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Sempier, Robert N., "Income and expenses of accounting firms, first annual survey 1962; Management of an accounting practice bulletin, MAP 14a" (1962). *Newsletters*. 232.
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MAP 14A

MANAGEMENT OF AN ACCOUNTING PRACTICE ,

Income and Expenses of Accounting Firms

FIRST ANNUAL SURVEY
1962

STAFF BULLETIN
PUBLISHED BY
AMERICAN INSTITUTE
OF CERTIFIED PUBLIC
ACCOUNTANTS 1962

Income and Expenses of Accounting Firms

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666 Fifth Ave., New York 19, New York*

This bulletin is a publication of the staff of the American Institute of Certified Public Accountants and is not to be regarded as an official pronouncement of the Institute. It was prepared by Robert N. Sempier, CPA, manager, management of an accounting practice.

Additional copies may be obtained from
the American Institute of CPAs for \$1.00.

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Introduction

THE DUAL AND INTERRELATED PURPOSE in publishing MAP No. 14, "Basic Financial Reporting for Accounting Firms," was to provide practitioners with a uniform chart of accounts which could be used to improve the operation of their individual practices and to establish a base for the collection of comparable statistics for the benefit of the entire profession. Accordingly, in June 1962 a questionnaire on income and expense was sent to each accounting firm and individual practitioner represented in the Institute.

This survey, the first of annual surveys which will be made regarding income and expenses of accounting firms, permits the reader to compare his income and expenses with composite figures of responding firms of similar size, according to region and size of metropolitan area. The replies to the questionnaire have been tabulated and are presented in the accompanying exhibits.

The bulletin is published for the information and assistance of members of the Institute and others interested in the subject.

METHODOLOGY

A CONTROLLED MAILING of 12,500 questionnaires was made to each firm and individual practitioner's office represented in the Institute. Firms which had more than one office were requested to complete the questionnaire only for the office to which the questionnaire was addressed.

There were 2,050 replies of which 1,270 were usable in entirety and 165 partially usable (breakdown of professional income missing). The balance (615) were not usable because a significant number of questions were not answered.

All usable replies were recorded on code sheets and transferred to punched cards at the Institute. The replies were then tabulated by an independent service bureau. The confidentiality of the replies was maintained throughout.

It is hoped that we may expect greater participation on the part of the membership with each succeeding survey.

In the interest of uniformity of understanding, the following explanations are provided:

Median

THE "MEDIAN" is the middle figure in a list in point of size. Thus, if there are 25 items there will be 12 equal to or higher than the median and 12 equal to or lower. The median of a group is considered more useful than an arithmetic mean ("average") because it is not unduly affected by extremely high or extremely low items. Therefore, in using a median, it is possible for a series of figures not to total 100 per cent.

Income from professional services

Auditing—Includes audits in which an opinion is qualified or in which a disclaimer is issued.

Taxes —Includes tax returns, tax examinations, tax assessment appeals and estate planning.

Management advisory services—Includes systems installations, investigations, cost analyses and other consulting and management services.

Other accounting services—Includes preparation of nonaudited statements and write-ups.

Salaries and outside services

Salaries professional staff—Includes salaries of accounting staff only.

Salaries other—Includes stenographers, typists, and other indirect salaries.

Outside services—Includes consultation with other firms, work performed by others of both a professional and non-professional nature relating to engagements, professional referral fee costs, and cost of data processing.

Note: Salaries, other than for partners or proprietor, include all salaries, wages, commissions, bonuses, profit sharing, overtime; in general, all items of direct compensation for services, including provisions for vacations, sick benefits, separation pay, military leave pay, holiday pay, etc.

Net income

Partners' or proprietor's salaries are not deducted from gross income in any of the following exhibits.

States included in various regions

- NEW ENGLAND —Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont.
- MIDDLE ATLANTIC—Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, West Virginia.
- SOUTHEAST —Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia.
- CENTRAL —Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin.
- NORTHWEST —Colorado, Idaho, Kansas, Montana, Nebraska, North Dakota, South Dakota, Utah, Wyoming.
- SOUTHWEST —Arizona, New Mexico, Oklahoma, Texas.
- FAR WEST —Alaska, California, Hawaii, Nevada, Oregon, Washington.

INCOME AND EXPENSES OF ACCOUNTING FIRMS

IN REPLY TO THE QUESTION of whether the chart of accounts of the respondents generally conformed to the recommendations made in MAP Bulletin No. 14, 864 or 60.2 per cent indicated that it did. However, a major exception was noted in that only 342 of the 864 respondents followed the recommended practice of charging partners' salaries in the statement of income.

The breakdown by size of firm (office), partners and professional staff only, is as follows:

Figure I

Individual	310
Small (2-15)	1,028
Medium (16-35)	80
Large (over 35)	17

The breakdown by region of the respondents is as follows:

Figure II

New England	66
Middle Atlantic	279
Southeast	231
Central	303
Northwest	113
Southwest	161
Far West	282

The breakdown by size of metropolitan area is as follows:

Figure III

Under— 25,000	233
25,000— 50,000	130
50,000—100,000	157
100,000—500,000	323
Over—500,000	592

Exhibit I
Percentages of Firms With
Various Gross Income
 (all services)

<i>Amount</i>	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>Total</i>
Less than \$12,000	21.0%	.4%	—%	—%	4.8%
12,000 — 18,000	30.3	2.1	—	—	8.1
18,000 — 25,000	28.7	6.0	—	—	10.5
25,000 — 50,000	17.1	30.4	1.2	—	25.5
50,000 — 100,000	2.3	36.3	—	—	26.5
100,000 — 250,000	.6	23.7	33.7	—	19.0
250,000 — 500,000	—	1.1	60.1	—	4.1
Over 500,000	—	—	5.0	100	1.5
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Exhibit II

**Per Cent of Gross Income by Type
of Professional Services †
(regional basis)**

<u>Region</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
NEW ENGLAND				
Auditing	53%	45%	*%	**%
Taxes	24	20	*	*
Management Services	3	5	*	*
Other	15	20	*	*
MIDDLE ATLANTIC				
Auditing	25	50	50	*
Taxes	25	17	28	*
Management Services	—	2	10	*
Other	31	13	10	*
SOUTHEAST				
Auditing	19	36	58	*
Taxes	25	28	21	*
Management Services	2	5	9	*
Other	40	20	3	*
CENTRAL				
Auditing	16	32	60	*
Taxes	20	23	23	*
Management Services	4	7	7	*
Other	35	30	7	*

<u>Region</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
NORTHWEST				
Auditing	12%	21%	38%	*%
Taxes	31	30	25	*
Management Services	8	8	15	*
Other	37	28	15	*
SOUTHWEST				
Auditing	19	29	30	*
Taxes	30	30	30	*
Management Services	9	5	12	*
Other	35	23	20	*
FAR WEST				
Auditing	15	25	38	*
Taxes	24	25	22	*
Management Services	5	7	5	*
Other	40	35	20	*
NATIONWIDE				
Auditing	19	32	50	65
Taxes	25	25	25	20
Management Services	4	5	15	10
Other	37	25	10	5

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

**Total Salary, Operating Expenses and
Net Income Percentages †
(nationwide basis)**

Exhibit III

	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
Gross Income	100%	100%	100%	100%
Total Staff Salaries and Outside Services	13%	31%	40%	53%
Gross Profit	87%	69%	60%	47%
Operating Expenses	24%	20%	19%	17%
Net Income	63%	49%	41%	30%

† The figures in this Exhibit are medians. See page 10 for explanation.

Exhibit IV

**Staff Salaries and Outside Services
as a Percentage of Gross Income †**
(regional basis)

<u>Region</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
NEW ENGLAND				
Professional Staff	—%	22%	33%	*%
Other Staff	10	8	7	*
Outside Services	—	—	—	*
MIDDLE ATLANTIC				
Professional Staff	—	21	32	*
Other Staff	3	6	8	*
Outside Services	—	—	1	*
SOUTHEAST				
Professional Staff	—	22	29	*
Other Staff	13	8	8	*
Outside Services	—	—	—	*
CENTRAL				
Professional Staff	—	22	31	*
Other Staff	8	8	8	*
Outside Services	—	—	—	*

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

**Staff Salaries and Outside Services
as a Percentage of Gross Income †
(regional basis)**

Exhibit IV (continued)

<u>Region</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
NORTHWEST				
Professional Staff	—%	23%	26%	*%
Other Staff	13	9	7	*
Outside Services	—	—	1	*
SOUTHWEST				
Professional Staff	—	21	21	*
Other Staff	10	8	12	*
Outside Services	—	—	1	*
FAR WEST				
Professional Staff	—	21	31	*
Other Staff	8	8	8	*
Outside Services	—	—	1	*
NATIONWIDE				
Professional Staff	—	22	31	43
Other Staff	11	8	8	10
Outside Services	2	1	1	—

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

Operating Expenses as a Percentage
of Gross Income †
(nationwide basis)

<i>Operating Expenses</i>	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>
Contributions	.0%	.1%	.2%	.1%
Equipment Expense	2.8	2.2	1.0	.8
Firm Relations	.3	.6	.8	.8
Insurance	.5	.5	.4	.4
Occupancy and Maintenance	5.4	4.6	4.6	4.0
Other Operating Expense	.8	.5	1.1	1.1
Postage and Express	.3	.3	.3	.3
Professional Development	.0	.1	.2	.4
Professional Membership Expense	.7	.5	.5	.2
Provision for Doubtful Accounts	.0	.0	.0	.0
Publications	1.0	.8	.5	.3
Stationery, Printing and Supplies	2.2	2.0	1.6	1.1
Taxes — Other	.1	.2	.2	.1
Taxes — Payroll	.3	1.0	1.3	1.4
Telephone and Telegraph	1.6	1.2	1.1	.6
Travel and Subsistence	4.2	2.8	1.3	.6
Welfare and Group Benefits	.0	.1	.8	1.0

† The figures in this Exhibit are medians. See page 10 for explanation.

Net Income Before Partners' Salaries †
(regional basis)

Exhibit VI

<u>Region</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
New England	\$10,000	\$28,000	\$140,000	\$ *
Middle Atlantic	10,000	28,000	112,000	*
Southeast	10,000	25,000	110,000	*
Central	11,000	30,000	105,000	*
Northwest	10,000	23,000	122,000	*
Southwest	11,000	28,000	58,000	*
Far West	10,000	29,000	108,000	*
Nationwide	10,000	29,000	110,000	Over 199,000

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

Net Income Before Partners' Salaries †
(by region and size of metropolitan area)

Exhibit VII

<u>Region</u>	<u>Size of</u>				<u>Small</u>	<u>Medium</u>	<u>Large</u>
	<u>Metropolitan Area</u>						
NEW ENGLAND	Under— 25,000	\$ 9,000	\$32,000	\$ *	\$ *	\$ *	
	25,000— 50,000	*	24,000	*	*	*	
	50,000—100,000	8,000	21,000	*	*	*	
	100,000—500,000	12,000	35,000	*	*	*	
	Over—500,000	10,000	23,000	*	*	*	
MIDDLE ATLANTIC	Under— 25,000	8,000	20,000	*	*	*	
	25,000— 50,000	10,000	26,000	*	*	*	
	50,000—100,000	12,000	28,000	*	*	*	
	100,000—500,000	9,000	31,000	*	*	*	
	Over—500,000	11,000	31,000	118,000	*	*	
SOUTHEAST	Under— 25,000	9,000	16,000	*	*	*	
	25,000— 50,000	8,000	22,000	*	*	*	
	50,000—100,000	9,000	32,000	*	*	*	
	100,000—500,000	11,000	30,000	110,000	*	*	
	Over—500,000	8,000	30,000	136,000	*	*	

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

Net Income Before Partners' Salaries†
(by region and size of metropolitan area)

Exhibit VII (continued)

<u>Region</u>	<u>Size of</u>			<u>Small</u>	<u>Medium</u>	<u>Large</u>
	<u>Metropolitan Area</u>	<u>Individual</u>				
CENTRAL	Under— 25,000	\$10,000	\$21,000	\$	\$	*
	25,000— 50,000	10,000	29,000	*	*	*
	50,000—100,000	6,000	28,000	*	*	*
	100,000—500,000	11,000	27,000	105,000	*	*
	Over—500,000	11,000	35,000	123,000	*	*
NORTHWEST	Under— 25,000	10,000	21,000	*	*	*
	25,000— 50,000	19,000	32,000	*	*	*
	50,000—100,000	11,000	33,000	63,000	*	*
	100,000—500,000	9,000	26,000	*	*	*
	Over—500,000	*	27,000	*	*	*

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

Net Income Before Partners' Salaries †
(by region and size of metropolitan area)

Exhibit VII (continued)

<u>Region</u>	<u>Size of Metropolitan Area</u>	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>
SOUTHWEST	Under— 25,000	\$8,000	\$18,000	*	\$ *
	25,000— 50,000	15,000	20,000	*	*
	50,000—100,000	9,000	33,000	*	*
	100,000—500,000	10,000	34,000	*	*
	Over—500,000	11,000	23,000	*	*
FAR WEST	Under— 25,000	9,000	18,000	*	*
	25,000— 50,000	9,000	33,000	*	*
	50,000—100,000	8,000	26,000	*	*
	100,000—500,000	9,000	34,000	120,000	*
	Over—500,000	11,000	31,000	99,000	*

* Insufficient number of replies for separate classification.

† The figures in this Exhibit are medians. See page 10 for explanation.

Accounting Basis for Operating Purposes					Exhibit VIII
	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Total</u>
Cash	248	642	24	2	916
Accrual	41	313	44	8	406
Hybrid	21	73	12	7	113

Number of Firms Having a Fiscal or Calendar Year					Exhibit IX
	<u>Individual</u>	<u>Small</u>	<u>Medium</u>	<u>Large</u>	<u>Total</u>
Calendar	294	677	15	3	989
Fiscal	16	351	65	14	446

**Distribution, by Month, of Firms
on a Fiscal Year**

Exhibit X

	<i>Individual</i>	<i>Small</i>	<i>Medium</i>	<i>Large</i>	<i>Total</i>
January	3	24	6	1	34
February	—	15	5	—	20
March	—	46	10	4	60
April	4	41	8	1	54
May	—	39	5	—	44
June	2	52	10	—	64
July	—	22	2	1	25
August	3	24	4	4	35
September	2	59	12	1	74
October	2	22	2	2	28
November	—	7	1	—	8
					<u>446</u>