

# Working with Your Accountant

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## Take Home Message

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The first decision to be made in working with an external accountant is to decide whether your accountant is going to help you with:

- the past;
- the present;
- the future;
- all three.

Typically most businesses focus on the first area, failing to recognize full potential from a relationship with their accountant as a key advisor to management.

As information processing becomes more and more sophisticated, the value of the external accountant in score keeping for the past becomes less and less. Conversely, with today's complex and ever-changing business environment, the value your accountant can bring to the table in helping you solve today's and tomorrow's problems, can be significant.

The key issue in obtaining value from your external accountant is to have a clear understanding of what you need, what your accountant can provide and how fees will be charged. There is no better way to establish these reference points than having a discussion with your accountant, using the following outline as a guide.

## Historical Compliance Services

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Traditionally accountants prepare financial statements, income tax and other information returns for business. These are usually called 'compliance' services because the accountant is assisting the business in complying with tax rules, regulations or other such requirements.

On an annual basis, accountants usually prepare financial statements under the terms of an engagement referred to as:

- a compilation;
- a review, or;
- an audit.

The amount of work, assurance of accuracy, completeness and the cost, differ with the type of engagement.

Sometimes banks will specify the type of financial statements required, other times the owners may have a preference.

The 'compilation' is the simplest form of financial statement that your accountant can prepare and is often the least costly. Usually the accountant will simply assemble your bookkeeping results in a financial statement with little or no detailed review or analysis. Make sure you understand the limitations with this type of accounting engagement before proceeding.

Typically a review engagement is a good way to have a fairly thorough review of your year's transactions and give the business comfort that all available tax deductions are being taken, and that there are no glaring problems with the accounting records. A higher level of assurance on this front however, can only be obtained through the audit function. While not a guarantee, it provides additional assurance on the accuracy of the information and adds more credibility than the review or compilation for outside users of the financial statements.

Once financial statements are prepared, external accountants are often involved in preparation of corporate income tax returns, GST returns, payroll reporting, NISA forms, FISP forms, etc. The income tax area in particular, is one where a good external accountant can help pay their way. With the complexities and vagaries of the Income Tax Act and the myriad of interpretive information surrounding it, an accountant that knows their way around income tax can mean big savings to a business.

The prior years financial statements and income tax returns should be completed within two to four months after the fiscal year end and a business should never pay interest or penalties on tax related amounts. If you are not satisfied with the timeliness of your financial statement and income tax preparation, ask your accountant to do better, or make a change.

The 'interim estimate' is a very important aspect of the compliance work your accountant should perform, particularly for those who file income tax on the cash basis. Coming up with an estimate of your tax position well in advance of your year end date should be a mandatory part of the services provided. There should be no year end tax surprises!

The following questions are fair game for discussion with your accountant regarding your year end financial statement and income tax return preparation:

- What experience does the accountant have in the industry?
- What is the estimate of hours it will take to complete the work?
- What is the estimated fee for the services required?
- When will the work be completed?
- Who are the staff from the accountant's office, if any, that will be working on the file?
- What are the hourly rates of the people that will be working on the file?
- What more can be done by the business to reduce the annual accounting fee?

Generally, business owners should be encouraged to have a more open dialogue with their external accountants, in an attempt to better understand the extent and nature of work performed by the accountant in the preparation of financial statements and income tax returns. Unfortunately, the services provided are in many cases 'invisible'. Financial statements and tax returns prepared by two different accountants may look much the same, the fees may or may not be the same, and the work performed in creating the end product could be vastly different. To sum it up... talk to your accountant!

## Non Compliance Services

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The areas in which most businesses are surprised to find that their accountant can be of service relate to present and future problems and issues.

In working with your accountant, you should have a clear understanding of what they can and cannot do for you in some of these areas, including those outlined below.

The ability of your external accountant to assist in these areas will depend on the experience the accountant or the accountant's firm has in the specific industry in which the business operates. Larger accounting firms will often have a wide variety of specialists to deal with many of these issues. Smaller firms and sole practitioner accountants may possess extensive expertise because of a high concentration in a particular industry and often have contacts to access the expertise they do not possess.

Again, the key is to review the skills and abilities of your accountant or accounting firm, compare those to your needs, and establish an arrangement with your accountant to ensure that those needs get met.

## Information technology

- Systems review and recommendations;
- Software evaluation;
- Hardware assessment;
- Systems and software training and support;
- Communication systems.

## Business and strategic planning

- Assistance with business plan development;
- Preparation of budgets and financial plans;
- Assessment of growth opportunities;
- Sounding board for management;
- Value and return analysis.

## Capitalization and financing

- Raising financing;
- Financing proposals;
- Banking presentations;
- Determining proper capital structure;
- Government grants and assistance.

## Taxation related matters

- Estate planning for succession;
- Retirement planning;
- Form of business operation (corporate, partnership, proprietorship, etc.);
- Capital gains planning.

## Human resource management

- Job description development and placement assistance;
- Performance evaluation and feedback processes;
- Remuneration and compensation systems.

In an effort to increase the value that can be obtained from the external accountant, business owners and managers are encouraged to spend an hour talking to their accountants about the most critical problems and issues... you know, the things that keep you awake at night.

You might be surprised at how your accountant, with the analytical problem solving skills and knowledge of your business, may be able to help you find solutions. Your accountant can be a valuable member of your management team. Treat your accountant that way and expect the same in return.