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# Planning for the future of an accounting practice; Management of an accounting practice bulletin, MAP 24

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# MAP 24

## PLANNING FOR THE FUTURE OF AN ACCOUNTING PRACTICE

A MANAGEMENT OF AN ACCOUNTING PRACTICE BULLETIN

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## **NOTICE TO READERS**

This bulletin is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute. It was prepared by Anthony J. Mastro, CPA, Associate Professor of Accounting, The George Washington University, and Henry DeVos, CPA, manager, management services. The members of the committee on management of an accounting practice assisted in an advisory capacity.

# MAP 24

## PLANNING FOR THE FUTURE OF AN ACCOUNTING PRACTICE

**AMERICAN  
INSTITUTE  
OF CPAs**

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## **PREFACE**

THE FUTURE ENVIRONMENT of the profession will be markedly more complex than it is at present. Practitioners who are aware of this have probably begun the necessary "tooling up" to meet the many new problems. In any event, the planning function of management is vital to all practitioners.

This bulletin is a presentation of the planning process with particular reference to the management of a CPA practice. It features a formal rather than an informal approach to planning, with the thesis that a formal plan will be more effective in attaining management objectives within the CPA firm. However, planning, whatever the degree of formality, can only be measured by the benefits that result therefrom.

It is hoped that this bulletin will contribute to the understanding of the planning function of a CPA firm, and that it will be employed as a guide to action and as one of the many references in the management of an accounting practice. Each practitioner engages in planning of some form in order to evaluate his opportunities and his capabilities and to set forth his objectives. The *formal* approach to planning has been employed successfully in industry and by a number of CPA firms for many years.

As an aid to relating the philosophy of planning, as developed in the body of this bulletin, to the reader's own organization, a hypothetical case study is included as an appendix. Careful review of that material should be of substantial value in the application of the planning theories.

## **THE BEGINNING—A HISTORICAL STUDY**

HISTORIANS SAY THAT a study of the past is important to a proper understanding of the present and to effective planning for the future. A study of his past years in practice will permit the CPA to gain the perspective necessary in order to develop his plans for the future. He will have to gather a substantial amount of detail to develop a meaningful picture of the past. Just how far back he would have to go in a depth analysis of the firm would depend on the individual situation.

This important historical data will not always be readily available. In many instances substantial effort will be necessary to obtain sufficient meaningful information from the firm's records, written reports, client records and inactive files.

Once the period and the source of data have been established, it must be decided what *kind* of data will be relevant. Certainly, data on clients, personnel, operations and internal programs would have the most significance.

### **CLIENT DATA**

AT LEAST THREE items of client data should prove helpful:

1. A client list with the total annual fees billed above a considered minimum from each client. Those below the minimum should be included in a separate listing.
2. A listing of services performed with total annual fees from each service.



3. A listing of the firm's personnel with the total annual fees billed for each.

The client listing by annual fees can also produce additional meaningful information such as:

- Industry classification of each client
- Identification of new clients by date of entry as a client
- Fee increases, with the date of each increase
- Fee decreases, with the date of each decrease
- Lost clients, with the date of each loss

A brief description of the source of each new client, the reason for each client loss, and the background for all fee increases and decreases should also be included.

The listing of services performed may include subdivisions such as the following:

- Auditing services
- Accounting services
- Tax return preparation
- Other tax services
- Management advisory services
- Data processing services
- Other

It is also important to determine the time spent and fees billed for each service performed in the above list and their relationship to total time spent and fees billed.

## **PERSONNEL DATA**

AGE, YEARS OF SERVICE, education, CPA certification, and professional activities information is also significant in the coordination of future personnel needs. This information should also be retained on past members of the firm, for just as alumni of colleges are sources of referrals, so also can the alumni of a CPA firm be an important asset to the firm's future operations. Additional

analysis regarding salaries, terminations and the cause therefor, date of employment, promotions, and so forth, will provide even greater depth to the analysis.

## FINANCIAL AND ORGANIZATIONAL OPERATING DATA

PROFIT AND LOSS statements, ratio analyses, expense classifications, status of fixed assets and material balance sheet accounts can be studied. Annual rental statistics, if supported by square footage utilization, leasehold amortization and other occupancy costs, can be compared with fee volume and personnel statistics to provide meaningful data. Studies of the use and cost of duplicating, copying, collating, dictating, data processing and other office services will be valuable. The importance of ascertaining the costs of supplies, forms, travel, promotion, recruiting, training and fringe benefits must not be overlooked. Going beyond mere dollar summaries is the key to this part of the practitioner's research.

## INTERNAL PROGRAMS

A REVIEW OF the firm's internal programs can result in a comprehensive array of information.

a. *Personnel Programs.* A study of the firm's recruiting program should encompass a review of the schools visited for this purpose and of other means employed with an analysis of the results attained. Statistics can include the number of campus interviews, second interviews at the office, employment offers made and the number of acceptances received.

A good training program will contribute significantly to employee retention. Training programs would include on-the-job training, informal discussion programs, technical sessions, and the state society or AICPA professional development courses.

Fringe benefits such as group insurance plans, vacation policies, sickness or disability plans, profit-sharing plans, pension programs, expense account policies, and professional dues and subscription allowances should also be analyzed.

b. *Administrative Programs.* Policy statements and standard

operating procedures should be prepared in written form. A review of this data would include the justification for the use of each document, form, major procedure, and so forth, and the provision for a continual updating of the procedures. Report review procedures and field report and tax return processing are additional areas of importance.

c. *Technical Programs.* Technical programs should be separate from administrative or training programs. The development of standard audit program guides, internal control checklists, tax return work sheets and preprinted work paper formats are the usual technical areas of concern. The technical program should also include the dissemination of weekly tax service and other technical publications.

d. *Promotional Programs.* Special attention should be given to sustaining a proper professional image in the business and general community as well as in the firm's client relations.

## THE FORCES OF CHANGE

THE FOLLOWING FORCES should be examined before setting the firm's long-range objectives:

- The impact of electronic data processing
- New areas of and changes in governmental activities and laws
- Regional economic environment
- Competition from outside the profession
- Competition within the profession
- Supply of manpower input

a. *The Impact of Electronic Data Processing.* How many of the firm's clients have the financial ability and desire, as well as the business need, to convert to an EDP system? If the CPA firm is to provide management advisory services to its clients in this area, and if it audits the financial data processed by automated systems, the firm will need staff trained in data processing systems and methods. This may require the addition of one or more staff members having competence in data processing.

b. *New Areas of and Changes in Governmental Activities and Laws.* Changes in federal, state and local laws and increases in governmental activities will have an important bearing on the firm's long-range objectives. Areas of influence could possibly include:

- A requirement for independent audits of banks and savings and loan institutions

- The extension of independent audits for state and municipal units
- The extension of SEC reporting requirements to smaller public companies
- The extension of legislative provisions requiring independent audits of certain non-public grantees of public funds

c. *Regional Economic Environment.* The economic environment of the CPA's practice area is an important variable in the development of long-range objectives. The following factors should be considered:

- Population growth and characteristics
- Rate and quality of both short- and long-term industrial growth
- Quality and movement of financial markets (or absence thereof) in the area
- Effect of creeping inflation on costs of operation and fees

d. *Competition From Outside the Profession.* Competitive forces will vary with the local environment; areas that should be analyzed include:

- Professional management consulting firms
- The various classes of public accountants
- Data processing service centers

In analyzing these forces, the practitioner must decide the specific service categories to be offered by his firm and those expected to be offered by competition. Are the professional management consulting firms self-sustaining in covering the entire field of advisory services, or are there firms which specialize in personnel recruitment and administration, market analyses, production problems, systems design, etc.? What services are provided by other public accountants? Is the right to practice as a public accountant regulated by local law?

Management consulting and EDP services are provided by many organizations, including national commercial corporations; nonprofit institutions, such as a state university that conducts a farm accounting service program; nonprofit consulting organiza-

tions; banking institutions providing record-keeping, record analyses and other services; and local data service centers. Organizations specializing in limited services such as the preparation of tax returns, inventory control, and so forth, and those servicing particular businesses or professions with a full range of accounting and related services have expanded rapidly in recent years. Whether one or more of the outside competitive forces are formidable depends on the prospective goals of the CPA firm.

e. *Competition Within the Profession.* A serious look at the direction in which the CPA profession is moving may reveal that competition from within is far more formidable than that from outside the profession. Competition between firms is becoming increasingly severe. More and more smaller firms are merging into larger units. Actuarial firms, executive search firms, full-line management consulting firms and even smaller CPA firms are merging as whole units into an existing CPA firm. Some medium- and smaller-sized firms have responded to this movement by forming associations of their own such as the American Group, CPA Associates, and so forth.

In analyzing the effect of this tendency, the practitioner must, when considering the alternatives, decide in what framework he will be best able to serve his current and potential clients.

f. *Supply of Manpower Input.* Each firm must view the competition for beginning staff members, and seasoned practitioners as well, in the light of a "total recruitment" program. Such a program might properly include competitive salaries and fringe benefits, formal training and professional development, career challenge and, finally, professional promise.

## **STATUS QUO OR NEGATIVE MOVEMENT**

A DECISION BY the firm to maintain the “status quo” can be as valid a conclusion, after a thorough analysis of the firm in its present and future environment, as that of a projected direction and level of expansion. A CPA firm is personal in nature; the product for sale is the ability of the one man or the several men who make up the body of the organization. About the only clear application of the status quo, per se, rests with the one-man firm that decides to maintain its present relationships. However, a projection of what is likely to happen if nothing is done to alter the present course of the firm is pertinent.

The questions to be resolved in planning include the number of possible client losses and the effect each loss might have upon revenues of the firm. One or more of the following factors will usually contribute to client losses:

- Natural attrition of partners from deaths
- Liquidation of a client’s business
- Acquisition of a client’s business by another organization
- Change of management in a client’s organization
- Absence of needed specialization in taxes, management advisory services, etc.
- Inability to recruit top-flight young men
- Attrition of top staff due to a lack of opportunity

Some of these reasons for the loss of clients are controllable by the firm; others of them are not. A constant two-tier layer

in personnel, that of a partner and an in-charge assistant, will provide a normal orderly replacement in the event of the sudden death of a partner. Client losses resulting from the discontinuance of the personal relationship of the partner will be minimized because of the assistant's association with the particular engagement.

The firm should include in its projection an estimate for potential losses through client liquidation, merger, change of management, etc. A severe problem may result if the fee income from one client represents a large proportion of the total fees earned by the firm. The movement of major clients should be fully anticipated and incorporated within the firm's projections to determine the extent of the potential financial loss. An accurate forecast of a client's position in relation to the firm for at least a five-year period should be made. Any major step taken by a client should be anticipated well in advance, whether it be a client's liquidation or its acquisition by a larger company or a change in its management. A status quo position can be maintained if the loss of a client is remedied by acquiring a client of an approximate fee size. Not to replace a client disrupts the status quo, and a "negative movement" results.

A negative movement also exists within a CPA firm which has *professional deterioration* as the root cause of client loss. It is difficult to determine precisely where and when such deterioration takes place. Inability to recruit top-flight young men, for example, may be attributable to the firm's reputation with college students and other potential staff members. If a high rate of attrition of top staff exists because of a lack of opportunity, it will be difficult to recruit the better candidates. In addition, client management will soon become aware of the lack of professional development of the older staff members.

Projections involving the effects of client loss and staff attrition on the firm's gross and net income must be prepared even when the long-range plan of the firm is to maintain the status quo, or a negative movement. Maintenance of the status quo requires a like replacement of a client or a staff loss whereas a negative movement involves *no* replacement.



## **SPECIFIC GOALS**

AT THIS POINT in the planning process, the following should be accomplished facts:

- A general agreement within the firm to support the development of the plan
- A comprehensive list of possible general goals
- An in-depth study of the past and present history of the firm as well as of the external events likely to affect the firm's future
- The preparation of a comprehensive projection

The next step in the planning process is to determine the specific goals which will effectuate the general objectives of the firm. The specific goals must be stated in terms that are clearly identifiable and representative of the thinking of the firm. Once the specific goals are approved, the means to achieve them must be prescribed in detail.

Some of the goals which the partners had previously found desirable may become unattainable or may conflict with one another and will need to be eliminated at this point. Conversely, new goals which did not appear in the original statement of the general objectives will become essential.

As many of the specific goals as possible should be quantified; otherwise it will be virtually impossible to determine the means to accomplish these specific goals. The following example will

serve to demonstrate the breakdown of a general goal into specific goals:

The general goal of “growth in terms of fees, personnel and net income” could be amplified thus:

1. Gross auditing fees are to increase at the rate of 10 per cent per year for the next ten years.
2. It is desirable to provide a minimum net income of X dollars per year per partner.
3. Staff personnel should be increased at the rate of 5 per cent per year and a ratio of one partner to every five staff men attained.
4. Management services engagements should account for 15 per cent of the firm’s fees in three years and 25 per cent in five years.
5. The average productive time will be 1,500 hours annually for a partner and 1,750 hours annually for each staff man.

Several specific goals may grow out of one general goal and may also overlap other general goals. Furthermore, care should be taken to preclude a specific goal from contradicting another specific goal. For example, if a firm desires that all partners become active in professional and civic affairs and devote a percentage of their time to these activities, then the time required to accomplish this specific goal must not impair the number of anticipated hours set for productive time.

The firm will have to consider all specific goals for both short- and long-range effects. It may be that while a particular goal is attainable within a five-to-ten year period, an adjustment to the long-range projection will be required for application to the short-range period. Thus, the period of time in which a specific goal is expected to be accomplished should be clearly indicated as in the fourth specific goal stated above.

The past and present history of the firm should be carefully considered throughout the establishment of the specific goals. The object is to incorporate present policies, where possible, in the plan. It may be that the specific goal in a particular area is simply to continue the present policy. For example, if the recruiting and staff training programs are adequate at present and the firm will be able to handle any anticipated increase in staff as these pro-

grams are presently constituted, the specific goal would be to continue to maintain the quality and format of the existing programs.

The necessity for quantifying specific goals in every possible situation is obvious. Quantification by dollar amounts, percentages, numbers, periods of time, etc., will ease the task of determining the means of achieving these goals. Some specific goals which appear feasible at the time might subsequently be altered or deleted entirely if the firm has not the means to accomplish them. Nevertheless, care should be exercised that all areas of the practice are covered and specified to the extent possible. Ample opportunity will exist throughout the planning process to reconsider each aspect of the plan. Valuable time should not be lost by over-emphasis of a particular point.

## **THE MEANS**

THE MEANS ARE the detailed steps by which the firm sets out to achieve its goals. To be effective, the plan must be explicit; each step must be carefully considered and then set forth in detail. If a particular step is not stated clearly, it has probably received insufficient thought by the planners. Should the firm propose to open a new office, for example, it must consider all aspects of such a move. Here are some questions to be answered before a specific goal regarding a new office opening can be adopted:

1. Has a location been selected?
2. If the location is in another state, what are the licensing requirements?
3. Where will the clients come from? Do the present clients in the area provide a nucleus on which to build?
4. Should the firm consider a merger with, or acquisition of, a firm in that locality?
5. How will the initial deficit be financed?
6. What staff will be transferred and how will this affect scheduling at the present office?

The answers to these and similar questions will provide the details of the specific goal. The financing of initial deficits from a new office will have a substantial effect on the firm's profit pro-

jections. Staffing requirements will, of course, affect the recruitment plans.

The initial steps in the specific goal to acquire a new office might appear as follows:

<u>Step</u>	<u>Completion Date</u>
1. Contact all local firms in the area about a possible merger or purchase or sublease of space.	8/1/67
2. If a prospect for merger or purchase is found, complete negotiations and draft agreement. Staff transfers and space requirements will depend upon details of merger or purchase agreement, and will be added later.	11/1/67
3. If there is to be no merger, then arrange sublease of office space in professional office to be available 1/1/68.	10/1/67
a. Move manager and one staff assistant to new community.	1/1/68
b. All review and typing of reports will be done initially in present office (receptionist and typing of correspondence to be shared with lessor).	
4. Budget of cash requirements for the first year.	12/1/67

Page 13 included an example of five specific goals relating to the general goal of "growth in terms of fees, personnel and net income." In order to achieve these specific goals, certain measures will have to be adopted by the various departments of the firm.

If it is agreed that the firm is expected to increase its gross audit fees at a rate of 10 per cent a year, it then follows that an increase in billable hours in the audit area will not provide the entire percentage increase planned. Part of the increase will have to be derived from an increase in the number of audit engagements with a corresponding decrease in such areas as write-up services or non-opinion reports. Higher rates may provide the

balance. Acceptance of the foregoing statement suggests three divisions in the future plan for auditing; namely, seeking new clients, upgrading the services to present clients, and increasing billing rates.

The methods to be employed in seeking new clients are many. The following approaches are merely cited as examples:

- Speaking engagements by partners and qualified staff men (goal for year: six)
- Publish articles on technical subjects (goal for year: four)
- A survey of partners and staff for a list of acquaintances in commercial and investment banking fields, attorneys, and other businessmen

This list should be reviewed for completeness and the names of people the firm *should* know can be added. Informal contact with each of these people should be sought by appropriate means so as to bring the firm's name to their attention.

The firm should always be alert for opportunities to upgrade the services provided to present clients. Clients whose securities are traded over-the-counter or who may require additional capital to finance future expansion should be advised of the importance of preparing now to meet future SEC filing requirements. In this regard, the firm should also be certain to establish its independence with respect to these clients so that opinions can be expressed when needed. A management letter upon completion of the audit usually affords an excellent opportunity for such suggestions.

Increased average billing rates result from upgrading the level of services performed. Equally important are time controls, budgets, and adequate review procedures of each audit engagement. If the firm is weak in this area, the specific goals should provide for the establishment of detailed time records on each audit. These will be reviewed and adjusted to serve as a budget for next year's audit. Detailed time records serve as a basis for strengthening weak audit procedures.

The management letter following the audit presents an excellent opportunity to inform the client of the types of engagements provided by the firm. Many progressive companies have become aware of their need for professional help in many of the functional

areas of their business. They are also aware that most of these services are provided by CPA firms. It is important that the firm be prepared to offer these services or they may lose their clients to a more advanced firm.

Initially the client's needs may be met by referral to an outside specialist or firm, but eventually the CPA firm may desire its own management advisory services personnel. The plan should provide for the hiring of specialized personnel as soon as the volume of work will support them, and for the addition of staff as warranted by the projected growth of the management advisory services engagements. Generally, the costs of the staff will have to be subsidized for a period of time.

With the adoption of a long-range plan, staff additions will be made when the best recruits are available, not in moments of desperation when the firm is forced to take less desirable applicants. Following are some of the steps to be included in such a plan:

- Begin a regular recruiting program at the local colleges (This should be the responsibility of a partner at least until the staff reaches a given size when the plan may call for the hiring of a non-CPA personnel director. Consideration should also be given to recruiting at colleges in other areas of the country and the preparation of a recruiting brochure.)
- Encourage lecturing by partners and staff to strengthen the firm's ties with the schools
- Plan for summer and part-time employment of junior and senior-year college students
- Join the accounting intern program, as a participating firm, at selected colleges

Most firms should find the following steps feasible:

- American Institute of Certified Public Accountants' staff training programs for beginning assistants and for in-charge assistants, and professional development courses in various technical and administrative subjects
- Regular staff meetings conducted by first assistants to encourage maximum staff participation in discussions, etc.
- Semi-annual performance review and periodic salary reviews

Preparation of loose-leaf staff manuals to include:

- Standard work papers
- Internal control questionnaire and audit programs
- Standard form and phraseology for long-form and short-form audit reports
- Tax return procedures
- Audit review and report processing procedures

Upon completion and adoption of the plan, a complete summary including goals and means, should be distributed to the staff. They should be given the opportunity, possibly at a meeting or a series of meetings, to understand the impact of the plan on their careers. A feedback system must be employed to attain maximum success. It is seldom possible to execute a plan over an extended period without some adjustments.



## **THE REPORTING SYSTEM**

ONCE THE TASKS of defining goals and developing a plan have been completed, the temptation to file the project away and return to "more productive work" may be strong. But, if the plan is to be brought to full realization, it must be used as the governing reference when making daily decisions. Those responsible for carrying out the plan must be informed regularly of its progress.

For this purpose, the firm should devise a system of regular reports which will measure actual progress against the plan. Each report should be prepared under the direction of the men responsible for the particular activity. Explanations of differences between actual and anticipated results, with recommendations for corrective action, should be included in each report.

Firm attitudes will dictate what information is distributed and what is held to be confidential. Every person on the staff will not receive the same information. As a minimum, however, each person should receive that part of the report which measures his activities and shows the effect of his work in approaching the firm's goals.

Figure 1 (pages 21-23) is an example of the kind of statistical information the partners should receive as part of the report series. This could be abbreviated for distribution to the staff, if desired, or presented in its entirety with full explanations of the variances in each area of activity.

The detailed questions and answers resulting from this re-

Figure 1

## SUMMARY OF FEES AND HOURS

## Current Period

FEES EARNED

<u>Area</u>	<u>Plan</u>	<u>Actual</u>	<u>Increase (Decrease)</u>
Audit	\$210,700	\$197,000	\$( 13,700)
Taxes	149,000	144,500	( 4,500)
MAS	51,000	31,000	( 20,000)
Other	21,800	24,300	2,500
Totals	<u>\$432,500</u>	<u>\$396,800</u>	<u>\$( 35,700)</u>

HOURS-QUANTITY-CHARGEABLE

<u>Area</u>	<u>Plan</u>		<u>Actual</u>		<u>Increase (Decrease)</u>	
	<u>Partners</u>	<u>Staff</u>	<u>Partners</u>	<u>Staff</u>	<u>Partners</u>	<u>Staff</u>
Audit	2,400	13,700	2,470	13,450	70	( 250)
Taxes	1,900	9,500	1,950	9,770	50	270
MAS	500	1,750	420	2,080	( 80)	330
Other	300	1,550	310	1,850	10	300
Typing	—	2,500	—	2,400	—	( 100)
Totals	<u>5,100</u>	<u>29,000</u>	<u>5,150</u>	<u>29,550</u>	<u>50</u>	<u>550</u>

HOURS-RATE-CHARGEABLE

<u>Area</u>	<u>Plan</u>		<u>Actual</u>		<u>Increase (Decrease)</u>	
	<u>Partners</u>	<u>Staff</u>	<u>Partners</u>	<u>Staff</u>	<u>Partners</u>	<u>Staff</u>
Audit	\$23.26	\$11.30	\$21.87	\$10.63	\$( 1.39)	\$( .67)
Taxes	23.81	10.92	22.47	10.31	( 1.34)	( .61)
MAS	36.30	18.77	20.74	10.72	( 15.56)	( 8.05)
Other	12.08	5.04	12.75	5.32	.67	.28
Typing	—	4.14	—	4.37	—	.23

Figure 1 (continued)

SUMMARY OF FEES AND HOURS

Current Period

VARIANCE ANALYSIS

	<u>Reason</u>	<u>Audit</u>	<u>Taxes</u>	<u>Activity</u>		<u>Increase</u>
				<u>MAS</u>	<u>Other</u>	<u>(Decrease)</u>
						<u>Total</u>
Part- ners:	Hours	\$ 1,630	\$ 1,190	\$( 2,910)	\$ 120	\$ 30
	Rate	( 3,435)	(2,650)	( 6,535)	210	(12,410)
Staff:	Hours	( 2,830)	2,950	6,195	1,100	7,415
	Rate	( 9,065)	(5,990)	(16,750)	1,070	(30,735)
Totals		<u>\$(13,700)</u>	<u>\$(4,500)</u>	<u>\$(20,000)</u>	<u>\$2,500</u>	<u>\$(35,700)</u>

HOURS-QUANTITY-NONCHARGEABLE

	<u>Plan</u>		<u>Actual</u>	
	<u>Partners</u>	<u>Staff</u>	<u>Partners</u>	<u>Staff</u>
Professional				
Development	105	525	95	535
Prospective Clients	60	60	65	20
Other	<u>1,035</u>	<u>1,915</u>	<u>1,090</u>	<u>2,095</u>
Totals	<u>1,200</u>	<u>2,500</u>	<u>1,250</u>	<u>2,650</u>
Total Hours	<u>6,300</u>	<u>31,500</u>	<u>6,400</u>	<u>32,200</u>

KEY TO VARIANCE ANALYSIS

Partners' Audit Hours Chargeable—favorable variance

Quantity chargeable—actual 2,470 hours	} \$1,628.20.
—plan 2,400 hours	
Rate chargeable —plan \$23.26 per hour	

KEY TO VARIANCE ANALYSIS (continued)

Partners' Audit Rate Per Hour Chargeable—unfavorable  
variance

Rate chargeable	—plan \$23.26 per hour	}	\$3,433.30.
	—actual \$21.87 per hour		(\$23.26 minus \$21.87 times
Quantity chargeable—actual	2,470 hours	}	2,470)

port will depend upon the particular approaches to billing employed by the specific CPA firm. The report may take on an “average” look if a total billing approach is utilized, that is, billing in accordance with the professional service rendered rather than a price per hour, whatever the total time to complete the service. In any event, the report illustrated in Figure 1 contains a glaring problem of rate variance.

## **UPDATING THE PLAN**

LONG-RANGE PLANNING is not a one-time proposition. However, once the specific goals have been determined, the means ascertained and the projection and reporting system developed, most of the work has been accomplished. Yet the firm must realize that the planning process is continuous and that it requires constant review and periodic revision. Unless the firm is aware of this when they decide to embark upon a long-range plan, there is little reason to plan at all.

Future events of an internal and external nature will have a direct bearing upon the goals and the means of accomplishing them. Most probably, the goals will not change quite as much as the means. Unless procedures are devised for updating the plan, the firm may find itself in the position of following certain methods or procedures which will prevent it from reaching its original goals. Conversely, the firm may be striving to achieve a particular goal but employing means that are no longer compatible to that end.

As previously explained, the plans and projections must cover the short, intermediate and long-range phases of the firm's operation. Consequently, what is an intermediate phase today will become the short-range phase tomorrow. Inasmuch as the short-range phase of the plan can be spelled out and quantified in more specific terms, it is essential that each year the plans for subsequent periods be reviewed, revised and quantified.

Sometimes the entire premise upon which a particular phase of a plan is based may become invalid and as a result will require the recasting of part of the overall plan. This responsi-

bility should rest directly with a particular partner who must set up a procedure for continuous review of the firm's progress. The partner may want to assign certain personnel to obtain and review the current data used in arriving at the premises and to report to him any occurrences which may invalidate a premise. A man may be assigned to study certain economic data such as a downturn in local construction activity which has taken place or is likely to occur. The partner would then evaluate all such reports and determine if the plan needs to be revised.

The updating, review and revision of the plan will require the greatest degree of discipline on the part of those responsible. The ease with which the particular partner finds that he can review and update the plan will depend substantially upon the reporting system that was devised for the measurement of actual, as compared to expected, progress. If the system makes deviations from anticipated results readily apparent, the partner will find his job of revising the plan not too difficult, especially if the causes of such deviations are equally apparent.

This task of updating the plan is generally done on an annual basis with a review of the various parts on a periodic or continuous basis throughout the year. At the time of the first annual updating, the projection for the following year must be just as specific as the one for the current year. In addition, any occurrences which indicate a change in the intermediate projections should also be noted. It is wise not to alter the long-range or ten-year projection for the first few years except for drastic changes in goals or basic premises.

## **CONCLUSION**

THE FOREGOING PRESENTATION of the “long-range planning” of a CPA practice will lead some to erroneously conclude that formal planning is too expensive and too time consuming to merit serious consideration. It is true that such planning will be costly and time consuming even if it is so well organized that the work load is spread and most of the detailed work is done by staff on what would be nonproductive time. However, the cost should be more than recovered because formal planning will usually help the firm to operate more efficiently and to expand its practice. If the forecast for the profession as a whole is even approximately accurate, the future environment will be one of great challenge, innovation, and rapid change. Under these conditions the alternative to formal planning may be the stagnation and subsequent degeneration of a firm’s practice. The investment in formal planning is indeed a reasonable price to prevent this from occurring.

## APPENDIX

### A Hypothetical Case Study

#### Wales and Company Five-Year Plan

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## **WALES AND COMPANY FIVE-YEAR PLAN—1968**

### **INTRODUCTION**

OUR CPA FIRM is one of the most recently established firms in the city of Marion. In terms of reputation and recognition, we are the least known, especially among corporate financial officers, law firms, brokerage houses and investment banking firms.

### **GOALS OF THE FIRM**

CERTAIN GOALS which have been set for our firm for the next five years follow:

1. Develop an outstanding group of professionals.
2. Develop greater acquisitiveness in the client area—to prevent avoidable loss of clients.
3. Expand our management advisory services activities to a total staff of four full-time professionals.
4. Increase public awareness and enhance the image of our firm in the Marion area.
5. Increase firm's size, efficiency, scope and profitability.

The details of our plans for achieving these general goals follow.

**A. Development of Professional Group.** The development of an outstanding group of professionals must start with the raw

material, the recruit, and be carried forward effectively from that point. If only average rather than top-level input is obtained, this goal will never be reached. We would like to rightfully claim that we have the best staff in Marion and to know that their ambitions and abilities will contribute to the growth of our firm. The firm should continue to be active in its recruiting activities through the personal contacts and efforts of its members.

A weakness in our firm in the past has been that too many of our people were recruited from the University of Marion with the result that other colleges and universities were slighted. The quality of students that we have been attracting seems to be below that of other firms in the immediate area. To train and develop top people, then, will mean a greater outlay in time and cost.

Within the five-year period, we plan to increase the activities and the quality of our tax department. Top law students are to be recruited from the University of Cardaan or other universities. (We made our initial visit to the University of Cardaan Law School in 1965 and made offers to two individuals, both of whom joined other CPA firms. It is apparent that other firms have been active for some time at that university.)

The ages of our present partners range from 44 to 48. There are not more than one or two among our current senior group whom we believe to be partnership material. Partner candidates should be within the proper age range relative to their stage of progress in the firm, be highly productive and have personal attributes which would attract new business. The firm will attempt to develop their leadership qualities and abilities by such special assignments as leading staff meetings and other administrative assignments.

We have been deficient in dealing with personnel on an individual basis by conducting the periodic interviews without the concerted effort and follow-up established by firm policy. This has been corrected and we now interview each employee semi-annually with full discussions of his potentials, weaknesses and overall progress. In this connection, an interview sheet has been prepared to include the comments made by the employee and the comments and, perhaps, the promises made by the partner

who conducted the interview. (See Exhibit I, Interview Comments, page 33.) The completed interview sheet is kept in the employee's personnel file because we had found that in the past promises or statements were made during an interview and soon forgotten. This particular memorandum will provide a brief record of the interview and prevent such misunderstandings in the future.

On a long-range basis, we would like to develop a professional person within the office who will handle the firm's placement and recruiting activities. These activities take a surprising amount of time of some of our partners, particularly in the area of courtesy interviews of men looking for placement in industry.

1. *Our planned manpower changes are as follows:*

	<u>10/1/68</u>	<u>10/1/69</u>	<u>10/1/70</u>	<u>10/1/71</u>	<u>10/1/72</u>	<u>10/1/73</u>
Tax Staff	3	3	3	3	4	4
Tax Partner	1	1	1	1	1	1
Management Services						
Staff	1	2	2	3	3	3
Partner	1	1	1	1	1	1
Audit Staff	16	17	19	20	22	24
Audit Partners	4	5	5	6	6	7
Clerical	7	7	8	8	8	8
Total	<u>33</u>	<u>36</u>	<u>39</u>	<u>42</u>	<u>45</u>	<u>48</u>

The above represents permanent staff only. This will be supplemented by interns and other part-time help as needed. (See Exhibit II, Forecast of Staff Levels and Recruitment, page 34.)

2. *Training Activities.* In the fiscal year ended June 30, 1967, the firm held eight staff meetings; all staff levels were requested to attend on a single group basis. Attendance was not effectively enforced. We also had four optional CPA review sessions for all non-CPAs. For fiscal 1968 we are planning a stepped-up training program with some separate meetings for the advanced staff group and for the assistants. Attendance will be enforced and

more easily attained by scheduling meetings outside of normal working hours. There will be six joint meetings for all staff members and six separate meetings for each group.

The firm also plans to utilize unassigned time for post-audit reviews of working papers and reports. Each review would require critical comments and questions for improvement in auditing procedures. A similar program was instituted in the spring of 1967 for tax returns. Staff on unassigned time were given the original data and from these prepared tax returns which were later reviewed with the staff man and compared with actual returns in the files. This program was barely started before the staff became very busy but it will be pursued more vigorously in the future during slow periods.

In 1966-67, three staff men were moved into the tax department to create a tax staff. Beginning with January 15, 1968, and annually thereafter, a minimum of one audit staff person will be assigned to the tax department for the four months ending May 15 and then reassigned to audit staff. This intensive exposure to tax matters will upgrade the tax knowledge of the audit group and overcome a present weakness, particularly evident in dealing with smaller clients.

3. *Specific Training of Individuals.* Our firm has no specific candidate at present to attend university-sponsored management development programs, although one man may become such a candidate within the next year.

**B. Acquiring New Clients By Referral.** An analysis of new clients acquired within the past year indicates that all but two or three resulted from the growth of our present clientele. We propose to set some reasonable budget expectations in terms of the dollar gross of new clients per partner and periodically determine the progress of each. The budget has tentatively been set at \$7,500 per partner per year. Not counted in this budget will be growth acquired through acquisitions by existing clients. A corollary goal will be to prevent the loss of clients because of improper servicing.

A meeting with partners and first assistants on the subject of acquiring new clients will be held in October. Part of this program will cover what might appear to be elementary subjects.

WALES AND COMPANY  
INTERVIEW COMMENTS

DATE \_\_\_\_\_

EMPLOYEE INTERVIEWED \_\_\_\_\_

INTERVIEWED BY \_\_\_\_\_

EMPLOYEE'S COMMENTS \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

PROMISES OR IMPLIED PROMISES MADE TO EMPLOYEE, IF ANY

\_\_\_\_\_  
\_\_\_\_\_

INTERVIEWER'S COMMENTS \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(To Be Filed in Employee's Personnel File)

EXHIBIT II

WALES AND COMPANY  
 FORECAST OF STAFF LEVELS AND RECRUITMENT  
 Year ending September 30, 1968

	<i>Staff by Ascending Grade Levels</i>					
	<i>4th</i>	<i>3rd</i>	<i>2nd</i>	<i>1st</i>	<i>Partners</i>	<i>Total</i>
Beginning Staff Levels .....	<u>10</u>	<u>6</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>38</u>
Additions required to meet winter level						
Permanent .....	1					1
Interns .....	<u>9</u>					<u>9</u>
Total .....	<u>10</u>					<u>10</u>
Winter Staff Levels .....	<u>20</u>	<u>6</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>48</u>
Reductions						
Resignations .....	1	1				2
Releases .....	1	1				2
Military Service .....	1					1
Placements .....		1	2			3
Other — interns .....	9					9
Total .....	<u>12</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>17</u>
Staff Levels Before Promotions and Additions .....	<u>8</u>	<u>3</u>	<u>6</u>	<u>7</u>	<u>7</u>	<u>31</u>
Additions						
Returning servicemen .....	1					1
Recruiting .....	<u>10</u>		<u>1</u>			<u>11</u>
Total .....	<u>11</u>		<u>1</u>			<u>12</u>
Promotions						
From .....	<u>(6)</u>	<u>(3)</u>	<u>(1)</u>			<u>(10)</u>
To .....		6	3	1		10
Total .....	<u>(6)</u>	<u>3</u>	<u>2</u>	<u>1</u>		<u>0</u>
Ending Staff Levels .....	<u>13</u>	<u>6</u>	<u>9</u>	<u>8</u>	<u>7</u>	<u>43</u>

For instance, when an acquaintance asks a member of the firm, "How's business?" a suggested answer would be, "Well, we're very busy, as is normal; however, the firm is interested and capable of taking on new work and new clients." An attempt will be made to develop a pattern of such answers to typical questions that might be asked in order to bring out the competence and full range of services our firm offers. The subject of new business is presently on the agenda for all partner and first assistant meetings. (See Exhibit III, Initial Contact Report, page 37.)

**C. Expansion of Management Services.** The firm is presently skilled in the financial and general management areas as well as the industrial engineering phases of management advisory services. Plans for expansion of the management advisory services activity include the addition of one person in alternate years for the next four years. The first addition will be a person skilled in the area of data processing. Other additions are to cover the specific needs required to implement the pattern of development of this aspect of our practice.

**D. Public Relations and Client Relations.** The fourth goal is to increase the public awareness of our firm and to enhance our image in the Marion area. A review of present public relations efforts and proposed plans for improvement follows:

1. *Present Relations With Banks*

a. **NATIONAL BANK OF MARION.** The partners of our firm are personally acquainted with many of the officers in the trust and commercial loan departments and in some of the service areas of this bank, which is the largest in Marion. But we have received very few referrals of business from them.

b. **THE MARION BANK & TRUST COMPANY.** The firm's relationship with this bank, which is the second largest in Marion, has been much better than with the other banks in town. In the past, a considerable number of accounts have been secured through this source.

c. **OTHER BANKS.** Also in Marion are the Bank of the Commonwealth, the City Bank, and the Marion Bank; there are many

suburban banks nearby. Relations with these banks leave something to be desired. With the exception of the Commonwealth, we have not received any referrals in recent years.

2. *Proposed Plan for Improving Relations With Banks.* The firm will concentrate on improving relations with the commercial banks through specific partner assignments, with the results to be reported periodically at regularly scheduled partners' meetings. A need for concentration among some of the suburban banks can be fulfilled through the normal ethical channels of acquainting them with the full range of our services.

In 1966 we started, but did not complete, a card file record with the names of bank officers and directors, and their outside affiliations, plus the names of loan officers and their banking connections. These records are to be completed by October 15, 1968, and then kept current. Each card provides for specific posting of visits or other meetings with either the directors or loan officers of the banks so that we would have a complete record of our contacts. The postings are to be made from a monthly communications report from each of the partners and managers. (See Exhibit IV, Monthly Report of Management, pages 38 to 40.) Specific responsibility for the communications efforts of the firm will be charged to one of the partners.

3. *Present Relations With Law Firms.* Among our clients are a few of the leading law firms in Marion. These firms have been sources of business in the past. But we have only limited relations with some of the other leading law firms. The more prominent of these are:

a. NAVILUS AND DOOW. This firm referred an SEC registration to us some years ago which fell through because of a market crisis.

b. VANDENBERG & WOOD. This firm represents a substantial number of our clients but has never referred anything major to us in the way of new business. On the other hand, we have referred a considerable amount of work to them.

c. KRANIK, TACKASH, KRACER. We have referred some business to this firm without any reciprocity on their part. In the early



WALES AND COMPANY  
INITIAL CONTACT REPORT

(For initially reporting acquaintances and contacts among bankers, brokers, investment bankers, government officials, lawyers and others.)

NAME OF CONTACT \_\_\_\_\_

PRIMARY BUSINESS AFFILIATION \_\_\_\_\_

BRIEF DESCRIPTION OF HIS DUTIES \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

OTHER BUSINESS AFFILIATIONS \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

HOME ADDRESS \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

APPROXIMATE DATE OF BIRTH (YEAR) \_\_\_\_\_

CAN YOU CALL THIS INDIVIDUAL FOR  
BUSINESS PURPOSES? \_\_\_\_\_

WHEN DID YOU LAST MEET WITH HIM? \_\_\_\_\_

WHAT WAS THE NATURE OF THIS MEETING? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

DATE \_\_\_\_\_ SIGNED \_\_\_\_\_

**EXHIBIT IV**

**WALES AND COMPANY**  
**MONTHLY REPORT OF MANAGEMENT**

FROM: \_\_\_\_\_ FOR MONTH OF \_\_\_\_\_ 19\_\_\_\_

**1. NEW ENGAGEMENTS: NAMES OF NEW CLIENTS SINCE LAST REPORT  
AND FROM WHAT SOURCES SECURED:**

NAME	SOURCE
_____	_____
_____	_____
_____	_____

**2. LOST ENGAGEMENTS: CLIENT'S NAME AND REASON FOR LOSS:**

NAME	REASON
_____	_____
_____	_____
_____	_____

**3. CURRENT LIST OF PROSPECTIVE ENGAGEMENTS:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**4. PROFESSIONAL, CIVIC & CHARITABLE ORGANIZATIONS, ETC.,  
MEETINGS OR ACTIVITIES, SPEECHES AND ARTICLES PUBLISHED:**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**EXHIBIT IV (continued)**

**5. CLIENTS CONTACTED, VISITED AND PHONED:**

NAME	DATE	CHECK ONE		
		VISITED	PHONED	ENTERTAINED
_____	_____			
_____	_____			
_____	_____			
_____	_____			

**6. BANKERS, LAWYERS, BROKERS, FORMER EMPLOYEES AND OTHERS CONTACTED OR ENTERTAINED:**

NAME	DATE	CHECK ONE		
		VISITED	PHONED	ENTERTAINED
_____	_____			
_____	_____			
_____	_____			
_____	_____			

**7. CHANGES IN FISCAL YEAR CLOSINGS: FISCAL YEAR CLOSING CHANGES WERE AS FOLLOWS:**

NAME	TYPE OF BUSINESS	<u>CLOSING DATE CHANGED</u>	
		FROM	TO
_____	_____		
_____	_____		
_____	_____		
_____	_____		

**EXHIBIT IV (continued)**

**WALES AND COMPANY**

**MONTHLY REPORT OF MANAGEMENT**

8. **APPRAISAL OF PERSONNEL:** Comments considered pertinent, either favorable or unfavorable, respecting any staff member or office person. Note to whom you are referring and whether commendation or criticism is your own or that of a client, and nature of matter.

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9. **RECIPROCITY:** Submit comments concerning "business" between clients as a result of your endeavors.

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( TO BE SUBMITTED ON FIRST DAY OF FOLLOWING MONTH )

days the law firm referred accounts to our partner, who is a personal friend of their senior partner, but has not followed up since then. We recently referred a substantial client to them.

d. DICKENSON, BEEKTON AND ASSOC. This second largest law firm recently referred a client to us. Other than securing this small new client, we have had no other referrals although we have referred work to them.

e. OTHER LAW FIRMS. There are, of course, a great many other law firms with which we have either social or business relationships. In summary, it would be fair to say that the firm is not getting its share of referrals from law firms.

4. *Proposed Plan for Improving Relations With Law Firms.* A program similar to that proposed for commercial banks will be followed with respect to the law firms. Insofar as possible, future referrals will be made to firms with whom we wish to improve our relationship.

5. *Present Relations With Government Agencies.* We have acquaintances, particularly among Democrats, who are active in the CIO in the Marion area (the Marion State AFL-CIO and certain of the large local unions, such as the Downy Plant Local Union). These people are most influential in the state and could be effective in obtaining state government auditing work in such areas as the race tracks, the highway department, the Liquor Control Commission, and so forth. However, no one in the top management group of our firm is presently active in either the Democratic or Republican parties. It is our feeling that there is a substantial amount of work which could be obtained by actually participating in political activities.

6. *Proposed Plan For Improving Government Relations.* In the 1967-68 fiscal year, the firm will select at least one individual to become active in each of the Republican and Democratic parties. The individual obviously must be of that particular political persuasion. Some substantial campaign contributions must be made in addition. It is hoped that the firm will have some state government agency audit engagements by the year 1969.

7. *Present Status of Wales and Company—Outside Activities*

<u>Activity</u>	<u>Members</u>		<u>Active Members</u>
	<u>Partners</u>	<u>Staff</u>	
Marion Society of CPAs	6	5	10
American Institute of CPAs	6	4	—
American Accounting Association	2	2	—
National Association of Accountants	3	1	1
Institute of Internal Auditors	—	1	—
Various church and fraternal groups	4	9	13
Various college alumni groups	5	12	3
Board of Commerce	3	1	3
Jaycees	—	1	1
PTA and other school activities	2	3	5
Boy Scouts of America	2	3	5
Various military groups	1	3	2
Private social and athletic clubs	6	2	3
Bar Association	1	—	—
Downtown Management Association	—	1	—
Marion Manufacturers Association	1	—	—
Marion Economics Club	2	—	—
American Management Association	1	—	—
Republican Club	1	1	—
Democratic Club	1	1	—

In addition to the above listing, a separate listing is to be prepared to cover each partner's outside activities. That list is to include the partner's name, activity and participation substantially as illustrated below.

<u>Activity</u>	<u>Participation</u>
Parry Country Club	None (past treasurer & director)
Marion Athletic Club	Beavers
Marion Society of CPAs	Director and one committee
National Association of Accountants	None
American Institute of CPAs	None

<u>Activity</u>	<u>Participation</u>
American Accounting Assoc. Church	None Treasurer and trustee to 12/31/67
Board of Commerce	Membership committee
University Alumni Association	None (past president)

8. *Proposed Plans for Improving Outside Activities.* It is apparent from a review of the outside activities of our firm that the firm is weak in certain areas.

a. GREATER MARION BOARD OF COMMERCE. The firm has had no past participation in this influential organization although two men have always been sent on the annual cruises. Partner No. 5 has accepted an invitation to become active on the Membership Committee beginning September 12, 1968.

b. NATIONAL ASSOCIATION OF ACCOUNTANTS. This group is very active in Marion and receives a great deal more attention from the other CPA firms than our firm has given it. At present, one of our seniors serves as an associate director. We propose in 1968 to have others, including a partner, active in this group and, further, to seek higher levels in the organization government.

c. OTHER ORGANIZATIONS. Further consideration will be given to the advisability of participating in some of the following groups: Tax Executives, Systems and Procedures Association, University Club, Jaycees and others.

d. THE MARION ASSOCIATION OF CPAS HAS A SPEAKER'S BUREAU. Our firm is on the list to supply speakers but has been called upon only to a limited extent. One of our managers spoke to a suburban service club recently, but we have not had any additional requests for some time. We propose to approach the executive director of the Marion Association and stress our eagerness to do this. Further we will develop several really outstanding speakers from within the office and encourage certain staff people to belong to the Toastmasters' Clubs (which currently flourish in the Marion area). A specific program will be embarked upon to encourage individuals to write articles for trade and professional publications.

9. *Weaknesses in Our Management Personnel Assignments to Clients.* The firm's policy of "colleague" relationships has been less than fully operative. While it may not be possible to acquaint partners on a technical basis with the problems of all of our major clients, as a minimum, partners will now be included in luncheon dates and certain meetings with clients so that clients will be aware that more than one person in the firm is interested in their affairs. The backup relationship of the tax department to the audit partners is an important factor normally in our "colleague" relationships and provides a continuity with clients in the event of the absence of the partner.

Each client relationship must be examined on an individual basis. Each client is to be reviewed and a brief will be prepared similar to that patterned below:

a. **FAIRWELL CORPORATION.** This client situation is pretty well under control at the present time with the structure of our relationship starting with Ralph Jones who is about to retire, to Ronald Bragg, who is in charge of the audit followed by an assistant knowledgeable in the client's industry.

b. **FIVE BROTHERS SUPERETTE.** Allen B. Smythe was the partner in charge for a number of years. A switch was made in 1967 to Peter Zoon. The switch was made because of a personality conflict between Smythe and the president. While the firm has no "colleague" arrangement at present, Peter Zoon is acquainted with the problems of the client and a supervisor has been included on this job for 1968. This situation appears to be improving.

**E. Financial Budget Comments.** The budget figures have been prepared on the following basis for the year 1968 (see Exhibit V, Forecast Summary Statements of Income, page 46):

1. Anticipated increase in chargeable hours of the tax department by reason of the passage of the Marion City income tax and the impending passage of similar acts by surrounding suburban communities is 2,000 hours at \$12 or \$24,000.
2. Anticipated increase in volume in 1968 in management advisory services activities is \$21,000 representing 950 hours.



This is predicated on the acquisition of a third man for management services halfway through 1968.

3. We would like our firm to grow at the rate of 7 per cent per year, compounded, which would be an increase of 4,000 hours for 1968. While 7 per cent may be achievable, the overall dollar effect of the combination of additional audit billings, and the increase in the tax department and management advisory services work combined with the 7 per cent growth rate and 6 per cent inflation factor results in a \$95,000 increase in revenues. We felt this was perhaps a little optimistic so we have adjusted our growth rate to a 3.5 per cent factor for audits and a 4.5 per cent factor for tax and management advisory services.
4. Other factors expected to contribute to more profitable operations in our firm deal with efficiency. The position of the firm with respect to average chargeable hours per person and per cent of chargeable hours to total hours as compared with other firms appears to be poor. For example, the charged hours for the twenty weeks ended June 30, 1967 show 71 per cent of total staff hours. Our average chargeable hours per individual for this period would tend to be depressed by the use of average total personnel where a large number of interns are used during the busy seasons. We would obviously show a much better pattern on a permanent staff basis. However, in planning for 1968, we have limited the recruiting of additional personnel for that year and have made a number of separations. Accordingly, our total headcount and staff have been reduced in order to cut our unassigned and office general time.

**F. Administrative Partner's Problems.** A distinct individual problem affecting the administrative partner is the noticeable amount of time required in firm administration and a corresponding limited time for client relations. Less time is devoted to client and promotional activities with practically no time available for creative thinking or for the outside civic activities so necessary to the firm's standing in the community.

The solution involves some added overhead in the form of an

## EXHIBIT V

**WALES AND COMPANY**  
**FORECAST SUMMARY STATEMENTS OF INCOME**  
**(ACCRUAL BASIS)**

Years Ending September 30, 1968 and 1972

	<u>1968</u>	<u>1972</u>	<i>Increase (Decrease)</i>
Fee revenue	<u>\$376,000</u>	<u>\$568,000</u>	<u>\$192,000</u>
Expenses:			
Salaries: Partners	\$ 92,732	\$137,000	\$ 44,268
Staff	112,188	164,500	52,312
Other	<u>26,701</u>	<u>34,000</u>	<u>7,299</u>
Total salaries	<u>\$231,621</u>	<u>\$335,500</u>	<u>\$103,879</u>
Other expenses:			
Office rent, depreciation	\$ 23,900	\$ 26,000	\$ 2,100
Professional organizations	4,000	5,500	1,500
Club dues	4,000	5,500	1,500
Expenses re: clients not chargeable	7,500	10,000	2,500
Insurance: group, life, medical	1,200	2,000	800
Payroll taxes	6,000	10,500	4,500
Interest on office capital	3,350	4,500	1,150
Personnel education	3,000	4,500	1,500
Personnel procurement	1,100	2,000	900
Firm meetings	1,500	2,500	1,000
Other	<u>32,850</u>	<u>37,000</u>	<u>4,150</u>
Total other expenses	<u>\$ 88,400</u>	<u>\$110,000</u>	<u>\$ 21,600</u>
Total expenses	<u>\$320,021</u>	<u>\$445,500</u>	<u>\$125,479</u>
Net Income	<u>\$ 55,979</u>	<u>\$122,500</u>	<u>\$ 66,521</u>

administrative assistant. At present, a secretary renders some assistance, but certain technical and office bookkeeping matters are beyond her skills. This new title could be created and given to the present office manager. This position should also be given the status needed in order to carry out its charge.

**G. Weaknesses in the Tax Department.** A weakness was created in our tax department with the departure of managers. Fortunately, two replacements have been hired to begin September 1968. Specific client assignments for the tax department personnel are planned for October 1968.

**H. Weaknesses in Client Billing.** The number of clients for whom the firm renders no services other than a periodic audit is legion. Situations where we have been unable to get a satisfactory fee are practically numberless if a satisfactory fee is defined in terms of "standard" rates. In the 1967 fiscal year, write-downs from desired fees averaged between 16 and 19 per cent. More emphasis is placed upon average hourly rates than on achieving desired fees. Psychologically, the philosophy of professional service has been lost because the emphasis is on hourly rates rather than on professional fees.

The firm is presently not following the policy of requiring another partner's approval of billings whenever a write-down exceeds 5 per cent. We are therefore instituting a policy on September 1, 1968 of a "two partner approval" on billings in excess of \$500 in the tax area, and whenever there is a write-down in excess of 10 per cent in any other area of practice.