



Write-Offs & Lock-Up Tips



Write-Offs



Fundamentally write-offs represent waste in one form or another.

For all intents and purposes write-offs say, “what you did, what we did, is not worth the value expressed in our time cost system” for some reason(s). Whilst it is natural to consider write-offs as a negative it is just as appropriate to consider in the positive on the basis that if you investigate, understand and take action to resolve you will improve performance.

Ordinarily if your write-offs average 10% or less, this may not be a cause for major concern. That said there are practices that have a zero tolerance for write-offs and those that have write-ups (i.e. fees based on value rather than time).

Further, if you have problems with gross profit margins, the level of write-offs may be one of the contributors.

Refer the following checklist to help investigate larger write-offs.

Write-Offs Investigation: Matters to Consider Checklist

- ❖ Determine the extent of pro bona or discount work (e.g. family, friends, community organisations).
- ❖ Is pricing too low (e.g. historical under-charging, write-offs that don't reflect inefficiencies on our part.)
- ❖ Are there recurring problems with information provided?
- ❖ Does the required information comes in piecemeal (too many requests, pick-up, put down cycle).
- ❖ If the client is difficult, doesn't appreciate what we do, how do we resolve this?
- ❖ Engagement arrangements, are they out of date, need to review and update?
- ❖ Plan the job – do not start until all the information required is complete and accurate!
- ❖ Minimise the form in which information can be provide by clients (i.e. software and versions, paper etc)
- ❖ Practice software – is everyone adequately trained in how to use the software, is it being used to full potential?
- ❖ IT – is the hardware adequate to support efficient use of the software?
- ❖ IT – is “downtime” a problem, are user helpdesk queries being resolved quickly?
- ❖ Quality Control – is the review process consummate with the work type?
- ❖ Client work – are we charging all the time we spend on client matters, if not why not and what are we going to do about this?
- ❖ Non chargeable time – what are we doing when not working on client matters, are these things worthwhile, do they add value and make sense?
- ❖ Matching of work type with labour cost (e.g. do charge rates fit with fee being charged, is the team structure suitable?)
- ❖ Competence (e.g. does the person have the skills, experience and technical knowledge to complete the work in a timely manner).
- ❖ Aptitude (e.g. does each person exhibit traits that indicate they are suited to the job at hand)?
- ❖ Attitude (e.g. does each team member exhibit behaviours consistent with the firm's core values)?
- ❖ Management – is there proactive, timely management of workflow including “as it happens” trouble shooting to quickly resolve blockages?
- ❖ Performance – do we have any team members who are consistently underperforming, are they being proactively helped and managed?
- ❖ Training programs – do we have them, are they adequate, what technical knowledge needs to improved?



Lock-Up

Lock-up represents the total of a firm's work in progress and debtors, either in dollars or days.

In other words it represents work undertaken for which payment has not been received.

In the main lock-up reflects poor client engagement practices and internal workflow inefficiencies.

Lock-up represents old thinking, fails the "commerciality" test and sends a very poor message to clients in terms of the firm's business nous and management.

WIP Days Calculation

Aver. Bal. for period/Budgeted revenue for year x 365 days OR

Bal. at end of period/Budgeted revenue for year x 365 days

Debtor Days Calculation

Aver. Bal. for period/Budgeted revenue for year x 365 days OR

Bal. at end of period/Budgeted revenue for year x 365 days

In conjunction with clear policy, pro-active client engagement and kpi's lock-up should be vigorously managed.

Typically lock-up days should not be greater than 75 for a client group, on average. The ageing of lock-up is also a key issue and ideally there should be no WIP or debtor balances in 60 days plus.

Lock-Up Management Strategies: Accounting & Tax Services



WIP

- All WIP to be cleared at the time job completed (i.e. billed and written up/(off)
- All balances > \$2,000 for jobs that won't be finalised within next 30 days to be billed as an interim fee
- All balances > 90 days to be written down to 50%
- All balances > 120 days to be written off
- All write-offs > \$2,000 and > 10% of the total value to be approved by the Managing Partner

Fees

- Where a job will take < 1 month: * Bill on completion
- Where a job will take > 1 month < 2 months: * Bill 50% of estimated fee upfront, balance on completion
- Where a job will take > 2 months: * Bill 30% of estimated fee upfront, 30% mid-point, balance on completion
- Bill all jobs when they leave office. Do not wait until month end

Debtors

- Email all invoices where possible;
- Accounts > 30 days to 45 days be followed up by automated email;
- Accounts > 45 days to be followed up by practice administration;
- Offer Fee Synergy to all 45 + day debtors;
- Any account balance outstanding greater than 60 days, without an agreed written payment arrangement, will result in a **STOP WORK** all for matters pertaining to that client; and
- Any account balance outstanding greater than 60 days will be subject to an interest or administration charge.

Standard Individual Income Tax Returns: Fee & Payment before lodgement