2003 PCPS/TSCPA National MAP Survey Results

Press Report

Executive Summary

This marked the second year that PCPS and the Texas Society of CPAs (TSCPA) joined together to conduct the National Management of an Accounting Practice (MAP) Survey among accounting firms throughout the United States. PCPS is the AICPA Alliance for CPA firms, with almost 6,000 local and regional firm members within the American Institute of CPAs (AICPA). The AICPA is the national professional organization of CPAs, with more than 330,000 members in business and industry, public practice, government and education.

This year the survey was sponsored by Aon Insurance Services, the broker and administrator for the AICPA Insurance Programs. Forty-six state CPA societies and the Association for Accounting Administration also played a key role by encouraging their members to respond.

IntelliSurvey, an independent market research company, administered the online survey, which addressed key metrics that firms rely on to gauge their performance and profitability. A record-breaking 3,300+ firms responded to the survey, representing a diverse range of firm sizes and ownership models. The average firm this year employs seven CPAs (including both owners and non-owners) and has a gross fee income of approximately $1.4 million.

Among the top findings of the survey:

- Despite the down economy, the financial picture for thousands of non-national CPA firms is on the rise:
  - Of all firms surveyed, 15% had an increase in revenues greater than 20%.
  - Total average profits in 2003 were $467,000, which represents 36% of total income. Last year, profits comprised only 33% of total income. This rise in profits can be attributed, in part, to lower expenses and fewer write-downs[1].
- There was an increase in the percentage of firms offering certain specialized services, including payroll processing and investment sales. These are just a two of the broad spectrum of services available from CPA firms; the top ten specialized services offered by respondent firms are estate tax planning (75%), payroll processing (65%), personal financial planning (48%), M&A

[1] A write down is a downward adjustment in the accounting value of an asset, in this case, accounts receivable.

consulting (31%), forensic accounting (25%), investment sales (16%), bankruptcy or insolvency (16%), human resource services (13%), executive search (13%) and insurance (11%).

- Retirement remains a top concern for many firms:
    - Over 26% of firms surveyed do not have a partner retirement plan.
    - Of all firms, 45% have a provision for partner retirement; of those, 70% are funded plans.
- Some of the standard HR policies are not "business as usual" at the firms surveyed:
    - Only 13% of firms have a maternity leave policy in excess of regular paid time off.
    - Of firms surveyed, 62% have an employee handbook.
    - Many firms do not have formal policies regarding time off: 46% do not have a formal sick leave policy and 28% do not have a formal vacation policy.

Methodology

Approximately 80,000 practitioners were invited to complete the National MAP Survey in 2003, including:

- All PCPS member firms
- Managing partners who are members of the AICPA
- Members of 46 state societies
- Members of the Association for Accounting Administration
- Clients of Aon Insurance Services

The survey was fielded from June 8 to August 29, 2003 (Note: that the deadline was extended due to the Blackout of 2003). As of the closing date, 3,305 firms had completed the online survey.

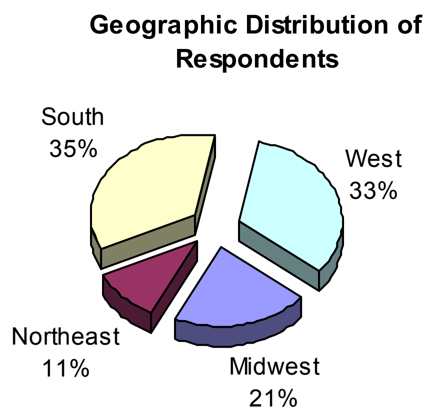
As an incentive to participate, practitioners were offered discounts on the purchase of their customized results report. All PCPS member firms are entitled to receive the results for free as part of their member benefits.

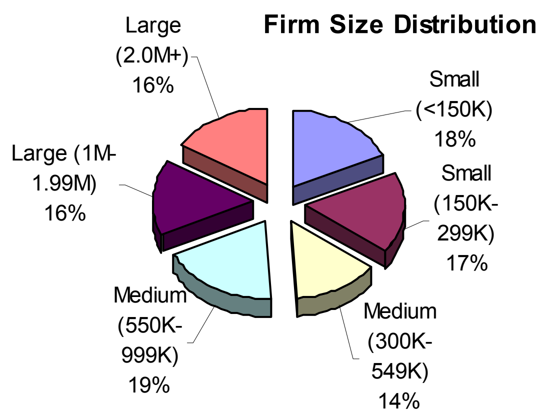
Only one response is accepted per office and all submissions are anonymous. Data is only provided in aggregate form; statistics have been suppressed whenever sample sizes were too low to ensure anonymity.

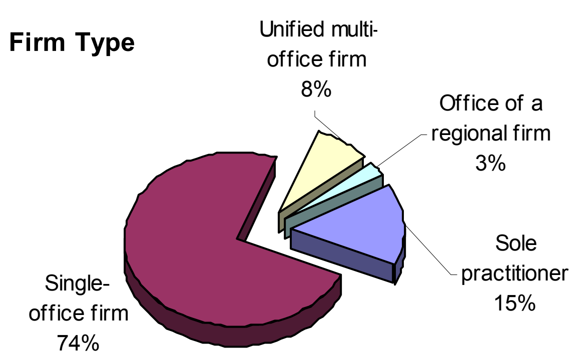
The 2003 survey was enhanced to increase the amount of information gathered, particularly with respect to the breadth of services that practitioners provide. Different versions of the survey were created to ensure that firms were asked questions that were relevant to their size and organizational structure. Optional sections addressing major service lines that firms currently provide were included to better understand firms' performance and profitability in specific practice areas, including Audit and Attestation, Compilation, Consulting, Tax and Write-Up.

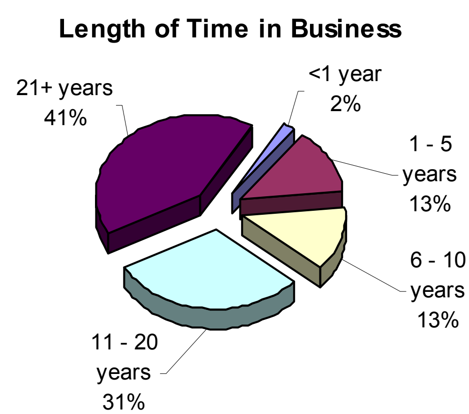
Demographic Profile of the Sample

The average respondent firm employs seven CPAs (including both owners and non-owners) and has a gross fee income of approximately $1.4 million. Additional respondent demographics are charted below.





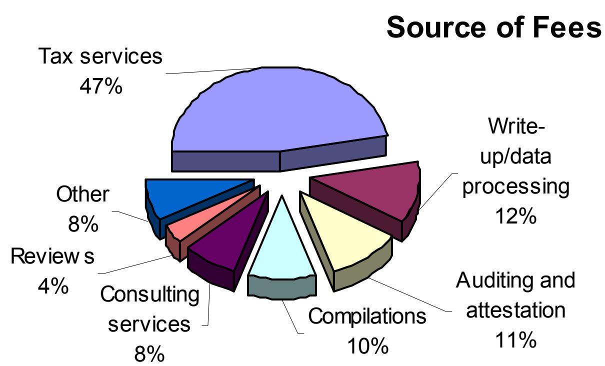




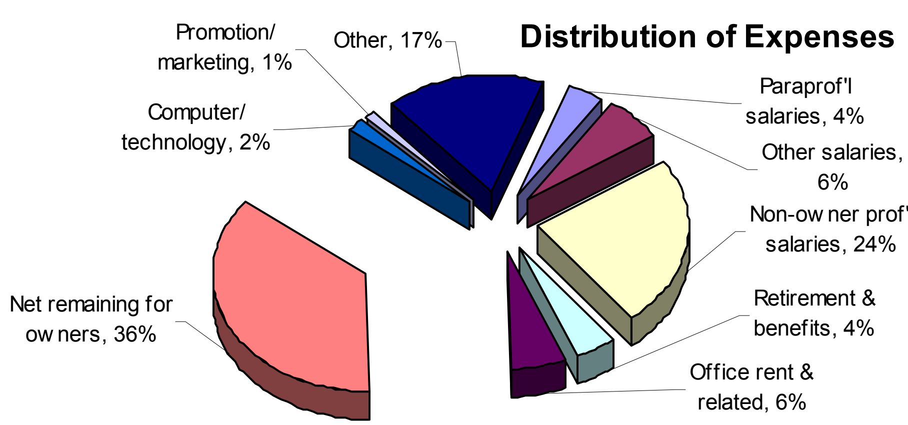
Key Findings

Financial Statistics

Fifteen percent of respondent firms had an increase in client fees of 20% or more. In addition, 84% noted that their fees had not grown or fallen by 20% or more, representing relative stability. Gross fees averaged $1.4 million with a $121,000 write down (9%), resulting in an average total income of $1.3 million. This represents an improvement over last year, when write downs averaged $208,000 (14%). The breakdown of service distribution remained largely the same as last year; the three largest sources of income were tax services (47%), write-up/data processing (12%) and auditing and attestation (11%).

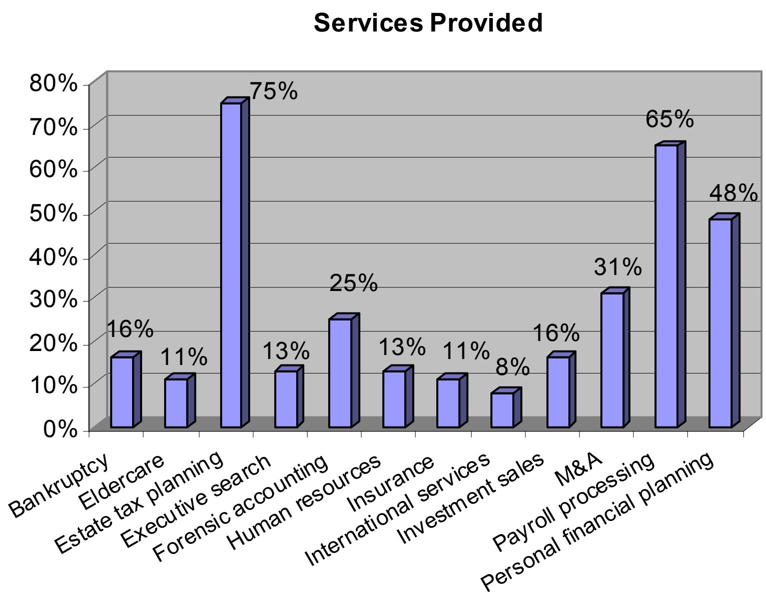


Expenses were down this year, averaging $822,000 (64%) compared to just over $1 million (67%) in 2002. The largest expense for the firms surveyed, non-owner professional salaries, totaled approximately $307,000 (24%). Total office rent was down – about $77,000 compared to last year's $99,000 – and accounted for a smaller percentage of overall income – 6% as opposed to 7% in 2002. However, it appears that firms may be paying more per square foot – $16.27/ft^2 rather than $15.00/ft^2 – and making due with less space. The average square footage of the primary office area dropped from 4,330 in 2002 to 3,723 in 2003. The full distribution of office expenses is shown below:



Services Provided

Of particular note this year was the increased offering of investment sales (from 11% to 16%) and payroll processing (from 57% to 65%). However, estate tax planning remains the leading specialized service provided by CPA firms (75%).



Technology

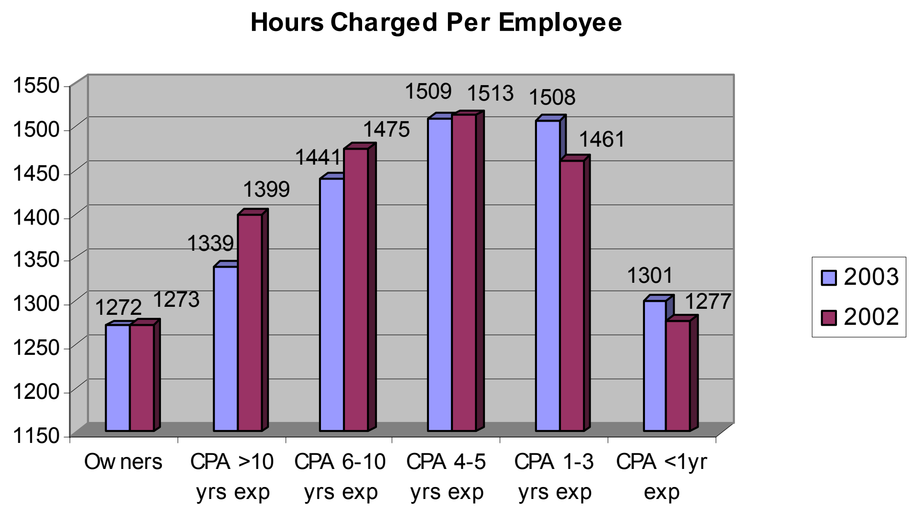
CPA firms are increasingly taking advantage of technology. Of firms surveyed this year, 72% have a website, up from 60% last year. In addition, firms are investing more in technology – spending an average of 1.7% - 3.5% of total income as opposed to 1% - 2.5% last year.

Non-CPA Participation

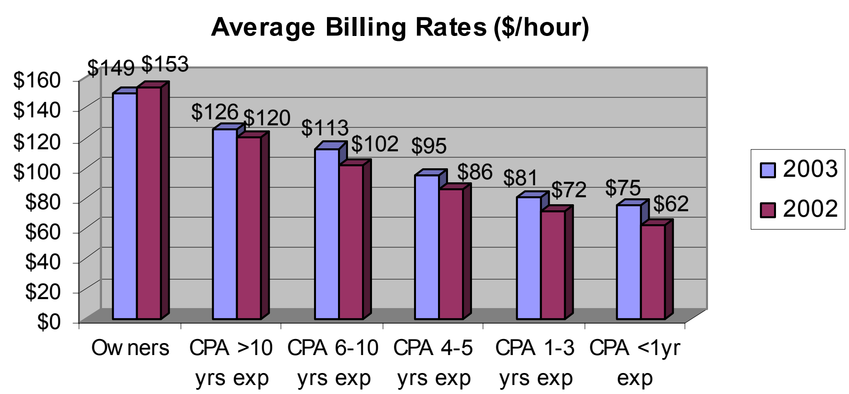
CPAs are partnering with other professionals to offer clients enhanced service: 37% of firms have non-CPA professionals on staff, while another 47% are planning to hire them or would consider it. In addition, 4% of firms have non-CPA owners.

Hours and Rates

Firms continued to be busy this year; however, average billable hours for senior CPAs declined somewhat, while those for younger CPAs rose. The average number of hours charged by a CPA ranged from 1,272 per year for an owner to 1,509 for a CPA with four to five years of experience.

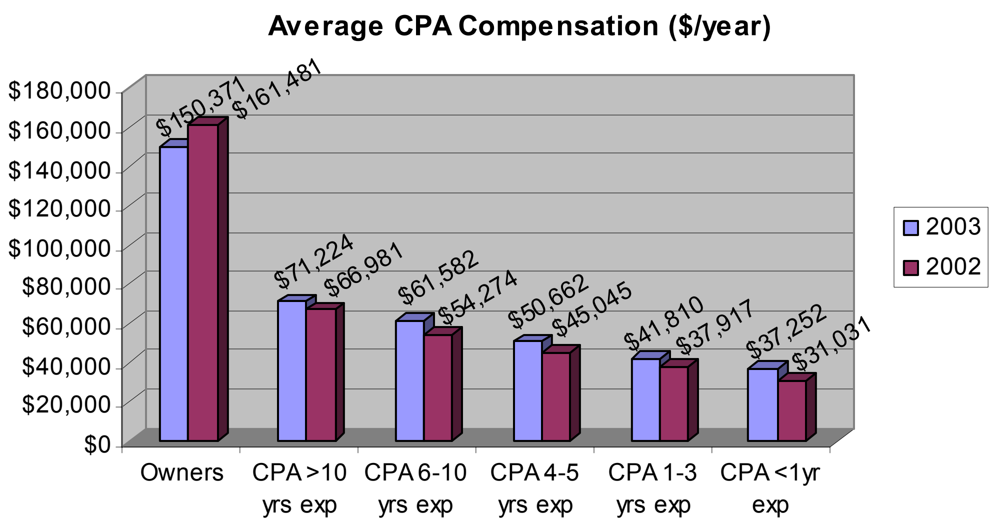


The average billing rate of an owner is $149/hour, down from $153/hour last year. CPAs with less than one year of experience, however, have an increased billing rate of $75/hour, up from $62/hour last year.



Compensation

Salaries rose an average of 5% in 2003 over 2002. However, individual owners took home less this year, while employees generally made more than in 2002. Bonuses averaged about 5% of total compensation. Regarding extra hours logged, 32% of the firms offer their professionals comp time, with an additional 35% offering a choice of overtime or comp time.



HR Policies

The survey reveals that some "standard" HR practices are not embraced by local and regional firms. For example, only 62% of firms surveyed have an employee handbook; nearly half – 46% – of the respondents reported having no formal sick leave policy; and approximately 28% reported the absence of a set vacation guideline. Moreover, only 13% of firms provide maternity leave in excess of regular paid time off. In addition, few firms – 21% – hire interns.

Retirement

Fully one quarter – 26% – of firms do not have a retirement plan. In addition, only 45% of firms have a provision for partner retirement; of those, 70% are funded plans. The percentage of firms with retirement plans generally increases with firm size.