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The author examines the pros and cons of write-up services and gives helpful hints on making a profit on such services.

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There has been an awakening in the accounting profession — a change in attitude that began in the mid-sixties and gained such momentum that by April, 1975, virtually every Certified Public Accountant was touched by it.

In the early sixties, small businesses began to be more sophisticated in their approach to accounting records because of the complexity of the tax laws and because third party financing was more frequently needed. It was apparent that CPAs were becoming increasingly involved in engagements for accounting services, particularly write-up services, and the preparation of unaudited financial statements. These are distinguished from examinations of financial statements in accordance with generally accepted auditing standards.

Among CPAs there were mixed feelings about these engagements.

Large CPA firms usually regarded write-up work as menial services that were completely out of the realm of a CPA firm. Other CPA firms that were not concerned with the standards of the profession used write-up services as a mill to produce financial statements on a volume basis with little regard to the reliability of the final product. Sole practitioners usually accepted every write-up account they could get, but many acted defensively in doing so.

For many years the profession was silent in this area, though there was growing concern about the degree of responsibility that the CPA was assuming in preparing unaudited financial statements. Then, in September, 1967, in an attempt to clarify the CPA's position, Statement on Auditing Procedures #38 (SAP #38) was issued. SAP #38 clearly stated that "the statements are representations of management and the fairness of their representation is management's responsibility."

SAP #38 did more; it created a third class of financial statement: the unaudited financial statement restricted to internal use.

While SAP #38 seemingly absolved the CPA from responsibility in the preparation of unaudited financial statements, the public and the courts were not in agreement with the profession, as was evidenced by the verdict in the *1136 Tenants* case. Again, practitioners were greatly concerned.

In November, 1972, when Statement on Auditing Standards #1 (SAS #1) was issued, it was hoped that finally guidelines would be set down by the profession in the area of unaudited financial statements and those restricted to internal use. SAS #1 clarified many grey areas of auditing standards and procedures, but added nothing to what had already been published in SAP #38.

This caused such consternation among CPAs attempting to avoid the pitfalls of *1136 Tenants* that, for self-protection, procedures used were from the one extreme of just copying the financial statement directly from the client's general ledger without applying any procedures that could be construed to be auditing procedures, to the other extreme of applying all auditing procedures, but disclaiming an opinion on the financial statements.

Because of the lack of guidelines, many CPA firms refused to accept engagements to prepare unaudited financial statements. However, many others would have literally been out of business if they had not accepted these engagements.

Finally, in April, 1975, the Auditing Standards Division of the American Institute of Certified Public Accountants issued the Guide for Engagements of CPAs to Prepare Unaudited Financial Statements (the Guide).

No longer was the question whether or not these accounting services were within the realm of a CPA practice but, rather, whether these services are an asset or a liability to a CPA firm.

The answer to this depends on the individual CPA firm and its approach to these services. With proper planning a practice of write-up services can be turned into a great asset to a CPA firm.

The first step is a learning process for CPAs. First, they must develop an attitude of respect and appreciation for these services, recognizing them for what they are: services to clients. Secondly, they must learn the disclosure requirements as stated in SAS #1 and more specifically defined in the Guide. Thirdly, they must learn to use every means available to make this operation economically successful.

Developing the Proper Attitude

The client that requires write-up services by a CPA firm is different from the audit client. The client's organization is usually such that the only internal control is the owner's direct involvement in every phase of the business. Frequently, he or she has little knowledge in the area of analyzing a financial statement and success or failure is measured by the bank balance. The source documents that are the basis of the financial statements are usually prepared by a secretary or a clerk whose knowledge and understanding of accounting principles are limited to writing checks and making bank deposits.

In a situation like this, the CPA would maintain the client's records.

If the client has a bookkeeper in the organization, the CPA would function in a capacity similar to that of a controller.

In either case the client depends on the CPA for basic business information to make the decisions that are necessary on a day-to-day basis.

Communication is a most important factor in a practice of write-up services. Small clients are usually aware of their lack of accounting knowledge. They need someone to interpret the many forms and inquiries that come to them, because they are not knowledgable enough in this area to discern what is important and what is unimportant. They must have the security of having an advisor as close as the telephone. The CPA must answer all communications because, while they may seem to be elementary to a CPA, the problems are very real to non-accountants.

The clients must be made to feel that they are respected and that the CPA is truly concerned for their welfare. They will not tolerate a bored or patronizing attitude. The CPA must have the patience and disposition for this every-day contact.

Disclosure Requirements

Once this attitude is developed, the CPA must be aware that he or she will probably be in the position of having to advise the client as to what services are required. Therefore, the CPA must be adept in the area of accounting services as well as in all other areas of the accounting profession.

In an engagement for write-up services, the final product is usually an unaudited financial statement restricted to internal use. Section 516.05 of SAS #1 is the authority on disclosure requirements for internal use statements. It states:

> "A certified public accountant may be retained by his [sic] client to perform routine bookkeeping services or to prepare financial statements for the client's internal use only, possibly on a monthly or quarterly basis. For such statements, it might not be necessary to include all footnotes or other disclosures that might otherwise be desirable. Under these circumstances, the accountant should add to the disclaimer of opinion a sentence to the effect that the financial statements are restricted to internal use by the client and therefore do not necessarily include all disclosures that might be required for a fair presentation in conformity with generally accepted accounting principles."

The Guide more emphatically interprets Sec. 516.05.

It recognizes that some of the disclosures required for presentation of a financial statement in conformity with generally accepted accounting principles (GAAP) including the statement of changes in financial position, are not important to management and can be omitted from internal use statements. In order to know which disclosures can be omitted, the CPA must determine the intended use of the statements.

It must be remembered however, that the CPA is not relieved of responsibility to exercise professional skill and care in performing these services since they are performed in a professional capacity. Therefore, if there are any violations or departures from GAAP, other than as to disclosures, the CPA is required to set forth any reservations in the report just as if it had been prepared for general use.

In issuing the internal use statement, the CPA must be sure that each page is marked "Unaudited. — Restricted to Internal Use" and that the proper disclaimer of opinion accompanies it.

When the internal use statements are in conformity with GAAP, except as to disclosures, the following wording should be used in the CPA's report:

> "The accompanying balance sheet of X Company as of December 31, 19XX, and the related statements of income and retained earnings for the year then ended were not audited by us and accordingly we do not express an opinion on them. These financial statements are incomplete presentations because they do not include all the disclosures required by generally accepted accounting principles, including a statement of changes in financial position; they should not be used by anyone who is not a member of the company's management."

Obviously, for statements issued monthly or quarterly, the date and the period stated would change. However, it is recommended that the wording not be changed because, if it is, the CPA may find that he or she has assumed more responsibility than was intended.

Internal-use statements are restricted to management's use only. If there is reason to believe that management intends to distribute the report to third parties, the CPA must insist that it include all disclosures, adequately.

After it has been determined what services are required, the CPA should prepare an engagement letter. The engagement letter should, among other things, be very specific about the services to be provided. In order to avoid misunderstandings, it should state the nature and limitations of the services, that these services do not constitute an audit and that an opinion on the fairness of presentation will not be rendered. It is most important that the client have a full understanding of these facts because cases have resulted from the client not understanding the accounting terminology, and the courts seem to have the attitude that the client's ignorance is an acceptable excuse.

Economic Success

Now that the proper attitude has been adopted and the knowledge of required disclosures has been acquired, the CPA firm is ready for the onrush of clients.

It is not that simple. A practice of accounting services must be developed just as an audit or tax practice is developed: with planning and foresight.

All of the technical knowledge will be of no benefit if the CPA firm cannot integrate the service into its practice so that it

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is successful from an economical standpoint. By the natures of the services rendered and the size of the client firms, it is improbable that the billings will be comparable to those charged for tax, auditing or management services. Fees must be in line with service performed and within a range that the small client can afford to pay.

CPAs have always tried to place the work at the highest level of competency. These services, to be economically feasible, must be placed at the lowest level of competency in the profession. An efficient, intelligent bookkeeper is a necessary factor in a write-up service practice. A factor that makes write-up services more than bookkeeping services is the computer. Because the computer has the effect of many bookkeepers, the CPA has the challenge of designing a system that produces detailed financial data that heretofore were available only to large business firms.

Now, with the availability of the computer and the well-supervised services of a competent bookkeeper, CPAs can offer the business community a much needed professional service within an acceptable fee range.

An efficient procedure is for the CPA to design a system tailored to the individual client, be it simple or sophisticated, using the proper terminology associated with this business. Working from a custom chart of accounts, the bookkeeper does the routine work of reconciling bank statements and coding the computer input data from the original source documents as well as all payroll tax returns. The coding is the most important phase of the write-up work. It is much easier and less expensive to correct an error before it is put into the computer than after the print-out, whether the work is on an inhouse computer or with a service bureau. When the financial statements and general ledger are prepared, they are thoroughly reviewed by the CPA for accuracy and proper disclosure.

What has been accomplished? The owners of small businesses can receive the same kind of information to help them grow that the large business firms have available to them, at a cost which is considerably less than that of a full-time qualified accountant, i.e. a minimal charge for the CPA and computer, not because the standard billing rates have been cut but because the time spent is less, and a greater charge for the bookkeeper at lower, but still profitable, billing rates.

If the client's needs are such that information in great detail is not required, a one time write-up, or pegboard, system may be considered. The books of original entry are written in the client's office by client personnel which further reduces costs.

Both the computer and pegboard systems are flexible enough to allow the CPA to tailor the accounting records to the individual need of the client making this an accounting service rather than a bookkeeping service.

Conclusion

Some may wonder why a CPA firm would want to develop a practice of write-up services. It almost seems like a step backwards. This is not so.

First, the "small clients" have never been defined. They are not necessarily the corner grocers. They can be foreign steel distributors, medical clinics, furniture stores, real estate developers and any number of other industries and professions that are most interesting.

Second, their professional requirements are usually the same as those of the larger business firm, except on a smaller scale. The CPA, therefore, has the opportunity of growing with the client and at the same time building a rare kind of goodwill that exists only in this kind of a practice.

And third, a write-up service practice generates a steady income which creates a nucleus from which audit, tax and management service practices can develop on a selective basis.

There are some pitfalls that the CPA must be aware of. If there is any potential of the client being governed by SEC rules, the CPA firm might find itself in a position of not being able to render an opinion on the financial statements because of a lack of independence. Of course, the CPA does not want to be in this position.

If a retainer is agreed upon, the CPA might be trapped in a situation where the client is growing: the work has increased, but the fee has not.

Then, there are the annoyances of constant interruptions for seemingly unimportant matters that are inherent in a write-up service practice.

If the CPA has developed a write-up service practice by acquiring one account at a time, he or she has encountered the problems gradually and resolved them. But, if the CPA intends to acquire an established write-up service practice, all of the advantages and disadvantages should be weighed before the final decision is made, because the practice is only as successful as the CPA makes it.

Legal Developments
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termining enforcement priorities of the Department.

Based upon the evidence of systemic noncompliance, the Department will first endeavor to obtain voluntary compliance. If this attempt is unsuccessful, the Department can then begin administrative proceedings to terminate Federal assistance until the discrimination ceases, or it may turn the matter over to the Justice Department for court proceedings. (Under the latter procedure, the school's Federal funds are not jeopardized until the case is decided.)

Conclusion

This short discussion has barely touched upon the major provisions of the Title IX Regulations. As with almost any set of regulations, these are wieldy and difficult to follow. The excesses of the past have resulted in some rather strict regulations but hopefully the spirit of the law will dominate and women will have a truly equal opportunity for an equal education.

Footnotes

[1]"Nondiscrimination on Basis of Sex," Department of Health, Education, and Welfare, *Federal Register*, Volume 40, no. 108, June 4, 1975.

[2]The NCAA position appears to be somewhat inconsistent. While they want the law to be amended to allow revenue-producing sports to retain all those revenues for those sports, they staunchly maintain that football and basketball actually support other sports: "You can't treat the revenue and non-revenue sports the same," John Fuzak, NAA President, said. "In many intercollegiate programs both men's and women's sports are largely or totally supported by earned income from, and contributions to, football and basketball." If these two sports do, in fact, support other sports, why is the NCAA seeking an amendment which would insure that the money is spent only on football and basketball?

Furthermore, the NCAA's own figures show that "fewer than one-fifth of its own member colleges clear more than expenses in one sport." (This is including only 700 schools with big time sports, not the 2,000 smaller schools where sports are even less likely to turn a profit.) And, as any *Woman CPA* reader knows, it is the profit, not the revenues which must be considered in this sort of analysis.

Quotes are from A-P Report, printed by the *Seattle Post Intelligencer*, Tuesday, July 23, 1975, p. c-2 and Newhouse News Service, printed by the *Seattle Times*, July 27, 1975, p. g-1.

[3]*Education Amendments of 1972*, Title IX, Government Printing Office, Washington, D.C., 1972.

[4]Taken from *Final Title IX Regulation Implementing Education Amendments of 1972 Prohibiting Sex Discrimination in Education*, U.S. Department of Health, Education and Welfare/Office for Civil Rights, Washington, D.C. 1975.

[5]*op. cit.*, p. 5.