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CPA letter, 1983

American Institute of Certified Public Accountants

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The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB Exposes Draft on Special Termination Benefits

The Financial Accounting Standards Board recently issued an exposure draft that would require companies to recognize a liability and an expense for benefits commonly called "early retirement or termination incentives." These particular benefits are offered to certain employees for a short period and may include either lump-sum cash payments, periodic future payments or both.

According to the draft, a company would be required to recognize a liability for termination benefits when it is probable that the benefits will be paid and the amount can be reasonably estimated. A company also would be required to recognize as an expense the sum of the cash payments, the actuarially determined present value of future payments and any accounting loss or gain (actuarial) under an existing employee benefit plan that results from the termination.

If adopted, the proposal would be effective for termination benefits offered in fiscal years ending after April 15, 1983. Comments are due by February 28. For further information, contact the FASB, High Ridge Park, Stamford, Conn. 06905.

Treasury Modifies Its Circular 230 Proposal

The Treasury Department recently modified provisions of its proposed Circular 230 which sets standards for providing opinions used in tax shelter promotions. Practitioners providing tax shelter opinions must inquire into all relevant facts ensuring that they are accurate, relate the law to actual facts and ensure that all tax issues are considered, including the reasonable possibility of any issues being challenged by the IRS. Also, the opinion should include an evaluation of whether the material benefits "in the aggregate" will be realized.

While not barring the use of negative shelter opinions, the Treasury said that the substantial understatement rules in last year's tax act (TEFRA) will "undercut" the use of such opinions. Les Shapiro, the IRS's director of practice, speaking at the Institute's national fall tax division meeting last month, outlined the service's view that the use of negative opinions in promoting tax shelters "encourages taxpayers to pursue conduct that would not be allowable under the tax laws."

The modified proposals state the view that a negative opinion is "objectionable" when there is "no reasonable basis" for the position taken in the shelter. If there is a reasonable basis for the position, but little if any likelihood that the position will be upheld if litigated, "a negative opinion is also objectionable," concluded the Treasury.

Saul Braverman, chairman of the Institute's tax responsibility subcommittee, said he hoped the definitions in the new proposal would be extended to the substantial understatement penalty. "Practitioners," he added, "need guidance as soon as possible in this area."

Comments on the proposed regulations are due by February 14, 1983.

Postage Reminder to *Letter* Readers

AICPA members who have elected to receive the *Letter* by first-class mail, or those who wish to take advantage of this service, should send their checks for $6.50 to the AICPA's circulation department as soon as possible. This will assure them of first-class mail delivery for the period from March 1, 1983, through February 29, 1984. Otherwise, their copies will be sent at the usual lower-class rate.

AICPA Public Relations Program Expanded

State CPA societies can expect to receive more public relations material more frequently from the AICPA in the near future. As a result of a recent revamping of the public relations program provided to state societies by the Institute, radio announcements and television scripts will be issued quarterly while speeches and handouts will be issued even more often.

Within the next year, state societies can expect to have a dozen speeches to add to their speakers bureau; the first one was the year-end speech, and tax season speeches are to be issued shortly. Another addition to the program is the news release containing background information to be provided whenever required by developments in the accounting profession. These informational guides should help society officials deal with financial reporters.

For further information, contact Marian Leifsen in the Institute's public relations division (212/575-5497).

Two AICPA Members Suspended

The AICPA bylaws provide that membership in the Institute shall be suspended without a hearing should a member's certificate as a certified public accountant be suspended as a disciplinary measure by any governmental authority.

- ☐ The membership of Richard J. Slusz of Bristol, Connecticut, has been suspended from September 1, 1982, to December 30, 1982, coincident with the suspension of his CPA certificate by the Connecticut State Board of Accountancy for false representations made to a client in violation of a state regulation prohibiting acts reflecting adversely of fitness to engage in the practice of public accounting.
- ☐ The membership of Orlando K. Westover of Springerville, Arizona, has been suspended from November 1, 1982, to April 30, 1983, coincident with the suspension of his CPA certificate by the Arizona State Board of Accountancy for failing to comply with certain auditing standards and accounting principles in his examinations and reports on the financial statements of two clients.

Progress Indicated on Five-Year Requirement

In a poll recently conducted by the Florida Institute of CPAs, 68 percent of its members said they favor a five-year education requirement to sit for the CPA examination. A Florida law, enacted in 1979, will require that, after August 1, 1983, candidates have a bachelor's degree and 30 additional semester hours, with a concentration in accounting and business to sit for the exam.

In a separate poll conducted in Florida by MGT of America, Inc., 54 percent of a random sample of non-CPAs indicated that they favored an additional year of education for CPAs.

Patrick J. Knipe of Florida, at the council meeting last October, reported that Florida plans to implement a 150-hour education requirement in 1983 and urged that the AICPA work on a nationwide implementation of such a requirement for CPA candidates.

In a related matter, the Institute's education executive and state legislation committees will address the preliminary findings of the Commission on Professional Accounting Education (see May 10 *Letter*), which are expected early this year. The commission's charge is "to gather evidence and formulate strategy to aid in the transition from a baccalaureate to a post-baccalaureate education requirement for entry into the public accounting profession."

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

NCGA Issues Statement on Lease-Purchase Agreements

The National Council on Governmental Accountants recently issued its Statement no. 5, *Accounting and Financial Reporting Principles for Lease-Purchase Agreements of State and Local Governments.* It is essentially the same as the draft of last fall, except it requires that, when a capital lease represents the acquisition or construction of general fixed assets, the construction or acquisition be disclosed as an expenditure with a related offset to another financing source—proceeds of capital leases.

The NCGA also agreed to issue an exposure draft of a proposed interpretation that would require the completed transaction method for the exchange of debt securities and to table a technical project on reporting for special assessments.

For further information, contact the NCGA, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601.

MFOA To Hold Conference; Management Seminars

The Municipal Finance Officers Association's 77th annual conference will be held June 12-15 in Toronto, Ontario. The conference's theme is "From Survival to Success: The Challenge for Public Finances" and the sessions will aim at providing management strategies for successfully coping with public finance difficulties. For further information, including registration brochure, contact the Membership Center, MFOA, Suite 800, 180 North Michigan Avenue, Chicago, Illinois 60601 (312/977-9700).

Also, the Career Development Center of the MFOA is holding three financial management seminars in mid-January, February and March. The seminars deal with public employee retirement administration, improving governmental accounting and reporting and reducing employee benefit costs. For further information, including dates and locations, contact the International MFOA Career Development Center at the above address.

FTC Authority Over Professionals Unchanged

On December 21, President Reagan signed the continuing appropriations bill which ensures funding for various governmental agencies through September 30, 1983—the end of fiscal 1983.

The measure, among other things, leaves the Federal Trade Commission's jurisdiction with respect to state-regulated professions unchanged. The joint House-Senate conference, meeting to deal with differences in their respective appropriations bills, voted to reject an amendment offered by Senator Warren Rudman (R-N.H.) on December 15.

A spokesman for Senator Rudman, whose amendment was seen as a compromise to the McClure Amendment (see December 13 *Letter*), expects senators critical of the FTC to introduce legislation restricting the commission's authority early in the 98th Congress which will convene January 24.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

The accounting standards executive committee will hold an open meeting in the AICPA board room, New York City, on January 26-28 starting at 9:00 a.m. each day.

The next scheduled meeting of the committee is on March 16-18 in Denver.

Federal Taxation

The federal taxation executive committee has an open meeting set for February 8-9 in Tampa, Florida, at the Clearwater Beach Hilton Inn starting at 9:00 a.m. each day.

The next scheduled meeting is on May 15 and 18 in Washington, D.C.

The agendas and any changes in these meetings will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Technical Corrections Bill on President's Desk—At presstime, the Technical Corrections Act of 1982 (HR 6056) was awaiting the President's signature. A provision of the bill would apply the calendar year "unless" rule of the Subchapter S Revision Act of 1982 to any Subchapter S election made after October 19, 1982. Also, stock or securities transferred to a Subchapter S after October 19, 1982, and before the date of the act's enactment will not trigger shareholder gain where the corporation is liquidated before March 1, 1983.

Tip Income Rules Issued—Starting this year, large food or beverage establishments (generally more than 10 employees) must keep records of gross sales, charge sales, tips shown on charge sales and tips reported to employers. In IR-82-140, the IRS issued temporary regulations providing guidance on filing tip-reporting forms for employees of such establishments.

Tax Returns for Minors—In Rev. Rul. 82-206, the IRS explains when and how a parent or guardian can make and sign tax returns for a minor child. The IRS notes that the parent or guardian is responsible for making and signing the return if a child is unable to do so, for any reason.

Ruling Issued on Year-End Stock Sale—The IRS, in Rev. Rul. 82-227, sets forth the proper year to pay federal income tax on a taxpayer's year-end stock sale when payment is received the following year. Under the new rule, such a transaction is considered an installment sale.

Compliance Supplement for Single Audits—The Compliance Supplement for single organization-wide audits of governmental units is now available. Such audits are called for by OMB Circular A-102. The supplement defines the major compliance requirements and provides additional data for the 60 programs comprising more than 90 percent of federal aid to state and local governments. It is available for $7.50 from the U.S. Government Printing Office, Washington, D.C. 20402 (Stock number 041-001-00262-6).

Insurance Company Task Force Members Sought—Last October, the staffs of the Senate Finance Committee and Joint Committee on Taxation were asked to prepare a report analyzing various options for a major review of insurance company tax laws. The Institute's federal tax division is currently forming a task force to comment on any reports or legislation emanating from the congressional study and is seeking candidates with extensive knowledge of insurance company taxation. Contact Rob Clayton at the AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006.

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Challenges Seen to Effective Self-Regulation

SEC Commissioner Barbara S. Thomas complimented the Institute for establishing "a recognized and effective organization—the division for CPA firms," but warned that there still remain areas where significant challenges exist. Speaking at the AICPA's tenth National Conference on Current SEC Developments on January 12, she suggested that the effectiveness of the profession's self-regulatory efforts "must and will be judged on the incidence and nature of future audit failures." Commissioner Thomas warned the CPAs that if significant audit failures occur, "they must be able to respond to questions about the role of the profession and the efficacy of self-regulation."

The commissioner added that the division for CPA firms' SEC practice section "is going a long way toward accomplishing its objective of improving the quality of practice by accounting firms that audit the financial statements of companies that file registration statements and reports with the SEC."

SEC Enforcement Director John M. Fedders, speaking at the conference, also suggested that "the great test of deregulation" will occur shortly because of the nation's economic difficulties. "People will examine it to determine whether the deregulatory efforts are successful," he added.

Guidance to be Issued on TEFRA Penalties

Last year's tax act (TEFRA) provides new penalties on both taxpayers and preparers if there is a substantial understatement of tax. A taxpayer must now have "substantial authority" for his position to avoid the new penalty.

According to Saul Braverman, chairman of the Institute's responsibilities in tax practice subcommittee, guidance will be issued shortly to minimize CPAs' exposure to both the new preparer penalties and possible professional liability claims by clients against whom understatement penalties are asserted. It includes the use of tax engagement letters, transmittal letters and client bulletins to notify clients of the limitations on the CPA's assurances as well as tax interview checklists to record discussions of this issue with clients. The guidelines will be published in the February issue of the *Practicing CPA*, the Institute's monthly newsletter on practice management.

Also, a task force is currently preparing comments on the issues for consideration by the federal taxation executive committee at its February meeting.

Justice Department Sues on Tax Shelter

Wielding its new powers under last year's tax act (TEFRA), the Justice Department recently brought its first suit seeking an injunction against the promoter of an allegedly abusive tax shelter. The suit, filed in Dallas late last month, was brought to stop the promotion and sales of a family trust tax shelter plan known as the Constitutional Pure Equity Trust. Taxpayers purchasing the trusts, according to the Justice Department, convey their assets and income to the trusts, which in turn pay the taxpayers' living expenses. Participants are told that they substantially avoid all income taxes.

William L. Raby, chairman of the Institute's federal taxation executive committee, said he hoped that the IRS and the Justice Department "will use this new tool to discourage promoters of abusive shelters."

FASB Discusses Tentative Views on Pensions

"I suspect that it will be more controversial than any subject to date." So said Donald J. Kirk, chairman of the FASB, at a press conference earlier this month, discussing the board's preliminary views on accounting for pensions. The paper containing the board's views (see November 22 *Letter*), if adopted, would change the way companies report their pension assets and liabilities.

The paper, among other things, concludes that net pension liability would have to appear on the balance sheet—rather than in the footnotes to the financial statements—of employers sponsoring defined benefit pension plans. The paper's proposals also include the use of two balance sheet elements—net pension liability and the intangible asset, which would arise when plan amendments give credit for prior service.

The next step, according to FASB Project Manager Timothy S. Lucas, is an invitation to comment, expected by early April, which will focus on the implementation of the present tentative conclusions and "the answers to the rest of the questions" not covered in the preliminary paper—such as multiemployer plans. A public hearing on the issues is tentatively slated for the third quarter of this year.

Video Course Update

The Institute's CPE division is currently offering the following video courses:

☐ A "Special Edition" videotape on S Corporations relating to the changes affected by last year's Subchapter S Revision Act.

☐ The two latest in the mini-video series called Video Capsules are explanations of SAS no. 44, *Special-Purpose Reports on Internal Accounting Controls at Service Organizations*, and SFAS no. 68, *Research and Development Arrangements*. The series is aimed at keeping practitioners current on the provisions and practical applications of key AICPA and FASB pronouncements.

☐ The three latest in the video-assisted programs called VideoFlex deal with working paper reviews, compilation and review services and basic concepts of local governmental financial reporting. Videoflex courses, which include a videotape and a manual, are geared to present practical guidance to practitioners on subjects of both immediate and continuing importance.

For further information on these programs, contact your state society directly or the Institute's CPE marketing division (212/575-6231).

CPE to Establish Speakers Bureau

The Institute's CPE division is currently forming a speakers bureau for its national conferences and training schools and is seeking speakers in various areas of expertise. The division's programs cover general areas such as taxes, banking, MAS and computers.

If you are interested in speaking in a national forum, send a letter with a biography giving previous speaking experience and areas of expertise to Stacy Kosmides, CPE project manager, at the AICPA.

***Practicing CPA* Distribution Policy**

The distribution policy for the *Practicing CPA* was changed just over a year ago to send single copies automatically to each practice unit represented in the AICPA membership and to individual members who have specifically requested it. Any member wishing to receive this monthly newsletter dealing with practice management issues and the application of professional standards to local practice may do so by writing the Institute's membership records department.

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AICPA Conferences Set

PCPS—The private companies practice section of the Institute's division for CPA firms has set May 1-3 for its fifth national conference. To be held at the Grand Hyatt Hotel in New York, the conference will focus on the latest professional and technical developments relating to the practices of local and regional firms. On May 4, following the conference, the Institute's CPE division, in cooperation with the division for CPA firms, will present a full-day course on conducting peer reviews. The registration fee is $235 for the conference, but does not include the optional course.

Microcomputers—The annual AICPA microcomputer conference is set for May 15-19 at the Hyatt Regency O'Hare Hotel in Chicago. It is centered on the theme, "Expanding Microcomputer Competence in Practice and in Industry." This year's program has been designed in two sections—introductory and advanced. Also, there will be hands on demonstrations of microcomputers by five major vendors. Registration is $150 for the introductory section; $250 for the advanced; and $350 combined.

For further information on both conferences, contact the AICPA meetings department (212/575-6451).

Quality of Life—The Institute's management of an accounting practice committee will hold its fourth Quality of Life Seminar in Scottsdale, Arizona, at Marriott's Mountain Shadows Hotel on May 1-3. The seminar, which is specifically tailored for CPAs and their spouses, will offer practical suggestions on how a planned approach to stress management, communication and self-responsibility can positively affect firm operations and personal lives.

Registration is $460 per CPA and spouse; $285 per person. For further information, contact David McThomas at the AICPA (212/575-6439).

Recent AICPA Publications

Tax Planning Tips from the Tax Adviser—1983—This guide presents leading practitioners' experiences in hundreds of tax situations encountered in practice. All material has been updated to reflect recent developments. Price is $19.50; $15.60 to members. Request Product no. 075830.

1982 disclosure checklists extracted from the AICPA *Audit and Accounting Manual* are available. Developed by the Institute's technical information division, this latest edition has been updated to reflect AICPA and FASB statements in effect as of October 1982. Price is $5; $4 to members. Request Product no. 007334.

Codification of Statements on Auditing Standards Nos. 1-44—This volume codifies all statements on auditing standards in effect as of January 1, 1983. Auditing interpretations and other reference materials are also included. Price is $13.50; $10.80 to members. Request Product no. 058942.

Codification of Statements on Standards for Accounting and Review Services Nos. 1-5—This volume codifies all SSARSs as of January 1, 1983. Price is $6; $4.80 to members. Request Product no. 057117.

The 2-volume package (SASs and SSARSs) is $16.50; $13.20 to members. Request Product no. 057418.

Financial Report Survey 26: Updated Illustrations of Management's Discussion and Analysis of Financial Condition and Results of Operations—This book surveys the application of recently amended Rules 14a-3 and 14c-3 of the Securities and Exchange Act in annual reports to shareholders. It presents 46 examples from recently published financial statements. Price is $9.50; $7.60 to members. Request Product no. 037857.

The above publications are available from the AICPA order department (212/575-6426).

Washington Briefs

Gasoline Tax Bill Signed—In early January, the President signed legislation (PL 97-424) increasing the federal excise tax on gasoline by five cents per gallon. The bill also contains some unrelated provisions such as a tax deduction for conventions or business meetings on U.S.-flag cruise ships and a clarification of the accounting rules for public utilities relating to fuel-assistance payments.

IRS Toll-Free Service Kept—Responding to Congress' wishes, the IRS agreed to keep its toll-free telephone and walk-in assistance to taxpayers (IR-82-153). The IRS will also offer Tele-Tax, a computerized telephone service with recorded information on 140 topics, to answer questions raised by the tax forms. For more information, call the IRS at 202/566-4024.

Partial Delay on Interest Reporting—The IRS announced recently that it is granting partial relief to banks and other financial institutions from the January 1, 1983 reporting date for certain payments of interest, as provided for in last year's tax act (TEFRA). The institutions had sought a six-month delay, but received only a delay until April 1. In limited situations, TEFRA's penalty provisions for failure to report certain interest payments will be delayed.

Independent Contractor Guidance Issued—The IRS, in IR-82-159, said that the services of real estate agents and direct sellers will not be treated as the services of an employee if certain requirements are met, including the requirement that the individual's employment status be stated in a written contract. The guidance was issued to comply with the new employee classification standards governing the services of these individuals included in TEFRA.

SEC Proposes Reduction of Data on Remuneration—Continuing its push for deregulation, the SEC, at an open meeting on January 13, proposed reduction of the amount of data companies must disclose on remuneration of corporate executives. The changes, said the commission, are aimed at lowering costs incurred in preparing the compensation reports contained in proxy statements.

IRS to Speed Reviews of Accounting Change Requests—The IRS will now review for completeness forms requesting changes in accounting method or period shortly after submission. In the past, the missing data was not noted or requested until the National Office began processing the case, sometimes six to nine months after filing. The subsequent submission caused further delay. The new policy should speed up the eventual reply because this procedure will take place during the time the case is awaiting assignment for processing.

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AcSEC Meeting Highlights

At its January 26-28 meeting, the Institute's accounting standards executive committee took the following actions, among others:

- ☐ Approved a letter of comment to the AICPA board of directors on the draft final report of the special committee on accounting standards overload.
- ☐ Approved for transmission to the Financial Accounting Standards Board a proposed SOP entitled *Reporting by Banks of Investment Securities Gains or Losses*, for clearance to expose the draft.
- ☐ Approved letters of comment to the FASB on the following board documents, its invitation to comment, *Timely Guidance on Emerging Issues and Implementation of FASB Standards*, and two proposed statements, *Accounting for Special Termination Benefits Paid to Employees*, and *Accounting for the Reduction in the Tax Basis of an Asset Caused by the Investment Tax Credit*.
- ☐ Approved a comment letter on a proposed NCGA Statement entitled *Pension Accounting and Financial Reporting for Public Employee Retirement Systems and State and Local Government Employer Entities*.

Audit Guide on Banks Set

The Institute will shortly issue an audit guide, *Audits of Banks*, which revises the industry audit guide first published in 1968 and supplemented in 1969. Prepared by the Institute's banking committee, it is designed to assist independent auditors in examining and reporting on financial statements of commercial banks, savings banks and bank holding companies. The guide has been revised, in part, "to reflect the increased importance of bank holding companies," notes committee chairman Thomas H. Asson, and "it incorporates comments on accounting, auditing and financial reporting of transactions not previously covered."

The AICPA's accounting standards executive committee, at its recent meeting (see above), forwarded to the Financial Accounting Standards Board for clearance a proposed statement of position, *Reporting by Banks of Investment Securities Gains or Losses*. This proposed statement, said Asson, would amend the audit guide on banks. The FASB is likely to review the proposed SOP later this month, he added.

The guide will be available about the end of this month from the AICPA order department, at a price to be determined.

Guide on Employee Benefit Plans Issued

The Institute's auditing standards division recently approved an audit and accounting guide entitled *Audits of Employee Benefit Plans*, which provides guidance on defined benefit, defined contribution, and health and welfare benefit plans. Issues covered in the guide include the auditing objectives and procedures for plan investments, contributions, benefits and participants' data. It also describes procedures for plan investments that are held by a bank or insurance company and for actuarially determined amounts that are included in the financial statements.

The guide describes the requirements of SFAS no. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, and reporting requirements under ERISA and Department of Labor regulations.

Copies of the guide will be available shortly from the AICPA order department, at a price to be determined.

Needs of AICPA Industry Members to Be Examined

The AICPA board of directors, at its December meeting, reaffirmed the position that the Institute should represent all CPAs in the U.S. The board also agreed that the Institute should reexamine its objectives as they relate to industry members since their functions and professional status are changing.

These actions were triggered by the report of the strategic planning subcommittee of the industry committee which was reviewed at the meeting. The report made a series of recommendations on the needs of industry members in such areas as opportunities for professional involvement, maintenance of proficiency, public recognition and support and advancement of professional interests.

While many of the recommendations will take some time to implement, the report noted that some services and resources now available to all members lacked visibility among those in industry. In particular, the industry committee urges industry members to take advantage of the technical information service (TIS) which can be a valuable resource for them, but which is infrequently used.

According to George Dick, the director of TIS, industry member inquiries account for less than 5 percent of the total while this group represents 38 percent of the membership. "The number of industry members who use our service is almost miniscule," says Dick, "but those that do, use it repeatedly."

The TIS staff answers questions on accounting principles, financial statement presentation, auditing and reporting standards. It does not deal with tax or legal issues. A special toll-free telephone line is available, 1-800/223-4158 (1-800/522-5430 in New York State only) for members' convenience, but complicated questions should be submitted in writing.

Minority Scholarships Announced

The Institute's minority recruitment and equal opportunity committee recently announced the award of 116 scholarships for the second half of the 1982-83 academic year. The students, from 67 colleges and universities, received scholarships totaling $35,750. Included were 16 General Mills-AICPA scholarship awards totaling $5,000 and 13 RCA-AICPA scholarship awards totaling $3,250. This brings the total to $210,250 in AICPA scholarships granted to 459 minority students for the entire academic year.

"Our goal is to encourage minority students to become CPAs; our method is to encourage scholastically talented students by giving them financial assistance," said Sharon Donahue, manager, aid to minority students at the AICPA. For further information, contact Ms. Donahue at the AICPA (212/575-7641).

FHLBB Seeks Applicants for Fellowship Program

The Federal Home Loan Bank Board is currently accepting applications for its professional accounting fellow program for a two-year term to begin in June. Candidates should have one or more years of managerial experience in a CPA firm or in an organization providing similar experience and be familiar with current technical literature, particularly relating to savings and loans.

Typical assignments include participation in drafting FHLBB accounting policy statements and regulations, evaluation of current reporting practices and interaction with various governmental and private professional accounting groups.

For further information, including application forms, contact Bob Wolpert, manager, corporation finance, chief accountant's section, FHLBB, 1700 G Street, N.W., Washington, D.C. 20552 (202/377-6808).

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IFAC Exposes Draft on Computer Audit Techniques

The international auditing practices committee of the International Federation of Accountants recently approved the issuance of an exposure draft of a proposed international auditing guideline, ED 17, *Computer-Assisted Audit Techniques*. Prepared by the subcommittee on auditing in an EDP environment, the proposed guideline discusses an auditor's considerations in using computer-assisted audit techniques in applying various auditing procedures.

The subcommittee also is currently drafting a proposed guideline entitled *The Effect of an EDP Environment on the Study and Evaluation of the Accounting System and Related Internal Controls*, which will be exposed later this year.

Comments on the exposure draft are due by July 31. Copies of the draft will be available in early April on written request from the AICPA order department.

IFAC was established in 1977 by representatives of more than 50 nations with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of qualifications for practice.

Implementation of GASB Moves Ahead

The Financial Accounting Foundation's special committee on the Governmental Accounting Standards Board met recently on implementation plans for the board and is expected to meet again later this month. Among the committee's objectives are fund raising, bylaw revisions and identification of candidates for positions connected with the board's activities. The committee, chaired by FAF vice president Charles G. Steele, includes two trustee-nominees who will represent governmental groups — Earle E. Morris, Jr., controller-general of South Carolina; and Jim C. Kirkland, president of the Municipal Finance Officers Association, and director of finance, City of Tallahassee, Florida. Other committee members are FAF trustees Thomas L. Holton and William H. Dougherty, Jr.

Previously, at the Financial Accounting Standards Advisory Council's meeting last month, Steele reported on the progress being made in starting up GASB. Tentative decisions include the following, he said:

☐ The GASB would be a five-member body including the chairman.

☐ A comprehensive review of the board would be made five years following the start-up.

☐ A governmental accounting standards advisory council (GASAC) would include 20 members representing various organizations.

IRS Guidance on TEFRA Penalties Imminent

Treasury officials have indicated that regulations clarifying the IRS's position on the new 10 percent penalty for the substantial understatement of taxes would be issued shortly. In a recent speech, John Chapoton, assistant treasury secretary for tax policy, said that the rules will be issued "well before the end of the 1982 filing season." The rules, he added, had become a priority because of the lack of guidance included in last year's tax act (TEFRA). Initially, Treasury officials had said that the act's provisions involving the penalties should best be left to the courts to decide.

The 10 percent penalty, which applies to tax understatements that are the larger of 10 percent of the correct amount or $5,000 for individuals or $10,000 for corporations, includes two as-yet basically undefined tests for lessening the penalty. The amount of the understatement, according to the statute, may be reduced by either the portion of it for which the taxpayer believes there was "substantial authority," or any item for which there was adequate disclosure.

Recently the AICPA and the Tax Executives Institute, in separate comments to the IRS, have suggested that more specific definitions of the methods for lessening the new penalties be established. In the comments, both groups had called for the IRS to clarify its position on the penalties.

AICPA Insurance Trust Passes $12 Billion Mark

Life insurance in force under the CPA Plan and Group Insurance Plan rose by almost $2 billion in 1982 bringing total coverage in force to more than $12 billion. Only some five percent of the life insurance companies in the U.S. have more volume in force according to leading industry publications.

The maximum amounts of life insurance available are $200,000 under the CPA Plan (for individual CPAs) and $100,000 in the Group Insurance Plan (for public accounting firms).

Invitations and descriptive literature concerning the CPA Plan were mailed recently to AICPA members who are also members of one of the 52 sponsoring state societies. Any such Institute member who didn't receive the brochures or who desires additional information should write or call the Plan Agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158 (Telephone 800/223-7473 — in New York, call collect 212/661-9000 extension series 408).

NCGA Exposes Drafts on Interest Capitalization; Debt Exchanges

The National Council on Governmental Accounting recently exposed drafts of two proposed interpretations. The first of these, *Capitalization of Interest on Governmental Entities* would provide guidance on capitalization of interest costs incurred during construction or acquisition of assets by state and local governments.

Exchanges of Debt Securities, the second draft, would prohibit state and local governments from using what is commonly referred to as the "deferral and amortization method for debt securities." The NCGA concludes that gains and losses from all sales of fixed income securities will be recognized at the time of sale, in accordance with the completed transaction method.

Comments on both drafts are due by March 15. For further information, contact the NCGA, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601 (312/977-9700).

Large Jump in EDP Use Seen in Profession

The number of firms with in-house computers doubled between 1978 and last year, according to a recent survey by the Institute's information services department. The 1982 EDP survey, the third since 1974, includes results obtained from more than 13,000 firms who answered a questionnaire. Some results of the survey:

- ☐ A total of 6,641 firms reported using in-house computers, ten times the number of firms who reported doing so in 1974.
- ☐ The use of timesharing services was reported by 1,047 respondents, up from 647 four years ago.
- ☐ Tax return preparation services were used by more than 7,200 firms, up from 6,179 in 1978.

Survey information will be used by the Institute to build a data base to be used by members interested in talking with other members having experience with particular EDP hardware, software or applications.

Recent AICPA Publications

Underreported Taxable Income: The Problem and Possible Solutions — This study deals with the problems of tax revenue losses due to underreported income and presents the results of a study by a task force of the Institute's federal tax division on the issues. Recommended actions are included. Price is $6; $4.80 to members (Request Product no. 061038 from the AICPA order department).

The most recent programs in the CPA Video Journal series are no. 24, *Report on the AICPA 95th Annual Meeting*, which reports on last year's annual meeting, and no. 25, *National Conference on State Regulation of the Profession*, which reports on the jointly sponsored AICPA-NASBA conference held in December. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

National Banking School Set

The Institute, in cooperation with the University of Virginia's McIntire School of Commerce, is holding its fourth national banking school program this May and June at the University's campus in Charlottesville. The program is designed to give practitioners greater insight into the decision-making process at small- and medium-sized banks and will focus on regulatory, tax and compliance concerns of commercial banks.

Unit 1, geared to those having a general knowledge of the banking industry, will be given May 16-19. The program will provide an in-depth study of the commercial banking industry and an update on emerging issues. It will include lectures, discussions and case studies on such areas as the regulatory framework governing the banking industry, operational policy decisions confronting bank management and problems associated with providing accounting and related services to community and regional banks. It also includes problem-solving exercises involving a bank management simulator.

Unit 2, designed for those who have attended Unit 1, will be held June 27-30. It will focus on such issues as taxation, bank audit administration, mergers and acquisitions, holding companies and bank performance objectives and measurement.

Registration is $700 for each unit. For further information, contact the CPE marketing department (212/575-6643).

AICPA Member Expelled

On November 18, 1982, a hearing panel of Regional Trial Board 1 voted to expel Philip J. Wolfson of Beverly Hills, California, from membership in the AICPA for violating section 7.4.6 of its bylaws. This involved the respondent's failure to respond to written interrogatories of the Institute's professional ethics division in its disciplinary investigation.

Mr. Wolfson was notified by registered mail that the hearing would be held but he did not appear. He had previously tendered a written resignation from membership which the hearing panel declined to accept prior to its deliberating the charges.

Mr. Wolfson was provided with a copy of the hearing transcript and the panel's decision and was advised of his right to request a review of the decision within 30 days. He did not request a review and the decision therefore became effective on December 18, 1982.

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards
The auditing standards board is scheduled to hold an open meeting in the AICPA boardroom, New York City, March 1-3 starting at 9:00 a.m. each day. The agenda will be reported by the meetings telephone information service.

The next scheduled meetings of the ASB are on April 19-21 in New York and on June 7-9 in New York.

Accounting and Review Services
The open meeting of the accounting and review services committee originally scheduled for March 24-25 in Orlando, Florida, has been cancelled.

The next scheduled meeting is on June 16-17 in Chicago.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Move to Repeal Dividend and Interest Withholding — A national "grass roots" campaign was recently begun in Congress by opponents of a provision in last year's tax act (TEFRA) requiring 10 percent withholding on interest and dividends as of July 1. By one count, more than 50 bills seeking repeal have been introduced in the House and approximately 150 congressmen have signed as co-sponsors. However, Treasury Secretary Donald T. Regan, on February 1, said the Administration resolutely opposes such a repeal. If Congress repeals the provision, the Administration will seek an offsetting tax increase, he warned.

Procedures for Computing Interest — The IRS, in Rev. Proc. 83-7, explained the procedures for computing interest on amounts owed after December 31, 1982, including the use of the new daily compounding rules included in last year's tax act (TEFRA).

Partnership Proposals Issued — Last month, the IRS issued two sets of proposed regulations on the treatment of federally registered partnerships, with one set partially covering the changes to the tax law made last year, and the other set covering changes made in prior years. One set of proposals relates to partnership taxable years not covered by TEFRA, while other proposals define partnership items under the new law. A public hearing on the proposals is set for March 23.

Report on Preparer Penalties Issued — The General Accounting Office recently issued a report on the IRS' administration of tax return preparers, indicating some success. The report was done by the GAO to assess the results of the tax penalties provisions included in the Tax Reform Act of 1976. The IRS' administration "of conduct-related penalties has been uneven" for a variety of reasons, concludes the report, which includes suggestions for better administration. Copies of the report may be obtained from the GAO (202/275-6241). Request Document 66D-83-6.

SEC Speaks in 1983 — SEC Chairman John S.R. Shad will again be the keynote speaker at the Practising Law Institute's 12th annual SEC Speaks Conference, to be held March 4-5 in Washington, D.C. For further information, contact the PLI, 810 Seventh Avenue, New York, N.Y. 10019.

Tax Return Checklists Available — Preparation and review checklists for individual, partnership and corporate tax returns are available free to members from the AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006. They are designed to assist preparers as well as to help avoid preparer penalties. The checklists were developed by an AICPA tax subcommittee.

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The CPA Letter

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Guide on Audit Sampling Issued

The Institute will shortly issue an audit guide entitled *Audit Sampling*. Prepared by the AICPA's statistical sampling subcommittee, it provides guidance to the auditor for implementing SAS no. 39, *Audit Sampling*, which applies to both statistical and nonstatistical audit sampling. The guide provides guidance to assist auditors using either approach in applying SAS no. 39, which is effective for examinations of financial statements for periods ending on or after June 25, 1983.

The guide is organized so that essentially all the guidance relating solely to statistical sampling is located in the last chapter. As a result, if auditors use this guide to assist in applying nonstatistical sampling, they would ordinarily follow the guidance in the earlier chapters.

While the guide provides several illustrations of sample sizes based on statistical sampling concepts, neither SAS no. 39 nor the guide requires nonstatistical sample sizes to be based on those illustrations.

Copies of the guide will be available early next month from the AICPA order department, at a price to be determined.

Auditing Standards Board Highlights

At its meeting last month, the Institute's auditing standards board took the following actions;

☐ Discussed four auditing interpretations that provide guidance on several implementation problems regarding SAS no. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims and Assessments*. The board agreed that subject to a review by the audit inquiry committee of the American Bar Association, the interpretations should be issued.

☐ Discussed whether SAS no. 14, *Special Reports*, is applicable to reporting on separately presented financial statements of a municipality prepared on a condensed or consolidated basis, such as that proposed in the AICPA's experimental project. The board agreed that, because there are not a significant number of municipalities issuing such condensed financial statements, no guidance should be issued at this time.

☐ Agreed to consider a revised draft of the proposed guide for financial forecasts and projections at its next meeting. The board also requested the task force on financial forecasts and projections to consider the advisability of allowing reviews of general purpose projections.

Members Approve Solicitation Amendment

By an affirmative vote of 83 percent of the members voting, Rule 502 has been amended to include the sentence: "Solicitation by the use of coercion, overreaching or harassing conduct is prohibited." Of the 102,646 ballots cast, representing participation by 54 percent of the membership, 85,308 were for the changes, 17,338 were against.

Comments on the ballot indicated that a number of the members felt that the language of the new sentence needed definition and that the standard was overly vague. Others felt that the new sentence was unnecessary.

Balloting was completed on January 5, 1983. The Institute's professional ethics division is now developing guidance on application of the provision.

Some AICPA members have apparently not received one or more of the Institute's two recent statements on standards for MAS because of problems in mailing. The two statements are *MAS Engagements* (SSMAS 2) and *MAS Consultations* (SSMAS 3). If you have not received copies, please write the AICPA order department.

The statements deal with the nature of these MAS activities; planning and supervision, sufficient relevant data, the role of the practitioner, client understanding, client benefit and communication of results.

FASB Proposes Guidance on Foreign Currency Translations . . .

The Financial Accounting Standards Board recently issued a proposed interpretation providing guidance on the treatment of foreign currency translation adjustments required by SFAS no. 52 for companies selling part of their investment in a foreign entity.

If a company sells part of its ownership interest in a foreign firm, according to FASB project manager Diana W. Kahn, it would recognize a pro rata share of the translation adjustments attributable to that company in measuring the gain or loss on that sale. "For example," she added, "if a company sold 50 percent of its investment in a foreign firm, 50 percent of the related translation adjustments would be removed from equity and included in measuring the resulting gain or loss."

At the same time, the board staff issued a proposed technical bulletin providing guidance on accounting for preference and penalty exchange rates applicable to receivables or payables denominated in a foreign entity's functional currency.

Comments on both proposals are due by April 18. For further information, contact the FASB, High Ridge Park, Stamford, Conn. 06905.

. . . And Issues Report on Private Companies

The FASB has issued a special report on financial reporting by privately owned companies. Compiled from responses to its 1981 invitation to comment on financial reporting by private and small public companies, the report provides an analysis of the practices and perceptions of managers of private companies financial statement users and public accountants.

The report indicates a difference between the perceptions of public accountants about the practices and information needs of private company financial statement users and the information needs reported by users. The report also indicates differences of opinion as to the possibility of the use by nonpublic companies of measurement standards different from those used by public companies; many public accountants believe such practices should be permitted whereas many users believe that comparability and usefulness of financial statements would be reduced.

Copies of the report, *Financial Reporting by Privately Owned Companies: Summary of Responses to FASB Invitation to Comment,* may be obtained from the FASB at the address above.

In other matters, at its meeting on February 2, the board tentatively decided to issue a final statement on accounting for certain acquisitions of banking or thrift institutions which will be substantially the same as the draft exposed last October.

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

Upcoming AICPA Conferences

Small Firm—The Institute's management of an accounting practice committee will hold its third annual conference for the smaller CPA firms twice this year—August 18-19 in Boston and October 20-21 in Las Vegas—with the same topics and speakers. The program focuses on the interests and problems of firms that practice with limited staff and will probably appeal most to sole practitioners and firms with two to three partners. Topics include staff productivity, expansion of services to clients, tax season planning and the evolution of a partnership. Price is $215.

A brochure will be mailed to all AICPA members in April. For further information, contact the AICPA meetings department.

MAS Training—The National MAS Training Program will present two one-week programs for practitioners wishing to expand and refine their MAS consulting skills. Sponsored jointly by the Graduate School of Business Administration of the University of Texas at Austin and the AICPA and held on the university's campus, the program will focus on the following topics:

- ☐ *Development of Consulting Skills* on June 13-17 covers all consulting skills from preliminary survey through final report presentation.
- ☐ *Using Micros in Business Planning and Controls* on June 20-24 is aimed at practitioners already engaged in performing MAS who wish to learn how to use microcomputers in business planning and control.

Registration is $800 per week, which includes all instruction and program materials.

For information, contact the CPE marketing department (212/575-6643).

A Reminder—The 10th Confederation of Asian and Pacific Accountants will be held in New Delhi on November 21-25. The conference theme is the role of the accountant in the developing world. Topics include productivity measurement, social cost-benefit analysis, pricing decisions and fiscal policy for economic growth. For information and brochure, contact James Flynn at the AICPA (212/575-3882).

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards

The accounting standards executive committee will hold an open meeting on March 16-18 in Denver, starting at 8:30 a.m. each day. The meetings on March 16-17 will be at the Marriott; on the 18th, at the Fairmont. The agenda follows:

March 16—a.m.

☐ Prospective Financial Statements. (Consider proposed guide for exposure.)

March 16—p.m.

☐ Prospective Financial Statements. (Continued from a.m.)

☐ Accounting by Agricultural Producers and Cooperatives. (Consider proposed SOP for final issuance.)

March 17—a.m.

☐ Chairman's Report.

☐ Computation of Premium Deficiencies in Insurance Enterprises. (Consider issues paper.)

March 17—p.m.

☐ Computation of Premium Deficiencies in Insurance Enterprises. (Continued from a.m.)

☐ Discounting Claims Liabilities in Insurance Enterprises. (Consider issues paper.)

March 18—a.m. and p.m.

☐ Possible new projects and other matters. (General discussion.)

The next scheduled meeting is April 27-29 in New York.

Changes from this notice will be reported by the telephone meetings information service. The number is 212/575-5694.

Washington Briefs

FCPA Amendments Reintroduced—Earlier this month, a bill amending the Foreign Corrupt Practices Act of 1977 was reintroduced. The bill, "The Business Accounting and Foreign Trade Simplification Act" (S. 414), is identical to legislation passed in the Senate in November 1981 as S. 708. That bill was also the subject of Senate hearings (see December 28, 1981 *Letter*).

New Withholding Forms Available—Even though withholding on interest and dividends doesn't take effect until July 1, the IRS recently began distribution of a new form—Form W-6, Individual Certificate of Exemption. Copies of the form are available from local IRS offices, but supplies currently are limited.

New Sub S Provisions Further Explained—In TD 7872, the IRS issued temporary regulations on making elections, consents and refusals under last year's Subchapter S Revision Act. The temporary rules include proposed regulations dealing with a corporation's selection of the taxable year in which it may make a Subchapter S election.

Shorter Period for Long-Term Gains Proposed Again—Legislation to cut in half the current holding period for long-term capital gains was recently reintroduced by Senator Robert Dole (R-Kan.), Senate finance committee chairman. S 13, which is cosponsored by nine other senators, would set the holding period at six months, rather than the current year.

Court Orders Management Letters Disclosed—In a recent Federal District Court case in Illinois, management letters commenting on accounting procedures and internal controls received by a company from its outside accountants were declared subject to an IRS summons. The Court said the summons met the basic test of relevance since management letters could shed light on the correctness of the client's returns by disclosing any accounting that distorts the company's financial records. The argument that management letters are shielded by an accountant-client privilege was rejected by the Court (U.S. v. I.C. Industries, no. 82 C-5459).

More Disclosures on Problem Foreign Loans—The SEC has issued additional disclosure guidelines to bank holding companies about loans to public and private sector borrowers located in countries with liquidity problems. SEC Staff Bulletin no. 49A provides further direction to the holding companies in areas such as restructurings of existing debt in these countries and funding of additional borrowings, as a follow-up to SAB no. 49, issued last October.

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The CPA Letter

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Board of Directors Meeting Highlights

Among the actions taken by the AICPA board of directors at its meeting on February 24-25 were the following:

☐ Reviewed items for discussion at regional meetings of members of Council, including restriction of reports on compilations to licensed practitioners, problems in the Joint Ethics Enforcement Program (JEEP), questions as to certain of the rules of conduct in light of a changing practice environment and recommendations of the auditing standards structure committee.

☐ Reviewed a report outlining a proposed program of celebration of the Institute's 100th year beginning with the 1987 annual meeting.

☐ Received an interim report from the special committee on member services and requested the committee to modify several of its proposals.

☐ Accepted the resignation as a public member of the board of A.A. Sommer, Jr. and approved his election to the Public Oversight Board of the SEC practice section of the division for CPA firms. The vacancy on the POB was created by the death of Board Member William L. Cary last month.

☐ Received the report of the special committee on accounting standards overload and agreed to transmit the accounting standards executive committee's observations on the report to the Financial Accounting Standards Board.

☐ Authorized a matching fund grant to assist the Hawaii Society of CPAs to preserve the existing accountancy law requiring 150 hours of education for certification.

FASB Issues Statement on Thrift Mergers

Goodwill recognized in certain acquisitions of banking and thrift institutions should be amortized over a shorter period according to a recently released statement issued by the Financial Accounting Standards Board.

SFAS no. 72, *Accounting for Certain Acquisitions of Banking or Thrift Institutions*, is essentially the same as the draft exposed last fall (see October 25 *Letter*). It requires that, if the fair value of liabilities assumed in the acquisition exceeds the fair value of the identifiable assets acquired, the resulting goodwill generally will be amortized on an accelerated basis over the remaining life of the long-term interest-bearing assets acquired. SFAS no. 72 also requires any related financial assistance granted by a regulatory authority to be accounted for as part of the combination if receipt of the assistance is probable and the amount can be reasonably estimated.

The board, said FASB Practice Fellow Blake E. Devitt, project manager, concluded that, in light of the economic uncertainties facing the banking and thrift industries, use of amortization for a period as long as 40 years, as permitted under APB Opinion 17, *Intangible Assets*, was inappropriate. "The board believes that goodwill should be amortized over a short period when the liabilities of the acquired institution exceed its identifiable assets because of the uncertainty about the nature and extent of the estimated future benefits associated with the goodwill," he added.

The statement applies prospectively to business combinations begun after September 30, 1982. For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

Supreme Court to Hear Three Major Tax Issues

Late last month the U.S. Supreme Court agreed to review three lower court decisions of major concern to the accounting profession. The cases involve the confidentiality of accountants' tax accrual workpapers, whether interest-free loans made to a relative are taxable gifts and whether the 1980 windfall profit tax is unconstitutional.

Last year a federal appeals court denied the IRS access to the tax accrual workpapers of Amerada-Hess Corporation's independent auditors, Arthur Young & Company. In the ruling, the three-judge panel distinguished between the accounting firm's audit workpapers, which they ruled were subject to IRS access, and the tax accrual papers, which they ruled weren't subject to IRS summons. The federal government claims that the decision erroneously creates an accountant-client privilege that "is a setback to tax enforcement."

The Court also agreed to decide whether an interest-free loan from one family member to another is a taxable gift as measured by the value of the uncharged interest. The lower federal courts are currently split on the tax status of such loans. The case taken by the Supreme Court (Dickman v. Commissioner, no. 82-1041) involves tax-free loans to a son and to a family-owned business. The U.S. Court of Appeals for the 11th Circuit agreed with the IRS that the parents were liable for gift taxes on the market value of the interest that ordinarily would have been charged on the loans.

The 1980 crude oil windfall profit tax had been held unconstitutional by a district court last year on the grounds that the act's exemption for oil produced in Alaska violated the constitutional requirement of geographic uniformity for indirect taxes. Pending the Supreme Court's decision, the federal government will continue to collect the tax.

Interpretation on Shelf Registration Statements Issued

The Institute's auditing standards division recently approved an auditing interpretation on the responsibilities of an independent accountant to perform subsequent events procedures after the original effective date of the registration statement in connection with Rule 415 shelf registrations. The text of the interpretation will appear in the May *Journal of Accountancy.*

An interpretation of SAS no. 37, *Filings Under Federal Securities Statutes,* it states that, in general, the accountant should perform the subsequent events procedures described in the statement when either

- ☐ A post-effective amendment to the shelf registration statement, as defined by Securities and Exchange Commission rules, is filed pursuant to Item 512(a) of Regulation S-K, or
- ☐ A 1934 Act filing that includes or amends audited financial statements is incorporated by reference into the shelf registration statement.

AICPA Member Expelled

On December 28, 1982, a hearing panel of the Joint Trial Board Division's Regional Trial Board XI voted to expel Harold G. Sussman of East Meadow, New York, from membership in the AICPA for failing to cooperate with its ethics committee by refusing to respond to interrogatories relating to a complaint made to the AICPA by an agency of the federal government.

Mr. Sussman, who was not present at the hearing, did not request a review of the decision and it therefore became effective on January 27, 1983.

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New Rules on CPAs' Independence Issued

Late last month, the Securities and Exchange Commission voted to adopt final amendments to its rules on the independence of accountants. The commission adopted revisions to rule 210.2-01(b) of Regulation S-X redefining the term "member" and clarifying the rule's intent in certain minor respects.

The chief effect of the revisions is to remove from the rule's application any nonmanagerial, professional employee not involved in providing professional services to the client or any of its affiliates. However, a professional employee having managerial responsibilities and located in the engagement office or an office of the firm participating in a major part of the audit as well as all partners, shareholders and other firm principals are still subject to the rule. Previously, the term "member" applied to all professional employees in the firm's office participating in a major part of the audit.

The amendments also clarify the rule as to the effect on a firm's independence when a former officer or employee of an audit client becomes an employee of or principal in the firm.

The SEC also said its staff expects to review soon the existing independence interpretations on the effect of the activities of family members and former partners on the independence of a "member," as defined in the rule.

Recent AICPA Publications

The Institute's minority recruitment and equal opportunity committee has issued its surveys of minority employment and placement of accounting graduates from the historically black and minority colleges and universities for the spring of 1982. A list of 1982 scholarship award winners is also included. Copies of the report are available from Sharon Donahue at the AICPA (212/575-7641).

Continuing the past distribution policy, the Institute will soon mail its 1983-1984 CPE Catalog to all practice units and to other individuals requesting a free copy—not to all AICPA members. Those who had in the past requested the catalog will automatically receive this year's edition. Free copies may be obtained by writing the Institute's CPE marketing department.

Beginning with the May 1983 Uniform CPA Examination, the Institute will make the unofficial answers to the multiple-choice items available to candidates within 30 days after the examination for self-grading purposes. Order forms with the prices will be included in the examination booklets. The complete examination questions and unofficial answers for all sections will continue to be available from the Institute about 90 days after the examination. For further information, contact the Institute's examinations division.

MAP Conferences Set for Summer and Fall

The 1983 National Practice Management Conferences have been set for this summer and fall. Organized and presented by the AICPA's management of an accounting practice committee, the series of conferences includes the following:

- ☐ *Firm Management and Administration* on July 28-29 in Denver will focus on areas such as firm financing, profitability and microcomputers.
- ☐ *Partnerships and Professional Corporations* in Scottsdale, Arizona, on September 22-23 will focus on compensation, retirement, retreats and termination of partners.
- ☐ *Practice Growth and Development* in Philadelphia on October 10-11 deals with administering a professional marketing program, client development, sales techniques and computer graphics.
- ☐ *People Management* in Philadelphia on October 13-14 deals with staff management, career paths, staff recruitment and chargeable time policies.

Brochures will be mailed in April to all partners and sole practitioners in public practice. For information, contact the AICPA meetings department.

Washington Briefs

Standard Meal Deductions Proposed—The IRS, in Information Release 83-31 and proposed regulations, said it would propose an optional standard rate for taxpayers computing deductions for meal expenses incurred for business travel. The rate would be $14 per day on trips under 30 days and $9 per day for longer stays in one locale. Larger amounts could be deducted, if substantiated.

FCPA Amendments Legislation Moves Ahead—At a joint hearing late last month, Administration officials voiced support for a Senate bill (S. 414) which would amend the Foreign Corrupt Practices Act of 1977. The bill is identical to legislation passed in the Senate in November 1981 as S. 708. All the witnesses supported the legislation to the extent that the 1977 Act should be amended and, judging from the sentiment of those Senators at the hearing, the bill is likely to receive early consideration by the Senate Banking Committee.

PIK Legislation Awaits Action—Congressional action was expected shortly on legislation to remove the tax disincentives for joining the Agriculture Department's Payment-In-Kind (PIK) Program. The specific proposal would treat crops received under the PIK program as actually having been grown by the farmer-recipients for federal income and estate tax purposes.

Flat Tax Bill Introduced—A measure (S. 557) to change the current federal tax system by applying a flat, 19 percent tax rate to all corporate and personal income was introduced recently. Under the bill, introduced by Senator Dennis DeConcini (D-Ariz.), personal exemptions would be $3,800 for single taxpayers and $6,200 for married couples filing jointly.

Bill Easing Restrictions on Tax Court Practice Introduced—A measure (H.R. 1540) to ease restrictions against representation of taxpayers by CPAs and enrolled agents in certain cases before the U.S. Tax Court was recently introduced. The bill would allow representation by such tax preparers in cases involving $5,000 or less.

SEC and Financial Reporting Conference—The University of Southern California School of Accounting will hold its second annual one-day conference on SEC and financial reporting on May 5 in Los Angeles. Entitled the SEC and Financial Reporting Institute, the program will provide a forum for business executives and practitioners as well as policy setters from the SEC and the private sector. Keynote speaker is Walter B. Wriston, chairman, Citicorp/Citibank. For information, contact Professor Jerry L. Arnold at the University, Bridge Hall, Los Angeles, California 90089 (213/743-2426).

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The CPA Letter

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ASB to Ballot on Related Parties Statement

The AICPA's auditing standards board, at its meeting on March 1-3, agreed to ballot on whether to issue a final statement on auditing standards entitled *Related Parties* that would amend SAS no. 6, *Related Party Transactions*. The proposed SAS would give effect to the fact that the Financial Accounting Standards Board has established requirements for related party disclosures which were previously contained in SAS no. 6. However, the ASB agreed to delay the issuance of the final SAS, if adopted, pending the decision on whether to include it in a possible omnibus statement which would deal with other matters currently on the board's agenda that would update existing SASs.

The board also took the following actions at the same meeting:

- ☐ Agreed to ballot on the issuance of an exposure draft of a proposed SAS, *Study and Evaluation of Internal Accounting Control in an EDP System*, that would revise SAS no. 3, *The Effects of EDP on the Auditor's Study and Evaluation of Internal Control*. The board believes that some modification to the existing guidance is necessary because of changes in technology and the provisions of more recently issued SASs. The revised guidance, after final approval by the board, would also be integrated with relevant provisions in existing statements on auditing standards.
- ☐ Tentatively agreed that a final SAS on *Substantive Tests Prior to the Balance-Sheet Date* should be issued pending a review of a revised draft of the proposed statement at its next meeting which is scheduled for April 19-21 in New York. It would provide guidance on applying the principal substantive tests at an interim date. If the revised draft is approved, this SAS may also be included in an omnibus SAS.

AICPA Officers and Directors Nominated for 1983-84

At its meeting late last month, the AICPA's committee on nominations took the following actions for presentation to Council at its meeting to be held in Minneapolis on October 1.

- ☐ Confirmed the nomination of Bernard Z. Lee, Texas, to be chairman of the board of the Institute for 1983-84.
- ☐ Nominated the following officers and directors:
  Vice Chairman—Ray J. Groves, Ohio.
  Vice Presidents—Barry B. Findley, Arkansas; William L. Raby, Arizona; Robert D. Thorne, Illinois.
  Treasurer: Don J. Summa, New Jersey.
  Members of the board of directors (for three years): Barbara Hackman Franklin, District of Columbia; Thomas L. Holton, New York; Joseph A.Silvoso, Missouri; A. Marvin Strait, Colorado.

The complete report of the committee on nominations will appear in the next issue of the *Letter* including nominations for members of Council and the National Review Board, and the procedures for independent nominations.

Industry's Voice Heard on FASB Pension Views

Disagreement was apparent as more than 250 representatives from industry and the accounting profession met to discuss the Financial Accounting Standards Board's recent paper presenting its preliminary views on accounting for pensions (see November 22 *Letter*). The paper, if adopted, would require that net pension liability appear on the balance sheet—rather than in the footnotes to financial statements—of employers sponsoring defined benefit pension plans. The paper's proposals also include use of two balance sheet elements—net pension liability and the intangible asset, which would arise when plan amendments give credit to prior service.

Sponsored by the National Association of Accountants and held earlier this month, the conference focused on many concerns among industry representatives who felt that the FASB has taken a wrong tack. William J. Ihlandfeldt, assistant controller, Shell Oil Company, said the FASB has made a mistake. "Most companies will report large liabilities that weren't there before," he added. A key concern voiced was the proposed recognition of a liability on the balance sheet for pensions. Many participants felt that such a liability isn't real and hence should not be on the balance sheets.

Timothy S. Lucas, FASB project manager on pension accounting, noted that it is difficult for an investor to understand how a company can show "no pension liability" on its balance sheet when the value of pension assets is less than the value of pension benefits promised to employees for services already rendered. Lucas also added that some objections to the board's paper have suggested that the FASB "is trying to destroy defined benefit pension plans, drive Chrysler and International Harvester out of business, or otherwise significantly alter the state of the American economy. This is not the board's objective, nor a likely result," he said. "The objective," Lucas added, "is to provide useful information that investors and creditors have the need and right to know what pension obligations and costs are, as well as what promises have been made by management."

The board will soon issue a second invitation to comment on issues not raised in the first paper, including multiemployer plans and those plans funded by insurance contracts. A public hearing is likely in the fall.

SEC Approves "Single-Figure" Bank Reports

Earlier this month, the Securities and Exchange Commission approved a regulation requiring bank holding companies to report earnings on a single bottom line rather than using a separate line below earnings from operations to report earnings from investment securities. The change is in Article 9 of Regulation S-X, which deals with bank disclosures. The requirement is effective for annual reports beginning December 31, 1983. Currently, bank holding companies use a "two-step" income statement which separates earnings.

In completing its proposed revision of Article 9 of Regulation S-X, the SEC decided not to wait until the exposure period is over for the Institute's proposed SOP entitled *Reporting by Banks of Investment Securities Gains or Losses*, which had been sent to the Financial Accounting Standards Board for clearance in late January. The FASB, in February, requested the SEC to postpone action on revising article 9 until the exposure period was completed.

A. Clarence Sampson, SEC chief accountant, said that the Institute's conclusions in the proposed statement of position were substantially the same as those of the commission. He added that if the SEC delayed action, as requested by the FASB, the same action would have to be taken later this year because an SEC regulation is binding on the companies registering securities with the commission.

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Executive Editor: Roderic A. Parnell Editor: Stephen H. Collins

IRS Guidance on TEFRA Penalties Released

The IRS recently issued its long-awaited proposed regulations on the tax penalty provisions of the 1982 tax act (TEFRA). The proposals generally provide guidance on circumstances that could be used to reduce the understatement of tax liability for penalty provisions, including the new substantial authority and adequate disclosure definitions.

The IRS proposed that the analysis required to show substantial disclosure include a list of authorities, with the weight of those supporting the position being substantial compared to those against it. Those to be considered authority include statutory provisions, regulations, court cases and administrative pronouncements, tax treaties, and congressional intent as shown in committee reports and statements of managers. Items not considered authority include conclusions in legal periodicals, general counsel memoranda, tax professional opinions and court cases resolved in a taxpayer's jurisdiction.

Also issued by the IRS was Revenue Procedure 83-21, outlining circumstances when a separate disclosure statement would not be required to reduce tax liability in measuring the penalty. The proposals note that a separate disclosure statement must identify the items being disclosed, the amount of the item, and sufficient facts to spell out any potential controversy involving the item.

The revenue procedure provides that additional disclosure for many itemized deductions for 1983 is not needed. These include medical expenses, taxes, interest expense and many trade or business expenses.

Written comments and requests for a public hearing on the proposals are due by May 16. The Institute's federal taxation executive committee is currently studying the proposals and is developing comments.

FASB Update

The Financial Accounting Standards Board, at press time, had several items on its agenda on which it was in the process of taking action. The following are some of those expected developments:

- ☐ The board's special task force on development of a plan to provide timely guidance on implementation of accounting standards and on emerging issues having important financial implications is expected to meet and review its final report early in April. The report would then be made public.
- ☐ An exposure draft of a statement on railroad accounting is expected to be issued next month. The board recently decided to add a project to its technical agenda on whether APB Opinion no. 20, *Accounting Changes*, should be amended to require railroads that change to depreciation accounting from betterment accounting do so by retroactive restatement.
- ☐ The board's second invitation to comment on pension accounting is expected next month. The paper will cover areas not covered in the invitation to comment of last fall (see page 2).

Accounting Fellows Named at Two Agencies

The Securities and Exchange Commission recently named Michael P. McLaughlin of Stamford, Connecticut, and Dorothy E. Walker of New York City, to serve as professional accounting fellows in the office of the chief accountant, beginning this summer for two-year terms. John H. Smith has been appointed to serve as the academic fellow for the year beginning August 1.

Presently, McLaughlin is an audit manager with Peat, Marwick, Mitchell & Co. in Stamford, while Ms. Walker is an audit manager with Laventhol & Horwath in New York. Dr. Smith is a professor of accounting at the University of Iowa.

Also, Susan L. Dickey, manager in Arthur Young & Company's Kansas City office, has been appointed the first professional accounting fellow for the Office of the Comptroller of the Currency. During her two-year term, Ms. Dickey will deal with national banking issues in the Comptroller's division of bank accounting.

ANNUAL REPORT OF JOINT ETHICS ENFORCEMENT PROGRAM ACTIVITY

As of December 31, 1982

In line with the Institute's policy of reporting on disciplinary matters, the AICPA's professional ethics division has updated its statistics on the disposition of ethics investigations processed under the AICPA's Joint Ethics Enforcement Plan (JEEP) consisting of the AICPA's ethics division and 51 state CPA societies. This report is based on information submitted by the ethics division and 43 other JEEP participants. The statistics cover cases, not the number of respondents in a case.

		TOTALS*
ETHICS COMMITTEE ACTIVITIES		
Investigations open at start of period	568	
Investigations opened during period	504	
Total Investigations		1072
Administrative Reprimands issued	65	
Constructive comment letters issued	120	
No Violation findings	314	
Prima Facie cases in preparation for submission to Joint Trial Board Division	5	
Cases Referred to Joint Trial Board Division during 1982:		
Prima Facie cases for Trial Board Hearings	18	
For action under automatic provisions of bylaws	9	
Total Disposition of Case Investigations		531
Remaining Investigations at December 31, 1982:		
Investigations held pending outcome of litigation:		
State Society Ethics Committees	72	
AICPA Ethics Division	77	
Cases under investigation:		
State Society Ethics Committees	295	
AICPA Ethics Division	97	
Total Remaining Investigations		541
Total Investigations		1072
JOINT TRIAL BOARD DIVISION ACTIVITIES		
Members Expelled under automatic provision of bylaws	3	
Members Suspended under automatic provision of bylaws	5	
Appeal pending	1	
		9
Trial Board Hearings:		
Members Admonished	3	
Members Suspended	2	
Members Expelled	7	
Cases scheduled but not heard	5	
Cases being appealed	1	
		18
Total Joint Trial Board Division Cases		27

*Total figures are not comparable from period to period because of differences in the number and identity of the state societies reporting in any given year.

Self Regulation Proposed for Investment Companies

The SEC would cut back its involvement in examinations of investment companies and provide for greater self regulation in the industry if its recent proposed rules are adopted. They call for the use of private entities in conducting investment company examinations and for imposing examination fees. Several alternatives for self regulation by the investment industry have been suggested in the commission's proposals:

- ☐ Authorization to create one or more self regulatory organizations to conduct examinations of investment companies.
- ☐ Use of an investment company's independent auditor to conduct certain additional procedures as substitutes for those performed by SEC examiners.
- ☐ A combination of the above alternatives.
- ☐ Collections of fees from companies to cover part or all of the cost of the examinations performed by either the commission or a self regulatory organization.

Comments on these proposed alternatives are due by May 24.

Two AICPA Members Expelled

The AICPA bylaws provide that membership in the Institute shall be terminated without a hearing should a member's certificate as a certified public accountant be revoked, withdrawn or cancelled as a disciplinary measure by any governmental authority.

- ☐ On January 13, 1983, the membership of David M. Michaelson of Orange, California, was terminated due to the revocation of his CPA certificate as a disciplinary measure by the Oklahoma State Board of Public Accountancy.
- ☐ On January 18, 1983, the membership of Henry V. McCrea of Marianna, Florida, was terminated following the revocation of his CPA certificate as a disciplinary measure by the Florida Board of Accountancy.

Recent AICPA Publications

AICPA/NASBA Digest of State Accountancy Laws—Prepared jointly by the Institute and the National Association of State Boards of Accountancy (NASBA), this digest summarizes the major legal requirements governing the licensing and regulation of professional accountants in the U.S. It also spells out the current continuing education requirements in each state. Price is $17.50; $14 to AICPA members. (Request Product no. 064017 from the order department).

The International Accounting Standards Committee's Exposure Draft 25, *Disclosure of Related Party Transactions*, is available free from the order department (Product no. 812113). Approved by the IASC board last fall (see December 27 *Letter*), it deals with the identification of related parties and with the disclosure of transactions between the reporting entity and related parties in financial statements.

The latest program in the CPA Video Journal series is no. 26, *Internal Accounting Control and Small Business Auditing Engagements*, which deals with conducting a minimum study and evaluation of accounting controls in a small business engagement. For information, contact Teresa Zimmerer at the AICPA (212/575-5573).

New Order Department Policies Set

The Institute's planning and finance committee, at its recent meeting, agreed to initiate the following changes affecting the order department, effective April 1:

- ☐ A $2 surcharge for postage and handling will be added to all orders with a net total of less than $10. It does not apply to free items.
- ☐ All publication orders directed to the order department should be addressed to the AICPA, Post Office Box 755, New York, New York 10108-0755.

The surcharge was imposed in light of a study which disclosed disproportionate costs on small orders.

Washington Briefs

Withholding Tax Battle Continues—The Senate, on March 17, broke its stalemate and approved a recession relief bill. The bill must now be reconciled with the House version which is slightly different. The stalemate was broken when Senator Robert Kasten (R-Wis.) withdrew his amendment to repeal the 10 percent withholding tax on most interest and dividend income slated to become effective July 1. The Senator agreed to attach the provision to a separate trade bill that will be taken up by the Senate April 15.

Partner's Distributive Share Clarified—The IRS recently issued proposed regulations explaining how to determine whether a partnership agreement's stipulated allocation meets the test of substantial economic effect. The proposals also provide for the distribution of the tax benefits from a partnership when distributive shares aren't provided for in the partnership agreement. A public hearing has been set for May 4.

SEC Forms Advisory Group on Tender Offers—The SEC recently announced formation of the Commission's Advisory Committee on Tender Offers. The 16-member group is to review tender offer practices and regulations in terms of the best interest of all shareholders and to propose specific regulatory and legislative improvements. Among the group's appointees is newly nominated AICPA vice chairman Ray J. Groves.

Procedures on "Levies" Explained—In T.D. 7874, the IRS issued final regulations specifying procedures to be followed by the agency in serving a notice of "levy" or seizure by mail. The regulations say that the date the notice is delivered to the person served is the date the levy is made. The IRS said the regulations are aimed at resolving questions raised by the increased use of the mails to serve notices of levy.

Revisions on Withholding Rules Issued—Earlier this month, the Treasury Department announced revisions designed to ease some of its rules on tax withholding from interest and dividend income. The effective date of withholding on securities issued at a discount has been delayed six months, until January 1, 1984. Financial institutions were also given the option of withholding all taxes on money market deposit accounts just once annually, rather than monthly or quarterly when interest is usually credited.

Pratt to Leave FHLBB—Richard T. Pratt, chairman of the Federal Home Loan Bank Board, announced recently that he intends to resign by the end of next month. He plans to return to private business or teaching.

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Committee on Standards Overload to Issue Final Report

The Institute will shortly publish the final report of its special committee on accounting standards overload. The committee was formed to consider alternative means of providing relief from accounting standards deemed not to be cost effective, particularly for small, closely held businesses, and to report to the AICPA board of directors. The report, along with the accounting standards executive committee's comments on it, was forwarded to the Financial Accounting Standards Board last month.

The report finds "that accounting standards overload is a real and pressing problem that must be addressed vigorously and expeditiously." It recommends that "a concerted and concentrated effort to relieve the burden of accounting standards overload must now be given the highest priority." It includes suggested actions for both the AICPA and the FASB, but notes that "the FASB has the structure and resources to provide the necessary relief on a timely and priority basis." Among the recommendations are the following:

- ☐ The FASB should reconsider and act on certain accounting standards widely perceived to be unnecessarily burdensome and costly, particularly for small nonpublic companies. Specifically cited were SFAS no. 13 on accounting for leases, APB Opinion no. 11 on accounting for income taxes, the pro forma disclosures required by APB Opinion no. 16 on business combinations, and SFAS no. 34 on interest capitalization.
- ☐ The FASB should simplify existing standards to the extent feasible and make simplicity a goal in developing future standards. It should also consider providing within GAAP both differential disclosure and differential measurement alternatives for small nonpublic entities when simplicity and flexibility for all entities are not feasible.
- ☐ The AICPA board of directors should help resolve the problem by urging the FASB to pursue the actions recommended in the report and by asking AcSEC to take certain actions to help resolve the problem.

The report notes that the use of financial statements prepared on other comprehensive bases of accounting (OCBOA) can provide some measure of relief for some entities and concluded that expanded illustrations relating to the use of such statements should be included in the AICPA *Audit and Accounting Manual*.

In a letter, which accompanied the report to the FASB, Rholan E. Larson, AICPA chairman, noted that "the solution to the issues requires the mutual cooperation of both the FASB and the AICPA and we will continue to work towards a constructive solution."

The report will be widely distributed and will also be available next month from the AICPA order department, at a price to be determined.

Proposed SOP on Financial Forecasts Withdrawn

The Institute's auditing standards division has withdrawn its February 1982 exposure draft of a proposed statement of position entitled *Accountant's Report on a Review of a Financial Forecast Contained in Filings Under Federal Securities Statutes*. The division decided not to publish the SOP separately, but to incorporate the guidance into a proposed guide dealing with prospective financial statements. The guide is expected to be exposed in late summer.

Heavy Response to Tax Return Checklists

The February 14 *Letter* noted the availability of preparation and review checklists for individual, partnership and corporate tax returns from the Institute's Washington office. Since then, more than 9,000 requests for the checklists have been received. Of that number, about 90 percent came from smaller firms and sole practitioners, with the balance split among academics, CPAs in industry and practitioners in larger firms.

The checklists were drawn up by the Institute's federal tax division's scope and management of a tax practice subcommittee as part of a larger project. The division hopes to receive additional comments which will be used to further develop its checklists for the future. Current supplies of the checklist have been exhausted.

"Our goal is to keep improving the checklists over the next two to three years as drafts, and then make a decision as to where to go with the project," Richard C. Simma, subcommittee project manager, said.

AICPA Member Expelled

On January 4, 1983, a hearing panel of the Joint Trial Board Division's Regional Trial Board V voted to expel Gary Lee Annis of Paris, Texas from membership for committing acts discreditable to the profession in violation of the rules of conduct of the Institute's Code of Professional Ethics. The violation involved the respondent's engaging in commercial bribery for which he was placed on seven years probation by the Dallas county judicial district court.

Mr. Annis was notified by registered mail that the hearing would be held but he was not present at the hearing. He had previously tendered a written resignation from membership which the hearing panel declined to accept prior to its deliberating the charges.

Mr. Annis was provided with a copy of the hearing transcript and the panel's decision and was advised of his right to request a review of the decision within 30 days. He did not request a review and the decision therefore became effective on February 4, 1983.

Upcoming Conferences

A conference on professional incorporation and alternatives for lawyers and CPAs after last year's tax act (TEFRA) will be held June 9-10, 1983, at the Drake Hotel in Chicago. Sponsored jointly by the AICPA and the American Law Institute-American Bar Association, the conference will focus on the advantages of professional incorporation and the changes brought about by the act. Lawyers and CPAs qualified in employee benefit planning will provide practical guidance and suggestions to both incorporated and unincorporated firms. For further information, contact Roseanne Beni at the AICPA (212/575-5476).

Registration is still open for a full-day program on conducting peer reviews to be presented on May 4 in New York following the PCPS Conference. Presented by the Institute's CPE division, in cooperation with the division for CPA firms, the course is geared to enable participants to plan, perform, document and report on peer reviews. The program will also be presented by state societies in the following locations: Denver, June 2; Dallas, June 3; and Chicago, June 9. Cost of attending each course is $100. For information, contact the Institute's CPE marketing department (212/575-3848).

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

Special Supplement, the CPA Letter, April 11, 1983

REPORT OF THE NOMINATIONS COMMITTEE

To: Members of the American Institute of Certified Public Accountants

Pursuant to Article VI, Sections 6.1.6 and 3.3 of the bylaws, the following report of the Nominations Committee is submitted.

Donald J. Schneeman, Secretary
New York, N.Y., March 9, 1983

The Nominations Committee hereby nominates the following Officers, Members of the Board of Directors, Members of Council-at-Large, elected members of Council and the National Review Board.

For Officers: *(To serve from the 1983 Annual Meeting to the 1984 Annual Meeting or until their successors shall be elected.)*

Chairman of the Board: Bernard Z. Lee, Texas **Vice Chairman of the Board:** Ray J. Groves, Ohio

Vice Presidents: Barry B. Findley, Arkansas William L. Raby, Arizona Robert D. Thorne, Illinois

Treasurer: Don J. Summa, New Jersey

For Members of the Board of Directors: *(Three years)*

Barbara Hackman Franklin, District of Columbia
Thomas L. Holton, New York
Joseph A. Silvoso, Missouri
A. Marvin Strait, Colorado

For Council Members-at-Large: *(Three years)*

J. Michael Cook, Florida
James W. Giese, Texas
John D. Moxley, New York
Peter R. Scanlon, New York
Donald M. Tannenbaum, New York
James B. Thomas, Jr., District of Columbia
Thomas S. Watson, Jr., District of Columbia

(One year — to fill a vacancy created by nomination of Joseph A. Silvoso as a member of the Board of Directors):

K. Fred Skousen, Utah

For Elected Members of Council: *(Three years)*

California — William D. Devlin, Jr.
William F. Easley
Robert W. Ford
Susan S. Smith
Doyle Z. Williams
Colorado — Robert W. Moss
Connecticut — Joseph P. Germain, Jr.
Delaware — John W. Moffitt
District of Columbia — Harry Yolles
Florida — I. Jerry Bloom
George L. Patterson, Sr.
Idaho — Rex S. Leforgee
Illinois — Harry F. Topping
Ernest R. Wish
Louisiana — Robert A. Peyroux
Maryland — Donald E. Howard
Massachusetts — George E. Manning
Michigan — Donald W. Kregel
William T. Kuhl
Minnesota — Merlin E. Dewing
Mississippi — Emmitte J. Haddox
New Jersey — Daniel S. Goldberg
Stephen A. Hennesey
Leon H. Turner
New York — John D. Abernathy
Kenneth G. Cadematori
Robert Fagliarone
Ralph A. Rehmet
Michael A. Walker
North Carolina — William E. Self
Ohio — James H. Kausch
John J. Kron
Oklahoma — James H. Engelbach
Oregon — Leroy C. Livermore
Pennsylvania — John H. Kennedy
Harold H. Shreckengast, Jr.
Puerto Rico — (Name to come)
Texas — Johnnie Ray Seale
I. Lee Wilson
J. Wayne Winfrey
Utah — Dallas H. Bradford
Virginia — Norman P. Horn
Wisconsin — Robert L. Albrecht

Members of the National Review Board: *(Three years)*

J. Gregory Hickey, Connecticut
Don A. Nelson, California
Jacob J. Rehmann, Michigan
George E. Tornwall, Florida

The Committee will nominate the above officers, Members of the Board of Directors, Members of Council-at-Large and National Review Board members at the Council Meeting on Saturday, October 1, 1983 in Minneapolis, Minnesota. No nominations from the floor will be recognized. However, independent nominations may be made by any twenty members of Council if filed with the Secretary at least four months prior to the Annual Meeting of the Institute which is to be held in Minneapolis, Minnesota beginning October 2, 1983.

Pursuant to the bylaws, balloting for directly elected Council members by members in any state where vacancies shall arise will occur only if a contest for one or more seats develop as a result of submission of independent nominations to the Secretary by any twenty Institute members in the state at least four months prior to October 1, 1983. In the absence of any contest, all Council nominations will be declared elected by the Secretary and will assume office as Members at the Council Meeting on October 1, 1983.

Respectfully submitted:

Nominations Committee
George D. Anderson, Montana, Chairman
J. Michael Cook, Florida
James Don Edwards, Georgia
Merle S. Elliott, Maryland
Walter E. Hanson, New York
Bruce J. Harper, Texas
Irving Hoffman, District of Columbia
Robert A. Mellin, California
Bert N. Mitchell, New York
Jerome P. Solomon, Massachusetts
Gary J. Wolfe, North Carolina

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held in the AICPA boardroom, New York, on April 27-29 starting at 9:00 a.m. on the first day; 8:30 a.m. on the other two days. The agenda follows:

April 27 — *a.m.*

☐ Role of the Interest Formula in Financing Reporting. (Preliminary discussion of draft study.)

April 27 — p.m.

☐ Identification and Discussion of Certain Disclosure and Measurement Issues Concerning Lifo Inventories. (Report of task force.)

April 28 — *a.m.*

☐ Supplemental Information on Current Values for Real Estate. (Consider draft of proposed experiment.)

April 28 — p.m.

☐ Nonrefundable Fees of Originating or Acquiring Loans and Acquisition Costs of Lending and Insurance Activities. (Consider issues paper.)

April 29 — *a.m.*

☐ Investment Companies. (Preliminary discussion of proposed guide revision.)

April 29 — p.m.

☐ Capitalisation of Borrowing Costs. (Consider comment letter on proposed IASC standard.)

☐ Accounting by Financial Institutions for Real Estate Loans and Investments. (Consider emerging practice problem.)

The next scheduled meeting of the committee is on June 8-10 in Washington, D.C.

Auditing Standards

There will be an open meeting of the auditing standards board in the AICPA boardroom, New York, on April 19-21 starting at 1:00 p.m. on the 19th and 9:00 a.m. on the other two days. The following is the agenda:

April 19 — p.m.

☐ SAS no. 39 — Effective Date. (Discussion of point outline.)

☐ Audit of Current Value Financial Information. (Discussion of point outline.)

April 20 — *a.m.*

☐ Timing of Audit Procedures. (Consider draft for publication.)

April 20 — p.m.

☐ Financial Forecasts and Projections. (Report of task force.)

☐ SEC Auditing Practice. (Discussion of preliminary draft.)

☐ Oil and Gas. (Consider draft for exposure.)

April 21 — *a.m.*

☐ Subsequent Discovery of Failure to Apply Procedures Ordinarily Considered Necessary in the Circumstances. (Consider draft for publication.)

April 21 — p.m.

☐ Materiality and Audit Risk. (Report of task force.)

The board's next scheduled meeting is on June 7-9 in New York City.

AICPA Council

The council of the AICPA will hold an open meeting at the Pointe, Phoenix, Arizona, on May 9 and 10 starting at 9:00 a.m. and terminating at 1:00 p.m. each day. The agenda will be reported by the meetings telephone information service.

Professional Ethics

The professional ethics executive committee will have an open session of its meeting in Kansas City, Missouri, at the Westin Crown Center Hotel on April 21 starting at 2:00 p.m. Agenda topics are:

☐ Interpretation 101-9, the Meaning of Certain Independence Terminology and the Effect of Family Relationships on Independence. (Review exposure draft comments.)

☐ Interpretation 101-4, The Effect of Family Relationships on Independence, Interpretation 101-7, the Application of Rule 101 to Professional Personnel and Ethics Ruling no. 50 under Section 191, Family Relationship, Brother-in-law. (Consider deletion if proposed Interpretation 101-9 is approved.)

The next meeting of the committee has not been scheduled.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Draft on "Single-Figure" Bank Reports Exposed

The Institute will shortly issue a proposed statement of position entitled *Reporting by Banks of Investment Securities Gains or Losses*. It proposes that:

☐ Net investment securities gains or losses be presented on a separate line in the "other income" section of the bank's income statement. If not material, they may be included in "other income."

☐ Prior periods' interim and annual financial statements be restated to conform with the one-step format.

☐ If significant to an understanding of the revised reporting format, the tax effect of securities gains or losses should be disclosed in a note to the financial statements.

The banking committee will hold a public hearing on the issues raised in the draft SOP on August 1 at the Institute's New York office. Comments on the draft are due by July 22, and should be directed to Craig A. Mason at the AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006. Copies of the draft will be available later this month from the AICPA order department in New York on written request.

Last month, the SEC amended Article 9 of Regulation S-X to require bank holding companies to report earnings in a "one-step" format. The requirement is effective for fiscal years ending or after December 31, 1983—the same as in the proposed AICPA SOP.

Report Issued on State Governmental Accounting

A research report, *Preferred Accounting Practices for State Governments*, has been issued jointly by the Council of State Governments and the National Council on Governmental Accounting. The recommendations are designed to develop a set of preferred accounting practices to provide more comparability in financial reporting by state governments.

The recommendations regarding fund accounting and structure are generally consistent with generally accepted accounting principles, but those regarding the basis of accounting are different. While not specifying any basis of accounting, the report proposes criteria for recognition of revenue and expenditures/expenses.

Revenues for governmental fund types should be recognized when they are measurable and available and for proprietary fund types when they are earned and measurable. The basic criteria recommended for recognition of expenditures/expenses are that the amounts can be objectively measured; the goods have been delivered or title has passed to the state; services have been rendered.

Other recommendations include detailed proposals on accounting for assets and liabilities, equities, budgetary-accounting relationships and state financial reporting.

Copies of the research report are available, at $14.95 each, from the Council on State Governments, P.O. Box 11910, Lexington, Ky. 40578.

Recent AcSEC Actions

At its March 16-18 meeting, the Institute's accounting standards executive committee took the following actions, among others:

☐ Approved exposure of a proposed statement of position, *Accounting for Asserted and Unasserted Medical Malpractice Claims of Health Care Providers and Related Issues*.

☐ Approved an issues paper to be sent to the Financial Accounting Standards Board on *Computation of Premium Deficiencies in Insurance Enterprises*.

☐ Approved a letter of comment to the FASB on its proposed interpretation, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*.

☐ Approved a notice, which will be published in a forthcoming issue of the *Letter*, to remind Institute members that certain provisions of SFAS no. 65, *Accounting for Certain Mortgages Banking Activities*, apply to all mortgage banking operations regardless of whether they are conducted by a mortgage banking enterprise or another type of enterprise.

Washington Briefs

Year-End Installment Sales of Stock Clarified — In IR-83-52, the IRS said that taxpayers selling stock at a gain at year-end and receiving full payment in the following year have made an installment sale and should report the gain in the year of the payment. However, a taxpayer electing not to use the installment method should include the gain in the year of the sale. In both cases, these year-end sales should be reported only on Schedule D of the appropriate year's return.

Proposals on Contract Accounting Issued — The IRS, earlier last month, issued proposed regulations covering the accounting restrictions on long-term contracts included in the 1982 tax act (TEFRA). The proposals include new allocation rules under the completed contract method of accounting for indirect and period costs. The proposed rules would be effective for taxable years ending after December 31, 1982, except for a three-year phase-in allowing a part of the additional costs that must be treated as contract costs to be deducted currently.

Compliance on TEFRA "Top-Heavy" Plans Outlined — The IRS recently issued proposed regulations on complying with the top-heavy plan provisions of TEFRA. Issued as questions and answers, the proposals would affect sponsors of, and participants in, pension, profit sharing and stock bonus plans. The proposed regulations deal with determining what is a top-heavy plan, vesting rules and minimum benefits.

Don't Forget Two-Earner Deduction — In its preliminary review of 1982 tax returns, the IRS notes that many taxpayers aren't taking advantage of the new deduction for two-earner married couples. The deduction, equal to five percent of up to $30,000 of earned income of the spouse with lesser income, may be claimed regardless of whether deductions are itemized.

Disclosure for One-Bank Holding Companies Clarified — In Staff Accounting Bulletin no. 50, the SEC expressed the staff's views on financial statement and industry guide disclosures for a filing in formation of a bank holding company in Which the "only substantial asset of the holding company is its investment in the bank." Requirements for subsequently filed Form 10-K reports are also discussed.

Suran to Receive SBA Award — Sandra A. Suran, audit partner and partner-in-charge of Suran & Company, Beaverton, Oregon, has been named National Small Business Accountant Advocate of the Year by the Small Business Administration. Ms. Suran is chairman of the technical issues committee of the private companies practice section of the AICPA's division for CPA firms.

The CPA Letter

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FASB Exposes Draft on Railroad Accounting

The Financial Accounting Standards Board recently issued an exposure draft amending APB Opinion no. 20, *Accounting Changes*, to specify that a change to depreciation accounting for railroad structures will be reported by restating financial statements of all prior periods presented. In general purpose financial statements, railroads usually have followed betterment accounting for track structures.

In February, the Interstate Commerce Commission ruled that railroads must use depreciation accounting in ICC filings. The FASB draft is in response to requests for a determination as how best to report a voluntary change from betterment to depreciation accounting for general purpose financial reporting.

Comments are due by June 13. For further information, contact the FASB, High Ridge Park, Stamford, Conn. 06905.

In other board matters, the FASB's data bank on pension disclosures is now available on diskettes for use with IBM personal computers. The data bank contains information from certain major companies in compliance with SFAS no. 36, *Disclosure of Pension Information*. For further information, contact the FASB Data Bank, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905.

FASB Issues Discussion Memorandum on Pensions

The Financial Accounting Standards Board recently issued a second discussion memorandum as part of its project on employers' accounting for pensions and other employment benefits. The board, as part of this project, had issued a previous discussion memorandum in February 1981, held a public hearing that July and issued a paper presenting its preliminary views last November.

The board will hold a second public hearing October 26-28 in New York on the issues in both its preliminary views paper and the latest discussion memorandum.

The second memorandum addresses areas not covered in the preliminary views paper of last fall—such as additional issues involved in an employer's accounting for defined contribution plans, multiemployer plans, foreign plans and plans funded by insurance contracts. The new memorandum also discusses accounting issues that arise when a pension plan is terminated or curtailed. It seeks information on special factors that may need to be considered if a plan sponsor is a small or privately held business. Moreover, it deals with several implementation issues on the accounting methods proposed in the board's preliminary views paper.

IASC Approves Statement on Foreign Currency Exchanges

At its meeting last month in London, the board of the International Accounting Standards Committee agreed to publish a statement (IAS 21), *Accounting for the Effects of Changes in Foreign Exchange Rates*, to be available July 1. The statement is essentially the same as Exposure Draft 23, issued last year. IAS 21 requires a transaction in a foreign currency to be recorded by using the exchange rate existing at the time of the transaction or a rate approximating the actual rate.

Copies of the statement will be available in early July from the AICPA order department, at a price to be determined.

The IASC was formed in 1973 to formulate and promote worldwide acceptance of basic international accounting standards.

Four Audit Interpretations on Lawyers' Letters Approved

The Institute's auditing standards division has approved four auditing interpretations of SAS no. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*, to be published in a forthcoming issue of the *Journal of Accountancy*.

Three of these interpretations address small business audit concerns—"Alternative Wording of the Illustrative Audit Inquiry Letter to a Client's Lawyer," deals with circumstances when the wording of the inquiry letter may be modified due to a client not identifying unasserted claims and made more specific regarding the timing of the lawyer's response; "Client Has Not Consulted a Lawyer," focuses on circumstances when management has not consulted a lawyer concerning litigation, claims or assessments and the steps the auditor should take to obtain sufficient evidential matter in these areas; and "Assessment of a Lawyer's Evaluation of the Outcome of Litigation," concerns the clarity of a lawyer's evaluation of the outcome of such litigation and the auditor's position should he consider the response unclear.

The last interpretation, "Use of the Client's Inside Counsel in the Evaluation of Litigation, Claims, and Assessments," addresses circumstances involving inside counsel's response to inquiries on litigation and when such response constitutes sufficient, competent evidential matter.

In other division matters, W. Wade Gafford was named a practice fellow in the division. He previously was an audit supervisor with Touche Ross & Co. in Dallas. Practice fellowships ordinarily are for a period of 18 months to two years.

AICPA Conferences Set

Estate Planning—The sixth annual AICPA Estate Planning Conference will be held August 15-19 at the New York Hilton at Rockefeller Center. Aimed at practitioners experienced in estate planning, the conference will focus on current estate planning opportunities and techniques and will concentrate on problems most likely to be dealt with in actual estate planning situations. Registration is $500 before June 1; $525 after that date.

National Tax Education—The 1983 AICPA National Tax Education Program will be held June 19-July 30 at the University of Illinois campus in Urbana. Divided into five weeks, the program offers compehensive instruction in various aspects of federal taxation and is aimed at varying levels of tax training. New this year is an advanced level for experienced practitioners.

- ☐ Basic Level I—June 19-25—deals with tax research, responsibilities in tax practice, practice before the IRS, and special problems in individual tax returns.
- ☐ Basic Level II—June 26-July 2—deals primarily with corporate taxation and income taxation of property transactions.
- ☐ Intermediate Level III—July 10-16—deals with estate and gift taxes, taxation of estates and trusts, employer-employee relations, and closely held corporations.
- ☐ Intermediate Level IV—July 17-23—deals with Subchapter C, consolidated tax returns and partnerships.
- ☐ Advanced Level V—July 24-30—deals with microcomputer use in tax planning, tax shelters, advanced corporate taxation and deferred compensation in closely held businesses.

Tuition is $810 for one week; $1,520 for two weeks.

For further information on these conferences, contact the Institute's CPE marketing department (212/575-5697).

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Editor: Stephen H. Collins

GASB Hopes to Start by Year-End

The Financial Accounting Foundation is considering several actions which may result in the creation of the Governmental Accounting Standards Board by year-end, according to Paul A. Pacter, FAF executive director. The FAF has begun to seek a third trustee nominee from the governmental sector, who would join the two previously announced trustee nominees representing governmental groups—one from the Municipal Finance Officers Association and one from the National Association of State Auditors, Comptrollers and Treasurers (see February 14 *Letter*), making 15 FAF trustees in all. The third trustee nominee would be nominated by organizations representing elected officials from state and local governments.

The FAF is also in the process of revising its certificate of incorporation and its bylaws to reflect the addition of the GASB to its oversight responsibilities.

Also, the special committee on the GASB has begun to seek commitments for operating funds for the GASB from local and state governments, the municipal securities industry and the accounting profession, noted Pacter. The special committee, in addition, has begun to seek potential candidates for GASB positions, he said, adding that the GASB may be able to start operations before year-end.

AICPA Awards Additional Doctoral Awards

Four more doctoral candidates have received grants-in-aid in connection with their dissertations in accounting, making a total of six grants amounting to $37,500 for the 1982-83 academic year. The recipients are

- ☐ Merrill T. Lewis, University of Southern California, $8,400. Topic: Evaluation of Audit Evidence: The Use of a Multiple Criteria Decision Aid in the Planning Phase of the Audit.
- ☐ Loren Margheim, Arizona State University, $1,800. Topic: An Empirical Study of External Auditor Reliance on Internal Auditors.
- ☐ William Read, Virginia Polytechnic Institute and State University, $8,400. Topic: Modeling Auditor Judgment in Nonstatistical Sampling.
- ☐ Charles W. Swenson, University of Southern California, $2,800. Topic: The Effects of Inflation on Corporate Taxation: A Simulation Study.

NOTICE OF AICPA PUBLIC MEETING

Federal Taxation

The federal tax division executive committee will hold an open meeting on May 15 from 1:00 p.m. to 5:00 p.m. and on May 18 from 9:00 a.m. to 5:00 p.m. at the Capital Hilton Hotel in Washington, D.C. The agenda follows:

May 15—p.m.

- ☐ Division Activities. (Discussion.)
- ☐ Comments on Various Proposed Tax Regulations. (Discussion of point outline.)
- ☐ Meeting with State Society Tax Committee Chairmen. (Discussion of point outline.)

May 18—a.m.

- ☐ Meeting with Internal Revenue Commissioner. (Discussion of point outline.)
- ☐ Domestic Relations Tax Simplification. (Report of task force.)
- ☐ Tax Simplification. (Report of task force.)

May 18—p.m.

- ☐ Task Force Report on Independence and Tax Practice. (Report of task force.)
- ☐ Recommended Tax Law Changes. (Report of task force.)

The next scheduled meeting is July 18-19 in Washington, D.C.

Changes from this notice will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Rules on Personal Services Corporations Proposed—The IRS recently proposed regulations implementing a provision of last year's tax act (TEFRA) aimed at blocking employee-owners from avoiding federal income taxes by establishing personal service corporations. The proposals, which relate to new tax code section 269A, affect all personal service corporations if:

- ☐ Substantially all the services are performed by the corporation for or on behalf of one entity—such as a corporation or partnership, and
- ☐ The principal purpose for forming the corporation was to evade or avoid federal income taxes.

Further Clarification on Interest Withholding—Amid continued speculation on the ultimate fate of the interest and dividend withholding provisions slated to become effective July 1, the IRS recently issued several rules on the provisions' implementation. In Rev. Procs. 83-20 and 83-55, the IRS focuses on hardship waivers from the provisions. Also, the IRS has delayed withholding on original issue discount instruments until January 1, 1984.

SEC Mulling "Electronic Library"—The SEC is currently considering ways to computerize its system for corporate document filings. In a recent announcement, the commission said it is soliciting public comment on creation of such a system. The SEC says its goals are: to allow ready access by investors on a computer terminal to any SEC document; to provide efficient filing and storage of documents; and to facilitate information retrieval.

Substantiation Proposed on Charitable Contributions—The IRS has issued proposed regulations which would affect all taxpayers claiming deductions for charitable contributions, whether they itemize their deductions or not. Under the proposals, on which comments are due by June 6, taxpayers, for taxable years beginning after December 31, 1982, would have to substantiate charitable contributions of cash by keeping a cancelled check, receipt or other written evidence showing the amount, date and donee's name. A letter from the donee giving this information would also serve as a receipt.

ABA Making List of Relevant Publications—The American Bankers Association is currently compiling a list of periodic publications issued by accounting firms which contain accounting, auditing and tax information applicable to banks. Should your firm wish to add its publication to the list, contact Elizabeth MacKillop, American Bankers Association, 1120 Connecticut Avenue, N.W., Washington, D.C. 20036 (202/467-6657).

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Recent ASB Actions

The Institute's auditing standards board, at its meeting on April 19-21, decided not to postpone the effective date of Statement on Auditing Standards no. 39, *Audit Sampling*, for examinations of financial statements for periods ended on or after June 25, 1983. In reaching this conclusion, the board considered the adequacy of guidance available on implementing the SAS's provisions and potential misunderstanding of the statement's provisions. Also considered was the adequacy of time from the SAS's issuance to its presently scheduled effective date to allow practitioners to integrate its provisions into their audit approaches.

The board agreed that, while it is not in the public's best interest to postpone the effective date, the Institute should act to provide additional guidance to practitioners for dealing with potential misunderstandings about, and problems in, implementing the SAS's provisions.

Other actions taken at the meeting included the following:

- ☐ Agreed to ballot on issuance of a final SAS, *Substantive Tests Prior to the Balance Sheet Date*. The statement, which will supersede sections 310.05 through 310.09 of SAS no. 1, will provide guidance on applying the principal substantive tests at an interim date. While approval is expected, issuance of the SAS will be delayed so that it can be included in an omnibus SAS.
- ☐ Agreed to ballot on proposed revisions to SAS no. 33, *Supplementary Oil and Gas Reserve Information*, which had been prepared in response to the FASB's Statement no. 69, as a final SAS. The board decided that since the changes were only technical in nature, exposure of the revisions for comment was not necessary. This statement may also be included in the omnibus statement.

Conference Focuses on Industry Interests

More than 425 participants attended the Institute's conference for CPAs in Industry held April 28-29 in Denver. "Attendance here is a demonstration of support for activity in this area," said Philip B. Chenok, AICPA president, noting that "there has been considerable effort to generate more programs" for industry members among Institute activities. The program included speakers such as Bevis Longstreth, SEC commissioner, and James J. Leisenring, director of research and technical activities at the Financial Accounting Standards Board, as well as concurrent sessions covering topics such as corporate applications of microcomputers, cash management, and internal management and pension funds accounting.

Leisenring reviewed the current status of FASB projects, noting particularly the conceptual framework and pension projects. Calling the pension project "the most controversial," he warned against "knee-jerk reactions" to conclusions expected to be reached by the FASB in light of their two recent papers in this area. He said there are no foregone conclusions.

Longstreth addressed two main issues—the commission's support of a mandatory system of disclosure and the commission's role in setting accounting standards. In sum, he said that "in carrying out its statutory responsibility to ensure full and fair disclosure, the SEC has attempted to strike a balance between establishing accounting standards itself and leveraging its efforts with private sector groups."

For more on the conference, see the June *Journal of Accountancy*.

IFAC Issues Statement; Exposes Two Drafts

At its recent meeting in London, the international auditing practices committee of the International Federation of Accountants took the following actions:

- ☐ Approved its International Auditing Guideline (IAG 12) entitled *Analytical Review*, which provides an understanding of analytical review procedures and guidance on the objectives, timing and extent of reliance to be placed on such procedures.
- ☐ Approved publication of an exposure draft, ED 18, *Related Party Transactions*, which provides guidance on procedures to be considered in determining the existence and identification of transactions with related parties. Comments are due by November 30.
- ☐ Approved issuance of an exposure draft, ED 19, *Using the Work of an Expert*, which discusses situations where the opinion of an expert may be needed, and the procedures involved in substantiating the expert's qualifications and work as audit evidence. Comments are due by November 30.

The above papers are expected to be available in early July from the AICPA order department, at prices to be determined.

IFAC was established in 1977 by representatives of more than 50 nations with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international, technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of practice qualifications.

Ethics Interpretation on Family Relationships Approved

At its recent meeting, the AICPA's professional ethics executive committee approved the addition to the Code of Professional Ethics of new Interpretation 101-9 entitled *The Meaning of Certain Independence Terminology and the Effect of Family Relationships on Independence*. The interpretation, which will be published in the June *Journal of Accountancy*, defines certain terms used in Rule 101 and, in doing so, explains how independence may be impaired through certain family relationships. The interpretation is effective for engagements begun after December 31, 1983, with earlier application encouraged.

Due to the adoption of the new interpretation, Interpretations 101-4 entitled *Effect of Family Relationships on Independence* and 101-7 *Application of Rule 101 to Professional Personnel* will be deleted as of December 31, 1983. Also, Interpretation 101-8 entitled *Effect on Independence of Financial Interests in Nonclients Having Investor or Investee Relationships with a Member's Client* has been modified to comply with the newly adopted interpretation as to the definition of the term "member" and as to the effective date. In addition, Ethics Ruling no. 50 under Section 191 entitled *Family Relationship, Brother-in-law* has been deleted due to the adoption of the new interpretation.

Because of the effective date of the above addition, modifications and deletions, the above pronouncements will remain in effect through December 31.

Guy Named AICPA Vice-president

Dan M. Guy, CPA, Ph.D. has been appointed an AICPA staff vice-president in charge of the Institute's auditing activities. He was previously the director of auditing research and has been acting administrator of the auditing standards division since January 1.

Before joining the AICPA staff on June 1, 1979, Guy was a professor of accountancy at Texas Tech University and visiting professor of accountancy at the University of Texas at Austin.

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Casino Audit and Accounting Guide Proposed

A proposed audit and accounting guide, *Audits of Casinos*, will be exposed this month. Prepared by the gaming industry special committee in the auditing standards division, the proposals were developed in response to increasing public interest in casinos, and companies that own casinos, as more states permit or consider permitting casino gaming.

The proposed guide describes operations and accounting practices that are unique to the casino industry as well as unique audit matters. Some of the regulatory requirements are also described. It discusses the importance of effective internal control and notes the reliance of the auditor on these controls to restrict substantive testing because individual table game bets are not recorded. Other matters covered include the following:

- ☐ The unique problems in testing cash and accounts receivable balances.
- ☐ Illustrative financial statements.
- ☐ The auditors' reports on internal accounting control for Nevada and New Jersey casinos.

Copies of the draft will be available shortly from the AICPA order department (Product no. 814123).

SEC Wins Litigated Decision Under FCPA's Accounting Provisions

The Securities and Exchange Commission recently won its first litigated decision under the accounting provisions of the Foreign Corrupt Practices Act of 1977 (SEC v. World-Wide Coin Investments, Ltd.). Since the legislation's enactment, the commission has brought 21 injunctive actions alleging violations of the act's accounting provisions as embodied in section 13(b)(2) of the 1934 Securities Exchange Act. However, no case until now had gone to court.

The commission in 1981 filed charges against World-Wide Coin, an Atlanta precious metals dealer, alleging that the company and its president and chairman had violated the antifraud, reporting, accurate books and records, internal accounting controls, ownership, tender offer and proxy solicitations requirements of the 1934 act. It characterized the company's recordkeeping as "sheer chaos."

In a complaint filed with the U.S. District Court for the Northern District of Georgia, the SEC charged that the company "perpetrated a two-year fraudulent course of business on the public shareholders" of World-Wide Coin.

This March, Judge Robert L. Vining ordered that a permanent injunction be entered against World-Wide Coin, its president and chairman, and a director enjoining them from further violations of the federal securities laws. Additionally, the judge permanently enjoined the defendants from violating the accounting provisions of the FCPA.

According to Barton S. Sacher of the SEC's Atlanta regional office, the court's memorandum order fully detailing all the issues in the case and the court's reasoning will be issued shortly.

Tax Division Notes Problem with Tax Deferral Election

Some taxpayers who elected to pay their 1981 tax liability attributable to certain commodity transactions in installments under Section 509 of ERTA but who otherwise had overpayments have effectively been denied the election by IRS service centers according to the AICPA tax division.

Inasmuch as such overpayments were applied by the IRS to the deferred amount due from the commodity transactions, there is a significant problem where taxpayers elected to have any overpayment applied to their 1982 estimated tax ("credit elect"). They have been charged a penalty for underpayment of estimated tax. The IRS National Office has advised the AICPA tax division that this matter is currently being considered by the IRS chief counsel but, to date, the reaction is negative. According to the IRS, the only way any potential estimated tax penalty may be avoided is by full payment of the deferred amount with a request to the appropriate service center to restore the credit elect.

AICPA Member Expelled; Two Suspended

Under the AICPA bylaws, a member shall be terminated without a hearing should there be filed with the secretary a final judgment of conviction imposed upon any member for filing a false or fraudulent income tax return on his or a client's behalf.

On March 3, 1983, the membership of Charles S. Ronder of Kingston, New York, was terminated following receipt by the secretary of a judgment of conviction on his plea of guilty of filing a fraudulent tax return.

The Institute's bylaws provide that membership in the Institute shall be suspended without a hearing if a member's CPA certificate is suspended as a disciplinary measure by any governmental authority.

The membership of Marvin M. Reiter of Highland, California, has been suspended from January 28, 1983 to July 28, 1983, coincident with the suspension of his CPA certificate as a disciplinary measure by the California Board of Accountancy.

The bylaws also provide that membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

On February 15, 1983, James A. Kelly of Fort Lauderdale, Florida, was notified that his membership was suspended pending appeal of his conviction of extortion in a U.S. district court.

Accountant Supply and Demand Study Issued

Continuing some of the trends of past years, colleges and universities and accounting firms are again predicting a leveling off in both the supply of accounting graduates and the demand for public accounting recruits. The trend was first revealed in the 1980 survey and is most pronounced for public accounting recruits with master's degrees.

These are some of the conclusions drawn from the recently published 13th annual study, *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, conducted by the Institute. The survey covers 617 colleges and universities and a stratified sample of 246 public accounting firms as to the supply of accounting graduates and their projected employment needs through 1985. Some of the specific findings of the study are

- ☐ The total number of accounting graduates will rise from 55,900 in 1981-82 to 63,500 in 1984-85, while the number of those graduates with master's degrees will rise to 8,400 in 1984-85. The rate of growth, however, for master's degree graduates will decline from 18 percent in 1982-83 to 11 percent by 1984-85. Particularly strong are master's in accounting, which are expected to grow at a rate three times faster than MBA's with an accounting concentration.
- ☐ The total public accounting demand of 16,400 in 1981-2 will drop 3 percent in 1982-3, and then increase 9 and 3 percent respectively over the next two years to 17,800 in 1984-5. The number of master's degree hirees will increase from 2,200 in 1981-2 to 2,700 in 1984-5, but their annual rate of growth will peak at 16 percent in 1983-4 and then level off in the next year. Demand for graduates of 150 semester-hour programs, according to responding firms, will account for a larger percent of the total master's degree hires.
- ☐ While the percentage of the total of accounting graduates with bachelor's degrees hired by public accounting firms will stay at about 27 percent over the period of the survey, the employment percentage for master's degree recruits will drop from 40 percent in 1981-2 to 32 percent in 1984-5.

A copy of the report may be obtained, free of charge, by writing to the AICPA order department (Product no. 887158).

Second Group of College Accounting Programs Accredited

At its annual meeting last month, the American Assembly of Collegiate Schools of Business accredited 16 accounting programs in 10 schools. Last year (see May 10 *Letter*), in its first round of accounting program accreditations, 18 colleges were accredited. The number of schools now accredited is 28.

Three types of programs received formal accreditation: (A) bachelor degrees with a concentration in accounting; (B) master of business administration programs with a concentration in accounting; and (C) master of accounting degrees, including 150 semester-hour accounting programs. There are now 51 accredited programs.

The colleges and types of accreditation are as follows: Baruch College (A & B); Baylor University (A); Florida International University (A); University of Mississippi (A & C); Northern Illinois University (A & C); University of Oklahoma (A & C); and Old Dominion University (A).

Also, University of Utah (A & C); Virginia Polytechnic Institute and State University (A & C); and University of Washington (A).

The accreditation of accounting programs is a joint effort of the AACSB and the accounting profession. Included on the accreditation committee are representatives of the American Institute, American Accounting Association, National Association of Accountants and the Financial Executives Institute. The committee expects that additional programs will qualify each year following the two-year process of review and visitation.

November 1982 Sells Award Winners Announced

For the November 1982 Uniform CPA Examination, 73,140 candidates completed a total of 268,270 papers—both new records. Elijah Watt Sells Awards are presented to those candidates who take all four sections of the examination at one time and receive the highest grades.

The winner of the Sells Gold Medal for the highest total on the examination was John C. Persons II of Tulsa, Oklahoma. Presently an operations analyst at Telex Computer Products, Inc., in Tulsa, he is a summa cum laude graduate of Oral Roberts University.

The Silver Medal, the second highest award, was won by Joy Dianne Catalano of Fresno, California. A graduate of California State University at Fresno, she is presently a staff accountant at Arthur Young & Co.

Also, Mary Ann Emery of Northfield, Minnesota, was the winner of the Sells Bronze Medal, given for the third highest grade total. Presently an instructor in the economics department of St. Olaf College in Northfield, she received an M.A. degree in economics from the University of Minnesota.

In addition, 118 certificates with high distinction are being awarded.

The medals will be presented during the AICPA's annual meeting in Minneapolis in October.

Tax Division Seeks Views on Member Participation

The AICPA's federal tax division is trying to determine the level of member interest in becoming more directly involved in its activities and is seeking comments on which of the following activities would be of interest:

- ☐ Receiving copies of agenda and minutes of the executive and any subcommittees in which you have a particular, indicated interest.
- ☐ Receiving copies of position papers on tax issues.
- ☐ Receiving division publications.
- ☐ Receiving a division newsletter covering AICPA activities in tax developments.
- ☐ Opportunities to contribute to the development of AICPA tax positions.
- ☐ Attending one or both of the semiannual division meetings which feature speakers on current tax subjects.

Responses to these items should be sent to: Federal Tax Division, AICPA, 1620 Eye Street, NW, Washington, D.C. 20006.

Washington Briefs

Social Security Measure Signed—President Reagan recently signed into law the bipartisan plan aimed at providing the social security system with additional revenue. Among the key changes were

- ☐ Payroll taxes will jump to 7 percent next January 1, on the first $35,700 on income, rather than 6.7 percent. The rate will gradually rise to 7.65 percent in 1990. Employees will be allowed an income tax credit of 0.3 percent in 1984.
- ☐ For the first time, retiree's benefits will be taxed. The tax will fall on retirees, whose income, including half their benefits, is more than $25,000 for individuals, $32,000 for married taxpayers filing jointly. Tax-exempt income will be included in determining these income levels.

Subsidiary Stock Sales—The SEC has issued its Staff Accounting Bulletin no. 51, *Accounting for Sale of Stock by Subsidiary Company* (Federal Register, April 5). The bulletin sets forth the staff's views on accounting for the issuance of a subsidiary's stock that changes the parent's ownership percentage in the subsidiary. It holds that the AcSEC issues paper of June 3, 1980 provides appropriate guidance until the FASB acts on the matter, probably in early 1984.

Errors on Form 4972—The IRS has announced in IR 83-71 that there are instructional errors in the 1981 and 1982 versions of Form 4972 relating to ten-year averaging of a lump-sum payment from a retirement plan. They affect persons who got lump sums in 1980 or 1981 and again in 1981 or 1982. Corrected filings may be needed, according to the IRS.

IRS Interest Rates to Drop—The annual interest charges by the IRS on tax underpayments and paid on overpayments will decrease from 16 percent to 11 percent on July 1. The IRS is required to change these rates if the adjusted prime rate charged by banks during the six-month period ending March 31 differs from the existing IRS rate.

SEC Proposes Freeze on Software Accounting—The SEC would impose a moratorium on capitalizing internal development costs for computer software to be sold or leased under a proposed new rule on which comments are requested by May 13. Existing public companies that have been capitalizing such costs may continue to do so. Companies going public for the first time must expense these items and those presently expensing such costs may not change to capitalizing. SEC Chief Accountant, Clarence A. Sampson, said, "We want to freeze everyone in place," noting that the FASB is studying the issue.

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Highlights of AICPA Board of Directors Meeting

The AICPA board of directors received the recommendations in the auditing standards structure committee's report at its meeting on May 6-7. It decided to recommend to council that the auditing standards advisory council and the quality control standards committee be dissolved on the grounds that other liaison and monitoring groups were effectively filling the role of the ASAC and that the quality control standards committee had completed its current agenda and its responsibilities should now be assumed by the auditing standards board. (Council subsequently voted to discharge the two groups.) The special committee report will be referred to the ASB for further implementation.

The board also resolved to reduce the size of the accounting and review services committee from its present 15 members to approximately 7-9.

In another area, the professional ethics executive committee was directed to prepare two documents so the board can consider two alternatives at its July meeting. The first would be a statement explaining a program of enforcement for existing behavioral rules that will avoid serious litigation risks and the other would propose language for minimal modification of the behavioral rules so as to achieve enforceability without undue legal risk.

Other actions of the board included:

- ☐ Approval of a contribution of $100,000 to the Financial Accounting Foundation for preliminary expenses in the establishment of the Governmental Accounting Standards Board.
- ☐ Approval of amendments to the CPA Plan and the Group Insurance Plan that would increase maximum coverage, revise contribution rates and eliminate reduction in coverage for ages 65 through 69 under the CPA Plan.
- ☐ Reaffirmation of its position that the Division for CPA firms can appropriately explain the nature of its program to members and others, but that any costs beyond normal staffing must be borne by the division itself.

Council Meets in Phoenix

Council, at its May 9-10 meeting, took several administrative actions and heard a variety of reports. Many of the items on the agenda had been previously discussed at the regional council meetings.

Among its activities were the following:

- ☐ Elected three members to council to fill vacancies created by resignations. They and the expiration of their terms are Jacob J. Cohen, Maryland (1984), J. Curtis Hyers, Florida (1984) and Stephen M. Walker, New Mexico (1985).
- ☐ Amended the membership eligibility requirements for international associates in terms of educational needs and residency restrictions.
- ☐ Declined to adopt a resolution that called for the appointment of a committee to investigate the board's handling of a letter signed by the then chairman of the Private Companies Practice Section to PCPS members. The letter related to the use of the directory of the division for CPA firms.
- ☐ Received a report from the awards committee that Walter E. Hanson, retired chief executive of Peat Marwick Mitchell & Co. and the first chairman of the SEC practice section of the division for CPA firms, will be the recipient of the AICPA's Gold Medal for Distinguished Service at the 1983 annual meeting.

PCPS Conference Focuses on Member Concerns

Key concerns—such as standards overload, peer review, the future of the profession and marketing CPA services—were among the topics covered at the fifth annual conference of the AICPA private companies practice section of the division for CPA firms, which was held earlier this month in New York. More than 300 members attended the two-day conference.

In an update, Morris I. Hollander, chairman of the PCPS peer review committee, said, "We've come a long way." He noted that over 1,100 reviews of firms in the PCPS will be completed by year-end. "Of the 749 PCPS reviews accepted to date, over 600 have been clean reports," he added. Hollander also said that the PCPS committee is working to streamline the peer review process, particularly for firms in their second review.

Looking to the future, Bernard Z. Lee, AICPA vice chairman, said the profession will be challenged by the tension between professionalism and commercialism, possible changes in the AICPA's Code of Professional Ethics, standards overload and implementation of the governmental accounting standards board.

Recent AcSEC Actions

At its meeting on April 27-29, the Institute's accounting standards executive committee took the following actions, among others:

- ☐ Approved an issues paper, *Accounting for Nonrefundable Fees of Originating or Acquiring Loans and Acquisition Costs of Lending and Insurance Activities*, to be sent to the Financial Accounting Standards Board.
- ☐ Approved a letter of comment on the proposed International Accounting Standard (Exposure Draft 24), *Capitalization of Borrowing Costs*, to be sent to the International Accounting Standards Committee.

College Accounting Accreditation Structure Revised

The executive committee of the American Assembly of Collegiate Schools of Business (AACSB) recently approved the revamping of the organizational structure of the accounting accreditation committees. Essentially, these committees will now operate in the same manner as the business administration committees. A new group, the accounting standards committee, was formed to review the accounting accreditation standards and propose any changes to the AACSB executive committee.

The executive committee also approved changes in the accounting standard proposed by the accounting accreditation committee. The changes were then approved by the accreditation council at AACSB's annual meeting on April 14. One of the proposals was that the AACSB would accept attendance at or instruction of professional development programs for purposes of meeting the recent accounting experience requirement. Under the proposal, the programs would have to be primarily attended by or instructed by senior practicing professionals and no more than 25 percent of the total experience requirement could be earned in this way. Other proposals provide that a "critical mass" of faculty be required and that institutions offering more than one type of accounting program accredit all their programs at one time.

Also proposed were modifications in the curriculum standards, including requiring instruction in the design, use, control and audit of computerized information systems. Students would be expected to use computers in accounting courses.

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Editor: Stephen H. Collins

Louisiana CPA Board Sued Over Advertising

The U.S. Department of Justice recently sued the Louisiana Board of CPAs, claiming that the board restricts competition among CPAs by unreasonably restricting their advertising and solicitation for clients. The civil antitrust action, filed in U.S. District Court in New Orleans (U.S. v. State Board of Certified Public Accountants of Louisiana), charges the board violated section 1 of the Sherman Antitrust Act.

The suit filed by the Justice Department charges that the board, consisting of five practitioners appointed by the governor, is restraining competition through its rules of professional conduct. According to the complaint, the board's present rules prohibit all direct, uninvited oral and written solicitation as well as advertising information relating to past performance, area of specialization and other matters of interest to potential clients. The Justice Department is seeking to have the board cancel "all such rules of professional conduct and every other resolution or statement which has the purpose or effect of unreasonably restricting solicitation or advertising by board licensees."

Member's Cooperation Avoids Expulsion

At a meeting of a hearing panel of Regional Trial Board VI in Chicago on January 14, 1983, Herbert H. Freedman of Chicago was charged with violating Rule 505 of the Code of Professional Ethics of the Illinois CPA Society and the AICPA. Rule 505 provides that a member shall not practice under a firm name which is misleading as to type of organization. The charge against Mr. Freedman involved his failure to change the letterhead on his professional stationery from "Freedman & Co." while practicing as a sole practitioner.

The hearing panel found Mr. Freedman guilty as charged and voted that he be expelled from membership in the Illinois CPA Society and the AICPA unless he submits evidence by June 30, 1983, that his letterhead and other related materials are in accordance with his form of practice.

Mr. Freedman, who was present at the hearing, did not request a review within the required period and the decision therefore became effective February 13, 1983. He subsequently submitted to the hearing panel a new letterhead and other materials reflecting his form of practice as a proprietorship. The hearing panel's decision regarding expulsion, therefore, will not become operative.

Ives Joins FAF as GASB Consultant

Martin H. Ives recently resigned as first deputy controller of the City of New York to join the Financial Accounting Foundation as a full-time consultant on establishing the Governmental Accounting Standards Board. In his new position, Ives will be involved in all aspects, including fund raising, of starting up the GASB.

NOTICE OF AICPA PUBLIC MEETING

Accounting and Review Services

The accounting and review services committee will hold an open meeting on June 16 from 9:00 a.m. to 5:00 p.m. and on June 17 from 9:00 a.m. to 12:30 p.m. at the Palmer House in Chicago. The agenda has not yet been determined and will be reported by the meetings telephone information service.

Accounting Standards

The accounting standards executive committee will hold an open meeting on June 8-10 in Washington, D.C., at the Sheraton-Carlton Hotel. The agenda has not yet been determined and will be reported by the meetings telephone information service.

Changes from these notices will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Time is Factor in Withholding Controversy—The recent decision by the House Ways and Means Committee to hold a hearing on June 2 on the interest and dividend withholding provisions slated to become effective July 1 leaves the controversy up in the air, with both supporters and opponents saying that time is a crucial factor in the debate. The House approach appears to be for total repeal, whereas the Senate seems to favor a delay until the mid 80's.

New Generation-Skipping Tax Offered—The Treasury Department recently unveiled a "simple and workable alternative" to the current generation-skipping transfer tax. The proposal was outlined in a letter to Senate Finance Subcommittee on Estate and Gift Taxation Chairman Steven D. Symms (R-Id.), the chief sponsor of repeal legislation. It calls for a flat rate of tax on transfers of more than $1 million, or $2 million for a married couple. Subsequently, Symms introduced a bill (S. 1522) to repeal the present tax.

SEC Seeks Increased BHC Disclosures—The SEC has proposed changes to its industry guides for statistical disclosures by bank holding companies to increase the information these companies must disclose on certain "risky" loans. The proposals would revise present disclosure guidelines on nonperforming loans "to focus more broadly on various risk elements in the loan portfolio and would provide for additional disaggregated disclosures about foreign loans," said the commission.

Tax Freedom Day Comes Earlier—Tax Foundation economists recently announced that "Tax Freedom Day" for 1983—the day the average worker earns enough to pay all his federal, state and local tax obligations—was May 2. This is the second consecutive year the date was earlier than the year before. According to the foundation, the average worker spends two hours and 40 minutes of each eight-hour workday earning money to pay federal, state and local taxes.

New Debt/Equity Proposals Being Developed—According to Assistant Treasury Secretary for Tax Policy John Chapoton, the Treasury Department is making another attempt to write proposed regulations to distinguish whether interest in a corporation should be treated as stock or debt. Chapoton didn't mention when the IRS would issue the proposals. This attempt would represent the fourth version of the rules since tax code section 385 was enacted into law in 1969.

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The CPA Letter

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Auditing Standards Structure Report Being Implemented

The recommendations in the Institute's auditing standards structure committee's final report, which was accepted by the AICPA's board of directors last month (see May 23 *Letter*), are being implemented. The AICPA council and board acted on some of its recommendations and referred the report to the auditing standards board for implementation of others.

The AICPA council, at its May meeting, dissolved the auditing standards advisory council and the quality control standards committee. The board suggested that the incoming chairman cut the number of members of the accounting and review services committee from the present 15 to approximately 7-9. It also increased the compensation available to ASB members to $40 per hour for up to 800 hours per year, reflecting the report's advice that ASB members spend only 600 to 800 hours annually on ASB matters.

Other recommendations in the report include:

- ☐ The ASB should make more use of pronouncements without the authority of statements on auditing standards in providing procedural guidance.
- ☐ The ASB should make procedural changes to achieve more effective use of task forces and Institute staff, as well as to implement more effective agenda controls and more efficient meetings.
- ☐ An informal search committee should be set up for greater emphasis on recruiting qualified ASB members. In addition to retaining the present balance of Institute members from practice, consideration should be given to members from industry for appointment to the ASB.

IRS Sticks to Tighter Policy on Method Changes

The IRS apparently is holding to its recently tightened position regarding granting permission for taxpayers to change from the accrual method of accounting to the cash method for income tax purposes. IRS Associate Chief Counsel Gerald Portney, addressing the issue at the AICPA's spring tax division meeting last month (see page 2), said that the IRS will continue to deny most requests to change from accrual to cash method accounting. He noted further that "there is no absolute, incontrovertible right" for taxpayers who have adopted the cash method to remain on it.

The Institute's federal tax division, in a letter to the IRS, said that "recently, without notice, the IRS has changed the unpublished criteria for changes from the accrual to the cash method of accounting." William L. Raby, chairman of the Institute's federal tax division, in the letter, noted that "the unpublished nature of the change makes it impossible to determine the technical merit or policy basis on which it was made.

"The unpublished policy," continues the letter, "results in an inequitable and arbitrary application of the law to similarly situated taxpayers." Raby indicated that while the IRS is not granting changes to the cash method, new taxpayers may elect to use the cash method. "As a result," he said, "taxpayers in identical trades or businesses are subject to two different applications of the law."

Raby subsequently added that the division has met recently with IRS Commissioner Roscoe Egger and Associate Chief Counsel Portney, and, after these meetings, felt that the IRS is strongly committed to its new position.

TEFRA Penalties Critiqued at AICPA Tax Meeting

The IRS' proposed regulations on the tax penalty provisions of the 1982 tax act (TEFRA) go further than Congress' intent in some areas while failing to provide adequate guidance in others. This was the consensus at a panel discussion last month at the Institute's spring tax division meeting, and in written comments to the IRS by the Institute's federal tax division.

While agreeing that some aspects of the issue were successfully addressed by the proposals issued earlier this year (see March 28 *Letter*), the panel said that many taxpayers continue to have "no real" guidance for dealing with the penalty for substantial understatement of tax liability in tax shelter and non-tax shelter cases.

The proposals, in defining the terms relating to tax shelter cases, "do make an attempt to give us practical solutions, but some of the solutions are not workable and some go beyond the statute," said one panel member, Albert Ellentuck of Laventhol & Horwath.

On another regulatory issue, William McKee, deputy assistant Treasury secretary for tax policy, told the gathering of some 225 participants that final regulations should be issued within the next two months under tax code section 704, which deal with partnership allocation rules.

Guide on Personal Financial Statements Set

The Institute's auditing standards division will issue an audit guide entitled *Personal Financial Statements* early next month. The guide, which replaces the AICPA Industry Audit Guide, *Audits of Personal Financial Statements,* issued in 1968, is aimed at providing guidance in applying professional standards to engagements involving personal financial statements.

The guide provides guidance on the scope of work and form of report for an audit, review or compilation of personal financial statements prepared in conformity with the accounting provisions of Statement of Position 82-1, *Accounting and Financial Reporting for Personal Financial Statements.* SOP 82-1, which recommends the use of estimated current value as the basis of measurement in personal financial statements, is included in the guide's appendix.

The guide was prepared by a task force composed of representatives from the accounting and review services committee, the auditing standards board and the personal financial statements committee (the group that developed the accounting guidance in SOP 82-1).

Copies of the guide will be available next month from the AICPA order department, at a price to be determined (Product no. 011132).

IASC Publishes Objectives and Procedures Statement

The International Accounting Standards Committee recently published a statement, *Committee Objectives and Procedures.* It includes a history of the organization and the details of the mutual commitments of the IASC and the International Federation of Accountants. The publication is dated January 1983 reflecting the status of the agreements and membership as of that date.

It also includes a *Preface to Statements of International Accounting Standards* and notes that this year marks the organization's 10th anniversary.

Copies are available from the AICPA order department at $2.75 each (Product no. 035211).

The IASC was formed in 1973 to formulate and promote worldwide acceptance of basic international accounting standards.

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FASB Proposes Further Delay on Pension Statement

The Financial Accounting Standards Board has issued an exposure draft amendment SFAS no. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, to further defer the applicability of that statement to plan years beginning after June 15, 1985, for pension plans sponsored by state and local government units. In May of last year, the board issued SFAS no. 59, which deferred the effective date of the statement for plans sponsored by state and local governments to fiscal years beginning after June 15, 1982. The statement remains effective for private plans.

Jules Cassel, FASB senior technical adviser, said the reason for the deferral is basically the same as before—to allow time to resolve jurisdictional questions regarding the application to governmental entities. The question is likely to be taken up when the new Governmental Accounting Standards Board starts up.

The board noted that the National Council of Governmental Accounting is expected to also delay the effective date of its recently released Statement no. 6 (see following story) to coincide with the board's proposal at its meeting this month.

Comments on the draft are due by July 7. Copies of the draft are available from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

NCGA Adopts Statement on Public Employees Pensions

The National Council on Governmental Accounting recently issued Statement no. 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems (PERS) and State and Local Government Entities*. The statement supersedes the NCGA's Interpretation 4, which was issued in December 1981.

The PERS financial statement presentations called for by the statement include investments at cost or amortized cost with parenthetical disclosure of market value, current liabilities and the actuarial present value of credited projected benefits. The cited effective date is for plan years beginning after June 15, 1982, but may change.

For further information, contact the NCGA, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601 (312/977-9700).

July 1 Is Deadline for Disability Income Plan Entrants

Institute members wishing to begin or increase their coverage under the AICPA's Long Term Disability Income Plan must sign up before July 1. The plan includes:

☐ Monthly payments ranging from $500 to $3,000 for total disabilities.

☐ Benefits may be paid for life after a 26-week waiting period if disability was incurred before age 50; payments to age 65 if incurred at age 50 or later.

☐ A voluntary rehabilitation program under which the insured CPA may return to work while receiving reduced benefits.

Plan literature is being mailed to the membership this month. For additional information, contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (Telephone 800/221-4722; in New York call collect 212/661-9000, extension series 436).

Procedures Set for Audit Sampling Guidance

SAS no. 39, *Audit Sampling*, and the related audit sampling guide become effective for periods ended on or after June 25, 1983. The Institute's technical information service (TIS) has established liaison with the audit sampling implementation task force of the auditing standards board and will provide nonauthoritative responses to practitioners' questions. Practitioners who are not certain whether their present nonstatistical sampling methods meet the requirements of SAS no. 39 may find it helpful to discuss their questions with the TIS staff.

Callers should use the TIS toll-free numbers and identify the questions as related to audit sampling. The numbers are 1-800-522-5430 in New York State and 1-800-223-4158 for the rest of the U.S.

Practitioners who wish to provide input on implementation problems and the solutions they have developed should write directly to the audit sampling implementation task force at the Institute, which will monitor practice problems.

Washington Briefs

FCPA Amendments Legislation Moves Forward—On May 24, the Senate Banking Committee, by an almost unanimous vote, reported out legislation (S. 414) which would amend the Foreign Corrupt Practices Act of 1977. The bill is identical to legislation passed in the Senate in November 1981 as S. 708. Washington sources believe action by the full Senate to be forthcoming.

SEC Issues Statement on Termination of Overfunded Plans—Recently, the SEC issued Staff Accounting Bulletin no. 52 on terminations of overfunded defined benefit pension plans. In a question and answer format, SAB 52 discusses situations when a company terminates its defined pension plan and replaces it with a defined contribution plan.

Supreme Court to Rule on Limitation Period on Fraudulent Returns—The U.S. Supreme Court has agreed to decide whether a taxpayer's filing of an amended, nonfraudulent return after having filed a fraudulent return limits the IRS' time to assess taxes. The IRS must generally levy added taxes within three years after a return has been filed or, if later, was due, but there is no time limit for a fraudulent return. Three circuit courts have split on the issue.

Egger Testifies on Taxpayer Burdens—The IRS "has no inherent interest in maintaining complexity in tax administration" and is taking major initiatives toward simplifying life for taxpayers in the areas of direct taxpayer contacts, tax forms and publications, and rulings and regulations. So said IRS Commissioner Roscoe L. Egger, testifying recently before the Senate Finance Subcommittee on Oversight.

IRS' Bells Keep Ringing—The IRS is using the latest equipment in an attempt to collect about $27 billion in overdue taxes. It has been testing a computer program designed to keep dialing delinquent taxpayers' telephone numbers until they answer. While only operational now in two cities, the system is likely to be expanded to 20 cities by next year.

Estate Planning Conference Reminder

Registrations are still being accepted for the AICPA Estate Planning Conference in New York on August 15-19. It will concentrate on actual estate planning problems and is geared to the experienced practitioner. Contact the CPE marketing department (212/575-5696) for further information.

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The CPA Letter

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Recent ASB Actions

The Institute's auditing standards board, at its meeting on June 7-9, agreed to issue a statement on auditing standards entitled *Consideration of Omitted Procedures After the Report Date*. The SAS, which will be issued by September, provides guidance to the auditor on the steps that should be taken when he concludes, subsequent to the date of his report on audited financial statements, that one or more auditing procedures considered necessary in the circumstances were omitted from his examination of the financial statements. The SAS requires that, on concluding that such a procedure was omitted, the auditor assess the importance of the procedure to his ability to support his previously expressed opinion. If the omission materially affects his ability to support the opinion, the SAS requires the auditor to then apply the omitted procedure or an alternative to provide the basis for the opinion.

In another action, the board agreed to issue an exposure draft of a proposed SAS revising SAS no. 38, *Letters for Underwriters*, to reflect the impact of changes in Securities and Exchange Commission regulations and other developments.

Guideline on On-Line EDP to be Issued

The Institute's auditing standards division will publish in July a computer services guideline entitled *Audit and Control Considerations in an On-Line Environment*. The guideline is designed to help auditors

- ☐ Understand the variety of environments included in the generic classification of "on-line."
- ☐ Identify the impact that the on-line environment has on the auditor's study and evaluation of the internal accounting control system.
- ☐ Identify the impact an on-line environment may have on the nature, timing and extent of audit procedures.

The guideline is intended for use by auditors with a basic understanding of EDP accounting controls and EDP concepts and a familiarity with SAS no. 3, *The Effects of EDP on the Auditor's Study and Evaluation of Internal Control*.

Copies will be available next month from the AICPA order department, at $8.50 each, $6.80 to members (Product no. 047581).

FASB to Expose Drafts on Futures Contracts and Debt Extinguishment

The Financial Accounting Standards Board will shortly issue an exposure draft on accounting for futures contracts. The draft would require that a change in the value of a futures contract be recognized in income when the change occurs, except for contracts that are hedges of assets, liabilities or firm fixed-price commitments exposing the entity to risk or that relate to certain anticipated transactions—so-called anticipatory hedges. The draft is expected to be issued next month.

Also, the board, at its June 15 meeting, agreed to issue a revised exposure draft on extinguishment of debt. The draft says that a debt could be considered extinguished for financial reporting purposes when the debtor is virtually assured that no further payment will be required in respect to the debt. The board staff is preparing a revised draft for consideration by the board.

For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

ASD Comments on Change to One-step Format

The AICPA's auditing standards division has been asked to consider whether a change in the format in which a bank reports investment securities gains and losses on its income statement requires a reference to consistency in the auditor's report.

The accounting standards division has exposed a proposed statement of position recommending that banks report these gains and losses, on a pretax basis, in the "other income" section of the income statement (the one-step format) instead of the current practice of reporting them, net of taxes, below "income before securities gains/losses" (the two-step format). In addition, the SEC has revised Article 9 of Regulation S-X to require bank holding companies and banks to present their income statements in the one-step format for periods ending on or after December 31, 1983.

The auditing standards division has concluded that such a change would not affect consistency because it has no effect on financial position or net income. Therefore, the auditor need not modify his opinion regarding consistency as a result of this change, assuming full disclosure and retroactive application of the change.

Revised SECPS Manual Now Available

The SEC practice section of the Institute's division for CPA firms recently issued the 1983 revised edition of the SECPS Manual. The new manual includes the section's organizational document containing its membership requirements, the section's standards for peer reviews, and administrative and other procedures.

The 1983 edition incorporates revisions previously included in updates to the loose-leaf peer review manual, but it also contains some new changes to the peer review standards relating, in particular, to procedures to be performed in subsequent peer reviews and to reviews of a firm with multi-office engagements.

Copies of the new manual have been mailed to all member firms of the section. Additional copies are available from the AICPA order department at $5 each (Product no. 018023).

IIA Proposes First Two Standards

The Institute of Internal Auditors, Inc. has issued exposure drafts of its first two statements on internal auditing standards. The proposed statements are entitled *Communicating Results* and *Control: Concepts and Responsibilities*.

The first draft provides guidance for communicating audit results; discussing findings, conclusions and recommendations with management; and approving and distributing audit reports. The second draft provides guidance on the nature of control and on its establishment, maintenance, and evaluation.

If approved, the statements will represent official interpretations of the IIA's *Standards for the Professional Practice of Internal Auditing*.

For further information, contact the IIA, 249 Maitland Avenue, P.O. Box 1119, Altamonte Springs, Florida 32701.

ASD Appoints Practice Fellow

Nancy A. Fox, CPA, a Coopers & Lybrand audit senior in Detroit, was recently named a practice fellow in the Institute's auditing standards division. A graduate of the University of Michigan where she was a member of Beta Alpha Psi, she has had client experience in mortgage banking, general contracting and private schools and foundations. She will work with the EDP auditing standards subcommittee and will also help draft statements on auditing standards, auditing interpretations and audit guides. Practice fellowships run from 18 months to two years.

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AICPA Insurance Refund Paid

Payment of the 1983 refund of the AICPA Insurance Trust was made this month—more than $28 million. Refund rates applicable to contributions to the CPA Plan during the 12-month period ended September 30, 1982, are as follows:

	Payment Basis Elected and Contributions Paid		
Age Classification	*Annual**	*Semiannual**	*Monthly*
Under 40	81%	76%	71%
40-49	72	67	62
50-59	63	58	53
60-64	40	35	30
65-69	25	20	15
70 and over	20	15	10

*Refund percentages include bonus refunds for eligible individuals electing and remitting contributions on an annual or semiannual basis. Such refunds are 10% and 5%, respectively.

Eligible firms under the Group Insurance Plan will receive a 52% refund for those without dependents coverage and 48% for those with such coverage.

Life insurance in force under the Institute's plans is over $13 billion. At present there are more than 95,000 participants in the CPA Plan and some 75,000 people are covered under the Group Insurance Plan.

October 1 is the next entrance date for eligible CPAs to begin or increase coverage in the two plans. Up to $300,000 of term life insurance and an equal amount of accidental death and dismemberment coverage is available under the CPA Plan (for individuals). Similar benefits are provided under the Group Insurance Plan (for firms) with maximum limits of $150,000.

Invitations to participate or increase coverage are scheduled for mailing in August. For information contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (800/221-4722—in New York call collect 212/661-9000).

Guidance Offered on Mortgage Banking Activities

The Financial Accounting Standards Board, late last year (see October 11 *Letter*) issued SFAS no. 65, *Accounting for Certain Mortgage Banking Activities*, which, among other things, prescribes the accounting for loan servicing fees when mortgage loans are sold and the seller retains the servicing rights. The statement applies to mortgage banking and other enterprises, such as commercial banks and thrift institutions, conducting operations similar to the primary operations of a mortgage banking enterprise.

Many thrift institutions that sell mortgage loans and retain the servicing rights have interpreted the AICPA's Audit and Accounting Guide *Audits of Savings and Loan Associations* to allow for gain or loss recognition on the sale of mortgage loans based on deferring only an amount equal to the present value of future servicing costs. That accounting treatment differs from the treatment followed by the mortgage banking industry, which defers a normal servicing fee under the provisions of SFAS no. 65.

Paragraph 39 of the statement states that ". . . the board decided that those principles (in SOPs 74-12 and 76-2) should apply to mortgage banking operations whether those operations are conducted by a mortgage banking enterprise or by another enterprise." In addition, paragraph 45 of the statement specifically refers to transactions of this type engaged in by "enterprises in other industries." Accordingly, the Institute's accounting standards executive committee and the savings and loan committee believe that SFAS no. 65 applies to mortgage banking activities of savings and loan associations and other enterprises and that the statement therefore requires thrifts and other enterprises to conform their accounting for those activities to the provisions of SFAS no. 65.

State Board Sued on Compilations and Reviews

The State Board of CPAs of Louisiana was recently sued by the Accountants' Association of Louisiana (AAL), which is challenging the Louisiana statute and the rules of the state board limiting to CPAs the issuance of reports on compilations and reviews of financial statements. The AAL said its members weren't restricted from performing compilations and reviews before January 20, 1980, when regulations were issued by the board under the Louisiana Act 510 of 1979 which limited reports on such work to CPAs. This restriction, states the suit, provides CPAs with a monopoly that "will deprive plaintiffs and all uncertified accountants of the opportunity to earn a livelihood at their chosen profession . . ."

According to attorney Robert J. Conrad, Jr., the state board's legal counsel, the only real issue involved in the suit is the constitutionality of the 1979 act, which regulates the accounting profession in the state. "I don't see any area for compromise on this," he said.

A hearing was set in June to determine if the AAL had followed Louisiana's statute requiring anyone challenging an agency's rules to have the agency itself first decide on the validity of the rules. Conrad said that he doesn't believe that the hearing will alter the fundamental issue involved. The AAL believes it has complied with the state requirement by writing to the state board to voice its concerns before filing the suit.

The Louisiana State Board had also recently been sued (see May 23 *Letter*) by the U.S. Department of Justice, which claims that the board's rule prohibiting direct solicitation unreasonably restricts competition among CPAs regarding their activities in the areas of advertising and solicitation for clients.

AICPA Member Admonished

On November 18, 1982, a hearing panel of the Joint Trial Board Division's Regional Trial Board I considered charges by the Institute's professional ethics division that Bill D. Steele of Beverly Hills, California, committed acts discreditable to the profession by failing to correct known incorrect entries made prior to his employment in certain financial statements of a corporation while he was the corporation's treasurer in 1969 and 1970.

Investigations by all other regulatory agencies were completed in 1977. The matter was delayed in being brought before the hearing panel by jurisdictional problems in the Joint Ethics Enforcement Program.

The panel found Mr. Steele guilty of the above charges. In view of his voluntary cooperation, the length of time that had elapsed and that Mr. Steele had fully complied with a disciplinary order of the California Board of Accountancy, the panel's sanction was limited to an admonishment.

Mr. Steele, who was present at the hearing, requested a review of the hearing panel's decision by the National Review Board. The request was withdrawn by Mr. Steele, however, on June 6, 1983, and the decision therefore became effective on that date.

Carey Scholarship Awarded

The John L. Carey Scholarship for 1983-84 has been awarded to Brian Irwin Pidgeon of Des Moines, Iowa. The annual $4,000 scholarship, named for the Institute's former chief staff executive, is granted to a Yale University senior who plans to do graduate work in the field of accounting with the intention of pursuing a career in the profession.

Pidgeon, who graduated from Yale last month, will be studying for a Master in Professional Accounting degree at the University of Texas at Austin. While at Yale, Pidgeon served on the board of the Business and Economic Forum and was a member of the golf team.

The 1982 award to Linda Ann Lach, who is currently taking the M.S. accounting program at New York University, has been renewed. She is presently a staff accountant at Touche Ross & Co.

Recent Publications

MAS Small Business Consulting Aid No. 2: Identifying Client Problems: A Diagnostic Review Technique with Selected Working Capital Illustrations—The second in a new series, this MAS practice aid describes a review technique that can aid practitioners to identify, develop and recommend effective solutions for the financial problems of small businesses. Price is $3; $2.40 to AICPA members (Product no. 055253).

Two new *MAS Technical Consulting Practice Aids* are also available: *No. 2; Financial Model Preparation*, offers practical guidance for those MAS engagements involving the preparation of a financial model ($6; $4.80 to AICPA members, Product no. 055037) and *No. 3; Financial Ratio Analysis*, illustrates the use of financial ratio analysis techniques in a specific MAS engagement conducted for the purpose of making a comparative analysis between a client group and an appropriate comparative group ($4; $3.20 to AICPA members, Product no. 055041).

The Institute has published a new paperback edition of its guide to current standards. *AICPA Professional Standards* is available to members at a $20 discount (Product no. 004302). The FASB's *Accounting Standards—Current Text* is also available to members at a discount ($22, Product no. 004321). The two titles are $33.50, (Product no. 004336).

Also available are *Technical Practice Aids* ($12.50, Product no. 004355) and *Audit and Accounting Manual* ($12.50, Product no. 007245). The four titles are $53.50 (Product no. 004360). The FASB has published *Accounting Standards—Original Pronouncements* ($20 to members, Product no. 004340). All volumes are updated as of June 1, 1983.

Proceedings of the Small Business Tax Equity Conference—This publication contains the papers presented and the speeches given at the Institute's Small Business Tax Equity Conference, held last September. The conference focused on three major areas: jobs tax incentives for small business, financing the enterprise and retirement and fringe benefits equity. Price is $12.50; $10 to AICPA members, (Product no. 017317).

All publications are available from the AICPA order department. If net total order is under $10, add postage and handling charge of $2.

The latest in the CPA Video Journal series is no. 27, *Index to Accounting and Auditing Technical Pronouncements: A Vital Research Tool*, which shows how to use the index. This reference is structured so that a CPA can quickly and easily locate the source document to provide an answer to a technical problem. For information, contact Teresa Zimmerer at the AICPA (212/575-5573).

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards

There will be an open meeting of the auditing standards board on July 19-21 in the AICPA boardroom, New York, starting at 9:00 a.m. each day.

Other scheduled meetings of the board are August 30-September 1 in Philadelphia and October 11-13 in New York.

Accounting Standards

The accounting standards executive committee will hold an open meeting in the AICPA boardroom, New York, on July 27-29 starting at 9:00 a.m. each day.

The next scheduled meeting of the committee is in Chicago on August 30-September 1.

The agendas for these meetings will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

AICPA Commended for Role in Economic Censuses—The Census Bureau recently reported that the 1982 Economic Censuses are going to be the most successful ever. Response at the time of the February 15 due date was almost 50 percent higher than at the same point five years ago. Reports were also more accurate, resulting in less follow-up correspondence with respondents. Much of the credit for the censuses' success "is due to the invaluable assistance of the AICPA," said the bureau, noting that the sharpest reduction in correspondence about completing the forms was from the accounting profession.

IRS Sets Hearing on "Top-Heavy" Plans—The IRS has scheduled a public hearing for August 5 on its proposed rules dealing with top-heavy pension, profit sharing and stock bonus plans. The proposals, which may be relied upon until final regulations are issued, provide guidance on retroactive plan amendments and compliance information for plan sponsors and participants.

SEC Seeks Further Comment on Rule 415—The SEC, at an open meeting earlier this month, said it would seek additional comments from the public on its controversial Rule 415 dealing with shelf registrations. The commission voted to seek comments for the next three months and to decide in the fall whether to extend the effective date of the rule past year-end. The temporary rule permits corporations to sell stocks and bonds on delayed or continuous offerings, known as shelf registrations, and was issued on an experimental basis.

Treasury May Drop Debt/Equity Regulations—According to Assistant Treasury Secretary for Tax Policy John Chapoton, the Treasury Department is considering dropping its regulations project on whether interest in a corporation should be treated as stock or debt. In a speech earlier this month, he said that Treasury is determining the future of the regulations, and that there is just as good a chance the project will be killed as there is a chance another set of rules will be proposed.

States Mull Raising Tax Revenues from Services—With many states under fiscal pressure to increase revenues, a number of state legislatures are considering taxing professional services as a new revenue source. Taxing services has become more attractive to state lawmakers, not only because it is a new revenue source, but because services are the fastest-growing part of many state economies. Hawaii and New Mexico began taxing professional services during the Depression, but few other states have followed. Approximately 15 states are currently mulling the idea.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Board of Directors Highlights

At its meeting on July 7-8 the AICPA board of directors:

- ☐ Decided to recommend that council authorize a mail ballot of the membership seeking to amend Rule 302—Contingent Fees so as to limit its application to engagements requiring independence. The present rule prohibits the offering of any professional service for a contingent fee. The professional ethics executive committee also will expose for comment proposed interpretations clarifying the application of Rule 503—Commissions. (More detailed information will be reported in a future issue of the *Letter.*)
- ☐ Accepted the report of the special committee on member services for submission to council. The report recommends, among other things, that the proposal of the federal tax division for voluntary membership in the division be implemented provided that criteria for eligibility and accountability recommended by the committee are adopted.
- ☐ Received an oral interim report from the PCPS structure committee chairman recommending changes in the program and operation of PCPS to make membership more meaningful and cost effective. The printed interim report is expected in about a month and will be distributed to all practice units and others interested.
- ☐ Received a detailed report from staff on a strategic plan for the Institute's CPE division implementing recommendations resulting from an operational audit conducted last year by independent consultants.

FASB Issues Exposure Drafts; Postpones Pension Hearing

The Financial Accounting Standards Board has exposed for comment three draft statements: *Accounting for Future Contracts, Extinguishment of Debt* and amendments to concept statements nos. 2 and 3, *Qualitative Characteristics of Accounting Information* and *Elements of Financial Statements of Business Enterprises.*

Accounting for Future Contracts, which does not cover foreign currency futures, would require that changes in the value of open futures contracts be recognized in the period of the change unless a contract qualifies as a hedge of a present exposure or relates to a qualifying anticipated transaction. Comments are due by October 14.

Extinguishment of Debt proposes that debt be extinguished if the debtor is relieved by the creditor from primary liability for the debt and is, in effect, assured that future payments will not be required. It would also amend APB Opinion no. 26 to make it applicable to all extinguishments of debt covered by the opinion. Comment date is September 12.

The draft amendments to the concepts statements clarify that, under no. 2, the identified characteristics also apply to nonbusiness entities and that no. 3 would be broadened to apply to nonbusiness entities as well. A public hearing has been set by the FASB on these amendments for November 14-16 in Tarrytown, New York, following the close of the comment period on October 17.

Copies of these documents are available from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

In another matter, the FASB has postponed its public hearing on employer's accounting for pensions from October 26-28 to January 11-13, 1984 at the Roosevelt Hotel in New York. This allows more time for public comment on the board's views.

AcSEC Approves Draft Guide for Exposure

At its meeting on June 8-10, the Institute's accounting standards executive committee approved for exposure a proposed guide entitled *Prospective Financial Statements*. The draft guide is now slated to be on the agenda for the July 19-21 meeting of the AICPA's auditing standards board for consideration.

In other actions, AcSEC approved a letter of comment to the Financial Accounting Standards Board on the board's recent exposure draft, *Reporting a Change in Accounting for Railroad Track Structures*.

IASC Approves Statement on Business Combinations

At its meeting in London last month, the board of the International Accounting Standards Committee agreed to issue a statement (IAS 22), *Accounting for Business Combinations*, to be published this fall. The statement, which is essentially the same as Exposure Draft 22 issued in late 1981, holds that the purchase method of accounting should be used for business combinations that are acquisitions and the pooling of interests method for those deemed to be "uniting of interests."

Copies of the statement will be available this fall from the AICPA order department, at a price to be determined.

The board also appointed Geoff Mitchell, current IASC secretary, as permanent head of the IASC secretariat, with a title to be determined.

The IASC was formed in 1973 to formulate and promote worldwide acceptance of basic international accounting standards.

Move Made to Expand NAARS Service

In a significant breakthrough for subscribers to the Institute's National Automated Accounting Research System (NAARS), Mead Data Central recently announced that the company's extensive database will now be available to certain personal computers other than those manufactured by Mead. The database will initially be available to the IBM Personal Computer, the IBM Displaywriter and the IBM 3101 terminal. This marks the first time, said the company, that the company's database will be commercially available on terminals other than those made by the company for its LEXIS and NEXIS services.

In a press conference, Mead also announced a new custom terminal, the UBIQ II Desktop Terminal, which has been specifically designed to emulate other data communications terminals to gain access to other services and databases. Mead, in addition, announced a new ink-jet, desktop printer, the OMNI 1, which can be attached directly to either the UBIQ I or the new UBIQ II.

Two AICPA Members Expelled

Under Section 7.3 of the Institute's bylaws, membership in the Institute shall be terminated without a hearing should there be filed with the secretary a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

- ☐ On April 25, 1983, the membership of John S. Neely of Hutchinson, Kansas, was terminated following receipt by the Secretary of a copy of a judgment of conviction in the District Court of Reno County, on his plea of no contest, of forgery and theft.
- ☐ On May 2, 1983, the membership of Lynn Franklin Haupt of Perkasie, Pennsylvania, was terminated following receipt by the secretary of a copy of a judgment of conviction in the New Jersey Superior Court for Mercer County, on his plea of guilty, of possession of a controlled dangerous substance with intent to distribute and with distribution of a controlled dangerous substance.

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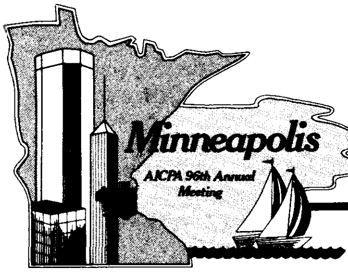

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AICPA 96th ANNUAL MEETING □ OCTOBER 2-4, 1983

■ Featuring major addresses by outstanding public figures including Dr. Walter W. Heller, former chairman of the Council of Economic Advisers; Roscoe L. Egger, Jr., Commissioner of Internal Revenue; and the Honorable Edward R. G. Heath, former Prime Minister of Great Britain.

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PLENARY SESSIONS

Annual Report to Members
Rholan Larson, CPA, Chairman of the Board, AICPA
Panel: Senior Executive Committee Chairmen
Moderator: Philip B. Chenok, CPA, President, AICPA

Reaganomics, Recovery, and Mega-Deficits
Dr. Walter W. Heller, Former Chairman of the Council of Economic Advisers

The IRS and the Profession
Roscoe L. Egger, Jr., Commissioner of Internal Revenue

Luncheon for Members and Guests
B. Z. Lee, CPA, 1983-84 Chairman of the Board, AICPA

Joint Luncheon for Members, Spouses and Guests
Honorable Edward R. G. Heath, MBE, MP; former Prime Minister of Great Britain

MINI-CONFERENCES (repeated both days)

Industry: Mergers and Acquisitions

MAP: Partnership Selection, Training, Evaluation and Termination

Accounting Standards: Standards Overload

Accounting Standards: Pension Costs

Auditing Standards: Cost Effective Audits of Small Business

Auditing, MAS: Forecasts and Projections

Division for CPA Firms: A Report From the Practice Section

Taxation: Tax Shelters

Registration Fee (full conference program)
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(See over)

SOCIAL PROGRAM

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Optional Tours

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Mississippi Riverboat Luncheon Cruise

Twin Cities and Lakes Tour

SPOUSES PROGRAM (Optional Selection)

Personal Development Program

Minnesota Zoological Gardens

Guthrie Costume Show/Backstage Tour

Reindeer Square/Galleria Shopping Spree

Twin Cities Highlights

Betty Crocker Kitchens/Minnesota Landscape Arboretum

Stillwater for Antique Lovers

Omnitheater/Shopping Spree

AICPA Annual Meeting Department
1211 Avenue of the Americas
New York, N.Y. 10036-8775
Tel. (212) 575-6451

Yes! Please send me more information about the AICPA 96th Annual Meeting, October 2-4, 1983 to be held in Minneapolis, Minnesota.

name

firm (if part of mailing address)

address

city state zip

SUMMARY OF ANNUAL MEETING MINI-CONFERENCES

In an effort to offer the most current topics of interest to the membership, this year's innovative mini-conferences, each of which will be two-and-a-half hours long, will be offered on Monday, October 3, and repeated on Tuesday, October 4.

Mergers and Acquisitions

Mergers and acquisitions continue to play an extremely important role in today's corporate environment. This session will focus on three different aspects of mergers and acquisitions: corporate organizations...human resources...and creating acquisition strategy. Presentations that will include analyses of current roles of CPAs in the merger process will be made by three merger professionals.

The Life Cycle of a Partner in a CPA Firm

From the time a partner is selected, a career path for growth and development must be established. A panel will discuss and receive questions from the audience on three presentations:

Partner Selection & Admission—Criteria used in selection, partner in-training programs and financial arrangements for admission to partnerships.

Partner Performance & Evaluation—Motivation, extended training and "burnout."

Partner Termination: Voluntary & Involuntary—Discussion of the variety of reasons and circumstances for partners leaving a firm.

Standards Overload

The search for a solution to the problem of accounting standards overload raises a variety of issues. A panel will review the Report of the Special Committee on Accounting Standards Overload, discuss the FASB's Special Report, "Financial Reporting by Privately Owned Companies: Summary of Responses to FASB Invitation to Comment," and assess the prospects and timing of FASB and AICPA actions to provide relief.

Pension Costs

Employers' accounting for pensions has often been viewed as controversial and complex. The session on pensions will focus on current developments in the FASB's project to reconsider and possibly amend the existing literature for pension accounting.

Cost Effective Audits of Small Business

An audit of a small business should differ from a large business audit. This session will focus on designing an efficient audit program for owner/manager dominated entities having limited segregation duties. Primary attention will be given to the kinds of audit tests that should be performed to promote audit efficiency without reducing effectiveness.

Forecasts & Projections

Practitioner services in relation to forecasts and projections may differ in both nature and purpose. This session will discuss Institute guidance on prospective financial statements and will describe various services the practitioner may provide when dealing with prospective financial information.

A Report from the PCPS and SECPS Sections

The Division for CPA Firms will be six years old this October, yet many CPAs and the public at large still do not have a full understanding of its objectives and operations. This panel session will focus on the accomplishments of the Division for CPA Firms, the challenges facing it, and the changes that might be made to meet those challenges. It will include discussion of the peer review program, of the activities of the PCPS Technical Issues Committee, and of the objectives and operating procedures of the SECPS Special Investigations Committee, which looks into certain allegations of audit failure.

Tax Shelters

This proliferating area of taxes is being subjected to increasing scrutiny. A panel of leading tax practioners will include consideration of the CPA's precarious involvement with tax shelters in client advice, tax opinions and projections.

Draft on Medical Malpractice Claims Exposed

The Institute will shortly issue an exposure draft of a proposed statement of position entitled *Accounting for Asserted and Unasserted Medical Malpractice Claims of Health Care Providers and Related Issues*. It was prepared by the medical malpractice self-insurance task force of the AICPA's accounting standards division. The draft provides guidance on applying generally accepted accounting principles in accruing estimated losses from asserted and unasserted medical malpractice claims, including conditions for using industry data in estimating accruals. It also addresses accounting for claims insured with captive insurance companies, retrospectively rated premiums, claims-made insurance policies and trust funds of health care providers. The draft supplements the AICPA's *Hospital Audit Guide* published in 1972.

Comments on the draft are due by October 21, and should be directed to the Institute's auditing standards division. Copies of the draft will be available later this month from the AICPA order department on written request.

IRS Clarifies Vacation Pay Rules

Revenue Procedure 82-32 allows "automatic" changes to the accrual method for vested vacation plans providing the accrued pay is paid by the end of the succeeding taxable year. Some taxpayers who couldn't meet this requirement continued to file under Rev. Proc. 80-51, but, until recently, however, the IRS inserted the "paid by the end of the succeeding year" requirement in all vacation pay responses.

Depending on the facts in any particular vacation plan, the IRS National Office may now grant permission to accrue vested vacation pay subject to the following proviso: "The letter is intended to apply to vacation pay that is deductible under section 162 of the Code and not to deferred compensation deductible under section 404."

The IRS has a study project underway to resolve this issue.

Taxpayers wishing to take advantage of this opportunity should not file under Rev. Proc. 82-32, but should file under Rev. Proc. 80-51 and state clearly on Form 3115 that they cannot meet the "paid by the end of the succeeding year" requirement and enclose a copy of their vacation pay plan. It should also be stated that the plan does not constitute deferred compensation. It would probably also be helpful to submit data and rationale supporting this conclusion, according to IRS officials.

NCGA Postpones Effective Date of Pension Statement —Somewhat

The National Council on Governmental Accounting has decided to postpone the effective date for the application of its statement on pension accounting and reporting for public employees to plan years beginning after December 31, 1983. The provisions of the statement (no. 6), *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employer Entities*, were originally scheduled to take effect for periods beginning after June 15, 1982.

It had been anticipated that the NCGA would defer the application date (see June 7 *Letter*) to 1985 to coincide with the Financial Accounting Standards Board's proposal in regard to the application of SFAS no. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. An NCGA spokesman has said, however, that most of the council-approved provisions in the statement are in harmony with the FASB statement, but that some of the provisions in the NCGA statement are needed currently for governmental reporting. Hence the earlier effective date for its document. The NCGA said that those areas in need of reconciliation with the FASB statement should be identified and dealt with as soon as feasible. These questions will be considered at the next meeting of the council to be held September 21-22 in New York.

New Jersey Court Defines "Third Party" Liability

In a decision which may have a major impact on the accounting profession, the New Jersey Supreme Court recently determined that an independent auditor furnishing an opinion on financial statements may be liable to reasonably forseeable "third parties" who rely on that information. Reasoning that "the responsibility of a public accountant is not only to the client who pays his fee, but also to investors, creditors and others" who may rely on audited financial statements, the court declined to dismiss a lawsuit brought by investors injured when the audited company failed.

Traditionally, the auditor's duty "is owed only to those with whom he is in privity (has a contractual relationship) or to those who are known beneficiaries at the time of the undertaking," noted the court in referring to *Ultramares* v. *Touche*. This new decision *(H. Rosenblum, Inc.* v. *Adler)* however, establishes for the first time that in New Jersey auditors can be liable to reasonably forseeable third parties for negligence in certifying incorrect financial statements.

The ruling, a response to the accounting firm's motion for partial summary judgment, determined that auditors have a duty to forseeable users with whom they are not in privity but who may rely on the financial statements for proper business purposes. This duty, concluded the court, can give rise to liability for economic loss. The case was remanded to the trial court for a determination as to whether the auditors were in fact negligent.

Richard H. Murray, attorney for Touche Ross & Co., the auditor, said that the firm "regrets the erosion of a universally followed principle that third parties aren't entitled to sue an auditor for negligence." He added that the court's action "relates solely to the plaintiff's right to bring an action for negligence and that the firm believes that it will successfully defend the case on its merits at the trial." A trial date has not yet been set.

Senate Hearing Focuses on Tax Compliance

The Senate Finance Committee on June 23 held hearings on tax compliance, particularly as to revenues lost due to tax cheating. The Treasury Department is concerned about the growing numbers of taxpayers failing to pay federal taxes, said Assistant Secretary for Tax Policy John Chapoton, citing the following areas where legislation may be needed:

☐ Ensuring consistent reporting by expanding the information currently provided on tax returns—especially noted was wider use of taxpayer identification numbers.
☐ Identifying tax shelter investors and subjecting tax shelter promoters to "a meaningful penalty" for failing to keep such records.
☐ Imposing estate and gift tax penalties.
☐ Clarifying the Treasury's authority to regulate appraisers appearing before the department.

The recent introduction of audit insurance, which indemnifies taxpayers against tax deficiencies assessed by the IRS, "could undermine seriously the self-assessment structure of the internal revenue code," Chapoton said. He did not propose banning such insurance, but added that audit insurance "violates public policy in that it encourages wrongful behavior by allowing taxpayers to insure against the consequences of wrongful acts."

Also testifying at the hearing was Donald H. Skadden, a member of the institute's federal tax division's tax policy subcommittee and author of a recent AICPA study, *Underreported Taxable Income: The Problems and Possible Solutions*. Among the compliance measures urged by Skadden were enhanced and redirected IRS enforcement activities and informational reporting for business payments to corporations, for barter exchanges, auction houses, dealers in collectibles and state tax refunds. Skadden also suggested that tax returns be modified to provide better data and to facilitate matching with informational forms.

Joint ASB/IAPC Seminar Held

The Institute's auditing standards division held a seminar on June 30 with a two-fold purpose: to explain the objectives, accomplishments and future plans of the International Federation of Accountants and its international auditing practices committee and to discuss the auditor's study and evaluation of internal accounting control in audits of financial statements from a U.S. perspective.

In opening the seminar, AICPA President Philip B. Chenok spoke of the growing trend towards participation in international markets and the role of IFAC in developing and enhancing worldwide accountancy by the harmonization of standards, Gijs G. M. Bak of the Netherlands, IAPC chairman, then spoke of the committee's role and summarized the committee's international auditing guidelines. David L. Landsittel, chairman of the auditing standards board, discussed the U.S. auditor's responsibility for reviewing internal control systems.

Institute Membership Hits 200,000 Mark

AICPA membership reached 200,000 with the admission of Cathy M. Gazala, of Atlanta, Georgia, on the June membership ballot. For at least the last 40 years, Institute membership has doubled each decade.

Ms. Gazala, who attended both the University of Virginia and Virginia Commonwealth University, is a staff member at A. M. Pullen & Company in Atlanta. She will be recognized at the AICPA's 1983 annual meeting in Minneapolis where she will be a guest of the Institute.

Upcoming Conferences

Savings and Loan—A national conference sponsored by the AICPA's committee on savings and loan associations will be held September 19-20 at the Capital Hilton in Washington, D.C. Among the topics will be an update on Vice President Bush's task force on financial service regulation, current developments in S&L accounting, taxation and auditing, and planning for mutual to stock conversions. Featured speakers include Edwin J. Gray, FHLBB chairman, and Senator Robert Kasten (R-WI). Contact the AICPA meetings department (212/575-6451).

MAP Conference Reminder—Registration is still open for the following 1983 National Practice Management Conferences: *Partnerships and Professional Corporations* on September 22-23; *Practice Growth & Development* on October 10-11; and *People Management* on October 13-14. Contact the AICPA meetings department for further information.

The American Academy of Actuaries and the Casualty Actuarial Society are jointly sponsoring a seminar on September 12-13 at the Amfac Hotel in Dallas on casualty loss reserves of insurance companies. The seminar, which deals with loss reserving techniques and loss reserve reports, may interest CPAs who audit property and casualty insurance companies. Contact AAACAS Casualty Loss Reserve Seminar, 1835 K Street, N.W., Suite 515, Washington, D.C. 20006 (202/223-8316).

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

An open meeting of the accounting standards executive committee will be held at the Hyatt Regency O'Hare Hotel in Chicago from August 30 through September 1 starting at 8:30 a.m. each day. The agenda, which has not yet been determined, will be reported by the meetings telephone information service. The number is 212/575-5694.

The next scheduled meeting of the committee is October 26-28 in New York.

Washington Briefs

Tax Division Testifies at IRS Hearing—Albert B. Ellentuck, a member of the federal taxation executive committee of the AICPA, testified at the July 12 IRS hearing on the proposed regulations implementing the penalty provisions of the 1982 tax act for substantial understatement of income tax liability. He pointed out that, while some practical solutions are provided, more guidance is needed in key areas. Ellentuck said that some provisions "could have a chilling effect on the customary relationship between practitioners and clients."

Debt/Equity Proposals Rescinded—As indicated in the June 27 *Letter*, the Treasury Department has dropped its proposed debt/equity regulations under which rules would be set forth to determine whether an interest in a corporation is to be considered as debt or capital stock for income tax purposes. Still under consideration are revisions to deal only with "safe harbors," to propose legislation for more statutory guidelines, or to provide additional guidance on the factors defining debt and equity in the statute.

Charles C. Cox an SEC Commissioner?—According to a White House announcement, Charles C. Cox, chief economist of the SEC, will be nominated to succeed John Evans as a commissioner of the SEC. Sources at the Commission indicate that the proposed appointment is opposed by four of the five commissioners.

New SAB Issued by SEC—The Securities and Exchange Commission has issued a staff accounting bulletin, SAB no. 53, which states that appropriate disclosure on issuance of debt securities guaranteed by the issuer's parent company "will depend on the nature of that entity in relation to the guarantor and the nature of the guarantee."

IRS Issues Regs on Educational Assistance—The IRS recently issued final regulations clarifying the types of employer payments made as part of a qualified educational assistance program that can be excluded from an employee's gross income. Issued as TD 7898, the final rules describe the nondiscrimination and limitation of benefits provisions of tax code section 127 for qualified programs as amended by the Revenue Act of 1978 and the Technical Corrections Act of 1979.

IRS on Loan Interest—In Information Release no. 83-93, the IRS said that it will disallow deductions claimed for interest paid on a loan if the payment was made with funds obtained from the original creditor through a financial arrangement similar to a loan.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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August 1983
Vol. 63 No. 14

The CPA Letter

A Semimonthly News Report Published by the AICPA

Changes in Ethics Rules to Be Proposed

As reported in the July *Letter*, the board of directors has voted to recommend to the Institute's council a change in Rule of Conduct 302 which currently prohibits offering or performing any professional service for a contingent fee. The proposed change would be accomplished by amending the rule to prohibit contingent fees only for professional services for which independence is required. Amendments to the rules of conduct can be made only by the membership voting in a mail ballot.

The move to narrow the application of the contingent fee rule to engagements requiring independence follows an increasing number of inquiries of the professional ethics division on the application of the present rule. Many of the inquiries relate to requests for professional services from governmental units and others based exclusively on contingent fee arrangements. Members desiring to be considered for such engagements have questioned whether it is in the best interests of the public and the profession to prohibit AICPA members from offering their expertise solely because of the method of compensation chosen by the client. Those questions become more pointed when the engagements do not require independence. Moreover, the Institute's outside legal counsel has advised that it is doubtful that a court would uphold the ban of the present rule if an attempt to enforce the rule in a nonindependence related engagement were challenged.

The announcement to the membership in the July *Letter*, made as part of the highlights of the July board meeting, will result in the application by the professional ethics division of the following enforcement policy with respect to current Rule 302:

> Enforcement of Rule 302 is being suspended until the result is announced of the membership ballot to amend Rule 302. For this purpose, suspension means that all case investigations in progress other than those relating to engagements requiring independence would be halted; new investigations would be conducted only to the extent of identification of respondents and the determination that a particular engagement does not require independence. Should Rule 302 be amended, all investigations of engagements not requiring independence would be closed. Should Rule 302 not be amended, all such investigations would resume.

In a related action, the board endorsed exposure to the membership of proposed interpretations by the ethics division clarifying the application of Rule of Conduct 503, which prohibits acceptance of a commission for referral of goods or services of others to a client. The proposed interpretation would narrow the definition of a "client" for purposes of the rule to those for whom audit, accounting, review, compilation, tax, or management advisory services are performed and would further limit application of the rule to those products or services where there would be reliance on the professional expertise of the members. Thus, members would continue to be free to accept commissions for the referral of products or services of others to nonclients. Under the proposed interpretations, they could also accept commissions on such referrals to clients provided that the product or service was unrelated to the professional expertise of the members. It is expected that the interpretations will be exposed in late summer for a 90-day period.

Recent AcSEC Actions

At its meeting on July 27-29, the Institute's accounting standards executive committee took the following actions, among others:

- ☐ Approved issuance of a statement of position entitled *Accounting by Agricultural Producers and Agricultural Cooperatives* subject to review by the Financial Accounting Standards Board.
- ☐ Approved for exposure a proposed revision of the guide, *Audits of Investment Companies*, subject to review by the FASB and clearance by the auditing standards division.
- ☐ Approved publication of a Notice to Practitioners on the inclusion of interest as a holding cost in the calculation of net realizable value of certain real estate held, or acquired, by savings and loan associations. The notice clarifies a requirement of the *Audit and Accounting Guide for Savings and Loan Associations*. This will appear in a forthcoming issue of the *Letter*.

IFAC's Ethics Committee Issues Two Statements

The ethics committee of the International Federation of Accountants will shortly issue its sixth and seventh guidance statements. *Conditions for Acceptance of an Appointment When Another Accountant in Public Practice is Already Carrying Out Work for the Same Client*, Statement of Guidance no. 6, advises the accountant on the principles to be followed when engaged on a referral basis to perform work for the client of another accountant.

Conditions for Superseding Another Accountant in Public Practice, Statement of Guidance no. 7, sets forth the procedures that an accountant should follow when asked to replace another accountant in providing recurring professional services.

The statements are expected to be available later this month from the AICPA order department, at prices to be determined.

IFAC was established in 1977 by representatives of more than 50 nations with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international, technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of practice qualifications.

New CPAs Need Postgraduate Work, Says Study

Accounting graduates will need more than a bachelor's degree for entry into the accounting profession and a strong need exists for a postgraduate education requirement to be implemented for prospective CPAs through legislation. These are two of the findings of a recently completed 18-month study by the Commission of Professional Accounting Education. The commission, chaired by Wayne J. Albers, former partner of Ernst & Whinney, was established in 1981 to study the benefits of a five-year education requirement for CPAs and to develop plans for implementing the requirement.

Two reports prepared by the commission will be published later this month: *A Postbaccalaureate Education Requirement for the CPA Profession*, which presents the arguments and evidence developed during the study for requiring a fifth year of study, and *Implementation of a Postbaccalaureate Education for the CPA Profession*, which presents strategies for eliciting profession-wide support for the requirement and for achieving enactment of state legislation to this end.

Copies of the reports will be available free of charge from the AICPA order department or from the National Association of State Boards of Accountancy, 545 Fifth Avenue, New York, N.Y. 10017.

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Editor: Stephen H. Collins

AUDIT SAMPLING IMPLEMENTATION—QUESTIONS AND ANSWERS

The following nonauthoritative questions and answers have been prepared under the direction of the audit sampling implementation task force of the AICPA's auditing standards board in connection with SAS No. 39, *Audit Sampling,* which became effective for examinations of financial statements for periods ending on or after June 25, 1983.

1. **When should the auditor apply the audit sampling principles in SAS No. 39?**

Audit sampling is only one of many tools used by auditors to obtain sufficient, competent evidential matter to support an opinion on financial statements. SAS No. 39 discusses design, selection, and evaluation considerations to be applied by the auditor when using audit sampling. As a general rule, audit sampling can be used—

- ☐ in compliance testing for aspects of accounting controls that provide an audit trail of documentary evidence,
- ☐ in substantive testing to test details of transactions and balances, and
- ☐ in dual purpose tests that test compliance with a control procedure that provides documentary evidence of performance and whether the recorded monetary amount of transactions or balances is correct.

Thus, the portion of SAS No. 39 pertaining to compliance tests (paragraphs 31 through 42) applies when sampling techniques are used to test documented controls on which the auditor intends to rely. Paragraphs 15 through 30 pertaining to substantive tests apply when sampling techniques are used to test details of transactions or balances.

SAS No. 39 defines audit sampling as "the application of an audit procedure to less than 100 percent of the items within an account balance or class of transactions for the purpose of evaluating some characteristic of the balance or class." A key to understanding that definition is the *intent* of the auditor in applying the audit procedure. As noted in footnote 1 of SAS No. 39, the auditor may examine less than 100 percent of the items comprising an account balance or class of transactions for reasons *other than* evaluating a characteristic of the balance or class. For example, the auditor is not performing audit sampling in the following situations:

- ☐ An auditor traces several sales transactions through a client's accounting system to gain an understanding of the manner in which transactions are processed. SAS No. 39 would not apply because the auditor's intent was to gain an understanding of the processing of these transactions by the accounting system, not to evaluate a characteristic of all sales transactions processed by the accounting system.
- ☐ The auditor might examine several large sales invoices that comprise a significant portion of the account balance and leave the remaining portion of the balance untested or test the remaining items by other means, such as the application of analytical review procedures. Again, SAS No. 39 does not apply because the auditor does not intend to evaluate all items in the account balance based on the examination of the large items.

Another consideration in determining whether SAS No. 39 is applicable to circumstances in which an auditor examines less than 100 percent of the items comprising an account balance or class of transactions is the purpose of the test being applied. If he intends to project the test results to the entire account balance or class of transactions for the purpose of evaluating a characteristic of the balance or class, the auditor should follow the guidance in SAS No. 39. For example, if the auditor intends to examine selected sales invoices to draw a conclusion as to whether sales are overstated, he should apply audit sampling as described in SAS No. 39—he intends to draw a conclusion about all sales. On the other hand, if the auditor selects several large sales invoices for certain audit tests and then applies analytical review procedures to the remaining invoices, he is not sampling according to SAS No. 39—his examination of the large items is not intended to lead him to a conclusion about the other items. In that case, any conclusion about whether sales are overstated would be based on the combined results of the test of large sales invoices, inquiry and observations, analytical review procedures, and other auditing procedures performed related to overstatement of sales.

In determining whether SAS No. 39 applies to a given audit procedure, the auditor should consider the population in which he is interested. The auditor might choose to divide a single reporting line on the financial statements into several populations. For example, accounts receivable might be divided into wholesale receivables, retail receivables and employee receivables. Each of these populations can be tested using a different audit strategy; the sampling concepts in SAS No. 39 apply only to populations for which audit sampling is used. Use of audit sampling on one population does not mandate its use on remaining populations.

2. **What new authoritative guidance about the application of audit sampling to substantive tests is provided by SAS No. 39?**

SAS No. 39 adds the following seven specific provisions to professional standards:

- ☐ The concept that some items exist for which, in the auditor's judgment, acceptance of some sampling risk is not justified, and which should be examined 100 percent (paragraph 21). This simply reminds the auditor that some of the items he encounters in an examination of financial statements may individually be so significant or may have such a high likelihood of being in error or misstated that all such items should be examined.
- ☐ The suggestion that the efficiency of a sample may be improved by separating items subject to sampling into relatively homogeneous groups based on some characteristic (paragraph 22). This indicates that audit efficiency can sometimes be improved by, for example, stratifying or segregating the items comprising a balance or class of transactions into groups based on their individual dollar value or some other characteristic.
- ☐ A requirement that the auditor consider tolerable error in planning audit sampling applications in his examination of account balances and classes of transactions (paragraph 18). This asks the auditor to consider, in the early stages of an audit, how much error he will be able to tolerate for each balance and class of transactions that is sampled, in combination with errors in other accounts, and still render an unqualified opinion on the financial statements. SAS No. 39 asks the auditor to *consider* tolerable error and to recognize that it is one of the factors that influences sample size. There is no requirement to document or quantify tolerable error.

☐ A requirement that the auditor select a sample that can be expected to be representative of the pertinent account balance or class of transactions (paragraph 24). Simply put, this means that each item in the population being sampled should have a chance of being selected, not necessarily an equal chance of being selected.

☐ A requirement that the auditor consider selected sample items to which he is unable to apply planned audit procedures to determine their effect on his evaluation of the sample (paragraph 25). For example, sometimes the auditor may be precluded from applying planned audit procedures to selected sample items because supporting documentation may be missing. If the auditor's evaluation of the sample results would be altered by considering those unexamined items to be Not in error, it is not necessary to examine the items. However, if considering those unexamined items to be misstated would lead to a conclusion that the balance or class is materially in error, the auditor should consider alternative procedures that would provide him with sufficient evidence to form a conclusion.

☐ A requirement that the auditor project the error results of the sample to the items from which the sample was selected (paragraph 26). Since the sample is expected to be representative of the population from which it was selected, errors found are also expected to be representative of the population. This merely asks the auditor to measure the likely error in the population from which the sample was drawn and to consider it in reaching his conclusion.

☐ A requirement that the auditor consider, in the aggregate, projected error results for all audit sampling applications and all known errors from nonsampling applications when he evaluates whether the financial statements taken as a whole may be materially misstated (paragraph 30).

3. **Is there a rule-of-thumb for determining an adequate size for nonstatistical samples for substantive audit tests?**
There is no rule-of-thumb that is appropriate for all applications. SAS No. 39 imposes no requirement to use quantitative aids, such as sample size tables, to determine sample size. Nor does SAS No. 39 impose a rule regarding minimum sample size. Just as before the issuance of SAS No. 39, judgment is the key. Auditors often use benchmarks or starting points such as sample sizes used in prior years or in similar circumstances in other audit engagements in determining what sample size is appropriate for a given sampling application. Paragraph 23 of SAS No. 39 lists factors that influence the auditor's judgment in determining sample size for substantive tests. Those factors include—tolerable error; the allowable risk of incorrect acceptance; the characteristics of the population (e.g. the variability of the amounts of items in the population and the expected error in the population).

If the auditor considered factors such as these in determining sample size in prior years or in other engagements, there may be no reason to believe that sample sizes based on these benchmarks or starting points are inadequate. Individual firms or auditors often prefer to set their own rules regarding a benchmark or starting point for determining sample size. SAS No. 39 does not prohibit such policies. It merely alerts the auditor to factors he should consider.

4. **Does SAS No. 39 impose any new documentation requirements?**
No, SAS No. 39 contains no new specific documentation requirements. The documentation standards set forth in the statements on auditing standards dealing with documentation apply to audit sampling applications just as they apply to other auditing applications. For example, SAS No. 22, *Planning and Supervision*, states that the auditor should prepare a written audit program and SAS No. 41, *Working Papers*, requires the auditor to prepare working papers that record the work that the auditor has done and the conclusions that he has reached concerning significant matters. Thus, with regard to audit sampling applications, the auditor's audit program might document such items as the objectives of the sampling application and the audit procedures related to those objectives. The auditor's record might include—the definition of the population and the sampling unit, including how the auditor considered completeness of the population; the definition of error; the method of sample selection; a list of errors identified in the sample; an evaluation of the result of the sampling application; conclusions reached by the auditor.

5. **What are some selection methods that can be used to select a representative sample?**
There is no requirement in SAS No. 39 that random sampling selection methods be used. Representative sampling methods used by auditors include haphazard sampling, systematic sampling and random-number sampling.

Haphazard sampling consists of selecting sampling units without any conscious bias, that is, without any special reason for including or omitting items from the sample. Haphazard sampling does not imply that units can be selected in a careless manner. Rather, a haphazard sample is selected in a manner that can be expected to be representative of the population. For example, where the physical representation of the population is a file cabinet drawer of vouchers, a haphazard sample of all vouchers processed for the year 19XX might include any of the vouchers that the auditor pulls from the drawer, regardless of each voucher's size, shape, location, or other physical features. The auditor using haphazard selection should avoid distorting the sample by selecting, for example, only unusual or physically small items or by omitting items such as the first or last items in the population representation.

Systematic sampling consists of determining a uniform interval, and one item is selected throughout the population at each of the uniform intervals from the starting point.

Random-number sampling entails matching random numbers generated by a computer or selected from a random-number table with, for example, document numbers.

Another method sometimes used in practice is block sampling. Block sampling consists of selecting groups of sequential transactions (for example, all vouchers processed on several selected dates). Using block samples may be inefficient because in order for a block sample to be adequate to lead to an audit conclusion, a relatively large number of blocks should be selected. If an auditor decides to use block sampling, he should exercise special care to control sampling risk in designing his sample.

The AICPA Audit and Accounting Guide *Audit Sampling* contains a more thorough description of these methods as well as other guidance regarding statistical and nonstatistical sampling methods. Also, the technical information service is working with the task force to provide nonauthoritative responses to practitioners' questions and the CPE division has developed two courses (basic and advanced) in this area. For TIS call toll-free 1-800/522-5430 in New York State; 1-800/223-4158 from elsewhere in the U.S. CPE marketing, 212/575-3848 can provide information on the courses.

FASB Issues Two Statements, Interpretation and Two Reports

The Financial Accounting Standards Board recently issued the following:

☐ SFAS no. 73, *Reporting a Change in Accounting for Railroad Track Structures*, says that railroads changing to depreciation accounting for railroad structures will restate financial statements of all prior periods presented. The statement, which amends APB Opinion no. 20, *Accounting Changes*, is a result of requests on how to report the change in general purpose financial statements.

☐ SFAS no. 74, *Accounting for Special Termination Benefits Paid to Employees*, requires companies to recognize a liability for special termination benefits, commonly called "early retirement incentives" that many companies have offered to employees for a short time. The statement is effective for such benefits offered after June 30, 1983.

☐ Interpretation no. 37, *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity*, provides guidance on treating foreign currency translation adjustments for companies that sell part of their investment in a foreign entity. The interpretation covers partial as well as complete sales of interests in foreign companies.

In other actions, the board has issued a research report on accounting for income taxes that surveys existing literature as to accounting and reporting alternatives and discusses issues likely to be raised in its forthcoming discussion memorandum in this area. Also, the board's task force on timely financial reporting guidance has issued a special report to the FASB containing its conclusions and recommendations for resolving emerging issues and implementing board standards in a timely manner.

For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

NOTICE OF AICPA PUBLIC MEETINGS

Annual Meeting

Notice is hereby given to the membership pursuant to Sections 5.1.1 and 5.1.3 of the bylaws that the regular annual meeting of the Institute will be convened at 9:00 a.m. on October 3, 1983, in Convention Hall, Minneapolis, Minnesota, to hear an address by Chairman Rholan E. Larson and consider other business brought before the meeting. The council meeting will be convened at 9:00 a.m. on October 1, 1983, in the Hyatt Regency Hotel, Minneapolis, Minnesota.

Donald J. Schneeman, Secretary
New York, N.Y., August 2, 1983

Auditing Standards

The auditing standards board will hold an open meeting on August 30-September 1 in the Hershey Philadelphia Hotel in Philadelphia from 9:00 a.m. to 5:00 p.m. The agenda has not yet been set but will be reported by the telephone service.

The next scheduled meeting of the board is November 29-December 1 in New York City.

Accounting and Review Services

The accounting and review services committee will hold an open meeting at the Hyatt Regency Hotel in San Francisco on September 22 from 9:00 a.m. to 5:00 p.m. and on September 23 from 9:00 a.m. to 12:30 p.m. The agenda will be reported by the telephone service.

The next scheduled meeting of the committee is on December 8-9 in New York City.

Federal Taxation

The federal taxation executive committee will hold an open meeting on September 22-23 at the Camelback Inn in Phoenix, Arizona, beginning at 9:00 a.m. each day. The agenda, which has not yet been determined, will be reported by the telephone service.

The committee's next scheduled meeting is December 11 and 14 in San Francisco.

Changes from this notice will be reported by the meetings telephone information service. The number is 212/575-5694.

AICPA Member Expelled; Two Suspended

Under the AICPA bylaws, membership in the Institute shall be suspended without a hearing should there be filed with the Secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year and shall be terminated in like manner upon similar filing of a final judgment of conviction.

- ☐ On June 14, 1983, the membership of Gary V. Smith of Farmington, Utah, was terminated following receipt by the Secretary of a final judgment of conviction of such a crime in the District Court of Salt Lake County.
- ☐ On June 21, 1983, the membership of Myron Finkelstein of Bloomfield, New Jersey, was suspended pending appeal of his conviction for such a crime in the New Jersey Superior Court.

At a meeting of a hearing panel of Regional Trial Board V in Dallas on January 4, 1983, Neva A. Asbury of Houston was found guilty of violating Rules 501 and 202 of the Institute's Code of Professional Ethics. The violations involved, respectively, her failing to follow the appropriate federal audit guide in connection with her audit of a grantee of federal funds and failing to comply with certain general standards, standards of fieldwork and standards of reporting of the 10 generally accepted auditing standards in her examinations and reports on the same grantee.

Following its guilty finding, the panel voted that Ms. Asbury be suspended from membership for two years during which time she is to complete 120 hours of CPE, at least 60 of which are to be in the areas of accounting and auditing. If she does not comply with the panel's CPE requirements within the two-year period, she is to be expelled from membership without further proceedings.

Ms. Asbury, who was present at the hearing, requested a review of the hearing panel's decision by the National Review Board. An ad hoc committee considered the request on June 14, 1983, and, based upon its consideration of the case and other related material, voted that the request be denied. The decision of the Regional Trial Board hearing therefore became effective on June 14, 1983.

Prospective Financial Statements Guide Proposed

A proposed guide, *Guide for Prospective Financial Statements*, will be exposed for comment next month. The proposal covers preparation and presentation of prospective financial statements as well as accountant's services relating to them. The draft may require a change in practice for practitioners engaged in providing accounting, auditing, tax or MAS services relating to such statements.

The proposed guide would expand the guidance in the AICPA's 1980 *Guide for a Review of a Financial Forecast* and related documents to include financial projections. It would also require accountants to report on prospective financial statements on which they provide services or with which they are otherwise associated. The draft would establish procedures and reporting for compilations of prospective financial statements, but allow flexibility in services and reporting for such statements which are restricted to internal use.

Copies should be available in late September from the AICPA order department.

NAA Issues Code of Ethics for Management Accountants

The National Association of Accountants recently issued a code of ethics designed to provide guidelines as to resolving ethical dilemmas and the possible courses of action to be taken. Entitled *Standards of Ethical Conduct for Management Accountants*, the code is part of a long-term project to develop a framework for management accounting.

The NAA code was developed in response to disclosures of corporate bribery, fraud and false reporting during recent years and was prompted by a desire to change the perception that business is not as honest as it should be.

For further information, contact the NAA, 919 Third Avenue, New York, N.Y. 10022 (212/754-9764).

State Unit Says Unlicensed Persons Can Issue Compilations

An individual without a public accountant's license can probably issue compilation reports, according to a recent Nebraska Attorney General's opinion. State Attorney General Paul L. Douglas, who approved the opinion, said that issuance of a compilation report by an individual who is unlicensed to practice public accountancy doesn't violate the relevant Nebraska statute. Reviews, however, must still be issued by licensed practitioners. Ronald F. Ueberrhein, president of the Nebraska Society of CPAs, said that although the issue remains open, discussion is presently at a standstill until the next society meeting next month.

Reenactment of the state accountancy act, which had been slated for sunset termination this July 1, has been postponed. Consequently, the present accountancy act has been extended until year-end 1984.

For more information, see the September *Journal of Accountancy*.

Education Department Modifies Requirements on SFA Programs

The U.S. Department of Education recently issued a draft guide for use on audits of the department's Student Financial Assistance (SFA) programs at postsecondary schools. When the draft was issued, it was to be used for all SFA audits for the period ended June 30, 1983. Also, the department planned to implement the audit requirement for the Guaranteed Student Loan (GSL) program for the period July 1, 1982 to June 30, 1983.

The department encourages the use of the new guide, but, because the guide will not be issued in final form before late summer, its requirements have been modified, as follows:

- ☐ Audit reports based on the old program guides—Pell Grants and Campus-based SFA Programs—and the August-September 1981 OSFA Bulletin will be accepted.
- ☐ The first year a GSL audit is required will be the year ending June 30, 1984.
- ☐ Regardless of whether the new guide or the old guides are used, the due dates in the audit report will be March 31, following the end of the program year, for schools receiving campus-based funds, and January 31 for those not receiving such funds. In the audit report, the auditor should state which audit guide or guides were used.

For further information, contact the appropriate Department of Education Regional Inspector General for Audit.

Upcoming AICPA Conferences

Federal Taxes—The 1983 AICPA National Conference on Federal Taxes will be held October 24-25 at the Capital Hilton in Washington, D.C. Topics include 1983 in perspective, TEFRA penalty provisions, multi-state tax planning, qualified retirement plans for professionals after TEFRA, closely-held corporations and managing a tax practice. Speakers include Senator William Armstrong (R-Co.) and John Chapoton, Assistant Treasury Secretary for Tax Policy. Fee is $285.

Governmental Training—The 1983 National Governmental Training Program, co-sponsored by the AICPA and the Association of Government Accountants, will be held October 10-12 at the Hotel Monteleone in New Orleans. Aimed at practitioners with at least two years' experience in governmental audits, the program will focus on the concepts and techniques of governmental accounting, auditing and financial reporting practices and procedures. Price is $500.

International Tax—The Third Conference on International Taxation will be held October 31-November 2 in New York at the Vista International Hotel. Designed particularly for practitioners engaged in international tax practice, the conference will deal with current tax laws, cases and regulations in this field and their applications in actual practice. Fee is $575.

For further information on these conferences, contact the Institute's CPE marketing department (212/575-5696).

Washington Briefs

Withholding Repeal Bill Signed—Legislation repealing withholding on dividend and interest income was overwhelmingly passed by Congress on July 28 and signed into law by the President on August 5. The measure calls for tougher taxpayer reporting requirements on such income and a 20 percent back-up withholding for those failing to comply. Those receiving dividend and interest income would not be required to attach copies of Form 1099 to their returns.

Charity versus Tuition—The IRS, in Rev. Rul. 83-104, said that a payment to an organization operating a private school may be tuition—and not a charitable deduction—even though the organization doesn't formally charge tuition. The ruling, which supersedes a 1979 ruling, sets forth six situations illustrating the distinction between tuition and contributions.

State Follows U.S. Supreme Court Unitary Ruling—Using a recent U.S. Supreme Court decision as its basis, Florida last month enacted a law taxing multi-national corporations on their in-state and out-state income and apportions. The state's action puts Florida as the first to adopt the unitary approach of taxing international income of corporations located within its borders since the Supreme Court upheld a nearly identical method used by California (*Container Corp. of America* v. *California Franchise Tax Board*, June 27).

SEC Bars Adoption of Software Accounting Method—At an open meeting on August 4, the SEC agreed to bar adoption of an accounting method on capitalizing internal development costs for computer software to be sold or leased by any companies that hadn't disclosed its use by last April 14. The commission had proposed a freeze on this method at that time (see May 9 *Letter*).

White House Fellows Sought—The President's Commission on White House Fellowships is accepting applications for the 1984-85 year. It seeks candidates who excel in their professional roles and have significant breadth of interests. Fellows serve for one year as assistants to Cabinet secretaries or senior White House staff members and participate in an extensive educational program with government, academic and private sector leaders. For information contact the Commission at 712 Jackson Place, N.W., Washington, D.C. 20503.

Spencer to Leave SEC—Lee B. Spencer, Jr., will resign as director of the SEC's division of corporation finance next month to return to private practice. Spencer had been instrumental in directing the commission's deregulatory actions aimed at making it easier for corporations to raise capital.

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Lauver Named FASB Member; Heimann Named FAF Trustee

Raymond C. Lauver, national director of accounting services of Price Waterhouse, has been appointed to a five-year term as a member of the Financial Accounting Standards Board effective January 1, 1984. Lauver will replace Ralph E. Walters, a board member since 1977, who asked not to be considered for reappointment.

Lauver has been closely involved with the FASB since its inception in 1973, having served as a member of the Financial Accounting Standards Advisory Council and a number of FASB task forces. He is former chairman of the AICPA's accounting standards executive committee and currently serves on the Institute's board of directors.

"I am delighted that he will be joining the FASB," said AICPA Chairman Philip B. Chenok, noting that Lauver is "highly qualified for the position."

Also, former Comptroller of the Currency John Heimann was recently elected a trustee of the Financial Accounting Foundation. Heimann, presently deputy chairman of A. G. Becker Paribas Inc. in New York and Paribas International in Paris, was nominated by the Securities Industry Association to fill the vacancy.

FASB Moves Ahead on Income Tax Accounting

The Financial Accounting Standards Board recently set a public hearing on accounting for income taxes and issued a discussion memorandum as a basis for the hearing. The hearing, set for April 23-25, 1984, at New York's Roosevelt Hotel, will focus on the paper which describes and analyzes the issues to be addressed in the FASB's reconsideration of present accounting practices.

"The major issues discussed in the document," said E. Raymond Simpson, FASB project manager, "pertain to the deferred taxes that presently result from reporting income tax expense in a period other than when the taxes are paid. The document discusses whether income tax expense should be the amount of taxes paid or whether income taxes should be allocated to the period that related revenues and expenses are reported in the financial statements."

Comments on the draft are due by January 31. For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

In other board matters, the FASB, at its August 17 meeting, encouraged the Institute to issue an exposure draft of a proposed audit guide addressing accounting by credit unions. The draft guide is expected to be available in mid-October.

FASB to Stay at Seven Members

The trustees of the Financial Accounting Foundation recently endorsed the recommendation of its structure committee to keep the size of the Financial Accounting Standards Board at seven members. The committee's recommendation was contained in a report to the trustees following a six-month study on whether the board should be reduced to five members.

In their report, the committee cited the responses to a recent issues paper which summarized the considerations, both pro and con, regarding a reduction in the board's size. A significant majority of the paper's responses and other views cited favored retaining the present seven-member size of the board, "primarily because of the greater diversity of backgrounds, points of view and expertise on a seven-member board."

Draft on Computer Processing Effects Exposed

The Institute's auditing standards board has issued an exposure draft of a proposed statement on auditing standards entitled *The Effects of Computer Processing on the Examination of Financial Statements*. The draft consists solely of amendments to existing statements and would supersede SAS no. 3, *The Effects of EDP on the Auditor's Study and Evaluation of Internal Control*.

The board believes that auditors consider the methods of data processing, including computer usage, in essentially the same way and at the same time they consider other significant factors that may affect their examination of financial statements. The board, therefore, believes that guidance concerning the effect of computer processing on audits of financial statements should be integrated with existing guidance rather than presented separately. The draft reflects this approach.

By eliminating the inconsistent language presently in SAS no. 3, the draft also makes it clear that the auditor's obligation to perform a study and evaluation of internal accounting control, as discussed in SAS no. 43, is the same for accounting systems using a computer for processing accounting data as for manual accounting systems.

Comments on the draft are due by December 13, and should be directed to the Institute's auditing standards division. Copies may be obtained from the AICPA order department. (Product no. 815234).

Omnibus and Omitted Procedures Statements Ready

The Institute's auditing standards board recently issued a statement on auditing standards (SAS no. 45) entitled *Omnibus Statement on Auditing Standards—1983*. The statement consists of technical revisions updating existing statements. Included are the following:

☐ An amendment to SAS no. 1 superseding section 310.05 through 310.09 to provide guidance on applying the principal substantive tests at an interim date. Guidance also is provided on extending the audit conclusions from such tests to the balance-sheet date.

☐ An amendment superseding SAS no. 6 to give effect to the fact that the Financial Accounting Standards Board, in SFAS no. 57, *Related Party Disclosures*, issued in March of last year, established requirements for related party disclosures previously contained in SAS no. 6.

☐ An amendment superseding SAS no. 33 on supplementary oil and gas reserve information, which was prepared in response to changes in supplementary disclosure requirements specified by SFAS no. 69, issued last November.

Later this month the board will issue SAS no. 46, *Consideration of Omitted Procedures After the Report Date* (see June 27 *Letter*). It provides guidance on the steps an auditor should take when he concludes, subsequent to the date of his report on audited financial statements, that one or more auditing procedures considered necessary in the circumstances were omitted from his examination.

Copies of the statements may be obtained from the AICPA order department at $1.60 each.

MAS Small Business Conference Reminder

Registration is still open for the Institute's MAS Small Business Consulting Conference to be held at the Las Vegas Hilton on October 19. The conference will focus on aiding practitioners to solve the business problems of their small business clients. Registration fee is $145.

For information, contact the AICPA meetings department.

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Executive Editor: Roderic A. Parnell Editor: Stephen H. Collins

IFAC Issues Statement; Exposes Two Drafts

At its recent meeting in New York, the international auditing practices committee of the International Federation of Accountants took the following actions:

☐ Approved issuance of its International Auditing Guideline (IAG 13) entitled *The Auditor's Report on Financial Statements*. It provides guidance on the form and content of the auditor's report issued in connection with an independent audit of the financial statements of any entity. Suggested wording to be used in expressing both qualified and unqualified opinions is included.

☐ Approved publication of an exposure draft, ED 20, *Audit Sampling*, which identifies the factors an auditor should consider when designing and selecting an audit sample and the procedures for evaluating sample results.

☐ Approved issuance of an exposure draft, ED 21, The *Effects of an EDP Environment on the Study and Evaluation of the Accounting System and Related Internal Controls*, which outlines the characteristics of EDP systems the auditor should consider and the general EDP controls and EDP application controls on which it may be effective and efficient to rely.

Comments on both drafts are due by February 29, 1984. The above papers are expected to be available early next month from the AICPA order department, at prices to be determined.

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AICPA Member Expelled; Another Suspended

The Institute's bylaws provide that membership in the Institute shall be terminated without a hearing should there be filed with the Secretary a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

On June 17, 1983, the membership of Thomas O. Mittelsteadt of Cedarburg, Wisconsin, was terminated following receipt by the Secretary of a copy of a judgment of conviction in the U.S. District Court of Wisconsin, on his plea of guilty, of knowingly causing a false statement to be made on a loan application and with devising and intending to devise a scheme to defraud and obtaining funds by means of wire transfer in violation of the U.S. Code.

On October 22, 1982, a hearing panel of Regional Trial Board X voted to suspend Fred Bryen of Cherry Hill, New Jersey, from membership in the AICPA for six months for violating Rule 101 of its Rules of Conduct. Rule 101 states that a member or a firm of which he is a partner or shareholder shall not express an opinion on financial statements of an enterprise unless he or his firm are independent with respect to such enterprise.

Mr. Bryen, who was present with counsel at the hearing, requested a review of the hearing panel's decision by the National Review Board. The request was considered and denied by an ad hoc committee on June 21, 1983. The decision of the Regional Trial Board hearing therefore became effective on June 21, 1983.

Higher Life Insurance Limits Offered

Effective with the next entrance date on October 1, a new maximum of $300,000 is available for term life insurance plus an equal amount of accidental death and dismemberment coverage under the CPA Plan (for individuals). For the Group Insurance Plan (for firms) the new 1983 maximum limit is $150,000.

Invitations to participate were mailed last month. Additional information may be obtained from the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (Telephone 800/221-4722; in New York call collect 212/661-9000).

Washington Briefs

Comments Sought on New Backup Withholding System—The IRS recently invited industry groups to aid in implementing provisions of the Interest and Dividend Tax Compliance Act of 1983, which was signed into law last month (see August *Letter*). Comments are specifically requested as to payor obligations to obtain identification numbers and associated due diligence standards as well as certification requirements for new accounts and for brokered transactions.

Advance Copies of New Tax Forms Set—Advance copies of many 1983 individual and corporate tax forms including several changes from 1982's forms were recently released by the IRS. Included in the release are copies of Forms 1040EZ; 1040A, 1040 and various schedules and the tax tables. Copies of the forms may be obtained by telephoning Ms. Florence Doak at the IRS (202/566-2473).

Treasury Support Sought for Fringe Benefit Bill—In a recent letter to Treasury Secretary Regan, Representative Barber B. Conable, Jr. (R-N.Y.) requested that the Treasury Department urge the Administration to reconsider its reported decision not to support his proposed fringe benefit legislation (H.R. 3525). The bill is intended "to create a congressional policy on fringe benefits," said Conable, noting that "the alternative is further erosion of the tax base." The AICPA had testified on the tax treatment of fringe benefits at a hearing on the bill on August 1.

Final Rules on Tip Reporting Set—In T.D. 7906, the IRS issued final regulations on tip reporting by large food or beverage establishments. In general, the rules are in line with the temporary regulations which took effect at the beginning of the year. The controversial allocation procedure, which the restaurant industry had sought to change, has been retained.

Measures Introduced on Inventory Tax Rules—Late last month, legislation to simplify the tax rules for business inventories was introduced in both the House and the Senate. Companion measures (H.R. 3802 and S. 1738) would allow companies having a net worth of $25 million or less to write off unsold inventory over four years. The measures would alter the U.S. Supreme Court decision in the *Thor Power Tool* case that revoked deductions by businesses for unsold excess or obsolete inventory.

Correction: Audit Sampling Insert

A typographical error appears in line seven of the second page of *Audit Sampling Implementation—Questions and Answers*, published as a supplement to the August *Letter*. The sentence should read: "If the auditor's evaluation of the sample results would <u>not</u> be altered by considering those unexamined items to be in error, it is not necessary to examine the items."

The CPA Letter

American Institute of Certified Public Accountants, Inc.
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The CPA Letter

A Semimonthly News Report Published by the AICPA

Highlights of Board of Directors Meeting

At its meeting on September 13-14 the AICPA board of directors took the following actions:

- ☐ Authorized exposure of a revised operations manual for the Joint Ethics Enforcement Program (JEEP).
- ☐ Decided to submit to council for action at its May 1984 meeting, a proposed change in Ethics Rule 302 which would permit the use of contingent fees except for engagements that require independence (see August *Letter*).
- ☐ Agreed to the appointment of a special committee to study the AICPA's mission as it relates to members not in public practice.
- ☐ Agreed to recommend that council authorize voluntary membership in a federal tax division.
- ☐ Authorized a review of the Institute's program on equal opportunity and aid to minority students.
- ☐ Heard from Chairman Donald J. Kirk of the FASB on proposed actions in response to the recommendations in the AICPA special committee's report on accounting standards overload (see April 11 *Letter*).
- ☐ Authorized the formation of a special committee to develop a program for legislative implementation of a postbaccalaureate education requirement for the CPA certificate.

Recent ASB Actions

At its meeting on August 30-September 1, the Institute's auditing standards board agreed to ballot on issuing a final statement on auditing standards entitled *Audit Risk and Materiality in Conducting an Audit*. The SAS will provide guidance on the auditor's considerations of materiality and audit risk when planning and performing an examination of financial statements in accordance with generally accepted auditing standards.

In other actions, the board tentatively decided to ballot on a possible exposure draft of a proposed SAS on *Prospective Financial Statements*. The draft would include significant portions of the recently issued proposed guide, *Guide for Prospective Financial Statements* (see August Letter), dealing with accountant's services with respect to prospective financial statements.

AcSEC Meeting Notes

At its recent meeting, the Institute's accounting standards executive committee took the following actions, among others:

- ☐ Approved the appendixes of the proposed audit guide, *Audits of Investment Companies*.
- ☐ Approved letters of comment to the Financial Accounting Standards Board on two of the board's projects: its proposed statement entitled *Extinguishment of Debt* and its preliminary views paper entitled *Employers' Accounting for Pensions and Other Postemployment Benefits* together with its recent discussion memorandum on that subject.
- ☐ Approved sending to the FASB a banking committee letter expressing its views on accounting for commitment fees. The letter will accompany the issues paper entitled *Accounting for Nonrefundable Fees of Originating or Acquiring Loans and Acquisition Costs of Loan and Insurance Activities*.

Membership in AICPA Division for Firms Urged

In a special message to AICPA members, Institute Chairman Rholan E. Larson urged firms to consider joining the Division for CPA Firms—its private companies practice section, SEC practice section, or both. Larson said that the commitment to quality practice and quality service to clients "is the keystone of the division."

Membership in the division is open to all CPA firms and "is a proven vehicle for maintaining and upgrading the quality of a firm's practice." A key aspect of this commitment, added Larson, is the peer review of each firm's audit and accounting practice.

Larson recommended that members read his article in the September *Journal of Accountancy*, which discusses the division's benefits and accomplishments.

Recent Publications

The Public Oversight Board, which monitors the SEC practice section of the AICPA's division for CPA firms, recently issued its fifth annual report. It comments on the board's activities, the peer review committee's progress and the development of the special investigations committee. One key conclusion put forth was the need for a public relations and education program "to heighten public confidence in the accounting profession . . ." and to inform users of financial statements and others about the division's self-regulatory process (Available free—Product no. 017158).

The Institute's professional ethics division has exposed a draft of two proposed interpretations of Rule of Conduct 503 (see August *Letter*).

Study in Federal Taxation no. 6—U.S. Tax Aspects of Doing Business Abroad (Second Edition)—This updated study clarifies current federal tax laws and regulations relating to foreign business and investments. It focuses on U.S. taxation of foreign income earned directly or indirectly by U.S. taxpayers. Price is $22.50; $18 to members (Product no. 059305).

Compliance with Federal Election Candidate Campaign Requirements: A Guide for Candidates (Fourth Edition)—This 1983 edition provides updated campaign-related data and guidance to candidates for Congress. Discussions of accounting and financial management systems are included. Price is $22; $17.60 to members (Product no. 305030).

Auditing & EDP (Second Edition)—This study updates the 1968 edition, reflecting changes in computer technology during those 15 years. It is intended to aid CPAs in auditing financial statements of companies using computers for recordkeeping, among other things. Price is $25; $20 to members (Product no. 013509). Also, *Auditing & EDP (Second Edition)—Study Guide* is a guide designed either to be used as a self-study tool of the text or in connection with a course using the book. Price is $15; $12 to members (Product no. 013513).

All publications are available from the AICPA order department. If net total order is under $10, add postage and handling charge of $2.

The two latest programs in the CPA Video Journal series are no. 28, *Corporate Applications of Microcomputers*, which focuses on one of the sessions presented at the most recent AICPA National Conference for CPAs in Industry, and no. 29, *The AICPA in Washington*, presenting an overview of the Institute's activities there. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

Accounting Literature Awards Announced

Two Stanford University professors were presented with the AICPA Notable Contributions to Accounting Literature Awards at the American Accounting Association's annual meeting last month. Selected by the AICPA accounting literature awards committee from nominations by an AAA committee, the awards went to the following:

- ☐ *Financial Reporting: An Accounting Revolution*, Professor William H. Beaver, published by Prentice-Hall, Inc., 1981.
- ☐ *Financial Statement Analysis*, Professor George J. Foster, published by Prentice-Hall, Inc., 1978.

Also, William C. Dent and Paul Rosenfield have won the 1983 *Journal of Accountancy* Literary Award for their article, "No More Deferred Taxes," published in the February 1983 issue. Dent is national director of professional practice at Fox & Company, Denver. Rosenfield is director of the Institute's accounting standards division.

The award, in honor of John Lawler, former *Journal* editor and AICPA senior vice president, is given for the best article published in the *Journal* during the 12 months ending June 1983, as determined by the magazine's editorial advisers.

May 1983 Sells Award Winners Announced

For the May 1983 Uniform CPA Examination, 69,868 candidates completed a total of 253,685 papers—both new records for May examinations.

The winner of the Sells Gold Medal, given for the highest grade total on the examination, was John T. Johnston, III, of Chattanooga, Tennessee. A graduate of the University of North Carolina at Chapel Hill, he is presently a staff accountant with Ernst & Whinney in Chattanooga.

Elaine M. Kuhn of St. Charles, Illinois, was the winner of the Sells Silver Medal, the second highest award. A graduate of Northern Illinois University, she is with Arthur Andersen & Company's small business audit division.

The Sells Bronze Medal for the third highest grade total was won by Douglas E. Reynolds of Chicago. A graduate of Miami University in Oxford, Ohio, he is also with Arthur Andersen & Company in Chicago.

In addition, 117 certificates with high distinction are being awarded. The presentation of the medals for the May and last November's examinations will be made in conjunction with the Institute's annual meeting.

SEC Seeks Applicants for Fellowship Program

The Securities and Exchange Commission is now accepting applications for its Professional Accounting Program, which is entering its twelfth year. Two individuals will be selected for two-year terms beginning early next summer.

Applicants should have one or more years' experience at the manager level in public accounting or in an organization providing equivalent experience.

Typical work assignments include the study of significant accounting concepts, participation in the drafting of financial reporting releases and staff accounting bulletins, evaluation of current reporting by registrants and liaison with various governmental and professional accounting groups.

Applications are due by year-end. A brochure is available from the Office of the Chief Accountant, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549.

Guidance on Real Estate Lending Set

Guidance for practitioners on real estate lending will appear in the November *Journal of Accountancy*. Prepared by the AICPA's task force on real estate lending activities of financial institutions, the guidance covers accounting for real estate acquisition development or construction loans.

Also, copies of the task force's notice to practitioners entitled *Certain Real Estate Lending Activities of Financial Institutions* are available from the AICPA order department.

Washington Briefs

Tax Incentive Bill for Small Companies Proposed—A five-part package of tax incentives for small companies, including removing the ceiling on investment tax credits for used equipment and reducing capital gains rates, was recently introduced. The measure (S. 1840) would, among other things, reduce the maximum effective capital gains tax rate from 20 to 10 percent for individuals who hold new stock issues at least five years; allow small companies to claim tax deductions on up to $250,000 of the dividends they pay; and simplify the tax rules for companies using the Lifo method of inventory accounting. Some of the bill's proposals are also contained in other pending legislation.

Comments Sought on Computerized Returns—The IRS recently extended the comment period on its proposal aimed at reducing the cost of processing tax returns by allowing returns to be filed in machine-readable form. In Information Release 83-110, the IRS said that more than 10 million individual returns were prepared by computer last year, but were filed in paper form which then had to be converted for processing by the IRS. If the returns could be converted without first being transcribed, the IRS said it could substantially pare its processing costs.

Gift Return Regulations Clarified—The IRS, in T.D. 7910, issued regulations to carry out provisions of the 1981 tax act which change the date for filing gift tax returns and paying gift taxes to April 15. The rules apply to gifts made after December 31, 1981, and generally follow the IRS' proposals made in February.

Tracking Down Self-Employed Nonfilers—The IRS will soon be going after self-employed individuals who don't file income tax returns. It plans to buy demographic data compiled by marketing firms showing the name of the head of the household and the amount of income of that household. That data would then be compared to a master list of taxpayers to determine if that household has filed a return. The test will be conducted in six as yet undetermined districts.

Seminars on SAS no. 39 Set

The Institute's CPE division will cosponsor a series of one-day seminars on applying SAS no. 39, *Audit Sampling*, for nonstatistical auditors, to be held this fall in nine states. Prepared by the AICPA's auditing standards division, the seminars are aimed at providing additional guidance on implementing SAS no. 39. The first will be in Minneapolis on October 5, immediately after the Institute's annual meeting. For information, contact Debra Reilly at the AICPA (212/575-3861).

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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Annual Meeting Covers Panorama of Topics

Some 1,500 CPAs, spouses and their guests attended the Institute's 96th annual meeting in Minneapolis, October 2-4. They participated in various technical meetings as well as sampling the City of Lakes' cultural and social attractions.

The first official function was the meeting of council on Saturday, October 1 (see page 3). The annual business meeting, chaired by outgoing chairman Rholan E. Larson, was called to order on Monday morning. Special achievement awards were presented during the meeting, including the AICPA Gold Medal for Distinguished Service. The winners of the Sells Awards granted to those CPA candidates achieving the highest grade totals on the Uniform CPA Examination were introduced as were the foreign and other guests of the Institute. A panel of senior committee chairmen, moderated by President Chenok, discussed current professional activities and expected future developments. In addition to presentations by the incoming and outgoing chairmen, guest speakers during the next two days included:

- ☐ Former Prime Minister of Great Britain Edward R. G. Heath
- ☐ Dr. Walter W. Heller, former chairman of the Council of Economic Advisors
- ☐ Roscoe L. Egger, Jr., IRS commissioner

Also, there were eight concurrent mini-conferences focusing on such topics as accounting, MAS, MAP, industry and taxation.

New this year was a "spouses development program" on October 4 that featured three experts on money, health and self-improvement. The program included Dixie Jo Porter, a financial expert; a member of the Dale Carnegie organization of Minneapolis; and Dr. Lendon Smith, a noted pediatrician and author.

For further information, see the December *Journal of Accountancy*.

Council Elects AICPA Officers and Directors; Fills Council Vacancies

Bernard Z. Lee of Texas moved up to chairman of the board when council elected Ray J. Groves, Ohio, as vice chairman at its October 2 meeting. Mr. Lee is managing partner of Seidman and Seidman and Mr. Groves is chairman and chief executive of Ernst & Whinney.

The new vice-presidents for 1983-84 are Barry B. Findley, Arkansas; William L. Raby, Arizona and Robert D. Thorne, Illinois. Don J. Summa, New Jersey, was elected treasurer.

Also, the following were elected to the board of directors for three years: Thomas L. Holton, New York; Joseph A. Silvoso, Missouri; A. Marvin Strait, Colorado; and Barbara Hackman Franklin, District of Columbia.

Previously, by mail ballot, council elected Alan B. Levenson, a Washington, D.C. attorney and former head of the SEC's division of corporation finance, as the public member of the board to fill the unexpired term (1984) of A. A. Sommer, Jr. who resigned upon his election to the Public Oversight Board.

Three council vacancies were filled due to resignations:

- ☐ William J. Fisk, Vermont, replacing E. Leslie Hoy (1985).
- ☐ Jack R. Lesher, Pennsylvania, replacing J. Robert Malone (1984).
- ☐ Don A. Nelson, California, replacing John E. Masline (1984).

Because of Mr. Silvoso's election to the board of directors, K. Fred Skousen, Utah, was elected to fill his unexpired term (1984) as a member-at-large of council.

Credit Union Guide Proposed

A proposed audit and accounting guide entitled *Audits of Credit Unions* will be exposed for comment later this month. Prepared by the Institute's credit unions committee, the proposed guide was developed to assist the independent auditor in examining and reporting on financial statements of credit unions. The proposal should help the supervisory committee, management and directors of credit unions as well as other interested persons understand the nature and scope of audits of credit unions by independent auditors.

It recommends reporting savings (share) accounts as liabilities rather than the regulatory practice of classifying the accounts as equity. In addition, the proposed guide describes those aspects of operations and accounting unique to the credit union industry and describes some of the regulatory requirements of the industry.

Comments on the draft will be due 90 days after issuance. Copies of the draft will be available shortly from the AICPA order department.

Four Auditing Interpretations Set on Internal Control

The Institute's auditing standards division has approved four auditing interpretations of SAS no. 30, *Reporting on Internal Accounting Control*, to be published in a forthcoming issue of the *Journal of Accountancy*.

"Form of Report on Internal Accounting Control Based Solely on a Study and Evaluation Made as Part of an Audit" notes that an auditor may modify the wording of such reports illustrated in SAS no. 30 provided the modifications meet the requirements of the SAS. Also, other comments on specific aspects of internal control may not be submitted by less formal means, but must conform to the SAS if assurance on the controls is also expressed based on a study and evaluation made as part of an audit.

"Reporting on Internal Accounting Control Based Solely on an Audit When a Minimum Study and Evaluation is Made" notes that when an auditor has made only the minimum study and evaluation required by SAS no. 1, he may modify the illustrative report in SAS no. 30 to more fully describe the limited nature of the study and evaluation.

The other two interpretations—"Report Required by U.S. General Accounting Office Based on a Financial and Compliance Audit When a Study and Evaluation Does Not Extend Beyond the Preliminary Review Phase" and "Restricted Purpose Report Required by Law to be Made Available to the Public"—illustrate reports appropriate in certain circumstances to meet the requirements set forth by the GAO.

Nominations Committees Elected

The following were elected by council to serve on the 1984 nominations committees for the AICPA and the two sections of the division for CPA firms:

AICPA	SEC Practice Section	PCPS
*Rholan E. Larson, Minnesota	Rholan E. Larson, Minnesota	Rholan E. Larson, Minnesota
William T. Diss, Colorado	William T. Diss, Colorado	Harry M. Linowes, D.C.
John L. Fox, New York	Clifford E. Graese, New York	Sandra A. Suran, Oregon
Clifford E. Graese, New York	Charles Kaiser, Jr., Texas	Louis Braver, New York
Charles Kaiser, Jr., Texas	Kenneth H. Lever, California	Sidney F. Jarrow, Illinois
Kenneth H. Lever, California	Harry M. Linowes, D.C.	Melvin Pechon, Louisiana
Harry M. Linowes, D.C.	Richard F. Martin, Ohio	Donald E. Schmaltz, Michigan
Richard F. Martin, Ohio		
Jake L. Netterville, Louisiana		
Donald H. Skadden, Michigan		
Sandra A. Suran, Oregon		

*chairman

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Council Approves Membership Tax Division

The AICPA council, at its October 1 meeting, approved the establishment of a voluntary dues-paying tax division; membership in which will be open to any AICPA member. The program of the division will be geared to the common needs of members who have a special interest in the field. It will include meetings, publications, agenda and minutes of committee meetings, and opportunities to participate directly in division activities.

The program and the division operations will be administered by the federal taxation executive committee under the supervision of the AICPA board of directors. In approving the proposal, members of council emphasized that membership in the division would reflect a member's particular interest in the subject and should not be construed as a measure of competence. In that connection, any change in membership requirements would require council approval.

Action on this proposal had been deferred pending the report of the special committee on member services which was presented at the meeting. The committee had been appointed to consider possible restructuring of the Institute to provide improved services and to make a specific recommendation on the tax division proposal.

The committee endorsed the concept of the membership tax division and recommended that similar operations be set up to respond to needs of other members with special interests. As with the tax division membership, additional divisions would be open to all AICPA members, operate within the AICPA and be under the control of the AICPA board of directors.

Among other matters not specifically reported in this *Letter*, council

- ☐ Approved the 1983-1984 budget which projects a $4 million increase in revenues to $59,310,000 and expenses of $57,269,000 resulting in an excess of revenues over expenses of about $2 million.
- ☐ Discussed a report by the professional ethics executive committee on its proposed amendment to Rule of Conduct 302—Contingent Fees under which such fees would be prohibited only when independence is involved (see August *Letter*). After additional exposure, council is expected to act on this amendment in the spring of 1984. Also, reported on were two interpretations of Rule 503, now being exposed, which would narrow the definitions of "client" and "products and services of others."
- ☐ Received reports from various other committees and groups including the AICPA/NASBA special committee on a model accountancy bill, accounting standards overload, PCPS structure committee, status of the proposal to form a governmental accounting standards board, and professional accounting education.

Hanson Honored at Annual Meeting

The accounting profession's highest award, the AICPA Gold Medal for Distinguished Service, was awarded to Walter E. Hanson, former chairman and chief executive of Peat, Marwick, Mitchell & Co., and former Institute officer and director, at the annual meeting. Only 59 others have received the award since its inception in 1944.

Long an advocate of self regulation, rather than government regulation, Mr. Hanson was involved in preparing and developing the AICPA's response to congressional critics during the mid-1970s which ultimately took the form of the Institute's division for firms. A member of numerous AICPA committees, he also served as Institute treasurer, member of the board of directors and as chairman of the planning and finance committee.

Presently a member of the boards of directors of five companies, he is also active in accounting education and currently serves as chairman of the board of trustees of Lafayette College.

NOTICE TO PRACTITIONERS ON S&L COSTS

It has come to the attention of the AICPA's savings and loan associations committee that practice is becoming diverse concerning the inclusion of interest as a holding cost in the determination of net realizable value of (a) real estate held for sale or development acquired in either troubled debt restructurings or other than by troubled debt restructurings and of (b) real estate that serves as collateral for doubtful or troubled loans and receivables. The diversity in practice has resulted from different interpretations of the following sentence on page 41 of the *Audit and Accounting Guide for Savings and Loan Associations* (1979):

> "The FASB has recently issued an exposure draft of a proposed statement of financial accounting standards, "Capitalization of Interest Costs," and any pronouncement ultimately issued is expected to be applicable to associations."

Certain associations have interpreted that language, when considered with FASB Statement no. 34, as limiting the amount of interest to be included in the determination of net realizable value as a holding cost to that amount capitalizable under Statement no. 34.

The Institute's accounting standards executive committee has concluded that the issuance of SFAS no. 34 did not change the expressed conclusions in the Savings and Loan Guide that all direct holding costs, including the cost of all capital (debt or equity) should be included in the determination of net realizable value of such real estate, regardless of whether such costs will be capitalized under SFAS no. 34.

FASB Issues Draft on Business Combinations

The Financial Accounting Standards Board recently exposed for comment a draft statement entitled "Elimination of Certain Disclosures for Business Combinations by Nonpublic Companies." The draft would eliminate for private companies the pro forma disclosure requirements in APB Opinion no. 16, *Business Combinations*, for business combinations accounted for by the purchase method. Copies of the draft may be obtained from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

Upcoming Conferences

National Banking—The Eighth National Conference on Banking is set for November 14-15 at Chicago's Hyatt Regency O'Hare. The program will focus on current accounting and auditing issues facing banks and bank holding companies. Topics include current congressional interests in the banking industry, mergers and acquisitions and current trends in banking technology. Fee is $350. For information, contact the AICPA meetings department.

Professional Incorporation—A conference on professional incorporation and alternatives for lawyers and CPAs after TEFRA will be held January 26-27, 1984, at New Orleans' Hyatt Regency. Sponsored jointly by the AICPA and the ALI-ABA, the conference will focus on the advantages of professional incorporation and the changes brought by the act. For information, contact Carol Ann Sasso at the AICPA (212/575-5696).

AICPA Awards Two Doctoral Grants

Two doctoral candidates have received grants-in-aid totaling $16,800 in connection with their dissertations in accounting. The total amount budgeted for grants in the 1983-84 academic year is $37,500, and additional recipients will be announced next spring. The recipients are:

- ☐ Wanda I. DeLeo, Georgia State University, $8,400. Topic: An Analysis of Financial Information as It Relates to Failed Banks: A Multivariate Approach.
- ☐ Susan W. Winckler, Michigan State University, $8,400. Topic: Local Government Early Warning Systems to Predict Fiscal Stress.

Four AICPA Members Suspended

At a meeting of a hearing panel of Regional Trial Board IV in St. Louis, Missouri, on July 14, 1983, Monte Lee Lopata and Albert I. Dubinsky of St. Louis were found guilty of violating Rule 501 of the Institute's Code of Professional Ethics. Rule 501 states that a member shall not commit an act discreditable to the profession. The violation involved unlawful use of insider information by the respondents in connection with their purchase of stock of a company which was not a client and which resulted in judgments against them in a civil action brought by the SEC.

Following its guilty finding, the panel voted that Messrs. Lopata and Dubinsky be suspended from membership in the AICPA for six months.

Neither respondent, who were each present with counsel at the hearing, requested a review of the hearing panel's decision. The decision, therefore, became effective on August 13, 1983 and the six month suspension of their memberships began running on that date.

At a meeting of a hearing panel of Regional Trial Board VIII in Atlanta on July 13, 1983, Burrell A. Fletcher of Lonoke, Arkansas, was found guilty of violating Rule 202 of the Codes of Professional Ethics of the Arkansas Society of CPAs and the AICPA. The violations involved his failing to comply with the third general standard and the fourth standard of reporting of the 10 generally accepted auditing standards in his examination and report on the financial statements of a federally funded state agency.

Following its guilty finding, the panel voted that Mr. Fletcher undergo a peer review of his practice by December 31, 1983 and that he complete twenty-four hours of continuing professional education courses in accounting, auditing and reporting in each of the next two years. If he does not comply with the hearing panel's requirements, his memberships in the Arkansas Society of CPAs and the AICPA are to be automatically suspended for two years from the date of such noncompliance.

Mr. Fletcher, who was present at the hearing, did not request a review of the decision and it therefore became effective on August 12, 1983.

Under the AICPA bylaws, membership in the Institute shall be suspended without a hearing should there be filed with the Secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

On July 15, 1983, Ronald Gary Ralston of Dalton, Georgia, was notified that his membership was suspended pending appeal of his conviction of theft in the Superior Court of Whitfield County, Georgia.

Minority Scholarships Announced

The Institute's minority recruitment and equal opportunity committee recently announced the awarding of 353 scholarships for the 1983-84 academic year. The students, from 140 colleges and universities, received scholarships totaling $202,250. Included this year were 30 Arthur Andersen-AICPA scholarship awards totaling $17,500 and seven RCA-AICPA scholarships totaling $4,250.

For further information, contact Sharon Donahue at the AICPA.

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards

The accounting standards executive committee will hold an open meeting at New York's Halloran House on October 26-28, starting at 9:00 a.m. each day. The agenda, which has not yet been determined, will be reported by the meetings telephone information service. The number is 212/575-5694.

The next scheduled meeting of the committee is December 7-9 in Fort Lauderdale, Florida.

Washington Briefs

Insurance, Insider Trading Bills Move Ahead—Two bills affecting life insurers and insider trading appear to be moving towards final passage. A House subcommittee recently approved legislation to restructure the tax system for the life insurance industry, which could add as much as $1 billion in additional revenues this year by boosting the effective tax rate paid by the life underwriters. The insider trading bill was approved by a voice vote in the House last month and has been sent to the Senate. It would permit the SEC, whenever it finds an individual trading in securities on the basis of material nonpublic information, to seek an order in the U.S. District Court requiring that individual to pay a civil penalty up to three times the gain received.

Rules on Travel Meal Allowances Set—The IRS, in TD 7909, issued final regulations covering its authority to set standard per diem rates on meal expenses incurred while traveling. Such amounts, which have yet to be determined, can be used as an option for substantiating the actual cost of the meals.

Watch Estimated Payments—The IRS recently advised taxpayers that estimated tax payments due January 15, 1984 may have to be increased because of the repeal of the law imposing a 10 percent-withholding on interest and dividend income.

Bill to Repeal 30 Percent Withholding Supported—In recent Senate hearings, a bill introduced earlier in the year to repeal the 30 percent withholding tax on interest paid to foreign investors by U.S. entries received strong support. Assistant Treasury Secretary for Tax Policy John Chapoton said that such a repeal would improve access to foreign capital markets by eliminating the need for U.S. companies having to offer debt instruments through finance subsidiaries in the Netherland Antilles in order to come to the eurobond market.

Less Data on Executive Perks—At an open meeting late last month, the SEC adopted new rules reducing the amount of information on management compensation that must be disclosed. While cash compensation must continue to be reported, certain details on such perquisites as the use of company planes, cars, club memberships and stock option plans won't have to be disclosed.

CPA Is New U.S. Treasurer—President Reagan has sworn in as Treasurer of the U.S. Katherine D. Ortega, CPA, recently a commissioner of the Copyright Royalty Tribunal. Formerly a bank president in California, she has been an AICPA member since 1972.

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The CPA Letter

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Draft on Health Care Entities Exposed

An exposure draft of a proposed statement of position entitled *Financial Reporting by Health Care Entities of the Proceeds of Tax-Exempt Bonds and Funds Whose Use is Limited* was recently issued. Prepared by the Institute's subcommittee on health care matters, the proposal provides guidance for health care entities in three areas: reporting long-term debt issued through a financing authority; classifying funds whose use is limited as either general or restricted; and reporting related investment income and interest expense in the financial statements. Among the recommendations in the draft are the following:

☐ Unrestricted funds should be called general funds and health care entities should report, as liabilities in the general funds section of the balance sheet, debt issued for their benefit and for repayment of which they are responsible for when the debt is issued.

☐ Only assets restricted by a donor or grantor should be reported in the restricted funds section of the balance sheet and all other assets should be reported in the general funds section.

☐ Assets whose use is limited in substance under terms of debt instruments or other similar arrangements should be reported in the general funds section as assets whose use is limited.

Comments are due by January 14, 1984. Copies of the draft are available from the AICPA order department (212/575-6426).

FASB Delays Pension Statement for Governmental Units . . .

At its October 5 board meeting, the Financial Accounting Standards Board agreed to issue a statement indefinitely deferring the effective date of SFAS no. 35, *Accounting and Reporting for Defined Benefit Pension Plans*, with respect to pension plans sponsored by state and local governmental units.

Last June, the board had issued an exposure draft amending SFAS no. 35 to defer the statement's effective date to plan years beginning after June 15, 1985. According to an FASB spokesman, the reason for this deferral is basically the same as before—to allow time to resolve jurisdictional questions regarding the application of the statement to governmental entities.

The board's action follows that of the National Council on Governmental Accounting, which voted on September 22 to extend indefinitely the effective date of NCGA Statement no. 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers*. In taking this step, the NCGA concluded that such action was required "to provide as much time as necessary to reconcile the material differences" between its statement and SFAS no. 35.

. . . And Extends Comment Period on Futures Draft

The FASB has extended the comment period on its exposure draft, *Accounting for Futures Contracts*, to November 11. The draft, issued this summer (see July *Letter*), applies to commodity and financial futures contracts.

The comment deadline, originally October 14, was extended because several financial institutions requested more time to develop their comments.

Also, at its October 5 meeting, the board decided to issue an Invitation to Comment to solicit views on the procedures it proposes to adopt for implementing the recommendations of its task force on timely financial reporting guidance.

Medicare Audit Guide Withdrawn

In connection with the Institute's policy of reviewing the content of existing guides, the 1969 *Medicare Audit Guide* was withdrawn in September. Because of changes in legislation and audit procedures, the guide has been determined to be out-of-date.

When the guide was first issued, a significant need existed for independent audits of provider cost reports. However, such audits are now generally being conducted by intermediary auditors, such as insurance companies, rather than by independent CPAs. Thus, it has been determined that revising the guide would be of limited usefulness to the profession.

An Updated Look at the AICPA Membership

The latest analysis of the AICPA membership files shows steady growth in members—12,000 or more in each of the most recent years. This compares to about a 10,000-member annual jump during the 1970s.

In terms of composition, there have been a few new twists. The percentage of members in public accounting had been trending downward since 1974, dropping from 60 percent in that year to 52.5 percent last year. However, for 1983, the percentage rose 0.5 percent to 53 percent. Conversely, the percentage of members in industry had been climbing steadily during that period, from 33.6 percent in 1974 to 37.6 percent last year. In 1983, however, the percentage dropped by 0.7 percent to 36.9 percent.

Within the practicing group, members associated with smaller firms remain in the majority at more than 56 percent. The medium-sized firm representation has shown the greatest growth, rising from 9.3 percent in 1974 to 15 percent this year. During that same period, the percentage of members in the largest firms has dropped from 38.7 percent to 28.4 percent.

The following tables were compiled as of July 31, the end of the Institute's fiscal year.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1974	1980	1982	1983
Total AICPA Membership	103,863	161,319	188,706	201,764
Public Accounting	60.0%	54.1%	52.5%	53.0%
Business and Industry	33.6	35.5	37.6	36.9
Education	3.0	2.9	2.5	2.7
Government	3.4	3.3	3.2	3.3
Retired and Miscellaneous	*	4.2	4.2	4.1

*Not available, included in business and industry category

	1974	1980	1982	1983
Membership in Public Practice	62,430	87,339	99,141	106,870
Firms with one member	21.5%	23.8%	23.5%	22.6%
Firms with 2 to 9 members	30.5	33.1	34.0	34.0
Firms with 10 or more members, except the 25 largest firms	9.3	13.0	14.5	15.0
25 largest firms	38.7	30.1	28.0	28.4

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Executive Editor: Roderic A. Parnell   Editor: Stephen H. Collins

Quality and Professionalism Essential Says Larson

Quality performance of expanding services in a changing environment is one of the biggest challenges facing the profession today. This was one of the key points in outgoing Chairman Rholan E. Larson's talk at the October 3 annual meeting in Minneapolis. The issues associated with achieving greater involvement of members not in public practice were also emphasized.

In discussing the demand for quality, Larson stated that it is not an option, but a means of survival. "If the credibility of our product and our services diminishes," he said, "the demand for our product and services will also diminish. Quality is in the public interest. But quality is also a matter of self-interest."

Larson pointed to the dilemma the profession faces—the need to maintain independence, integrity and objectivity as auditors while meeting the demands of the marketplace for expertise beyond the profession's traditional role. While many of the answers are not yet evident, he said that there are several conclusions that appear to be crystal clear:

- ☐ We must retain professionalism through the pursuit of excellence and without deviation from the principle that the interests of our clients and the public come before our own.
- ☐ In a changing world, relevance of our services to the real needs of the marketplace must be maintained—but within the parameters of professionalism.
- ☐ In ten or twenty years, when this profession takes a backward look at the accomplishments of what is now our future, one of the most important ingredients will have been our behavior as individuals and as firms as we practice our profession.

In concluding his talk, Larson reminded his audience that the late William Gregory, in his message as outgoing chairman, challenged practitioners "to demonstrate professional responsibility and self-restraint in our conduct as professionals." With these words in mind, Larson said that the profession should now commit itself "to keeping the essence of professionalism" in facing today's challenges.

Incoming Chairman Speaks of Challenges Ahead

The AICPA "has a long list" of challenges ahead, some of which are outlined in the paper, *Issues Confronting the Accounting Profession*, to be published in the November *Journal of Accountancy*. With these words, Bernard Z. Lee, incoming AICPA chairman, in his inaugural remarks at the annual meeting October 4, singled out four areas which "will require special emphasis in the coming year."

One key area is self-regulation and specifically, the division for CPA firms. Studies to assess both sections will be completed in the coming year and "I am satisfied that they will establish that the division has been an effective addition to an already respected self-regulatory process," Lee noted.

Also cited was the recent study on member services which noted the need for added services to members with particular interests. Lee added that a special committee will be appointed to study the AICPA's mission with emphasis on members not in public practice.

This past year, the report of the Institute's special committee on standards overload was issued, which strongly recommended a "concerted and concentrated effort to relieve the burdens of an accounting standards overload." While a cooperative undertaking with the FASB has begun, Lee warned that the issues are complex and no simple or quick answers are foreseen.

Turning to professionalism and integrity, which he considers highly significant, Lee noted that changes in the practice environment, including increased competition, have resulted in challenges to the code of professional ethics. "Ethical concepts change, particularly as a profession matures, and the rules need to be modified to reflect those changes," he said. "What we must do is to find a balance between our professional pride and our commercial drive so as to accommodate the latter without sacrificing the former," Lee concluded.

1982-83 AICPA Annual Report Issued

Continuing recent policy, the Institute's 1982-83 annual report will be included as a supplement to the November *Journal of Accountancy*. Outgoing Institute Chairman Rholan E. Larson and AICPA President Phillip B. Chenok, in their message to members, note that this year has seen studies made in a number of key areas which "may have a profound effect on the future of the accounting profession."

One major step was the work of special committees appointed to study the objectives and operations of the SEC and private companies practice sections of the AICPA's division for firms. An interim report of the group studying the PCPS has been issued and certain changes are recommended in the peer review process and for additional member services.

A review of the AICPA's Code of Professional Ethics was also undertaken and a study made of the effectiveness of the Joint Ethics Enforcement Program (JEEP).

Other significant studies included the report of the special committee on accounting standards overload, issued last February, and the auditing standards structure committee's final report, accepted by the Institute's board of directors in May.

Last year, a special committee was created to study a proposal by the Institute's federal taxation executive committee to create a dues-paying membership tax division. The group concurred with the recommendation, concluding "that a more general need exists for subgroups to respond to members' special interests in other areas such as audit, financial accounting and reporting, and management." At its October 1 meeting, council approved the proposal (see October 10 *Letter*).

Many of the matters addressed during the year, concludes the message, "represent challenges in search of resolution. Finding effective and lasting solutions will demand concentrated effort by the leadership of the Institute and its members working together."

A limited number of copies of the report are also available free from the AICPA order department (212/575-6426).

Recent Publications

As noted in the August *Letter*, the auditing standards division recently issued a proposed guide, *Guide for Prospective Financial Statements*. The division wishes to emphasize that it ". . . provides guidance for accountants, whether engaged in accounting, auditing, tax or MAS practices, and would require accountants associated with prospective financial statements to report on them." Accordingly, many members not ordinarily receiving exposure drafts may find the proposed guidance pertinent to their practices.

The 1983 edition of the AICPA's *Management of an Accounting Practice Handbook* and the revised 1983 supplement to the handbook are now available. The handbook contains three loose-leaf volumes providing guidance on virtually every key aspect of practice management. The handbook, including the supplement, is $180; $144 to members (Product no. 042732), while the supplement alone is $33; $26.40 to members (Product no. 042728).

Index to Accounting and Auditing Technical Pronouncements—This latest edition shows what technical pronouncements may bear on certain practice situations. It covers all technical standards and semiauthoritative material issued by the AICPA, FASB and SEC in effect as of July 1, 1983. Price is $12; $9.60 to members (Product no. 001997).

All publications are available from the AICPA order department. If net total is under $10, add postage and handling charge of $2.

The latest program in the CPA Video Journal series is no. 30, *Second Generation Microcomputer Hardware and Software*, which provides detailed information about current microcomputer developments, including new software packages. For information, contact Teresa Zimmerer at the AICPA (212/575-5573).

Draft on Letters for Underwriters to Be Exposed

The Institute's auditing standards board will shortly issue an exposure draft of a proposed statement on auditing standards entitled *Amendments to SAS no. 38: Letters for Underwriters*. It consists solely of amendments to the SAS made in response to recent changes in SEC financial reporting requirements and other developments in auditing and reporting practices. The amendments include guidance on

- ☐ Comfort letters issued in a shelf registration and requests for comfort letters before the managing underwriter has been selected.
- ☐ Comments in a comfort letter on pro forma financial information.
- ☐ References to previously issued reports on condensed financial statements and selected financial data.
- ☐ Condensed descriptions of the accountant's procedures and findings.
- ☐ The accountant's statement on independence.
- ☐ Comments regarding compliance with SEC rules and regulations on the form and content of financial statements.

Comments will be due 90 days after issuance. Copies of the draft will be available early next month from the AICPA order department.

NASBA Holds Annual Meeting; Elects New Officers

James H. Douglas, secretary of the state of Vermont, was the keynote speaker at the National Association of State Boards of Accountancy's 76th annual meeting, held in Washington, D.C., on October 16-19. The three-day series of sessions, which focused on the theme "The Profession and Its Regulation in a Time of Rapid Change," drew state board members from virtually every state.

Speakers also included Bernard Z. Lee, the new AICPA chairman, and Robert L. Block, NASBA president. The meeting's theme was taken from a speech Block delivered earlier in the year at the Institute's council meeting. An adapted version of the speech appeared in the October *Journal of Accountancy*.

Panel sessions at the meeting focused on such topics as establishing and implementing sound public policy, entry into the profession and recent developments relating to unauthorized and unethical practice.

On the slate of NASBA officers elected for 1983-84 were C. Hunter Jones (Virginia), who succeeded Block to the office of president, and Sandra A. Suran (Oregon), president-elect. New vice-presidents are Melvin A. Coffee (Colorado), Thomas Iino (California) and Frank T. Rea (Texas). Reelected treasurer was Stephen E. Pascarella (Rhode Island). Robert L. Block succeeded to the office of immediate past president.

Additional Seminars on SAS no. 39 Set

The remaining one-day seminars on applying SAS no. 39, *Audit Sampling*, for nonstatistical sampling, will be held this fall in seven cities, as follows: Hartford, November 2; Denver, November 18; Chicago, December 5; Dallas, December 9; Atlanta, December 19; Philadelphia, December 14; and Los Angeles, January 9, 1984. Cosponsored by the Institute's CPE division with participating state societies and prepared by the AICPA's auditing standards division, the seminars are aimed at providing additional guidance on implementing SAS no. 39 (see September 26 *Letter*). For information, contact Debra Reilly at the AICPA (212/575-3861).

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

An open meeting of the auditing standards board will be held in the AICPA boardroom in New York City on November 29-December 1, starting at 9:00 a.m. each day. The agenda has not yet been determined and will be reported by the meetings telephone information service. The number is 212/575-5694.

Future meetings are scheduled for January 17-19, 1984 in New York and March 6-8 in Fort Lauderdale.

Washington Briefs

Partnership Selection Process Challenged—In a legal case which may ultimately affect some CPA firms, the U.S. Supreme Court has agreed to review a decision as to whether the key civil rights law against employment discrimination applies to law firm partnerships. In the case (*Hishon* v. *King & Spalding*, no. 82-940), a woman associate sued on the basis of sex discrimination after she was not made a partner in an Atlanta law firm. A federal appeals court had previously dismissed the case, ruling that law firm partners are not technically employers in admitting new members to their ranks, and therefore not subject to Title VII of the Civil Rights Act of 1964.

Unitary Tax Approach Under Fire—The U.S. Supreme Court recently refused to reconsider its decision of last June (see August *Letter*) which permits states to tax multinational corporations on their in-state and out-state income and apportions. Currently, 12 states use this form of taxation, called unitary taxation. Several nations have complained to President Reagan about this system and the president has appointed an international task force to study the situation.

Crackdown on Abusive Shelters—The IRS and the Justice Department "are coming down hard on abusive tax shelters," warned IRS Commissioner Roscoe L. Egger, Jr., speaking at the AICPA's annual meeting earlier this month. He announced that the IRS will begin a nationwide program involving a pre-filing notification to investors in suspect shelters that certain tax deductions and/or credits are not allowable and that claiming them would result in an audit. "This program is not window dressing," he said. "It is a coordinated field attack where, for a change, we have a chance to head off tax abuse before it occurs."

Standard Mileage Rate Rises—Effective for 1983, the optional standard mileage rate for the first 15,000 miles of annual business use is increased to 20.5 cents from 20 cents. Rates remain at 11 cents per mile for business use in excess of 15,000 miles annually and for fully depreciated cars and at nine cents per mile for medical, charitable and moving expense deductions (Rev. Proc. 83-74 and IR-83-120).

Accountant's Liability Conference—The Practising Law Institute will sponsor a conference on accountant's liability to be held on November 14-15 in New York City. It will focus on litigation issues stemming from the civil liability exposure of accountants and will emphasize new developments, including emerging litigation trends. For further information, contact the PLI, 810 Seventh Avenue, New York, N.Y. 10019.

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Board of Directors Highlights

At its meeting on October 27, the AICPA's board of directors took the following actions:

- ☐ Received a report from the chairman and two members of the Public Oversight Board of the SECPS on the Institute's self-regulatory effort.
- ☐ Agreed to exposure of a proposed Model Public Accountancy Bill which would present in one document the positions of both the AICPA and the National Association of State Boards of Accountancy on desirable accountancy legislation.
- ☐ Received a progress report on the effort to establish a body in the private sector to establish accounting standards for state and local governments. The board approved the progress to date.
- ☐ Discussed the development of a program by which the AICPA might speak out on public issues in which the profession has a specific expertise.

AICPA Testifies on Reform of Inventory Tax Rules

Last month the AICPA testified at hearings on inventory reform and simplification before the House small business subcommittee on taxation. C. Paul Jannis, chairman of the Institute's tax accounting subcommittee, expressed general support for companion legislation introduced in both the House and the Senate to reform current inventory tax rules. The legislation (HR 3464 and S 1570) is basically aimed at making it easier for small business retailers and wholesalers to adopt Lifo procedures.

Jannis said that small companies generally are reluctant to switch to Lifo because they find the rules complicated and costly and because they fear they will not be in compliance with the rules of the IRS.

In his opening remarks, subcommittee chairman Henry Nowak (D-N.Y.), who is trying to have the House Ways and Means Committee hold hearings on the House bill, said that, although the 1981 Economic Recovery Tax Act included some inventory reforms, "there is much to be done."

The text of the Institute's testimony will appear in the November *Tax Adviser.*

Chances of New Tax Legislation Almost Nil

There will almost certainly be no major revenue legislation this year or next, according to Assistant Treasury Secretary for Tax Policy John Chapoton. Speaking at the Institute's conference on federal taxes, held last month in Washington, D.C., he added, "And it's a good thing for there has been an unprecedented amount of tax legislation, major and minor, during this administration. Now we should have a moratorium for a year or two to let the legal and accounting professions analyze what is already on the books."

Senator William Armstrong (R-Co.) added: "We won't be ready for new tax laws until they've written the regulations on the old ones." In other remarks, the senator challenged the widely held view that there have been major tax reductions in the past several years. Tax rate reductions, he said, have been more than offset by increased taxes on fuel, social security and those resulting from TEFRA.

The balance of the conference focused on 1983 in perspective, with discussions of major tax changes during the year and their implications. Other topics discussed included multi-state tax planning, the TEFRA penalty provisions and an update on IRS procedures.

FASB Issues Results of Pension Field Test

The Financial Accounting Standards Board recently issued a special report, *Preliminary Views—A Field Test: Employers' Accounting for Pensions*, which summarizes the results of the board's field test on its preliminary proposals on pension accounting. The board's proposals, issued in a paper last fall (see November 22, 1982 *Letter*), would, among other items, require net pension liability to appear on the balance sheet of U.S. employers sponsoring defined benefit pension plans, rather than only in the footnotes to the financial statements, which is generally the current practice.

The 32 participating companies were asked to apply the accounting proposed in the preliminary views paper to their actual situations for the years 1979 through 1982. The test provides the FASB with data on actual situations and some of the variables affecting pension accounting in specific circumstances. With this information, the board can compare the test companies' results under the preliminary views' proposals with their results under the current accounting requirements of APB Opinion no. 8, *Accounting for the Cost of Pension Plans*.

The board will hold a public hearing on pension accounting issues at New York's Roosevelt Hotel on January 11-13, 1984. A statement on the subject is expected next year.

For further information, contact the Order Department, FASB, High Ridge Park, Stamford, Conn. 06905.

Moonie Named FASAC Executive Director

Clyde W. Moonie, former executive vice-president and chief financial officer of Philbro-Salomon Inc., has been named executive director of the Financial Accounting Standards Advisory Council, effective November 1, succeeding W. Douglas Sprague, who is retiring.

The FASAC is responsible for consulting with the Financial Accounting Standards Board on major policy issues, technical issues on the board's agenda, project priorities, selection and organization of task forces and other matters requested by the board or its chairman.

Recent AcSEC Actions

At its meeting on October 26-28, the Institute's accounting standards executive committee approved for final issuance a proposed statement of position entitled *Reporting by Banks of Investment Securities Gains or Losses*. The SOP is expected to be issued by year-end.

Also, AcSEC approved exposure of a proposed guide, *Audits of Oil and Gas Producing Activities*. The proposed guide now has to be approved by the chairman of the auditing standards board. It is expected that the draft guide will be exposed next spring.

CPE Sales Hotline Established

The Institute's CPE marketing division recently established a sales information hotline. This new service will provide members with product updates, respond to inquiries and alert state societies and associations to new courses, seminars and publications.

A special toll-free telephone number has been installed to provide members with information on CPE courses, including video, in-house and individual study. The number is 800/242-7269 which spells 800/AICPANY. In New York State call 212/575-5696.

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Executive Editor: Roderic A. Parnell — Editor: Stephen H. Collins

Loan Origination Fee Paper Sent to FASB

The Institute's accounting standards executive committee recently sent an issues paper entitled *Accounting for Nonrefundable Fees or Originating or Acquiring Loans and Acquisition Costs of Loan and Insurance Activities* to the Financial Accounting Standards Board. Among the issues addressed in the paper are

- ☐ Whether accounting for loan origination fees should be based on the view that originating loans is integral to lending money.
- ☐ Whether accounting for loan commitment fees should be based on the view that making loan commitments is a separate revenue-generating activity from which remuneration may be provided for services rendered.
- ☐ How a loan commitment fee should be recognized if a commitment is made with the expectation that the loan will not be made.
- ☐ Whether loan and insurance policy acquisition costs should be accounted for as expenses when incurred or capitalized as assets over the periods revenue is generated.

Copies of the issues paper (Product no. 830376) are available at $2.50 each from the AICPA order department (212/575-6426).

Upcoming AICPA Conferences

The AICPA's Eleventh National Conference on Current SEC Developments will be held January 10-11, 1984, at the Capital Hilton Hotel in Washington, D.C. The two-day conference focuses on current developments concerning SEC reporting, particularly relating to SEC pronouncements issued during 1983. SEC Chairman John S.R. Shad has been invited as keynote speaker. Registration is $350. Contact the AICPA meetings department (212/575-6451).

The Institute's 1983 Personal Financial Planning Conference will be held in two locations—the Omni Bahia Mar Hotel in Fort Lauderdale, Florida, on December 5-6 and the Sheraton Harbor Island in San Diego on January 26-27, 1984. The two-day conferences will focus on the various approaches and techniques involved in personal financial planning. Plenary sessions will deal with topics such as investment strategies, personal financial statements and the use of computers in this area. Also, workshops will focus on areas such as a review of wills and trusts, risk management and retirement planning.

Registration fee is $285. For information, contact the CPE sales information hotline (800/242-7269; in New York State, 212/575-5696).

NOTICE OF AICPA PUBLIC MEETINGS

Accounting and Review Services

An open meeting of the accounting and review services committee will be held in the AICPA conference room D, New York, on December 9 from 9:00 a.m. to 5:00 p.m. Agenda has not yet been determined.

Accounting Standards

The accounting standards executive committee will have an open meeting on December 7-9 at the Marriott Hotel in Fort Lauderdale, Florida, starting at 8:30 a.m. each day. Agenda not yet set.

The next scheduled meeting is for January 31-February 2, 1984, in New York City.

Federal Taxation

The federal tax division's executive committee will hold an open meeting in San Francisco at the Hyatt Regency Hotel on December 11 and 14 from 9:00 a.m. to 5:00 p.m. each day. Agenda not yet determined.

The next scheduled meeting is in Boca Raton, Florida, on February 2-3, 1984.

The agendas for these meetings will be reported by the meetings telephone information service. The number is 212/575-5694.

Washington Briefs

Hearing Held on Reducing Capital Gains Holding Period—In a House Ways and Means Committee hearing on November 2, a measure to reduce the holding period on long-term capital gains and losses to six months gained support from some congressmen and the Administration. Speaking on behalf of the Administration, Assistant Treasury Secretary for Tax Policy, John E. Chapoton supported the reduced holding period, but refused to endorse a proposal to decrease the limit of deductibility of capital losses against ordinary income from $3,000 to $1,000.

Unitary Tax Controversy Still Hot—The special commission appointed by President Reagan to find a solution to the controversial unitary tax issue (see October 24 *Letter*) met for the first time on November 2 and appointed a staff level task force to begin developing policy recommendations. The group is holding public hearings this month to gather testimony on "alternative viewpoints."

Debt-Equity Regulations Withdrawn—The IRS recently announced withdrawal of Treasury Decision 7742, which provided final regulations on the treatment of certain interests in corporations as stock or indebtedness. The withdrawal, issued as T.D. 7920, removes the controversial regulations which were intended to define certain types of stocks as debt or equity interests of a corporation.

Deficit-Cutting Legislation in Doubt—President Reagan recently vowed to veto a proposed deficit-reduction bill that Senate Finance Committee Chairman Robert Dole is supporting. The bill includes a three-year, $150 billion package including hefty new taxes and major cuts in federal programs. "I am unalterably opposed to Congress' efforts to raise taxes on individuals and businesses," said the President.

Tax Interest Rate Unchanged—The annual interest charged on tax underpayments and overpayments to be paid by the government will remain at 11 percent through next June 30. The rate on the underpayment of individual and corporate estimated taxes will also continue at 11 percent (IR-83-16).

Warning on Misuse of FTDS—The Treasury Department has warned taxpayers of a possible penalty for misuse of the federal tax deposit system. Some taxpayers mail federal tax deposits to IRS offices instead of authorized government depositaries in order to have use of the funds while the deposits are forwarded to the proper areas. The IRS says that using such a delaying tactic may result in a five percent penalty for failure to make timely deposits.

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AICPA Cautions NSPA on Proposed Tax Accounting Standards

AICPA President Philip B. Chenok has responded to an exposure draft of the National Society of Public Accountants on *Standards of Generally Accepted Tax Accounting Principles for the Preparation of Tax Basis Financial Statements.* Noting that the AICPA has provided guidance on the income tax basis of accounting, he took issue with the exposure draft for four reasons. These are

☐ The concept underlying "generally accepted tax accounting principles" is faulty. "Rules and regulations governing determination of taxable income and the preparation of income tax returns are set by legislators and regulators primarily to raise tax revenue and are not 'generally accepted' in the financial reporting sense." Use of that term will mislead readers of tax basis financial statements.

☐ The measurement and disclosure guidance provided in the draft is incomplete. The measurement guidance is a superficial summary of IRS rules and regulations. There are no illustrative presentations and only fragmentary illustrations of footnote disclosures. Moreover, no standards or benchmarks are presented for determining whether disclosures are informative and not misleading.

☐ Procedural guidance is incomplete, ambiguous and, in some circumstances, impossible to comply with. The procedures in the exposure draft are not based on any set of professional standards or concepts. He noted that AICPA professional literature on audits, reviews and compilations is applicable to CPAs whether financial statements are prepared in conformance with GAAP or another comprehensive basis of accounting.

☐ The language of the proposed "transmittal letters" for use with financial statements prepared in conformance with the "tax accounting principles" presents inherent legal hazards since the letters are clearly intended to serve as reports to the public.

Mr. Chenok's letter concludes with the statement that, if the NSPA decides to move forward with the present proposal, "the AICPA's concern for the public interest may require that we make our views known to those who may not understand the deficiencies and adverse implications of the proposal."

Two Ethics Proposals Exposed

The Institute's professional ethics executive committee has approved for exposure the following two proposed interpretations:

☐ Interpretation 102-1, *Knowing Misrepresentations in Financial Statements,* would clarify the application of Rule 102 to members who permit or direct others to perform acts which, if performed by the member, would place the member in violation of the rule. The proposal states that a member who knowingly makes or permits another to make false or misleading entries in an entity's financial records shall be considered to have knowingly misrepresented facts in violation of Rule 102.

☐ Interpretation 501-4, *Gross Negligence in the Preparation of Financial Statements,* states that a member who, by virtue of gross negligence, makes, or directs or permits another to make false or misleading entries in financial statements of an entity shall be in violation of Rule 501.

Comments on the drafts are due by February 15, 1984 and should be directed to the professional ethics division. Copies are available from the AICPA order department.

FASB Holds Hearing on Concepts Application

Earlier this month, the Financial Accounting Standards Board held a two-day public hearing on the board's proposal to amend concepts statements nos. 2 and 3 on qualitative characteristics of accounting information and elements of financial statements of business enterprises.

In his opening remarks, FASB Chairman Donald J. Kirk said that concepts statement no. 2 identifies the characteristics "that make accounting information provided by business enterprises useful for resource allocation decisions." Concepts statement no. 3, noted Kirk, defines 10 elements of financial statements of business enterprises, including three balance sheet elements.

The proposals would make these statements applicable to nonbusiness organizations as well as to business enterprises. The scope of the drafts were of concern to many of the respondents, with several seeking clarification on whether public colleges, universities, hospitals and other entities operated by governments are "governmental units" and thus to be excluded from the draft's scope.

In other matters, the FASB recently issued SFAS no. 75, *Deferral of the Effective Date of Certain Accounting Requirements of Pension Plans of State and Local Governmental Units,* which indefinitely defers the effective date of SFAS no. 35 for pension plans sponsored by these units (see October 24 *Letter*).

AICPA Member Expelled; Another Suspended

Under the AICPA bylaws, membership in the Institute shall be terminated without a hearing should there be filed with the Secretary of the Institute a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

☐ On October 10, 1983 the membership of John Carter Obst of Carmel Valley, California, was terminated following receipt by the Secretary of a final judgment of conviction in the Superior Court of California, County of Monterey, of grand theft.

The AICPA bylaws also provide that membership in the Institute shall be suspended without a hearing should a member's certificate as a certified public accountant be suspended as a disciplinary measure by any governmental authority.

☐ The membership of George R. Braly of Renton, Washington, has been suspended effective August 11, 1983 coincident with the suspension of his CPA certificate as a disciplinary measure by the Washington State Board of Accountancy.

Video Course Update

The Institute's CPE division is offering the following video courses: internal control in small business audits, write-up services, tax planning for farmers and ranchers and a new corporate tax series with three modules on stock purchase treated as asset purchase, corporate non-liquidating redemptions and partial liquidations. Also offered is a selection of video courses produced by the Center for Video Education, an independent producer of educational videotapes for CPAs in public practice and in industry. Designed primarily for group study, all the above courses consist of videotapes and instructional workbooks.

For information, call the CPE sales information hotline (toll free, 800/242-7269; in New York State, 212/575-5696) or your state society.

In other video matters, a videotape describing the AICPA's services to members was recently produced by the Institute's public relations department. For further information on the videotape, contact Teresa Zimmerer at the AICPA (212/575-5573).

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

Conference on Regulation of Profession Set

The AICPA and NASBA will jointly sponsor the second national conference on state regulation of the profession January 15-17, 1984, at the Four Seasons Hotel in San Antonio. The conference will focus on current challenges to the regulation of the profession and appropriate responses to those concerns.

Keynote speakers will be AICPA President Philip B. Chenok and NASBA President C. Hunter Jones. One major topic of discussion will be the joint AICPA-NASBA model public accountancy bill, which was recently approved for exposure by the Institute's and NASBA's boards of directors. Presentations will cover such areas as centralization of state board functions, changes in the code of professional ethics, reviews and compilations, and positive enforcement. The conference will also include breakout sessions to exchange views.

Information will be mailed shortly. For details, contact William Crane in the state legislation department (212/575-6210).

Doctoral Fellowships Awarded to Minority Faculty

Six minority faculty members have accepted doctoral fellowships sponsored by the AICPA for the 1983-84 academic year. The recipients, all receiving $7,500 grants, are

- ☐ Quinton Booker of Jackson State University, Jackson, Mississippi, attending Mississippi State University.
- ☐ Frasier W. Brickhouse of Virginia State University, Petersburg, attending Virginia Commonwealth University, Richmond.
- ☐ Gwendolyn J. Highsmith of North Carolina A&T State University, Greensboro, attending the University of Houston.
- ☐ Dorothy M. Mattison of Morgan State University, Baltimore, attending George Washington University, Washington, D.C.
- ☐ Priscilla D. Slade of Jackson State University, Jackson, Mississippi, attending the University of Texas at Austin.
- ☐ Henry Thomas of Jackson State University, Jackson, Mississippi, attending Mississippi State University.

The program is aimed at helping the minority accounting faculty of developing institutions pursue doctoral study.

Institute Committee Members Sought

Members who wish to volunteer for one of the approximately six hundred AICPA committee openings that are expected to become available starting in October 1984 should write to Torny Berntsen at the Institute. She will provide a booklet listing current committees and their objectives, approximate time commitment and a biographical form which will supply the necessary information for consideration by the incoming chairman of the board. To be considered for the 1984-85 committee year, the bio form should be returned by February 15, 1984.

1983 ACCOUNTING FIRMS AND PRACTITIONERS DIRECTORY TO BE AVAILABLE IN DECEMBER

This updated volume lists alphabetically, by city within state, individual practitioners, accounting firms and professional corporations whose CPA partners or shareholders are AICPA members.

To order, please return this form with your check to the AICPA Order Department. Price is $12.50; $10.00 to members. Product no. 010483.

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☐ 1983 ACCOUNTING FIRMS & PRACTITIONERS DIRECTORY

Add 8¼% sales tax in N.Y.C. Elsewhere in New York State add 4% state tax plus local tax if applicable.

Washington Briefs

Tax Bill on Hold Until 1984—The House recently blocked passage of tax legislation (HR 4170) designed to raise about $8 billion in new revenues over three years. The House's action, taken directly before Congress' recess, means that congressional tax-writing efforts must now wait until early next year. "Time isn't on our side," said one congressman, who supported the legislation, before Congress adjourns.

SEC Modifies Shelf Registration Rule—At an open meeting earlier this month, the SEC made Rule 415 on shelf registration a permanent rule, but limited its use to large, established companies. Rule 415 was originally approved on a temporary basis in March 1982 as a nine-month experiment and had been slated to expire on December 31. The rule, which becomes effective January 1, 1984, allows an issuer whose securities are widely held to file one registration statement detailing its long-term plans for selling certain securities.

Pilot Electronic Filing System Set—The SEC recently announced plans to implement a pilot "electronic filing, processing and information dissemination system," aimed at allowing corporations to file and investors to access instantly such data on home and business computer screens. The system's objective is to cut corporate and SEC expenses and to speed the dissemination and analysis of such information by investors and security analysts.

"Push Down" Accounting Clarified—In SAB no. 54, the SEC discusses the application of the "push down" basis of accounting in the separate financial statements of subsidiaries acquired in purchase transactions. In a question and answer format, the SEC staff gives its views on the appropriateness of this method in various circumstances.

Social Security Rate for 1984 Set—The Social Security Administration recently announced the social security tax level for next year. For 1984, the tax rate will rise from 6.7 percent to 7 percent for employers. Employees will be granted a tax credit of .3 percent for 1984 so that their net tax rate will remain at 6.7 percent. However, their maximum tax will increase because of a higher taxable base. The maximum taxable base will jump from $35,700 this year to $37,800 next year.

Olympic Checkoff Sought—A bipartisan group of senators is seeking President Reagan's support for legislation (S 591) to add a checkoff box to income tax forms so that taxpayers could donate $1 of their refund to the U.S. Olympic trust fund. The senators, in a letter to the President, said that the legislation would not affect tax revenues.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Statement on Audit Risk and Materiality Set

The Institute's auditing standards board shortly will issue a statement on auditing standards (SAS no. 47) entitled *Audit Risk and Materiality in Conducting an Audit*. The statement provides guidance on the auditor's consideration of audit risk and materiality in planning the nature, timing and extent of audit procedures and in the evaluation of the results of those procedures. Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated. The SAS includes the following considerations, among others:

- ☐ The auditor should plan the audit so that audit risk will be limited to a low level that is, in his professional judgment, appropriate for issuing an opinion on the financial statements. It may be assessed in quantitative or nonquantitative terms.
- ☐ In planning, the auditor should take into consideration his preliminary judgment about materiality levels. That judgment may or may not be quantified.
- ☐ The auditor should consider audit risk at the individual account-balance or class-of-transactions level by assessing the inherent risk and control risk he believes exists and the detection risk he can accept.

The statement also includes a requirement relating to the aggregation of errors when the auditor evaluates whether the financial statements are materially misstated.

Copies of the statement may be obtained later this month from the AICPA order department at $1.60 each (Product no. 060478).

FASB to Allow In-Substance Defeasance

By a 4-3 vote, the Financial Accounting Standards Board adopted SFAS no. 76, *Extinguishment of Debt*, which permits debt to be removed from the balance sheet if the debtor is relieved by the creditor from primary liability for the debt and is, in effect, assured that future payments will not be required. The statement is generally the same as the draft exposed last July and would amend APB Opinion no. 26 to make it applicable to all extinguishments of debt covered by the opinion.

Under the statement, debt will be accounted for as having been extinguished—and removed from the balance sheet—if the debtor places a sufficient amount of essentially risk-free monetary assets in trust solely for paying the debt and is thus assured of having to make no further payments. Such transactions are sometimes called "in-substance defeasances."

According to FASB Project Manager Robert C. Wilkins, the board "believes that by placing the risk-free assets irrevocably in trust solely for paying the debt, the debtor no longer has a probable future sacrifice of economic benefits, which is the general definition of liability for accounting purposes. SFAS no. 76 is effective for transactions occurring after December 31, 1983, but may be applied retroactively.

In other board actions, the FASB has released a research report, *Incremental Information Content of Statement 33 Disclosures*, which is based on a sample of more than 700 nonfinancial companies required to report SFAS no. 33 data on the impact of changing prices for the years 1979 through 1981. The researchers found that security returns are more highly correated with historical cost-based earnings than with restated earnings and suggest modifications to the requirements of SFAS 33 that could make the data more useful.

For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

Recent AICPA Publications

Division for Firms Directory—The division for CPA firms recently published its second directory of member firms as of September 1. Alphabetical entries include the city and state of the main office of each firm. Copies will be provided free to each firm and its practice units, AICPA educator members, colleges and university libraries with accounting programs, the Robert Morris Associates and each state society. Up to 20 copies will be available gratis from the AICPA order department; additional copies are $1.25 each; $1 to members (Product no. 018837).

Accountants' Index: 31st Supplement: This new edition lists more than 14,000 items on accounting, auditing, taxation, management and other topics which have been published during 1982. Price is $60; $48 to members (Product no. 001060). A quarterly subscription service is also available at $160 annually; $128 to members.

Accounting Trends and Techniques, 1983 Edition—The latest edition of this reference shows what accounting and reporting techniques were used in 1982 and early 1983 annual reports of 600 companies. The survey includes more than 1,000 examples of current practice and numerous tables. Price is $42; $33.60 to members (Product no. 00938).

Report of the Joint Data Base Task Force—This report from a task force formed by the AICPA, the Canadian Institute of Chartered Accountants and the Institute of Internal Auditors provides an overview of audit and control considerations in a data-base environment. Price is $4; $3.20 to members (Product no. 029230).

All publications are available from the AICPA order department. If net total order is under $10, add postage and handling charge of $2.

A Reminder—In January 1978, meetings of Institute standard-setting committees were opened to the public. In that connection, an advance information subscription service was made available to AICPA members and other interested individuals. In advance of the approximately 30 meetings a year of these committees, subscribers to the AICPA meetings subscription service will receive copies of relevant information, including meeting agendas, point outlines, exposure drafts and highlights of prior meetings.

The annual subscription fee is $120 for calendar 1984. To order, contact the AICPA's circulation department.

Deadline for Disability Income Plan Is January 1

Institute members wishing to begin or increase their coverage under the AICPA Long Term Disability Income Plan are reminded that the cutoff date is January 1. Material on the plan has been mailed to all members. The plan is available to virtually all Institute members—those in public practice, private industry, government, education or elsewhere employed. Special features of the plan include

- ☐ Monthly disability income benefit payments ranging from $500 to $5,000 for total disabilities caused by either sickness or accident.
- ☐ Disability benefits that may be paid for life after a 26-week waiting period if disability occurs before age 50 (up to 65 if incurred later).
- ☐ A voluntary rehabilitation program under which an insured CPA may return to work while receiving reduced benefits. Training and education expenses are included.

For further information, contact Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (800/221-4722; in New York, collect at 212/661-9000—extension 382).

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Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

Member's Suit to Block Expulsion Fails

The enforceability of an automatic disciplinary provision of the AICPA's bylaws has been reaffirmed by New York's highest court.

Under the AICPA bylaws, membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year and shall be terminated in a like manner upon similar filing of a final judgment of conviction.

On June 30, 1982, Arnold M. Asman of Searingtown, New York, was notified that his membership in the AICPA was being terminated following receipt by the Secretary of a final judgment of conviction in Federal Court, Newark, New Jersey, of the crime of bribery of an IRS agent.

Mr. Asman requested that the termination of his membership not take effect. After careful consideration of a written submission by Mr. Asman detailing mitigating circumstances, an ad hoc committee of the Joint Trial Board unanimously voted to deny his request.

Upon petition by Mr. Asman to a New York State Trial Court, the court temporarily enjoined publication of the disciplinary action pending a decision by the court on Mr. Asman's motion to vacate the termination of his membership. The AICPA argued that Mr. Asman had no legally recognized basis for his challenge and, on January 26, 1983, the trial court granted the AICPA's motion to dismiss the action.

Mr. Asman then appealed to the Appellate Division, which, on June 21, 1983, unanimously affirmed the trial court's decision in favor of the AICPA after first staying publication until final adjudication.

A notice of appeal was then filed by Mr. Asman to the New York Court of Appeals (the State's highest court) which affirmed the lower courts' decisions and, on September 15, 1983, granted the AICPA's motion for dismissal. Subsequently, the stay which prohibited the AICPA from publishing a termination notice was lifted.

Accordingly, pursuant to the AICPA's bylaws, the membership of Arnold M. Asman has been terminated as of July 21, 1982, the date on which the ad hoc committee denied his request that the termination be vacated.

FDIC Policy on Disclosure of Examination Reports Clarified

Disclosure of reports of examination by regulatory authorities to independent auditors and others was the subject of recent meetings between representatives of the AICPA banking committee and the staffs of the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency.

The FDIC advised the Institute that regional directors have been informed by Washington that "accountants and attorneys hired by a bank and acting in their capacity as bank employees or agents, therefore, are permitted to view an FDIC report, insofar as it relates to their scope of employment, without prior FDIC approval."

The FDIC defines "agent" to include an accountant or accounting firm engaged by a bank's board of directors to perform an audit of the bank. Further, examiners are permitted to provide pertinent information to auditors with prior approval of the bank and with the understanding that if the examination or the resultant report has not been completed, the examiner may not be in the position to be as conclusive as may be desired. Normally, a report is not issued until it has been reviewed by the regional director.

Any contact by an auditor with the FDIC should be through the Chief Review Examiner in the FDIC region in which the bank is located, and only in rare cases would communication with the FDIC in Washington be necessary in this regard. The FDIC also indicated that the auditor, with the permission of the bank, could attend exit conferences between examiners and either management or the board of directors of a bank as an observer.

Representatives of the OCC indicated that national bank examination reports have been available to independent auditors since 1976 and the OCC will continue to make its reports available.

ANNUAL REPORT OF JOINT ETHICS ENFORCEMENT PROGRAM ACTIVITY

As of June 30, 1983

In line with the Institute's policy of reporting on disciplinary matters, the AICPA's professional ethics division has updated its statistics on the disposition of ethics investigations processed under the AICPA's Joint Ethics Enforcement Plan (JEEP) consisting of the AICPA's ethics division and 50 state CPA societies. This report is based on information submitted by the ethics division and 43 other JEEP participants.

The statistics cover cases, not the number of respondents in a case.

		TOTALS*
ETHICS COMMITTEE ACTIVITIES		
Investigations open at start of period	518	
Investigations opened during period	308	
Total Investigations		826
Administrative Reprimands issued	40	
Constructive comment letters issued	44	
No Violation findings	175	
Prima Facie cases in preparation for submission to Joint Trial Board Division	4	
Cases Referred to Joint Trial Board Division during 1982:		
Prima Facie cases for Trial Board Hearings	6	
For action under automatic provisions of bylaws	12	
Total Disposition of Case Investigations		281
Remaining Investigations as of June 30, 1983;		
Investigations held pending outcome of litigation:		
State Society Ethics Committees	75	
AICPA Ethics Division	82	
Cases under investigation:		
State Society Ethics Committees	312	
AICPA Ethics Division	76	
Total Remaining Investigations		545
Total Investigations		826
JOINT TRIAL BOARD DIVISION ACTIVITIES		
Members Expelled under automatic provision of bylaws	6	
Members Suspended under automatic provision of bylaws	6	
		12
Trial Board Hearings:		
Members Admonished	2	
Member Suspended	1	
Member Expelled	2**	
Case heard but not yet concluded	1	
		6
Total Joint Trial Board Division Cases		18

*Total figures are not comparable from period to period because of differences in the number and identity of the state societies reporting in any given year.

**One State Society member only.

SEC Disallows ADAPSO Petition on Auditor Independence

Computer products or services provided to audit clients by CPA firms don't affect the independence of those firms, according to a recent SEC decision. At an open meeting on November 22, the SEC considered a petition by the Association of Data Processing Service Organizations (ADAPSO) that it propose for comment a rule providing that an accounting firm would not be independent if it offered computer products or services to its audit clients.

SEC Chief Accountant Clarence Sampson reviewed the earlier commission decisions to rescind ASRs 250 and 264, relating to auditor-provided management advisory services. He endorsed this earlier action and said that there is nothing new on the subject. SEC Commissioner Bevis Longstreth asked Sampson if there were any new problems. Sampson replied that the area of auditor services is under continuous review and noted the work of the Public Oversight Board and the AICPA's peer review process. Chairman Shad and Commissioners Longstreth and Treadway voted unanimously against the petition.

Highlights of Recent Pronouncements Available

A listing of the highlights of technical standards issued in the past year is available, free, on written request, from the AICPA order department. The two-page listing, which was published in the November issue of the *Practicing CPA*, cites the principal features of FASB statements and interpretations, statements on auditing standards, the most recent statement on standards for accounting and review services and statements on standards for management advisory services. Ask for product no. G00040 from the AICPA order department.

STATEMENT BY AICPA BANKING COMMITTEE

Participants at the AICPA national banking conference held recently in Chicago were reminded that CPAs auditing 1983 bank financial statements may need to give additional attention to the allowance for loan losses, insider loans and loan participations purchased and sold. General economic conditions, economic conditions in certain industries and regions and the large number of banks on the "troubled" lists of supervisory agencies were cited as reasons for this reminder.

As discussed in the AICPA industry audit guide, *Audits of Banks*, the objective in auditing a bank's allowance is to evaluate its reasonableness. All relevant conditions existing at the balance-sheet date should be considered in evaluating the reasonableness of the allowance; accordingly, mechanical formulas should not be overemphasized. Factors which may cause loans to develop credit risk problems include improper credit extension procedures, changes in the economy, changes in the status of a particular industry or geographic area, undue loan concentrations, insider transactions and deterioration in the credit worthiness of the borrower.

With respect to insider loans, the CPA should find helpful the guidance provided in *Audits of Banks* and Statement on Auditing Standards no. 45. The existence of affiliated banks and affiliated organizations that are not audited by the CPA may require additional audit attention by the CPA in his examination.

With respect to loans or participations in loans purchased from other banks, the CPA should be mindful that audit procedures should be similar to those for direct loans, except that requests for confirmation of balances and collateral, if any, are normally sent to the originating bank. These procedures include evaluation of collectibility and inspection of supporting documentation. Since delinquent payments are generally an important indicator of deterioration in credit quality, CPAs should consider determining the actual status of borrower payments such as through confirmation with the originating bank.

In auditing banks which have sold participations, the CPA should be alert to matters such as payments of principal and/or interest to the purchasing bank in advance of actual receipt from the borrower and inadequate loan documentation. Such matters might indicate ineffective credit granting and administration procedures and a commitment of the orginating bank to repurchase such loans or to share in any losses.

Chapters 7 and 8 of *Audits of Banks* should be helpful to CPAs in auditing the allowance for loan losses, insider loans and loan participations.

Washington Briefs

Anti-racket Civil Suit Allowed—Late last month, the U.S. Supreme Court refused to hear an appeal by three major accounting firms for their alleged role involving an insurance fraud. The three firms and other companies had been sued by Illinois insurance officials under a federal anti-racketeering law which provides for recovery of triple damages. The 1970 law, the Racketeer Influenced and Corrupt Organizations Act applies to a "pattern" of racketeering in legitimate businesses.

Cox Approved as SEC Commissioner—The Senate recently approved the nomination of Charles C. Cox, chief economist of the SEC since 1982, as an SEC commissioner. When sworn in, Cox will fill the seat of former Commissioner John Evans, who is leaving the commission after more than 10 years' tenure. A White House nomination to fill the vacancy created by the recent resignation of Commissioner Barbara Thomas is still pending.

Form 3115 Revised—Form 3115, used by taxpayers to request a change in accounting method, has been revised and is now available at IRS offices. Since Rev. Proc. 80-51 specifies that a current Form 3115 must be filed by taxpayers requesting a change in accounting method, the IRS requests that the revised form be used in all future filings.

Rules on Records Retention Proposed—The tax records of defunct corporations and partnerships would have to be retained for three years by their top executives under regulations recently proposed by the IRS. The proposed rules also would amend the tax code Section 7216 penalty provisions when tax preparers disclose information, exempting tax preparers from penalties when appearing before a grand jury.

Peer Reviews "Pay for Themselves"—In a recent speech, SEC Chairman John S. R. Shad said that self-regulation by the accounting profession under the SEC's oversight is being enhanced. For example, he added, "the 428 accounting firms which audit over 90 percent of the 9,000 publicly-owned corporations are now on a three-year peer review cycle. The purpose of these reviews is to assure high auditing standards. They pay for themselves by reducing auditing firms' exposure to those who rely on their audits."

1984 Tax Forms to Come Near Christmas—IRS Commissioner Roscoe Egger said recently that the 1984 tax forms will be mailed to the nation's 90 million taxpayers on December 23. He added that the chances of having a tax return audited depend primarily on four factors: "Tax shelter, tax shelter, tax shelter and tax shelter." The chance of being audited climbs to "100 percent" if returns involve what Egger called "abusive tax shelters."

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB Issues Two Statements; Extends Pension Hearing

The Financial Accounting Standards Board recently issued the following papers:

- ☐ SFAS no. 77, *Reporting by Transferors for Transfers of Receivables with Recourse*, specifies the conditions under which a company selling receivables with recourse should report the transaction as a sale. According to the statement, the transaction is reported as a sale if the company transferring the receivables surrenders control of future economic benefits relating to the receivables and can reasonably estimate its obligations under the recourse provisions. It is effective for transfers made after December 31, 1983, including those made pursuant to earlier agreements.
- ☐ SFAS no. 78, *Classification of Obligations that are Callable by the Creditor*, specifies whether various types of obligations callable by a creditor should be classified as current or noncurrent liablilities in a debtor's balance sheet. Although the statement was adopted to resolve significant diversity in reporting practices, it also confirms present practice by requiring current classification for obligations that are or will be due on demand within one year of the balance sheet date. It is effective for fiscal years beginning after December 31, 1983.

For further information, contact the Order Department, FASB, High Ridge Park, Stamford, Conn. 06905.

In other matters, the board has extended the number of days slated for its public hearing on employers' accounting for pensions. The hearing will now be held January 11-13 and January 18-19 at the Roosevelt Hotel in New York. The hearing time has been expanded to accommodate the large number of speakers requesting time to discuss their views.

Concerns of Banks Highlighted at AICPA Conference

Noting the recent criticism of the effectiveness of bank audits, David L. Landsittel, chairman of the Institute's auditing standards board, said that some of this concern "may be unwarranted and unfair—every business failure is not an indication of an audit failure, and the profession should not accept arbitrary assertions to the contrary." Speaking at the AICPA's National Conference on Banking held last month in Chicago, Landsittel, however, said that "public confidence is an underpinning of the audit process and the profession has a responsibility to reexamine the effectiveness of its audit procedures on an ongoing basis in response to our changing environment and in response to concerns about our effectiveness when they are raised."

The conference drew some 550 bankers and practitioners who heard several speakers provide updates and overviews on the issues and trends affecting banks. Other speakers included A. Clarence Sampson, SEC chief accountant, who called on banks and their accountants to adequately disclose foreign loan exposure. With any problem loans, Sampson said that "a bank shouldn't compound these problems by not disclosing these loans appropriately." Senator Warren B. Rudman (R-N.H.) also spoke on the impact of large deficits on the nation's economy.

For more detailed information on the conference, see the January *Journal of Accountancy*.

VIEWS ON BANK LOAN DISCLOSURES

In recent months, many news articles have discussed crossborder loans made by U.S. banks to public and private sector borrowers in certain countries, particularly in Latin America. Press attention has also focused on domestic troubled industries to which banks may lend money. CPAs, banks, legal counsel and others have all raised questions or expressed views on loan disclosures that should be made by all banks and bank holding companies about these negotiations.

The SEC staff recently sent to the chairman of the AICPA banking committee the following statement of its views regarding disclosures that should be made about negotiations to refinance Brazilian debt. The staff's statement should be read in conjunction with Industry Guide 3 and SEC Staff Accounting Bulletin 49A.

> The staff believes that the Brazilian debt restructurings are a matter that should be disclosed in current registration statements and annual reports on Form 10-K for fiscal year 1983 by any registrant whose crossborder outstandings to borrowers in Brazil exceed 1% of total assets. The narrative describing the Brazilian debt negotiations should state whether or not any amounts have been reported in the discussion (table) containing Item III.C.1 of Guide 3 information. In this connection, it is the obligation of the registrant to determine whether any Brazilian loans are included in Item III.C.1.
>
> The discussion of the negotiations should state the amount of the additional crossborder outstandings to public and private sector borrowers during the period being reported upon, and the amounts repaid during the same period broken down by amounts representing principal and interest. In addition, the amount of revenue reported as income on all Brazilian outstandings in the period being reported upon should be stated.

The SEC's Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*, is a broad document that applies to the description of the business portion of certain bank holding company registration statements. SEC Staff Accounting Bulletin 49A deals specifically with disclosures by bank holding companies about certain aspects of loans and other outstandings to public and private sector borrowers in countries that are experiencing liquidity problems. Among other things, these documents call for disclosures about the amounts and status of crossborder loans and other outstandings to borrowers in countries experiencing liquidity problems and about the potential effects of political and economic conditions that may affect the ability of borrowers in those countries to comply with the terms of their lending agreements. Additionally, disclosure of significant industry loan concentrations is required.

Commenting on these documents, AICPA Auditing Standards Board Chairman David Landsittel noted that "although these disclosure requirements apply only to SEC registrants and to the nonfinancial statement portion of an SEC filing, all banks and bank holding companies must evaluate whether there is a need for financial statement disclosures such as material crossborder loans and loans to domestic troubled industries—consistent with requirements such as those contained in SFAS no. 5 on contingencies and SFAS no. 15 on troubled debt restructurings, if applicable—for managements to satisfy their assertions that the financial statements are in accordance with GAAP. Similarly, auditors must exercise their professional judgment in deciding whether informative disclosures in the financial statements meet the requirements of the third generally accepted standard of reporting and SAS no. 32."

IASC Approves Statement on Borrowing Costs

At its recent meeting in Paris, the board of the International Accounting Standards Committee agreed to issue a statement (IAS 23), *Capitalisation of Borrowing Costs*, to be published within the next few months. Under the statement, an enterprise incurring borrowing costs and expenditures in preparing those assets for intended use or sale should adopt and consistently apply a policy of either capitalizing borrowing costs or not capitalizing borrowing costs. The major change in the statement from Exposure Draft 24 is that enterprises are now required to adopt a policy of capitalizing or not capitalizing borrowing costs for all assets.

Copies of the statement should be available in early March from the AICPA order department, at a price to be determined.

The IASC was formed in 1973 to formulate and promote worldwide acceptance of basic international accounting standards.

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Proposed Model Public Accountancy Bill Exposed

Mailing began recently on an exposure draft of the proposed Model Public Accountancy Bill which, if approved, would present in one document the positions of both the AICPA and the National Association of State Boards of Accountancy as to desirable accountancy legislation. The draft bill, which was approved for exposure by the AICPA's board of directors earlier this fall, was prepared by a special committee jointly formed by the AICPA and NASBA with the view of merging the Institute's Model Accountancy Bill, published in 1981, and NASBA's Model Accountancy Act, published in 1980, into a single document.

The proposed bill includes the substantive provisions of the legislative bills of both groups on which they agree and sets forth in optional form the substantive provisions on which they differ. The key provisions of the proposed bill, and the reasoning underlying those views, are set forth in the bill's introductory comments.

Exposure of the draft is aimed at eliciting comments about the proposed harmonization of those provisions which result in departures from existing models or laws currently in effect. The new provisions include some on which both sponsoring bodies have no stated policy and others where their policies differ. These include issues such as the mobility of practitioners among different licensing jurisdictions.

Comments should be addressed to the special committee on model accountancy bill at either the AICPA or NASBA by April 1, 1984. Copies have been sent to AICPA council members, state board of accountancy chairmen and administrators, officers and members of selected NASBA committees and others who have requested copies. Additional copies may be obtained from the AICPA order department (Product No. 883015).

The proposed bill will be a major topic of discussion at the AICPA-NASBA national conference on state regulation of the profession, to be held January 15-17, 1984, in San Antonio.

Companies Urged to Curb Computer Abuse

Some 52 percent of companies in a recent survey have established policies covering the use of microcomputers. Moreover, only 19 percent of those surveyed say they provide guidance on data security controls for microcomputers and only 22 percent provide users with a manual setting forth management policies with respect to microcomputers.

These are some of the preliminary findings in a survey of 100 companies by Price Waterhouse, which was sponsored by the National Association of Accountants. More companies should issue data-security guides and policy manuals, said Gerald M. Ward, a Price Waterhouse audit partner, adding that "management must place greater emphasis on data security control."

The preliminary findings were also discussed at a conference in New York on December 16 on managing and controlling your investment in microcomputers. The published report on the NAA's research study will be available next spring.

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards
An open meeting of the auditing standards board will be held in the AICPA boardroom, New York, on January 17-18, 1984, starting at 9:00 a.m. each day. The agenda has not yet been set, but will be reported by the meetings telephone information service. The number is 212-575-5694.

Scheduled future meetings of the board are March 6-8 in Fort Lauderdale, Florida, and April 24-26 in New York City.

Washington Briefs

Changes Ahead for SEC—Bevis Longstreth, a Democratic member of the Securities and Exchange Commission, will leave the SEC on January 13, nearly five months before his term expires. With his departure, there will be two vacancies on the commission. Barbara Thomas, another SEC commissioner, had resigned last month to work in Hong Kong. President Reagan now has two non-Republican appointments to make to the five-member panel.

In a related matter, Charles C. Cox was sworn in as the 62nd member of the SEC in a ceremony at the commission on December 2, filling the vacancy created by the expiration of John R. Evans' second five-year term. Commissioner Cox's term will expire on June 5, 1988.

Gambling Rules Delayed—The IRS recently delayed to January 1 from November 15 the effective date of its rules requiring gambling winnings from identical bets to be totaled to determine whether those winnings are subject to 20 percent tax withholding.

More Regulations on Backup Withholding—Further temporary regulations have been issued by the IRS under the Interest and Dividend Tax Compliance Act of 1983 dealing with the rules for backup withholding. The new rules, in IR-83-146, deal with the form and timing of the required mailings to payees and the circumstances under which due diligence applies to custodians, trustees and fiduciaries.

"Carve Out" Accounting Bulletin Set—The SEC, earlier this month, issued Staff Accounting Bulletin no. 55 concerning the allocation of expenses and related disclosures in financial statements of subsidiaries, divisions and lesser business components of another entity. The SAB represents the commission's first set of published guidelines on "carve out" accounting.

Bill Aimed to Aid Small Business Employees—Before Congress adjourned, a bill (S. 2128) was introduced whereby an employer who sells his business to his employees would be allowed the same tax deferral on the gain realized as would apply if the business were sold to another company in exchange for stock in that entity. According to Senator Russell Long (D-La.), one of the 47 sponsors, the current reorganization provisions of the Tax Code encourage small business owners seeking to liquidate their interest to sell to larger companies.

Form 1040EZ to be Machine Scanned—The IRS will use optical character recognition equipment to process Form 1040EZ tax returns for 1983. The long-range aim is to transform the current paper-oriented processing system into an automated one, according to the IRS.

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