percent of total headcount, (b) Overhead expenses as a percentage of revenue and (c) Overhead expenses per person. Let's examine each.

Dec. 16, 2014

A reader whose firm traditionally measures admin expense as a percentage of revenue recently queried whether we could share any industry benchmarks along these lines.

There are 3 metrics used for measuring admin expense: (a) **Admin personnel as a percent of total headcount,** (b) **Overhead expenses as a percentage of revenue** and (c) **Overhead expenses per person.** Let's examine each.

Admin personnel as a pct of total simply measures the appropriateness of the

problems. There could be some "sacred cows" on board – people being retained out of loyalty whose skill sets haven't kept pace with the firm's growth. Firms with multiple offices might also have duplicate positions in each office that wouldn't be incurred otherwise.

Overhead expense as a percent of revenues as measured in The Rosenberg Survey comes in for most firms at around 20-25% of revenue. Overhead expense is defined as ALL expenses of the firm EXCEPT salaries and benefits of professional staff and admin personnel. Main components are rent, insurance, computer expenses, training, bad debts expenses, marketing, etc.

Overhead expenses per person is another way to measure the reasonableness of a firm's admin expenses.   For most firms, this is $35,000 to $45,000.

One final thought: While meaningful, comparing your firm to statistical norms comes with a caveat. The more profitable firms (those with income-per-partner in excess of $500,000) will always show various income statement items as a lower percentage of revenue than less profitable firms, simply because their revenues are higher (the metrics correlating the strongest to profitability are revenue per partner and revenue per person). And the opposite is true: less profitable firms (say firms with IPP less than $250K) will show their income statement items as a higher percent of revenues than more profitable firms. Example: Take the case of two identical firms in terms of number of personnel, salaries paid to those personnel and amount of overhead expenses. One firm's revenue is 20% higher than the other because they are more productive, charge higher rates, better at business-getting, get higher realization due to superior management, etc etc. The firm with the higher revenues will always show their admin expenses lower as a percent of revenues. That's the way the math works!

The most profitable CPA firms in the country enjoy an income per partner (IPP) of

firm, The Rosenberg Associates, he is founder of the most authoritative annual survey of mid-sized CPA firm performance statistics in the country, The Rosenberg Survey. He has consulted with hundreds of firms throughout his 20+ year consulting career. He shares his expertise regularly on The Marc Rosenberg Blog.

Firm Management

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.