

The **Creedy Commentary**

Insights for the **Intentional** Funeral Director

Special Report

Funeral Home Metrics & Generally Accepted Accounting Practices

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Funeral Home Metrics and Generally Accepted Practices

The operating metrics of funeral homes follow the generally accepted chart of accounts format. This format is as follows:

Revenue: This consists of service and merchandise from services rendered to the public. Many funeral homes break out service revenue and merchandise revenue. If they provide services to other funeral homes like cremations and trade work those items are identified separately as well. Total revenue from service and merchandise should be easily identified and should exclude other revenue as the service and merchandise revenue is the common denominator for calculating most operating ratios.

Cash accommodations: Apparently the IRS treats the term cash advance in a disadvantageous way so it is now the generally accepted practice to use the term cash accommodations. These categories include items that the funeral director does not mark up and are a pass through for the business. For instance: clergy honorariums, grave opening and closing, organist, air fare for the deceased, flowers, (if no mark up) sales tax.

There are three ways to account for cash accommodations. But the purpose is to show total operating revenue from service and merchandise net of these items. Cash accommodations received are often shown as a revenue item and the corresponding cash accommodation expense is shown as a cost of sale. This is wrong as it significantly overstates both categories and skews the common denominator. The three generally accepted ways of accounting are as follows:

- Book cash accommodation revenue as revenue with a corresponding contra account booking cash accommodation expense in the revenue category effectively netting the two together
- Book both cash accommodation revenue and expense in the “other income/expense” category after net operating income (loss)
- Book both cash accommodation revenue and expense in an asset account in current assets.

Note: For a variety of reasons the revenue and expense under cash accommodations will never “zero” out so if you use the asset method is important to make a year end journal entry zeroing out that account and recording the offsetting entry as either revenue or expense.

Cost of sales: Cost of sales includes only MERCHANDISE on which the company makes a margin of profit. These can include caskets, vaults, urns, burial clothing and flowers (if they mark them up). Items such as register books and other small goods are generally recorded in “funeral supplies”. Do not book labor in this category.

The average cost of sales ratio is between 15% and 18%. It is possible to get lower but if the ratio is in the range of 19% or higher a closer look at buying practices or pricing is warranted.

Overhead:

Personnel: Personnel includes anything to do with labor

- Officer's salaries
- Employee salaries
- Fica tax
- Unemployment tax
- Uniforms
- Group insurance
- Retirement
- Contract labor
- Trade services
- Etc

The target ratio for labor is no more than 35%. Many funeral homes have become more efficient and are moving their ratio to the low 30%. A ratio higher than 35% would suggest that owners are taking profits in the form of higher than market salaries, overstaffing, overuse of trade services or underpricing.

Facilities: Facilities include anything to do with the physical facilities and land

- Rent (including rent to owners)
- Utilities
- Repairs and maintenance
- Depreciation
- Telephone
- Trash pickup
- Real estate taxes
- Cleaning service
- Building and property insurance
- Etc.

Facilities ratios are more widely variant and range from 12% to 17% of net sales revenue depending on things like region of the country, owners rent insurance and so on. A "rule of thumb" for owners rent is 7% to 9% of net sales revenue but is not widely observed. A ratio higher than 17% for facilities suggests such things as owners taking profits as rents, overbuilt facilities, underpricing.

Vehicles: Vehicles includes anything to do with transportation

- Leases
- Depreciation
- Auto insurance
- Licenses and tags.
- Repairs and maintenance
- Fuel
- Short term rental
- Livery services
- Etc.

There is really no hard and fast ratio for vehicles but they are typically under 5 – 7%

Advertising: Advertising includes all advertising and promotion but not club dues

- Advertising
- Promotion (including logo give aways)
- Sponsorships
- website
- Etc

The common average for this category is 3% many funeral homes spend much less. I have always recommended 5% if you want to grow the firm

Funeral and embalming supplies: includes all supplies used in the funeral service

- Embalming fluid
- Tools for the prep room
- Protective equipment
- Register books
- Paper supplies for prayer cards and the like

Usually less than 1% of net sales

General and administrative overhead: Includes all other expenses a limited list of which includes:

- Bank fees
- Credit card fees
- Copier service
- Office supplies
- Legal and accounting fees
- Employee meals
- Convention expense
- Dues and subscriptions
- Travel
- Etc.

There is no widely accepted ratio for this expense category.

Other Income / expense items should include

- Non operating income
- Interest
- One time gains or losses
- Etc.

EBITDA:

In order to calculate EBITDA the overhead expense must be normalized. Without getting into a lot of detail the primary adjustments are almost always in the owners salary and owners rent. Assuming a 3rd party sale, I adjust or normalize these areas by adjusting the owner's salary to market levels and zeroing out the owner's rent.

Once normalized, the calculation of EBITDA should yield a range of 20% for smaller funeral homes and 30% for larger funeral homes as determined by call volume.

Average sale: Beyond these operating ratios is the average sale. The formula is simply Net Operating Revenue (excluding cash accommodations) divided by total calls. You can call me any time and I will help you with how your client might compare to others in his region.

Some funeral homes track cremation and burial calls separately as well as the corresponding revenue and calculate an average burial and average cremation sale.

The average sale should be tracked at least every quarter and trends noted.