



Module 1

Professional Practice Program Introduction to the Accounting Profession





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Program completion

The IPA Professional Practice Program has been designed for IPA members in professional practice and for non-practitioners as a refresher Program.

With recognition comes responsibility. The IPA is recognised in legislation as one of the three professional accounting bodies within Australia. This means compliance with the ASIC Act and with regulations and standards set by ATO, TPB, ASIC, APESB, FRC, AASB, AUASB and IFAC.

The regulators, standard setters, government and the public all rely on the professional expertise, competence and ethics of IPA members. Therefore, the IPA has mandated that members moving into professional practice must demonstrate competence in these key areas.

It is compulsory to complete the IPA Professional Practice Program within 6 months of receiving an IPA Professional Practice Certificate (PPC) unless you have completed a Professional Practice Program with Chartered Accountants Australia + New Zealand or CPA Australia within the last 5 years.

The Program consists of self-paced study and a 2 day face-to-face workshop. You should complete the self-paced study before attending the workshop. This will take up to 80 hours, depending on your experience. To successfully complete the Program, you must:

- Attend all sessions of the Program; and
- Successfully complete the assessment held at the end of the Program.

The assessment comprises of 30 multiple-choice questions and you are permitted 1 hour to complete the assessment. You may refer to your course materials, but you are not to consult any other person in or outside of the room. There is 1 mark per question and you need to obtain at least 50% to successfully complete the assessment.

If you do not successfully complete the assessment, you will be offered an opportunity to re-sit the assessment. If you are still unsuccessful, you will be required to repeat the 2 day face-to-face workshop and successfully pass the assessment. The IPA reserves the right to cancel a member's PPC in the event a member does not pass the assessment.

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1.1: Historical Developments that have Shaped Accounting Practice

1.1.1: The Origins

As most accountants will recall from their studies, accounting has been used for many centuries. Whilst Luca Pacioli, an Italian monk is credited with the “formal” recognition of the introduction of the double entry system in the late fifteenth century, accounting can be traced back more than 15,000 years and was used by the Mesopotamians ^[1] from their trading activities and even possibly from taxes.

Early accounting dealt with the recording of transactions, controlling goods and stocks. It was simply used for the purpose of recording, counting and managing money, basic financial recording or more commonly known as single-entry book-keeping. It was also used for decision-making and certainly the Romans used it quite effectively in setting goals for conquered peoples, for planning, for payroll (its military) and for taxes.

There was also record-keeping in relation to the building of temples, land provisions for retired military personnel, even expenditure for gladiatorial events, chariot races and other events. ^[2] Military personnel of the Roman army were employed to keep scrupulous records of cash, commodities, and transactions which would have then been presented to the Roman emperor or other high-ranking officials on a regular basis. An account of small cash sums received over a few days at the fort of Vindolanda, a Roman auxiliary fort located in Northern England circa AD 110 shows that the fort could calculate revenues in cash on a daily basis, perhaps from sales of surplus supplies or goods manufactured in the camp, items dispensed to slaves such as nails for boots, beer as well as commodities bought by individual soldiers.

The basic needs of the fort were met by a mixture of direct production, purchase and requisition; in one letter, a request for money to buy 5,000 *modii* (measures) of *braces* (a cereal used in brewing) shows that the fort bought provisions for a considerable number of people. ^[3] This was how early accounting was used for approximately 14,000 years.

1.1.2: Progression in the Middle Ages

In the thirteenth century, Europe moved from a barter economy towards a monetary economy and we see merchants along the Mediterranean countries using a book-keeping system as a result of carrying out multiple transactions and it was at this point that we recognise the introduction of the double-entry accounting system using debits and credits. ^[4]

Records still exist today that were presented in the Farolfi ledger (1299-1300), Farolfi being a firm of Florentine merchants who operated from Nimes.^[5] Amongst their business dealings was money-lending and they acted for the Archbishop of Arles. This was some 200 years prior to Luca Pacioli. Luca Pacioli did not invent double-entry bookkeeping, ^[6] however his 27-page paper on bookkeeping contained the first known published work on that topic, and is said to have laid the foundation for double-entry bookkeeping as we know it today ^[7].

Pacioli saw accounting as an *ad-hoc* ordering system devised by the merchant. Its regular use provides the merchant with continued information about the business, and allows the owner to evaluate how things are going and to act accordingly. Pacioli recommended the Venetian method of double-entry bookkeeping above all others.

The 3 major books of account are the direct basis of this system:

- The Memorandum
- The Journal
- The Ledger

The ledger is the central document and is accompanied by an alphabetical index. ^[8]

1.1.3: Recognition as a Profession

Accounting originated in Scotland as a profession with the introduction of the *Chartered Accountant* in the 1800s. Whilst we can see accountants existed long before that, prior to the recognition of the accounting profession, they were more likely to be an employee of a legal firm of which the legal firm offered accounting services as another revenue stream. In 1824 an accountant by the name of James McClelland advertised through a circular promising “we will make statements for laying before arbiters, courts of council”.^[9]

In July 1854 the Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter. The petition which was signed by 50 Glasgow accountants who argued that the profession of accountancy had long existed in Scotland as a distinct profession of great respectability, and that although the number of practitioners had been originally low, this had been rapidly increasing. The petition also pointed out that accountancy required a varied group of skills as well as mathematical skills for calculation, and the accountant had to have an acquaintance with the general principles of the legal system as they were frequently employed by the courts to give evidence on financial matters.

The Edinburgh Society of accountants adopted the name "Chartered Accountant" for members.^[10] So after 15,000 years, accounting had finally become a profession. And it was timely as Britain and other countries were in the midst of the Industrial Revolution and there was a real demand for accounting services. Growth in manufacturing and improving technologies, new markets opening up globally due to faster shipping, there was now a demand for accountants capable of handling global transactions, understand implications of taxes and cost management such as inventory valuation, FIFO, LIFO, and so on, as well as asset depreciation and other accounting methods. Britain also had just introduced Company Law as well as other legislation. Accountants became technically more proficient and began to specialise in management accounting, corporate accounting, auditing and taxation.

By the middle of the 19th century, Britain's Industrial Revolution was in full swing, and London was the financial centre of the world. With the growth of the limited liability company and large scale manufacturing and logistics, demand surged for more technically proficient accountants capable of handling the increasingly complex world of high speed global transactions, able to calculate figures like asset depreciation and inventory valuation and be aware of the latest changes in legislation such as the new Company law.^[11] As companies proliferated, the demand for reliable accountancy increased and the profession rapidly became an integral part of the business and financial system.

In England, the Institute of Chartered Accountants in England and Wales was established by royal charter in 1880, an amalgamation of a number of local professional bodies which prior to the amalgamation was not recognised as adhering to high standards. Once established, the Institute of Chartered Accountants in England and Wales introduced examinations for entry and standards of conduct. Designations were introduced as Associate, Member and Fellow.

The United States followed suit and in 1887 the American Institute of Certified Public Accountants was formed. The profession has an interesting history in the US with accounting integrity being eroded with the onset of the Great Depression, much of the blame for the event being laid upon accounting practices and embezzlements.

1.1.4: The Accounting Profession in Australia

The accounting profession in Australia was also introduced in 1886 with the formation of what is now CPA Australia which in 1887 was the Incorporated Institute of Accountants, Victoria. In 1921 there was a name change to Commonwealth Institute of Accountants and in 1953, there was a name change to the Australian Society of Accountants. In 1990 it became the Australian Society of Certified Practising Accountants and in 2000 it became CPA Australia.

Chartered Accountants Australia + New Zealand commenced as the Corporation of Accountants of Australia in 1905. They amalgamated with the Sydney Institute of Public Accountants in 1906. The Australasian Corporation of Public Accountants was formed in 1907 with the amalgamation of the Corporation of Accountants of Australia, the Sydney Institute of Public Accountants and the Institutes in Melbourne. Royal Charter was given in 1928 and the Institute of Chartered Accountants in Australia was formed and was the first accountancy body outside the United Kingdom to receive a Royal Charter. In 2014 the Institute of Chartered Accountants in Australia amalgamated with the New Zealand Institute of Chartered Accountants to form Chartered Accountants Australia + New Zealand.

In 1923 there were 3 recognised accounting bodies with the now Institute of Public Accountants forming in Melbourne, initially as the Institute of Factory and Cost Accountants. In 1950 there was a name change to the Institute of Taxation and Cost Accountants. In 1957 it became the National Institute of Accountants (NIA) and whilst there would be 2 more name changes, the organisation reverted back to NIA in 1987 for another twenty-four years.

In 2011 under the stewardship of CEO Andrew Conway there was a name-change to the Institute of Public Accountants to more accurately reflect what the organisation's members wanted given accounting is now recognised globally and that in most parts of the world, 'Public Accountant' means a qualified accountant.

In 2015, the IPA amalgamated with the UK-based Institute of Financial Accountants offering mutually recognised membership designations into Europe. The IPA now has a membership of around 35,000 members and students and is truly a global accounting body. The IPA has three tiers of membership, Associate, Member and Fellow, with IPA members having a significant presence in the areas of small-medium enterprises (SMEs), taxation, SMSFs and superannuation, book-keeping, advisory services and general accounting.

There is no definite identification of when the first accounting firms began operating in Australia; we can assume it would have been around the same time as the UK, given the influence from Britain at that time.

The age of the "super-firms" came into being in the 1960s through mergers as competition and demand for services plus a sense of prestige heralded this era. By the 1970s, there were 8 of these international super-firms operating globally, and between them they handled most of the accounting for publicly listed companies, such as banks, large global manufacturers and so on. As reporting regulations tightened and corporations were required to use different firms for audit and non-audit accounting services, the same handful of large accounting firms kept getting more and more of the business. This is mostly because they had the people and experience to get the tasks completed and there was a sense of prestige that went with using these firms as they grew larger.

As part of their growth, these firms merged with smaller firms in order to keep up with the increasing workload as more companies went public and regulations (and management) demanded increasingly frequent and stringent reports. By the 1970s, there were 8 firms that handled most of the accounting for publicly traded companies. These were Arthur Anderson, Arthur Young & Company, Coopers & Lybrand, Ernst & Whinney, Haskins & Sells, KPMG, Price Waterhouse, and Touche Ross. ^[13]

Every corporation had to deal with 2 accounting firms, one for audit and one for non-audit work, the competition between the main 8 accounting firms increased, leading to more mergers. By 1989, the big 8 became the big 6. In 1998, the big 6 was reduced to 5. This countdown was advanced by 1 when, in 2002, the Enron scandal was a significant factor in dragging Arthur Anderson down, the final catalyst happening in Australia when it was embroiled in the HIH scandal.

The remaining 4 firms, Deloitte Touche Tohmatsu (formerly Touche Ross), Ernst & Young, KPMG International and PricewaterhouseCoopers bought up what was left of Arthur Anderson. These 4 firms have significant market penetration because competition has been reduced while the regulations and reporting needs of corporations have increased.^[14]

In Australia, accounting and accounting firms can be found in all towns across the country, serving the needs of all types of businesses and individuals. This includes agriculture, small to large retail businesses, sole-trader businesses and partnerships, non-profit organisations, public service providers such as hospitals, medical providers, charities and so on.

1.2: Owning an Accounting Practice

Owning and running an accounting practice comes with many responsibilities and compliance requirements. In this section, we will look at what these are.

1.2.1: Starting up or Entering a Practice

Starting your own accounting practice is an exciting time but there are a number of things that you must consider before you can commence trading. The first consideration for applicants is to obtain a Professional Practice Certificate (PPC). Do you need a PPC?

Current IPA By-laws do not require you to hold a PPC if your earnings are less than the tax-free threshold of \$18,200. By-law 9.1.2 states:

Members who must hold a Professional Practice Certificate are those:

- A. Who provide accounting and related services to the public such as financial reporting; bookkeeping; insurance; auditing and including those Members signing off as an auditor of a self-managed superannuation fund (SMSF); taxation; corporate reconstruction/ advisory; bankruptcy; financial planning/ investment advice; superannuation; business/ management consulting; company secretarial/ Board; advice/ Counsel Associated with the sale, listing or purchase of a business or securities; and all similar activities; or otherwise as deemed by the IPA; or
- B. Whose firm is advertised or promoted as “Institute of Public Accountants” and/ or as a part of that promotion uses any other branding or intellectual property of the IPA and irrespective of the business activity of that firm; or
- C. Where the Member is a partner or principal of the firm and irrespective of their functional responsibilities; or.
- D. Where the Member provides services on contract to an accounting firm and the Member is not covered by that firm’s professional indemnity insurance; or
- E. Holds any beneficial equity in the practice; or.
- F. Where the IPA otherwise deems the service to be that which the member must have a Professional Practice Certificate;

and

Whose annual gross income from the provision of services to the public exceeds the amount which is equivalent to the currently provided tax free threshold.

A PPC provides recognition that as a professional and qualified accountant, you have also undertaken the necessary studies and have the required experience to achieve certification by the IPA that you may hold a PPC. It also ensures that as an IPA member and a principal of an IPA practice, you understand your responsibilities in regard to the public interest and are able to protect the IPA brand. Whilst a principal is generally an owner in the practice such as a sole trader, a partner, a director or a trustee, it is essentially anyone within the practice who signs off professional work.

These responsibilities include:

- The type of services offered by the practice;
- Selection and retention of clients as well as the terms of engagement;
- The quality of services provided by the practice. There will be a need to establish a quality control system for your practice to ensure that the services offered meet the expectations and standards of your clients. Please reference APES 320 Quality Control for Firms in Module-3 for more information;
- Ethical and technical judgements, contained in all decision-making processes;
- The governance of the practice. This would be in line with the Corporations Act; and

- Where there are related entities to the practice, how these are managed from both an ethical and governance perspective.

The following is a list of the types of services (but not limited to) that will require you to hold a PPC as an IPA practice where those services are offered for “reward”.

- General accounting services
- Financial planning services
- Financial management services
- Tax (planning and preparing)
- Auditing and assurance services (includes forensic accounting)
- Risk management
- Management consulting
- Business valuation services
- SMSF
- Corporate advisory services
- Insolvency.

If you are unsure, you can refer to IPA for a determination. You can also access the application form online which provides the necessary information for meeting the requirements to hold a PPC including completing tertiary studies in Company Law and Taxation Law. This information can be found at: <https://www.publicaccountants.org.au/media/1333417/IPA-Professional-Practice-Certificate-Application-Form.pdf>

IPA By-law 9.1.10 currently requires all PPC holders to hold Professional Indemnity (PI) insurance in accordance with By-law 9.1.11 to the value of \$1m for each reinstatement; and to be a defence cost exclusive PI policy (that is, monies or excess are to be used to settle the claim and are not to be applied to costs).

IPA members that hold a PPC have obligations under the IPA Professional Standards Scheme and will need to comply with the Professional Standards Council’s disclosure requirements. The IPA Professional Standards Scheme Instrument and disclosure requirements can be found at: <http://www.psc.gov.au>. More information on the IPA Professional Standards Scheme is covered in Module 7.

IPA members are permitted to use the IPA logo on their stationery. A selection of IPA logos can be found at: <https://www.publicaccountants.org.au/membership/members/logos>.

1.2.2: Practice Structures

There are a number of different practice structures that can be used. The basic underlying difference between the structures themselves rests on incorporation.

When deciding on a practice structure, expert assistance should be sought if the practitioner does not have the required knowledge. The taxation and legal considerations are complex and a poor choice of structure can have serious ramifications. There can be conflicts between a practitioner’s objectives in limiting liability, having the most suitable arrangements for taxation purposes, and also having structures sufficiently flexible to deal with practice growth and succession. If in doubt, seek help.

The basic divisions for a small-to medium-sized accounting practice are:

Unincorporated structure:

- sole practitioner
- partnership
- trust.

Incorporated structure:

- limited liability company.

These structures are often used in combination with different parts of the practice operating under a separate structure(s).

Some common practice structures and associated arrangements include:

- sole practitioner;
- partnership;
- a sole practitioner or partnership with an interest in the practice assigned to one or more family trusts;
- a practice company carrying out some parts of the practice with the statutory services being offered by a sole practitioner or partnership;
- supply of some services to a sole practitioner, partnership or company by way of a service company or service trust;
- employment of the practitioner/s and other staff by an administration company;
- specific services being supplied to clients through specialist companies such as data processing and management consultancy services; or
- holding of the assets of the practice, especially a property, by a trust or company.

The number of combinations is large and should be approached with caution. Select practice structures to meet the needs of the practitioner. They should be based on valid legal, family, tax and work considerations.

1.2.2.1: Sole Practitioner

A sole practitioner exists where there is a single principal in a firm who is responsible for the entire business. They may work alone or have a small number of employees assisting them. The firm will have a business name, which needs to be registered, but otherwise does not have a formal business structure. Income is the personal income of the principal.

Advantages:

- has the simplest structure;
- the simplest to establish, with more emphasis on practical considerations such as the choice of premises rather than legal considerations;
- the least costly in relation to administrative and legal procedures in implementation;
- ensures full control is retained by the practitioner;
- entitles the practitioner to all profits; and
- easy to sell or discontinue use.

Disadvantages:

- unlimited liability of the practitioner for debts and other liabilities (eg negligence, personal injuries), meaning assets of the business and individual are exposed;
- depends on continued good health of the practitioner for success and continuity;
- usually relies solely on the management skills of the practitioner on a day-to-day basis;
- imposes limitations on the range of services that can be offered;
- must distinguish personal and business activity (record-keeping); and
- limited in possibilities for expansion.

Taxation Implications:

- can offset losses against other personal income (non-commercial loss rules deferring deductions may apply);
- taxed at personal rates for income, including retained earnings, which may be higher than for other structures;
- assessed on a cash basis (if a sole trader without staff);
- subject to capital gains tax (CGT) on business assets upon transfer or death, as well as small business retirement/rollover concessions (but not on depreciating assets); and
- must register for GST when income exceeds the registration threshold.

1.2.2.2: Partnership

The statutory test to determine whether a partnership exists is the “carrying on of business in common with another legal person with a view to profit”.

In a partnership, all partners are agents of all other partners and can therefore bind the other partners in contractual arrangements. Partners are also liable for the torts or wrongful acts committed by their partners.

Partnerships are generally governed by the partnership agreement. Future and potential problems can be avoided if a written and comprehensive partnership agreement is in place prior to the commencement of the partnership.

Depending on the agreement, incoming and outgoing partners may be liable for debts incurred by the partnership before or after they leave the firm if they do not adequately advise creditors when they leave the partnership.

All partners have a right to participate in the management of the partnership unless they have agreed not to participate. Other aspects to consider include remuneration of partners; who needs to agree to the introduction of a new member; and so on.

Majority control of the partnership must be exercised by persons bound by the rules of the IPA, or entities under the control of such persons.

In management issues, disagreements are settled on the basis of the majority view. This may be overturned by a Court if the partners are not acting in good faith towards each other.

Advantages:

- relatively inexpensive to form;
- can rely on additional skills of partners available to practice; and
- can cover the short-term illness of one or more partners.

Disadvantages:

- responsible for unlimited joint and several liability (through the partners) for debts of the partnership;
- has the potential for disputes and the loss of mutual trust by the partners;
- may have problems relating to the death, retirement and admission of new partners; and
- may have problems relating to the holding of partnership property.

Taxation Implications:

- not taxable itself, only the individual partners;
- means individuals are only liable for tax on their own share of the net income;
- may distribute losses to partners, proportionate to their interest;
- allows for effective tax planning (refer IT 2330);
- must take care to meet ATO requirements for continuing partnership when there is a change, to avoid partnership interest disposal;
- entitles partners who are individuals or trusts to have access to the CGT discount and small business retirement/rollover concessions, but not on depreciating assets; and
- must register for GST when projected annual turnover exceeds the registration threshold.

1.2.2.3: Trust

A trust is a legal relationship established by parties so that a trustee holds property or legal interests on behalf of beneficiaries. The structure allows flexibility that may be suited to some accounting practices. The trustees may be individuals or a corporate entity, the latter bringing benefits of limited liability. The trusts may be:

- *fixed* – where equity interests such as units give a fixed entitlement to interest and capital; or
- *discretionary* – where the trustee decides the apportionment of distributions to beneficiaries.

The liability of the business is limited to the assets of the trust. Trustees can be personally liable for failing trustee duties, such as insolvent trading. If a person who is a beneficiary is sued, creditors do not have access to the trust assets.

It is possible to change interests in a trust without triggering CGT, so this vehicle makes change in practice ownership easier.

The trust is managed by the trustees, who, after establishment, usually may be appointed and removed by the beneficiaries. It is possible to have non-practitioners as beneficiaries, subject to the majority control being in the hands of parties bound by the rules of the IPA.

A trust has a Trust Deed, which is a formal document setting out the terms of the trust agreement. Trusts have trustees (those responsible for the proper running of the trust) and beneficiaries (those entitled to the benefits of the trust).

Advantages:

- has flexibility in the allocation of distributions, subject to personal services income rules;
- can more easily address succession issues than other structures; and
- provides a means of obtaining limited liability.

Disadvantages:

- subject to complex trust laws, which may require external assistance in establishing arrangements that meet individual requirements, especially as the initial rules need to be applicable for the life of the trust (eg consider final capital distributions);
- must take care with personal services income and IPA ownership rules if non-practitioners are beneficiaries; and
- has slightly more complex administration requirements, needing trustee and trust deed.

Taxation Implications:

- may split business income across beneficiaries;
- must distribute personal services income and income in a fashion consistent with the duties and responsibilities of the practitioner;
- cannot usually distribute losses to beneficiaries;
- beneficiaries who are individuals may have access to the CGT discount and small business retirement/rollover concessions, but not on depreciating assets; and
- must be registered for GST by the trustee when the trust's projected annual turnover exceeds the registration threshold.

1.2.2.4: Corporation (Company)

Companies have an existence separate from their owners and are a separate legal entity. They can own property, sue and be sued in their own right, and have perpetual succession. They are relatively complex organisations and are governed by the Corporations Law.

The liability of members is usually limited to the amount of their shareholding or guarantee. Company directors may be found liable for a tax debt, and their personal assets may be applied to meet losses if they are found to have allowed the company to trade whilst insolvent.

The day-to-day control of the company is vested in the directors. Only the directors have a say in the management of the firm. A majority of voting rights should be in the hands of persons bound by the rules of the IPA, or entities under the control of such persons.

There are a number of formalities that must be attended to in the administration and running of a company.

Advantages:

- perpetual succession;
- limited liability;
- flexibility in the way the practice is organised and controlled;
- taxation benefits; and
- can retain profits in the company (unlike trusts).

Disadvantages:

- more expensive to form and maintain;
- must have a public record available of its financial situation; and
- may be subject to a loss of control.

Taxation Implications:

- may be able to split business income that is not personal services income to persons on lower marginal rates;
- carries forward its losses and does not distribute them, and are subject to continuity of ownership/same business tests;
- can frank dividends to avoid double taxation;
- is subject to a flat rate of tax lower than that applicable to the higher marginal tax rates of individuals;
- may be subject to capital gains on transfer or disposal of shares, although CGT discount may apply and small business retirement/rollover concessions may be available; and
- must register for GST when projected annual turnover exceeds the registration threshold.

1.2.2.5: Service Entities

Use of service entities became very popular in the 1990s. A service trust may be used to hold assets and/or employ administrative personnel, and to charge the practice for the provision of services. As this is not personal services income, profits derived from this entity may be passed on to persons other than those providing the personal services to run the practice.

The ATO found that there were cases of abuse in these arrangements, including the use of unreasonable profit margins and provision of services that were in substance undertaken by the practice. To address this issue the ATO released TR 2006/2 setting out the ATO's view as to what is acceptable in a service trust arrangement as well as a guide titled *Your Service Entity Arrangements*. Members should consult the ATO website (www.ato.gov.au) and read the ruling and guide before making any decisions about setting up a service trust arrangement.

1.2.2.6: Federations and Associations

It may also be possible to arrange other structures such as federations or associations that operate in conjunction with the more traditional structures.

Advantages:

- a source of referrals;
- backup in the event of illness;
- the ability to offer a greater range of services;
- co-operative bidding for larger jobs;
- the convenience of many locations;
- the ability to pool advertising expenses and benefits;
- a sharing of staff with special expertise such as computer specialists, quality assurance partners, training staff and so on;
- the ability to achieve economies of scale that may not otherwise be available, such as quality assurance accreditation; and
- the ability to share support staff where possible.

The greatest problem with such arrangements is that they are difficult to form and maintain. Most fail from a lack of management attention. In instances where these associations are formed, it may be prudent to appoint a manager to oversee the continued successful operation of the association.

1.2.2.7: Franchises

Additional structures now available are the franchise model, where a common name is widely marketed by the franchisor and procedures defined by the franchisor are complied with by the franchisee. Support materials and templates may be provided. The franchisee pays a fixed or variable sum based on revenue. Some models will allocate defined territories from which clients are allocated and/or marketing mechanisms to generate client leads. These models may suit micro-operators such as bookkeepers who do not wish to divert service delivery time into some facets of practice operation.

There are also a number of businesses seeking to expand through acquisition of small practices.

Members considering the franchise model, or selling the practice, should be careful not to undervalue their practice, particularly the value of the client base.

1.3: Practice Entry Options

There are a number of different paths that can be taken when entering professional practice. The most common of these are:

- creating a new practice with new clients;
- creating a new practice with referred clients;
- purchasing an existing practice complete with client base; or
- entering an existing practice as a principal.

The choice of entry method will depend on the circumstances of the practitioner. Each of these entry methods:

- requires differing levels of short- and long-term funding;
- will result in a different split between the amount of time devoted to:
 - practice development activities; and
 - technical accounting and other professional services; and
- will have a different lead time between practice entry and the generation of sufficient fees to support the cash-flow requirements of the practice and the practitioner.

The following table is a general guide to practice commencement options:

PRACTICE OPTIONS	New practice with new clients	New practice with referred clients	Existing practice with existing clients	Principal in an existing practice
Type of funding required	Extensive long-term funding required	Short- to medium-term funding required	Long-term funding required	May be funded internally
Time lapse until cash-flow positive	Long due to slow growth of client base	Usually short, but depends on client base	Immediate to relatively short	Already existing
Practice development vs. professional services	Emphasis on practice development	Significant practice development activities but more emphasis on professional services	Emphasis on professional services	Emphasis on professional services
Level of uncertainty in cash-flow forecasting	High levels of uncertainty	Less uncertainty, but still some uncertainty due to client quality	Lower levels of uncertainty	Low levels of uncertainty
Supplementary income stream required	Highly likely due to developing client base	Lower probability, depends on client quality	Usually not required, but depends on practice size	Usually not required

1.3.1: New Practice with New Clients

In this case the practice is launched without an existing client base, with the intention of building a client base over time. This method of entry into professional practice is the most difficult.

When setting up a new practice, your client base may initially consist of close friends and family and/or you may be reliant upon a limited number of clients. It is important to recognise and document this fact and to put in place safeguards to ensure that there is no real or perceived threat to your independence, especially in cases of potential conflicts of interest, as a professional practitioner.

Before setting up a new practice you should give serious consideration to the following issues:

- How long will it take to build a large enough client base? The initial period of growth will most likely be slow. During this time survival is not guaranteed and the degree of risk is high.
- How many clients do you need to support the intended practice size?
- Are there sufficient long-term funds available to support you and your dependants until the practice is self-sufficient?
- What impact will setting up a new practice have on your life, both financially and personally? Will your family be affected? Do you have sufficient financial and emotional support to survive any hurdles? These issues are often overlooked but must be considered to ensure the survival of the practice and your family.
- Do you have the necessary commitment to building a client base over a long period of time?

- Will you have the time and skills to carry out marketing and other activities associated with developing your practice? If not, who will perform these activities? You will need to develop business and marketing plans.
- Will you need an alternative source of income during the start-up phase of your practice? Some other income-producing options include:
 - continuing work with an employer on a part-time basis;
 - teaching, lecturing or tutoring at schools, colleges and universities;
 - sub-contracting to other practitioners;
 - running seminars for small business operators;
 - using excess office resources to provide serviced office facilities;
 - providing bookkeeping services;
 - providing data processing bureau services; and/or
 - sub-leasing excess facilities to other compatible small businesses.
- How will you plan for the high level of uncertainty surrounding cash flow forecasting? You need realistic expectations as well as the ability to be flexible and rapidly adjust estimates in the event that circumstances change.

1.3.2: New Practice with Referred Clients

In this situation a new practitioner purchases or acquires clients from an existing practice. This is a good way to quickly develop a suitably sized client base and provide immediate access to fee income. The value of the client fees purchased can be determined using similar techniques to those employed in practice valuation. As in practice valuation there must be allowances made for client losses and quality.

Consideration should also be given to the following factors:

- Any uncertainty relating to client quality should be established. A client profile should be developed in the negotiation phase and only clients meeting that profile should be purchased.
- Continuing client loyalty should be factored into the price paid. This may be done with payment split over two or more years to allow for adjustments for client loss. This may also be easier to fund than an initial up-front payment.
- Sufficient funds must be available for the purchase. The access to immediate fee income may allow for the purchase using short- to medium-term funds rather than long-term funds.
- There is less need to engage in an extensive period of practice development activities.
- There may be an immediate opportunity to expand the range of services to the client group.
- Does the client group have a need for services that the practitioner has the expertise to offer? Do not purchase clients if you do not have the knowledge or the skills to meet their needs.

1.3.3: Existing Practice with Existing Clients

This is an attractive way to enter professional practice. There is a market for accounting practices and it is usually possible to find one that is suitable. Consider a period of handover whereby the outgoing practitioner remains in the practice for an agreed amount of time. This eases the transfer and allows time for the new practitioner and the clients to become familiar with each other.

The advantages of this method of entry include:

- immediate access to a known source of fee income;
- the existence of practice records, systems, staff, equipment and possibly premises – this eliminates much of the initial effort involved in setting up a new practice from scratch;
- immediate emphasis being placed on the professional side of the practice; and
- opportunity to expand services.

There are a number of tasks to complete before going ahead with the purchase:

- Confirm that the purchase period is appropriate (refer to Practice Valuation);

- Ensure you can fund the purchase price;
- Take considerable care to evaluate all factors relating to the client base;
- Investigate and evaluate the structure and operations of the practice;
- Investigate and evaluate the type of work undertaken by the practice; and
- Consider the likelihood of some clients leaving the practice following the change of ownership. Do not expect 100 per cent retention.

1.3.4: Principal in an Existing Practice

This is arguably the most attractive option available. It allows the practitioner to enter an existing practice with the support of a number of other existing practitioners. Usually the intending partner spends some time as an employee to allow himself, the existing partners and the client's time to evaluate each other.

Where the new partner has worked in the practice for some time, there is an immediate advantage due to existing familiarity with all aspects of the practice and clients.

The advantages are similar to those that exist in the purchase of an existing practice. The following factors should also be considered:

- The existing partners may be willing to fund the purchase internally, so there may be less reliance on external and long-term funding.
- As a junior/newest partner the exact limits of authority and freedom may need to be established and negotiated.
- There may be disputes if personalities and/or aspirations for the practice are incompatible. The likelihood of this occurring should be considered and addressed.

1.4: Market Trends Affecting Practice Owners

The IPA has positioned itself as the organisation supporting small business and SMEs, since three-quarters of our members work in or are advisers to this sector. There are various definitions of small business and SME, including a small business having turnover up to \$2m, \$5m, up to 20 or 50 employees. SMEs generally have up to 200 employees, though in some contexts this definition also applies to small business. Small business and SMEs make up 97 per cent of all Australian businesses, employ around 7 million people and produce around 57 per cent of GDP as at June 2017. According to the research conducted by National Australia Bank, 1 in 10 SMEs were actively growing their business and 45 per cent expected to expand their businesses within 3 years.⁽¹⁵⁾ This would indicate that this sector is a growing market for the accounting profession.

Given this market segment is growing, IPA members should consider what the SME segment in Australia is looking for from their accountant. The following article was published by Accountants Daily in August 2016 by Nicolette Maury, MD Intuit Australia.⁽¹⁶⁾ The article considers 4 things that all SMEs want from their accountants and bookkeepers.

Australia is a country that values small businesses. Whether it is your local coffee shop owner who knows you by name, or the generous deli server who gives you an extra bit in your lunchtime sandwich, we value these businesses and the personalities behind them.

Behind many of these business owners an accountant plays a less visible yet crucial role in driving the business and ensuring success for the owners.

According to recent Intuit research, 77 per cent of small businesses use an accountant for large financial reporting activities – such as filing tax returns and helping with end-of-year bookkeeping.

However there are some accountants who have ongoing relationships with small businesses that go far beyond a one-off meeting every financial year. I regularly speak to small business owners about their relationship with their accountant and have found that the depth of relationship is often down to four main traits that make you indispensable to your customers.

The first is curiosity. Like many industries, accounting is adapting as new technology changes the way accountants and clients interact. Our small business customers tell us they're looking for their accountant to help them navigate this change and ensure their business is on the path to success. That means being constantly curious and learning as much as you can about your clients' businesses and the challenges and opportunities in their industries. You can also feed your curiosity by honing your own skills. Never stop learning and finding ways to improve your skillset. Curiosity will help to create an incredibly trusting and productive professional partnership.

Successful accountant/small business owner partnerships also require commitment. An owner's business is more than just their livelihood, it's also their passion. When an accountant works with SMEs, they need to be cognisant of the commitment the owners have taken on. Family life is compromised, financial pressures are constant and long hours are normal. The accountants who show the utmost commitment are those who will be truly valued by their small business customers. Passion is infectious, harness it within your own work and the rewards are endless.

Small business owners work hard to provide consistency in their offerings to customers. They want to ensure each product is of the highest quality or that the service they provide doesn't change vastly from one staff member to another. They work extremely hard to provide the best for their customers every day and they expect the same from their business partners. An accountant can further improve their relationship with a small business owner by doing regular informal check-ins to make sure they are happy with the standard and consistency of work that is being provided.

Accountants pride themselves on their technical skills. You worked hard at university and then completed the juggling act of work and professional exams to excel in your career. However, an exceptional accountant is not just someone who is technically excellent. Small businesses rely on communication that is clear. Many will struggle with the more complex aspects of bookkeeping, and they will be eternally grateful for an accountant who can explain things in simple and plain English. A small business owner can be confident with their financial decisions, knowing that they have been explained fully by their accountant.

No small business is the same, but they are consistent in their ability to inspire with infectious passion. As an accountant, the ability to help them thrive remains a key motivation that will never change. Follow the four C's – curiosity, commitment, consistency and clarity – to build stronger relationships with clients and reinforce your role as a trusted adviser.

1.5: Practice Growth Opportunities

There are growth opportunities for accounting practices in the SME segment. The Australian Bureau of Statistics published findings as at 30 June 2016, the number of actively trading businesses in the market sector was 2,171,544 which was an increase of 2.4 per cent from the previous year in June 2015. The ABS found that a significant amount of that increase came from small business being those businesses with less than 20 employees. It has been well-documented that Australia is indeed a country of small business.

There is also a change in the approach to fees as more practices are moving to a fixed-fee arrangement rather than the traditional hourly rate charge-out for many of the services delivered. This appears to have been welcomed by clients as they can now budget for their accountant's fees with confidence.

Outsourcing is another area that has been well-documented in recent years, with off-shore practices offering much of the compliance services at greatly-reduced rates, anything from \$6.00 - \$50.00 per hour. It is important to recognise the risks of outsourcing, and it is not for everyone. There are also professional and ethical requirements which require disclosure and consent from clients before using outsourced services. Another trend is on-shoring, with some work coming back onshore due to technology and automation which makes compliance work (and other work such as data analytics) more efficient through the use of technology.

1.6: The Future of Accounting Practices

In recent years, the accounting profession has seen a number of changes, especially caused by the impact of technology. There has been research suggesting that accounting will not survive in future years, at least not as we know it. However, the IPA believes that accounting as a practice will survive changes and there are several reasons for this. First, consider the guiding principles that accountants must abide by, such as:

- Ensure that the law and accounting standards are being complied with;
- Protect against fraud, embezzlement and any other activities that may cost a company money;
- Provide information to assist management make informed decisions affecting their business;
- Provide information to other stakeholders that can also be used for decision-making;
- Verify that records and reports are accurate; and
- Identify where efficiencies and improvements can be made such as in stock-holding, reducing costs, investing cash reserves and so on.

These guiding principles are unlikely to change and as such, clients will require the ongoing expertise of accountants. In addition, research indicates that clients value relationships and expect to have a trusted relationship with their accountant. Technical expertise is taken for granted but being able to readily contact their accountant and obtain reliable and informed advice is highly valued. The role of the trusted adviser is alive and well but cannot be taken for granted.

In a practical sense, computers and software can now perform the compliance tasks previously undertaken by accounting firms, which permits the practice to spend time on developing other revenue generating streams. Research indicates growth areas for accountants including, financial services, wealth management, succession planning, business advisory services, forensic accounting, valuation services, strategic tax planning, audit and assurance, technology advisers (especially cyber security) and so on.

1.7: Other Information to Consider

An article from Investopedia on the changes in accounting identifies the following changes:

“One of the biggest changes on the horizon of accounting is the addition of a seventh service: current-value information. Proponents of this type of accounting argue that historical cost financial statements are flawed because they do not provide information on current value, which would be more relevant for investors. As such, this type of accounting may produce balance sheets that are more representative of a company's value, although it is considered by many to be less reliable.”

Another change in corporate accounting has been the introduction of advertising into the industry in recent years. Actively competing with other firms through advertisement was taboo in an industry that used to depend on word-of-mouth recommendations to build clientele. As this competition between only a few firms begins to heat up, the regulations on the industry will also increase to keep firms from offering dishonest services (think Arthur Anderson) to entice clients from their competition. All in all, the future of accounting will be in getting accurate information to managers and investors as soon as possible. In turn, this will ratchet up market efficiency and keep the financial world ticking along happily”.

Accounting practice into the future has been the subject of much research including the following which was published via the IFAC website titled “Future of Accounting Profession; Three major Changes and Implications for Teaching and Research”, clearly identifying the need for the accounting profession and for accounting practices. Interestingly, this article looked at the Australian landscape.

“The accounting profession will face significant changes in the next three decades, and professional organizations, their members, and educational institutions should respond.

The three changes—evolving smart and digital technology, continued globalization of reporting/disclosure standards, and new forms of regulation—are also major challenges for the profession.

Association of Chartered Certified Accountants (ACCA) research—[Drivers of Change and Future Skills](#)—has explored these important changes, expected to be encountered by the year 2025. Three are highlighted here:

First, accountants will use increasingly sophisticated and smart technologies to enhance their traditional ways of working, and these technologies might even replace the traditional approach (see [“The End of the Accounting Profession as We Know It?”](#)). Smart software systems (including cloud computing) will support the trend toward outsourcing services (including more overseas outsourcing), and greater use of social media via smart technology will improve collaboration, disclosure, engagement with stakeholders and broader communities (see ACCA research, above). Social media (including Facebook, Twitter, and Google search) will reveal more data (including alternative reporting, see [BHP Billiton Annual Report 2012](#)) than any corporate assurance report and stakeholders will use tools to interpret “big data” (see ACCA’s [Big Data: It’s Power and Perils](#)).

Second, continued globalization will create more opportunities and challenges for members of the accounting profession. While globalization encourages the free flow of money from one capital market to another, enhanced overseas outsourcing activities and the transfer of technical and professional skills will simultaneously continue to pose threats to resolving local problems (with different cultural, financial, and tax systems). Accounting firms in the US, EU, and Australia are outsourcing services to India and China for the purpose of cost minimization, which will create a shift in employment within the accounting industry in the West. As globalization has already been negatively impacted by Brexit and Trump’s presidential victory, accounting professionals are likely to see themselves having a role in this transformation (see [Economist](#) and [ABC](#) articles).

Third, increased regulation, and the associated disclosure rules, will have the greatest impact on the profession for years to come. For example, increased regulation is imminent because of massive tax avoidance, transfer pricing, and money laundering as exposed via the panama papers. (see [Guardian](#) series). Many professional (tax) accountants will be affected by intergovernmental tax action to limit base erosion and profit-shifting.

Additionally, because of greater public pressures and stakeholder expectations, social and environmental considerations are getting importance alongside economic concerns in contemporary organizations. We see a range of stakeholder groups[i] including shareholders, workers, governments or regulators, non-governmental organizations, media, and the community have a growing interest in organizational social and environmental issues. Because of the widespread stakeholder concern and associated regulations toward social and environmental considerations, contemporary organizations are facing challenges to find sustainable solutions to deal with the complexity of integrating financial, social, and environmental performance. Quite tied to this, new forms of regulation (such as integrated reporting <IR>, which is required for South African-listed companies, and supply chain transparency disclosures, which are required for many California-based companies) are emerging and members of accounting organizations are already engaged in this transformation (see [Journal of Business Ethics Study](#) and ACCA report, above).

The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, has allowed accounting professionals to open their minds to the possibility that accounting has the capacity to change. The important implication is that all professional accountants will be expected to look beyond the numbers, which will, in turn, enhance collaborations among members of multiple professions, including accountants, doctors, lawyers, environmental scientist, sociologists, and so on” (17).

The accounting profession is based on standards and it is in the best interest of all stakeholders that these standards are maintained to ensure consistency and reliability of accounting advice. New standards will be introduced as a result of government policy, world events and so on. These changes require accountants to keep up to date with any new standard to ensure compliance. The world has changed and countries now have expectations which cascades down to the accounting profession. Changing technologies, changes of government and economic development all impact on the profession.

The accounting profession will continue to undergo transformation and face challenges, but also will continue to be an important occupation that other professionals will rely upon.

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