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Audit Vs. Tax: Which to Choose?

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Accounting Capstone

Final Research Paper

4/24/2016

Audit Vs. Tax: Which to Choose?

Choosing between the audit and tax service lines in public accounting represents a major dilemma facing many accounting majors. Students often have to make this decision early on in their college career, before they have even taken an audit or tax class. I personally faced this decision as a sophomore when I was applying to leadership programs offered by public accounting companies. I decided to choose the audit service line, but I have often wondered if tax would have been a better fit for me. This led me to develop my specific research question: “Which service line in Big Four public accounting, tax or audit, is a better choice for students?”

Background

There are four main public accounting firms called the “Big Four”. These firms are PwC, Deloitte, EY, and KPMG. The Big Four hire many recent graduates into two main service lines: audit and tax. An auditor helps to verify the reliability of financial statements given by companies as well as verifying compliance with various laws and regulations. Tax employees help to prepare tax returns and aid with tax planning and business consultation.

Many individuals could benefit from this research. College students have to make this decision when applying to work in the Big Four. Making a decision before taking audit or tax classes can be difficult and stressful. This research could help give students a better understanding each service line. Also, professors often have to give guidance to their students on this decision. This research could help give professors and advisors concrete research with which to guide their students. Lastly, public accounting recruiters could benefit from this research by placing students in the service line that is best suited for them. This could reduce turnover, which helps the firm in general.

Existing Research

Currently, very little research exists on this decision. The article, "Audit and Tax Career Paths in Public Accounting: Student and Professional Perceptions" by Dalton, Buchheit, and McMillan claims to be one of the first studies to look at this decision. This study found that students choose audit because they believe that they will experience more client interaction and have greater job opportunities. Students that choose tax do so because they believe that they will have a more stable routine and learn specific skills. However, professional participants in the survey advised students to go into audit if they plan to work in industry after leaving public accounting. Other existing research mainly dealt with burnout in public accounting. Articles found that busy season was a major factor in burnout at national firms (Herda & Lavelle). However, there are various methods that can help decrease burnout. These include developing employee relationships (Herda & Lavelle) and creating career growth opportunities (Nouri & Parker). Also, new employees tend

to be more focused on work-life balance instead of compensation (MacLean). However, these articles did not focus on the fundamental decision of choosing between audit or tax.

Research Methods

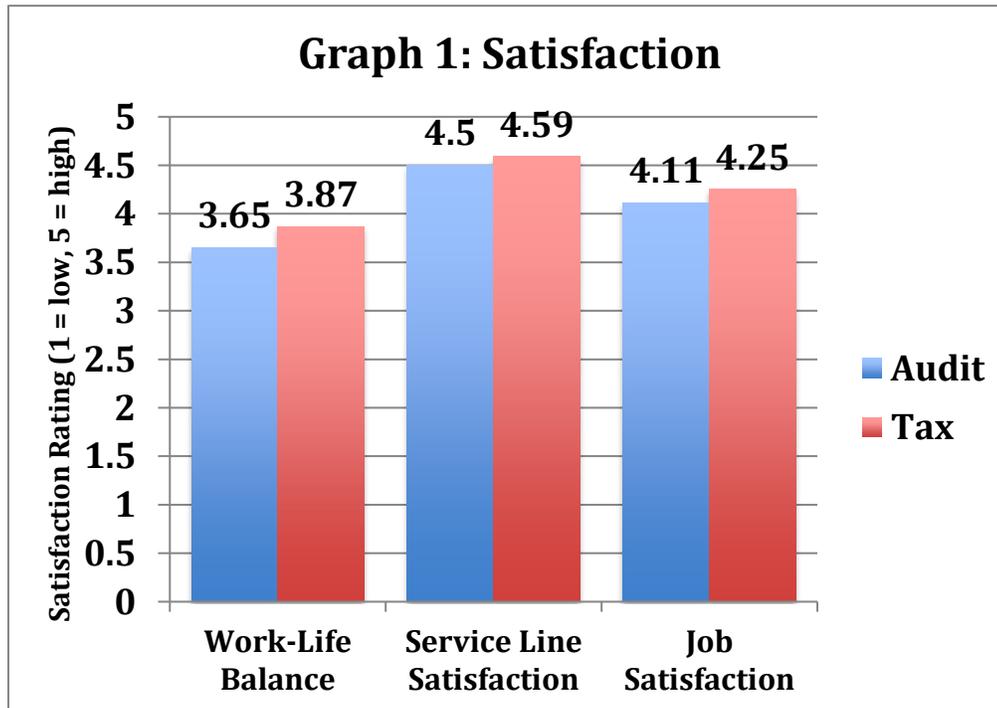
In order to complete my research project, I developed two main research methods. First, I sent a survey to CPA's in order to get a wide range of data and opinions. Second, I researched service line growth rates provided by the firms as well as general hiring rates between audit and tax.

Survey Results

The survey was my biggest piece of research. I decided to use a survey in order to get a wide variety and opinions from various different perspectives. It was sent to over 7,000 CPA's in Minnesota. I received 307 responses, consisting of 133 audit responses and 110 tax responses. The remaining responses were either in advisory or a service line that did not pertain to my main research question. I focused solely on the responses from tax and audit respondents and ignored responses from other service lines. I asked a variety of questions to try to answer my research question. These included questions related to their personal background, satisfaction, personality, current position, work style, and work location. The question list has been attached in Exhibit 1.

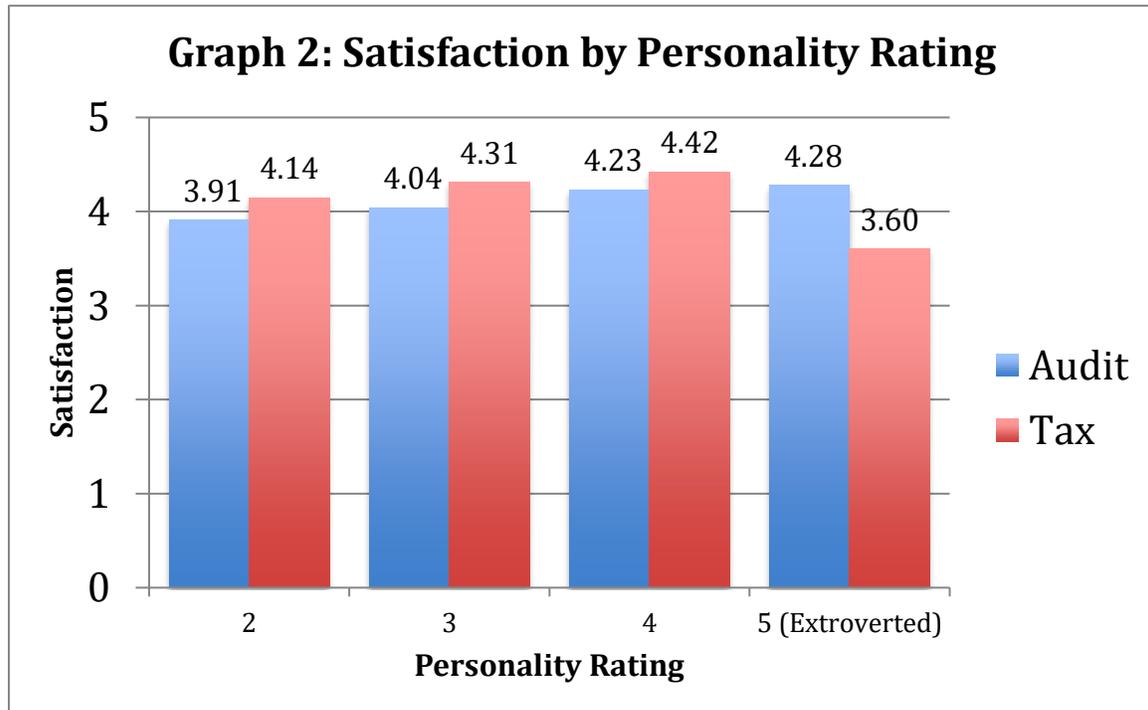
My survey provided a great deal of interesting information. First, I analyzed average work-life balance, satisfaction with their choice of service line, and general job satisfaction. I found that on average, tax rated themselves higher in all three categories than audit. Tax responded with a weighted-average work-life balance of

3.87 compared to 3.65 in audit. They responded with service line satisfaction of 4.59 compared to 4.5 for audit, and general job satisfaction of 4.25 compared to 4.11 in audit. The results are portrayed in Graph 1 below.



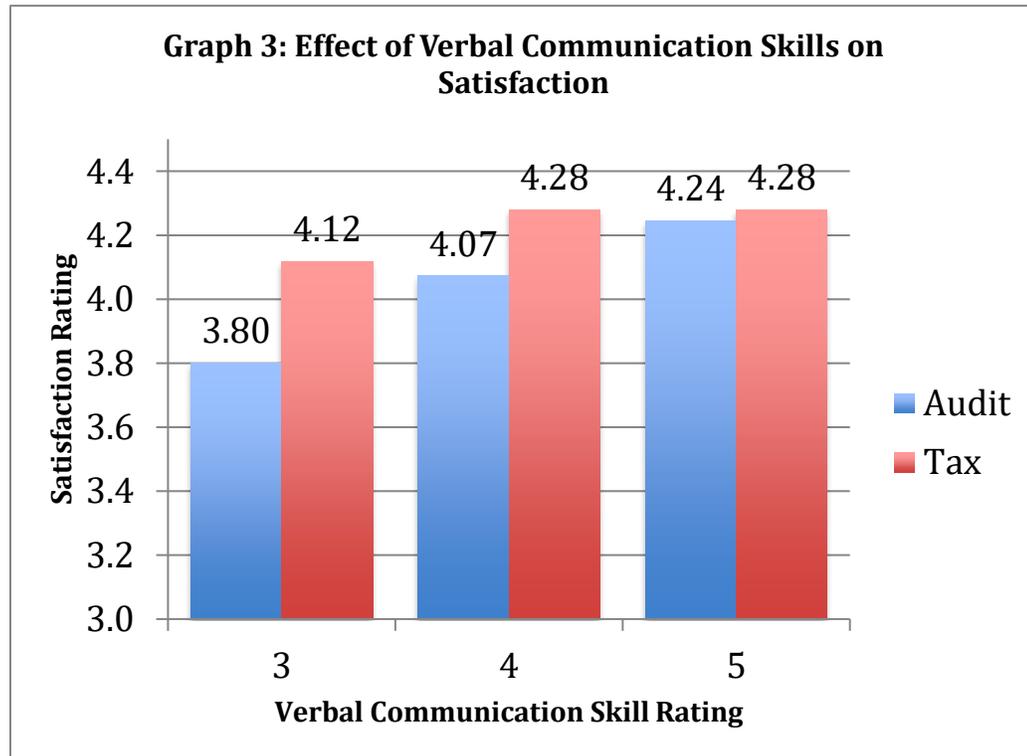
Next, I wanted to analyze general job satisfaction by personality rating. I asked the respondents to rate their personality on a scale of one to five with one being introverted and five being extroverted. I also asked them to respond about their job satisfaction on a scale of one to five, one being poor and five being great. The results are shown in Graph 2 below. No respondents rated themselves as one on the personality scale, which explains why the graph begins at a personality rating of two. Tax responded with higher satisfaction than audit at every personality rating, except for the highest extroverted rating of five. At the five rating, tax satisfaction decreased significantly from a weighted-average of 4.42 to 3.60

satisfaction. On the other hand, audit job satisfaction gradually increased as the personality rating became increasingly extroverted. At the rating of five (extroverted), audit has a satisfaction of 4.28 compared to 3.60 in tax.



Next, I analyzed the impact of verbal communication skills on job satisfaction. I asked the respondents to rate themselves on their verbal communication skills on a scale of one to five (one being poor, five being strong). Overall, the majority of respondents rated themselves as a three or greater. Both service lines had highest satisfaction when they rated their verbal communication skills as a five. The results of this analysis are shown in Graph 3 below. At this rating, audit had a weighted-average satisfaction of 4.24 and tax had a weighted-average satisfaction of 4.28. However, audit showed a much greater change in satisfaction as verbal communication skills changed. Audit had a weighted average

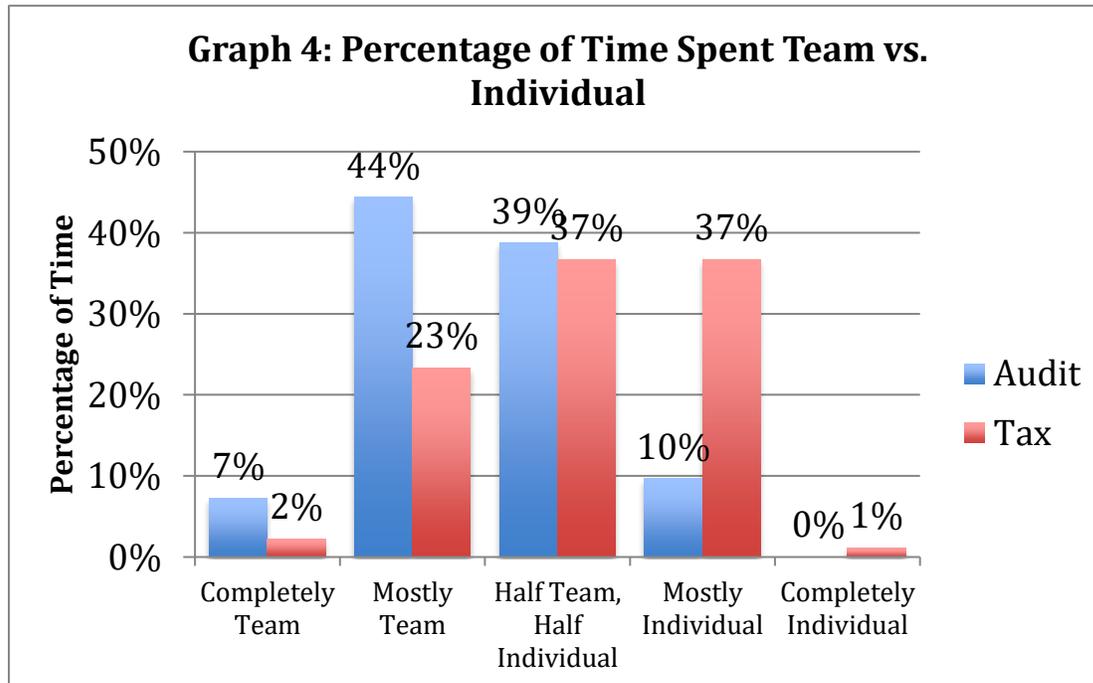
satisfaction of 3.80 at a verbal communication score of three, as compared to 4.24 at a verbal communication score of five. This may be caused by the high degree of communication necessary in the audit service line.



Next, I analyzed the work style of each service line and the analysis is shown in Graph 4 below. I asked the respondents to answer how much time they spend working in teams versus working individually. The majority of audit respondents (44%) said that they spend their time working mostly in teams. The majority of tax respondents (37%) said they spend the majority of their time either working mostly individually or half team, half individually (also 37%). I also asked the respondents to say how much time they would ideally spend working in teams compared to working individually. Both audit and tax showed much greater

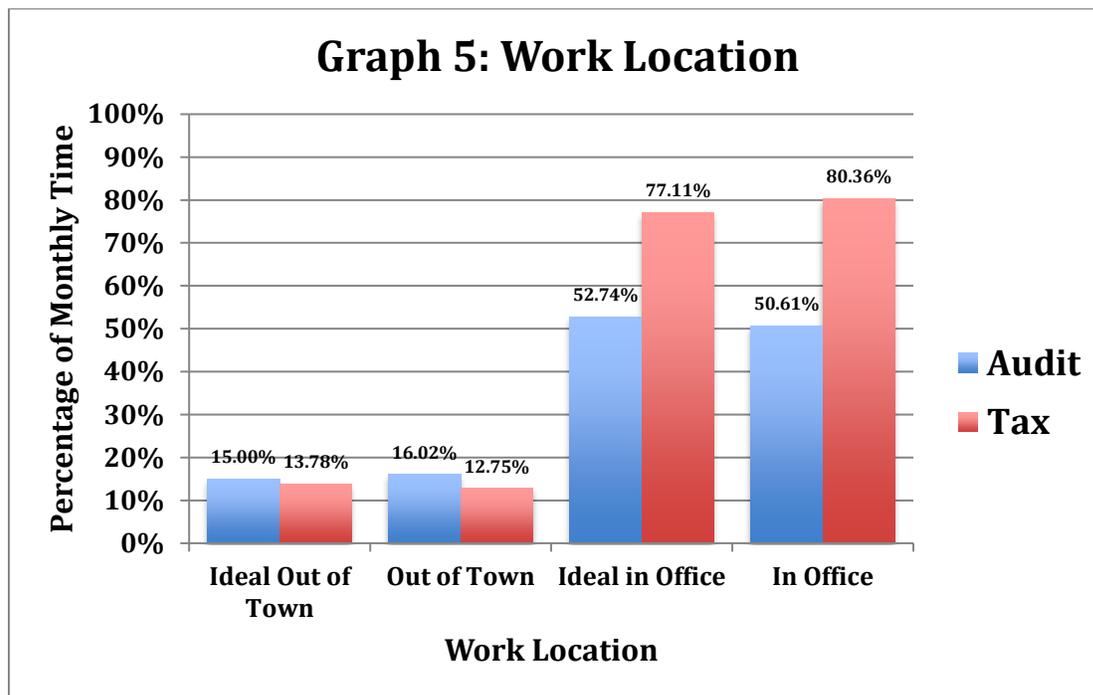
satisfaction if the individual's ideal work style matched their current work style.

This may mean that choosing a service line that fits with an individual's ideal work style between working in teams or individually could affect their satisfaction.



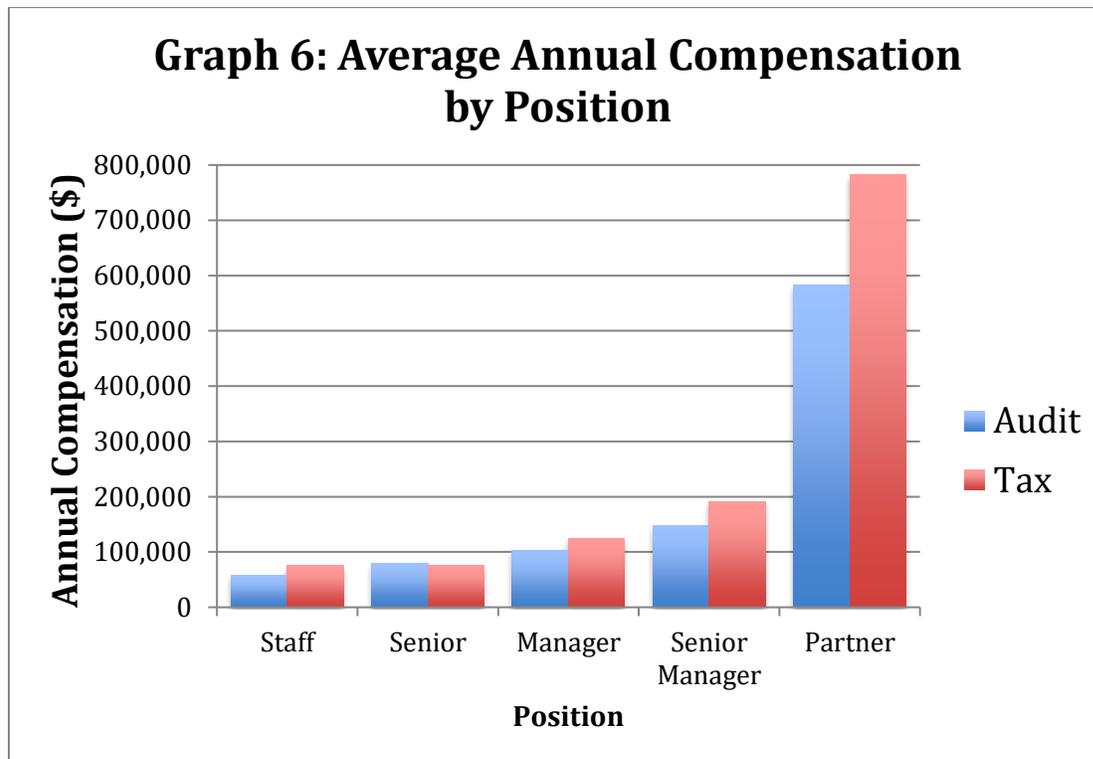
Next, I looked into where individuals in audit and tax spent most of their time working. I asked the survey respondents to answer how much time they spent out of town and how much time they spent in the office. I then asked them to say how much time they would ideally spend out of town and in the office if they had the choice. Graph 5 portrays the results of this survey question. On average, audit respondents said that they spend 16.02% of their time out of town, compared to the tax average of 12.75%. Audit respondents said that they spend 50.61% of their time in the office, while tax respondents spend 80.36%. This is quite a large difference in amount of time spent in the office. The ideal answers were relatively similar to the

actual percentages in both audit and tax. I then compared the job satisfaction scores when the ideal work locations for both out of town and in the office matched the actual time spent. In both audit and tax, satisfaction was higher when these factors matched. This means that matching an individual's ideal work location with the common work location of their service line could lead to higher satisfaction.

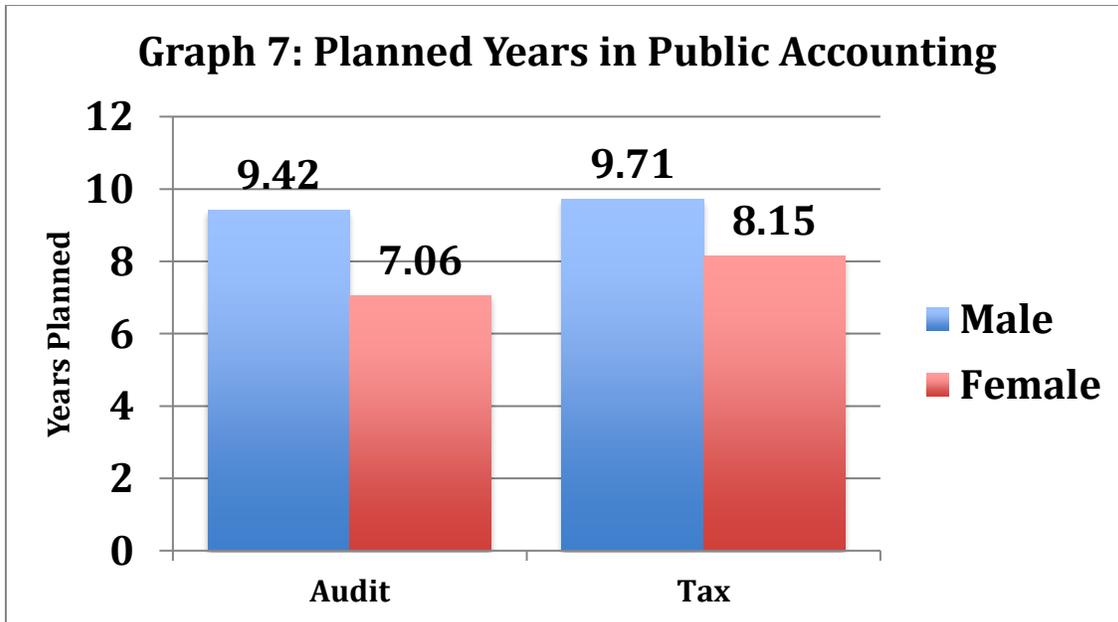


My next analysis involved comparing annual compensation broken down by the general career progression in public accounting: staff, senior, manager, senior manger, and partner. Graph 6 shows the results of this analysis. In every category except for the senior category, tax showed higher compensation. It was significantly greater in the partner position, where tax had average compensation of \$782,500 compared to audit's average compensation of \$583,333. I am not sure what could

have caused this difference in annual compensation. This would be an interesting area for further research and analysis.



Lastly, I analyzed the differences between males and females in each service line. Graph 7 portrays the results of this question. I focused on comparing the years planned in public accounting between males and females in audit and tax. In both service lines, males plan to stay longer than females. However, females plan to stay longer in tax (8.15 years) as compared to audit (7.06 years). It would be interesting to look into the causes of the differences further as well as any other possible differences between male and female preferences in service lines.



The survey also asked a variety of open-ended response questions. I asked the respondents to state what they saw as the best part of their given service line. The most common audit responses were that they were able to see a wide variety of work and learn a variety of different business types. They also gained a great deal of client exposure and were able to find many job opportunities after leaving public accounting. The most common tax responses were that they had a stable routine and were constantly learning and developing their technical skills. I also asked the respondents to give advice to students making this decision. The most common responses were to try both if possible and to be flexible with what you are given.

Annual Revenue and Growth Research

My next research method involved using the global annual reports produced by each Big Four firm. I took an average of the annual revenues of the past four years in both audit and tax. Audit had average global revenues of \$49,393 million,

which is about double the average global revenues of tax, which was \$26,915 million. However, the average percent growth of the tax service line was 4.12% compared to only 0.84% in audit. This means that although audit currently earns more than tax, tax is growing at a steadier rate. Also, the firms also tend to hire about 40% of their employees in audit, and only about 20% of their employees in tax.

Conclusion

In conclusion, one service line is not better than the other in every category. The key is to find the sweet spot where an individual's ideal work environment and style based on their personality matches their actual work environment and style. Although there isn't a distinct winner between audit and tax, there are benefits to both that could make it a better fit for certain individuals. Audit has a higher hiring rate. They spend more time out of town and less time in the office and tend to work mostly in teams. This adds greater variety to their daily routine. Also, auditors tend to be more satisfied the more extroverted they are. Tax, on the other hand, has slightly higher job satisfaction, work-life balance, and service line satisfaction. They spend more time in the office and less time out of town, which adds more stability to their daily routine. Also they tend to work more individually and are more satisfied the more introverted they are. Both service lines rated themselves very highly in verbal communication skills. They also had similar years planned at their current job, weighted average GPA, and hours worked. Also, both service lines had greater satisfaction when their ideal work setting matched their actual work setting.

Limitations

This research project has definite limitations. Correlation does not always mean causation. Satisfaction is a culmination of many different factors, and my survey may not have encompassed all of those factors. Also, the survey may have hidden biases because it was only sent to Minnesota CPAs and I only received 300 responses.

Further Research

There are many ways that this research could be continued. I would ideally increase the survey responses in order to get a larger sample size. I would also send it to CPAs nationwide instead of just from Minnesota. Next, I would ask more in depth questions in my survey instead of asking for a range of data as an answer. Another possible direction for further research would be to look into positions that individuals received after leaving public accounting. It would be interesting to see if individuals had greater opportunities if they began in one service line or the other. Also, it would be interesting to look into turnover more in depth. One could analyze if one of the service lines has greater turnover than the other, and what the main causes of turnover were in both service lines. Also, the male vs. female comparison would be interesting to look into further.

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Exhibit 1: Survey Questions

1. What is your gender?

- Male
- Female

2. What is your age?

- 25 and under
- 26 - 30
- 31-40
- 41-50
- 51 and older

3. What industry do you work in?

- Big 4 public accounting firm
- Mid-size public accounting firm
- Small public accounting firm
- Corporation
- Government/Non-Profit
- Other (please specify)

4. What industry did you begin your career in?

- Big 4 public accounting firm
- Mid-size public accounting firm
- Small public accounting firm
- Corporation
- Government/Non-Profit
- Other (please specify)

5. If you work or did work in public accounting, which service line did you work in?

- Audit
- Tax
- Advisory
- Other (please specify)

6. What is your current job title?

- Staff/Entry-level
- Senior
- Manager
- Senior Manager
- Director
- Partner

Other (please specify)

7. How long have you worked in public accounting?

I never worked in public accounting.

Less than 1 year

1-2 years

3-5 years

6-10 years

More than 10 years

8. How long do you plan to work for your current employer?

Less than 1 year

1-2 years

3-5 years

6-10 years

More than 10 years

9. What was your college GPA?

Less than 2.5

2.51-3.0

3.01-3.25

3.25-3.50

3.51-3.75

3.76-4.0

10. On average, what percentage of the month do you spend traveling out of town for your position?

0-20%

21-40%

41-60%

61-80%

81-100%

11. Ideally, what percentage of the month would you want to spend traveling out of town for your position?

0-20%

21-40%

41-60%

61-80%

81-100%

12. On average, what percentage of the month do you spend in the office?

0-20%

- 21-40%
- 41-60%
- 61-80%
- 81-100%

13. Ideally, what percentage of the month would you want to spend in the office?

- 0-20%
- 21-40%
- 41-60%
- 61-80%
- 81-100%

14. What is your annual average of total hours worked?

- Less than 2,100
- 2,101 to 2,300
- 2,301-2,500
- 2,501-2,700
- 2,701-2,900
- 2,901-3,100
- Greater than 3,100

15. What is your total annual compensation (including bonus and stock compensation)? (\$)

- \$0 to \$50,000
- \$50,001 to \$100,000
- \$100,001 to \$150,000
- \$150,001 to \$200,000
- \$200,001 to \$250,000
- \$250,001 to \$300,000
- \$300,001 to \$400,000
- \$400,001 to \$500,000
- \$500,001 to \$1,000,000
- Greater than \$1,000,000

16. Answer the following questions on a scale of 1 to 5.

17. On a scale of 1 to 5, how would you rate your personality? (1 = introverted, 5 = extroverted)

- 1
- 2
- 3
- 4

5

18. Currently, how much time do you spend working on a team vs. individually?

Completely team

Mostly team

Half team, half individual

Mostly individually

Completely individually

19. If given the choice, how much time would you spend working on a team vs. individually?

Completely team

Mostly team

Half team, half individual

Mostly individually

Completely individually

20. Why did you choose your chosen service line?

21. Why or why are you not satisfied with your choice of service line?

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22. If you began in public accounting and left, after how many years did you leave and why?

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23. I am seeking to provide guidance to students on the decision between tax or audit. Do you have any advice to students based on your experience?

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