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Are Your Billing Practices Risking the Future of Your Firm?

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As an accountant, meeting client expectations and delivering quality, timely results is of the utmost importance when it comes to the financial success of your firm. After providing clients with quality service, it's only fair to expect you will receive appropriate compensation in return.

Sometimes, without realizing it, we do ourselves (and our firms) a disservice by pressing to conclude the engagement as promised; however, the initial engagement compromised the inner workings and profitability of your firm.

Consider the following scenario: You successfully win an engagement. Some or all of the work was then assigned to another partner or associate with specific instructions not to record time spent past the estimate given and to cap billing. The work was then reviewed by the engagement partner and delivered to your client. After delivery, a few changes were made and a bill was created.

The engagement was a success. You met your client's expectations, performing stellar work and coming in at budget before your deadline.

Ironically, the billing practices outlined in this scenario can be detrimental to your company and result in lost revenue. By pushing to fulfill the engagement and capping your fee, you have affected the inner workings and profitability of your company, and possibly jeopardized the future of your firm.

When taking on an engagement, make sure the engagement outlines an agreement that benefits your firm. Here are some common mistakes, and how you can avoid them:

1. The Quote Given for the Engagement Was Too Low
To price an engagement, you need to anticipate the number of hours that will be spent on the project and the billing rate. In the scenario above, the actual time—both the associates' and partners'—was not properly accounted for. Failure to record time will affect your ability to determine how much time you'll need to service an engagement. If you can't predict how much time you'll need, under-budgeting your future engagements will make them less profitable.

2. The Hourly Rates Stated in the Engagement Letter Are Incorrect
Since the hours the partner and/or employees spent on the engagement were not recorded and therefore not billed, the hourly rate stated in the engagement is incorrect. The rate charged is not the same when you include all of the

time not accounted for. Failure to record time spent on an engagement affects the actual billing rate and realization rates.

3. Continuing Business on the Same Terms Means Future Lost Revenue

Assuming you do business with this client again, if you bill them the true hourly rate for the number of hours worked the second time around, you can bet there will be a fee dispute. Your clients expect you to bill them in the same manner you did the first time. Any failure to do so is likely to cause tension. Clients will claim to have depended upon your initial billing rates and ability to work within a specific range already predetermined by your prior engagement with the client.

When the almost certain dispute arises and the claim goes to collections, or if you reduce the fee to match the billings from the prior engagement, realization rates are affected. Possible loss of revenue on the current engagement and future engagements are likely.

4. Your Staff's Time Was Not Adequately Accounted For

Billing statements and internal time records must take into account the time your staff spends on the engagement. If you cannot account for time spent on the engagement, your future staffing needs are likely to be affected. It is difficult, if not impossible, to staff future projects when you are not aware of your employees' time and capabilities. Further, by failing to bill for all time spent, you are hurting your firm in the future.

Should you need to pursue fee dispute resolution to collect the monies owed, your billing records will be incomplete and fail to substantiate your case.

5. The Multiplier Effect

Imagine if you had more than one engagement as described above or a load of these types of engagements. If the firm is not profitable, you will be forced to make some very tough decisions. Working for free or at a reduced rate should be a voluntary decision.

6. Firm Projections Are Off Because Time Is Not Measured

All time expended on client engagements should be recorded, and all associates, partners and staff members should be logging their time. Accurate accounting and billing will have a greater impact on your firm's success than the specific engagement itself.

Once a client has been billed, a decision can then be made by the billing partner or appropriate committee as to whether the bill should be reduced. Further adjustments can always be made.

Billing affects much more than just the engagement. Billing—or not billing, as the case may be—can affect many aspects of firm management, including staffing, profitability, client relations and more.

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