1960

Planning a practice for growth; Economics of accounting practice, bulletin 13

American Institute of Certified Public Accountants

Bulletin 13 ECONOMICS OF ACCOUNTING PRACTICE

Planning a Practice for Growth

Bulletin 13 ECONOMICS OF ACCOUNTING PRACTICE

Planning a Practice for Growth

American Institute of Certified Public Accountants
270 Madison Avenue, New York 16, New York

1. Introduction

PLANNING is essential to the efficient growth of an accounting practice.

Few CPAs will find fault with that statement; but Mark Twain's old observation about the weather can be applied to planning: everyone talks about it, but no one—well, hardly anyone—does anything about it.

Nonetheless, it is generally agreed in business circles that sound expansion of an enterprise should be planned—planned in keeping with anticipated needs on the basis of a thorough knowledge of the business, its requirements, and its social and economic environment.

Yet planning alone is not enough. The plan must include the adoption of policies and procedures which will insure its effective operation. It must be reviewed and revised in the light of changing circumstances. It must, in other words, be managed.

These are not new ideas. Much of the advice given by CPAs to their clients is in keeping with these principles. Yet, many firms apparently have no overall plan to aid them in developing their own practices. The task of management is frequently postponed to another day—a day which never dawns.

A practitioner may seek to justify his neglect on the grounds that he is operating a professional practice, not a business, and that the growth of his firm is contingent upon the growth of his present clients. He argues that, as additional work is required, he will simply add to his staff, admit a new partner, or open a branch office. But, unless these needs are anticipated, the firm may be unprepared to take full advantage of its opportunities. Moreover, this passive approach is based on the false premise that the future is completely molded by outside forces. In addition, some practitioners regard planning as a luxury which only the larger firms can afford. It is true, of course, that the larger firm must formalize its procedures to a high degree as a means of encouraging compliance with its standards throughout the organization; but it is equally true that proper planning is equally important to the smaller firm. In fact, it is of paramount importance to the small marginal operators—marginal in terms of services rendered, not in terms of financial solvency. The CPA who provides just a minimum service to his clients can add volume only by working longer hours; but this approach is almost certain to impede the healthy growth of his firm. He will be obliged to make hasty decisions on the basis of inadequate knowledge—and his mistakes will have a far greater adverse effect on his firm than on a larger organization. An error, for example, in hiring a junior accountant who proves to be unsatisfactory and must be discharged is more serious in a firm with three staff members than it is in one with 15 or 20, where the work can be more easily absorbed by the remaining staff. Planning can also show much greater proportionate results in the small firm. It is not unlikely that a small practice can double in size within a few years, while a larger one would probably show a much smaller percentage increase.

There is, of course, no law that requires a CPA to expand his practice. He may prefer to derive a modest income from his own personal services without undue pressure, rather than attempt to build his firm or enlarge its clientele. Who can say that he is wrong? Yet, it must also be recognized that, in making this decision to restrict his practice, he may well have foreclosed any possibility of realizing his full potential. Without some assistance, he will usually be compelled to perform a number of duties which might better be handled by people with fewer qualifications.

There is still another course open to the practitioner: he can specialize. As a consultant, he can work alone and may be able to command impressive fees for his extraordinary knowledge and ability. Usually, however, he can accomplish this only after he has had extensive experience in such fields as taxes or management services, and has established a substantial reputation in his community.

This bulletin is not concerned with these unusual situations. It is addressed to the well-qualified local practitioner who is presently rendering the usual basic accounting services—auditing, tax work, bookkeeping and write-up work—to a clientele of local businessmen. He aspires to develop a well-rounded professional practice with a wide range of services, which will command adequate fees and contribute significantly to the financial health of his clients. He has access to a modest amount of capital—that is, he has either saved some money or can borrow it from a bank if necessary. He works 50 hours or more a week throughout the year, in order to produce an annual income of about $10,000. He feels that in 10 years he should be earning around $25,000 a year. But he finds himself on a plateau. The only way of increasing his income seems to be to devote even more hours to his practice. "Where," he begins to wonder, "do I go from here?"

This bulletin is designed to help him answer that question.

Previous bulletins have been concerned with isolated problems of managing a practice—setting fees, getting staff, keeping records, etc. This bulletin returns to these specific problems and covers some new ones; but the discussion of them is organized around the broad functions of business management. As a result of this unified presentation, it is hoped that the practitioner will gain new insights into his old responsibilities and will be aided in making some of the basic decisions which are essential to sound planning for future growth.

2. The Basic Concept

Before planning can be initiated, recognition must again be given to a simple concept: a professional practice, regardless of its nature, is an economic enterprise which has many of the elements of a business.

This is not to say that public accounting—any more than law, or medicine—*is* a business. Nor does it mean that a CPA must *act* like a businessman—must advertise, solicit, engage in competitive bidding, and focus upon profit as his primary goal. On the contrary, he can build a professional practice only by adhering strictly to the highest ethical standards.

Success in a profession is founded on public confidence; and experience has shown that public confidence will be encouraged by the type of behavior required of the CPA by his rules of professional conduct. He may gain an immediate advantage in concentrating on profits; but he will lose in the long run because his failure to think first in terms of service to his client will discredit his claim to professional status.

But there is nothing inconsistent with this philosophy in recognizing that an accounting practice must be profitable if it is to render the best service. The practitioner must accumulate enough capital to enable him to improve his services. If the practice is to be successful and expand, it must be managed efficiently. If it is to be managed efficiently, the practitioner must not be so preoccupied with serving clients that he has little or no time to plan and execute his basic management functions.

In other words, while a professional practice may grow naturally, it will not build itself efficiently. The man who obtains his CPA certificate, hangs out his shingle, accepts whatever work comes along, and neglects the business aspects of his practice can hardly expect the best results. He may be able to make a living this way, or even expand his volume; but he cannot *build* his practice to its full potential. Some CPAs may be born managers who execute their managerial functions intuitively. Most CPAs, however, will agree that effective management is the product of conscious effort.

The Management Function

Now, what is "management"?

All of the many definitions involve three basic functions: planning, execution and evaluation. A good manager must determine sound objectives and develop policies which will best implement them—he must be a thinker. He must establish procedures to carry out policies and see that they are followed—he must be a doer. And he must measure the results in terms of the objectives—he must be an analyst.

These functions must be applied to a number of different activity areas within an enterprise. These might be called the "elements of business," but they are as much a part of an accounting practice as they are of a manufacturing concern. They include:

1. *Research and Development*—The creation and design of products or services.

2. *Production*—making the product or service by the most economical means, in keeping with the standards of the organization.

3. *Personnel*—Recruiting, organizing and directing the people who do the work, and providing adequate opportunities for advancement and job satisfaction.

4. *Marketing*—Directing and encouraging the flow of goods or services from producer to consumer.

5. *Finance and Control*—Planning, directing and controlling monetary operations in terms of costs and profitability.

6. *External Relations*—Establishing satisfactory relations with customers or clients, the general public, and outside organizations which may be of assistance to the enterprise.

Obviously each of these elements is present in an accounting practice, although the techniques employed may vary between a business concern and a professional practice—for example, in marketing. It is in relation to these activities that plans for building a practice will be discussed.

3. The Initial Steps

As a practitioner undertakes to develop a program for building his practice, he should keep in mind the following features of a good plan:

1. *It should be written.* By forcing himself to put his plan on paper, the CPA clarifies his own thinking and can more logically relate it to the various aspects of the practice.

2. *It should include a statement of the objectives of the firm.* These are the bench-marks against which future progress can be measured.

3. *It should include the steps necessary to attain the objectives,* together with a rough timetable indicating when each step should be taken.

4. *It should be flexible.* A plan is not a strait-jacket. It should permit modification as circumstances change, without having to discard those elements which have continuing validity.

In general terms, the plan consists of answers to these questions: Where do I want this practice to be 5 years from now? 10 years from now? 15 years from now? What steps will it take to get there?

The very act of planning is likely to reveal opportunities and needs which might otherwise be overlooked. In a sense, a plan tears down the fences of habit formed by preoccupation with daily routines.

As he begins to formulate his plan for growth, the practitioner must recognize the necessity of investing time and money in the future of his practice. He must be willing to sacrifice immediate income for future growth. Since time and money are largely interchangeable in accounting practice, the CPA can make his investments in either form. He may use his own income to provide working capital, or he may borrow money from the bank to be repaid out of future earnings. He may take the time necessary for planning and execution of the management functions either out of the chargeable time now allocated to clients, or out of his own time normally devoted to recreation or his family. The latter is at best a temporary expedient and, in the long run, some reorganization of his work schedule must be undertaken. In one way or another, however, he must assign sufficient hours and sufficient cash to the development and execution of his expansion plan.

Investment, either of time or money, demands courage. It requires confidence in one's ability to make the investment pay handsome dividends. But the risk can be easily justified: unless it is taken, opportunities for growth and increased income will be severely restricted.

Responsibility for Executing the Plan

Needless to say, the individual practitioner will have no problem in determining who should be responsible for developing and carrying out a plan. He is accountable only to himself for its success or failure. But he has another baffling problem: he must discipline himself to insure that he pays adequate attention to all the phases of his practice. Although he may delegate certain administrative or supervisory duties to a senior staff member, the ultimate responsibility for all of the firm's activities rests on him. But, presumably, the plans will often call for the eventual formation of a partnership. Then his situation will be similar to that of established partnerships which are planning their growth.

Some partnerships function, in effect, as an association of individual practices. The activities of this type of firm need to be coordinated and controlled if it is to attain the common goals of its members. Frequently partnerships may try to reach operating decisions through partner meetings. Many of these group decisions would be unnecessary if agreement had been reached on a plan which included the methods to be pursued. Although there may be some advantages to this kind of approach, it is a cumbersome way to make day-to-day decisions—especially when the time element is important.

Several major corporations a few years ago tried to apply the theory of "managing by committee." They found that two heads, while often better than one, could also collide—with painful consequences. The committee decisions on planning and overall policy proved to be effective; but the long-term results were often lamentable unless someone was clearly designated as being responsible and accountable for the execution of the committee decisions. The same is true of accounting partnerships. All partners ought to have a voice in establishing the firm's plans and policies; but the failure to assign specified responsibilities for administering them can cause duplication of effort, dissension and confusion.

How this should be handled depends both on the type and size of the firm. A managing partner may assume most of the responsibility for decision-making in many of the administrative areas. However, the managing partner in a large firm must delegate certain executive functions because the size of the operation precludes his personal supervision of all its elements. In the small firm the partners may be reluctant to surrender complete executive control to a single man, unless he is clearly the dominant member of the firm. They may feel that they would be abrogating functions inherent in partner status. Besides, one man may not be the best suited for all areas. It is often better to divide the various responsibilities among different partners in keeping with their abilities and interests. One partner, for example, may be charged with the task of establishing and maintaining the firm's technical standards; another may be concerned with recruiting, selecting and overall training of staff assistants; a third may handle internal administration, etc. The main point is that *someone* must assume responsibility for each major activity and be held accountable for it.

4. Elements of the Plan

This section deals with some of the decisions which should be made within the context of each management "activity" area. Obviously, decisions reached in one area will affect those in another: they cannot be treated in isolation. But, as a matter of convenience, they have been grouped here according to their functional characteristics.

"Designing" the Services to be Offered

The development of any sound plans turns upon the type of services that a firm intends to offer to its clients. As an initial step in planning, the present services must be analyzed to determine which ones should be expanded or curtailed, and to decide whether new ones should be added to enable the firm both to serve its clients better and to utilize to the full the talents of its members. The firm, in other words, should have a good "product mix."

Bookkeeping and write-up work may be an essential part of the present practice. Some firms are consciously trying to divest themselves of this type of service, while others hold that it is a valuable element of their practice. To what extent does the CPA wish to increase his volume of this work? Should he restrict it to a few clients who might develop into full scale audit accounts, or should he try to establish it on a basis which will make a major contribution to the firm's income? To what extent should he become personally involved, or delegate it to his staff members, clients' employees, or others.

If the CPA is presently preparing a large volume of tax returns, he must answer some other questions. To what extent does he wish to increase the preparation of personal returns for officers of corporate clients, or for outsiders?

Presumably, representation at agents' examinations and in tax controversies flows naturally from the preparation of returns. To what extent does he wish to encourage clients to enlist his aid in tax planning—the preventive medicine of taxes—with a view to the legitimate minimization of taxes? To what extent does he wish to enter the field of estate planning, in collaboration with lawyers, trust officers and insurance underwriters?

Auditing is, of course, one of the traditional principal basic services offered by an accounting firm. Yet, audits leading to reports are a relatively small portion of many practices. Does the practitioner wish to encourage clients to have "opinion" audits for the benefit of stockholders, banks or commercial creditors? If so, should he accept as new clients only those who appear to be prospects for such audits? Or, in the case of small or closely-held clients, should he make a concerted effort to undertake limited examinations leading to analytical reports for internal management guidance, rather than confine his work to drawing up profit and loss and related statements?

To what extent does he wish to extend his activities in the field of management services of an accounting nature, such as budgeting, cost control, systems installation, or assistance in financing? Going further afield, is it desirable to get into areas less directly related to traditional accounting functions—for example, office methods and procedures, studies of work flow, and review of warehousing practices (as it relates to inventory turnover)? In other words, should he become his clients' general business advisor, who can analyze a wide variety of problems, assist the management in solving some of them, and urge the engagement of outside specialists to handle others?*

* See: *Concept of Management Services by CPAs,* Management Services bulletin No. 1, AICPA, 1959. *Classification of Management Services,* AICPA, 1957.

The answer to each of these questions involves consideration of how the service is to be rendered, and by whom. The mere fact that the practitioner has a CPA certificate does not mean, of course, that he is competent in each of these areas. No one can master rapidly-changing techniques in all of them. As each service is added to the proposed "product line," the CPA must acquire competence through study or continuing-education courses, or he must bring other people into his organization who can specialize in the field.

It should be emphasized that every service should be offered as part of an integrated professional service—not on a catch-as-catch-can basis, as someone happens to ask for it. Conversely, even if someone asks for them, the CPA should refuse to render services which he is not prepared to perform efficiently. This would include not only services which the CPA is not presently qualified to perform, but those which he cannot render economically. For example, the nature of the firm's organization may preclude it from handling a client's bookkeeping except at considerable cost— either to the firm or the client. If an experienced staff accountant must be used for this work, the firm will face a hard choice: a fee in keeping with the staff man's capacity will seem excessive to the client in view of the caliber of the engagement; a fee reflecting the routine nature of the service will result in a loss to the firm. In some cases, of course, it may still be less expensive for a client to pay professional rates for this service than to use a part-time bookkeeper—especially if the bookkeeping is just part of an integrated service being rendered by his accountant.

When the CPA declines an engagement for reasons of competency or efficiency, he can still be of service. He can call in a qualified CPA as a consultant, refer the special engagement to another firm that is competent in the field, or assist the client in acquiring the services of the needed specialist outside of the accounting profession. If it is a matter of "economics", he might help train the client's personnel to handle it.

The addition of services will naturally stimulate the growth of the practice. As it grows, research and experimentation can be undertaken to decide what supplementary services might be added, or what subdivisions of the basic services can be identified and refined as additions to the overall plan. For example, the tax service might be extended to estate planning; the budgeting service might be broadened to include aid in securing needed financing; and the service in controlling costs might lead to the installation of a standard cost system.

Production

The "production" aspects of an accounting practice are, of course, directly related to the decisions on the services to be performed. Nothing can be produced until those decisions have been made. But since the objective is to provide a quality service by the most economical means, production techniques may well determine in part the desirability of a particular service. Bookkeeping and write-up work can again be cited to illustrate the alternative approaches. On the one hand, if a firm must use experienced accountants on this work, it would probably be undesirable to undertake the engagement. On the other hand, if the work can be handled in the firm's office by a separate department equipped with bookkeeping machines and staffed by trained operators, the potential volume of this service might make it desirable for a particular firm.

Most of the business management functions in the area of production are analogous to those found in accounting practice. However, the two most important are production planning and quality control.

Production Planning

In planning for production, management must be concerned with coordinating the required manpower and facilities in a manner to attain its production objectives with the maximum efficiency.

The manufacturer must anticipate his needs in order to schedule his production; the CPA must forecast the nature and volume of his work, so that it will be performed efficiently. While the manufacturer must relate his needs to men, materials and machines, the CPA's primary consideration is manpower.

Many firms find that a monthly schedule of assignments is essential to the effective utilization of manpower. But, effective planning requires long-range forecasting. How far ahead should the firm attempt to plot its specific manpower needs? It is naturally easier to achieve a high degree of accuracy for longer periods of time if the amount of predictable repeat work in relation to the total practice is substantial. Yet, regardless of the amount of repetitive work, it can be used as a starting point for anticipating the time available for expanding services to existing or new clients.

An annual overall estimate of work required and time available can be made by many firms. This can be based on an analysis of the work performed during the immediate preceding year, showing the dates arrangements were made, the chargeable hours by client for each month, and the percentage of total chargeable hours on each audit engagement that was performed before the balance sheet date. The peaks of the busy months can be flattened a great deal if 60 per cent or more of each audit can be performed before its closing date. Such an analysis may well lead into reviews of audit working papers in order to improve procedures and cut down on the inefficient use of staff time.

Admittedly, revisions will have to be made as the year progresses; but the forecast, representing the best informed judgment at the time, will still be a useful gauge of commitments. Some firms require that their partners submit a monthly forecast of their needs, covering a three-month period—the first month to be concerned with specific assignments and the others expressed in overall terms.

Total manpower requirements must in turn be related to the nature of the work. To what extent should specialists be developed in relation to the present work and proposed objectives? Although specialization increases competence, it can also reduce a firm's flexibility. At what stage in the firm's program should specialization begin? It is evident that a firm must attain a certain amount of growth, before the addition of many specialists becomes practical. Traditionally, specialization has followed functional lines —a firm may have auditors, tax specialists, perhaps a systems man, and, in recent years, it may include an expert in other phases of management services. Perhaps the firm should consider, depending on its objectives, industry specialists in addition to, or instead of, functional specialists. Would the firm's goals be served better by men who are familiar with the special accounting, auditing and tax problems of specific industries such as oil development, retailing, banking, etc.?

Provisions must be made for adequate facilities. How much office space is needed, both now and in the foreseeable future? How can it best be utilized? Should more space be leased than is immediately needed? Should part of it be sublet to facilitate proposed expansion when the need arises? How about mechanization? Can reproducing equipment and other office machines facilitate the flow of work? Can comptometer operators be used effectively to relieve staff accountants of some of their more routine duties and make them available for higher grade work?

Operating procedures must be established. Management must not only determine what procedures should be adopted; it must also issue clear instructions about them. Should audit guides, manuals and similar written aids be developed? How much personal supervision should be employed to promote compliance? How satisfactory are present supervisory techniques?

Quality Control

Volume production means nothing unless the end product adequately fills the need for which it is designed. Thus, standards must be developed to insure that the product or service is adequate. It is in this area of quality control that the analogy between a professional practice and a manufacturing enterprise diverges. Once a manufactured product meets maximum allowable tolerances, quality control has served its basic purpose. Even though closer tolerances may enable the product to perform better, there is often a rapid diminishing return in relation to the time and effort needed to improve it. The quality of accounting services is more open-ended. Once the minimum standards of the profession are met, improved quality and additional efforts to improve the quality of the service may well yield better than proportionate returns. Therefore, in establishing its standards and measuring the results against them, an accounting firm has to decide what it really wants. Is an audit engagement conducted in conformity with generally accepted accounting principles and auditing standards to be considered entirely satisfactory? Or, should it be the bare minimum? What additional standards should the firm adopt to supplement or fill the gaps in "generally accepted" principles and procedures? Should the firm require that a conscious effort be made to detect and bring to the client's attention areas for improvement in his operations during the normal course of an audit?

In other work as well, there can be a world of difference between the acceptable and the creative service.

Controls must be established to see that the work measures up to the firm's standards. Thus, a firm should organize a system of review, inspection and in-process supervision of all its work, including correspondence, which will insure the quality of its service. Here, the audit review procedure can play a key part, but the entire system should be designed to answer this question: Are we satisfied to have this piece of work associated with our firm?

In one office the managing partner was so concerned over the effect that even small errors on a report might have on a client in prejudicing him against the firm's work in general that he adopted this temporary procedure: typists were instructed to type drafts exactly as received. Comparers who reviewed the typing issued "demerit" slips, with copies to the staff member and managing partner. Frequently, a "demerit" resulted in a reprimand and the cumulative record was consulted when a man's progress was reviewed. This procedure, while drastic and eventually discontinued when performance improved, demonstrates the importance one successful practitioner places upon quality control of reports.

Although control is generally regarded as an internal matter, the effectiveness of a firm's performance can often be gauged by the reactions of the client to the quality of the work performed.

Personnel

As a practitioner or a firm develops its plans for growth, it is apparent that an organization is necessary. Since the capacity of any individual is limited, there must at some point be a division of labor and some degree of specialization. This means hiring, training and supervising people.

A young CPA may choose to build from the bottom—first hiring staff, then admitting them to partnership while other staff men fill the lower ranks. Other CPAs may find it more desirable to merge with other practitioners.

Such a merger may enable these practitioners to combine their talents effectively to develop a better spread of peak period work loads, to acquire and utilize competent staff personnel more easily and to provide for the continuation of the practice. Still other CPAs may find it more profitable to acquire trained people at the partnership level, particularly if special talents of the individual can broaden the firm's area of service.

Some practitioners hesitate to admit partners. They dread the thought of a temporary cutback in their own incomes, fear a loss of control over their own practices, or doubt their ability to get along in a close association with others. Nonetheless, if a practice is to grow substantially and offer a variety of services, it becomes almost inevitable that partnership must be eventually considered—especially in view of the increasing complexity of accounting.

In planning for a growing organization, it is useful to keep in mind the desirability of a fairly wide spread in the ages of partners. If a three-partner firm is composed of men aged 55, 45, and 35, for example, it will obviously face the future with more assurance of continuity than if all three are in their 50's.

Personnel requirements should also be projected ahead. Staff assistants should be employed before they are actually needed, to allow time for training before the anticipated demand for his services materializes.

Many assignment schedules have been wrecked because they were too tight—management did not foresee the client demand for services. If a practice is growing, new or special work always comes along. It cannot be performed successfully unless trained staff has been provided in advance. Therefore, a growing practice must invest in staff payroll without immediately knowing specifically where the service will be utilized. In a small organization, some practitioners feel, an overestimate of staff by 20 per cent is not excessive and if the staff is competent, it will usually sell itself. This again involves risk—a willingness to sacrifice immediate income for potential growth.

Moreover, the practitioner should make every effort to keep the staff members the year around. This policy will provide an incentive to develop engagements to keep them busy during normally slack periods. However, some of this time should be used for staff training. Many practitioners no longer use temporary staff, except in emergencies, for they feel that temporary men cannot become acquainted with all the firm's standards and procedures. Also, it is virtually impossible to build a cumulatively expanding capacity if there is not a trained staff able to provide these services.

Personnel management appears to be one of the weakest spots in the accounting profession. Accounting firms not only attract a relatively small proportion of accounting graduates; there is high attrition among experienced staff men who leave to accept positions with private industry.

Developing a Competent Staff

Since a professional service can be only as good as the people who render it, first-rate people are in great demand. The CPA who wants to develop an effective staff should take the time to get in touch—and remain in touch—with the teachers and guidance counselors at the local high schools and colleges. He should follow the example of the larger firms and conduct interviews on the campus with members of the graduating class early in their senior year. It would be helpful to be equipped with a written or mimeographed statement describing the firm, its personnel policies, and its opportunities. Student scholarships offered by the firm, opportunities for internship training, summer employment, conversation with friends about personnel needs—all these will help to attract desirable young people.

Again the investment concept is of prime importance. Starting salaries for top college graduates in many of the large firms are now ranging between $450 and $550 a month. As Louis H. Penney, past president of the American Institute, has pointed out, inflationary forces are likely to cause a continuing increase in this starting wage for some time to come. Many local practitioners contend that they cannot afford to compete. But those who wish to build a successful practice to its full potential must be in a position to afford a competitive salary scale. The alternative is bound to be something less than complete success.

Even after a superior man has been employed, however, the problem has not been solved. He must be retained. Staff turnover is often a considerable hidden expense. The books do not directly reveal the resulting financial loss; but the practitioner who has invested time in recruiting and training a staff man, and has paid him a salary which cannot be fully recovered through fees in the early stages, suffers a heavy loss when that man leaves.

How can a good man be retained? Obviously he must be fairly compensated with steady salary advancement, and attractive incentives. Some form of bonus or profit-sharing should be considered as well as some of the "fringe benefits" which are almost universal in business—such as group life insurance (now available through the Institute), and a retirement program (which the Institute expects to make available soon on a group basis).

Yet these tangible incentives are often less important than the intangible compensations.

The opportunity to learn is an important one. The firm should be in a position to train its staff to assume increasingly responsible duties as soon as possible. The well-trained man can contribute more to the clients and to the firm. Because he is worth more, he can be paid more. The accounting profession urgently needs highly competent accountants—not a host of technicians confined merely to recording data. The latter group, of course, is needed, but its ranks should not be filled through the indefinite suppression of gifted accountants.

The experience of many practitioners has shown that a successful accounting practice is also a successful educational institution. It is only through adequate training that the staff can develop the essential ability to serve. If everyone who is trained does not remain permanently with the firm, all is not lost. A loyal body of alumni is a splendid asset. Staff training should be budgeted into any plan for growth, as to type of program, time allowance, and size of the staff. Some firms consider an investment of 10 per cent of the payroll to be wise.

Opportunities for Advancement

The opportunity to learn should be coupled with the opportunity for the staff man to advance in keeping with his knowledge and abilities. Can the highly qualified staff member look forward to becoming a partner in the not too distant future? The firm should make appropriate provisions to insure its own continuity and to keep these potential partners in the family. What about the "dead-end" senior accountant? He is a technically competent and willing worker, but he is not considered partner material. Is he to be lost to the firm? Cannot provisions be made in a growing organization for such men to become staff specialists, or to be assigned certain administrative duties or other work which will contribute to the firm's progress and permit further compensation?

Students of personnel administration attach great weight to "status". Is the staff man regarded as a part of the profession? Does his employer deal with him in a manner that indicates respect and consideration? Is he kept informed about the firm's progress and invited to offer suggestions on its problems? In a word, is he accepted as a professional colleague rather than as a hired hand?

In planning and administering its personnel policies, the firm might well approach the subject along the lines of the five-step program outlined in an earlier bulletin.* This includes an under-

* "Getting and Keeping Good Staff Accountants"—Bulletin No. 4.

standing of the following areas:

1. What do people expect—and need—to get from their work?

2. What objectives must an accounting firm establish to meet these needs and expectations, and thereby reach its own goals?

3. What policies with respect to pay, benefits, training, etc., should a firm establish to enable it to achieve those objectives?

4. How can a firm organize to put those policies into effect?

5. What specific practices, procedures and techniques—based on the previous four points—would best implement a firm's program so that it gets results in terms of employing and keeping good staff men?

The checklist in that bulletin (pp. 46-52) on the elements to be considered in developing effective policies can serve as a valuable guide in planning a firm's personnel program.

Personnel administration is a continuous effort to satisfy the basic human needs for satisfaction in work, a sense of recognition, self-importance and progress. This does not mean coddling the staff. It simply means dealing with people in a manner that will be likely to make them productive and loyal. It is a matter of enlightened self-interest.

Marketing

Marketing, as mentioned earlier in this bulletin encompasses the varied activities connected with directing and encouraging the flow of goods or services to the consumer or user.

This might sound like a fancy way of saying advertising, soliciting and selling. Marketing is these things, but it is more. It also includes market research, pricing, packaging and physical distribution. Next to personnel administration, it is generally agreed that the marketing functions in an accounting practice are the most neglected. Part of this may be due to the inhibiting effect of the rules of professional conduct, especially the prohibitions against advertising and soliciting. Ethics are important. A profession cannot exist without them. But since certain *techniques* are prohibited, with good reason, many firms tend to ignore the *functions* which can and should be performed within the framework of a professional practice.

The second bulletin in this series revealed that a representative group of businessmen felt that their CPAs were technically competent, but afflicted with "tunnel vision." In the view of these executives, the CPAs lacked imagination and aggressiveness. By aggressiveness, they did not mean the foot-in-the-door variety of salesmanship but an alertness to take advantage of opportunities to serve to the limit of their capacities. This alertness, combined with conscious planning, is essential to successful professional marketing. Here are some of the things the progressive firm should consider within each of the sub-elements of marketing.

Market Research

How can the CPA serve best unless he is aware of and can analyze the market for his services? He must know his clients, his community and the general business climate.

Some firms use "client survey" forms which contain basic information about their officers or owners, banker, insurance agent, etc., and attempt to isolate and evaluate the elements of the operations in which the CPA might effectively serve. Such a guide not only spotlights areas of potential service, but can help measure the extent to which the needs of the client are being met. (An example of some of the questions which might be included appears on pages 36 to 41.)

Other firms, on a less formal basis, but with similar conscientiousness, look for weaknesses in the client's operations. Examination of audit working papers, for example, especially the review of internal control, can yield many opportunities for service.

But this is not enough. The CPA should become familiar with the client's industry—subscribe to trade journals, review industry statistics—in other words, get to know the client's market and his position in it. Beyond that is the element of "economic awareness." As a sophisticated citizen, the CPA should keep up with and understand general business trends. Where is the economy going and why? How does it affect his clients?

All this knowledge is not particularly helpful, unless it can be put to use. It must be "sold". How then can ethical selling be accomplished?

Selling the Service

Present Clients—Probably the most fertile field for expanding services is present clientele. Few practitioners will deny that they can provide more service to most clients than they are presently rendering. They fail to do more, say many CPAs, because of insufficient time (lack of organization) or because of client reluctance (lack of "salesmanship").

The survey undertaken for the second bulletin in this series showed that many clients have only a vague idea about the services which their CPA is equipped to render. They do not know the size of his organization, the capabilities of his partners, or the quality of his staff. They happily accept his audit or tax service; but they have never heard that he and his firm might provide a great deal more service. It seems, therefore, that the first step is a concerted effort to see that the client is fully aware of the capabilities of the firm and its members. Some of the specific things which might be done along this line are outlined (pp. 25-26) in the sixth bulletin in this series, *Building Sound Relations With Your Client.*

Once the CPA is cognizant of his client's needs, much depends on the manner in which he makes his presentation. He must be firmly convinced of the value of his proposals and exude confidence in them. Any insincerity or appearance of "making work" is usually readily apparent to the client and can do irreparable damage to the CPA's relationship with him.

Techniques will vary, but if the client needs a lot of work, it is often better to approach him one step at a time—relating the particular extension of service to the client's profitability or self-interest. Once the value of the original proposal has been proven, succeeding ones are more easily accepted.

A personal presentation is generally better than a written one, although one can complement the other. It can be made during discussion of existing work, or in a special visit. Some practitioners make it a habit to invite certain clients to lunch and encourage them to discuss their problems. The client is usually glad to be able to talk about his troubles to someone he knows will keep these matters confidential. Frequently such discussions can prove fruitful to both client and accountant.

There is no reason why a CPA cannot solicit additional services from his present clients. But many CPAs overlook one of the prime tenets of salesmanship—asking for the order. The client should not be obliged to take the initiative in requesting the additional service; he should only have to acquiesce. However, there should be no high pressure involved in this kind of campaign. Pressure—especially from a professional man—almost inevitably creates sales resistance. But continued evidence of the CPA's interest in the client's problems, and indications of his ability to help relieve the client of some of his burdens, will usually result in requests for additional services in the course of time.

The few surveys that have been made suggest strongly that most businessmen, consciously or subconsciously, want help from CPAs in solving their financial and operating problems. They may hesitate over the cost, but they will hesitate only until they are convinced that the CPA can help them increase profits.

For example, in the survey mentioned earlier, only 15 of the interviewed companies had any budgets. Yet almost every book on management assumes that a budget is an indispensable operating tool for a successful business. Even if not all CPAs are competent to do a complete budgeting job, they can plan to make themselves competent by study and can gain experience through handling the more elementary phases. The second bulletin in the Institute's series on Management Services by CPAs deals with this very subject.

Potential Clients—To build a practice to its full potential, however, it cannot be assumed that the clients presently served will provide all of the needed opportunities for growth. Additional clients will have to be added. Where are they to come from?

The most common sources of new clients have been listed in this order of importance: *

1. Satisfied clients.
2. Lawyers.
3. Banks and other credit agencies.
4. Business acquaintances.
5. Personal friends.
6. Clubs and organizations of which accountant is a member.
7. Former associates and other accountants.
8. Real estate and insurance agencies.
9. Secretaries of trade and professional associations.

It is not at all surprising that recommendations from satisfied clients rank at the top of the list. Nothing can be more helpful than a reputation for excellent performance. Therefore, a satisfactory relationship with present clients not only makes them better clients; it builds a firm's reputation in the business community. When approached by a prospective client for a relatively small or routine job, the firm should look beyond the immediate engagement to assess the potential needs of the client. Some firms will also accept borderline accounts, which in themselves offer a limited scope for service or profit, but which might provide an opportunity to acquire recognition in influential quarters. For example, an audit engagement for a trade association could bring a firm to the attention of the association's membership.

Many firms report that a substantial number of their clients originally came to them as a result of a tax problem. This suggests that a practitioner or firm which has built a reputation in the tax field stands to attract a greater number of clients than those that have not. Many of these clients are prospects for more complete service as time goes on.

Conversely, when the association between a CPA and a client

* "Building and Keeping a Clientele," by Robert E. Witschey, *CPA Handbook,* Chapter 2, New York, American Institute of CPAs, 1956.

is terminated, the CPA should strive to see that it is accomplished on the best possible terms. A single bitter former client can endanger the firm's reputation.

The CPA will also find it profitable to invest some time in establishing friendly relations with bankers and lawyers, and in informing them of the nature of his services. The importance of bankers as a source of clientele was brought home forcefully in the ninth bulletin in this series on the attitudes of bankers toward the CPA. Despite their willingness to learn more, many of the bankers interviewed for the study knew remarkably little about the CPAs in their communities. Surely this is an area that the growing firm ought to cultivate. In addition, the CPA can heighten his visibility, and thereby his potential clientele, by taking an active part in community activities, by making speeches to local business groups, and by writing articles for various publications.

Packaging

Another neglected aspect of the marketing function is what is known in industry as "packaging." In a professional accounting practice, this has to do with the form and style of reports and communications to the client—oral, as well as written.

The physical appearance of reports is important, but not as important as their readability and their content.

They should be designed to tell the client what he most wants to know with the least effort on his part. Formal financial statements and opinions, together with schedules which are in effect a part of the statements, should not be combined with supplemental statistical data not intended to be covered by the opinion. Recommendations or comments on financial or operating procedures should be made the subject of a separate communication in many cases, even if they are summarized in the regular report. Each service rendered should be clearly identified, and separately "packaged." Many CPAs feel that written memorandums or letters should be sent to the client to confirm advice delivered over the telephone. This not only serves to avoid possible misunderstandings, but it formalizes and identifies service rendered, and thus enhances its importance in the client's mind.

The ability to speak and write forcefully and well is important to every practitioner. The development of these skills among its staff members should play an important part in any firm's program of staff development.

Personal delivery and discussion of reports are also recommended by many CPAs.

Periodic conferences with the client on general business problems have already been mentioned. They, too, are a part of the function of delivering the professional service in a convenient and attractive manner.

Pricing

A most important part of marketing activities is the matter of putting a fair price tag on the products or services. Within the context of an accounting practice, it is the subject of fees. An inadequate fee scale can do more than any other single factor to restrict the growth of a practice. It can result in the "squirrel cage" of long hours at low rates which preclude the practitioner from improving his competence to perform high level work, in keeping with his potential. On the other hand, since over-pricing can drive clients away, it is incumbent on the CPA to be worth what he charges and to see that his client is aware of his value.

The complex subject of fees has been intensively treated in the third bulletin of this series; but at least some of the general conclusions arrived at by many successful firms can be stated here, as a basis for planning.

Fees must not only cover all direct and indirect costs; they must also provide principals with an income sufficient to support a decent standard of living that will attract the respect of the community. Reasonable salaries for the principals should be regarded as a cost. Fees must be sufficient to allow the principal or partners time to discharge the management functions efficiently —or, in other words, cover "administrative" as well as "production" costs. Fees must permit time for professional development, through staff-training and continuing-education, as well as participation in professional affairs, community service, and the like. Perhaps this is another way of saying that fees must be sufficient to provide capital to be reinvested for expansion of the practice. Fees must also rise steadily to offset the eroding effects of inflation.

Naturally, fees must be acceptable to the client if they are to be collected—which is another way of saying that the services must be worth the cost to the client. Rarely will a client object to fees for services which he can relate directly to his profits.

Thus, fee policies become an integral part of a firm's overall planning. They should not be developed on a haphazard basis. They should be carefully planned in keeping with the types of service to be offered, with the future needs of the firm and with the objective of producing the income which the practitioner believes he is entitled to derive from his practice.

In order to plan his fee structure efficiently, however, the CPA must know his costs and his financial requirements. This brings up another major activity area of management—finance and control.

Finance and Control

The subject of finance and control is perhaps the area of management most familiar to CPAs. It may be somewhat superfluous to introduce it here, for it embraces a number of the services which CPAs customarily render to their clients. However, there is some evidence to suggest that CPAs do not always practice what they preach and fail to apply this knowledge to their own professional affairs.

Finance and control is defined as planning, directing and measuring the results of the firm's monetary operations. It includes, among other things, the forecasting of capital requirements. The CPA planning for the growth of his practice should engage in financial forecasting, as well as recommending it to clients.

CPAs, by the very nature of their work, are inclined to be conservative. But does this mean that they should restrict their financial plans to the limits of their earned reserves? It is frequently true that a healthy growing enterprise is short of cash. Perhaps, in terms of long-range growth, it might be better for a firm to make use of more capital than is presently available from earnings. A bank loan might be considered, or the capital contribution of a new partner might help. In any case, the firm should not necessarily restrict its plans to its present cash situation. If it does, it may find that it is missing some inviting opportunities.

In addition to developing internal or external sources of needed funds, the financial activity includes planning for taxes, developing policies on credit and collection (including billing procedures), and providing the necessary insurance coverage. (All of these have been subjects of previous bulletins.)

Under the heading of "control" come the usual accounting records, expense data, standards, and cost analyses. Before any plan can be properly executed, a firm must know how much and on what it spends its money. Although specific procedures will vary with the firm, depending on its size and the nature of its practice, a fairly detailed chart of accounts should be established in order to provide a clear picture of the expenses. As mentioned earlier, time and money are virtually interchangeable within an accounting firm. Consequently, effective time controls are indispensable to efficient operation. As pointed out in *Controls for the Effective Use of Time* (Bulletin No. 5), these controls should serve three purposes:

1. To see that the working time of staff is used as productively as possible.

2. To make sure that work is properly charged to the client for whom it was performed.

3. To enable the firm to review the adequacy of its fee structure.

Then comes budgeting. How many accounting firms have budgets? All available evidence indicates that few of them do —which suggests two questions: Why shouldn't a professional firm project its revenues, expenses and profits as a means of measuring the results against predetermined standards and of analyzing the variances? How else can it effectively plan its future?

Within the accounting office, also, there is room for systems and procedures. Someone has to design forms, records and reports of various types; someone should study the clerical work flow and methods, the possible utilization of accounting and office machines, reproducing equipment, and so on. These may be relatively minor functions in the early stages, but provisions must be made to pay sufficient attention to them, as the practice grows.

Legal, Public and Other External Relations

Although this catchall category contains elements that are closely intertwined with other activities, its importance should not be overlooked.

Accounting firms need legal advice on such matters as partnership agreements, letters of arrangement with clients intended to limit legal liability, and compliance with such general laws as the Fair Labor Standards Act and with statutory requirements involved in certain types of work done for government agencies. The CPA should also be aware of state laws regulating the accounting profession, and the codes of ethics promulgated in accordance with them, in addition to general laws governing certain types of occupations, requiring filings in the names of partners, etc.

Some areas of public relations already have been discussed in this bulletin—especially those pertaining to specific publics—clients, bankers, lawyers, etc. However, too much emphasis cannot be placed on the firm's reputation in its community. Is it regarded as a good citizen? Does it participate in community activities, contribute to worthy causes, enjoy good relations with banks, law firms, government agencies and others with whom it comes in contact?

In other words, is it taking the necessary steps to establish the image of a highly qualified group of men, dedicated to the principles of professional service?

One practitioner recently outlined the eleven impressions that his firm attempts to convey:*

---

* Richard C. Rea in "Practitioners Forum," *Journal of Accountancy,* July, 1959.

1. We are successful and growing.
2. We charge reasonable fees.
3. We are competent and dependable.
4. We offer a wide range of services.
5. We do not know all the answers, but we will get them.
6. We are progressive and up-to-date.
7. We help management.
8. We help other public accountants.
9. We regard no business as being too small to serve.
10. We have a highly trained staff.
11. We are a good firm to work for.

Public relations have often been regarded as a basic function to be performed by the profession's state and national organizations. Much has been done by them to advance the profession's prestige—and, doubtless still more could be accomplished. Every CPA as a matter of enlightened self-interest should support his professional societies, not only because such support will enable the societies to undertake further efforts to achieve greater public recognition of the profession, but because membership is likely to enhance his own stature in the public eye. As reported in an earlier bulletin, bankers have indicated that membership in a professional society is a definite factor in their recommendations of CPAs to their customers. In the final analysis, however, it is the CPA's personal public relations that have the greatest impact on his practice.

5. Conclusion

This bulletin has attempted to outline basic management functions as they apply to a professional practice.

It should be emphasized again that this approach is not intended to suggest that a CPA's motivation should come from a preoccupation with profit at the expense of professional dedication to public service, or at the expense of ethical standards or professional attitude. The CPA should not act and talk about his practice as though it were a commercial business. Business management terms have been used here merely to clarify the fundamental point that these basic management functions apply to any economic enterprise.

Some of the specific problems discussed in this bulletin have been covered in considerable detail in previous bulletins. Others will be examined in future publications. The present purpose has been to tie togther many aspects of this varied subject, in order to reflect their interrelationships in overall planning.

It would not be surprising if a practitioner who has just begun to build a practice would regard this approach as hopelessly beyond his capacity. How can he keep alive? How can he earn fees and at the same time attend to all these management functions? How can he hope that his clients will pay for all these "non-chargeable" activities?

The answer is clear: He can not—immediately. But he can begin. This is not a program for one year, or five years. But it has been done—not once, but many times, over a span of years.

Every practitioner, regardless of the scope of his practice, has to make a choice. He either deals with the management problems—or he ignores them. The problems are there in either case.

The present demand for professional accounting services is at an all-time high, and it seems to be increasing steadily. The profession is still under-populated. There is little doubt that businessmen will pay for needed accounting services, once the value of those services in contributing to profitability has been made clear to them.

It would be perfectly natural for a harrassed CPA to argue that he cannot spare the time on the management functions involved in building a practice, or that his clients cannot be persuaded to pay the fees that will support the development of a sound organization. He may also be able to convince himself that he cannot afford the time and the money for self-improvement through attendance at professional meetings or continuing-education courses. But this defeatist attitude can only mean a renunciation of future opportunities. How is it possible to build a practice, or any other kind of economic enterprise, without delivering a quality service—and how can a quality service be delivered without effective management?

In the preface of a recent book published by the American Management Association, Chairman John Sparkman of the Senate Small Business Committee said this about the problems of small business: "The small and more or less local concern is bucking against formidable odds. . . . The only anchor which the small businessman can cast to windward is smart management. Mediocrity in the marketplace is doomed. The age of the business amateur is gone; the day of the 'pro' is upon us. The shrewd use of men, money, and materials is fast becoming the indispensable element not only of success but of survival as well."

Surely, this warning should also be heeded by every professional practitioner.

Appendix

Reminder List for Special Services

The following reminder list is a composite of questions asked by several firms to uncover areas in which they might supplement their services to clients. It is by no means complete and tax questions are in general omitted. But it may suggest topics which can be discussed with officers or key personnel of clients, when appropriate. Whenever they visit a clients' office for audit, tax or other services, accountants should seek to obtain an understanding of the general business problems (as well as the accounting problems) of greatest concern to top management. If they apply their specialized training to those problems, they may be able to submit suggestions which will be of special service to their clients.

I. *General Matters*

1. Recapitalization desirable?
   a. More common stock?
   b. Preferred issue?
   c. Bonds or mortgage with deductible interest?
2. Are present dividend policies satisfactory?
   a. Cash dividends excessive in relation to working capital?
   b. Appreciated assets which should be distributed?
3. Public distribution of securities desirable?
   a. Management viewpoint?
   b. Stockholders viewpoint (particularly if closely held)?
4. Spinoff or split-up desirable?
5. Any advantageous merger prospects which should be explored?
6. Separate corporations desirable?
   a. Real estate?
   b. Sales?
   c. Foreign?
   d. Other states?

7. Company informed of its share of total industry?
   a. Results analyzed and compared with available industry statistics?
8. Voting counts needed?
   a. Proxies?
   b. Shop elections?
9. Company a "good citizen"?
   a. Senior executives participating in civic affairs?
   b. Junior executives encouraged to participate?
10. Data required for labor union negotiations?
11. New plant locations desirable?
    a. Improved distribution?
    b. Accessibility of labor and materials?
12. Assistance needed in compiling economic statistics?
13. Management using charts in dealing with department heads?

II. *Finance and control*

1. Organization charts:
   a. In existence?
   b. Complete?
   c. Clear as to authority and responsibility?
2. Budgets:
   a. Long term for capital requirements, plant expansion, sales?
   b. Cash flow projections?
   c. Income and operational budgets:
      A. Used effectively, 3 months, 6 months, year?
      B. Adjusted monthly on moving basis?
      C. Production schedules tied in?
   d. Differences investigated, explanations required?
3. Difficulty in obtaining financing?
   a. Short term funds?
   b. Intermediate or long term funds?
   c. Any unusual problems?
4. Management reports:
   a. Daily or other period sensitive indicators furnished to top management (e.g., personnel census, cash, orders, shipments)?
   b. Weekly reports to department heads and foreman?
   c. Monthly reports:
      A. Received early enough?

B. Cumulative and comparative?
C. Tied into budgets?
d. Too many reports?
e. Copies to right people and being used effectively?

5. Controller's duties:
   a. Report to President?
   b. Ever report to Board of Directors?
   c. Capable of fully analyzing results?
   d. Cooperating fully with management and operating personnel?
   e. Effective in cost reduction and expense control?
   f. Useful in "buy or make" decisions?
6. Plant capital expenditures:
   a. Formal authorization plan in effect?
   b. Proposed additions studied for economic justification?
   c. Adequate follow up and comparison of actual and estimated costs?
7. Credit and collection policies clearly established?
   a. Sound in relation to competitors?
   b. Carried out as instructed?
8. Market analysis and research being done?
   a. Used in budgeting?
9. Surplus funds:
   a. Kept busy?
   b. Investments conservative?
   c. Rate of return normal?

III. *Office Management*

1. Sufficient manuals and written instructions?
   a. Written clearly?
   b. Up-to-date?
2. Internal auditing being done to inspect and enforce manual procedures?
3. Clerical work-loads and planning:
   a. Standards established?
   b. Workloads and production measured?
   c. Excessive overtime?
4. Office lay-out physically efficient?
5. Filing problems?
6. Record retention and destruction program:

a. Formally planned and approved?
b. Actually being carried out?

7. Control over forms and reports?
   a. Duplications eliminated?

IV. *General Accounting*

1. Chart of accounts adequate?
   a. Numerical coding desirable?
2. Standard monthly journal entries in use?
3. Voucher checks used?
4. Replace accounts payable ledger with voucher ledger or unpaid invoice file?
5. Replace accounts receivable ledger with duplicate invoice file?
6. Petty cash under control?
   a. Imprest system used?
7. Sales records:
   a. Summarized efficiently?
   b. Classified adequately?
8. Monthly statements to customers unnecessarily detailed?
9. Duplications in gathering operating data?
10. Property plant and equipment records:
    a. Plant ledger maintained?
    b. Up-to-date?
    c. Simplification possible?
    d. Location records reliable? Necessary?
    e. Physical inventory desirable?
    f. Book basis or tax basis depreciation studies desirable?
11. Prenumbered forms being used?
    a. Purchase orders?
    b. Receiving reports?
    c. Sales orders?
    d. Others?
12. Employee earnings record and checks prepared in one operation?
13. Inventory records:
    a. Perpetual inventories maintained for all classes of materials?
    b. Turnover studied?
    c. Obsolete items written off?

14. Possible uses of machine accounting:
    a. New uses for present equipment?
    b. Electronic equipment?
    c. Punched card equipment?
    d. Peg-boards?

V. *Cost Accounting*

1. Tied to general ledger?
2. Any standards obsolete?
    a. Labor, material, overhead?
    b. Production or operating ratios, e.g., KWH used by departments, machine speeds, pieces produced per hour or other physical ratios?
3. More cost centers or departments, or fewer?
4. Cost accounting approach fully developed?
    a. Engineering?
    b. Distribution?
    c. Administration?
5. Plant capacity soundly determined?
6. Indirect expenses reasonably distributed?
7. Variances analyzed, explained and used as tool to improve operations?
8. All cost accounting necessary to be repeated monthly or should some be discontinued and performed only at other intervals?
9. Cost-volume relationships fully developed?
10. Break-even points known?
11. Fringe benefit costs grouped with other labor costs in reports?
12. Cost data considered when setting prices of product?
    a. Inflation factors included?
13. Company getting its fair share of competitive bids?

VI. *Estate Planning*

1. Situations studied and programs established for:
    a. Principal officers?
    b. Directors?
    c. Stockholders (if closely held)?
2. All have wills?
3. Taking advantage of gift tax exemptions?

4. Providing liquid assets for estate taxes?
5. Providing adequately for education of children?
6. Charitable foundations desirable?

VII. *Insurance*

1. All insurable risk areas covered:
   a. General liability and property damage?
   b. Products liability or other liabilities peculiar to business?
   c. Fire and extended coverages?
   d. Bonding of employees?
   e. Business interruption?
   f. Compensation and disability?
      A. Are employees so classified as to minimize premiums?
   g. Vehicles operated by employees?
   h. Life insurance on officers and key employees desirable?
2. Are comprehensive policies used, where appropriate?
3. Insurance written by one or several agencies?
4. Expiration dates of policies satisfactory?
5. Fully qualified insurance counsel?
6. Any claims to be prepared?
7. Has a complete insurance study been made recently?

VIII. *Personnel*

1. Accounting personnel qualified, competent and effective?
2. Openings for key finance or accounting personnel?
3. Areas in which improved incentives could be offered to employees?
4. Adequate provisions for replacement of key personnel?
5. Improved plans for employee training needed?
6. Review of compensation plans desirable?
   a. Bonus or profit-sharing?
   b. Pension plans?
   c. Stock option plans?
   d. Saving funds?

Subject Index