

# TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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## 48 | How To Buy an Accounting Practice

How to buy an accounting practice? At the very start it looks so easy. You just go and buy what you need. But of course the road to an acquisition is not as straight as that. The first hurdle is that it is a sellers market out there at the moment.

### How To Buy an Accounting Practice

Yes, it is a sellers' market out there right now. But don't let that put you off. Acquisition is still a good way to grow. Here are some points to consider along the way.

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#### Step 1: What Do You Have

You can't efficiently integrate another practice or client list if your current business is in shambles. So start with getting your house in order.

##### # 1 Going Well

Be clear on your strengths. Where is your practice's professional expertise? What is going well? What are your personality traits? Build on these.

##### # 2 Not Going Well

What is not going well? Fix it. Reinvent your marketing. Clean out your bad debts. Rejuvenate your client base. Re-ignite your referral engines. If you don't fix these first, you will end up with double trouble in a few years. Hire others who are strong where you are weak.

##### # 3 Why the Buy

Why do you need this acquisition? If your current business is flat-lining or in decline, get to the cause of it. And then fix those issues first. Don't buy a short term 'band aid' solution.

##### # 4 Cash To Spend

Get your finances in order first. No point in looking at a Rolls-Royce if you can only afford a Mini. Talk to your bank and get pre-purchase approval.

## **Step 2: What Do You Want**

To make a good buy, you need to know what you want. Formulate a vision, a strategic plan.

### **# 5 What Will Perfect Look Like**

Imagine you all goes according to plan. What will perfect look like in 5 years?

### **# 6 Size and Price**

What can you handle? How fast do you want to grow? What price can you pay?

### **# 7 Cash flow to owner**

Be clear on what cash-flow-to-owner you want to achieve. Remember that you need to service your acquisition debt out of this cash flow.

### **# 8 Ideal client**

What does your ideal client look like? Do their needs match your strengths? The wrong clients will leave. The right clients will stay and grow with you. So buy the right clients.

### **# 9 Transition**

How much phase in / phase out do you need? How long do you need the vendor to stay? Goodwill can be an important asset to protect.

### **# 10 Avoid At All Costs**

Identify your deal-breakers up front. Know when to walk away from a transaction. Ending up with the wrong clients in the wrong area with the wrong skill set is no fun.

## **Step 3: Find The Perfect Match**

So now that you know what you want, you can search for what you want. Talk to business brokers. Find out what is out there.

### **# 11 Follow Your Vision**

Don't push square pegs into round holes. Look for a practice or client list that fits your vision. That strengthens your core business.

### **# 12 FOMO**

Being outbid is not a nice experience. But don't let FOMO (Fear of missing out) rush you into a bad buy.

### **# 13 Desperation**

Don't chase a practice simply because it is the only offer out there at the moment. The shortage of supply makes some buyers jump at any listing. Patience pays off. No deal is better than a bad deal.

## # 14 Integration

Acquisition is hard, but integration is harder. This is where deals unravel. This is where the real work starts. Address integration as early as possible. One party or one culture will be dominant, no matter what you call the transaction. How will this influence culture, processes and systems?

## # 15 Fees

Fees are not set in stone. Consider whether there is room for a fee increase down the track.

## # 15 Client Base

Discuss every client in the client base. Who is likely to stay. Or go. Consider age. Many baby boomer practices will include an ageing client base with natural attrition kicking in sooner than later.

## # 16 Key staff

Mergers or acquisitions of accounting practices are all about transitioning people and client relationships. Key staff know the client, understand the work. So identify these early on and decide who you depend on staying.

## # 17 Work in Progress

Who will chase any outstanding fees? Get the cash? Bear the cost of any bad debts? Discuss in great length and detail.

## # 18 Contractual Obligations

Determine the current contractual obligations a firm has to clients. Limit your liability from the vendor's past activities.

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