STARTING YOUR OWN ACCOUNTING PRACTICE

A Technology-Centric Handbook for the Fledgling Practitioner

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Overview

Entrepreneurial-minded accounting professionals frequently choose to start their own firms. COVID-19 has forced firms and clients to adopt more effective virtual/digital client interaction models. While there remains no substitute for a face-to-face meeting when you're delivering unpleasant news, I believe that COVID-19 and the move to virtual meetings will reveal the technology deficiencies of many "old firms," creating opportunities for technology-savvy startup firms.

Legacy or "traditional" CPA firms have the scale to help their clients adopt digital automation, but few senior partners at small or mid-sized firms have the necessary vision, the risk tolerance or the expertise necessary to take advantage of this opportunity. Just as nature abhors a vacuum, this opening in the market is pulling a new generation of digital-native firms whose agility and business models are not limited by issues legacy accounting firms have.

For the most part, these firms were founded in an era when spreadsheets were limited to 14 columns, advertising meant the Yellow Pages, "technology" meant the use of a mechanical pencil and typewriters outnumbered computers in most offices. The challenges associated with moving a legacy firm to a new business model based on things like industry specialization, monthly recurring revenue and digital client interaction may make the cost of buying an existing firm unsustainable. This, among the many related factors, has caused some professionals to consider starting their own firm.

These newer firms often focus on small, micro-vertical markets and lead with business process outsourcing services like bookkeeping, expense reporting and payables processing, as well as budgeting, forecasting, benchmarking, allocating capital and contract negotiations. Any compliance work is included in the fixed monthly draft from the client's bank account or credit card and is automated to the greatest extent possible with current technologies.

The ability to offer and deliver automated bookkeeping and business process automa-
tion services is a game changer for startup firms. It delivers a high-value service with
a good base of recurring revenue, which makes the practitioner indispensable to the
entrepreneur.

In short, many decisions must be made in the early days of a new firm, including asking
yourself difficult questions like:

➢ What services will I offer?

➢ When will I hire my first employees?

➢ Where will I get clients?

➢ What software will I use?

The purpose of this guide is to help emerging practitioners select tools that will help
them succeed in the market without breaking the bank. Maximizing the effective-
ness of your processes, tools and people by using automation makes it easier to serve
clients more effectively in less time. In the same vein, buying the "cheapest" solutions
almost always results in inefficiencies, delays and unexpected expenses. We would like
to help you avoid those missteps.

Getting Started

It is more important than ever to start your firm with a good set of offerings and a winning strategy. While your technology strategy can empower your service offerings and client experience, the use of technology cannot fix a bad business plan.

Before you select business management tools for your firm, you should create plans and documentation that help you explain your vision, culture, niches, service offerings and strategies to new prospects and recruits. Make sure they include:

➢ What services you will offer and which niche markets you will serve

➢ Overall firm pitch – firm name/branding and elevator pitches (create several, including ones that are 5 minutes, 10 minutes, one paragraph and one page)

➢ Service descriptions and honed pitches (create several, including elevator -- 1 min, 5 minute and 10 minute -- pitches, as well as website descriptions, with pricing strategies for each)

➢ Competitive analysis of the market, including a SWOT (strengths, weaknesses, opportunities, threats for major competitors) analysis

➢ What sales and marketing channels you plan to use and the relative importance of each (cold calls, networking, partner referral relationships, face-to-face networking, website, social media and content marketing)

➢ The key things that differentiate your firm from the competition and how those snippets translate into keywords and content you can use for marketing and advertising

➢ How you (and your partners) imagine your firm after 1 year, 5 years and 10 years

➢ Targeted industries

➢ Specific targeted customers

➢ Targeted services

➢ Services offerings other than traditional tax/audit/writeup

➢ What resources you need to reach to achieve your goals and when each is needed

➢ People (number and job descriptions for each)

➢ Infrastructure (office space, equipment, software, servers, hosting services and utilities)

➢ Intellectual property (process designs, practice aids, document templates, website, logo and marketing collateral)

➢ Startup and operating capital (savings, friends/family, borrow, add partners)

COVID-19 and the cloud diminish some of the advantages enjoyed by existing accounting and bookkeeping firms and are true game changers for firms that are just starting out. A startup firm no longer needs to invest hundreds of thousands of dollars in hardware, software, office furniture and leasehold improvements to create a viable firm with first-rate technology.

Virtual office suite and co-working site vendors like WeWork, private mailbox vendors like The UPS Store and freelancer websites like UpWork and eLance make it possible for you to rent short-term office space, have a physical address and find specialist contractors to help you out. Unlike the 20th century, when you had to have a physical office and an expensive ad in the Yellow Pages to be taken seriously, it's now fashionable to work from anywhere. Many startup businesses (accounting firms included) just need a dream, some capital, an address and the occasional use of a conference room to be successful.

Effective video conferencing, which was not used by many small and mid-sized firms in the pre-COVID-19 world, is now a requirement for every employee at your firm. The pandemic has made working from home and interacting with clients digitally over platforms like Zoom, Microsoft Teams, Google Meets and GoToMeeting normal for both practitioners and clients.

While many employees want to work in an office, many firms are seeing employees warm up to the better work-life balance available when they eliminate the daily commute to the office. For those who do prefer a physical office, co-working sites offer firms flexible office space arrangements with no long-term commitments, while also providing amenities like receptionists, telephone answering, snacks, Internet service and security without having to manage these services themselves.

Technology

Generally, newer firms should favor using cloud applications as opposed to legacy (aka desktop) tools and should focus on using automation and client engagement tools as much as possible. Legacy tools require locally operated Windows computers or professional hosting services, increasing your monthly overhead and decreasing your firm's flexibility as compared.

Some publishers have also indicated that their legacy tools will eventually be discontinued or no longer supported, leading to an entirely avoidable future shift to a new platform or a new vendor. The uncertain cost of future conversion causes firms to incur what software engineers call a future "technical debt" by selecting on-premises or server-based solutions with an uncertain future instead of simply selecting a stack of modern, cloud-based applications that can easily scale and power your firm's success far into the future.

Tax Compliance Tools

Given the technical complexity associated with tax planning and compliance, many practitioners tend to favor legacy, on-premises tax preparation solutions which limit flexibility and require constant updates. Startup firms also often are tempted to buy a less expensive/comprehensive package, but this approach limits the sophistication of the clients you can serve. It also creates a possible need to switch in the intermediate term so your firm can serve larger clients as it grows.

Remember that simple tax returns are being automated quickly and you will want to adopt a tax platform that is likely to survive well into the future. Changing tax platforms is often prohibitively expensive, so select solutions that will meet your firm's needs in both the short and long run.

Tax advisory solutions should also be considered as part of your firm's business model and your compliance platform should support your advisory practice. Some leading-edge tools are designed to mine your client base for planning opportunities, while

others can integrate with tools that extract data from tax forms and investment statements received by clients.

Founders should consider their offerings and ensure serve all of their clients' tax needs, including the taxes levied on sales, payroll, real estate and personal and intellectual property. Practitioners should also be able to advise or refer clients to trusted partners.

State tax compliance has reemerged as a consulting opportunity in light of the "economic nexus" created by the U. S. Supreme Court's South Dakota vs. Wayfair decision and expected future increases in state enforcement spending. Over the last 15 years, a number of cloud-based calculation and filing engines have been created. These use a combination of technology and low-cost, offshore labor to address the byzantine world of sales tax.

The almost infinite combination of possible tax types, jurisdiction boundaries, taxability and exemption rules, as well as the lack of a single overarching tax authority which covers sales tax for all 50 states, make this a growth industry for the near future. Although the impact of economic nexus on other state tax models is uncertain, it is reasonable to expect that new approaches to these areas will be a priority for politicians to fund future spending. Moreover, the future will bring billable planning opportunities for your clients if you can effectively service these needs for your client base.

Accounting, Bookkeeping and Engagement Applications

While tax services are a major focus for the relationships between firms and their clients today, accounting, bookkeeping and auditing services are poised for a technology-driven renaissance. You should know that the bookkeeping platforms and engagement software (the tools you use to work with preparation, compilation, reviews and audit engagement) on the market today are going through some significant platform revisions right now.

These changes include incorporating new tools for automated downloads and extracting data from client accounting software, source document analysis, continuous auditing, risk-based evaluation of complete populations of data, artificial intelligence to classify transactions and accounts into financial statements and mining the data created by the use of workflow management tools (e.g. process mining).

The audit engagement software market is racing to the cloud, but a combination of new tools and calls for changes to audit standards and approaches is making many firms think twice about adopting new tools at this time. As I write this, both CCH and Thomson Reuters are in the process of creating and testing their cloud-based engagement/trial balance tools (CCH Axcess Engagement and Onvio Audit)and the AICPA has partnered with CaseWare International to create a third set of solutions based on CaseWare Cloud (OnPoint). None of the three tools are "feature complete" at this time. Moreover, with some expecting significant changes in audit standards and the related audit approaches in the intermediate term, the future state of this sector is more uncertain than it has been in decades.

Although the audit profession has talked a lot about continuous auditing in the past and new tools like Mindbridge AI, Infloand TeamMate Analytics surface every year,

the profession's standards, peer reviewers and available audit methodologies seem to struggle to incorporate evidence from the sea of data in process automation systems. While starting an audit practice is always difficult, future changes will need more resources and different competencies.

One service offering for the budding entrepreneur auditor who doesn't have the staff needed to create their own audit practice is to perform accounting services for the audit clients of other firms. These engagements typically involve reconciling accounts, preparing adjusting entries, gathering supporting documentation, drafting financial statements and notes.

Firms that utilize these services will work with clients who are understaffed in accounting to clean up and organize their books and records and consult with management on accounting, bookkeeping, and financial reporting. Existing audit data extraction tools can be supplemented with automated schedule preparation applications, period-end close management tools and a remote workforce to create outsourcing and cleanup engagements that have the potential to be much more lucrative than traditional audit engagements.

Payroll and benefits management is another area where firms can scale their personnel and technologies to effectively meet the needs of their small business clients. The complex compliance challenges and excessive expenses associated with using retail payroll services create an opportunity for firms and practitioners to profitably manage these back-office services for small businesses. Hiring an expert or establishing a partnering relationship with another firm may create opportunities for your firm to profit, while helping its clients to meet essential needs.

Practice Management, Document Management and Client Engagement

Managing a startup practice frees the entrepreneur from traps imposed by existing team members who are resistant to change. It also reduces the useful feedback from your people. Firms may be forced to choose between a limited platform the firm will outgrow in the intermediate term, a more robust solution, or an approach between these two extremes.

Practitioners should also evaluate the scope of the solution and how it brings together data and documents from many different solutions, including:

➢ Workflow

➢ Scheduling

➢ Document management

➢ Marketing/CRM

- ➤ Time and billing
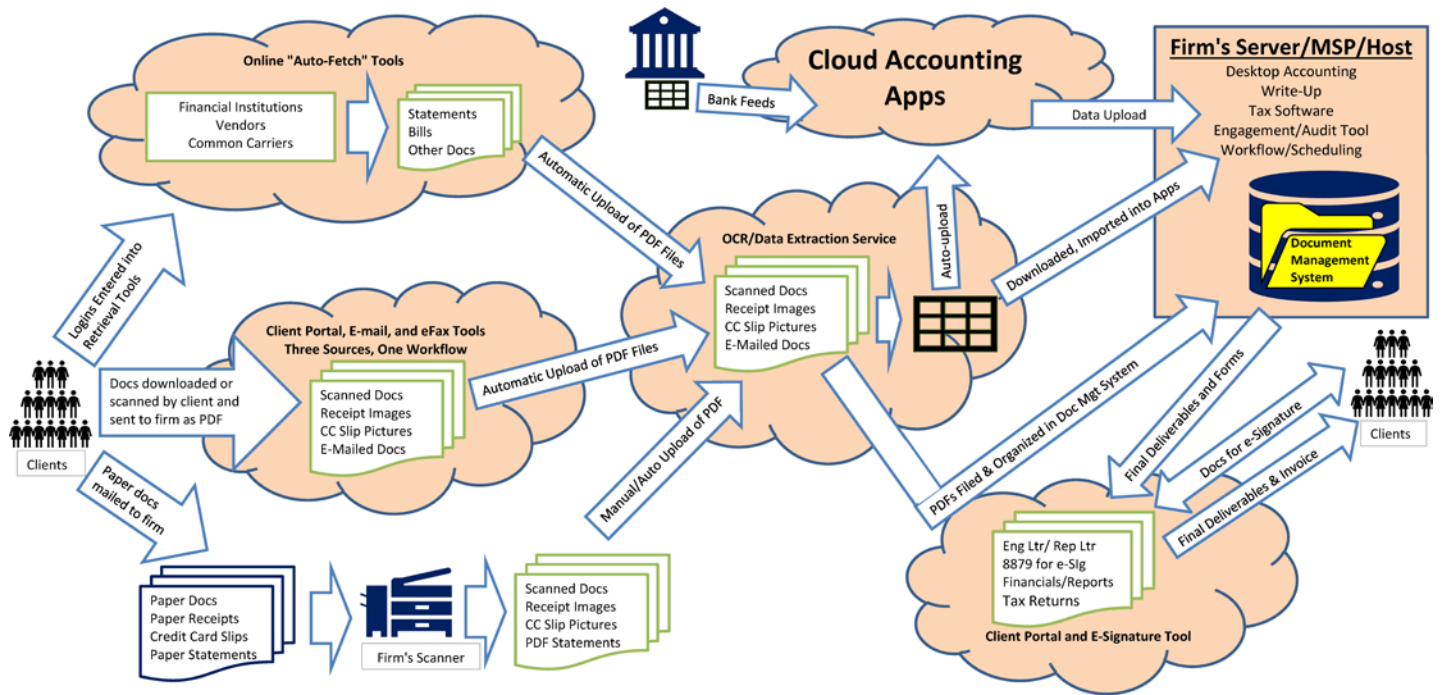
- ➤ Accounting/bookkeeping

- ➤ Client portals

One of the most substantial challenges in this market is the inconsistent scope of the business problems addressed by different practice management applications, as well as the challenges of creating workflows that bring together the wide range of solutions used by practitioners.

(Another AccountingWEB white paper, "The Realities of Practice Management," delves much deeper into the current issues and offerings for firms of all kinds.)

Document management and client data exchange is the lifeblood of your firm and you should take time to consider how supporting documents and data will flow from your client portal into data extraction/organization tools. The data and images are then stored and categorized in your applications and, finally, into the firm's archives. Many things have changed in the last 25 years and a critical part of any modern CPA firm's business process is organization, so technology does most of the work for you and your team.

Automation has changed the way many firms deal with source documents. Tools like Hubdoc, Receipt Bank and Auto Entry can not only retrieve many bills and statements automatically, but their optical character recognition (OCR) engines can extract structured data from these documents and most other scanned source documents. These tools provide a clean interface where you can make any edits or corrections and then facilitate the import of the transactions into your accounting software.

A diagram showing some of the document and data flows between clients, the firm and the tools used by a firm that uses these modern automation tools appears on the next page.

Online "Auto-Fetch" Tools

Financial Institutions
Vendors
Common Carriers

Statements
Bills
Other Docs

Bank Feeds

Cloud Accounting Apps

Data Upload

Firm's Server/MSP/Host
Desktop Accounting
Write-Up
Tax Software
Engagement/Audit Tool
Workflow/Scheduling

Document Management System

Automatic Upload of PDF Files

Logins Entered into Retrieval Tools

Auto-upload

Downloaded, Imported into Apps

OCR/Data Extraction Service

Scanned Docs
Receipt Images
CC Slip Pictures
E-Mailed Docs

Client Portal, E-mail, and eFax Tools
Three Sources, One Workflow

Docs downloaded or scanned by client and sent to firm as PDF

Scanned Docs
Receipt Images
CC Slip Pictures
E-Mailed Docs

Clients

Automatic Upload of PDF Files

Manual/Auto Upload of PDF

PDFs Filed & Organized in Doc Mgt System

Final Deliverables and Forms

Docs for e-Signature

Final Deliverables & Invoice

Clients

Paper docs mailed to firm

Paper Docs
Paper Receipts
Credit Card Slips
Paper Statements

Firm's Scanner

Scanned Docs
Receipt Images
CC Slip Pictures
PDF Statements

Eng Ltr/ Rep Ltr
8879 for e-Sig
Financials/Reports
Tax Returns

Client Portal and E-Signature Tool

As the diagram shows, many simple processes, like data entry, can be redesigned to create automated data flows between clients, their banks/vendors and the cloud tools used by the firm itself. While a firm need not adopt every available automation tool to increase its productivity, startup firms would be remiss if they didn't at least consider some of the automation tools available. These include:

➢ Client portals, integrated with document management and workflow systems

➢ Customer payment automation (e.g. ACH/credit cards) and fixed-price billing with ACH payment

➢ Cloud-based expense report workflow automation

➢ Data extraction tools that use OCR to create structured data (e.g. importable data like invoice numbers, amounts, dates, vendor name, etc.) from scanned/downloaded bills and statements

➢ Service bureaus that provide onshore or offshore staff work (e.g. data entry up to full bookkeeping and tax prep)

➢ "Digital plumbing" tools that use automated interfaces and event triggers to synchronize changes in one application into others

Other Factors to Consider

1. Advisory Services

Advisory is a growing practice area for many firms and brings its own set of risks and rewards. This practice area really represents a combination of capital allocation, management consulting and operational consulting.

Common advisory offerings can include, but are not limited to:

➢ Cash management

➢ Tax planning and entity selection

➢ Rental property management

➢ Fringe benefit analysis

➢ Family office and investment due diligence

➢ Technology consulting/managed services provider

➢ Investment and capital allocation

➢ Insurance and risk management consulting

➢ Internal process mapping and automation

➢ Back-office automation

➢ Human capital management advisory

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➢ Physician/dentist practice management

➢ Business valuation and litigation support

➢ Business analytics and performance management consulting

➢ Executive coaching and recruiting services

Unlike traditional accounting firm services, advisory services force firms to focus on a smaller number of industries than most traditional, full-service legacy accounting firms so they can be competent when it comes to serving client needs. Because clients in the same industry want different services and these engagements require much more experience than traditional compliance offerings, many firms struggle to standardize and operationalize these engagements so that they can be delegated to more junior staff members. Some firms have been able to leverage their experience into workable service offerings, while others have even created proprietary practice aids to simplify the complex work of advisory.

But these engagements can rarely be simplified down to a finite number of options on a checklist. A significant challenge for firms wishing to explore this new frontier is the lack of guidance, standards, or practice aids as compared to the resources available for traditional compliance engagements. There are many opportunities for those with the knowledge and entrepreneurial skills to develop, sell and provide services in this area.

2. Marketing, Sales and Client Experience Management

A final area for startup firms to consider is the use of marketing and sales tools to find leads, manage your sales efforts, automate follow-up workflows and measure your client satisfaction. Many practitioners have not used automation tools for measuring client satisfaction, tracking the effectiveness of content on their websites and social media posts and automating client follow up. Although there is no substitute for raw sales talent and effective mentoring, firms that create a more formal sales process that uses automated follow-up tools can help their personnel get the feedback and training they need to achieve their potential in this critical area.

Starting your own firm will require you to make sales to a large number of strangers (clients/prospects, job applicants, potential referral partners, vendors, friends and family, prospective landlords, etc.), so if you need sales training, you should probably enroll as soon as possible. You will not be used to the amount of rejection you will experience every day as a business owner/salesperson and you must have enough confidence and enthusiasm to keep on working when you are frustrated.

No one gets through this world alone, so it's important to have a group of business associates who are firmly behind your new firm and will help you succeed. You'll need their help to regroup and develop new plans and strategies when you experience setbacks.

While you should make cold calls and pitch your firm whenever possible, you should also be realistic about your startup plans. Satisfied clients are reluctant to switch accountants under most circumstances and you may not have a strong enough reputation to land enough clients to fund your first year on your own. So, while you may have to consider doing some undesirable, low-margin work to create positive cash flow in the early years, this should not take your focus off of the long-term vision for your firm.

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Conclusion

Whether you are a partner or a staffer, an aspiring entrepreneur or a frustrated consultant, the disruptions created by the economic changes create many new opportunities for new innovative accounting firms. As closely held businesses transition to the next generation of ownership, there will be an array of opportunities which can be addressed by startup firms focused on new services and set of industries.

Although the work required in order to start a firm is significant, many old requirements like a high-profile office space, immediately hiring employees and spending six figures (or more) on office furniture, computers and software may no longer be required. As we've discussed, founders can now start an accounting and advisory firm with relatively little capital spent on office space and additional staff members.

Over the last decade, technological breakthroughs that can automate the retrieval of documents and transactions, extract data from invoices and statements and easily import data into most application platforms have reached the market. Many newer, cloud-based software suites deliver practitioner-class solutions with affordable monthly subscription-based pricing.

In short, there has never been a better time to build your own accounting practice. What's holding you back?

About the Author

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Brian advises firms and companies on accounting technology issues. He has served as the technology editor for a major accounting industry publication and currently teaches courses in the US and Canada through K2 Enterprises for professional accounting organizations across the US and Canada.

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