100 Introduction

100.1 The accounting profession is constantly changing. Each year, it becomes more complex and competitive. In order for a CPA firm to effectively compete in today's accounting marketplace, it has to cope with a wide range of difficult issues. For many years, the dominant issues faced by accounting firms were staffing and tax complexity. But the slow economy changed this and the number one issue facing firms of all sizes today is client retention. Other difficult issues facing accounting firms include the following:

- Firms are increasingly being pressured to reduce costs in order to remain competitive in the marketplace.

- Clients are beginning to select firms that have very specific specialized competencies and skills.

- Effective knowledge management, while once considered to be an optional process, is now becoming crucial to a firm's success.

- The competition for qualified staff continues to be a top concern for CPA firms.

- The technology used in accounting practices is changing rapidly.

- More and more people are preparing their own tax returns using inexpensive, easy-to-use software designed for the home computer.

• Government regulations are becoming more complex.

• Accounting and auditing standards continue to expand in scope and volume.

• CPAs are increasingly viewed as “deep pocket” defendants in malpractice lawsuits.

• Firm continuity is not assured.

100.2 While the economy continues to show signs of improvement, challenges endured during recent years still effect accounting firms today. However, the loss of revenue due to the demise of dated industries and failed client businesses has been countered by income received from new industries and new services that emerged during this challenging environment. It is imperative for accounting firms to continuously reevaluate their own operations and take steps to fortify their practices against any adverse conditions they could encounter in the years to come..

100.3 CPAs need all of the help they can get in managing their practices as they poise their practices for growth in this new environment. *PPC's Guide to Managing an Accounting Practice* has been written to help CPAs solve a wide range of problems. It provides practical, easy-to-use guidance, not theoretical concepts. Like all of PPC's products, the guidance provided in this *Guide* is supported by a complete set of easy-to-use appendixes (questionnaires, checklists, drafting forms, etc.).

100.4 Most of the guidance provided in *PPC's Guide to Managing an Accounting Practice* applies to firms of all sizes, from new sole practitioners who have just “hung out their shingles,” to large, multi-office firms. The guidance is designed to help these firms practice in a safe, profitable, professional manner.

What Makes This *Guide* Different from Other Management Books on the Market?

100.5 *PPC's Guide to Managing an Accounting Practice* has a number of unique advantages over other management books. Those advantages include the following:

a. It has been written and edited by CPAs, for CPAs. The authors of this *Guide* have years of public accounting experience, and have created some unique solutions to the problems that most practitioners face each day.

b. The guidance provided in this *Guide* is integrated with the PPC quality control system. This *Guide* can therefore be especially useful to firms that use other PPC guides in their practices. A quality control calendar is provided at Appendix 1A to assist firms in planning their peer reviews.

Chapter 10 also discusses quality control systems.

c. *PPC's Guide to Managing an Accounting Practice* is organized in a logical manner and can be used in a number of ways, including the following:

(1) Chapters 2-12 and 15 contain “snapshot checklists” that have been designed to help a firm pinpoint problems it may have. The checklists have been specially designed to help a firm quickly identify areas that offer the greatest opportunities for improvement. By completing the checklists, a firm can identify areas that need immediate attention.

(2) Chapter 2 of the *Guide* discusses the importance of a comprehensive business plan to a firm's success. In developing a strategic plan and a related budget, a firm will frequently identify management areas that it needs to improve. When areas for improvement are identified, the firm can refer to the appropriate chapters in the *Guide* for assistance in improving the problem areas. For example, in preparing its business plan, a firm may decide that, in order to accomplish one of its objectives, it needs to improve its billing and collection system. It can then refer to Chapter 4 of the *Guide* for assistance in this area.

(3) Chapter 10 of the *Guide* presents the most comprehensive guidance available today on avoiding legal liability, tailored specifically for the accounting profession. It was originally written and has been updated by a renowned attorney who specializes in defending accountants against professional liability claims. This practical, easy-to-follow guidance can be used to reduce a CPA firm's litigation risk regardless of the size of the firm or the type of its practice.

(4) With the constant rapid change in technology, it is often difficult for a firm to stay abreast of the changes and how their accounting practice and its systems may be affected. Technology discussions throughout the *Guide* are continually updated and revised, including the discussion of the AICPA's most recent top 10 technology issues. The guidance in Chapter 11 on managing technology can be used to save time researching current trends and standard system configurations.

(5) Chapter 12 of the *Guide* discusses the importance of performance measurement.

To improve profit, savvy firm owners recognize they must focus on what goes on "behind the scenes." That is, they must analyze the activities that generate their firm's revenues and drive its expenses. By identifying which processes or activities are critical to a firm's success, firm owners and managers can focus their efforts on continually improving those processes. In that manner, they have a much better chance of achieving increased profits. Chapter 12 provides the guidance a firm needs to choose the right measures, establish targets, and monitor results. *Benchmarking* (i.e., comparing the firm's results to its peers), a key step in any performance measurement process, is also discussed in Chapter 12. Key financial information of profile firms from a major MAP survey, which can be used in the benchmarking process, is presented in Chapter 13. Chapter 14 contains practice aids that firm owners and managers can use to compare their financial information to that of the profile firms.

(6) The *Guide* can be used as a quick reference tool to address questions about specific topics. To ensure that the *Guide* is easy to use, each chapter contains a detailed table of contents and each volume contains a comprehensive index.

END OF DOCUMENT -

---

101 Organization of *PPC's Guide to Managing an Accounting Practice*

101.1 This *Guide* covers the administrative and management areas that are common to all accounting firms regardless of their size, geographic location, or the types of services they offer. Chapter topics have been selected based on the authors' experience and on extensive surveys of CPA firms throughout the country. The chapters are not in any particular order and, in most cases, are "free-standing." However, many topics relate to one another, and the authors recommend scanning the entire *Guide* in order to obtain a better understanding of its flow. Once a firm becomes familiar with the contents of the *Guide* and its structure, it can then pick those areas of greatest interest. The remainder of this section provides an overview of each chapter in the *Guide*.

Chapter 2—Planning for a Successful Practice

101.2 It has often been said that accounting firms that "fail to plan, plan to fail." This may be somewhat of an exaggeration, but, in the authors' experience, firms that take the time to develop comprehensive business plans are usually more successful than firms that do not. At least firms that have gone through the planning process described in Chapter 2 know where they want to go and how they intend to get there. Comprehensive business plans have three primary components:

• A strategic plan.

• A detailed budget.

• A succession plan.

101.3 Many small to mid-sized accounting firms believe that strategic planning is strictly for the larger firms. However, Chapter 2 presents step-by-step guidance for developing, monitoring, and revising a strategic plan that can be used by even the smallest sole practitioners. It includes practical suggestions in the following areas:

- Organizing and conducting a planning session or retreat.

- Creating a firm vision statement.

- Drafting a mission statement.

- Performing a SWOT analysis whereby the firm identifies its Strengths, Weaknesses, Opportunities, and Threats.

- Setting and monitoring performance objectives.

The appendix section of Chapter 2 also provides a number of worksheets that can help a firm prepare its strategic plan.

101.4 Once a firm has developed a strategic plan that allows it to capitalize on its strengths and opportunities and overcome its weaknesses and threats, the next step in the planning process is to develop a budget. Chapter 2 discusses practical steps for preparing a detailed, line-item budget. The guidance provided in this chapter is flexible enough to be used by all CPA firms, regardless of whether they keep their accounting records on a cash, modified cash, or accrual basis. There are also a number of appendixes that can be useful in budgeting a firm's future revenues, professional salaries, administrative expenses, cash flows, etc.

101.5 Having an effective succession plan is critical to a firm's process of planning for success. An effective succession plan lays out the firm's plans for the smooth continuation and success of its business—a business which depends greatly on attaining and retaining employees at every level with the critical skills, knowledge, and experience required for the firm to achieve its strategic objectives. Section 205 discusses practical steps for preparing a succession plan as it relates to developing and retaining key employees. (Section 908 discusses succession planning as it relates to the transfer of the ownership of the firm.) Some of the topics discussed in section 205 include—

- Identifying key areas, key positions, and key competencies required by the firm to achieve its strategic objectives.

• Identifying back-ups for key positions.

• Staff development and leadership plans for developing and retaining qualified employees.

• Monitoring and evaluating the effectiveness of the succession plan.

The appendix section includes a checklist for assessing the effectiveness of the firm's succession plans.

101.6 The importance of the planning process cannot be overemphasized. Before proceeding any further, many firms should turn to Chapter 2 and use the guidance provided to develop a comprehensive business plan. The planning process can be time-consuming, but the results are well worth the investment.

Chapter 3—Firm Administration

101.7 Chapter 3 concentrates on many of the administrative aspects of running a CPA firm. These administrative functions are sometimes referred to as “back room operations,” because they do not directly contribute to the generation of revenues from professional fees. Nonetheless, the topics discussed in Chapter 3 must be considered by all firms, and there are many opportunities for firms to improve their operations in these areas.

101.8 Some of the topics discussed in Chapter 3 include the following:

• Factors that a firm should consider in designing its internal accounting system (time and billing, payroll, payables, management reporting, etc.).

• The need for an office manager or firm administrator.

• Processing reports, tax returns, and other correspondence.

• Establishing correspondence guidelines and email policies.

• File and record retention.

• Insurance (excluding malpractice insurance, which is discussed in Chapter 10).

• Disaster recovery planning.

• Maintaining the firm's professional library.

• Other administrative activities such as reception, mail distribution, office supplies, etc.

• The importance of intellectual capital and an effective knowledge management process to the firm's success.

Chapter 4—Billing, Collecting, and Managing Cash Flows

101.9 Chapter 4 provides a number of effective tips designed to improve a firm's billing and collection procedures. Among other topics, the chapter discusses the following billing and collecting matters:

• Establishing a firm's billing rates.

• Value billing and other effective billing techniques.

• Effective ways to accelerate collections.

• Tips for collecting delinquent accounts and minimizing losses from such clients.

• Effective management of the firm's accounts payable.

101.10 Chapter 4 also discusses the importance of effective cash flow management. Most accounting firms are highly cyclical, generating positive cash flows during (and immediately following) their busy seasons and incurring negative cash flows during other times of the year. It is therefore important for firms to manage their cash flows throughout the year. This chapter describes how a firm can have cash available when it is needed to fund negative cash flows during the slack times.

Chapter 5—Facilities Management

101.11 Chapter 5 presents a common-sense approach to planning a firm's office facility needs. It includes practical guidance on deciding how much office space is needed, locating appropriate space, negotiating lease terms, and completing leasehold improvements. It also discusses other leasing alternatives and the ethical considerations of leasing space to or from a client.

101.12 When most CPAs hear the term “facilities management,” they usually think of office space. While rent and other occupancy costs can be significant, most firms also periodically acquire expensive furniture and equipment. Chapter 5 provides guidance that is designed to help accounting firms shop for expensive items such as copiers and other office equipment, communications equipment (land-line and mobile) and related service providers, and computer hardware and software. Chapter 5 presents a number of useful tips for buying such equipment. The chapter also provides discussion and detailed appendixes that can be used to help firms reach informed lease versus buy decisions.

Chapter 6—Practice Development

101.13 To succeed in the competitive accounting firm environment, a firm should accomplish three primary practice development goals:

- Retain existing clients.
- Expand services to existing clients.
- Obtain new clients.

Continuously focusing on those goals is certain to keep a steady flow of business coming into the firm. Chapter 6 provides information on many techniques that a firm can use to address those practice development goals and provides a process for firms to use to develop a marketing plan and monitor its effectiveness. An example marketing plan and a checklist for developing a marketing plan are presented in the appendix section.

101.14 Many of the marketing techniques that CPA firms have traditionally employed are “indirect” techniques that are designed to enhance a firm's professional image. Those techniques include writing articles for professional publications; speaking at civic and professional events; being quoted in newspaper, magazine, and other printed materials; sponsoring or cosponsoring professional seminars and conferences; keeping the firm and its personnel in the news by using press releases; utilizing newsletters to regularly inform readers of the firm's expertise and the services it provides; using the firm's website to attract new clients; branding; and networking with referral sources or other CPAs. In addition, consumers are increasingly turning to social media websites for information to help them in their buying decisions. Clients are among those consumers. In order to stay competitive, it is therefore important for firms to use social media to build their practices. These techniques can be very effective, and Chapter 6 discusses a number of approaches that firms can use to capitalize on such public relations activities.

101.15 Because there are so many CPA firms competing for the same clients, a firm can achieve a competitive advantage by expanding its existing services, especially when they can be delivered to existing clients. Many firms today have expanded beyond traditional accounting and tax services by offering a wide range of consulting and other services. Chapter 6 discusses some of the other services a CPA firm might consider offering.

101.16 Chapter 6 also discusses several other marketing techniques that can be targeted toward specific potential clients. Many firms, for example, have enjoyed success using direct mail solicitation approaches and advertising in trade journals. This chapter discusses the advantages and disadvantages of a wide range of marketing approaches and explains in detail how to effectively use each one. It also provides a step-by-step method for preparing effective proposals. Included in the appendixes of the chapter is an example comprehensive proposal as well as an abbreviated proposal letter.

Chapter 7—Personnel Management

101.17 A firm's personnel is its most valuable asset. In addition, personnel costs typically represent the single highest expense category for CPA firms. Because of the number and complexity of various personnel laws, regulations, and court rulings, this is also a relatively high risk area. To make matters worse, personnel law is constantly changing, making it very difficult for a firm to keep current.

101.18 Many firms only address personnel issues when problems arise. Partners at those firms put out fires as they erupt, but they never actually do any personnel planning. Chapter 7 discusses a wide range of personnel issues that CPA firms should address. Among the important topics discussed in this chapter are the following:

- The development of personnel policies and an employee handbook.

- The hiring process, including the importance of recruiting qualified staff, using social media in the recruiting process, interviewing techniques, making employment offers and rejections, and documentation.

• Compensation and benefits, including compliance with wage and hour laws, healthcare reform legislation, and using benefits as a staff retention tool.

• Staff training, with a special focus on compliance with various AICPA and state CPE requirements.

• Performance evaluations.

• Retaining staff through a positive work environment, emphasizing personal development, and more.

• Voluntary and involuntary separations.

101.19 The appendixes for Chapter 7 contain several documents that can be useful in helping a firm administer its personnel function. For example, this section includes sample job descriptions, an interview and evaluation checklist, a sample employment contract, an exit interview checklist, and staff evaluation forms.

Chapter 8—Scheduling Professional Staff

101.20 Scheduling professional staff is something that firms must do throughout the year. There are a number of factors that firms should consider during the scheduling process. Unfortunately, it is easy to overlook these important considerations unless the firm follows a logical approach to scheduling its jobs. Some of the factors that should be addressed during the scheduling process are the following:

• The nature, size, and complexity of the engagements.

• Timing of the engagements, including any regulatory or legal deadlines that must be met.

• Technical or special expertise required by the engagements.

• Continuity and periodic rotations of staff.

• Current availability and workloads of staff.

101.21 In Chapter 8, the authors introduce a step-by-step approach to ensuring that all jobs are properly scheduled. Special scheduling considerations for the busy and slack seasons are emphasized. The chapter provides easy-to-follow guidance designed to help a firm establish a due date monitoring system and spread its workload more evenly throughout the year. By making the workload more consistent from one period to the next, a firm can increase both employee morale (by reducing excessive amounts of overtime) and profitability (by reducing the amount of unassigned time). The chapter also discusses automating the firm's due date monitoring system.

Chapter 9—Ownership Issues

101.22 Throughout *PPC's Guide to Managing an Accounting Practice*, the authors often refer to firm owners as partners. This is because accounting firms use a variety of ownership structures, from sole proprietorships or general partnerships to LLCs and LLPs. Chapter 9 discusses the advantages and disadvantages of various ownership structures, including LLCs and the LLP structure that many firms have adopted.

101.23 In addition to ownership structure, Chapter 9 also discusses several other topics, including the following:

• Admitting new partners into an existing firm.

• Owner compensation and fringe benefits.

• Acquiring leadership skills through the creation of a leadership development plan for partners.

• Evaluating owner performance.

• Firm mergers/acquisitions, including guidance on how to approach potential merger candidates and perform due diligence.

• Succession planning as it relates to transfer of ownership.

Chapter 10—Avoiding Legal Liability

101.24 Unfortunately, liability claims against accounting firms have become a fact of life. Although many practitioners think they are immune from legal liability if they do not perform audits, the reality is that many lawsuits filed against CPAs relate to tax and consulting engagements. Legal liability is a potential problem for all firms.

101.25 Chapter 10 has been written by an attorney who specializes in defending CPAs in professional liability cases and helping CPAs structure their practices and their personal finances so that they may avoid devastating liability claims. Among the topics covered in this chapter are the following:

• *Quality Control—the First Line of Defense.* One way for accounting firms to reduce their legal risk is to establish and maintain an effective quality control system. This section of the chapter discusses the elements of quality control that are identified in Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control*. This section also ties this *Guide* into the PPC quality control system as discussed in more detail in *PPC's Guide to Quality Control*.

• *Liability Insurance—the Second Line of Defense.* Even firms that have adequate quality control systems sometimes get sued. This section of the chapter discusses what to look for in evaluating malpractice insurance. It discusses the various types of coverages a firm should consider and provides practical tips for negotiating the best coverage at the lowest price.

• *Loss Prevention—the Last Line of Defense.* Unfortunately, practice quality and adequate insurance will not totally protect a firm from litigation. Chapter 10 therefore provides dozens of practical suggestions designed to prevent lawsuits and reduce a firm's exposure should a lawsuit be filed.

• *Personal Asset Protection.* CPAs who practice as sole proprietors or as partners in general partnerships have virtually unlimited personal loss exposure if their firms are ever sued. There are a number of preventive actions, however, that CPAs can take to reduce this personal exposure. Chapter 10 discusses some organizational changes that CPAs can make to reduce their risk, such as forming LLPs or compartmentalizing their firms. In addition, the chapter discusses a number of actions that CPAs can take to shield their assets from firm creditors.

• *Damage Control.* Damage control is the name frequently given to those procedures that an organization follows when a liability claim has been asserted or there is a possibility that one will be asserted. Damage control measures should begin as soon as the firm becomes aware that a lawsuit could result. Chapter 10 discusses the warning signs that should lead a firm to believe that a lawsuit or other action may be initiated and how the firm should respond to a potential claim. Chapter 10 also includes a discussion of what a firm can do to protect itself when a client sustains liability or there is the potential for a client to sustain liability for a large investment loss, such as the losses caused to Bernard Madoff Investment's clients.

• *Litigation of Claims.* Litigation tends to be a long and painful process involving many stages. The litigation could relate to alleged negligence, breach of contract, fraud, breach of fiduciary duty, or some other legal claim. Chapter 10 presents an overview of the litigation process to help CPA firms devise strategies for dealing with liability suits.

• *Alternative Dispute Resolution.* Instead of going to trial to solve a dispute, parties to a legal action may try to resolve their differences through an alternative dispute resolution (ADR) method. ADR is becoming more popular as a way to resolve client disputes without exposing the firm to the cost and uncertainty of litigation. ADR takes less time than litigation and provides a better chance of preserving the client/CPA relationship. Chapter 10 presents an overview of the different types of ADR methods to help CPA firms understand how they might use these techniques in their resolution of disagreements with clients.

Chapter 11—Managing Technology

101.26 Information technology is changing at a rapid pace, making technology decisions more difficult for CPA firms. To effectively compete in the marketplace, as well as to maintain adequate technology within the firm's administrative processes, firms must understand and efficiently manage the technologies used in their practices, including knowing when to upgrade systems and software. Chapter 11 provides firms with a blueprint for effective technology management.

101.27 Technology is vital to firms today. Firm technology costs are rising, and for many firms, technology costs are a significant use of funds only surpassed by personnel and occupancy expenses. Although technology costs are on the rise, firms should continue investing time and money to maintain an appropriate level of technology.

101.28 Some of the topics discussed in Chapter 11 include the following:

• The importance of technology.

• Key elements of technology management, including disaster recovery planning, IT governance, hardware and software, internet policies including developing a social media strategy and social media policies, and training.

• Advantages, disadvantages, and issues when transitioning to a digital (i.e., less paper) environment including knowledge management and document management.

• How to develop and implement a comprehensive technology plan and budget.

• Top technology issues.

Chapter 12—Performance Measurement

101.29 Performance measurement is the process by which firms use both financial and nonfinancial data to measure and drive performance to meet their goals for profitability and firm success. Performance measures include any financial or nonfinancial measurements that can be quantified and reported about a firm's performance in a particular area. Examples include operating results, utilization rates, realization percentages, and employee turnover. Along with the all-important financial measures of success, many highly profitable CPA firms have been tracking certain nonfinancial measures (such as quality, market share, and client satisfaction) for years. But these days, it is not enough to simply measure performance. The key is to link the performance measures to the firm owners' vision for the firm.

101.30 One of the primary benefits to be derived from a performance measurement system is an improvement in the quality of information firm owners use to make day-to-day management decisions. Ultimately, the goal of such a system is to link a firm's financial goals to the activities performed by its partners and employees. For many small to medium-sized firms, the mere sharing of such common purposes can result in empowered and knowledgeable partners and employees whose success is linked to that of the firm.

101.31 In Chapter 12, the authors provide step-by-step, practical guidance that firm owners can use to implement the performance measurement process. This Chapter walks firm owners through the entire process, providing examples and illustrations. The numerous practice aids in Chapter 12 help firm owners to perform and document each phase of the process quickly and efficiently.

101.32 The Chapter provides guidance on the following topics:

• Analyzing the firm's current situation.

• An overview of the performance measurement process.

• How to define the firm's strategies and objectives.

• How to develop performance measures.

• How to implement the performance measurement process.

• How to monitor the results of the performance measurement process.

• How to perform effective and efficient benchmarking, which is supplemented with current benchmarking data provided in Chapter 13, “Firm Statistics”, and Chapter 14, “Profile Firms”.

Chapter 13—Firm Statistics

101.33 In addition to providing practical guidance designed to help firms of all sizes operate more profitably, *PPC's Guide to Managing an Accounting Practice* also includes the results of the Rosenberg national MAP survey. The information in this survey allows the users of this *Guide* to compare their operating statistics to other firms in their peer groups.

101.34 The 2014 *Rosenberg Survey* includes the results of 382 firms, most of which range from $2-$10 million in annual net fees. Statistics and ratios contained within this survey provide CPA firms with benchmarks to evaluate the profitability and efficiency of their practice. The information is sorted by size of firm, size of market, regional statistics, and other criteria. The firm statistics from the Rosenberg Survey are presented in Appendix 13A.

Chapter 14—Profile Firms

101.35 Chapter 14 of this *Guide* presents key financial information and ratios for the survey presented in Chapter 13. This information allows the users of this *Guide* to compare their firm to other firms in their peer groups.

101.36 Appendix 14A presents the information from the 2014 Rosenberg Survey utilizing an average profile firm for each of the following size firms:

• Sole practitioners.

• Firms with annual net fees under $2 million.

• Firms with annual net fees between $2-$10 million.

• Firms with annual net fees between $10-$20 million.

• Firms with annual net fees over $20 million.

• Elite firms.

Chapter 15—Tax Practice Management

101.37 Although most firm management issues relate to the firm as a whole rather than to specific firm services areas (accounting, auditing, tax, and consulting), there are certain administrative topics that are specific to managing the firm's tax practice. Chapter 15 addresses the following topics related to managing a tax practice:

• Complying with tax practice professional standards, including Circular 230 and IRC Sec. 7216.

• Exercising due diligence.

• Tax practice loss prevention.

• Developing a systematic approach to tax practice administration.

• Tax research.

• Disclosure and use rules.

• Mandatory preparer tax identification number requirements.

• Mandatory electronic filing requirements.

END OF DOCUMENT -