

IN DEPTH: BANKING & FINANCE

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CPA firm's computer program giving firms a 'tuneup'

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Correspondent

Like any other certified public accounting firm, Bunning Borst Enfield & Klein prepares tax forms each year for dozens of small-business clients. Unlike most CPAs, Bunning Borst throws in a free tuneup.

It's not a tuneup for the client's car, but rather for the client's company.

The Citrus Heights accounting firm uses a computer program that takes the numbers from a client's balance sheet and shows how all the components interact -- debt-to-equity ratio, working capitalization, days of inventory, cost of sales and more. The program lets the firm's owner see how changing various components could affect other aspects and by how much.

"Accountants and tax people have been masters of history," said Chuck Hawkins, chief operating officer at Bunning Borst. In other words, they have been great at telling a client how things went in the past year. The tuneup software looks into the future, opening a discussion of how a firm might change its operations to improve its financial health.

It's the kind of consulting that huge accounting firms have long offered to huge clients for huge fees, Hawkins noted. But the ever-increasing power of the personal computer now makes it easy to offer the same service to businesses with annual revenue of \$5 million or less.

One client who has benefited from it is Dr. David Root of the Sacramento Occupational Medical Group.

"Physicians aren't terribly good in the business-sense area, and I follow that rule. I didn't understand how much I didn't know about running the business end of the practice," he said.

Root did know that the business end was having some functional problems, so he turned to Bernie Bunning, a longtime friend as well as the doctor's CPA.

"He got me in touch with Chuck Hawkins and he has done an outstanding job of turning my practice around," Root said.

Among the suggestions was to get more methodical about accounts payable instead of responding first to the creditors "who screamed the loudest," as Root put it.

"The program on a daily basis shows us what money we have, what has come in, what bills are projected for the rest of the month, what total of monthly bills happen," Root said.

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The software tool has been around for a couple of years, Hawkins said. Bunning Borst acquired it as part of an acquisition last year and has been using it for about six months. Since the accounting firm already has a client's financials for tax purposes, it's easy to plug in the numbers.

Collaboration: The man behind Bunning Borst's software is Terry Enfield, a business advisory partner at the firm.

"One of the things we do is go into the business and look not only at the business, but identify with management where are you heading and how the business needs to be structured going forward," he said.

Enfield uses an example of a firm that is making a profit, but ends its year with heavily negative cash flow. A firm's owner who only looks at the profit might not realize there's a problem. The tuneup software allows Enfield to try out some "what ifs" by changing various combinations of components to stop the cash drain. It's up to the firm's owner to say which potential changes are realistic.

"The client may say, 'We can do that ourselves,' or they may say, 'We want you to come in,' " Enfield said. Bunning Borst might then take a more detailed look at operations and offer more advice. The CPAs might discover, for instance, the firm is slow and inaccurate at billing, or runs inadequate credit checks on clients.

Bunning Borst can run the numbers again at the end of each quarter and work with the client to reset goals.

The charge for those additional services can vary with the size and importance of the client, Hawkins said.

Hawkins is careful to note that the consulting service is not available to audit clients. That would be considered a conflict of interest, and is the kind of practice that tarnished the profession's reputation in the past decade.

"The big problem with major (Big Four) CPA firms doing consulting work is that they did mostly audit work for major corporations until the 1990s," said John Corless, a professor in the Accountancy Department at California State University Sacramento. "In the 1990s these firms decided they could make more money from consulting than from auditing, and they lost their independence from their audit clients. This led to the demise of Arthur Andersen. The remaining Big Four firms are still struggling to regain their professional reputations."

But when a CPA performs "non-attest" services such as tax preparation and planning, there is no reason they can't also offer consulting services, Corless said.

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"As near as I can tell, about half the CPA firms in Sacramento do not perform attest services," he added.

Enfield says Bunning Borst is looking to provide the consulting services to small and midsized companies that in general are not audited in the first place.

Uncrowded territory: It's not a common strategy among small accounting firms, said other accountants.

"And I don't know why," said Larry Russell, a CPA for AccounTec in Valencia who advises other accountants on integrating technology. "This type of analytical software is valuable. It would pay for itself in a week."

Small firms run by entrepreneurs may know where every dollar is going, but often don't know how to analyze those numbers, Russell said. The CPA, who already has the numbers in order to figure out the taxes, is in an ideal position to fill that gap.

"It takes almost nothing to move the information into these tools," he said.

Russell recalled first seeing such software in the mid-1980s when its expense made it practical only for large companies.

"It sounds like they are a very forward-thinking firm and I applaud them," he said of Bunning Borst. "Those people have to come from the Big Four environment where they were doing the consulting side of the practice."

Not so, said Enfield. He gives credit to the Consulting Accountants RoundTable. Run by Mentor Plus in Pleasanton, the program is designed to support accounting firms developing consulting services.

"We teach them how to be coaches for their clients," said Edi Osborne, CEO of Mentor Plus. Though her firm has worked with accounting firms for a decade, it was only two years ago that Mentor Plus discovered the software made by Australian firm Inmatrix. It's marketed under several brand names in the United States.

"There are 45,000 accounting firms, and the vast majority serve small businesses," she said. "Most small businesses are not financially fluent. Practitioners like Terry go in and teach them how to use the financial information as an ongoing everyday tool, instead of just taking the reports and putting them in a drawer."

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Bunning Borst is generally targeting businesses with annual sales of \$500,000 to \$5 million. Larger than that, and a company is more likely to have a chief financial officer on board who can provide the same services in-house, say local accountants.

Enfield added that there are companies with \$400,000 in annual revenue that are organized and run like a big business, and there are big companies that are run by the seat of the pants. "I've got a client that does \$50 million a year -- I'm surprised they can get out of bed in the morning," he said.

Hawkins said he's very pleased with how the tuneup service has helped the firm, and he sees such consulting as a coming trend in the tax and financial marketplace. Said he: "We're seeing a number of businesses, financial institutions, CPAs across the board are talking about this."