

Accounting Services

3.5.2018

NAICS CODES: 5412

SIC CODES: 8721

Industry Overview

Companies in this industry provide services such as auditing, bookkeeping, payroll processing, and tax return preparation. Major companies include the "Big Four" accounting firms: Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PricewaterhouseCoopers, which all have international operations; other leading companies include US-based Automatic Data Processing (ADP), Paychex, and H&R Block.

Worldwide, the Big Four dominate the market and have expanded in many countries by buying local firms. In countries such as China, the Big Four have affiliated with local firms. However, concern over the share of the audit market held by the Big Four has led European regulators to impose new rules meant to enhance competition.

The US accounting services industry includes about 133,000 establishments (single-location companies and units of multi-location companies) with combined annual revenue of about \$140 billion.

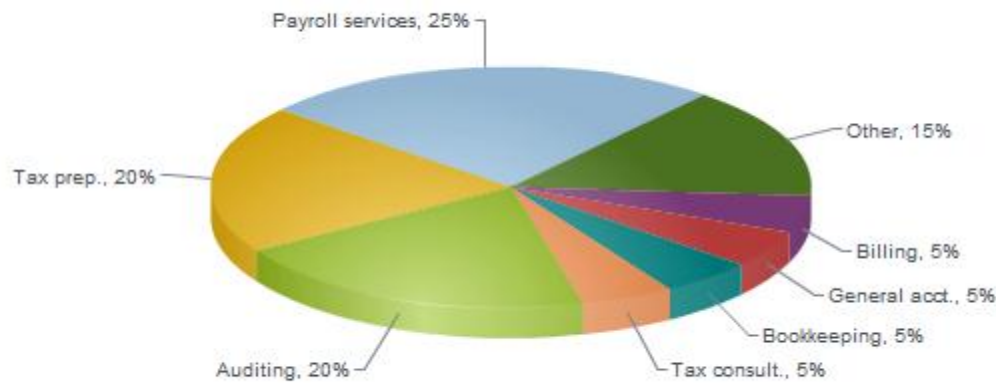
Competitive Landscape

Demand for accounting services depends on new business formations, the increasing complexity of corporate business, and personal income. The profitability of individual firms depends on the right **mix of services** and **effective marketing**. Large firms have advantages in providing wider ranges of services to large corporate clients and having the resources to serve customers with many locations. Small firms can compete effectively by specializing and providing superior service. The US industry is **fragmented**: the 50 largest US companies account for just less than 50% of revenue.

Products, Operations & Technology

Payroll services account for 25% of US industry revenue; tax preparation and auditing each account for about 20%. Tax planning and consulting, bookkeeping, general accounting, and billing services each account for about 5%. Other services include management consulting, financial statement review, and services related to computerized accounting systems services. Some accountants have branched into accounting-related information **technology consulting**, business consulting, and personal financial planning. Small business owners often rely heavily on their accounting firms for advice.

Revenue by Service - US Census Bureau



Operations focus on providing a set of accounting-related services to businesses, individuals, or both. Most activities involve preparing, analyzing, and verifying financial documents as a way to provide information to clients. Common activities include setting up and maintaining accounting procedures and books, developing budgets, auditing accounting records, preparing financial statements and tax returns, processing payrolls, and billing. Metrics include **client retention and acquisition** rates, **billing recovery** rates, and **quality**, as measured by percentage of results contested by government or lawsuits.

Bookkeeping and accounting work involves the classification of financial transactions into appropriate account categories in the **double-entry** accounting system used in the US. Accountants may handle tasks directly for a client or supervise the customer's own accounting practices, whether manual or computer-based. Successful bookkeeping and accounting work often leads to **tax preparation and related consulting** for the same clients.

Audit work typically involves investigating the accuracy of a client's accounting system and tracking sample financial transactions through it. Typically, a small team of accountants conducts an audit over a period of weeks or months. In large client corporations with complicated businesses, external auditors may have an ongoing onsite presence. Auditing is challenging: to audit properly, an accounting firm must ask hard questions of the client, but to retain the client's business, the auditor must present an acceptable audit. The government requires **publicly traded** companies to have their accounts audited annually, and forbids an external auditing firm from providing consulting and certain other services to audit clients.

Technology

Software tailored to the industry is common and typically has separate modules for specific functions, such as accounting, auditing, tax preparation, and payroll and billing services. Software producers update industry-specific products to reflect changes in accounting, tax, and auditing rules. An accounting firm's knowledge of a variety of **commercially available accounting programs** helps serve clients who use different software in their own businesses or personally.

Accounting firms are increasing using **cloud computing**, software as a service applications (SaaS), and hosted solutions. The move can save firms money in the long run by eliminating the need for onsite IT departments. Additionally, firms are moving toward paperless operations to save money as well as to be more environmentally friendly. Cloud computing, in which data is kept online, can help facilitate the drive toward going paperless. Cloud accounting applications also allow business owners to access their data on mobile devices.

Data security is a priority for accounting services firms, as they handle sensitive personal and business information. Technology such as electronic data management systems, client portals, and cloud computing systems make data vulnerable to cyber attacks or other data breaches. In 2015 software developer Intuit briefly halted e-filing of state tax returns using its TurboTax software due to fraud concerns. Many firms use special encryption software to safeguard data. Companies can face penalties and litigation if data is lost or stolen. US states and other countries have various laws and regulations about privacy. Accounting firms must educate themselves about laws not only in their home state or country, but also in the jurisdictions in which their clients reside.

Sales & Marketing

Typical customers are businesses, nonprofits, government, and individuals; some accounting practices specialize by segment or industry. The major sales channel is the practice's partners, who maintain a wide range of professional and personal contacts. **Customer referrals** are an important source of new business.

Major types of industry **marketing** are direct mail, customer visits, seminars, and print and online advertising. Tax preparation firms often advertise heavily in local media. Corporate marketing may include PR like sponsoring sports events and participating in customer industry conferences and trade shows. Accounting firms that ally with other practices benefit from expanded marketing reach and sales capability. Customer service and account relationships are important for retention.

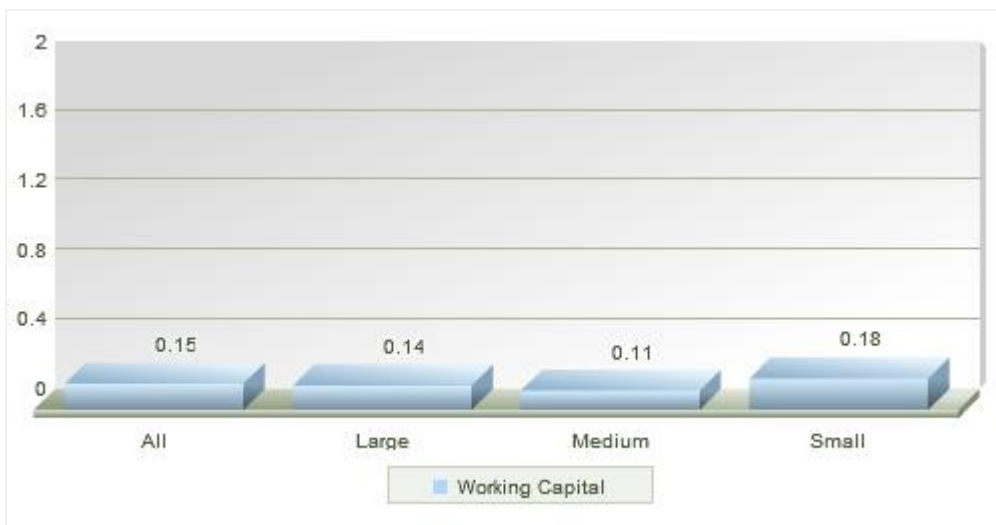
Prices vary greatly, depending on locale, specialty, and competition. Per-project fees depend on the complexity of the tasks or the number of transactions, such as in payroll or billing services. Some practitioners charge fixed rather than hourly fees. The average fee for a professional to prepare and submit a Form 1040 and state return with no itemized deductions is \$175, according to the National Society of Accountants. Franchised tax offices typically charge about \$200 for tax prep work. Tax software designed for individuals and small businesses, such as TurboTax, competes with walk-in facilities.

Finance & Regulation

Cash flow is often **seasonal**, coinciding with the preparation of annual reports and tax returns. Accounting firms derive revenue from **hourly billing** or **fixed-price contracts**. For long assignments or ongoing services, like billing or payroll, clients are billed periodically. **Receivables** may be high. About 60 days' sales is typical for the industry; for smaller firms, however, the figure is closer to about 90 days' sales. Accounting firms with large corporate customers have a more balanced cash flow, due to quarterly reporting requirements. Practices maintain **liability insurance** to protect against lawsuits. The industry is labor-intensive: average annual revenue per worker is about \$145,000.

Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Regulation

The accounting industry is mainly **self-regulated** through professional organizations and peer review. Accounting and auditing standards are defined by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). The SEC has the power to establish accounting standards for publicly traded companies, but delegates much regulatory authority to the industry itself through FASB and AICPA. The SEC and AICPA generally set rules of professional conduct for accountants, while FASB determines technical aspects of what constitutes **generally accepted accounting principles** (GAAP) through a series of more than 160 statements. Many countries also have adopted the **International Financial Reporting Standards** (IFRS), a set of accounting standards for the preparation of public company financial statements established by the International Accounting Standards Board.

The **Sarbanes-Oxley Act** of 2002 (SOX), passed in response to several large corporate accounting frauds, prohibits public accounting firms from auditing clients to whom they're simultaneously providing certain other services, including bookkeeping, IT consulting, valuations, investment advice, and legal services. SOX prohibits **multidisciplinary practice** (MDP) in the US, restricting accounting firms from joining with other professional firms -- like law, financial planning, or health care consulting companies -- to create one-stop, cross-disciplinary megafirms. SOX established a new **Public Company Accounting Oversight Board** (PCAOB), under the SEC's supervision, to oversee the auditing of public companies.

Increased regulations now require tax preparers to register with the IRS, pass competency exams, and fulfill continuing education credits. Additional oversight over the **tax preparation industry** aims to reduce fraud and error by small tax preparation firms. Consequences could include higher costs for consumers, higher monitoring costs for regulators, and further regulation into related practices such as tax refund anticipation loans.

Accountants and accounting firms must have licenses in the states where they do business. Some states have reciprocity agreements in which they recognize licenses granted to accountants and accounting firms by other states and allow accountants and firms to do business without undergoing another **licensing examination**.

International Insights

The **Big Four** firms -- Deloitte Touche Tohmatsu, Ernst & Young, KPMG, and PricewaterhouseCoopers -- dominate the global accounting services industry. The Big Four firms have expanded in many countries by buying local firms; in countries such as China they have affiliated with local firms. But Big Four firms with Chinese units are facing some troubles. The SEC ruled that the Chinese units of Big Four firms could not audit publicly traded companies listed in the US. The SEC wants better access to audit documents, but accounting firms are reluctant to hand them over in fear of violating Chinese privacy laws.

Meanwhile, concern over the share of the audit market held by the Big Four has led regulators in **Europe** to impose new rules aimed at encouraging competition. Listed companies and banks must change auditors after 10 years, although clients can keep the same auditor for another decade if the work is put out for bid. The new rules also impose a 70% cap on the fees a firm can generate from **nonaudit services** and bar firms from offering some advisory services.

Latin America has seen double-digit growth in accounting services in recent years, due to an economic boom and the introduction of international reporting standards. The financial crisis of the late 2000s had less impact in this region since Latin American countries were less exposed to **international markets**, with the exception of Chile. **Economic growth** in Latin American countries is expected to continue, which will present numerous opportunities for tax advisory and consulting services. Brazil, in particular, is experiencing substantial expansion by Big Four accounting firms.

Major efforts to align **US accounting standards** with international ones are underway. Several "convergence" projects involve revising accounting rules on revenue recognition, leasing, financial instruments, and insurance. Another option under consideration is for US companies to simply switch to international accounting rules. About 120 nations and jurisdictions require International Financial Reporting Standards for public companies.

Regional Highlights

In the US, states with the largest populations and the most major business centers, such as [California](#), [Texas](#), [New York](#), [Florida](#), and [Pennsylvania](#), have the largest number of employed accountants and auditors. Wages are highest for accountants and auditors in [New York](#), the District of Columbia, [New Jersey](#), [Virginia](#), and [California](#).

Human Resources

Most industry jobs require a bachelor's or advanced degree in accounting or a related subject. **Certified public accountant (CPA)** status is required for accountants and auditors of public companies. The **Chartered Global Management Accountant (CGMA)** credential, launched in 2012, recognizes management accountants. Average hourly industry wages for accounting and booking services in the US are slightly higher than the national average. Stress and heavy workloads may contribute to the high turnover rate in the sector. Injury rates are negligible, due to the nature of office work.

Industry Employment Growth
Bureau of Labor Statistics



Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



Industry Growth Rating



Demand: Tied to business activity and personal income

Need strong technical expertise

Risk: Slow economy cuts business needs

Quarterly Industry Update

3.5.2018

Opportunity: More Clients Seek Advice on Tax Overhaul - More people are likely to seek guidance from an accountant amid high levels of uncertainty surrounding the new Tax Cuts and Jobs Act, according to Accounting Today. The new tax law, approved in December 2017, is the first major overhaul to the US tax system since 1986. The median age of small business owners is 50, so many were in high school or college the last time a change of this scale took place. This tax season accountants may be hearing from newer, less active clients and prospects, as well existing clients with which they

have longstanding relationships. Accountants may be called on to alleviate confusion, unpredictability, and even anxiety as they help clients prepare their return this tax season.

Industry Impact - Accounting firms will likely devote resources to reviewing the new Tax Cuts and Jobs Act and proactively contacting clients and prospects to offer guidance during an especially uncertain tax season.

11.27.2017

Trend: Payroll Management Grows in Complexity - Two-thirds of survey respondents say legislative and HR and payroll updates are the top payroll complexity challenges, according to the 2017 Global Payroll Complexity Index (GPCI) from NGA Human Resources. Top contributors to payroll complexity are the changing nature of tax and employment legislation and differing regulations across regions. Western Europe is the most complex payroll region, while payroll complexity is lower than average in North America. The US has a lower complexity rate compared to the previous study in 2014, but that is likely due to high-complexity processes being outsourced rather than a reduction in complexity. The GPCI suggests that payroll, HR, and wider business practices are converging in a new way, prompting companies to change traditional ways of managing the payroll process. The study measures complexity based on payroll data, payroll parameters, payroll calculation, government reporting, and geography.

Industry Impact - As payroll complexities continue to challenge companies, accounting firms may benefit by showcasing their full range of payroll services available to customers.

8.28.2017

Opportunity: Blockchain Could Reduce Accounting Fraud - Blockchain, a secure system developed for verifying and recording bitcoin trades, is emerging as a possible tool for detecting and preventing accounting fraud. Globally, a typical business loses 5% of their annual revenue to fraud, according to the Association of Certified Fraud Examiners; 75% of that is accounting fraud in which such as financial statement manipulation. Blockchain's three main components -- decentralization, strong authentication, and tamper resistance -- could prevent any changes once a transaction enters the process. A single bad actor, or even a group, would have a difficult time pushing through a fraudulent transaction or altering records after the fact since all aspects of a transaction would be public and confirmed by a network of participants. While blockchain has potential to prevent fraud, the process of mapping the double-entry accounting system into the blockchain infrastructure is in the early stages, according to the *CPA Journal*.

Industry Impact - Accounting firms could reduce fraud by incorporating blockchain-based technology into their accounting information systems.

5.29.2017

Trend: More Accounting Firms Seek Soft Skills - More client companies are looking for tech-savvy accountants that are flexible, efficient, fast, and focused on building relationships, according to the Association of Accounting Technicians. Accountants are tasked with becoming acquainted with several types of cloud-based accounting software, including Xero and Quickbooks, to know which one is best suited for a client's needs. Besides technical expertise, accounting professionals are sought for their soft skills, such as leadership, jargon-free communication, and the aptitude for building relationships with companies. These skills are even more important as automation replaces manual data entry and frees up time for relationship-building. New accountants are being rewarded for any additional soft skills. Starting salaries for accounting and finance professionals are projected to increase 3.7% in 2017, according to Robert Half.

Industry Impact - Accounting firms will adjust recruiting strategies to attract candidates who are tech-savvy and skilled in building client relationships.

Industry Indicators

US corporate profits, an indicator of demand for accounting services, rose 2.7% in the fourth quarter of 2017 compared to the same period in 2016.

US personal income, which drives consumer demand of accounting services, rose 3.6% in March 2018 compared to the same month in 2017.

Total US revenue for accounting, tax preparation, bookkeeping, and payroll services rose 3.6% in the fourth quarter of 2017 compared to the previous year.

Industry Forecast

Revenue (in current dollars) for US accounting, tax prep, bookkeeping, and payroll services is forecast to grow at an annual compounded rate of 5% between 2018 and 2022. Data Published: January 2018



First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

Companies

Company	Country	Sales
Younitai Zhenging Certified Public Accountant Co.,Ltd.	China	\$41,914.85M
Skandia AG	Switzerland	\$38,464.64M
Hotelplan Management AG	Switzerland	\$27,216.53M
Clariden Leu Trust (Schweiz) AG	Switzerland	\$24,011.17M
Yingcheng Dahua Jiuyi Huarui Consulting Service Center (Limited Partnership)	China	\$18,233.22M
Ernst & Young LLP	United States	\$11,542.00M
Ningxia Huahengxin Accountant Firm	China	\$9,665.35M
Beijing Lance Finance Consultation Co.,Ltd.	China	\$6,300.51M
Pricewaterhousecoopers LLP	United States	\$6,042.55M
Deloitte LLP	United States	\$5,961.31M
Kpmg LLP	United States	\$5,560.31M
Deloitte & Touche LLP	United States	\$4,909.49M
Shenyang Jinbangda Tax Accountant Co.,Ltd.	China	\$4,823.19M
DELOITTE LLP	England	\$4,497.61M
Tianjin Sifute Goods Inspection Identification Co.,Ltd.	China	\$4,298.94M

<u>Jiangxi Zhongshuiwang Tax Accountant Co.,Ltd.</u>	China	\$4,085.31M
<u>PRICEWATERHOUSECOOPERS LLP</u>	England	\$4,078.66M
<u>ERNST & YOUNG LLP</u>	England	\$3,045.05M
<u>H&R Block, Inc.</u>	United States	\$3,036.31M
<u>KPMG LLP</u>	England	\$2,689.64M
<u>PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft</u>	Germany	\$2,362.85M
<u>MAXIM INTEGRATED PRODUCTS INTERNATIONAL LIMITED</u>	Ireland	\$2,045.36M
<u>KPMG AG Wirtschaftsprüfungsgesellschaft</u>	Germany	\$1,891.42M
<u>RSM US LLP</u>	United States	\$1,845.00M
<u>EY GLOBAL SERVICES LIMITED</u>	England	\$1,824.00M
<u>Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft</u>	Germany	\$1,726.58M
<u>Shenzhen Longde Certified Public Accountants'Firm (General Partnership)</u>	China	\$1,695.21M
<u>Grant Thornton LLP</u>	United States	\$1,650.00M
<u>Tianjin Andaxin Tax Accountant Co.,Ltd.</u>	China	\$1,512.67M
<u>The Team Companies Inc</u>	United States	\$1,340.00M

Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



Government Regulations Changes in federal, state, or local government regulations or business-related policies

Critical Issues

High Regulatory Complexity - Accounting firms must comply with numerous directives from government and industry groups. Government regulators include the IRS, SEC, and the Public Company Accounting Oversight Board (PCAOB). Major industry self-regulating groups include the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). Practices must stay current with hundreds of official rules and formal opinions, a special challenge for small firms with little or no staff.

Litigation Risk - Accounting firms are increasingly implicated in lawsuits regarding their clients' business reporting and operational results. Accounting practices that serve as consultants in shaping clients' business decisions are at high risk. Other factors that can lead to lawsuits against accounting firms include preparing financial statements that don't adequately disclose risks, failure to protect clients' privacy and financial information, and failure to detect corporate fraud.

Business Challenges

Dependence on Skilled Personnel - Accounting firms depend heavily on the reputation and expertise of senior partners and the competence of junior accountants, who often do most of the routine work. In large firms, turnover can be high, especially among entry-level personnel, due to the heavy work load. Experienced employees often find that their large firm experience is highly valued at smaller practices. The departure of a senior partner in a small firm can greatly impact revenue.

Complexity of Customer Needs - Smaller accounting firms may have difficulty keeping up with the increasing needs of customers who expand into international trade, have operations in several states, or who are engaged in acquisitions. As client corporations grow, they need accounting firms that can supply a wider array of services. Consolidation in many industries has created big companies that need larger accounting firms.

Customer Concentration - Most accounting firms are small, local, and may earn a large percentage of revenue from a few business customers. Loss of a major client can be devastating, especially to small accounting practices serving a limited

geography. Economic forces that negatively affect a region's main industries in turn impact businesses that serve or sell to them; downturns cause company bankruptcies that can significantly decrease a local accounting firm's revenue.

Competition from Do-it-Yourself Accounting - Smaller accounting practices, especially sole practitioners, lose business to people who use commercially available software to do their own accounting. Integrated bookkeeping, accounting, and tax preparation software enables individuals and companies to set up and maintain accounts, prepare taxes, and issue financial reports. Auditing functions are built-in, enabling users to catch mistakes that accountants generally would find.

Retiring Accountants - As baby boomers reach retirement age, firms are scrambling to backfill talent by recruiting millennials. Firms are using higher starting salaries and flexible work arrangements to lure young accountants. More accounting firms are allowing remote access for employees and flexible work hours. In addition, firms are asking former employees to return to work either on a part-time or interim basis.

Business Trends

Alignment with Global Accounting Rules - The growth of global corporations is leading to the need for the US to better align with international accounting standards. Specifically, the domestic Financial Accounting Standards Board is working to align US standards with the International Financial Reporting Standards developed and used by numerous countries. The goal is for standardized accounting to provide international investors and businesses a better understanding of foreign companies.

Firms Update Technology, Move Operations Online - Cloud computing, software as a service applications (SaaS), and hosted solutions are becoming increasingly common among small accounting firms. The move will add demand for increased data security, but could save firms money in the long run by eliminating the need for onsite IT departments. Additionally, firms are moving toward paperless operations to save money as well as to be more environmentally friendly. Cloud computing, in which data is kept online, can help facilitate the drive toward going paperless. Cloud accounting applications also allow business owners to access their data on mobile devices.

Online Tax Preparation - Many accounting and tax firms enable clients to help prepare their own tax returns using an interactive website. Such sites collect information from customers through questionnaires and prepare returns electronically. Data security is a major issue for clients, leading firms to invest in better computer and network security.

International Experience - As more companies do business internationally, accountants must develop expertise in tax laws and regulatory requirements for multiple countries. Demand for global accounting experience is increasing among large and small clients that deal with sophisticated transportation networks and supply chains that span the globe.

Accounting Fraud on the Rise - US businesses are seeing an increase in accounting fraud, according to *Accounting Today*. More than 20% of companies reported having experienced accounting fraud in a 2014 survey, compared to 16% in 2011. Additionally, 75% of the nation's companies were affected by at least one fraud in the past year, according to Kroll's 2015/2016 Global Fraud Report. The increase is attributed to enhanced internal controls, and strict compliance programs and risk assessments that lead to fraud being more easily detected. Companies also are opening themselves up to increased risks as they expand their international operations.

Industry Opportunities

Daily Money Management - As aging baby boomers become prone to ailments that can affect their ability to manage their money, they will need accountants equipped to handle the finances of an elderly client base on a regular basis. An estimated 8.5% of the 7.3 billion people worldwide are aged 65 and older, according to the US Census Bureau and International Data Base, and that total is expected to increase to 1 billion older people by 2030. Daily money managers may be sought to pay

bills, balance checkbooks, and oversee other relatively simple financial processes on behalf of clients with diminished mental or physical abilities.

Customer M&As - Mergers and acquisitions require specialized accounting and business services, a boon to accounting firms hoping to be retained through the transition or to win business from the new entity. Merged companies usually require significant help to combine accounting, information, and reporting systems. Business combinations also provide opportunities for accounting firms to sell strategic planning and other consulting services.

Specialties - Practices may specialize to better compete with general accounting firms and to appeal to clients who want more depth in a particular area of expertise. Specialties include audit, performance management, fraud (forensic accounting), estate planning, and corporate governance. Specialty firms may be able to charge higher fees, especially if few competitors offer similar expertise.

Health Care Advisory - The implementation of the Affordable Care Act has created increased need for consulting services, especially for small business clients. Accounting firms can help businesses sort through the rules and regulations associated with the health care exchanges and small-business credits.

Building Business During Tax Season - While meeting with clients during the tax season, accountants can expand their businesses by touting special capabilities and offering value-added services with the help of analytics tools. Along with financial reports or tax returns, accountants can offer a variety of other services, such as business valuations and benchmarking. Uncovering clients' pain points during discussions at tax time paves the way for additional engagement later in the year, including securing advisory work.

Call Prep Questions

Conversation Starters

How have new government regulations affected the firm's business in recent years?

Accounting firms must comply with numerous directives from government and industry groups.

What concerns does the firm have about litigation risks?

Accounting firms are increasingly implicated in lawsuits regarding their clients' business reporting and operational results.

What strategies help the firm retain skilled personnel?

Accounting firms depend heavily on the reputation and expertise of senior partners and the competence of junior accountants, who often do most of the routine work.

To what extent does the firm tailor offerings for the elderly?

As aging baby boomers become prone to ailments that can affect their ability to manage their money, they will need accountants equipped to handle the finances of an elderly client base on a regular basis.

How significant are corporate combinations to the firm's revenue?

Mergers and acquisitions require specialized accounting and business services, a boon to accounting firms hoping to be retained through the transition or to win business from the new entity.

What specialized practice areas could help differentiate the firm from its competitors?

Practices may specialize to better compete with general accounting firms and to appeal to clients who want more depth in a particular area of expertise.

Quarterly Industry Update

What measures has the firm taken to help clients understand recent changes in US tax law?

More people are likely to seek guidance from an accountant amid high levels of uncertainty surrounding the new Tax Cuts and Jobs Act, according to Accounting Today.

Operations, Products, and Facilities

What are the primary services the firm provides?

Major industry services include tax preparation, payroll services, auditing, bookkeeping, tax consulting, and general accounting.

Does the firm concentrate on business, individual services, or both?

Some firms focus on business clients, while others service both companies and individuals.

How many offices does the firm have?

Most firms are small and have only one office, but large firms often have multiple facilities.

How many employees does the firm have? How many are partners? Professional staff?

Partners typically hire junior accountants or other professionals to perform routine work.

What types of consulting services does the firm provide clients?

Consulting services may be related to taxes, business decisions, IT consulting (from an accounting perspective), and personal financial planning.

How important is consulting to the firm compared to other services?

Many firms have increased resources devoted to consulting; in some firms, consulting provides significant revenue.

Customers, Marketing, Pricing, Competition

How many clients does the firm have?

The size of the client base varies greatly from firm to firm.

What percentage of clients are individuals? Businesses? Nonprofits? Government agencies?

Some accounting firms specialize by customer segments.

If serving business clients, what industry specialties does the firm have?

Accounting firms may specialize by customer industry.

Does any client account for a significant amount of the firm's revenue, and if so, is the company trying to expand its client base?

A business generally is at risk if one customer provides too large a percentage of revenue.

How does the firm find new clients?

Referrals are important, but active marketing is becoming more common.

What types of marketing does the firm do?

Major types of industry marketing are direct mail, customer visits, seminars, and print and online advertising.

How does the company charge for its services: hourly or fixed price?

Rather than bill for hours of work, some firms negotiate a fixed price based on the value of their work.

How much competition does the firm get from large national firms?

National accounting firms have name recognition from marketing and advertising.

Regulations, R&D, Imports and Exports**What is the firm's opinion of the effectiveness of industry standards groups?**

Accounting and auditing standards are defined by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

What challenges does the firm face in adapting its processes to new regulations and regulatory changes?

Regulations affect how accounting firms and their clients report operations and prepare taxes.

How has the Sarbanes-Oxley Act (SOX) affected the firm?

SOX prohibits public accounting firms from auditing clients that they're simultaneously providing certain other services, including bookkeeping, IT consulting, valuations, investment advice, and legal services.

In what states is the firm licensed to practice?

Accountants and accounting firms must have licenses in the states where they do business. Some states have reciprocity agreements.

Organization and Management**Is the firm organized as a partnership or corporation?**

Many accounting firms are partnerships.

If the firm has several offices, how much independence does each have?

Offices typically are headed by a partner and are responsible for their own sales efforts.

How does the company find, train, and keep staff?

Staffing is one of the industry's largest challenges.

How does the company keep up with changing accounting standards and legislation?

Partners, accountants, auditors, and other professional staff need ongoing training about new laws and regulations.

If an audit service provider, what types of special training does the company provide its auditors?

Auditors need to ask clients challenging questions to help understand their business and accounting procedures, and to ensure that standards are followed.

Financial Analysis**How steady is the firm's revenue?**

Accounting firms with large corporate customers have steadier revenue, due to quarterly reporting requirements.

How important is hourly billing to the firm's revenue? Fixed-price contracts?

Accounting firms derive revenue from hourly billing and fixed-price contracts.

How much liability insurance does the company maintain?

Lawsuits for accounting errors or clients' poor business results are becoming more common.

How large are the firm's receivables relative to annual revenue?

Receivables are often an accounting firm's largest asset.

How significant is the firm's investment in computer equipment and technology?

Much accounting and auditing work is done electronically.

Business and Technology Strategies

How would the company benefit by acquiring or merging with another firm?

Consolidation among accounting firms is based partly on the need to deliver a broader array of services.

How important to the firm are alliances with other accounting practices or other types of businesses?

Alliances with other accounting practices enable firms to offer more services to more clients; alliances with other types of businesses bring referrals.

How does the firm distinguish itself from competitors?

Firms often specialize by industry or service and may develop a public image through advertising and PR.

If a tax preparation firm, what benefits does the firm achieve from operating a tax preparation website?

Website tax preparation services compete with software for personal use.

What types of technology issues does the company foresee for the industry?

Top technology issues in the accounting industry include information security and electronic financial reporting.

How does the company intend to incorporate cloud computing or SaaS into its operations?

Cloud computing and SaaS (software as a service) applications are making inroads into the accounting services industry because they are more adaptable than existing technologies, but security may be an issue.

Executive Insight

Chief Executive Officer - CEO

Setting Services Strategy

Under Sarbanes-Oxley (SOX), accounting firms may not provide audit and various consulting services to the same clients. Audit and tax preparation are the basic services of many accounting firms, but consulting services are often more profitable. Executives must decide to either divest their consulting services or determine which clients to market either audit/tax preparation services or consulting services to.

Enforcing Ethics Standards

The involvement of some accounting firms in corporate fraud and tax schemes has increased lawsuits, regulatory scrutiny of the industry, and penalties for non-compliance. Accounting firms that have many partners and offer a wide range of services are especially vulnerable. Executives ensure establishment of well-defined company ethics standards, internal control systems, and a culture of ethical behavior.

Chief Financial Officer - CFO

Mitigating Seasonal Cash Flow

Cash flow of accounting firms is often seasonal, coinciding with the preparation of annual reports and tax filings. Revenue of firms with a heavy tax preparation business is highest in second quarter. Expenses, however, are usually spread evenly through the year, although some firms hire part-time tax preparers to augment permanent staff. Financial executives may make large investments in short-term securities to take advantage of revenue spikes due to seasonality.

Managing Alliance Revenue

Alliances among accounting firms increase revenue by expanding the geographic reach, specialties, and breadth of service

of participating practices. Financial management ensures that the appropriate revenue recognition occurs for work done for or by alliance partners. Executives evaluate the financial benefits of each alliance, usually yearly.

Chief Information Officer - CIO

Adapting Applications to New Regulations

Much accounting work, including tax preparation and auditing, is performed with the aid of specialized software. Frequent regulatory changes require updates to accounting software. IT management needs to validate the accuracy of changes prior to production use, whether software vendors or the practice provide the updates. Management may use internal software auditors or consultants to validate changes.

Cloud Computing and Security Concerns

Many firms, especially small businesses, are turning to cloud computing and SaaS applications. By moving their applications online, firms can save money on IT and also more easily make strategic changes to their technology operations. However, cloud computing comes with security concerns as data resides on the Internet. Companies must ensure the safety and security of their clients' financial and personal information.

Human Resources - HR

Recruiting Specialists

Increasing specialization in financial fields requires accounting firms to employ professionals with special training or experience, rather than a general accounting background. As accounting firms develop specialties or expand to provide a wider range of services, recruiting well-qualified specialists becomes more difficult. To secure special expertise, larger firms often buy smaller specialist firms.

Meeting Seasonal Workforce Needs

Accounting services firms with seasonal peaks often hire extra workers to help with the workload. Management recruits workers prior to the busy first quarter tax preparation period. Some firms add significant temporary headcount for tax season. Although seasonal workers generally perform routine work and data input, hiring and managing a large increase in workers can be challenging during periods of strong economic growth.

VP Sales/Marketing - Sales

Promoting a Public Image

Many accounting firms try to differentiate themselves from competitors by developing an image for the firm, because services often are similar. Marketing management promotes a specific image through advertising, PR, and partners' visible participation in professional and community organizations and events. Image promotion is often effective in generating new business, because potential clients can't easily compare firms, especially general practices.

Developing Pricing Strategy

Potential clients often compare accounting firms by the price of basic services, adding importance to competitive pricing. Many practices provide basic services, such as tax preparation, at low prices as a sales strategy to win additional business from satisfied clients. Management re-evaluates pricing based on a number of factors, including win-loss analysis and client feedback.

Executive Conversation Starters

Chief Executive Officer - CEO

How are regulatory changes affecting the firm's services strategy?

SOX prohibits public accounting firms from providing both audit and various consulting services to the same clients.

What challenges does the firm have protecting against ethical conflicts?

Recent accounting-related corporate fraud and tax schemes have increased lawsuits, regulatory scrutiny, and penalties for non-compliance.

Chief Financial Officer - CFO

How does the firm manage any seasonal cash flow?

Cash flow of accounting firms is often seasonal, coinciding with the preparation of annual reports and tax filings; revenue from tax preparation is highest in second quarter.

How do alliances with other accounting practices benefit the firm's revenue?

Alliances among accounting firms increase revenue by expanding the geographic reach, specialties, and breadth of service of participating practices.

Chief Information Officer - CIO

How does the firm verify that its software applications use the most recent regulatory changes?

IT management needs to validate the accuracy of any application changes prior to production use, whether software vendors or internal staff provide the updates.

What are the company's plans to move toward cloud computing and SaaS applications?

By moving their applications online, firms can save money on IT and also more easily make strategic changes to their technology operations.

Human Resources - HR

How important to the firm is hiring specialists, rather than general accountants?

The increasing specialization in financial fields requires accounting firms to employ professionals with special training or experience, rather than a general accounting background.

How much does the firm rely on temporary or seasonal workers?

Accounting services firms with seasonal peaks, such as for tax preparation, often hire extra workers.

VP Sales/Marketing - Sales

What image does the firm cultivate with its marketing and advertising?

Many accounting firms attempt to differentiate themselves from competitors by developing an image for the firm, because services often are similar.

How important is pricing to winning business for the firm?

Many practices provide basic services, such as tax preparation, at low prices as a sales strategy to win additional business from satisfied clients.

Financial Information

COMPANY BENCHMARK TRENDS

Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.



Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at www.microbilt.com.

Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.



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COMPANY BENCHMARK INFORMATION

NAICS: 5412

Data Period: 2016

Last Update May 2018

Table Data Format

Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M
Company Count	73088	44	312	72732

Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	99.6%	99.9%	99.3%	99.4%
Officer Compensation	17.1%	18.5%	14.9%	14.3%
Advertising & Sales	0.6%	0.7%	0.7%	0.7%
Other Operating Expenses	67.6%	64.4%	74.9%	73.6%
Operating Expenses	85.3%	83.5%	90.5%	88.5%
Operating Income	14.3%	16.4%	8.8%	10.9%
Net Income	7.6%	8.8%	4.7%	5.6%

Balance Sheet

Cash	18.8%	14.7%	18.0%	21.8%
Accounts Receivable	35.3%	43.5%	35.6%	28.2%
Inventory	2.8%	4.0%	2.2%	1.8%
Total Current Assets	63.4%	69.8%	64.7%	58.3%
Property, Plant & Equipment	11.2%	7.2%	9.2%	14.0%
Other Non-Current Assets	25.4%	23.0%	26.1%	27.7%
Total Assets	100.0%	100.0%	100.0%	100.0%
Accounts Payable	5.2%	5.6%	5.7%	4.8%
Total Current Liabilities	35.6%	33.7%	36.5%	36.4%
Total Long Term Liabilities	20.9%	19.0%	18.5%	22.9%
Net Worth	43.5%	47.4%	45.0%	40.8%

Financial Ratios

(Click on any ratio for comprehensive definitions)

Quick Ratio	1.58	1.78	1.54	1.44
Current Ratio	1.78	2.07	1.77	1.60
Current Liabilities to Net Worth	81.9%	71.1%	81.2%	89.3%
Current Liabilities to Inventory	x12.77	x8.46	x16.82	x20.33
Total Debt to Net Worth	x1.30	x1.11	x1.22	x1.45
Fixed Assets to Net Worth	x0.26	x0.15	x0.20	x0.34
Days Accounts Receivable	72	63	51	85
Inventory Turnover	x0.23	x0.07	x0.84	x0.38
Total Assets to Sales	55.4%	38.8%	39.4%	83.7%
Working Capital to Sales	15.4%	14.0%	11.1%	18.3%
Accounts Payable to Sales	2.8%	2.2%	2.2%	3.9%
Pre-Tax Return on Sales	12.3%	14.3%	7.5%	9.0%

<u>Pre-Tax Return on Assets</u>	22.1%	36.7%	19.1%	10.7%
<u>Pre-Tax Return on Net Worth</u>	50.8%	77.6%	42.4%	26.3%
<u>Interest Coverage</u>	x12.22	x33.37	x6.94	x5.40
<u>EBITDA to Sales</u>	16.2%	18.2%	10.8%	12.8%
<u>Capital Expenditures to Sales</u>	2.0%	1.6%	2.4%	2.7%

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VALUATION MULTIPLES

Accounting Services

Acquisition multiples below are calculated medians using at least three US private industry transactions completed between 1/2007 and 10/2017 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than \$1B. Data updated annually. Last updated: December 2017.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.9	1	2.8	1.9

MVIC (Market Value of Invested Capital) = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

Net Sales = Annual Gross Sales, net of returns and discounts allowed, if any.

Gross Profit = Net Sales - Cost of Goods Sold

EBIT = Operating Profit

EBITDA = Operating Profit + Noncash Charges



SOURCE: Pratt's Stats, 2018 (Portland, OR: Business Valuation Resources, LLC). Used with permission. Pratt's Stats is available at <https://www.bvresources.com/prattsstats>

Industry Websites

Accounting Today

Industry news, rankings, and resources.

Accounting.com

Career info and resources.

AccountingWEB

Industry news (by subscription).

American Institute of CPAs

Association of accounting professionals.

Certified General Accountants of Canada

News, events, and information.

CPA America International

Association of independently-owned and managed CPA and consulting firms.

Financial Accounting Standards Board

Technical accounting issues.

IFRS Resources

Resources related to International Financial Reporting Standards.

International Accounting Bulletin

Industry news.

Journal of Accountancy Online

Feature articles.

Public Company Accounting Oversight Board

Oversees auditors of public companies.

Securities and Exchange Commission

Regulator of public accounting industry.

SmartPros

Industry news.

The CPA Journal

Articles.

The Society of Professional Accountants of Canada

News and publications.

Glossary of Acronyms

ADP - Automatic Data Processing

AICPA - American Institute of Certified Public Accountants

CGMA - Chartered Global Management Accountant

CPA - Certified Public Accountant

DMM - daily money management

FASB - Financial Accounting Standards Board

GAAP - Generally Accepted Accounting Practices

IASB - International Accounting Standards Board

IFRS - International Financial Reporting Standards

IRS - Internal Revenue Service

IT - information technology

MDP - multidisciplinary partnership

PCAOB - Public Company Accounting Oversight Board

SaaS - Software as a Service

SOX - Sarbanes-Oxley Act