

## **Data Quality, Concepts and Methodology**

The following information should be used to ensure a clear understanding of the basic concepts that define the data provided in this product, of the underlying methodology of the survey, and of key aspects of the data quality. This information will provide you with a better understanding of the strengths and limitations of the data, and how they can be effectively used and analyzed. The information may be of particular importance to you when making comparisons with data from other surveys or sources of information, and in drawing conclusions regarding change over time.

### **Description of the data concepts**

#### **Introduction**

Beginning with the 1999 reference year, the Financial and Taxation Statistics for Enterprises program has undergone numerous significant changes which affect both the comparability and the historical continuity of the published statistics. Changes in industrial classification, methodology, data sources as well as content have all been introduced.

Data are now collected and compiled on the basis of the North American Industrial Classification System<sup>1</sup> (NAICS) for the entire incorporated business population as depicted on Statistics Canada's Business Register. Such a census is made possible by supplementing data collected through Statistics Canada's Quarterly Survey of Financial Statements (QFS) and the survey of provincial or federal level government business enterprises, with administrative data available from Canada Customs and Revenue Agency (CCRA). Consequently, the content of the financial and taxation statistics for enterprises has been affected in two ways. First, although the taxation statistics are not available for reference year 1999, they have been re-introduced and published with the 2002 publication for the reference years 2000, 2001 and 2002. Second, although the financial data are still presented in the basic format of a balance sheet and income statement, certain detail items have changed.

#### **Description and use of the data**

The financial data presented herein comprise financial statements typically prepared by incorporated businesses to record their financial position and performance. The data include: asset, liability and equity items encompassed in a balance sheet, revenue and expense items as reported on an income statement, along with several common financial performance ratios. The taxation data are derived from the T2 Corporate Income Tax Return and include a reconciliation of book profit to taxable income and taxes payable.

These statistics are used in two broad ways. First, they provide a measure of financial position and performance of incorporated businesses by industry aggregations. They are used by a wide variety of economists and industry analysts in both the private and government sectors. Second they are used as the benchmark for the quarterly estimates of corporate profits in the Canadian System of National Accounts.

#### **Coverage**

The domestic economy consists of personal, business and government sectors. This publication covers incorporated enterprises of the financial and non-financial business sectors and business enterprises controlled by federal or provincial governments. In addition, non-profit enterprises considered to be part of the incorporated business sector are also included.

---

<sup>1</sup> The version of North American Industry Classification System used is NAICS Canada 2002

## **The statistical unit**

For statistical purposes, Statistics Canada defines a hierarchical structure of units for each firm. The four standard statistical units that are used are listed from largest to smallest below:

- \* Enterprise
- \* Company
- \* Establishment
- \* Location

The statistical unit for this publication is the enterprise. An enterprise is a family of businesses under common ownership and control for which a set of consolidated financial statements is produced on an annual basis.

## **Accounting concepts, definitions and practices**

The concepts and definitions for most industries are based on the guidelines of the Canadian Institute of Chartered Accountants (CICA). Regulated industries may follow practices and definitions determined by the regulators. However, these practices are usually similar to the Generally Accepted Accounting Principles (GAAP) of the Canadian Institute of Chartered Accountants.

## **Financial classification and presentation**

Because there is no widely accepted standard classification for financial items, it was necessary to devise one in order to present information in a homogeneous way for all enterprises. The financial item presentation for this publication has been condensed somewhat to allow for a generic presentation across industries.

## **Industrial classification**

Commencing with 1999, Financial and Taxation Statistics for Enterprises are based on the North American Industry Classification System (NAICS)<sup>2</sup>. From 1988 to 1998, the Standard Industrial Classification for Companies and Enterprises (SIC-C 1980) was used.

NAICS is an activity-oriented industry classification that was developed by the statistical agencies of Canada, Mexico and the United States to provide a consistent framework for the collection, analysis and dissemination of industrial statistics used by government policy analysts, academics and researchers, the business community and the public. NAICS was primarily designed to classify economic production performed at the establishment level; the activity that contributes the most value-added determines the NAICS code for the establishment.

To determine which NAICS code should be assigned to a statistical enterprise, the NAICS code is determined for each establishment belonging to the statistical enterprise. The NAICS code representing the largest value-added is then assigned to the statistical enterprise. The NAICS (unlike the 1980 SIC-C) does not provide classifications for integrated activities. For example, a petroleum enterprise may be involved in exploration, mining, refining, shipping and retailing of petroleum products. Whereas the 1980 SIC-C provided a classification code for integrated petroleum activities, under NAICS such an enterprise is classified to the individual NAICS code that relates to the activity that provides the most value-added. NAICS is a detailed, hierarchical classification with 920 individual 6-digit industries. These are aggregated into 20 sectors of activity, such as mining, manufacturing, wholesale trade, retail trade and construction.

---

<sup>2</sup> Estimates on NAICS basis are provided for non-financial industries for 1998

The annual Financial and Taxation Statistics for Enterprises are available at three levels of industrial grouping of NAICS. The most aggregate level covers 23 categories, 17 of which are comprised of NAICS two-digit sectors while six are at a more desegregated level. The second level of industry grouping, roughly analogous to the NAICS three-digit sub-sector level, covers the 57 industry grouping as presented in this publication. The most detailed aggregation covers 153 industry groupings and is available upon request. The industrial classification system is hierarchical in nature - the more detailed levels of data easily aggregate to the higher levels.

**Example of industry classification:**

An automobile dealership that sells new cars would be assigned to the NAICS Industry Code 44111, “new car dealers”. For purposes of this publication, this enterprise would appear in the following aggregations:

Level III (153 categories): Group 4411 “Automobile Dealers”

Level II (57 categories): Sub-sector 441 “Retail Motor Vehicles and Accessories”

Level I (23 categories): Sector 44-45 “Retail Trade”

Text Table 1 indicates the composition of the industry groups included in this publication.

**Text Table 1**

**Industry Group Composition**

Industry No.	NAICS 57 Industry Groupings	NAICS Canada 2002 Codes Included
1	Agriculture, forestry, fishing and hunting	11
2	Oil and gas extraction and coal mining	211, 2121
3	Mining (except oil, gas and coal)	2122, 2123, 213
4	Utilities	22
5	Construction	23
6	Food manufacturing	311
7	Beverage and tobacco manufacturing	312
8	Clothing, textile and leather manufacturing	313, 314, 315, 316
9	Printing and related support activities	323
10	Petroleum and coal Products manufacturing	324
11	Non-metallic mineral product manufacturing	327
12	Wood and paper manufacturing	321, 322
13	Chemicals, plastic and rubber manufacturing	325, 326
14	Primary metals manufacturing	331
15	Fabricated metal product manufacturing	332
16	Machinery and equipment	333
17	Computer and electronic product manufacturing	334
18	Electrical equipment, appliance and component mfg	335
19	Motor vehicles and parts manufacturing	3361, 3362, 3363
20	Other transportation equipment manufacturing	3364, 3365, 3366, 3369
21	Furniture and related product manufacturing	337
22	Miscellaneous manufacturing	339
23	Petroleum product wholesaler-distributors	412
24	Motor vehicle and parts wholesaler-distributors	415
25	Building materials and supplies wholesaler-distributors	416
26	Machinery, equipment and supplies wholesaler-distributors	417
27	Wholesale food, beverage and tobacco	411, 413

28	Other wholesale	414, 418, 419
29	Motor vehicles and parts dealers	441
30	Building material and garden equipment and supplies dealers	444
31	Food and beverage stores	445
32	Clothing and clothing accessories stores	448
33	Furniture and home furnishing stores and electronic and appliance stores	442, 443
34	General merchandise stores	452
35	Transportation and warehousing	481 to 488, 491 to 493
36	Other retail	446, 447, 451, 453, 454
37	Telecommunications	517
38	Publishing and broadcasting	511, 512, 515, 516, 518, 519
39	Banking and other depository credit intermediation	52211, 52219
40	Non-depository credit intermediation	5222
41	Credit unions	52213, 52232
42	Direct life, health and medical insurance carriers	52411
43	Direct insurance (except life, health and medical) carriers	52412
44	Reinsurance carriers	52413
45	Agencies, brokerages and other insurance related activities	5242
46	Loan brokers & other financial investment	52231, 52239, 523
47	Real estate	531
48	Other rental companies	532, 533
49	Computer systems design and related services	5415
50	Professional, scientific and technical services (except computer systems design)	5411 - 5414, 5416 - 5419
51	Management of companies and enterprises	55
52	Administrative and support, waste management and remediation services	56
53	Educational services	61
54	Health care and social assistance	62
55	Arts, entertainment and recreation	71
56	Accommodation and food services	72
57	Other services (except public administration)	81

---

## **Statistical methodology**

### **Survey design**

Three sources of data were combined to form a census of all units in the population of interest. These consisted of:

- Annualized data from the Quarterly Survey of Financial Statements (QFS) obtained from the Industrial Organization and Finance Division at Statistics Canada.
- A survey of provincial or federal level government business enterprises (GBE) that operated in the business sector, with data obtained from the Public Institutions Division at Statistics Canada.
- Administrative corporate taxation data in the form of the T2 Corporate Income Tax Return and the General Index of Financial Information (GIFI) obtained from the Tax Data Division at Statistics Canada.

The frame contains 1,223,876 units included in our population of interest. The Quarterly Survey of Financial Statements (QFS) provided consolidated data for 5,087 of the larger enterprises. The survey of government business enterprises provided data for 131 enterprises. The remaining data were obtained through administrative corporate taxation data. Although the vast majority of data comes from the administrative source it is less significant in terms of their contribution to assets and operating revenues (see Text Table 2).

### **Collection and processing**

For reference years 1999 and 2000, data collected from the Quarterly Survey of Financial Statements were annualized and then combined with data from a supplementary annual questionnaire that was mailed to survey respondents. The supplementary annual questionnaire was designed to obtain additional detailed information on operating expenses not available from the QFS. Beginning for reference year 2001, the supplementary questions were added to the Quarterly Survey of Financial Statements and the supplementary annual questionnaire was eliminated.

Information from all three data sources was provided in different formats with different sets of variables. In order to merge the data it was necessary to transform all three data sources into a common set of variables that contained a complete set of financial statement information. Certain details were omitted in the process due to the unavailability of data from all sources.

While QFS and GBE data were collected at the enterprise level, the administrative corporate taxation data, on the other hand, were collected at the non-consolidated single legal entity level. Data for single legal entities belonging to a corporate family (multi-legals) are then rolled up to the enterprise level.

### **Edit and imputation**

Several checks are performed on the data to verify internal consistency and identify extreme values. Imputation for complete non-response is performed by 2 general methods. The preferred and most common method makes use of historical information about the non-responding unit and current trends in principal characteristics of similar units. When historical information is not available, such as in the case of births, a donor of similar size and industry is substituted for the missing unit.

Although imputation for total non-response was required for close to 36% of enterprises, the overall impact of imputation on operating revenues across all industries is about 23%. Text Table 3 indicates the effect of imputation on operating revenues broken down by industry grouping.

**Text Table 2**

**Contribution of Assets and Operating Revenue by Data Source, 2002**

Data Source	Enterprises	Portion of Total Assets	Portion of Total Operating Revenues
Quarterly Survey of Financial Statements	5,087	71%	52%
Government Business Enterprises Data	131	7%	4%
Administrative Taxation Data	1,218,658	22%	44%
<b>Total</b>	<b>1,223,876</b>	<b>100%</b>	<b>100%</b>

**Text Table 3**

**Imputation Impact, 2002**

Industry No.	NAICS 57 Industry Groupings	Number of Enterprises	Operating Revenue (million \$)	Imputation Impact on Revenue
1	Agriculture, forestry, fishing and hunting	54,110	37,148	B
2	Oil and gas extraction and coal mining	3,204	85,962	C
3	Mining (except oil, gas and coal)	9,155	28,676	B
4	Utilities	1,026	76,711	B
5	Construction	144,504	141,425	B
6	Food manufacturing	6,550	72,287	B
7	Beverage and tobacco manufacturing	708	13,025	B
8	Clothing, textile and leather manufacturing	7,046	17,068	B
9	Printing and related support activities	6,482	12,322	B
10	Petroleum and coal Products manufacturing	324	49,202	B
11	Non-metallic mineral product manufacturing	2,375	14,039	B
12	Wood and paper manufacturing	5,490	73,399	B
13	Chemicals, plastic and rubber manufacturing	5,437	78,555	B
14	Primary metals manufacturing	794	30,064	B
15	Fabricated metal product manufacturing	10,094	30,251	B
16	Machinery and equipment	6,893	27,589	B
17	Computer and electronic product manufacturing	3,166	32,464	C
18	Electrical equipment, appliance and component mfg	1,492	13,233	B
19	Motor vehicles and parts manufacturing	1,604	137,585	A
20	Other transportation equipment manufacturing	1,381	20,164	B
21	Furniture and related product manufacturing	4,785	14,397	B
22	Miscellaneous manufacturing	7,004	9,172	B
23	Petroleum product wholesaler-distributors	1,489	22,589	B
24	Motor vehicle and parts wholesaler-distributors	5,340	37,876	B
25	Building materials and supplies wholesaler-distributors	9,851	48,864	B
26	Machinery, equipment and supplies wholesaler-distributors	19,227	78,647	B
27	Wholesale food, beverage and tobacco	9,398	64,833	B
28	Other wholesale	36,140	110,156	B
29	Motor vehicles and parts dealers	14,734	92,175	B

30	Building material and garden equipment and supplies dealers	7,233	18,979	B
31	Food and beverage stores	19,547	93,661	B
32	Clothing and clothing accessories stores	13,325	19,719	B
33	Furniture and home furnishing stores and electronic and appliance stores	16,194	23,612	B
34	General merchandise stores	4,410	41,183	A
35	Transportation and warehousing	53,339	103,626	B
36	Other retail	46,942	58,063	B
37	Telecommunications	1,549	40,286	A
38	Publishing and broadcasting	18,836	31,397	C
39	Banking and other depository credit intermediation	154	73,816	B
40	Non-depository credit intermediation	8,794	19,764	B
41	Credit unions	..	11,304	A
42	Direct life, health and medical insurance carriers	..	40,722	A
43	Direct insurance (except life, health and medical) carriers	..	29,947	A
44	Reinsurance carriers	..	4,378	B
45	Agencies, brokerages and other insurance related activities	..	6,610	B
46	Loan brokers & other financial investment	61,911	37,329	C
47	Real estate	80,751	35,517	B
48	Other rental companies	13,587	19,749	D
49	Computer systems design and related services	38,757	20,770	C
50	Professional, scientific and technical services (except computer systems design)	127,288	57,021	B
52	Administrative and support, waste management and remediation services	55,465	48,275	C
53	Educational services	9,897	4,323	C
54	Health care and social assistance	32,302	20,314	B
55	Arts, entertainment and recreation	20,803	24,219	C
56	Accommodation and food services	69,588	48,682	B
57	Other services (except public administration)	66,122	31,080	B
	<b>Total All Industries:</b>	<b>1,155,593</b>	<b>2,434,224</b>	<b>B</b>
51	Management of companies and enterprises	68,283	33,115	B
	<b>Total All Industries Including Management of Companies and Enterprises:</b>	<b>1,223,876</b>	<b>2,467,339</b>	<b>B</b>
A	0-10%	Excellent		
B	10-33%	Very Good		
C	33-50%	Good		
D	50-60%	Acceptable		
E	60%+++	Unreliable		

## Estimation

Since data are obtained from one of the three data sources for each enterprise in the population of interest, estimates are derived from the simple tabulation of data.

The combined survey results were analyzed before publication. Generally, this entails a detailed review of the individual responses (especially for the largest enterprises), a review of general economic conditions and trends, and comparisons with other relevant sub-annual surveys.

Due to certain financial reporting constraints, data for enterprises in the insurance industry could not be obtained through the administrative data source. Data for the industry are therefore derived using QFS weighted estimates rather than a census.

## Data Accuracy

While considerable effort was made to ensure high standards throughout all collection and processing operations, the resulting estimates are inevitably subject to a certain degree of error. There are two categories of errors in statistical information - sampling errors and non-sampling errors. Non-sampling errors is the only type that applies to this program, given that there was no sampling process used to produce these estimates<sup>3</sup>.

Non-sampling errors can arise from a variety of sources and are difficult to measure and their importance can differ according to the purpose to which the data are being put. Among non-sampling errors are gaps in the information provided by corporations in their tax returns and errors in processing, such as data capture.

## Comparability of Data and Related Sources

Estimates for 1998 were created under the same framework as 1999, however there are some material differences in how the data were collected and processed. The process continues to evolve in terms of improved quality and reduction of burden to respondents. The major differences in terms of coverage, processes and content are outlined in Text Table 4.

In 1998, data were collected via a separate annual questionnaire that was supplemented by QFS data. The questionnaire was sent only to 754 enterprises with multiple legal entities and revenues over 25 million dollars according to the Business Register at Statistics Canada. In 1999 and 2000, QFS data was annualized and used directly in combination with a smaller supplement questionnaire. In 2001 the annual supplement questions were incorporated within the QFS questionnaire, therefore the annual supplement was eliminated.

The first year for using GIFI administrative data was 1998; since then, the quality of the GIFI administrative data has improved.

There are no comparability issues for 1999 and 2000.

**Text Table 4**

### **Major differences of Coverage, Processing and Content between reference years 1998 and subsequent years**

	<b>1998</b>	<b>1999 and subsequent years</b>
<b>Industries covered</b>	Non-financial industries only	All industries
<b>Period covered</b>	Fiscal period ending in 1998	Calendar year for QFS data source and fiscal period ending during the year for other data sources
<b>Enterprises included</b>	Those alive on December 31 <sup>st</sup> 1998	Those alive for at least one day during the calendar year
<b>Questionnaire</b>	Annual Survey of Enterprises	Quarterly Survey of Financial Statements (annualized) with Annual Supplement*
<b>Financial detail</b>	76 financial variables	137 financial variables

\* The Annual Supplement was eliminated in 2001.

## Reference period

The objective of this annual series is to cover business activity within a calendar reference period. Data derived from the Quarterly Survey of Financial Statistics approximate the calendar period.

<sup>3</sup> with the exception of the insurance industry



The Government business enterprise data reflect fiscal periods which often are governed by the April to March fiscal year of governments. However, beginning with the 2002 reference year, the government business enterprise data has been adjusted to reflect the calendar period. The administrative data used from Canada Customs and Revenue Agency (CCRA) is based on financial statements filed along with income tax returns by corporations for their fiscal year which ended in the calendar period. Thus the calendar period is estimated by industry aggregations which actually consist of a combination of both calendar and fiscal periods which may not coincide perfectly with the calendar period.

### **Confidentiality**

The confidentiality of the reported statistics is protected under the provisions of the Statistics Act. For this reason, statistics are released in aggregate form only, with no potential identification of individually reported information. The confidentiality provisions of the Statistics Act override the provisions of the Access to Information Act to guarantee the confidentiality of reported data of individual respondents.

### **Limitations of the Data**

To be valid for either time-series or cross-sectional analysis, the definitions of data must be consistent within time periods or across time periods. Put differently, the differences and similarities in data must reflect only real differences and not differences in the concepts or definitions used in preparing the data.

The ability to use the data for analysis depends on the conceptual framework in which the data is being used.

These data are consistent with the Generally Accepted Accounting Principles (GAAP) of the Canadian Institute of Chartered Accountants. As such they do not agree with the concepts of the CSNA for example. If the GAAP concepts are appropriate for the application of the data then there may still be some problems of consistency (between units or over time) for items where GAAP does not prescribe a particular treatment or allows some latitude. One of the general problems with GAAP for some uses is that it prescribes a historical cost treatment of assets (i.e. their cost at the time of acquisition). This means that comparisons over time and across industries may not be valid for balance sheet data or for ratios derived from the Balance Sheet.