



ACCOUNTING PRACTICES AUSTRALIA

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- For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Bruce Fraser on Melbourne 03 9615 7471.

NOTES

INTRODUCTION

This publication presents results from an Australian Bureau of Statistics (ABS) survey of accounting practices. The survey was conducted in respect of the 2001–02 financial year.

The 2001–02 Accounting Practices Survey is the fourth ABS survey on this topic, with previous collections being conducted in respect of the 1995–96, 1992–93 and 1987–88 financial years.

COMPARISONS WITH PREVIOUS SURVEY RESULTS

This survey has been designed primarily to provide a measure of the financial and business structure of accounting practices operating in Australia. While comparisons are made between 2001–02 survey results and earlier iterations of the Accounting Practices Survey, the survey has not been designed to provide highly accurate estimates of change, so any comparisons made to previous surveys should be used with caution. For further information, see paragraphs 5–10 and 15–18 of the Explanatory Notes.

MORE INFORMATION ON ABS SERVICE INDUSTRIES STATISTICS

Information about ABS activities in the field of service industries statistics is available from the Service Industries Statistics theme page on the ABS web site <<http://www.abs.gov.au>>. To access the theme page, select 'Themes' from the menu on the home page.

COMMENTS

The ABS welcomes comments and suggestions from users regarding future surveys of Service Industries. These comments should be addressed to the Director, Service Industries Business Statistics Centre, Australian Bureau of Statistics, GPO Box 2796Y, Melbourne, Vic. 3001.

ROUNDING

Where figures have been rounded, discrepancies may occur between the sum of component items and the total.



ABBREVIATIONS

\$'000	thousand dollars
\$m	million dollars
ABS	Australian Bureau of Statistics
ANZSIC	Australian and New Zealand Standard Industrial Classification
GDP	gross domestic product
GE	group employer
IVA	industry value added
OPBT	operating profit before tax
PAYGW	pay-as-you-go withholding
RSE	relative standard error
SE	standard error
WPP	working proprietors and principals/partners

Dennis Trewin
Australian Statistician

MAIN FEATURES

OVERVIEW

This publication presents the results of the 2001–02 Accounting Practices Survey. This survey is conducted periodically by the ABS to provide a detailed measure of the financial and business structure of accounting practices operating in Australia. The main focus of the survey is on understanding aspects such as the composition of the income earned by accounting practices, details of the expenses incurred and the characteristics of the workforce.

The statistical unit used to represent businesses, and for which statistics are reported, is the accounting practice. An accounting practice can be a single legal entity, operating independently of any other business entity, and directly employing any staff that are practice employees. A practice can also be a collection of legally distinct business units that support or work with each other to generate income for the practice. For example, a practice may comprise an accounting firm (e.g. a sole proprietor or a partnership), and a separate service entity that may be the legal employer of administrative support staff employed by the practice. Separate divisions or branches of an accounting practice may also establish separate legal entities, for example there may be a separate business entity for an auditing firm, or a business consulting firm. The practice has been established as the statistical unit for the survey in order to consolidate the full scope of the business operations and employment into a single unit. Service entities providing services to more than one accounting practice were excluded from the results of this survey. Further information can be found in paragraphs 3–4 of the Explanatory Notes.

STRUCTURE OF ACCOUNTING PRACTICES

At the end of June 2002 there were 9,860 accounting practices operating in Australia, employing 81,127 persons. Approximately 67% of these practices were operating with a single working proprietor or principal. These small practices employed, on average, 3.5 people (including the proprietor or principal), with just under half of these comprising practising accountants. Together, these small practices accounted for 28.8% of all employment in accounting practices, and 18.6% of the total income earned. These practices earned an average of \$217,100 in income in the 2001–02 financial year.

Practices with ten or more working principals or partners accounted for approximately 27.7% of all employment, and approximately 42.8% of total income. Average income for these practices was \$91.6m. These practices employed, on average, 624 people, with practising accountants representing 69.2% of total employment in these practices.

INCOME

Accounting practices generated \$7,707.5m in income in 2001–02, representing an average of \$95,000 per person employed. In 2001–02, the industry value added (IVA) was \$5,753.2m, or 0.8% of gross domestic product (GDP). Return per accountant in 2001–02 was \$73,100.

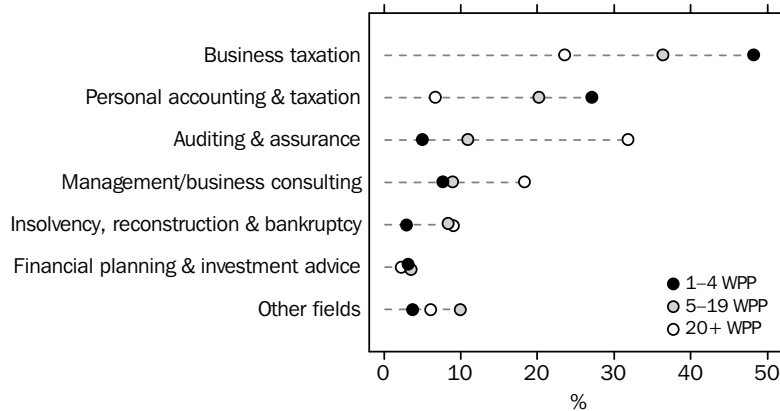
The largest field of work for accounting practices in 2001–02 was business taxation, which accounted for approximately 36.7% of all accounting practice income, followed by personal accounting and taxation (18%), and auditing and assurance (16.5%). Less traditional fields also accounted for a significant portion of the total income earned. Management and business consulting contributed 12.1% to total income, and financial planning and investment advice contributed 2.8%.

MAIN FEATURES *continued*

INCOME *continued*

The importance of certain fields of work to accounting practice income varied according to the size of the practice. A notable difference was present for auditing and assurance work, and management and business consulting. In both cases these fields of work made up a greater proportion of professional services income for large practices than for small practices. The predominant field of work for accounting practices with up to four working principals/partners in 2001–02 was business taxation comprising 48.2% of income, whilst for larger practices (20 or more working principals/partners) auditing and assurance dominated (31.8%), followed by business taxation (23.5%) and management/business consulting (18.3%).

FIELDS OF ACCOUNTING AND RELATED WORK, Proportion of total income



Whilst comparisons with results from earlier surveys are useful as they provide an indication of the extent of change over time it is important to note that the survey was not designed to provide highly accurate estimates of change, so any comparisons made to previous surveys should be used with caution. Estimates of change can be subject to high levels of sampling error, changes to coverage, and minor changes to question wording. Further information can be found in paragraphs 5–10 and 15–18 of the Explanatory Notes.

Taking into consideration these limitations, the 2001–02 survey results suggest that accounting practices experienced a period of strong growth between 1995–96 and 2001–02. Accounting practice income increased 56.1% over this period, and had an average growth rate of 7.7% per annum.

One likely explanation for the strong growth observed is increased demand for accounting and other related professional services as a result of the introduction of Australia's new taxation system on 1 July 2000. Another likely contributing factor is a change in the diversity of the range of professional services offered by accounting practices. In particular, the income earned from the provision of management and business consulting services has increased since 1995–96.

PROFITABILITY

Accounting practices recorded an operating profit before tax of \$1,446m in 2001–02. This represented an operating profit margin of 18.8%.

Despite a growth in the activity of accounting practices, profitability declined since 1995–96, decreasing 0.6 percentage points from 19.4%. Profitability continued a decline since 1992–93 when the operating profit margin was recorded at 20.5%.

MAIN FEATURES *continued*

EMPLOYMENT

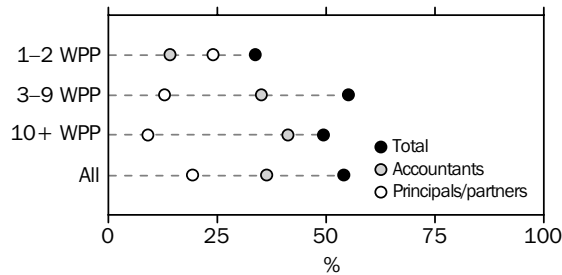
Accounting practice employment in June 2002 comprised 43,926 females and 37,201 males. Females represented 54.1% of total employment. This continued an overall increase in the representation of women among accounting practice employment, which has been evident since the 1992–93 survey. In June 1988 an estimated 50% of accounting practice employment was female, which declined to 48% in June 1993, and rose again to 51% in June 1996.

The representation of females was lowest among working principals/partners of accounting practices, and among qualified accountants. However, these areas of under-representation were where the fastest rates of growth in female employment were found. Females accounted for only 19.6% of working principals/partners in June 2002, however this is twice the rate of 10% that existed in June 1993. Representation of females among practising accountant employees has also consistently increased, from 34% in June 1993 to 41% in June 1996 and 49.1% in June 2002.

The rates of female employment varied between large and small practices. The largest practices had a greater representation of females among practising accountants. For practices with ten or more working principals/partners, 43.5% of accountants were female, whilst females represented 33.6% of accountants in practices with one or two working principals/partners.

The smaller practices had a better representation of females among the working principals/partners. Females accounted for 24% of working principals/partners in practices with one or two working principals/partners, compared to 9.1% in the largest practices.

PERCENTAGE FEMALE EMPLOYMENT,
By number of working proprietors and principals/partners

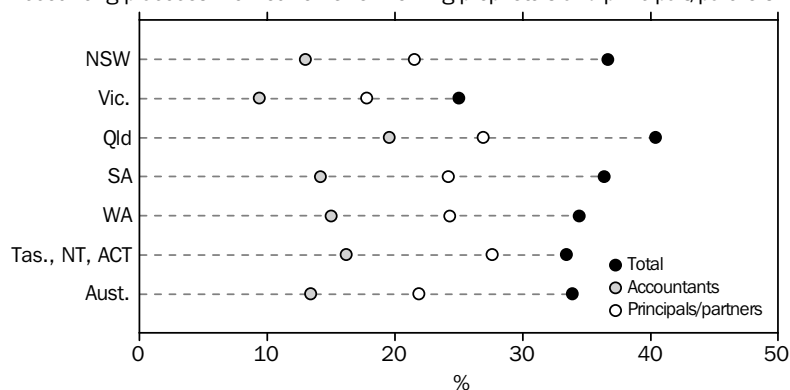


The representation of females in total accounting practice employment was fairly similar from state to state for businesses with four or fewer working principals/partners, although the rate of 61.8% in Queensland was notably higher than the national average of 56.4%. Victoria had a lower rate than the average with 52.4%. Female practising accountants were more prevalent in Queensland. The smallest states and territories had the highest representation of females among working principals/partners in practices of this size (27.6%).

MAIN FEATURES *continued*

EMPLOYMENT *continued*

PERCENTAGE FEMALE EMPLOYMENT,
Accounting practices with four or fewer working proprietors and principals/partners



EXPENDITURE

Accounting practice expenditure was \$6,276.6m in 2001–02. Labour costs dominated accounting practice expenditure comprising 58.5% (\$3,669.2m) of all expenditure followed by rent, leasing and hiring with 8.1% (\$508.4m) and depreciation and amortisation with 4.1% (\$257.6m).

The table below shows that labour costs per employee had grown at a rate well above the economy-wide measure of compensation per employee, at a rate of 5.4% per annum in the nine years to 2001–02, whilst payments to contractors and consultants for accounting and other related professional services had grown at an even greater rate at 8.6%. This table also shows that accounting practice labour costs had been growing at a faster rate than their total expenditure.

EXPENDITURE: AVERAGE ANNUAL GROWTH RATES

	Average annual growth rate 1992–93 to 2001–02 %
Total expenditure	7.6
Payments for accounting and other related professional services	8.6
Labour costs	9.0
Labour costs per employee(a)(b)	5.4
All industry average compensation per employee(a)(c)	3.4

- (a) There are some small differences between the labour costs paid by an employer and the compensation received by an employee. For example, payroll tax and fringe benefits tax are included in labour costs but are not paid as compensation to employees.
- (b) Labour costs for 1992–93 did not include fringe benefits tax and payroll tax expenses. These taxes are included in labour costs for 2001–02. The inclusion of these taxes has slightly exaggerated the growth in labour costs between 1992–93 and 2001–02.
- (c) Source: *Australian National Accounts: National Income, Expenditure and Product* (cat. no. 5206.0).

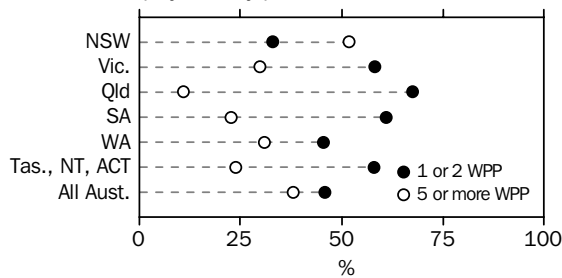
MAIN FEATURES *continued*

STATE

Accounting operations within New South Wales accounted for 39.2% of the total Australian number of practices and 39.9% of employment. Victoria accounted for the next largest share comprising 27.7% of the total number of accounting practices and 27.9% of employment.

At the national level, 45.9% of all accounting practice employment was in practices with one or two working principals/partners, and 38.1% of employment was in practices with five or more working principals/partners. These national shares of total employment are quite similar, however at state level there was a far greater degree of diversity in the employment share of small and large practices. New South Wales was the only state where there were more people employed in accounting practices with five or more working principals/partners (51.8%), than in practices with one or two working principals/partners (33%). Queensland was the state with the greatest proportion of employment in small practices (67.5%) and the smallest proportion of employment in large practices (11%).

ACCOUNTING PRACTICE EMPLOYMENT,
Percent of employment by practice size



SUMMARY OF OPERATIONS

	Units	1995-96	2001-02	Percentage change	Average annual percentage change
Practices at end June	no.	8 389	9 860	17.5	2.7
Employment at end June					
Practising accountants	no.	na	46 474	na	na
Other staff	no.	na	34 653	na	na
<i>Total</i>	no.	66 792	81 127	21.5	3.3
Income					
Income from accounting and other related professional services(a)	\$m	4 778.3	7 537.2	57.7	7.9
Other	\$m	160.8	170.3	5.9	1.0
<i>Total</i>	\$m	4 939.1	7 707.5	56.1	7.7
Expenses					
Labour costs(b)	\$m	2 255.5	3 669.2	62.7	8.4
Other	\$m	1 765.6	2 607.3	47.7	6.7
<i>Total</i>	\$m	4 021.1	6 276.6	56.1	7.7
Operating profit before tax	\$m	954.6	1 446.3	51.5	7.2
Operating profit margin	%	19.4	18.8
Industry value added	\$m	na	5 753.2	na	na
Return per accountant	\$'000	na	73.1	na	na

na not available
 . . not applicable

(a) Includes income received from taxation, personal accounting, auditing, assurance, insolvency, reconstruction, bankruptcy, management/business consulting, financial planning, investment advice and other related professional services.

(b) Labour costs for 1995-96 did not include fringe benefits tax and payroll tax expenses. These taxes are included in labour costs for 2001-02. The inclusion of these taxes has slightly exaggerated the growth in labour costs between 1995-96 and 2001-02.

2

SOURCES OF INCOME

	<i>Practices at end June(a)</i>	<i>Income value</i>	<i>Contribution to income</i>
	no.	\$m	%
Income from accounting and other related professional services(b)	9 860	7 537.2	97.8
Disbursement recoveries	2 016	72.8	0.9
Rent, leasing and hiring income	^ 1 101	^ 21.3	^ 0.3
Interest income	3 853	^ 10.2	^ 0.1
Other practice income	2 587	65.9	0.9
Total	9 860	7 707.5	100.0

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

(a) Practices may have more than one source of income. Hence, the total number of practices does not equal the sum of components.

(b) Includes income received from taxation, personal accounting, auditing, assurance, insolvency, reconstruction, bankruptcy, management/business consulting, financial planning, investment advice and other related professional services.

3

INCOME FROM ACCOUNTING AND OTHER RELATED PROFESSIONAL SERVICES, By field of work(a)

PRACTICE SIZE

	1 <i>principal/ proprietor</i>	2 <i>principals/ partners</i>	3-4 <i>principals/ partners</i>	5-9 <i>principals/ partners</i>	10-19 <i>principals/ partners</i>	20 or more <i>principals/ partners</i>	Total
	%	%	%	%	%	%	%
Business taxation	45.6	50.5	49.5	^ 36.3	36.6	23.5	36.7
Personal accounting and taxation	31.9	24.9	^ 22.9	^ 19.5	22.9	6.7	18.0
Auditing and assurance	^ 3.6	^ 4.5	^ 7.3	^ 9.6	15.7	31.8	16.5
Insolvency, reconstruction and bankruptcy	**3.1	*0.3	**4.9	^ 9.2	5.6	9.1	^ 6.2
Management/business consulting	^ 6.5	^ 9.0	^ 8.0	^ 8.4	10.9	18.3	12.1
Financial planning and investment advice	^ 1.5	*4.4	*3.9	*3.6	3.0	2.3	^ 2.8
Other fields	^ 5.5	*4.1	*1.0	**11.8	3.0	6.1	^ 5.5
All fields of accounting and other related professional work	97.8	97.6	97.6	98.3	97.7	97.8	97.8

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

** estimate has a relative standard error greater than 50% and is considered too unreliable for general use

* estimate has a relative standard error of between 25% and 50% and should be used with caution

(a) Estimates for practice size categories are subject to higher levels of sampling error than estimates for practices of all sizes. Further detail can be found in Explanatory Notes paragraph 27.

4

ITEMS OF EXPENDITURE

	Expense value	Contribution to expenses
	\$m	%
.....		
Labour costs		
Wages and salaries		
Practising accountants	2 126.7	33.9
Other employees	1 098.8	17.5
<i>Total</i>	3 225.5	51.4
Employer contributions into superannuation including salary sacrifice(a)	307.6	4.9
Workers' compensation premiums/costs	14.1	0.2
Fringe benefits tax	18.9	0.3
Payroll tax	103.1	1.6
<i>Total labour costs</i>	3 669.2	58.5
Insurance premiums		
Professional indemnity insurance	117.8	1.9
Other insurance premiums	33.8	0.5
<i>Total insurance premiums</i>	151.6	2.4
Interest expenses	131.9	2.1
Depreciation and amortisation	257.6	4.1
Bad and doubtful debts	47.3	0.8
Computer software expensed	61.2	1.0
Land tax and land rates	10.6	0.2
Telecommunication services	117.7	1.9
Rent, leasing and hiring expenses	508.4	8.1
Payments to contractors and consultants for accounting and other professional services	142.1	2.3
Advertising, marketing and sponsorship expenses	52.1	0.8
Professional library expenses	44.2	0.7
Payments to other businesses for the provision of training	40.8	0.6
Payments to employment agencies for staff	35.8	0.6
Travelling, accommodation and entertainment expenses	126.8	2.0
Other contract, sub-contract and commission expenses	^ 27.1	^ 0.4
Other operating expenses	852.3	13.6
Total	6 276.6	100.0
.....		

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

contributions to superannuation funds. Other salary sacrifice is included with the relevant expense item.

(a) Employer contributions into superannuation funds include salary sacrifice that is paid as employer

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CHARACTERISTICS OF EMPLOYMENT

	Males		Females		Persons	
	no.	%	no.	%	no.	%
Working proprietors and principals/partners of the practice	13 695	36.8	3 348	7.6	17 043	21.0
Other employees						
Permanent full-time	19 630	52.8	28 101	64.0	47 731	58.8
Permanent part-time	^ 1 925	^ 5.2	7 884	17.9	9 809	12.1
Casuals	1 951	5.2	4 592	10.5	6 543	8.1
Total	23 506	63.2	40 578	92.4	64 084	79.0
Total employment at end June 2002	37 201	100.0	43 926	100.0	81 127	100.0
Practising accountants at end June						
Working proprietors and principals/partners of the practice	13 067	44.9	1 875	10.8	14 942	32.2
Other practising accountants	16 053	55.1	15 478	89.2	31 532	67.8
Total	29 120	100.0	17 354	100.0	46 474	100.0

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

6

STATES AND TERRITORIES (a)

		New South Wales	Victoria	Queensland	South Australia	Western Australia	Tasmania	Northern Territory	Australian Capital Territory	Australia
		Practices at end June(b)	no.	3 867	2 727	1 586	600	832	^ 129	70
	%	39.2	27.7	16.1	6.1	8.4	^ 1.3	0.7	^ 1.4	100.0
Employment at end June										
Practising accountants	no.	18 305	13 318	6 117	2 929	4 275	685	276	568	46 474
	%	39.4	28.7	13.2	6.3	9.2	1.5	^ 0.6	^ 1.2	100.0
Other staff	no.	14 046	9 329	5 692	^ 1 993	^ 2 455	522	^ 201	^ 415	34 653
	%	40.5	26.9	16.4	^ 5.8	^ 7.1	1.5	^ 0.6	^ 1.2	100.0
Total	no.	32 352	22 647	11 809	4 922	6 730	1 207	477	983	81 127
	%	39.9	27.9	14.6	6.1	8.3	1.5	0.6	1.2	100.0
Wages and salaries	\$m	1 333.7	942.2	398.6	167.0	^ 274.1	41.8	18.0	50.1	3 225.5
	%	41.3	29.1	12.3	5.2	^ 8.5	1.3	0.6	1.6	100.0
Total income	\$m	3 247.2	2 180.3	954.1	433.0	651.3	92.7	41.1	107.7	7 707.5
	%	42.1	28.3	12.4	5.6	8.5	1.2	0.5	1.4	100.0

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

(a) State estimates are subject to higher levels of sampling error than national estimates, and should be used with care. Further detail can be found in Explanatory Notes paragraph 26.

(b) Multi-state practices are counted in each state in which they operate. Hence, the counts of practices by states and territories do not sum to the total for Australia.

SUMMARY OF OPERATIONS, By practice size(a)

PRACTICE SIZE

		1 principal/ proprietor	2 principals/ partners	3-4 principals/ partners	5-9 principals/ partners	10-19 principals/ partners	20 or more principals/ partners	Total
Practices at end June	no.	6 610	2 134	^ 854	^ 226	25	11	9 860
	%	67.0	21.6	^ 8.7	^ 2.3	0.3	0.1	100.0
Employment at end June								
Practising accountants	no.	11 538	^ 7 406	^ 6 984	^ 4 999	1 653	13 893	46 474
	%	24.8	^ 15.9	^ 15.0	^ 10.8	3.6	29.9	100.0
Other staff	no.	11 787	^ 6 542	^ 5 976	^ 3 413	765	6 170	34 653
	%	34.0	^ 18.9	^ 17.2	^ 9.8	2.2	17.8	100.0
Total	no.	23 324	13 948	^ 12 960	^ 8 413	2 418	20 063	81 127
	%	28.8	17.2	^ 16.0	^ 10.4	3.0	24.7	100.0
Total income	\$m	1 435.0	^ 961.2	^ 1 152.8	^ 860.5	238.6	3 059.4	7 707.5
	%	18.6	^ 12.5	^ 15.0	^ 11.2	3.1	39.7	100.0
Total expenses	\$m	1 164.5	^ 773.7	^ 869.5	^ 660.1	192.0	2 616.7	6 276.6
	%	18.6	^ 12.3	^ 13.9	^ 10.5	3.1	41.7	100.0
Operating profit before tax	\$m	275.1	^ 192.3	^ 291.4	^ 204.1	47.2	436.3	1 446.3
	%	19.0	^ 13.3	^ 20.1	^ 14.1	3.3	30.2	100.0
Operating profit margin	%	19.3	20.1	25.3	^ 23.8	19.8	14.3	18.8

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

sizes. Further detail can be found in Explanatory Notes paragraph 27.

(a) Estimates for practice size categories are subject to higher levels of sampling error than estimates for practices of all

SELECTED RATIOS (a)

PRACTICE SIZE

		1 principal/ proprietor	2 principals/ partners	3-4 principals/ partners	5-9 principals/ partners	10-19 principals/ partners	20 or more principals/ partners	Total
Employment ratios								
Total income per person employed	\$'000	61.5	68.9	88.9	102.3	98.7	152.5	95.0
Labour costs per employee	\$'000	38.3	49.1	51.8	55.9	57.3	82.3	57.3
Practising accountants to total employment	%	49.5	53.1	53.9	59.4	68.4	69.2	57.3
Income from accounting and other related professional services per practising accountant								
	\$'000	121.7	126.7	161.1	169.2	141.0	215.3	162.2
Profit ratios								
Operating profit before tax per person employed	\$'000	11.8	^ 13.8	^ 22.5	^ 24.3	19.5	21.7	17.8
Operating profit before tax per working principal/partner	\$'000	41.6	^ 44.5	^ 108.0	^ 145.1	147.2	260.0	84.9
Operating profit margin	%	19.3	20.1	25.3	^ 23.8	19.8	14.3	18.8
Return per accountant	\$'000	49.2	55.7	81.3	86.4	77.1	92.8	73.1

^ estimate has a relative standard error of between 10% and 25% and should be used with caution

(a) Estimates for practice size categories are subject to higher levels of sampling error than estimates for practices of all sizes. Further detail can be found in Explanatory Notes paragraph 27.

EXPLANATORY NOTES

- INTRODUCTION**
- 1** This publication presents results from a survey of Accounting Practices for the reference year 2001–02. This is the fourth time the ABS has conducted this survey. Previous statistics were released for 1987–88, 1992–93 and 1995–96.
- SCOPE**
- 2** The scope of the survey was all employing units on the ABS Business Register, classified to class 7842 — ACCOUNTING SERVICES of the Australian and New Zealand Standard Industrial Classification (ANZSIC). ANZSIC class 7842 consists of businesses mainly engaged in providing accounting, auditing or bookkeeping services. The scope was then broadened to capture other business or administrative service units (refer paragraphs 3–4) to form an accounting practice. These additional units drawn from other ANZSIC classes included non-employing units.
- STATISTICAL UNIT**
- 3** The statistical unit used to represent businesses, and for which statistics are reported, is the accounting practice. Many accounting practices consist of a single entity. Other practices consist of more than one entity (e.g. accounting firm and a service entity, such as an administration or service company or trust, and possibly other business entities such as an auditing firm or consulting firm).
- 4** For the purposes of this survey, where a practice was conducted through an accounting firm and a separate service or other entity, these entities were consolidated and treated as one practice if the service entity provided resources to a single accounting practice. Where a service entity provided services to more than one accounting practice, the service entity was excluded from the results presented in this publication.
- COVERAGE**
- 5** The frame used for Accounting Practices, like most ABS economic surveys, was taken from the ABS Business Register. The ABS Business Register is primarily based on registrations to the Australian Taxation Office's Pay As You Go Withholding (PAYGW) scheme (and prior to 1 July 2000, the Group Employer (GE) scheme). The frame is updated quarterly to take account of new businesses and businesses which have ceased employing.
- 6** Businesses which have ceased employing are identified when the Australian Taxation Office cancels their PAYGW registration (or previously their GE registration). In addition, from July 1999 to the end of June 2000, businesses which did not remit under the GE scheme for the previous five quarters were removed from the frame. A similar process has recently been adopted to remove businesses which do not remit under the PAYGW scheme.
- 7** The introduction of The New Tax System has a number of significant implications for ABS business statistics, and these are discussed in *Information Paper: ABS Statistics and The New Tax System* (cat. no. 1358.0) and *Information Paper: Improvements in ABS Economic Statistics [Arising from The New Tax System]* (cat. no. 1372.0).
- IMPROVEMENTS TO COVERAGE**
- 8** Data in this publication have been adjusted to allow for lags in processing new businesses to the ABS Business Register, and the omission of some businesses from the register. The majority of businesses affected, and to which the adjustments apply, are small in size.
- 9** Adjustments have been made to include new businesses in the estimates in the periods in which they commenced operations, rather than when they were processed to the ABS Business Register. Adjustments of this type will continue to be applied in future periods.
- 10** For more information on these adjustments, please refer to the ABS publication *Information Paper: Improvements to ABS Economic Statistics, 1997* (cat. no. 1357.0).

EXPLANATORY NOTES *continued*

COMPARISON WITH OTHER ABS STATISTICS

11 Annual data for the accounting services industry is published in *Australian Industry* (cat. no. 8155.0). There are important differences between the statistics published in the *Australian Industry* and *Accounting Practices* publications and users should use caution when making comparisons between the two sets of estimates. The estimates in the *Australian Industry* publication provide a consistent annual measure of economic activity by industry (as defined by the ANZSIC), which allows the analysis of year on year change in key data items in the accounting services industry.

12 The *Australian Industry* publication presents summary statistics for detailed ANZSIC industry classes. The aims of the publication are to show the relative importance of each industry class to the Australian economy, and to allow patterns of change or growth to be analysed across detailed segments of the Australian economy. The industry estimates presented in *Australian Industry* are used in the compilation of the National Accounts, and in the derivation of economy-wide indicators such as gross domestic product (GDP).

13 The *Accounting Practices* publication complements the annual series of key data items for the industry with a detailed examination of the structure of accounting practices involved in accounting services for the reference year of the survey. *Accounting Practices* has a focus on the accounting *practice*, rather than the business *entity* that is used to compile ABS industry statistics. The practice is used as the statistical unit in order to provide a more complete description of the structure of businesses involved in accounting services and the economic activity generated by accounting practices. This is done by including administrative service units and other practice entities in the survey although they might be coded to ANZSIC classes other than ACCOUNTING SERVICES (ANZSIC Class 7842).

14 The main differences in estimates between the two surveys are:

- the statistical unit used in *Accounting Practices* was the accounting practice, hence consequent inclusion of non ANZSIC class 7842 entities, such as administrative service units that related to an accounting practice; and
- greater coverage of non-employed units in *Australian Industry*.

HISTORICAL COMPARISONS

15 While comparisons are made between 2001–02 survey results and earlier iterations of the Accounting Practices Survey, the reader should bear in mind that the survey has not been designed to support accurate estimates of change, and should exercise caution when comparing 2001–02 results to earlier surveys. The effect of sampling variability on historical comparisons is discussed in paragraph 28.

16 Changes have been made to category names and question wording relating to the fields of accounting and other related professional work. Prior to 2001–02, practices were asked to report for the fields of work *general business and personal accounting and taxation*. These categories have been redesigned to collect a clear income split for business and personal work, instead of an accounting and taxation split. All other fields of work are conceptually the same as for previous surveys. However the category titles and the wording of the definitions and survey questions have been updated to better describe the concepts and terms that are used.

17 The 1992–93 survey used a different source for identifying the population of accounting practices from the source used in 1995–96 and 2001–02. As a result it is now considered that the 1992–93 survey probably overstated the number of small accounting practices though the impact on other estimates is small.

18 Some of the estimates that are cited from the 1992–93 and 1995–96 surveys have not previously been published. These estimates have been derived by adjusting the estimates produced from these surveys to be comparable to the 2001–02 estimates and are as follows:

EXPLANATORY NOTES *continued*

HISTORICAL COMPARISONS

continued

- *Income from accounting and other related professional services.* Income from accounting and other related professional services is derived from published 1992–93 and 1995–96 estimates by adding *income from accounting services* to *income from management consulting and computer consulting services*. The change in focus from accounting services to accounting and other related professional services has been made in recognition of the growing importance of consultancy work to accounting practices.
- *Percentage contribution of fields of work.* Percentage contributions of individual fields of work to total accounting practice income have been derived for 1992–93 and 1995–96. The contributions previously published for 1992–93 and 1995–96 were expressed as a percentage of accounting services income only, not total income.

RELIABILITY OF THE DATA

19 When interpreting the results of a survey it is important to take into account factors that may affect the reliability of estimates. Such factors can be classified as either sampling or non-sampling error.

20 The estimates in this publication are based on information obtained from a randomly selected stratified sample of accounting practices in the Australian business population. Consequently, the estimates in this publication are subject to sampling variability, that is, they may differ from the figures that would have been obtained if all units had been included in the survey. One measure of the likely difference is given by the standard error (SE), which indicates the extent to which an estimate might have varied by chance because only a sample of units was included.

21 There are about two chances in three that a sample estimate will differ by less than one SE from the figure that would have been obtained if all practices in Australia had been surveyed, and approximately 19 chances in 20 that the difference will be less than two SEs.

22 Sampling variability can also be measured by the relative standard error (RSE), which is obtained by expressing the SE as a percentage of the estimate to which it refers. The RSE is a useful measure in that it provides an immediate indication of the percentage errors likely to have occurred due to the effects of random sampling, and this avoids the need to refer also to the size of the estimate.

23 The following table contains estimates of RSEs for a selection of the statistics presented in this publication.

EXPLANATORY NOTES *continued*

RELIABILITY OF THE DATA

continued

STANDARD ERRORS FOR TABLE 1 SUMMARY OF OPERATIONS

	Units	Estimate value (2001–02)	RSE (%)	SE
Practices at end June	no.	9 860	1.8	177.5
Employment at end June				
Practising accountants	no.	46 474	2.6	1 208.3
Other staff	no.	34 653	3.3	1 143.5
Total	no.	81 127	2.5	2 028.2
Income				
Income from accounting and other related professional services	\$m	7 537.2	2.5	188.4
Other income	\$m	170.3	5.3	9.0
Total	\$m	7 707.5	2.5	192.7
Expenses				
Labour costs	\$m	3 669.2	2.5	91.7
Other expenses	\$m	2 607.3	2.6	67.8
Total	\$m	6 276.6	2.4	150.6
Operating profit before tax	\$m	1 446.3	4.7	68.0
Operating profit margin	%	18.8	3.1	0.6
Industry value added	\$m	5 753.2	2.6	149.6
Return per accountant	\$'000	73.1	1.9	1.4

24 As an example of the above, an estimate of total income for the accounting services industry in 2001–02 is \$7,707.5m and the RSE is estimated to be 2.5%, giving a SE of approximately \$192.7m. Therefore, there would be two chances in three that, if all units had been included in the survey, a figure in the range of \$7,514.8m to \$7,900.2m would have been obtained, and 19 chances in 20 (i.e. a confidence interval of 95%) that the figure would have been within the range of \$7,322.1m to \$8,092.9m.

25 The estimates presented in the main tables of this publication are recorded to a high degree of accuracy, to enable estimates to be accurately added together, or otherwise used to derive new statistics or indicators. This precise recording is not meant to imply a high degree of accuracy in the estimates. RSEs should be used as a guide to determine the appropriate degree of precision to use when working with the estimates to draw conclusions. For example, if the estimate of total income of \$7,707.5m has a SE of \$192.7m and there are two chances in three of the true value lying between \$7,514.8m and \$7,900.2m, then an appropriate precision to use when citing the estimate is \$7,700m. Similarly, most of the estimates presented in this publication are only accurate to two significant figures (estimates in thousands should be rounded to the nearest hundred, estimates in hundreds should be rounded to the nearest ten, and so on).

26 The sampling variability for estimates at the state/territory level is higher than for Australian level aggregates. Within states/territories, the sampling variability, and therefore the RSEs of estimates for smaller states and territories are higher than for the largest states. Survey estimates for the smaller states and territories should therefore be viewed with more caution than those for other states. RSEs for South Australia, Western Australia, Tasmania, Northern Territory and Australian Capital Territory are typically 2–5 times higher than the corresponding national estimate RSEs. RSEs for New South Wales, Victoria and Queensland are typically 1.5–2 times greater than the corresponding national figure.

EXPLANATORY NOTES *continued*

RELIABILITY OF THE DATA

continued

27 The sampling variability for estimates at the smaller size category level is also higher than for all practice aggregates. Survey estimates for the size categories with fewer than 10 principals/partners should therefore be viewed with more caution than those for all practices. RSEs for estimates relating to practices with one principal/proprietor are typically 1.5–2 times higher than the corresponding all practice estimate RSEs. RSEs for the size categories 2 principals/partners, 3–4 principals/partners, and 5–9 principals/partners are typically 2–7 times greater than the corresponding all practice figure. RSEs for the 10–19 principals/partners category are typically 0.2–0.6 times the corresponding all practice estimate RSE. There is no sampling variability affecting the estimates for 20 or more principals/partners, as all such practices were selected in the survey sample.

28 The sampling variability for estimates of movement or change that are obtained by comparing 2001–02 survey results with previous results are also subject to high levels of sampling variability. The standard error (SE) of the estimate of change is approximately 1.4 times the standard error of the 2001–02 estimate. For example, the survey estimates that total accounting practice income increased from \$4,939.1m in 1995–96 to \$7,707.5m in 2001–02, an increase of \$2,768.4m. The standard error of the 2001–02 estimate of total income is \$192.7m. The standard error of the estimate of change is estimated to be 1.4 times \$192.7m, or \$269.8m. This can also be expressed as a relative standard error of 9.7% of the estimate of change in total income.

29 Errors other than those due to sampling may occur in any type of collection and are referred to as non-sampling error. For this survey, non-sampling error may result from such things as deficiencies in the register of businesses from which the sample was drawn, non-response, imperfections in reporting and/or errors made in compiling results. The extent to which non-sampling error affects the results of the survey is not precisely quantifiable, but its impacts can be broadly identified. Every effort was made to minimise non-sampling error by careful design and testing of the questionnaire, efficient operating procedures and systems and the use of appropriate methodology. Survey estimates subject to a high level of non-sampling error have been suppressed or provided with relevant cautions.

30 Estimates that have an estimated relative standard error between 10% and 25% are annotated with the symbol '^', estimates with an RSE between 25% and 50% are annotated with '*', whilst estimates with an RSE greater than 50% are annotated with '*'. Caution should be exercised when using these estimates.

31 Where figures have been rounded, discrepancies may occur between the sum of the components and the total. Similar discrepancies may occur between a proportion or ratio, and the ratio of the separate components.

REFERENCE PERIOD

32 Data contained in the tables in this publication relate to all accounting services operations in Australia during the year ended June 2002. Financial estimates include the activity of any accounting practices that ceased or commenced operations during the year. Counts of practices include only those practices that were operating at 30 June 2002. Employment includes only those persons working for an accounting practice during the last pay period ending in June 2002.

ACKNOWLEDGMENT

33 ABS publications draw extensively on information provided freely by individuals, businesses, governments and other organisations. Their continued cooperation is very much appreciated; without it, the wide range of statistics published by the ABS would not be available. Information received by the ABS is treated in strict confidence as required by the *Census and Statistics Act 1905*.

DATA AVAILABLE ON REQUEST

34 Inquiries about these statistics and more detailed statistics than those presented in this publication should be made by telephoning the contact shown on the front page.

GLOSSARY

Accounting and other related professional services	This item includes professional services undertaken for clients by an accounting practice, including business taxation, personal accounting and taxation, auditing and assurance, insolvency, reconstruction, bankruptcy, management and business consulting, financial planning and investment advice, general bookkeeping, and other related services.
Accounting firm	An accounting firm is an entity established specifically to practice accounting and other related professional services.
Accounting practice	A practice can be an accounting firm whose business is conducted via a single entity (e.g. an accountant practising as a sole practitioner, or accountants practising in partnership) or a business which is conducted via more than one related entity (e.g. an accountants' partnership, a service entity, and/or other entities involved in business consulting, financial planning etc.).
Advertising, marketing and sponsorship expenses	This item includes costs incurred by a practice for promotional and publicity campaigns aimed at bringing the activities and services of the practice to the attention of consumers for the purpose of increasing sales, and in the public support or promotion of sporting, arts or cultural activities.
Auditing and assurance	This involves work concerned with investigation, verification or evaluation of, and reporting on financial and managerial processes. It includes the formal auditing of business accounts and other auditing services such as specific reviews of inventories, debtors ledgers, treasury operations etc.
Average annual percentage change	<p>A percentage change, p, from 1995–96 to 2001–02 is converted into an average annual change, a, as follows.</p> $a = (1 + p)^{1/6} - 1$ <p>The average annual percentage change is not an arithmetic average of the actual percentage changes from year to year. It is labelled the 'average' change because if any value increases by $a\%$ every year for six years, then at the end of the six years it will have grown by a total $p\%$.</p>
Bad and doubtful debts	Bad and doubtful debts is the amount of accounts receivable that are either written off, or estimated to be uncollectible during an accounting period, and that are expensed in a period's profit calculations.
Business taxation	This involves work concerned with direct/indirect taxation planning, advice, company tax return preparation and assessment, and appeals.
Casual employees	Casual employees are those persons employed by the business who are not entitled to paid leave.
Compensation of employees	Compensation of employees is the total remuneration, in cash or in kind, payable by a practice to an employee in return for work done by the employee during the accounting period. It is further classified into two sub-components: wages and salaries; and employers' social contributions. Compensation of employees is not payable in respect of unpaid work undertaken voluntarily, including the work done by members of a household within an unincorporated enterprise owned by the same household. Compensation of employees excludes any taxes payable by the employer on the wage and salary bill (e.g. payroll tax, fringe benefits tax).
Computer software expensed	Computer software expensed is the cost of computer software that has been fully charged to profit as an expense in the current accounting period.
Depreciation and amortisation	Depreciation and amortisation are financial charges made in the accounts to reflect that part of the value of the asset which may be regarded as having been used up in producing revenue in a particular accounting period. Depreciation generally refers to physical (tangible) non-current assets, and amortisation generally refers to intangible non-current assets.

GLOSSARY *continued*

Disbursement recoveries	This item refers to those amounts expended by a practice on behalf of clients and recovered from them. It includes recoveries of expenses for the provision of telephone, facsimile, photocopying and similar services to clients. It excludes recoveries of such expenses as stamp duty and other statutory fees.
Employer contributions to superannuation funds	Employer contributions to superannuation funds are the cost of the employer's contributions during the reference period made on behalf of employees including salary sacrificed amounts.
Employment at end June	Employment represents all employees and working proprietors and partners on the payroll for the last pay period ending in June 2002. Employees absent on paid or prepaid leave are included. Non salaried directors, subcontractors and persons solely paid by commission without a retainer are excluded.
Financial planning and investment advice	This involves work concerned with the provision of advice on investment options and includes both individual and business advice.
Fringe benefits tax	Fringe benefits tax is payable by employers when certain benefits in excess of normal wages or salaries (e.g. free or discounted goods or services) are received by their employees (or associates of employees) in connection with their employment.
Gross domestic product (GDP)	Gross domestic product is the total market value of goods and services produced in Australia after deducting the cost of goods and services used up in the process of production (intermediate consumption), but before deducting consumption of fixed capital.
Industry value added (IVA)	Industry value added is an estimate of the difference between the market value of the output of an industry and the purchases of materials and expenses incurred in the production of that output. It has been derived by determining the income associated with production (in this case sales of goods and services, and changes in stocks), and subtracting the direct costs of producing those outputs (purchases of goods and services used in production and selected expenses exclusive of indirect taxes). Indirect taxes include payroll tax, fringe benefits tax, land tax and land rates.
Insolvency, reconstruction and bankruptcy	This involves corporate recovery work concerned with persons and businesses which are insolvent or are experiencing insolvency or liquidity problems.
Interest expenses	Interest expenses are outflows of funds related to the cost of borrowing money.
Interest income	Interest income is income earned through the lending out of funds owned by the accounting practice.
Labour costs	These include staff related costs such as wages and salaries, fringe benefits tax and payroll tax, employer contributions to superannuation, workers' compensation premiums, and provision expenses for employee entitlements.
Land tax and land rates	Land tax is an annual tax assessed to the owner of the land. Land rates are annual charges levied by local government for the provision of local government services.
Management/business consulting	This involves work concerned with business management related advisory services, corporate finance and information technology consulting. It includes mergers, corporate restructuring, risk management consulting, actuarial consulting, Internet consultancy and web site design.
Operating profit before tax (OPBT)	Operating profit is a measure of profitability of a business during the reference period, taken before extraordinary items are brought into account and prior to the deduction of income tax and appropriations to owners (i.e. dividends paid, drawings). It is generally derived by subtracting total expenses from total income, and adding the difference between closing inventory and opening inventory for the period.
Operating profit margin	This represents the percentage of a business' sales of goods and services which becomes profit after all operating expenses have been deducted. It is derived by expressing total operating profit before tax (OPBT) as a percentage of total sales of goods and services.

GLOSSARY *continued*

Other contract, sub-contract and commission expenses	These include cleaning, security and other contract expenses, and payments to persons paid by commission without a retainer. Payments to contractors and consultants for accounting and other related professional services are excluded, as are payments to other businesses for staff training, payments to employment agencies for staff, and commissions paid to employees or persons receiving a retainer.
Other fields	This involves accounting and other related professional services, that are not included in the categories: Business taxation; Personal accounting and taxation; Auditing and assurance; Insolvency, reconstruction and bankruptcy; Management/business consulting; and Financial planning and investment advice. The most commonly reported activity in this category was bookkeeping.
Other insurance premiums	This item refers to expenses incurred by a practice in respect of different types of insurance policies but excluding workers' compensation, compulsory third party motor vehicle insurance and professional indemnity insurance.
Other operating expenses	This item includes repairs and maintenance, motor vehicle expenses, electricity, water and gas charges, postal, mailing and courier expenses, paper, printing and stationery expenses and bank fees.
Other practice income	This item includes income from royalties and commissions, net profit (loss) on sales of non-current (fixed) assets, dividend income and net profit (loss) as a result of variation in foreign exchange rates/transactions. It excludes extraordinary profit or loss (i.e. not associated with the normal operations of the practice and of a non-recurring nature), and income earned by practitioners in their private capacity.
Payments to employment agencies for staff	These are payments made to an employment agency for the supply or recruitment of staff.
Payments to other businesses for the provision of training	These are payments made by a practice to businesses specifically for the provision of training to the staff of the practice, and excludes training provided by employees of the practice.
Payments to contractors and consultants for accounting and other related professional services	Accounting and other related professional services is defined elsewhere in the glossary. These payments include commissions paid to persons who do not receive a retainer, but exclude payments to persons receiving a retainer and payments to own employees. Payments for services such as cleaning and security are also excluded.
Payroll tax	Payroll tax is a tax levied by state and territory governments upon the amount of wages and salaries paid by a business.
Permanent full-time employees	Permanent full-time employees are those who work 35 hours or more per week, and are entitled to paid leave.
Permanent part-time employees	Permanent part-time employees are those who work less than 35 hours per week, and are entitled to paid leave.
Personal accounting and taxation	This involves work concerned with general accounting tasks including preparation and maintenance of personal accounting records and lodgement of personal tax returns.
Practices at end June	This is a count of practices (i.e. the consolidation of the accounting firm and other associated entities) operating at the end of June. It excludes any practices that ceased operations during the financial year.
Practising accountants	Practising accountants are people mainly engaged in providing accounting or auditing services charged out to clients. They have the appropriate tertiary qualification and may be a registered chartered accountant or certified practising accountant. Bookkeepers without an appropriate tertiary qualification are excluded.
Professional indemnity insurance	Professional indemnity is a general insurance which covers the practice against a third party's financial loss as a result of advice provided to the third party.

GLOSSARY *continued*

Professional library expenses	These include journal subscriptions, electronic library services and licence fees for electronic databases related to the professional services provided by the practice. Wages and salaries of library staff are excluded.
Rent, leasing and hiring expenses	Rent, leasing and hiring expenses are those costs for the rent, leasing (excluding finance leases) and hiring of vehicles, land, buildings, machinery, equipment and any other property from other businesses or individuals.
Rent, leasing and hiring income	Rent, leasing and hiring income is revenue derived from the renting, leasing or hiring of assets such as land, buildings, vehicles, machinery or equipment to other businesses or individuals.
Return per accountant	Return per accountant is a measure of the average financial compensation that each practising accountant receives for his or her involvement in accounting practice activities. There are two ways in which accountants can be compensated. Accountants who are employees receive wages and salaries. Accountants who are principals/partners share in the profit generated by the practice. The final return per accountant figure is derived by adding the total profit paid to accountants to the wages and salaries paid to accountants, and then dividing the total by the total number of accountants employed (employees plus other working principals/partners). Superannuation has not been included in return.
Service entity	A service entity is defined as a company, trust or other entity established by an accounting practice to provide administrative, secretarial or similar services to only that accounting practice.
Telecommunication services	Telecommunication services are all payments (of a non-capital nature) for telecommunication services which engage wire, cable or radio transmission. They include the costs of fixed and mobile telephone services, facsimile services, Internet services and leased lines for computers.
Travelling, accommodation and entertainment expenses	Travelling and accommodation expenses are costs incurred for transportation services or in providing accommodation to staff when business activities occur away from the normal place of business. Entertainment expenses are the costs incurred for the provision of entertainment activities, either for staff of the practice or clients.
Wages and salaries	This item refers to the gross wages and salaries (including capitalised wages and salaries) of all employees of the practice. The item includes severance, termination and redundancy payments, salaries and fees of directors and executives, retainers and commissions of persons who received a retainer, bonuses, and annual and other types of leave. Provision expenses for employee entitlements (e.g. provisions for annual leave and leave bonus, long service leave, sick leave, and severance, termination and redundancy payments) are also included. Payments related to salary sacrifice and payments to self-employed persons such as consultants, contractors and persons paid solely by commission without a retainer are excluded. Practices with activities in more than one state or territory were asked to report wages and salaries for each state and territory in which the practice operated.
Workers' compensation premiums/costs	Workers' compensation is a compulsory insurance cover taken out by all employers, except for self-insured workers, according to legislative schemes to cover employees suffering injury or disease in the course of or arising out of employment.
Working proprietors and principals/partners of the practice	This includes working partners and proprietors of unincorporated businesses, and working principals or directors of incorporated businesses.

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