THEME: CLIENT WRITE-UP

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ACCOUNTING TERM: Write-up

A client "write-up" is the terminology accountants use to describe the preparation of a "compiled" financial statement. Compiled means that the financial statements have not been audited or reviewed and that the information presented in the financial statements has been provided by management. Therefore, it means that the accountant does not express any assurance as to the accuracy of information presented in the financial statements.

FEATURE ARTICLE: Developing Your Own Accounting Practice

Over the last six years, I have received a number of questions and comments from individuals who are planning to begin or have just begun their own accounting and bookkeeping business. It could be a person who has retired from a job and is looking to make extra money and keep busy. Or, it may be a bookkeeper who has decided to strike out alone and knows of several businesses that have asked that person to do their books. Whatever the reason, there seems to be enough people interested in the subject that I thought I should offer some suggestions and advice on the matter. However, anyone preparing financial statements for a small business may find the following information useful.

Bookkeeper vs. Accountant

First of all, you should decide whether you are a bookkeeper or an accountant, or both. I am an accountant, not a bookkeeper. I do not write checks, prepare invoices, file, run the payroll, solve collections problems, and deal with creditors, etc., for my clients. My client or the client's bookkeeper performs those tasks and summarizes the information I need to prepare the financial statements each month, quarter, year, or period a statement is needed. A full-charge bookkeeper might perform all those functions and send the completed financial statements to an accountant at the end of the year to have the taxes prepared. It depends on the skills of the person and the desires of the client.

I happen to be an accountant who does both client write-up work and preparation of corporate, partnership, and individual tax returns. Some accountants only do taxes. Further, I do public accounting but I am not a Certified Public Accountant (CPA). I live in California so I am required to disclose to my clients that I am not a CPA on any written material I give to them. Therefore, on my letterhead and business cards I state that I am an "Independent Non-Certified Accountant". Sometimes people ask me, "What do you mean by <u>independent</u>"? I tell them that I am not bound by the rules that CPAs must follow, such as peer review, continuing education, record keeping, financial statement formats, etc. Yet, at the same time, I am restricted from being able to prepare audited or reviewed financial statements.

The state of California is attempting to resolve the confusion consumers have between a "licensed" (CPA) and a "non-licensed" accounting practitioner by requiring the non-licensed accountants to disclose their status. Once disclosed, the principle of "Caveat Emptor" or "Let the buyer beware" governs. Whatever state or country you live in, it would be wise to find out what constraints may exist before you begin practice.

The fact is that clients usually select accountants from referrals not from advertisements. In the last twenty-five years I think I may have had two clients that came from the yellow pages, and I think they were payroll and tax clients. Almost always, the client knew or trusted somebody who told them about me. They then call, we have an interview, and they decide they either trust me or they don't. From that point on, if they go with me, my job is to establish a relationship of trust and confidence.

Clients often have to confess their "financial sins" to you because the books can't be completed accurately without all the vital, related information. Sometimes they confess more than just financial sins. At this point, you can become their quasi priest and therapist. The client/accountant relationship is a very serious one that must be honored and always respected. Some of my closest friends today are clients or former clients. I run a small business and so do my clients. Therefore, we have a lot in common and much to share. To serve clients I spend a lot of time and mental energy figuring out ways to help them. In some cases, I have saved their "financial butts". People appreciate that kind of concern and effort and a bond is created. This is the rewarding aspect of the profession.

A good accountant does more than just prepare financial statements. Clients expect me to give them advice. Therefore, I must review the financial statements for problems such as becoming over-leveraged in debt, spending too much on employees or advertising, etc. I need to help them become aware of the strengths and weaknesses of the business. Sometimes I have to be very frank with a client as he or she might be "the problem". This is where communication skills payoff. We've all heard of the introverted accountant who sits behind the desk with the green eyeshade on his forehead crunching numbers. Many accountants are excellent bean counters, but are poor communicators.

Some accountants feel it is best to keep the client in the dark. I don't agree. My experience has taught me that the more a client understands about accounting, the better we communicate. The better we communicate, the longer our relationship lasts. For sure, some clients hate numbers and have no interest in the how's and why's of accounting. But, on the whole, I have found that most clients appreciate learning about how accounting works in their business as long as I don't overwhelm them with details.

Write-up

A standard write-up process can become quite routine once I get the client oriented as to what materials to provide. This may take several write-ups depending on how organized the client is. Occasionally I may get a client that is always disorganized, procrastinates, and is a pain in the rear end. The choices are clear. I can drop them, put up with them, or bill them for the extra work. Billing extra is usually my choice, as it tends to get their attention and win their eventual conformity to my program.

Essentially, the material I will need from the client is some sort of check register, current bank statement, cash receipts and sales summary, payroll information, and accounts payable charges, if any. It has been my experience that many small businesses are not fully computerized nor have any desire to be. Every small business I have encountered is at least partially computerized. The check writing system that worked great for my clients twenty-one years ago and still works great today, is the "pegboard" system, also known as a "one-write" system. If you are unfamiliar with this check writing system it consists of a board with pegs on the left side. A journal page with holes fits onto the pegs. A group of checks laid out in "shingle" form are attached to the pegs over the top of the journal. Each check has a carbon strip on the back which is lined up with a line on the journal. When the check is written, the critical information (date, payee, amount, and description) is transferred onto the journal via the carbon. There is a place for a running checkbook balance, deposits, and plenty of room to write the general ledger code numbers that associate with the check. Write it once and you are done.

The reason I like this system so much is because no matter how much the clients procrastinate or how disorganized they are, when the check is written the vital information is recorded in the proper order I need it. If the clients come in at the end of the year with just the journals and bank statements, I can prepare financial statements. Clients like the system because it is flexible. They don't have go to the computer to write a check and they don't have dig into the computer to find a check they wrote. In addition, they can code the checks at the end of the month which only takes a few minutes, or if they have to, they can code the checks at the end of the year. No matter what, it is difficult to screw things up unless they lose the journals entirely.

My routine usually goes like this: I first make copies of everything for my own files. Then I prepare the bank reconciliation. I strongly recommend that you also prepare the bank reconciliation. Use a form similar to the one I use in my accounting course where you can see both the bank and book side on one single page. Spell out where the deposits come from and do the same for all the debit charges other than the checks. This way you become familiar with what activity occurred during that accounting period, plus you can write your journal entries from that document. Once I have completed the bank reconciliation I'm no longer navigating in the dark. I have a clear destination, and proof of when I arrive.

Next, I write my journal entries from the bank reconciliation, the sales summary, the payroll information, and anything else I need. Once this is done, I key punch in the coded check register. While I'm doing this, I'm checking the codes to make sure the client did not make a mistake. This is especially true when you see balance sheet code numbers as most clients don't know how to use them. Next, I enter the journal entries into the computer. I run the first set of financial statements and check the balances. The most critical balance to check is Cash, which should tie to the bank reconciliation. If the balances look good, then I put them into a nice folder with my compilation letter on top. I always attach the bill on the outside of the folder, with a paper clip, in plain sight.

I immediately fax a memo to the client that shows the difference between the reconciled bank balance with the one found on the check register. They need to know what the cash adjustment is (increase or decrease) so they can correct their running bank balance. I try to explain the reasons for the difference, such as bank charges, deposit errors, or calculation errors. I also include any questions, suggestions, or things I think they ought to know about that I observed while preparing the financial statements. They appreciate this additional service and come to depend on me for this information.

It helps to become familiar with taxes because your clients will expect you to help them save tax money. Also, you can format the financial statements to conform to the information required on the tax returns. It makes economical sense to clients that the person doing their accounting is the best one to also do their taxes.

The idea is to develop a system that works for you. It has to be flexible enough to accommodate all kinds of different clients. Do a few financial statements and you will start to get the hang of it. Plus, keep an open mind, as there will always be something new to learn.

QUESTION: How Do I Conduct A New Client Interview?

Somebody asked me how to go about conducting a new client interview in a chat room one day. I had never thought about it before as a set of procedures. It is something I just did. Here's what I told her:

The potential client first calls and says that so and so told them about me and they are looking for an accountant. At this point, I want to try to find out as much as I can about the business. What type of business, how many employees, who does the books now, what type of entity, what kind of check register is being used, how often financial statements are wanted, etc. With this information, I can get a picture of the operation and start piecing together some possibilities as to how to organize their books. My questions and some general suggestions help build their confidence in my knowledge and skills.

I can tell whether the person is receptive right away by his/her response and, if it is positive, I set up a meeting. The next step is to really think about what accounting system will work best in that type of business and have some suggestions fresh in mind.

It is important to bring samples of forms and financial statements to show the client what will be necessary to collect the information and what the finished product will look like. In the first meeting, I always tell the client it's free because I'm selling my services. This helps them to relax and sends the message that I am not going to gouge them. The bottom line is to offer them a plan or solution at a reasonable price. I may suggest that they use the one-write system and explain how easy and simple it is. They may have another system in mind. I have to flow with the go when that happens and perhaps suggest another system, such as QuickBooks, and explain how that could work. I ask questions first so I can get a feel for who this client is <u>before</u> offering a plan. The more information I can gather, the better opportunity to tailor a plan to fit their needs.

Once the plan is agreed upon I explain clearly my billing procedures. I set a flat fee for monthly or quarterly financial statement preparations. However, I always leave some wiggle room in case the material from the client causes me extra work. You don't really know what you are getting into until you see what quality of material they give you. I tell them that the first three or four months is a trial to see if I can do the work for the estimated flat fee. If not, we can renegotiate the fee based on the time it actually takes to complete the work. If I have to do any backwork to bring the books up to date, or any other kind of work outside the scope of the write-up work, I charge a certain hourly rate. I also recommend preparing an "engagement letter". This is a description of the work I have agreed to perform at the agreed upon rate, and estimated costs. It also spells out what documents the client agrees to provide so that I can do the work.

If there is backwork, it's probably wise to insist on a retainer of at least half of the backwork fee. I never want to find myself in the position of having spent hours working on a project only to discover that the client decided to go elsewhere and has no interest in paying me for the work performed.

<u>TIP: Sample Compilation Letter</u>

I mentioned the "compilation letter" earlier. This is the one I use. Of course, it is on my letterhead with the date, and proper heading to the client:

Dear Client:

The accompanying statements of financial condition for Be Hair Now., a sole proprietorship, for the quarter ended September 30, 200X have been compiled by me.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. As an independent, non-certified accountant, I am not licensed by this state to audit or review the accompanying financial statements and, accordingly, cannot express an opinion or any other form of assurance on them.

Sincerely,

You should alter the letter to fit the client, i.e., sole proprietorship, partnership, corporation, and time period.
This letter is important because it tells a third-party that an accountant who works outside the company prepared the financial statements. This means the third-party reader, such as a bank, lender, investor, etc., tends to trust the accuracy of the financial statements more than if the company itself prepared them. Notice that the compilation letter warns the reader that the information comes from management. In all my years of preparing financial statements, I have never had a bank reject the financial statements because they were not prepared by a CPA. The reason for this is because most public accountants have no reason to falsify or collude with a client to defraud the bank.

I have only had one client ask me to phony-up a set of financial statements and I simply refused. I never just plug in information without some independent verification. I get that verification by doing the bank reconciliation. I know the checks were really written because I saw them on the bank statement. I know how much cash came in because I saw it on the bank statement. If I see funny stuff, such as a ton of obvious personal expenses coded to business expenses, or I detect there is significant cash being skimmed from the deposits, then I give the client my twenty-cent lecture on what happened to Al Capone who was essentially doing the same thing. If the skullduggery continues, then it is time to terminate the relationship with the client.

Sometimes I get clients that come from the underground economy and want to go straight but have some habits that are hard to break. In those cases I have to be patient and persistent. I make sure that I document all suggestions for remedial action. Some of my best clients came from that background.

In any regard, you would be well advised to buy adequate errors and omissions insurance.

John W. Day, MBA is the author of two courses in accounting basics: Real Life Accounting for Non-Accountants (20-hr online) and The HEART of Accounting (4-hr PDF). Visit his website at http://www.reallifeaccounting.com to download his FREE e-book pertaining to small business accounting and his monthly newsletter on accounting issues. Ask John questions directly on his Accounting for Non-Accountants blog.