

**Goodwill – the Key to Valuing a Professional Practice**

**Professional vs. Practice goodwill**

“Professional” goodwill derives from the individual practitioner’s reputation and personal success in the profession, and the trust and respect that the individual practitioner has engendered in his or her clients.

“Practice” goodwill relates to the firm’s ability to continue to generate earnings without the presence of any particular professional. Location, computer systems, staff, operating procedures, and a recurring client base are all elements of practice goodwill.

Much of the value of a professional practice consists of goodwill; its reputation, client base, knowledge, technical skill, research, brand awareness, and associations that the firm maintains. The goodwill of a practice is the most intangible of all assets.

NOTE: You should be aware at all times that valuing goodwill is not an exact science, rather, the weighting given to many of the factors which makes the worth of your practice differ from apparently similar firms, can only be accurately predicted by a valuer with a great deal of experience. For example, the impact on the value of the goodwill of a practice which has no time recording system in place or is not registered for VAT or has been the subject of an adverse QAD report, can only be deduced through empirical experience. Make sure your valuer has the experience you need.

**Methodology**

There are many factors impacting on the value of the goodwill of a practice, but in all cases the value relies on the principle of willing buyer, willing seller at a given time. The value of the goodwill will not necessarily be the same if, for instance, it is being purchased as an integral part of a practice being sold on the open market as a going concern, compared with a block of fees being sold unencumbered by any overheads such as staff, leases, or as a result of insolvency or the death of the principal. Additionally, investment in computer systems, key staff, etc., could reduce current profitability but increase considerably ‘the hope value’.

For partners who want a valuation for internal reasons, where a partial sale is not being contemplated, APMA normally suggests the practice be valued as if it were being offered, together with the relevant members of staff, computer systems, etc., on the open market, sold for a capital sum on a ‘going concern’ basis. We would make the assumption that the principal(s) would be prepared to stay or leave, and the practice would remain in situ, or be moving into a purchaser’s own offices, thus giving the market flexibility. If your circumstances require other factors to be taken into account, be sure to advise your valuer accordingly.

There are three methods which APMA uses for valuation purposes, each is charged at a different rate. Phone APMA for further information on 01623 883300 (usually up to 8.00 p.m.):

1. **The summary valuation – given free of charge.**

The first is for us to produce a summary valuation which will give you a multiple range and can usually be given over the phone after the principal / partner / director has answered some simple questions on his / her practice statistics.

1. **The Desk Top valuation (a short written valuation) – cost on application.**

This is a two or three page report which draws some conclusions from the statistics which you will provide using a less comprehensive (chopped down version) of the below VALUATION QUESTIONNAIRE, which can be obtained by contacting APMA. This valuation will be given without dwelling on the background to our findings and will place your goodwill in a range of two multiples, taking into account the following criteria:

* 1. With up to 75% of accounting firms having two or less partners, small parcels of fees command higher multiples.
  2. Larger practices are more attractive if in towns or cities.
  3. The greater the density of firms in the immediate surrounding area, the greater the demand.
  4. If the average fee per client is small, it will attract small practices and first time buyers.
  5. A below average charge-out rate will attract a below average multiple.
  6. A recent adverse QAD report spells problems!
  7. If key members of staff are not bound by restraints of trade, particularly self-employed and sub-contractors, purchasers will disappear.

1. **The full written analysis and valuation – cost on application.**

Using the completed VALUATION QUESTIONNAIRE (below), this will be a comprehensive report detailing your firm’s comparative position in the market place, its current value and the reasons behind the valuation. We will expand on the mechanism used for the value obtained and draw distinctions between the valuation of your goodwill and that of a commercial corporate business. From that comparison we will set out ways in which the value of your firm can be enhanced and detail how the firm may be developed using different forms of marketing, signposting you towards a low cost way of consistently increasing the firm’s fees, year on year. A comprehensive Valuation Analysis, which is copyright, is available to purchase from the ‘documentation’ page on our website. It covers the valuation of goodwill, will give you a useful understanding of how the goodwill of an accountancy practice is valued and will enable you to track the evolution of your practice over the years to come.



VALUATION QUESTIONNAIRE

1. **BASIC INFORMATION**

Practice Name ………………………………………… Telephone no:………………..

Practice Address …………………………………………………………………… …..

Contact Name ………………………………………… Telephone no:………………..

Contact Address …………………………………………………………………..........

Contact E-Mail Address …………………………………Mobile: ……………………

Location of Additional Offices: ………………………………………………………..

Details of any trading companies owned by the practice: ……………………………...

………...………………………………………………………………………………...

Reason for the valuation request: ………………………………………….…………...

1. **DETAILS OF THE PARTNERSHIP/COMPANY**

Sole Practitioner\* Partnership\* Limited Company\* LLP\*

Chartered\* Certified\* Unqualified\* Other\* *describe*……… Reg’d Auditor\* FSA\*

**\*delete /circle**

Details of partners/directors, ages and qualifications

1…………………………………………….3……………………………………

2…………………………………………….4…………………………………….

Does the firm employ any relatives of the partners/directors? YES\*/NO\* **\*delete /circle**

Please explain: ………………………………………………………………………..

**Please attach a copy of a partnership agreement/director’s employment contract**

1. **SUMMARY FINANCIAL ANALYSIS**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| YEAR ENDED  (oldest first) | GRF | Non-recurring fees | Gross  payroll cost | Over-head | Salaried  Partners | Profit (after rent & Salaried Partners) before partners share |
| 200 |  |  |  |  |  |  |
| 200 |  |  |  |  |  |  |
| 200 |  |  |  |  |  |  |
| Projected |  |  |  |  |  |  |

1. **BALANCE SHEET SUMMARY**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year ended  (oldest first) | Debtors | Debtors days | WIP at full charge out | WIP/ days | Loans and Overdraft |
| 200 |  |  |  |  |  |
| 200 |  |  |  |  |  |
| 200 |  |  |  |  |  |
| Projected |  |  |  |  |  |

1. **STAFF**

Current salary and charge out rates for staff:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Grade & name | Rate per Hour / £ | Salary / £ | Charge hours p.a. | Years employed | |
| Managers |  |  |  |  | |
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|  |  |  |  |  | |
| Seniors |  |  |  |  | |
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| Juniors |  |  |  |  | |
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| Admin |  |  |  |  | |
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| **CUMULATIVE GROSS PAYROLL COST** | | | | | £ |

NB: On a separate sheet please set out any performance bonuses or contracts which provide for unusual periods of notice.

Charge rates and times for partners/directors:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Grade of partner/ director | No. | Charge rate per hour | Fees earned per partner | Charge hours p.a. | Years as partner |
| Equity Partners/ Directors |  |  |  |  |  |
| Salaried Partners/ Directors |  |  |  |  |  |

1. **PREMISES AND BUSINESS EXPENSES**
2. Are the premises leasehold or freehold?
3. If an asset of the business, what is the estimated freehold value? £
4. What is the book value of fixtures and fittings? **£** Computers **£**
5. Please give the current yearly costs for the following:
6. What are the current yearly costs for the following:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Rent / £** | **Rates / £** | **Heat / £** | **Light / £** | **Insurance / £** | **PI/ £** | **Other business expenses** |
|  |  |  |  |  |  |  |

F. If the property is rented:

|  |  |  |  |
| --- | --- | --- | --- |
| What type of lease  is there? | How long is the  present lease? | When is the next rent  review? | What accommodation does the  property have? |
|  |  |  |  |

G. What car parking facilities are there? ………...………………………………………………….

H. If it is vital that your clients should be serviced from your existing offices, please state why: **vital\*/ not vital\*** because …………………………………………………

**\*circle/ delete**

1. **HOW CONTACT IS MAINTAINED WITH YOUR CLIENTS**
2. What percentage of your work is carried out on the client’s premises? ……………
3. What percentage of your clients deliver their books/accounts to you? ……………
4. In general terms, where are your clients located/ approx. radius form your office/ which counties? ………………………………………………………………………

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1. **PRACTICE LOANS**

Give details of the loans to the practice, security and interest rates and repayment terms:

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1. **EXTENT OF COMPUTERISATION**

Which of these do you use and what percentage is computerized?

|  |  |  |
| --- | --- | --- |
| **A/CS PREPARATION** | **PERSONAL TAX** | **TIME & FEES** |
| IRIS? | IRIS? | Minuteman? |
| SAGE? | PTP? | IRIS? |
| Auditman? | Taxman? | Star? |
| Other | Pertax? | SAGE? |
|  | Other? | Other? |

1. **CONTINGENT LIABILITIES**

Describe any claims or potential claims, against the practice in the last 3 years and state the position on professional indemnity insurance cover, i.e. total cover, any excess and current premium charged.

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1. **QAD VISITS**

Give details of any visits with relevant results, covering the past 5 years.

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1. **CLIENT ANALYSIS**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fee income:** | **No. of clients** |  | **Type of client:** | **No. of clients** |
| Below £250 |  |  | Sole Traders |  |
| £251-£500 |  |  | Partnerships |  |
| £501-£1000 |  |  | Limited Cos |  |
| £1001-£5000 |  |  | Tax only |  |
| £5001-£10000 |  |  | Others |  |
| £10001-£20000 |  |  | **TOTAL** |  |

From where could your clients be serviced (miles/ towns)?

………...……………………………………………………………………………………….

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1. **CLIENT SCHEDULE**

**NOTE: THIS ANALYSIS IS ONLY REQUIRED FOR A FULL VALUATION**

The key component in the valuation of an accountancy practice is its goodwill, which is vested in its clients. For this reason it is necessary for the clients to be comprehensively analysed, preferably under the below headings.

1 . Name (or code number) of client

2. Industry type (fish & chip shop, financial services, club, building sub‑contractor, light engineering, etc.)

3. Type of Business: sole trader, partnership, limited company, PLC, tax only, etc.

4. Estimated turnover of client.

5. Gross Fees rendered to them per your accounts, etc.

6. Gross Fees likely to be invoiced, where different from 5. (above) by the new owner, in the first 12 months following acquisition, which you are prepared to warrant.

7. Method of invoicing: annually, quarterly, monthly, etc

8. Type of Work Done: audit, accounts preparation, management accounts (quarterly/monthly) cash flows, tax work, payroll, etc.

9. Location of Client (a broad indication is sufficient) i.e. North Staffs, etc

10. Length of Time as your Client (if known).

11. If known, is the Principal over 60 **Yes\*/No\***

**\*delete/circle**

12. Year End

Compiler’s signature………………………………….………………..

Name (Blocks) ……………………………………….………………..

Contact’s preferred phone number….…….………….………………..

Best time to call………………...…………………….………………..

Contact’s preferred email address ……………………….……………

Date compiled………………..……………………….………………..