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Continuing an Individual Practitioner's Public Accounting Practice

American Institute of Accountants. Committee of Local Practitioners

CONTINUING AN INDIVIDUAL PRACTITIONER'S PUBLIC ACCOUNTING PRACTICE

Report of a Sub-Committee
of the American Institute of Accountants'
Advisory Committee of Local Practitioners

Unless a certified public accountant provides some means for continuing his practice in the event of his disability or death, the practice is likely to be dissipated and the value of the CPA's estate unnecessarily decreased. While partnership contracts usually do provide for such events, the individual practitioner must seek other means.

This report explores several possible ways of continuing a practice.

Legal Will

The most satisfactory arrangement is a legal will containing detailed instructions on the disposition of the practice. These instructions* should:

1. Provide for the transfer of the practice immediately after the testator's death, since delay reduces its realizable value.

2. Name two or three disinterested persons, or one person with several alternates, to dispose of the right to continue the practice. It is generally thought to be inadvisable to have a widow dispose of the practice.

Written Agreement

A CPA may have a pre-death agreement in writing with another

*Chapter Two of the CPA HANDBOOK outlines provisions for wills, instructions to executors, and methods commonly used to dispose of practices.

individual practitioner (possibly on a reciprocal basis), with a partnership or with assistants to continue the practice. The successor to the practice and the estate of the deceased should agree on the allocation of a specific amount or percentage of receipts. **

"Disaster Committees"

Formation of "disaster committees" in the state societies could aid in continuing the practices of deceased CPAs who have made no other provision. Such committees--probably functioning through the state society secretary rather than dealing directly with the widow or other survivor--might act as impartial advisers to the estate and the successor to reach a satisfactory agreement in the best interest of the clients.

A "disaster committee" might also assist temporarily disabled CPAs to prevent their practices from dwindling away.

Also, it should be emphasized again that each individual is best qualified to plan during his life time for the continuation of his practice after his death. In comparison the work of the "disaster committee" will be makeshift. Nevertheless, since some CPAs--often despite their good intentions--neglect the disposition of their own affairs, some provision should be made for them.

Several miscellaneous points should also be noted:

--The individual practitioner's working papers should be prepared in such a manner that adequate information is available to

** Chapter Three of the CPA HANDBOOK discusses death agreements in partnership contracts, some of which are adaptable to the needs of the individual practitioner.

successors. His own records should be so kept that current billings can be made and that a successor can review his operations.

—Recognition must be given to the rule of ethics which prohibits transferring the ownership of working papers without the clients' consent.

—Terms agreed upon for the continuation of a practice should preferably not be discussed with clients, but no attempt should be made to force a client to accept a successor CPA.

--The value of a practice is difficult to determine, and whenever possible the advice of disinterested experts should be sought. In selling libraries, for example, the advice of professional appraisers is useful, particularly concerning out-of-print bulletins and cases.

--The method used in taking over a practice should be termed "continuation of a practice" rather than the "purchase of a practice".

Respectfully submitted,

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