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The Accounting Profession

What are Certified Public Accountants and how are they similar to and differ from “Accountants”, “Bookkeepers”, “Tax Preparers and Enrolled Agents” and “Certified Financial Planners”?

Certified Public Accountants (CPA) are the only professionals who can render an opinion on the fairness of financial statements. When a CPA provides this “assurance” it is known as an “attest” service.

When we provide “attest services” we take different levels of responsibility for the financial statements or other “special reports” on which we render an opinion. When we provide these “attest services” we are really serving multiple constituents. Our primary constituent is our client. Our other constituents are all the other readers of the financial statements.

Our role in providing attest services is to render an opinion on the fairness of the financial statements consistently prepared in accordance with some guiding principles. These guiding principles are called “Generally Accepted Accounting Principles” (GAAP). Often the term “GAAP Statements” or “CPA Statements” are used by those outside the profession to refer to Financial Statements on which a CPA has provided “attest services”.

What are Generally Accepted Accounting Principles? Generally Accepted Accounting Principles could be called the “ground rules” under which the Enterprise’s financial statements are prepared. These principles define the way assets and liabilities are valued, how they are described and what certain terminology really means. The reason Generally Accepted Accounting Principles were developed and the reason they are important to the reader is that comparable companies’ financial statements should be presented in a way that is comparable. Thus the reader can compare “apples to apples” when looking at one or more companies’ financial statements.

Types of Attest Services:

There are three (3) types of Attest Services:

1. Audit
2. Review
3. Compilation

Since the level of attestation and the responsibility the CPA is taking is least with a Compilation and greatest with an Audit, we will start with Compilation.

Compilation

A Compilation Report simply means that the CPA has read the financial statements and that either they are, or are not prepared in accordance with Generally Accepted Account Principles (GAAP).

Compilations come in two (2) versions; *with disclosure* and *without disclosure*. In order to render a “clean opinion” the financial statements must be prepared in accordance with GAAP, they *must include* required disclosures which generally describe the way the appropriate GAAP was applied. In order to render a “clean opinion” the CPA must be

independent- that is- the CPA cannot own any of the enterprise, be related to the owner of the enterprise or make management decisions for the enterprise. In most cases this means that someone other than the CPA must prepare the financial statements.

Review

The next level of *attest service* rendered by the CPA is a Review. With this level of assurance, the CPA must make inquiries of management and does analytical tests in order to issue a review report. In order to issue a review report the CPA must be independent. Also, the CPA cannot issue a review report if the financial statements exclude proper and appropriate disclosures.

Audit

The highest level of Attest Service rendered by the CPA is an Audit. When a CPA performs an audit, the enterprise's financial statements and systems of internal control are examined and tested in accordance with Generally Accepted Auditing Standards (GAAS). GAAS exist as a "quality control system" administered by the accounting profession over itself. Like GAAP which exist so that the financial statements of similar enterprises will be comparable, GAAS exists to assure readers that similar appropriate levels of testing and examining were performed before the CPA's rendered an opinion.

A common misconception about audits is that they are designed to detect any and all fraud or defalcations that may have occurred during the period under audit. This is not true. When conducting an audit, a CPA is to be professionally skeptical and look for opportunities including weaknesses in internal control that create a risk of fraud, but the CPA is not specifically looking for fraud. When performing an audit in accordance with GAAS, the goal is to render an opinion on the fairness of the enterprise's financial statements taken as a whole.

Fraud Investigations

Some accountants specialize in a non-attest service area known as Forensic Accounting. This type of service is performed to either discover fraud or quantify the effects of a fraud or defalcation that has already been discovered. This sort of service can be provided by CPA's and non-CPA's. CPA's having this designation are CFE's (Certified Fraud Examiners).

Non-attest Services provided by CPA's and Non-CPA's

"Accounting Services"

Almost anyone who knows how to use today's easy to use accounting software (Quickbooks, PeachTree, etc.) can prepare financial statements. Only licensed CPA's can "attest" to those financial statements. Depending on the qualifications of the preparer, the financial statements prepared may or may not be accurate and may or may not conform to GAAP. Unfortunately some unlicensed professionals include a "Compilation Report" with financial statements they prepare, however, only a licensed CPA is allowed to render an attest service *including* a compilation.

Bookkeeping Services

Sometimes CPA's are hired to do bookkeeping services. This generally renders the CPA "Not Independent" thus unable to provide attest services for the client whose books the CPA is preparing. There are many extremely qualified bookkeepers who, like unlicensed accountants know how to prepare financial statements. Most CPA firms (ours included) have referral relationships with qualified bookkeepers.

Bookkeeping is not part of the education of a CPA. While most of us know "about" bookkeeping, we are not as efficient to do bookkeeping as a trained bookkeeper. The usual interface between a CPA and a qualified bookkeeper is discussion about how to account for unusual transactions. In these cases, the CPA's expertise (application of GAAP) and the bookkeepers (how to appropriately record transactions in the enterprise's accounting system) work together for the good of the enterprise and the integrity of their records.

When would someone use a CPA to do...?

Bookkeeping

Some clients have extremely profitable businesses that are not "transaction-intensive". They may wish to limit the number of outside service firms they hire. In these cases the client may decide that it is preferable to pay the accounting firm that provides tax services to also do the bookkeeping.

In other cases, out of a need for privacy, a company's owners may wish to have the entire accounting function performed off site by a trusted, qualified, licensed and insured professional. Often, this firm would be the accounting firm preparing the client's tax returns and advising the client.

Sometimes in high cost locations where it is virtually impossible to hire part time employees and the bookkeeping function can be performed on a part time basis, the client will employ their CPA firm to perform the bookkeeping function.

Tax Preparation

Today, like bookkeeping and accounting, almost anyone familiar with tax preparation software can prepare a tax return. Only CPA's, attorneys, and "enrolled agents" can represent clients (taxpayers) in tax court. Today there are many competent tax preparers, some unlicensed, but most at a minimum are enrolled agents.

Some CPA's and some attorneys specialize in taxation. The California Bar has a designation for Attorneys with this certification.

Financial Planning

Some CPA's have additional licenses which qualify them to provide financial planning services. This designation is known as a CFP. CPA's and other professionals having this designation are licensed to assist clients with Life Insurance, investments in publicly traded securities, other services, etc.

CPA's can also provide a variety of consulting services depending on their background and experience

Today the CPA profession needs new professionals. The majority of licensed CPA's in the State of California are between 50 and 60 years of age. One reason for this phenomenon is that beginning in the early 1980's, with the advent of the personal computer, many students chose to pursue careers in a computer environment. As a result, enrollment in University Accounting majors steadily declined until 2002. While the number of students majoring in accounting is increasing, there will be a mass exodus leaving the public accounting profession due to the "baby boomers" retiring and the lack of qualified professionals to succeed those retiring for the next ten to fifteen years.