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Underreporting Chargeable Time: A Continuing Problem For Public Accounting Firms

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Abstract

Prior research shows that underreporting chargeable time has been a concern for public accounting firms even though many of these firms have policies and procedures that prohibit "eating" time. The purpose of this study is to examine the current state of this problem and to provide recommendations to manage the problem more effectively. Practicing public accountants at all professional levels were surveyed to determine the extent, opportunity, ethical perception and perceived benefits of underreporting time. The results show that although the majority of the respondents believe underreporting time is unethical, the majority of them did not report all of their chargeable hours in the prior year. The main reasons for such behavior stem from the desire to: (1) receive better periodic performance evaluations, (2) be viewed as competent by superiors and (3) receive promotions.

Introduction

Public accounting firms use time budgets and chargeable hours to make decisions regarding client billings, future budgets, personnel evaluations and scheduling. Underreporting chargeable time can negatively impact such decisions. The policies and procedures manuals of many accounting firms indicate that underreporting time or "eating time" is an unacceptable practice. For example, the following excerpt is from The Way We Do Business. Our Code of Conduct (pp. 41-42) published by Coopers & Lybrand LLP: Question? Should I ever "eat" hours? Answer. Pressure to eat time may be subtle, but even if you feel this pressure, not reporting all your time is inherently dishonest.

Although public accounting firms do not consider underreporting time an acceptable practice, prior research indicates this issue has been a problem for management of these firms. The purpose of this article is to examine the current state of underreporting chargeable time and to provide recommendations to mitigate the problem. Practicing accountants were surveyed to determine the extent to which they underreport time and to ascertain their beliefs and perceptions regarding the underreporting of chargeable time. The first section of the paper provides a brief overview of the limited research on underreporting. Problems of underreporting chargeable time are summarized in section two. The design and results of the study are discussed in

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section three. Recommendations to reduce underreporting time are discussed in the fourth section. The final section presents concluding comments.

Prior Research

The Commission on Auditors' Responsibilities (1977) surveyed local, regional and national public accounting firms and found that 55% of the respondents underreported chargeable hours. Lightner, Adams and Lightner (1983) surveyed 1500 accountants from three national CPA firms in six randomly selected cities. Their results show that 67% of the respondents had underreported chargeable hours. Smith, Hutton and Jordan (1996) surveyed 300 accountants from local, regional and national firms in thirteen different cities and found that 89% of the respondents did not report all of their chargeable time. Despite the efforts of the public accounting firms, the results of prior research show unreported time has been a problem for the past twenty years.

Problems of Underreporting

There are problems for both the CPA firm and the individual accountant that result from underreporting time. Problems related to the firm are highlighted in Coopers and Lybrand's *The Way We Do Business. Our Code of Conduct* which lists five specific reasons for reporting all chargeable hours: 1) assists in the preparation of the budget for the next year; 2) actual time can be used in negotiating next year's fees; 3) used by management to make business and resource decisions; 4) review overall approach to the current engagement and 5) bill client additional fees. Problems related to the individual accountant include poor morale and lower productivity, which could result in poor evaluations which eventually, will lead to turnover. Ultimately, the accountant's problems become the firm's problems.

The economic impact of underreporting is difficult to measure. For example, the type of engagement (fixed fee versus cost-plus), the firm's ability to assign accountants to other tasks for the hours not reported, varying billing rates and psychological effects (e.g. turnover, morale, productivity) are factors that affect the economic magnitude of the problem. While the exact magnitude of economic loss from underreporting is impossible to measure, "eating time" definitely affects the profitability of public accounting firms.

Study

Design and Demographics

Questionnaires were mailed to a random sample of 500 members of the Wisconsin Institute of Certified Public Accountants. A total of 224 responses (44%) were received. Demographics of the respondents are shown in Table 1:

Table 1
Demographics of Respondents

Position	
• Partners 38%	
• Managers	31%
• Seniors	24%
• Staff	7%
Area	
• Audit	45%
• Tax	40%
• Other	15%
Gender	
• Female	33%
• Male	67%
Professional Experience	
• Average years	13

Results

The Extent of Underreporting

The participants were asked to provide the percentage of their total chargeable time that was unrecorded in the preceding year. Table 2 presents the extent of underreporting for all respondents by position. The findings show that overall 71% of those responding had underreported chargeable time to some extent during the previous year. This finding is consistent with findings (67%) from an earlier study (Lightner et al. 1983) but inconsistent with the findings (89%) of a more recent study (Smith et al. 1996). For those respondents that underreported time, the majority of the unrecorded time was between 1 % and 10 % of the total hours which is consistent with prior research (Lightner et al. 1983; Smith et al. 1996).

Table 2
The Extent of Underreporting Chargeable Time

Percentage of unrecorded chargeable time to total time in the preceding year	*Total*	*Partner*	*Manager*	*Senior*	*Staff*
0%	29%	29.7	30.8	21.8	37.5
1 to 4	25	25.9	22.2	30.9	25.1
5 to 9	25	19.9	24.9	29.1	31.2
10 to 14	14	14.8	14.7	16.4	0
15 to 19	1.4	1.2	1.5	0	6.2
20 and over	5.6	8.5	5.9	1.8	0

The findings of this study are consistent with prior research (Lightner et al. 1982; Smtih et al. 1996) with one exception. We found that staff accountants reported the fewest amount of unrecorded hours while the two prior studies found that staff accountants reported the highest amount. We suggest two possible explanations for this finding. One, the staff accountants' firms have impressed upon them that underreporting time is an unacceptable activity. For example, Coopers & Lybrand and several other firms are communicating to the staff in written form that "eating" time is not an acceptable. Two, generation X is not willing to "eat" hours.

The Ability to Underreport Time Successfully

An accountant's perception as to whether he or she can successfully underreport time will probably have an impact on his or her behavior. Table 3 provides an analysis of the perception of the participants in our study. The majority (72%) of the respondents believes they can (extremely possible or very possible) underreport time successfully. Only 1% of the respondents felt that it was not possible to underreport time. Firms' policies are not sufficient to preclude the underreporting of time.

The Ability to Meet Budget

Another factor likely to influence the underreporting of time is the accountant's perception of their ability to meet budget by re-

Table 3
Accountants' perception of their ability to underreport time successfully

Perceived ability to successfully underreport	*Percentage responding*	*Partner*	*Manager*	*Senior*	*Staff*
Extremely possible	28.4 %	29.8	27.9	29.6	18.7
Very possible	43.2	40.5	48.5	40.7	43.7
Somewhat possible	17.6	16.7	13.2	22.2	25
Slightly possible	9.5	10.7	10.3	7.4	6.3
Not possible	1.3	2.4	0	0	6.3

porting 100 percent of their chargeable time. Table 4 shows the participants' responses to this question. Half of the respondents stated that they felt they could meet budget very or fairly often. However, only 12% of the participants felt they could meet the budget very often. Over one-third felt they could only meet budget occasionally if they reported all their chargeable time, and nearly 16% felt they could seldom or never meet budget. This illustrates the relentless cycle of underreporting time. If a budget is reported as being met even though it actually took more time, then the future budget will be affected as well, which will perpetuate the problem. This finding also infers that budgets are not realistic.

Table 4
Accountants' perception of their ability to meet budget by reporting 100 percent of chargeable time

Perceived ability to meet budget when all chargeable time is reported	*Percentage responding*	*Partner*	*Manager*	*Senior*	*Staff*
Never	2.3 %	0	1.5	5.6	6.3
Seldom	13.5	13.1	11.8	13	25
Occasionally	34.2	28.6	39.7	37	31.3
Fairly often	37.4	39.3	35.3	37	37.5
Very Often	12.6	19	11.8	7.4	0

It is interesting to note that none of the partners reported that the budget could be met by reporting all chargeable time, yet, a larger percentage of them, as compared to the other positions, felt the budget could be met very often by reporting all chargeable hours. None of the staff felt the budget could be met very often by reporting all of their chargeable time.

Ethical Positions on Underreporting

Although accounting textbooks and firms' literature, such as Coopers & Lybrand's *The Way We Do Business. Our Code of Conduct*, state that underreporting time is unethical, the accountant's belief as to whether underreporting is appropriate should affect his or her behavior. The respondents were asked to report whether they believed underreporting was ethical. Table 5 provides the responses to this question. While only 5% of subjects approved of underreporting, note there are partners who do approve of underreporting time. In fact 2.4% strongly approve. Thirty percent of the respondents were indifferent. Nearly two-thirds of respondents disapprove of underreporting which is interesting since 71% of the respondents underreported time in the previous year. These findings indicate the ethical perception of underreporting does not have a big impact on behavior.

Superiors' Influence on Underreporting

One of the biggest potential contributors to the underreporting of time is the explicit and implicit requests of the accountant's superior. Table 6 reports the respondents' responses to the frequency of requests to underreport time by superiors. The findings show that implicit requests are more frequent than explicit requests. Almost

Table 5
Accountants' perception about whether underreporting time is ethical

Ethical position	*Percentage responding*	*Partner*	*Manager*	*Senior*	*Staff*
Strongly approve	.9 %	2.4	0	0	0
Approve	4	3.6	2.9	5.5	6.3
Indifferent	29.1	21.7	27.9	38.2	43.8
Disapprove	44.8	47	41.2	45.5	50
Strongly disapprove	21.1	25.3	27.9	10.9	0

92% of the respondents stated that they had never been explicitly requested to underreport time while approximately 76% stated that they had never received any implicit request to underreport time. Although few accountants are directly told to underreport time, which would violate many firms' policies, the findings show there are more implied requests. An argument can be made that such implicit requests create more pressure for subordinates than explicit requests because the subordinate must decide whether or not to report all chargeable hours.

Perceived Rewards from Underreporting

Table 7 provides the responses to the likelihood that underreporting could lead to various rewards. The results show that the three primary rewards are better periodic evaluation, superiors' perception of competency and promotion and advancement. Participants also indicated that the underreporting of time did not contribute to their personal growth and that it led to job dissatisfaction and negative feelings about themselves.

Table 8 shows the responses, by position, for the probability (very or somewhat likely) that underreporting will lead to reward. The findings show that staff personnel believe underreporting chargeable hours leads to better periodic performance evaluations, enhances superiors' perception of competency and results in more interesting and challenging assignments. The results suggest that both seniors and staff believe underreporting time helps with promotion and advancement. It is interesting to note that partners, as compared to managers, seniors and staff, believe underreporting contributes to personal growth and development, provides a sense of accomplishment and enhances job satisfaction.

Recommendations to Reduce Underreporting

Although most public accounting firms have written policies that prohibit "eating " time, the results of this study show that underreporting time is still a problem. Four specific recommendations to reduce or deter underreporting chargeable time include: 1) recognition of the problem; 2) management leadership; 3) training and evaluation controls; 4) reevaluation of budgeting process. Management of public accounting firms needs to admit that underreporting chargeable hours affects the firm's primary asset-the individual accountant. Anecdotal evidence indicates that firms may not want to admit that underreporting is occurring. During the preliminary stages of this project one of the authors approached a partner of a Big Six firm to see if his firm would be willing to participate in the study. He indicated that his firm was reluctant to participate because the distribution of the questionnaire would imply that underreporting was occurring and his firm has policies that prohibits underreporting chargeable hours. Management must recognize that underreporting chargeable

Table 6
Superiors' request to underreport time

Type and frequency of request	*Percentage responding*	*Partner*	*Manager*	*Senior*	*Staff*
Explicit requests					
Yes, frequently	.5 %	1.3	0	0	0
Yes, infrequently	7.8	3.8	10.3	10.9	6.3
No, never	91.7	94.9	89.7	89.1	93.8
Implicit requests					
Yes, frequently	1.4	1.3	1.5	1.9	0
Yes, occasionally	22.2	6.4	26.5	37	31.3
No, never	76.4	92.3	72.1	61.1	68.8

Table 7
Accountants' perceived reward from underreporting chargeable time

Likelihood That Underreporting Leads To Reward

Perceived Reward	*Very likely*	*Somewhat likely*	*Unsure*	*Somewhat unlikely*	*Very unlikely*
Better periodic performance evaluation	15.8	43.9	9	17.2	14
Superiors think you are as competent or more competent than others at your level	14.5	43	10.9	18.1	13.6
Feeling more sècure about your job with the firm	8.1	21.7	23.1	27.1	19.9
Promotion and advancement	10.9	32.6	19	19.9	17.6
Assignments to jobs that are more interesting and challenging	6.8	27.1	24	21.3	20.8
Feeling of pride in meeting time budgets for most engagements	6.3	30.2	14.9	22.1	26.6
Feeling that you have contributed to your personal growth and development	2.3	13.1	14.9	34.2	35.6
Feeling that you are as competent as others at your level	4.5	18.5	18	32.4	26.6
Feeling that you have accomplished something worthwhile	4.1	14	15.8	34.2	32
Feeling of job satisfaction	3.2	11.3	17.6	30.2	37.8
Feeling better about yourself as a person	2.3	7.7	17.1	28.8	44.1

time is occurring.

In addition to written policies and procedures management needs to set the tone that underreporting will not be tolerated. Since the results of this study show that partners also underreport time, these individuals will have to alter their own behavior in order to lead by example. The tone set by management will impact the behavior of the other accountants in the office. For example, one of the authors, who previously worked for a Big Six firm, was told by a managing partner that budgeted goals must be met to get promoted even if that meant eating time. While the findings of this study do not suggest that such explicit requests are a problem, the frequency of implicit requests indicates a problem. Written policies and procedures will have little meaning for managers, seniors and staff if partners do not adhere to such policies.

The firms should address this issue in the initial training of new accountants. The message should be very clear that underreporting chargeable time will not be tolerated. To illustrate the importance of the issue, firms should modify the evaluation process (i. e. include a question about underreporting time in the evaluation form) and establish clear and severe penalties for underreporting chargeable hours (i.e. termination, reimbursement to firm for underreported hours). Modifications to initial training and the evaluation process will not be effective unless the partners and managers enforce the penalties.

Firms also need to reevaluate the budgeting process. The findings of this study show that half of the respondents felt they could not meet budget regularly (or very often) by reporting all chargeable hours. Since the budgets do not appear to be realistic, firms apparently are using ideal, rather than practical, budgets. If the budgets that are used for evaluation and planning purposes are not realistic, firms are creating an environment that will result in some underreporting of chargeable hours.

Conclusions

Although most public accounting firms have policies that prohibit underreporting chargeable hours, the findings of this study show that accountants at all levels still "eat" time. While the majority (65.9%) of the respondents believes underreporting chargeable time is unethical, the majority (71%) does not report all chargeable hours. This contradictory behavior appears to stem from the desire to: 1) receive better periodic performance evaluations, 2) be viewed as "competent" by superiors and 3) receive promotion and advancement. The respondents also indicated that underreporting time did not contribute to their personal growth and that it led to job dissatisfaction and negative feelings about themselves.

Three possible explanations as to why public accounting firms continue to tolerate underreporting chargeable time include: 1) CPA firms do not believe this is a problem because policies and procedures prohibit such behavior; 2) competition for clients forces firms to keep rates low and 3) firms actually benefit because most fee arrangements are fixed. Underreporting time, however, is a problem that affects both the individual accountant and the firm. While it is difficult to measure the impact on either the individual accountant (i. e. morale, productivity) or the firm (i.e. inefficiencies, turnover) underreporting chargeable hours is a management issue that the partners need to address in order to efficiently use and maintain the most precious asset (human capital) of the firm. Partners must first recognize and admit that the problem exists at all levels before effective policies can be implemented. The partners' need to set the tone and lead by example. We suggest that firms revise their initial training, evaluation and budgeting processes. Severe penalties should be established and enforced. If new policies are not enforced, accountants will continue to underreport chargeable hours.

Suggestions for Future Research

The limited research on underreporting time has utilized a survey approach to identify the levels (positions) that underreport time and the possible reasons for "eating" time. Such research has not answered two important questions: 1) why does this activity continue to occur? and 2) what type of individual is likely to underreport time? Future research should utilize a field study, consisting of interviews with professional at all levels, to determine "why" public accounting firms allow accountants to continue to underreport time. We also suggest that future research should try to identify characteristics that differentiate the professionals who eat time from those who report all of their chargeable time. An understanding of the type of individual that might "eat" time should help partners and managers to more effectively address this issue.

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Table 8
Accountants' perceived reward (very or somewhat likely) from underreporting chargeable time.

Likelihood That Underreporting Leads To Reward

Perceived Reward	*All*	*Partner*	*Manager*	*Senior*	*Staff*
Better periodic performance evaluation	59.7%	44.5	65.6	69.1	81.3
Superiors think you are as competent or more competent than others at your level	57.5%	43.3	61.2	65.4	87.5
Feeling more secure about your job with the firm	29.8%	24.1	31.4	30.9	50.1
Promotion and advancement	43.5%	30.1	35.8	65.4	68.8
Assignments to jobs that are more interesting and challenging	33.9%	33.7	34.4	30.9	43.8
Feeling of pride in meeting time budgets for most engagements	36.5%	37.3	38.2	32.8	37.6
Feeling that you have contributed to your personal growth and development	15.4%	21.7	10.3	10.9	18.8
Feeling that you are as competent as others at your level	23%	25.3	22.0	20.0	25.0
Feeling that you have accomplished something worthwhile	18.1%	20.5	16.2	18.2	12.5
Feeling of job satisfaction	14.5%	21.7	8.8	10.9	12.5
Feeling better about yourself as a person	10.0%	15.6	4.4	7.2	12.5

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