

University of Mississippi

eGrove

---

Association Sections, Divisions, Boards, Teams

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

1990

## OCBOA Survey Report

American Institute of Certified Public Accountants. Private Companies Practice Section

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_assoc](https://egrove.olemiss.edu/aicpa_assoc)



Part of the [Accounting Commons](#)

---



---

## **Division for CPA Firms**

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, N.Y. 10036-8775  
(212) 575-6200  
Facsimile (212) 575-3846

---

# **OCBOA Survey Report**

by the

**Private Companies Practice Section**

**American Institute of CPAs**

**September 14, 1990**

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
Executive Summary	2
Survey Methodology and Response	4
Survey Findings:	5
Current Use of OCBOA	5
Percentage Use	
Number of Clients	
Types of OCBOA	
Industries Represented	
OCBOA and Audits, Compilations, Reviews	
Year-end and Interim Financials	
Future Use: Clients Who Would Benefit	9
Potential Obstacles to Use	9
Difficulty of Explanation	
Perceived Barriers	
The Role of PCPS	11
Conclusions	12
About the Respondents	14
Survey Form	16

## **EXECUTIVE SUMMARY**

In a national survey of PCPS member firms, the Private Companies Practice Section (PCPS) of the American Institute of CPAs asked practitioners about their current and future uses of non-GAAP financial statements. The objective was two-fold: (1) to determine when and how practitioners are currently using Other Comprehensive Bases of Accounting (OCBOA) and (2) to identify ways for the PCPS to help practitioners gain acceptance for OCBOA, when appropriate. The PCPS found that:

- o Percentage Use -- A strong 80.8% of respondents have used OCBOA financials. Among the smallest firms surveyed (1-4 professionals), 66.8% indicated that they use OCBOA, while for firms with "5-14" and "15+" professionals, the response rose to 85.3% and 93.3% respectively. Use was greatest among those firms whose practice was between 40% and 60% accounting and auditing.
- o Number of Clients -- Respondents issue OCBOA statements for an average of 25 clients.
- o Types of OCBOA -- Respondents reported that, on average, slightly more than half of their OCBOA work is tax basis and slightly less than half, cash basis.
- o Industries -- 24 industries were mentioned in total, the most frequently cited of which were professional services, medical, retail and real estate.
- o Audits, Compilations & Reviews -- For those clients that issue OCBOA financial statements, respondent firms perform, on average, audits for 15.6%, compilations for 83.3% and reviews for 17.5%.
- o Clients Who Would Benefit -- 35.8% of the respondents indicated that they have GAAP clients who could benefit by switching to OCBOA.
- o Difficulty of Explanation -- 18.9% of the respondents have encountered difficulties explaining non-GAAP financials to third parties. Reports of such difficulty increased with firm size.

o Perceived Barriers -- In response to the open-ended question, "what considerations have kept your clients from using OCBOA," 20.3% of all respondents cited various "requirements," especially banking stipulations, bonding company requirements and regulatory requirements. Concern over acceptability by bankers and clients was cited by 12.1%, while 7.6% believed that changing to OCBOA would result in a lack of comparability and consistency.

5.7% noted that they found GAAP superior to OCBOA, in cases where OCBOA is applicable.

o Role of the PCPS -- 34.9% of those respondents who have encountered difficulties would like the PCPS to help educate clients, bankers and the general public on OCBOA matters. 26.1%, likewise, want to see more publicity and literature on the subject, while 18.5% request materials that use non-technical language to outline the differences between various forms of OCBOA. 7.3% also request help in setting standards and guidelines and in pushing for one set of accounting principles.

## **SURVEY METHODOLOGY AND RESPONSE**

In April, 1990, survey forms were circulated to the managing partners of PCPS member firms, 6,108 in all. Survey forms were also distributed at the 1990 PCPS Annual Conference in Orlando. By June 1, the response cut-off, we had received 2,175 completed surveys -- a response rate of 32%. 2% of the completed surveys were from the conference.

The conclusions drawn in this report are based on the answers and comments of survey respondents. Tabulation services were provided by Market Probe, a New York-based research company. Since most of the figures in this report are based on the "mean" response given by those surveyed, percentages may not add up to 100.

**SURVEY FINDINGS**

**CURRENT USE OF OCBOA**

Percentage Use

We asked practitioners, "To date, have you used OCBOA for selected clients?" The answers, from a base of 2175 respondents:

**Percentage Use: All Respondents**

Yes	80.8%
No	18.5
No Response	.6

Results show that small firms (1 - 4 total personnel) are less likely to have used OCBOA than larger firms.

**Percentage Use: By Firm Size**

	<u>Size of Firm (Total Personnel)</u>		
	<u>1 - 4</u>	<u>5 - 14</u>	<u>15+</u>
Yes	66.8%	85.3	93.3
No	32.2	14.4	6.1
No Response	1.0	.3	.7

Number of Clients

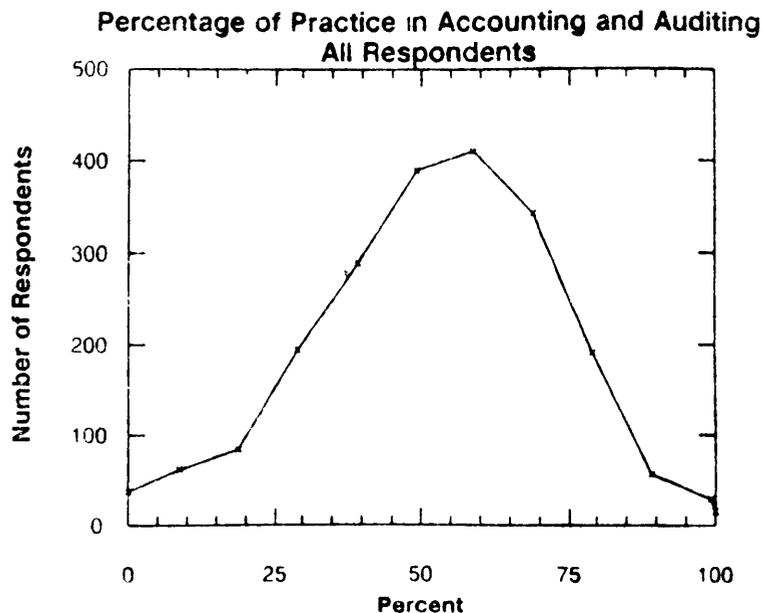
Respondents who had used OCBOA were asked, "how many clients, in total, currently issue OCBOA statements?" The mean response was 25, with the following breakout:

**Number of Clients: All Respondents**

1-9	27.5%
10-19	20.6
20-29	15.5
30-49	11.7
50-69	6.5
70+	9.0

Interestingly, answers were closely correlated with the size of the respondents' accounting and auditing practice. Firms that had 40 - 60% of their practice in accounting and auditing reported the greatest number of OCBOA clients.

The graph below plots the number of respondents against the percentage of their practice represented by accounting and auditing.



Types of OCBOA

When asked what percentage of their firm's current OCBOA work is cash basis, tax basis or other, the respondents answered:

**Type of OCBOA Used: All Respondents**

Cash Basis	47.5%
Tax Basis -- Total	50.2
-- Cash	29.0
-- Accrual	21.3
Other	2.3

Respondents included the following OCBOA under "Other":

- o Statutory
- o Regulatory
- o Government prescribed

Of the 1758 responses that the PCPS received to this question, 26% had to be discarded due to inaccurate completion.

Industries Represented

The respondents were asked which industries their OCBOA clients represent. 24 industries were mentioned in total. Here are the most frequently cited answers to this open-ended question and the percentage of respondents mentioning them.

**Industry : All Respondents with OCBOA Clients**

Professional Services	45.0%
Medical*	30.2
Retail	29.0
Real Estate	21.4
Construction	12.5
Manufacturing	10.4
Farming / Agriculture	8.9

\* There may be some overlap between "medical" and "professional services."

OCBOA and Audits, Compilations, Reviews

We asked, "For what percentage of [your OCBOA] clients do you perform compilation, review and audit?" The national mean:

**Audits, Compilations & Reviews**

Audit	15.6%
Compilation	83.3
Review	17.5

A strong 48% of the respondents perform compilations for all of their OCBOA clients, while the comparable figure for audits and reviews is 2.2% and 1.7% respectively. 20% of the respondents perform no audits for their OCBOA clients, while 13.4% perform no reviews.

Year-End and Interim Financials

Respondents were asked what percentage of their OCBOA financial work is for "both interim and year-end financials," "only interim financials"\* and "only year-end financials." Those surveyed reported a mean of 61.5%, 8.9% and 29.6% respectively. Of the 1758 responses PCPS received to this question, 14% had to be discarded due to inaccurate completion.

## FUTURE USE OF OCBOA

### Clients Who Could Benefit From Use

When asked if they had clients who could benefit by switching to OCBOA financials, 35.8% of the respondents replied "yes," 55.4% "no" and 8.8% did not answer.

Given the high percentage of practitioners already issuing OCBOA financial statements (80.8%), it is significant that 35.8% see additional opportunities for use.

## POTENTIAL OBSTACLES TO USE

### Difficulty of Explanation

We asked practitioners if they had encountered difficulties explaining non-GAAP financials to their clients, bankers or staff. 18.9% of the respondents answered "yes." Responses differed significantly with firm size. Interestingly, the largest firms experienced the highest degree of difficulty.

#### **Difficulty With Explanations: By Firm Size**

	<u>Size of Firm (Total Personnel)</u>		
	<u>1 - 4</u>	<u>5 - 14</u>	<u>15+</u>
Yes	14.2%	20.4	22.5
No	68.9	70.6	73.4
No Response	16.9	9.0	4.2

Similarly, firms issuing between 10 and 24 OCBOA statements had an above average level of difficulty -- 23.3%

**Difficulty With Explanations: By OCBOA Statements Issued**

	<u>Current OCBOA Clients</u>		
	<u>1 - 9</u>	<u>10 - 24</u>	<u>25+</u>
Yes	17.8%	23.3	18.9
No	77.8	73.6	79.4
No Response	4.3	3.0	1.7

Perceived Barriers

We asked the open-ended question, "What considerations have kept your clients from using OCBOA." Here are the respondents' top concerns:

**Perceived Barriers: All Respondents**

Requirements (Net)*	20.3%
bank stipulations	17.7
bonding co. requirements	2.9
regulation	2.3
insurance	.4
government reporting	1.0
tax regulations	.7
audit requirements	1.3
Acceptance (Net)*	12.1
Other Alternatives Better (Net)*	5.7
GAAP more realistic	2.1
GAAP more accurate	2.8
Accrual better	.8
GAAP is superior	1.1

\*The net reflects the percentage of respondents who gave one or more of the answers listed below.

## The Role of PCPS

In light of these concerns, we asked those who have experienced difficulties, "How can PCPS help?" In general, respondents would like to see more publicity and literature on OCBOA to help educate clients, bankers and the general public. Here are the most frequently cited answers and the percentage of respondents mentioning them.

### Ways the PCPS Can Help

Educate third parties	34.9%
Publish literature	20.0
Simplified explanations	18.5
Set standards/guidelines	7.3
Publicity	6.1
Banker brochures	4.1
Miscellaneous	2.9
Seminars	2.2
No response	33.9

## CONCLUSIONS

The number of survey respondents (2,175) indicates that practitioners think that OCBOA is an important technical issue and are interested in their colleagues' views on the subject. Among the survey's key findings:

- o OCBOA is seen as an attractive alternative to GAAP; 81% of the respondents have issued OCBOA statements and an additional 36% have GAAP clients who would benefit from OCBOA.
- o Almost 20% of the practitioners surveyed have experienced difficulty explaining OCBOA to bankers and clients.
- o Over 7% think that the PCPS should take an active role in standardizing and coordinating OCBOA financial statements.

In their comments, the practitioners' frustration with third party resistance is pronounced. Respondents emphasized a need to educate clients, lenders and the general public on the uses and benefits of OCBOA. Among the comments:

"We need press coverage, public service spots and materials that inform third parties of differences in the various bases of accounting and how they reconcile."

"We need to send a message to clients, bankers and practitioners that OCBOA statements are not second class financial statements."

"Bankers need to understand that OCBOA financial statements are most economical and useful for small businesses -- businesses for which it would be cost prohibitive to use GAAP. Third parties are afraid of OCBOA because they don't understand how it differs from GAAP."

"We need more press coverage to inform third parties that there is no one correct basis of accounting for all entities."

"Written materials explaining OCBOA's usefulness are needed."

Less than 6% of the respondents advised against promotional materials. One respondent did warn, however, that "clients believe GAAP is the only correct basis. Promoting OCBOA will reduce CPA credibility."

**ABOUT THE RESPONDENTS**

Survey respondents were the managing partners of PCPS member firms.

**Size:** The firms surveyed had, on average, 3 partners and 7 full-time employees. Nearly half the respondents (41.6%) were from firms with a single partner and 51% were from firms with fewer than 8 employees.

**Geography:** We segmented the responses both by census region and state, with California (12.6%), Texas (7.8%), New York (5.7%) and Florida (5.2%) having highest representation. Responses did not vary significantly with geography.

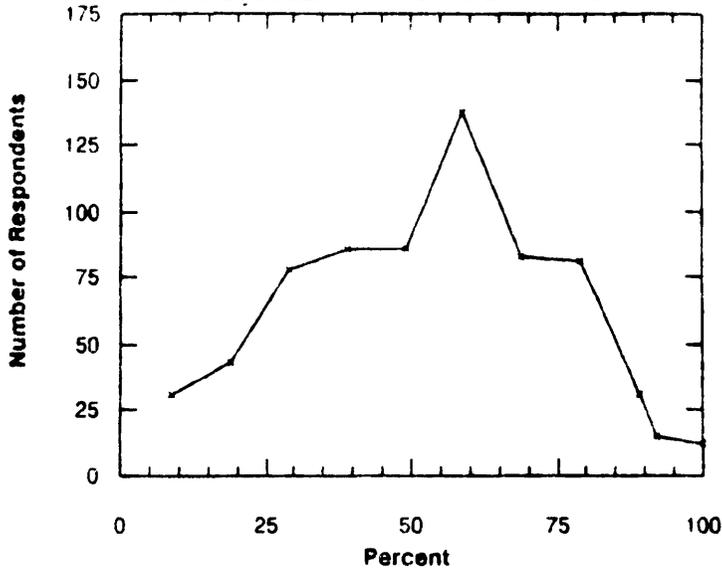
The table below shows regional distribution.

**Firm Location of Respondents**

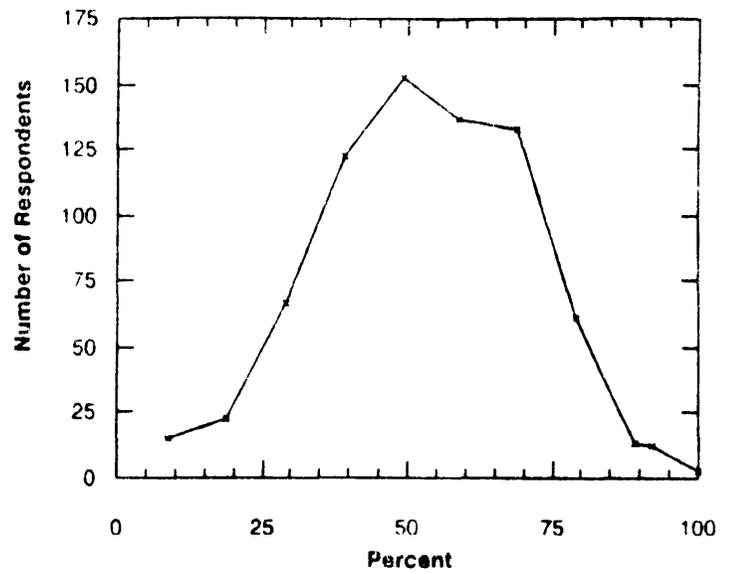
Pacific	17.7%
South Atlantic	17.0
East North Central	13.1
Middle Atlantic	12.7
West South Central	11.0
Mountain	9.7
West North Central	7.5
New England	6.0
East South Central	4.8

**Practice Mix:** Less than 1% of the respondents came from firms whose sole business is accounting and auditing, while 1.7% came from firms that do no accounting or auditing at all. On average, accounting and auditing represented 45.8% of the respondents' practices (See graphs on page 6 and on the following page).

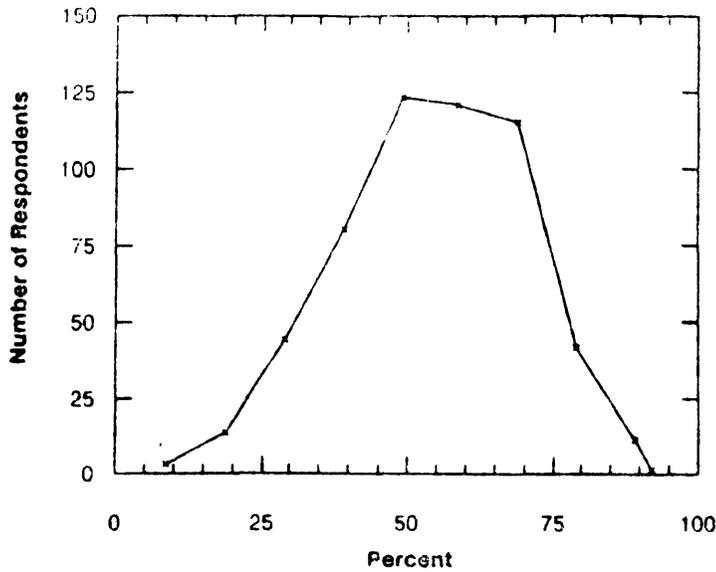
**Percentage of Practice in Accounting and Auditing  
Size of Firm: 1 to 4 Total Personnel**



**Percentage of Practice in Accounting and Auditing  
Size of Firm: 5 to 14 Total Personnel**



**Percentage of Practice in Accounting and Auditing  
Size of Firm: Over 15 Total Personnel**





# Division for CPA Firms

American Institute of Certified Public Accountants

1211 Avenue of the Americas  
New York, NY 10036-8775  
(212) 575-6200  
Facsimile (212) 575-3846

## PCPS PRACTITIONER SURVEY OTHER COMPREHENSIVE BASES OF ACCOUNTING

One of the core functions of PCPS is to represent local practitioners by helping to reduce "standards overload." To meet this objective, the PCPS Executive and Technical Issues Committees are exploring the benefits that tax and cash basis financial statements can bring to CPAs and to certain of their privately-held clients.

Please take a few minutes to complete this survey — or forward it to your lead audit partner. Your firm's answers will help PCPS identify situations in which statements prepared on an "Other Comprehensive Basis of Accounting" (OCBOA) can be an appropriate, economical alternative to GAAP and help you communicate this information to clients and bankers.

Please return your completed survey forms to PCPS **no later than June 1.**

1. What is the size of your firm?
  - Number of partners \_\_\_\_\_
  - Number of total personnel \_\_\_\_\_

2. In what state is your firm located? \_\_\_\_\_

3. Roughly, what percentage of your practice is accounting and auditing? \_\_\_\_\_%

4. To date, have you used OCBOA for selected clients?  
YES \_\_\_\_\_ NO \_\_\_\_\_

If "yes," please complete the following:

• How many clients, in total, currently issue OCBOA statements? \_\_\_\_\_

• For what percentage of these clients do you perform:

Compilation	_____	%
Review	_____	%
Audit	_____	%?

• Which industries do they represent? Please be as specific as possible.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

• Which OCBOA do you use?

\_\_\_\_\_  
\_\_\_\_\_

(Over)

5. Of the OCBOA financial work that your firm currently performs:

What percentage is:

Cash Basis	_____	%
Tax Basis (total)	_____	%
Accrual	_____	%
Cash	_____	%
(Other) _____	_____	%?

What percentage is for:

Only interim financials	_____	%
Only year-end financials	_____	%
Interim <u>and</u> year-end financials	_____	%?

6. Do you have GAAP clients that could benefit from switching to OCBOA financials?

YES \_\_\_\_\_ NO \_\_\_\_\_

What considerations have kept your clients from using OCBOA?

\_\_\_\_\_  
\_\_\_\_\_

7. Have you encountered difficulties explaining non-GAAP financials to your clients, their bankers or your staff?

YES \_\_\_\_\_ NO \_\_\_\_\_

If yes, how can PCPS help? \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

8. Other Comments:

\_\_\_\_\_  
\_\_\_\_\_

9. Respondent information (Optional):

- Name \_\_\_\_\_
- Firm Name \_\_\_\_\_
- City \_\_\_\_\_
- Telephone \_\_\_\_\_

\* \* \* \* \*

**Please mail completed surveys to:  
AICPA Private Companies Practice Section  
c/o Bliss, Barefoot & Associates  
500 Fifth Avenue  
New York, NY 10110**