

START-UP BRIEFING



Highlands & Islands
ENTERPRISE

Choosing and using an accountant

● Unless you happen to be an expert on accounting, tax and finance, you need an accountant.

As a specialist, an accountant should always be able to save a start-up business more in time and money than the cost of accountancy fees.

If you have not yet set up your business, talk to an accountant before you start.

This briefing explains:

- ◆ What an accountant can do for you.
- ◆ How to find the right one.
- ◆ How to keep the fees down.

1 Services on offer

All businesses have to produce annual accounts for the tax inspector.

The self-employed, partnerships and most small limited companies can prepare these themselves.

The threshold for audit exemption is £5.6m (for financial years ending on or after 30 March 2004). Larger limited companies must produce fully audited accounts.

Whatever form your business is going to take, accountants offer a range of useful services.

- A** They can advise on **starting** your business.
- ◆ What form the business should take — sole trader, partnership, limited liability partnership or limited company.
 - ◆ Assistance with your business plan.
 - ◆ Legal and tax aspects of registering a new business.
- B** They can provide the **accounting** and book-keeping expertise you need:
- ◆ The setting-up of manual or computerised

book-keeping systems — sales ledger, purchase ledger, cash book, petty cash book, debtors ledger, creditors ledger, fixed-asset register.

Some firms of accountants will also do the day-to-day book-keeping for you.

- ◆ The preparation of financial statements — profit and loss account, balance sheet, cashflow statement and related notes.
 - ◆ Audited accounts — which must include specified financial information, laid out in a particular way.
- C** They can provide a range of business **tax** services.
- ◆ Tax returns and corporation tax, VAT, PAYE and National Insurance contributions, and income tax for sole traders and partnerships.

FURTHER HELP

There are other Start-up Briefing titles that can help you. These briefings are referred to in the text by name and by the code given to each briefing. For example, SuB 14.

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- ◆ Tax planning — minimising your tax bill.

D They can give you advice on **management information** systems.

Even simple systems can help you run your business smoothly and profitably:

- ◆ Budgeting and performance monitoring, focusing on sales volumes, costs, cashflow and profit margins.

For small businesses, forecasting cashflow is especially important. Serious mistakes in this area can be fatal to your business, even if every deal you do is profitable.

- ◆ Credit control and stock control.

E They can give general **financial advice**.

- ◆ This may include recommendations on the financing of your business through overdrafts, loans, leasing, hire purchase, factoring, venture capital (including business angels) or grants.

- ◆ Introductions to sources of finance and help with presenting your case to them.

F They can advise on **buying** or selling a business.

- ◆ Investigating the books of a business you are thinking of buying.
- ◆ Assisting you in negotiations.

G They can help you with advice and guidance on questions of **personal finance**.

- ◆ Tax planning.

- ◆ Advice on inheritance tax, the financial aspects of wills, and so on.

All companies must comply with the Companies Act. Handling the paperwork for this is usually best left to a specialist, such as an accountant.

2 Where to start looking

A Start with the **basic** sources of information, to investigate the options in your area:

- ◆ Ask business friends and contacts if they would recommend their own accountants.
- ◆ Ask professionals who work with accountants all the time, such as solicitors and bank managers.
- ◆ Ask your LEC.
- ◆ Look in the Yellow Pages, under 'Accountants'.
- ◆ Contact the four accountancy bodies (see box).

Ask for a list of accountants in your area, plus information about the expertise each type of accountant has to offer.

B Ask people what their **recommendations** are based on.

- ◆ What have they used the accountancy firm for?
- ◆ What are the firm's strong and weak points?
- ◆ How expensive is it?

C Choose an **accountant** with suitable qualifications — see box.

- ◆ Unqualified accountants are restricted by law in the type of work they can do.
- ◆ The Government's plans for further regulation of the profession do not apply to unqualified accountants.

D In general, businesses tend to prefer using accountancy firms **comparable** to themselves in size and sophistication. Most small businesses use small or medium-sized accountancy firms. The advantage, compared with a large accountancy firm, is that they usually:

- ◆ Specialise in small business work.
- ◆ Charge less for their partners' time and other costs.
- ◆ Give you direct access at short notice to an experienced partner when you need advice.

◆ Some business support organisations offer subsidised support for start-ups, including many of the services which accountants offer. Find out what is on offer in your area.

"Get detailed advice from your accountant so that your systems are set up and tested before you begin trading. Trying to fix accounting system problems during the first few months of a start-up's life is one more headache you don't need."

Simon Hurst,
The Knowledge Base

Types of qualified accountant

Check with the appropriate organisation that the accountant you are talking to is genuinely qualified.

Chartered Accountant, CA
Institute of Chartered Accountants, Scotland
(0131 347 0100).

Chartered Accountant, FCA, ACA
Institute of Chartered Accountants, England and Wales (020 7920 8100).

Chartered Certified Accountant, FCCA, ACCA
Association of Chartered Certified Accountants
(0141 582 2000).

Management Accountant, FCMA, ACMA
Chartered Institute of Management Accountants (020 7663 5441). Management accountants usually work in companies rather than in firms of accountants.

The 'F' or 'A' at the beginning of the letters after an accountant's name stand for Fellow or Associate. A Fellow is the more experienced of the two.

3 The first meeting

A Arrange to meet at least **three firms** — not just one.

- ◆ You will learn what to look for.
- ◆ You will be better placed to negotiate fees.

The first meeting should definitely be free of charge. Confirm this in advance, and make the most of the opportunity.

B Imagine you are **interviewing** someone for a job. You need to:

- ◆ Explain why you are starting your business and how fast it is expected to grow.
- ◆ Ask about the accountancy firm (see 5).
- ◆ Decide whether you can work well together.
- ◆ Get commitments to the fee level, time scales and standards of service that you require.

C Look for an accountant who will be an asset to your business and will help you **plan ahead** for things like cashflow, business expansion and tax payments.

- ◆ Some accountants see their role as just adding up all the numbers at the end of the year. This is not accountancy — it is book-keeping.

D The ideal accountant would be willing to sit down with you after completing your audit or accounts and spend an hour talking about how to **improve your business**.

- ◆ At that point, this outsider may know more about the inner workings of your business than anyone except you.
- ◆ This could be an hour of a professional's time that is worth paying generously for.

4 Explaining your business

To be able to give a realistic estimate of fees, and suggest how best to proceed, an accountant needs to understand what your business is all about.

A If you have completed your **business plan**, give the accountant a copy.

This will contain most of the information that is needed (see **Writing a business plan**, SuB 1).

B If your business plan is still in preparation, provide the following **information**, giving whatever rough estimates are possible:

- ◆ Your product range at launch and any

plans to extend it.

- ◆ Likely annual sales of each product, with forecasts of sales growth and predictions of how sales will vary at different times of the year.
- ◆ Number of customers and number of purchases each is likely to make during the year, and payment terms — cash or credit.
- ◆ Number of suppliers, expected number of purchases per year and supplier payment terms.
- ◆ Number of staff, now and later.
It will also help if you can tell the accountants how many admin and finance staff you will have, and the salary payment system that will be used.
- ◆ Accounting systems installed, and other management controls.
- ◆ Areas where you think the accountant could help you.

C Hand over a brief written **summary** at the start of the meeting, then discuss the details.

- ◆ If your start-up business is unusual or complicated, it may be useful to let the accountants have this summary a day or two beforehand.

5 What do you need to know?

Asking the right questions will help you decide whether the firm is a good match for your needs.

A How many **partners** are there in the firm?

- ◆ What does each one specialise in?

B How many personal and business **clients** does the firm have?

- ◆ How many businesses of your size?
- ◆ How many businesses in your industry?

C **Who** at the firm will handle your work?

- ◆ What experience and training has this person had?
- ◆ Will a partner be giving your business personal attention?

D Will you be able to get advice **promptly** when you need it?

E What are the estimated **fees**, per hour and per year?

- ◆ When are they payable?
- ◆ Can you pay by instalments?

"If you are growing a business from scratch, you need an accountant who can help you plan your future, not just measure your past."

*Richard Shooter,
Henstock Shooter
chartered accountants*

"Try to find an accountant who has seen a lot of start-ups through their first few years. Advice borne of experience can be invaluable."

*David Turner,
Johnsons chartered
accountants*

F What, in the accountants' view, are your accountancy **needs**?

- ◆ Why is this firm appropriate for those needs?

6 Fees

A The **hourly fees** you are charged will usually be anything from twice the hourly pay of the accountant upwards.

- ◆ You will be charged different hourly prices for work done by different grades of staff — a junior, a senior, or a partner.
- ◆ There may be a premium charge for work done by the tax partner.

B Your audit, PAYE, VAT and Inland Revenue tax work can often be done for a fixed **annual fee**.

- ◆ This all-in fee basis is almost always the most economical option, especially if an agreed amount of 'free' advice is included as part of the deal.
- ◆ If your business's accounting systems are efficient, the accountancy firm will have less work to do, so the fees should be lower.

C Generally speaking, accountancy fees are a **good investment**.

For every pound you spend, you usually get back more than a pound in value.

- ◆ Small amounts of expensive, expert advice are better than large amounts of inexpensive, poor advice.

7 Keeping fees down

The service and expertise offered by accountants vary greatly. Fees vary widely, too.

The more you shop around when making your initial choice, the better value you should be able to achieve.

A Be **aware** of how accountancy firms market themselves and get new business.

It is almost traditional for firms to come up with a competitively low estimate for your first-year fees and then increase their charges steeply in the second year.

- ◆ Invite candidate firms to give you prices covering the first two years.
- ◆ The accountants will win in the end, because it can be very unsettling and disruptive to change and you will not want to switch in year three.

But at least you will have had two years

of low fees to get your start-up going.

B Use your accountant for **specialist advice** and for help in setting up your accounting and management control systems.

- ◆ Systems should be set up in a way that makes preparing accounts quick and easy.

C Do the actual **book-keeping** yourself, or hire an inexpensive book-keeper (possibly part-time).

- ◆ Keep tidy, legible accounts — and make sure they add up correctly.

See **Simple book-keeping**, SuB 17.

D Ask for the **estimated cost** of any piece of work at the outset, in writing.

- ◆ Establish whether you will be charged any extra costs, such as travel expenses, and insist on approving these in advance.
- ◆ Give clear instructions and agree timescales at the outset.
- ◆ Query any fees you feel are unreasonable immediately.

E Consider the **alternatives**.

- ◆ Take advantage of free advice from your LEC.
- ◆ Subsidised training on topics like book-keeping and tax may be available from your local business support organisation.
- ◆ Consider using a payroll agency to handle your PAYE and your National Insurance contributions.

F Regularly **compare** the costs you are paying and the service you are getting with the terms of your original agreement.

- ◆ Are you continuing to receive the standard of service you deserve for the fees you are paying?
- ◆ Compare notes with other business owners you know.

G Build up a good working **relationship**. You will be rewarded with better service.

- ◆ Before each meeting, let your accountant know in writing what issues you want to discuss.

EXPERT CONTRIBUTORS

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