

Potential Impact of Outsourcing on NZ Outsourced Accounting Practice Profitability

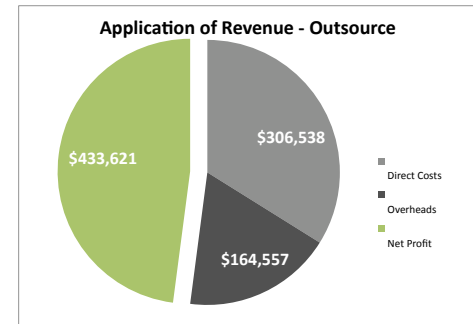
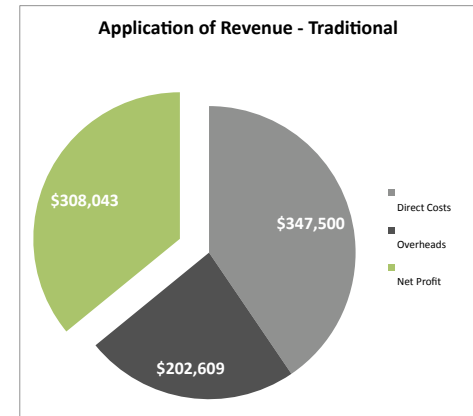
Projected Fees	TRADITIONAL PC PACKAGE APPROACH		
	No. of Clients	Ave.Fee	Annual Fees
Partnerships	86	1,780	153,080
Companies	305	2,040	622,200
Trusts	208	750	156,000
Monthly management accounts			
Other Fees (Directors Fees etc)			120,000
Less Writeoffs (10%)			-93,128
Total Annual Revenues	599	1,600	958,152

Direct Costs	FTE	Salary Level	Annual cost
Director/Partner			
Manager			
Accountant/Senior	3.50	65,000	227,500
Bookkeeper/Junior	3.00	40,000	120,000
Outsourced resource			
Annual Direct Costs	6.50		\$ 347,500

Contribution		610,652
Practice Overheads	32%	\$ 202,609
Support Staff & Reception		35,000
Practice Manager		65,000
Net Profit		\$ 308,043
Potential Practice Profits increase		125,578
Percentage increase in profits		41%

	OUTSOURCE & ONLINE APPROACH			Analysis of Fees		
	No. of Clients	Ave. Fee	Annual Fees	Preparation	Tax Matters	Other
	86	1,780	153,080	79,170	24,518	49,392
	305	2,040	622,200	366,082	137,484	118,634
	208	750	156,000	100,901	37,611	17,488
Less Writeoffs (5%)			-46,564			
			1,004,716	546,153	199,613	305,514
				54%	20%	30%

FTE	Salary Level	Annual cost			
2.00	65,000	130,000	30,000	50,000	50,000
1.00	40,000	40,000	40,000		
		25 % of fees	136,538		
3.00		\$ 306,538	206,538	50,000	50,000



Assumptions

- Outsourcing costs are calculated at 25% of fees associated with the preparation of the financial statements.(excluding Directors Fees and special fees)
- The reduction in staff levels, have come about, with a competent junior to manage the outsourcing, queries and junior tax work.
- The two seniors are retained to manage the compliance review, the tax functions of the client base and the adhoc client work.
- The additional capacity required to generate the tax and ad hoc work to come from the Partner
- Savings in using a fixed price model should also reduce writeoffs. In the model these have been reduced from the standard 10%, down to 5%.
- The practice overheads should reduce as a result of a fewer number of staff, as many of the overhead costs are activity based transactions . Identified savings include,

	70,000	Reduction in staff
Reduced ACC levies		
MYOB Licences		
Computer Expenses		
Office expenses		
Photocopier costs		
Printing & Stationary		
Staff expenses		
Staff training		
ICANZ Subscriptions		
Telephone		
Total	70,000	3.00
Number of accounting staff	6.50	3.50
Activity costs per staff	10,769	38,052

- This suggests that each full time staff member creates \$10,000 worth of activity based costs due to their footprint within the organisation.
- Reducing staff will reduce over heads by approximately \$38,052
- Firm rent over time could be reduced but this could well require lease terms to finish and will be a longer term strategy