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## Seasonality : practitioners' suggestions for managing work load compression

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Committee

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# Seasonality



Practitioners' Suggestions for Managing  
Work Load Compression

*Issued by*

*AICPA Management of an Accounting Practice Committee*

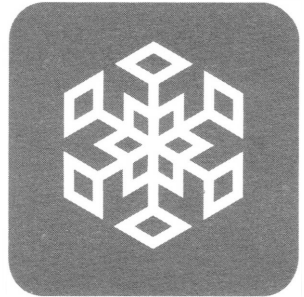
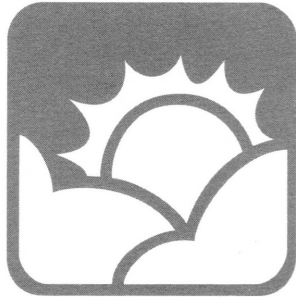
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# Seasonality

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## Practitioners' Suggestions for Managing Work Load Compression

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# INTRODUCTION

Seasonality is an old problem that was exacerbated by the Tax Reform Act of 1986 (TRA '86). The AICPA is actively lobbying to revise the tax laws so that all involved—taxpayers, accounting firms, and the government—benefit from a more reasonable and cost-effective system of filing deadlines. However, even if lobbying efforts are successful, many of the conditions adding to the strains of seasonality will persist.

In an attempt to find out how practitioners are dealing with seasonality issues, the Management of an Accounting Practice (MAP) Committee undertook a survey of current MAP Committee members and MAP Committee alumni (a group that constitutes more than 150 firms represented in the AICPA's membership). All AICPA members were invited to participate through a survey published in *The Practicing CPA*, and other accounting associations were contacted to request the input of their members. This book summarizes the responses of these firms, as well as tips gleaned from AICPA conferences and professional publications.

There is no set formula for managing seasonality, as indicated by the diversity of ideas gathered from the survey. Each firm must establish its own strategy depending on size, strategic plan for the future, the individual ambitions of partners and staff members at every level, the unique expertise, special interests, and skills of staff, and the community's need for various services. Nonetheless, one strategy characterizes nearly all successful efforts to deal with the problem, and that is the continual evaluation of how well the firm is presently managing its seasonality problems and the use of that information to make plans for improving conditions in the future.

In many well-managed CPA firms, this planning begins while tax season is still under way. For example, some firms have reduced seasonal work-flow pressures by making operational rituals, such as quarterly

scheduling reports and weekly scheduling meetings, a top priority. Essential to *consistent* planning procedures is the ability to later compare projected schedules with actual accomplishments—a useful tool for evaluating the profitability of past assignments, bidding realistically on new assignments, and planning staffing needs for the upcoming season.

Many firms officially allot evaluation and planning time immediately after April 15. In the nuts-and-bolts section entitled “Focus on Firm Efficiency,” you will find some interesting tips on how to (1) evaluate the past season’s flow of returns and (2) use postseason recap meetings to offset burnout, boost employee morale, and promote positive operational change.

Although survey results indicate that firms of all sizes are moving toward less bureaucratic work styles, respondents agree that the more you institutionalize the use of control documents (such as evaluation checklists, statistics forms, and questionnaires that identify client needs), the easier it will be to plan for improvement as soon as a problem—or an opportunity—arises. The idea is to streamline: Create forms and work sheets that are easy to use and analyze. In the future, such forms are likely to be in the form of computerized templates for rapid input and analysis. Throughout this book you will find samples of traditional forms, work sheets, and checklists. These are not exhaustive, but they can help you get started on generating your own.

Creative approaches to the issues of seasonality are also an excellent way to initiate firm-wide discussions that can ultimately pay off in both profitability and an improved quality of life for you and your staff.

The AICPA wishes to thank the practitioners who participated in the seasonality survey. The good response rate once again proves that our members are committed to working together to improve the profession. We hope that the resulting rich menu of ideas will inspire you with new ways to help your practice meet today’s challenges and tomorrow’s goals.

W. Thomas Cooper, Jr.  
Chairman, AICPA Management of an  
Accounting Practice Committee

Nancy Myers  
Director, Practice Management  
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## CHAPTER 1

# FIRM STRATEGY

## AN ACTIVELY MANAGED CLIENT BASE

### Evaluate Your Existing Clients

At least once a year, a firm should classify its existing clients into categories of profitability. This analysis is especially useful when it is adjusted to reflect seasonality. An example of a seasonally adjusted client profitability analysis follows.<sup>1</sup> The sample firm used is that of Mr. Sam Jones, CPA, a sole practitioner. Mr. Jones has a staff of three full-time professionals, one part-time professional, and one full-time paraprofessional. In the past year, he and his staff had approximately 8,700 chargeable hours and generated billing of \$606,000. The analysis described is a three-step process.

#### Step 1: Determine the Peak Period

First, Mr. Jones needs to plot his firm's billable hours to determine the timing of his peak period and the total number of hours worked during this period. The graph on the following page shows Mr. Jones's billable hours by month for the most recent year.

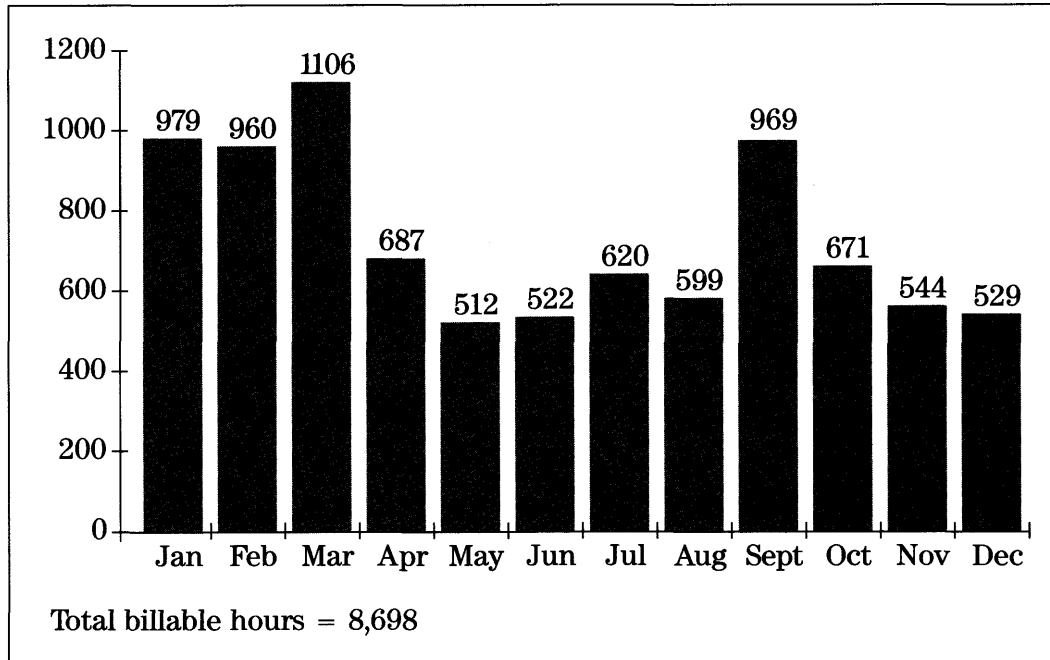
The graph shows that Mr. Jones has two peak periods: the first quarter of the year and the month of September. The total hours worked during these periods (the peak hours) come to 4,014.

Surveys suggest that different firms and offices often have quite different seasonality characteristics. Some firms are like Mr. Jones's, with two peak periods. Some firms peak in the third quarter, and, on occasion, a firm will peak during the summer. Plotting your billable hours on a graph will provide you with a visual confirmation of your firm's peaking profile.

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<sup>1</sup> Adapted from David G. Owens, CPA, "Ten Strategies for Coping with Seasonality," *International Accounting Bulletin*, May 1990, pp. 8-9.

**Sam Jones, CPA  
Billable Hours by Month**



**Step 2: Variable Versus Fixed Costs**

The next step is to segregate costs into fixed and variable.

Fixed costs remain constant throughout the year regardless of charged hours. These costs are often established by busy season requirements and include annual salaries, benefits, rent, and fixed overhead.

Variable costs increase or decrease throughout the year in proportion to charged hours. These costs include supplies, communications, overtime, and temporary staff salaries.

Mr. Jones's income statement for the most recent year is as follows:

Revenues

Professional fees	\$606,000
Other income	21,000
Total revenues	<u>627,000</u>

Expenses—fixed

Salaries and personnel costs	\$285,000
Facilities expense	40,000
Insurance, interest, and library	14,000
Practice development	5,000
	<u>\$344,000</u>

Expenses—variable

Computer processing	\$ 45,000
Travel and entertainment	14,000
Postage and supplies	13,000
Outside services	11,000
Telephone	6,000
Other office expenses	<u>14,000</u>
	103,000
Total expenses	<u>447,000</u>
Net income	<u><u>\$180,000</u></u>

Note that fixed costs are approximately 75 percent of total expenses. For most practices, fixed costs range from 70 to 90 percent of total expenses. Variable costs are the remaining percentage of total expenses, and they average from \$8 to \$12 per chargeable hour.

**Step 3: Allocate Fixed and Variable Costs**

Once the fixed and variable components have been determined, these costs should be allocated to individual clients or to groups of clients by industry *after* adjusting for seasonality. This is accomplished by allocating the variable costs over total chargeable hours and the fixed costs over peak hours. In Mr. Jones's case this would be as follows:

Variable costs

Total variable costs	\$103,000
Total chargeable hours	<u>÷ 8,698</u>
Rate per chargeable hour	<u><u>\$ 11.84</u></u>

Fixed costs

Total fixed costs	\$344,000
Total peak hours	<u>÷ 4,014</u>
Rate per peak hour	<u><u>\$ 85.70</u></u>

Finally, we analyze client profitability using these seasonally adjusted rates. In Mr. Jones's case, consider the following three engagements:

<i>Client</i>	<i>Ace Contractors</i>	<i>City of Golden</i>	<i>Chamber Ballet</i>
<i>Type of Service</i>	Review/ Tax return	Audit/CAFR	Review/ Tax return
<i>Chargeable Hours</i>	350	500	200
<i>Rate per Hour</i>	\$85	\$50	\$38

The Ace Contractors engagement appears to be the most profitable, but consider the timing of the work:

- Ace Contractors is under strict reporting requirements for its bonding company. All the work on this engagement is performed during February and March (the peak period).
- The fieldwork for the City of Golden begins in mid-September. Total September (peak) hours equal 200.
- The work for the Chamber Ballet is performed during May and June (off-peak).

With this information we can allocate expenses to these jobs based on when the work was performed. This is done using the fixed and variable rates determined previously.

	<u><i>Ace Contractors</i></u>	<u><i>City of Golden</i></u>	<u><i>Chamber Ballet</i></u>
Chargeable hours	350	500	200
Rate per hour	<u>\$85</u>	<u>\$50</u>	<u>\$38</u>
Fees	<u>29,750</u>	<u>25,000</u>	<u>7,600</u>
Variable expenses			
Chargeable hours	350	500	200
Variable rate	<u>\$11.84</u>	<u>\$11.84</u>	<u>\$11.84</u>
Total variable expenses	<u>4,144</u>	<u>5,920</u>	<u>2,368</u>
Fixed expenses			
Peak hours	350	200	0
Fixed rate	<u>\$85.70</u>	<u>\$85.70</u>	<u>\$85.70</u>
Total fixed expenses	<u>29,995</u>	<u>17,140</u>	<u>0</u>
Total seasonally adjusted expenses	<u>34,139</u>	<u>23,060</u>	<u>2,368</u>
Seasonally adjusted profit	<u>\$ (4,389)</u>	<u>\$ 1,940</u>	<u>\$ 5,232</u>

The purpose of this analysis is not to prove that Ace Contractors is a bad client and that the Chamber Ballet is a good one. Most clients are good clients if they're priced properly and are part of a balanced portfolio. This analysis merely provides a way to evaluate engagements on a seasonality adjusted basis.

A thorough evaluation goes beyond a simple examination of billing totals. Consider also less tangible but equally important criteria for profitability, such as *year-end flexibility* (can the client move work to a less busy time?), *ease of information access* (is material submitted in an organized fashion? are questions answered quickly?), and *payment history* (partial payment up front? bills paid on time? habitually late?).

As you develop more comprehensive criteria for examining the profitability of your existing client base, you will begin to formulate a more specific idea of the perfect client. With this profile in mind, you can better target new business prospects, as well as develop procedures and incentives that will encourage all clients to be good clients.

### **Say No to Less Profitable Assignments**

The hardest part of managing seasonality may well be learning how to say no to less profitable assignments. The best ammunition for making a sound growth management decision is a clear understanding of a client's profitability when adjusted for seasonality (as just outlined in the section entitled "Evaluate Your Existing Clients") and what your billing rates accurately reflect (see "A Sample Formula for Establishing Seasonal Pricing," page 40).

When you have established a more rigorous screening process, you will be able to decide with greater confidence when it is profitable to bid on a job. For example, an opportunity to establish a relationship with a prestigious company may seem at first glance to be very appealing but on closer inspection may prove to be unprofitable, especially during the busy season, when the added complexity may impose too much stress on your operations. In such a situation, you can suggest to a potentially burdensome prospect that a fiscal year-end be elected, explaining that it will be to everyone's advantage: The firm can afford to take on a new client during the off-season, and the client will receive more economical and personalized service.

### **Negotiating With Unprofitable Calendar Year-End Clients**

When negotiating with long-standing but unprofitable calendar year-end clients, simply tell them how much you must charge next year to make it



worth your while. Frequently, they will opt to pay the higher price or else make necessary organizational changes, such as electing a fiscal year-end or hiring a bookkeeper.

B. Jeannie Hedberg (Hedberg, Beedle & Freitas, CPAs, Honolulu, Hawaii) updates all “pass-through” entities with calendar year-ends on September 30 or October 31. This process helps identify potential problems and leaves only two to three months of updating with the resolution to be completed after the year-end. She explains to clients that “the difference in the cost to do an interim update and a yearly is very little more than doing all twelve months at once and that this allows us to get out a more timely product.”

Bob Brubaker (Roberts, Cherry & Co., Shreveport, La.) encourages calendar year-end clients to extend their filings into the off-season by offering “no-charge extension preparation.”

### **Pursue Traditional Accounting Work That Can Be Done Off-Season**

To balance the year’s work load, one of the most popular and obvious approaches is to attract clients who have off-season filing status, June 30 audits, or fiscal year-ends. These include—

- Governmental agencies with a June 30 year-end, including municipal, county, and state agencies, highway authorities, prison systems, colleges, and school districts (for federal September fiscal year-end work, see the strict guidelines issued by the General Accounting Office).
- Nonprofit organizations.
- Hospitals.
- Credit unions.
- Apparel industry clients who want quarterly reviews, not annual audits.
- Banks.
- Colleges and private schools.

In addition to cultivating these sorts of clients directly, consider acquiring, merging, or consulting with a practice that consists primarily of off-season assignments. Retirement-age principals of small, off-season niche practices may be especially amenable to the prospect of acquisition.

## **A YEAR-ROUND, MARKET-DRIVEN SERVICE MIX**

### **Identify Additional Service Needs of Existing Clients**

#### **Meet Regularly With Clients**

If you cultivate a year-round rapport with clients, your firm will be well positioned to identify and meet their various business and personal needs. Consider, for example, meeting casually with key clients on a regular, or at least a yearly, basis to stay up to date about what is happening in their lives and in their businesses.

Do not use these meetings as a time to pitch new business, but rather as a time to be a good listener. You can return later with a more formal new business pitch or proposal, after you have had a chance to digest the information. To aid your thinking, write a summary of your meeting or fill out a cross-selling form, such as the ones shown in the following section.

#### **Develop a Cross-Selling Form**

Every staff person who comes in contact with a client's tax return should be on the lookout for new business opportunities, from estate planning prospects to individuals or companies that need help organizing their tax records. The first step in training staff to participate in the cross-selling of services can be as simple as distributing a cross-selling form that lists areas of opportunity. Individual forms for each client should be filled out *during tax season*, then given immediately to the person in charge of new business development. Cross-selling forms can be simple or elaborate. The main goal is the same—to systematically and continuously update records of client needs. A secondary goal can be to identify new services the firm may want to consider adding. If new business development for off-season services is a priority, consider making the ability to identify such opportunities a criterion for job advancement. Three sample cross-selling forms are given on pages 8 through 16.

Shared by Julian P. Cangelosi, CPA, Cangelosi Accounting Corporation, Tustin, Calif.

CLIENT NAME \_\_\_\_\_ CLIENT NO. \_\_\_\_\_ F/UP TO \_\_\_\_\_  
 (staff member)

Everyone who handles a client's tax return (Form 1040) should have an awareness of additional services that could be of value to the client. This awareness can come about in talking to the client or in reviewing the return and supporting documents. Place an "X" in the box for each item that should be followed up. Add your initials, suggested implementation date, and comments (if any).

SERVICE ITEMS	SUGGESTED IMPLEMENTATION		COMMENTS
	INITIALS/DATE	DATE	
<input type="checkbox"/> Carrybacks, amend prior years returns - additions, deductions, net operating loss carrybacks, ITC, etc.			
<input type="checkbox"/> Estate planning, gifts, trusts, or updating wills			
<input type="checkbox"/> Income tax planning			
<input type="checkbox"/> Tax entity change - incorporation, "S" election, liquidation			
<input type="checkbox"/> Computer services- assistance			
<input type="checkbox"/> Tax shelter investments			
<input type="checkbox"/> Finance & banking relations			
<input type="checkbox"/> Professional corporation			
<input type="checkbox"/> Qualified retirement plans - Keogh, IRA, etc.			
<input type="checkbox"/> Compensation & benefit planning			
<input type="checkbox"/> Set up accounting books or system of recording tax data			
<input type="checkbox"/> Looking for investments			
<input type="checkbox"/> _____ _____			

Additional Notes: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

White - follow up file                      Yellow - client file

Shared by Monte R. Bluske, CPA, Wipfli Ullrich Bertelson, Eau Claire, Wis.

To be turned in with each completed year-end engagement

**SERVICE EXTENSION OPPORTUNITIES**

Client  or Potential

Client #       Name \_\_\_\_\_

Prepared By \_\_\_\_\_ Date Prepared \_\_\_\_\_

Approved By \_\_\_\_\_ Date \_\_\_\_\_

Place a check mark in one of the three columns for each service listed below.  
 C = Current Service    P = Potential Service    N/A = Non-applicable

C   P   N/A	C   P   N/A	C   P   N/A
<b>TAX SERVICES</b>		
		Responsible Employee _____
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	101 Year-end tax preparation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	102 Quarterly payroll tax preparation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	103 Changing form of entity or year-end	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	104 Estate planning (wills, trusts, gifts)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	105 IRS or WDR examinations	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	106 Life insurance analysis	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	107 Retirement and fringe benefit plans	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	108 Minimize penalty taxes, accumulated earnings, personal holding co.	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	109 Incorporation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	120 Multi state taxation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		121 Personal financial planning
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		122 Reorganization/Liquidation of business
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		123 S vs C corporation
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		124 Sales/Exchanges of business property
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		125 Shareholder distributions or transfers
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		126 Tax savings
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		127 401K plan design
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		128 Pension plan administrative accounting
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		129 Section 125 plan
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		190 Other _____
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		130 Individual tax ret of CEO
<b>MAS SERVICES</b>		
		Responsible Employee _____
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	201 Acquisition review	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	202 Business valuation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	203 Computer systems consultation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	204 Costing systems	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	205 Feasibility Studies	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	206 Financing/Restructing/Reorganization	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	207 General business planning/budgeting	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	208 Employee manual	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	209 Compensation/benefits program	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	210 Strategic planning	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		220 Inventory/Production controls
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		221 Job search
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		222 Litigation support
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		223 Management review
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		224 Market research/competitor analysis
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		225 Operations review
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		226 Personnel consulting
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		290 Other _____
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		227 3rd Party review of EDP
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		228 Cash flow projection
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		229 Industry comparisons
<b>GENERAL BUSINESS &amp; COMPUTER SERVICES</b>		
		Responsible Employee _____
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	301 Accounts payable check writing	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	302 Accounts receivable/customer billing	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	303 Automated general ledger	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	304 Bookkeeping services	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	305 Distributor	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	306 Manufacturing	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	307 Spreadsheet Applications	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		320 Timekeeping services
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		321 Depreciation schedules
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		322 Programming services
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		323 Health Care reporting
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		324 PC Software
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		325 Payroll check writing
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		326 Data base development
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		390 Other _____
<b>ACCOUNTING SERVICES</b>		
		Responsible Employee _____
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	401 Accounting system review	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	402 Audit	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	403 Compilation	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	404 Review	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	405 Lease vs buy	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		420 Level of service changing
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		421 LIFO vs FIFO
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		422 Deferred taxes
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		423 Stock transfers
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		424 Buy/Sell agreements
		<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
		490 Other _____

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Page 1

Shared by Lawrence E. McCanna, CPA, Gross, Mendelsohn & Weiler, P.A., Baltimore, Md.

MANAGEMENT ADVISORY SERVICES CHECKLIST				
Client Name _____			Year-end _____	
Prepared by _____			Date _____	
	<i>YES</i>	<i>NO</i>	<i>ALREADY DOING</i>	<i>N/A</i>
<b>1. BUDGETING</b>				
a. Could client benefit from the use of an operating budget?	<input type="checkbox"/>	_____	_____	_____
b. Do they need cash flow projections?	<input type="checkbox"/>	_____	_____	_____
c. Do they need to budget capital expenditures?	<input type="checkbox"/>	_____	_____	_____
d. If budgets are in use, does client receive timely comparisons to actual results?	_____	<input type="checkbox"/>	_____	_____
e. Does client need break-even point analysis?	<input type="checkbox"/>	_____	_____	_____
<b>2. ACCOUNTS PAYABLE</b>				
a. Is the company keeping current with creditors?	_____	<input type="checkbox"/>	_____	_____
b. If not, state the reasons:	_____			
_____				
<b>3. ACCOUNTS RECEIVABLE</b>				
a. Have receivable balances been increasing rapidly?	<input type="checkbox"/>	_____	_____	_____
b. What steps has the company taken to facilitate more rapid collections of receivables?	_____			
_____				
c. Does the company have a sound credit policy?	_____	<input type="checkbox"/>	_____	_____
d. Is it adhered to?	_____	<input type="checkbox"/>	_____	_____
<b>4. CASH MANAGEMENT</b>				
a. Does the company generally maintain large cash balances?	<input type="checkbox"/>	_____	_____	_____
b. Is working capital adequate?	_____	<input type="checkbox"/>	_____	_____
c. Does the company take its cash discounts?	_____	<input type="checkbox"/>	_____	_____
<b>5. FINANCIAL REPORTING</b>				
a. Does the company prepare monthly (quarterly) financial statements to review results?	_____	<input type="checkbox"/>	_____	_____
b. Are these statements reviewed by us on a regular basis to examine for any material errors?	_____	<input type="checkbox"/>	_____	_____
c. Is the format of the interim statements consistent with the format used at year-end?	_____	<input type="checkbox"/>	_____	_____
d. Is the chart of accounts adequately providing financial and cost information?	_____	<input type="checkbox"/>	_____	_____
<b>6. FINANCING</b>				
a. Is the company burdened with a substantial amount of short-term debt?	<input type="checkbox"/>	_____	_____	_____

MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
b. Has the company considered refinancing the short-term debt using a long-term amortization?	_____	<input type="checkbox"/>	_____	_____
c. Should alternative sources of capital be considered?	<input type="checkbox"/>	_____	_____	_____
d. Should renegotiation of loan terms and covenants be considered?	<input type="checkbox"/>	_____	_____	_____
<b>7. GENERAL LEDGER AND CONTROLS</b>				
a. Is the general ledger posted monthly?	_____	<input type="checkbox"/>	_____	_____
b. Does the company record accounts payable, accrued liabilities depreciation, etc. on a monthly basis?	_____	<input type="checkbox"/>	_____	_____
c. Does the company use its own computer for the general ledger system?	_____	<input type="checkbox"/>	_____	_____
d. Were there any material reclassifications resulting from posting errors we discovered?	_____	<input type="checkbox"/>	_____	_____
e. Is the chart of accounts kept up-to-date and adequate by the addition and deletion of accounts as necessary?	_____	<input type="checkbox"/>	_____	_____
f. Were there any material weaknesses in the accounting system observed?	<input type="checkbox"/>	_____	_____	_____
Please describe weaknesses: _____				
_____				
_____				
<b>8. LEASE OR BUY ANALYSIS</b>				
a. Is the company contemplating a substantial investment in equipment in the near future?	<input type="checkbox"/>	_____	_____	_____
b. Has the alternative of leasing the equipment been considered?	_____	<input type="checkbox"/>	_____	_____
<b>9. COST ACCOUNTING</b>				
a. Could client benefit from a cost accounting system?	<input type="checkbox"/>	_____	_____	_____
b. If cost system is in use, does it:				
1. Provide for performance measurement?	_____	<input type="checkbox"/>	_____	_____
2. Tie into the general ledger?	_____	<input type="checkbox"/>	_____	_____
3. Have current standard overhead rates?	_____	<input type="checkbox"/>	_____	_____
4. Tie into a perpetual inventory system?	_____	<input type="checkbox"/>	_____	_____
c. Are perpetual inventories:				
1. Maintained for all classes of inventory?	_____	<input type="checkbox"/>	_____	_____
2. Needed by client (if not being maintained)?	_____	<input type="checkbox"/>	_____	_____

MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
<b>10. LONG-RANGE FINANCIAL PLANNING</b>				
a. Does the company have a long-range financial plan (three years or more)?	_____	<input type="checkbox"/>	_____	_____
b. Has the plan been formally written and has it been reviewed by us?	_____	<input type="checkbox"/>	_____	_____
<b>11. PAYROLL AND LABOR DISTRIBUTION</b>				
a. Is labor a material expense of the company?	<input type="checkbox"/>	_____	_____	_____
b. Does the company allocate payroll and related costs among productive, administrative, selling, etc.?	_____	<input type="checkbox"/>	_____	_____
c. Is the method used to compute the allocation reasonable?	_____	<input type="checkbox"/>	_____	_____
<b>12. PRODUCT PROFITABILITY</b>				
a. Is the company contemplating adding to or changing its product line in the near future?	<input type="checkbox"/>	_____	_____	_____
b. Has a study been done to ascertain the cost of such change, the cost of the new product, and the appropriate selling price of the new product?	_____	<input type="checkbox"/>	_____	_____
<b>13. SALES ANALYSIS</b>				
a. Has the company experienced a large increase or decrease in sales volume (quantities)?	<input type="checkbox"/>	_____	_____	_____
b. Have the reasons for such change been determined (i.e. - changes, geographical consideration, etc.)?	_____	<input type="checkbox"/>	_____	_____
Please state reason: _____				
_____				
c. Does the company attempt to forecast sales for future periods?	_____	<input type="checkbox"/>	_____	_____
d. Is the sales forecast used to determine such things as equipment, material, and labor needs?	_____	<input type="checkbox"/>	_____	_____
e. How does the company market its products or services?	_____			
_____				
f. Does the company have analysis to study sales?	_____	<input type="checkbox"/>	_____	_____
g. Are there sales incentive plans?	_____	<input type="checkbox"/>	_____	_____
<b>14. WORK SIMPLIFICATION</b>				
a. Do you feel office work could be simplified?	<input type="checkbox"/>	_____	_____	_____
b. If yes, explain:	_____			
_____				
_____				

MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
c. Could client use new systems for:				
1. Accounts receivable?	<input type="checkbox"/>	_____	_____	_____
2. Accounts payable?	<input type="checkbox"/>	_____	_____	_____
3. Job costs?	<input type="checkbox"/>	_____	_____	_____
4. Cash receipts and/or disbursements?	<input type="checkbox"/>	_____	_____	_____
5. Other: _____	<input type="checkbox"/>	_____	_____	_____
d. Does the office equipment in use appear to be the best for the job?	_____	<input type="checkbox"/>	_____	_____
e. Is there an application for forms design work?	<input type="checkbox"/>	_____	_____	_____
f. Could client benefit from the use of a payroll service?	<input type="checkbox"/>	_____	_____	_____
15. COMPUTER AND SYSTEM APPLICATIONS				
a. Does it appear that data processing applications could be used?	<input type="checkbox"/>	_____	_____	_____
b. Could client benefit from work done by our computer consultants?	<input type="checkbox"/>	_____	_____	_____
If so, in what area: _____				
_____				
16. CLERICAL WORK MEASUREMENT				
a. Are the office workers giving the boss a fair day's work?	_____	<input type="checkbox"/>	_____	_____
b. Does work appear to be evenly distributed?	_____	<input type="checkbox"/>	_____	_____
c. Is work kept current?	_____	<input type="checkbox"/>	_____	_____
d. Do invoices, statements, reports, etc. get out on time?	_____	<input type="checkbox"/>	_____	_____
e. Do employees work overtime unnecessarily?	<input type="checkbox"/>	_____	_____	_____
f. Does office layout provide for efficient work flow?	<input type="checkbox"/>	_____	_____	_____
g. Are the clerical systems and forms adequate?	_____	<input type="checkbox"/>	_____	_____
h. Did you notice any unnecessary procedures and forms during the fieldwork?	<input type="checkbox"/>	_____	_____	_____
17. INSURANCE ANALYSIS				
a. Is the company adequately covered for necessary types of business insurance such as liability, business interruptions, buildings and contents, employee bonding, etc.?	_____	<input type="checkbox"/>	_____	_____
b. Should we consider doing a needs analysis for life insurance?	<input type="checkbox"/>	_____	_____	_____
c. Is the company the beneficiary of life insurance policies on the lives of the principal officers and/or stockholders?	<input type="checkbox"/>	_____	_____	_____



MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
d. Should policies be transferred to officers and/or stockholders for tax purposes?	<input type="checkbox"/>	_____	_____	_____
<b>18. BUSINESS SUCCESSION</b>				
a. How many shareholders/owners are there? _____				
b. If more than one, are they related?	<input type="checkbox"/>	_____	_____	_____
c. If so, explain: _____				
_____				
d. Are buy-sell agreements in place?	_____	<input type="checkbox"/>	_____	_____
e. Are they funded?	_____	<input type="checkbox"/>	_____	_____
f. Have they been reviewed for IRC Section 2701?	_____	<input type="checkbox"/>	_____	_____
g. Is there a plan in place for the succession of ownership in the business for:				
1. Death or disability of key shareholders?	_____	<input type="checkbox"/>	_____	_____
2. Eventual sale?	_____	<input type="checkbox"/>	_____	_____
h. Valuation:				
1. Is there a basis for valuation in the buy/sell agreements?	_____	<input type="checkbox"/>	_____	_____
2. Have there been any recent appraisals or valuations of the company's stock, assets, real property, etc.?	_____	<input type="checkbox"/>	_____	_____
Describe: _____				
_____				
_____				
i. Are there estate plans in place to minimize estate taxes?	_____	<input type="checkbox"/>	_____	_____
j. Do the shareholders and key employees have a sufficiently funded retirement plan?	_____	<input type="checkbox"/>	_____	_____
<b>19. BUSINESS INTERRUPTION/CONTINGENCY PLANNING</b>				
Any number of events can happen that may either temporarily or permanently cripple a business. Examples are: Loss of a key individual, computer outages, property destruction, and theft.				
a. Does the company have in place any plans in the event of business interruption?	_____	<input type="checkbox"/>	_____	_____
b. Are the key functions and positions adequately covered by adequate cross training of individuals?	_____	<input type="checkbox"/>	_____	_____
c. Is there a heavy reliance on the data processing function?	<input type="checkbox"/>	_____	_____	_____
d. Are there adequate back-up procedures for the data processing function?	_____	<input type="checkbox"/>	_____	_____

MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
e. Describe any areas you feel should be studied for providing interruption/contingency planning:				
_____				
_____				
_____				

20. GENERAL

(The following questions are to be answered based on the accountant's professional judgment and observations.)

- |  |                          |       |       |       |
|--|--------------------------|-------|-------|-------|
| a. Are organization charts defining responsibilities needed?                   | <input type="checkbox"/> | _____ | _____ | _____ |
| b. Is a record retention and destruction program needed?                       | <input type="checkbox"/> | _____ | _____ | _____ |
| c. Does client need a methods study on some operations not previously covered? | <input type="checkbox"/> | _____ | _____ | _____ |
| d. Does client need a complete office system study?                            | <input type="checkbox"/> | _____ | _____ | _____ |

e. What area of work takes the greatest time in the office?

Explain and note any room for improvement:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

f. Does the company provide fringe benefits?	<input type="checkbox"/>	<input type="checkbox"/>	_____	_____
Describe:	_____			
	_____			

g. Are the cost/benefit of the benefits reviewed periodically?	_____	<input type="checkbox"/>	_____	_____
--	-------	--------------------------	-------	-------

h. Is the company in compliance with reporting requirements?	_____	<input type="checkbox"/>	_____	_____
--	-------	--------------------------	-------	-------

i. Should personal financial planning be considered for shareholders and officers, e.g., deferred compensation plans, estate planning, bonus arrangements, etc.?	<input type="checkbox"/>	_____	_____	_____
--	--------------------------	-------	-------	-------

j. Does the company maintain some type of pension and/or profit-sharing plan?	_____	<input type="checkbox"/>	_____	_____
---	-------	--------------------------	-------	-------

1. If not, should one be considered?	<input type="checkbox"/>	_____	_____	_____
--------------------------------------	--------------------------	-------	-------	-------

2. If there is one, has it been updated for:

a. Tax law compliance?	_____	<input type="checkbox"/>	_____	_____
------------------------	-------	--------------------------	-------	-------

b. Obtaining optimal benefits?	_____	<input type="checkbox"/>	_____	_____
--------------------------------	-------	--------------------------	-------	-------

k. Is the company keeping in compliance with 1099 filing requirements?	_____	<input type="checkbox"/>	_____	_____
--	-------	--------------------------	-------	-------

MANAGEMENT ADVISORY SERVICES CHECKLIST

	YES	NO	ALREADY DOING	N/A
l. Is the company properly charging its employees for personally taxable items?	_____	<input type="checkbox"/>	_____	_____
m. Is the company satisfied with the way its autos and their personal use are being handled?	_____	<input type="checkbox"/>	_____	_____
n. Is the company considering any mergers or acquisitions?	<input type="checkbox"/>	_____	_____	_____
Should they?	<input type="checkbox"/>	_____	_____	_____
o. Contractual agreements:				
1. Are stock buy-sell agreements up-to-date (also see Question 19)?	_____	<input type="checkbox"/>	_____	_____
2. Should any employees have an employment contract?	<input type="checkbox"/>	_____	_____	_____
p. Is the company properly paying sales taxes in all states in which the company does business?	_____	<input type="checkbox"/>	_____	_____
q. Has management expressed any needs or made any other comments that should be followed up?	<input type="checkbox"/>	_____	_____	_____

Please list: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

r. List below any other ideas you might have for services to the client:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

### **Review New Client Report Forms**

While the principal purpose of these forms is to outline particular engagements, they can also provide clear profiles of new clients. These can help identify unmet client needs, the existence of flexible year-ends, and potential problems. If necessary, adapt your present new client report forms to help uncover such useful information.

### **Take Advantage of On-Hand Information**

Judith Trepeck (Rehmann Robson & Co., Farm Hills, Minn.) relied on data already entered into the computer to identify prospects for estate planning service. Using key indicators on tax returns, the computer located “ideal candidates” who then received a letter promoting the service from the partner in charge of that client’s work. The letter was followed up with a telephone call.

### **Amend Previous Tax Returns**

If, in the process of preparing this year’s tax return, you find an error in a previous return, do not make the correction at this time (unless of course it affects this year’s tax return). Instead, add any such sighted error to the list of things to do in the off-season. This advice would also apply to the filing of a carryback.

### **Package Niche Services That Capitalize on Special Expertise**

Although you may already be capable of providing many of the specialty services listed here, you may never have formally packaged them—that is, given them proprietary names or used them to distinguish your firm from the competition.

Packaging services is like writing a resumé for your firm that lists its distinguishing capabilities. In fact, to uncover untapped but highly marketable skills in your firm, you may wish first to consult the individual resúmes and biographical profiles of your professional staff. If these have not been updated, request that they be revised with an emphasis on special expertise. Also, try using creative brainstorming techniques to generate ideas for naming and marketing specialty services.

The AICPA seasonality survey results indicate that such entrepreneurial exercises are the key to off-season success.

Emerging areas of opportunity include the following:

- Computer consulting and/or training
- Physician billing services

- Nursing home consulting
- Employee benefits
- Personal financial planning
- Estate planning
- Retirement planning
- Banking:
  - Director examinations
  - Pre-loan reviews
  - Internal auditing
- Bankruptcies
- Operational reviews
- Litigation support
- Payroll compliance reviews
- Selection and monitoring of pension funds
- Section 125 plan administration
- Health care (Medicare coding)
- Government contract work (for the RTC, FDIC, and EPA)
- Human resources
- Telephone consulting for organizations that are moving
- Consulting services to other CPA firms (new business development/marketing/public relations, training, overhead evaluations, firm management of operations)
- Teaching continuing professional education (CPE) courses to industry and other CPAs
- Church audits in May and June

### **Join Forces With a Fellow Supplier of Professional Services**

One way to access niche client prospects is to join forces with another professional that already has an established clientele in the targeted area. For example, a law firm may be an expert in bankruptcies. If you have worked with that firm on specific bankruptcy assignments and wish to pursue the market further, consider a referral commission structure<sup>2</sup> or some other working relationship. For credibility, you might also ask to use the law firm's name in your letter of introduction.

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<sup>2</sup>Consult AICPA Professional Standards Code of Conduct rule 503 and check your State Board of Accountancy regulations before establishing a referral commission structure.

## **Pursue On-Site Assignments**

After the busy season, Tom Quin (Quin Richard, P.C., Norwood, Mass.) sends letters to all professional contacts stating that members of his staff are available for short-term, one-time assignments at reduced rates. As a result, members of his staff have been exposed to varied environments and have assisted with budget analysis, sales tax compliance projects, budget projections, and tax management for another CPA firm doing compliance work.

When you lend staff to clients at low or no rates for specific off-season periods, you provide your staff with new learning experiences and a welcome change in routine while also building your firm's relationships with key clients, and possibly identifying new work.

J. Frank Betts (Eubank & Betts CPAs, Jackson, Miss.) takes this idea one step further. Not only does he offer staff to clients, he also calls other CPA firms about sharing staff in downtimes.

## **Conduct Peer or Quality Reviews**

Conducting peer or quality reviews during the summer and fall months is a good way to sharpen your operational efficiency and increase entrepreneurial opportunities. Such reviews expose you to new methods that have already proved successful.

Chargeable external peer quality reviews can also stimulate firms to conduct more productive internal peer reviews. As Linn Gustafson (Gustafson, Cradall & Christensen, Inc., Colorado Springs, Colo.) noted, "If you become qualified to do peer reviews, you generate work during the nontax season, you are able to see how other CPAs handle their problems, and you may be able to recoup the cost of your own review."

## **Develop Training as a Profit Center**

As an off-season business, many CPA firms conduct CPE classes and offer consultation to other CPA firms on specific engagement issues. Others turn their off-season firms into computer training sites. Such ventures force you to stay on the cutting edge of technologies and successful management strategies. They also provide access to a large number of potential recruits for both seasonal and year-round work.

One-day seminars or week-long sessions can be designed for various staff levels on subjects such as file maintenance, security systems, electronic mail, and technological advances. Some firms become authorized education centers for particular systems.

### **Obtain Credentials for Complementary Professions**

The extreme seasonal conditions caused by TRA '86 prompted some CPAs to go back to school for degrees and licenses in fields that would complement their CPA work or in which CPA skills would be a major competitive advantage. Several AICPA survey participants reported that their accounting skills were readily transferable to the following professions, which they pursued during the off-season to balance the workload:

- Mediation and arbitration
- Real estate brokering and management
- Law
- Money management (e.g., as a chartered financial analyst or a certified financial planner)
- Insurance

### **Open a Temporary Agency**

One unusual option was reported by a MAP Committee member who described a firm that operates a separate temporary agency business. The business runs year-round placing personnel with both clients and nonclients. To accomplish this, it hires outside staff to fill requests for temporary help during the busy season. During the slow season, the firm uses its own personnel.

## CHAPTER 2

# HUMAN RESOURCES

### RETHINKING THE WAY YOU MANAGE YOUR TIME AND STAFF

James A. Smith (Smith, Sibley & Company, P.C., Dallas, Tex.) says that the first step toward better seasonality management is to “unlearn the truisms you have spent a lifetime accumulating.” He offered the following list to participants at the 1992 National Small Firm Conference, but his fresh thinking can inspire managers of all size firms.

1. Your personal chargeable time may not be the most important factor in your practice.
2. A CPA does not have to charge clients or pay professional help by the hour.
3. Everyone who works in a CPA firm does not have to keep the same hours, or even always come into the office.
4. A partner or shareholder is not the only person in a CPA firm who can legally sign a tax return.
5. It is possible for your clients to receive good service and be perfectly satisfied without ever seeing or talking to you.
6. It is not a professional standard that you must look at every single piece of paper that leaves your office.
7. You are not the only person in your office capable of preparing a client billing.
8. You are not the only person in your office who can keep the firm's books or prepare its tax returns.
9. You are not the only person who can deal with vendors, salespeople, landlords, and others with whom your firm does business.
10. You can take a vacation in the middle of tax season and still get everything filed on time.



When you let go and successfully delegate responsibility, you are changing the rules of how you conduct business. This process can be exhilarating for staff members at every level when the thinking is guided by a shared vision of the firm's goals.

## **A COMMITTED PERMANENT STAFF**

### **Increase the Responsibilities of Paraprofessionals**

As Larry K. Greenwalt (Greenwalt Sponsel & Co., Inc., Indianapolis, Ind.) pointed out, more and more firms are using paraprofessionals to do a greater variety of jobs at lower cost. During the busy season, trained paraprofessionals can pitch in and help professionals with the increased work load. This enables the firm to maintain a smaller number of professionals year-round. Another possible advantage of using paraprofessionals is increased morale and decreased turnover among professional staff. The use of paraprofessionals can free accountants from routine tasks and allow them to concentrate on more responsible, challenging, and rewarding tasks.

The following discussion on how to delegate tasks was developed with the professional-paraprofessional relationship in mind, but the general approach is applicable to all staff levels.

Many paraprofessionals are ambitious people who thrive on responsibility. In the legal profession, paraprofessionals are valued and recognized by the professional staff as integral to a firm's profitability. In the world of accounting, however, paraprofessionals are all too often treated as second-class citizens. This lack of respect results in a high and costly turnover rate. The solution is simple: Make paraprofessionals feel that they have a future with your firm and that their contributions are important.

To capitalize on ambition and increase commitment to your firm, delegate responsibility to paraprofessionals in a strategic and consistent manner. The first step is to help them identify their strengths and goals.

Full-time paraprofessionals who are responsible for bookkeeping and accounting for clients all year long can be taught to do year-end work on those same accounts and to identify new services that your firm could provide to key clients. It may also be more economical to delegate some tasks (for example, 1040s, 5500s, cash audit work, and depreciation schedules) to paraprofessionals than to entry-level accountants. But be careful not to make it seem as though you are simply dumping

work on the paraprofessional. Instead, delegate these new tasks as part of a larger career development strategy that the paraprofessional has personally embraced.

It is useful to put monthly notes in your personal calendar that remind you to consistently increase the responsibilities of specific individuals over the year so that by the time the season is in full swing, everyone is comfortable with the way tasks are delegated.

To ensure smooth transfers of responsibility—such as that of a professional's file notes to the paraprofessional, who then completes computerized input sheets—professionals must provide legible and adequately detailed information. A good motto for the professional is that a few minutes of deliberate note taking during a meeting with a client is worth hours of uninterrupted work time later.

The paraprofessional who assumes more responsibility must, in turn, learn to effectively delegate administrative tasks, such as copying and answering the phone, to permanent or temporary secretarial staff. One way of facilitating this process is to emphasize teamwork rather than hierarchy.

### **Reward Interdepartmental Teamwork and Individual Flexibility**

During the busy season, some departments of a firm may need assistance from less burdened departments. Conversely, during the off-season, departments such as tax and audit might benefit from merging. A firm should support flexibility in its employees. William C. Lankford, Jr. (Deloach & Company, Atlanta, Ga.) states that his firm demonstrates flexibility by “[sending] work home with those who cannot stay in the office due to family reasons.” A firm should be prepared to reward employees who readily take on tasks outside their routine—employees who make a concerted effort to be quick studies when it comes to assuming new responsibilities.

### **Instill a Sense of Ownership**

To promote initiative, especially at the junior level, find ways to encourage project ownership. For example, a junior staff member may be assigned to research a specific tax area and then to assist senior personnel in planning in that area. Another may be assigned to scan clients' prior tax returns to identify potential tax planning possibilities that, if identified early, could eliminate unexpected problems.

## **SCHEDULING AS AN ART FORM**

### **Make Scheduling Meetings a Priority**

When the seasonality problem increased several years ago, Lawrence E. McCanna (Gross, Mendelsohn & Weiler, P.A., Baltimore, Md.) created a comprehensive scheduling program that is simple and effective. One month prior to each quarter, the firm develops quarterly overviews of assignments. To outline upcoming assignments, they use last year's figures and the staff schedule form that follows on the next page. Using these data, all managers and selected partners meet every Monday morning (every Saturday morning during tax season) for half an hour to plan the upcoming week. The same one or two partners run the meeting each time. Though not a hard science, this exercise gives the staff a sense of where they are in terms of responsibilities. The power of this simple process should not be underrated. According to McCanna, "Since these meetings were instituted, the firm's efficiency has increased significantly."

The process also encourages firms to compare projected scheduling with actual accomplishment. This analysis aids in evaluating profitability at the end of the season as well as in bidding on future assignments.

### **Schedule Vacations After Post-Season Evaluations**

To effectively manage seasonality you must continually evaluate and plan. A major contributor to thorough evaluation and planning is fresh staff input—complaints and suggestions that are still fresh in everyone's mind following the busy season. Therefore, the main thing to remember when scheduling vacations is to build in enough recap time between the end of tax season and the beginning of vacation/time-off season.

### **Hire and Fire at the Right Time**

The pressures of seasonality demand that timing be an essential ingredient of sound hiring and firing decisions. Use time lines to structure your hiring plans. For example, move the starting date for incoming junior accountants to the autumn months, and terminate less productive employees soon after the busy season ends. Although it is a painful process, don't procrastinate with terminations, since every delay will cost you money. (For an introduction to the legal procedures of termination, see the AICPA's Management Series: *Managing Your Most Important Asset: People*.)



It can also be helpful to offer employment only from January through April. For example, Meaden & Moore, Inc. (Cleveland, Ohio) hires one or two December grads to work during the busy tax and audit season, but informs them in advance that there may be no work over the summer. Sometimes graduates welcome the summer break to travel and recover from the pressures of school and the busy season. The disadvantage of this traditional CPA staffing approach is that it can reduce commitment and overall office morale.

If good, consistent seasonal staff is hard to find, advance-notice April firings may be the only alternative for the short term. For the long term, consider strategies for creating a steadier year-round demand for your services, one that can support what you consider to be the ideal staff size.

### **Performance Appraisals**

One key to balancing the seasonal work load is to “make career decisions for staff *immediately after* tax season,” according to Kenneth A. Rowles (Schneider Downs & Co., Inc., Pittsburgh, Pa.). Although the review process can be painful when a staff member hasn’t met expectations, don’t procrastinate, since every delay will cost you money.

To make the review as complete as possible, obtain feedback from as many people as possible. Focus on identifying needed continuing education.

Since burnout can lead to restlessness and the desire to change jobs, formally acknowledge the contributions of top performers as soon after the crunch as possible.

Finally, to renew a sense of commitment to the firm, use the performance review as a chance for employees to make suggestions—one on one—about how to improve operations.

## **PERMANENT STAFF COMPENSATION AND SCHEDULING OPTIONS**

### **Devise a Wage and Hour System That Adheres to Regulations**

CPA firms are using many different wage and hour alternatives to offset the excessive time demands that the busy season places on their employees at every level. One of the most common schedules is the 48/32 workweek standard:

January–April	48 hours/week
May–September	32 hours/week
October–December	40 hours/week

Be sure to have all your wage and hour arrangements—for each staff level, as well as any special individual arrangements—reviewed on a regular basis by a knowledgeable advisor, such as a director of your local U.S. Department of Labor.

### **Consider Paying by the Job Rather Than by the Hour**

One way of avoiding wage and hour complications for professional staff and increasing accountability is to create alternative payment plans, such as a general contractor or subcontractor approach. A piecework payment plan or a billable hours plan calculates salaries based on the billable dollars generated. These types of alternative plans are also useful when you are working with home office or flextime personnel, because time management techniques are sometimes hard to apply in those situations.

### **Offer Scheduling Options to Year-Round Staff**

Many firms report using systems that offset the busy season with fewer hours per week later in the year, or with paid or unpaid time off beyond the standard vacation time. These “time ownership” systems—

- Help valued employees recover from the strain of seasonal work.
- Curtail the wasted expense and distraction of having idle workers hanging around.
- Limit busy season overtime charges.
- Attract the growing number of highly qualified workers who are opting for schedules that accommodate their personal lives.

Significant off-season hour reductions and/or time off can be offered as an attractive benefit during recruiting and employee morale building. (When implementing time ownership benefits, check that you are not violating any local or federal wage and hour regulations.)

Alternatives to shortening the workweek during the off-season include the following arrangements.

*Comp-time.* Also known as compensatory time off, “time banks,” or “leisure banks,” comp time allows accumulated overtime from the peak season to be traded for time off during less busy months. Time may be “banked” as straight time or in multiples up to two. Firms may limit the amount of comp time, typically to a total of 80 hours, but the remaining overtime is acknowledged as a criterion for advancement.

*Part-time.* Employees opting for a part-time schedule may work full-time hours during the season and limited hours during the off-season. For Jim Warren (Warren, Averett, Kimbrough & Marino, P.C., Birmingham, Ala.), this has been by far his firm's most valuable strategy. He states, "We like the commitment and continuity offered by these year-round employees—it's a cost-effective way to help us meet our work load." Part-time employees usually are not offered direct benefits such as health insurance, paid vacation, or holiday time. But when retaining good part-time employees becomes a priority, offering some benefits may be more economical than incurring repeated recruiting and training costs.

*Flexitime.* This is defined by Webster's as "a system that allows employees to choose their own times for starting and finishing work within a broad range of available hours." Some accounting firms offer flexitime to nonprofessional staff only on a same-day basis, that is, an approved absence during office hours is made up by coming in early, working late, or working through lunch. Professionals are given more latitude—their flex hours can be made up on other days. At the end of the month, any excess time is considered overtime and any deficiency is deducted from accrued vacation time or sick time.

Not only is flexitime a useful tool for enhancing off-season work-days, it can be a way to minimize the stress of the busy season; when employees feel that they have more control over their time, they tend to feel more optimistic and energetic. Consider the parent who is able to leave work at 4:00 at the height of the busy season to attend a child's first Little League game, and who then returns to work later in the evening, remaining until midnight if necessary. The employee who feels less trapped by the season's time demands and who is not distracted by neglected responsibilities will, in most cases, ultimately work more hours in a day. As Darold Rath (Eide Helmeke & Co., Fargo, N.D.) reflects, "We find this [flexitime] gives us a way to retain well-qualified individuals who have significant family commitments."

*Job sharing.* When two part-time people share a full-time position, you get the most out of both because the time each one spends on the job is premium performance time. The challenge, however, is to find two people who are equally qualified and are able to work together as a seamless unit. This arrangement allows people with outside responsibilities, such as teaching or parenting, to continue working with complete commitment.

*Sabbaticals.* Across all industries, managers are recognizing the rewards of paid and unpaid sabbaticals, especially for employees who work under

tremendous pressure. While none of the AICPA survey responses noted this off-season option, it may be one that CPA firms begin to embrace in the coming years, especially as aging baby-boomers look for ways to restore vitality and savvy managers seek measures to prevent burnout and stress-related illnesses.

*Volunteerism.* To improve job satisfaction among civic-minded employees, develop a system for recognizing off-season volunteer work as a criterion for advancement. During the off-season, the CPA firm of Detterbeck & Associates Ltd. (Inverness, Ill.) offers employees one day a week to do volunteer work on company time.

## A COST-EFFECTIVE SEASONAL STAFF

### Conduct a Cost-Benefit Analysis

Adding seasonal staff will mean incurring the costs of recruitment, training, perks, additional office space, computer equipment, miscellaneous supplies, and even limited benefits if you are competing with other firms for qualified people. While a few survey responses reported more disappointing than successful experiences with seasonal employees, most responses were positive. There are several approaches you can take to ensure that the profitability of increased capacity outweighs the increased overhead.

An example of a firm capacity analysis follows.<sup>3</sup> The sample firm used is that of Sam Jones, CPA, outlined in the first chapter. The firm capacity analysis involves three steps.

#### Step 1: Schedule Work Load

The first step is to schedule your client work load. In preparing the work load schedule, start by reviewing your billing records for the actual hours expended on each client in the prior year. Then adjust those hours for changes anticipated this year. Add estimates for new clients and delete lost clients. Then adjust the hours for anticipated complexities. For clients whose fiscal year has changed, for example, the hours will have to be transferred to new time slots. Depending on the size of your firm, you may

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<sup>3</sup> Adapted from Carol A. Myers, CPA, with Ronald G. Weiner, CPA, for the Management of an Accounting Practice Committee, *Coping With Tax Reform* (New York: American Institute of Certified Public Accountants, 1987), pp. 25-31.



want to use a separate schedule for each functional area (tax services, accounting and auditing services, and so on).

For simplicity, we will assume that the pro forma work load figures for Sam Jones, CPA, remain the same except for the addition of an audit engagement in the month of June for 140 hours. The work load for Sam Jones, CPA, is now:

***Sam Jones, CPA: Pro Forma Work Load***

<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
979	960	1106	687	512	662	620	599	969	671	544	529
Total billable hours = 8,838											

**Step 2: Schedule Time Available**

To determine available hours, include existing staff only; do not factor in any increases in personnel unless you have already planned to hire additional staff. Exclude hours lost for holidays, vacations, professional development, and other required nonchargeable items. If you have a historical base for estimating personnel time lost to illness, factor that into the schedule.

Overtime can be scheduled in different ways. One method is to exclude overtime from the schedule. Later, when you compare available hours with your work load, it will be easy to see the total overtime that will be required. Alternatively, if you work a standard six-day week or ten-hour day, for example, during the peak season, you may want to include those overtime hours as part of your standard time. Later, however, when you compare available hours with your work load, bear in mind that your staff may already be working at or near capacity. In this example, the first alternative was used.

*Sam Jones, CPA: Pro Forma Time Available*

	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sept</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
Number of business days (excluding holidays)	20 × 8	21 × 8	23 × 8	21 × 8	21 × 8	22 × 8	20 × 8	23 × 8	21 × 8	21 × 8	20 × 8	21 × 8
Hours available per person	160	168	184	168	168	176	160	184	168	168	160	168
Number of personnel	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5	× 5.5
Total hours available	880	924	1,012	924	924	968	880	1,012	924	924	880	924
Scheduled nonchargeable time:												
<u>Owner:</u>												
Vacation					(40)		(40)					(20)
CPE						(20)		(20)				
Business Development				(10)	(10)	(10)	(10)	(10)		(10)	(10)	
Administration	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)
<u>Full-time Professional Staff 1:</u>												
Vacation						(40)		(40)		(40)		
CPE					(20)						(20)	
Business Development				(20)	(20)	(20)	(20)	(20)		(20)	(20)	
Administration	(5)	(5)	(5)	(20)	(20)	(5)	(20)	(5)	(5)	(5)	(5)	(5)
<u>Full-time Professional Staff 2:</u>												
Vacation						(40)				(40)		
CPE						(20)					(20)	
Business Development				(20)	(20)	(20)	(20)	(20)		(20)	(20)	
Administration	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
<u>Full-time Professional Staff 3:</u>												
Vacation						(40)		(40)			(40)	
CPE					(20)			(20)				
Administration	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
<u>Part-time Professional Staff:</u>												
Vacation						(20)		(20)			(20)	
CPE						(20)		(20)			(20)	
Administration	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
<u>Paraprofessional:</u>												
Vacation						(40)		(40)			(40)	
Illness (historical average)	(8)	(4)	(16)	(4)		(4)			(4)	(8)	(4)	(4)
Chargeable hours available	814	862	938	737	721	716	657	744	862	728	608	842

### Step 3: Measure Over- and Under-Capacity

To highlight problem areas, compare your projected work load with your projected staff hours. If possible, make this comparison by staff level as well as by total, because hours are not necessarily interchangeable. Although management can substitute for staff, staff usually cannot substitute for management. A quick comparison for Sam Jones, CPA follows:

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sept</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>	<i>Total</i>
Chargeable Hours Available	814	862	938	737	721	716	657	744	862	728	608	842	9,229
Projected Work Load	979	960	1106	687	512	662	620	599	969	671	544	529	8,838
Over/ (under) Capacity	(165)	(98)	(168)	50	209	54	37	145	(107)	57	64	313	391

With this information, you can make preliminary decisions about adjustments (such as to file more extensions for tax returns, or hire additional help). After preliminary decisions have been made, enter the changes on the schedule (this is when the computer is helpful) to project the revised work load and staff availability. Continue making changes until your capacity problems are solved.

### Minimize Disruption

Starting dates for multiple seasonal employees should be as close together as possible to minimize the disruption created by rearranging office space, making introductions, and bringing the seasonal staff up-to-date.

Centralize the management of seasonal employees as much as possible so that they do not feel pulled in many different directions. For example, in a small firm or a department of a large firm, only one senior employee should assign tasks to seasonal personnel. Several firms report that central control helps to ensure that the transition to seasonal staffing is smooth.

## **Help Seasonal Staff Concentrate**

### **Cubicle Ergonomics**

Semiprivate workstations can be created for seasonal staff using cubicle dividers to break up larger offices, conference rooms, libraries, and even wide hallways. But these temporary quarters must be more than make-shift; seasonal employees must be able to concentrate, while also feeling at home. Here are a few tips for effective cubicle design:<sup>4</sup>

- Give cubicle occupants “Busy” or “Do Not Disturb” signs and a place to post them.
- Move gathering places such as bulletin boards, coffee machines, and copiers away from cubicles.
- Use sound-absorbing walls and ceilings as well as carpet to cut down on noise.
- Arrange for each person to have at least three walls.
- Shield or move printers and other sources of noise.
- Give all seasonal employees a \$50 art allowance to fix up their spaces (this will also encourage neatness).

### **Renting Temporary Space**

Renting additional space for a limited time may or may not be a feasible option. If it is, weigh your projected overhead increase against your increased capacity to see if a seasonal expansion will indeed be profitable.

### **Home Offices**

Highly cost-effective methods of temporarily expanding your office size are to hire independent contractors with home-office computing capacities or to help your employees (especially those with family commitments that limit their ability to put in overtime) to acquire the necessary equipment. As Albert S. Williams (Williams Betzer & Co., Denver, Colo.) observes, “With fax, modems and networks, and other advances in communication and information processing,” it is easy to “utilize housewives, contract, retired, ex-employees, etc., working from remote facilities.” Such satellite offices are becoming increasingly

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<sup>4</sup>Bob Martin and Chris Frederiksen, “Improving cubicle efficiency,” *Marketing and Management Report for CPAs*, May/June 1992, p. 4.

sophisticated as more and more people choose to work out of their homes. The time wasted during lengthy commutes can instead be dedicated to accounting work. For many commuters, that can add up to three hours a day, or eighteen hours a week!

### **Recruit and Manage for Long-term Commitment**

Seasonal employees are most cost-effective when they remain loyal to your firm year after year. This reduces the training necessary, and the employees' familiarity with your clients and operations increases productivity. Marvin Pechter (Pechter & Associates, P.C., Atlanta, Ga.) strives to retain the firm's seasonal per diem employees over an extended period. When recruiting seasonal employees, look for qualified people who want to make a long-term commitment. These employees should also meet the same standards of competency you use when hiring full-time staff at equivalent levels.

To cultivate an allegiance to your firm, make an investment in your seasonal employees by offering them CPE training. Invite seasonal employees to participate in firm social events throughout the year, so that they feel they are a part of the firm. Also, don't forget to officially recognize excellent performance through raises, bonuses, and promotions.

### **Seasonal Employees Assume as Much Responsibility as Year-Round Staff**

Seasonal employees should be expected to keep up with training requirements through continuing education, in-house training programs, and CPA society conferences, all of which are likely to take place during the off-season. When they are on the job, as much should be expected from these employees as from their full-time coworkers. If it appears that they are being given special privileges, resentment will inevitably arise.

### **Seasonal Employee Sources**

*Alumni.* An ideal seasonal employee would be a former full-time employee of your firm who has chosen to step off the fast track for a few years to raise children or pursue a personal interest. Such a person may welcome the limited commitment and concentrated schedule of seasonal work. To stay in touch with competent former employees, maintain an alumni data bank to keep track of their whereabouts and professional activities. Even ones who are employed full-time in industry

or academia, or in some other field not directly competitive, may be good moonlighting candidates.

*Retirees.* Retirees who want to work for only limited stretches may have the experience and temperament your firm needs to handle its peak work load. IRS and military retirees are particularly good groups from which to recruit.

*Rookies.* CPAs just starting their own practices may not yet have enough work to support themselves and may be available for a few years on a seasonal basis. A letter of agreement may be useful to establish a time commitment (in the event that the new practitioner's own clients suddenly need more attention than originally anticipated, for example) and to prevent your clients from defecting to the new practitioner's firm.

For both retirees and rookies, contact your local CPA society for resumé listings from the job bank and for information on placing a notice in newsletters or on bulletin boards.

*Interviewees.* Even if your firm is not looking to expand its personnel, it should maintain an active list of qualified applicants who have been interviewed and tested; at the very least, it should maintain a file of resúmes that have been received. You can offer applicants work during the peak season without any commitment to hire them permanently. This is a win-win situation: The applicants acquire work experience and a paycheck and you get extra help when you need it most. This interim employment arrangement may also work as an informal screening step.

*H & R Block graduates.* Most of these are looking for part-time work. If you send your paraprofessionals to such a program, you can ask them to help identify seasonal prospects.

*College interns.* Students in related fields—such as accounting, computer science, and business administration—often have up-to-date computer skills that can make them quick studies when it comes to learning your firm's methods. Gary J. Wolfe (Cherry Bekaert & Holland, Charlotte, N.C.) recommends developing an intern program with local colleges and universities. Such a program can also serve as an excellent way to screen for potential full-time employees. In some areas, programs offer college credit to interns who work at a minimal rate.

*Independent contractors.* Clients and colleagues at other CPA firms may know of qualified people who are looking for supplemental income or

for work assignments that will help them keep current with new tax laws and accounting procedures. Some CPA firms may even be interested in loaning out staff when work loads have not met expectations or when the temporary training and placement of competent staff has been developed as an additional profit center.

*Staff referrals.* Offer existing staff bonuses for successful referrals of classmates or former colleagues, among others.

*Farmers, ranchers and summer camp/resort operators.* If your firm is located near rural areas, fields such as agriculture or tourism may require primary work that is seasonal in nature and does not coincide with tax season. Such geographical gold mines can be tapped by advertising in local newspapers.

*Temporary agencies.* These agencies have traditionally been relied on for administrative assistance only. However, temporary executive agencies are emerging in major urban areas. They specialize in short-term assignments for professionals from a variety of fields and industries, many of whom may have accounting skills.

*Employees in other departments.* Both Ted Stacey (Bourgeois Bennett Thorey & Hickey, Metairie, La.) and Michael S. Warner (Warner & Company, CPAs, Woodstown, N.J.) recommend shifting tax staff to the audit department during the summer. Likewise, staff from the audit department can be borrowed during tax season. To facilitate smooth reassignments, make it clear to your staff that flexibility is a quality your firm values.

*Spouses.* Since they are familiar with the staff and are committed to the profitability of the firm, qualified spouses of firm employees can sometimes take up the slack quite well, especially in smaller firms where nepotism or favoritism is not likely to be an issue. Some spouses may appreciate the opportunity to moonlight; others, especially housewives and retirees, may enjoy working outside the home for a limited period.

### **Per Diem Versus Part-time Staff Payment**

The main difference between per diem staff and part-time employees is that you must withhold payroll taxes for the latter. In either case, you should ultimately pay the same rates for individuals with

similar qualifications. Per diem typically refers to professionals who are working free-lance or have their own practices but wish to pick up additional work.

## HELPING STAFF SURVIVE TAX SEASON

### Don't Forget Busy Season Perks

People working in hectic environments are often not only stressed out and fatigued but also starved for recognition because no one has the time to pat them on the back and say, "Hey, you're doing a great job." To offset burnout and the tax season blues, consider offering one or more of these simple perks.

*Spot bonuses.* Consider a small bonus of \$125 or more, even though the employee may eventually receive time-off benefits. Considering how it can improve morale, such a bonus is highly cost-effective.

*Dinner certificates.* Abram Serotta (Serotta, Maddocks & Devanny, P.C., Augusta, Ga.) suggests recognizing employee efforts with an elegant dinner out with a friend or spouse. As effective as the dinner certificate itself is a sincere cover note, such as the following example expressing the partners' appreciation of a job well done.

#### MEMORANDUM

TO:

FROM: Serotta, Maddocks and Devanny, P.C.

SUBJECT: Thank You

This is a gift certificate for you and your family or significant other.

Use this to relax and take someone to dinner on SMD.

This is given to you as a recognition of the partners in appreciation of the job you are doing at SMD.

Limit \$50.00.

*Social diversions.* To provide stress relief during the workday, schedule special activities during normal business hours, such as birthday breaks, blue-jean day or casual day on Fridays, children's visits, or lunch-hour entertainment.



*Weekends away.* Some firms require employees to take a full weekend break at least once during the busy season. Often the firm supports this tradition by underwriting expenses such as hotels, meals, or entertainment. The payoff is fewer errors caused by exhaustion and stress and greatly improved morale.

*Consistent praise.* Great managers in high-pressure work environments make it a habit to praise individuals and the staff as a whole whenever possible. Praise not only helps maintain positive attitudes but also paves the way for constructive criticism when needed.

### **Be Prepared With Strategies for Crisis Management**

The more you institute sound planning procedures, the more you will prevent the major disruptions caused by “expected unanticipated” problems, such as computer failure, sudden departure of staff, or a work load that exceeds expectations. However, no firm should be without strategies for crisis management, such as having trained staff waiting in the wings and establishing round-the-clock access to computer experts and sources.

At the peak of the season, nothing will affect the bottom line more than the morale of your overworked staff. Watch for signs that someone is about to burn out—such as an unusual number of errors or behavior that is out of character. Nip the problem in the bud by reassigning work sooner rather than later. But don’t make the employee feel that his or her job standing is threatened. Instead, be compassionate and suggest ways to control stress. It is often the best workers who are prone to workaholic overload.

Good nutrition, exercise, and stress management are needed more than ever during the busy season to prevent absenteeism and improve productivity. To encourage “wellness,” set a good example and consider it a necessity rather than a personal indulgence.

## CHAPTER 3

# BILLING AND COLLECTION

### ANALYZING SEASONAL BILLING RATES: AN ONGOING PROCESS

#### **To Raise or Not to Raise Your Rates**

There are two schools of thought regarding seasonal billing rate increases. Some managing partners say you should not be afraid to raise your rates, since clients are generally more concerned about their accountants' abilities—and familiarity with their financial status or business—than about standard increases in billing rates. Others say that economic conditions have made price a controlling force in the service decisions of many clients.

Most likely your client base falls somewhere between these two ends of the spectrum. You will have to make price increases that are not extreme but do cover the overhead burdens (from busy season overtime, to training costs, to hiring costs, to expanded computer capacity) that seasonality and constant change in the tax laws impose on even the best-managed office.

Whatever the conditions of your competitive market, you can never review your billing rates often enough. And each time you do, you should look for ways to improve your billing process. Questions to ask include: How can it be made easier to generate? How can it be restructured to improve cash flow during the busy season? Should we accept MasterCard or VISA?

#### **Price Off-Season Work More Competitively**

Because off-season work makes fewer demands on your operations, it should be the last place you raise rates. Pricing as competitively as

possible during this period pays off in several ways: You keep full-time staff working, and the more civilized pace of the off-season may even allow them to reach new levels of proficiency.

Some greatly discounted off-season assignments that barely cover expenses can prove worthwhile by leading to more profitable, non-discounted peak-season assignments.

### **Offer Discount Incentives for Starting Early**

Discounts and stringent cutoff dates are the best incentives for clients to begin the tax preparation process early. Some firms have begun setting deadlines for submission of data with consequences for failure to comply that get the client's attention: automatic extensions that cost more or premium charges (penalties) for late filing.

It is useful to announce clearly, on a regular basis, the benefits available to clients who make use of your services during the off-season, such as significantly reduced rates for audit work or preliminary tax preparation. In addition, emphasize enhanced service and any other benefits of off-season scheduling in your office. If you conduct a convincing campaign, you may be able to encourage more calendar year-end clients to consider fiscal year-ends, so be prepared to outline the bottom-line advantages of fiscal year-end status.

### **A Sample Formula for Establishing Seasonal Pricing**

The demonstration of this three-step formula for seasonal pricing uses the sample firm of Sam Jones, CPA, described in the first chapter.<sup>5</sup> Note that for the sake of simplicity, the formula is calculated per quarter and for the firm as a whole; however, it may also be calculated per month by client, service, or industry.

#### **Step 1. Calculate the Weighted Average Hours per Quarter**

The hours per quarter for Sam Jones, CPA are:

979	January	687	April
960	February	512	May
<u>1106</u>	March	<u>522</u>	June
3045	Quarter 1	1721	Quarter 2

<sup>5</sup> Adapted from David Owens, CPA, "Implementing a seasonal pricing strategy," *International Accounting Bulletin*, February 1991, pp. 6-7.

620	July	671	October
599	August	544	November
<u>969</u>	September	<u>529</u>	December
2188	Quarter 3	1744	Quarter 4

Therefore, the weighted average per quarter =

$$\frac{(3045 \times 3045) + (1721 \times 1721) + (2188 \times 2188) + (1744 \times 1744)}{(3045 + 1721 + 2188 + 1744)} = 2,306.59$$

### Step 2. Calculate the Premium or Discount Ratio per Quarter

To calculate the premium or discount ratio for each quarter, divide the actual hours per quarter by the weighted average per quarter.

$$\text{Quarter 1: } \frac{3045}{2306.59} = 1.320$$

$$\text{Quarter 2: } \frac{1721}{2306.59} = .746$$

$$\text{Quarter 3: } \frac{2188}{2306.59} = .949$$

$$\text{Quarter 4: } \frac{1744}{2306.59} = .756$$

### Step 3. Apply Ratios to Billing Rates

In this example we assume that Sam Jones, CPA, has an average billing rate of \$60.00 per hour. When adjusted for seasonality the new billing rates per quarter are:

$$\text{Quarter 1: } \$60.00 \times 1.320 = \$79.20$$

$$\text{Quarter 2: } \$60.00 \times .746 = \$44.76$$

$$\text{Quarter 3: } \$60.00 \times .949 = \$56.94$$

$$\text{Quarter 4: } \$60.00 \times .756 = \$45.36$$

## CONSIDER NEW AND SIMPLER PRICING STRUCTURES

### Charge Per Schedule

A growing number of accounting firms are billing individual tax returns based on published fees per schedule prepared.

When billing per schedule, you can create a form that lists price per schedule. This checklist is simply marked by the preparer and then used as an invoice. (In most instances, the basis for the price per schedule is time. Since the time required to collect data varies from client to client, an additional hourly "data collection fee" may be logged and calculated on the billing form as well.)

It is not only easier to generate billing on a per-schedule basis; it is much easier for clients to understand as well.

### **Charge Per Page**

Another innovative pricing structure that abolishes the whole concept of hourly rates is cost per page. Its main appeal is simplicity for the client. This method depends on the creation of a time-based, per page pricing system. Like the per-schedule method, this pricing system excludes the cost of gathering client data, which is billed separately.

### **Charge Computer Time Separately**

In a traditional hourly fee structure, changes can be made to increase your bill that do not entail raising hourly fees beyond a competitive rate. For example, if some clients require a disproportionate amount of computer time and a billing increase is necessary to cover the costs of added computer capacity, you could consider charging for computer time separately.

## **METHODS TO HELP IMPROVE CASH FLOW**

### **Institute a C.O.D. Payment Requirement**

To avoid severe cash flow problems at the end of the season, a growing number of practices are demanding that payment be made when returns are picked up or delivered. Since other professional services are increasingly making C.O.D. the standard payment requirement, it is only fair that accountants do the same. If the policy is stated clearly at the outset of the assignment, it is unlikely that a firm will lose valued clients over C.O.D. For individual returns, consider accepting credit-card payment.

A milder alternative to C.O.D. payment would be to enclose a bill with every computed tax return.

### **Get Partial Payment Up Front**

If you strive to make your billing easier for clients to understand, you will be better able to present a convincing rationale for receiving partial payment up front. The firm of Smith, Sibley & Company, P.C. (Dallas, Tex.) has this kind of straightforward rapport with its clients. For example, in their preseason cover letter explaining the client Organizer, they state: "Since we often must pay salaries and processing charges several months

prior to delivery of your return, we are requesting that our minimum tax preparation fee of \$250, or one-half of the estimated fee if larger, be paid upon your submission of data for preparation, with the balance of our fee due upon delivery of your return. If you elect to mail in your Organizer, a check should be enclosed.”

### **Look on the Bright Side of Quote Commitments**

In today’s competitive bidding climate, you may often have to commit yourself to a fee quote before starting work. However, when clients know in advance how much they will owe you, you can reasonably demand payment on delivery. For the smaller firm especially, this payment schedule can greatly improve cash flow during the off-season, when expenses mount.

This trend forces you to be more precise about estimating the costs of an engagement. This, in turn, will encourage you to monitor operational efficiency more closely, resulting in greater profitability over the long run. It may also mean that you will have to seriously consider alternative payment structures for your employees, such as piecework payment plans, especially for part-time, seasonal, or temporary staff.



## CHAPTER 4

# OFF-SEASON, NONCHARGEABLE PROJECTS

Rarely are the rewards of nonchargeable projects immediately measurable, but they can significantly enhance the reputation of your practice over the long run. Also, as Nancy L. Morton (Chicago, Ill.) observes, “Many of these activities. . . , while not billable, are all important to relieving bottlenecks during the busy season.” Here are some recommendations and rationales for those nonchargeable projects that are most frequently cited as bottom line boosters for CPA firms.

## CLIENT RELATIONS

### Help Clients Get Organized

One of the best ways to help clients get organized for tax preparation work is to provide well-designed, easy-to-use work sheets, organizer booklets, and calendars.

Gerald W. Hedgcock, Jr. (Heard, McElroy & Vestal, Shreveport, La.) uses client organizer booklets to help streamline the process of submitting information. His firm designs the client organizers to correspond to the computer screen. Information can therefore be directly input from the organizer before the professional sees it.

For clients with more complicated returns, you might consider creating a calendar that reminds them when certain elements can be submitted in advance of final preparation work. For important clients, you can easily customize work sheets, organizer booklets, or calendars using simple word processing capabilities or desktop publishing.

Any time invested in creating these client management tools will be quickly recovered when your clients act in a timely and efficient



manner. Moreover, they project an image of your firm of state-of-the-art professionalism.

Client management tools can also be used in marketing to introduce additional services, such as tax projections or cash-flow planning.

### **Issue Appointment Letters**

A simple but effective way to better manage your April 15 clients is to send out appointment letters in which you assign them time slots. Many firms enjoy a more even work flow as a result of this simple measure. An alternative to the appointment letter is the information deadline letter. This letter informs clients that to complete their return by April 15, the necessary data must be received by (*appropriate date*) and that if submitted after that date, an extended tax return will be filed. This method helps make the client's responsibility toward meeting the April 15 deadline clear and also contributes to a more balanced work flow during tax season.

### **Stay in Touch**

Besides new business meetings and administrative correspondence, there are many opportunities for keeping communication flowing between you and your key accounts. These include—

- Announcing your vacation plans.
- Sending out “how to” letters on such topics as setting up tax projections or beginning estate planning.
- Delivering in person completed off-season work or holiday gifts.
- Inviting clients to seminars.

### **Make Pro Bono Work Profitable**

Offer to do some volunteer consulting for a client's favorite charity. Besides making the client happy, this also makes you a part of an influential community network that can include the top management of many prospective client companies or organizations.

### **Create a High Profile in the Press**

Writing an article for either prospective clients or fellow CPAs will raise the profile of your firm while also making you an authority on the subject matter. If writing is not your forte, consider hiring a ghost writer. Usually

your public relations firm can provide someone, as well as guidance on what angle would be most appealing to the editors of targeted publications. If you do not have a PR firm on retainer, but do know of an interested magazine, trade journal, or newspaper, the editor may be able to suggest a ghost writer.

### **Organize Business Lunches**

Immediately following a recent tax season, Lou Barbich (Barbich, Longcrier, Hooper & King, Bakersfield, Calif.) initiated a series of lunches with selected law firms to promote his firm's litigation support services. The number of attendees was left up to each law firm. To encourage a relaxed atmosphere, the meal was informal (sandwiches in the boardroom) and the number of guests from the CPA firm and the law firm was the same. The guests from the law firm were shown around the office and given general information about the CPA firm. The lunches were an opportunity for the two groups to get to know each other and exchange information. Similar lunches were organized for bankers, with the goal of encouraging referrals.

## **TRAINING**

### **Make an Ongoing Pledge to Improve Operations**

In the modern CPA firm, ongoing training is needed to assimilate new technologies and stay current with tax law. To retain a competitive edge, a growing CPA firm should consider establishing a training and technology policy, which might include the following elements.

*Software.* During the slow season, managers and supervisors should have formal tutorial and practice sessions with new tax software so that staff can advance to new levels of competency.

*Keyboard literacy.* For professionals who have yet to become computer literate, breaking through this barrier should be a goal for off-season self-improvement. The professional able to use software, especially interactive software, can greatly increase office efficiency, as well as his or her own ability to delegate computer tasks to paraprofessionals and clerical staff.

*Professional and paraprofessional advancement.* To keep your professionals and paraprofessionals up-to-date, it is important to establish a

steady pattern of cost-effective training for year-round and seasonal staff. For example:

- Involve your firm with a college or university continuing education program. Consider serving as an accounting curriculum advisor; suggest that in exchange you enroll your top three paraprofessionals in free classes that can be applied toward special certificates or other resumé credentials.
- Send paraprofessionals to H & R Block schools and remind them to keep an eye out for promising seasonal staff prospects.
- Conduct ongoing CPE training internally. (If a partner or other top manager is not a skilled trainer, consider hiring one, such as someone from another CPA firm who has special training credentials.)
- Participate in AICPA and local CPA society courses and conferences. When partners or professional staff can't attend, send paraprofessionals to take notes.

*Trained staff waiting in the wings.* One method of ensuring that temporary staffers are properly trained is to offer them training along with your permanent staff during the off-season. With this arrangement, they get free training and you create extra resources that are already in place when you need them.

*Client billing.* Consider a formal training program that teaches others to do the billing. You can greatly simplify this process by using a “pay per form” fee schedule (see “Billing and Collection,” chapter 3).

### **Offer Training Seminars That Benefit Clients**

Well-trained client personnel can make life easier for CPAs. One way to encourage this is to offer seminars such as a bookkeeping enhancement seminar. Such a seminar can be structured in several ways. It can be made available to anyone or only to clients. You can charge a registration fee, offer it free of charge, or charge a nominal fee to cover lunch. The main cost to your firm is the development cost, but once the program is designed it can be repeated. Offering this type of seminar has three advantages: (1) it helps your clients do a better job and therefore makes your job easier, (2) it helps establish a rapport with the personnel of client and potential client firms, and (3) it is an opportunity to sell other services of the firm.

## **FOCUS ON FIRM EFFICIENCY**

### **Identify Kinks in the Paper Flow**

Jesse Wasserman (Wasserman and Associates, Virginia Beach, Va.) suggests creating a critical-path chart summarizing the flow of returns through the office. This should be accomplished soon after April 15 and before vacations begin. One method of analyzing paper flow includes the following steps:

1. Distribute to permanent and seasonal staff a questionnaire soliciting input for operational improvement. The questionnaire should make people start thinking of ideas that will later be discussed in an operational review meeting.
2. Collect all work logs, including not only number of returns and extensions processed, but also notations regarding any tasks that could have been completed during the off-season.
3. Gather from client liaisons preliminary data regarding the season's quality of client service, including complaints and problems.
4. Assign an appropriate manager to prepare a first draft of a critical-path chart (a flow chart or step-by-step diagram) tracking the flow of returns through the office. With a chart of this kind, you and your staff can identify kinks in the paper flow by comparing such factors as actual time spent with time budgeted, this year's performance with last year's, and computer breakdowns with human error.

### **The Post-Season Operational Review Meeting**

With the information from the paper-flow analysis in hand, conduct a post-season operational review meeting to evaluate the season's performance and brainstorm about improvements. Depending on the size of your firm, the meeting can be firm-wide or department-wide. Include seasonal and part-time staff, who may be more objective than year-round staff. The meeting might proceed as follows:

1. Applaud the entire group's effort, highlighting successes such as specific goals met, performance records broken, or new business opportunities identified.
2. Write on a blackboard or large easel pad the mission of the meeting, such as "25 ways to improve efficiency."
3. Introduce rules to help cut down on meeting time, keep the meeting moving in a positive direction, and generate as many ideas as possible.

For example:

- Headline all comments; state ideas in as few words as possible.
- Discourage negativity; assume that all ideas have value. If you don't like an idea, think about how to make it more practical or cost-effective rather than shooting it down. The meeting is intended to generate as many new ideas as possible; you can cull and refine later.
- Suspend hierarchy. Sometimes staff are more willing to make suggestions when a concerted effort is made to conduct a meeting in which everyone is equal.

Assign someone to jot down the gist of every idea on a large easel pad, with room left for additional suggestions and refinements of the idea.

## **Follow Up**

For suggestions that require specific studies, such as cost-benefit analyses or consumer research, assign task forces as soon as possible, establish timetables for action and adhere to them, and reallocate resources (such as training, computer upgrades, and additional staffing) as required. If a suggestion is not going to be acted on, explain to the staff why not.

Thank employees for making good suggestions by profiling them in a firm newsletter or on a bulletin board. For prompt follow-through, give small rewards, such as a free lunch for two at a nice restaurant or an extra "mental health" day off. You might give your recognition program a title, such as "Seasonality Solutions Program," and use it to launch a firm-wide problem-solving campaign.

Facilitate communications from the bottom up via an employee survey or a suggestion box—either a traditional wooden box or electronic mail. Besides providing access, these methods of soliciting staff input will give staff a degree of anonymity.

## **ORGANIZE SUPPLIES INVENTORY**

### **Make an Inventory of Forms and Library Materials**

Encourage staff to make a note of the forms they run low on so that next year's order can be increased. Replenish supplies as required, maintaining a list of order dates and sources.

Discard outdated library materials. Decide which references to add or subscriptions to extend. You can also issue a memorandum/questionnaire

asking employees to judge the usefulness of publications. Determine whether on-line services are being used enough to warrant the expense.

### **Cultivate Good Supplier Relations**

Review the level of service provided by key suppliers, especially during the crunch. Where necessary, find alternatives to improve service or reduce costs.

Send thank you letters or holiday gifts to those suppliers that bent over backwards to help your firm at a crucial time.

### **Evaluate Computer Programs**

You should formally evaluate your computer processing system every year. Where did staff run into problems most frequently? Can the system be improved? What are the differences between outside and in-house computer systems?

Create templates for specific industries or sectors. For example, if your firm has developed a clientele in the apparel industry, identify computer work that is specific to that industry. This may involve coordinating work among individuals who are otherwise responsible for separate, although similar, assignments. The resulting template will simplify operations considerably. In addition, a proprietary template is noteworthy and may help distinguish your firm's capabilities from the competition.



## APPENDIX

# SERVICES AND PUBLICATIONS OF THE MANAGEMENT OF AN ACCOUNTING PRACTICE COMMITTEE

### Conferences

Conferences produced annually or semiannually include—National Practice Management and Firm Administration Conference, National Practice Management and Marketing Conference, and Small Firm Conference. All conferences offer practical, hands-on guidance with an emphasis on the exchange of management experiences (problems and solutions) among practitioners. Call (212) 596-6139 for additional information on conferences.

### Inquiry Service

**The MAP Inquiry Service** responds to member inquiries concerning firm management and administration. If you need more help, the MAP staff will put you in touch with experienced CPAs or consultants who can assist you with special problems. Call (212) 596-6139.

### Publications

Except where listed, call the AICPA Order Department at (800) 862-4272 or (201) 938-3000 (outside U.S.).

**MAP Handbook**, a comprehensive 1,000-page, three-volume, loose-leaf reference service on practice management, is updated annually. It includes more than 200 forms, sample letters, checklists, and worksheets, all easy



to reproduce or adapt for your practice needs. It provides detailed financial data and policy information, for firms of various sizes, that enable you to compare your performance with that of comparable firms. Topics covered include developing an accounting practice, administration, personnel partnerships, and management data. For information call (212) 596-6137; to order call (800) 323-8724.

***MAP Selected Readings***, a companion book to the *MAP Handbook*, is a readers' digest of over 500 pages of articles on successful practice management, specially compiled from leading professional journals. The articles contain numerous profit-making ideas for your practice. A new edition is published annually. For information call (212) 596-6137; to order call (800) 323-8724.

***MAPWORKS—DOCUMAP*** contains, on diskette, documents from the *MAP Handbook* dealing with organization, client engagements, and personnel. Available in three formats: APG2 (No. 016911), ASCII (No. 090080), and WordPerfect 4.2 (No. 090081).

***On Your Own! How to Start Your Own CPA Firm*** provides nuts-and-bolts advice on how to start a CPA firm. It contains a wealth of hands-on information on operating profitably, and is useful to both new and established firms as well as to prospective firm owners. Product No. 012641.

***Organizational Documents: A Guide for Partnerships and Professional Corporations*** is a guide to drafting a partnership agreement and corporate documents. The book includes a sample partnership agreement with more than 100 provisions and a step-by-step approach to incorporating. Book (No. 012640); WordPerfect 4.2 disk (No. 090091); ASCII disk (No. 090090); Book and WordPerfect 4.2 disk set (No. 090096); Book and ASCII disk set (No. 090095).

***Management Series*** booklets cover the issues your clients are dealing with now. Designed to help you help your clients solve their management problems, the series includes *Management of Working Capital* (No. 090060), *Financing Your Business* (No. 090061), *Making the Most of Marketing* (No. 090063), *Managing Business Risk* (No. 090062), and *International Business* (No. 090064).

***Practice Continuation Agreements: A Practice Survival Kit*** explains how you can preserve the value of your practice in the event of death or

disability. A practice continuation agreement can prevent the value of your practice from dissipating, provide financial and emotional benefits to your family, and help fulfill your professional responsibility to your clients. Product No. 090210.

***Managing the Malpractice Maze*** offers firms specific techniques for lowering their risk of liability. It identifies criteria for evaluating a firm's existing defensive practices program and shows how to develop such a system if one is not in place. The book also features a ten-step plan to follow when a claim is brought and discusses such vital management issues as practicing without insurance, documenting engagements, selecting an attorney, and implementing a quality control system. Product No. 090380.

***Winning Proposals: A Step-by-Step Guide to the Proposal Process*** takes you through every step of the proposal process from its preliminary steps to conducting a postmortem following the prospective client's decision. Detailed chapters explain how and where to conduct research, what to look for during on-site visits, how to map out a strategy that distinguishes your firm from competitors, what is the appropriate composition of the proposal document, and how to ensure your sales presentations work. Product No. 090390.

***Managing by the Numbers: Monitoring Your Firm's Profitability*** assists you in your efforts to improve your firm's long-term financial performance. It helps you identify immediate opportunities within your firm and provides you with a dynamic tool to manage your practice better on a regular basis. This book instructs you step-by-step how to examine the numbers behind the numbers and uncover situations that may not be obvious in conventional financial statements. Product No. 090220.

The ***MAP Committee Survey on Professional Staff*** was sent to 5,000 managing partners and 5,000 professional staff members. Topics addressed by the survey include actions taken by firms to address the increase in female professional staff, the nonpartnership track, movement of staff into industry, staff conflicts, mentoring, and maternity/paternity leave. Product No. 090005.

The ***MAP Roundtable Discussion Manual*** contains guidelines for organizing a MAP roundtable discussion group. Such a group can help firms find practical solutions to common problems through regular meetings and information exchange. The guidelines include sample correspon-

dence, forms for administering a roundtable, and nearly forty suggested discussion outlines on topical management issues. To order call (212) 596-6139.

### **Upcoming Map Publications**

Call (212) 596-6139 for additional information on upcoming publications.

***The Marketing Handbook*** is a compilation of expert advice from over twenty authorities on particular marketing strategies or tactics.

***Strategic Planning for CPA Firms*** provides a detailed approach to the design and implementation of a strategic plan that enables a firm to maximize its opportunities for growth and profits.

As new ideas in managing seasonality develop, this publication will be updated. If you have any suggestions or methods that your firm has used to manage seasonality, please let us know by completing and returning the survey below.

**SEASONALITY SURVEY**

Name: \_\_\_\_\_

Firm: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Telephone number: \_\_\_\_\_

Firm size: Number of partners \_\_\_\_\_  
Number of professional staff (including partners) \_\_\_\_\_  
Number of total personnel \_\_\_\_\_

Strategies for balancing the seasonal workload:

1. \_\_\_\_\_  
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Please use additional pages if necessary.

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