CPA Practices

NAICS: 541211
SIC: 8721

prepared February 18th, 2022

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Coronavirus Update

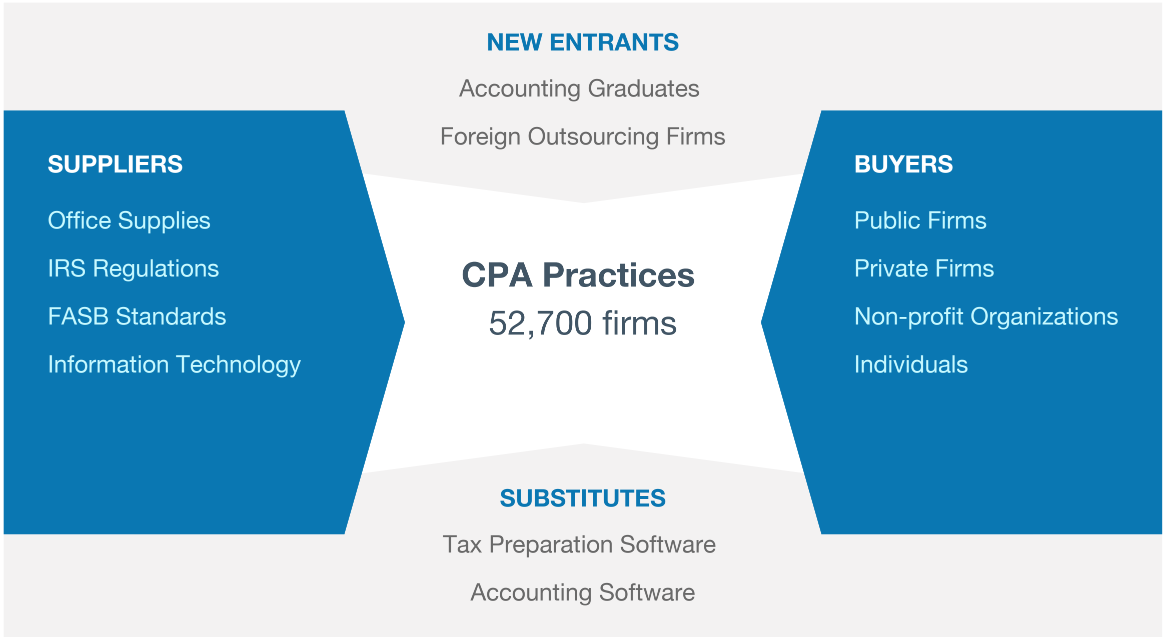
Jan 25, 2022 -- Great Resignation Intensifies Talent Shortage

- A severe talent shortage caused by the “Great Resignation” will be the most important issue affecting accounting work in 2022, according to some industry experts. A loss of institutional knowledge will cause problems not only at the firms accountants are auditing, but within the accounting firms themselves. Given how widespread this phenomenon is across different sectors, it’s a problem that can’t necessarily be solved with higher salaries and bonuses.
- Some industry experts say that federal pandemic-related stimulus and relief packages have caused clients to become much more accepting of support that includes bundled tax advisory services. The pandemic impacted all small businesses, some of which weren’t prepared to apply for Paycheck Protection Program funding and/or Economic Injury Disaster Loans. They didn’t have contingency plans in place. They may not have known where to go to ask for assistance, experts say, and it will take years for many small businesses to recover.
- Interest in accounting certification programs is on the rise. The Institute of Management Accountants (IMA) reported 17% year-over-year global growth of the Certified Management Accountant (CMA) program. Experts cite an increase in free time during pandemic-related lockdowns as a key driver of increasing interest. Greater availability of online training programs during the pandemic is also cited as a contributing factor.
- At least three major banks have decided to opt out of a new process for getting PPP loans forgiven directly by the SBA, according to news site The Intercept. Bank of America, JPMorgan Chase, and PNC have all decided to opt out, leaving their small business customers with no other recourse if the banks refuse to forgive loans or drag out the process, The Intercept says. The SBA, which is managing the Paycheck Protection Program, made available in August a web portal through which small business owners who took out PPP loans of $150,000 or less a way to bypass banks and seek forgiveness directly from the agency. Banks also have to opt into the direct process for small business owners to access it, however. When asked for an explanation as to why the bank decided to bar its customers from the SBA’s direct forgiveness option, a PNC spokesperson referred to a statement that said, “[L]enders that participate in the SBA’s forgiveness portal are still responsible for reviewing and issuing forgiveness decisions to the SBA. We would therefore still need to ensure borrowers meet loan eligibility and loan forgiveness requirements regardless of whether we chose to use the SBA forgiveness portal or not. ”As of the end of May, JPMorgan Chase was the top PPP lender, followed by Bank of America in the No. 2 spot; PNC is No. 11. All told, lenders representing just half of all outstanding PPP loan forgiveness applications have opted in, according to the SBA.
- Some businesses that took PPP loans in 2020 but don’t apply for forgiveness soon will need to start making payments on the loan plus interest. The PPP loans will automatically convert to a standard loan at 1% interest if a small business does not apply to the SBA for forgiveness within 10 months of the end of the covered period under which they had to spend the money. For some businesses that received a loan when the PPP launched in April 2020, there was an eight-week covered period, which would put the forgiveness application deadline in the middle of July. For most loans operating under the more popular 24-week covered period, that meant a deadline in September 2021.
- The window to apply for Small Business Administration (SBA) COVID-19 Economic Injury Disaster Loan (EIDL) loans, Targeted Grants, and Supplemental Targeted Grants closed on December 31, 2021. The SBA had $11.8 billion in funds remaining across all of its programs as of December 24, 2021, according to The Business Journals. The SBA has been making billions of loans a week, which means the money could run out soon. The SBA will continue processing loan applications received before the deadline, including requests for reconsideration, and Targeted EIDL Advance (grant) applications, including requests for reconsideration. Small business owners who are still struggling with pandemic-related problems will have to look strategically for other grants and COVID-19 relief programs. Options may include private small business grants, state and local government grants and relief programs, and traditional SBA loans.
- Commercial bankruptcy filings increased 4.8% month over month in December 2021 after a 10.3% month-over-month decrease in November, according to Epiq Bankruptcy Solutions. New Chapter 11 filings, including Sub Chapter V, decreased 46.6% year over year in 2021.
- CPA practices and their clients continue to see automation as a key to revenue growth. Time-series surveys conducted during the pandemic by several organizations show that automation, particularly in areas like accounts payable and accounts receivable, was

driving business growth before the pandemic set in and has continued to provide consistent momentum as 2020 progressed, according to CPA Practice Advisor. Companies that embrace automation expect future growth even in the face of the pandemic, while those that don't aren't as optimistic. The surveys also showed a direct correlation between the adoption of technology and the ability to switch to value pricing that helped grow firm revenues during the pandemic.

- The coronavirus pandemic has accelerated the shift by CPA practices from compliance services to advisory services, according to the Accounting Today news site. "This year the focus has been much more on how do I as a small business stay afloat," said Charlotte Rushton, president of the tax professional's customer market at accounting industry consulting firm Thomson Reuters. "How do I get the PPP loans that have been offered? What do I do once I get them? How do I apply for forgiveness?" "We've had a 50 percent uptick in the seminars we run to help train accountants on tools and techniques to use to make that relationship shift."

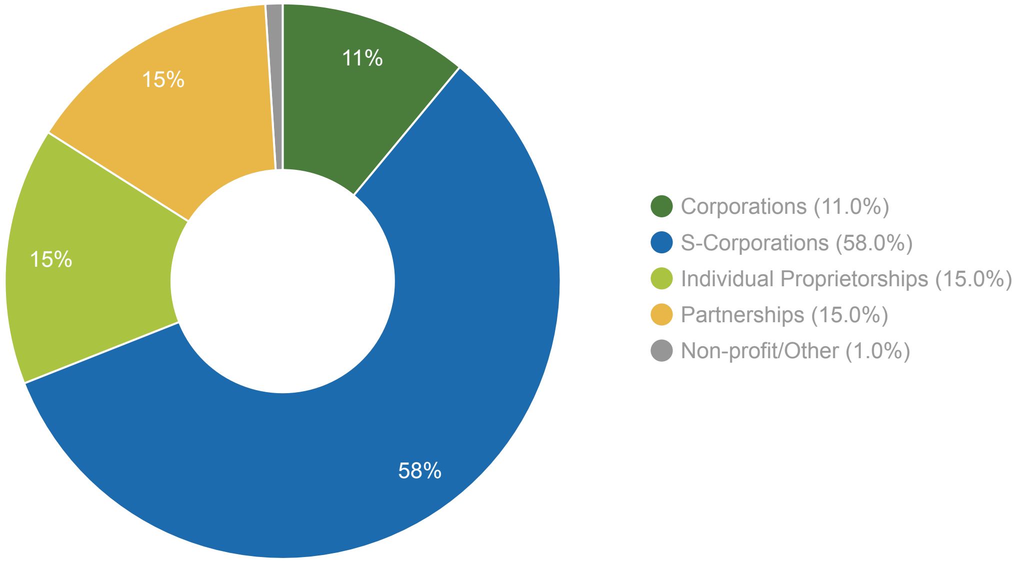
Industry Structure



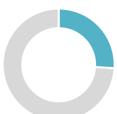
The average CPA practice has $2 million in annual revenue and 9 employees.

- Any accountant filing a report with the SEC is required to be a Certified Public Accountant (CPA).
- There are about 52,700 CPA firms in the US operating about 56,100 locations and generating about $113 billion in annual revenue.
- About 85% of firms have less than 10 employees.
- An additional 36,500 establishments are owner-operated with no employees. These solo accountants generate $2 billion in annual revenue.

Industry Demographics

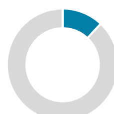


Source: US Census Bureau



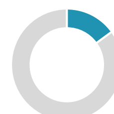
Female Owned

26.0%



Minority Owned

12.0%



Veteran Owned

15.0%

Source: Census Bureau

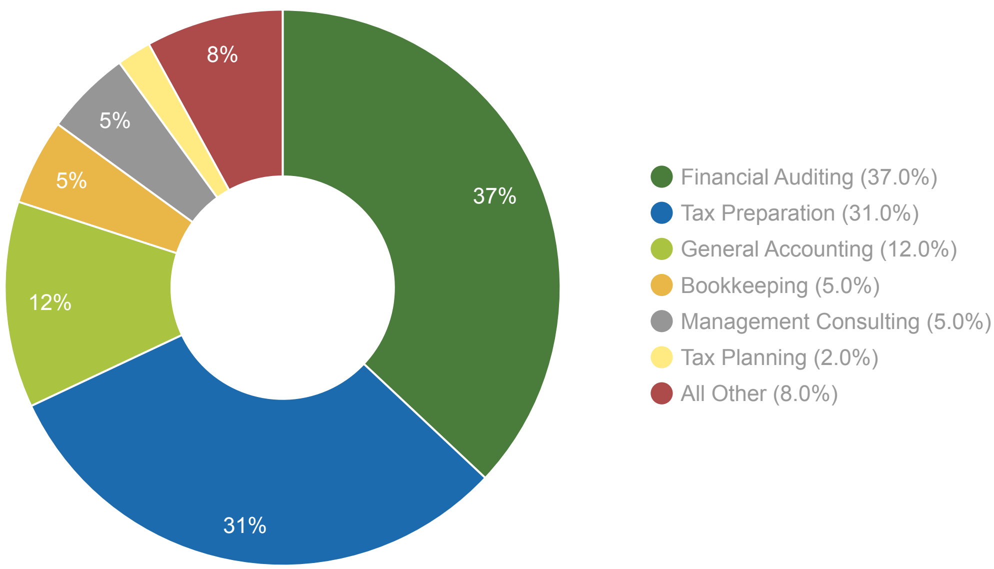
How Firms Operate

Products and Operations

CPA practices provide accounting, tax preparation, and auditing services to businesses, non-profit organizations, and individuals.

- Tax preparation and tax planning work for organizations and individuals comprise about one-third of overall CPA client fees, but are typically over half of client fees for smaller firms. Tax work is about evenly split between individuals and organizations.
- Financial auditing is also about one-third of overall CPA firm client fees. Most CPA firms perform financial audits only for private businesses and non-profit organizations. Only the very largest CPA firms offer audits of publicly-held companies.
- Other services provided by CPA firms include bookkeeping, general accounting services, business valuations, management consulting, and information technology consulting and implementation.

CPA Practices Revenue



Source: US Census Bureau

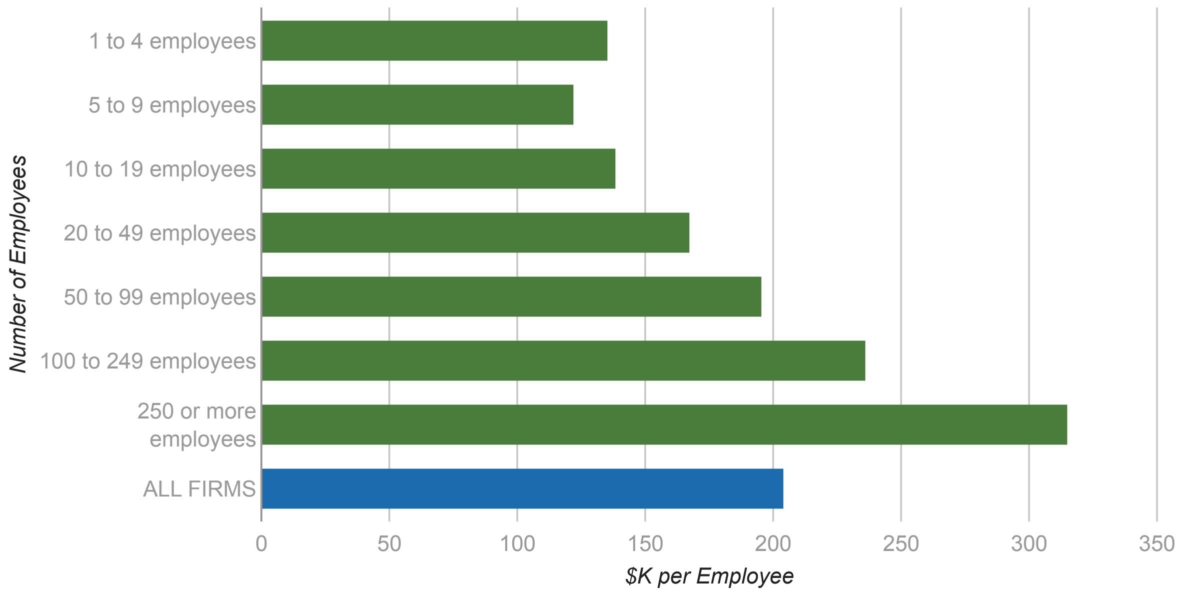
A typical CPA practice will have less than 10 employees. New CPAs start out as Associates and earn a salary ranging $40,500 to $94,500. Salaries for Senior Associates (4-5 years experience) are typically $54,000 to $115,500, while Managers (6-10 years experience) earn $76,000 to $167,700 and Directors earn $112,500 to $217,000. Achieving status as a Partner, or owner, in the firm is the goal for CPAs. Salaries for Partners range from $130,000 to $190,000, but they also share in the profits of the firm. Firms may build up cash prior to periodic distributions of profits to partners. Other employees at CPA firms include administrative and clerical staff. Firms spend about 19-21% of revenue on salaries for all employees.

Partners and Directors have primary responsibility for acquiring new clients and managing relationships with existing clients. Associates and Senior Associates perform data gathering, analysis, and reporting for client engagements under the direction of Managers or Directors. On average, CPA firms invest less than 1% of net revenue on marketing activities.

CPA firms are typically managed as a unified practice with partners sharing resources, clients, staff, and profits. In some firms, each partner manages their own practice and the only sharing is of administrative systems and resources. This "silo" approach works for smaller practices, but creates management challenges if the firm grows beyond about 10 partners.

Demand for CPA services is seasonal, with higher demand during "tax season" (February through April). CPAs often work overtime during tax season to meet this higher demand. Some employees may only work part-time during non-tax seasons when demand is lower.

Revenue per Employee by Establishment Size



Source: US Census Bureau

Profit Drivers

High Utilization Rates

Since CPA firms basically sell the time and expertise of their professional staff, their profitability is driven by the utilization rate of the staff's time and the billing rate they realize for that time. Utilization rates, the percentage of staff time that is billable, average 51-54% for CPA firms. Non-billable time includes vacations, continuing education hours, and staff meetings.

High Realization Rates

Firms may discount billing rates to win business or address client satisfaction issues. The "realization rate," the ratio of actual to standard billing rates, averages about 81-84% for CPA firms and generally declines as the firm gets larger.

Billing Rate Mix

Billing rates vary depending on the experience of the CPA. Billing rates average $85 -101 per hour for Associates with 1-3 years experience and $376-500 per hour for Partner/Owners. Billing rates also vary depending upon the work being performed and the expertise of the CPA. Routine work, such as bookkeeping and general accounting, earn lower rates than higher value-added work, such as consulting and planning. CPAs with in-depth experience in specific areas, such as business valuations, or specific markets, such as medical practices, can command higher rates for their expertise.

Industry Trends

Trends are affected by the COVID-19 pandemic.

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

Modest Revenue Growth

CPA practices have seen modest growth in net client fees in recent years. Fee increases ranged 2-7% annually in 2018-2021, according to the National Management of an Accounting Practice (MAP) Survey conducted biannually by the AICPA. The increase in fees continued the trend reported in the 2012, 2014 and 2016 MAP Surveys. The survey also found that more CPA practices are experiencing revenue growth and planning to hire additional staff.

M&A Activity Forecast

M&A activity is driven by firms looking to grow, the need for external succession as a large number of partners reach retirement age, and the demands of clients for greater breadth and depth of services as they compete on a global basis. Over the next decade, the supply of CPA firms for sale could exceed M&A demand, which may negatively affect their value. About 20% of firms reported at least one merger in 2019.

Niche Marketing

To compete more effectively and grow revenues, many CPA practices are focusing on either specific vertical markets (such as healthcare professionals) or specific services (such as business valuation). A niche marketing approach can help differentiate the practice, particularly for a smaller firm facing challenges from larger competitors, and result in higher profit margins.

Computer Automation

The widespread use of accounting and tax preparation software packages has eliminated much of the tedious “number-crunching” tasks that CPAs used to perform. While automation of routine accounting reporting is a potential threat to the billable hours charged by CPA practices, it frees CPAs to focus on higher-value analysis and has created new opportunities for consulting on the implementation and use of computer systems. CPA practices are also using information technology, such as knowledge systems and mobile computing, to improve the productivity of their employees.

Status as Trusted Business Advisor

In the face of increased computer automation and a weakened economy, CPA practices are seeking to become “trusted business advisors,” providing additional consulting and planning services to clients. By moving away from low-value transaction services and after-the-fact reporting to proactive consulting and financial planning services, CPA practices can deepen client relationships and increase firm profitability.

Stricter Auditing Requirements

The accounting scandals at Enron and Worldcom spurred an increased emphasis on accountability and transparency in financial reporting. New regulations have led to increased controls and scrutiny by external auditors, driving up demand for CPA services. Demand has also grown for forensic accounting services to investigate white-collar crimes, such as securities fraud and embezzlement.

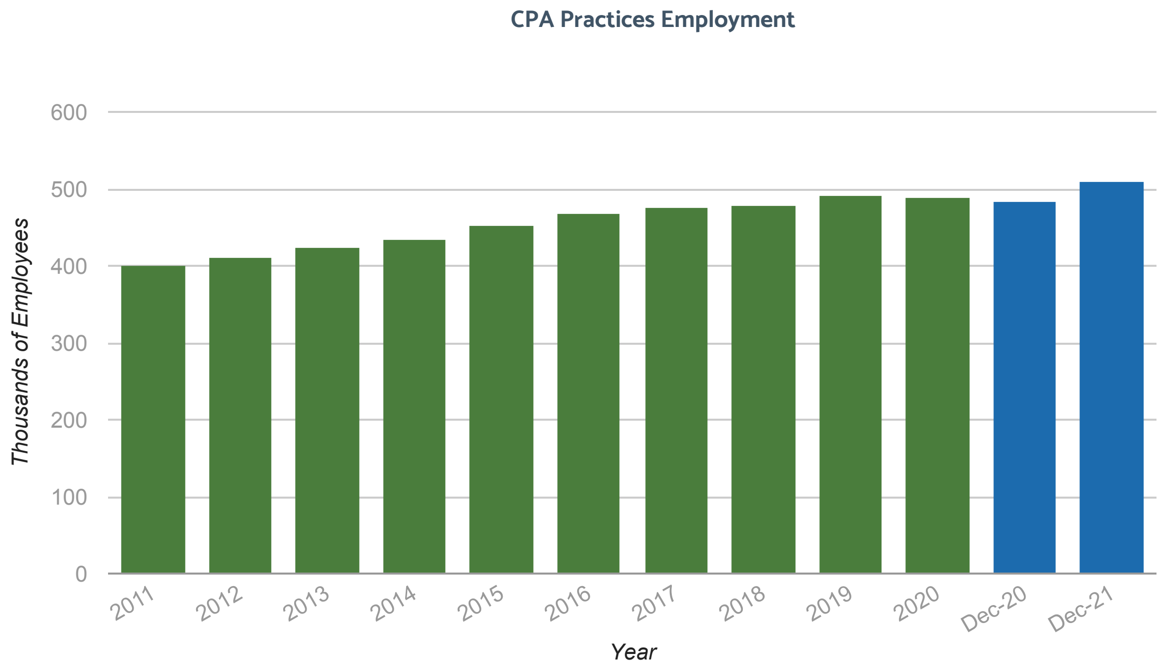
Global Standard Convergence

In 2014, the US Financial Standards Accounting Board (FASB) and the International Accounting Standards Board (IASB) converged on a common set of International Financial Reporting Standards (IFRS). The new standards took effect in December 2016 for public firms using US GAAP, in January 2017 for firms using IFRS, and in December 2017 for US private companies and organizations.

Employment and Wage Trends

Employment by CPA practices increases

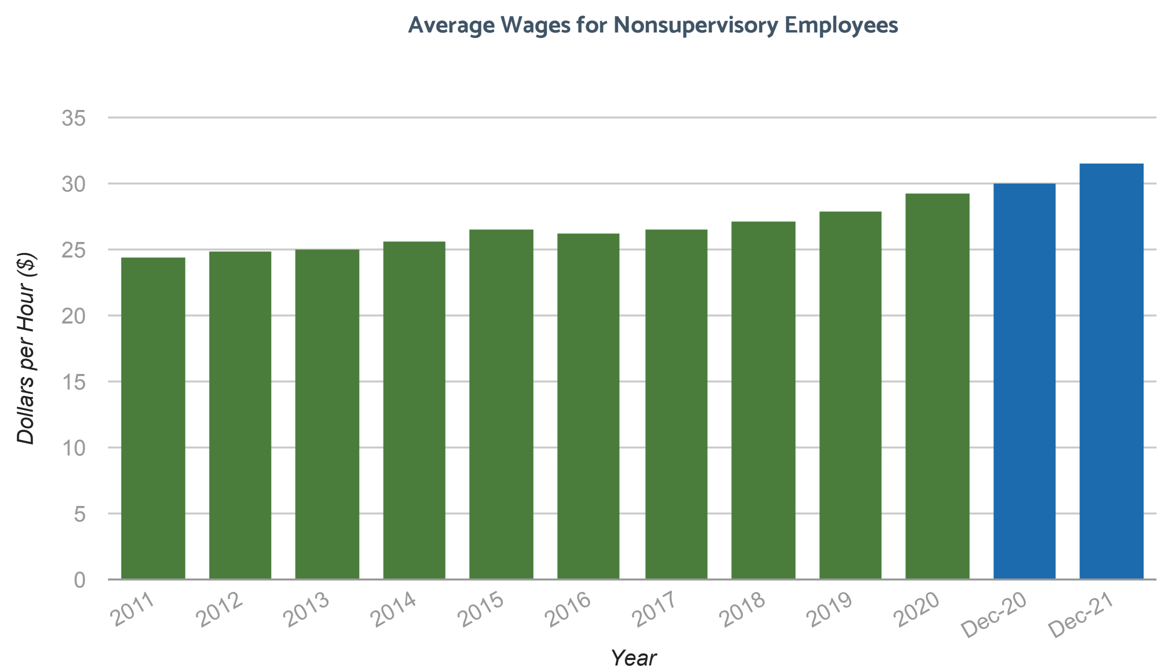
Overall employment by CPA practices changed 5.2% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

Wages at CPA practices rise

Average wages for nonsupervisory employees at CPA practices were $31.55 per hour in December, a 5.1% change compared to a year ago.



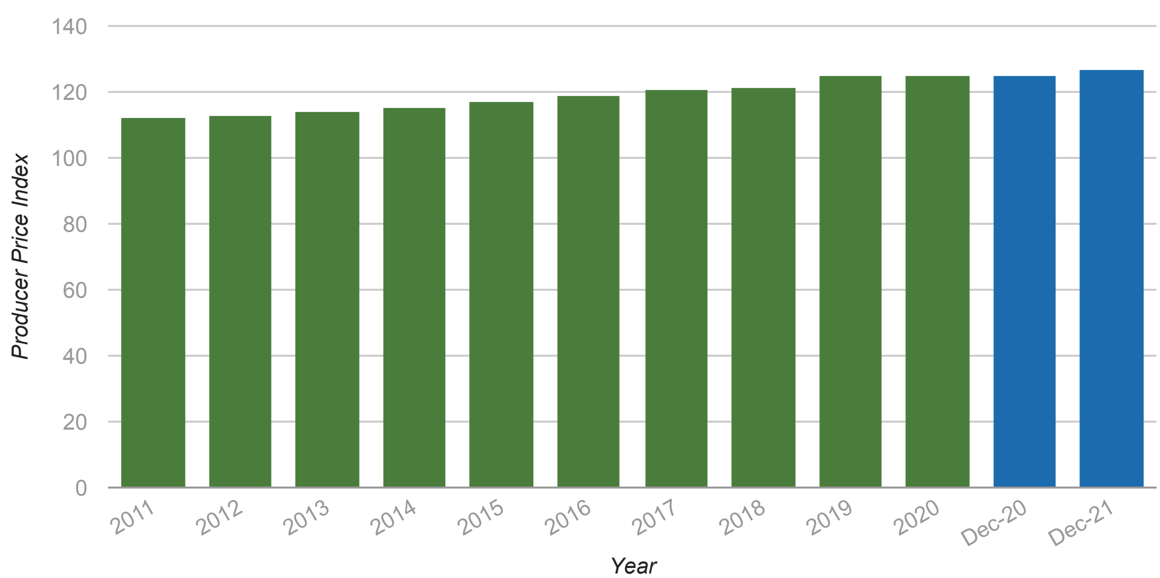
Source: Bureau of Labor Statistics

Price Trends

Producer Prices for CPA practices rise

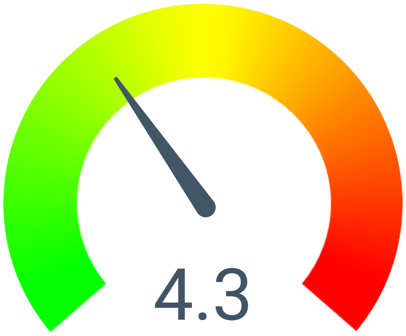
The Producer Price Index for CPA practices changed 1.58% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Producer Price Index for CPA practices



Source: Bureau of Labor Statistics

Credit Underwriting and Risks



Industry Risk Rating:
Stable/Satisfactory

Business Exit Rates:	5.5	Comparable to US average for all businesses
Cyclical Sensitivity:	4.5	Moderate Sensitivity
Barriers to Entry:	4.6	Low initial capital; high regulatory/technical barriers; low concentration
External Risk:	3.5	Low external risk
Industry Outlook:	4.8	Comparable to GDP; some cyclical risk
Financial Summary:	2.8	High margins; high liquidity; low leverage

Key Metrics

METRIC	VALUE	COMPARISON
Performance During 2007–2009 Recession	3.6%	0.0% GDP
Business Exit Rate 2019–2020	9.82%	9.0% All Industries
Compound Annual Growth Forecast (2020–2025)	5.96%	6.1% GDP
SBA 7(a) Default Rate by Number of Loans (2010-2019)	3.09%	3.82% All Industries
SBA 7(a) Default Rate by Gross Loan Amount (2010-2019)	2.05%	1.21% All Industries

Underwriting Considerations

- Does the Firm have a succession plan in place?
- How does the firm recruit talent? What is the average number of years of employment for the staff? How much of a budget does the company have for recruiting?
- Most accounting firms lease their office space? However, for smaller to midsize firms, opportunities can be found in financing a building.
- Confirm which assets to be used to collateralize Lines of Credit.

Industry Risks

Client Retention

When the economy improves, CPA firms focus on attracting new clients. Client retention is a concern for many practices. Clients experiencing financial difficulties may cut back on discretionary projects, shop around for lower fees, or go out of business. Even though retaining an existing client usually costs less than acquiring a new client, many CPA firms have difficulty not billing for time spent with existing clients, since performance measures are often tied to utilization rates. As a result, they may under-invest in providing services that could help clients recover and that could strengthen their long-term relationship with clients.

Competition for Talent

Demand for hiring accountants and auditors is expected to grow 4.3% between 2019 and 2029. Hiring will be driven by growth in the number of businesses, changing regulations, greater financial scrutiny of companies, and a surge in retiring CPAs. Firms are looking for graduates with advanced degrees at a time when schools are struggling with tight budgets and constraints on their capacity to teach large classes. The result may be a limited pool of talent with advanced degrees, which could push wages up for new accountants.

Changing Tax Laws and Accounting Standards

Keeping up with changes in complex tax laws and accounting rules is a major challenge for CPA practices, particularly smaller ones. Regulations to increase financial reporting transparency affect CPA practices, and the adoption of IFRS has driven further changes. The Tax Cuts and Jobs Act of 2018 made significant changes to tax reporting and deductions for individuals and businesses. Difficulty in keeping up with change can cause firms to specialize in particular industries or services to limit the breadth of knowledge they must maintain.

Competition from Large Firms

Local CPA practices compete for clients with the "Big 4" national accounting firms, as well as large regional firms. Large firms sell the wide range of expertise available in-house across all their offices, but generally have more overhead and higher billing rates than local practices. However, the Big 4 are opening offices in India, giving them access to low-cost labor for outsourcing and tax preparation services.

Liability Exposure

Difficult economic times can cause business owners to blame their advisors for financial difficulties. CPA practices may face lawsuits from small business owners over tax liabilities and investors in public companies over audit opinions. CPA practices carry liability insurance to reduce their financial exposure, but lawsuits still take time and attention away from revenue-generating activities.

Company Risks

Lack of Succession Planning

Most CPA practices are highly dependent on the sales skills and client relationships of a few key partners, yet less than half of firms have a succession plan in place if these partners are disabled or die. About 42% of CPA practices have a practice continuation agreement in place to cover the death or disability of a partner. Most firms expect succession planning to be a significant issue in the next 10 years.

High Staff Turnover

Annual turnover rates at CPA firms average 13-15%, with higher rates at larger firms. Firms with high staff turnover risk losing needed expertise, lowering client satisfaction, and incurring higher recruiting costs. High staff turnover can also be a sign of poor morale and management practices.

Client Concentration

CPA firms may become highly dependent on one or several clients for a large portion of their revenue. If they lose these clients, they will have difficulty making up the shortfall in revenue. CPA firms may lose clients if they go public, are acquired by another firm, change CFOs, or are offered cost savings by a competitive CPA practice.

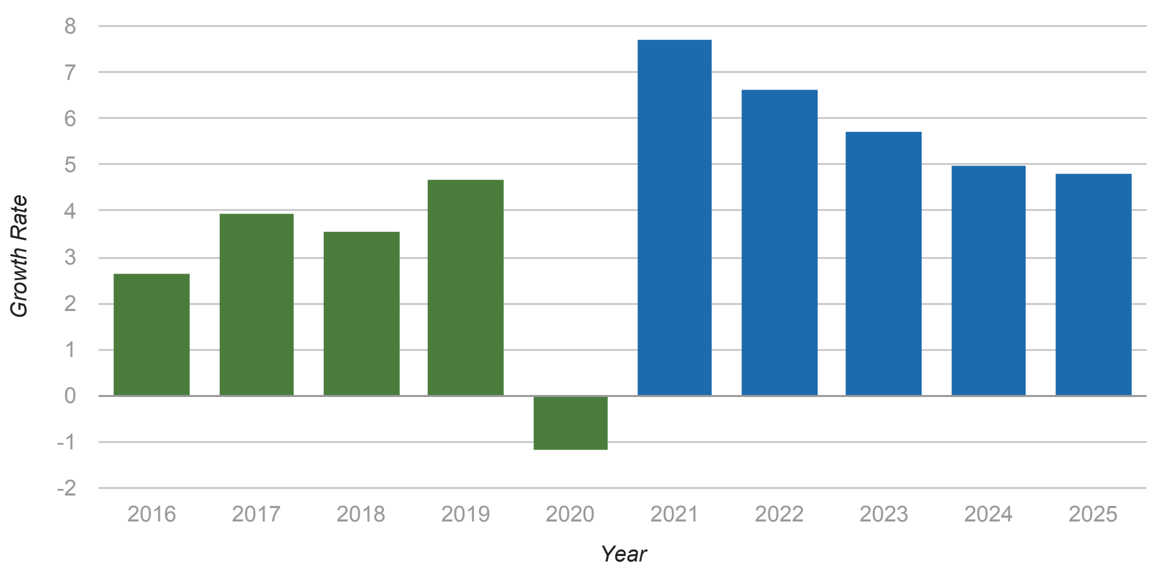
Industry Forecast

Sales for the US CPA practices industry are forecast to grow at a 5.96% compounded annual rate from 2020 to 2025, comparable to the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021

CPA Practices Industry Growth



Source: Interindustry Economic Research Fund, Inc.

Working Capital

Sell and invoice

New engagements are sold by partners or designated ”rainmakers” within the practice. Firms rely heavily on existing clients for referrals and banks for new business. Likewise, CPA practices are an excellent source of referrals for bankers. On average, firms only spend less than 1% of net client fees (revenue) on marketing activities. For auditing or accounting work, firms typically prepare a formal proposal to bid on the project.

CPA firms often have high work-in-process (WIP) - hours worked for a client that are not yet invoiced. Small jobs, such as tax returns, are billed upon completion. Progress payments may be invoiced for larger jobs. These are tied to specific milestones or percentages of the total estimated hours for the job. An upfront retainer fee may be requested for certain jobs or clients, particularly if the firm has to hire or contract out for special expertise.

Collect

CPA firms have very little bad debt, but may be forced to lower their billing rates to facilitate client payment. Collection periods range 38 to 51 days, though a significant amount of receivables can extend over 90 days. When write-offs occur, they are often caused by clients going out of business.

Manage Cash

CPA practices face seasonal demand for tax services, which accounts for about a third of revenues and peaks in February, March and April. They build cash reserves during this time. Firms may rely on lines of credit to meet expenses during slow months, such as January and the summer months.

Pay

The main expenses for CPA practices are payroll and occupancy costs. Salaries for employees average 19-21% of revenue. Rent is typically about 2% of revenue. Other expenses include computer and phone systems, reference materials on tax laws and accounting standards, and insurance.

Report

CPA firms typically monitor hours and fees charged to clients on a weekly, or even daily, basis. Practice management systems collect staff hours worked by client project and use standard billing rates to calculate fees. Besides client fees versus plan, firms also track the utilization rates of employees, realization rate, client retention rate, work in progress, accounts receivable, and the staff-to-partner ratio.

Cash Management Challenges

Revenue Seasonality

Demand for CPA services is seasonal, with peaks tied to tax deadlines and year-end reporting. CPA firms require additional staffing and work long hours during busy seasons, but face cash shortfalls to meet monthly expenses during slow periods. Firms rely on cash reserves or lines of credit to cover expenses during these slow months.

Timely Billing

CPA practices typically rely on partners to determine when to bill clients for work performed. When partners are busy, billing can be delayed and work-in-process levels grow. To ensure timely billing, many firms are tracking WIP daily and implementing more frequent billing policies. Some have moved billing responsibility to the firm's financial manager.

High Realization Rates

Firms may discount billing rates to win business or address client satisfaction issues. The "realization rate," the ratio of actual to standard billing rates, averages about 81-84% for CPA firms and generally declines as the firm gets larger.

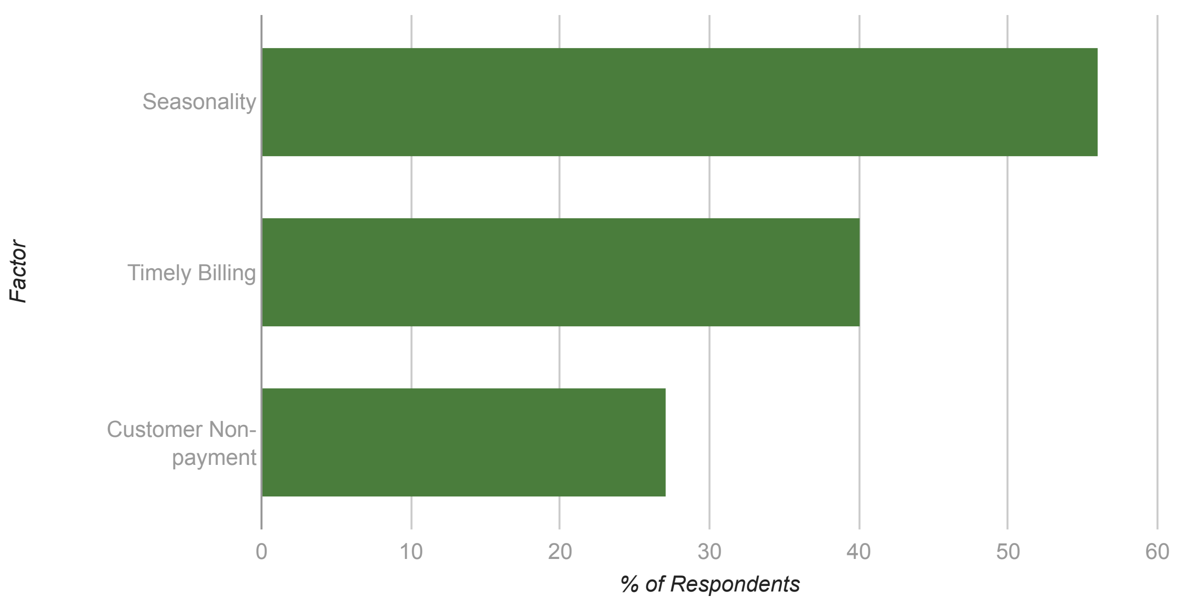
Billing Disputes

Clients may balk at the amount of fees charged for a project, particularly during a weak economy. Disputes over the hours charged for work delays collection and often results in discounted charges. Doing a better job up-front setting client expectations about fees can help avoid billing disputes.

Billing Rate Mix

Billing rates vary depending on the work being performed and the expertise of the CPA. Routine work, such as bookkeeping and general accounting, earn lower rates than higher value-added work, such as consulting and planning. CPAs with in-depth experience in specific areas, such as business valuations, or specific markets, such as medical practices, can command higher rates for their expertise.

Factors Causing Cash Flow Stress: Accounting Services



Source: Barlow Research Associates

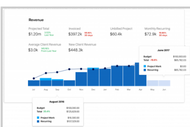
Capital Financing

CPA practices do not have special equipment needs – capital spending is for information technology, phone systems, and office furnishings. Firms invest in information technology to increase staff productivity and to improve the consistency and accuracy of the firm's work. Some firms may also own their office space – typically, these are smaller practices that do not have plans to grow their staff.

CPA firms typically spend about 4-5% of revenue on computers and information technology. Staff members use computers every day to do their work and most have multiple computer screens on their desk top. The use of digital documents is making it easier to share information across staff and with clients. Mobile computing increases the productivity of staff working at client sites. Given the sensitive nature of client data, firms are also investing in security solutions and data backup and recovery.

Except for purchase of their office space, CPA practices rarely use loans for capital purchases. They fund purchases of computers, phone systems, and office furnishings through retained cash or a line of credit.

Examples of Equipment Purchases



Practice Management Software

$500 - 2,500 per year

Software for managing client engagements, preparing proposals, tracking time, and invoice and billing.

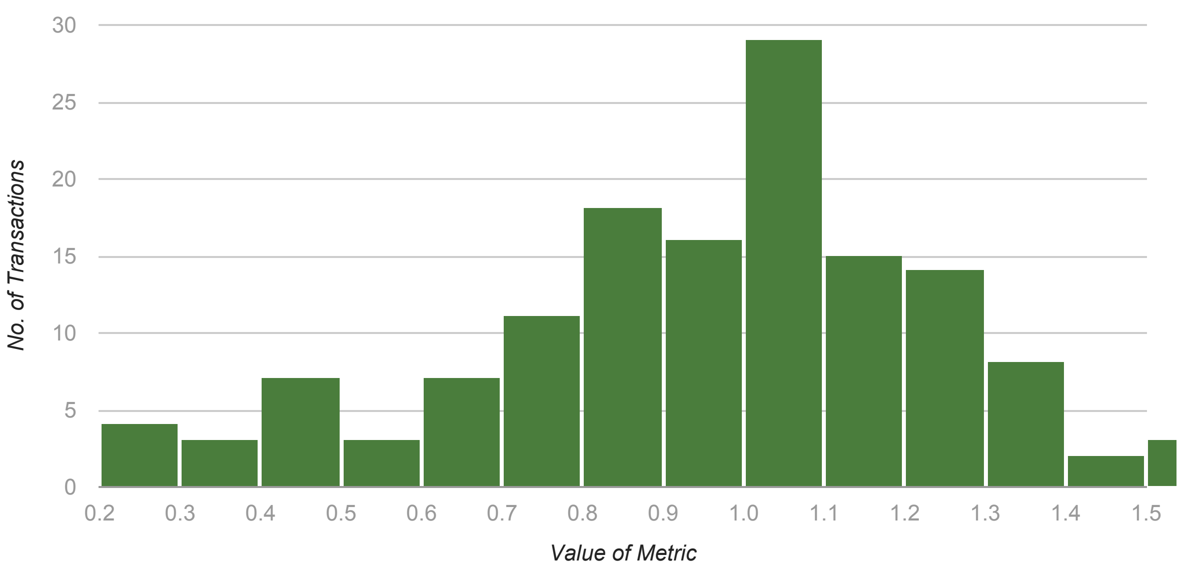
Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

Summary Valuation Data for CPA Practices

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	1.0	0.95	140	05/22/1997–06/30/2021
Price to Gross Profits	1.02	0.99	132	05/22/1997–06/30/2021
Price to EBITDA	3.85	116.35	100	05/22/1997–06/30/2021
Price to EBIT	3.46	22.19	127	05/22/1997 –06/30/2021

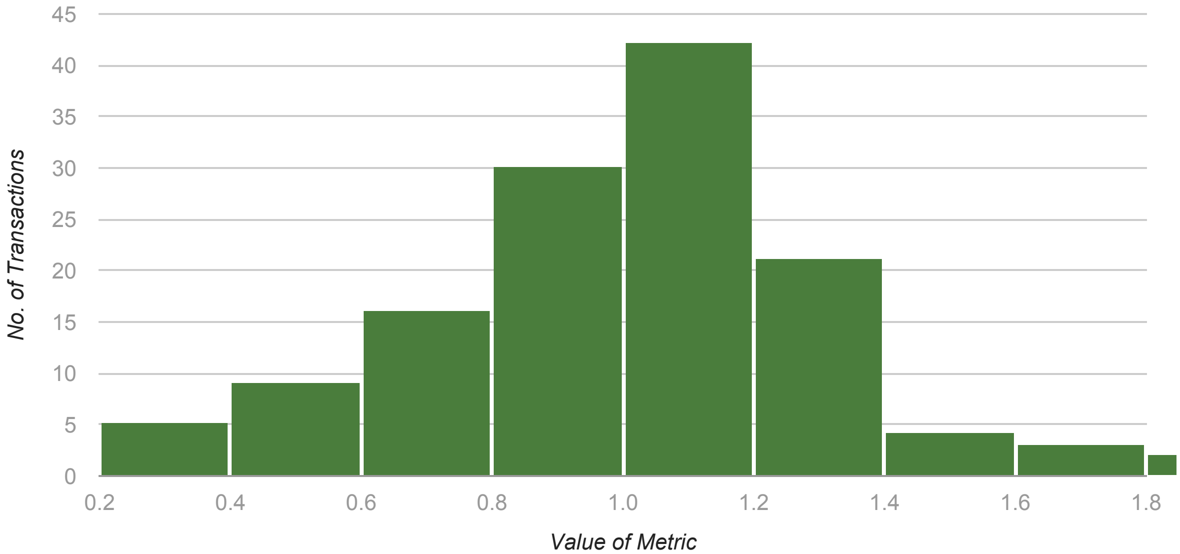
Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 140 **Min:** 0.08 **Max:** 1.92 **Mean:** 0.95 **Median:** 1.0

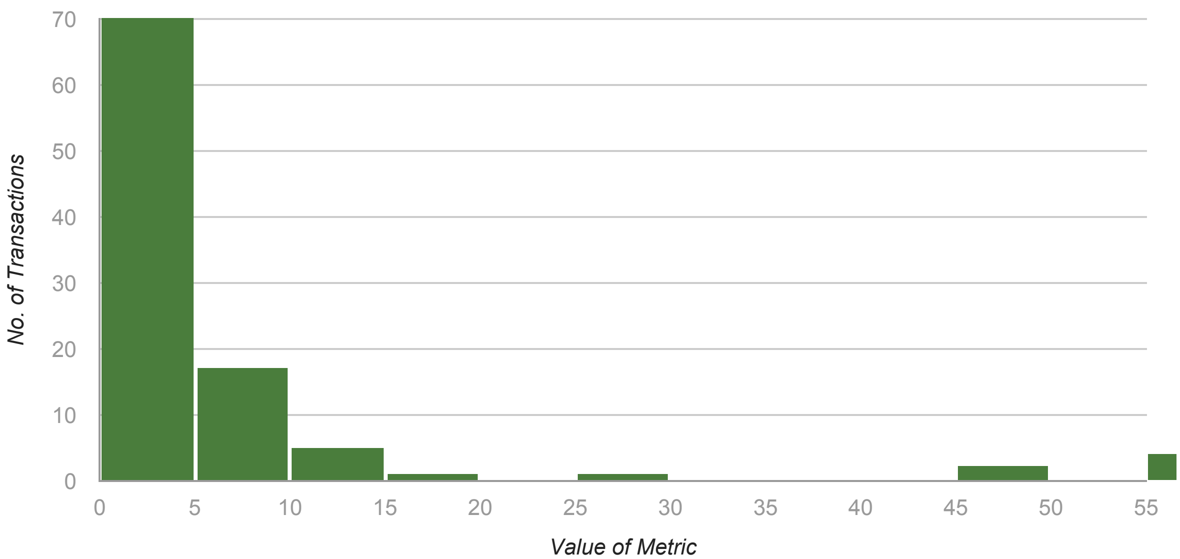
Price to Sales = Selling Price/Net Sales
Date range: 05/22/1997 - 06/30/2021



Source: DealStats

Count: 132 **Min:** 0.1 **Max:** 2.45 **Mean:** 0.99 **Median:** 1.02

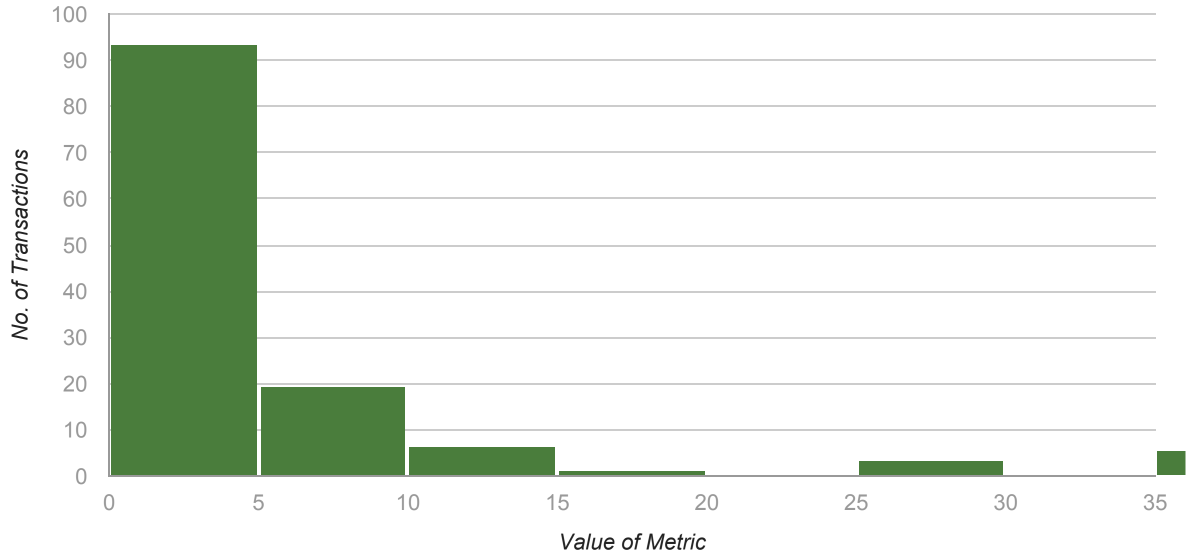
Price to Gross Profit = Selling Price/Gross Profit
Date range: 05/22/1997 - 06/30/2021



Source: DealStats

Count: 100 **Min:** 0.53 **Max:** 10106.38 **Mean:** 116.35 **Median:** 3.85

Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization
Date range: 05/22/1997 - 06/30/2021



Source: DealStats

Count: 127 **Min:** 0.28 **Max:** 1242.3 **Mean:** 22.19 **Median:** 3.46

Price to EBIT = Selling Price/Operating Profit
Date range: 05/22/1997 - 06/30/2021

Selling Price, also known as MVIC (Market Value of Invested Capital) *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. The MVIC price includes the noncompete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).*

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at https://www.bvresources.com/learn/dealstats

Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

Financial Ratios (CPA Practices, Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio	1.79	1.94	1.62
Quick Ratio	1.40	1.50	1.37
Days Inventory	4.26	7.94	4.64
Days Receivables	47	51	60
Days Payables	5.83	7.96	9.53
Pre-tax Return on Revenue	16.90%	19.00%	20.09%
Pre-tax Return on Assets	43.24%	49.10%	44.61%
Pre-tax Return on Net Worth	96.57%	106.40%	110.41%
Interest Coverage	40.77	46.96	42.40
Current Liabilities to Net Worth	.76	.72	1.00
Long Term Liabilities to Net Worth	0.48	0.45	0.47
Total Liabilities to Net Worth	1.23	1.17	1.47
Number of Firms Analyzed	*586*	*520*	*331*

Income Statement (CPA Practices, Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	35.84%	37.3%	35.92%
Gross Margin	64.16%	62.7%	64.08%
Officers Compensation	11.28%	11.22%	10.42%
Salaries-Wages	20.59%	19.24%	19.78%
Rent	1.86%	1.83%	2.32%
Taxes Paid	2.06%	1.97%	1.91%
Advertising	0.35%	0.35%	0.53%
Benefits-Pensions	2.39%	2.33%	2.37%
Number of Firms Analyzed	*586*	*520*	*331*

ITEM	2018-19	2019-20	2020-21
Repairs	0.26%	0.25%	0.32%
Bad Debt	0.06%	0.05%	0.13%
Other SG&A Expenses	5.39%	5.23%	5.34%
EBITDA	19.92%	20.23%	20.96%
Amortization-Depreciation	2.15%	2.28%	2.4%
Operating Expenses	46.39%	44.75%	45.52%
Operating Income	17.77%	17.95%	18.56%
Interest Expense	1.7%	1.51%	1.45%
Other Income	0.63%	0.73%	-1.59%
Pre-tax Net Profit	15.44%	15.71%	18.7%
Income Tax	0.2%	0.23%	-0.08%
After Tax Net Profit	15.24%	15.48%	18.78%
Number of Firms Analyzed	*586*	*520*	*331*

Balance Sheet (CPA Practices, Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	21.67%	23.34%	31.4%
Receivables	25.82%	25.5%	22.07%
Inventory	2.26%	3.06%	2.11%
Other Current Assets	5.85%	5.4%	5.06%
Total Current Assets	55.59%	57.3%	60.63%
Net Fixed Assets	15.32%	14.97%	11.5%
Net Intangible Assets	19.41%	19.13%	19.08%
Other Non-Current Assets	9.68%	8.62%	8.79%
Total Assets	*100.0%*	*100.0%*	*100.0%*

LIABILITIES			
Accounts Payable	2.47%	2.4%	1.63%
Loans/Notes Payable	21.61%	20.59%	16.74%
Other Current Liabilities	18.27%	18.28%	14.87%
Number of Firms Analyzed	*586*	*520*	*331*

LIABILITIES

Total Current Liabilities	42.36%	41.27%	33.25%
Total Long Term Liabilities	23.08%	27.25%	31.4%
Total Liabilities	65.44%	68.52%	64.64%
Net Worth	34.56%	31.47%	35.35%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
Number of Firms Analyzed	*586*	*520*	*331*

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at RMA and Powerlytics.

Bank Product Usage

Top Bank Products Used by CPA Practices

The following table provides the frequency of bank product usage by CPA Practices with less than $10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	98.0
Business savings or money market account	66.0
Business debit card or business check card	59.0
Point-of-sale credit card processing	55.0
Electronic payments initiated through the Internet (Bill Payment)	54.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	54.0
Automated clearing house services (ACH)	50.0
Overdraft protection for business checking	45.0
Wire transfer services	36.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	34.0
Money market mutual funds or short-term investments	25.0
SBA loans	25.0
Certificates of deposit	23.0
Company sponsored 401(k), SEP, pension or profit sharing plan	22.0
Commercial real estate mortgage	18.0
Commercial real estate mortgage (company occupied building)	14.0
Unsecured short-term loans or working capital line of credit (less than one year)	13.0
Credit lines secured by receivables, inventory, property or other assets	13.0
Payroll processing	12.0
Commercial real estate mortgage (investment property)	11.0
Term loans or equipment financing (one year +)	8.0
International (foreign exchange, import/export letters of credit)	6.0
Account reconciliation processing (ARP)	6.0
Overnight investment or sweep accounts	4.0
Equipment leasing	4.0
Accounts receivable collection (lockbox)	1.0

Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-<\$10MM).

For more information on Barlow's banking research, go to http://www.barlowresearch.com/

Quarterly Insight

1st Quarter 2022

Industry Leaders Enter the Metaverse

Accounting and management consulting firms including PricewaterhouseCoopers and Prager Metis have made acquisitions to launch operations in the metaverse, a digital space where participants simulate real-life activities from shopping to gaming to business consulting. Businesses across industries, including real estate, technology and cryptocurrency, have been purchasing digital land on platforms such as Decentraland and the Sandbox. Executives have started drafting business plans for operating in those virtual worlds, which are typically conceived by video game developers. Prager Metis International, a New York-based accounting and advisory firm, said that it opened a virtual three-story property on a site it bought for nearly $35,000 in late December 2021. The firm, which operates 23 physical offices in the US, Europe, and Asia, made its purchase on the Decentraland platform in partnership with Banquet LLC, a firm that funds and manages blockchain ventures. Prager Metis plans to use its virtual building to advise companies and other new and existing clients on tax and accounting issues, Chief Executive Glenn Friedman said. The firm expects that many of its clients, particularly those in the entertainment and fashion industries, will seek its services in the metaverse as more companies decide to conduct business there, according to Mr. Friedman. “If the metaverse is going to replace the internet, then certainly business is going to use it,” he said. PricewaterhouseCoopers said in late December 2021 that its Hong Kong unit acquired virtual real estate in the Sandbox, a subsidiary of software firm Animoca Brands, for an undisclosed amount. PwC plans to advise clients on the challenges presented by the metaverse, according to a company statement.

4th Quarter 2021

Optimism Slips

CPA firms are growing less optimistic about expansion plans, profits, and the US economy, but their sentiments are still far more bullish than they were a year ago, according to the latest CPA Outlook Index, a quarterly survey of certified public accountants conducted by the American Institute of Certified Public Accountants. The index fell 3 points to 75 for Q3 2021. That’s down from 78 in Q2, reflecting a pullback that has affected numerous industries thanks to the labor shortage, rising material costs, and the Covid-19 Delta variant. Scores above 50 on the index represent anticipated growth, so CPAs remain upbeat about the road ahead. They are significantly more optimistic than they were a year ago, when the overall index score was 54.

3rd Quarter 2021

Return to the Office Begins

CPA practices are asking employees who have been telecommuting due to the coronavirus pandemic to come back to their offices, but giving them options to keep working remotely in order to avoid losing talented staff and partners to the competition. The accounting profession has long faced a talent shortage, and firms would likely have trouble finding qualified workers as the economy rebounds. Telecommuters may be reluctant to leave the remote lifestyles they have grown accustomed to over the past year. New York City firm Friedman surveyed its employees to get a sense of what their plans were and found that 10% said they never want to return to an office. “The vast majority said they want to work in some hybrid situation,” said co-managing partner Harriet Greenberg. “There are many, many people who found positive experiences with work from home.”

2nd Quarter 2021

PPP Funding May Run Out Before Application Deadline

Some analysts expect the Paycheck Protection Program (PPP) to run out of funding before the May 31 application deadline. Lenders and borrowers are asking for additional funding. Lawmakers allocated $284 billion to the program when it reopened in January. Sam Sidhu, chief operating officer of Customers Bank in Wyomissing, PA, estimates that $100 billion to $150 billion more would probably be enough funding for the PPP to make it to May 31 with some money left over. President Biden signed the Paycheck Protection Program Extension Act into law on March 31, pushing the application expiration date of the Paycheck Protection Program (PPP) back to May 31 and giving the Small Business Administration (SBA) the authority to continue processing pending applications for another 30 days after that. Small businesses with up to 300 employees and that have sustained a 30% revenue loss in any quarter of 2020 are eligible for a second round of PPP funding. Business expenses paid for with PPP funding are tax deductible.

1st Quarter 2021

Many Firms Would Apply for Second PPP Loan

Nearly half of small businesses would apply for a second Paycheck Protection Program (PPP) loan if eligible, according to an early December 2020 survey of nearly 600 members of the National Federation of Independent Business. The majority of Paycheck Protection Program borrowers (91%) have spent all of their first PPP loan. About 36% of PPP borrowers are not yet ready to submit their forgiveness application and 20% are ready but their bank is not yet accepting them. Almost half of small business owners who have submitted a PPP loan forgiveness application have received final confirmation from the SBA. Over three-fourths of those that submitted a forgiveness application had 100% of their loan forgiven, 16% had 99-91% of their loan forgiven and 6% had 90% or less forgiven. Receiving an Economic Injury Disaster Loan grant was the reason for 85% of those who did not receive 100% forgiveness on their PPP loan.

4th Quarter 2020

Income Growth Continues

Income per partner for the 270 accounting firms that participated in both the 2019 and 2020 annual Rosenberg surveys grew 6.9%, according to the 2020 edition. The same analysis conducted for 2018 and 2019 surveys found only a 5.6% increase. Net income per partner was $22,000 higher in firms that have a formal written marketing plan. Leverage and rates continue to be the biggest driving forces behind profitability, however.

3rd Quarter 2020

Tighter Regulation Proposed for Foreign Firms Planning US-based IPOs

US CPA practices continue to benefit as Chinese firms continue to complete Initial Public Offerings (IPOs) in US capital markets despite demands by federal legislators and Trump administration officials that foreign firms comply with American accounting requirements or delist from US stock exchanges. Chinese companies' IPO financing in the US more than doubled year over year through the first seven months of 2020 to $5.23 billion, according to the Global Times newspaper. American accounting firms are the primary providers of audit services for Chinese companies listed on US exchanges, the Global Times says. Chinese firms would have to share audits with US federal audit regulators under a plan recommended in early August by the Trump administration. Chinese firms that aren't yet public – but plan an initial public offering in the US – would have to comply before they can go public on the New York Stock Exchange or Nasdaq, according to senior Treasury Department and Securities and Exchange Commission officials.

2nd Quarter 2020

Paycheck Protection Program Provides Opportunities

CPA practices may benefit from the popularity of the Paycheck Protection Program (PPP), but the CARES Act prohibits CPAs and accounting firms from collecting fees from small business clients that they help apply for PPP loans. The American Institute of Certified Public Accountants (AICPA) said that its understanding is that the limitation on fees applies to fees for assistance in the preparation of a loan application for a loan available under the PPP. If an accounting firm charges fees for providing a small business with advice on deciding which loan program and tax relief program would be best for their business, the AICPA thinks it's "reasonable that those fees would fall outside this provision of the CARES Act." Federal lawmakers are preparing new legislation that would give companies more time to use funding provided to them via PPP loans. The CARES Act, which authorized the PPP program, specified that only money used within an eight-week period after securing the loan could be forgiven. A key goal of many lawmakers working on the new PPP legislation is to allow firms to rehire workers later this year rather than bring them back by June.

Industry Terms

FASB

Financial Accounting Standards Board, sets rules for US firms.

GAAP

Generally Accepted Accounting Principles. Accounting standards used in the United States.

IFRS

International Financial Reporting Standards. Accounting rules used outside the US.

Net Remaining per Owner

Key measure of profitability for CPA practices.

Realization Rate

Ratio of actual to standard billing rates, a measure of discounting by CPA firms.

SALT

State and Local Taxes.

Utilization Rate

Ratio of billable hours to total available hours.

Web Links

[American Institute of CPAs]

News, policies, white papers, and education.

[Accounting Today]

News, white papers, and issues

[CPANet]

News and resources for CPAs

[CPA Practice Advisor]

Latest information technology for CPA practices

Related Profiles

Law Firms

NAICS: 541110 SIC: 8111

Management Consulting Services

NAICS: 541611 SIC: 8742

Medical Billing Services

NAICS: 541219 SIC: 8721

Payroll Services

NAICS: 541214 SIC: 8721

Tax Preparation Services

NAICS: 541213 SIC: 7291

Niche Profiles

Bookkeeping Services

NAICS: 541219 SIC: 8721
