

1972

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Recommended Citation

H&S Reports, Vol. 09, (1972 spring), p. 24-27

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small business services

LOS ANGELES STYLE

by William K. Quinlan



William Quinlan (r.), partner responsible for coordination of the Firm's small business practice, meets with the Advisory Committee on Small Business Services. Members (l. to r.) are Warren Eisenberg, Philadelphia; Ralph Kliber, Detroit; Harold Sullivan, Merrimack Valley; Keith Renken, Los Angeles; and Gene Mendel, Houston.

A red fireman's hat was sitting on the bookcase in Keith Renken's office when I visited him recently to review the operations of the small business department of the Los Angeles office. I reached for the hat and Keith offhandedly explained it was given to him by the wife of one of the principals in the department. Between two telephone calls from clients, Keith noted with an appropriate degree of pride that all the people in the small business department regard themselves as being rather capable "financial fire-fighters" for clients. The hat was to recognize Keith as the fire chief.

Service, teamwork, aggressiveness and personal concern may sound like overworked words to many; however, their application has brought dynamic growth to the Los Angeles small business department.

Late in 1970, Lorin Wilson, partner in charge of the Los Angeles office, approached Keith Renken about heading a separate department to provide services to smaller companies. Keith accepted enthusiastically, and with Lorin's complete support, he set out to put together a small business services team. In selecting people from the Los Angeles staff who had expressed an interest, emphasis was placed on maturity and experience in general business matters.

A client is considered a small business client by the kind of financial services he needs. A small business client usually does not have people capable of performing all accounting or

controllorship functions, and it is such an organization that the small business department serves well by filling these needs. The lack of accounting expertise rather than the size of an entity is the significant difference between small business clients and other clients. Although most entities in this category are small, occasionally those with more than \$10,000,000 in annual revenues qualify.

The department began by serving the existing clients of the Los Angeles office which fit the small business definition. The starting group consisted of Keith Renken, Steve Mansfield, Jim Tidwell, Dick Pillow, Dan Daniels and secretary Louise Larson. They set out together to provide additional services for these clients as well as to obtain and serve new ones. The enthusiasm of the group was quickly transmitted to the other people in the Los Angeles office, and soon opportunities to talk to prospective clients in the small business category were referred to the department by a number of the partners, principals, staff accountants and secretaries. As the number of clients increased, the number of people in the department also increased. Now the department consists of Keith and Steve, who handle most of the practice development activities; Dick Gardner and Tom Rowland, who are responsible for scheduling and quality control; Don Mullins who is in charge of training; and fourteen staff accountants and two secretaries. The administrative duties of Keith, Steve and the others are in addition to their client assignments.

The enterprising attitude of those in the department is probably most apparent from their success with prospective clients. One out of every two opportunities to talk to potential clients has resulted in an engagement. As a result, the business of the department trebled in its first full year of operation. As the department has become better known in the Los Angeles business community, the base of referrals has expanded and many opportunities to talk to prospective clients now come from attorneys whose practice includes many young companies. Steve Mansfield says: "We handle inquiries quickly. Our presentation to a prospective client emphasizes what we can do for him. We don't talk much about our history, we just talk about his future."

The approach is to find what accounting services the company needs most and to render these services first. Usually the first services needed are an accounting system that gives information necessary for efficient management, a cash flow forecasting system, and data to present to a bank to obtain loans for peak periods of activity. Services proposed initially often do not include auditing the company's financial statements, although this service will be rendered as soon as the need arises. The idea of the initial services is to provide a sound foundation for management decisions and planning for the future. A client's banker also appreciates this kind of planning. Experience has shown that a banker is more interested in knowing how a loan will be repaid through the

use of a properly prepared forecast than in seeing the audited financial statements of a young and growing company. By having forecasts, the management of the company understands not only its working capital and debt service requirements, but also the implications of increased volume and the application of fixed and variable costs.

While the small business department does prepare a number of tax returns for both corporations and individuals, it handles no engagements that are exclusively for tax services. The Los Angeles tax department is called upon for tax services on any engagement in which the tax aspects are complicated. In addition, the tax department has developed training material for small business personnel and check lists for their use in recognizing tax problems.

Other typical services offered to Los Angeles small business clients include the following:

- ▶ Designing and installing systems for the control of costs, inventories and production;
- ▶ Recruiting and evaluating the performance of accounting and clerical personnel;
- ▶ Assisting in preparing and interpreting interim and year-end statements;
- ▶ Training client personnel to prepare payroll tax, sales tax and similar returns due more often than annually;
- ▶ Advising on capital needs, long range planning and methods of

financing projected business enterprises;

- ▶ Gathering information to facilitate management decisions on changes in products, methods, facilities, markets and product pricing.

As to doing so-called "write-up work," the general policy is not to participate in the record-keeping function.

Bookkeeping services have been rendered in short-term emergency situations, but staff people do not independently originate basic documents. It is better from several standpoints for enterprises of any size to record information in their journals and to post their general books.

Tom Rowland spends part of his time working out procedures and developing practice aids. "The small business department follows most of the regular procedures of the Firm and maintains similar standards of quality," he points out, "but there are some different approaches in the way we work. Each accountant has to have a thorough understanding of his client's operations so that he is aware not only of financial problems but also of operating, marketing and administrative matters. We have developed procedures to meet these requirements."

In handling the scheduling of the small business services, Dick Gardner says: "From the standpoint of spreading our work over the calendar year, the small business client has two distinct advantages. First, because much of the

work has to do with system installation, cash projections, budget preparation and monthly or quarterly reviews, it does not have a concentration in any one part of the year for any one client or group of clients. Second, the close relationship between our people and the clients usually results in our being engaged on various special projects."

One constant problem in scheduling, however, arises because small business clients usually insist on a considerable degree of continuity by our staff people. When two or more clients handled by one accountant need help at the same time, departmental teamwork goes into action. A typical situation recently found Phil Mikulak involved in simultaneous urgent projects for two clients separated by a hundred miles. Several members of the department came quickly to Phil's assistance. With this help, and his traveling between the two clients daily, both matters were handled efficiently.

Because of the diversity of services rendered by the department, the training program has to be a broad one. Don Mullins has developed some material based upon his experience in the Los Angeles MAS department. He also calls upon his former MAS associates to conduct training sessions for the small business department in such areas as cash control and cash flow projections, cost and financial reporting systems, and budgeting. The department also takes advantage of a number of the courses offered in the AICPA

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professional development series and some courses offered by the California Society of CPAs. Outside speakers are brought in to discuss such subjects as banking, small business administration loans, small business investment companies, insurance, pension plans, sources of venture capital and cooperation with attorneys.

A number of the audits that are made by the small business department are the first audits that a company has ever had. These clients have many of the disclosure and reporting problems of much larger entities. Generally, the footnotes are lengthy and the opinions are mostly not of the standard short-form type. A number of opinions are qualified, and some require consideration as to whether a going-concern qualification is necessary. These reporting problems make the small business practice an excellent training ground in the writing of reports.

One of the most unusual clients obtained by the department is Museum of the Sea. The city of Long Beach purchased the retired ocean liner, *Queen Mary*, and is converting her into a floating tourist attraction and convention center. On board is a museum with a number of underwater exhibits created by Jacques Cousteau, the famous oceanographer, and there are tours that take visitors through the various parts of this great ship. Our services included work on handling visitors and

controlling related cash receipts as well as audit, accounting and tax services. Steve Mansfield who has been handling this work, says: "If you have never been on one of the big luxury liners, you surely ought to go through the Queen. When time wasn't a factor, that was really the way to go."

Keith finds the variety of problems encountered by the small business personnel quickly makes each of them a better businessman as well as a stronger accountant. Senior Craig Klump says: "The work is demanding but it's very interesting. The clients appreciate what we do for them, and this is a great feeling. But the best part is that this is what I really like to do."

While the initial growth of the small business department has been substantial, Keith believes in the next few years it will be even greater. Lorin Wilson is justifiably pleased with the progress of the department. He says, "We believe that the real keys to success in developing a small business practice are the characteristics of the people in the department. They must be enthusiastic, and have the urge to be involved on a personal basis with the on-going problems of the clients they serve. Keith Renken is this type of person and has attracted principals and staff members with similar qualities to the department. They thrive on handling emergencies of clients on a 'fire engine' basis." □