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Valuing and Merging Smaller Accounting Practices

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Joel Sinkin, senior partner at Accounting Transition Advisors LLC (jsinkin@transitionadvisors.com), says acquisitions of small accounting practices has become common recently. Small practices are also increasingly becoming purchasers.

Reasons for the increased activity:

- For many firms it is the best way to promote growth and deal with succession planning.
- Larger firms are seeking consulting work with smaller companies, thus increasing competition.
- Popularity of niches requires specialized expertise.
- Technology costs are easier to handle in a larger firm.

How deals are structured:

Customarily, the price of a firm is a multiple of annual revenues. There are also other methods such as multiple of income, which is more common in internal acquisitions.

Prices for internal acquisitions are typically less than sales to outside parties.

The two-stage transaction allows the original owner to keep clients and income for a period of time during which the firm is transitioned to a successor firm.

Another structure is a merger followed, after a time, by a buy-out of the partners of the merged firm.

A newer approach is the sale of groups of clients. A variant of this is the retention of a niche practice and sale of the compliance work.

Lastly, there is the sale of the practice where the owner stays on in a consulting role. This method is used in half the transactions on which Sinkin works.

Pricing:

The multiple of revenues increases when:

- Up-front cash decreases.
- Profits are higher.
- Payout and guaranty periods lengthen.
- There is more accounting/audit work relative to tax preparation (1040s have more client turnover).

Sellers usually opt for less value in exchange for shorter payout periods.

Buyers should consider:

- How frequently clients are visited.
- What staff level is required for field work.
- How much work is automated.
- Whether the office will be moved into the office of the acquiring firm.
- Length of time clients have been with the firm.
- Financial condition and growth potential of the client base.
- Quality of accounts receivable.
- Fixed assets and leases being acquired.
- Quality of staff being acquired.
- Who will complete the work in process and how will those revenues be allocated.
- Past fee increases and potential future fee increases.
- Possibility of an incentive for bringing in new clients.

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