THE ROSENBERG SURVEY

2017 PRACTICE MANAGEMENT SURVEY

BASED ON 2016 NUMBERS

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# THE 2017 ROSENBERG MAP SURVEY
# BASED ON 2016 NUMBERS

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FORWARD BY MARC ROSENBERG, CPA
2017 ROSENBERG MAP SURVEY

Many of us are familiar with the iconic Charles Dickens’ opening line from his *A Tale of Two Cities*: “It was the best of times, it was the worst of times.”

But few of us remember what comes afterwards:

“It was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us.”

In many ways, this passage is befitting to the state of the CPA profession, though clearly the depth of Dickens’ fears in the CPA profession will never approach the lows he writes of. The point is that the CPA profession is on the cusp of arguably its greatest changes and advancements. The trigger to the changes will be technological innovations such as blockchain and artificial intelligence. This, in turn, will dramatically transform how CPA firms are managed, staffed, and indeed, what it will mean to be a CPA. The firms that adopt these changes will show the Dickens’ wisdom; those who feel that the new technology will not happen that fast might find this belief resemble Dickens’ foolishness.

“The spring of hope” is that technological changes will help resolve two previously uncontrollable, debilitating external forces: the lack of qualified staff (because the profession will need less labor) and the easing of the busy season compression (because busy season work will be completed in well under half the time it currently takes). Firms that fail to adopt the new technology are likely to experience “a winter of despair.”

It’s a great time to be a CPA firm.

There is exciting news from the 19th annual Rosenberg MAP Survey (based on our core group of firms over $2M in annual revenue):

Revenue growth was up a solid 7.8%, a tad less than the prior year’s 8.1%. Growth from mergers accounted for 26% of total growth compared to 28% the previous year and 30% the year before. So from that, one could conclude that the impact of mergers on growth, though still strong, may be waning just a tad. Organic growth at 5.8% remained the same as the prior year. Though anyone dialed into the merger arena understands that the M&A market is still exciting, the abating of the “frenzy” factor is due to (a) buyers being more selective, (b) those same buyers needing time to digest the hundreds and hundreds of acquisitions they made in recent years and (c) the logical supposition that the hectic pace of mergers over the last ten years has resulted in the universe of sellers being somewhat “picked over.”
Profits, as measured by income per equity partner, were $430,000, up 6% from $406,000 in the prior year. The increased profits were due to (a) solid revenue growth and (b) a dramatic increase in leverage, as measured by staff-to-equity partner ratio, which stood at 6.2 this year, up 11% from 5.6% in the prior year. This is a trend we’ve been observing for the past few years. A number of factors have led to this increase:

- Firms increasingly understanding that the old school model of a partner’s role – high billable hours, doing staff level work, opting out of mentoring and training of staff – is rapidly becoming obsolete. The new partner model calls for partners to be delegators, not doers and to make a meaningful contribution to the firm’s efforts to develop and mentor young talent who advance under the partner’s tutelage. This change in partners’ focus enables them to manage more work.
- Firms are continuing to raise the bar on who becomes an equity partner, making better use of the non-equity partner role, thereby resisting the problematic old school tactic of promoting managers directly to equity partner as a retention tactic.
- Hundreds and hundreds of Boomer partners have retired over the past five years but their firms increasingly find that they don’t always have to replace every retiring equity partner with a new equity partner.
- With all the mergers in the past 10 years, many of the sellers’ partners joined the buyers in positions other than equity partners, thereby swelling the “staff” ranks.

We noted with pleasure that the percentage of female partners was 18.7%, up sharply from 16.7% in the prior year. Given the dire shortage of qualified personnel, the CPA profession has long been shooting itself in the foot by failing to be effective and proactive at retaining experienced women and developing them into partners. As a profession, we still have a long way to go.

With all the talk about consulting being the future of our profession, I was surprised to see that consulting as a percentage of total revenue remained unchanged from the prior year. My only explanation is that the increased consulting focus is clearly more with Top 100 firms than smaller firms. The entry level for the Top 100 is now $37M.

A final thought: with 19 years of survey history behind us, we would be remiss if we failed to observe the exodus of so many great clients and friends from our survey. Why the exodus? Mergers of course! Each year, our survey loses 10-20 firms to mergers. We think of these firms all the time and hope that things have gone well for them.
TOP 10 FINDINGS IN THIS YEAR’S SURVEY

1. Revenue growth of 7.8% is down from last year’s 8.1%.

2. Mergers continue to have a huge impact on revenue growth. This year, 26% of firms’ revenue increase was from mergers.

3. Income per partner was $430,000, 6% higher than the prior year, the HIGHEST increase in profitability since 2007.

4. The average age of partners and the percentage of partners over the age of 50 both saw decreases from prior years. As discussed in other parts of this survey, older partners are retiring and being replaced by younger partners. This trend will most definitely continue.

5. The percentage of female equity partners in multi-partner firms increased from 17% to 19%. All categories in firms >$2 million saw an increase while those firms <$2 million saw a decrease.

6. Those firms with the smallest attest practices (the lowest 25%) outperformed those with a higher percentage. The lowest 25% averaged $472,000 in IPP vs. $418,000 for the highest 25% and $411,000 for those in the middle 50%.

7. The common understanding that leverage and rates drive profitability really rings true this year! There are many parts of this year’s survey dedicated to this correlation.

8. The growth in IPP (6%) is finally catching up to the growth in fees (8%) for the first time since 2007.

9. This year we had 94 firms achieve more than $500,000 in IPP vs 79 firms last year…and this year we have a smaller population of firms in the survey due to all of the M&A activity!

10. While only 45% of firms >$20 million offer financial services (and that number decreases dramatically as firm size decreases), 90% of those that do not offer these services respond that it is not likely they will offer them in the next 12-months.
Every year, we ask the industry’s top consultants to share their observations of what they are seeing at CPA firms. Specifically, we ask them the following questions:

1. What kind of year was 2016? What were the major trends you observed? What were the issues you saw firms struggling with the most?
2. 2017 is half over. Based on your experiences this year, what are you seeing? What are the major trends? What are firms struggling with and what are they working on as the year progresses?

What kind of year was 2016? What were the major trends you observed? What were the issues you saw firms struggling with the most?

It’s a great time to be a CPA! Things are far from perfect but CPA firms have two enormous reasons to be happy:

1. The CPA profession is on the cusp of truly mind-boggling technological innovations that will dramatically change what it means to work as a CPA.
2. Firms are growing and becoming more profitable than ever before.

Marc Rosenberg, Rosenberg & Associates

Anyone knowledgeable about the state of the CPA firm industry would agree that technology is playing center stage. The potential of blockchain, artificial intelligence and data analytics is set to transform CPA firm technology in the same way that previous blockbuster inventions did – PCs, laptops, the internet and software that almost instantly made obsolete the manual work CPAs painstakingly performed for decades.

With the advent of this technology, the profession is poised to finally ease the omnipresent stress of two huge factors previously thought external – code word for something a CPA firm cannot control. First is the woefully inadequate supply of qualified labor. Can anyone remember the last time this was not a worry? Technology advances will soon dramatically reduce – probably by well over 50% - the demand for traditional CPA firm auditing and tax compliance labor (though this demand will most certainly be replaced by a different kind of labor). The second external force that should be greatly eased may very well be busy season compression. Because technology advances will greatly speed up firms’ access to their clients’ data and automate the auditing and tax compliance processes, there will be a greatly reduced workload crunch during the first four months of the year.

CPA firms are enjoying a great deal of success these days:

- Growth is robust.
- Profits are strong.
- Succession planning is well under way, either voluntarily (successful leadership development) or involuntarily (via firms merging out of existence).
There is an avalanche of new MPs at firms. They are more sophisticated and management-oriented than their predecessors. Thankfully, they are bucking the ages-old counterproductive trend practiced for decades by firms – appointing the best rainmaker as the MP. Often, this meant that management took a back seat to the MP’s client activities and that the MP’s effectiveness would be held back by his/her innate weakness at management and organization.

New MPs are increasingly typified by:
- Greater focus on leadership development.
- They are less inclined to allow devotion to client work to distract from the time necessary to effectively manage the firm.
- Partner accountability is being focused on greater than ever before. Fewer free rides.
- More of a strategic planning approach to managing the firm.

In recent years, one of the drags in writing state of the industry treatises has been that, at a big-picture level, relatively little changed from year to year. Every summary of the state of the profession for the past 10 years has started with the so-called “merger frenzy” …but this year, it has been clear that, despite firms’ continued appetite for merging in smaller firms, more and more firms – especially the top 200 firms - are being more selective in choosing firms to merge in.

There are a lot of truly puzzling things about CPA firm partner retirement/buyout plans, too numerous to list here. (Can you say “Ponzi Scheme”?) One of them, which has caused many younger partners to lose sleep at night, has been paying out millions of dollars of buyouts to partners who didn’t deserve the money and/or weren’t required (different than “suggested,” the milquetoast term seen all too often in most partner agreements) to proactively transition the client relationships to other firm members. That’s changing. More and more firms are adopting the slogan: “No transition…no goodwill.” These younger partners are asking themselves why they are making these humongous payments. The only acceptable answer is “to get the retirees’ clients.” So they ask “if we don’t retain the clients, why are we paying the buyouts?” They are seeing that the only way to optimize retention of retirees’ clients is by requiring, not suggesting, that retiring partners proactively transition their clients to other firm members.

Allan Koltin, Koltin Consulting

1. The movement of “advanced” lateral talent. While lateral talent has always left the Big 4 firms to pursue career opportunities with local, regional and middle-market national firms, it appears the movement of “advanced” talent is happening at a greater pace. Positions ranging from Manager, Senior Manager, Principal and Partner are finding they can accomplish their career goals at a potentially accelerated pace at local, regional and national firms, while also enjoying the culture of these firms. In the past, this type of movement didn’t take place as often, as many of these individuals completely left public accounting when they left the Big 4. Today we’re seeing more and more of them pursuing opportunities while staying in public accounting.

2. Succession planning. It appears firms are getting much better in terms of holding retirement-minded partners to the agreed upon succession plan. They are also realizing that the easy part
often times is simply transitioning the work of the retired partner’s clients, but have come to realize that what really matters is transitioning the relationship. Firms are starting this process earlier and not waiting until the last couple of years. They are also, for the first time, putting into partnership agreements claw-backs that penalize retirement-minded partners for not doing everything they can to transfer the relationship. When you think about this it makes perfect sense as, at the end of the day, the reason firms pay retired partner goodwill (or deferred compensation) is because of the goodwill and legacy they leave behind, which typically is a revenue stream of clients.

3. Firms continue to focus on growth, but seem to be even more precise in that they are looking for profitable growth. What this means is an even harder line on unprofitable clients and an even shorter window to turn “C” clients around than ever before. This is obviously very prevalent in the audit side of the practice where many firms for the first time are realizing that finishing second on an audit proposal (especially when work is discounted by 50% of standard rates!) may, in fact, be better than actually getting the work!

4. Firm leadership and management. Lastly, the area of firm leadership and management continues to be a major issue. Firms are doing a much better job of setting up firm leaders for success by taking away much of their “day job” and transferring everything from their billable time to book of business to other partners. It used to be that firm leaders served their clients during the daytime and managed the firm at night. We are now seeing that this model no longer works for many firms and full time (or close to full time) leadership in larger local and regional firms seems to be a growing trend.

Jeff Pawlow, The Growth Partnership

Note: Jeff’s comments for last year and the future are captured here...

Take a look at www.willrobotstakemyjob.com and type in “accountant”. If you select “Accountants and Auditors” you see that there is a 94% chance R2-D2 will be counting cash instead of you sometime soon. On the tax side? Things get even grimmer with a 99% chance your job will be replaced by automated systems in the near future. Lest you think this is simply a gimmick, all you have to do is listen to the leadership of the AICPA as they deliver their series of keynotes on the conference circuit. Change is coming to the profession, and as the nifty little website states, when you look at the core services that make up the majority of a typical firm’s billings, “we are doomed”.

For the past 30 years, we have practiced in the “MAP” era - managing our accounting practices to become faster, better, cheaper. At some level, this view sees the CPA firm as a factory - a place where raw materials (our client’s data and information) are refined to produce finished goods (tax returns, financial statements, etc...). We’ve gotten pretty good. So good, that the robots are ready to take things over. So what’s a practitioner to do?

You’ve heard the litany of “Trusted Advisor” for the past several years as the AICPA works to prepare the profession for the disruption to come. We’ve been warned, and if you haven’t begun to pivot your firm in this direction, the time is now. In order to succeed, we need to move away from the “industrial” paradigm of “MAP” and toward the relationship paradigm that underpins “Advisor”.

Go PRO at http://GoProCPA.com
Wondering how to get started? Compile a list of your current clients sorted by annual billings from high to low. Starting at the top, how many clients does it take to reach 80% of total firm revenue? Once you have that list, decide which partners and managers in your firm have day-to-day stewardship for each client, and have them consider the following question: Given the importance of this relationship to our firm, who are the key stakeholders at this client and how many times should I be meeting with them each year over and above what they are currently paying me to do for them? These proactive, face-to-face meetings (golf, game, meal, office) are what drives the understanding and intimacy needed to function as that Trusted Advisor. It allows the practitioner a deeper perspective of the client, and allows them to add value to the relationship based on that understanding.

Absent that level of familiarity, you’re just an inefficient robot who is about to be replaced.

**Gary Adamson, Adamson Advisory**

Most of my clients experienced one of their best years in 2016. Profitability was at an all-time high and organic growth was better for most as compared with 2015. The big issue is people. Recruiting is becoming tougher and retention doesn’t seem to be headed in the right direction. The number of staff who want to be a partner in most firms is declining, which is adding to the already crisis-level succession issues in the profession. It’s all about part time, flex time, non-traditional schedules and flexibility. I’m seeing some firms starting to rethink their definition of a partner – what is the role and how do we fill it in the future? It may not be with the traditional partner roles of the retiring baby boomers.

**Art Kuesel, Kuesel Consulting**

Increases in needs for revenue growth and people development to fulfill succession plans fueled several macro-trends.

First, smaller local firms began adopting robust organic growth strategies once only reserved for large local, regional, or national firms. Early indications suggest that these plans have begun to deliver expected organic results, though not enough to solve the problem. So, additional resources, additional strategies are under consideration to fuel growth. A perfect example of this is a four-partner firm seeking to hire a full-time business development (sales) person to add to the growth equation. Or, a three-partner firm converting a high-potential young professional from client service into business development. And, a six-partner firm converting a partner from 90% client service to 90% business development to drive more revenue into the firm. These actions are indicative of a serious focus on business development and recognition that the growth model needs to evolve.

And, as turnover hit new highs, particularly among the bench of future partners, more firms finally began investing heavily in people development. Again, trickling down to smaller and smaller firms, many large local firms created robust internal programs to accelerate their future leaders and partners. Among the topics often included is personal business development, as firms sought to drive additional revenue from this formerly dormant population (as well as to
prepare them for the future demands of leadership positions). These development programs were once a strategy you’d only see from regional, national, and international firms, due to their cost and complexity.

Jennifer Wilson, Convergence Coaching

We like to say that we specialize in solving CPA firm problems and problems were WAY UP in 2016! The #1 cause? Succession, transition and the need to have the right Next Gen leaders in place to lead, grow the firm and fund retirements. In most firms, organic revenue growth was up but staffing – having the right people in the right roles in the right timing – wasn’t keeping up. More revenue, more clients and fewer resources led to a feeling of overwhelm in many firm leaders and talent. In 2016, we also saw a deepening divide between firms that are making the leap to a Next Gen culture, elevating young leaders and preparing for the very different future ahead, and those that simply don’t get it, are too complacent, or are in denial and seem stuck in the “old way” of operating. In those old school firms, turnover was up as future leaders sought out a better firm and culture.

Carl George, Carl George Advisory

Note: Carl’s comments for last year and the future are captured here...

Looking back to 2016 and onward, I see some very positive trends with the dynamic CPA firms, as they position to continue their firm legacies.

First, our next wave of leadership in the profession is incredibly impressive. I have complete faith in our current and future Gen X and Millennial leaders. They are assuming their positions with the energy and drive that is essential to achieve new levels of firm success. Most importantly, they want to drive change when change is needed. Our new leaders are sensitive to what drove the “old ways”, but they have fresh ideas and most importantly, good ideas. The trick is to sell those ideas, and gain the owners’ buy-in. What is very important for our leaders is the level of coaching that will assist them in solving issues the right way. They want the input, they are listening, and they are doing their research before arriving at the solutions.

Second, firms are realizing that the leadership attributes for the next MP or CEO may be quite different than in the past. I’m a believer that leaders must be selected based on the conditions and environment at a specific period in time. An effective MP 15-20 years ago does not necessarily spell success today. That’s why the process to select the firm’s next MP is critical. The firm must decide what “type” of leader it wants, and what specific attributes are required. Most important, the owners must recognize that a MP who is also a significant client server, is almost always in conflict. Why? The MP is “serving two masters”, the clients and the firm. Almost always, the firm takes a back seat. In reality, the firm is the most important client, and choices must be made. Does the MP serve clients, or does the MP serve the firm first? I recommend for those that do, it is essential that the MP’s primary focus be on the firm.
Third, **firms are progressing from “small firms” to “large firms”**. In this context, a large firm could be $7-8 million in revenue, with 50 or so people. With that progression, must come governance and structure changes. What worked in a small firm, may not be as efficient in a larger firm. Firms are grappling with what to do differently. Firms must answer the question—what is the most efficient structure to best serve the clients and lead the firm today, and have it positioned for growth at 4-5 times in the next X years? Many times, owner evaluation and compensation systems are outdated, and the metrics used are not necessarily conducive to alignment with firm strategic objectives. Alignment is essential, otherwise the strategic objectives are at risk. Review your evaluation and compensation criteria to ensure alignment.

Next, I have no doubt that **merger mania will continue**, and I’m quite certain many of my colleagues would agree. What I want to concentrate on is the process (or in some firms, the lack thereof) of transition and integration. In effect, **after the deal is signed, making it work!** There is a huge amount of energy leading up to the signing—meetings, negotiations, synergies, due diligence, and such. I say, “the work has just begun”. Those firms that have **planned personnel and client integration processes** coupled with effective internal and external communications plans will be the winners. Those that do not will lose people and clients. M&A is a high-risk initiative, and it is imperative for each firm to dilute that risk by implementing these plans, and insisting on **accountability of the owners** both on the sell side and the buy side.

Finally, I am **very bullish on our profession**, and many times think about “what it would be like if I was 20 years younger”. I like the energy of our young people. I like their quest to learn more. Yes, I hear the comments and moaning from some of our owners. I also hear from our young future stars. They want to carry the legacy on, maybe in different ways, but why not? I like our odds of maintaining the reputation of our profession of “**most trusted advisor**”.

**Chris Frederiksen, Frederiksen-Crawford CPAs**

2016 was another good year for accountants with demand for services outstripping supply in most firms. The lack of qualified team members to get the work done continues to be the bane of the profession, particularly among smaller firms, where the resources are not available to provide the training needed by recent graduates.

The change in the filing dates for tax returns compounded the tax season compression and led the majority of firms I surveyed to declare “worst tax season ever!” To ease the crunch, more firms than ever used ‘scan and populate’ services offered by the likes of Sureprep and Gruntworx. There was also a significant expansion in the number of firms ‘offshoring’ tax return preparation through companies such as Xpitax and Sureprep. The hang-up has always been the fear of clients refusing to sign off on the 7216 consent form, but more firms are getting over that hurdle and report remarkably little resistance from clients.

During 2016, we also saw a marked increase in the use of ‘offshoring’ for bookkeeping and accounting work and also saw the number of countries involved expand. The Philippines and Thailand are moving to be major players in Business Process Outsourcing and challenging India, where costs are rising.
Angie Grissom, The Rainmaker Companies

Last year (2016) in the accounting industry was an interesting year. I witnessed more firm leadership acknowledging the changing trends and committing to take action than in previous years. A shift in focusing on the business of the firm occurred in many firms where the key management took notice of the changing needs of their clients who are seeking more advice on how to better run and manage their companies, on the team who are seeking more support on how to be better equipped in their roles and supported in their desire to work differently. Investments were made by strong leaders to better prepare their firms for the future. The major struggles remained with how to keep top clients and grow revenue and attract and retain key players who could do and sell work.

Tamera Loerzel, Convergence Coaching

A major trend in 2016 that continues in 2017 is that there are too many trends for firm leaders to focus on! This often leaves many firm leaders overwhelmed and unsure where to spend their time and resources. Here are my top three:

1. While attracting, retaining and developing top talent continues to be a top issue, firms that are winning the people race have worked to ensure a unified partner group. Firm leaders are working on governance that empowers their Managing Partners, Service Line Leaders and partners, and finding ways to empower their people to own more sooner in their firms. Creating this kind of unified approach and true empowerment creates a solid foundation for implementing new or enhanced people programs, such as unlimited or open PTO programs, dress for your day, true Anytime, Anywhere Work environments, workflow and efficiency programs and more.

2. Technology is fast moving to surpass the people challenges. Technology HAS to be on all firm leaders’ radars as a top priority. Process improvement tools and apps, artificial intelligence, blockchain, data analytics and more will change the way firms deploy and develop talent as well as the kind of talent firms should be hiring. And ensuring firms have the right level IT Director who is strategic and can lead the firm where they need to be – now and in the future – is essential for firms’ long-term success.

3. Partner retirements continue at a fast clip even though we continue to see a trend of partners extending their retirement dates. This can hamper future leaders’ views about their opportunity for future ownership and is compounded by partners resisting letting go of client relationships to ensure a strong transition, control to allow change that needs to occur now for firms to remain competitive and outdated buy/sell agreements that don’t work anymore. Many small to mid-size firms are redefining their buy/sell and operating agreements to ensure they are financially feasible for new partners. Modeling the buyout of projected retiring partners is a must as many buy/sell agreements just aren’t financially feasible. The model has to make sense for both parties, but ultimately, if the partners buying in can’t afford it, both lose. Because of these complicated issues, merger activity continues to be high, too.
Rita Keller, Keller Advisors

One thing that really stands out for me about 2016 is the number of former clients, and other CPA firms I have known over my many years in the profession, that are disappearing. They have merged up. The M&A activity has, of course, been going on for many years now and it is just another form of growth, but it really hit me during this last 12 months when I looked at my long list of clients and identified the ones who are no longer in existence. Yet, it is amazing how many new clients I have been assisting. These are firms I had never heard of and some are start-ups. I find smaller firms appreciate my assistance because they aren’t big enough to have some of the wonderful resources that larger firms can afford.

One of the major trends I have observed is the re-engineering of what we used to call write-up work into a full-blown Client Accounting Services niche. When it comes to struggles, I continue to see firms struggling with some of the basic people issues and they continue to struggle with getting the more senior partners to embrace change.

August Aquila, AQUILA Global Advisors, LLC

First, while the merger frenzy continued in 2016, firms were becoming more selective in the type of firms they were acquiring. Over the last several years, firms were acquiring for the sake of more volume. 2016 was different. Firms didn’t want to just add more volume, they were looking for specific niches that would strengthen their existing practices. Also, it became more evident that firms were struggling with the fact that they had acquired a lot of problems. 2016 was the year that firms began to address the various problems they acquired, from differing cultures to underperforming partners. Firms started to clean house and work towards developing a one-firm firm.

Second, firms continue to struggle with the meaning of what is a partner. Too many partners are underperforming and are adding little, if any, value to the firm. Firms are struggling with this issue and some are trying to resolve it by placing their partners in tiers. Each tier has a compensation level. Partners need to achieve higher levels of performance in order to move to a higher tier.

Third, all businesses including those in the accounting industry, are facing a shortage of good people. I am seeing more firms focus on how they can become the firm of choice in their given markets. This means that they are looking at the five key drivers of a professional service firm – markets, clients, people, finance and underpinning beliefs – and exploring ways that they can become better in each driver.

Sarah Johnson Dobek, Inovautus

We saw 2016 as the year of transition for many firms. For firms that have been making the changes to grow and adapt to the marketplace, they had a good year. For many other firms that had been doing more talking than doing, we saw them struggle. Growth was down or non-existent.
Terry Putney, Transition Advisors

The realization of the predictions for the increase in firms seeking external solutions to succession issues through upstream mergers and sales clearly was evident in 2016. The level of activity we experienced in consulting with firms on M&A deals was unprecedented.

Several trends were also evident. Many firms in larger markets are often approached directly by firms interested in discussing a merger. The days of discreetly pursuing an affiliation strategy appear to be waning. We are also seeing larger firms that are persistently active as acquirers with more potential opportunities and deals than they can realistically consummate. As a result, those acquiring firms have become much more selective with the criteria they use to evaluate prospects. This sometimes results in lower valuations in deals where a sale occurs. It also means firms that were once considered top prospects in the past are no longer viewed that way. A key issue that causes prospective acquirers to pass on a specific prospect is the need for too much succession of senior partners in the short term. This issue of capacity is exacerbated by the talent shortage most firms experience especially among the mid-level to senior staff.

At the same time, we are seeing firms pursuing growth through M&A that find potential acquisitions (usually in the form of a merger) that are an especially good strategic fit, become very aggressive with terms in order to differentiate from the competition. This is not the norm, but appears to be an emerging trend.

Besides succession issues, the challenges we are hearing about most often are:

- Talent recruitment and retention – particularly among Millennials and those with 3-to-8 years of experience
- Obsolete owner agreements that are viewed as resulting in unaffordable buyouts and are unfair to younger partners
- Keeping up with technology – firms that are behind in technology are also unappealing to attracting young talent and similar “high potential” candidates
- Differentiating themselves from the competition - governance and firm leadership

Gale Crosley, Crosley Company

The last decade was the Decade of the Industry. The next one is the Decade of the Service. Last year I highlighted the significant changes anticipated in our core services, mostly due to technology. Since then, others have been writing about the topic, and firms are starting to sit up and take notice. Awareness brings questions such as, “now what do we do about it?” In the audit area, several way-stations are emerging, such as the need to evaluate the roles, responsibilities and relationships between the audit, CAS and consulting practices. CAS learning moments, while utilizing the cloud, are valuable to the audit function. Many audit-related technologies are already being utilized in the consulting practice, such as internal audit and SOC projects. The parallel universes of tax and wealth management are overlapping more each day. Independent mid-market RIAs are changing their own business models and grabbing tax services as a way to identify new clients and increase their repertoire of offerings.
Finally, non-traditional competitors are nibbling around the edges of other services we have traditionally provided as well. One client recently told me I was conservative in this comment, and that they are already into the muscle! The requirement to transition from accountant to consultant is critical. In addition, product development and innovation has never been more important to add to our skill set. Unfortunately, many firms haven’t learned and embraced the consultant role, nor developed an understanding of product development. But the rate of change compels us to get smart with the methods of a consultant, as well as product management.

A good read is *The Consultant’s Bible* by Alan Weiss. Other books on bringing innovative services to market will point you in the right direction. Buckle your seatbelt for the Decade of the Service!

**Roman Kepczyk, Xcentric**

As an outsourced technology partner to CPA firms, I primarily deal with IT strategy and applications that improve accounting firm production. The 2016 CPA Firm Management Association IT Survey* pointed out that a surprising 23% of responding firms had transitioned to an outsourced cloud architecture. This trend points to internal IT personnel being disintermediated as they have been unable to keep up with today’s required skill set for improving firm processes as well as technical skill needed to optimizing remote access, security, and disaster recovery for the firm, which firms seem to struggle with constantly. With technology evolving at an increasingly faster pace, partners see that their internal personnel are often at the top of the pay grade and no longer have current technical skills to keep up with peers, so cloud provides a cost-effective alternative allowing the firm to outsource the IT “plumbing” and allow the partners to focus on client accounting needs.

*CPAFMA 2016 IT survey compiled findings of 140 CPA firms, of which 90% were between 11-149 members and 49% were multi-office available at CPAFMA.org.*

2017 is half over. Based on your experiences this year, what are you seeing? What are the major trends? What are firms struggling with and what are they working on as the year progresses?

**Allan Koltin, Koltin Consulting**

Clearly 2017 so far is all about technology and innovation. We are seeing before our very eyes technology that will ultimately enable firms to specifically test all transactions in “real time” reporting. This could potentially reduce audit revenue significantly over the next couple of years. Whether it’s blockchain, big data, artificial intelligence, IBM’s Watson, optical recognition or enhanced data extraction, the profession now realizes that major changes will be taking place and in a relatively quick timeframe.

While they may not all take place within two years, clearly they will all take place within ten years, and firms are spending much more strategic time talking about these changes, as well as the capital investment necessary to properly serve the clients going forward. Safe to say that the
old leverage model, which traditionally looked like a pyramid, will be more rectangular going forward, as much of the mundane, basic work will, in fact, be done through robots or artificial intelligence. As recently noted by the successful entrepreneur and Shark Tank legend, Mark Cuban, who was asked recently which industry will be the next one to become obsolete, his controversial response was that of the accounting profession. While all of us would disagree that this will be the case (and upon deeper reflection I think even Mark Cuban would disagree with his own comment!), we all do realize the wisdom in Mark’s comment that lower-level work, that can be done through artificial intelligence or through robotics, will in fact transform our profession.

Hopefully, the negative will ultimately turn into a positive, as it will push accountants to be the true business advisors that clients have always been asking us to become. The days of high level partners absorbing themselves in putting the information together will no longer be acceptable to the client going forward. 2017 promises to be the start of a major transformation within our profession. We should not be afraid of it; we should embrace it, as I believe this will make us that much more valuable to our clients and firms going forward.

Art Kuesel, Kuesel Consulting

A recent, highly-credible study shows our entire profession on par with waiters and cashiers for the risk of being replaced by technology. With millions of high paying jobs in public accounting and private industry at risk as well as the reputation and value of what an accountant can bring to the table, leaders in the profession have begun to take action and get the word out on automation, artificial intelligence, and robotics. What’s missing, still through 2018, will be the answers. Limited answers and theories will emerge and blueprints be drafted, but will not yet be actionable for many firms beyond the top 25 or so. A simple and logical defense will hit most firms squarely between the eyes and that will be to aggressively work toward elevating their roles beyond accountant to that of trusted advisors, nearly impervious to automation advances. An interesting dichotomy will continue to develop and that is more firms investing more heavily in technology and automation, while at the same time pushing their leaders to build stronger and more meaningful relationships with clients.

Jennifer Wilson, Convergence Coaching

More of our friends are retiring and we’re seeing the face of firms change. Gen X and Millennial leaders are anxious to take over if they aren’t already in senior leadership positions. And they need to, so they can shift their firm’s culture, drive change and retain young talent. Firms are beginning to learn about Generation Z. Technology is at the top of most firms’ strategy list as they seek smart solutions to increase efficiency (with scan ahead/auto-populate technologies for Tax), provide better insights (like data extraction tools and data analytics) and offer their clients a more customized, digital experience (with CRM and social mining). Firm leaders are talking about services disintermediation and many are actively starting up advisory/consulting practices. Overall, revenue growth still feels strong. My view of the biggest struggle? Having sufficient and adequate administrative resources to implement all of the change initiatives firms are firing up.
Chris Frederiksen, Frederiksen-Crawford CPAs

In 2017, more firms understand that many of the traditional services, such as tax preparation, will atrophy over time and that their best bet is to promote Controller-CFO Services (maintaining the accounting records with the added services of strategic planning, profit improvement, benchmarking and business coaching). Done right, using the latest technology such as bank feeds, bill.com and receipt-bank, this service line is highly profitable.

There has also been a decided uptick in the number of firms deciding that their internal succession plans are not viable and therefore looking for an alternative exit strategy to monetize their goodwill.

Rita Keller, Keller Advisors

As we work our way through 2017, I am seeing firms struggle with understanding all of the changes happening with technology. I believe it is actually scary for many practitioners and they believe things will not change “that fast.” I work diligently and tirelessly to impress upon my clients the need to be preparing their firm to be a firm of the future. That includes moving everything to the Cloud. As mentioned, Client Accounting Services and outsourced CFO services are also major trends and are being offered and/or explored by large firms and small.

Another hot topic of concern for me is firm culture. Often, when I begin working with a new client firm, I discover that the managing partner and other leaders are not really leaders. No one is truly painting a picture of the future of the firm for the employees and re-enforcing that picture. As one of my consultant friends said, “Most partners don’t live the culture that is on their own website.”

Angie Grissom, The Rainmaker Companies

This year (2017) I am seeing firms continue to invest in learning more from their clients on what their needs are. Firms are committing to new technologies and are asking their partners and up-and-coming leaders to commit to improving their abilities to serve clients and to attract clients. We are seeing this through an increased focus on accountability and training. Firms continue to struggle with doing the work and attracting more work. They continue to struggle with creating a leveraging model when the competition for staff is so high. The good news is that firms are paying attention to the important investments in resources and time needed to position their firms for future success. I hope this continues.

August Aquila, AQUILA Global Advisors, LLC

The major issue I am seeing with clients is transition. Firms are becoming more aware that this is a key issue going forward. I see firms changing their deferred compensation plans by tying them to the partner’s transition plan. Partners that don’t implement a transition plan can lose up to 50% or more of their deferred compensation.
As in 2016, merger activity is still hot. However, buyers are being more selective and are no longer just buying revenue for the sake of revenue. They are doing more strategic mergers.

Finally, I am seeing firms develop partner compensation plans that create a larger differentiation between the top producer and a lower producer. Partner base compensation is being adjusted accordingly based on production and value enhance criteria.

Sarah Johnson Dobek, Inovautus

With 2017 half over, we are feeling encouraged. We are finally seeing some organizational commitment to succession, growth and people management.

We are seeing new managing partners begin the process of leadership transition, we see more strides in succession planning and less talk, but most importantly we are witnessing a shift in mindset around firms addressing and accepting the bigger areas of investment such as people development and performance management as well as growth. With this renewed commitment also comes a scrambling from some firms trying to expedite the process and catch up on what they haven't been able to do.

Non-compliance services continue to be a focus for growth, but many firms are trying to figure out how to make this work. They are researching it and exploring it, though many haven’t done much beyond talk about it. Staffing and delivery challenges seem to be holding firms back in this regard.

Terry Putney, Transition Advisors

The trends mentioned in my comments above are continuing. Already this year we are seeing unprecedented levels of mid-size firms (generally 5 to 15 partners) that are pursuing upstream mergers. Some are not finding as much interest from the market as they expected because the larger regional and national firms may have already established a presence in their market. As a result, potential acquirers are much more selective with what is now a “tuck-in deal.” We are advising the firms we work with that are considering an upstream solution to allow more time, rather than wait until succession issues make them desperate for a solution, and to consider that their best option might be a firm that is not in their market already.

We are also working with an increasing number of firms on finding creative approaches to owner agreement structure in order to present a more attractive upside opportunity to emerging owners. The Rosenberg Survey mirrors what we are seeing as well which is that the equity method of allocating intangible value, which still remains the most popular approach with small and mid-sized firms, appears to be in decline. Our experience is the method is inflexible and over time can result in an arbitrary allocation of value which can lead to problems when senior partners are ready to get paid out.

We are hearing concern from firms that have significant audit practices about the future impact large technology shifts will likely have on their firm. Indications from the AICPA and other sources are that technology such as big data programs, AI (artificial intelligence) and blockchain
may lead to significant efficiencies in audit engagements in the near future. The positive side of that is the potential decrease in the talent necessary to conduct audits. The fear is a reduction in fees and the inability many firms may have to remain competitive with larger firms that are better equipped to make the necessary investments in technology. This has actually led the lead partners in several firms we work with to consider if an upstream merger will keep them strong enough to face those impending challenges.

**Roman Kepczyk, Xcentric**

2017 is already stacking up to be a stellar year as many of our clients posted 4/15 debriefs and pointed out having “the best tax season ever.” We hear this is because they are finally garnering the benefits of using digital workflow tools (CPAFMA 2017 Paperless Benchmark Survey** found 62% adoption) such as XCM, CCH Workstream, Thomson FirmFlow, and practice management projects, as well as optimizing the digital production tools that allow for front end scanning of client source documents, automated bookmarking, and data input into the tax program. For firms that struggle with digital tax production, it is most often because senior members have not been provided adequate training or they simply refuse to adopt digital tools, causing for additional procedures and time that only cut the margin on each return they touch. One of the hard trends differentiating firm profitability is the transition to digital delivery of engagement letters, organizers, tax returns, and invoices, rather than traditional manual/postal delivery. When firms calculate the labor and physical cost of printing, stuffing, stamping and sending to that of digital delivery via portals or secure email, there is significant savings in both personnel and materials. The 2017 CPAFMA Paperless Benchmark Survey** found that 53% of responding firms primarily delivered tax returns in a digital format, giving those firms a distinct competitive advantage over traditional practices. We have found that these firms make a conscientious effort to educate their clients to use the digital tools so it becomes the primary way of working with the firm.

I see one of the main areas firms struggle with from an IT perspective is implementing viable remote access which allows their personnel to work from anywhere on any Internet-enabled device. Oftentimes, internal IT personnel improperly implement solutions such as VDI or Windows Terminal Server that provide reasonable access for simple applications such as Microsoft Office or Practice Management, but fail to function adequately for tax and audit applications in a multi-monitor environment, which is mission critical to accountants. I believe this is one of the primary drivers for firms to consider moving to the cloud, which by default is designed to run optimally via remote access. This capability will become increasingly important as firm personnel want to be able to collaborate effectively and securely regardless of whether they are in the office, at a client site, or at home.

**CPAFMA 2017 Paperless Benchmark survey compiled findings of 176 medium and larger CPA firms (available at CPAFMA.org).**
DETAILED ANALYSIS

Demographics of Survey Participants

There were 347 firms that participated in this year’s survey:

- 38 firms with annual net fees in excess of $20 million.
- 64 firms with annual net fees of $10–20 million.
- 207 firms with annual net fees of $2–10 million.
- 19 firms with annual net fees under $2 million.
- 19 firms were sole proprietors.

Exactly 80% of the firms in our 2017 survey also participated in 2016.

In terms of size of market (metropolitan population of the county in which the firm resides, plus all collar counties):

- 181 firms were from very large cities with population in excess of two million such as Chicago, New York, Atlanta, etc.
- 51 firms were from other large cities with populations between one and two million.
- 74 firms were from markets ranging in population between 250,000 and one million.
- 41 firms were from markets of under 250,000.

In terms of geographic dispersion:

- 105 firms were from Midwestern states (Great Lakes, Dakotas down to Kansas).
- 75 firms were from Northeastern states (New England down to Pennsylvania).
- 109 firms were from Southern states (Kentucky, Delaware and Maryland down to Florida, as far west as Oklahoma and Texas).
- 58 firms were from Western states (Colorado, New Mexico, Wyoming, Montana and all states west).
INFORMATION ABOUT OUR SURVEY

Statistics can be a splendid irrelevancy

The operative word is “can.” The challenge is to figure out what the survey results should mean to participants going forward.

• Should firms shoot for the average?
• Should they strive to be near the top?
• How will you react to the numbers?

When you read the various averages, statistics and ratios in our survey and you come across some areas that show your firm to be lagging, how do you react? Do you quickly pass it off as being irrelevant or not applicable to your type of firm? Do you get defensive about it, feeling that your firm does well in other categories, and after all, a firm can’t be perfect?

Or do you do some soul-searching and ask yourself, “Gee, this is telling me something. Why are so many other firms able to achieve a certain statistic (i.e., billable hours for staff, realization percentage, etc.) while we do so poorly? What are those firms doing right that we are not?”

That’s your challenge. Go down the list of our survey norms and compare them to your firm’s results.

• Make sure you understand why your firm does well in certain areas and ensure that you continue this trend.
• Make sure you understand why your firm does poorly compared to our survey norms and devise a game plan to get your firm on track to resolve the underlying issues.

Our methodology

The Rosenberg Survey Team has adopted several quality control techniques that make our survey what Accounting Today has called “the generally accepted barometer for practice management for mid-sized CPA firms.”

1. We compute all ratios. For example, we don’t ask firms to list Fees per Partner. Instead, we ask them to give us their firm’s annual fees and the total number of partners. We compute the ratio, thereby ensuring that the computation is made accurately.

2. The Rosenberg Survey team consists of Marc Rosenberg, Charles Hylan and Carol Stano, all of whom are CPAs. Equally important, both Rosenberg and Hylan are nationally known consultants to the CPA industry. Their familiarity with CPA firm operations is put to good use in reviewing input data. Each team member contributes to the review and counter-review effort required to publish an accurate survey. Every year, roughly 30–
40% of all input forms submitted have errors in them. When we see an error or something that looks a little strange, we contact the firm, notify them of the issue and get the situation clarified, corrected and resolved. *No data is entered into our survey if it doesn’t look right.*

3. Our survey gives breakdowns of various metrics by size of firm and size of market. This enables firms to identify a segment in our survey that most closely parallels them. Hence, the comparisons are more relevant.

4. We make a major effort to get as many repeat participants in our survey as possible. We contact firms who were in our survey the previous year and do everything possible to get them to participate again. We are proud of the high repeat rate we achieve year after year.

The common thread is that our survey is prepared by experienced CPA firm consultants, who are CPAs themselves, and who have consulted with hundreds of firms for over 20 years. We don’t hire clerical people to input data. We don’t outsource the tabulation of the survey. **We do everything ourselves.** No other survey that we know of is prepared by personnel this knowledgeable about the CPA industry. When we’re done, we know the survey is accurate and so do you!
**DEFINITIONS AND EXPLANATIONS OF TERMS**

To gather information, we made our questions as specific as possible. The definitions below are what we requested. Where no numbers are presented in the survey for a firm, the information was either not provided or was interpreted by us as inaccurate in some way.

<table>
<thead>
<tr>
<th>Column Label</th>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>Region</td>
<td>MW = Midwest; NE = Northeast; S = South; W = West</td>
</tr>
<tr>
<td>H</td>
<td>Pop</td>
<td>Population range of the county in which the firm resides, as well as all collar counties. Population is indicated as &gt;2M for very large cities, such as Chicago, San Francisco, Detroit, etc.</td>
</tr>
<tr>
<td>I</td>
<td>Gross Fees</td>
<td>Gross Fees, including ancillary charges, before WIP write-downs</td>
</tr>
<tr>
<td>J</td>
<td>Net Fees</td>
<td>Billings, net of write-downs</td>
</tr>
<tr>
<td>K</td>
<td>Realization</td>
<td>Net Fees divided by Gross Fees</td>
</tr>
<tr>
<td>L-Q</td>
<td>Headcount</td>
<td>Numbers are presented as Full Time Equivalents for each category of personnel.</td>
</tr>
<tr>
<td>T-U</td>
<td>Turnover</td>
<td>Ratio of people terminated during the year to average total staff based on numbers reported at the beginning of the year and end of the year.</td>
</tr>
<tr>
<td>W</td>
<td>Total Firm Charge Hours</td>
<td>All hours for all personnel (including partners) that were charged to work-in-process.</td>
</tr>
<tr>
<td>X</td>
<td>Total Firm Work Hours</td>
<td>Includes all hours worked by all people (including partners and administrative personnel), including vacation, sick, and holiday time.</td>
</tr>
<tr>
<td>Y</td>
<td>Utilization Percentage</td>
<td>Total Firm Charge Hours divided by Total Firm Work Hours.</td>
</tr>
<tr>
<td>Z-AC</td>
<td>Average Annual Charge Hours</td>
<td>A computation based upon the billable hours worked by full-time personnel for the full calendar year. Consultants who don’t measure their productivity strictly by the billable hour, who bill for products and/or services on a basis other than by the billable hour, or who sell financial products and bill for commissions instead of billable hours are NOT included in this calculation.</td>
</tr>
<tr>
<td>AD-AG</td>
<td>Average Annual Total Hours</td>
<td>Similar to the above. Only full-time personnel who work the full year are included. Consultants are not included.</td>
</tr>
<tr>
<td>Column Label</td>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>--------------</td>
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<td>------------</td>
</tr>
<tr>
<td>AM</td>
<td>Pct. Charge Hours in Tax Season</td>
<td>Percentage of the firm’s total charge hours for the year that were worked in the months of January through April</td>
</tr>
<tr>
<td>AO</td>
<td>Months WIP</td>
<td>Number of months of WIP at December 31</td>
</tr>
<tr>
<td>AP</td>
<td>Months A/R</td>
<td>Number of months of A/R at December 31</td>
</tr>
<tr>
<td>AQ-AW</td>
<td>Average Billing Rates</td>
<td>A weighted average for each category of personnel</td>
</tr>
<tr>
<td>AX</td>
<td>Net Firm Billing Rate</td>
<td>Total net fees divided by total firm charge hours for the entire firm</td>
</tr>
<tr>
<td>BK</td>
<td>Overhead Expenses per Person</td>
<td>Total Overhead Expenses are defined as Total Expenses less Salaries and Benefits. To determine Overhead Expenses per person, divide Total Overhead Expenses by the Total Headcount figure in column Q.</td>
</tr>
</tbody>
</table>

BM through BT – Expenses expressed as a percentage of net fees as shown in column AY:

<table>
<thead>
<tr>
<th>Column Label</th>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BM</td>
<td>Salaries and Benefits</td>
<td>All salaries paid to non-partner personnel, both professional and administrative. Exception: does not include marketing personnel. Does NOT include partner compensation. Benefits include payroll taxes paid by the firm, medical and life insurance premiums for employees, employer contributions to pension or retirement plans, etc.</td>
</tr>
<tr>
<td>BN</td>
<td>Marketing</td>
<td>Advertising, promotion, newsletter, brochures, etc. This also includes compensation of marketing personnel.</td>
</tr>
<tr>
<td>BO</td>
<td>Comp/Tech</td>
<td>Computer Technology. Includes hardware, software, consulting, computer training, etc.</td>
</tr>
<tr>
<td>BP</td>
<td>Training</td>
<td>Includes all expenses related to CPE and non CPE training for all personnel in the firm. Include facilitation fees as well as travel expense associated with the training.</td>
</tr>
<tr>
<td>BQ</td>
<td>Rent</td>
<td>Office rent (not equipment or other rentals)</td>
</tr>
<tr>
<td>BS</td>
<td>All Other Expenses</td>
<td>From the income statement: Total Expenses less Salaries/Benefits, Marketing, Comp/Tech, Rent, except for Payments to Retired Partners.</td>
</tr>
<tr>
<td>BV</td>
<td>Equity Partner Income</td>
<td>Equity partner compensation plus the firm’s net income. This number represents all income earned by the equity partners after all expenses, including payments to retired partners.</td>
</tr>
</tbody>
</table>
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