

Client Accounting: Putting the Accountant Back in Control

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Overview

For many accounting firms, one of the core components of their practice is the support of small businesses. This might include write-up work, end of year tax preparation, the preparation of financial statements, payroll, and ongoing advisory services. As clients use off-the-shelf accounting systems, over time the center of gravity for accounting has shifted from the accountant to the client. Accountants have to use “workarounds” to perform their work using a system that wasn’t created for professional work. Not only does this make performing client engagements more difficult, but it weakens the relationship of the trusted business advisor. Fortunately the technology landscape has evolved to the point where it is now easier than it has been for years to shift this center of gravity back to the accountant. This paper will examine how to do this, and why it’s important to both the accountant and the small business client.

The Problem

Accountants Need to Be Proactive

A generation of business owners has grown up with the desktop computer and simplified accounting software designed to run on it. Accounting products from Intuit, Sage, and others are marketed to small business owners with no accounting backgrounds to maintain their own books. By removing the need for technical knowledge of double-entry bookkeeping, these accounting programs give small businesses the impression that now they can handle bookkeeping themselves. But in reality, this false impression results in small business owners making errors and accountants end up spending a significant amount of their time fixing those errors. In this scenario, accountants are unable to play any proactive role in helping their clients manage their business finances effectively. This reduces the accountant to the role of providing commodity compliance services or acting as a troubleshooter and retroactively fixing mistakes.

Instead, the accountant should be proactively focused on providing greater value to the business owner. This could include removing the burden of doing tasks that are not part of the small business owner’s core competency . . . like accounting! If you ask most small business owners why they are in business, the answers will usually center on a love of what they do. Regardless of their individual talents, from roofers to restaurateurs, people go into business because they know, enjoy, and are motivated by that line of work. Almost never will someone tell you then went into business because they enjoy doing bookkeeping! So one way in which an accountant can strengthen the relationship with such a business

owner is to reduce or at least simplify the amount of accounting that the business owner must deal with.

Another aspect of being proactive instead of reactive is to spend more time advising the business owner on what his or her numbers mean rather than focusing on fixing errors. Fortunately, as we will see, this is easier to do today than it has been in the recent past. Shifting this focus will allow you, the accountant, to provide the kinds of service that the client truly values and will be willing to pay for!

Client Controlled Accounting Software

The vast majority of client accounting software in use, regardless of brand or vendor, shares one common feature: it resides on client-owned computers or networks and is both physically and virtually remote from the professional accountant. This situation creates obstacles to secure and efficient access to that accounting data by the accountant who must eventually interact with it. Some of these challenges include but are not limited to:

Fixing Client Errors. Off-the-shelf small business accounting systems give clients free rein to do whatever they wish and clients seem to relish this privilege. They make mistakes. Accountants have no control over what clients do. This is like giving the car keys to a 14-year old who doesn't know how to drive. The bookkeeping errors clients make are undoubtedly the biggest time-waster for accountants.

Size of Files. It's not uncommon for desktop accounting files to reach hundreds of megabytes in size. Passing files of this magnitude back and forth from client to accountant (and doing it securely!) creates headaches for firms and businesses everywhere! Probably the worst solution is to try to send these files as email attachments. Not only is this a security risk, but most mail systems have limitations on file attachment size that are normally much smaller than these giant files. Getting assistance from IT staff to work around these limitations is time-consuming, cumbersome, and in the end completely unnecessary. Many firms have adopted secure document transfer utilities or portals which might be associated with their document management software or come from a third party vendor. These typically solve the security problems but still require special handling to implement. Most importantly however, these file exchanges create disruptions for the client. Either there must be a lock-out period where no new or changed data can be entered at the client end while the accountant has possession of the file, or there is a one-way flow from client to accountant. In this case the accountant makes adjustments in his or her copy which aren't reflected in the client's version, resulting in two versions of the file with different data included. This creates a disconnect between what the client sees and what the accountant sees.

Multiple Versions of Software. Regardless of which software vendor the client uses, there will be periodic updates and revisions to that software. An accounting firm with many small business clients will inevitably face the problem of dealing with multiple releases and must be prepared to deal with whichever version a particular client is using. Typically that will mean maintaining a copy of each version on at least one computer in the accounting firm and using that instance of the software to make adjustments when the client file is brought in. Compounding this problem is the difficulty of maintaining license compatibility with each vendor's software. While license terms vary from vendor to vendor, firms frequently find these to be cumbersome and a challenge to comply with.

Compounding of Errors. When the accountant only has periodic access to the client's data file, there is the real opportunity for transaction errors to be repeated and to compound their effect. The result, of course, is that it takes longer to adjust these errors and adds to the time spent by the accountant on reactive rather than proactive tasks.

Backup and Security. When accounting software and data are maintained on a client computer or network, whoever owns and maintains that network is responsible for the regular backup of data and the periodic testing of those backups. In addition, basic network security measures are the responsibility of the network manager as well. Like basic bookkeeping, neither of these essential tasks falls within the core competency of many business owners. Network security responsibilities are also a distraction from the core of the business and thus are too often ignored or not maintained to a sufficiently high standard.

The Cost to the Accountant

The financial results of using this client-centric accounting software is that it costs the accounting firm money! They begin with the time spent reviewing and adjusting client transaction entries, but at least this time is billable. What is more difficult to capture is some of the overhead. The time spent in transferring large files back and forth is a necessary but non-productive task. So is maintaining the necessary arrays of software versions and licensing packages.

Perhaps more importantly, with only periodic insight into the client's accounts, the firm has less visibility of what is going on in the business and thus less opportunity to provide analysis and advice. Remember that fixing bookkeeping errors is a commodity service. Perhaps it must be done but it's not the kind of thing that endears an accountant to his or her client. What the client will truly value is help with making better business decisions, and that requires visibility into the client's records.

The Solution

The solution to this problem is to put the accountant back in control of the process. What's needed is an accounting package of software and workflow which will give the accountant easy visibility into the client's records without all the cumbersome file transfer overhead described above, and which will thus facilitate prompt and timely advice to the owner. Fortunately, that solution is available today at a reasonable cost and effort!

Put the Accountant in Control

Taking control of the client support and advisory process begins at the transaction level. If the accountant can limit client access only to the functions they can perform, then many time-consuming errors can be eliminated. Adjustments can be made in a more timely fashion and thus enable more accurate reviews and suggestions to the owner. Taking control of the transaction process simultaneously allows the accountant to take on a more valuable advisory role. For many business

clients the accountant can become a Virtual CFO and remove a major non-productive task from the business owner, allowing him or her to devote more time to the core needs of developing the business.



Cloud Accounting Software

The Value of a Common Platform

Fortunately, the tools which allow this happen are here today and ready to use. The solution involves shifting your clients from standalone desktop software which runs on only one or just a few computers, to a universally available platform which gives you access anytime to your clients' books. By moving the software and its data files to the Internet cloud, you remove a host of the problems outlined earlier. To be more specific, we are talking about delivering accounting software in the Software as a Service (SaaS) model in which all hardware and application software is hosted at a data center and the user accesses the software using an industry standard web browser. Hosting at a data center ensures that backups are routinely processed and that industry standard security measures are in place. With shared access to the data, there's no need to pass huge files back and forth and none of the security risks associated with those transfers. Interruptions in the flow of transactions are minimized and adjustments can be made in real time. Perhaps best of all, a web-based system allows access anytime and anywhere, from any computer or mobile device. No special connection software other than a web browser is needed, version issues disappear, and licensing is reduced to a single contract. Both client and accountant are using the same software, collaboratively, in real time and a single set of data.

Problems Solved by an Accountant-Centric Solution

- No file transfers required
- No software version issues
- Simplified software licensing
- Improved backup and security measures
- Reduced client generated errors
- Easy document sharing with clients

A Growing Trend

Adoption of cloud-based accounting software is no longer a hypothetical consideration. A 2012 benchmark survey conducted by the Cloud Accounting Institute (CAI)^{1 2} reveals that 52% of respondents currently use some form of financial software (though not necessarily core accounting) in a Software as a Service (SaaS) model, while 82% plan to use SaaS accounting solutions in the future!

The same survey itemized expected business benefits from adopting cloud-based financial solutions. Among the top tier of responses were “simplify software management” (75%), “improve internal and external collaboration” (52%), and “improve service levels” (51%).

These adoption attitudes mirror a global trend as well. A 2012 survey of small businesses in the United Kingdom shows that 68% of respondents expressed confidence in switching to a cloud accounting solution, and just over half (50.1%) believe cloud accounting solutions represent a better value than in-house equivalents.³

Features to Look For

An Internet-based accounting platform that meets the needs of both the professional accountant and the small business client must include features that both parties need while seamlessly integrating throughout. Some of these key features include:

Unified Accounting System. The most important attribute of such a system is that it must be a “unified” system that includes everything—a bookkeeping module for transaction entries (which can be used by clients or firm staff), a trial balance module along with financial reporting, and a write-up module for after the fact write-up work. The current segregation of all accounting and audit related functions into different disjointed systems is artificial. The cloud allows integration of all the above functions within one system and gives each user access to only the functions they need to perform. On the other hand, if a cloud-based general ledger system merely replicates the functionality of bookkeeping systems created for small businesses, it would retain many of the limitations of desktop systems, and would not let an accounting firm take full advantage of the power of the Internet for enhancing its accounting practice.

Transaction Entry. This represents the data entry stage for accounts payable and accounts receivable as well as banking transactions, expenses, and payroll. In most cases in the past, these activities have been performed by the business client’s staff. In a unified cloud-based accounting system, the accountant can still allow clients to perform these functions. The most significant difference from current desktop systems is that in the cloud-based unified system, the accountant can limit client access only to the functions clients should perform. Some clients may be given access only to writing checks and entering cash receipts, while another client’s bookkeeper can be given access to accounts receivable, accounts payable and maybe even the bank reconciliation function. This capability simplifies the system for clients while greatly minimizing client errors.

With unified Internet-based accounting software another option becomes available. With properly enabled software, the client’s staff can scan source documents and upload them to a data repository in the software application. Then members of the accountant’s staff can review them and perform the

data entry efficiently with a much higher probability of correct account coding, thus reducing the need for later adjustments. In essence, the accountant can take over responsibility for the write-up work with no requirement to pass physical documents back and forth. For the accountant, this can be done by relatively low-cost staff and built into an on-going service pricing model for the client. This activity represents the first step towards becoming the client's Virtual CFO!

Trial Balance. When it's time to prepare financial statements and file tax returns, the professional accountant will need to create a trial balance. With a unified software platform there is no need for file transfer and data input or conversion. Since both the client and the accountant are operating on a shared application, the data is already available for the accountant's use. As previously addressed, if the accountant is involved in the transaction entry stage, there should be fewer adjustments required, which simplifies preparation of the trial balance and allows quicker progress to later steps in the process. The accounting software should be capable of exporting the trial balance in a format which is easily read by a variety of popular professional tax preparation systems.

Preparation of Financial Statements. Because the financial statements are being prepared in the same software where the original transactions were recorded, there will be full "drill down" capability to analyze any account. No longer will adjusting journal entries between different software packages represent a blank wall through which no further review can be performed! Like any good accounting package, a shared Internet-based platform should provide full customization for financial statement preparation so both content and appearance can be tailored to the needs and wishes of the firm and the client. Once the reports are designed and formatted, the client can print financial statements on demand at any time he or she desires.

Sharing of Documents. For engagements such as reviews or compilations where a financial statement prepared by the accountant is required, these documents will need to be shared with the client. One of the advantages of a shared Internet-based platform is the use of a document repository or portal which allows the easy and secure sharing of documents. The accountant will simply post the completed financial statements in the appropriate portal area and notify the client they are ready, after which the client can securely download and review them. No more need for attaching sensitive information to insecure emails!

Mobility. Mobility is a fact of life in the modern workforce. For many, "work" is a thing you do, not a place you go! Many firms depend on the flexibility of employing staff who work all or part of the time from home. Therefore, a good Internet-based accounting software will be compatible with a variety of web browsers and popular mobile devices such as smart phones and tablets. Look for one with its own custom applications if possible, or at least that will run smoothly in a mobile browser.

A Brief Case Study⁴

Scott K. Kinzey and his partner Theresa Arndt operate the firm Kinzey & Arndt, Certified Public Accountants, with offices in Springfield, Missouri, and the nearby town of Republic. They have built their firm with an eye toward retaining complete flexibility in servicing their clients and employing their



staff. As a result, most of their staff is part-time, which allows them to attract and retain talented bookkeepers and accountants who might not want or be able to work full time. Two of their bookkeepers work exclusively from home. They have also adopted a variety of tools to service the accounting needs of their small business clients. These tools include cloud-based accounting applications from AccountantsWorld® (<http://www.accountantsworld.com>) which fit the profile discussed in this paper. A cloud-based accounting solution enables them to operate seamlessly among two offices, multiple remote sites, and their clients' locations.

A typical service profile for a Kinzey & Arndt client would include payroll services, small business accounting, and a business tax return. The firm typically treats tax preparation as a separate engagement and bills for the work upon completion of the returns. Client payrolls are prepared using Payroll Relief® from AccountantsWorld® and are billed with each payroll. For accounting services, the firm strives to enroll their clients in fixed-fee engagements with monthly billings. Not all clients are alike, of course, and the firm tailors its delivery to the needs and wants of the client. Some clients, for example, are deeply embedded in desktop accounting software such as QuickBooks®, and Kinzey & Arndt will continue to service them in the more traditional way. However, the firm's goal is to move as many clients as possible to the cloud-based model discussed above. They do this by employing Accounting Relief® and Cyber Cabinet® from AccountantsWorld®. The firm charges clients the same whether they use desktop or cloud-based software; therefore streamlining processes and workflow with these online products reduces costs and makes each engagement more profitable.

Clients using these cloud-based tools can be grouped into two broad categories. The first group, those who allow Kinzey & Arndt to bring them the most personalized service at an attractive price, use the AccountantsWorld® tools in the ways described above. These clients post their own transactions into the cloud-based software, which is then instantly available for Kinzey & Arndt's staff to review, monitor, or adjust if necessary in virtually real time. Because both client and accountant are using a shared data file, no synchronization is necessary and everyone sees the most current data at the same time. These services are provided at a fixed-fee price for which clients are billed monthly. This allows clients to smooth out their accounting expenses over the course of the year, and aids in cash flow management for both the client and the accounting firm! Some clients have their fee check printed as part of the accounting services and are mailed with the invoice for signature.

A second group of clients would prefer to hand their transaction accounting over to Kinzey & Arndt, and the firm is well positioned to support this preference as well. In this case, clients provide their source documents (check stubs, bank statements, and credit card statements) to Kinzey & Arndt, preferably by using Cyber Cabinet® as a secure means of transfer. A Kinzey & Arndt staff member then enters the data into Accounting Relief®. From this point on, use of the cloud-based software to produce financial statements, budget projections, trial balances for tax returns, and other accounting functions is much the same. These services too can be packaged, priced, and billed on a fixed fee, monthly payment basis.

For all clients, the firm is prepared to accept ACH bank transfer payments carrying their paperless focus even one step further. Because these clients are already set up in Accounting Relief®, they are just a

step away from transitioning to the self-service model described above. Their charts of accounts, lists of vendors, recurring transactions, and so forth are already in place, so it is a simple procedural step for Kinzey & Arndt to switch them from the firm doing the write-up work, to the client doing the data entry. Clients are often amazed how easy this process has become.

This approach of using collaborative, cloud-based, accountant-centric software has allowed Kinzey & Arndt to focus on the higher level advisory services that clients truly value. Of course the transactional business will always be necessary; information comes from data and data must be captured and processed. But by making that part of the business easy, secure, and available in a flexible array of options, the partners in the firm can focus their attentions on analyzing, understanding, and conveying information to their clients in ways that aid in good business decision making, while at the same time reducing their costs on the transactional work. After all, that's what clients really want from their accountant: to be their trusted business advisor!

An online accounting solution such as AccountantsWorld® also enhances client retention. Once a client is established in the cloud-based software, they find it's not as easy to change accountants. With QuickBooks® they can simply back up their data and take it to another CPA. With AccountantsWorld®, they have a team approach, with the software and supporting accounting firm working together on the client's behalf. They realize that this combination would be difficult to replicate somewhere else!

Clients sometimes express an initial concern about web-based security compared to maintaining their data in house. However, a few questions directed toward the client's own understanding of firewalls and other local security procedures begin to raise doubts about the strength of their existing security. And coupled with the knowledge that AccountantsWorld® hosts data on the same Amazon.com servers that they use with confidence for online ordering, those doubts quickly turn into positive reasons to convert!

Like all good firms, Kinzey & Arndt continues to evolve and adapt. They would like to convert even more clients away from the desktop-based QuickBooks® world to the Accountant-Centric cloud-based model that works so well for them and the clients who use it. The firm has found their accountant-centric software easy to use, both by their own staff and by their clients. Additionally, they enjoy the confidence that comes from knowing their clients' data is secured and safely backed up in a world-class data center. They recognize that this model is the path to the future and they are pleased to be early and successful adopters of it!

The Action Plan

Perhaps at this point you are intrigued by using Internet-based accounting software to better serve your clients and your own firm. If so, what are the next steps you should take? Consider these three:

- Analyze your client relationships.
- Select a software and workflow solution.
- Convert your clients.

Analyze Client Relationships

What is the nature of your relationship to your small business clients? Are you simply providing them with compliance-based services which are price sensitive and undervalued by them? Or are you seen as a key part of their management team and leveraging your position to provide high value and high return advisory services? Do your clients have skilled and competent bookkeeping staff, or would they benefit by offloading this non-core competency task to you? If your relationship is largely compliance centered, then your firm could benefit from driving down costs and streamlining internal and client facing tasks. If your clients would like to hand off transactional bookkeeping to your staff, then you will need a tool that makes transition easy and cost efficient. If your clients would like you to be more involved in analysis and management advice, then you will need secure and timely access to their accounting data. In each case, moving your clients from stand-alone desktop accounting software to a shared Internet platform will allow you to serve them faster, cheaper, and more effectively.

Select a Software and Workflow Solution Package

We have already talked at length about the advantages of reclaiming the central role in the client accounting relationship. Making the move from desktop-based, client-centric software to a web hosted accountant-centric application is the key to enabling this shift. However, software selection is only the first step, particularly if you intend to become more active in your client's business at both the transaction and analysis level as a Virtual CFO; then workflow processes will be critical to your success.

Software

You must transfer the physical and virtual location of your client accounting software from a scattered array of desktop computers and local area networks to a single hosted service on the Internet. This is the single event which makes everything else possible. Of course you must do good "due diligence" on the hosting provider to make sure that their security, redundancy, communication and disaster recovery practices are up to industry standards. Regardless of the hosting site, the software itself should run in a variety of industry standard web browsers and be available on popular mobile devices for maximum flexibility and reliability. And, of course, the software must allow for a complete range of bookkeeping (transaction) and accounting (review, analysis, and reporting) functions. Look for a software solution which integrates a document presentation and transfer portal to facilitate secure, two-way transfer of published reports. If you intend to take over the transaction entry function for your clients, then the software selected must enable the upload of scanned source documents from the client site for use by the accountant's team.

Workflow

Selecting a software package is only the beginning. However, regardless of which software package you might choose, its effectiveness is determined by the workflow processes you design to use it. Questions you will want to ask and resolve include but are not limited to:

- What actions will be taken by your client?
- How will the client notify the accounting staff that those actions are complete?

- What steps will the accounting staff then take, and who performs each step? How are those tracked internally for progress and completion?
- What review steps are involved, and how are reviewers notified that preparation steps are complete and ready for review?
- How are required final approvals and signatures obtained?
- How are completed reports prepared and/or presented to the client?

The ability to mold this sequence of actions into a smooth workflow process that is understood and followed by everyone involved is critical to creating profitable engagements!

Interaction with Clients

The ultimate goal of this package of software and workflow is to equip the accountant with timely and accurate financial information so that he or she can provide high value advice and decision support to the client. Periodic reviews with the client, face to face when possible, allow the accountant to reinforce the position of becoming the client's trusted business advisor. These personal reviews are also perfect opportunities to suggest additional services which might be provided based upon knowledge that has bubbled up from the accountant's staff. Ask for the new business!

Pricing

Ultimately, this package of services must be priced in a way that will make a profitable engagement for the accountant. This is a perfect opportunity for those who might be exploring the idea of value pricing, or a fixed fee for a negotiated set of services. By now the accountant will have a clear idea of the software hosting costs, the professional effort and knowledge involved, and any other relevant cost factors. Then, knowing what value the client places on timely and insightful decision support advice, you can bundle the required services into a package that the client will understand and perceive as a value. Set a price for that service and spread it out over a monthly or quarterly payment schedule. Clients love this kind of prior knowledge of what their accounting bills will be; it evens out their cash flow and allows them to budget for your services.

Convert Your Clients

The final step in putting the accountant back in control of the client accounting process is to persuade them to convert to the type of system outlined above. When you consider the advantages of such a system from the client's point of view, it should not be difficult at all! In a web hosted accountant-centric system, the small business owner no longer has to devote resources to non-core competency chores such as bookkeeping. By simply scanning and uploading receipts, invoices, and other source documents, they can transfer that responsibility to a professional staff

Business Advantages to Small Business Owners

- Improved information sharing with accountant
- More timely support from accountant
- Predictable costs and fees
- Higher value services provided

Technology Advantages to Small Business Owners

- No software updates required
- Industry standard data security
- Backups and disaster recovery professionally managed

supervised by their trusted accountant. No longer are business owners responsible for software upgrades, network security, and disaster recovery tasks. No longer must they contend with the cumbersome transfer of large accounting files, or with living with lockout periods when they cannot enter new data while the accountant has the file.

Perhaps best of all, the business owner can now enter into a new and more valuable relationship with his or her accountant. Instead of simply relying on the accountant to fix transaction entry errors and deliver compliance-based services such as financial statements and tax returns, the business owner now has an advisory partner who is deeply immersed in the financial health of the business. And if this Virtual CFO service is delivered under a fixed price agreement, the business owner realizes the advantage of a predictable set of costs and cash flow for making budgeting and decision making easier. For many, these costs will be less painful to incur because they see the increased value of the new accounting relationship.

Begin Today!

Many of the problems accountants face in supporting small business clients begin with the use of client-centric accounting software. As we have seen, a better accountant-centric solution exists today which has numerous benefits for both the client and the accountant. Decide today to take the first step towards providing better and higher value services to your small business clients; then make the move to Internet-based, shared accounting software. Both you and your clients will be glad you did!

¹ <http://cloudaccountinginstitute.org/cloud-accounting-benchmark-study-available>

² The Cloud Accounting Institute, and its parent company AccessTek have since been acquired by the accounting firm Armanino McKenna LLP. <http://www.accesstek.net/Armanino-McKenna-Expands-Intacct-Practice-Acquires-AccessTek.cfm>

³ <http://www.reallysimplesystems.com/news/uk-leads-in-the-adoption-of-cloud-accounting>

⁴ Based upon the author's telephone interview with Scott K. Kinzey, MS, CPA on November 8, 2012.