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EXCLUSIVE SURVEY RESULTS

Revenue Review: What's Happening With Fees & Collections—and 2010 Projections

While the economy's impact on write-downs, collections, and accounts receivable was clear this year, many CPA firms expect they will see revenue growth in the year ahead.

Highlights from the results of AOMAR's 2010 CPA Firm Practice Management Survey provide insights into these critical metrics. (For more about the survey and its respondents, see the Vital Statistics sidebar in November 2009 AOMAR.)

The accompanying sidebar provides data about areas of practice and the fees that each provides now.

Write-downs this year. As you might expect in a recession, write-downs from standard (or gross) fees averaged a significant 12.2 percent of gross fees (see Tables 1 and 2). However, this was slightly less than the average in our research a year ago, when write-downs averaged 14.6 percent.

Different firms participate in the survey each year, which could be one reason for this decrease. Another reason is that firms may have started feeling the recessionary pressures before the recession was officially identified, as clients started to show some price resistance.

As Tables 1 and 2 indicate, there are also some variances in write-downs. The largest

write-downs were reported by the largest firms: Those with \$10 million or more in gross fees averaged a whopping 17.0 percent. The smallest firms (those with less than \$500,000 in fees) averaged 5.9 percent in write-downs.

Volume and complexity of engagements can be contributors to these findings, but when looking at the data from a year earlier, this pattern was

Gross Fees by Practice Areas

As always, tax was the leader, bringing in nearly half (46.3 percent) of gross fees to the CPA firms participating in AOMAR's CPA Firm Practice Management Survey 2010.

Audit work was a distant second, at 17.3 percent, followed closely by write-up/accounting.

The accompanying figure shows other breakouts.

Percent of Gross Fees by Practice Areas

Audit	17.3%
Review	4.0
Tax	46.3
Compilation	7.0
Write-up/accounting	11.9
Consulting	7.6
Niche/specialty services	5.7
Other	0.3

(Source: AOMAR's CPA Firm Practice Management Survey 2010)

not evident (that is, write-downs varied among different sizes of firms—but not with the clear progression seen in this year's data).

The pattern continues when looking at the breakouts by number of personnel: Firms with more than 50 people averaged 17.7 percent write-downs, while the two smallest groups (1 to 5 and 6 to 10) were both under 8 percent in write-downs.

Collections and their impact on revenues. The average collection period in days crept back up to 60 days in this year's survey, compared to the healthier 54 days in last year's survey (see Tables 3 and 4).

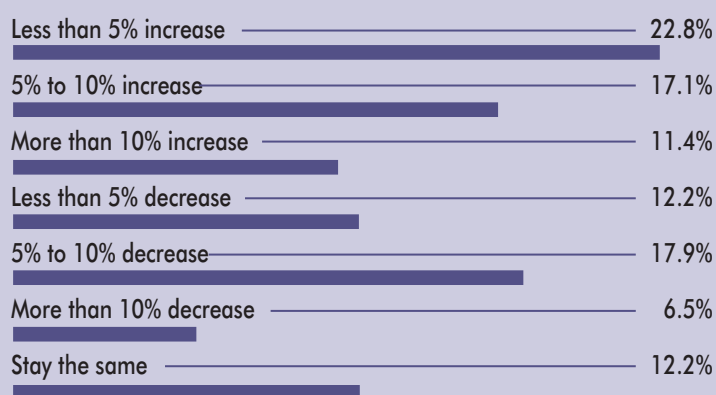
Billed accounts receivable averaged \$1,130,273 among all respondents, and unbilled AR averaged \$362,385—almost as high as the average dollar amount of uncollected fees (\$397,189).

Uncollected fees as a percentage of AR were up, as you would anticipate in such a difficult year. The average among all respondents was 19.9 percent, but for some groups

it was even higher. Firms with less than \$500,000 in gross fees averaged a grim 29.0 percent, and the largest firms (those with \$10 million or more in gross fees) averaged 21.8 percent. Firms with six to 10 people had average uncollected fees as a percentage of AR of 23.2 percent.

Revenue predictions for the year ahead. Slightly more than half (51.3 percent) of surveyed firms predict an increase in net income over the next fiscal year—despite the recession and its

Projected Net Income Changes for Next FY



(Source: AOMAR's CPA Firm Practice Management Survey 2010)

Table 1. Fees, Write-ups and Write-downs, and Income, by Gross Fees

	Less than \$500K	\$500K to \$1M	\$1M to \$1.99M	\$2M to \$3.99M	\$4M to \$9.99M	\$10M or more	Overall
Gross fees	\$300,417	\$717,651	\$1,384,118	\$2,962,954	\$6,618,840	\$24,005,428	\$7,003,054
Write-ups (\$)	\$15,000	\$43,603	\$54,056	\$200,586	\$391,298	\$719,884	\$254,928
Write-ups (%)	3.7%	5.7%	3.3%	7.3%	7.3%	5.6%	5.9%
Write-downs (\$)	-\$17,815	-\$66,584	-\$138,645	-\$325,831	-\$1,004,238	-\$4,651,955	-\$1,385,519
Write-downs (%)	-5.9%	-9.6%	-8.9%	-10.8%	-15.5%	-17.0%	-12.2%
Net fees	\$291,682	\$682,381	\$1,290,945	\$2,730,567	\$5,812,613	\$19,683,528	\$5,909,446
Net income	\$106,520	\$336,963	\$432,336	\$861,499	\$2,134,965	\$5,620,753	\$1,893,424

(Source: AOMAR's CPA Firm Practice Management Survey 2010)

Table 2. Fees, Write-ups and Write-downs, and Income, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 25	26 to 50	>50	Overall
Gross fees	\$445,076	\$1,440,152	\$1,822,283	\$3,077,218	\$6,547,711	\$22,574,660	\$7,003,054
Write-ups (\$)	\$27,912	\$39,749	\$160,679	\$191,844	\$439,598	\$714,354	\$254,928
Write-ups (%)	4.2%	5.0%	7.5%	6.2%	7.3%	5.3%	5.9%
Write-downs (\$)	-\$39,169	-\$129,404	-\$239,758	-\$427,679	-\$737,265	-\$4,474,477	-\$1,385,519
Write-downs (%)	-7.9%	-6.5%	-12.0%	-12.1%	-12.6%	-17.7%	-12.2%
Net fees	\$426,707	\$1,352,887	\$1,668,850	\$2,712,580	\$6,104,278	\$18,371,735	\$5,909,446
Net income	\$222,040	\$380,653	\$504,314	\$916,384	\$2,281,566	\$5,462,427	\$1,893,424

(Source: AOMAR's CPA Firm Practice Management Survey 2010)

impact (see figure). This seems quite optimistic, given the economy.

Among those firms, almost a quarter (22.8 percent) predict a rise of under 5 percent. Another 17.1 percent believe their firms will see a 5 percent to 10 percent increase in net income, and 11.4 percent anticipate more than a 10 percent increase.

Fewer firms predict that their net income will decline in the next fiscal year than predict an increase. Among those who do anticipate a decline in income, 12.2 percent predict a decrease of less than 5 percent; 17.9 percent believe their firms will see a 5 percent to 10 percent decrease. Only 6.5 percent foresee a drop of more than 10 percent in net income. Another 12.2 percent expect their firm's net income to be unchanged.

We asked respondents to rank nine factors that could account for higher fees in the next fiscal year in order of their expected significance. The factors most likely to be ranked "1" (or more significant) include marketing to new clients (top ranked by 29.5 percent of respondents), increased billing rates (22.6 percent), and marketing to existing

clients (22.2 percent). Most common factors that will contribute to higher fees in the next fiscal year ranked "2" in significance include marketing to existing clients (37.4 percent) and marketing to new clients (22.9 percent).

For those firms anticipating lower fees in the next fiscal year, we asked them to rank five factors that were expected to impact fee reduction in the year ahead. The overwhelming leading factor cited as "1" by 76.9 percent of respondents: the effects of the economy. The leader in the "2" ranking: client attrition (selected by 44.8 percent).

For more information. Additional highlights from AOMAR's *CPA Firm Practice Management Survey 2010* will also be in upcoming issues of AOMAR. Complete results will be published in the forthcoming *CPA Firm Statistical Analysis Reference Handbook 2010*. To provide you with expanded benchmarks data, AOMAR is conducting a second, expanded survey focusing on marketing, technology, and HR information. Please participate in this survey by going to www.ioma.com/cpa. □

Table 3. WIP, AR, & Collections, by Gross Fees

	Less than \$500K	\$500K to \$1M	\$1M to \$1.99M	\$2M to \$3.99M	\$4M to \$9.99M	\$10M or more	Overall
AR billed (not yet paid)	\$68,639	\$92,423	\$166,478	\$574,228	\$1,177,704	\$3,510,187	\$1,130,273
AR unbilled	\$25,388	\$43,769	\$59,866	\$214,811	\$535,993	\$820,301	\$362,385
Average collection period (days)	50	50	66	66	66	56	60
Uncollected fees current year	\$16,273	\$29,294	\$27,901	\$169,261	\$238,031	\$1,510,289	\$397,189
Uncollected fees as % of AR	29.0%	15.6%	20.9%	19.7%	14.2%	21.8%	19.9%

(Source: AOMAR's CPA Firm Practice Management Survey 2010)

Table 4. WIP, AR, & Collections, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 25	26 to 50	>50	Overall
AR billed (not yet paid)	\$85,952	\$117,972	\$222,918	\$619,331	\$1,228,430	\$3,316,315	\$1,130,273
AR unbilled	\$24,215	\$56,513	\$142,107	\$216,293	\$644,064	\$748,121	\$362,385
Average collection period (days)	52	59	53	65	76	54	60
Uncollected fees current year	\$16,103	\$35,223	\$40,513	\$154,231	\$289,126	\$1,443,877	\$397,189
Uncollected fees as % of AR	20.4%	23.2%	18.9%	17.1%	20.5%	20.5%	19.9%

(Source: AOMAR's CPA Firm Practice Management Survey 2010)

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