

Special Report for Entrepreneurs & Small Business Owners

3 Strategies to Attack & Solve The Bookkeeping Aspects of Running Your Small Business

by Ray Clark, CPA, MBA

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Host: Well we want to welcome everybody to today's call with Ray Clark, CPA and the title of the call is Three Strategies To Attack And Solve the Bookkeeping Aspects for running Your Small Business. And on the phone we've got Ray Clark. Ray started his firm in 1990, but he's been a CPA since 1982. He has MBA from Utah State and Ray welcome to the call.

Ray: Oh glad to be here. I would like to thank everybody for coming.

Host: Yeah and we... well if you have time at the end of the call, we might open up the lines for questions and answers and if not we'll give you a way to get a hold of Ray. But Ray I guess the topic... this is of interest to business owners because whether to start up or they've been in business for sometime there really three different strategies that they can use to do their bookkeeping and accounting and taxes. And we're going to cover these three today in more depth but just a thumbnail sketch. The first one seems to be that the business owner him or herself, will actually do their own accounting or bookkeeping or the books. In some cases I guess there are taxes so that's one strategy that we'll talk about the pros and cons.

The second one would be actually go out and hire somebody. Whether that be part-time or full-time in some of the titles that they got hire might be an accountant, a bookkeeper, controller. We'll discuss again the pros and cons of doing that either full-time or part-time. And the third would actually be outsourcing the bookkeeping or accounting to someone like yourself an Accountant or CPA firm and again we'll talk about those but I guess it in your years as an Accountant, a CPA where do you think businesses typically start off? Which strategy or approach today they usually begin with?

Strategy #1 - Do Your Own Accounting In-House Yourself

Ray: I think the strategy that most businesses start with they always try to do themselves because they want to do cost-cutting and so on. And they always try to do that even though they don't have the skills to do that, but they just go right ahead and try to do it anyway.

Host: And so cost-cutting is their goal but that the lack of skills... I guess that can be a detriment huh?

Ray: It really is a detriment to them. And they... most of time when they get the information into us, we have to redo it and make adjustment and do all kinds of things to get it to conform to what we can do with the tax return.

Host: Are there still business owners out there using pencil and paper and a ledger book or most people automated on software these days?

Ray: They don't do pencil and paper so much but I do see a lot of spreadsheets... things are coming on you know on Excel and so on. And using their own homegrown format is what they do.

Host: Okay. Okay does that seem to work or are there problems with that when it comes to that approach?



Ray: Yes, that seems to work okay for them but a lot of times you know it's their own way of doing it and they don't understand accounting and so on and so they end up doing it wrong actually. And most of the time it's not a debit and credit type situation, which they do not understand and they hand it off to us and we have to go through it in and redo it a lot of times.

Host: What kind of mistakes do you typically find that the business owner will make with that particular strategy?

Potential Disadvantage #1 - Inaccurate Bookkeeping

Ray: Well we find the business owners don't know what they can deduct and what they should be deducting a lot of times they think they have a low profit because they deducted a whole lot of personal items in their books and so on and we have to tell them that they can't deduct certain things. And as a result their net income is going to go up higher and they get a little bit upset about that because it also creates a higher tax liability for them.

Host: I guess one of the reasons to fix that would if they ever get audited, that approach wouldn't stand up in an audit, if you have the wrong kind of deductions.

Ray: Usually it wouldn't and that's one of the reasons why we have to correct it and make sure that they have some documentation for it and so on. To get it into that format, so that there aren't any red flags out there.

Host: And I would imagine too with financials that are inaccurate if you use any kind of numbers or key performance indicators from these accounting reports to make business decisions if it's wrong or inaccurate or too high or too low you're probably not making good business decisions based on that right?

Ray: No you're not and most of the time they don't know what they're doing and so their decisions really don't help the business so on. And also a lot of times they get so busy running their businesses, they don't have time to do the accounting or the bookkeeping on a real-time basis. They get way behind on it and then they have to do to a catch up on it. They don't really get done with they need and know what's going on.

Host: Yeah that would be a problem.

Ray: It happens all the time, when you run the business and you're doing two and three things all at once and in the middle of the night you have to try to catch up because you got a deadline and so on and things don't go that well.

Host: Is that kind of a version of working ON your business versus working IN your business? A lot of times that are so busy working on the business that doing things like that it keeps them from working IN the business.

Ray: Yes, that's right and so a lot of us have been there, I've been that in that position also where I have to do all the work and then try to do a lot of the managerial and the administrative accounting, and I've even got to point where I don't even do my own accounting. It's not worthwhile... we just do that along with all the other ones that we do.

Host: Right well that's a good strategy you practice what you preach right?

Ray: Yeah and a lot of times it occurs too when businesses are owned by one person and they just think that they can't do anything else but the accounting in their business but love these people are spending 10-12 hours a days, six days a week trying to just do it all.

Host: Wow okay.

Ray: Well we see going on too is... we have businesses that have two or three or four owners and that can work if you have one of the business owners they tend to use the other method where one of the owners would do the work themselves in-house. But they still don't have the expertise and it becomes pretty difficult with them because they always don't know what's going on. And how to do it correctly.

Host: Is there ever a situation where you have one spouse helping the other spouse to do the books is that...

Ray: Yeah we see a lot of that actually. The wife's at home and while the husband is out doing a lot of the work in the field and so on and she pays bills; she does the accounting in her way and a lot of time they get a little bit upset with us because we have to redo a lot of their work.

Host: Understand. So it sounds like maybe if there is a pro or an advantage to this that it can be a cost-cutting strategy however the drawbacks for disadvantages are that sometimes they don't have the skills, so they make mistakes, they over deduct and maybe in some cases they under deduct. And so the financials and the actual...

Potential Disadvantage #2 - Takes Long Time to Develop Expertise

Ray: Yeah and they make up their own ways of doing things too. And the other thing that happens is too they actually never get the things done on time as I mentioned a little bit earlier. And another disadvantage that I see in this also is that they... it takes them a long time to develop the expertise to learn how to do it correctly. And a lot of times they just don't get there because it takes a whole lot of training to be able to do it correctly.

Host: Yeah and I from my understanding as an accountant and a CPA you were probably going through continuing education on a regular basis just to keep up with all the changes in the taxes. Tax laws.

Ray: Oh yeah. We have to go through 40 hours of education every year just to keep our licenses up to speed and then it takes quite a bit of work, a lot of seminars and so on.

Host: So the business owners that's doing it themselves or just there's no way that they can be exposed to that type of knowledge. And it looks like again another disadvantage that you mention is the own tends to get behind if they're doing it themselves and they have to play catch-up.

Ray: Yeah that's right.

Host: Right and then last but not least. If they are doing it themselves they focus time that could be better spent running the business, growing the company versus you know just doing the books and so that's another disadvantage.



Potential Disadvantage #3 - Fall Behind & Play Catch-Up

Ray: Yeah and another disadvantages to during the year, they're out on her own and if they ever run into a problem or something, we're not there to help them. We would have to have them get up to speed and make some corrections that we would do at year-end and so on if they had problems and didn't understand what was going on. We're there but we wouldn't be able to step in and help them and do what they needed at the time.

Host: Okay great, well that's strategy number one. Again the business owner doing the books or accounting themselves. Strategy number two would be looks outsourcing your bookkeeping or accounting to an outside firm. Can you talk a little bit about how that works and how people come to you in that type of situation?

Strategy #2.1 - Outsource Your Bookkeeping / Accounting to an Outside Firm

Ray: Yeah in that option, you know the accounting is to outsource to a CPA firm like us. It's actually what we specialize in. We actually do quite a few of these and this is our bread and butter and we always like talking about it because we're I feel like we're pretty experienced at it.

The reason why they outsource us because he can't deal with the personnel sometimes and the items and advantages we talked about a minute ago. It's not a one-size-fits-all situation and so we can work with the clients a lot easier because we understand different types of businesses, and have the background in all types of industries.

Advantage #1 - Owner Can Focus on The Business, Not on Personnel

And outsourcing to the accounting firm basically takes the administrative person they handle the lower end of the accounting work. And let's call that administrative work said they will write the check and they'll send the bills to the clients and they'll keep track who owns money and they'll keep track who you owe money and maybe calling the payroll to the accounting firm and payroll services and so on.

But the more skilled items is what we do and what we would be doing is monthly and quarterly accounting and bank reconciliation. We would also be doing the sales tax preparation and the business management somewhat. And advice and tax advices handled by the accounting firm, which is us.

Advantage #2 - Flat Fee, Lower Cost than/Fraction Of an In-House Person

The way we do it is we do with a flat monthly charge and we're available for unlimited consulting by telephone at our office. And it's all included in the budgeted amount, which is a package that we set up with our clients ahead of time for a fixed fee for the whole year.

And at the end of the year we will do their tax return and tax planning and personal return. And it's a good solution where they don't have to deal with any of the other disadvantages that we talked about, such as confidentiality if they don't want the people who work in the house with them to know what's going on.

Assuming they use our system and send us the information and recommended ways we can turn the workaround and they totally update all the time. They can call in anytime they need to and we will be able to questions all their questions.

And so if it done and I feel like it's a pretty economical solution that takes the getting it done outside of the company, and we always make sure that we get our accounting done on a monthly basis for all of the companies that we do.

Potential Disadvantage #1 - We Can't Force Client to Send Info to Us

I guess the disadvantages they don't send the information on time. It doesn't get done on time. And we wouldn't be there to answer questions for them. So we actually a lot of times pick up the information but most of the time we actually will get the clients to let us, download their information from their bank statements. And we do it that way and once we have access to the information and their bank statements and credit card and so on, we can download those into our systems, reclassify them and the accounting for them.

So what that really means is that we know what's going on with the business and financially on a monthly or quarterly basis so that at the end of the year when we have to do a tax return, they can be somewhat more economical because we're not seeing an in-house person, what they did and what they didn't do and have to make those corrections that we've talked about a little bit earlier. And we're not going to charge them the same amount for the year end tax return because we know what's in the tax returns and we don't have to reclassify and fix a lot of things because we're keeping up to speed on it every month as we go.

Advantage #3 - Accounting is Compliant with Changing Tax Laws

We also I keep track of sales tax figures and so on for about 200 businesses. And they're keeping track of it for their own self if they're doing it themselves but we actually keep track of the laws for these 200 business and so that we work on. We know what the changes are and we are keeping track of the accounting changes also. And I feel like the economies of scale are there. And we do it very quickly and efficiently and we actually do it quickly because we have degreed accountant doing a lot of work. And if you had somebody in-house that would no longer be applicable to all that. So I feel like it's a good deal because we actually do a lot of the work and we are very skilled at it and we actually have a process here that we go through to get it done efficiently and quickly.

Advantage #4 - Don't Have to Deal With Vacation, Personal, Sick Employee Time Off

Host: It sounds like another strategy or disadvantage however you want to look at that is that if they outsource it to somebody like you. If as opposed to doing it themselves if somebody gets sick. They're the business or the business owner is away or somebody has to go on to vacation. You know or maternity leave, whatever the case might be. That's an interruption in getting the books and where if you outsource it to somebody what you, it sounds like you have plenty of staff there, somebody's always there doing it, it's always on time. That just doesn't have to be an issue trying to schedule the accounting and the books around a vacation or sick leave or anything like that.

Ray: Yeah that's right and when somebody here leaves we have another accountant who pick it up and get it done for them. The other thing about that is too; we also have a review system that we go through too. In other words when someone does the accounting and they do the download on it and so on, do the work and get everything up to speed.

Advantage #5 - All Work is Double-Checked for Accuracy

That actually in part or process moves onto another desk or another set of account... guys look at it and the another accountant would do a review on that to make sure that all of everything is done and we actually have a checklist that we would go through on that, to make sure that you know all the accruals or those types of things are correctly done and so on. So we put a lot of emphasis in getting this done right and get it done on time too.

Host: That's great and what another advantage Ray would be that... and I hate to bring the subject up but you know sometimes businesses have slippage, there's things that go out the front door but there's also things that employees might still at the back door would having you have two sets of eyes looking at the financials those that help to some extent prevent any kind of embezzlement or loss.

Advantage #6 - Outside View Helps Prevent & Identify Embezzlement

Ray: Yeah it would help quite a bit actually, because if somebody is looking at these things and doing these in-house. The in-house person would also know that there's another set of eyes looking over all of the checks are going out through the bank statements and so on. So we would actually be kind of like a backup to owner to keep an eye on what's going on with all that.

Host: That's great so again strategy number two is outsourcing and we've gone through a lot of the disadvantages and advantages. Any other final comments on that particular approach?

Strategy #2.2 - Outsource Internally or INSOURCE Your Bookkeeping or Accounting

Ray: There is another thing that we also do for some of our clients and that is. We outsource internally is what we do and we haven't discussed this very much but as part of the strategies you know. What we just discussed is we outsourced things to the accountant themselves. And that's where we take charge of everything but we have several businesses out there that what we do is...

We will actually log on to their system on there and overlook and review all of the information that's being done by there in-house bookkeeper. A lot of these clients do not have a skilled bookkeeper. The people with an accounting degree and so on but a lot of the information has to be done by data entry and so on and what we do also is what we call outsourced internally.

We can log on to their books, we can go through all their activity and so on and see that things are done correctly. We can see that the bank reconciliation is there and done correctly and we could take a look at the final financial statements at the end of the month after their internal in-house bookkeeper has done the work that they need

to and we even have a client where I go in every month and go through all of their activities to make sure that it is done correctly and so on. They actually call it auditing but I actually am just reviewing everything that they did making sure it's correct. And the controller who is there and know that we are doing the review on that you know that...that make sure that things are secure and they know that somebody else is going to be looking at everything they do. And so there's some security in that also.

Advantage #1 - Have Expert Review Remotely Using Technology

Host: That sounds amazing to me, it sounds like a really good positive use of technology not only like you said to look over their shoulder to log in, but how you mentioned actually having access to the bank statements and reports and you can just download that. They don't need to come to your office; you don't need to go their office right?

Ray: That's right and what they've done is when we set them up as a new client, we ask them for all the information and what I like to do when I talk with them, I said I don't want to sign any of the checks that you issue, I don't want to have any signature on anything that you do. All we want to do is look at it. And since we have that ability to look at it, we can just log right onto their bank account see everything that's done and in a lot of cases we actually downloaded right into QuickBooks, which eliminate some of the data entry that we have to do and from there we just have to recode several things and so it's really efficient.

Strategy #3 - Hire a Full-Time or Part-Time Bookkeeper

Host: Wow, that's a tremendous advantage, not only in speed but in accuracy so. Ray that's again outsourcing and as you call it internally outsourcing. And so I guess that the final strategy would be if I'm a business owner... potentially whether again I'm a start up or I've been around. I might want to go out and hire somebody, personally as an employee. Let's talk little bit about that and the cost and maybe again the advantages and disadvantages of hiring. What would you call it, would be a full-time bookkeeper or an accountant or a controller?

Potential Disadvantage #1 - Hiring a Person Can Be Expensive

Ray: Yeah and I don't see that to be very worthwhile to various too small company. I think that a company has to mature to a certain level before they hire somebody to come in and do it. It's expensive to do that, you're actually hiring a person to come in fulltime and just to start with that could cost you \$3500-\$4000 a month to hire somebody to come in and do that. If they're a full degreed accountant.

Host: Wow, okay

Potential Disadvantage #2 - Employee Access to Too Much Information

Ray: Yeah and not only that, they pay benefits for them too. And the other problem with that is too is the people... sometimes the owners are really worried about the security of all that too, they have a person here who will do the accounting for them but they also know everything that's going on in the business and some of the outside things that are happening also. And sometimes of these owners get pretty particular about who sees the

information going on. And if it's outsourced to an outside CPA firm a lot of the personnel inside the company don't see that.

Host: So it sounds like that... depending upon how the business owner views the performance of a company they just may not be willing to share that they're either making a lot of money or maybe in some cases not making a lot of money in allowing somebody else to see that where there's almost a sense of client patient privacy or confidentiality with using an outsourced accounting firm like yourself.

Advantage #1: Owner Has More Control With an Internal Hire

Ray: Yeah, but I do have to say that there're advantages of that. When a company does advance to that maturity stage. Because the owner at that point they have total control and understand everything that's going on, that the control aspect is actually there and that's actually the biggest advantage I think.

And assuming that this person who is doing their accounting they know what they are doing and they've been hired properly. Typically many people get QuickBooks and there are a lot of people out there who know how to work with QuickBooks that's the most popular brand out there. And if you go and hire an experienced person with that some of these other programs could be applicable, but you could also ask us to help you with the software and we could also ask the client to let us do an interview with the people that they intend to hire. Because a lot of times these people come from a different industry than what the company is. The industry is accounting but they may be a software engineering company or an architectural firm, which really doesn't understand accounting at all. And they are turning it over to these people and trusting them.

And what we can do in a lot of cases is they can let us give them a test; give a discussion with them to see if they understand everything that's going on too. And these people actually become kind of a subcontractor to us, because they do a lot of the work that we will be reviewing and so on and so we actually like to recommended a lot of client run their hiring... people that they hire through us.

Host: Okay that makes complete sense. So just to recap one advantage to hiring somebody full-time or part-time is the complete control from the owner's standpoint.

Ray: Yes and there is the real-time issue too, they can know what's going on and they can actually make adjustments right on the spot. Or put things into the computer as they talk about it so that they can know what the result is. And that is a real advantage actually because they can make better business decisions right on the spot.

Host: Got it okay. And then the other disadvantages like we talked about might be it could be expensive depending upon what you have to pay, there's benefits if the person goes on vacation or get sick. There might be a temporary situation where you don't have access to that. Unless somebody is cross trained. I guess that's another internal strategy.

Maybe I don't know if this happens a lot, Ray do you have business owners where they've hired somebody internally, they worked there for one or two or three years and then they moved on to a different job maybe better paying job. I guess in a situation like that you tend to lose all that experience that you built up with the employee accountant and you have to start over.

Potential Disadvantage #3 - Being Left in The Dark When Someone Leaves Abruptly

Ray: That's right and in my experience, I find that happens with the company that are not mature that some of the smaller companies. They will hire somebody in and pay them a wage, which could be close to what we just talked about a minute ago... \$3000 a month or so. And they just come in and they learn the system and they get going and they do things for them and then they leave. They find a better job go for whatever reason and then they're stuck in the place where they have to do it all over again. And that becomes a difficult position to be in also.

Host: That makes sense that makes sense. Well if you had to sum things up from your perspective when a business owner is in a situation where they're trying to decide this, what are some of the things that that they need to weigh versus all these three different strategies? Is there a set size limit in terms of how the business is it in revenue or is it just maybe a personal decision that they need to look at to make a decision like this, to make a change.

Choosing Between All 3 Strategies - Yourself, Outsource or Hire?

Ray: I believe that when it comes to hiring people in-house you have to have a company that's large enough to cover the wages and to also cover everything else and to also management decision done. I would guess that the companies that are well into the five million area that have maybe over 15 employees or so should probably have an in-house controller. And I believe that a lot of companies we do work for companies that are about \$15 million and less and it seems to work out quite well for us to do the in-house accounting.

One thing about this that I want to mention too is there are things in our businesses that we do not do and that is Accounts Receivable for clients and accounts payable for clients. We find that in a lot of cases that the companies need to have their hands on the receivables and understand what's going on with that do the billing to themselves. We have had clients come to us and ask us if we can do the receivables and do the payables and so on, pay their bills and collect the receivables and so on. And we have found that even with QuickBooks the ability to do that is there, but we find that it's very difficult to do that because we don't understand what's going on with their customers and so on, how to bill them and they have to tell us a whole lot of detail about what's going on and it just doesn't work.

So in that case they need to have clerical people who can do the billings and the receivables and so on, collection and so on. And they also have to have people in-house who can do the payable, pay the bills and so on. And what we are basically are historians when it comes to that type of clerical work because we don't understand the business and how to do the billings and collections and so on. So that part of it is pretty important too.

Host: Ray this is great information, let me ask you from a business standpoint at somebody's listening to the call today, whether they're live or they are listening to the replay, if they're at a situation in their business where they want look at these different options are you available to discuss these different strategies and how would somebody get a hold of you?

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Ray: Yes I'm always available, I love talking to about this is one of my favorite subjects and they way to get a hold of me would be in my office here at area code **801-521-4538**. And they could call me directly and I would be able to help them.

Host: If they're on the Internet and want to send you an email what's the best email to send to get a hold of you?

Ray: The email would be staff@clarkaccountingcpa.com.

Host: Okay super. Ray thank you very much, this has been extremely interesting and again if you're listening to us on the replay, if you have a question feel free to get a hold of Ray, he is right there in Salt Lake City and works with people in the surrounding areas, businesses and again if you have a question, he's more than happy to sit down with you and discuss your situation and provide you some sage advice on what would work best for you. Ray thanks again for being on the call today we appreciate it.

Ray: Well thank you for calling me, I appreciate letting the advice out to people, thank you.

Host: You're welcome, take care everybody bye-bye .



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