

ACCOUNTING SERVICES AND THE CPC

VOORBURG GROUP CONFERENCE

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IMPLEMENTATION OF THE CPC FOR ACCOUNTING SERVICES REPORT TO THE VOORBURG GROUP

INTRODUCTION

1. The member countries of the Voorburg Group are asked to share their experience in the development and implementation of the CPC. This paper presents the testing procedure and test results for the classification of accounting services (CPCs 862 and 863) adopted by Statistics Canada and makes certain recommendations for changes to the CPC.

THE PILOT SURVEY

2. Statistics Canada conducted a pilot survey of the accounting services industry in Canada. The objectives of the pilot survey were:

- a) to measure both the primary and secondary outputs of the accounting services industry (ISIC 7412, CSIC 7731);
- b) to test the applicability of the accounting services categories of the CPC;
- c) to test the applicability and relevance of other selected CPC categories, in particular those related to management consulting;
- d) to gather information of interest to industry users.

3. The accounting and management consulting CPC categories and definitions were presented to, and discussed with, the Canadian Institute of Chartered Accountants (CICA) and other interested parties. These discussions have led to:

- a) the adoption of relatively minor changes to the CPC structure, terminology and definitions, particularly for taxation services (CPC 863);
- b) the inclusion of a category for insolvency and receivership services (secondary activity). This type of service is not explicitly mentioned in ISIC or the CPC; it is assumed these services are classified in ISIC 7499 - Other business activities n.e.c. and CPC 87909 - Other business services n.e.c.

Recommendations for changes to the CPC are discussed in the concluding remarks of this paper.

4. The product categories used for the pilot survey are:

Auditing, Accounting and Bookkeeping

- Auditing
- Review engagements with compilation
- Review engagements without compilation
- Compilation
- Bookkeeping

Taxation services

- Income tax planning and advice
- Personal income tax return preparation
- Corporate income tax return preparation
- Commodity taxes
- Other taxation services

Insolvency and receivership

Consulting

- General management consulting
- Financial advisory services
- Information management and EDP consulting
- Human resource consulting
- Other consulting services

Other

The relationship between the current CPC and the above classification is given in Annex 1.

5. In order to meet the basic objectives of the survey, the first section of the questionnaire (Annex 2) asks respondents:

- a) to identify the services offered by their organization within the list provided;
- b) whether or not they keep a record of revenue for those services; and
- c) to provide the actual, or an estimate of, revenue by type of service.

This section has been designed to allow those respondents who were unable or unwilling to provide the full detail to provide information on the basis of the aggregate categories.

6. The second section deals with the occupational structure of employment within the surveyed organizations, and the salaries and benefits paid to their employees. Industry users have expressed particular interest in this information.

7. It was decided not to request information about intermediate inputs in order to allay industry concerns over the disclosure of profit margins.

FORM OF ORGANIZATION, CHOICE OF STATISTICAL UNIT AND COLLECTION STRATEGY

8. Prior to conducting the survey, the legal and operating forms of organization for the industry's businesses were examined in order to acquire a better understanding of the types of organization (and therefore typical statistical structure) in the industry, and to choose the type of unit that would best serve the objectives of the survey.

9. This investigation showed that:

a) The industry is dominated by firms legally organized into partnerships. In the Canadian system, partnerships are treated as statistical enterprises. Some of the smaller firms are either sole proprietorships or corporations; in these cases the statistical enterprise and the statistical establishment usually coincide.

b) The offices of multi-location accounting firms can be delineated as separate establishments. The separate activities/departments of these offices (auditing and accounting, management consulting, insolvency) are not typically separate establishments.

c) The management consulting activity of some of the largest organizations is a separate partnership. However, the operations of accounting and management consulting partnerships are very much integrated; there is usually sharing of professional and technical staff and office space, and they usually have a common administrative structure and many common expenses. In view of this high level of integration, it was decided that in such cases, the two partnerships would be treated as a single enterprise.

d) Accounting firms providing insolvency services are required by Canadian law to incorporate the "insolvency activity". The corporation and its activities are controlled by, and fully integrated with those of, the parent partnership. As in the above case, it was decided that this type of corporation is an integral part of a single legal structure and statistical enterprise.

10. The conclusion emerging from these observations is that, in most cases, the only factor that distinguishes the statistical enterprise from the statistical establishment in this industry is the geographical characteristic. Given that the survey was not intended to produce GDP originating from various geographical areas (in which case the establishment would have been the proper choice), the enterprise was chosen as the unit of observation. This choice has the advantage of keeping response burden to a minimum and therefore increasing the likelihood of obtaining a good response rate.

POPULATION AND SAMPLING

11. The target population consisted of over 5,500 accounting firms (ISIC 7412). These firms have generated revenues exceeding three billion dollars in 1988.

12. A majority of the large firms, and a representative sample of small and medium-sized firms from across the country were surveyed. Total annual revenues of the sampled firms ranged from just over twelve thousand dollars for the smallest to well over one hundred million for the largest. Efforts were made to ensure adequate representation by geographic area. In total, 401 questionnaires were mailed out.

ANALYSIS

13. An important goal of the pilot survey was **to test the applicability and relevance of the classification**. In order to do so, the following criteria were used:

- a) each class should represent a significant portion of the industry's output;
- b) the range of services should account for the bulk of the industry's output;
- c) the classification should represent the output of large and small businesses;
- d) respondents should be able to extract the required information from their accounting records or estimate it with relative ease.

The next few paragraphs present the survey results in light of those criteria, both for the aggregate and detailed categories of the classification.

RESULTS

14. The **response rate** was reasonably high. Of the 401 questionnaires mailed out, 340 or 85% were returned. The majority of these (283 or 71% of the surveyed population) reported revenues at the most detailed level; the other respondents provided output data for the five aggregate product categories. These results are quite encouraging for a pilot survey.

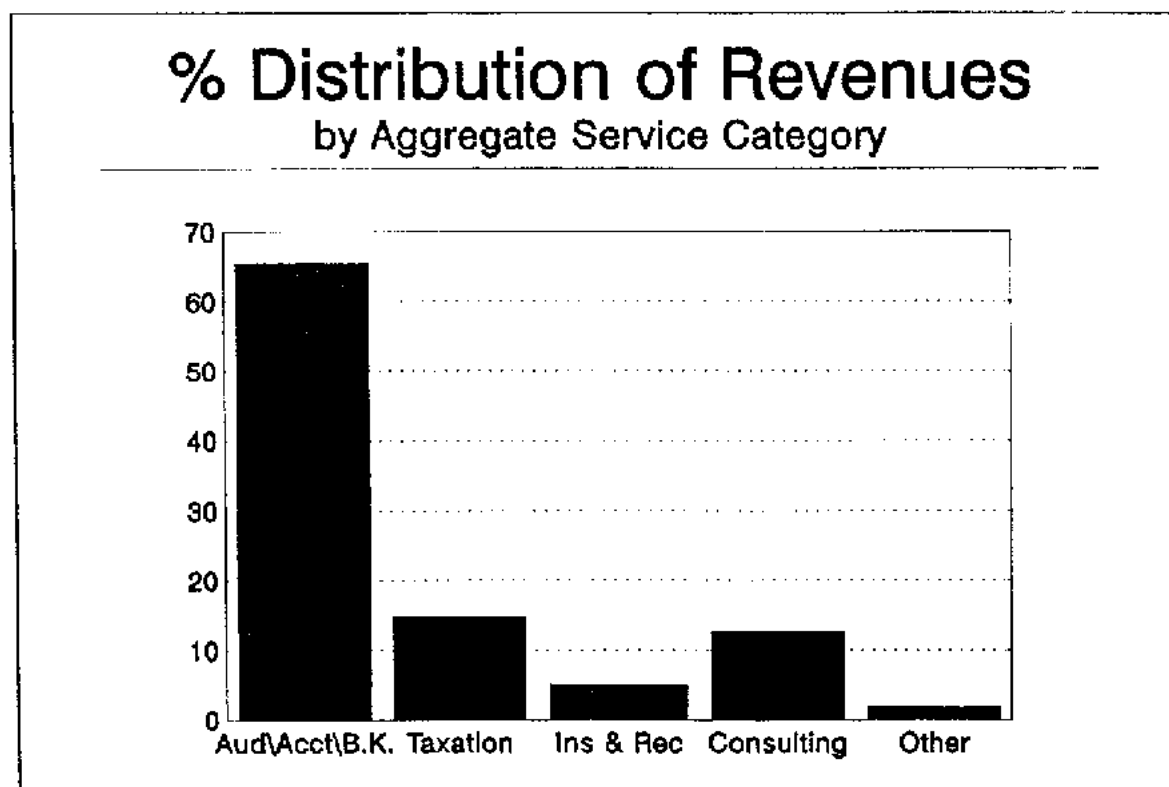


Figure 1

5. The **auditing, accounting & bookkeeping** aggregate accounts for 65.6% of the total revenue reported by surveyed firms. The **taxation service** aggregate, the other primary product of ISIC 7412, accounts for 14.8% of total revenues. Therefore, when measured in terms of the ISIC definition, the specialization ratio for the surveyed population is 80.4%. The two main secondary products of the industry, **insolvency** and **consulting** services, account for 5% and 12.6% of revenues respectively. The small amount of revenues reported in the residual category suggests that the classification adequately covers the range of services provided by accounting firms (see **Figure 1** above).

Revenues by Aggregate Service Category Large Firms vs Small Firms

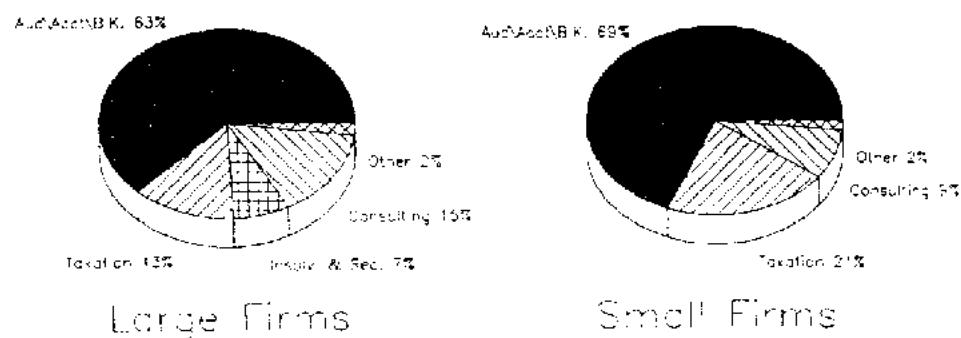


Figure 2

16. The classification is equally relevant to measure the outputs of large and small firms. In both cases, only a small portion of revenues could not be accounted for by one of the four aggregate service categories. As can be seen in **Figure 2** above, small firms rely to a greater extent on the provision of accounting and taxation services and to a lesser extent on insolvency and consulting services.

DETAILED CATEGORIES

17. The following table shows the number of surveyed firms that (1) provide each type of service, (2) keep a record of revenue by type of service, (3) have provided an estimate for revenue, or (4) did not report revenues. For comparison purposes, the same information is shown for large (TOP 20) and small firms (BOTTOM 25).

PROVISION OF SERVICES, ACCOUNTING PRACTICES AND SURVEY RESPONSE
firms (total = 340)

	ALL FIRMS				TOP 20				BOTTOM 25			
	1	2	3	4	1	2	3	4	1	2	3	4
Aud\Acct\B.K.												
Auditing	323	164	119	40	20	8	4	8	13	9	3	1
Review with compilation	332	160	114	58	20	7	1	12	22	15	4	3
Review without compilation	263	103	84	76	18	5	1	12	14	8	1	5
Compilation	307	138	98	71	19	6	2	11	17	12	3	2
Bookkeeping	314	156	99	59	20	8	2	10	20	13	5	2
Taxation Services												
Tax planning	318	139	117	62	20	7	5	8	20	11	5	4
Personal return	335	156	116	61	20	7	2	11	23	14	6	3
Corporate return	329	130	115	84	20	7	0	13	23	11	5	7
Commodity taxes	127	34	33	60	17	5	0	12	4	2	0	2
Other tax	176	64	43	69	16	7	0	9	4	2	1	1
Insolvency & Receivership												
	65	25	40	0	17	8	0	9	0	0	0	0
Consulting												
General management	265	108	92	65	19	8	3	8	12	7	1	4
Financial management	257	99	79	79	18	7	1	10	15	8	2	5
Information management & EDP	192	79	52	61	18	7	1	10	6	3	0	3
Human resource	71	30	0	41	14	5	0	9	0	0	0	0
Other consulting	132	51	24	57	16	6	0	10	4	3	0	1

- 1 Number of firms who provide the service.
- 2 Number of firms who keep a record of revenues for this service category.
- 3 Number of firms that do not keep a record of revenues for this type of service but were able to provide an estimate.
- 4 Number of firms who did not supply revenue data.

18. Most services and in particular the accounting and taxation services, are provided by a very large proportion of the surveyed firms. Only the "specialty" services (commodity tax, insolvency and receivership, and human resource consulting) are offered by less than half of the surveyed population. This seems to indicate that the classification properly describes the type and range of services provided by this population.

19. The comparison for large and small firms shows, as expected:

- (a) that large firms tend to offer a wider range of services than small ones; and
- (b) that those services requiring expertise outside the accounting field (commodity and other tax services, insolvency and receivership, information management and EDP consulting, and human resource consulting) are seldom offered by small firms.

20. The results regarding the "accounting practices" of the surveyed firms are less conclusive. In general, only 40 to 50 percent of firms stated that they maintained records for the service categories used in the survey. Surprisingly, small firms were more likely to keep these type of records than large firms. This may indicate a greater reluctance on the part of larger firms to provide the information rather than a difference in accounting practices.

21. The majority of respondents were willing to provide estimates, thus bringing the response rate to significantly higher levels (in the 70 to 80 percent range for most services). Here again, small firms were more likely to provide estimates than were large firms.

RELATIVE IMPORTANCE OF SERVICES

22. The following series of charts illustrates the relative importance of each service category within the aggregate to which it belongs. A comparison for large and small firms is provided.

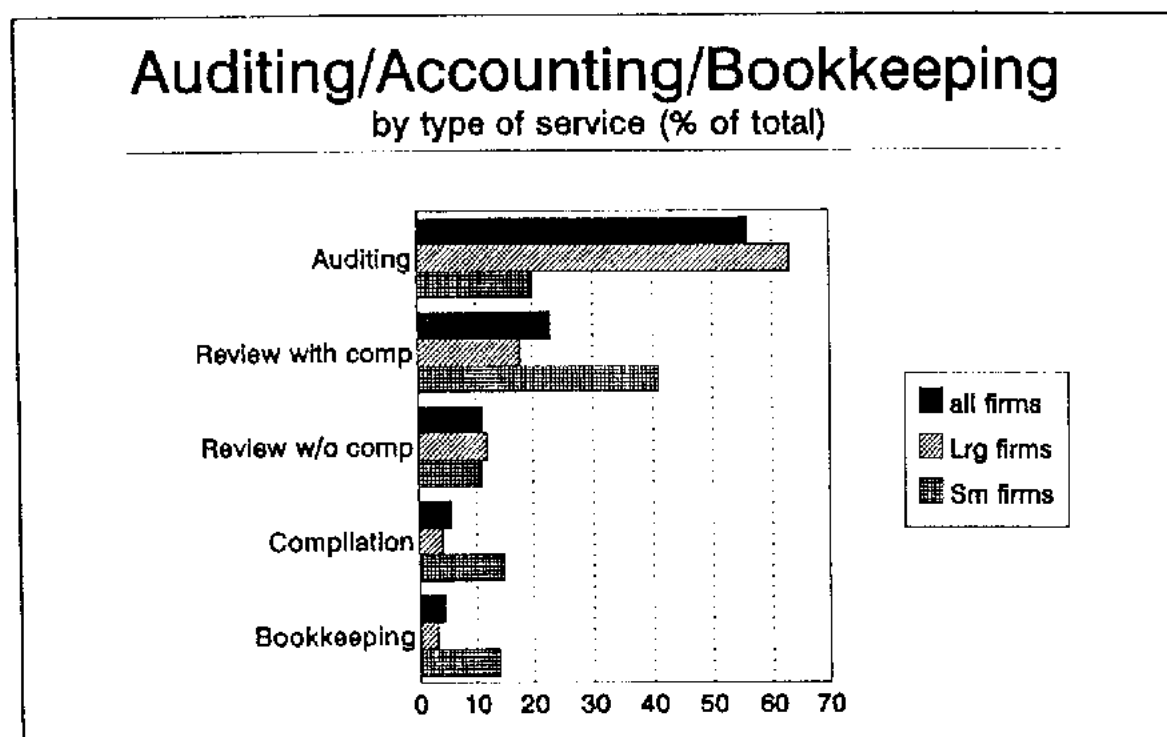


Figure 3

23. **Auditing and review** services are by far the most important accounting services. **Compilation and bookkeeping** services account for only 5.5 and 4.3 percent of total accounting services but represent a much larger share of the accounting service revenues of small firms. The large weight of auditing and review services is largely explained by the higher price of these services (see Figure 3, page 8).

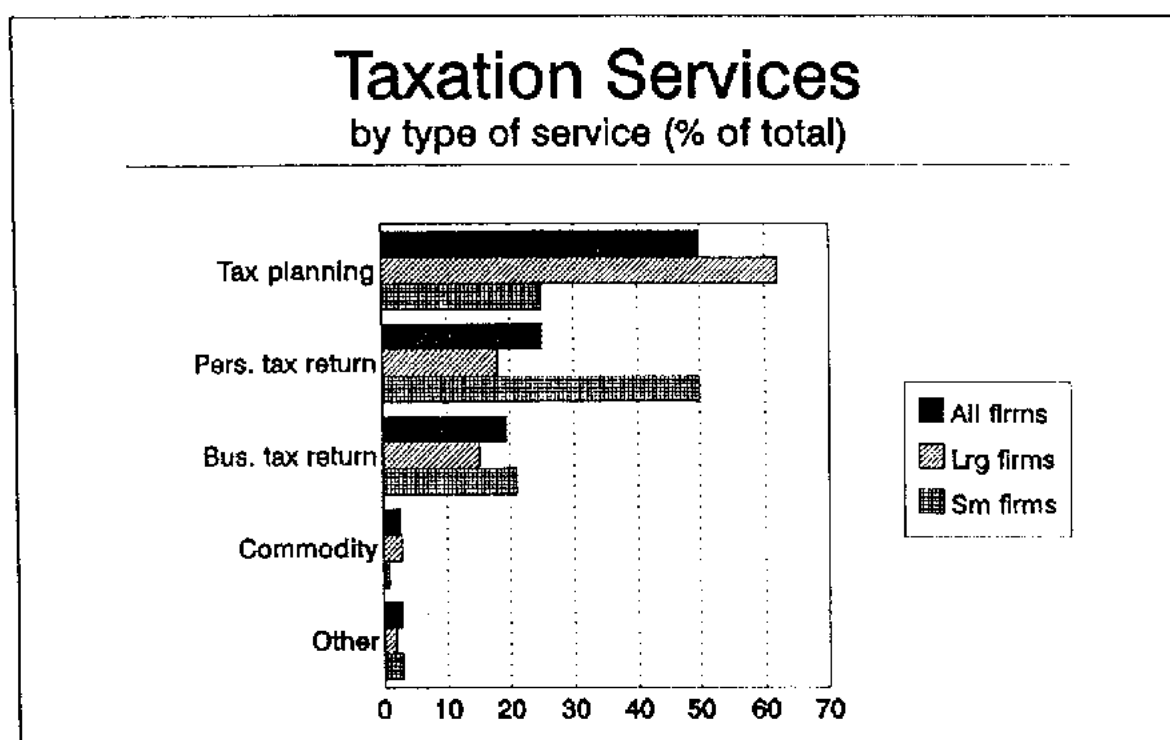


Figure 4

24. **Tax planning** and **corporate and personal tax return preparation** services account for the bulk of taxation services, both for large and small firms (see Figure 4 above). Small firms depend, to a greater extent, on tax preparation services and much less on planning services. **Commodity and other tax** services represent a very small share of both large and small firms' revenues; these categories could well be merged (as they are currently in the CPC).

25. The various categories of **consulting services** account for a significant share of the total. This observation applies to large and small firms, although the relative importance of each service differs quite significantly between the two groups. The residual category (other consulting) is sufficiently large to warrant an investigation of its composition (see Figure 5 below).

Consulting Services

by type of service (% of total)

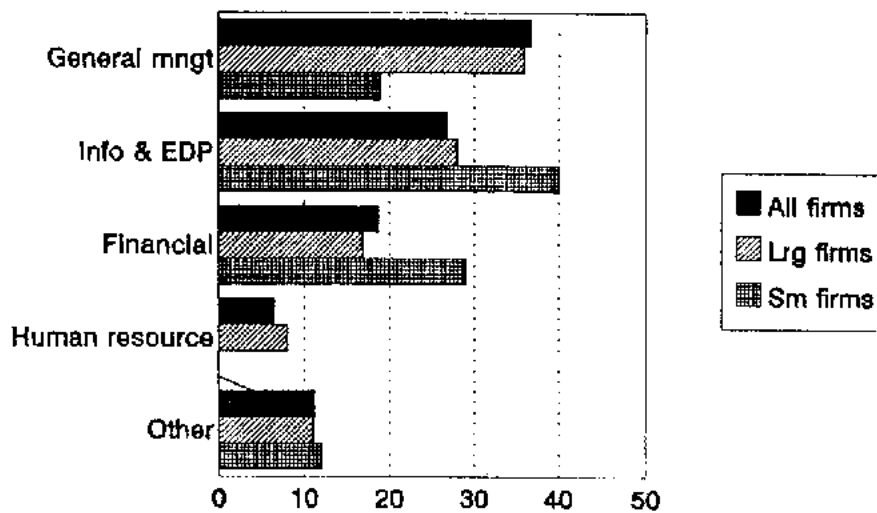


Figure 5

CONCLUSION

26. The industry response to the testing was positive. Cooperation was obtained in developing definitions, assessing data availability and refining the classification. Most importantly, 85% of the pilot survey questionnaires were returned with at least aggregate revenues reported. The classification at the aggregate level is reasonably exhaustive with only a small percentage of revenue assigned to the residual category.

27. The success rate in obtaining detailed information was generally encouraging, as most firms were able to provide estimates. However, only 50% of aggregate revenues were covered by these estimates. This is, in our opinion, more likely to be the result of the reluctance of some large firms to provide detailed breakdowns of revenues than a problem of classification.

28. The accounting services survey is currently in the field for the 1991 reference year; this will be the first survey since the pilot. The same classification of outputs has been used and attempts will be made to refine the definitions and to encourage greater participation by the larger firms.

29. This classification of outputs is consistent with the 4-digit level of the CPC for accounting and auditing services (CPC 8621), bookkeeping services (CPC 8622) and taxation services (CPC 8630). These are the primary products of ISIC 7412 - Accounting, book-keeping and auditing activities; tax consultancy.

30. However, the 5-digit level of the CPC has been restructured.

a) The accounting review services category (CPC 86212) has been split into two categories, Accounting review services with compilation and Accounting review services without compilation. In Canada these categories are statistically significant in terms of both revenues and the number of firms providing the service. If this observation is confirmed by other statistical agencies, we would recommend the introduction of these categories in the CPC.

b) The 5-digit subclasses of CPC 8630 - Taxation services have been restructured on the basis of recommendations made by the industry. The current CPC distinguishes tax planning services (CPC 86301) from tax return preparation services (CPC 86302) when they are provided to business but these two services are merged (CPC 86303) in the CPC when they are provided to individuals. The industry's recommendation is to have one class for tax planning services, whether they are provided to businesses or individuals, and to separate tax return preparation services on the basis of the clientele. We would propose that this approach be adopted in the CPC. Titles and definitions are provided in Annex 3.

31. Our attempt to measure the secondary outputs of the accounting services industry has led to the introduction of a "insolvency and receivership service" category. There is no such category in the CPC; it is recommended that this category be added to the CPC (87908). A definition is provided in Annex 3.

32. We are not yet ready to make any recommendations regarding the classification of management consulting services. A test is currently underway and the results should be available for the next Voorburg Group meeting.

ANNEX

ANNEX 1 - RELATIONSHIP BETWEEN THE CPC AND THE TESTED CLASSIFICATION

PILOT SURVEY CATEGORIES	CURRENT CPC CATEGORIES
Auditing	86211 - Financial auditing services
Review engagement with compilation Review engagement without compilation	86212 - Accounting review services
Compilation	86213 - Compilation of financial statements services
Bookkeeping	86220 - Book-keeping services, except tax returns
Income tax planning and advice	86301 - Business tax planning and consulting services part of 86303 - Individual tax preparation and planning services
Personal income tax return preparation	part of 86303 - Individual tax preparation and planning services
Business income tax return preparation	86302 - Business tax preparation and review services
Commodity taxes Other taxation services	86309 - Other tax related services
Insolvency services	not explicit in CPC - probably a component of 87909 - Other business services n.e.c.
General management advisory services	86501 - General management consulting services
Financial management advisory services	86502 - Financial management consulting services (except business tax)
Information management & EDP consulting	part of 842 - Software implementation service part of 841 - Consultancy services related to the installation of hardware
Human resource consulting services	86504 - Human resource management consulting services
Other consulting	86503 - Marketing management consulting services 86505 - Production management consulting services 86509 - Other management consulting services
Other revenues	86219 - Other accounting services and Other revenues

ANNEX 2 - PILOT SURVEY QUESTIONNAIRE

Survey of Professional Accountants, 1988

		A	B	C
		Do you provide this service? (yes/no)	Do you record revenues for this service? (yes/no)	Estimate % of total revenue
I. Revenues by Type of Service				
A. Auditing, Accounting and Bookkeeping				
101		107	123	138
1. Auditing				
2. Other Accounting and Reporting:		108	124	140
Review engagements with compilation		109	125	141
Review engagements without compilation		110	126	142
Compilation		111	127	143
3. Bookkeeping				
B. Taxation Services	102			
1. Income tax planning and advice		112	128	144
2. Income tax return preparation:		113	129	145
Personal		114	130	146
Corporate		115	131	147
3. Commodity taxes		116	132	148
4. Other taxation services		117	133	149
C. Insolvency and Receivership	103			
D. Consulting	104			
1. General management advisory services		118	134	150
2. Financial advisory services		119	135	151
3. Information management & EDP consulting		120	136	152
4. Human resource consulting		121	137	153
5. Other consulting services		122	138	154
E. Other Revenue	105			155
F. Total Revenue (sum of 101 to 105)	106			100%

II. Personnel (as of December 31, 1988)

1. Number of active partners	201
Professional Staff:	
2. CAs other than partners	202
3. CGAs other than partners	203
4. CMAs other than partners	204
5. Students	205
6. Other Professionals	206
7. Administrative staff	207
8. Other employees	208
9. Total personnel	209

III. Salaries and Employee Benefits (\$'000)

All salaries and benefits before deductions.
 INCLUDE: Commissions, bonuses, vacation pay, employers contribution to pension, medical, UIC and workers compensation plans etc.
 EXCLUDE: Withdrawals by partners and fees paid to contract workers.

301
302

IV. Number of Offices

ANNEX 3 - DEFINITIONS FOR NEW\REVISED CPC CATEGORIES

REVISED (SHADED)

863 - Taxation services

86301 - Tax planning and consulting services - The provision of advice to businesses and individuals on the means of minimizing the impact of income on their revenues by taking advantage of all allowances and benefits that the law provides.

86302 - Business tax preparation and review services (no change)

86303 - Individual tax preparation and review services - Services consisting of preparing or reviewing, for individuals, various returns and reports required for compliance with the income tax laws and regulations, and defending them if contested by the tax authorities.

NEW CATEGORY

87908 - Insolvency and receivership services - The provision of advice and assistance to the management and\or creditors of businesses having financial difficulties and\or acting as a receiver or trustee in bankruptcy.