

"Entrepreneur Supporting Plan"- By Man See Yee, Florence

Newly registered practising CPAs	1st year	2nd year	3rd year	4th year	5th year
Estimated yearly net profit	\$ 444,000	\$ 492,000	\$ 748,500	\$ 728,225	\$ 911,386
Estimated allocatable clients to other practising CPAs and allocation reserves (can be used for allocation adjustments)					
Estimated total number of clients					23,100
Estimated annual audit revenue					\$ 92,400,000

Objective

Assist **Practising CPAs** to source clients

Provide an alternative choice to **Non-Practising CPAs**

Improve remuneration of accountants in general

Regain appropriate social status and recognition for accounts

**Support Entrepreneurs! Give Bank Hong Kong economy!
Grab a bigger part of the pie!**

(The following is a preliminary proposal of the project. Detailed terms and conditions are subject to consultation and in depth study with all stakeholders. Recommendations for improvements are welcomed.)

Recommend the Institute to implement “Entrepreneur Supporting Plan” by reference to the operation model of the Hong Kong Legal Aid Department. The Institute will be an intermediate to link the practising CPAs with the newly established companies.

The newly established companies (defined as companies established between 1 April in the current year to 31 March next year, this definition is subjected to further discussion) will use the platform established by HKICPA to find practicing CPAs to serve them. This program can assist practicing CPAs to source new clients and help the clients to find reliable and qualified CPAs to provide quality service to them.

This program is intended to help practicing CPAs to source new clients, but it also give an alternative choice to non-practising CPAs. It is because if sourcing clients is not a problem for the practicing CPAs, the non-practising CPAs can chose to be a practicing CPA if they are unsatisfied with their current job. By the rule of supply and demand, the remuneration of practicing accountants or non-practising accountants can be raised together.

In addition, for start-ups and small businesses, since they can now find a reliable accountants to provide quality service to them at a relatively lower price, they will not relay on those non-qualified accountants any more. The control of the audit and account service will return to the hands of accountants and it help us to regain appropriate social status and recognition.

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"Entrepreneur Supporting Plan" proposal details and consideration points :

1. The accountant who has been in practice for many years usually has his/her certain client base, but the newly qualified accountants (defined as practicing accountants who registered less than 5 years, this definition subject to discussion) will need to source new clients and accumulate his/her client basis. Thus this program will allocate 45% of the start-ups joining the program to newly qualified practicing accountants and 55% to other practicing accountants.

Detail allocation percentage (Note : allocation percentage subject to discussion) :

- Less than 1 year registered Practising CPAs 15%
 - Less than 2 year registered Practising CPAs 10%
 - Less than 3 year registered Practising CPAs 10%
 - Less than 4 year registered Practising CPAs 5%
 - Less than 5 year registered Practising CPAs 5%
 - Other practicing CPAs and allocation reserve (for future adjustment) 55%
2. In order to minimize the impact of the program on the existing market, the program is only limited to start-up companies, namely, the new company incorporated in the Hong Kong Companies Registry from 1 April this year to 1 April next year. Thus it will not affect the current client basis of the practicing CPAs
 3. Although the audit fee for companies joining this program is lower, but to the newly registered CPAs, since they do not have enough engagements, thus they can utilize their extra capacities.
 4. After a four-year concession period, start-up enterprises have developed to a certain scale, and also established a certain trust and working relationship, thus even if there is no audit fee concessions, we hope the clients will still stay with the CPAs.

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"Entrepreneur Supporting Plan" details

1. Start-ups companies participating in the program will enjoy preferential audit fees for a period of 4 years. (Note: The concession fee and concession period require further consultation, and taking into account the Hong Kong Competition Law does not allow industry associations to require members set the price the product or service charges at a specified level of provision, how to set the guidelines need to be determined after consultation with the Solicitors and Competition Committee)

For the purpose of "Entrepreneur Supporting Plan" audit fee estimation projection, we used the following assumptions :

➤ First year audit fee	\$4,000
➤ Second year audit fee	\$4,000
➤ Third year audit fee	\$5,000
➤ Forth year audit fee	\$7,000

2. Start-up enterprises joining the program allocation percentage (Note : The allocation percentage subject to further discussion)

➤ Less than 1 year registered Practising CPAs	15%
➤ Less than 2 year registered Practising CPAs	10%
➤ Less than 3 year registered Practising CPAs	10%
➤ Less than 4 year registered Practising CPAs	5%
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➤ Other practicing CPAs and allocation reserve (for future adjustment)	55%

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Estimated available clients to current practicing CPAs and allocation reserve (for future adjustment) after the implementation of "Entrepreneur Supporting Plan"

1. A total of 55% of the start-ups companies are assigned to existing CPAs who enroll the program. Based on an estimated 150,000 new companies establish each year, a total of 23,100 start-ups can be assigned to existing CPAs, with an estimated annual audit fee of HK \$ 92,400,000 (Audit fee of HK\$4,000/company is expected)
2. And the existing accountants can accumulate customers.

Estimated revenue and profit for newly registered CPAs after "Entrepreneur Supporting Plan" implementation

Practising Year	Estimated		
	Audit Revenue	Expenditure	Net Profit
1st year	\$ 444,000	\$0	\$ 444,000
2nd year	\$ 802,000	\$310,000	\$ 492,000
3rd year	\$ 1,074,000	\$325,500	\$ 748,500
4th year	\$ 1,265,000	\$536,775	\$ 728,225
5th year	\$ 1,475,000	\$563,614	\$ 911,386
6th year	\$ 1,560,000	\$591,794	\$ 968,206
7th year	\$ 1,613,000	\$621,384	\$ 991,616
8th year	\$ 1,627,000	\$652,453	\$ 974,547
9th year	\$ 1,647,000	\$685,076	\$ 961,924
10th year	\$ 1,647,000	\$719,330	\$ 927,670

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Newly registered CPAs annual net profit projection

assumptions:

1. Number of new companies set up each year	It is estimated that the number of new establish companies will be 150,000 each year and 150,000 is the average number of Hong Kong companies established between 2011 and 2016. According to the Hong Kong Companies Registry, between 2011 and 2016, a total of 135,358 to 191,713 limited companies were established in Hong Kong each year.																		
2. The newly established company survival rate	<table border="0"> <tr> <td>Liquidated before audit</td> <td>30%</td> </tr> <tr> <td>After first year audit</td> <td>20%</td> </tr> <tr> <td>After second year audit</td> <td>20%</td> </tr> <tr> <td>After third year audit</td> <td>10%</td> </tr> <tr> <td>After four year audit</td> <td>5%</td> </tr> </table>	Liquidated before audit	30%	After first year audit	20%	After second year audit	20%	After third year audit	10%	After four year audit	5%								
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3. Now companies joining the plan percentage	40%																		
4. New registered practicing CPAs per year	<p>It is expected that a total of 143 new registered practicing CPAs each year.</p> <p>143 is the average number of registered practising CPAs per year from October 2010 to October 2015 (due to limited information, no consideration for the retired CPAs).</p> <p>According to the HKICPA, the number of certified public accountants rose from 3,861 to 4,433 in October 2011 to October 2015. Details are as follows:</p> <table border="1" data-bbox="480 1480 1366 1738"> <thead> <tr> <th></th> <th>Practising CPAs</th> <th>Annual growth</th> </tr> </thead> <tbody> <tr> <td>Oct-11</td> <td>3, 861</td> <td>-</td> </tr> <tr> <td>Oct-12</td> <td>4, 013</td> <td>152</td> </tr> <tr> <td>Oct-13</td> <td>4, 173</td> <td>160</td> </tr> <tr> <td>Oct-14</td> <td>4, 337</td> <td>164</td> </tr> <tr> <td>Oct-15</td> <td>4, 433</td> <td>96</td> </tr> </tbody> </table>		Practising CPAs	Annual growth	Oct-11	3, 861	-	Oct-12	4, 013	152	Oct-13	4, 173	160	Oct-14	4, 337	164	Oct-15	4, 433	96
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5. New registered non-BIG FOUR practicing CPAs growth rate	<p>20%</p> <p>It is expected that after the launch of this program, more accountants (non-Big Four partners) choose to register as a practicing CPAs.</p>										
6. Percentage of new practicing CPAs participating the plan	<p>40%</p> <p>Since the majority of the new CPAs are BIG-FOUR partners, it is expected that 40% of the new CPAs will participate in the program.</p>										
7. CPA self-sourced clients	<p>It is expected that the new CPA will not develop its own customers in the first year, but the CPA will start their own client development in the second year, which will be 15% of the total customers in the previous year.</p>										
8. Estimated rental and salaries	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Monthly office rental and sundries</td> <td style="width: 40%; text-align: right;">\$ 15,000</td> </tr> <tr> <td> </td> <td> </td> </tr> <tr> <td>Monthly salaries</td> <td> </td> </tr> <tr> <td>- Audit junior</td> <td style="text-align: right;">\$ 10,000</td> </tr> <tr> <td>- Audit senior</td> <td style="text-align: right;">\$ 15,000</td> </tr> </table> <p>It is expected the CPA will start renting offices and hiring a junior auditor from the second year. In fourth year, the CPA is expected to employ two staffs, one junior auditor and one senior auditor.</p>	Monthly office rental and sundries	\$ 15,000			Monthly salaries		- Audit junior	\$ 10,000	- Audit senior	\$ 15,000
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9. Office rental and sundry\salary inflation rate	<p>5%</p>										
10. Audit fee	<p>The audit fee for clients allocated by the plan on fifth year and self-sourced clients HK\$ 9,000.</p> <p>This forecast did not anticipate an increase in audit fees, which would remain at \$ 9,000 after 10 years.</p>										