

PURCHASING AN ACCOUNTING PRACTICE IN NEW ZEALAND

CHECKLIST

INTRODUCTION

Who will buy my practice is a question that is increasingly being asked. With the average age of public practitioners over 50, an increasing number are contemplating how they will succession manage their practice. For many the focus is on the capital value of the practice and how they can extract this capital value to assist in their retirement planning. Succession though, isn't always about retirement. There are a whole range of events that can be a catalyst to the sale of a practice.

As a member becoming a principal in public practice you face many issues. When you start out, it is very useful to have a checklist to work against. The checklist helps to ensure that all the relevant matters are covered. But it also gives you a degree of comfort, because the major issues are identified for you by people who have already been through the process.

The *Checklist for Purchasing an Accounting Practice* is a guide for anyone becoming a principal and purchasing an accounting practice. It identifies the documents that you need and tells you about the By-Law requirements you must satisfy to become a principal in public practice. It also outlines how to obtain a Public Practice Certificate – one of the By-Law requirements.

The checklist will be of particular value to members moving into public practice from general accounting. It tells you about all the things you need to consider in the challenging and rewarding public practice area, and it complements the material covered in CPA Australia's Public Practice Program.

Members who are employed in public practice may not have worked through all of the issues that are specific to becoming a principal for the first time. Again, the checklist should provide a useful backstop and help you work through this important process with confidence.

While the checklist is comprehensive and practical, it is not exhaustive. In particular, it does not address any area of law. If you need this type of information you should seek independent legal advice.

BEFORE YOU START

If you are new to public practice, review the following questions.

Do you know anything about being in public practice?	If you do not, then contact CPA Australia's New Zealand office on +64 9 913 7450 or at nz@cpaaustralia.com.au .
Have you achieved CPA status yet?	You cannot obtain a Public Practice Certificate until you have completed the CPA Program.
Are you uncertain that your activities fall within the definition of public practice?	Check out the definition of Public Accounting Services on the Public Practice Portal. Note that this includes financial advice. If you are uncertain you can email publicpractice@cpaaustralia.com.au .
Are you familiar with the CPA Australia requirements relating to public practice?	See part 9 of the By-Laws .
Do you know the CPA Australia requirements for public practice, especially those about 'required experience'?	If you do not, then read section 9.4 of the By-Laws .
Are you already in public practice and need a certificate to comply with the By-Laws?	If you are, then you should contact publicpractice@cpaaustralia.com.au for specific advice on how to comply with the By-Laws.
If you wish to register as a tax agent with the Inland Revenue Department (IRD), do you meet the necessary requirements?	Find out more from the Inland Revenue Department website.
Are you familiar with the time and costs involved in obtaining a Public Practice Certificate?	If you are not, then you should email publicpractice@cpaaustralia.com.au to obtain details.

PREPARING FOR PUBLIC PRACTICE

<input type="checkbox"/>	Apply to complete the Public Practice Program eLearning.
<input type="checkbox"/>	Enrol to complete the Public Practice Program workshop. Contact publicpractice@cpaaustralia.com.au for the date of the next workshop. A workshop must be completed before you can obtain your Public Practice Certificate.
<input type="checkbox"/>	Obtain a Public Practice Certificate: <ol style="list-style-type: none"> 1. Pass experience requirements <ol style="list-style-type: none"> a. You must have three years full time public practice experience in the last eight years 2. Enrol in Public Practice Program <ol style="list-style-type: none"> a. Practice Management distance learning subject (prior to 2020) or the Public Practice Program eLearning (from 2020 onwards) b. Intensive workshop (prior to 2020) or the Public Practice Program workshop (from 2020 onwards) 3. Apply for Public Practice Certificate <ol style="list-style-type: none"> a. Complete online application b. Provide proof of experience c. Pay fee d. Obtain approval of proposed stationery e. Obtain approval of practice structure and description f. Obtain professional indemnity insurance 4. Certificate issued
<input type="checkbox"/>	You must have passed the Practice Management distance learning subject (prior to 2020) or the eLearning program (from 2020 onwards) within the past eight years.
<input type="checkbox"/>	You must have completed the Intensive workshop (prior to 2020) or the Public Practice Program workshop (from 2020 onwards).
<input type="checkbox"/>	You must complete an online application for a Public Practice Certificate. This will require: <ul style="list-style-type: none"> • a copy of your professional indemnity insurance certificate of currency • a quality control declaration • copies of your proposed letterhead and business card for approval • Attestation of your relevant employment experience • licences and certificates held.
<input type="checkbox"/>	Prepare a business plan.

<input type="checkbox"/>	If you deal with money on behalf of a client, obtain payment for fees in advance or otherwise have the need for a trust account, you must comply with APES 310: Dealing with Client Monies . You may also need to comply with local legislation.
<input type="checkbox"/>	Obtain suitable premises to carry on the business.
<input type="checkbox"/>	Make sure working capital is adequate for what the practice requirements.
<input type="checkbox"/>	Ensure you have the necessary experience to handle the work you will be undertaking. Clearly identify the services you intend offering.
<input type="checkbox"/>	Consider what staff requirements you may have.
<input type="checkbox"/>	Work out charge-out rates and billing systems.
<input type="checkbox"/>	Develop a suitable quality control system before starting practice. Guidance is available on CPA Australia's Public Practice Portal .
<input type="checkbox"/>	Plan your IT hardware and software requirements.
<input type="checkbox"/>	Develop a plan to address the professional development needs of you and your staff. Refer to APES 320: Quality Control for Firms .
<input type="checkbox"/>	Join a CPA committee or the CPA Australia Public Practice Group on LinkedIn to develop contact with a network of professionals. Contact your divisional office to find out where you can be involved or visit LinkedIn .

ISSUES IN PURCHASING A PRACTICE

<input type="checkbox"/>	<p>Ensure you have the necessary experience to take on the practice work, e.g. tax, audit, financial advice, etc.</p>
<input type="checkbox"/>	<p>You should not begin negotiating the purchase of a practice until you have obtained a Public Practice Certificate.</p>
<input type="checkbox"/>	<p>Determine what you are buying:</p> <ul style="list-style-type: none"> • Goodwill • Work in Progress (WIP) • Fixed Assets (check existing lease and other financing arrangements) • Software (check with software supplier) • Take over building lease • Evaluate existing client problems. <p>Note: ideally these items should be individually specified in the Sale Contract to avoid doubt.</p>
<input type="checkbox"/>	<p>Does the price you are paying represent an adequate return on capital after a notional owner's/partner's salary?</p> <p>Note Inland Revenue's strong focus on income splitting in professional services firms. Following the Penny and Hooper decision, it is paramount that commercially realistic salaries are paid to any shareholder-employees where part of the income is diverted to other related entities / people (for example a trust or spouse).</p>
<input type="checkbox"/>	<p>Prepare a due diligence program to review the practice under consideration. This should, at a minimum, include the below.</p> <ul style="list-style-type: none"> • Segmentation and review of client base • Identify the top 10 clients by fee base and assess the maintainability of those fees • Review the demographics of the client base and consider whether there are any likely short-term changes • Review prior year revenue to identify any one-off or non-recurring assignments • Identify clients who are new to the firm in the past year • Identify clients who have left the firm in the past year and the reasons why • Assess the reasonableness of charge rates being applied • Identify how clients are billed e.g. time charge, fixed fee etc. and confirm any charge arrangements currently in place • Has the practice been subject to any professional indemnity claims and, if yes, assess the details

	<ul style="list-style-type: none"> • Assess the adequacy of the practice infrastructure. Will further short-term investment be required? • Where the practice employs professional staff who work with clients, are there any key person issues and are the staff subject to employment agreements with appropriate restraint clauses? • Where staff are transferring to you with the practice, assess your liability for their accrued employment entitlements that may transfer to you either under the contract or by statute.
<input type="checkbox"/>	Have you carried out reference checks on the vendor or new partner?
<input type="checkbox"/>	Is there a legally binding agreement for the purchase? If not, you and your clients may not be protected in the event of a dispute.
<input type="checkbox"/>	<p>Trading Options:</p> <ul style="list-style-type: none"> • Sole trader • Partnership • Company (This must satisfy all requirements of the <i>Companies Act 1993</i>) • Trust. <p>Refer to By-Law 9.3 Approved Practice Entities.</p>
<input type="checkbox"/>	Have you satisfied all tax agent requirements as required by the Inland Revenue Department?
<input type="checkbox"/>	Have you agreed to a definite phase in/phase out and client notification procedure?
<input type="checkbox"/>	Have you considered a client retention clause in the purchase agreement as well as a broad restraint-of-trade clause for the vendor? Does the vendor have a suitable quality control program in place?
<input type="checkbox"/>	Have privacy laws been complied with? Visit the Public Practice Toolkit for help.
<input type="checkbox"/>	Obtain adequate professional indemnity insurance and any other normal business insurances, such as Workcover and general insurance.
<input type="checkbox"/>	Advise CPA Australia's member services team of any change or proposed change at publicpractice@cpaaustralia.com.au

GETTING HELP AFTER COMMENCING IN PRACTICE

The following is a range of circumstances where CPA Australia may be able to provide guidance and assistance.

- Being behind in your work schedule and you cannot possibly catch up, and your clients could suffer penalties. It may also be beneficial to contact the Inland Revenue Department to discuss these issues
- You believe you can offer CPA Australia expertise in a specific area or you want to get involved in one of their activities
- You need to find out about a CPA committee
- Suffering harassment from an officer of the Inland Revenue Department on grounds that you consider unjustified or unfair
- You have seen sustainable evidence of breaches of the professional standards by a CPA in practice and wish to talk confidentially to somebody about the situation.

FINANCIAL CONSIDERATIONS

The following guide will help members obtain relevant financial information prior to purchasing an accounting practice. In certain circumstances the vendor may not be able to provide all information that the intending principal requests. In that case great care should be taken when interpreting the financial records of the vendor's practice.

Fee income

When purchasing a fee income stream a thorough examination of that income is essential	
Annual fees being purchased (last year)	\$
- Fees for the second last year	\$
- Fees for the third last year	\$
Number of fee paying clients	
Average fees per client	\$
Number of clients by fee	
\$0 – 200	
\$201 – 1000	
\$1001 – 2500	
\$2501 – 7500	
\$7501 and over	

TOTAL		
List any large one-off fees:		
		\$
		\$
		\$
		\$
		\$
Breakdown of fees by type of assignment		%
Annual financial accounting		\$
Periodic management accounting		\$
Taxation compliance and planning		\$
Company secretarial		\$
Audit		\$
Management consultancy		\$
Computer and IT		\$
Financial advice		\$
Other (detail)		\$
TOTAL	100%	\$

Examine the income data and consider the following matters:

- Is the average fee per client low? A low result may indicate a high percentage of small tax return assignments and a high result may indicate more management and accounting work.
- Consider the large fee category clients. Will adequate changeover measures be implemented to ensure retention of these clients when the current principal leaves?
- Fees from large one-off assignments should be removed from the total fees if it is unlikely that one-off assignments are to be undertaken after purchase of the practice.
- Has a client retention clause been included in the proposed purchase agreement?

Debtors and work in progress

The practice management performance and the viability of its client base will be better understood when a review of Debtors and Work in Progress has been undertaken.

Average debtor days for the practice	
Bad debt write-off total for the last three years	\$
Average monthly work in progress	\$
Annual work in progress write-off	\$

Charge out rates and employee productivity

	Hourly Rate	Weekly Hours	Productivity	Weeks/Year
Principal	\$		%	
Senior accountant	\$		%	
Junior accountant	\$		%	
Administration staff	\$		%	

The table of rates and productivity can be used to calculate the annual billings per person and subsequently the capacity of the practice. Ideally, practice revenue should represent 90-94% of practice capacity. This allows some room for growth without unreasonably impacting profits. Where revenue to capacity is below 90% there may be efficiency issues in the practice that need to be addressed.

- Have the practice's resources been under utilised or alternatively, is the productivity percentage unrealistically high?
- Does the level of write-off in 2 (above) suggest that the charge out rates are too high for the market?

Expenses

In circumstances where the purchase agreement requires the purchaser to take over any of the retiring principal's practice expenses the implications of the costs must be reviewed carefully. The business plan that the intending purchaser prepares will need to include a complete expense budget.

Careful consideration is also required of all expenses paid to related entities / persons to ensure these reflect an arm's length market rate.

Further information

If you need any further information about public practice, please contact publicpractice@cpaaustralia.com.au or contact the New Zealand office at nz@cpaaustralia.com.au.

Copyright © CPA Australia Ltd (“CPA Australia”) (ABN 64 008 392 452) 2020.

Disclaimer

CPA Australia Ltd has used reasonable care and skill in compiling the content of this material. However, CPA Australia Ltd makes no warranty as to the accuracy or completeness of any information in these materials. The above material is only general in nature and not intended to be specific to the reader’s circumstances. Further, as laws change frequently, all practitioners, readers, viewers and users are advised to undertake their own research or to seek professional advice before making any decisions or relying on the information provided.

May 2020