The practice of accounting requires sound business practices to support its operations. This includes the valuable implementation of information technology resources. In the 21st century, information technology is one of the many measurable assets of the firm. When accounting practices are acquired through a business sale transaction, it is imperative that information technology be reviewed, assessed and valued. No matter which side of the buy/sell transaction you are on, the value of the resident technology needs to be appropriately and effectively calculated.

While technology is clearly not the only component to consider when contemplating
the buying or selling of a practice, the focus of this article is the valuation
of the technology being acquired from the selling firm. This focus does not
suggest ignoring all assets; liabilities; real estate owned, leased or rented;
revenues; expenses; and personnel in the analysis and determination of total
selling firm value. The starting point for any buy/sell transaction requires
an understanding of the most basic of logical statements — the need for
both a willing buyer and a willing seller.

Whether you are a buyer or seller, you need information about the seller's
technology resources. The buyer is more interested in the ongoing capabilities
and effectiveness of the computer resources as the buyer will have to make decisions
as to how these resources are usable on a going forward basis. The seller needs
to help with the determination of the fair value of such resources. It needs
to be understood that information technology includes a combination of the
following:

- Hardware — computers & accessories

- & applications
- Data — client information
- Data — firm business information
- Data — generic content
- Data — custom created content
- Knowledge of what products work well and what needs improvement

The seller has to be open and forthcoming with descriptions of how the resources are being used and supply all of the required paperwork that identifies ownership, warranties, repair history and so forth. This magazine offers a valuable resource in its Productivity Survey.
The Productivity Survey is <u>free</u> and available to all accounting firms nationwide at www.CPATechAdvisor.com/productivity.
It includes a series of questions relating to professional practice standards, office processes, backup procedures, paperless office technologies, connectivity and general technology utilization. This tool should be a required element of the overall valuation process.

Evaluating the technology components requires time, expertise and effort.
To perform a proper review, the following steps need to be accomplished:

1. Take Inventory of all IT resources identified above.
2. Assess and Evaluate IT Resources using in-house expertise or outsourced consultants.
3. Review Security and Privacy Issues that impact IT use going forward.
4. Make Value Decisions:
   - Are the IT resources usable by the buying firm going forward?
   - Do the IT resources conflict with IT resources used by the buying firm?
   - Do the IT resources replace any IT resources used by the buying firm?

Take Inventory

- Technical features include the following: components attached, processing chip, hard disk size, memory size, built-in communications, video graphics memory, sound card, type and quantity of external connectors (USB, Firewire, audio, video, PCMCIA, serial connector, parallel connector), pointing devices, network capacity, Ethernet, wireless or cellular connections.
- Capabilities include the following: what the computer is used for, such as personal staff use, common applications, server or network maintenance, wireless adapters, and Ethernet connectivity.
- Administrative data includes the following: date purchased, date placed in service, original cost, depreciation already taken, registered owner, installed operating system, installed software applications and utilities. IT equipment that may exist includes the following items:
  - Computers — desktops, PC, Macintosh, Windows media, other brands
  - Computers — laptops, PC, Macintosh, tablet
  - Computers — handhelds, PDAs, Blackberries
  - Computers — accessories (printers, scanners, fax machines, copiers, routers, carry bags, flash memory cards, disks, external hard drives, etc.)
  - Servers — office networks, web hosting, data farms, peripheral management
  - Accessories (not dollar valuable assets but essential for equipment to function) — cables, power plugs, desks, chairs, battery backup, surge protectors, uninterruptible power systems, etc.

Software
The world of software ranges from operating systems to generic applications to custom-designed programs. The basic information to collect about software includes name, vendor, registration ID, date acquired, number of user licenses

owned, name registrant, product description, who uses, last updated, number

- Applications (common) — word processing, spreadsheets, tax returns, accounting

- Applications (unique) — industry-specific programs, any custom modifications to generic or purchased programs

    - This needs to include all documentation, procedures and methodologies for maintenance and support.
    - If this product is used for a specific client(s), it needs to be assessed whether this client(s) can be retained by the buying firm.
    - Any custom application needs to be compared to products that may be used by the buying firm. If there are similar products, the evaluation needs to determine whether to keep both or replace one of the products.

Process
All of the procedures, checklists, methodologies, how-tos, and learning materials are important components in the computation of IT value. With generic equipment and application software, finding the support materials should be easy. It is necessary to verify that no changes have been made to the generic components. However, with custom applications and related IT resources, all of the process components must be collected and reviewed. The question to get answered is whether or not the processes can be implemented and used by the buyer. The importance of process highlights the fact that computers do not work independently of people — staff and clients.
In some instances, the process components may have more value than the actual fully depreciated computer equipment.

Services

- Upgrade maintenance on software

- Data backup storage

- Recovery operations

- Offsite storage facilities

- Consulting contracts for maintenance of custom programs

Websites
It is likely that both the buyer and the seller have functioning websites.
A determination has to be made whether it is appropriate to maintain both sites or take one down. As part of the review, it is important to identify the following:

- Who has administrative and technical control of the web domain name?

- What is the expiration date of any registered domain?

- All of the e-mail addresses and whether combined staff will have to change their business e-mail address.

- Maintenance of web content that needs to be maintained.

- Hosting agreements.

- Any financial issues in the event the website accepts credit cards for products sold. If it is determined that one or more websites is to be canceled, it is necessary to specifically enter the administration function of the

domain registrar and host provider to specifically cancel the account. If

physical assets. Review of the facilities includes the following questions:

- Is the physical space usable going forward?

- Is there sufficient electric power for current and anticipated new equipment?

- Is there sufficient HVAC for current and anticipated new equipment?

- Are there conflicting wireless networks in the neighborhood?

- What is the value of the space — leased, rented, owned?

- Is the location compatible with the buying firm's location?

- How good is the physical security of the facility — locks, windows, proximity to risk areas?

- Are there natural weather risks nearby — flooding, mudslides, earthquakes, etc.?

> **People**
> No resource can be assessed independent of the people that are part of the
> IT resource. This includes developers, technical support, technical training,
> quality control and customer support. It is important to evaluate what
> resources
> are needed going forward. For example, if a custom application is
> completed
> and installed, what technical resources are required for its support and use?
> If the application Ton is under development, what other resources are necessary
> for completion and implementation.

and appropriate evaluations can occur. Making quick judgments on people within
the technical sphere can create future problems because the current personnel
may be aware of little known features, secrets and other components about
the firm's information technology.

Other
The IT equipment, software and services can be separated into two groups: stuff that has value and stuff that has no value. It is necessary to establish rules for what additional procedures are necessary to integrate and use the acquired resources, including the need for the following:

- Set up e-mail addresses for all personnel from the selling firm who are joining the buyer.
- Train new people on applications, policies and procedures on the buyer's technology.
- Train buyer's staff on applications, policies and procedures from the seller's technology.
- Identify and transfer ownership of patents, copyrights, trademarks, service marks, contractual agreements, employee agreements, partner agreements and other legal obligations.

  For good business practices, remember to review any outstanding payables or financial obligations that are attached to the computer technology resources that are being transferred to the buying firm. Any amount will reduce the value of the information technology.

- It may not be possible to connect with newer hardware.
- Operational Worthiness – Can the computer support current needs?
- Compatibility between both firms.
    - If one firm has PCs and the other has Macs, use needs to be resolved.
    - Having compatible resources is the best value going forward.
- If equipment is not compatible, a decision has to be made as to which type to keep.
- Accounting issues include costs, depreciation and asset value.
    - The surviving firm needs to integrate accounting information.
- Help from outside experts with requisite technical skills to assess the resources.
- It may be valuable to have technical people from one firm review the other.

The bottom line for value starts and ends with the usability of the IT resources. In the calculation, usability must include an estimate of how long the resources can be appropriately used. A six-year old computer will not be the best device to attach to a wireless network. The reason is the chipset will be slow, the hard drive will be under basic requirements, and it is possible that the operating system may be three to four versions away from current. Figuring out how many years any resource may have will be aided by using either internal or external technology experts.

Lastly, but by no means least value, is the concept of "secret sauces." This not-so-highly-technical term references whether there are any IT resources that can provide a substantial competitive edge or substantial revenue increase. For example, if a particular custom computer application will enable the buying firm to provide services to an industry (government, not-for-profit, manufacturing, etc.) that it does not presently serve, there will be a major opportunity for

expanding the practice. On the other hand, if the buyer already owns the custom

Evaluating the technology resources will provide two results: resources to keep and resources to discard. It is essential to conduct extensive security checks for the resources that are brought into the surviving firm. Anti-virus and anti-spyware are essential utilities to assess and evaluate all potential computer equipment that will be acquired. In addition, other technology resources need to be evaluated for their impact on the technology resources. A few examples include the following:

- Programs — original disks and backup copies.
- Programs — documentation, registration numbers and licensing information.
- Paper files (examples):
  - tax returns
  - audit workpaper files
  - client correspondence.

Electronic data needs to be evaluated as it impacts any services being provided from a firm to a client. For example, tax returns, financial planning and audited financial statements are essential for providing client services. This data needs to be assessed and a determination made that the data is complete, free of any virus or spyware and will be usable.

In addition to making sure that valuable data is retained, electronic data that is unusable needs to be removed from all computers, both retained and discarded.
For computers that are being discarded, it is essential to make sure that data and programs are removed from the hard drives. The effort has to be more than just deleting data. It is necessary to use a utility program that will "wash" the hard drive of all data so that it is not retrievable by anyone at any time. It is possible that programs and data on computers that are acquired have been protected by passwords or the entire file has been encrypted. To make sure that

programs and data are retrievable when used by the firm, it is necessary to

can be used within a range of mathematical and financial calculations. The previously
mentioned Productivity Survey expresses a simple formula:

Best Practices = Better Productivity = Increased Profitability

This formula identifies how quality technology use promotes personnel and client productivity, which results in increased gross and/or net revenue. Buying another firm's assets presents an opportunity to consider how the acquired technology can add value to the services and support offered to clients. Moreover, evaluation of technology has to assess how the resources are used as both a practice support tool and a revenue generator. The value of a firm's technology is the accumulation of individual resources and how the technology provides a competitive
business advantage.

Whether the equipment and resources are used or new, calculating replacement cost is one measure to help your decision process. In addition, the time and cost of installing software, connecting all cables, testing security procedures, and updating inventory records has to be included in any going-forward evaluation and plan.

There is no single answer that can identify whether new is better than used or vice-versa. As a general rule, it is better to keep the computers and resources when the currently owned equipment is functional for the work that is being done today and for work anticipated to be done over the coming 12 months. If change is contemplated over the coming few months, then it may be worthwhile to install new equipment rather than bring in the old and go through the changeover process within a few months. Value decisions have to include labor costs, possible new software licenses, and retraining of staff and customers.

Of course, several tax considerations will impact your value decisions, as

whether any of the equipment can be potential replacements for future equipment failure. Hard drives, printers and monitors can fail. It is often expensive to repair this equipment, and having a small inventory of replacement parts can be cost-effective. In addition, there may be future growth opportunities as new employees are hired or services are expanded, and this equipment can be installed and effectively used.

As part of the overall process, it is essential to identify the firm's plans for future technology use. With growth, IT resources will be expanded. Success is best achieved when the expansion is done in an orderly and managed process.
When buying or selling a practice, technology components can provide significant value. It is important not to overvalue or undervalue these components and resources
from the selling firm. If necessary, hire professionals when the appropriate expertise is not available within your firm. And, at the end of the day, never lose sight of the important. Everything is negotiable.

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Technology

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