

# Starting your own CPA practice

By Hugh Duffy

*Have you considered starting your own accounting practice and think you are ready?*

*To avoid many of the pitfalls and risks associated with starting a new business, here are some things that you should consider.*

## Self-assessment

Before you hand in your resignation, here are some questions to ask yourself:

- Do I have the experience to process the needs of small businesses and individuals on my own?
- Do I have the drive and motivation to succeed on my own?
- Do I have support from my spouse and family?
- Do I have the capital to get started and operate for one year?
- Do I know how to market accounting/tax services and be the “rainmaker”?
- How will I differentiate my services and earn higher fees?

Owning a business can be very rewarding. However, the process requires planning, hard work, perseverance and investment. If you can weather the start-up and early development phase, the transition can be wonderful.

## Entry Strategy

Most CPAs start an accounting practice using the following entry strategies:

- **Starting from scratch** – Starting from the bottom allows you to begin without any legacy issues such as old pricing, old software and past-client service issues. To effectively market your services and price properly, you might want to consider hiring a consultant. You should also be proficient in QuickBooks or similar accounting software to manage bookkeeping.
- **Part-time practices** – Aside from their regular full-time employment, many accountants start picking up clients on the side as a part-time practice. This lowers the risk and enables them to assess whether they might enjoy starting a full-time practice.
- **Finding a partner** – Starting a firm with a partner can help expand the services of the firm and you can cast a wider net. This generally requires chemistry and compromise. While the start-up expenses are shared, so are the revenues. We seldom recommend this approach.
- **Buying a practice** – This entry approach sounds easier than the other options, but has challenges as well. First, the process takes quite a bit of time because there are more buyers than sellers. This enables the seller to be very picky, and he or she will generally prefer selling to an existing practitioner. Second, this is the most expensive option and third, the attrition rate is generally higher than you project.

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## Develop a business plan

Like any business initiative, you need to develop a written business plan. A comprehensive business plan should include:

- Goals for your business
- A target audience that you are serving
- Services that you will offer
- How you will better service your target audience
- Your experience and skills
- Business structure (LLC, S corp, C corp, etc.)
- Capital requirements and sources
- How to market your new accounting services
- A pricing strategy
- Office equipment, tax software and staffing requirements
- Projected costs and revenues – start-up costs, monthly costs and budgets

## Financial considerations

Before making this leap, it is important to honestly assess whether you are prepared to make this transition financially and emotionally. New businesses require sweat equity, so this move has to be at the right time in your life. Nearly all practices are cash-flow negative during the start-up and development phases, so you need to have cash on hand to cover household expenses and retain insurance coverage.

## CPA practice marketing and development

This is the area where the majority of practitioners need the most assistance, because up until this point they have not been trained on marketing, selling, pricing or practice management. In college and working as an apprentice for a public accounting firm, the emphasis is on performing the accounting work, not marketing and prospecting for it.

In today's world, hanging out your own shingle is not enough to build a business, and the number of referrals will be inadequate to achieve your revenue goals. Quite frankly, most referrals will come from your own clients, so a new practitioner should not count on many referrals.

To quickly learn how to market, price, sell and service accounting services, we highly recommend that you enroll in a practice development program. For a small investment, you can quickly learn how to start developing your practice. Do not be penny wise and pound foolish in this area.

## Start-up costs

The cost of starting a CPA practice depends on your revenue goals, entry strategy and geographic area. As you might expect, the start-up costs to generate \$150,000 of new business will cost far more than \$50,000. Also, an office in a large city near an office park complex will cost more than an office in a bedroom community or one that is home-based.

To determine your start-up costs, start first with your revenue goals. This will help you evaluate your office location decision. In other words, can you achieve your revenue goals with your office located in the city, a nearby town or a home-based office?

Yes, home-based offices are less expensive, but they will negatively affect your revenues as well. Second, make sure your office is in a location with enough businesses to support your revenue goals. While it might be nice to set up shop in your home town and keep your commute to a minimum, the location of your office is critical to the type and number of clients that you will acquire.

Many new accounting firms are using shared office space. Within a commercial building, you can rent private office space, but also use a shared reception area and administrative staff, as well as shared conference facilities, phone systems, Internet connections, and more. This situation provides you with the ability to present an image that is appropriate to drawing clients into your office. If the other tenants provide financial services and/or law, this may also provide you with an occasional new client.

## Equipment and office supplies

The office equipment and supply needs will be partially driven by your office space decisions. In many cases, a shared office arrangement will enable you to cut some corners on telephone equipment, office furniture and office equipment (copiers, fax machine, file cabinets). The secondary market (such as Craigslist) for used office equipment is worth considering as well.

## Tax software

With the introduction of cloud computing, many new accounting firms are considering SaaS (software-as-a-service). SaaS applications enable new firms to use more robust software applications and operate with higher levels of data security at a fixed monthly price.

## Staffing

The goal is to keep your staff to a minimum. At the onset, the CPA usually does it all and adds employees only when necessary. Usually, the first new hires are part-time and/or per diem.

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### Additional Resources

So, now that you are ready to start your home business, where do you begin? The MNCPA has resources available including the following information:

- CPA certification
- Applying for a firm permit
- How to market your firm with the MNCPA Referral Service
- Plus other AICPA and local resources

[www.mnpcpa.org/www.mnpcpa.org/startingabusiness](http://www.mnpcpa.org/www.mnpcpa.org/startingabusiness)