



CL Whelan and Associates

# Costing and Pricing for Service Providers

Extract Only

CL Whelan and Associates Pty Ltd  
PO Box 2016  
South Plympton SA 5038  
Telephone 8177 2115  
Fax 8177 2203  
E-Mail [chris@clwhelan.com.au](mailto:chris@clwhelan.com.au)  
Web [www.clwhelan.com.au](http://www.clwhelan.com.au)

*Liability limited by a scheme approved under Professional Standards Legislation*

# Table of Contents

<b>Overview of Manual</b>	<b>5</b>
Aim of manual	5
Objectives of manual	5
Types of services	6
About the author	7
<b>Why is Costing and Pricing so Important</b>	<b>8</b>
Profit and Loss Statement Limitations	9
<b>Costing Services</b>	<b>11</b>
Why calculate hourly chargeout rates	11
Direct Material Costs	13
Calculating chargeout rates for your firm	14
Step 1: Labour costs of employees	14
Step 1A: Machine Costs (if applicable)	16
Step 2: Overhead costs	18
Step 3: Billable hours	20
Step 4: Required Net Profit for the next 12 months	21
Step 5: Allocate overheads and Net Profit and calculate hourly chargeout rates	22
Step 6: Check for reasonableness	23
How to amend hourly chargeout rates	24
<b>Financial Forecast</b>	<b>28</b>
<b>Pricing a Service</b>	<b>29</b>
Fixed fees	29
Pricing matrix	30
Pricing a service using the template provided	30
Step 1: Select team	31
Step 2: Detail each task	32
Step 3: Detail disbursement costs	33
Step 4: Value pricing	34
<b>Client Engagement Letter</b>	<b>35</b>
What is a client engagement letter?	35
What is included in a client engagement letter?	36
<b>Recording and Monitoring Time</b>	<b>38</b>
Options for recording and monitoring time	38
Methods of recording and monitoring time	40
Manual timesheet	40
Time recording software	40
Recording and monitoring time using Timeslips by SAGE	41

<b>Cash Collection</b>	<b>42</b>
Credit Management	42
<b>Key Profitability Indicators</b>	<b>44</b>
Revenue per FTE	44
Revenue per owner/principal	44
Average hourly chargeout rate	45
Forecast fees	45
Profitability of firm	45
Labour efficiency %	46
Staff ratio and direct staff ratio	46
Costs per \$ of fees	47



# Overview of Manual

## Aim of manual

The aim of this manual is to provide a practical guide to assist owners and managers in service organisations to accurately cost and price their services.

## Objectives of manual

After reading this manual, participants will gain knowledge in the areas of

- Why costing and pricing is so important for service businesses
- Calculating chargeout rates for their firm
- Preparing a financial forecast
- Pricing services
- Preparing client engagement letters
- Monitoring actual time taken to complete a job
- Cash collection
- Preparing Key Profitability Indicators to assess the performance of their firm

## Types of services

The type of services that can apply the costing and pricing techniques covered in this manual include

- Consultancy services such as
  - Accountants
  - Lawyers
  - Engineers
  - Architects
  - IT consultants
  
- Trades services such as
  - Mechanics
  - Electricians
  - Plumbers
  - Auto Electrical
  - Cabinet makers
  - Painters
  
- Contractors that use people and machines to perform a service such as
  - Earthmoving contractors
  - Transport business
  - Bus hire
  - Tree felling and stump removal
  
- Any other business that charge for their service using hourly rates or set fees such as
  - Health professionals like doctors, dentists, physiotherapists, chiropractors
  - Beauty salons and hair dressers
  - Building contractors
  - Photographers
  - Graphic and website designers

## About the author

Chris Whelan is a chartered accountant and the principal of CL Whelan and Associates. Chris is recognised as one of the leading consultants in Adelaide specialising in cost accounting.

Chris holds regular workshops on costing and pricing for service businesses where he outlines the fee-for-service model. Chris is acknowledged as a truly talented presenter with his sense of humor and live case studies.

Chris has a Bachelor of Arts in Accountancy and a Graduate Diploma in Accountancy both from the University of South Australia. He is a fellow of CPA Australia and a member of the Institute of Chartered Accountants.

Other manuals prepared by Chris include:

- Accurate Costing for Profitable Pricing for Manufacturers
- Accurate Costing for Profitable Pricing for Restaurants, Cafes and Caterers
- Accurate Costing for Profitable Pricing using Contribution Margin
- Implementing a Fee-For-Service Model in a Financial Planning Practice
- Management By Numbers
- Budgets for Better Business