

Outline of CPA Market Valuation

□ Basis for Valuation

- **Quality of Clients** – What is the probability of client retention and what are the opportunities, or lack thereof, offered by the client base.

- Ability to Charge Standard and Higher Fees
- Ability to Sell Additional Services
- Average History and Length of Service
- Reputation and Referrals
- Type of Clients; Age, Wealth, Business, Individual
- Distribution of Clients; many clients, few large clients, etc.
- Industry specialization or lack thereof

- **Scope of Services Offered** – What is the depth and breath of the services offered by the firm. Firms require both a broad spectrum of services in addition to niche markets.

- Spectrum of Services Offered
- Specialized Services Offered
- Quality of Services Rendered
- Quality Control Procedures
- Revenue by Service
- Fee Structure by Service
- Standard vs. Effective Billing Rates

- **Quality of Staff Members** – The expertise, experience, loyalty and client relationships determine the value of a firm's staff in addition to the quantity and quality of billable work performed by the staff.

- Staff Productivity; billing vs. non-billing hours
- Staff Profitability; billing rates vs. effective rates
- Staff Contribution to Practice – % of billable hours relative to partners
- Owners' Contributions – billable vs. non-billable time
- Realization Rates
- Utilization Rates
- Client Relationships
- Professional Credentials
- Turnover & Longevity

- **Profitability of Firm** – This is demonstrated by the owners’ total compensation, after normalization adjustments. A trend analysis over five years compares revenue growth, fee structures, overheads costs, staff expenses, and rent with similar firms.
 - Annual Revenue Growth and Collections
 - Net Income as a Percentage of Revenue
 - Owners’ Compensation as a Percentage of Revenue
 - Analysis of Overhead, Salaries and Rent
 - Net Income after Normalization Adjustments
 - Accounts Receivable as percentage of Revenue
 - Tangible Assets
- **Tangible Assets** – These include furniture, fixtures and equipment in addition to receivables, work in process, cash, and net equity.

Items Rated Below, Average, or Above Average

- Quality of Partner Earnings
- Quality of Personal
- Location
- Nature of Clientele
- Nature of Services
- Fee Structure
- Hours Managed by Partner(s)
- Office, Facilities & Equipment
- Quality of Services
- Firm Stability

Items Compared and Rated Relative to Market

- % Growth Over Five Years
- % Overhead Costs to Revenue
- % Total Labor to Revenue
- % Staff Productivity
- % Of Individual to Business Clients
- % Of Revenue from Tax versus Non-Tax
- % Total Compensation to Revenue
- % Non-Owners Compensation to Revenue
- % of Net Profit
- Realization Rate
- Average Standard Billing Rate
- % Of Accounts Receivable to Revenue