

A BVR Special Report

Excerpt from

What It's Worth:
**Accounting
Firm Value**

What It's Worth: Accounting Firm Value

A BVR SPECIAL REPORT



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What It's Worth

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Introduction

Things are looking good for accountants. Revenue for accounting, tax preparation, bookkeeping, and payroll services in the U.S. increased by 9% in the first quarter of 2015 year-over-year. First Research forecasts industry revenue (in current dollars) will rise by an annual compounded rate of 6% during the period 2015 to 2019.¹ Staffing services provider Robert Half recently reported that average starting salaries for accounting professionals will increase in 2016 between 4.0% and 5.3% from 2015, depending on the position.² In addition to this good news, M&A activity continues at a frenzied pace as large firms buy smaller firms and baby boomers continue to retire and sell their accounting firms. With a flurry of buy-sell activity, it is especially important for business owners and business appraisers to keep up-to-date on what drives value and the critical valuation considerations for these types of professional practices.

Accounting firms can be challenging professional practices to value. In fact, a recent report by the AIPCA, *CPA Horizons 2025: A Road Map for the Future*, reports that, while CPAs have a bright future, the services they provide “have become so varied and diverse that the concept of core services is no longer representative of the profession.”³ This creates a plethora of unique valuation challenges and opportunities.

In this BVR special report, *What It's Worth: Accounting Firm Value*, experts share their knowledge on accounting firm valuation specifically and professional practice valuation in general. In addition to valuation topics such as goodwill and covenants not to compete, the experts share their insights on value drivers and succession planning for owners of accounting firms. Their commentary will bring readers up-to-date on current trends, pressing issues, and key drivers of practice value.

Jan Davis
Senior Contributor
Business Valuation Resources

1 First Research, *Accounting Services*. Aug. 10, 2015.

2 Ken Tysiac, “Rise in US accounting salaries accelerates,” *Journal of Accountancy*, Sept. 3, 2015. Available at <http://bit.ly/1g5VJHb>.

3 American Institute of CPAs. *CPA Horizons 2025 Report*. Available at <http://bit.ly/1UEN1x2>.

**SECTION I:
VALUE DRIVERS AND VALUATION OF
ACCOUNTING FIRMS**

1. Unique Factors That Drive Accounting Practice Value

There are many pieces to the value equation for an accounting firm. Gary Holmes explains which factors have the greatest effect on firm value.¹ Holmes, a business broker, is involved in the transactions of one-, two-, or three-owner firms. Listed below are some of the value drivers Holmes discusses with clients when they want to buy or sell an accounting practice.

- Gross revenue;
- Location;
- Profitability;
- Client mix;
- Terms;
- Size and age of practice; and
- Various other negative factors.

Gross. Accounting practices, for the most part, are sold on gross revenue, rather than net income and profitability. When Holmes bought his first practice about 35 years ago, he paid one times gross. Based on statistics of practices that his firm has handled, nearly all firms sell within a range of 0.90 of gross to 1.25 times gross. “But remember, it’s a guideline, not a rule,” he says.

Location. Practice location can have an impact on the potential number of buyers and therefore on the value. There isn’t a lot of difference in value by region. However, a firm in a metropolitan area will often sell for more than one located in a smaller city or town because small town firms often don’t draw a lot of buyers. Within metropolitan areas, there are naturally more buyers, which means you will probably get a better price and terms for the seller. It even makes a difference if

¹ Based on the BVR webinar Valuing Accounting Firms: Unique Factors and Litigation Issues, held on April 30, 2015.

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