASHINGTON, D.C.
- CONDUCTS PUBLIC INFORMATION PROGRAMS TO EDUCATE THE PUBLIC ON ACCOUNTING TOPICS.

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WHY CHOOSE A CPA?

A CPA, or certified public accountant, is licensed by a state authority to practice public accounting. CPAs are distinguished from other accountants by stringent licensing requirements. To qualify for certification and a state license, an individual generally must have at least a college degree or its equivalent, must pass the rigorous two-and-a-half day Uniform CPA Examination and, in some states, must meet certain experience or postgraduate study requirements. In addition, almost all states require CPAs to take specified amounts of continuing professional education annually to retain their professional licenses to practice. For AICPA members, continuing professional education is mandatory.

Members of the AICPA employed in public practice are also required to participate in an approved practice-monitoring program to maintain and improve the quality of accounting and auditing services. This requirement ensures that CPAs are up to date on current techniques, procedures and standards. Successful completion of a practice-monitoring program review provides the client with reasonable assurance that the accounting and auditing work done by the CPA firm can be relied upon when making business or personal financial decisions.

Additionally, CPAs are governed by the Code of Professional Conduct — one of the most exacting of any profession — which stresses independence, integrity, objectivity, technical competence and adherence to professional standards. This code emphasizes the CPA's commitment to serving and protecting the public interest.

As accounting practitioners, CPAs are proprietors, partners, shareholders, or staff members of CPA firms. They provide professional services to privately owned and publicly held companies, financial institutions, nonprofit organizations, individuals, and all levels of government. CPAs are also employed in business and industry, in government and in education. This booklet briefly describes some of the more widely used services provided by CPAs.

THE CPA AS AUDITOR

Auditing is one of the most important and best-known services CPAs provide. There are over 13,000 publicly owned companies in the United States whose stock is held by approximately 51 million shareholders. Such companies are required to issue annual financial statements that are audited by an independent CPA to reasonably ensure that they fairly present the company's financial position and the results of its operations. Audits also are conducted for privately owned businesses, not-for-profit organizations, and governmental units.

The CPA performs each audit in accordance with generally accepted auditing standards that provide assurance to the public that the audit has been conducted in a professional manner.

An audit is designed to bring objective, professional expertise to the financial reporting process. This helps to deter the issuance of misleading financial statements. Of course, there can be no guarantee that all fraud will be found. However, an audit is planned and performed with an attitude of professional skepticism and is designed to provide “reasonable assurance” that the financial statements are free of significant errors or fraud.

For the auditor to express an opinion on the reliability of the financial statements of any company, the CPA must understand events, transactions and practices that have an important effect on the financial statements. This requires a careful look at the company’s internal control structure over financial reporting. The auditor also tests the support for selected transactions and considers other evidence. For example, the auditor confirms selected information with banks, customers and creditors. The CPA also studies contracts and reviews the company’s performance.

At the end of the auditing process, the CPA, exercising professional judgment and drawing upon his or her knowledge of the business, reaches a conclusion about the financial statements. This is the “bottom line” in the audit — the opinion expressed in the auditor’s report. If the auditor finds the financial statements are fairly presented in conformity with generally accepted accounting principles, then the CPA can issue a “clean” or unqualified opinion. Under certain circumstances, the auditor may qualify the opinion, stating clearly those matters preventing the expression of a “clean” opinion. In some very serious cases, the auditor may issue an adverse opinion or withdraw from the engagement. Publicly held companies must explain all the circumstances concerning a change in auditor to the Securities and Exchange Commission.

Compilation and Review Services

Privately held companies often ask CPAs to perform compilation or review services instead of an audit. During a compilation, the CPA becomes familiar with the nature of a client’s transactions, then compiles the company’s financial data into a financial statement format. The CPA reads the statements for obvious errors, but does not express any opinion on their conformity with generally accepted accounting principles.

A review, however, does provide a limited degree of assurance that the business’ financial statements are in conformity with generally accepted accounting principles. During a review, the CPA makes inquiries into such matters as accounting principles and methods, recordkeeping practices, and actions of the board of directors. Then the CPA will apply analytical procedures designed to identify unusual items or trends that may need explanation.

THE CPA AS PERSONAL FINANCIAL PLANNER

CPAs play a vital role in helping individuals arrange their financial affairs. As independent and objective advisers, CPAs can assist clients in identifying financial objectives and give advice on strategies for retirement, tax and estate planning, and budgeting. Additionally, CPAs can help individuals identify financially sound options to achieve such goals as buying a home, paying for a college education, or paying off consumer debt. Personal financial planning is a general term used to describe these services provided by CPAs.

CPAs tailor personal financial planning services to their clients' particular needs. Typically, the process of financial planning includes collecting all financial data; calculating present net worth; analyzing income and expenses; projecting future income and expenses; identifying and prioritizing objectives; developing a financial plan to achieve those objectives; and monitoring the progress of the plan and updating it when necessary.

CPAs frequently work with individuals to prepare and implement specific financial plans related to retirement planning, starting a savings plan, financing a college education, and estate planning. In addition, CPAs can offer individuals valuable financial advice on real property and other assets, insurance, budgeting, recordkeeping, and income taxes.

As estate planners, CPAs can assist both individuals and business owners in developing appropriate estate plans for building and preserving assets during their lifetimes and for reducing the impact of estate and inheritance taxes. In addition, CPAs can help to ensure that assets are distributed according to their clients' wishes. After studying a particular financial situation, CPAs can project current estate tax liability and recommend ways to minimize and/or defer this liability through effective planning. Additionally, they can recommend attorneys experienced in estate planning to draft documents such as trusts and wills.

CPAs can also work with insurance agents to be sure clients have adequate insurance coverage, confer with stockbrokers or investment advisers, and put clients in touch with other financial experts as needed.

A businessman contacted a CPA about early retirement. The CPA recommended an asset allocation model based on the client's risk tolerance. The CPA also developed a plan to enable the client to set aside enough money for his wife and children after he dies, all while minimizing his income taxes. The businessman reached his retirement goal and continued to maintain his standard of living during his golden years.

THE CPA AS TAX ADVISER

As tax advisers, CPAs help individuals and businesses with a variety of tax problems. They assist clients with tax planning, preparing income tax returns, and representing individuals before government agencies at the federal, state and local levels. Most CPAs in public practice have a sound knowledge of taxes and a large number of practitioners specialize in this field. In this role, they provide tax planning services to their clients (both businesses and individuals) throughout the year, advise them on the tax consequences of business and investment decisions, recommend tax-saving strategies and help them comply with tax laws.

The CPA may be asked to design compensation, fringe benefit and retirement plans for businesses to provide to officers and employees at a minimum cost to the company. A CPA may be involved in reorganizing a multinational company's domestic and foreign operations in a manner that takes into consideration U.S. and foreign taxes, cash investments, dividends and economic growth.

CPAs can also obtain an advance ruling from the IRS on the tax consequences of a proposed transaction, such as a corporate acquisition of the stock or assets of another company. In addition, CPAs can analyze the investment opportunities and tax benefits provided by syndications of oil and gas, real estate and other risk capital ventures.

In the compliance area, the CPA tax adviser is often responsible for preparing and reviewing individual tax returns, preparing corporate returns, reviewing tax returns prepared by a company's in-house tax department, preparing a consolidated tax return for an affiliated group of corporations and preparing estate and gift tax returns. The CPA may also be asked to assist clients with state and local tax problems.

Tax considerations are an important part of most business decisions. At the time the founder of a privately held company was preparing to retire, he employed a CPA to conduct a full review of the business' tax situation. He discovered that the firm had overlooked tax provisions specifically benefiting this type of enterprise. The CPA recommended a thorough review of the inventory costing method, depreciation schedules and loss reporting procedures, saving the company more than \$1 million in taxes.

THE CPA AS MANAGEMENT CONSULTANT

As management consultants, CPAs can help businesses to improve the use of their resources, increase their efficiency and achieve their objectives. The partners and staff of a CPA firm can serve as an important source of advice and assistance for the entire client management team. Their business experience, technical knowledge and consulting skills often can be applied to many aspects and functions of business and government other than accounting. For example, one frequent type of consulting service is assisting clients in developing a management information system.

Another common consulting function is assisting clients in evaluating the results of their operations and forecasting the effects of alternative plans to facilitate management decisions. CPA consultants can help clients institute a corporate planning process to control current operations, manage risk, translate long-range plans into attainable goals and increase profits and market share.

CPAs also provide consulting services related to a business' organization and its personnel. They may be helpful in screening candidates for vacant accounting or management positions. And they can assist in the development of job descriptions, personnel policies, systems and manuals. Changes in compensation policies and practices may also be part of a CPA consulting service.

The technical and consulting skills of CPAs are also used in special situations. For example, CPAs often assist attorneys in litigation situations by developing damage studies or business valuations and serving as expert witnesses in court.

As management consultants, CPAs can identify, evaluate and recommend ways to increase revenue and reduce operating costs; analyze operations and suggest changes in structure and individual responsibilities; conduct special studies; and prepare recommendations, plans and programs, and provide advice and technical assistance in their implementation. The breadth of CPA consulting services reflects the determination of CPAs to apply their technical knowledge and business experience to their clients' changing needs.

A CPA helped two partners open an athletic shoe store franchise. The CPA assisted them in setting up an accounting system, showing them how to prepare monthly financial statements and introducing budgeting techniques. The partners have been in business for seven years and now operate four stores. All along, the CPA provided consulting services as necessary, including helping to computerize the inventory system.

THE CPA IN BUSINESS & INDUSTRY

Over 40 percent of the members of the AICPA are employed in business and industry. CPAs are employed as senior financial executives of some of the largest corporations in the United States. Other CPAs are responsible for the financial and administrative functions of growing entrepreneurial businesses. Wherever they are employed, CPAs are key members of the management team.

The CPA controller, or chief financial officer, is usually responsible for external financial reporting, internal financial reports, budgeting and other traditional aspects of management accounting. In many businesses, however, CPAs have additional responsibilities including cash management, investing, financing and banking relationships, information systems, employee benefits programs and human resources.

Other CPAs are employed as internal auditors where, in addition to participating in financial audits, they evaluate and report to management on the effectiveness of the organization's operations and systems.

The growing range of responsibilities undertaken by CPAs in industry mirrors the broadening scope of services of CPAs in public accounting. Both result from the growing recognition of CPAs as well-rounded business professionals.

THE CPA IN GOVERNMENT & NONPROFIT ORGANIZATIONS

CPAs perform a variety of services at all levels of government — federal, state and local. Federal agencies that employ many CPAs include the General Accounting Office, the Defense Contract Audit Agency, the Internal Revenue Service, and the Securities and Exchange Commission.

At the state level, CPAs may serve in such positions as director of the department of revenue. One of the primary responsibilities in this position may be to advise the governor and the legislature on tax policy issues. Also, the responsibilities of such a position may include managing the department of revenue's statewide programs, statewide property appraisal and assessment, and child support enforcement. The CPA may also be responsible for compiling a budget for the department, getting it approved by the legislature and overseeing the use of resources.

CPAs in nonprofit organizations provide the information needed by these institutions to determine if the programs and services they provide are meeting their objectives. Whether a CPA is on the staff of a nonprofit organization or serves in an advisory capacity, he or she can help the organization file tax returns, set up an internal control system, budget resources and prepare financial data.

THE CPA AS EDUCATOR

As faculty members at colleges, universities and community colleges, CPAs prepare students for accounting careers. This involves teaching courses in auditing, financial accounting, taxation, cost and managerial accounting, and many other interesting areas. Professors design new courses and curricula to meet the profession's ever-changing educational needs. The CPA's teaching role also includes counseling students about the various career paths in accounting and advising them on course selection.

Accounting educators conduct research to expand the body of accounting knowledge. Some examples of accounting research are investigations into how accounting and auditing information is used to make decisions, examinations of how the behavioral sciences can aid the understanding of the way in which accountants and auditors perform their tasks, and studies about the effectiveness of auditing techniques in the examination of financial statements.

In addition to their teaching and research roles, accounting educators also are involved in professional service. Accounting faculty members frequently serve on committees of professional organizations, and they design and teach continuing professional education courses.

CONCLUSION

The CPA plays an important role in business and the economy. The CPA possesses technical knowledge and skills and is trained to apply sound judgment in business situations, helping people and organizations evaluate the use of economic resources.

No matter what role a situation calls for — auditor, tax adviser, personal financial planner, small business adviser or management consultant — the CPA will carry out the assignment with independence, integrity and objectivity.

CPA SERVICES

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HERE ARE JUST A FEW OF THE SERVICES A CPA CAN PROVIDE.

- CONDUCTING SPECIAL STUDIES ON FINANCING, INVENTORY MANAGEMENT, COST CONTROL, CREDIT, AND COLLECTION FOR BUSINESS, GOVERNMENT AND NONPROFIT ORGANIZATIONS
 - CONSULTING ON ACCOUNTING ASPECTS OF BUSINESS PROBLEMS
 - DEALING WITH ATTORNEYS AND BANKERS IN BUSINESS MERGERS OR EXPANSIONS
 - REVIEWING AND SETTING UP COMPUTER SYSTEMS THAT MEET A COMPANY'S NEEDS
 - AUDITING FINANCIAL STATEMENTS AND REPORTING ON THEM FOR THE CLIENT'S USE WITH INVESTORS, CREDITORS, MANAGEMENT AND OTHERS
 - ASSISTING CLIENTS IN SECURING LOANS AND CREDIT BY GATHERING INFORMATION REQUIRED BY A LENDING AGENCY
 - PREPARING TAX RETURNS AND RECOMMENDING TAX STRATEGIES AND PLANNING OPPORTUNITIES FOR BUSINESSES AND INDIVIDUALS
 - HELPING INDIVIDUALS PLAN THEIR FINANCES AND ESTATES
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AICPA *"The Measure of Excellence"*

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