



You and Your Accountant

by Bradford W. Ketchum Jr.

Many small businesses find public accountants somewhat intimidating, regarding them as outsiders who serve as buffers against an even more intimidating Internal Revenue Service. At best, the public accountant is considered an impartial paper-pusher who comes in periodically to wrestle with the company books at a borrowed desk.

But an increasing number of small businesses view their outside accountants in a different role—as their primary business advisors, just ahead of their attorneys and bankers. Their accountants not only review the books and compute taxes, but they provide crucial advice on such matters as cash flow, credit, cost control and systems management.

Most small companies have limited in-house accounting staffs. The majority of those with sales of less than \$1 million employ only one person in a bookkeeping or accounting function. Those with sales up to \$5 million generally employ only two or three in accounting.

These are just some of the findings of a survey conducted by Inc. magazine of 5,000 small businesses and 2,000 public accountants. Highlights of the survey, which was undertaken to help small companies evaluate and improve their rapport with accounting professionals, are summarized in this article.

Evaluating Your Outside Accountant

Whether it consists of one person (even just yourself) or half a dozen people, your staff is a vital link between your business and its outside accountants. The personal chemistry needed for a productive relationship is just as important to consider as the accountant's technical competence.

Do you feel free to call the company accountant with questions? Do you receive a ready response, and does the advice work? How often has your outside accountant shown you how to streamline your paperwork? Does the accountant take the time to make sure you understand the finer points in a company statement?

Answers to such questions represent the first step in evaluating your outside accounting firm. What should your public accountant be telling you? Preparation of tax returns and financial statements may be your accountant's primary responsibility, but it should not be the only one. In addition to satisfying Uncle Sam's requirements, the documents your accountant prepares should be treated as financial tools that meet management's needs.

Besides combing your books, your accountant should monitor your business and suggest alternatives for controlling costs and improving profits. In short, he or she should serve not as a part-time manager, but as a full-time advisor to management.

Recent changes in the tax law provide a good test of your accountant's technical competence and ability to keep you advised. Does he or she keep you abreast of these changes and fully explain their impact on your business?

Your accountant also should advise you on other key concerns, such as state and local tax laws, reporting rules, employee-retirement programs, estate planning and inventory valuation.

Nearly half of the small businesses surveyed also rely on their public accountants for tax-planning and auditing services.

Not surprisingly, the use of auditors is directly related to company size. Only one of three firms with sales of less than \$1 million has its statements audited, while close to half of those with sales between \$3 million and \$5 million obtain audits.

The rest of the services used by small business range from help in designing internal accounting systems to capital-investment analysis and evaluation of compensation programs.

In weighing your needs for accounting services, consider the five basic benefits any ac-

counting firm, regardless of size, should provide your company:

- Competent tax assistance,
- Better cost control;
- Order in your accounting system;
- Credibility in your statements; and
- Compliance with the law.

Those are the basic payoffs that should govern not only your choice of services, but the determination of their value.

How often should you be talking with your accountant? The answer: whenever the need arises. And for most small companies, that's no more than once a month.

While one out of three small companies is in touch with its accounting firm on a weekly basis, most of them talk with their public accountants about every four to six weeks.

Although lack of communication is a source of dissatisfaction among small businesses, less than 1 percent of the survey participants cited the availability of their accountant as a problem.

The more important question, therefore, is how often your accountant should talk with you. If the communication is always a one-way street, it's time to re-evaluate the entire relationship.

The size of your accounting firm is important only to the extent that it has sufficient staff to meet your needs. In general, smaller companies stick with smaller accounting firms.

While all of the so-called "Big Eight" national accounting firms now boast separate small-business staffs (whose typical clients have up to \$6 million in sales), few local or regional accounting firms tend to have distinct small-business staffs within their organizations.

Most of these firms consider themselves small-business specialists to begin with four out of every five of their clients are small companies, typically ranging in size from \$1.3 million for sole practitioners to \$5.4 million for regional accountants.

Boding well for small business and reflecting the intensified competition for small-company clients, 94 percent of the accountants responding to *Inc.*'s survey had plans to expand their small-business services.

Fees apparently are not a major factor in the relationship between small companies and their accountants. While accounting charges could be lower and the fee structures could be clearer, very few respondents indicated that fees influence their selection of an accountant.

Almost two out of three small companies compensate their accountants on a hourly basis; the rest rely on a flat-fee structure.

Taking a cue from the banking industry, perhaps, several accounting firms offer preferential rates for small companies. Such rates take the form of reduced rates for start-ups

accountants. In fact, most firms report that their present accountant is the only one they've ever had. On the average, survey participants had retained their present accountants for more than eight years.

The lack of turnover is testimony to the value of sticking with an accounting firm that knows your business. It also suggests that the real question is not *when* you should switch, but *why*.

Many companies rotate accountants as a matter of policy, to generate new ideas and keep professionals on their toes. If all you're getting out of your accountant is tax returns and financial statements—if your accountant thinks only as an auditor and not an advisor—then a switch may make sense. Change for the sake of change, however, is neither productive nor profitable.

Small companies should evaluate their accountants at least once a year to identify anything that may justify a change. The business may simply have outgrown the accountant's capabilities.

Is your accountant, for example, keeping pace with your company's needs for sophisticated advice on such matters as data processing, inflation management, new cost controls and benefit packages?

If your accountant has a thorough knowledge of your business and continues to serve as a sounding board, however, then there is little merit in making a change.

Suppose a switch is recommended. What guidelines should you use to select a new accounting firm?

Small-business executives and public accountants agree that the three most important criteria are personal attention, reputation and experience. Each of these factors, in turn, translates into several critical considerations.

Personal attention, for example, should be synonymous with commitment, compatibility and responsiveness. Will the principal of the accounting firm be directly involved in your business? Will you be comfortable with the individuals who will actually be doing the accounting work?

Responsiveness should be measured not only in terms of how long it takes the accountant to return phone calls, but what it takes to get him or her to come to your office. If you plan a special year-end tax meeting, for example, how much notice will you have to give to ensure that the accountant will attend?

Reputation—the second most important criterion—has little to do with prestige. It's a matter of how bankers, attorneys and other businesses in your community regard the accounting firm. And don't forget to get a reading on how the accountant stands within his or her own profession.

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and initial clients, special "introductory" rates and, in some cases, small-business discounts.

Among companies with sales of less than \$1 million, the average annual accounting fee is about \$3,000. The tab jumps to \$5,300 for companies with \$1 million to \$3 million in sales, and up to \$10,600 for those with sales of \$3 million to \$5 million. Beyond that, annual fees can range up to \$42,600.

In the final analysis, your accounting costs should reflect the quality of services performed. If the fee seems high, weigh it in terms of the "product" you're getting. If you're getting better financial statements and improved tax work, chances are the higher tab can be easily justified.

Should You Switch?

Unlike some larger corporations, small businesses do not make a practice of rotating

Finally, experience counts. What does your accountant know about your industry—and specifically small businesses in your industry?

A current client list will help answer that question, but it also is one that should be addressed personally by those who will be working with your company. Assume that the professional accountant is fluent in accounting and finance; the important question is whether he or she can speak your business's language.

Your accountant should be someone you can trust, someone who understands how your business operates, and someone who is willing to listen and respond with ideas. When you've found a public accountant who fits that description, chances are that you've found your best professional advisor. •

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