

Meeting with New Bookkeeper

A March 2011 discussion on SoloSez, the email listserv for general practice, solo and small firm lawyers

I am meeting with my new bookkeeper tomorrow (Monday). What should I ask her? Any advice?

Is this your first bookkeeper? Did your CPA set up your chart of accounts? Has the bookkeeper worked for attorneys previously?

A little more info will help us be more helpful.

Deb Matthews, Virginia

I would see whether she is familiar with whatever program that you use.

Cari B. Rincker, New York

Yes first bookkeeper, I have no CPA and yes, she has extensive experience with attorneys.

Yes, she has familiarity with paper and those who use it. (smile).

I don't feel comfortable with too many details here, that is for sure!

Well, I'm a bit concerned you don't have a CPA. I tell anyone looking to start a business that they need two conversations with local advisers before opening their doors: a business attorney and an accountant. I'd say the same for attorneys, but since you are all lawyers - just the CPA (although I bet many of you could use the advice of a good business attorney too.)

Think of a bookkeeper as you would a paralegal - certainly many are qualified to do the job of the attorney; but just as a paralegal cannot replace an attorney; a bookkeeper cannot replace a CPA.

Perhaps the bookkeeper knows of a local CPA that her other attorney clients use?

-- NotanAtty--

Andrea Cannavina

Ask her things like "Can you help me maintain multiple sets of books. You know... one for me, one for the IRS, one to show the hubby when he gets a little... asky about where the money is?"

Charles Thomas

LOL

I always say:

My numbers are between me, my accountant, the IRS and God.

Note - no hubby in there... (only cuz he's a blue collar type of guy and not into numbers) ;)

-- NotanAtty--

Andrea Cannavina

1. Are you knowledgeable about trust accounts? Make sure to give some examples to see how she would handle certain circumstances that are common to your practice.
2. How much time and how often will you be spending on maintaining my books? I think it is important that you get regular reports, including financial statements, throughout the year so that you can maintain cash flow and do in-course corrections throughout the year. Including quarterly estimated tax payments.
3. Will the new bookkeeper be involved in getting invoices to clients? If so (and even if not), make sure she is up to speed on confidentiality and privilege rules. She will have access to certain things that should not be discussed outside the office.
4. What CPAs do you recommend? Like Andrea said, having a CPA is a very good and necessary thing. Get one pronto!

Kimberly DeCarrera, Georgia

Terrific that you're getting a bookkeeper! Here's a braindump, because it's Monday. I'd start by asking her to outline what tasks she does for other attorneys and to talk specifically about how she works with them. Co-create the relationship. I don't think a bookkeeper subs for a CPA, but it's a great first step. Agree specifically on what the scope of her responsibilities are (for now) and also create a financial calendar. Take a blank calendar, any month, and agree on standards. For example, if she's doing your billing, agree on the date (last Friday, for example) that trial bills will be prepared and sent to you if you're approving them. Agree on your approval turnaround and then agree on the date the monthly billing will go out. Other dates to add to the financial calendar are things like the A/R report. When do you want to see aging and what categories? Be prepared to decide how much access you're going to give her. Some lawyers get hung up on DIY because they don't want anyone to have access to accounts. But that really comes down to control processes. Prevention/detection.

When you talk with her about what she does for others, you'll get a lot of good ideas. Organize them into processes, might help to think of them related to three categories, money coming in, money going out, and reporting. Another thing to emphasize is NO SURPRISES.

Might take more than one conversation, of course, but start by finding out what she does now for others. I hope it's a great meeting and a great partnership! Whoo-hoo!

Barbara Nelson, New Jersey Notta Lawyer. Business Coach.

I respectfully disagree with the proposition that one needs to be a "CPA" to prepare tax returns. I've passed the CPA exam and bar exam. Taxation is one component of the CPA exam, but it is also a component of our state's bar exam. Although every attorney passed the bar exam, not every attorney delves into the area of taxation. Not every CPA is an expert in taxation, either. The only time you absolutely need a CPA is to render an opinion on financial statements. That opinion signifies to investors or banks that the financial statements are kept in accord with accounting principles and there is good internal control, etc. You pay substantially more for an audit (\$12,000. for a non profit where I serve as a board member) than for tax prep.

A CPA may be an expert on non profit accounting, or business valuation, or forensic accounting, but not taxes.

Where I work, there is a considerable amount of lawyer bashing by the society of accountants. Perhaps some of this is deserved, but not all of it. I personally resent it because I recall that the caliber of student in law school was generally a little higher than the average B.S. candidate.

I refer clients to CPA's who have experience in a certain matter, but also to public accountants, and in other cases to people I know who work for H&R Block and other tax

preparers. If it is a simple return, you do not need more than HR Block. Some of the HR Block tax preparers have bookkeeping businesses the remainder of the year. I recognize that not every CPA is skilled in taxation just because they're a CPA, but because of past experience or a specialization.

This bookkeeper may work with tax preparers who are skilled in taxation for attorneys, whether they're public accountants, CPA's or work for a large tax preparing firm like HR Block.

Bob Gasparro, Pennsylvania

I am working on my Masters in Tax, plan on taking the CPA exam and never again preparing a tax return. Like you mentioned, I plan on specializing in other areas that don't deal with tax prep. But then again, if someone contacts me for a tax return, I would refer them to a CPA that does that. Just like when I get calls about setting up non-profit organizations, I refer them out to another attorney. In other words, even after I finish my CPA licensing requirements, I will not benefit personally from any of the "talk to a CPA" recommendations.

However, when we (solosez) as a group say get a CPA, we are telling people to get someone who can help them with their small business issues. It is much more than just tax prep - recommendations on the best retirement plans, tax structures, whether certain items are deductible, when should certain things be done (large purchases), help with financing and banking institutions, etc. There is more to what a small business CPA offers than just tax prep. There are also a lot of compliance requirements that most small business owners, even attorneys, are not familiar with that a CPA would be. For example, unemployment taxes, claims and audits. Business licenses are another one. I have seen CPAs be much better informed about insurance requirements/recommendations than most business owners. They are also very good resources to help with business succession planning.

All in all, most small business owners, and especially attorneys, will benefit a lot from a CPA, especially one that routinely deals with small businesses. They have a very good general wealth of business knowledge and great specific tax knowledge. Of course, the CPAs I am talking about here are the ones that do taxes and advising for a living. Like lawyers, it is best to get a personal recommendation, whether from friends/business acquaintances or from the general public (ie a forum like Solosez). They all have their strengths and weaknesses and their specializations. Like lawyers, it is not one size fits all.

Oh, and about the bash against the CPA educational requirements... while it is possible to take the CPA exam without an advanced degree, it does require more hours than the typical bachelors degree entails. Most of the CPAs, especially the ones coming out now, tend to get a Masters in Tax or Accounting after the bachelors. Then there is the experience requirement - they must work under the supervision of another CPA for a certain amount of time. Unlike lawyers, they cannot necessarily hang their shingle straight out of school. So

in a way, CPAs have better qualifications because they have seen real life situations, not just the textbook.

And they can be great referral sources for you as well.

~~ Kimberly DeCarrera

What Kimberly said. The benefit of a relationship with a CPA for your business is about much more than tax preparation. Tax preparation is part of it, but tax planning is much bigger. Cash flow planning. And I find that this group rarely mentions the importance of retirement planning. Do you have a SEP, or a solo 401k, a Keogh or a SIMPLE plan? Do you know what your options are, and how much you can put away in your plan? Don't wait until you are 50 to start saving for retirement. And don't count out selling your practice for enough \$ to retire on. These are all things that my accountant helps me with. (And G-d help me, I'm not going to ask a guy at H-R Block to plan this for me.)

Stephanie Hill, Minnesota

I've prepared tax returns for 20 years, and I've lost count of how many H&R Block tax returns I've had to fix in that time because of simple, basic errors. This year I had a client who moved 17 miles from their old home (no change in job) in 2009, and their H&R Block preparer improperly deducted moving expenses. In prior years, I've had worse - one client was getting dinged for \$2K from the IRS; turns out the H&R Block preparer did not include their RE broker license fee on the return (a \$1,500 miss), in addition to several other legit expenses. Once these errors were corrected, not only did the IRS balance go away, the client actually was entitled to a refund. For the record, the preparer *never even asked* if the client had to be licensed or had to comply with CLE requirements, both of which were true.

H&R Block, Jackson Hewitt and the like hire temporary workers to work tax season and beyond. With few exceptions, these people are NOT trained accountants or bookkeepers, simply average people looking to pick up pin money. They are often inadequately trained, and lack the experience needed to ask critical questions - such as whether two gay men are sharing the expenses of the condo they own (they were, but the H&R person gave 100% of the mortgage interest and taxes to the one whose return she was preparing, while the other - who did his own return - took the 1/2 he was entitled to). These kinds of errors are appalling, and frankly do not justify a recommendation under any circumstance.

H&R Block and its ilk are not always cost-effective, either. I had a colleague pay Block double what I would have charged him to prepare his return. The reason? "We had to get the CPA involved." Why was that necessary? He got 10 Forms 1099-Misc (helllooo....Schedule C, anyone?), and they "weren't sure how to handle it."

I agree not every CPA is tax-savvy (though many think themselves savvy enough to form corporations for clients). However, you couldn't pay me enough to recommend that a client go to a national tax prep chain, either. Not after what I've seen here in CA and in IL - and CA requires preparers to take an exam.

I, too, have passed the CPA exam, as well as two bar exams. In neither bar exam were taxes tested; most law students I speak with do not take tax courses, as they are generally not a required course (oddly, my law school DID require it), and Federal Income Tax was only lightly tested on the CPA exam (Audit, Business Law and Ethics did not test it, only Practice did). My understanding is that tax is not tested in most states, and state taxes - the most idiosyncratic of all - are never tested. That, IMHO, is a significant omission, but I'm biased.

Greg Zbylut, California

The previous comments are interesting and informative, but based on my experience working a brief period as an accountant, a government tax agent and working on and heading committees of our professional state accounting association, I still hold firm on my views. I've corrected many HR Block tax returns- because they do so many; however I just had a client who visited with a legitimate tax claim defense but his CPA missed the statute of limitations on appealing his \$68,000. tax assessment, trying to handle it informally. Which is worse? I did mention that for complex tax issues I refer to one or more CPA's or Licensed Public Accountant.

One thing I do want to mention.... I provide help with the SEP and 401K and business succession planning and tax planning! I work with G/L/T couples. I use my law and accounting degree to perform those tasks for clients. I practice Elder Law and Estate Planning, and quite frankly I enjoy crunching numbers for estate planning as much as I do drafting a will or trust. We compute figures on at least five spreadsheets each time we help a client decide between Medicare Coverage A/B/D/Medigap v. Medicare Advantage Plan when clients turn 65. I do trust tax and estate tax returns and individual tax planning. We do not prepare the individual tax returns because decent software is expensive, and it's better to network with tax preparers. I work with some very good investment advisors who also help clients with retirement planning. There are hundreds of attorneys out there who do the same work.

One thing being an attorney has taught me is that there is much more to planning than saving a few bucks in taxes. What good is an estate plan that saves taxes if it divides an entire family? Every family has one member who they distrust with the family wealth; a good estate planner can prepare documents that provide for everyone short of disinheriting one member. As an attorney you are more comfortable with clients who make mistakes or do dumb things (thus requiring the services of a competent attorney).

The take home message of this long post is: see one of your colleagues who practices Estate Planning and Elder Law. They will probably also be able to refer work your way as we do. Have them monitor the preparation of the personal tax returns.

I would love to hear comments from others on the list.

Robert Gasparro

Mpfh..ugh...umm...and to add one more twist, there are those of us, who have quite an extensive education in accounting, have no desire to sit for the CPA exam, will never touch a tax return (spasmodic coughing ensues), but will happily assist in the setting up and monitoring of solo and small practice law firm accounting systems including IOLTA accounts. I also happily teach trust accounting to those who ask.

With kindest regards,

Mara T. Ballard, CMA, South Carolina Forensic Accountant

You discuss a lot about estate planning, but the thread was about business planning. While succession planning is one aspect of that, there is a lot more in the here and now that a CPA can help an attorney/law firm with. Much like as lawyers we specialize in certain areas of law, so do CPAs/enrolled agents/tax preparers. I'm not so sure why you are so against the use of a CPA for a small business owner.

My experience, as well as that of many other business attorneys, is that tax preparer firms like H&R Block are not sufficient for the needs of a small business owner. Firms like H&R Block are acceptable for the run of the mill W-2 employees and maybe even 1099 workers. But the issues of a small business are too complex for most preparer firms to handle. Particularly for a law firm, with trust accounting, settlement disbursements, and other nuanced issues that are not simple A/R and A/P issues that are common to other companies. And while you point to the fact that a CPA missed a statute of limitations and therefore don't recommend such professionals to handle disputes, you fail to recognize that a dispute is not tax preparation. And that any professional, CPA or lawyer, may miss a deadline (hence malpractice insurance). That is no reason to write off the whole lot of them, just perhaps that particular CPA. Personally, I have seen CPAs be able to handle disputes through the informal route a lot better than many attorneys through the formal channels.

Meanwhile, you seem to be Monday morning quarterbacking what other accountants/tax preparers are doing, much like the commercials do - we will review your return and find missing deductions. The problem with this is that a) there could be legitimate reasons these positions were not sought (audit risk for certain types/amounts of deductions), b) insufficient documentation or c) client instructions, among others. Professionals of all types use their judgment, earned from both experience and education. I can probably take one of your estate plans and poke holes in it and say that you should have done something else. But your actions probably wouldn't constitute malpractice and I wouldn't say that another couple shouldn't use an estate planning/elder law attorneys to do similar work.

A good CPA will address issues in addition to the cost-saving benefits that a certain position may hold. For example, retirement planning: which structure is best for you. Are you able to take money out or use it in unconventional ways (self-directed for example)? A good CPA will even tell you that a position is not worth spending \$10,000 to save \$2,500 in taxes unless you will be spending that money anyways.

The business CPA should be seen as a member of the (informal) advisory board. For most on this list, they don't have formal business coaches or a Board of Directors with many years of experience. Those on this list learn by trial and error and hopefully the lessons of others. Why not have professionals that can help you make certain decisions? Particularly those professionals that have in-depth knowledge of business, and have seen the effects of certain decisions on businesses, through both their own actions and those of their clients.

Bottom line, I agree that a CPA is not necessary to prepare a tax return, even for a small business. But a CPA can provide valuable insights into a business, including tax aspects and can often times provide better tax return preparation than a firm like H&R Block. My recommendation, and I would assume that of many others making the same recommendation, to get a CPA has to do with a lot more than just tax return preparation. But just like attorneys, CPAs are not a one-size-fits-all - you have to find one that knows your type/size of business and that you work well with personality wise.

~~ Kimberly DeCarrera