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The Budget Problem

By Robert L. Pierce

The CPA must follow up with management on a regular basis to confirm the relevance of the financial data presented and adjust reports as necessary.

The CPA must become relevant. They can only do so by adding significant value to the services they currently render. It is not enough to respond by rote to requests for services. The CPA must understand the intended usage and tailor services to the actual needs of his or her client. It the CPA takes an interest in the success of their clients businesses, they will become an indispensable partner with their client in the success of that business. Perhaps, but let's take a closer look at the role the CPA can play.

First, it will take a significant investment of time and money on the part of the CPA, much of which is almost certainly not billable, to develop the systems and software that are needed to build a work product that is useful to his or her client.

In the process of developing a more useful financial reposting format, our "re-energized" CPA has probably already identified a problem. Our small business probably lacks focus, has no defined strategic objectives, no business plan and no budget. Now is the time that our CPA can add real value to their services since few if any businesses reach their potential without a plan.

Let's look at the appropriate role that the CPA and business owner can play in the development of a working business plan.

The strategic objectives are the guiding principles that management uses to construct a business plan. The strategic objectives of the business are based on the unique needs and desires of its ownership and as such must be established by the owners or Board of Directors. The CPA cannot establish objectives for the business. The CPA can act as a catalyst to ensure that the strategic objectives are established, that are reasonable and are truly responsive to the needs of the business owners.

The business plan represents actual programs, initiative, and resources that management will utilize to make the Company responsive to its strategic objectives. The business plan is the responsibility of management and cannot be delegated to a CPA. The CPA rarely if ever is close enough to the operational aspects of the business to convert the broad objectives outlined by the Board of Directors to a basic and responsive business plan. Again, the best the CPA can do is give guidance and act as a catalyst in the process.

The business plan is converted to an operating budget by management of the business, in effect, converting the business plan to its expected dollar impact.

While every company has objectives and a business plan, many are informal and most lack focus and are ineffective. Management steps u here or our “re-energized” CPA fails in spite of their gallant efforts to build a responsive financial reporting system.

It appears that we have a necessary partnership between the CPA and management. The Company has responsibility for its strategic objectives, business plan and budget. The CPA has responsibility for issuing financial reports in a format that will allow management to effectively monitor its decisions and its business plan.

If the article stopped here, it would be very different than is the intention. The CPA is predisposed to work in the past and does so. The business has a responsibility to build a business plan consistent with its objectives and most do not. So where are we? Both parties are to blame? Yes, but…… Most small business owners retain their CPA’s with an expectation of a reasonable level of business acumen. Most CPA’s have this trough their education but often it is lost because their practices tend to focus them so narrowly.

The CPA knows or should know that the typical financial reporting format has limited or no value to the business owner. They should have the professionalism to want to deliver a valuable work product to their client. The professional preparer should also know that the mere act of acceptance by their client of a financial statement that is obviously inadequate is almost certainly a symptom of a very basic business problem, the lack of strategic objectives and a focused business plan and budget. The CPA must accept responsibility to at least bring the deficiency to the attention of their client. If they do not, they have not served their client in a professional manner.

CPA’s, like all professionals, wrestle with the reasonableness of their charges. The situation is made even more difficult by the fact that most small business owners know intuitively that their needs are not being served by their CPA. The CPA’s charges tend to be viewed by small business owners as another cost of government over-regulation and as a result, they tend to resent accountant’s charges both in concept and amount.

The CPA is perhaps best positioned to meet the unfulfilled needs of the small business owner. If the CPA steps up, they will add considerable value to their services and generate a significant revenue opportunity for their firm. More important, however, they will provide their small business client with a framework for growth and success that most do not have now.

But none of this happens in real life. The business owner is not fully aware of his or her needs and is unable to ask for the services that are needed. The CPA does not understand the needs of management and for the most part leaves its clients to flounder……All in all a very sad situation, in which business owners are poorly served by their well intentioned but poorly focused CPA’s.

If you ask a small business owner about their CPA, you will undoubtedly get this response, “He keeps me out of trouble with the IRS”. This is about the worst comment that can be made about a CPA but often sums things up pretty accurately.