

Data Driven Management

THE TUNE UP YOUR PRACTICE NEEDS
TO REV UP YOUR PROFITS

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Notice to the readers

First, I want to congratulate you all for making the decision of investing in yourself and taking time out of your very busy life to learn how you can run a more effective and efficient practice.

One of the first things I do when I mentor someone is go through their financial statements. Usually I recommend changes on how this information is reported, as well as suggest several reports that people seldom prepare. This exercise is generally followed by training on how to best interpret the information while suggesting possible adjustments to their operation.

Most of this knowledge can be obtained through this workbook, however, to master this skill you'll need to practice this art of reading and using financial statements for many years.

Having a thorough understanding on how to better prepare financial data, to understand it well, and knowing what actions to take will not only serve you exceptionally well but will allow you to share your knowledge with clients and charge well for this expertise.

Acknowledgments

Much of what I've learned on using financial statements came from too many sources to mention. However, the credit for recognizing the gold that can be found by better preparing and understanding financial data is totally owed to my mentor Grant Kirkup, FCPA, FCGA.

I had no idea of the value that could be derived from my financial statements before being taught to do so by Grant.

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Introduction

The purpose of this book is to help you analyze your firm's operations in an effort to attain and maintain an appropriate level of profitability.

Simply generating periodic financial statements is not enough; you should continually monitor and periodically analyze your firm's financial statements in order to evaluate your operations and the sources of your profits. Methods of evaluating operations include both monitoring trends within your own firm by comparing the results of current operations to historical data and assessing your own firm's performance by comparing it to external benchmarks, such as those provided by industry averages or statistics specific to other firms.

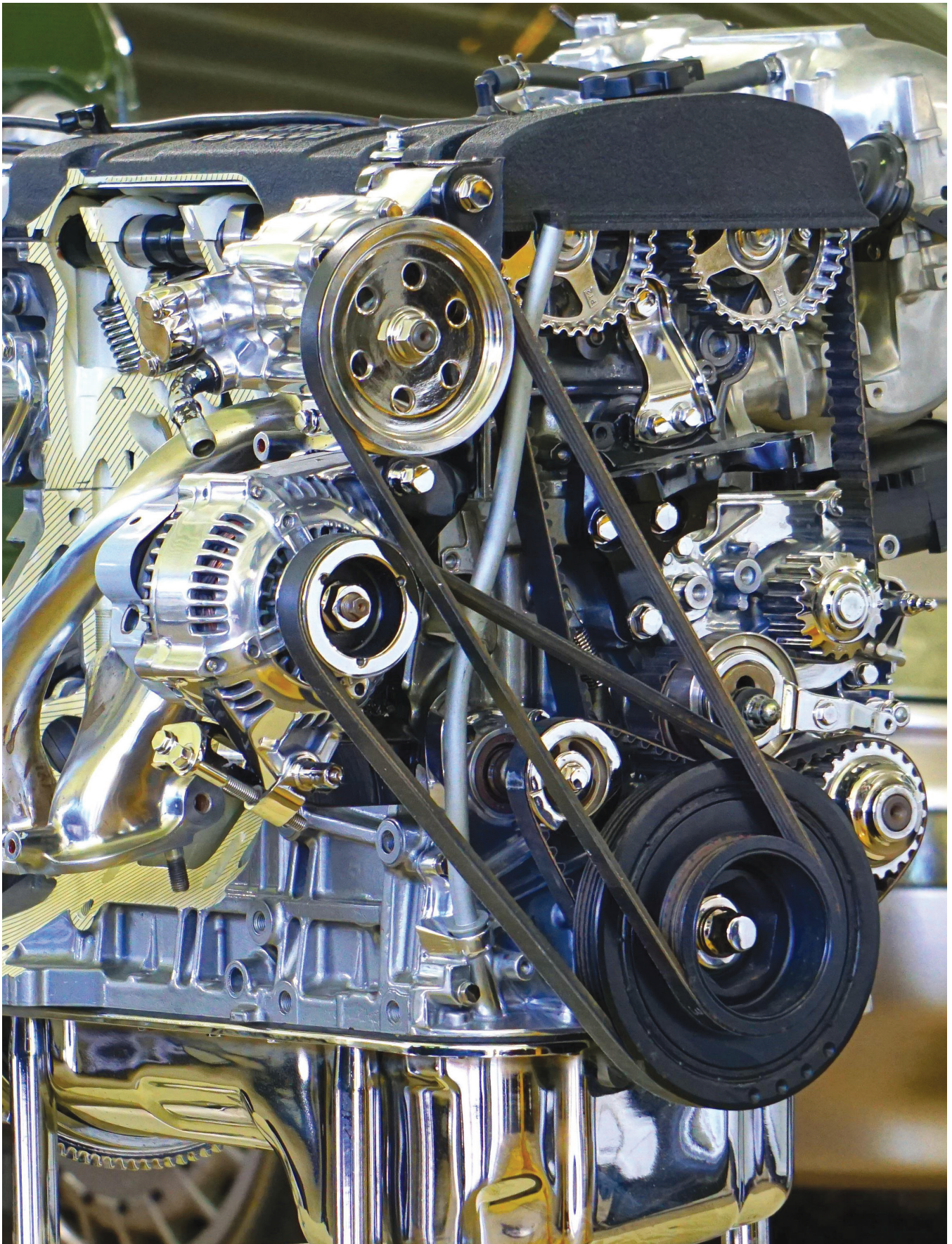
Financial statements appear to be precise, but they frequently do not sufficiently measure what firm management needs to know; moreover, they often do not provide accurate measures or present information in meaningful terms.

Instead of traditional financial statements, you need a Management Information System (MIS) that promptly tells you when something is wrong, shows you where the problem is, and hopefully clues you in on how to fix it. While this book is not intended to describe a complete MIS due to the vast differences in the sizes of firms and the types of practices, it will give you guidelines and suggestions that should help you design an appropriate system for your firm.

In order to spot a problem as quickly as possible, you should monitor certain key operating statistics on a daily or weekly basis, instead of on a monthly or quarterly basis as most firms do. To identify where the problem is and determine what to do about it, you should look at the "numbers behind the numbers," which usually are ratios instead of financial statement dollar amounts.

***"Insanity is doing the same thing you have done in the past
and expecting the results to be different this time."***

-Anonymous



Chapter 1

Understanding & Using Financial statements

Income Statements **Without any Comparatives**

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	<u>Current year</u>
Revenues	
Financial statement & corp tax services	185,687
Personal income tax services	108,752
Bookkeeping services	28,520
Consulting services	15,850
Interest	816
	339,625
Expenses	
Advertising and promotion	2,635
Amortization	3,250
Automobile	2,170
Bad debt	8,755
Bank charges	7,302
Dues and subscriptions	1,666
Insurance	1,850
Management wages	55,000
Meals and entertainment	1,347
Office supplies, courier & postage	5,984
Professional development	120
Rent	28,200
Repairs and maintenance	2,535
Retreat	0
Subcontract - outside consulting	3,500
Telephone/fax/internet	8,232
Travel	735
Utilities	5,928
Wages and benefits	131,100
	270,309
Net Income	69,316

Income statements with no comparative numbers.

Preparing and using financial statements by themselves, without any comparative data, provides much less useful information that can be used for management purposes. In order for the statements to provide a better picture of your operation, having your current activity compared to something relevant is far better.

When making presentations on how to read financial statements, I will start off by presenting financial statements without any comparative numbers or no outside information. When I ask the class whether they believe the business is doing well or not looking at the statements, invariably, I'll have 1/3 of the class say it's doing well, another third that will disagree, and yet another third of the class who will not provide an opinion. However, as soon as I add a bit of additional information such as the fact that profits are up from last year by 20%, the business is doing 15% better than projected, and profits are 10% higher than the industry average, suddenly, everyone agrees that the business is doing well. And yet, I did not change a single number on the financial statements. All I did was add a bit of context to the information.

Financial statements are far more useful and provide much better insight for management when compared with:

- Prior year
- Projections
- Industry

Comparing your financial statements with industry standards is very difficult as few business owners are willing to share their financial results with anyone.

Now this is not to say that financial statements sitting on it's own is useless. On the contrary, it does provide some decent insight of your operation. For example, as demonstrated on the next page, owners can analyse employee productivity. But is it far more limited as the next few pages will indicate.

Something I would suggest everyone in business consider doing is comparing the revenues generated to the direct cost of producing (wages). The relationship between revenues and employee cost will be discussed on several occasions throughout this workbook.

Determining employee productivity

Firm revenue capacity

	Total Hours worked	Utilization	Chargeable hours	Hourly Charge-out rate	Revenues Generated
Owner	2,000	70%	1,400	125	175,000
Mary	2,000	85%	1,700	85	144,500
Eve	2,000	45%	900	45	40,500
Adam	2,000	90%	1,800	60	108,000
					468,000

How much revenue should be generated by the employees?

Total revenues generated by the practice	339,625
Owner generated revenue (1400 chargeable hrs x \$125/hr)	175,000
	164,625

Employee capacity

Mary	2,000	85%	1,700	85	144,500
Eve	2,000	45%	900	45	40,500
Adam	2,000	90%	1,800	60	108,000
					293,000

So based on the above, firm employees have a capacity of generating \$293,000 if they achieve the above utilization and charge-out rate

And yet, they only generated \$164,625. PROBLEM!!!!

Employees are not producing the revenues they could potentially could.

Also evident, the firm needs to discover who is not hitting the target.

Please refer to the chapter that discusses the relationship of wages to gross revenues for a more in-depth way of examining your data.



Income Statements **With Prior Year Comparative Numbers**

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Current year	Previous year
Revenues		
Financial statement & corp tax services	185,687	178,830
Personal income tax services	108,752	99,052
Bookkeeping services	28,520	26,838
Consulting services	15,850	15,280
Interest	816	751
	<u>339,625</u>	<u>320,751</u>
Expenses		
Advertising and promotion	2,635	3,487
Amortization	3,250	3,055
Automobile	2,170	1,880
Bad debt	8,755	2,230
Bank charges	7,302	7,858
Dues and subscriptions	1,666	1,786
Insurance	1,850	1,820
Management wages	55,000	52,000
Meals and entertainment	1,347	1,936
Office supplies, courier & postage	5,984	5,226
Professional development	120	100
Rent	28,200	28,200
Repairs and maintenance	2,535	2,843
Retreat	0	5,076
Subcontract - outside consulting	3,500	4,235
Telephone/fax/internet	8,232	7,535
Travel	735	1,846
Utilities	5,928	5,572
Wages and benefits	131,100	121,540
	<u>270,309</u>	<u>258,225</u>
Net Income	<u>69,316</u>	<u>62,525</u>

Comparative financial statements

Simply providing comparative numbers does provide a lot more insight. However, without a third column providing the variance, it does require the reader of the financial statements to work harder to dissect the information and extract the necessary information to make proper financial and management decisions.



Income Statements
**With Prior Year
Comparative Numbers**
And
**Variance Between
Current Year and Prior Year**

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Current year	Prev year	Variance
Revenues			
Financial statement & corp tax services	185,687	178,830	6,857
Personal income tax services	108,752	99,052	9,700
Bookkeeping services	28,520	26,838	1,682
Consulting services	15,850	15,280	570
Interest	816	751	65
	339,625	320,751	18,874
Expenses			
Advertising and promotion	2,635	3,487	-852
Amortization	3,250	3,055	195
Automobile	2,170	1,880	290
Bad debt	8,755	2,230	6,525
Bank charges	7,302	7,858	-556
Dues and subscriptions	1,666	1,786	-120
Insurance	1,850	1,820	30
Management wages	55,000	52,000	3,000
Meals and entertainment	1,347	1,936	-589
Office supplies, courier & postage	5,984	5,226	758
Professional development	120	100	20
Rent	28,200	28,200	0
Repairs and maintenance	2,535	2,843	-308
Retreat	0	5,076	-5,076
Subcontract - outside consulting	3,500	4,235	-735
Telephone/fax/internet	8,232	7,535	697
Travel	735	1,846	-1,111
Utilities	5,928	5,572	356
Wages and benefits	131,100	121,540	9,560
	270,309	258,225	12,084
Net Income	69,316	62,525	6,791

Looking at financial statements with variance from prior year. Comparative financial statements with variance provided.

At first glance, with an increase in profits, one could easily quickly conclude this firm is on the right track.

Seeing financial statements with variance quickly allows us to dissect certain information such as:

- Revenues up \$18,874 of which 65% fell to the bottom line – Good.
- All revenues without exception moving up in the right direction – Very good.
- Several expenses are down – Also good.

Careful when examining fluctuation in expenses and trying to cut expenses. Too often, business owners work hard at reducing expenses in an effort to increase profits. Many times, this is an error. **Reduction in costs will often impact your revenues more than the result of the expense reduction.** This impact may not be immediate. In fact, most of the time, it is not. The impact of cutting expenses is often long term damage to the firms revenues.

I do agree, we should look at expenses. It is essential to cut away the fat. But be very careful in not cutting too deep. Doing so will result in you cutting into the meat which in turn will result in bleeding.

Now let's dissect the differences a bit more:

Several of the expenses have decreased, which is generally a good thing. But let's examine which expenses are up or down and whether it is worth pondering.

- **Advertising down \$852** - Reduction in advertising can and will very possibly result in a reduction in future revenues. Especially if one defines marketing as the ability to attract and retain clients. The purpose of marketing isn't only to get new clients, but to increase client loyalty.

- **Bad debt up \$6,525** - Definitely cause for concern. Need to review internal policies and discover if there are ways of ensuring we no longer do work without getting paid and even paying more attention to who we decide to take on as clients. Is asking for a retainer more often worth considering?

- **Retreat expense down \$5,076** - Failure to do retreats may be harmful to the long-term success of the firm. Failure to do retreats, especially if done properly as is intended, may cause deterioration of team culture and motivation. Dangerous cut to make.

- **Travel down \$1,111** - Travel is usually done to further own education or for marketing purposes. Both are critical to building a successful practice. Reduction in travel costs may be good. It depends on the reason for the travel.

- **Wages up \$9,560** - A concern? Not necessarily. Especially if there's an increase in revenues to justify it. Refer to chapters dedicated to examining the relationship between revenues and wages paid.



Income Statements
With Prior Year
Comparative Numbers
And
Variance Between
Current Year and Prior Year

Variance Expressed in **Dollars**
And as a **Percentage of Change**

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Current year	Prev year	Variance	Percent
Revenues				
Financial statement & corp tax services	185,687	178,830	6,857	3.8%
Personal income tax services	108,752	99,052	9,700	9.8%
Bookkeeping services	28,520	26,838	1,682	6.3%
Consulting services	15,850	15,280	570	3.7%
Interest	816	751	65	8.7%
	339,625	320,751	18,874	5.9%
Expenses				
Advertising and promotion	2,635	3,487	-852	-24.4%
Amortization	3,250	3,055	195	6.4%
Automobile	2,170	1,880	290	15.4%
Bad debt	8,755	2,230	6,525	292.6%
Bank charges	7,302	7,858	-556	-7.1%
Dues and subscriptions	1,666	1,786	-120	-6.7%
Insurance	1,850	1,820	30	1.6%
Management wages	55,000	52,000	3,000	5.8%
Meals and entertainment	1,347	1,936	-589	-30.4%
Office supplies, courier & postage	5,984	5,226	758	14.5%
Professional development	120	100	20	20.0%
Rent	28,200	28,200	0	0.0%
Repairs and maintenance	2,535	2,843	-308	-10.8%
Retreat	0	5,076	-5,076	-100.0%
Subcontract - outside consulting	3,500	4,235	-735	-17.4%
Telephone/fax/internet	8,232	7,535	697	9.3%
Travel	735	1,846	-1,111	-60.2%
Utilities	5,928	5,572	356	6.4%
Wages and benefits	131,100	121,540	9,560	7.9%
	270,309	258,225	12,084	4.7%
Net Income	69,316	62,525	6,791	10.9%

Providing variances as a percentage of change.

Seeing the variances as a percentage of prior years numbers offers a lot more insight such as:

- Total revenues up only 5.9% – Good? Bad? What should it be?
- F/s Preparation services up 3.8% – Good? Bad? What should it be?
- Other services up. Is percentage increase reasonable

Variances in expenses are now more obvious such as:

- Reduction in advertising down 24.4% – May hurt long term health of firm revenues.
- Automobile up 15.4% – Despite increase of only 5.9% in revenues.
- Meals and Entertainment down 30.4% – Careful. Keeping good relationship with potential or existing clients is essential. Reducing meals and entertainment may not be a good idea.
- Retreat expense down 100% – Already discussed.
- Travel down 60.2% – Already discussed.
- Wages up 7.9% – This makes sense given increase in revenues.



Income Statements
With Revenues And Expenses
Expressed as a **Percentage**
of Total Gross Revenues

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Current year	Percentage	Previous year	Percentage
Revenues				
Financial statement & corp tax services	185,687	54.7%	178,830	55.8%
Personal income tax services	108,752	32.0%	99,052	30.9%
Bookkeeping services	28,520	8.4%	26,838	8.4%
Consulting services	15,850	4.7%	15,280	4.8%
Interest	816	0.2%	751	0.2%
	339,625	100.0%	320,751	100.0%
Expenses				
Advertising and promotion	2,635	0.8%	3,487	1.1%
Amortization	3,250	1.0%	3,055	1.0%
Automobile	2,170	0.6%	1,880	0.6%
Bad debt	8,755	2.6%	2,230	0.7%
Bank charges	7,302	2.2%	7,858	2.5%
Dues and subscriptions	1,666	0.5%	1,786	0.6%
Insurance	1,850	0.5%	1,820	0.6%
Management wages	55,000	16.2%	52,000	16.2%
Meals and entertainment	1,347	0.4%	1,936	0.6%
Office supplies, courier & postage	5,984	1.8%	5,226	1.6%
Professional development	120	0.0%	100	0.0%
Rent	28,200	8.3%	28,200	8.8%
Repairs and maintenance	2,535	0.7%	2,843	0.9%
Retreat	0	0.0%	5,076	1.6%
Subcontract - outside consulting	3,500	1.0%	4,235	1.3%
Telephone/fax/internet	8,232	2.4%	7,535	2.3%
Travel	735	0.2%	1,846	0.6%
Utilities	5,928	1.7%	5,572	1.7%
Wages and benefits	131,100	38.6%	121,540	37.9%
	270,309	79.6%	258,225	80.5%
Net Income	69,316	20.4%	62,525	19.5%

Revenue and expenses as a percentage of total revenues

Seeing the expenses as a percentage of total gross revenues will highlight yet different information, such as:

- Mixture of revenues is changing
- More income tax revenues
- Less corporate work
- Question: Above changes due to difference in pricing structure or growth by way of new clients?

Seeing expenses as a percentage of gross revenues will often give owner reason to pause such as:

- Bad debt being 2.6% of gross revenues. Statements presented this way highlights to what extent bad debt is cause for concern

MOST concerning is: Wages as a percentage of revenues went from 37.9% to 38.6%

A difference in percentage of wages of only 0.7% relative to revenues may seem insignificant and hardly worth addressing or looking into. But consider this:

- If wages had been kept as 37.9% of revenues, profit would have increased by \$7,152!
- That's nearly a 10% increase in profits!

Wages as a percentage of gross revenues should be monitored **VERY CLOSELY**.

If you want to improve your profits, **concentrate on everyone's productivity**.

Please refer to the chapters dedicated to this subject.



Income Statements
With Comparative Projections
And Variance Expressed as
Dollars and Percentage

Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Current year	Projections	Variance	Percent
Revenues				
Financial statement & corp tax services	185,687	190,000	(4,313)	-2.3%
Personal income tax services	108,752	115,000	(6,248)	-5.4%
Bookkeeping services	28,520	28,000	520	1.9%
Consulting services	15,850	16,500	(650)	-3.9%
Interest	816	750	66	8.8%
	339,625	350,250	(10,625)	-3.0%
Expenses				
Advertising and promotion	2,635	5,000	2,365	47.3%
Amortization	3,250	3,200	(50)	-1.6%
Automobile	2,170	1,000	(1,170)	-117.0%
Bad debt	8,755	2,500	(6,255)	-250.2%
Bank charges	7,302	6,000	(1,302)	-21.7%
Dues and subscriptions	1,666	1,500	(166)	-11.1%
Insurance	1,850	1,820	(30)	-1.6%
Management wages	55,000	55,000	0	0.0%
Meals and entertainment	1,347	1,500	153	10.2%
Office supplies, courier & postage	5,984	6,000	16	0.3%
Professional development	120	100	(20)	-20.0%
Rent	28,200	28,200	0	0.0%
Repairs and maintenance	2,535	3,000	465	15.5%
Retreat	0	0	0	0.0%
Subcontract - outside consulting	3,500	2,000	(1,500)	-75.0%
Telephone/fax/internet	8,232	8,000	(232)	-2.9%
Travel	735	1,000	265	26.5%
Utilities	5,928	6,000	72	1.2%
Wages and benefits	131,100	122,000	(9,100)	-7.5%
	270,309	253,820	(16,489)	-6.5%
Net Income	69,316	96,430	(27,114)	-28.1%

Comparing actual numbers to projections

Firstly, it is essential to prepare projections. Many if not most business owners never bother. Please refer to the chapter dedicated to projections on why and how to prepare projections.

As a general rule, when preparing projections, these will be prepared for the purpose of setting goals and as a tool to provide insight into the future. The chapter on projections provides more insight on this. However, it is critical that we examine closely every month why we are deviating from projections.

Let's explore how to read and use financial statements with comparative projections provided.

Notice: All variances are presented as favorable or unfavorable. In other words, falling short of projections in the revenues shows up as a negative amount whereas surpassing projections is a positive number. On the contrary, on the expense side, spending more than projected is shown as a negative and spending less than projected appears as a positive number.

First, let's look at the projected **revenues** compared to actual

In this example here, it is clear that actual revenues earned fell short of projections pretty much across the board, except bookkeeping. The question of course that should be asked is **why**?

- Did we fail in our marketing plan?
- Better question yet – Did we even have a good written marketing plan?
- Did we fail hitting our projections because we:
 - Failed to increase prices as we had projected?
 - Failed to get new clients as we had anticipated?
- Why did bookkeeping revenues succeed in hitting the mark but not the others?
 - Could bookkeeping department's success simply be due to an accounting error of misallocation of revenues from another department?
- Did firm lose more clients than anticipated and thus not getting the increase anticipated?
- Is lack of ability to achieve projected increase due to poor service rendered and thus not getting the expected referrals?
- Is firm discounting fees too often?
- Did the firm not hit it's target simply due to setting up goals that were too lofty?
- Do the people who quote fees know how to properly price services?
- Is firm going after the right target clients?

Let's explore the significant variances between projected **expenses** and actual

- **Advertising and promotion** – Firm projected to spend \$5,000 but only spent 47.3% of the budgeted amount. Why? Did the person in charge of marketing fail in doing their job? Were opportunities to do marketing missed? What happened? Could this be part of the reason for not hitting the targeted revenues?
- **Automobile** – Spent more than twice what was projected. How can this happen? Should firm take a closer look at ways of reducing automobile expenses?
- **Bad debt** – Such bad debts were clearly not expected. What happened and what can we do to ensure we never have this happen again?
- **Bank charges** – Spent 21.7% more in bank charges than anticipated. What caused this? Was firm less successful at negotiating a better rate on credit card fees than expected? Did more clients pay by credit card than expected? And if so, what can be done to possibly reduce? Did bank charge fees on services not anticipated?
- **Dues and subscriptions** – Over budget by 11.1%. But the dollar amount is only \$166. Hardly worth investigating.
- **Subcontract** – 75% increase. \$1,500 increase isn't horribly significant.
But this bears the following questions:
 - Did we charge back such fees back to the client?
 - Did we learn from working with those outside consultants?
 - Can we look at providing more high-end work using contractors and leveraging by charging a premium on such services and more importantly, learn how to better render more high-end services to clients at a higher charge-out rate?
- **Wages and benefits** – 7.5% under budget. Being under budget in expenses is usually a good thing. But given the firm was short in hitting projected revenues, it goes without saying that wage expenses should have also come down. Is the amount reasonable? Please refer to the chapter on employee performance.

Chapter 2

**How much should you be earning
as a practitioner**

The following story is 100% fictitious. Should you find some similarities to you, it is purely coincidental. This said however, the following story represents many practitioners I've met over the years. The following is EXTREMELY typical. More than you know.

Let me introduce you to Matt Lashewski.

Matt has been in practice for himself for a bit over 10 years now. Matt set up a small office on Gravy Train Lane in the town of Stresslord, Manitoba, Canada.

It's a decent practice. Matt took over the practice from his retiring successor Fred Flint. Fred had trained Matt since he graduated and got his designation, so selling so selling to Matt just seemed like the natural thing to do and a good way to ride off into the sunset.

Matt has a tremendous amount of gratitude to Fred. After all, Fred pretty much taught him everything he knows about taxes, accounting, auditing standards and most all other technical skills Matt mastered. Fred also taught him everything he currently knows about how to run a good practice, and I dare say he's mastered most technical skills very well. Matt's tax knowledge is above average and he is know in his community, and surrounding communities for that matter, for his ability to interpret the Income Tax Act. A skill Matt also possessed and didn't know just how much it was worth, was his creative ability to find tax saving solutions for his clients.

But Matt's firm doesn't stop there. His firm also provides bookkeeping services, a fair amount of software technical support, and performs a reasonable amount of audits. In fact, he does most of the non-profits of his small city, many daycares and is continually picking up more and more audit work from surrounding smaller towns.

Matt is not concerned about his competition. There are no real threats. Just as with every town, Stresslord has it's share of small time tax preparers, a few part-time and full-time bookkeepers, and a larger firm that has an office they maintain one day a week. And of course, a couple other CPA firms offering similar services.

Matt has 5 employees.

Really nice people. Had the pleasure of meeting them. Let me introduce them to you:

- **René** - has been working for Matt for the better part of 7 years or so. He just got his CPA designation. He has demonstrated really good skills in the tax area and is capable of handling most complex personal returns, preparing corporate financial statements and doing the corporate tax return with little help or supervision. René also helps with audits but admits to not enjoying it. He avoids eye contact with Matt whenever Matt has an audit file that needs to be worked on. René has taken on the role of Senior Accountant in the firm.
- **Colin** – hasn't been with the firm as long as René but is very promising. He just seems to get it all. Easy to get along with and loved by clients, Matt is confident that Colin will someday be a star. Everyone regards Colin as the intermediate accountant in the practice
- **Kayla** – is the newest addition to the firm. Kayla just completed her 2 years at a community college and has been on Matt's team for about a year now. She's been through one tax season and has demonstrated herself capable of learning fast and well. Very much to René's happiness, Kayla has shown some interest in doing audits. Matt is training her more and more in this area.
- **Kat** – has been on Matt's team ever since he took over the practice. Kat was hired by Fred shortly after Matt himself got hired and has remained as part of the team when Matt took the practice over from Fred. Kat's the firm's bookkeeper and does most of the bookkeeping for the firm's clients seeking those services. She is extremely efficient, has mastered several bookkeeping softwares, is LOVED by all the clients she services, and can even provide a very good helping hand at tax preparation during tax season.
- **Lise** – is the firm elder. Hired by Fred before Matt even joined Fred's team, Lise is coined as the "Director of First Impression". As receptionist, Lise takes care of all administrative tasks for the firm such as answering the phone, filing, and office cleanliness and organization. Lise's strength lies in her ability to connect with each client. She knows them ALL by name, what they do, and will often be teased for her ability to learn far too much about her clients. Another of Lise's strengths is the fact that she's quite proficient in bookkeeping, allowing her to do the bookkeeping for the practice and even for several clients and providing Kat tremendous support whenever Kat's overwhelmed.

So Matt and I got to talking about his practice. In speaking with him, it's evident that he's is somewhat content with his practice. He does complain about having to work too many hours but figures that this is just the nature of the beast of being a practitioner in the field of accounting or bookkeeping. Nothing to be done.

Matt talks about how he loves servicing clients (most of the time), likes his team (most of the time), and plans on doing this for the rest of his working life, until he's 60 or 65, and then sell his practice.

When I ask why he plans on working until he's that old, Matt shrugs and explains that he feels he doesn't have a lot of choice. His wife is a stay-at-home mom and is currently working as a cashier at the local grocery store when the kids are at school. But other than contributing to the day-to-day bills, her wage does not contribute much to their retirement. Based on what he paid for this practice 10 years ago, he explained he doubted he'd get much for it when it came time to sell and figured he'd not be able to retire sooner than 60-65.

I ask him if he and his family took vacations and he answers that they'd recently bought themselves an older camper that allowed them to get out on weekends and go camping, but between what he was generating and paying for day-to-day expenses plus putting something aside for retirement, emergencies, and the children's education, there really wasn't much left to take trips. Nor could he afford to take time off. Matt shrugs it off as something for which there simply weren't any solutions.

Finally, I ask Matt, "Do you mind sharing your financial statements with me?", and he quickly obliges. And here's what it looks like:

Lashewski Accouting services
Income statement
For the year ended December 31, 20XX

	Current year	Previous year
Revenues		
Financial statement & corp tax services	232,109	218,182
Personal income tax services	135,940	127,784
Bookkeeping services	65,666	61,726
Consulting services	19,813	18,624
Interest	1,020	959
	454,547	427,274
Expenses		
Advertising and promotion	2,635	2,477
Amortization	4,500	4,230
Automobile	10,185	9,574
Bad debt	12,852	12,081
Bank charges	11,409	10,724
Dues and subscriptions	2,675	2,515
Insurance	1,850	1,739
Meals and entertainment	2,385	2,242
Office supplies, courier & postage	5,984	5,625
Professional development	368	346
Rent	35,000	35,000
Repairs and maintenance	2,535	2,383
Subcontract - outside consulting	3,500	3,290
Telephone/fax/internet	8,232	7,738
Travel	735	691
Utilities	5,928	5,572
Wages and benefits	281,405	264,521
	392,178	370,747
Net Income	62,370	56,527

Then I asked Matt what software he was using for time and billing and he explained that the time worked on each file was recorded on some hybrid system of QB and Excel. Matt then shared everyone's charge-out rate.

- **Matt:** \$150
- **René:** \$100
- **Colin** \$80
- **Kayla** \$50
- **Kat** \$60
- **Lise** \$50

I asked Matt whether he believed everyone generally got their charge-out rate in all engagements they worked on. Matt was quite confident that most of them did in fact achieve their charge-out rate, including himself, most of the time.

I then spent a few minutes defining "utilization rate" and "realization rate". Given Matt did not have a proper time and billing system or software, I asked him to provide me with his best guess of what everyone's hours worked last year were and what their utilization and realization was. Matt provided me with everyone's hours worked which was easy enough given his payroll records and gave me his best guess of what everyone's utilization was. Given he believed everyone got their charge-out rate, I thus assumed that their charge-out rate would represent their realization. Based on this information, I proceeded with drafting the following chart:

Matt's best guess of employee productivity

	Total Hours	Utilization	Realization	Revenues
Matt	2300	70%	150.00	241,500
René	2000	80%	100.00	160,000
Colin	2100	85%	80.00	142,800
Kayla	2000	85%	50.00	85,000
Kat	1900	80%	60.00	91,200
Lise	2000	20%	50.00	20,000
				740,500

COST	Hours	Wage	Cost
Matt	2300		
René	2000	35	70,000
Colin	2100	27	56,700
Kayla	2000	17	34,000
Kat	1900	20	38,000
Lise	2000	23	46,000
			244,700
Benefits (15%)			36,705
			281,405

Based on my calculations, which is based on Matt's best guess of utilization and realization, revenues that the firm should have generated should have been \$740,500. And yet, revenues generated by the firm was only around \$450,000 before interest. Quite a discrepancy and one that made Matt's eyes bug out as he reviewed my numbers. He wondered where he could have gone so horribly wrong.

This exercise clearly demonstrated that nobody was likely getting the utilization or realization that they thought they were getting.

I then explained that he had probably guessed BOTH wrong and that his team's utilization was likely nowhere near what he thought and neither was realization. That he was likely writing-down fees far more often than he thought. Upon further reflection, Matt admitted that I was probably right.

"Not 'probably', Matt. **Definitely**," I told him.

"Now let's take a look at your numbers again."

Had Matt actually achieved the utilization and realization he thought he was getting, his revenues would have been \$740,000 instead of \$454,000. That's a \$286,000 increase! Would this increase have resulted in any increase in rent? Nope. Increase in Utilities? Nope. Automobile expenses? Negligible. So basically, Matt's profits should have been \$286,000 more.

But that's not all...

Given what Matt is paying in wages, and assuming their wages are right and fair for their skill sets, here's what everyone's utilization and realization should have been in my opinion. See chart below:

What productivity should be

	Total Hours	Utilization	Realization	Revenues
Matt	2300	70%	200.00	322,000
René	2000	85%	125.00	212,500
Colin	2100	90%	95.00	179,550
Kayla	2000	90%	60.00	108,000
Kat	1900	90%	70.00	119,700
Lise	2000	50%	70.00	70,000
				1,011,750

That's right, given the employees he's got, the firm should be generating about a million dollars in revenues.

WAIT!!! Does that mean that Matt's firm profits should be closer to \$560,000 per year?!

Correct!!!

Is that even possible? **Can Matt hope and expect to make over \$500,000 of profit every year?**

Answer: **OF COURSE.**

So what can a practitioner hope to earn?

In my experience, there's no limit. I will however add this: based on my experience, once your profits hit the \$750,000 profit mark, you will likely need to consider bringing in partners, which will change what you do, how you work, think and more. But remember, while you will need to now share your profits with one or more partner, the sale of part of your practice will generate for you an instant personal cash in-flux which sure is nice in your later years of practice.

Summary: If you're not earning \$250,000 of profit as a sole practitioner, or even as a partner, I would suggest that you have a LOT of work to do on your practice to achieve it's potential. You have the potential of earning a lot more than \$250,000 while still working only 2,000 hours or so a year.

Oh, and let's not forget what such a practice would be worth when selling.

How much more is a practice worth if revenues are double and profits 5 to 10 times greater?

Twice the price? Nope. A hell of a LOT more than twice.

Is early retirement now in the cards for Matt? I would certainly hope so.

I hope that this has whet your appetite to discover what you can accomplish.

Chapter 3

Purpose of Preparing Projections And How to Create Them

Preparing projections

Purpose of preparing projections are as follows:

- Predict cash flow
- Determine what can be afforded by way of investment or equipment

BUT MOST IMPORTANT

- For planning purposes



Preparing a budget for the firm Terrific Accounting services.

Where do I start?

STEP 1 – What profits do you want?

Start at the bottom. Figure out what profits you wish to make in the coming year, based on historical information available to you.

Given the profits for the last 2 years, I'd probably want to have a profit of close to \$100,000. If I'm a good accountant or bookkeeper with experience and knowledge, I would hope to be earning at least \$100,000. So why not shoot for this year and aim higher yet in the years to come.

STEP 2 – Expenses

DO NOT simply take last year's numbers and plunk them in with a 5% increase or whatever. THINK. Make a plan. You should be able to back up every number on your budget of how it was arrived with a concrete action plan.

Advertising and promotion: How much shall I put to advertising and promotion? Well, we first have to come up with what we'll be doing by way of marketing. It is not out of the ordinary to spend the better part of an entire day drawing up a **written** marketing plan.

Ask yourself questions like:

- Where will I advertise
- What medium will I use?
 - TV
 - Radio
 - Newspaper
 - Social media. If so which ones?
- Will I redo my website
- Will I put out newsletters regularly? If so...
 - What will you put on the newsletter
 - Who will produce
 - Where will you get content
 - Who will write

Once you've decided ALL you'll be doing, you need to research what all this will cost and when each marketing activity will be done. Be sure to allow for unexpected spending. So for the sake of this exercise, let's say that we determine that \$9,000 of marketing will allow us to do everything we've got down on the marketing plan. Let's add another \$1,000 in the projections for any last minute unexpected investment in marketing, or a total of \$10,000

Amortization: This is where you think about any new equipment you'll be buying.

Questions you need to ask yourself are:

- Will I be hiring new employees requiring computers and monitors?
- Are the current computers still good or obsolete?
- Printer and photocopier good for another year?
- Need more desks for new employee?
- Chairs all still good?
- Phone system adequate?
- Will be using the same software as last year. If not, what's the cost?
- Will I buy a building or continue renting?

Once you've identified all purchases, you may now calculate projected amortization. Given I intend on spending an extra \$10,000 in new equipment, my amortization needs to be adjusted to say \$4,000.

Automobile: Assuming automobile is simply reimbursed on a per km rate, I will need to think about my plans by way of what I'll be doing this year.

Questions:

- Do I intend on opening a satellite office that will require more driving?
- Does my marketing plan above require me to make presentations and thus traveling a lot more from place to place to make those presentations?
- Will I increase the rate at which I reimburse automobile kilometers given gas price fluctuation?
- Are there more economical ways of getting around?

Given the increase in gas price, and given I do intend on driving more to make presentations and seeing clients at their place of business more, I will need to increase automobile expenses to about \$3,000.



Bad debt: How do I ensure my bad debt is non-existent? Do I:

- Ask for retainers more often
- Be more selective of who I choose to work with?
- Withhold filing tax returns until I'm paid?
- Withhold financial statements until I'm paid?
- Charge more interest to offset the bad debt expense?

Bank charges: A necessary evil. But can I reduce this somehow?

Questions to ask myself:

- Do other banks provide better service with lower fees?
- Are fees for credit card as low as they can be?
- Can I get clients to pay in cash, cheque or debit card more?

Assuming I cannot find ways of reducing and given I expect revenues to increase, it goes without saying that I can expect this expense to also increase. \$7,800 seems fair and reasonable.

Dues and subscriptions: Questions to ask myself should include:

- What software and newsletters am I currently subscribed to?
- All of them good?
- Any change in software?
- Any new periodicals worth subscribing to?
- What value will such new subscriptions be to the firm and why?

Insurance: Careful when shopping around for insurance. Not all insurance is equal. Given the cost and possible savings in going with one broker vs another, just be sure you're well ensured for all possible bad eventualities. This is no time to go with the cheapest. But in doing projections, now is the time to review your current policy, ask questions, check the coverage, and enquire about the cost for next year.

Management wages: What do I want to pay myself? What about paying wages to my spouse or kids? (Whether you record wages to spouse and kids under management is up to you). Should I consider paying myself dividends instead of wages? Can I reduce my cost of living and thus reduce personal taxes and defer more by reducing my own wages? Are there expenses I'm currently paying that could be run through the corporation and thus reduce my need for such wages? What about my personal life insurance? Should I transfer to the corporation?

Meals and entertainment:

- How does this tie into my marketing plan?
- Do I intend on meeting my clients on a very regular basis (go out to lunch with a client every 2 weeks)?
- Do I plan on making an effort in buying lunch with potentially great clients
- Do I plan on hosting events for my team (Christmas, Summer BBQ, etc)

Given my plans to be more aggressive with marketing, I've calculated my meals to be closer to \$2,500 this coming year.

Office supplies. Careful in reducing cost of office supplies. Nobody likes working with substandard supplies so ensure your team's supplies are good (i.e., good pencils, stapler, etc.). Clients have very little to go on by way of tangible product to ensure everything they get that's tangible reflects high quality (i.e., print statements produced on nice stock paper).

In an effort to reduce cost, consider the following:

- Charging clients for disbursements on every invoice you produce. You should be able to recuperate 100% of office supplies costs
- Going more paperless

Given my intentions of charging \$3.00 for every tax return I prepare and adding a disbursement fee of about \$30 - \$50 for every year-end, I project that my office supplies to be nil this coming year.

Professional development: VERY important. CRITICAL, in fact. Given that the 3 skills that are essential to the success of a business are:

- Technical (ability to provide services requested by the clients – taxes, auditing, software technical support, etc)
- Marketing (ability to attract and keep clients)
- Management (Ability to produce a profit from all activities and make proper management decisions)

I will therefore allocate the following fees to the following learning activities:

- Technical – tax seminars, auditing standards, etc for owner and employees - \$3,000
- Marketing – seminars and books on how to better do marketing - \$250
- Practice management seminars: Given the rate of return on these, I will spend \$4,000

One more note related to professional development: I'm always amazed of the amount of money practitioners spend on learning technical skills. Many, if not most, will spend an extraordinary amount of money and entire days in seminars learning technical skills including but not limited to:

- Taxes
- Auditing standards
- Software demonstrations
- Report generating tools
- IT
- And the list goes on and on

There's never a shortage of people signing up to seminars and events to improve one's technical skills. Yet almost nobody signs up for the practice management seminars that will likely have the largest impact on their practice, their bottom line, and their lives. Not to say that you shouldn't invest in your technical skills. You absolutely should. But I suggest you invest as much time and money on improving your management skills by attending events and seminars on this subject. These will likely give you an even far better return on your investment if they're decent.

Rent: Questions to ponder:

- Will the space I have now be okay for another year?
- How about the following year? Should I start looking now for the near future?
- How much longer do I have on my current lease?
- If lease is about up, what will be the cost to renew?
- Better spaces available?
- Bigger spaces available?
- Would more visibility help (being on a higher traffic street)?
- Less expensive per square foot space available worth looking into?
- Can I possibly negotiate a better price given vacancies available in the area and given how great of a tenant I am?
- Am I content with the landlord?

Repairs and maintenance: A quick review of expenses incurred here will allow you to get a sense of whether or not some equipment needs to be replaced or updated. High cost or R&M should have you considering replacing the asset giving rise to such costs. Trying to project R&M is nearly impossible as there is no way of predicting what equipment will fall apart on us and what the cost of repairing will be. A best guess based on history is about the best most people can do in most circumstances. This said however, if you have equipment that was under warranty that will no longer be covered going forward, it may be wise to budget for an increase in R&M.

Retreat: Few businesses even have "retreat" as an expense category for the simple reason very few people have firm retreats. There are tremendous benefits to holding firm retreats for the team every year. These can be relatively inexpensive or VERY expensive depending on what the plan is. Where you hold the retreat, what's included in the retreat (meals, drinks, activities), and who will facilitate the retreat will all impact the price. Properly preparing your projections will require that you do some research as to the cost of the following:

- Facilitator
- Lodging – Rooms for everyone if that's what you chose to do
- Meals
- Liquor and hors d'oeuvres served
- Activity

Subcontract: Subcontract fees can be viewed as a necessary evil or an opportunity. Having access to someone with superior knowledge or experience allows the firm to provide services that would otherwise be impossible to provide. As a general rule, the cost of the subcontractor could and should be forwarded to the client. Also, working with more qualified professionals is often a great opportunity to increase our own knowledge and widen our experience and ability to provide more high-end services ourselves. Cutting back on this expense may not be a good idea depending on how it's used.

Consideration should also be given to hiring a mentor. I've always been impressed with the difference successful business owners will attribute to their mentors.

Speaking for myself and my accounting practice, money I spent on mentoring was by far the best investment I've ever made. Bar none. Choosing the right mentor to match you, your wishes, your style, and your core values is extremely important.

Telephone: Unless you plan on adding phone lines or providing people on the team with cell phones you plan on paying for, this expense should be similar to prior years. This said however, now is the time to think about whether or not you do have enough phone lines. When you pick up the phone, do you sometimes find that all the lines are busy? Do clients sometimes complain of not being able to get through because all the lines are busy? If you answered yes to either of these questions, consider adding another line and adding the extra cost to your projections. Consideration should be given to adding phone lines if you're considering increasing the number of employees during the year, especially if the situation with phone line availability is already tight.



Travel: To ensure everyone is on the same page, I define travel expenses as being flight costs, lodging, car rental, taxi/Uber costs when on a trip. Now's the time to decide what seminars you'll be attending, where they are, the expected cost of attending, etc. You may also give some thought to expanding your services outside of your immediate area which of course would result in more traveling expenses.

Utilities: Seldom is there much thought required to budget for utilities unless you plan on moving or significantly changing the way you operate. There aren't many ways to reduce utilities.

Wages and benefits: Please refer to the calculations provided at the end of this chapter. Determining projected wages should be done by actually listing all team members, determining what you think you will pay them in the year to come, the number of hours you expect them to work, and then adding about 15% to cover vacation, stat holidays, CPP costs, EI costs and any other benefit. Whether 15% is enough is something you need to look at and calculate.

Should you determine that the revenue capacity of your team cannot meet your projected revenues, you will need to add the yet unhired employee to your calculation. Determining the team capacity is something I will cover when projecting revenues.

'What percentage of revenues should wages be?' is a question often asked and seldom properly answered at seminars? The reason is because there is no industry standard. Please refer to Chapter 3 for much more information on this subject.

STEP 3 – Projecting revenues

I think most firms should project increasing revenues by at least 12% per year as a bare minimum. In reviewing my financial statements over the last 30 years, we were successful in doing so pretty much every year. Several years, especially at the beginning, we often enjoyed increases in revenues of 25% and more. How is this even possible you may ask?

Consider this: For most firms, if you've properly adopted and fine-tuned your value billing skills, increasing fees by 5% should be easy. Depending on where your fees currently compare with the industry, there is a very high likelihood that you could increase your fees by something closer to 10-15% without losing any clients to speak of. But to be conservative, increasing fees by at least 5% should happen across the board for every service provided every year. Odds are good you will find that some services and some clients you could justify increasing them by more than the 5%, resulting in an overall increase of around 7%.

The other 5-7% increase you need to achieve the 12% overall increase in revenues will come from the firm gaining new clients. Increasing the number of clients by 5-7% is generally not difficult insofar as:

- You have a well thought out, aggressive marketing plan
- You make an effort to meet your really good clients on a regular basis (for lunch or something)
- You provide your clients with impeccable service that will attract referrals
- You have clients who provide you with great Google reviews
- Your team is trained to treat clients well and do their part in marketing the firm
- You spend the proper time and energy to discover how to keep and attract clients.

You will undoubtedly notice that the percentage increase I've included in the projections is more than the 12% I discussed above. How did I arrive at the projected amounts? I simply increased revenues to an amount that would generate the \$100,000 I want to achieve as profits. Admittedly, the projections falls a bit short of the \$100,000 I was hoping to get, but \$96,650 is close enough for me for the current year.

Part of budgeting the revenues is determining whether the firm has the capacity to achieve projected revenues with the given team. Again, refer to the appendix at the end of this chapter related to this calculation.

Projected revenues for interest were calculated by looking at the average AR and calculating an average rate of interest of 24%. I want interest income to exceed my bad debt expense always.

Conclusion:

You'll surely have noticed that I've set some pretty hefty goals for myself. Which is what I want. I want the goals I set for myself to be difficult to achieve but possible. It should require that I stretch myself beyond what I've done before. This attitude is healthy for the business and even for the mind. The mind is a complicated organ. It never ceases to amaze me of how it will find solutions to problems when obligated to do so. You put an increase in revenues of 18.7% and the mind will immediately go to work at finding solutions, even in your sleep. The subconscious mind will find a way.

And here's another interesting observation I hope you've made. I project an increase in revenues of 18.7%. However, note that the result of such an increase in revenues will result in an increase in profits of 39.4%. In fact, in most cases, such an increase in revenues will result in far greater increase in profits if you manage to NOT increase expenses. The results here were somewhat skewed by the fact that I budgeted significant increases in several expenses such as advertising and promotion, retreat costs, subcontract, travel and such.



Terrific Accounting Services Ltd.

Income statement

For the year ended July 31, 20XX

	Projected	Current year	Previous year	Percent increase
Revenues				
Financial statement & corp tax services	217,000	185,687	178,830	16.9%
Personal income tax services	127,000	108,752	99,052	16.8%
Bookkeeping services	35,000	28,520	26,838	22.7%
Consulting services	20,000	15,850	15,280	26.2%
Interest	4,000	816	751	390.2%
	403,000	339,625	320,751	18.7%
Expenses				
Advertising and promotion	10,000	2,635	3,487	279.5%
Amortization	4,000	3,250	3,055	23.1%
Automobile	3,000	2,170	1,880	38.2%
Bad debt	2,000	8,755	2,230	-77.2%
Bank charges	7,800	7,302	7,858	6.8%
Dues and subscriptions	1,800	1,666	1,786	8.0%
Insurance	1,900	1,850	1,820	2.7%
Management wages	55,000	55,000	52,000	0.0%
Meals and entertainment	2,500	1,347	1,936	85.6%
Office supplies, courier & postage	-	5,984	5,226	-100.0%
Professional development	7,250	120	100	
Rent	28,200	28,200	28,200	0.0%
Repairs and maintenance	2,500	2,535	2,843	-1.4%
Retreat	14,000	0	5,076	
Subcontract - outside consulting	5,000	3,500	4,235	42.9%
Telephone/fax/internet	8,500	8,232	7,535	3.3%
Travel	2,000	735	1,846	172.1%
Utilities	6,000	5,928	5,572	1.2%
Wages and benefits	144,900	131,100	121,540	10.5%
	306,350	270,309	258,225	13.3%
Net Income	96,650	69,316	62,525	39.4%

Appendix

Firm revenue capacity calculation

	Total hours worked	Utilization	Chargeable hours	Hourly charge-out rate	Revenues generated
Owner	2,000	70%	1,400	125	175,000
Mary	2,000	85%	1,700	85	144,500
Eve	2,000	45%	900	45	40,500
Adam	2,000	90%	1,800	70	126,000
					486,000

How much revenue should be generated by the employees?

Total revenues generated by the practice	339,625
Revenues generated by the owner	175,000
	164,625

Employee capacity

Mary	2,000	85%	1,700	85	144,500
Eve	2,000	45%	900	45	40,500
Adam	2,000	90%	1,800	70	126,000
					311,000

Given that projected revenues from services rendered is \$399,000 (\$403,000 less \$4,000 of interest), and firm capacity is \$486,000 (see above), I do not foresee a need to hire more people for the current year.

Chapter 4

Understanding the Relationship Between Cost of Wages And Gross Revenues Earned

Wages relative to revenues earned

Income statement

For the year ended July 31, 20XX

	FIRM A	Percentage	FIRM B	Percentage
Revenues				
Financial statement & corp tax services	185,687	54.7%	645,300	55.6%
Personal income tax services	108,752	32.0%	335,600	28.9%
Bookkeeping services	28,520	8.4%	112,700	9.7%
Consulting services	15,641	4.6%	65,180	5.6%
Interest	816	0.2%	2,600	0.2%
	339,416	100.0%	1,161,380	100.0%
Expenses				
Advertising and promotion	2,635	0.8%	12,205	1.1%
Amortization	3,250	1.0%	9,600	0.8%
Automobile	2,170	0.6%	6,600	0.6%
Bad debt	8,755	2.6%	6,805	0.6%
Bank charges	7,297	2.2%	27,680	2.4%
Dues and subscriptions	1,666	0.5%	2,350	0.2%
Insurance	1,850	0.5%	2,800	0.2%
Management wages	45,000	13.3%	45,000	3.9%
Meals and entertainment	1,347	0.4%	3,460	0.3%
Office supplies, courier & postage	5,984	1.8%	6,380	0.5%
Professional development	120	0.0%	1,810	0.2%
Rent	28,200	8.3%	68,700	5.9%
Repairs and maintenance	2,535	0.7%	9,950	0.9%
Retreat	0	0.0%	11,850	1.0%
Subcontract - outside consulting	3,500	1.0%	4,800	0.4%
Telephone/fax/internet	8,232	2.4%	16,370	1.4%
Travel	735	0.2%	6,460	0.6%
Utilities	5,928	1.7%	19,660	1.7%
Wages and benefits	126,500	37.3%	485,760	41.8%
	255,704	75.3%	748,240	64.4%
Net Income	83,712	24.7%	413,140	35.6%

Relationship between wages paid and revenues generated by the firm

A question I often get asked when making presentations across the country is this: What should the cost of wages be relative to the revenues? In other words, wages should represent what percentage of gross revenues generated by the firm?

I've seen many presenters take a stab at this question and I have yet to see anyone answer it properly. Not to say nobody knows the answer to this question. I'm just saying that none of the presenters I've ever seen, when asked that question, has ever answered it properly.

Admittedly, it took me quite some time to figure out the answer, to only discover that this is a question impossible to definitively answer. Reason being is that this percentage will change depending on the size of the firm, the number of employees, revenues generated by the owner or the partners and what the partners are paying themselves related to the revenues they are generating.

The best way to illustrate my point is by way of example. Please refer to the next pages of this workbook. Let's look at the revenues generated by FIRM A, and FIRM B. Both are sole practitioners, both are paying themselves \$45,000 per year in wages.

Firm A generates \$83,712 of profits over and above their own management wages. Not great, but not horrible. Firm B on the other hand is generating a profit of \$413,140 per year. Much better, you'll agree.

More important yet, if one were to look at the cost of wages relative to the revenues generated, Firm A's cost of wages is only **37.3% of gross revenues**. Firm B on the other hand has cost of wages representing **41.8% of gross wages**. At first glance, one could conclude that Firm A is more efficient and has a team that's more efficient and both are paying productive for what they are getting paid.

Fact is, nothing could be farther from the truth. An analysis of the cost of wages per employee compared to revenues each generated would very clearly show that FIRM B employees are far more efficient and productive relative to what they're getting paid. Financial statements can be deceiving if you don't drill down to each person's productivity.

It should be therefore very clear to the reader of this workbook that employee data is essential for proper management of a healthy practice.

A few observations to be made on the following appendix

Revenues generated by the employees of Firm A is \$182,600. Yet, wages including benefits is \$125,500 representing **69.3% of revenues generated**.

Revenues generated by Firm B's employees is \$1,026,780 with the cost of wages being \$485,760 including employee benefits representing a total cost of **47.3% of revenues earned by them**.

N.B. ALL of the employees of Firm A is costing the firm 45% or more of what they've earned for the firm, with one employee who's over 60%, and even one employee at 300% of what they brought in.

Now let's look at Firm B.

Most employee's cost relative to revenues earned is around 40%, some as low as 38.1%. There's only 2 employees above 50% (barely over) if you exclude the administrative person who's at 269% vs 305% of revenues generated.

Conclusion

Given wages almost always represents the largest expense on any practitioner's income statement, it's very important that you pay special attention to what your team is costing the firm relative to what they are generating by way of revenues.



Appendix

Firm A - Employee Productivity

Employee	Expected hours work	Hourly wage	Total wages
Mary	2,000	20	40,000
Eve	2,000	17	34,000
Adam	2,000	18	36,000
			<u>110,000</u>
Vacation/stats/benefits		x	1.15
Total cost of employees			<u><u>126,500</u></u>

	Total hours worked	Utilization	Chargeable hours	Hourly effective rate	Revenues Generated
Owner	2,000	65%	1,300	120	156,000
Mary	2,000	70%	1,400	72	100,800
Eve	2,000	20%	400	32	12,800
Adam	2,000	75%	1,500	46	69,000
Interest					816
					<u><u>339,416</u></u>

	Wages	Benefits (15%)	Total cost	Revenues generated	Cost percent
Mary	40,000	6,000	46,000	100,800	45.6%
Eve	34,000	5,100	39,100	12,800	305.5%
Adam	36,000	5,400	41,400	69,000	60.0%
	<u>110,000</u>	<u>16,500</u>	<u>126,500</u>	<u>182,600</u>	<u>69.3%</u>

Appendix

Firm B - Employee Productivity

Employee	Expected hours work	Hourly wage	Total wages
Mary	2,000	35	70,000
Eve	2,000	29	58,000
Adam	2,000	26	52,000
Joseph	1,800	24	43,200
Mathew	1,800	24	43,200
John	2,000	21	42,000
Luc	1,600	20	32,000
Paul	2,000	18	36,000
Anne	2,000	23	46,000
			422,400
Vacation/stats/benefits		x	1.15
Total cost of employees			485,760

	Total hours worked	Utilization	Chargeable hours	Hourly effective rate	Revenues generated
Owner	2,000	40%	800	165	132,000
Mary	2,000	70%	1,400	115	161,000
Eve	2,000	80%	1,600	100	160,000
Adam	2,000	80%	1,600	89	142,400
Joseph	1,800	85%	1,530	84	128,520
Mathew	1,800	90%	1,620	74	119,880
John	2,000	85%	1,700	69	117,300
Luc	1,600	90%	1,440	67	96,480
Paul	2,000	85%	1,700	48	81,600
Anne	2,000	20%	400	49	19,600
Interest					2,600
					1,161,380

Appendix

Firm B - Employee Productivity - continued

	Wages	Benefits (15%)	Total cost	Revenues generated	Cost percent
Mary	70,000	10500	80,500	161,000	50.0%
Eve	58,000	8700	66,700	160,000	41.7%
Adam	52,000	7800	59,800	142,400	42.0%
Joseph	43,200	6480	49,680	128,520	38.7%
Mathew	43,200	6480	49,680	119,880	41.4%
John	42,000	6300	48,300	117,300	41.2%
Luc	32,000	4800	36,800	96,480	38.1%
Paul	36,000	5400	41,400	81,600	50.7%
Anne	46,000	6900	52,900	19,600	269.9%
	422,400	63,360	485,760	1,026,780	47.3%

Chapter 5

Impact Increasing Revenues Has on the Bottom Line

Terrific Accounting Services Ltd.

Income statement

For the years ended July 31, 20XX

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Corporate and audit services	205,000	235,750	271,113	311,779	358,546
Personal income tax services	160,000	184,000	211,600	243,340	279,841
Bookkeeping services	85,000	97,750	112,413	129,274	148,666
Consulting services	25,000	28,750	33,063	38,022	43,725
Interest	850	978	1,124	1,293	1,487
	475,850	547,228	629,312	723,708	832,265
Expenses					
Advertising and promotion	4,500	4,725	4,961	5,209	5,470
Amortization	3,250	3,315	3,381	3,449	3,518
Automobile	2,500	2,625	2,756	2,894	3,039
Bad debt	4,759	5,472	6,293	7,237	8,323
Bank charges	9,517	10,945	12,586	14,474	16,645
Dues and subscriptions	3,000	3,150	3,308	3,473	3,647
Insurance	1,850	1,943	2,040	2,142	2,249
Meals and entertainment	3,000	3,150	3,308	3,473	3,647
Office supplies, courier & postage	6,000	6,120	6,242	6,367	6,495
Professional development	3,000	3,060	3,121	3,184	3,247
Rent	40,000	41,200	42,436	43,709	45,020
Repairs and maintenance	4,000	4,080	4,162	4,245	4,330
Retreat	10,000	10,500	11,025	11,576	12,155
Subcontract - consulting	5,000	5,250	5,513	5,788	6,078
Telephone/fax/internet	8,500	8,670	8,843	9,020	9,201
Travel	2,000	2,040	2,081	2,122	2,165
Utilities	6,000	6,120	6,242	6,367	6,495
Wages and benefits	125,448	148,096	173,224	200,839	230,914
	242,324	270,460	301,522	335,569	372,635
Net Income	233,527	276,767	327,789	388,139	459,630

Impact of increasing revenues to the bottom line

Something that is often missed by business owners, and even accountants and bookkeepers, is the impact an increase in the gross revenues can have on the bottom line.

We imagine that if we increase revenues by 10%, the bottom line will also increase by 10%. The fact of the matter is that this is not entirely accurate.

The following is a 5-year comparative statement to demonstrate this fact. In the example provided, the firm is earning gross revenues of \$475,850 and a net profit of \$233,527 in year 1. Now see what happens if this firm increases its gross revenues by 15% every year. You'll notice that the **profits increase by around 18.5% every year**. Why? Because many expenses, most in fact, do not increase by the same rate. Increasing revenues by 15% will not impact insurance costs, rent, utilities, telephone, etc. Most of these will remain relatively flat depending on inflation.

In creating this 5-year comparative statement, I made the assumption that the increase in expenses would be between 2 and 5% per year, based on my experience of such expenses. There are a few, such as bank charges and bad debt for example, where the increase follows revenues generated. And I dare say that I was a bit generous in the increase on a few of the expenses as I've generally succeeded in achieving better control of expenses than demonstrated here.

Cost of wages takes into account the revenues that I think the owner will produce, accounting for an assumption that the owner's utilization will continually drop year after year due to increase in volume. I also assumed that wages would increase at a rate closer to 15% than 3%. I have also factored in SOME expected efficiency in services provided, but not as much as I've usually realized.

One last interesting observation: Increase in revenues from year 1 to year 2 is \$71,378. Increase in profits in those years is \$28,137. That means that **39.4% of the increase in year 2 fell to the bottom**. And I dare say that this is a conservative number based on my experience and the experience of the firms I mentor. The difference is usually much greater than that.



Chapter 6

In-depth Examination of Employee Performance

Employee productivity review

Proper reports will give the firm CEO incredible insight on what's happening under the hood. Diagnosing, addressing and correcting any employee productivity problem is one of the most important elements in practice management.

Unfortunately, few practitioners have this data available to them. And even less people even care! Very few accountants and bookkeepers have any idea of the impact this data can have on their bottom line.

So two things are very important:

FIRST

That the firm have a proper time and billing software capable of producing the reports needed to properly diagnose what's actually happening right in front of them.

SECOND

Once you have this software available to you, you must learn to:

- Have the software produce the reports that will provide insight
- READ it properly to gain a good understanding of what's happening
- TAKE ACTION – Practitioner must act and rectify whatever needs fixing and improving

Learning how to read and respond properly to the reports will usually take years of training. Speaking from experience, I cannot tell you how many times I would review my employee productivity reports, draw many conclusions of all the things I needed to do, only to have my mentor who had far more years of experience doing this, uncover a whole slew of other things I could or should be addressing and doing. It was actually quite an unbelievable experience to have this happen to me time after time.

I must add at this time, that in working with my mentor, and even to some degree the people I myself now mentor, the reporting methods are continually being refined and improved. The codes we use today which will be showcased to some extent in this workbook, came from many years of fine tuning and evolution.

As previously discussed, the CEO should pay close attention to the utilization and realization of each team member. You will likely conclude, as I have, that correcting and improving utilization is simpler and will usually yield quick results. Improving utilization is the low bearing fruit. However, improving utilization has its limits. You cannot get a utilization greater than 100%. Realization on the other hand, while more complicated and sometimes more difficult to improve, has no limit. You can ALWAYS improve someone's realization. It just requires discipline, courage, willingness, and thinking.

In-depth examination of employee performance

The importance of being able to properly measure your team's productivity as well as your own cannot be overstated. It is ABSOLUTELY CRITICAL that you have a good time and billing software that will not only provide you with the amount of time spent on each engagement at everyone's related charge-out rate, but that you also have details of everyone's utilization and realization.

So let's first provide you with some **definitions** for the purpose of this workbook:

- **Utilization:** Percentage of time that's chargeable vs non-chargeable
- **Realization:** Relates to the effective charge-out rate. In other words, what are you REALLY getting per hour billed to clients, which will usually be different from your standard charge-out rate? This is especially true if you value bill rather than bill by the hour
- **Write-up:** A write-up will occur whenever the amount you invoice the client is greater than the Work-in-Process (WIP) recorded
- **Write-down:** A write-down will occur whenever the amount you invoice the client is less than the WIP recorded

So how do you improve utilization? Well, that's a workbook and presentation on it's own.

I will however provide a short list:

- Charge for everything you do as much as you can
- Delegate non-chargeable work to the admin team
- Prioritize tasks better and even consider scratching things off your list that will not have a major impact on your firm
- Be VERY critical of any non-chargeable tasks done by yourself or your team

How do you increase your realization (effective charge-out rate)?

- **Value bill** – We do several presentations on this subject. If done properly, the impact on your realization is outstanding
- **Exceed client expectations** – Much easier to charge more if you've surpassed client's expectations vs falling short from what they were told or expected
- **Invoice quickly**
- **Marketing** – Good marketing will generally result in more clients, which in turn will result in ability to charge more for all services rendered without fear of losing clients
- **Discuss fees BEFORE starting the work**
- Don't give services away

Impact of increasing utilization and realization:

EMPLOYEE PERFORMANCE					
	Utilization % Chargeable	Realization Effective Rate	Gross Profit	Increase in profit	Cost of Service %
Example 1	80%	\$ 110	\$ 108,888		41%
	90%	\$ 110	\$ 131,768	\$ 22,880	36%
	95%	\$ 110	\$ 143,208	\$ 34,320	34%
Example 2	80%	\$ 110	\$ 108,888		41%
	80%	\$ 120	\$ 125,528	\$ 16,640	37%
	80%	\$ 125	\$ 133,848	\$ 24,960	36%
Example 3	80%	\$ 110	\$ 108,888		41%
	90%	\$ 120	\$ 150,488	\$ 41,600	33%
	90%	\$ 125	\$ 159,848	\$ 50,960	32%
	100%	\$ 125	\$ 185,848	\$ 76,960	29%

As you can see from the above illustration, simply increase someone's utilization **from 80% to 90%** without even increasing the realization by a single cent will **increase your firm's bottom line by a whopping \$34,320**.

Increasing someone's realization by **only \$10** per hour can **increase the bottom line by \$16,640**, even if you do not improve this person's utilization.

Now imagine increasing someone on your team's utilization by 10% and the realization by only \$10 per hour, this will result in **increasing your bottom line by \$41,600 PER EMPLOYEE!!!**

So if you can achieve this result with say 3 employees (which could be 2 employees and yourself), you can easily increase your bottom line by \$124,800. Wow!!!

Increasing someone's utilization and realization by 10% and \$10 is easier than you think once you know how. Whenever I'm hired to mentor a practitioner, one of the first things I will work on is looking at ways of improving everyone's utilization and realization as the impact is quick and very significant. But it does require discipline, some courage, and some knowledge of implementing, and more important, an ability to see and know how to attack this issue. This requires that you have access to proper reports and ability to read and use those reports.

The above should have provided you with the proper motivation to dedicate the necessary time and energy to learn how to read these reports and put the necessary changes in action.



Creating proper codes for time sheet entries

When creating your time code chart of accounts, it's important you first determine what you want to track. What's important to you? The other suggestion I have is that you consult with someone who really knows how to use time sheet reporting. Unfortunately, practitioners well versed in this area are very much in the minority. Worse yet, some believe they know how to set it up properly, but don't. Once you've set it up, it's far more difficult to change it later. Might as well do it right NOW.

Most people who see my code sheet will usually find that I've got far too many codes. On several occasions, I had practitioners that I mentor trash most of the codes I used and came up with their own coding system that was far less detailed and thus simpler to use. Needless to say, that a less detailed shorter code list is much better received by everyone on the team. However, without exception, once the practitioner was in the throws of examining the data, they quickly realized that they were unable to pull as much, not enough in fact, information to make good informed management decisions about changes that needed to happen. Everyone that I've mentored who initially opted for a shorter simpler set of codes ended up having to rebuild their entire coding system so that they too could get the gold hidden in their practice better.

A few suggestions to get you started

Now keep in mind, the codes we now use are the result of many years of evolution and starting over and over again from our lack on proper understanding on how to use this information well. But here are a few suggestions to get you started on the right path and avoid you making the same mistakes we made and that I've seen several practitioners that I've mentored make.

Suggested time code chart of accounts

In establishing your time code system, consider using the following table of content as a starting point:

Non-chargeable codes

1000 – 1999 – All non-chargeable tasks will all start with a “1”

The chargeable codes

2000 – 2999 – All tasks related to the agricultural sector

3000 – 3999 – All tasks related to year-end preparation including audits and corporate tax returns

4000 – 4999 – Codes related to bookkeeping tasks

5000 – 5999 – Represent the tasks related to payroll, preparing T4s, T5s, T5018s and all other T slips

6000 – 6900 – Are codes dedicated to preparing personal tax returns (T1 and U.S. 1040)

7000 – 7900 – Consulting codes (tax, business, software tech support, etc)

8000 – 8999 – Special projects and consulting such as section 85 rollovers, R&D claims, etc

9000 – 9999 – Expenses incurred for clients requiring eventual reimbursements.

Utilization review

The purpose of reviewing people's utilization is to eventually get everyone's time paid for by your clients. Remember, any non-chargeable time recorded by any and all team members is paid for by the firm, whereas chargeable time should generally be paid for by the client.

It should be well understood that when recording chargeable time, the question is NOT whether you will charge the client for this time or not. That is NOT what determines whether it's chargeable or not. Any time related to servicing a client, regardless of whether or not such time will be actually invoiced or not, should be recorded as chargeable. The objective of recording time is to determine the cost, at retail, to servicing this particular client. Failing to record as chargeable may result in misinformation. You may be led to believe that you're doing good on a client or a file when in fact you're not because much of your time is recorded as non-chargeable.

Realization review

When reviewing the individual work code realization, something you want to concentrate on are the codes for which the person appears to have done exceptionally well. Good write-ups on a particular work code will be an indication of the tasks this person should be doing more of.

More important yet, a close review of the codes where write-downs occurred requires special attention.

Write-downs for any task is an indication of one of the following problems:

- Person is weak at performing such tasks and should therefore receive more training
- Person is weak at a given task so such tasks should possibly be delegated to someone else who's better qualified
- Task in question cannot be charged out at this person's charge-out rate and should therefore be delegated to someone else on the team. For example, it is very unlikely that Lorraine (discussed later in this workbook) could ever get her charge-out rate of \$200 for reconciling a bank. May be possible, but very difficult. She'd be better off delegating all bank reconciliations to someone on her team who is very capable of doing this task, but at a much lower charge out rate
- Firm is simply not charging enough for this task. This will become more evident by reviewing everyone on the firm. If EVERYONE is getting write-downs for a particular task, then the problem is likely not the employee, but rather the firm, as a whole, not charging what it should for this task



Case study

The best way of introducing anyone to this philosophy and using these employee productivity reports, which may be a wholly new way of thinking, is to actually do a case study. The more practice you get at reviewing data, of dissecting and thinking, the better equipped you'll be at getting the ball rolling.

There's no way that this workbook will make you an expert. I've been doing this for over 30 years and I'm still discovering ways of presenting and interpreting the information that allow me to refine my skills.

My goal with this case study is to simply expose you to some reports you may never have seen. See what's out there, the kind of information you can extract from this data, and how this information will educate you about actions that can and should be taken. Hopefully, you will appreciate and embrace the impact those changes can have on your life, your team's lives and your bottom line.

The data we'll be examining are reports I can pull from our time and billing software. Different software can produce similar reports. I'm hopeful that if you don't currently have a time and billing software, you will see the gold that can be extracted from a good time and billing software and invest in getting one. I also hope and trust that you will properly research what's out there before investing into this software. If you already have a time and billing software, I hope you will research whether your software can provide you with the information needed to make the proper adjustments that we'll be examining here.

How we'll work through this case study

In the pages to come, you'll be provided with 3 pages of information for each team member of this firm, including the owner.

- **Page 1** – Will be a short narrative discussing the person's role, character, and other non-tangible information about the team member
- **Page 2** – Details of the person's non-chargeable hours
- **Page 3** – Details of the person's chargeable hours

Following these 3 pages will be some information that was extracted from the reports and suggestions of possible changes that can be made in the practice based on what's presented. The suggestions provided are only but a few of the possible actions that can be taken and should not be considered as all inclusive as that would make this workbook far too long. N.B. Codes provided in this workbook in the case study closely mirrors the codes I use in my practice where 3000 codes are year-end codes, 4000 codes are related to bookkeeping tasks, 6000 to T1 preparation, etc. as discussed above.

Lorraine

Owner - Started her practice almost **10 years** ago

With years of experience, Lorraine knows accounting and has an above average tax knowledge. She has a natural ability for finding solutions to problems.

She's extremely caring. Lorraine would give the shirt off her back to help her client or her team. She's very good at keeping her finger on the pulse of the well-being of everyone at the firm. You could say she's an office mom.

Clients appreciate her knowledge and caring but often complain to Penny about how long it takes to get a reply to their questions whether by email or by phone. Lorraine enjoys the work she does and doesn't mind the hours she puts in, but she's starting to feel like she needs a break.

Effective Rates - Lorraine

May 1, 201X - April 30, 201Y

ID	Lorraine	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Administrative							
1051	Computer Technical Support	0.45	0.02%	90.00	200.00	0.00	200.00
1057	Computer Maintenance	0.75	0.03%	150.00	200.00	0.00	200.00
1060	Computer Problems	52.90	2.02%	10,580.00	200.00	0.00	200.00
1102	Mail / Email	72.15	2.75%	14,430.00	200.00	0.00	200.00
1103	Filing	50.40	1.92%	10,080.00	200.00	0.00	200.00
1104	Invoicing	1.40	0.05%	280.00	200.00	0.00	200.00
1106	Templates	3.75	0.14%	750.00	200.00	0.00	200.00
1107	Special Projects (details)	13.75	0.52%	2,750.00	200.00	0.00	200.00
1108	Organize Office	2.75	0.10%	550.00	200.00	0.00	200.00
1120	Stats filling time sheets	59.10	2.25%	11,820.00	200.00	0.00	200.00
1150	Client Servicing	27.95	1.06%	5,590.00	200.00	0.00	200.00
1200	Promotion Général	20.90	0.80%	4,180.00	200.00	0.00	200.00
1202	Deliver Seminars	0.20	0.01%	40.00	200.00	0.00	200.00
1203	Prepare Quotes	127.70	4.86%	25,540.00	200.00	0.00	200.00
1204	Board Meetings	2.50	0.10%	500.00	200.00	0.00	200.00
1205	Chat with Clients	10.40	0.40%	2,080.00	200.00	0.00	200.00
1213	GEN - Website - Social Media	1.00	0.04%	200.00	200.00	0.00	200.00
1215	GEN - Newsletters (regular release)	2.30	0.09%	460.00	200.00	0.00	200.00
1216	GEN - Prepare Seminars/tradeshows	4.75	0.18%	950.00	200.00	0.00	200.00
1275	Seminar (attending)	4.25	0.16%	850.00	200.00	0.00	200.00
1300	Firm Team Meeting	64.90	2.47%	12,980.00	200.00	0.00	200.00
1303	One on One meeting	104.50	3.98%	20,900.00	200.00	0.00	200.00
1304	Subcommittee meetings	40.80	1.55%	8,160.00	200.00	0.00	200.00
1350	Training (giving or receiving)	230.30	8.77%	46,060.00	200.00	0.00	200.00
1360	Hiring Process	1.75	0.07%	350.00	200.00	0.00	200.00
1450	Reading and Research	78.20	2.98%	15,640.00	200.00	0.00	200.00
1520	Other Administration	57.90	2.21%	11,580.00	200.00	0.00	200.00
1550	Tax Administration	60.80	2.32%	12,160.00	200.00	0.00	200.00
1750	Practice Management	60.95	2.32%	12,190.00	200.00	0.00	200.00
1751	Review Effective Rate	2.00	0.08%	400.00	200.00	0.00	200.00
1752	Employee evaluations	15.60	0.59%	3,120.00	200.00	0.00	200.00
1753	Whiteboard/PCS - Scheduling	128.20	4.88%	25,640.00	200.00	0.00	200.00
1800	Internal Bookkeeping	167.80	6.39%	33,560.00	200.00	0.00	200.00
Administrative Totals		1473.05	56.11%	294,610.00	6600.00	0.00	200.00

Effective Rates - Lorraine

May 1, 201X - April 30, 201Y

ID	Lorraine	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Billable							
3010	Pick Up Information	13.40	0.51%	2,680.00	200.00	220.09	216.42
3015	Client Contact/Communication	25.20	0.96%	5,040.00	200.00	511.97	220.32
3020	Engagement Planning	44.00	1.68%	8,800.00	200.00	725.19	216.48
3130	Reconcile - Other	1.70	0.06%	340.00	200.00	26.30	215.47
3200	Prepare Working Papers	123.70	4.71%	24,740.00	200.00	2,527.16	220.43
3350	Tax Planning	43.40	1.65%	8,680.00	200.00	172.75	203.98
3450	Management & Other Letters	23.00	0.88%	4,600.00	200.00	0.00	200.00
3500	Review file & financial statem	312.80	11.92%	67,252.00	215.00	2,669.36	223.53
3501	2nd Review	100.00	3.81%	21,500.00	215.00	879.61	223.80
3550	Review With Client	26.30	1.00%	5,260.00	200.00	696.98	226.50
3700	Charity Orgaizations Returns	42.10	1.60%	8,420.00	200.00	25.68	200.61
3800	Travel	9.00	0.34%	1,800.00	200.00	41.23	204.58
3900	Employee Tech Support	1.25	0.05%	250.00	200.00	35.78	228.62
3910	Emp Tech Support-specialized	12.35	0.47%	2,655.25	215.00	4,678.99	593.87
3950	Misc (Supply Details)	3.50	0.13%	700.00	200.00	435.90	324.54
3995	Non-Chargeable	4.65	0.18%	930.00	200.00	47.43	210.20
3998	File Closing	75.60	2.88%	15,120.00	200.00	28.81	200.38
4100	Client Administration	15.55	0.59%	3,110.00	200.00	(948.54)	139.00
4950	Miscellaneous (Suppy Details)	1.00	0.04%	200.00	200.00	(72.90)	127.10
5010	Pick-Up Information	0.25	0.01%	50.00	200.00	(0.10)	199.60
5500	Review Payroll	10.30	0.39%	2,060.00	200.00	(255.60)	175.18
5501	Review T4/T5/T5018	0.65	0.02%	130.00	200.00	(22.60)	165.23
5900	Employee Technical Support	1.25	0.05%	250.00	200.00	(0.50)	199.60
5950	Miscellaneous (Supply Details)	1.00	0.04%	200.00	200.00	(0.20)	199.80
6010	Pickup Info from Client	4.05	0.15%	810.00	200.00	(98.53)	175.67
6011	Pickup Info from Client - US	31.40	1.20%	6,280.00	200.00	1,297.37	241.32
6100	Planning & Consulting	0.70	0.03%	140.00	200.00	(4.75)	193.21
6300	Prepare Jacket	21.85	0.83%	4,370.00	200.00	(480.67)	178.00
6301	Prepare Jacket - US	54.40	2.07%	10,880.00	200.00	2,338.23	242.98
6450	Income & Expense	0.50	0.02%	100.00	200.00	(12.83)	174.34
6500	Review Tax Return	33.25	1.27%	7,148.75	215.00	219.28	221.59
6501	Review Tax Return - US	20.30	0.77%	4,364.50	215.00	537.48	241.48
6600	Review Tax Return with Client	3.15	0.12%	630.00	200.00	38.25	212.14
6601	Review Tax Return with Client - US	4.15	0.16%	830.00	200.00	188.54	245.43
6900	Employee Technical Support	1.40	0.05%	280.00	200.00	31.98	222.84
6910	Emp Tech Support-specialized	0.60	0.02%	120.00	200.00	8.41	214.02
6950	Misc (Supply Details)	4.35	0.17%	870.00	200.00	(16.87)	196.12
6995	Non - Chargeable	2.20	0.08%	440.00	200.00	(55.68)	174.69
7000	Tax Consulting	18.35	0.70%	3,670.00	200.00	574.69	231.32
7200	Business Consulting	31.50	1.20%	6,300.00	200.00	62.28	201.98
7450	Client Technical Support	1.45	0.06%	290.00	200.00	33.89	223.37
8400	Discussions with CRA	26.10	0.99%	5,220.00	200.00	(163.48)	193.74
8999	Invoicing	0.50	0.02%	100.00	200.00	6.69	213.38
Billable Totals		1,152.15	43.89%	232,000.50	201.36	17,049.97	217.04
Report Totals		2,625.20	100.00%	526,610.50	201.36	17,049.97	217.04

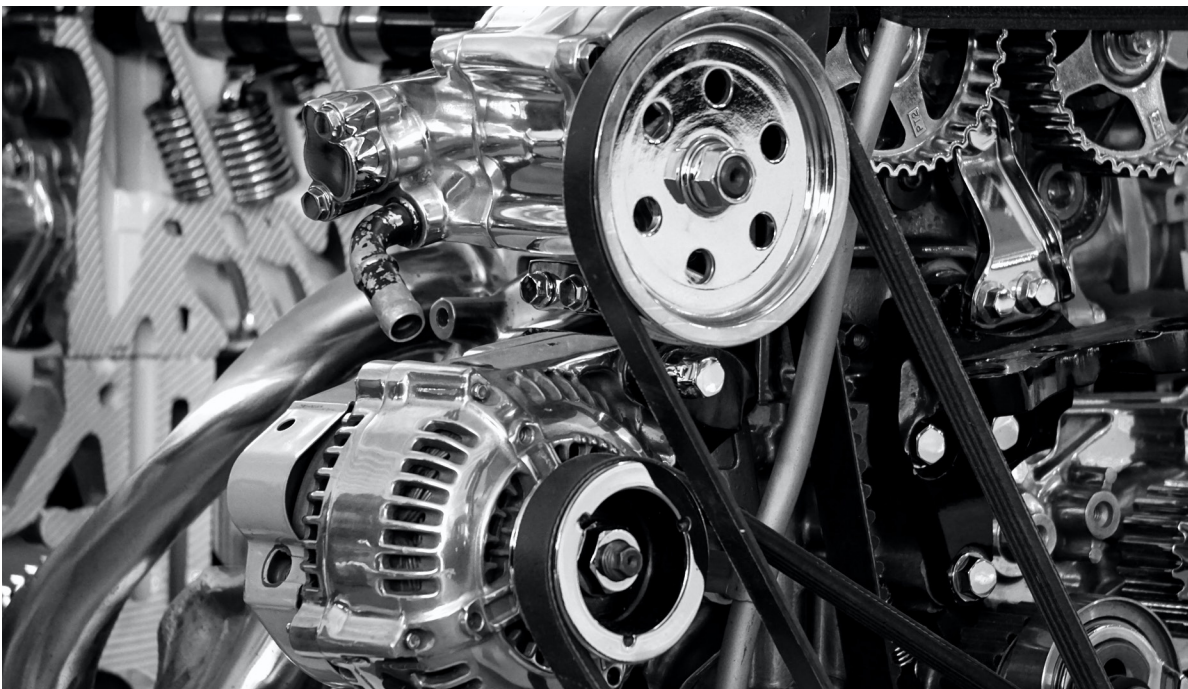
Lorraine

Even as an owner, one should always be very critical of our own performance. One must remove the “practitioner” hat who provides services to clients and leads a team and replace it with the “owner” hat and review own numbers as if done by an outside party. It is often a great idea to have someone on the outside critique and review the performance numbers.

Let's start with utilization.

As owner of a practice, given the many roles and responsibilities bestowed upon the owner who must often wear many hats, CEO, COO, CFO, team leader, HR, and many more, achieving a utilization North of 80% is an impossibility unless this person is willing to work 3,000 hours a year as I've seen some practitioners do. So if you're wanting to keep your hours, as an owner, between 2,000 and 2,400 hours, your utilization should sit between 40% and 75%. Given the size of this practice with only 4 employees, Lorraine's utilization should probably be sitting at between 60% and 75%.

Note that Lorraine worked a total of 2,625 hours and that her utilization is 43.89%. Very low in my opinion. And given her charge-out rate being \$200 per hour and with an effective rate that's even better, increasing her utilization by 10% (262.5 hours more), she'd be adding an extra \$52,500 to her firm's capacity. So the question is of course, how does Lorraine increase her utilization by 10% or more and maybe get closer to 70% chargeable?



Non-chargeable code dissection

- **1060 – Computer problems** – 2.02% of her hours for a total of 52.9 hours. What are the odds that Lorraine could have one of her team members do more of the IT problem solving? And if not someone on her team, could she consider hiring an outside consultant. Reducing this to zero may not be possible, but could she maybe cut it to less than half that?

- **1102 – Email** – 2.75% - 72.15 hours. Oh those damned emails. So much time is spent responding to emails. But Lorraine should be asking herself, who's emails is she responding to and what are they pertaining to? Odds are excellent, especially given the very small operation she has, that the bulk of the emails are client related. Clients asking tax, accounting, bookkeeping or software support questions. Chargeable? Of course. What about employees asking questions about files they're working on? Chargeable? Of course. Odds are excellent that 50 of those 72.15 hours could have been charged to a client with little or no resistance. 50 hours x \$200 per hour = \$10,000 that Lorraine lost in not properly recording her time.

- **1103 – Filing** – 1.92% - 50.40 hours. Shouldn't all of the filing be done by Penny? Of course. ALL of it. At \$18 per hour that she's paying Penny, it would have cost Lorraine's firm $50.4 \times \$18$ per hour = \$907.20. But this extra time would have allowed Lorraine to bill out an extra 50.4 hours x \$200 = \$10,800. Not a bad deal for the firm.

- **1120 – Stats filling out time sheets** – 2.25% - 59.10 hours. It is not uncommon for the CEO/Owner of a practice to spend a bit more time filling out their time sheets than other employees because of the many many interruptions leaders usually suffer. These continuous interruptions does render the task of completing the time sheet far more challenging. This said however, it is not uncommon for practitioners to record some of this time recording time to some of the clients they are working on. If someone spends 10 minutes recording the details of time spent on a particular file, breaking the time down by several codes and providing notes, it is advisable to record this 10 minutes to the client.

- **1150 – Client servicing** – 1.06% - 27.95 hours – Do you suppose that maybe most of this time should be chargeable?

• **1203 – Prepare quotes** – 4.86% - 127.70 hours – Lorraine is preparing a LOT of quotes. Bravo. Odds are excellent that this is a sign that the firm is growing nicely and that there's a considerable demand for her services. But 4.86% or 127.70 hours seems excessive.

The questions of course are:

- Could someone else on her team be doing more of the leg work in putting these quotes together? Maybe Lorraine does the meeting with the potential client, then forwards the details to Penny, and has Penny write up the quote.
- Could Lorraine create a better (or several) templates where one would only need to change the name, fill in the blanks, do a few minor customized changes and voilà?
- What's Lorraine's batting average? Do most quotes result in her getting the engagement? If not, why not? If she gets almost all of them, could her fees she's quoting be too low?

• **1300 – Firm team meeting** – 2.47% - 64.90 hours – Team meetings are a great idea. If done properly, team meetings are great for the firm culture and team building and also a great opportunity to share knowledge, ideas on efficiency and all matters related to building a healthy firm. But owners must be careful not to let meetings run away on them. Assuming Lorraine has firm meetings almost every week (say 48 meetings a year), this means the team spent an average of 1.35 hours PER WEEK. Could such meetings been shortened to something closer to half hour per week?

• **1303 – One on one meetings** – 3.98% - 104.50 hours – That's a lot. Necessary? Very difficult to say. But this extraordinary amount of time spent on one on one meetings when you only have 4 employees tells me that Lorraine is very motherly with her team. Which is good, but I suspect she may be overdoing it. I would suggest that she makes an effort to cut those one on one meetings a bit shorter whenever possible.

• **1304 – Subcommittee meeting** – 1.55% - 40.80 hours. Wow. Lorraine sure does love her meetings. N.B. If you add up all the time spent in meetings ($64.90 + 104.50 + 40.80$) = 210.20 hours! This is the equivalent to spending 5.25 full weeks in meetings! Is this a problem? I think so yes.

• **1350 – Training** – 8.77% - 230.30 hours – Training is a necessary evil. But I would have 2 recommendations to make.

1. Be sure to only record as training the time spent teaching an employee at a given task for the first time. Time spent reminding team members how tasks is done, helping them when still not used to a given software, re-explaining a more complicated accounting or tax rule should be charged to the client upon which the employee is working on, and not recorded as non-chargeable as I suspect Lorraine is currently doing. Failure to record as chargeable will result in two problems:

A. Will skew the numbers recorded in WIP. Firm may not charge for all the time related to building the file.

B. Will skew the impression of the employee. Looking at WIP, the owner may be led to believe that the employee was extremely efficient in putting the file together when in fact, they got a lot of help from co-workers, including the owner.

2. Lorraine should consider having others on her team train the more junior people. Once you've trained your first employee and this person knows their stuff, have this employee train everyone else so that you, as the owner, can concentrate on doing more chargeable work or spend time training your number one employee to do more complex and high-end highly chargeable work that's more profitable for the firm.

• **1450 – Reading and research** – 2.98% - 78.20 hours - Odds are excellent that a lot, if not most, of this time doing reading and research could have been done by someone else on her team AND/OR charged to the client. Even if Lorraine were only able to get \$100 per hour for this time, it would have resulted in increasing her profits by \$7,800.

• **1550 – Tax administration** – 2.32% - 60.80 hours – Just as the name of this code indicates, this is an admin task. Tremendous misuse of Lorraine's time.

• **1750 – Practice management** – 2.32% - 60.95 hours. Too high? Difficult to say. But I would venture a guess that given the size of this firm, 2.32% doing practice management may be a bit high. However, seldom will I ever critique anyone for spending time working ON their business rather than IN it.

• **1753 - Whiteboard – Scheduling** – 4.88% - 128.20 hours. Scheduling work as it comes in is far more of a COO task than CEO. Scheduling work in a small office as this one could likely be done by someone like Penny with minimal training and thus free Lorraine to charge out an extra 128.20 hours every year and thus increase her revenues by an extra \$31,600.

• **1800 – Internal bookkeeping** – 6.39% -167.80. Hmmmmm... I see a couple of problems here:

- She seems to be spending a tremendous amount of time doing her own bookkeeping. Could she be more efficient? Is she using the latest technology in software?
- Couldn't she be delegating this to someone else on her team? Penny maybe? Or at the very least, part of it? I understand that most business owners are not keen on having their employees see their financial statements. But many times, the owner can have someone on the team do most of the leg work without having them ever seeing the actual statements if that's a problem with you.

I suspect that if Lorraine takes most of the recommendations made above, she will succeed in increasing her utilization to somewhere much closer, if not higher of 70%.



Lorraine's Realization:

First, let's look at the overall performance before we dig down into the nitty gritty.

Lorraine succeeded in producing gross revenues of \$232,000.50 plus write-ups of \$17,049.97. Not too bad.

Could have been much higher if her utilization would have been closer to 70% instead of only 43.89%.

Lorraine is succeeding in getting write-ups for most of what she does. However, these numbers may be slightly skewed. I suspect that if she had been putting all her time as chargeable as she should have, her effective rate may not have been quite so high.

Lorraine appears to be getting an effective rate of \$217.04 per hour. Some would say that she's getting a realization of 108.5%, being $217.04/\$200$.

Given her realization, I'd be tempted to increase her standard charge-out rate to something closer to \$215. I generally like to set the standard charge-out rate of the owner to be close to the effective rate. In this case however, I'd probably wait until she's fixed the utilization problem before adjusting the standard charge-out rate.

Another observation one should make is that Lorraine does not have a charge-out rate of \$200 for everything. Some tasks have a charge-out rate greater than \$200 per hour. This is shown in the 4th column of numbers. 3500 and 3501 for example have a charge-out rate of \$215 per hour. This is a good idea for tasks for which she is especially proficient at.

Chargeable code dissection

Lorraine is enjoying decent write-ups on several codes. Looking at her effective rates, there are a few codes that are getting above average write-ups. Namely, the following codes:

- **3910 – Employee tech support – specialized** – It's possibly not clear to the reader is that this code is for specialized work projects the firm is working on. Time in code 3910 would represent the hours Lorraine spent helping other members on her team working on special projects. This report does not tell us what those special projects were, but odds are good that Lorraine would remember what they were. And if she doesn't, this information could easily be pulled from the software. Why is this important? This is a great hint of the kind of services Lorraine should concentrate on getting more of. She may already have known this, but this report sure brings to light just how lucrative those projects were.

- **3950 – Miscellaneous** – Nice write up allowing her to get an effective rate of \$324.54. Only problem is that "miscellaneous" hardly provides good information. The lesson here? Avoid putting time to this code as much as possible. Not terribly concerning in this case given she only has 3.50 hours to this code representing only 0.13%.

- **6011 – 6301 – 6501 – 6601 – U.S tax return services**. Lorraine pulled off effective rates on all of these codes in excess of \$240 per hour. Lorraine spent a total of 110.25 hours on these codes. So these considerable write-ups are obviously not simply dumb luck. It is very obvious that Lorraine, and possibly the firm as a whole, does very well doing U.S tax returns. So, should this insight provide some suggestions on where to spend more marketing dollars? Of course, it does. If I were Lorraine, I would market the hell out of getting more U.S work. How I would do this is a whole other discussion.

- **7000 – Tax consulting** – Effective rate: \$231.32 per hour. This is very encouraging. I suspect that Lorraine already understands, at least to some degree, value billing. Rather than charge the client based on time spent multiplied by her \$200 per hour standard rate, I suspect that Lorraine did charge based on the value of the consulting provided. Bravo. Well done Lorraine.

Above are the codes where Lorraine did pretty good. Very well, in fact. In the following pages, we'll look at the codes that are not so good and see if there's anything we can do about improving those.

- **4100 and 4950 – Bookkeeping services** – Lorraine’s effective rates on these bookkeeping codes are \$139.00 and \$127.10 respectfully. Not good. Fortunately, Lorraine has spent very little time on these tasks (total of 16.55 hours or 0.63%). Not terribly concerning. Lorraine likely understands that she can hardly expect to get \$200 per hour doing bookkeeping. We’ll see if she’s leveraging others on her team to do the bookkeeping.

- **5500 and 5501 – Payroll and bookkeeping codes** – Surprisingly low. Payroll and T slip preparation should generally generate a decent return. And yet, not here. Her effective rates for all codes in the 5000s are all less than \$200. Question: is Lorraine inefficient or is this a firm wide problem where the firm as a whole simply isn’t charging enough? This will become clear when we investigate the other employees' productivity. If most everybody else are also getting write-downs, we’ll have our answer.

David

Junior accountant - Just completed his first year with the firm

Pay rate **\$14 per hour** - **1 year** of service

David is a quiet guy. Keeps to himself. A bit on the shy side but does come out of his shell in social setting, especially if he's had a drink to take the edge off.

David has been thrown to the wolves from the beginning. He's been exposed to doing bookkeeping, year-end work, tax returns, and T slips.

The owner was quite concerned with him at the beginning but he has shown very decent progress in the last few months as his confidence builds.

He's asking more questions now and seems more willing to undertake more difficult projects, but still lacks that hunger we sometimes see in young employees.

Effective Rates - David

May 1, 201X - April 30, 201Y

ID	David	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Administrative							
1051	Computer Technical Support	0.55	0.03%	22.00	40.00	0.00	40.00
1057	Computer Maintenance	0.65	0.04%	26.00	40.00	0.00	40.00
1060	Computer Problems	72.15	3.97%	2,886.00	40.00	0.00	40.00
1102	Mail / Email	48.15	2.65%	1,926.00	40.00	0.00	40.00
1104	Invoicing	1.10	0.06%	44.00	40.00	0.00	40.00
1106	Templates	0.75	0.04%	30.00	40.00	0.00	40.00
1108	Organize Office	0.00	0.00%	-	40.00	0.00	-
1120	Stats filling time sheets	32.80	1.80%	1,312.00	40.00	0.00	40.00
1150	Client Servicing	6.85	0.38%	274.00	40.00	0.00	40.00
1200	Promotion Général	0.00	0.00%	-	40.00	0.00	-
1202	Deliver Seminars	0.00	0.00%	-	40.00	0.00	-
1203	Prepare Quotes	0.00	0.00%	-	40.00	0.00	-
1205	Chat with Clients	0.00	0.00%	-	40.00	0.00	-
1275	Seminar (attending)	8.00	0.44%	320.00	40.00	0.00	40.00
1300	Firm Team Meeting	42.85	2.36%	1,714.00	40.00	0.00	40.00
1303	One on One meeting	2.55	0.14%	102.00	40.00	0.00	40.00
1304	Subcommittee meetings	12.80	0.70%	512.00	40.00	0.00	40.00
1350	Training (giving or receiving)	142.55	7.84%	5,702.00	40.00	0.00	40.00
1360	Hiring Process	0.00	0.00%	-	40.00	0.00	-
1450	Reading and Research	85.70	4.72%	3,428.00	40.00	0.00	40.00
1520	Other Administration	0.00	0.00%	-	40.00	0.00	-
1550	Tax Administration	0.00	0.00%	-	40.00	0.00	-
1753	Whiteboard/PCS - Scheduling	0.00	0.00%	-	40.00	0.00	-
1800	Internal Bookkeeping	0.00	0.00%	-	40.00	0.00	-
Administrative Totals		457.45	25.17%	18,298.00	960.00	-	40.00

Effective Rates - David

May 1, 201X - April 30, 201Y

ID	David	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Billable							
3010	Pick Up Information	8.15	0.45%	326.00	40.00	(15.67)	38.08
3100	Reconcile - Bank	56.05	3.08%	2,242.00	40.00	(343.43)	33.87
3110	Recile - AR	8.85	0.49%	354.00	40.00	(7.01)	39.21
3120	Reconcile - GST	66.65	3.67%	2,666.00	40.00	(389.77)	34.15
3200	Prepare Working Papers	186.50	10.26%	7,460.00	40.00	(148.26)	39.21
3350	Tax Planning	1.15	0.06%	46.00	40.00	(0.94)	39.18
3450	Management & Other Letters	1.65	0.09%	66.00	40.00	-	
3520	Clear Review Notes	27.65	1.52%	1,106.00	40.00	-	
3550	Review With Client	18.30	1.01%	732.00	40.00	(14.62)	39.20
3800	Travel	1.00	0.06%	40.00	40.00	(0.87)	39.13
3900	Employee Tech Support	0.25	0.01%	10.00	40.00	(0.85)	36.60
3950	Misc (Supply Details)	1.10	0.06%	44.00	40.00	(0.98)	39.11
3995	Non-Chargeable	0.25	0.01%	10.00	40.00	(0.21)	39.16
4100	Client Administration	2.65	0.15%	106.00	40.00	2.15	40.81
4010	Pick Up Information	12.40	0.68%	496.00	40.00	9.98	40.80
4200	Reconcile Bank	79.30	4.36%	3,172.00	40.00	(39.48)	39.50
4220	Reconcile GST	58.30	3.21%	2,332.00	40.00	(37.64)	39.35
4350	Code and enter transactions	217.70	11.98%	8,708.00	40.00	174.98	40.80
4950	Miscellaneous (Supply Details)	0.25	0.01%	10.00	40.00	0.25	41.00
5010	Pick-Up Information	0.60	0.03%	24.00	40.00	0.45	40.75
5200	Prepare T4/T5/T5018	34.40	1.89%	1,376.00	40.00	(142.52)	35.86
5500	Review T4/T5/T5018	0.00	0.00%	-	40.00		
5900	Employee Technical Support	0.00	0.00%	-	40.00		
5950	Miscellaneous (Supply Details)	0.70	0.04%	28.00	40.00	(1.65)	37.64
6010	Pickup Info from Client	12.55	0.69%	502.00	40.00	40.18	43.20
6100	Planning & Consulting	0.00	0.00%	-	40.00		
6300	Prepare Jacket	385.85	21.23%	15,434.00	40.00	1,333.84	43.46
6301	Prepare Jacket - US	0.50	0.03%	20.00	40.00	9.80	59.60
6450	Income & Expense	174.50	9.60%	6,980.00	40.00	(12.83)	39.93
6500	Review Tax Return	0.00	0.00%	-	40.00		
6600	Review Tax Return with Client	0.00	0.00%	-	40.00		
6900	Employee Technical Support	0.00	0.00%	-	40.00		
6910	Emp Tech Support-specialized	0.00	0.00%	-	40.00		
6950	Misc (Supply Details)	2.50	0.14%	100.00	40.00	8.15	43.26
6995	Non - Chargeable	0.00	0.00%	-	40.00		
7000	Tax Consulting	0.00	0.00%	-	40.00		
7200	Business Consulting	0.00	0.00%	-	40.00		
7450	Client Technical Support	0.00	0.00%	-	40.00		
8400	Discussions with CRA	0.00	0.00%	-	40.00		
Billable Totals		1,359.75	74.83%	54,390.00	40.00	423.05	40.31
Report Totals		1,817.20	100.00%	72,688.00	40.00	0.00	40.31

David

David is a junior accountant. Utilization for more junior team members tends to hover closer to 90%. In fact, the juniors are generally those with the high and best utilization in most firms. This is understandable because juniors rarely need to deal with difficult customers as more senior team members do, they don't usually spend much time going to events to promote the firm, they seldom do non-chargeable presentations, and more of their training and learning is done in-house and often chargeable.

Utilization dissection.

David's utilization is only 74.83%. Considerably less than the 90% I would like or expect to see from a junior member. So let's look under the hood and see where we can make improvements to bring David closer to 90% or higher.



Non-chargeable code dissection

- **1060 – Computer problems** – 3.97% - 72.15 hours. Lot's of computer problems, but this one sheds light on the 1060 code we saw in Lorraine that was also high. Hmmmm. Could it be that the firm needs to look at maybe replacing several computers, the server, the photocopier/printer? That's food for thought.

- **1102 – Email** - 2.65% - 48.15 hours. Juniors should have almost no time as non-chargeable in emails. What emails could David be receiving that are NOT client related? Very few. Odds are excellent that almost ALL of this time should have been put as chargeable and odds are also good that the firm would have been able to get paid for most of it. What a waste! What a loss!

- **1120 – Stats filling time sheets** – 1.8% - 32.80 hours. Seldom do juniors do 15 different tasks in a day as a manager or admin person would. Junior's time sheets will usually consist of only 3-5 entries per day as they will usually spend most of each day working on only 1 or 2 clients. And if that's the case, time spent entering their time should have been included as chargeable to those 1 or 2 clients.

- **1300 - Firm team meeting** – 2.36% - 42.85 hours. David has little control over this so management can hardly make any recommendations to David to improve. So who's responsible? Who's to blame for David having this much time in team meetings? Yes, you guessed it: management. In this case, probably Lorraine. Which is good, as it is far easier for Lorraine to change her own behaviour than changing the behaviour of someone else on her team. Or at least, it should be. It is in her control.

- **1350 – Training** – 7.84% - 142.55 hours – Wow! One can hope that the bulk of the training is done and finished. But I suspect that there may be an error in how David is recording his time. I suspect that any time where he's being trained on file work is being coded as non-chargeable rather than charged to the file. If that's the case (and it probably is), Lorraine may draw the conclusion that David is pretty good at doing file work when, in fact, the numbers may be skewed. The other consideration worth keeping an eye on is whether David is simply a slow learner, where more time than usual is required to train him.

- **1450 – Reading and research** – 4.72% - 85.70 hours. Just as discussed in Lorraine's time dissection for this code, this too should probably have been charged mostly to clients.

Chargeable code dissection

David's standard charge-out rate is \$40.00 per hour. Unlike Lorraine, every single task is charged out at this standard charge-out rate.

David's overall effective rate is \$40.31 per hour, slightly better than his standard rate. That's good.

David worked 1,817.20 hours during the year. Satisfactory? Depends on what was expected and agreed upon at the start of the year.

David seems to have write-downs on most tasks, resulting in him having an effective rate of less than \$40 per hour for most of the things he does. This would suggest that David needs additional training. This is compounded by the fact that David already recorded a lot of hours as non-chargeable training. This may be a bit worrisome. However, this is David's first year with the firm. Write-downs in the first year is VERY common and expected. Keep an eye on it going forward.

• **6300 – Prepare jacket** – 21.23% - 174.5 hours – Effective rate \$43.46 per hour. David enjoyed a very nice write-up doing personal tax returns. The natural conclusion is that David is naturally good at doing personal return AND/OR the firm charges handsomely for doing T1 returns. Either is good. Odds are excellent that it's a combination of good fees and David being good at it.

Last note for David – Most people will enjoy doing tasks they excel at. Odds are really good that David really enjoys doing T1s. So unless everyone else in the firm feels differently, I'd be tempted to suggest that David do as many T1s as he can during the year. Or at least talk to David about that.

Jack

Senior accountant - Jack worked at a couple of firms prior to joining this practice, gaining great experience in all areas of practice

Pay rate **\$40 per hour** - joined the firm **1.5 year** ago

Jack is EXTREMELY driven. He works very hard, never wastes time chit-chatting, and is very hard on himself. He invests heavily in his own learning and expects to receive his CPA designation very soon. He's never afraid of taking on new tasks insofar as it leads to better learning.

Jack is very motivated by money. He is never afraid of discussing fees with clients, and will seldom have a write-down on any file because he is very quick to advise clients whenever their bookkeeping sucks and does not tolerate working on messy files unless he can charge dearly for it.

All this said, Jack isn't the friendliest of chaps. He is often impatient with fellow team members and clients. Fellow team members certainly don't care to have Jack working on their file or being supervised by him.

Jack does not particularly enjoy meeting with clients. He's not impolite, nor unfriendly, but he does tend to go straight to the point and clients sometimes perceive him to be arrogant and blunt.

Jack is sometimes accused by fellow team mates of picking and choosing his jobs, staying away from tasks or clients that will not result in a decent write-up. This said, the owner has no real proof of this happening.

Jack wants to be paid \$50 per hour and owner suspects that he may walk if he doesn't get it.

Effective Rates - Jack

May 1, 201X - April 30, 201Y

ID	Jack	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Administrative							
1051	Computer Technical Support	0.55	0.03%	68.75	125.00	0.00	125.00
1057	Computer Maintenance	0.35	0.02%	43.75	125.00	0.00	125.00
1060	Computer Problems	23.50	1.12%	2,937.50	125.00	0.00	125.00
1102	Mail / Email	8.15	0.39%	1,018.75	125.00	0.00	125.00
1106	Templates	1.65	0.08%	206.25	125.00	0.00	125.00
1108	Organize Office	0.15	0.01%	18.75	125.00	0.00	125.00
1120	Stats filling time sheets	11.10	0.53%	1,387.50	125.00	0.00	125.00
1150	Client Servicing	1.00	0.05%	125.00	125.00	0.00	125.00
1200	Promotion Général	0.35	0.02%	43.75	125.00	0.00	125.00
1202	Deliver Seminars	1.00	0.05%	125.00	125.00	0.00	125.00
1203	Prepare Quotes	0.15	0.01%	18.75	125.00	0.00	125.00
1205	Chat with Clients	0.65	0.03%	81.25	125.00	0.00	125.00
1275	Seminar (attending)	36.00	1.72%	4,500.00	125.00	0.00	125.00
1300	Firm Team Meeting	28.90	1.38%	3,612.50	125.00	0.00	125.00
1303	One on One meeting	2.55	0.12%	318.75	125.00	0.00	125.00
1304	Subcommittee meetings	1.00	0.05%	125.00	125.00	0.00	125.00
1350	Training (giving or receiving)	4.80	0.23%	600.00	125.00	0.00	125.00
1360	Hiring Process	0.25	0.01%	31.25	125.00	0.00	125.00
1450	Reading and Research	16.60	0.79%	2,075.00	125.00	0.00	125.00
1520	Other Administration	3.95	0.19%	493.75	125.00	0.00	125.00
1550	Tax Administration	4.55	0.22%	568.75	125.00	0.00	125.00
1753	Whiteboard/PCS - Scheduling	11.15	0.53%	1,393.75	125.00	0.00	125.00
1800	Internal Bookkeeping	1.00	0.05%	125.00	125.00	0.00	125.00
Administrative Totals		159.35	7.62%	19,918.75	2,875.00	-	125.00

Effective Rates - Jack

May 1, 201X - April 30, 201Y

ID	Jack	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Billable							
3010	Pick Up Information	37.80	1.81%	4,725.00	125.00	473.50	137.53
3100	Reconcile - Bank	3.90	0.19%	487.50	125.00	49.60	137.72
3110	Recile - AR	2.50	0.12%	312.50	125.00	33.45	138.38
3120	Reconcile - GST	1.80	0.09%	225.00	125.00	15.50	133.61
3200	Prepare Working Papers	387.00	18.50%	48,375.00	125.00	4,888.50	137.63
3350	Tax Planning	39.00	1.86%	4,875.00	125.00	485.32	137.44
3450	Management & Other Letters	22.20	1.06%	2,775.00	125.00	267.25	137.04
3500	Review file	43.00	2.06%	5,805.00	135.00	580.16	148.49
3520	Clear Review Notes	36.80	1.76%	4,600.00	125.00	390.00	135.60
3550	Review With Client	22.20	1.06%	2,775.00	125.00	267.26	137.04
3800	Travel	1.00	0.05%	125.00	125.00	18.23	143.23
3900	Employee Tech Support	3.25	0.16%	406.25	125.00	42.63	138.12
3950	Misc (Supply Details)	1.45	0.07%	181.25	125.00	16.12	136.12
3995	Non-Chargeable	0.35	0.02%	43.75	125.00	4.37	137.49
4100	Client Administration	0.75	0.04%	93.75	125.00	5.15	131.87
4010	Pick Up Information	3.50	0.17%	437.50	125.00	22.15	131.33
4200	Reconcile Bank	1.35	0.06%	168.75	125.00	1.15	125.85
4220	Reconcile GST	0.25	0.01%	31.25	125.00	0.22	125.88
4350	Code and enter transactions	4.10	0.20%	512.50	125.00	32.35	132.89
4950	Miscellaneous (Supply Details)	0.25	0.01%	31.25	125.00	1.15	129.60
5010	Pick-Up Information	4.30	0.21%	537.50	125.00	(56.42)	111.88
5200	Prepare T4/T5/T5018	28.45	1.36%	3,556.25	125.00	(333.32)	113.28
5500	Review T4/T5/T5018	0.65	0.03%	87.75	135.00	(8.77)	121.51
5900	Employee Technical Support	1.55	0.07%	193.75	125.00	(22.38)	110.56
5950	Miscellaneous (Supply Details)	0.70	0.03%	87.50	125.00	(19.98)	96.46
6010	Pickup Info from Client	97.65	4.67%	12,206.25	125.00	1,248.15	137.78
6100	Planning & Consulting	33.45	1.60%	4,181.25	125.00	627.99	143.77
6300	Prepare Jacket	448.35	21.43%	56,043.75	125.00	8,645.99	144.28
6301	Prepare Jacket - US	28.50	1.36%	3,562.50	125.00	789.35	152.70
6450	Income & Expense	138.30	6.61%	17,287.50	125.00	2,482.10	142.95
6500	Review Tax Return	332.45	15.89%	41,556.25	125.00	6,344.33	144.08
6600	Review Tax Return with Client	37.45	1.79%	5,055.75	135.00	768.32	155.52
6900	Employee Technical Support	12.20	0.58%	1,525.00	125.00	215.65	142.68
6950	Misc (Supply Details)	7.80	0.37%	975.00	125.00	146.43	143.77
6995	Non - Chargeable	2.30	0.11%	287.50	125.00	18.77	133.16
7000	Tax Consulting	88.75	4.24%	11,093.75	125.00	1,111.18	137.52
7200	Business Consulting	25.50	1.22%	3,187.50	125.00	312.52	137.26
7450	Client Technical Support	13.35	0.64%	1,668.75	125.00	166.67	137.48
8400	Discussions with CRA	18.85	0.90%	2,356.25	125.00	(185.15)	115.18
Billable Totals		1,933.00	92.38%	238,411.00	4,655.00	29,863.97	138.79
Report Totals		2,092.35	100.00%	258,329.75	7,530.00	29,863.97	138.79

Jack

Based on Jack's wage, it's obvious that Jack is the most senior person on Lorraine's team. Jack may not have many years of service with Lorraine but has extensive prior experience.

Jack's drive and his fearlessness to discuss fees with clients is very good.

When evaluating team members, management must always be careful to also take into consideration things that may not show up on the reports. In Jack's case, he has several very good things going for him, but there are also things that would give me cause for concern. But this is a whole different book.

Utilization dissection.

Jack's utilization is 92.38. Wow!!!! Phenomenal. Especially given the more senior role Jack likely plays within the firm. Seldom will I ever complain about someone having such a high utilization, but let's face it, odds are good that Jack is a producer and does nothing by way of a rainmaker. A well balanced team will usually include a good mixture of "workhorses" (people who get a tremendous amount of work done efficiently) and "rainmakers" (people who are great at maintaining great client relationship and loyalty and attracting new clients).

Whenever you have someone who has a utilization that's above 90% or 92.38% as is the case here, there's generally very little to look for by way of improvement in reviewing the utilization report. Jack's greatest non-chargeable time is code **1275** at only 1.72%, 36 hours, attending seminars. What better way to spend non-chargeable time than to improve your knowledge and skills? The other 2 biggest non-chargeable time is computer problems and team meetings. Clearly, Lorraine needs to do something about the computers AND reduce team meeting time.

Chargeable code dissection

Jack is clearly VERY proficient at everything he does. Jack has write-ups over the year of \$29,863.97 over and above his standard charge-out rate. And some of his charge-out rate for a few tasks is even greater than his standard \$125 per hour. Outstanding.

Upon closer examination, you will notice that Jack did not succeed in getting is standard charge-out rate on a few activities. Codes **5010** to **5950** are all codes related to T slip preparation. Can one conclude that Jack is incompetent at doing T slips? Hardly. Given that everyone we've reviewed so far all seem to be getting write-downs for all activities starting with a 5, which are T slip codes, clearly the firm really needs to review the billing structure for T slip preparation.

Conclusion: Jack is obviously a very good producer.

Is Jack worth the \$50 per hour he's demanding? You'll need to call me to find out.



Patricia

Intermediate accountant - Does much of the actual file work and tax return. Is often the person assigned to picking up tax return information because of her bubbly personality.

Pay rate **\$22 per hour** - **3.5 years** of service

Patricia is an extrovert and loves working with people and helping any way she can. She is NOT very preoccupied with what she gets paid and is far more interested in helping others.

Patricia is very at ease with clients and they warm up to her immediately. The firm gets a decent number of referrals from the clients she services and she will often go above and beyond the call of duty.

But Patricia's greatest asset is her contribution to the team spirit and culture. Her good mood, her ability to laugh at herself, not to mention that her laugh is very contagious which has a tremendous impact on team morale.

Effective Rates - Patricia

May 1, 201X - April 30, 201Y

ID	Patricia	Hours	%	Amount	%	Billing Rate	WriteUp/Dn	Effective Rate
Administrative								
1051	Computer Technical Support	12.45	0.55%	1,058.25	0.55%	85.00	0.00	85.00
1057	Computer Maintenance	8.15	0.36%	692.75	0.36%	85.00	0.00	85.00
1060	Computer Problems	48.50	2.14%	4,122.50	2.15%	85.00	0.00	85.00
1102	Mail / Email	88.15	3.89%	7,492.75	3.91%	85.00	0.00	85.00
1104	Invoicing	1.40	0.06%	119.00	0.06%	85.00	0.00	85.00
1106	Templates	3.75	0.17%	318.75	0.17%	85.00	0.00	85.00
1108	Organize Office	2.75	0.12%	233.75	0.12%	85.00	0.00	85.00
1120	Stats filling time sheets	19.90	0.88%	1,691.50	0.88%	85.00	0.00	85.00
1150	Client Servicing	38.10	1.68%	3,238.50	1.69%	85.00	0.00	85.00
1200	Promotion Général	8.80	0.39%	748.00	0.39%	85.00	0.00	85.00
1202	Deliver Seminars	7.00	0.31%	595.00	0.31%	85.00	0.00	85.00
1203	Prepare Quotes	1.10	0.05%	93.50	0.05%	85.00	0.00	85.00
1205	Chat with Clients	10.40	0.46%	884.00	0.46%	85.00	0.00	85.00
1275	Seminar (attending)	16.00	0.71%	1,360.00	0.71%	85.00	0.00	85.00
1300	Firm Team Meeting	32.50	1.44%	2,762.50	1.44%	85.00	0.00	85.00
1303	One on One meeting	10.05	0.44%	854.25	0.45%	85.00	0.00	85.00
1304	Subcommittee meetings	30.80	1.36%	2,618.00	1.37%	85.00	0.00	85.00
1350	Training (giving or receiving)	96.80	4.28%	8,228.00	4.29%	85.00	0.00	85.00
1360	Hiring Process	1.75	0.08%	148.75	0.08%	85.00	0.00	85.00
1450	Reading and Research	16.60	0.73%	1,411.00	0.74%	85.00	0.00	85.00
1520	Other Administration	11.85	0.52%	1,007.25	0.53%	85.00	0.00	85.00
1550	Tax Administration	2.65	0.12%	225.25	0.12%	85.00	0.00	85.00
1753	Whiteboard/PCS - Scheduling	23.25	1.03%	1,976.25	1.03%	85.00	0.00	85.00
1800	Internal Bookkeeping	6.00	0.27%	510.00	0.27%	85.00	0.00	85.00
Administrative Totals		498.70	22.04%	42,389.50	0.22	2,040.00	-	85.00

Effective Rates - Patricia

May 1, 201X - April 30, 201Y

ID	Patricia	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Billable							
3010	Pick Up Information	101.90	4.50%	8,661.50	85.00	220.09	87.16
3100	Reconcile - Bank	38.80	1.71%	3,298.00	85.00	(12.13)	84.69
3110	Recile - AR	3.00	0.13%	255.00	85.00	2.53	85.84
3120	Reconcile - GST	5.90	0.26%	501.50	85.00	26.30	89.46
3200	Prepare Working Papers	286.60	12.66%	24,361.00	85.00	252.71	85.88
3350	Tax Planning	35.15	1.55%	2,987.75	85.00	172.75	89.91
3450	Management & Other Letters	17.75	0.78%	1,508.75	85.00	0.00	85.00
3520	Clear Review Notes	37.40	1.65%	3,179.00	85.00	0.00	85.00
3550	Review With Client	48.80	2.16%	4,148.00	85.00	188.81	88.87
3800	Travel	7.00	0.31%	595.00	85.00	(40.01)	79.28
3900	Employee Tech Support	32.25	1.42%	2,741.25	85.00	(142.57)	80.58
3950	Misc (Supply Details)	2.65	0.12%	225.25	85.00	2.21	85.83
3995	Non-Chargeable	8.65	0.38%	735.25	85.00	47.43	90.48
4100	Client Administration	10.65	0.47%	905.25	85.00	22.15	87.08
4010	Pick Up Information	28.50	1.26%	2,422.50	85.00	42.18	86.48
4200	Reconcile Bank	33.85	1.50%	2,877.25	85.00	48.10	86.42
4220	Reconcile GST	12.80	0.57%	1,088.00	85.00	28.74	87.25
4350	Code and enter transactions	68.50	3.03%	5,822.50	85.00	78.63	86.15
4950	Miscellaneous (Supply Details)	2.00	0.09%	170.00	85.00	(1.76)	84.12
5010	Pick-Up Information	18.60	0.82%	1,581.00	85.00	(159.36)	76.43
5200	Prepare T4/T5/T5018	115.80	5.12%	9,843.00	85.00	(997.32)	76.39
5500	Review T4/T5/T5018	0.65	0.03%	55.25	85.00	(5.01)	77.29
5900	Employee Technical Support	1.25	0.06%	106.25	85.00	(11.13)	76.10
5950	Miscellaneous (Supply Details)	3.75	0.17%	318.75	85.00	(32.87)	76.23
6010	Pickup Info from Client	136.65	6.04%	11,615.25	85.00	98.53	85.72
6100	Planning & Consulting	4.80	0.21%	408.00	85.00	4.75	85.99
6300	Prepare Jacket	365.05	16.13%	31,029.25	85.00	77.36	85.21
6301	Prepare Jacket - US	0.50	0.02%	42.50	85.00	0.25	85.50
6450	Income & Expense	238.30	10.53%	20,255.50	85.00	219.48	85.92
6500	Review Tax Return	0.25	0.01%	21.25	85.00	0.52	87.08
6600	Review Tax Return with Client	38.80	1.71%	3,298.00	85.00	188.02	89.85
6900	Employee Technical Support	37.20	1.64%	3,162.00	85.00	161.11	89.33
6910	Emp Tech Support-specialized	0.10	0.00%	8.50	85.00	0.32	88.20
6950	Misc (Supply Details)	5.85	0.26%	497.25	85.00	24.35	89.16
6995	Non - Chargeable	1.10	0.05%	93.50	85.00	0.55	85.50
7000	Tax Consulting	2.45	0.11%	208.25	85.00	(18.15)	77.59
7200	Business Consulting	2.30	0.10%	195.50	85.00	(9.85)	80.72
7450	Client Technical Support	3.15	0.14%	267.75	85.00	(11.12)	81.47
8400	Discussions with CRA	5.80	0.26%	493.00	85.00	(40.32)	78.05
Billable Totals		1,764.50	77.96%	149,221.75	85.00	477.71	84.84
Report Totals		2,263.20	100.00%	191,611.25	85.00	477.71	84.84

Patricia

Patricia's been with the firm 3.5 years now. Based on her pay, she's in the middle of the pack with Jack obviously more experienced and knowledgeable, but with David being more junior than she is.

Patricia appears to be more of a rainmaker. This is very good. Now let's review her performance by way of numbers:

Patricia worked 2,263.20 hours this year. She's obviously a hard worker. Odds are excellent given the hours that she cares a lot about the firm and probably enjoys working there.

Utilization dissection.

Patricia's utilization for the year is 77.96 %. In my opinion, 7-12% short of where I'd like her to land. Depending on Patricia's ability to really bring in clients, it would sway my tolerance regarding her ending with a utilization of 85% vs 90% for next year.

- **1060 – Computer problems** – 2.14% - 48.5 hours. Holy cow those computers were expensive to the firm. This REALLY needs to be addressed.

- **1102 – Emails** – 3.89% - 88.15 hours. Clearly, Patricia would also need to be trained in charging her email time more to clients, just as was the case with Lorraine, Jack and David.

- **1300 and 1304 Meetings** – 1.44% and 1.36%. Management needs to work on making meetings more efficient. They are very expensive to the firm.

- **1350 – Training** – 4.28% - 96.80 hours. Given that Patricia's been with the firm for over 3 years, I suspect almost ALL of this time should have been recorded as chargeable.

If the firm could fix its computer problems, reduce time in meetings, and if Patricia would start coding her email and training time to clients, this would easily improve her utilization by 10%, maybe more. That would bring her to about 88%. I could live with that.

Chargeable code dissection

Patricia isn't getting the nice write-ups that Jack is, but she's not getting very many write-downs either. Not large ones anyway.

Following are a few quick observations:

- **3000 codes – Year-end work** - Patricia seems to be okay at doing year-end work. She's not knocking them out of the park, but neither is she getting soaked with any of the codes. Good.
- **4000 codes – Bookkeeping** – Very impressive. Consistently getting over \$85 per hour doing bookkeeping is very good. Clearly, Patricia is extremely proficient at doing bookkeeping. Odds are good that she really loves doing it.
- **5000 codes – T slip preparation** – Hmmmmm... Write downs. Surprised? Of course not. Everyone's getting write-downs doing T slip. Needs to be addressed right away.
- **6000 codes – Personal tax preparation** – Doing okay. Not out of the park, but okay. Given everyone seems to be doing okay with all 6000 codes, it appears that the firm is charging okay for personal tax returns.
- **7000 codes - Consulting** – Patricia apparently doesn't do much consulting. And the little consulting she does do, she appears to be afraid of charging her standard rate. Difficult to say given the very little time spent on these few activities.



Penny

Receptionist

Pay rate **\$18 per hour** - **2.5 years** of service

Penny is the face of the firm! She greets each client with a smile and the clients look forward to seeing her. She's efficient with her time and is always looking out for everyone on the team, always willing to help in anyway she can. She's mentioned she's concerned with the amount of hours Lorraine puts in and wishes she could help more.

Penny has an above average knowledge of computers and is often called upon to deal with all IT issues.

Penny may be only 26 years old but is very mature, has lots of energy, and never backs away from a challenge.

Effective Rates - Penny

May 1, 201X - April 30, 201Y

ID	Name/Description	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Administrative							
1051	Computer Technical Support	52.40	2.72%	2,882.00	55.00	0.00	55.00
1057	Computer Maintenance	32.40	1.68%	1,782.00	55.00	0.00	55.00
1060	Computer Problems	52.90	2.74%	2,909.50	55.00	0.00	55.00
1101	Phone	140.70	7.29%	7,738.50	55.00	0.00	55.00
1102	Mail / Email	121.20	6.28%	6,666.00	55.00	0.00	55.00
1103	Filing	30.50	1.58%	1,677.50	55.00	0.00	55.00
1104	Invoicing	89.40	4.64%	4,917.00	55.00	0.00	55.00
1105	Entering New Clients	74.60	3.87%	4,103.00	55.00	0.00	55.00
1107	Special Projects (details)	8.45	0.44%	464.75	55.00	0.00	55.00
1108	Organize Office	10.80	0.56%	594.00	55.00	0.00	55.00
1120	Stats filling time sheets	0.60	0.03%	33.00	55.00	0.00	55.00
1150	Client Servicing	136.70	7.09%	7,518.50	55.00	0.00	55.00
1300	Firm Team Meeting	40.00	2.07%	2,200.00	55.00	0.00	55.00
1303	One on One meeting	14.90	0.77%	819.50	55.00	0.00	55.00
1350	Training (giving or receiving)	1.40	0.07%	77.00	55.00	0.00	55.00
1360	Hiring Process	1.75	0.09%	96.25	55.00	0.00	55.00
1400	Shopping for Office	60.80	3.15%	3,344.00	55.00	0.00	55.00
1450	Reading and Research	0.80	0.04%	44.00	55.00	0.00	55.00
1520	Other Administration	660.80	34.26%	36,344.00	55.00	0.00	55.00
1550	Tax Administration	30.40	1.58%	1,672.00	55.00	0.00	55.00
1800	Internal Bookkeeping	11.20	0.58%	616.00	55.00	0.00	55.00
Administrative Totals		1572.70	81.54%	86,498.50	1155.00	0.00	55.00

Effective Rates - Penny

May 1, 201X - April 30, 201Y

ID	Penny	Hours	%	Amount	Billing Rate	WriteUp/Dn	Effective Rate
Billable							
3010	Pick Up Information	13.85	0.72%	761.75	55.00	7.49	55.54
3200	Prepare Working Papers	21.25	1.10%	1,168.75	55.00	13.99	55.66
3550	Review With Client	5.40	0.28%	297.00	55.00	2.68	55.50
3600	Printing	98.70	5.12%	5,428.50	55.00	51.01	55.52
3950	Misc (Supply Details)	43.50	2.26%	2,392.50	55.00	13.16	55.30
3995	Non-Chargeable	21.30	1.10%	1,171.50	55.00	5.34	55.25
3998	File Closing	50.40	2.61%	2,772.00	55.00	11.39	55.23
5010	Pick-Up Information	19.45	1.01%	1,069.75	55.00	(32.64)	53.32
5950	Miscellaneous (Supply Details)	10.55	0.55%	580.25	55.00	(5.67)	54.46
6010	Pickup Info from Client	10.80	0.56%	594.00	55.00	166.39	70.41
6011	Pickup Info from Client - US	5.70	0.30%	313.50	55.00	80.67	69.15
6600	Review Tax Return with Client	29.85	1.55%	1,641.75	55.00	69.15	57.32
6601	Review Tax Return with Client - US	4.10	0.21%	225.50	55.00	42.33	65.32
6950	Misc (Supply Details)	4.35	0.23%	239.25	55.00	0.12	55.03
6995	Non - Chargeable	2.20	0.11%	121.00	55.00	0.06	55.03
8400	Discussions with CRA	14.70	0.76%	808.50	55.00	(33.47)	52.72
Billable Totals		356.10	18.46%	18,777.00	825.00	425.48	57.55
Report Totals		1,928.80	100.00%	105,275.50	53.51	425.48	57.55

Penny

Penny is the receptionist. I've always found that reviewing and evaluating the productivity of the admin team to always be far more difficult. It's far more difficult to put numbers on productivity because most of their time is spent taking care of clients and being a support to the entire team.

I will generally put FAR more emphasis in this person's ability to connect with clients, be relatable, able to communicate and their ability to keep everything under control.

Utilization dissection.

Penny's utilization is only 18.46%. Admin's utilization expectation will vary a lot depending on the size of the firm. A firm with only 4-5 people should have the admin being about 50% chargeable or so. As the firm grows, this percentage will shrink as more and more time will be required in supporting the team and servicing more and more clients. More phone calls, more emails, more everything. As a firm gets closer to say 20 or more people, utilization will generally drop to something close to 20%.

If you've read all of my comments made for all other employees of this firm, most of what I said applies to Penny as well.

My biggest concern is code **1520** – Other administration. What the hell is that??? No way of really knowing what Penny is doing 34.26% of the time. I would suggest to Penny that she quit putting time to this code. If she's unclear of where to enter her time, that she discusses this challenge with Lorraine (assuming Lorraine knows how to better record this time – If not, Lorraine's mentor if she has one). Penny could also simply consider creating a few extra codes that better fit her needs to properly record her time.

Chargeable code dissection

Seldom is there much to dissect by way of realization for the admin people, unless they happen to also do a fair amount of bookkeeping and such. As a general rule, the admin person will touch almost every single file and will generally not do much work on any single file. As a result, this person's realization will be a slave to whatever realization the firm is realizing as a whole.

Overall conclusion of this review

Here are some actions that need to be considered:

- Try getting more U.S tax return work as it pays very well.
- Fix the computers.
- Reduce all meeting time.
- Increase pricing on T-slip preparation.
- Consider increasing the pricing on personal tax preparation. None of the realization in the 6000 codes were problematic, but I didn't see many huge write-ups by anyone. Personal tax preparation should normally result in effective rates 25% higher than anything else.
- Push as much bookkeeping to Patricia as possible, and even consider working at getting more bookkeeping clients
- Encourage David to do more personal tax returns.
- Train everyone to leverage each other's time based on their different charge-out rates.

The list of actions is obviously much longer than this, but the above recommendations would have been very difficult to conclude without first examining everyone's productivity, as we've done here.

Final note



Should you have questions, disagreements, or have any comments regarding anything discussed in this workbook, please do not hesitate to contact me.

If you have any recommendations on how we could improve this workbook, please send me an email or call me.

If you liked this exercise and found that it will help you manage your practice better, please leave us a review.

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