PRACTICE MANAGEMENT

# THE KPI TOOLKIT

## 10 Essential Money Metrics for Accountants

# Contents

## WELCOME

# Introduction

Want to make this year even more profitable? Start tracking these 10 metrics every month.

Many accounting firms do not track the data necessary to measure their financial health. Even fewer are doing so in a way that allows them to take proactive action that grows their firm.

Every business needs a simple dashboard of metrics that allows them to track how they're doing and pivot with agility if necessary. But which metrics should you focus on? Which will give you a well-rounded picture of your financial health from month to month?

Below are ten Key Performance Indicators (or KPIs) that your firm can track and measure every month. Along with the KPIs, you'll also find benchmarks to compare your firm to industry standards to see how you're measuring up to your peers.

Many of these will not surprise you. However, the magic of metrics isn't in the knowing...it's in the doing. If you track them consistently AND act on them, your profits will grow.

# 01 /
# Monthly Recurring Revenue (MRR)

How much money do we have coming in that is not project related?

- MRR is a measure of your predictable revenue stream - the amount of revenue that your firm can expect to receive in the future because you have monthly service agreements with clients.
- Why track it? Recurring revenue is more predictable and stable than project-based revenue. Offering recurring services, such as monthly compilations and bookkeeping, is a path to greater freedom and stability in your business. MRR also makes forecasting future growth easier by letting management know how much revenue is “in the pipeline”.
- Example: Your firm has two monthly bookkeeping clients. Client A pays $300 per month and Client B pays $400. Your firm’s MRR is $700.
- Benchmark: MRR targets will vary from firm to firm.

# 02 /
## Write Up / Write Down Rate

What is the gap between hours billed and hours worked?

- Write Up / Write Down Rate is the degree to which the amount billed to the client is above or below the value of the time spent on each client.
- Why track it? Most firms have standard billing rates for each employee. For example, an entry level accountant may have a standard rate of $60, a senior auditor $90, and so on. For many reasons, the amount billed to a client may be more or less than the collective value of the time spent on an engagement. Understanding these variances will help leadership better deploy firm resources to maximize profitability.
- Example: A senior accountant with a standard billable rate of $100 spends eight hours working on a compilation, including two hours spent fixing a technical issue. The firm invoiced the client for $600 (6 hours of billable time at $100 per hour). The write down rate is 25% ($200 / $800).
- Benchmark: Avoid write ups and write downs in excess of 10% on a client-by-client basis.

**Write Up/Down by Client**

ImagineTime, Inc.

Report Date: 07-12-21
Page: 1 / 1

Date Range: 12-31-00 thru 07-12-21

| Client Name | Standard Amount | Write Up | Write Down | Billed Amount | % Billed |
|---|---|---|---|---|---|
| AAA Electric, Inc. | $ 5,823.10 | $ 1,615.00 | ($ 500.00) | $ 6,940.85 | 119% |
| AA Devens | $ 5,450.00 | $ 800.00 | $ 0.00 | $ 6,264.18 | 115% |
| Brenda S Gibson | $ 225.00 | $ 0.00 | $ 0.00 | $ 225.00 | 100% |
| Bunker, Archie | $ 4,216.25 | $ 150.00 | $ 0.00 | $ 4,374.29 | 104% |
| Client ABC | $ 12,742.75 | $ 1,631.25 | ($ 3,092.50) | $ 14,556.42 | 114% |
| Comic, Frank | $ 182.50 | $ 45.00 | ($ 102.50) | $ 125.00 | 68% |
| Courtney Inman | $ 100.00 | $ 0.00 | ($ 50.00) | $ 50.00 | 50% |
| *Report Totals >>* | $ 28,739.60 | $ 4,241.25 | ($ 3,745.00) | $ 32,535.74 | 113% |

# 03 /
# Work In Progress (WIP)

How far along are each of our open engagements?

- A work in progress report gives a birds-eye view of how billings to date compare to budget, as well as the resources that are needed to complete each open job.
- Why track it? WIP reports are useful planning tools, as they allow firm leadership to see the progress made on each client and the anticipated firm resources needed to complete each job. If some clients are way above or below budget, leadership can ‘reshuffle the deck’ to best utilize each employee’s time.
- Example: Your firm has an audit client that is budgeted to be 4 weeks with 20 hours of employee time each week. Through two weeks, employees have worked 24 hours. Seeing this on the WIP report would alert management that there is risk the project goes over budget.
- Benchmark: Firms should aim to come in at or below budget on a client-by-client basis.

**Time Records by Client (Open)**

ImagineTime, Inc.

Report Date: Jul-12-2021
Page: 1 / 1

Date Range: 12-31-00 thru 07-12-21

| Date | User | Work Description | Billed | Hours | Rate | Non-Billable Amount | Billable Amount |
|---|---|---|---|---|---|---|---|
| **Ian Fleming** | | | | | | | |
| 1040 | | | | | | | |
| Activity: TAX PREPARATION | | | | | | | |
| 07-07-21 | JG | Tax Preparation | No | 1.25 | $ 300.00 | $ 0.00 | $ 375.00 |
| 07-08-21 | JG | Tax Preparation | No | 2.00 | $ 300.00 | $ 0.00 | $ 600.00 |
| 07-09-21 | JG | Tax Preparation | No | 2.00 | $ 300.00 | $ 0.00 | $ 600.00 |
| | | Activity Total >> TAX PREPARATION | | 5.25 | | $ 0.00 | $ 1,575.00 |
| | | Engagement Total >> 1040 | | 5.25 | | $ 0.00 | $ 1,575.00 |
| Tax Preparation | | | | | | | |
| Activity: TAX PREPARATION | | | | | | | |
| 07-07-21 | ZB | Tax Preparation | No | 2.00 | $ 300.00 | $ 0.00 | $ 600.00 |
| | | Activity Total >> TAX PREPARATION | | 2.00 | | $ 0.00 | $ 600.00 |
| | | Engagement Total >> Tax Preparation | | 2.00 | | $ 0.00 | $ 600.00 |
| Totals For >> | Ian Fleming | | | 7.25 | | $ 0.00 | $ 2,175.00 |
| | | Report Totals >> | | 7.25 | | $ 0.00 | $ 2,175.00 |

# 04 /
# Accounts Receivable (AR) Aging

Who owes us money and how late are they?

- An AR Aging is a report that summarizes money due from clients according to how long the balances are outstanding.

- Why track it? For all businesses, cash is king. Therefore, it is very important to collect revenues in a timely fashion. The AR aging report is a useful tool for firm management to understand the financial health of the firm's customers. AR balances that are old could indicate a bad debt risk. With the right software and processes, you can achieve "AR Zero" in which all invoices are charged to the client automatically.

- Example: Your firm typically has 30-day payment terms for clients. On the latest aging report, several clients' AR balances were aged greater than 60 days. These should be investigated immediately to avoid any bad debt issues.

- Benchmark: Aging report 'buckets' are typically Current, >30 days, >60 days, >90 days. Firms should avoid balances that exceed their normal payment terms.

**Customer Aging Summary**

ImagineTime, Inc.

Date Range: **12-31-00** thru **07-12-21**

Report Date: 07-12-21
Page: 1 / 1

| Client | 0-30 | 31-60 | 61-90 | Over 90 | Balance |
|---|---|---|---|---|---|
| **AA Devens** | $ 264.18 | $ 0.00 | $ 5,000.00 | **$ 0.00** | $ 5,264.18 |
| **AAA Electric, Inc.** | $ 3,922.75 | $ 1,853.59 | $ 0.00 | **$ 560.00** | $ 6,336.34 |
| **All Rise Robes & Tassels** | $ 509.39 | $ 6,833.03 | $ 1,535.00 | **$ 0.00** | $ 8,877.42 |
| **Brenda S Gibson** | $ 225.00 | $ 0.00 | $ 0.00 | **$ 0.00** | $ 225.00 |
| **Bunker, Archie** | $ 8.04 | $ 1,038.60 | $ 3,397.50 | **$ 68.75** | $ 4,512.89 |
| **Client ABC** | $ 1,274.92 | $ 2,964.00 | $ 4,750.00 | **$ 2,534.89** | $ 11,523.81 |
| **Comic, Frank** | $ 0.00 | $ 125.00 | $ 0.00 | **$ 0.00** | $ 125.00 |
| **Courtney Inman** | $ 50.00 | $ 0.00 | $ 0.00 | **$ 0.00** | $ 50.00 |
| Report Totals >> | $ 6,254.28 | $ 12,814.22 | $ 14,682.50 | $ 3,163.64 | $ 36,914.64 |

# 05 /
## Average Revenue Per Client

Who are the VIPs and who needs attention?

- Average Revenue Per Client is a metric that measures the amount of money that the average client brings into the firm.

- Why track it? The metric can be calculated on the total client base but may be more useful on a project-type basis (audits, reviews, tax returns, etc.). Good reporting will indicate which clients deviate most from the average. To mitigate risk, revenue should be spread out over multiple clients vs one or two “big fish.”

- Example: Your firm has fifteen tax clients and the average revenue per client is $725. This is down from last year’s average of $850. This decrease should be examined as it may indicate the client base is weighted too heavily with low revenue clients.

- Benchmark: This metric is useful for benchmarking against budgets, forecasts, and prior years/months. To realize increased revenues, firms should aim for higher average revenue per client vs these benchmarks. It should also be noted that higher revenue does not always equal higher profitability.

# 06 / Client Profitability

Who are my most (and least) profitable clients?

- Client profitability is the measure of how profitable each client actually is once you take into consideration all time and costs associated with their account.
- Why track it? This metric provides valuable insight around which clients are most and least beneficial to the firm. For this KPI to be measured, detailed time and cost records need to be kept in one system.
- Example: Your firm has two identical audit clients with the same fee of $10,000. Client A is high maintenance. They require in-person meetings and will only interact with partners and directors. Client B is more laid back. They are comfortable with teleconferencing and meeting with lower-level staff. As a result, the costs for Client A in employee time and travel is $9,000 and the costs for Client B are $7,000. Client A has a profit margin of 10% and Client B has a profit margin of 30%.
- Benchmark: Profitability should be measured as a percentage of revenue, which will make clients of various sizes comparable. Clients should be benchmarked against each other, as well as vs. prior periods and budget.

**Client Profit Summary**

ImagineTime, Inc.

Date Range: 12-31-00 thru 07-12-21

Report Date: Jul-12-2021

Page: 1 / 1

| Client Name | Billed Hours | Invoiced Amount | Staff Cost | Gross Profit | Profit Percentage |
|---|---|---|---|---|---|
| AAA Electric, Inc. | 44.50 | $ 5,323 | $ 0 | $ 5,323 | 100.00% |
| All Rise Robes & Tassels | 27.50 | $ 4,075 | $ 0 | $ 4,075 | 100.00% |
| Brenda S Gibson | 1.50 | $ 225 | $ 0 | $ 225 | 100.00% |
| Bunker, Archie | 26.70 | $ 4,341 | $ 100 | $ 4,241 | 97.70% |
| Client ABC | 43.25 | $ 3,056 | $ 300 | $ 2,756 | 90.18% |
| Comic, Frank | 1.25 | $ 100 | $ 20 | $ 80 | 80.00% |
| Courtney Inman | 1.00 | $ 50 | $ 0 | $ 50 | 100.00% |
| Report Totals >> | 145.70 | $ 17,170.00 | $ 420.00 | $ 16,750.00 | 97.55% |

# 07 /
# Retention Rate

How many of our current clients can we expect to still be with us in 12 months?

- Retention Rate is the % of clients that are retained as long-term clients.
- Why track it? This metric is important because a high rate indicates a happy and loyal client base. The cost in time and marketing to acquire new clients is substantial. Therefore, it is in the best interest of the firm to retain as many clients as possible assuming they are profitable.
- Example: In 2021, your firm made an extra effort to keep clients satisfied after examining the results of a survey. As a result, the retention rate in 2021 was 90% after being 78% in 2020.
- Benchmark: As a rule of thumb, the higher the client retention rate the better. However, there may be valid reasons to cut ties with existing clients. For example, if they become unprofitable or too challenging.

# 08 /
# Client Lifetime Value

How can we continue adding value for our clients?

- Client Lifetime Value (CLV) is the measure of how valuable a client is to a firm over the whole relationship.

- Why track it? CLV is important because it is much more cost effective to keep existing clients happy by selling them new services than it is to acquire new clients. Recurring services such as tax returns, monthly bookkeeping and financial analysis are great ways to extend the relationship while adding value for both firm and client. Leadership can also use CLV to know how much money you can invest to acquire a new client.

- Example: Your firm is strategizing their marketing spend for the upcoming quarter. It is projected that a $10,000 marketing campaign will bring in ten new clients. The average CLV for the firm is $6,000. Therefore, the new clients are projected to have a combined lifetime value of $60,000 on $10,000 marketing spend. This is considered a strong ROI and the firm moves forward with the campaign.

- Benchmark: Client lifetime value varies per client depending what type of firm you're running. Take a historical average client lifetime value over the last five years and shoot to increase that by 10 to 20%.

# 9 /
# Utilization Rate

What percentage of hours worked are billable to clients?

- Utilization rate is the percentage of an employee's total hours worked that is attributable to a client or clients.
- Why track it? Utilization rate measurement is directly correlated to time tracking data. There needs to be a good time tracking system in place so that chargeable and non-chargeable time can be properly broken out.
- Example: A senior auditor worked 40 hours last week. 28 of those hours were spent working on an audit and the remaining 12 were spent at a continuing education conference. The employee's utilization rate was 70% (28 hours / 40 hours).
- Benchmark: For non-leadership roles, aim for a utilization rate of 85% or above.

**User Billable/Nonbillable Hours & Amounts**

ImagineTime, Inc.

Date Range: 12-31-00 thru 07-12-21

Report Date: Jul-12-2021
Page: 1 / 1

| Staff Name | Billable Hours | Non-Billable Hours | Total Hours | Non-Billable Amount | Billable Amount | Total Amount |
|---|---|---|---|---|---|---|
| Donna Mason | 16.72 | 1.50 | 18.22 | $ 260.00 | $ 3,549.80 | $ 3,809.80 |
| | 91.77% | 8.23% | | 6.82% | 93.18% | |
| Jason Goldfinger | 863.30 | 11.25 | 874.55 | $ 1,837.50 | $ 172,539.75 | $ 174,377.25 |
| | 98.71% | 1.29% | | 1.05% | 98.95% | |
| George Gomatos | 42.30 | 24.00 | 66.30 | $ 2,570.00 | $ 5,568.00 | $ 8,138.00 |
| | 63.80% | 36.20% | | 31.58% | 68.42% | |
| Brenda S Gibson | 116.75 | 8.50 | 125.25 | $ 850.00 | $ 20,672.50 | $ 21,522.50 |
| | 93.21% | 6.79% | | 3.95% | 96.05% | |
| Chad Thomas | 20.00 | 0.00 | 20.00 | $ 0.00 | $ 3,812.50 | $ 3,812.50 |
| | 100.00% | 0.00% | | 0.00% | 100.00% | |
| Courtney Inman | 58.35 | 12.75 | 71.10 | $ 637.50 | $ 6,205.90 | $ 6,843.40 |
| | 82.07% | 17.93% | | 9.32% | 90.68% | |
| Report Totals >> | 1,117.42 | 58.00 | 1,175.42 | $ 6,155.00 | $ 212,348.45 | $ 218,503.45 |
| | 95.07% | 4.93% | | 2.82% | 97.18% | |

# 10 /
## Realization Rate

What percentage of the billable hours worked can be charged to the client?

- Realization rate is the amount invoiced to the client divided by the chargeable time spent working on the engagement.

- Why track it? Realization rate is a very import profitability metric. If your employees are spending significant time working on engagements that cannot then be invoiced to the client, it indicates wasted effort that sinks profitability. Like utilization rates, realization rate is another metric that relies heavily on good time tracking data.

- Example: A new hire with a billable rate of $100 works on an annual compilation for a client. The client has been with the firm for many years, and the firm continues to bill them $400 each year for the engagement. This year, the employee spends six hours (or $600 of chargeable time) completing the engagement. In this ex- ample, the realization rate is 67% ($400 divided by $600).

- Benchmark: Firm-wide realization rates of 80%-90% are generally considered good. If your firm’s realization rates are below 80%, it may mean that firm resources are not properly deployed in a way that maximizes firm profitability.

None of the KPIs outlined above are complicated to understand or calculate.

However, many firms do not calculate these metrics despite the fact that they offer invaluable insights into the financial health of an accounting firm. That is why a robust accounting practice management software suite is so important.

## Want easy-to-read graphic reports of every important metric in your business?

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