

Funding the Future

Will the big firms of accountants survive the coronavir...

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A report by Micahel Kapoor of Bloomberg, [published yesterday](#) suggests:

The major U.K. accounting firms could struggle to weather the impact of the pandemic or a big legal claim because they distribute most of their profits to their partners, leaving little money in reserve.

Accounts filed by the U.K. arms of the six biggest firms—the Big Four, BDO LLP and Grant Thornton LLP—show very low levels of equity, in some cases less than a month's revenue.

They published this table:

Low Levels of Equity in Top U.K. Accounting Firms			
Half the firms have about a month's worth of revenue in equity			
	Equity (£)	Revenue (£)	Equity as Months of Revenue
Grant Thornton*	29 million	728 million	1
BDO	37 million	578 million	1
EY	255 million	2.45 billion	1
KPMG**	392 million	2.34 billion	2
PwC***	670 million	4.22 billion	2
Deloitte	1.23 billion	2.43 billion	6

Sources: Companies House, Grant Thornton, Bloomberg Tax

*For 18-month accounting period to 12/31/19

**2018 filing

***Includes U.K., Middle East, Channel Islands

Bloomberg Tax

And as they note:

“These are hollowed-out firms,” Richard Murphy, an economics professor at City University and a co-founder of the international group Tax Justice Network, said.

They also note:

Murphy added that reserves were so low that some of the firms could also struggle to

meet expenses from the coronavirus lockdown: EY's U.K. revenue was 2.5 billion pounds in 2019, for example, meaning that its 255 million pounds of equity translates into little more than a month's turnover.

"The Big Four have already announced some cuts and the next stage will be layoffs," Murphy said. "Look at the challenger firms, and they have very little in reserve to cover this sort of event."

These firms have stripped themselves of money in the pursuit of the goal of owner wealth maximisation. Can they survive? That's a very good question. But have no doubt that whatever happens they face some considerable stress if they are going to do so and I now know of large accounting firms laying even quite senior people off as they come to terms with a new world where there might be less corporate excess.

Accounting needs reform right now.

So too do the accountants.

And only if both happen will really get the corporate reform that we need.

We live in interesting times, as the saying goes.