

The cost of intelligence

A new line item for the accounting firm

Firms have always allocated labor and capital. Now they allocate intelligence too. Why it needs its own system, and how to see it and manage it per person and per client

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INTRODUCTION

Every accounting firm knows what its people cost and what its capital costs. Few can say what their intelligence costs, or who and what it was spent on.

AI now does real work in every engagement. The intelligence it delivers is bought in credits, and it varies by client, by person and by kind of work. Yet for most firms it arrives as one bill, with nothing to say where it went. If intelligence is a cost, a firm has to see it and manage it the way it already manages labor and capital.

This paper makes that case. Intelligence is a third line item, it behaves unlike the other two, and it touches pricing, staffing and client profitability. Then we set out a way to manage it, and only at the end show how Instead makes it easy.

FOR

Managing partners, firm owners and the leaders who run operations

COVERS

Intelligence as a line item, per person and per client, and the policy around it

01

Labor, capital and now intelligence

Firms have always allocated two things. Now there is a third.

Running an accounting firm has always meant allocating two things. Labor is the time and judgment of the people who do the work. Capital is the money the firm puts to work, in technology, in offices and in the cash it carries between engagements.

The profession built a system around each. For labor there are timesheets, utilization, staffing plans and the long habit of asking who worked on which client and for how long. For capital there are budgets, asset registers, depreciation schedules and an annual plan. A managing partner can usually say where the people went last month and where the money went last year.

A third thing now does real work inside the firm. Intelligence, delivered by AI, drafts the memo, reads the documents, prepares the workpaper and answers the question a staff accountant once took to a senior. It is bought in credits or tokens, and it is used every time someone asks a question, runs a workflow or works through a document.

That is our view, not a forecast with a number on it. What matters is the direction. Each month more of the work moves to agents, and the line grows.

We believe intelligence is on course to become as big a cost as labor.

THREE LINE ITEMS

Labor	Your team's time and judgment
Capital	The money you put to work
Intelligence	The AI work your firm runs, measured in credits

Side by side, the three look alike on a profit and loss statement. Each is money spent so the firm can deliver work. The difference is in what the firm knows about each one.

For labor and capital the firm knows a great deal. It can trace a salary to a person and an hour to a client, a laptop to a register and a lease to a budget line. That knowledge is what lets a firm allocate well. It moves people to the clients that need them, invests where the return is, and prices with a fair idea of what the work will take.

For intelligence most firms know one number, the total, and they learn it when the bill arrives. That is where labor stood before the timesheet. The cost was real, but nobody could say where it went.

Labor has the timesheet. Capital has the register. Intelligence, so far, has only the bill.

02

Why intelligence behaves differently

It varies by person, by client and by kind of work, and it grows with ambition, not headcount.

If intelligence behaved like labor or capital, firms could stretch their existing systems to cover it. It does not.

It varies by client

A client with several entities, a stack of brokerage statements and returns in many states asks more of an agent than a client with one wage statement. Two clients on the same fee can carry very different intelligence, and the difference follows complexity, not the size of the invoice.

It varies by person

Some people ask a quick question and move on. Others run a workflow across a whole client list before lunch. The difference reflects habit and ambition more than seniority. The newest associate can be the heaviest user in the firm, and that may be exactly what the firm wants.

IN SHORT

Labor grows with headcount. Capital grows with what the firm owns. Intelligence grows with what people attempt.

It varies by kind of work

A conversation in chat, a workflow that runs the same steps across many clients and the reading of a long document each draw on intelligence in their own way. A firm that cannot tell them apart cannot tell whether it is paying for exploration or for production.

It sits outside every system the firm has

It is not on a timesheet, because the person who started the work may have moved to the next client while the agent keeps going. It is not on an asset register, because nothing is owned. It arrives as one balance with nothing behind it. Each request is cheap, so none is worth a second look. Across a busy season, together, they are material.

HOW INTELLIGENCE DIFFERS FROM LABOR AND CAPITAL

	Labor	Capital	Intelligence
Bought as	Salaries and hours	Purchases and leases	Credits or tokens
Grows with	Headcount	What the firm owns	Ambition and adoption
Varies by	Role and seniority	Asset and its life	Person, client, task
Seen through	Timesheets	Registers, budgets	One total balance
Planned with	Staffing plans	Annual budgets	Rarely planned
Shows up	Every week	Every year	Every request

Unmanaged, this ends in one of two places. One is a surprise, a total nobody can explain. The other is a brake. People ration what they sense is watched but not understood, and the firm loses the leverage it pays for.

03

See it per person and per client

The first job is visibility, at the level a firm already manages labor.

The surprise and the brake have one cause, a third line item with no system for it. The cure starts with seeing it.

A firm does not manage labor by looking at total payroll. It manages it person by person and client by client, because that is where decisions get made. Intelligence needs the same resolution. In practice that means four questions a managing partner can answer on any day, without a project to find out.

The risk is not only overspending. It is a firm that quietly stops using what it pays for.

01 How much did we use this month?

02 Who used it?

03 On which clients?

04 For what kind of work?

The first question sets the scale. The second shows how adoption is spreading across the team, and where it is not. The third connects the cost to the client relationship, which is where pricing and profitability live. The fourth separates open conversation from repeatable workflows and document work, so the firm can see whether its spending is turning into production.

The answers need a time frame. A month is the natural one, because that is how most firms close their books and review their people. A shorter window catches a spike while it is still happening. A custom range lets a partner look back at a busy season or a single engagement.

None of this needs to be precise to the decimal to be useful. It needs to be per person, per client and per kind of work, and it needs to be there when someone looks.

A DAILY HABIT

The same four questions, asked every morning, take less time than reading the bill once a month.

Total payroll has never been how a firm manages labor. A total AI bill will not be how it manages intelligence.

04

What it changes

Seen per client and per person, intelligence becomes an input to pricing, staffing and client profitability.

What follows is our view, and the questions we think a firm should ask. Every firm will reach its own answers.

Pricing

Our paper *The destruction of the billable hour* argues that hours times rate stops computing once agents do a growing share of the work, and that intelligence becomes a direct cost of each engagement. Some of the pricing models it sets out start from this very number, a multiple of intelligence cost, or cost plus a margin target. They only work if the firm can see intelligence per client.

Per client credits do not set a price on their own. They help a firm price the work and see what a client costs to serve. Usage is counted in credits, and what a credit costs comes from the firm's own plan and records.

ASK

Would we price this client the same way if we could see what it costs to serve?

Does the engagement letter reflect the work agents now do?

Staffing

High usage is easy to read as waste. Often it is the opposite. The person running a workflow across a whole client list is doing what the firm hoped agents would make possible. Rationing that person is like cutting the hours of the most productive member of staff.

The better comparison is usage against output. A member who uses a lot and delivers a lot is creating leverage. One who uses a lot and delivers little needs coaching, a better workflow or a different task. One who uses almost nothing may need training more than a budget.

Client profitability

Hours have long been how firms judged whether a client was worth what it paid. Intelligence adds a second way to be wrong. A client can look fine on hours and be heavy on intelligence, because agents carried the load. A firm that compares credits per client with its fee, using its own records for what a credit costs and what it charges, sees more of the cost to serve. Some clients will turn out better than they looked. Others will need a conversation, a new scope or a new price.

QUESTIONS A FIRM SHOULD ASK

-
- 01 Which clients use the most intelligence for the fee they pay?
 - 02 Which members create the most output from what they use?
 - 03 Where are people rationing a tool that would make them faster?
 - 04 Which clients should carry a monthly limit, and which should not?
-

05

Set policy before the bill

Manage intelligence like any line item. Look monthly, find the outliers, set defaults, set exceptions.

Seeing the cost is half of it. The other half is deciding in advance how much the firm is willing to spend, and where. Firms already do this for labor with staffing plans and for capital with budgets. Intelligence calls for the same habit at the same two levels, the person and the client.

The decisions belong to the owners. Intelligence touches price, margin and how the team works, so the people who own those things should set the policy. That does not mean approving each request. It means setting the boundaries once and adjusting them on a rhythm.

THE RHYTHM

Set it once. Look monthly. Adjust when an engagement or a role changes.

Done this way, the bill stops being an event. It is the result of a policy the firm chose.

05 SET POLICY BEFORE THE BILL

FIVE PRACTICES

- 01 **Set firm defaults.** A ceiling for every member and every client without one of their own, so the firm is safe without a decision per person.
- 02 **Set exceptions where they matter.** More room for a client in a complex engagement, less for a client on a fixed fee.
- 03 **Use zero as off.** A limit of zero says plainly that a member or client should not use AI for now.
- 04 **Look monthly.** Review the month when the firm reviews its people and its books. Who and which clients drove the total, and did the work justify it?
- 05 **Find the outliers, then ask why.** A spike is a question, not a verdict. Most will be good news.

A MONTHLY WORKSHEET FOR ONE CLIENT

Lines A to D come from Usage. E to H come from your own plan, records and terms.

Line	Read or work out	Where it comes from	Your figure
A	Client credits this month	Clients table, Credits	
B	Client share of the firm's credits	Clients table, Share	
C	Client credits last month	Period, Last month	
D	Largest use case for this client	Client filter, use case	
E	What a credit costs your firm	Your plan and records	
F	Cost to serve with AI, $A \times E$	Worked out by you	
G	Your fee for the work this month	Your engagement terms	
H	F as a share of G	Worked out by you	

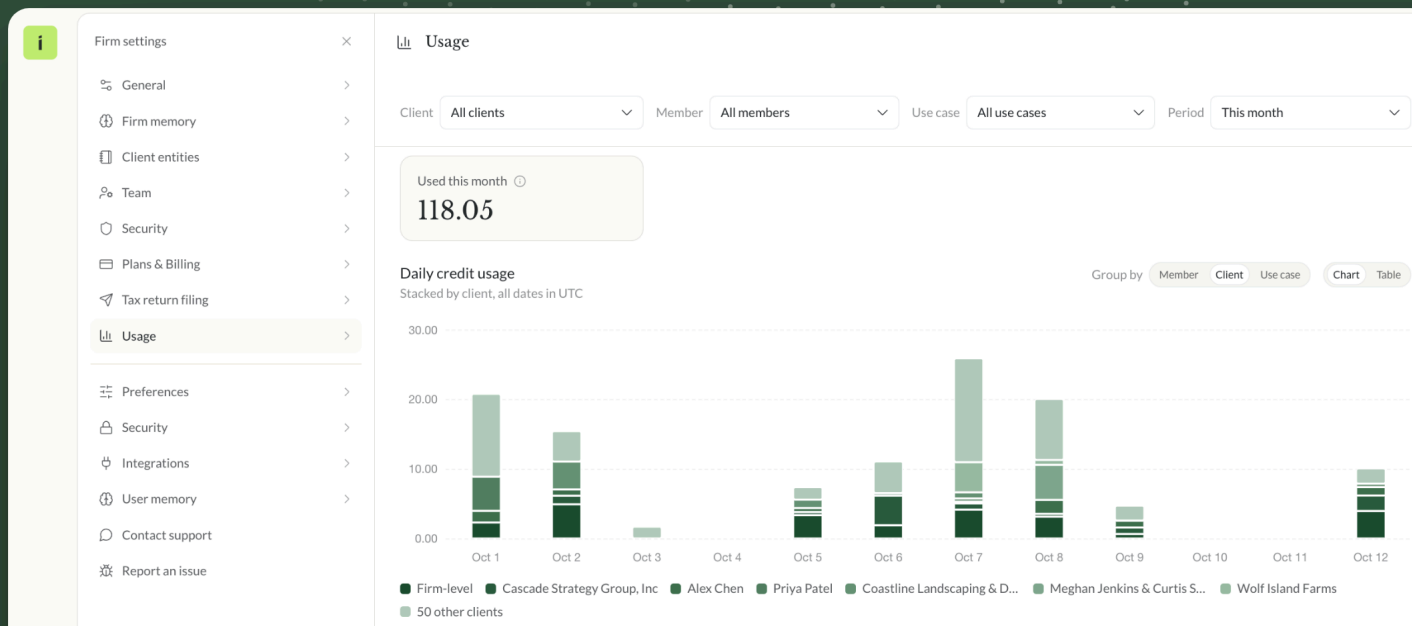
06

How Instead makes it easy

Usage, in Firm settings, gives firm owners the view and the controls this paper describes.

Usage sits in Firm settings, visible to firm owners. It opens on the credits used this month and a chart of daily credit usage. Owners group it by member, client or use case, as a chart or a table, with Chat, each Workflow by name and Documents as use cases. Filters narrow it to a client, a member, a use case or a period.

Used this month and Daily credit usage. The four questions, answered on one page.



06 HOW INSTEAD MAKES IT EASY

The Clients table lists each client with its credits, its share of the firm's usage, a daily trend and its monthly limit, with a row for the firm as a whole.

The Clients table. Every client's share of the firm's intelligence.

Switch firm

Switch to Instead v2

Log out

Clients 503

Default limits

Search clients

Client	Daily	Credits	Share	Monthly limit
Firm-level		24.97	21.2%	Not applicable
Cascade Strategy Group, Inc 1120-S		10.38	8.8%	No limit
Alex Chen 1040		7.61	6.4%	No limit
Priya Patel 1040		6.40	5.4%	No limit
Coastline Landscaping & Design 1120-S		6.09	5.2%	No limit
Meghan Jenkins & Curtis Swanson 1040		5.04	4.3%	No limit

Owners can give any member or client a monthly credit limit, and set Default limits for everyone without their own. Past a cap, usage is blocked until the 1st of next month. A limit of 0 turns AI usage off.

The Default limits dialog. Firm defaults, per member and per client.

Default limits

×

Monthly caps for every member and client without a limit of their own. Leave a field empty for no cap.

Max credits per member

No limitcredits

Max credits per client

No limitcredits

A limit of 0 blocks all AI usage for anyone without their own limit.

Cancel

Save defaults

A firm that sees all three can allocate all three

Firms became good at managing labor because they could see it, person by person and client by client. They became good at managing capital because they budgeted it before they spent it. Intelligence deserves both.

Seen and governed, it stops being a surprise or a brake. A firm can price with more of the cost in view, staff for leverage rather than rationing, and know which clients are good business. We believe the firms that build this habit now will get the most from the intelligence they buy.

Labor	Your team's time and judgment
Capital	The money you put to work
Intelligence	The AI work your firm runs, measured in credits

Usage in Instead

Start your trial at instead.com