

Accounting Office Management & Administration Report

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Practice Management Survey 2007: Another Year of Boom Times Seen for U.S. CPA Firms: Adjust to Maximize Growth

Strong revenues continue for CPA firms in the United States based on healthy growth that firms expect to continue. The average annual gross fees billed by the respondents to AOMAR's 2007 CPA Firm Practice Management Survey was \$7,311,306.

Key benchmarks. Firms reported an average write-down (where one was taken) of 10.5%; firms that had write-ups indicated an average 9.4% (see Table 1). These figures suggest that CPA firms may be adjusting rates and/or value-based set fees. This news could be good or bad depending on the reasoning behind the shifts. As always, year-end or periodic adjustment of rates—hourly billing and other rates—is wise, helping to ensure that firms are taking advantage of growth and the robust economy to maximize billing opportunities.

However, realization at 96.8% overall (see Table 2) may signal a need for firms to raise rates, always a difficult and sensitive issue—but one that more firms have been tackling. AOMAR's survey results should provide firms an opportunity to move forward on billing rates—and with profit margins at 35.3%, all owners will want to see improvement in the bottom line.

It is also noteworthy that the total employee compensation as a percentage of net was 35.3%. An expense rate for staff at the same level as that for partners is perhaps the best argument for raising rates—or moving more work into a value-billed arrangement so the firm can exert greater control over fees.

Net income per partner (computed by multiplying leverage by utilization by billing rate by realization by profit margin) averaged \$256,696. When you consider the very broad range of firm sizes included in the data, this finding is a definite indicator of healthy firms.

Since these figures are averages, readers should consider results for the groups most like their own firms in terms of gross fees and number of personnel to get a sense of what is happening in peer practices.

Capital benchmarks for owners. As compensation data from this survey, reported in the

December 2006 issue of *AOMAR*, showed very clearly, owners are paying themselves well and taking possibly record-sized bonuses. But are they putting a significant proportion of the high revenues back into the business?

The data on capital makes it seem so. Among all firms responding to the survey, 17.4% said their firm had increased capital requirements for owners in the past year (see Table 3), although 77.9% kept the requirements the same, and 4.7% even lowered the requirements. Changes to the capital requirements were small: an average of just 2%.

WIP, A/R and Collections. Without good cash flow, money management, and collections, even the highest revenue-producing firms won't be able to take full advantage of their opportunities.

The survey data finds that accounts receivable billed but-not-yet-paid averaged \$1,359,642, and unbilled accounts receivable averaged \$583,540 (see Table 4). Uncollected fees as a percentage of accounts receivable was 13%. The average collection period in days was 55.1. This data means that CPA firms still have work to do in managing their money and collecting it.

Collections are traditionally an even more delicate area for CPA firms to contemplate than raising the fees themselves. With alert procedures, follow up, and yes, at least considering taking legal action against clients that won't pay, firms can anticipate improving these numbers dramatically.

Becoming more choosy about the clients served is the other part of this upgrade. Although many firms are making strides in "firing" clients who are difficult in terms of payment and for other reasons, or those that just don't fit the practice any longer, there is still a need to step up to the plate on this. Changes in clients can also contribute to the timely collection of funds.

Revenue growth. The immediate future is looking very bright for CPA firms: Survey respondents indicated that they anticipate continued growth, with estimates by almost a quarter (23.2%) of the respondents for more than 10% in net income increases for the next fiscal year (see Table 5). Another 45.5% foresee increases of 5% to 10%.

For more information. The complete *AOMAR 2007 CPA Firm Practice Management Survey* results are available for purchase in the *AOMAR 2007 CPA Firm Statistical Analysis Reference Handbook*. Order from the coupon on page 16 or call IOMA at 212-244-0360, x2 and ask for report 2048C. Or e-mail subserve@ioma.com for more information. Cost: \$329 plus \$9.95 shipping/handling.

Table 1: Annual Gross Fees Billed, by Gross Fees & Number of Personnel

			\$1M to	\$2M to	\$4M to	\$6M to		
	Overall	<\$1M	\$1.99M	\$3.99M	\$5.99M	\$9.99M	\$10M+	
Averages by gross fees ranges	\$7,311,306	\$409,238	\$1,343,741	\$2,516,453	\$4,032,036	\$7,057,222	\$26,793,185	
% annual write-down from standard	-10.5%	7.0%	-9.8%	-7.9%	-11.0%	-12.6%	-13.9%	
% annual write-up from standard	9.4	0.4	13.5	7.5	—	—	16.7	
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	100+
Averages by number of personnel	\$405,250	\$1,060,825	\$1,389,202	\$2,571,465	\$4,136,429	\$5,912,222	\$11,364,438	\$36,084,565
% annual write-down from standard	-8.5%	-8.0%	-9.1%	-7.5%	-12.1%	-11.9%	-13.8%	-12.1%
% annual write-up from standard	16.8	3.7	0.5	—	7.5	—	16.7	—

(Source of all tables: IOMA)

Table 2. Performance Ratios*, by Gross Fees and Number of Personnel

	Overall	<\$1M	\$1.99M \$1M to	\$3.99M \$2M to	\$5.99M \$4M to	\$9.99M \$6M to	\$10M+	
Leverage	5.4	2.5	4	4.2	4.6	5.4	6.2	
Utilization	1,652	—	1,393	1,193	1,127	1,099	1,172	
Billing rate	\$103	—	\$93	\$105	\$118	\$155	\$143	
Realization	96.8%	93.9%	94.1%	93.9%	89.2%	88.2%	88.9%	
Profit margin	35.3	36.4	31.1	36.7	35.4	36.1	29.1	
Net income per partner	\$256,696	—	\$150,719	\$180,627	\$195,202	\$294,184	\$268,428	
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	100+
Leverage	2.4	3.7	3.7	4.1	4.6	5.9	5.9	6.3
Utilization	1,233	1,386	1,171	1,234	1,102	1,126	1,180	1,170
Billing rate	\$97	\$96	\$100	\$113	\$131	\$118	\$127	\$140
Realization	95.4%	93.8%	93.0%	95.1%	89.5%	88.4%	89.5%	89.4%
Profit margin	44.9	31.2	34.2	37.5	32.2	33.4	33.6	28.4
Net income per partner	\$120,670	\$142,596	\$137,546	\$202,498	\$191,952	\$230,947	\$267,768	\$263,537

*Performance ratio calculations:

Leverage = total personnel ÷ total number of active owners.

Utilization = chargeable hours of the firm ÷ total personnel.

Billing rate = standard fees ÷ firm chargeable hours.

Realization = net fees ÷ standard fees.

Profit margin = net income ÷ net fees.

Net income per partner (NIPP) = leverage x utilization x billing rate x realization x profit.

Table 3. Capital Benchmarks for Owners, by Gross Fees & Number of Personnel

			\$1M to	\$2M to	\$4M to	\$6M to		
	Overall	<\$1M	\$1.99M	\$3.99M	\$5.99M	\$9.99M	\$10M+	
Stayed the same	77.9%	81.3%	80.0%	75.0%	86.7%	83.3%	63.2%	
Increased in the past year	17.4	6.3	13.3	25	13.3	8.3	36.8	
Decreased in the past year	4.7	12.5	6.7	—	—	8.3	—	
Percentage change in capital requirements	2.1	1.3	2.1	1.3	3	4.8	1.6	
Gross fees to retired owners: most recent fiscal year %	2.1	—	5	5.2	1.2	1.6	1.2	
Gross fees to retired owners: previous fiscal year %	1.8	—	5.3	0.5	1.9	1.5	1.1	
Gross fees to retired owners: projected next fiscal year %	1.8	—	5.5	0.8	1.3	2.7	1.1	
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	100+
Stayed the same	81.3%	81.8%	100.0%	42.9%	87.5%	83.3%	76.9%	60.0%
Increased in the past year	6.3	9.1	—	57.1	12.5	—	23.1	40
Decreased in the past year	12.5	9.1	—	—	—	16.7	—	—
Percentage change in capital requirements	1	1	—	2.5	1.1	14.2	3.4	0.3
Gross fees to retired owners: most recent fiscal year %	0.3	2	7.3	6.1	1.5	1	0.7	1.4
Gross fees to retired owners: previous fiscal year %	0.3	2	7.7	1.1	2.1	0.7	0.6	1.4
Gross fees to retired owners: projected next fiscal year %	0.2	2.3	7.8	0.8	1.8	1	1.5	1.4

Table 4. WIP, A/R, and Collections, by Gross Fees & Number of Personnel

			\$1M to	\$2M to	\$4M to	\$6M to		
	Overall	<\$1M	\$1.99M	\$3.99M	\$5.99M	\$9.99M	\$10M+	
AR billed (not yet paid)	\$1,359,642	\$57,355	\$162,733	\$339,389	\$736,454	\$954,452	\$5,208,492	
AR unbilled	583,540	15,332	122,863	185,954	294,354	522,489	2,091,090	
Average collection period in days	55.1	40.1	49	63.8	49.3	58.6	76	
Uncollected fees last year	\$176,548	\$5,655	\$11,763	\$7,009	\$35,187	\$160,064	\$784,889	
Uncollected fees as % of AR	13.0%	9.9%	7.2%	2.1%	4.8%	16.8%	15.1%	
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	100+
AR billed (not yet paid)	\$62,155	\$124,533	\$191,159	\$428,081	\$714,934	\$822,727	\$1,926,588	\$6,411,841
AR unbilled	31,158	81,532	62,709	241,945	268,642	359,665	808,347	2,422,136
Average collection period in days	36	55	46	66	51	56	60	91
Uncollected fees last year	\$6,982	\$14,093	\$1,427	\$7,049	\$37,062	\$55,939	\$175,292	\$1,421,002
Uncollected fees as % of AR	11.2%	11.3%	0.7%	1.6%	5.2%	6.8%	9.1%	22.2%

Table 5. Expected Growth Next Fiscal Year, by Gross Fees & Number of Personnel

			\$1M to	\$2M to	\$4M to	\$6M to		
	Overall	<\$1M	\$1.99M	\$3.99M	\$5.99M	\$9.99M	\$10M+	
Increase >10%	23.2%	14.3%	23.5%	16.7%	22.2%	9.1%	47.4%	
Increase 5% to 10%	45.5	52.4	35.3	75	50	45.5	21.1	
Increase <5%	13.1	—	23.5	8.3	16.7	36.4	5.3	
Stay the same	9.1	9.5	17.6	—	5.6	9.1	10.5	
Decrease <5%	3	—	—	—	5.6	—	10.5	
Decrease 5% to 10%	5.1	19	—	—	—	—	5.3	
Decrease >10%	1	4.8	—	—	—	—	—	
	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	100+
Increase >10%	4.8%	16.7%	28.6%	9.1%	17.6%	25.0%	8.3%	11.1%
Increase 5% to 10%	9.5	8.3	14.3	18.2	5.9	12.5	16.7	—
Increase <5%	23.8	8.3	14.3	18.2	11.8	25	33.3	44.4
Stay the same	9.5	16.7	14.3	—	11.8	—	8.3	11.1
Decrease <5%	—	—	—	—	5.9	—	—	22.2
Decrease 5% to 10%	19	—	—	—	—	—	—	11.1
Decrease >10%	4.8	—	—	—	—	—	—	—