

# Part I: Why Start Your Own Practice?

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# Chapter 1: Making the Decision

*People are afraid of the future, of the unknown. If a man faces up to it, and takes the dare of the future, he can have some control over his destiny. That's an exciting idea to me, better than waiting with everybody else to see what's going to happen.*

— John H. Glenn

Make no mistake, going out on your own is a big decision. For some, it is the obvious choice. In every profession, a small percentage of professionals are simply meant to be on their own. For that small percentage, their entrepreneurial spirit demands it and keeps pointing them in that direction. Do you have that spirit? Are you cut out for owning your own business? How do you know for sure?

See if any of this sounds familiar. You like making decisions, and you also don't like others making decisions for you. You don't like being told what to do, when to do it, and you certainly don't want to be told how to do things you already know how to do. In other words, you like control and freedom. Has anyone ever told you that you are impatient? Do you want to be rewarded for your own efforts? Do you have the confidence that you can add value to your clients and develop good relationships? If this sounds like you, then you might just be an entrepreneur.

What's an accountant with this temperament to do? Start your own accounting practice.

Starting a practice takes commitment. If you are committed, you should make a good living in public practice over time. The business owner will always be the most committed to the business and, therefore, will reap the most rewards. That will be true if you are an employee for someone else or if you are the owner and have your own employees. Going from being involved to being committed requires a different perspective. Consider this familiar anecdote when thinking about the difference between being involved and being committed:

## On Your Own!

A chicken was talking with a pig about how good their farmer was to them in the way he provided shelter, food, and protected them from danger. The chicken thought it would be a nice gesture to show their appreciation to the farmer by serving him a breakfast of bacon and eggs the next morning.

The pig thought about it for a while and then commented, "Let me see if I have this right. We are going to provide the good farmer with a breakfast of bacon and eggs. As I see it, you will be involved in the project, and I will be committed to it!"

When you make the decision to go out on your own, you are committed. With that, let's talk about the main reasons for starting your own practice. If there is one thing I've learned since being in business for myself, it is that people who do well and stay in business are not just in it for the money. A great friend of mine once said, "Money is never an issue as long as you've got some." For me, money is a motivator, and I candidly admit that. It is perfectly alright to want to make a lot of money. Interestingly though, a lot of entrepreneurs discover that the real reward is the person you become by giving your best. You work with more purpose, passion, and happiness, and the money ends up being a bonus.

Throughout the remainder of the chapter, we will discuss the primary reasons most CPAs make the decision to start their own practice.

## Control

The desire to control your own destiny is the leading motivating factor for starting a practice. Working long hours for others when professional recognition and financial reward is limited and too frequently realized only by those in ownership positions can be frustrating and tiresome. After several years with a firm, you may want to be free of supervision. You may want to set your own hours, determine the quality of work you provide, and decide which services you offer.

## Financial Gain

Of course CPAs are interested in the financial gains associated with having their own business. How much can you make? A number of factors will affect your ability to make money. How you price your services and how efficiently you operate will ultimately determine how profitable your practice becomes. A 2010 PCPS/TSCPA National MAP survey reveals the following averages for net remaining per owner shown in table 1-1.

**Table 1-1: Net Remaining per Owner**

<u>Practice revenue</u>	<u>Net remaining per owner*</u>
< \$200k	\$57,911
\$200k<\$500k	\$118,252
\$500k<\$750k	\$164,917
\$750k<1.5M	\$201,228
\$1.5M<5M	\$266,937

\* Net remaining per owner represents the amount that partners can take out of the firm. It is not net income per owner because it may include outlays for benefits, retirement, or other items that would vary from firm to firm. However, it does indicate what is available to partners once other expenses have been paid.

Source: *National Results Report—MAP Survey 2010*

In reviewing this survey, consider the following facts.

As this survey shows, the profits of the average smaller firms do not compare with the profits of partners in medium-size to large accounting firms. Obviously, there are sole practitioners who make higher profits than those of top accountants in larger firms, but these are offset by the many sole practitioners who fall below the average income presented in this table. Being realistic about the financial gain you can realize is imperative for the CPA who plans to step out alone.

When looking at your individual circumstances, it may be helpful to focus on cash flow to owner. You can calculate cash flow to owner by starting with net income and then adjusting for all owner related items. A good goal for a firm that generates under \$750,000 per year in fees would be for cash flow to owner to exceed 50 percent of gross fees. This is above the survey results, but well-managed firms can easily exceed this percentage. For example, consider the following sample net cash flow calculation shown in table 1-2.

**Table 1-2: Sample Net Cash Flow**

Gross Fees:	\$225,000
Net Income:	\$50,000
+Owner salary	\$60,000
+Owner retirement	\$5,000
+Auto	\$3,000
+Owner insurance	\$2,000
+Depreciation and interest	\$1,500
Net Cash Flow to Owner:	\$121,500

## Lifestyle and Family Support

After the initial excitement of an accounting career wears off, most CPAs begin to think in terms of achieving a lifestyle that balances family, personal interests, and work. The early years of starting a practice will take a big time commitment, but the flexibility is great once you get past the start-up phase.

By being your own boss, you have the opportunity to choose the lifestyle you like. This does not mean that you will not have to put in long hours, nor does it imply that you will not have to maintain the high standards and quality required when you worked for someone else. In both cases, you will probably find, at least initially, that you work longer hours than you did before, and your concern with quality must be even greater to attract clients. But as your own boss, you have more flexibility when choosing when you work, the type of clients you seek, and the kinds of services you provide.

For CPAs who are raising young families, caring for elderly relatives, or are otherwise deeply committed to family and community, this flexibility allows for the unexpected demands that occur when children are sick or family activities require your presence. As one sole practitioner noted, "I work harder now that I have my own firm, but I enjoy it more and I have the type of lifestyle that I always wanted."

Self-employment can be challenging at times. You need family support to make the best of it. I remember when I first went into business for myself, my wife and I had many discussions and the decision to become self-employed was a joint decision. We agreed that the early years would take a lot of time and might be both exciting and stressful. We also agreed that it was important for the time commitment of the early years to taper off after the first year or so. Achieving balance in relatively short order was a big goal for us. I know too many accountants

who struggle with this. It is easy to become a workaholic, and it is important to guard against this if this is your tendency. I count myself very lucky to have a spouse who supports my desire to work for myself and encourages balance. That support has been crucial over the years.

The best advice I can give you regarding family support is to communicate, communicate, communicate. Once you begin your practice, keep your spouse or partner apprised of financial concerns and rewards, potential for success and failure, and significant decisions or a significant change in direction.

## Entrepreneurial Spirit

Often coupled with the desire to control your own destiny is the need to satisfy that strong entrepreneurial spirit. Characteristics that typify this drive are assertiveness, creativity, independence, good people skills, sales and communication skills, and a sound business sense. If you are a CPA who possesses these traits, the opportunity to use fully all of these personal and professional skills usually makes having your own practice a very attractive notion.

## Personal Growth

As I already mentioned, the person you become by giving your best may be the greatest reward you will experience by going out on your own. You will learn what you are truly capable of accomplishing, what you are made of. So as not to learn every lesson the hard way, it is much, much easier to objectively assess your strengths and weaknesses early on. This is explored in more detail in chapter 3, "Profile of a Successful Sole Practitioner," but it is touched on here because making the decision to go out on your own should include an evaluation of your talents and skills. You can shore up your weaknesses by collaborating or hiring those who are strong where you are weak. This will give you the greatest success and satisfaction in your career. If you end up focusing on working on your weaknesses, you will simply end up with strong weaknesses and way too many frustrations. The superior strategy is to focus on your strengths.

If you have people in your life that have known you for a long time and that you can trust to be objective, then reach out to them for their feedback and get them to objectively assess you. If you really want to delve into this topic, I highly recommend the book *Unique Ability®: Creating the Life You Want* by Catherine Nomura and Julia Waller, based on a concept by Dan Sullivan.

## On Your Own!

*On Your Own!* is designed to help you build a solid foundation for launching a practice that is well-suited and unique to you. By being clear about what you want to do, combined with a thorough understanding of your strengths and your big picture goals for life and work, you can begin to create a more focused vision for your firm.

## Questions

1. What are the main reasons I want to start my own firm?
2. What skills do I have that could add the greatest value to my clients?
3. In what practice areas do I excel?
4. What practice areas have I avoided in the past?
5. How is my executive presence?
6. How well do I articulate ideas?
7. How am I at managing others' work and supervising people?
8. How organized am I?
9. What is my risk tolerance?
10. Can I handle confrontation diplomatically? (For example, collecting money)
11. What is the biggest thing that is holding me back right now?
12. What do I hope my life and career balance is like once I have an established practice?