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Management Advisory Services

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INTRODUCTION

During the past few years there has been a growing interest within the accounting profession in management advisory services by CPAs and a growing demand for these services on the part of the business world. These services are not the traditional ones performed by most CPAs such as auditing, tax service, preparation of various kinds of financial and operating statements, advice on matters of accounting treatment, and so forth. Rather, they are particular and specialized services which the CPA of broad experience is qualified to perform as a result of his training and general knowledge of business operations.

COMPASS OF SERVICES

These services, however, do not include the performance of day-to-day management duties for a client nor do they indicate that the CPA may offer to manage a business for his client or make managerial decisions for him. The question of just what management services the CPA in his professional capacity may properly render for his clients has been and is being given a great deal of study within the accounting profession. The American Institute of Accountants has established a Committee on Management Services by CPAs. As a result of this Committee's studies the Institute has recently issued a booklet entitled "A Classification of Management Services by CPAs." Its subject matter is described as tentative and exploratory, assembled and distributed to stimulate greater interest, thinking, and discussion in this important field.

Included in the classification are such functions as surveys of management policy, organization, financing, production and production control, office management, sales management, personnel policies, research and development, and comparable professional services.

This does not mean, however, that every CPA is qualified to perform all of these services for his clients; and it is of course axiomatic that a CPA should never attempt to render a service for which he does not have the necessary knowledge and training. The CPA must constantly

bear in mind that in rendering any of these services for his audit clients, such services should be on an advisory level rather than on an operating level since he must, primarily, maintain his ability to render an independent opinion on his client's financial statements. To state the principle in another way, the CPA should not act in an advisory capacity where there is any danger whatsoever of a conflict of interest with respect to his position as an independent auditor.

SYSTEMS STUDIES

ACCOUNTING SYSTEMS

Design and Installation

Probably the most common type of management service performed by the CPA is the design and installation of accounting systems. This may include not only preparing a classification of accounts and a report but also designing forms, establishing procedures, preparing an accounting manual, organization charts, financial and statistical reports, and often instructing the client's personnel in use of the system.

In making a systems study the accountant must become thoroughly familiar with all phases of the client's operation, including the flow of materials and the flow of accounting and statistical data. After the system has been installed he must maintain close contact to see that it is functioning properly and that it is thoroughly understood by those who are to work with it.

Electronic Systems

In recent years CPAs have been called upon to assist their clients in selecting electronic data-processing equipment and in planning its applications. This field requires considerable specialized training and affords the qualified accountant an opportunity to be of great service. He can work with and direct a management committee in making a feasibility study; such a study would determine whether or not the use of electronic equipment would be practicable and profitable. He can direct a survey to determine the system best suited to his client's needs, and a review to determine the accounting applications best suited for the particular type of data processing. After the client has decided upon the type of equipment to be purchased or rented, the accountant can then be of further service in the programming process, and in advising his client as to controls necessary for insuring that internal control will not be lost once the changeover to electronic data processing is made.

Generally speaking, accountants are probably better qualified to assist management in the electronics field than is any other business or professional group. Yet they sometimes fail to take the lead and thereby needlessly forfeit a considerable amount of business to engineers and other persons less well qualified.

REPORTS TO MANAGEMENT

Another valuable service the CPA may render to his clients is the designing of reports to management. Some of management's most important functions are the analysis of operating results, and the establishment of performance goals and policies observed in conducting the enterprise. To do this management must have accurate, informative, and timely reports. In too many companies, large and small, reports are prepared by accounting and other departments just because such has been the custom each month for the last twenty years or because they are the ones Grandpa wanted when he was president of the company. In other words, one might say of many reports, they, like Topsy, "never was born" but "just grow'd." Few enterprises today can be so aimless and yet survive for long.

Even though persons receiving these reports may be making little use of them, it is often difficult to convince such persons that the reports may be of little or no value. In some instances the reports are received by the secretary to an executive, checked off against a list of reports to be received, filed and never seen again. I have heard of one case where an IBM supervisor grew tired of preparing this type of report and simply stopped preparing any report until it was requested; he then asked the reason the report was needed. He observed that it was amazing to find how few of the reports were missed. This, however, is the negative approach to determining the type of report necessary to management.

The accountant should thoroughly study the information available and the information necessary to management. Reports to management to be of value should be prompt and accurate, conserve the time of the reader, and facilitate sound decisions. They should be designed according to lines of authority and the responsibility of each person using the report. Reports to top management should be informative but brief and in many instances should point out only the exceptional matters which require prompt attention. Reports concerning operations should also contain comparisons with planned performance, comparisons with past periods when of value, and explanations of fluctuations.

Report requirements should be determined during the course of any

systems study so that the system may be revised if necessary to produce the data essential to good reporting. Where a complete systems study is not under way, the records currently kept will usually furnish sufficient information without major change; and it may be found that the necessary information has been accumulated but is not being used.

BUDGETARY AND COST CONTROL

Another field in which the accountant is generally qualified to render superior service to his clients is in budgetary controls and cost and expense control. In order that business management may be in a position to plot their future course intelligently, they must have adequate information as to expected cash requirements, sales, costs, and expenses. In many companies long-range projections of income and financial condition permit the forecast of such information. By taking into consideration proposed capital expenditures and other balance-sheet changes these plans may be translated into projected financial position and cash-flow statements. The CPA's knowledge of his client's business and of current business conditions makes his advice and assistance in the preparation of such statements of considerable value.

Cost systems should be designed to facilitate the control of all expenses. In any cost system the accountant should provide for preparing cost estimates used in pricing as well as for valuing inventory and determining cost of goods sold. Provision also should be made for comparing actual cost with projected or estimated costs.

Likewise, expense controls should be such that expenses are broken down along individual lines of responsibility shown in the company's organization chart. In other words, the expenses should be so stated that management may determine which departments are overexpending and thus be able to fix accountability for these expenditures. Here again, there should be provision for comparing actual expense with budgeted expense. A budget will be of little value to management if it only covers the annual accounting period. Obviously, it must be broken down to provide for comparison with monthly expenses.

OTHER AREAS OF SERVICE

So far I have mentioned only a few of the advisory services that a CPA may be qualified to render his clients. I should like to mention briefly some other areas in which the CPA is normally qualified to assist

his clients. They are:

- Production control – regulating production in line with sales demand to produce an even flow of production, induce good labor relations, keep inventory requirements at a safe minimum, and conserve space and working capital;
- Inventory control – controlling receipts and disbursements, providing for minimum and maximum requirements, and safeguarding physical inventories and receipts from sale of scrap material;
- Payrolls – establishing sound procedures for checking attendance, computing earnings, distributing payrolls for cost purpose, et cetera;
- Payables – controlling purchases and payments to vendors;
- Billings – controlling shipments, invoices, and credit extension;
- Cash – controlling all receipts and disbursements, including special funds such as employees' welfare and entertainment funds;
- Property – establishing physical and accounting control of all plant property and depreciation, including acquisition of new equipment and facilities and disposing of facilities no longer needed;
- Personnel – the CPA is not normally an expert on personnel and personnel relations but he can usually aid his clients in selecting properly qualified accounting personnel and in training such personnel.

In performing any of the various advisory services it is highly important that the full support of management be obtained. To be effective the work must be done by collaborating closely with management not only to avoid misunderstandings but also to make clear that the changes and improvements effected reflect the thinking of the client as well as that of the CPA.

In all management service it is essential that the accountant performing it have a sound knowledge of economics and business principles, and that his approach be practical rather than wholly theoretical.

CONCLUSION

In conclusion I think it should be emphasized that while all the services mentioned in this scanning of the subject lie properly within the field of the CPA, some of them require specialized training and long experience before adequate skill and competence can be assured. Such engagements should be undertaken only by those well qualified for service of this character. The CPA so equipped is in a position to render valuable assistance to his clients; he is limited in so doing only by his imagination and industry.