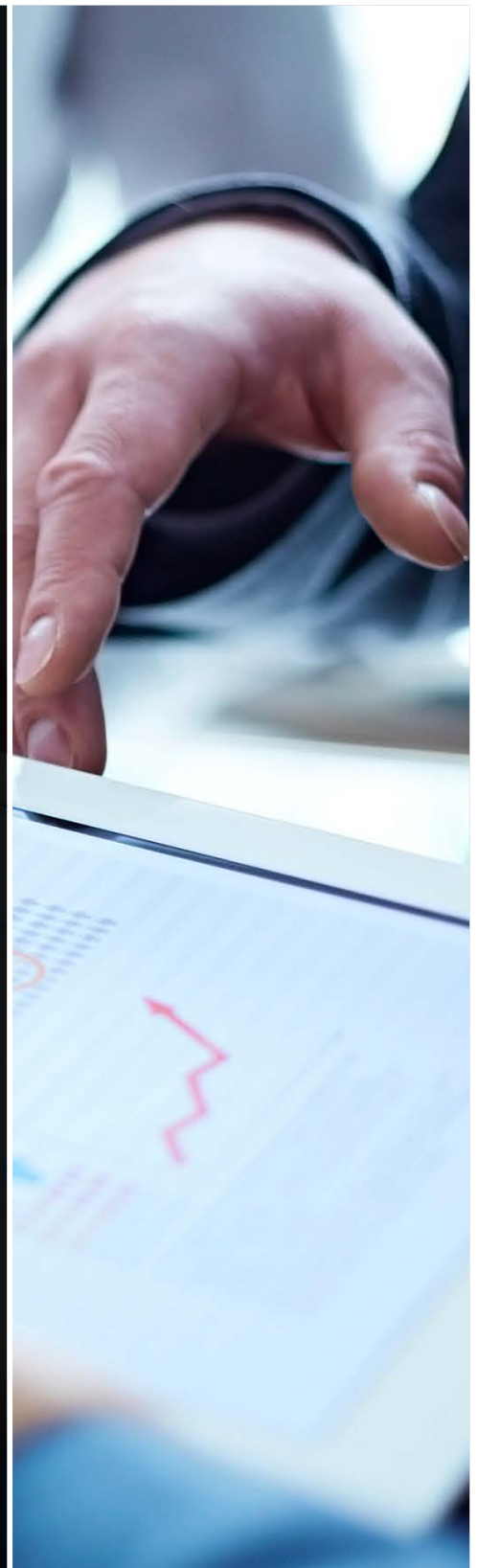


# GUIDE TO CPA FINANCIAL STATEMENT COMPILATION SERVICES



To make your business #CPAPOWERED,  
call today and let's get started.



You've worked hard to get your business off the ground. Business is good—so good that you're ready to trade up from your leased space and build your own building. You've met with the bank and they've given you preliminary approval on a loan package. But the bank representative says she needs to see your financial statements before she can finalize your loan.

You know that timely, accurate and understandable financial statements are necessary to gauge how well your business has performed and to assess the strength of its financial position. You know that they are the foundation upon which you make important business decisions.

You can prepare your financial statements in house, but if you're like many small business owners, you may prefer to have an outside professional to prepare your financial statements in accordance with an accounting framework that is appropriate for your business.

Oftentimes, the certified public accountant (CPA) who performs your general accounting and/or bookkeeping and prepares your annual tax return can also prepare your financial statements and, in addition, perform the appropriate service in order to meet your bank's requirements. Keep in mind that not all accountants are CPAs. In most states, only a licensed CPA can perform certain services.

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# FINANCIAL STATEMENT SERVICES JIMERSON TAX CAN PROVIDE

## BASIC FINANCIAL STATEMENT PREPARATION

	Intended for business owner's use to manage the business (similar to what an in-house controller or CFO would provide for management in a larger company)
	May fulfill some lenders' documentation requirements for small loans
	No formal report issued on the financial statements

If you decide to have a CPA prepare your financial statements, he can do so in any frequency that is most useful for you. Typically, this service is performed in conjunction with bookkeeping or transaction processing services and can be monthly, quarterly or annually. The financial statements are prepared in accordance with an acceptable financial reporting framework. If you're not sure which reporting framework to use, your CPA can explain the pros and cons of each and the best fit for your business.

The financial statement preparation service is primarily intended for your own use to have current information on the financial standing of your business and to make decisions accordingly. In essence this service is no different from what an in-house controller or CFO would provide to management in a larger company.

You can share your financial statements with outside parties but on each page, your CPA will include a notice that "no assurance is provided" on the financial statements.

Because your CPA will prepare your financial statements directly from the records you provide, the CPA will not verify the accuracy or completeness of the information and is not required to issue a formal report on the financial statements.

## COMPILATION

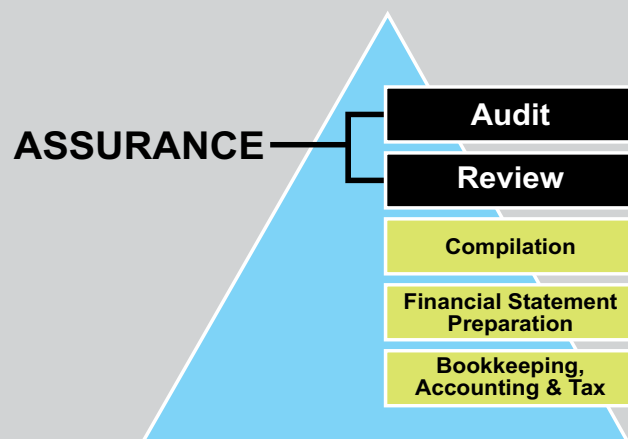
	Intended for use by lenders and other outside parties who may appreciate the business's association with a CPA without requiring a level of assurance on the accuracy of financial statements
	Typically appropriate when initial or lower amounts of financing or credit are sought or significant collateral is in place
	CPA issues compilation report

Compilation of financial statements is a service where the role of the CPA is more apparent to outside parties, and as such, the requirements for performing this service are more explicit. For example, if the CPA is not independent from ownership, management and other circumstances in their relationship to you and your business, she is required to disclose the impairment to her independence in her compilation report. The compilation report is the first page before the actual financial statements and is written by the CPA on her firm's letterhead.

The CPA is also required to read the financial statements in light of the financial reporting framework being used and consider whether the financial statements appear appropriate in form and are free from obvious material misstatements.

### UNDERSTANDING ASSURANCE

A CPA can obtain a level of "assurance" about whether the financial statements are in accordance with the financial reporting framework. The CPA obtains assurance by obtaining evidence. There are different levels of assurance that a CPA can obtain that can range from no assurance at all, to the highest level of assurance, which is an audit. The level of assurance required by lenders is typically based on the size of the loan, the collateral and their determination of the overall risk.



Other situations that often require a level of CPA assurance include performance bonding and leasing. Certain trade creditors, outside investors or family owners that are not actively involved in the business may also request or require a level of assurance on your financial statements. If your requirements are unclear, in many cases, your CPA can speak with your lender and others about the level of service that will satisfy their requirements.

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## COMPILATION (cont'd)

In a compilation engagement, the CPA does not obtain any assurance because she is not required to verify the accuracy or completeness of the information provided or otherwise gather evidence for the purposes of expressing an audit opinion or a review conclusion.

The compilation report states that the CPA did not audit or review the financial statements and accordingly does not express an opinion, a conclusion or provide any assurance on them.

A compilation is typically appropriate when initial or lower amounts of financing or credit are sought or there is significant collateral in place. Though no assurance is provided, outside parties may appreciate your association with a CPA, which is readily apparent in the formal compilation report.

### UNDERSTANDING A MISSTATEMENT AND MATERIAL MISSTATEMENT

**A misstatement is a difference between a reported financial statement item and that which is required for the item to be reported in accordance with the applicable financial reporting framework. A misstatement may result from fraud or error. A material misstatement is one where the severity or nature of the difference (i.e., misstatement) would cause a user to form an incorrect conclusion about a financial statement.**



## SERVICE COMPARISON

	FINANCIAL STATEMENT PREPARATION	COMPILATION	REVIEW	AUDIT
Level of assurance that the financial statements are not materially misstated	CPA does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements.	CPA does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements.	CPA obtains limited assurance that there are no material modifications that should be made to the financial statements.	The CPA obtains reasonable (defined as high, but not absolute) assurance about whether the financial statements are free of material misstatement.
Objective	To prepare financial statements pursuant to a specified financial reporting framework.	To apply accounting and financial reporting expertise to assist management in the presentation of financial statements.	To obtain limited assurance as a basis for reporting whether the CPA is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework, primarily through the performance of inquiry and analytical procedures.	To obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement thereby enabling the CPA to express an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with an applicable financial reporting framework and to report on the financial statements in accordance with the auditor's findings.
The CPA is required to be independent	No	No — but if the CPA is not independent, the CPA is required to indicate lack of independence in the CPA's compilation report.	✓	✓

	FINANCIAL STATEMENT PREPARATION	COMPILATION	REVIEW	AUDIT
The CPA is required to obtain an understanding of the entity's internal control and assess fraud risk			✓	✓
The CPA is required to perform inquiry and analytical procedures			✓	✓
The CPA is required to perform verification and substantiation procedures				✓
The CPA issues a formal report on the financial statements		✓	✓	✓
Situations requiring different levels of service	Intended for the business owner's own use to have the current information needed to know the financial standing of the business and to make business decisions accordingly. Similar to what an in-house controller or CFO would provide for management in a larger company. The financial statements may be shared with third parties.	Typically appropriate when initial or lower amounts of financing or credit are sought or there is significant collateral in place. Outside parties may appreciate the business's association with a CPA, which is readily apparent in the formal compilation report.	Typically appropriate as a business grows and is seeking larger and more complex levels of financing and credit. It is also useful when business owners themselves are seeking greater confidence in their financial statements to evaluate results and make key business decisions.	An audit is typically appropriate and often required when seeking complex or high levels of financing and credit. Also appropriate when seeking outside investors, seeking to sell the business or considering a merger.
Differences in cost for each level of service	Varies based on the financial records provided.	Least time consuming of the services in which the CPA issues a formal report.	More time consuming than a compilation but substantially less than an audit.	Involves the most work and, therefore, the most CPA time.



