

ACCOUNTING OFFICE MANAGEMENT & ADMINISTRATION REPORT



ISSUE 08-02

WWW.IOMA.COM/CPA

FEBRUARY 2008

EXCLUSIVE AOMAR SURVEY RESULTS

Key Benchmarks Show Good Management Practices Do Pay for CPA Firms

Practice management is now showing itself to be an integral part of CPA firms' success. Although in the past CPA firms tended to pay less attention to practice management when times were good, the move to strategic operations in the past few years shows that managing the practice is always in fashion, as demonstrated in key metrics and benchmarks from AOMAR's 2008 CPA Firm Practice Management Survey.

Revenues will continue to rise. At least, this is what responding firms anticipate in the fiscal year ahead. Forty-four percent of respondents believe that revenues will increase in the coming fiscal year between 5% and 10%, and another 25% expect the increase to exceed 10%. Twenty percent anticipate an increase of less than 5% (see Table 1).

Very few respondents believe that the next fiscal year will result in lower net income: Just 7% anticipate less than a 5% decrease, and 2% respectively foresee a decrease of 5% to 10% or more than 10%.

For those anticipating higher fees in the coming year, the most popular reasons among respondents include marketing to new clients (ranked first of three factors by 29.6% of respondents) and increased billing rates (ranked first by 27.3%). The

accompanying Table 2 indicates other factors and how respondents ranked them.

Financial and operational ratios. Annual gross fees billed (fees billed at the standard billing rate for the most recent fiscal year) by respondents this year were \$8,084,810, on average. In the previous year (although different firms participate

Table 1. Anticipated Revenue Growth in the Next Fiscal Year

Increase less than 5%	20%	Decrease less than 5%	7%
Increase 5% to 10%	44	Decrease 5% to 10%	2
Increase more than 10%	25	Decrease more than 10%	2

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 2. How CPA Firms Will Raise Fees in the Next Fiscal Year

Marketing to new clients:		Hiring new staff:	
Ranked first	29.6%	Ranked first	13.6%
Ranked second	30.6	Ranked second	12.5
Ranked third	19.4	Ranked third	20.5
Increased billing rates:		Change in practice emphasis:	
Ranked first	27.3	Ranked first	5.1
Ranked second	13.1	Ranked second	2.5
Ranked third	21.2	Ranked third	8.9
Marketing to existing clients:		Hiring new partners:	
Ranked first	18.4	Ranked first	4.1
Ranked second	39.8	Ranked second	0.0
Ranked third	25.5	Ranked third	2.7

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

year-to-year in our surveys), the average annual gross fees billed was \$7,311,306.

Firms with write-downs averaged -11.3%; those with write-ups averaged 4.7%. Obviously, there was a tremendous range among the fees at the various sizes of firms (see Tables 3 and 4 for breakouts, by gross fee range and by number of personnel respectively).

Net fees—fees adjusted for write-ups and write-downs—averaged \$7,254,075 per firm; and per owner, \$766,163 (see Tables 5 and 6).

Leverage this year averaged 5.8, ranging from a low of 2.9 at firms with less than \$1 million in gross fees to a high of 6.9 at firms with \$10 mil-

lion to \$19.99 million in gross fees (see Table 7). Readers will want to cross reference the leverage data broken out by number of personnel (Table 8); leverage ranged from 1.9 at firms with one to five people to a high of 6.3 at both firms with 51 to 100 people and those with more than 100.

Net income per partner (NIPP) averaged \$280,009, compared to \$256,696 last year. The range, again, was broad (see Tables 7 and 8): The high of \$359,012 was at firms with more than \$20 million in fees, and \$368,430 at firms with more than 100 people.

WIP, AR, and collections. CPA firms are continuing to work at shortening their average col-

Table 3. Annual Gross Fees Billed, With Write-Downs & Write-Ups, by Gross Fee Range

	Overall	Less than \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
Per person	\$152,850	\$ 97,571	\$123,105	\$137,064	\$128,425	\$150,231	\$ 174,428	\$ 200,686
Per owner	917,098	285,465	432,713	581,856	489,773	825,401	1,204,159	1,207,865
Per professional	284,617	264,192	290,411	297,694	323,853	292,146	297,700	358,874
Per chargeable hour	120	84	119	119	103	126	155	155

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 4. Annual Gross Fees Billed, With Write-Downs & Write-Ups, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	More than 100
Per person	\$99,179	\$126,558	\$125,481	\$146,343	\$148,477	\$153,801	\$169,694	\$189,329
Per owner	183,515	396,886	450,478	577,795	623,122	953,564	1,069,337	1,195,317
Per professional	490,485	407,062	229,251	326,175	316,412	278,968	313,541	343,610
Per chargeable hour	110	101	111	114	124	136	148	163

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 5. Net Fees, Overall & by Gross Fee Range

	Overall	Less than \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
Per firm	\$7,254,075	\$468,202	\$1,263,714	\$2,314,865	\$3,290,454	\$5,888,387	\$11,910,508	\$31,229,843
Per owner	776,163	279,705	410,707	526,106	450,747	772,933	1,008,510	1,089,504
Per person	133,687	95,602	116,844	123,932	118,192	140,681	146,087	181,020
Per chargeable hour	107	83	113	107	95	118	130	140

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 7. Performance Ratios, Overall & by Gross Fee Range

	Overall	Less than \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
Leverage	5.8	2.9	3.5	4.2	3.8	5.5	6.9	6.0
Utilization	1,247	1,158	1,034	1,155	1,244	1,192	1,126	1,297
Billing rate	\$119	\$87	\$121	\$119	\$105	\$126	\$155	\$156
Realization	89.7%	94.3%	93.2%	87.8%	90.8%	93.6%	83.8%	83.5%
Profit margin	36.1%	37.3%	34.5%	39.5%	49.4%	31.8%	32.0%	35.2%
Net income per partner	\$280,009	\$103,761	\$141,803	\$201,861	\$222,446	\$245,597	\$323,015	\$359,012

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 8. Performance Ratios, Overall & by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	More than 100
Leverage	1.9	3.1	3.6	3.9	4.2	6.2	6.3	6.3
Utilization	1,008	1,272	1,091	1,372	1,196	1,131	1,133	1,494
Billing rate	\$98	\$99	\$115	\$107	\$125	\$136	\$150	\$127
Realization	98.7%	95.6%	92.1%	92.2%	88.8%	93.8%	85.4%	91.3%
Profit margin	37.5%	33.5%	36.6%	36.6%	44.4%	31.3%	32.2%	33.7%
Net income per partner	\$67,913	\$127,039	\$151,781	\$194,912	\$247,906	\$279,591	\$293,901	\$368,430

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 9. WIP, AR & Collections, Overall & by Gross Fee Range

	Overall	Less than \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
AR billed (not yet paid)	\$1,536,053	\$66,881	\$198,931	\$344,020	\$479,770	\$955,354	\$1,639,274	\$6,916,750
AR unbilled	505,232	42,885	125,785	248,353	315,422	427,450	774,202	1,623,311
Average collection period (days)	54.5	46.2	62.0	49.4	50.3	55.4	56.2	74.3
Uncollected fees last year	\$87,595	\$1,709	\$12,378	\$11,956	\$22,740	\$125,488	\$94,674	\$400,856
Uncollected fees as % of AR	4.0%	3.0%	6.3%	3.0%	4.1%	3.6%	4.7%	4.9%

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 10. WIP, AR & Collections, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	More than 100
AR billed (not yet paid)	\$38,986	\$139,745	\$245,683	\$423,245	\$544,805	\$1,111,533	\$1,613,001	\$8,346,406
AR unbilled	\$25,655	\$103,578	\$142,827	\$285,086	\$255,759	\$574,973	\$774,605	\$1,956,472
Average collection period (days)	39.5	64.6	46.1	51.4	51.4	54.3	53.6	72.2
Uncollected fees last year	\$4,781	\$7,500	\$11,463	\$16,598	\$25,369	\$166,144	\$106,911	\$435,218
Uncollected fees as % of AR	8.6%	4.3%	4.4%	3.1%	3.2%	2.0%	5.2%	5.4%

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

lection period: This year's average is 54.5 days (see Tables 9 and 10). More good news on cash flow management: Accounts receivable that are billed but yet unpaid averaged \$1,536,053, with uncollected fees as a percentage of AR at 4.0%. Unbilled accounts receivable is just \$505,232 for all respondents, and uncollected fees last year averaged \$87,595.

While there is always room for improvement in how cash flow is managed, these averages indicate that CPA firms have been paying attention to more than just billing rates—they are working to keep the cash flowing into the firms.

Miscellaneous benchmarks. Average net income before owner's compensation this year was \$2,616,985, with total net income per owner averaging \$286,914 (see Tables 11 and 12).

Because of the huge span in sizes of responding firms, these numbers ran the gamut from \$173,687 at firms with less than \$1 million in gross fees to \$10,290,810 for firms with \$20 million or more in gross fees.

The average number of offices per firm in this year's survey was two. Even the smallest firms—those with one to five people—have exceeded the single office average: those small firms now have an average of 1.1 offices.

Total employee compensation (excluding equity owners) as a percentage of net fees is still a hefty percentage: 35.6%, or an average of \$2,523,704 among all survey respondents.

For more information:

Key definitions and statistics about the survey

Table 6. Net Fees, by Number of Personnel

	1 to 5	6 to 10	11 to 15	16 to 20	21 to 35	36 to 50	51 to 100	More than 100
Per firm	\$221,963	\$948,940	\$1,509,253	\$2,485,322	\$3,451,033	\$6,146,151	\$10,938,227	\$31,647,540
Per owner	181,194	379,576	415,045	532,569	558,515	893,986	912,990	1,091,832
Per person	97,925	121,038	115,611	134,889	133,082	144,191	144,883	172,937
Per chargeable hour	109	97	102	105	111	127	126	149

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

Table 11. Miscellaneous Benchmarks, Overall & by Gross Fee Range

	Overall	Less than \$1M	\$1M to \$1.99M	\$2M to \$2.99M	\$3M to \$3.99M	\$4M to \$9.99M	\$10M to \$19.99M	\$20M or more
Average net income before owner's compensation	\$2,616,985	\$173,687	\$436,316	\$888,190	\$1,623,857	\$1,871,014	\$3,814,804	\$10,290,810
Total net income per owner	\$286,914	\$89,993	\$119,987	\$201,861	\$177,957	\$245,597	\$323,015	\$359,012
Total employee compensation, excluding equity owners	\$2,523,704	\$186,790	\$348,607	\$729,307	\$1,205,677	\$2,154,506	\$4,772,343	\$9,094,058
Total employee compensation as a % of net fees	35.6%	34.3%	28.9%	35.3%	36.3%	35.7%	43.5%	34.3%
Average number of offices per firm	2.0	1.2	1.1	1.1	2.0	1.6	1.7	5.7

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

respondents are in the December 2007 issue of AOMAR. The *CPA Firm Statistical Analysis Reference Handbook 2008* containing complete results is

available from IOMA Subscriber Services at 800-401-5937, ext. 2. Ask for product 2639M. Price: \$449 plus shipping & handling. □

Table 12. Miscellaneous Benchmarks, by Number of Personnel

	1 to 5	6 to 10	11 to 5	16 to 20	21 to 35	36 to 50	51 to 100	More than 100
Average net income before owner's compensation	\$83,193	\$317,596	\$551,930	\$909,588	\$1,531,800	\$1,922,186	\$3,521,134	\$10,679,208
Total net income per owner	\$62,680	\$103,219	\$137,983	\$196,668	\$221,811	\$279,591	\$258,486	\$279,662
Total employee compensation, excluding equity owners	\$79,242	\$273,396	\$476,247	\$783,734	\$1,217,444	\$1,946,203	\$3,963,764	\$12,316,413
Total employee compensation as a % of net fees	17.8%	28.8%	26.7%	27.4%	31.0%	27.7%	40.4%	39.6%
Average of: How many offices does your firm have?	1.1	1.1	1.2	1.0	1.4	2.4	2.5	6.4

(Source: AOMAR's 2008 CPA Firm Practice Management Survey)

This article was originally published in IOMA's monthly newsletter, *Accounting Office Management & Administration Report*, and is republished here with the express written permission of IOMA. © 2008. Further use of, electronic distribution or reproduction of this material, unless specified in a copyright agreement, requires the permission of IOMA. For more information about IOMA or to subscribe to any IOMA publication, go to www.ioma.com. For information about copyright permissions or any other form of content license, please call Jonathan Wentworth-Ping at 212-576-8741, or e-mail to: jping@ioma.com