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The Practicing CPA

MARCH 1980

An AICPA publication for the local firm

PREVENTING PARTNERSHIP PROBLEMS

Partner separation is sometimes costly, often painful, and almost always damaging to the morale of the remaining people who are affected by the partnership's inability to deal with its problems.

Partnership problems are frequently caused by partners not being on the same path in their personal and professional goals or by their having different attitudes toward work and time commitments. Sometimes the problems are due to a person's incompetence in certain technical areas or to a lack of some of the qualities needed in a partner. Or, a partner may decide to leave due to inadequate compensation.

Quite obviously, some people should never be made partners in the first place. Sometimes people become partners because of reasoning such as, "If we admit Gordon, then we've got to admit Charlie or he'll be offended." Occasionally, partnership is offered just because an individual has been around for a long time or because he's a "good old boy." Finally, there is the fear that if a person is not made a partner, he will leave and take some business with him.

There is nothing that says a CPA must be a partner of a firm. No one should be admitted to the partnership unless he or she is the right person. This means that not only should the person be right for the job, but the firm must also be right for the individual. In addition, both parties need to be ready. If people under consideration won't wait until everyone is sure, let them go. They're too anxious.

To avoid these problems, a firm should plan well in advance for partner admission. Sufficient time is needed for partners to assess the suitability of a candidate and to allow the person under consideration to evaluate the firm and the partnership. This can be achieved by setting up a program for partner admission.

This should be a formal, written program, the details of which should be published in the staff manual. It is very important that the program be made known and followed.

The program for partners-in-training, or whatever else you call it, must not only permit both parties to size up the other, but should also prepare a candidate for partnership duties and responsibilities. The entire program should be limited to a period between six months and three years. Here are some suggestions:

☐ Allow candidates to attend most partnership meetings. This will allow you to see how they survive the discussions and if they make contributions, and to witness their behavior. Of course, they won't be able to vote.

☐ Give candidates partner-level assignments. Let them serve on committees and have opportunities for client contact and direct supervision of staff. Watch how they do these things, and see how they cope with technical changes and keep up with CPE, etc.

☐ Find out if candidates for partnership are willing to devote time to practice development. Do they get out in the community and obtain referrals from bankers, attorneys and other professionals? Are they able to sell added services to current clients?

☐ Partners-in-training have the right to know what it costs to do business and what their

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commitments will be. They should have exposure to all reports and financial data and be given a copy of the partnership agreement which they can take to their attorneys for review. Partners-in-training should know what it costs to enter the partnership.

- ☐ Mentor relationships can be helpful to partnership candidates. Having someone to champion them and deal with their concerns can make the difference between their success and failure. Communication is the key.
- ☐ You must continually evaluate partners-in-training. Every six months, talk with them about their progress and shortcomings. Be honest and constructive.

The real objective behind this program is to admit partners who are compatible and who are a usable resource. It must be borne in mind that perhaps the firm is not ready for two partners with identical skills, such as estate planners. You should only bring in partners because you need them.

For a CPA to become a partner is to announce to the world that he or she has arrived. Candidates for partnership will be looking for a chance to contribute to the firm and to continue growing and expanding their capabilities. They have an interest in current and future compensation and in security. To attract the right people, the firm must be prepared to meet these needs and be in a position to do so. The people you want must value being partners.

To reiterate, candidates should be admitted to the partnership when they and the firm are both ready, when there are specific roles for them to fill and when the firm can afford an increase in the number of partners.

What if the decision is no?

The best thing to do in that case is to help the individual find another position outside the firm. There are no permanent partners-in-training and candidates cannot go back to positions held prior to entering the program. Your well-being depends on your partners and potentially damaging situations should not be allowed to develop.

Good partners are the only real guarantee of firm continuity. Making the right choice is all-important if problems are to be avoided. So, set up a partners-in-training program, follow it and admit only the most suitable people you can find. And, let your partners know you appreciate them. They may be more than you deserve.

–by Donald B. Scholl
D. B. Scholl, Inc.
Paoli, Pennsylvania

Practitioners will find the various chapters on partnerships in the AICPA Management of an Accounting Practice Handbook *helpful in dealing with and preventing problems in a partnership. In addition, other ideas on training partnership candidates can be found in the following* Practicing CPA *articles: "Training for Practice Development," March 1979, and "Developing Leaders in the Firm," September 1979.*

Growing Numbers

In his address to members at the semiannual meeting of the New Jersey Society of CPAs, last November, William R. Gregory, chairman of the AICPA, drew attention to some interesting statistics concerning smaller CPA firms. Mr. Gregory pointed out that, far from being a dying breed, as is often believed, the number of CPAs in small firms is not only growing as fast as the profession as a whole but is growing considerably faster than the number in large firms, mergers notwithstanding.

For example, since 1969, Mr. Gregory said, the number of AICPA members in public practice has increased 84 percent to over 80,000 and the number of CPAs with large firms (100 or more professionals), now 25,000, has grown 79 percent. In comparison, the number of CPAs who practice in firms of fewer than 100 AICPA members is up 93 percent to 54,000. Even more impressive, firms having only one AICPA member have grown 100 percent to well over 18,000.

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The Art and Science of Picking Your Niche for Growth

There are an estimated 15 million companies in the United States with revenues of less than $1 million. In comparison, there are only about 140,000 companies having revenues in the $1 million to $99 million bracket and approximately 14,000 with sales of over $100 million. These 15 million smaller companies are the key market (clients and potential clients) for local and regional CPA firms.

Despite the huge size of the market for its services, it is unlikely that any CPA firm will achieve a desired rate of growth without strong management and adequate planning. Regardless of its size, every practice or firm needs a long-range plan that utilizes the firm's special strengths, spells out where the firm wants to be 5 to 10 years hence and shows what resources will be needed to reach these goals.

In long-range planning, it is not the skill in composing the plan that counts; it is the will to carry it through. In most cases, the going is rough in the beginning, and it is necessary to be flexible to accommodate changing circumstances.

In our firm, for example, we update our 10-year long-range plan every year (see exhibits), modifying the figures where necessary. However, inflation is not factored into these figures. Keep in mind when examining the exhibits that, although the figures given are those of a sizable regional firm, the computations are applicable to smaller local firms.

How to capitalize on what you do well

Knowing where you want to be in 10 years' time is only half the battle. You must also know how you are going to get there. Drawing up a long-range plan will force you to take a hard look at the market you are serving and to determine your firm's strengths and weaknesses in providing needed services. The article, "Defining and Projecting a CPA Firm's Professional Image," in last month's issue of the *Practicing CPA*, has some good suggestions in this regard. Once you have determined these things, here are some ideas for capitalizing on what your firm does well:

- ☐ Prepare a listing of the services you provide and a profile of each client by services rendered.
- ☐ Then, put together a dossier on the expertise and experience of each partner and staff member. Remember, each partner should already have a niche which should be planned before admittance. (See "Preventing Partnership Problems" in this month's issue.)
- ☐ Analyze this information to determine what skills are missing for each person and how best to make use of the information obtained.

  For example, you may find that several of your clients receive a particular service which has great potential for development. You should let your people become experts in this area so that they can fill all clients' needs.
- ☐ At this point, go through your client lists to develop new ideas for specialization. You may find that about 25 percent of your firm's internal growth can be obtained this way.

Current business, social and economic trends emphasize the need for CPA firms to specialize and provide excellent opportunities for expanding market areas. Technological and managerial advances are now coming so fast in nearly every industry that specialists are required to be able to keep up with them. Similarly, the expanded scope and complexity of laws and regulations, and changes in the tax laws and in accounting and auditing techniques, procedures and rules are other reasons for specialization. In addition, the impact of inflation on business and personal financial planning has also created the need for specialists.

You can take advantage of these trends by analyzing their impact on clients and potential clients in your locality to find out what additional services are required. Then take steps to provide them. Check to see what services other firms are offering, and keep in mind that any area of need that you decide to fill might require training and educating staff people. When you are convinced that your firm can offer specialized expertise of the highest professional quality, broadcast the fact to your service areas.

The benefits of specialization

Specialization can be highly beneficial to a firm. It creates a different perspective for what you do, provides opportunities to build the firm's reputation and enlarges your market area. Profitability can be increased with higher fees charged and less quibbling over them. Client retention improves because clients benefit from having their problems identified and solved. And, the opportunities for staff people are expanded. Specialization lets them become motivated, resulting in lower turnover. (You can still weed out those who cannot or will not make it.) If you have more than one office, you can share the expertise among them.

(Continued on page 6)

A Look at May, Zima & Co. in 1989

May, Zima & Co. is a firm of 20 offices located throughout the southeastern United States in major metropolitan areas. Total volume is in excess of $24,000,000, and is derived, for the most part, from services rendered to small- and medium-sized organizations. The firm has handled a number of SEC registrations, and performs audits and accounting services for reporting companies and all types of entities in the health care field. The backbone of the practice is the broad-based services to small- and medium-sized organizations with the full range of tax services complementing its audit, accounting and management services capabilities.

The firm is recognized as a leader in the area of not-for-profit organizations with emphasis on governmental agency and service organizations, such as hospitals, and has also developed an early expertise in computer installations.

The total professional staff of approximately 450 people is guided by the firm's 75 partners and principals. The firm's philosophy of close client contact by the owners has resulted in its having a broad group of partners/principals of relatively young average age. The ratio of staff to partners/principals is five to one. The lack of a large-client practice base has discouraged the development of a staff heavily populated with "junior" accountants. The firm has an outstanding reputation on college campuses and is considered to be a young progressive firm which offers quality training and guidance, and challenge coupled with early responsibility and opportunity.

Economic reward has kept pace within the partnership. Average partner/principal income is over $100,000 and the top partners/principals are earning in excess of $150,000. Staff salaries are comparable to those of other large firms, with fringe benefits more favorable for the most part.

The firm has been active professionally both at the state society level and within the structure of the AICPA. Community involvement is the rule for May, Zima & Co., and partners/principals and staff take an active role in all aspects of community life, particularly in the areas of service through clubs, charitable organizations, and local and state governmental organizations.

In summary, May, Zima & Co. in many respects is the same growing, progressive firm that it was 10 years ago —only much larger. The basic firm philosophy has remained intact, and its increased size has enhanced the firm's ability to serve its clients at all levels in a professional, competent manner which combines regional firm professional expertise with local firm client involvement.

Assumptions

The 1979/80 budget was prepared following a conservative philosophy.

The components of the income projections for the years through 1988/89 were computed as follows:

Gross income

To each previous year's gross income, a merger/purchase averaging $175,000 for each partner merged has been added, plus a 15% internal growth factor.

Payroll

- ☐ *Professional staff*—29.55% of income (based on the 1979/80 budget, including bonuses) increasing to 38.50% in 10 years. National statistics gathered by the AICPA indicate this to be too high; however, it is unlikely this percentage would decrease with the quality of practice and the partner/principal staff ratio we want to maintain.
- ☐ *Paraprofessional staff*—The employment of nine paraprofessionals with an average annual income of $13,900 is budgeted for fiscal year 1979/80. The number employed will likely increase to 11 in 1980/81, and their average annual income will increase to $15,000 in six years.
- ☐ *Administrative*—6.61% of income (based on 1979/80 budget) declining to 5% over four years. National statistics gathered by the AICPA indicate this percentage should be 5.2% of income.

Other operating expenses

30.16% of income (based on the 1979/80 budget, excluding partners'/principals' retirement payout). This is too high and will have to be reduced gradually. We must strive to stay within the 1979/80 budget and even cut the percentage if possible. Therefore, for income projection purposes, succeeding fiscal years' other operating expense percentages have been reduced to the following:

1980/81	27%
1981/82	24%
1982/83	22%

It is assumed these expenses will level out to 22% of income in all future years. National statistics gathered by the AICPA indicate this percentage should be 18.3% of income.

Net income

31.45% of budgeted gross income for 1979/80. The above assumptions of productive payroll leveling out at approximately 40% of volume, nonproductive payroll leveling out at 5% and other operating expenses leveling out at 22% will eventually produce net income of 33%. This seems to be a desirable and attainable level of net income. National statistics indicate it should be 38%. While this percentage would be more desirable, achieving 33% should be our first goal.

Number of partners and principals

As of September 30, 1979, the volume stands at $205,100 per partner and based on the adopted budget for fiscal year 1979/80, will be $215,900 per partner. Based on estimated costs of operating our firm, the volume per partner will need to increase to provide a satisfactory level of average income per partner. This long-range plan is based on the goal of achieving a satisfactory level as soon as possible. Because the level is affected by economic changes, no specific amount is identifiable, but it appears that approximately $300,000 of volume per partner will come close to what we would need under our long-range plan in the present economic conditions. (See Computation of Partners and Principals.)

Number of professional staff

Computed as per the attached schedule.

Acquisitions/mergers

Included in this plan is one acquisition/merger a year for the next nine years. For purposes of income projections, each year's acquisition/merger is assumed to take place on October 1.

Ten-year Income Projection in Thousands of Dollars

	Budget 1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Gross income	$ 5,614	$ 6,631	$ 7,975	$ 9,346	$11,098	$12,938	$15,429	$17,918	$20,956	$24,449
Expenses										
Payroll										
Professional staff	$ 1,659 (29.55%)	$ 2,052 (30.94%)	$ 2,754 (34.53%)	$ 3,474 (37.17%)	$ 4,199 (37.84%)	$ 4,911 (37.95%)	$ 5,880 (38.11%)	$ 6,853 (38.24%)	$ 8,043 (38.38%)	$ 9,414 (38.50%)
Paraprofessional staff	125 (2.23%)	148 (2.23%)	171 (2.15%)	187 (2.00%)	203 (1.83%)	221 (1.71%)	241 (1.56%)	254 (1.42%)	770 (1.29%)	284 (1.16%)
Administrative staff	371 (6.61%)	431 (6.50%)	478 (6.00%)	514 (5.50%)	555 (5.00%)	647 (5.00%)	771 (5.00%)	896 (5.00%)	1,048 (5.00%)	1,222 (5.00%)
Other expenses	1,693 (30.16%)	1,790 (27.00%)	1,914 (24.00%)	2,056 (22.00%)	2,442 (22.00%)	2,846 (22.00%)	3,394 (22.00%)	3,942 (22.00%)	4,610 (22.00%)	5,379 (22.00%)
Total	$ 3,848	$ 4,421	$ 5,317	$ 6,231	$ 7,399	$ 8,625	$10,286	$11,945	$13,971	$16,299
Net income	$ 1,766 (31.45%)	$ 2,210 (33.00%)	$ 2,658 (33.00%)	$ 3,115 (33.00%)	$ 3,699 (33.00%)	$ 4,313 (33.00%)	$ 5,143 (33.00%)	$ 5,973 (33.00%)	$ 6,985 (33.00%)	$ 8,150 (33.00%)
No. partners/principals	26	28	33	39	44	49	56	60	66	75
No. professional staff	73	90	110	130	156	183	220	257	303	355
No. paraprofessional staff	9	11	12	13	14	15	16	17	18	19
Average net income per partner/principal	$67,900	$78,900	$80,500	$79,900	$84,100	$88,000	$91,800	$99,600	$105,800	$108,700
Average income of professional staff	$22,700	$22,800	$25,000	$26,700	$26,900	$26,800	$26,700	$26,700	$ 26,500	$ 26,500
Average income of paraprofessional staff	$13,900	$13,500	$14,200	$14,400	$14,500	$14,700	$15,000	$15,000	$ 15,000	$ 15,000

Computation of Partners and Principals

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Number of partners/principals—September 30	22	26	28	33	39	44	49	56	60	66
Partner changes at October 1										
Merged partners	0	1	2	1	2	1	2	1	2	2
Retired partners	0	0	0	0	0	0	0	(1)	(1)	(1)
New partners	2	1	3	4	3	4	3	4	5	8
New principals	1	0	0	1	0	0	2	0	0	0
Total at end of year	26	28	33	39	44	49	56	60	66	75
Gross billing per partner/principal	$215,900	$236,800	$241,700	$239,600	$252,200	$264,000	$275,500	$298,600	$317,500	$326,000

Computation of Number of Professional Staff Based on Income in Thousands of Dollars

	Budget 1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
Estimated income	$ 5,614	$ 6,631	$ 7,975	$ 9,346	$11,098	$12,938	$15,429	$17,918	$20,956	$24,449
Less partners'/principals' portion (1)	1,572	1,857	2,233	2,617	3,107	3,623	4,320	5,017	5,868	6,846
Balance to determine staff requirements	$ 4,042	$ 4,774	$ 5,742	$ 6,729	$ 7,991	$ 9,315	$11,109	$12,901	$15,088	$17,603
Divided by average amount of billing per staff member (2)	$47,000	$47,000	$47,000	$47,000	$47,000	$47,000	$47,000	$47,000	$47,000	$47,000
Number of staff	86	101	122	143	170	198	236	274	321	374

(For the purpose of finding the average income of the professional staff in our ten-year plan, the average of these two computations is used.)

(1) For the purpose of this computation, the firm-wide 1978/79 ratio was used which is 28%.
(2) As the firm expands, this amount may change; however, for the purpose of determining how many people to hire, $47,000 is used. This is based on the amount of fiscal year 1978/79 fees generated by total professional staff, including paraprofessionals and excluding partners/principals.

Something to Keep Your Eye On

Keying in data is the most labor intensive part of data processing and, as such, suffers from several shortcomings including rising labor costs, high incidence of error and relatively slow speed.

Help is on the way, though. In fact, it is here already according to Daniel E. Sesti, systems analyst at the AICPA. However, the current high cost of the equipment needed has rather limited its acceptance and use. Optical character recognition (OCR) equipment is the promised savior from the above named ills, mainly because it possesses several unique qualities.

To begin with, OCR differs from other codes in that it is not only machine readable but can be read by ordinary people too. There is no need for bars or short and long lines (bar code and universal product code, respectively); the device reads plain English. This easy readability enhances OCR's potential for use in very simple applications, and coupled with its speed, labor savings and error-reducing advantages seems certain to increase the equipment's popularity.

There are two types of OCR fonts in use:

- ☐ OCR-A, the most popular type, is the industry standard and is endorsed by the National Retail Merchants Association (NRMA).
- ☐ OCR-B is gaining in popularity, especially for use with page readers but is still mostly used to supplement another machine readable code, such as the universal product code used by supermarkets.

At present, OCR is used in the following ways:

Point-of-sale data entry — Large retailers, such as Sears, Roebuck & Company and J. C. Penney Co., Inc., capture inventory and retail price data by scanning printed tags (OCR font) with optical wand readers that interface with point-of-sale terminals. In addition, codes can be put on customers' charge account cards to enable the sales clerk to run a quick credit check of the customer before transacting a sale. These interface devices cost approximately $1,500 to $2,600.

Taking inventory—Data on inventoried items is taken by a hand-held portable wand and recorded on a cassette tape. Later, the tape is fed into the computer and an inventory report generated. The cost of a wand is about $3,300.

Page readers—These are mostly used to supplement word processing hardware. Material is typed on an IBM selectric typewriter using an IBM ribbon cartridge (#1136390) and an OCR element. The typed pages are then fed into a page reader and a floppy disc created. The floppy disc will later be used in a word processor for editing purposes. The page reader eliminates

- ☐ Initial key strokes which are usually the most time-consuming procedure.
- ☐ A backlog at the word processor in a centralized system since the word processor would be used solely for editing purposes.

The use of a page reader is most advantageous when at least 40 percent of the volume of work on the word processor is initial key-ins.

Page readers that can read most standard typewriter fonts will be marketed within a year or so. Currently, page readers cost at least $16,000.

Remittance processing — The account number and amount due are printed in OCR (A or B) on the bill stub which a customer returns to a store or the electric company, etc. The remittance and the stub are fed into the machine which reads the account number and the amount due. If the remittance and amount due match, the machine records the data on tape, microfilms the stub and remittance, endorses the front and back of the check and feeds the documents into a pocket for bank deposit. The basic cost of these machines is approximately $21,000.

In general, it appears that wherever and whenever data are to be recorded, OCR would seem to have some application. At present, these devices are costly, but technology seems certain to bring the price down, and OCR may be something to keep your eye on.

Your Growth Niche *(Continued from page 3)*

There are some important owner incentives to specialize as well. These include a more rapid rate of firm growth, larger net income and the elevation of daily tasks into the glamour areas of service. By providing glamour, you inspire staff people and future partners.

Specialization and long-range planning should be started as soon as possible. We picked a niche for ourselves when the firm consisted of two partners and four staff members. We now think that was much too late.

–by Donald P. Zima, CPA
Atlanta, Georgia

Other ideas on specialization can be found in two previous Practicing CPA *articles: "Planned Specialization: An Opportunity for Growth," December 1977, and "Specialization = Growth," November 1978.*

Why Nobody Can Read

Rudolph Flesch, author of the classic *Why Johnny Can't Read,* has taken up the cudgel to attack "legalese" in writing. We can see why, judging from this example from his latest book, *How to Write Plain English: A Book for Lawyers and Consumers* (Harper & Row):

The Internal Revenue Code [Sec. 2523]

Gift to Spouse

(1) Where a donor who is a citizen or resident transfers during the calendar quarter by gift an interest in property to a donee who at the time of the gift is the donor's spouse, there shall be allowed as a deduction in computing taxable gifts for the calendar quarter an amount with respect to such interest equal to its value.

(2) The aggregate of the deduction allowed under paragraph (1) for any calendar quarter shall not exceed the sum of—

(A) $100,000 reduced (but not below zero) by the aggregate of the deductions allowed under this section for preceding calendar quarters beginning after December 31, 1976; plus

(B) 50 percent of the lesser of—

(i) the amount of the deductions allowable under paragraph (1) for such calendar quarter (determined without regard to this paragraph); or

(ii) the amount (if any) by which the aggregate of the amounts determined under clause (i) for the calendar quarter and for each preceding calendar quarter beginning after December 31, 1976, exceeds $200,000.

Translation

Gift to Wife or Husband

This section applies only to U.S. citizens and residents and only to gifts made after December 31, 1976. If you give any property to your wife or husband, you must pay gift tax as follows:

(1) There is no tax on gifts up to a lifetime total of $100,000.

(2) On the next $100,000 you must pay the full tax.

(3) After that you pay 50 percent.

Partnership Capital

How do you determine the amount of capital a new partner should bring into your firm? Do you think the funds should go directly to the firm or to the senior partner? We asked members of our editorial advisory committee for their views on the subject. Here are some of their replies.

Sid Jarrow, Chicago: Working capital requirements of the firm are the determining factor and the money should go to the firm. If the firm is efficient, you need less working capital.

Bob Hammons, Sallisaw, Oklahoma: Capital requirements depend on the circumstances, and a young partner can be given the opportunity to work his way into the firm. If the senior partner anticipates a substantial decrease in his interest, he should receive payment. Therefore, if the new partner receives a small percentage, increasing each year, no capital need change hands.

Mary Hall, Cincinnati: The amount brought in by a new partner should be determined in ratio to any need his becoming a partner might generate. If, however, the firm has sufficient capital and a senior partner is relinquishing a portion of his partnership interest in order to give the new partner a share, then the capital reimbursement should go to the senior partner.

Richard Maxey, Coeur D'Alene, Idaho: The amount generally should be determined by traditional methods, ignoring goodwill value and payment made over a five-year period from the new partner's share of profits in those years.

Our partners' contributions are retained by the firm. I think only capital contributions for goodwill might justifiably be retained by the senior partner if he has been a sole practitioner or a very senior partner for a considerable time (e.g., 10 years) prior to admission of new partners.

Robert Neuland, Vienna, Virginia: The factors determining how much capital a new partner should bring into the firm are based on a percentage of book value on the accrual basis the incoming partner has acquired, as well as on payment for capitalization of a percentage of a year's fees. →

In our firm, the proceeds from the addition of a new partner goes directly to the firm. The senior partner receives his money when he sells his interest back to the firm. The payout to that partner is based on the same formula that is used for an incoming partner.

Robert Israeloff, Valley Stream, New York: Our firm requires all partners to maintain capital accounts in proportion to their total incomes. New partners are given three years in which to arrive at the proper level, and capital contributions always go to the firm.

William Perdue, Wilmington, North Carolina: We have had only two partner entries in the past 20 years, so our experience may have limited significance. In each case, new partner capital has been measured by the amount of the book value of the partnership assets less liabilities (excluding any goodwill), and the capital payment has gone directly to the incumbent partners.

Gerald Grabush, Baltimore: Up until now, partners have not had to contribute capital. A new partner's interest in the firm is built on layers, whereby the new member of the firm only gets an interest in assets acquired since his admittance date.

Ray Telling, Plattsburg, New York: We're a professional corporation, so I don't know. I am firmly convinced this is one of the outstanding benefits of a professional corporation—it has continuity. You can sell shares or redeem them, just as in the over-the-counter market.

Ronald Russell, Springfield, Ohio: As a professional corporation, we use a formula in determining the cost of acquiring an asset. Normally, part of the price is required to be paid in cash, with the balance financed by a note to the corporation. The portion that has to be paid in cash is determined by the new partner's capability to handle the debt service or his otherwise available cash.

Normally, the money goes directly to the corporation. It is our belief that any retirement payout of interest reduction to a senior shareholder should come from the firm as a whole.

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