1992

CPA letter, 1992

American Institute of Certified Public Accountants

AICPA *"The Measure of Excellence"*

The CPA Letter

A News Report to Members

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Rule 505 Amendment Passes By More Than 92% of Vote

Other bylaw changes are approved as well

Members overwhelmingly voted to change the AICPA's Code of Professional Conduct to permit CPA firms to organize themselves in any manner permitted by the state in which they practice (*The CPA Letter*, Sept.; *Journal of Accountancy*, Oct.). The measure was approved by more than 92 percent of the 126,149 members voting. A two-thirds affirmative vote was necessary for passage.

In other matters contained on the ballot, members voted to clarify a rule of the Code concerning confidential client information. Under the amended rule, members may not volunteer confidential client information to government agencies having jurisdiction over the client's conduct. Members also voted to change the AICPA's bylaws to provide that all elected directors serve staggered three-year terms.

"We are very pleased that the membership voted favorably on these proposals," said AICPA President Philip B. Chenok. "In particular, the vote to permit firms to organize in any form permitted by state law or regulation could give them more flexibility in their operations and may help to protect individual partners from unwarranted legal liability.

"We don't see this as the ultimate solution to the liability problem," Chenok added, "but we think it's a step in the right direction. At the same time, we will continue to work to bring about liability reform across the country."

Members Appointed to New Management Accounting Committee

AICPA Board approves name change for Management Advisory Services Division

Reflecting the increased attention to be focused on management accounting, members recommended for appointment to the new Management Accounting Executive Committee were approved by the AICPA Board of Directors. Formation of this committee was recommended by the Special Committee on Governance and Structure. The executive committee will, among other things, explore the possibility of establishing a voluntary membership technical division to help those involved with management accounting issues.

The board of directors also authorized the Management Advisory Services Division to change its name to the Management Consulting Services Division. In conjunction with the change, the executive committee is now called the Management Consulting Services Executive Committee.

In other actions during its meeting on Dec. 5–6, the board:

- Approved a paper on "Principles of Reciprocity" which would establish proposed standards of reciprocity for U.S. CPAs who want to practice in Canada and for Canadian chartered accountants who want to practice in the U.S.
- Approved a letter to state CPA societies informing them that the AICPA was prepared to respond to requests for model language for state statutes to ban CPAs in public practice from receiving or paying commissions in connection with services for clients. The Institute will provide help similar to that given states for legislative efforts to achieve uniformity in accountancy laws.

Bills to Ease Workload Compression Introduced

CPAs urged to contact members of Congress

Bills to liberalize Section 444 election requirements have been introduced by Rep. Beryl Anthony, Jr. (D-Ark.), and by Senator Max Baucus (D-Mont.). Senators Bob Packwood (R-Ore.) and Orrin Hatch (R-Utah) have co-sponsored the Baucus bill. CPAs are urged to contact their elected representatives in the House and Senate to encourage co-sponsorship of H.R. 3943 and S. 2109, respectively.

SECPS Member Firm Expelled After Hearings

At a meeting on Dec. 4, 1991, the SEC Practice Section Executive Committee was convened as a hearing body to consider the recommendation of its peer review committee, made in an earlier hearing, that sanctions should be imposed on the member firm of T. Page Taylor, located in Englewood, Colo. By the unanimous vote of the 19 members present, the executive committee concluded (a) that the firm was guilty of a failure to cooperate with the peer review committee, which is a violation of the section's membership requirements, and (b) that the firm should be expelled from the SEC Practice Section effective immediately, Dec. 4, 1991. The committee based its decision on its findings that the firm, which audits a number of SEC clients, had failed to take timely corrective actions responsive to the adverse report on its 1990 peer review and had provided the peer review committee and its staff with information that was not reliable. The executive committee's decision is not subject to further appeal.

The firm had been advised by registered letter and by telephone of the hearings to be conducted on Oct. 16 and Dec. 4 by the peer review committee and the executive committee, respectively. It had been similarly advised of the recommendations of the peer review committee. Nevertheless, no representative of the firm appeared at either hearing.

This is the second time since the section was established in 1977 that the executive committee has found it necessary to expel a member firm for failure to cooperate with the peer review committee.

IFAC Issues Two Exposure Drafts

The International Federation of Accountants has issued for comment two exposure drafts, *Professional Ethics for Accountants: The Educational Challenge and Practical Application* (No. 800019) and *Auditing for Compliance with Authority* (No. 800020).

The *Professional Ethics for Accountants* guideline on education recommends that the teaching of professional ethics be an integral part of the prequalification education process, in both the formal education process and the work-experience component. The *Auditing for Compliance with Authority* statement on practice outlines the responsibilities of auditors regarding this function, including the conduct of the audit and reporting the results.

Comments on each exposure draft are due by Feb. 29. Copies may be obtained by writing to: AICPA Order Department, CL292, P.O. Box 1003, New York, NY 10108–1003, or send your order via fax, 212/575–6841. The first five copies are free; each additional copy costs $2.50.

Leap Year Causes Confusion About IRS Filing Deadlines

Because of leap year, the filing deadline for the 1991 Form W–2 is extended to Mar. 2, the IRS said in Announcement 91–168. However, the filing deadlines for Forms 1099, 1098 and W–2G were not extended; the forms are due Feb. 28. For more information, see *Internal Revenue Bulletin* 1991–44.

New Hotel Rates and Car Rental Discounts in Effect for Members

The AICPA has renegotiated members' discounts on hotel rates and car rentals, which are now in effect. For a list of the national hotel chains and car-rental companies offering preferred rates, write to: Michael Molaro, AICPA–Member Services, 1211 Avenue of the Americas, New York, NY 10036–8775.

SEC Chief Accountant Named

The Securities and Exchange Commission (SEC) has named Walter P. Schuetze, a partner with KPMG Peat Marwick, as its chief accountant. The position had been vacant for about a year, when Edmund Coulson left the post to join Ernst & Young.

A former chairman of the AICPA's Accounting Standards Executive Committee, Schuetze has said he will push for simpler accounting rules and supports the SEC's position to make financial institutions report current values of certain assets. Schuetze was also a founding member of the Financial Accounting Standards Board.

World Congress of Accountants Adds Exposition

Over 200 companies exhibiting the latest developments in accounting-related computer software, consulting services, banking and financial systems, insurance and pension programs, business equipment, communication systems, and other products and services will participate at the World Congress of Accountants Exposition, Oct. 12–14, 1992, in Washington, D.C. This international exposition will provide a great opportunity to keep abreast of current technology and services available to firms, companies and clients. For more information on the congress, call the AICPA Meetings & Travel Division at 212/575–6451, or fax to 212/575–3846.

Correction

The new Statement on Standards for Consulting Services, *Definition and Standards,* does not apply to tax or personal financial planning **engagements.** *The CPA Letter* in Dec. reported that it does not apply to Tax or Personal Financial Planning Division **members.**

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Banking Bill Passes, Expands Role of Accountants

In trying to address the nation's financial industry crisis, Congress has turned to the profession for help. The Federal Deposit Insurance Corporation (FDIC) Improvement Act of 1991 (P.L. 102–242), signed into law on Dec. 19, contains several accounting and auditing provisions.

The primary objectives of the new law are to recapitalize the deposit insurance system and to improve regulation of federally insured depository institutions. Throughout the legislative process, the AICPA provided technical language to help Congress achieve these objectives and, at the same time, ensure consistency with authoritative accounting and auditing literature.

The AICPA also was successful in having unacceptable proposals excluded from the final bill. The most notable provisions dropped would have discharged existing auditors serving undercapitalized institutions, removed standard-setting from the private sector, and expanded accountants' liability. The Institute believes the new requirements reaffirm congressional faith in the value of the audit process.

Highlights of Major Provisions Affecting CPAs

With the legislation now signed, regulators will be developing regulations to implement the provisions of the Act. The AICPA intends to participate in the rule-making process.

Following are the major provisions affecting CPAs:

■ **Financial Statement Audits.** Annual audits of financial statements in accordance with generally accepted auditing standards are mandated for insured depository institutions. The FDIC also has authority to require large institutions to obtain CPA reviews of quarterly financial reports using agreed-upon procedures.

■ **Reports on Internal Control Structure and Compliance with Specified Laws and Regulations.** Management will report annually on its responsibility for and assessment of the effectiveness of both the institution's internal control structure over financial reporting and compliance with specifiedlaws and regulations relative to safety and soundness. The CPA will report separately on management's assertions using standards for attestation engagements.

Two projects currently underway by the AICPA's Auditing Standards Board address standards for attestation engagements involving management assertions about the internal control structure and compliance with laws and regulations.

■ **Communication with Regulators.** Depository institutions must provide a copy of each audit report and management letter and notification of any change in auditor to the appropriate federal and state banking agencies.

■ **Communication with Auditors.** Each institution must provide its auditor with copies of the institution's most recent report of condition and report of examination, any supervisory memorandum of understanding or written agreement with any federal or state regulatory agency and any report of any action initiated by the federal banking agencies.

■ **Audit Committees.** The covered institutions must have audit committees consisting entirely of outside directors. Audit committees of large institutions (to be defined) are required to have relevant financial expertise and access to outside counsel and may not include large customers.

■ **Auditor Responsibilities.** Auditors must agree to provide working papers, policies, and procedures to federal and state banking regulators upon request, must participate in a peer-review program, and must notify the FDIC if its services to the institution cease.

■ **Disclosures of Market Values and Off-Balance-Sheet Items.** The federal banking agencies are required to develop regulations to ensure adequate reporting of market values of assets and liabilities and information about off-balance-sheet items, including contingent assets and liabilities.

■ **FDIC borrowings.** Any FDIC obligation held by a Bank Insurance Fund-insured institution, or loan to the FDIC, may be treated by the institution as an asset under any capital standards.

Effective Date

The new requirements are generally effective for fiscal years beginning after Dec. 31, 1992, and are not applicable to institutions with total assets less than $150 million as of the beginning of the applicable fiscal year. The requirements may be satisfied for subsidiaries of bank holding companies if the requirements are fulfilled at the holding company level and the subsidiary has less than $5 billion in assets *or* has between $5 billion and $9 billion in assets and a regulatory CAMEL rating of one or two. CAMEL ratings reflect a bank's capital adequacy, asset quality, management quality, earnings and liquidity.

For a copy of the FDIC Improvement Act of 1991 (stock number 869–015–00242–6), call the Government Printing Office at 202/783–3238, or send an order via fax to 202/275–2529 (VISA or MasterCard charges only; include expiration date). Price: $4.50. Orders may be placed now, but copies will not be available until March.

Implications for 1991 Audits

Auditors of the financial statements of depository institutions should consider whether certain provisions of the Act affect their 1991 audits. Among other compliance requirements, the Act provides that as of Dec. 19, 1992, institutions failing to meet a minimum 2-percent capital ratio will be considered critically undercapitalized and subject to regulatory action and requirements. The most severe actions subject the institution to being placed in receivership or conservatorship.

AICPA Statement on Auditing Standards (SAS) No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, states that "the auditor has a responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited." Noncompliance or expected noncompliance with regulatory capital requirements is a condition that, when considered with other factors, could indicate such doubt. SAS No. 59 identifies additional factors for evaluation.

Two Statements on Auditing Standards Issued, One Revises GAAP Hierarchy

The Auditing Standards Board (ASB) has issued Statement on Auditing Standards (SAS) No. 68 (product no. 060663) that supersedes SAS No. 63, ***Compliance Auditing Applicable to Governmental Entities and Other Recipients of Federal Financial Assistance.*** SAS No. 68 reflects recent changes in federal audit rules and clarifies certain implementation issues. It also provides guidance on the auditor's compliance auditing responsibilities under OMB Circular A–133, "Audits of Institutions of Higher Education and Other Nonprofit Institutions," which applies to nonprofit organizations receiving federal awards. SAS No. 68 is effective for audits of financial statements for periods ending after June 15, 1992.

The ASB also has issued SAS No. 69 (product no. 060442) that revises AU Section 411, ***The Meaning of "Presents Fairly In Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report.*** *SAS No. 69 changes the authority of AcSEC Statements of Position, Audit and Accounting Guides and Practice Bulletins, as well as FASB Emerging Issues Task Force (EITF) consensuses in the GAAP hierarchy.* Additionally, the SAS establishes two separate but parallel hierarchies: one for state and local governments and one for nongovernment entities.

As a result of the revisions, for example, a nongovernment entity that follows an industry accounting practice would have to change to an accounting treatment specified by an AICPA Statement of Position that is effective after Mar. 15, 1992. Also, since consensuses of the FASB EITF would have a greater authority than in the existing GAAP hierarchy, nongovernment entities would be required to change their current accounting practices to follow EITF consensuses reached after Mar. 15, 1992. And, for nongovernment entities *initially applying* an accounting principle after Mar. 15, 1993, *all* applicable EITF consensuses should be followed. SAS No. 69 is effective for audits of financial statements for periods ending after Mar. 15, 1992.

SAS Nos. 68 and 69 will be published in the *Journal of Accountancy* in Apr. and Mar., respectively. To buy a copy of a SAS, write to: AICPA Order Department, P.O. Box 1003, New York, NY 10108–1003; or call 800/334–6961, or 800/248–0445 in New York State. Price: $5.00.

Interpretation Issued on Evaluating Disclosures

Auditing Standards Division staff has issued an auditing interpretation of AU Section 623, *Special Reports,* titled "Evaluation of the Appropriateness of Informative Disclosures in Insurance Entities' Financial Statements Prepared on a Statutory Basis." It extends to mutual insurance companies and describes types of items and matters auditors should consider in evaluating disclosures. The interpretation, which applies to financial statements for fiscal years ending after Dec. 15, 1991, appears in the Feb. issue of the *Journal of Accountancy.* Copies of the interpretation can be obtained by calling the Division at 212/575–3850.

GASB Issues Proposal on Compensated Absences, Publishes Guide for Statement 3

The Governmental Accounting Standards Board (GASB) has issued a proposal that would provide guidance to state and local government entities for measuring compensated absences liabilities, regardless of the reporting model or fund type used to report the transactions. If adopted as a final Statement, the proposal, "Accounting for Compensated Absences," would become effective for periods beginning after June 15, 1993. Comments on the proposal are requested by Mar. 31. A free copy is available during the comment period by writing to: GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06902–5116.

A GASB implementation guide to aid financial statement preparers and attesters in applying its Statement 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," has been published. The material is in a question-and-answer format, most of which was developed from inquiries received by GASB technical staff. Copies are available for $20 prepaid ($16 for members of the Financial Accounting Foundation-GASB and academicians) by writing to: GASB Order Department, P.O. Box 30784, Hartford, CT 06150. CT orders add 6-percent sales tax.

HUD Provides Relief From New Audit Requirements

The HUD Office of Inspector General in Oct. issued HUD Handbook IG 2000.4, *Consolidated Audit Guide for Audits of HUD Programs,* with an effective date of audits of fiscal years ended Dec. 31, 1991, and thereafter (*The CPA Letter,* Nov.). To avoid placing an undue burden on independent auditors, HUD has issued a notice to its field offices that the effective date has been delayed to fiscal years ending June 30, 1992, and thereafter, as long as the independent auditor had already begun audit work or signed contracts under the compliance requirements superseded by HUD Handbook IG 2000.4. To obtain a copy of the HUD notice or of unofficial answers to implementation questions HUD has provided the AICPA, send a self-addressed, stamped envelope to: AICPA Federal Government Division, Attention: HUD Audit Guide, 1455 Pennsylvania Ave., NW, Washington, DC 20004–1081.

THE FINANCIAL MANAGER'S REPORT

A Quarterly Update for CPAs in Business & Industry ■ February 1992

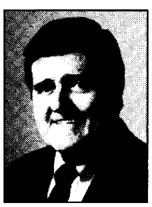
National Industry Conference Program Set

The 1992 National Industry Conference, the Members in Industry Executive Committee's flagship program, will be held May 7-9 at the Sheraton Hotel & Towers in Boston. You can earn up to 20 CPE credits while attending concurrent sessions on a wide variety of subjects relevant to your role as an industry CPA.

As the annual gathering of CPA financial managers from across the nation, the conference provides an excellent opportunity for meeting and sharing information with more than 600 fellow CPA financial executives.

Here is a sampling of what's planned for this year's conference:

- The Wit & Wisdom of *MacNeil/Lehrer's* Mark Shields
- *Wall Street Week's* Frank Cappiello on Winning in Today's Market
- Lonnie Barone on Maniacal Management
- Andy Biebl's Small Business Tax Update
- Dartmouth's John Shank on Activity-Based Costing
- The Coming of Age of Internal Auditing
- Finding Your Company's International Niche
- Motivating the Unmotivated Half of Your Workforce



Mark Shields
MacNeil/Lehrer NewsHour

Frank Cappiello
Wall Street Week

Other sessions will include updates on accounting standards, employment law and telecommunications systems. All concurrent sessions will be identified as intermediate, advanced or update so that you can better choose what's right for you.

Registration Information

Registration fee: $485, includes all general and concurrent sessions, conference materials, three continental breakfasts, two luncheons, a cocktail reception, and refreshment breaks.

For more information, contact: AICPA Meetings and Travel Division, 1211 Avenue of the Americas, New York, NY 10036-8775, 212/575-6451.

Look for the details in the 1992 National Industry Conference brochure, which will be mailed to you in Feb.

CPE Division Expands Selection of Courses for Members in Industry

The AICPA's Members in Industry Executive Committee is committed to ensuring that the CPE needs of members in industry are met. In reponse to these needs and the Committee's recommendations, the CPE Division has expanded its selection of self-study and seminar courses for CPA financial managers. There are now 75 self-study courses and more than 100 seminar courses in relevant technical areas from which to choose.

Self-study courses cover such topics as accounting, external and management reporting, asset management, budgeting, planning and control systems, and taxation. Among the more popular courses are **Accounting for Post-Retirement Benefits; Cash Flow Statements: Preparation, Presentation and Uses; Business Valuation Methods; Treasury Management; and Basics of Pensions & Profit Sharing Plans**. These and other courses are described in the AICPA-CPE Division's catalog of self-study courses for members in industry. For more information or a copy of the catalog, call the Division at 1-800/242-7269; in New York, call 212/575-5696.

Seminar course offerings for members in industry cover corporate tax management, overseas expansion, post-retirement benefits, and management skills. To receive information on seminar courses, as well as on the AICPA Financial Management Certificate of Educational Achievement Program, write to: Alan Coleman, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775. By mid-March, you will receive a brochure detailing the seminar courses available and providing registration information.

All courses offer CPE credits which could be used to meet the three-year, 60-hour AICPA industry member CPE requirement before the Dec. 31, 1992, deadline.

Electronic Data Interchange Systems Improve Efficiency

The use of electronic data interchange (EDI) for the processing of payments has enjoyed explosive growth in recent years, and that growth has not been limited to large corporations. Financial managers of many small- and medium-sized businesses are finding significant benefits to using financial EDI.

A key attraction of EDI is the elimination of excess paper shuffling and, therefore, more efficient and accurate transaction processing and recordkeeping. For example, by using EDI as a buyer of goods or services, you can match the electronic invoice with the electronic purchase order and receiving documents to create an authorized payment in the accounts payable application system. On the sales side, a company using EDI can expect similar benefits related to the receivables system.

Fully implemented EDI can impact all functions of a business, according to Richard Bort, a consultant in cash and treasury management from Sherman Oaks, Calif. When used in connection with suppliers, EDI affects the purchasing function, as well as receiving and accounts payable. When a firm is electronically linked with customers, it influences order processing, production (or operations in a service company), billing and accounts receivable. EDI also impacts the treasury, accounting, data processing, legal, audit, and security functions, and their relationships with other functions.

Because EDI requires change to many areas of a business, organizations are advised to take a strategic approach to implementing the system. Bort, who will be speaking at the 1992 National Industry Conference, has developed a checklist that should prove useful when planning to implement EDI.

The checklist below reflects the buyer/payer point of view but, as Bort notes, "the seller/payee has similar considerations to make on the other side of the transaction."

- Set Your Goal. For example, the goal may be to convert "x" percent of incoming invoices (alternative goal: to convert "x" percent of invoice line items) to EDI over the next "y" years.
- Find out whether sellers will send you EDI invoices in exchange for EDI remittance advices.
- Check to see that your system will accept EDI invoices and match them automatically with EDI purchase orders and receiving documents.
- Determine the capability of your accounts payable application system to accept electronic input. Perhaps all or part of the system will need to be replaced.
- Ensure that your accounts payable application system can issue the ANSI X12 transaction set 820, "Payment Order/Remittance Advice,"[1] that generates the electronic funds transfer at your bank.
- Make sure your bank will be able to receive and execute EDI payment orders in the ANSI 820 form.

Once all these conditions are met, you will be able to implement an EDI system and experience its dramatic benefits.

[1]ANSI (the American National Standards Institute) Accredited Standards Committee X12 sets standards for electronic data interchange.

Join the New Information Technology Section

As a member in industry, you can take an important step toward improving your technology proficiency by joining the AICPA's new Information Technology (IT) Section. Membership in IT offers a newsletter jam-packed with practical advice, technology planning guides and practice aids to help apply technology in your organization, as well as a forum for the exchange of ideas and techniques.

In addition, the section's computer purchasing program helps reduce the cost of hardware and software. Members can purchase products from ComputerLand, Central Point, XTree and other vendors at significant savings.

For a membership application, contact: AICPA Membership Administration, 1211 Avenue of the Americas, New York, NY 10036-8775, 212/575-6421; or call Nancy Cohen of the IT Section at 212/575-5393 for more information.

Management Accounting Executive Committee Established

Formation of a Management Accounting Executive Committee (MAC) was approved by the AICPA Board of Directors at its Dec. 5–6 meeting. Arising from a recommendation by the Special Committee on Governance and Structure, the new committee's purpose is to help raise members' understanding of management accounting and to improve the practice of management accounting by providing assistance to AICPA members in industry, government, education and public practice.

The chairman of the committee is John K. Shank of the Amos Tuck School of Business Administration of Dartmouth College. Dr. Shank is one of the nation's leading experts in activity-based costing (ABC) and other aspects of management accounting. The other members of the committee are Philip Ameen, manager of Corporate Accounting Services for General Electric Co.; Merle Elliott of Smith Elliott Kearns & Co.; Kurt Fraenkel, v.p., controller and secretary of J. E. Higgins Lumber Company; Daniel Garner, director of Entrepreneurial Services for Ernst & Young; Florine Nath, v.p., finance for Aspen Imaging International; Jeff Sands, director of Emerging Business Services—NY for KPMG Peat Marwick; and John K. Wulff, v.p., controller and principal accounting officer of Union Carbide Corporation.

(continued on page 4)

How the Americans with Disabilities Act Affects Your Company

On July 26, 1990, President Bush signed into law one of the most significant legislative initiatives affecting many U.S. businesses. The Americans with Disabilities Act (ADA) gives comprehensive civil rights protection to disabled individuals in the areas of employment, public accommodations, transportation, telecommunications, and state and local services.

It is important that you are fully aware of implications of the ADA for your company. The Equal Employment Opportunity Commission anticipates that 12,000–15,000 new discrimination cases per year will be filed as a direct result of the ADA.

The employment provisions of the bill come into effect on July 26, 1992, for employers with 25 or more employees. Businesses with 15 to 25 employees have two additional years to comply with the ADA, while private employers with fewer than 15 employees are among those exempted from the act.

Susan Krell is an attorney who specializes in employment law representing employers. A partner with Wiggin & Dana, a Conn.-based law firm, Krell has identified two significant provisions of the act for which companies need to take steps **now** to ensure compliance on the effective date.

The first is in the area of job descriptions. Krell believes that every employer should revise job descriptions for all current and planned positions. "Under the ADA, a written job description must be in place before advertising for or interviewing any applicants for the job," says Krell. "If the job includes an 'essential function' that might render a person with a particular disability unqualified to perform that job, that function must be justified and detailed in the written job description."

The other critical area Krell identified is that businesses must begin to make changes in the work environment that will allow disabled people to enjoy equal employment opportunities. The ADA requires employers to make "reasonable accommodations" if they would not impose "undue hardship" on the employer's business. Reasonable accommodations may include:

- Making existing employee facilities readily accessible to individuals with disabilities.
- Job restructuring, part-time or modified work schedules, or reassignment to a vacant position.
- Acquisition or modification of equipment or devices, or the provision of qualified readers or interpreters.
- Appropriate adjustments or modifications of examinations, training materials or policies.

Factors to consider in determining whether a particular accommodation would impose undue hardship include:

- The nature and cost of the accommodation.
- The financial resources, size, type and impact on expenses and resources of the *facility* where the accommodation needs to be made.
- The financial resources, size, type and impact on expenses and resources of the *entire covered employer* or business.
- The business or covered employer's type of operation, including composition, structure and functions of the work force.

According to Krell, who will discuss employment law issues at the 1992 National Industry Conference, a de minimis standard for accommodations no longer applies. Employers must demonstrate a true effort to provide reasonable accommodations for an employee's or prospective employee's disability when designing the work environment. That means documenting meetings with internal staff, outside contractors or vendors and obtaining written estimates regarding facilities, equipment and training programs.

Financial managers of companies with more than 25 employees should plan now to implement the changes the ADA mandates for next summer. Those with 15 to 25 employees should gear up for 1994.

Implementing Flex Plans

Businesses were provided the opportunity to rework existing employee benefit plans to make them more attractive to current and prospective employees when Congress enacted legislation which became Internal Revenue Code Section 125. Many small- and medium-sized companies initially resisted implementing the so-called "cafeteria" or "flexible benefit" plans because of the time, effort and cost required to administer such programs. However, changing demographics and increased pressure to contain costs have moved companies of all sizes to introduce elements of choice into their benefit plans.

Section 125 allows employees to redirect a portion of their salary, before withholding for federal, FICA, state and local taxes, to certain types of employer-sponsored benefit plans. (It's important to note that, unlike 401(k) plans, Section 125 contributions are made before deducting FICA taxes, resulting in an additional current tax savings to employees and to employers on the matching FICA contributions. Administratively, employees must be informed that their future Social Security benefits may be reduced because of this feature.)

According to Carol Sussman, a NY-based financial consultant and a 1992 National Industry Conference speaker, the changing demographics of the work force have made flexible benefit plans much more attractive. "With the influx of two-earner couples, there are a growing number of employees whose traditional life insurance or hospitalization coverage is offered through their spouse's employer. The ability to pick and choose benefits from either employer based on price or special features is very important to these families."

(continued on next page)

Management Accounting Executive Committee Established *(continued from page 2)*

Some of the specific objectives of the MAC are to:

■ Evaluate the effectiveness of existing management accounting concepts and practices in today's changing environment in all entities, whether manufacturing- or service-based, whether profit-oriented or not-for-profit.

■ Provide tools to integrate new developments in management accounting, such as ABC and just-in-time manufacturing systems with the existing financial reporting model.

■ Review the AICPA's CPE course offerings in management accounting and make suggestions for improvements, additions or both. Participate actively in the development of national conference programs.

■ Increase public awareness of and confidence in the CPA as an expert in management accounting.

■ Sponsor activities to foster networking among CPAs who are concerned about management accounting issues.

■ Monitor and identify new management accounting products and services for CPAs.

■ Upgrade the management accounting content of universities' accounting curricula.

A project that is being considered is an assessment of how traditional management accounting can be transformed into a more effective management tool. The project is similar to the study currently underway by the AICPA's Special Committee on Financial Reporting to determine how the existing financial reporting model can more effectively meet the needs of users of financial statements.

Look to future issues of *The Financial Manager's Report* for more information on the Management Accounting Executive Committee.

Let's Hear From You

***The Financial Manager's Report* is a quarterly insert designed for AICPA members in industry and sponsored by the Members in Industry Executive Committee.**

The Committee is always interested in your comments and suggestions on Institute programs for members in industry, including *The Financial Manager's Report*. Address your comments in writing to Thomas J. Lemmon, technical manager, Industry, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775, 212/575-6439; or call Jay Rothberg, vice president, at 212/575-6583.

Implementing Flex Plans *(continued from previous page)*

Many flex plans are designed as add-ons to employer-paid benefit programs. Employers can pay for a certain level of benefit, and employees can use pretax dollars to pay for a higher level of benefit which better meets their needs and budgets. The options (and their IRC sections) for benefit accounts and programs that can be offered by employers include the following:

■ *Group Life Account* (Section 79)—pays for life insurance premiums up to $50,000 of coverage.

■ *Health Care Reimbursement Account* (Section 105(h))—pays for expenses not covered by the company's medical and dental plan, including co-payments, deductibles and other generally excludable charges.

■ *Medical, Dental & Vision Premium Account* (Section 105)—pays employee's portion of health care premiums.

■ *Long Term Disability Account* (Section 105)—pays for premiums for additional coverage not paid for by employer.

■ *Group Legal Assistance* (Section 129)—pays for the cost of legal services.

■ *Dependent Care Assistance Program*—pays for child care or elder care expenses of employees.

The goal in choosing the options for your company should be to maximize employee satisfaction with the benefit package while keeping administrative costs to a minimum. Smaller companies often implement a mini-flex plan, with only one or two options.

Most companies are experiencing the need to share escalating health care premium costs with their employees. The tax savings involved in a Section 125 plan helps to ease the burden that has been shifted to the employee. Eric Schindler, vice president of finance and administration of the Columbia Paint Company in Spokane, Wash., says that Columbia offers its 200 employees a medical premium account. "The company pays a percentage of the health care premium and the employee's portion is deducted before taxes. Our employees like being able to take home more of their pay and the administrative costs to the company are minimal."

Financial managers with larger organizations are finding ways to deal with the administrative burden. "The key is up-front communication," says Allen Tomek, a corporate controller and a member of the Members in Industry Executive Committee. "The details of the plan can seem quite complex to most employees. One of our affiliate companies found that a comprehensive communications program including audio-visual presentations, material written in layman's language, and access to employee benefits personnel is essential in minimizing problems later on." According to Terri Gross, a CPA financial manager with DuPont, the chemical company's outstanding communications effort includes an on-line facility, through which employees can perform "what-if" analyses involving one or more of the flex plan options.

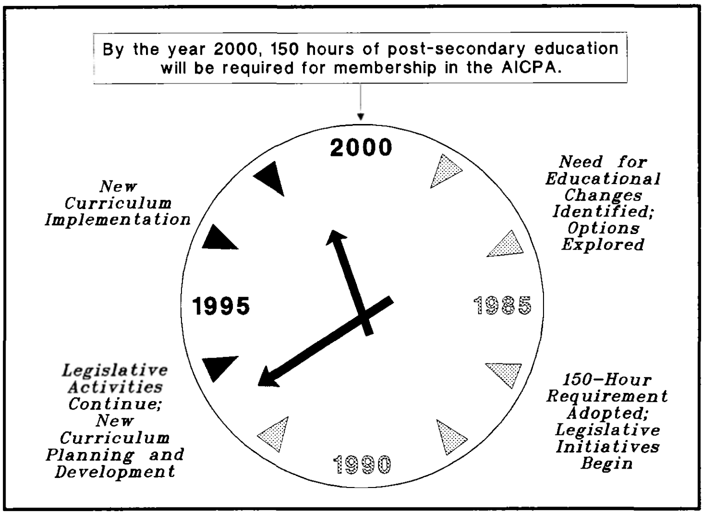
The trend toward increased use of flex plans seems destined to continue as small- and medium-sized companies try to compete with larger organizations for skilled employees. Financial managers need to remain aware of the implications for the companies they serve.

AICPA *"The Measure of Excellence"*

American Institute
of Certified
Public Accountants

FYI Accounting Educators:

Volume III, Number 3 — January 1992



The AICPA expects that by the end of 1992, most jurisdictions will have made progress toward adoption of the 150-hour requirement. It's not too soon to start planning for a new curriculum!

Member Input Solicited

Subcommittee Studies 150-Hour Curriculum Models

The Curriculum and Instruction in Accounting Education Subcommittee of the Academic and Career Development Executive Committee has created a special task force to explore current models for 150-hour programs and to encourage the development of effective alternatives. A particular focus of the working group will be to consider ways in which four-year liberal arts colleges can successfully adapt to the new requirement.

The task force members are Subcommittee Chair Barron Harvey (Howard University, Washington, DC), Susan Hass (Simmons College, Boston), Linda Nichols (Texas Tech University, Lubbock) and Anthony Pustorino (Pace University, New York City). At their recent meeting, the group received a large collection of material representing the bulk of current thinking in this crucial area, and is actively seeking to expand on this resource. As it continues its work, which will culminate in the issuance of a compendium of alternative approaches, the task force requests educators to forward questions or suggestions to staff aide Stephen J. Anspacher at the AICPA offices. ■

ORGANIZATIONS FOCUS ON IMPORTANCE OF TEACHING

The Fall 1991 issue of *Newsline,* the newsletter of the American Assembly of Collegiate Schools of Business, carried a long article pointing out that, increasingly, "professors in U.S. business schools are being asked not only to spend their required number of hours in the classroom, but also to teach their classes with skill and creativity." In discussing the funded activities of those schools which received grants from the Accounting Education Change Commission (in the most recent issue of *Insight),* Illinois CPA Society Executive Director Martin Rosenberg states that "something that could stop this revolution [in accounting education] in its tracks . . . is an attitude on the part of many university administrations to not reward either financially or with tenure those teachers who concentrate their efforts on improving the quality of education." Some states are reacting to this threat: Maryland recently approved a Quality Higher Education Initiative to provide funds to support the development and maintenance of superior accounting education.

Through programs like the annual Accounting Educators Mini-Conference (coming up in November) and continuing professional education for accounting educators (see page 3), the AICPA is working to support faculty members who, though they may be expert in their fields, have not had a great deal of training in the fundamentals of teaching or in the use of innovative teaching techniques.

The Consortium on Quality Accounting Education, formed a year ago in response to the AICPA's Position Statement on Accounting Education, is a forum in which a variety of accounting organizations (professional and educational) discuss approaches to difficult problems. By working together, the accounting profession and accounting educators can assure the quality education the CPAs of tomorrow will require. ■

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FASB Offers Consolidation Transparencies to Educators

The Financial Accounting Standards Board will send to accounting educators, on request and without charge, materials designed to assist in teaching the issues and alternatives raised in the FASB Discussion Memorandum, *Consolidation Policy and Procedures*. The materials consist of hard-copy masters for 28 transparencies. The transparency masters were prepared by Paul Pacter, Professor of Accounting at the University of Connecticut, who wrote the Discussion Memorandum for the FASB.

The 28 transparencies cover why the FASB undertook the project, the fundamental issues, the definition of control, three basic concepts of consolidated financial statements, illustrative computations to apply the three concepts when a subsidiary is acquired in a single transaction and when it is acquired in a step acquisition, examples of intercompany profit elimination under the three concepts, financial statement display alternatives, conformity of accounting policies, and deferred income taxes in consolidation. Three of the transparencies are associated with other Board projects related to consolidations, namely disaggregated and new basis of accounting.

Accounting educators who would like a copy of the transparencies should write to: Ms. Darlene Young, Financial Accounting Standards Board, P.O. Box 5116, Norwalk, CT 06856-5116. Single copies of the discussion memorandum are available on written request to the FASB Order Department, File Reference 107A, at the foregoing address.

News & Notes

The *Chronicle of Higher Education* recently noted that Cornell University has developed a **Learning Technologies Program** to teach faculty members how to use computers in their courses. The program does not focus on writing new software, but instead seeks to acquaint instructors with the potential for use of existing software in their courses. The Cornell program, which is supported by Apple Computer, is being offered on a regional basis beginning early this year. For more information, contact Carrie Regenstein, CIT-220 CCC Garden Avenue, Cornell University, Ithaca, NY 14853-2601; E-Mail: CER@CORNELLA.

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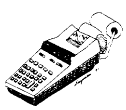
The Conference Board predicts that **competition for the services of CPAs may increase** as industry enters an era of increased risk, more complex reporting requirements, and computerization of recordkeeping. This environment is leading to a heightened sense of status and job satisfaction.

The report, funded by KPMG Peat Marwick, is entitled "New Directions in Internal Auditing," and is based on a survey of 375 chief internal auditors. The report is available for $35 from KPMG Peat Marwick; telephone (800) 762-3932 and ask for report #96.

The 1992 EDUCOM Higher Education Software Awards Competition will **focus on accounting,** among other fields. Established in 1987 to improve the quality and quantity of educational software and computer-based teaching innovations in higher education, the program offers trophy and substantial cash prizes for winners in each of several academic fields. For more information about the 1992 competition, contact Gail Miller, Computer Science Center, University of Maryland, College Park, MD 20742; telephone (310) 405-7534. E-Mail: CRISTAL @UMD.EDU.



Words of wisdom for today's graduates: Discussing the changing nature of job security, *Harvard Business Review* editor Rosabeth Kantor recently wrote that "If security no longer comes automatically with being employed, then it must come from being *employable*. Employability security rests on the knowledge that competence is growing to meet tomorrow's challenges, that today's work includes the learning and experience to enhance future opportunities—whether with a current employer, with another company, or as an entrepreneur."

Upcoming Conferences

Third Annual National Conference on **Problem Solving Across the Curriculum,** June 18–20 at Wells College, Aurora, New York. Contact Sharon Gallagher, SUNY Training Center, 750 East Adams Street CWB 343, Syracuse, NY 12310; telephone (315) 464-4078.

This conference offers opportunities for faculty to exchange ideas about teaching problem solving and critical thinking in all curriculum areas. Presentations will be made in the areas of problem-solving heuristics, teaching styles and learning styles, and developing learning skills, among others. A "Hall of Innovation" will display curriculum ideas and effective techniques for teaching problem solving.

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Eighteenth Annual **Community College Accounting Educators' Workshop,** October 16–17 at the Summit Hotel, Dallas, Texas. Contact the Center for Professional Development, Texas Tech University, P.O. Box 42102, Lubbock, TX 79409; telephone (806) 742-3170.

Topics and issues will include para-accounting programs, learning styles, teaching tax accounting, electronic lectures, using software packages to teach, alternative funding sources for accounting programs, and more.

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Fourth Annual Asian-Pacific Conference on **International Accounting Issues,** November 22–25 in Dunedin, New Zealand. Contact Ali Peyvandi, Cal State Fresno, Fresno, California 93740; telephone (209) 278-2921.

Discussions and workshops will be presented on issues such as cross-cultural studies in international accounting, research, education practice, the impact of advanced technology on international accounting, comparative ethics in international auditing and business, and related international topics (foreign currency translations, consolidated financial statements, and international taxation).

AICPA Academic and Career Development Division
announces

CONTINUING PROFESSIONAL EDUCATION FOR ACCOUNTING EDUCATORS

March 4, 1992 in San Antonio, Texas
April 23, 1992 in Charlotte, North Carolina
April 30, 1992 in San Jose, California

in cooperation with the

Southwestern, Southeastern and Western Regions of the American Accounting Association

IMPROVING TEACHING EFFECTIVENESS

Effective teaching in today's classroom requires a range of skills and expertise far beyond knowledge of the subject matter. Even the most capable and dedicated teachers can become disheartened when faced with challenges and frustrations with which their training has not equipped them to deal effectively. *Improving Teaching Effectiveness* is a hands-on workshop developed from Yezdi Bhada's highly successful Master Teacher Program. This innovative program focuses on the pedagogical skills necessary to increase and improve teaching effectiveness in today's environment.

PROGRAM

8:30 - 8:45	Introductions/Framework
8:45 - 9:45	Teaching Styles
10:00 - 11:00	Student Learning Styles
11:15 - 12:15	Learning Objectives
1:15 - 2:15	Teaching Methods
2:30 - 3:30	Testing/Grading
3:45 - 4:45	Attributes of Effective Teachers
4:45 - 5:00	Closure/Evaluation

Yezdi Bhada *is Professor of Accounting at Georgia State University. He received his MBA from Bowling Green University and his Ph.D. from the University of Florida. He has received national recognition for presentations and seminars he has developed in the United States and abroad. He has received faculty recognition awards for teaching and for service, and is an active member of several professional and scholastic organizations.*

Registration: $80/AICPA Members
$95/non-members

Recommended CPE: 9 hours

Fee includes the workshop session, materials, lunch, and two refreshment breaks. Hotel accommodations and other meals are not included. Full payment must accompany your registration. A confirmation letter will be sent to you upon receipt of your registration form and payment. ***Please use the form at right and be sure to register early as this conference is expected to reach capacity quickly.*** The AICPA is not responsible for checks or letters lost or delayed in the mail.

1992 AICPA
CPE for Accounting Educators

REGISTRATION FORM

Mail to: AICPA Meetings Registration, PO Box 1008, New York, NY 10108-1008.

Please register me for the 1992 AICPA CPE for Accounting Educators Program to be held at *(check one):*

___ San Antonio, March 4
___ Charlotte, April 23
___ San Jose, April 30

My check for $_____ is enclosed. (Full payment must accompany registration.)

BATES #______________
(AICPA Use Only)

Registrant's Last Name First MI Nickname

College or University Name or Affiliation

Street Address Suite

PO Box

City State Zip Code

Total Amount Enclosed Area Code & Business Telephone

*AICPA Membership Number - **Required for discounted registration***

HOTEL INFORMATION: Please reserve your hotel accommodations directly. For more information, refer to the accommodations section of the promotional material for the appropriate Regional Meeting.

CANCELLATION POLICY: Full refunds will be issued on written cancellation requests received by three weeks before the specific workshop for which you are registered. Written cancellations received up to one week before the workshop will be issued a refund less a $25 administrative charge. No refunds will be issued on cancellation requests received within the seven days immediately preceding the workshop for which you are registered.

AIRLINE DISCOUNT: Several airlines are offering discounts for the AAA Regional Meetings. For more information, consult the promotional material for the specific destination to which you will be traveling (San Antonio, Charlotte, or San Jose).

• You will be informed of the specific location of your meeting. •

The University of Louisville

Creating Support for Academic Technology

The following article, adapted from the newsletter of the Institute for Academic Technology, is provided to give readers an insight to some of the issues and ways to deal with the introduction of technology into the curriculum.

It was just a year ago that Ron Moore, Ph.D., University of Louisville's vice president for information technology, and IAT advisory board chair Bill Graves met to begin development of a strategy for improving instruction in the decade ahead. Out of that meeting came initiatives that today are breaking new ground in the area of instructional design technologies.

"Our goal was to improve the quality of instruction through the use of technology, but we needed a way to put our resources and our reward system behind that philosophy," Moore said. "Our junior faculty were facing pressure to meet the 'publish or perish' criteria for achieving tenure status and didn't have the time to investigate the use of technology in the classroom. Many of our senior faculty members had not had a great deal of exposure or access to computer-assisted instruction. The rewards for using technology just weren't there."

To identify ways to create a reward system, Moore and his colleagues undertook a series of brainstorming sessions. The sessions revealed that, to bring about the support needed to reposition U-of-L at the forefront of computer-assisted instruction, a three-pronged approach was needed.

"We needed solid commitment from three areas: administration, the infrastructure support team, and, perhaps most importantly, from the faculty," Moore said. "They make the point at the IAT that integrating technology into the university setting is akin to building a three-legged stool; without the support of each leg, the entire chair is bound to fall."

The practical first step, according to Moore, was to gain the president's commitment to support technology and quality instruction as high priorities. Next came the development of an instructional incentive plan which provides "mini-grants" for release time to study the development of new computer-assisted instructional techniques. The grant program provides financial incentives for faculty to take the time to investigate new technologies, develop software prototypes and submit implementation proposals to the university as part of the peer review process. Proposals are reviewed by a faculty committee and, if approved, given high priority in the budgeting process.

Members of the faculty agree that the development of instructional design software can lead not only to improved classroom instruction, but to opportunities to publish that previously hadn't been considered and to new lines of research that had never been contemplated.

To integrate successfully the technology into the classroom, U-of-L staff spent several months and hundreds of person-hours to reconfigure a 360-seat auditorium. With the help of IBM, U-of-L's media services department created a development center and installed the necessary equipment. In January of this year, the first multimedia class was offered.

"The learners at a college or university are as varied as the professor teaching them," said Jim Cheski, executive director of media services for U-of-L. "It is our role as the instructional support team to create an environment where faculty can come for assistance in implementing their technology and teaching methods. If we can combine the faculty's content expertise with our instructional design knowledge to put the learner and the teacher on the same wavelength, we consider it a success."

Cheski and members of the faculty agree that the development of instructional design software can lead not only to improved classroom instruction, but to opportunities to publish that previously hadn't been considered and to new lines of research that had never been contemplated.

Through its affiliation with IAT, U-of-L sees an expansive future in the arena of technology and computer-assisted instruction.

"The IAT provides solid faculty leadership and innovative technological resources for our program. It is a collegial setting that offers the ideal environment for collaboration," Moore said. "We want to continue to build a bridge with the Institute; we envision eventually sending faculty to the IAT to become research associates who can return to us to train others."

Moore says he may not be able to effect immediate changes in the road to tenure, but he can help give faculty credit for achieving technological success and raising the level of instruction. That, he says, is the first step in an evolutionary process. ■

You may contact the IAT at (919) 560-5047.

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Stephen J. Anspacher, *Editor*

FASB Delays Effective Date of Statement 96, Requires Fair Value Disclosures, Issues DMs on Financial Instruments and New Basis Accounting

The Financial Accounting Standards Board (FASB) has delayed the effective date of its Statement 96 on accounting for income taxes; the effective date now is fiscal years beginning after Dec. 15, 1992. The FASB cited a proposal outstanding that would supersede Statement 96 as the reason for the delay. That proposal is expected to be finalized first quarter 1992.

In other actions, the FASB has issued its Statement 107 requiring all entities to disclose the fair value of financial instruments in the footnotes to financial statements. The Statement is effective for calendar 1992 year-end reports. Entities with less than $150 million in assets have an additional three years to comply. The requirement applies to financial instruments that are either assets or liabilities, both on and off the balance sheet.

Statement 107 defines fair value as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If it is not practicable to estimate the fair value of some financial instruments, descriptive information about those instruments is required to be disclosed.

The FASB also has issued a discussion memorandum (DM) on issues related to the recognition and measurement of financial instruments. The issues addressed in the DM do not pertain solely to financial institutions. The DM begins with an overview that presents the 10 primary issues so that comments can be made on those earlier, and comments on more detailed issues and sub-issues made later.

Comments are due May 31, but the FASB requests that comments be submitted as soon as possible, since work on some issues in the financial instruments project, such as possible measurement of marketable debt and equity securities at current market prices, impairment of loans and hedging, has already started.

The FASB also published a DM that examines what transactions, if any, should result in a new basis of accounting — that is, changing the carrying amounts of all or most of an entity's individual assets, including goodwill and liabilities, to amounts representing fair value. Comments on this DM, "New Basis Accounting," are due July 15.

One copy of each DM is available without charge through its comment period from the FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

Department of Education Extends Current Audit Report Structure

U.S. Department of Education (ED) representatives have stated that for one additional year they will allow independent auditors of institutions participating in the ED's student financial assistance programs, and using a service center, to report on compliance with laws and regulations and on internal control structure in the format set forth in *Audit Risk Alert, Not-for-Profit Organizations Industry Developments — 1991* (No. 022074). ED representatives cited inconsistencies in practice and a lack of authoritative guidance as reasons for the extension through fiscal years ended on or before Dec. 31, 1991.

Currently, auditors' reports must clearly identify those laws and regulations at the program level and those categories of the internal control structure that (1) the institution's auditor was able to test at the institution, and (2) relate to functions performed by a service center and not tested by the institution's auditor.

Depending on the programs in which an institution participates, auditors' reports are due on Mar. 31 or June 30. Auditors should refer to the above-mentioned *Audit Risk Alert* for detailed guidance on reporting.

An AICPA task force is drafting a proposed statement of position (SOP) regarding compliance and internal control auditing and reporting when an institution uses a service center. An exposure draft of the SOP will be issued first quarter 1992.

AcSEC Addresses Insurance Industry Issues: Fronting and Disclosures

The Accounting Standards Executive Committee (AcSEC) is addressing specific issues relating to the insurance industry. At its recent meeting, AcSEC approved issuance of a Practice Bulletin on fronting and discussed insurance companies' disclosures of risks and uncertainties.

The Practice Bulletin, "Disclosures of Fronting Arrangements by Fronting Companies," advises that, because fronting arrangements are a form of reinsurance, the reinsurance disclosure requirements of FASB Statement No. 60, "Accounting and Reporting by Insurance Enterprises," apply. Statement No. 60 was effective for fiscal years beginning after Dec. 15, 1982. Fronting is an arrangement between insurers whereby a fronting company issues a policy and then reinsures substantially all the risk to other insurers for a commission.

AcSEC discussed with the AICPA's Insurance Companies Committee chairman a proposed project that would enhance insurance companies' disclosures, with guidance expected to be issued by the end of this year. Representatives of the insurance industry, the FASB and the SEC will be consulted in the early stages of the project to develop topics to which a statement of position would apply, such as loss reserves, environmental liabilities, reconciliation of key amounts in GAAP and statutory basis financial instruments, and risk-based capital requirements.

The **International Federation of Accountants** has published the following pronouncements:

- Risk Assessment and Internal Control — EDP Characteristics and Considerations (Addendum 1 to International Standard on Auditing No. 6) No. 019036
- Objective and Basic Principles Governing an Audit (revision of International Standard on Auditing No. 1) No. 019035
- Glossary of Auditing Terms — Oct. 91 No. 019037
- Risk Assessment and Internal Control No. 019038
- Exposure Draft (ED): Knowledge of the Client's Business (proposed standard) No. 800016
- ED: Audit Considerations Relating to Service Organizations (proposed Addendum 2 to International Standard on Auditing No. 6) No. 800017

Price: $5.00, except the EDs, for which the first five copies are free and each additional copy costs $2.50. Comments on the EDs are due Mar. 31.

The 1992 AICPA Vest-Pocket Accounting & Auditing Reference (No. 015502) contains comprehensive information in a handy, easy-to-use format. Updated from 1991 to include recent pronouncements, the 1992 edition contains new chapters on compilation and review engagements, AICPA quality-review and peer-review programs, CPE requirements, and a summary of international accounting and auditing pronouncements. Price: $15.00.

The complete set of ***Auditing Standards and Original Pronouncements*** (1991 paperback, No. 005942) helps CPAs to find all the information they need quickly. The book also shows how newly issued standards and interpretations affect existing standards. *Original Pronouncements* with its cumulative supplement contains all the Statements on Auditing Standards and their interpretations issued from Nov. 1972 through June 1991. Price: $55.00. ***Auditing Standards: Original Pronouncements Cumulative Supplement, July 1990–June 1991*** (1991 paperback, No. 005943) updates the previous supplement which included pronouncements from Nov. 1972 through June 1990. Price: $12.50.

A new brochure in the "Consumer Guide Series" is now available. ***Planning for the Future: Your Social Security Benefits*** (No. 890518) summarizes what consumers should know about Social Security, including how it works, possible taxability of benefits, and how earnings affect benefits. Price: $17 for 100 copies.

An accompanying speech, **"What You Should Know About Your Future Social Security Benefits"** (No. 890662), focuses on the basic principles of Social Security. Price: $4.00.

Understanding Compilation, Review and Audit (No. 338567) is a brochure describing the three financial statement services that CPAs provide to private companies. It briefly explains what each service entails as well as the level of assurance provided by the particular service. The brochure is designed for use as a marketing tool. Price: $20 per 100 copies.

To order, write to: AICPA Order Department, CL292, P.O. Box 1003, New York, NY 10108–1003; send your order via fax, 212/575–6841; or call 800/334–6961, or 800/248–0445 in New York State. Ask for Operator CL292. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Time. Prices do not include shipping and handling.

FASB Releases Retiree Benefits Statement Video, Literature on Software

The FASB has released a video to help people understand its Statement 106 on employers accounting for post-retirement benefits other than pensions. Along with the one-hour-long video, copies of the video's graphics and a summary of Statement 106 are provided. Video viewers may be eligible for continuing education credits.

Price: $70, minus a 20-percent discount for members of the Accounting Research Association of the AICPA, the Financial Accounting Foundation, and academicians. To order the video, write to: Financial Accounting Standards Board, P.O. Box 30816, Hartford, CT 06150. All orders must be prepaid. CT orders add 6-percent sales tax.

The FASB also has recently produced its first personal computer-based product. The "Financial Accounting Research System (FARS),™" using search- and retrieval-software consistent with the AICPA's electronic research products, includes:

- **Original Pronouncements** — FASB Statements, Interpretations, Technical Bulletins, concepts Statements; ARBs 43–51; APB Opinions and Statements; AICPA Accounting Interpretations and Terminology Bulletins.
- **Current Text** — Integration of financial accounting and reporting standards arranged by topic for General and Industry Standards.
- **EITF Abstracts** — Full text of abstracts of issues considered by the Emerging Issues Task Force with the EITF topical index and list of key terms.
- **Implementation Guides** — Questions and answers from all FASB staff Special Reports and other published implementation guidance.
- **Comprehensive Topical Index** — Combined topical index to all of the above.

Updates will be issued approximately four times a year, as appropriate, to ensure that the database contains the latest FASB pronouncements and abstracts of EITF issues.

Price: $448 for members of the Financial Accounting Foundation, the Accounting Research Association of the AICPA, or academicians; $560 for all others. A demonstration disk is available for $25. For more information on the software, contact the FASB at 203/847–0700, ext. 575.

Eight Members Expelled, Two Suspended, One Admonished

The following six members were expelled from membership by hearing panels of the Joint Trial Board for failing to cooperate with the Institute's Professional Ethics Division in its investigations of alleged ethics violations:

- Gerald B. Nowak of St. Clair Shores, Mich., on Sept. 4, 1991.
- James E. Etue of Fort Lauderdale on Aug. 22, 1991.
- Stuart Clark Wardlaw of Fort Lauderdale on Aug. 22, 1991.
- John Carl Willis of Englewood, Fla., on Aug. 22, 1991.
- William Trainor of Sugar City, Colo., on Dec. 7, 1991.
- Larry Eugene Hampton of Jacksonville, Ark., on Aug. 31, 1991. Mr. Hampton had previously been suspended from membership Aug. 25, 1990, to Dec. 31, 1990, coincident with the suspension of his CPA certificate for the same period by the Arkansas State Board of Accountancy for failing to cooperate with the Board in an investigation of the same alleged ethics violations.

Messrs. Etue, Wardlaw and Willis were also expelled from the Florida Institute of CPAs, effective Aug. 22, 1991, for failing to cooperate with the same investigations.

- In addition, Michael Gray of Littleton, Colo., was expelled from membership on Dec. 7, 1991, for failing to exercise due professional care, failing to comply with generally accepted auditing standards, and failing to follow standards and procedures required in governmental audits in connection with the audits of two U.S. Department of Housing and Urban Development-funded housing authorities. Mr. Gray offered to resign from membership at his hearing, but his offer was not accepted by the hearing panel.
- Also, Gary Verleye of Cincinnati was expelled from membership effective Oct. 1, 1991, for failing to comply with CPE and peer-review requirements of a hearing panel of the Joint Trial Board which found him guilty in Nov. 1988 of violating the Institute's Code of Professional Conduct and the Ohio State Society of CPAs' Code of Professional Ethics. At the 1988 hearing, Mr. Verleye was admonished for failing to exercise due professional care, failing to comply with generally accepted auditing standards, and failing to follow standards and procedures required in governmental audits. He was required to complete 40 hours of specified continuing professional education courses in each of two years and to submit his practice to peer review within a specified time period. (*The CPA Letter,* Apr. 14, 1989).

Hearing panels of the Joint Trial Board suspended:

- Richard Allen Knecht of Pembroke Pines, Fla., on Aug. 22, 1991, concurrent with the period of the probation of his license by the Florida Board of Accountancy, but limited to two years. The panel found Mr. Knecht guilty of violating the Codes of Professional Conduct of both the AICPA and the Florida Institute of CPAs by preparing false payroll tax returns for his employer and signing a management representation letter which did not provide an accurate account of the financial condition of his employer, for which he was treasurer and chief financial officer.
- Mohammed Vossoughi of Bethesda, Md., on Aug. 2, 1991, for one year following denial by an ad hoc committee of the Joint Trial Board of his request for a review of a decision of a hearing panel of the Joint Trial Board. The hearing panel found him guilty of violating the AICPA's Code of Professional Conduct by knowingly misrepresenting facts by listing on his firm's letterhead an address where the firm did not have an office and by compiling a financial statement and issuing a compilation report referring to music-concert dates on which no concerts were performed. He was also found guilty of failing to comply with Statements on Standards for Accounting and Review Services in connection with his compilation of a client's financial statement. In addition to the one year suspension, Mr. Vossoughi must complete 40 hours of specified continuing education courses and complete a quality review of his practice within the period of the suspension. Failure to comply with these requirements will result in automatic expulsion from membership without further proceedings.

The following member was admonished by a hearing panel of the Joint Trial Board:

- Mark Hanna, Jr., of San Antonio was admonished by a hearing panel of the Joint Trial Board on Aug. 2, 1991, after being found guilty of violating the Code of Professional Ethics of the Texas Society of CPAs and the Code of Professional Conduct of the AICPA by permitting his name to be associated with financial statements in a manner implying that he was acting as an independent public accountant without complying with generally accepted auditing standards and their interpretations as promulgated by the AICPA, by failing to comply with Statements on Auditing Standards which are considered to be interpretations of the generally accepted auditing standards, and by failing to follow standards and/or procedures or other requirements in governmental audits. In addition to the admonishment, Mr. Hanna is required to complete 72 hours of specified continuing education courses within specified time periods during the next two years and to submit to the AICPA a list of compilations, reviews and audits performed in each of the two years. Failure to comply with these requirements will result in his automatic expulsion from membership without further proceedings.

PUBLIC MEETING NOTICES

The **Auditing Standards Board** plans to meet on Apr. 7–9. For location and agenda information, call the Auditing Standards Division at 212/575–3850.

The **Accounting Standards Executive Committee** plans to meet on Mar. 17–18 at the AICPA in NY. For information, call Ruth Jackson at 212/575–6369 after Feb. 17.

AICPA Assured NCUA Does Not Have Auditor-Rotation Policy

No policy of routine auditor rotation exists within the National Credit Union Administration (NCUA), its chairman, Roger W. Jepsen, has told the AICPA. The Institute raised the issue with the NCUA after receiving reports that NCUA examiners had recommended to two credit unions that they change auditors. A letter by Chairman Jepsen written after a meeting with AICPA staff states, "The NCUA does not presently have, nor do we intend to adopt, a policy of routine auditor rotation... Any specific cases of attempted mandatory auditor rotation, for rotation's sake alone, are isolated and not in compliance with national policy." Chairman Jepsen sent copies of his letter to all NCUA regional directors.

NCUA's maintenance of lists of approved auditors was another subject discussed during the meeting. Chairman Jepsen said that the NCUA does not keep lists of approved or disapproved CPAs.

Corporate Estimated Tax Payments Increased By Congress

On Nov. 27, Congress passed legislation extending certain expiring tax provisions. Included in this legislation is an increase in the percentage of total corporate tax that must be paid in quarterly installments to avoid an underpayment penalty. The current 90 percent of total tax is changed as follows: For a taxable year beginning in 1992, the total estimated tax installment payments must equal or exceed 93 percent of the tax liability; for taxable years beginning in 1993 or 1994, the tax estimated installment payments must be at least 94 percent of the tax liability; and for taxable years beginning in 1995 or 1996, the estimated tax installment payments must be at least 95 percent of the tax liability.

FERC Issues Proposed Rule on Clean Air Act

The Federal Energy Regulatory Commission (FERC) has issued a proposed rule entitled "Revisions to Uniform Systems of Accounts to Account for Allowances Under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities." FERC proposes in the notice to amend its Uniform Systems of Accounts for public utilities, licensees, and natural gas companies. The Commission is proposing (1) to establish uniform accounting requirements for allowances arising from Title IV of the Clean Air Act Amendments of 1990 for the emission of sulfur dioxide, and (2) to establish general accounts to record assets and liabilities created through the rate-making actions of regulatory agencies. For more information, see the *Federal Register,* Dec. 11.

REA Issues Policy on Audits of REA Borrowers

The Rural Electrification Administration (REA) has issued its final rule on Policy on Audits of REA Borrowers. The ruling revises existing policy to require an audit in accordance with generally accepted government auditing standards and strengthens REA's policies concerning resolution of audit recommendations. The ruling will apply to audits of REA borrowers as of Dec. 31, 1991, and thereafter. For more information, see the *Federal Register,* Dec. 3.

Congress to Broaden Debate on Securities Fraud Claims

The recently enacted banking law (see related story on page 3) contains a legislative compromise regarding the issue of whether time limits for filing securities fraud lawsuits should be extended (*The CPA Letter,* Nov.). In July 1991, the U.S. Supreme Court established uniform time limits for the filing of such cases, and in a related case applied the time limits retroactively. Some members of Congress, who advocated enacting legislation to overturn the Court's rulings, opposed the new time limits and the retroactive application. The retroactive application resulted in the dismissal of numerous cases, including some related to Wall Street and savings and loans scandals. The AICPA and others argued that if Congress were going to consider extending the time limits, other litigation reform proposals aimed at minimizing frivolous suits also should be considered. In the end, Congress agreed to include a provision in the banking bill overturning the retroactive application of the Court's decisions and allowing for the reinstatement of those cases which were dismissed. Congress is expected to address the question of the new statute of limitations in securities litigation early this year. AICPA Key Person Contacts have been asked to talk with their members of Congress about the importance of this issue.

The CPA Letter

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AICPA *"The Measure of Excellence"*

The CPA Letter

A News Report to Members

March 1992
Vol. 72 No. 2

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IRS Issues Final and Proposed Estate Tax Rules *4*

FASB Issues New Statement on Accounting for Income Taxes

The Financial Accounting Standards Board has issued its Statement 109 on accounting for income taxes. It requires an asset and liability approach for financial accounting and reporting for income taxes. The Statement supersedes FASB Statement 96 and is effective for fiscal years beginning after Dec. 15, 1992, with earlier application encouraged.

For a copy of Statement 109, *Accounting for Income Taxes*, write to: FASB Order Department, P.O. Box 30816, Hartford, CT 06150. Price: $10 prepaid; call the FASB Order Dept. at 203/847–0700, ext. 555, for available discounts. CT orders add 6 percent sales tax.

AcSEC Approves SOP on Foreign Property and Liability Reinsurance

The Accounting Standards Executive Committee (AcSEC) has approved for issuance the statement of position (SOP), *Accounting for Foreign Property and Liability Reinsurance*. The SOP is subject to review by the Financial Accounting Standards Board.

It provides guidance on how U.S. insurance companies should account for property and liability reinsurance assumed from foreign insurance companies. The SOP advises that the "periodic method" should be used to account for foreign reinsurance premiums except when, because of local revenue recognition policies, the foreign ceding company cannot provide the information required by the assuming company to estimate both the ultimate premiums and the appropriate periods of recognition in accordance with U.S. generally accepted accounting principles. In such circumstances, the "open-year method" should be used. The SOP would be required to be applied prospectively to contracts or arrangements covered by it and entered into in fiscal years beginning on or after Dec. 15, 1992. Retroactive application by restating all prior years presented will be encouraged but not required.

Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Presents Fairly In Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, significantly revised the level of authority of AcSEC-issued SOPs with effective dates for financial statements ending after Mar. 15, 1992 (*The CPA Letter*, Jan.-Feb). Under SAS No. 69, members will be required to follow the guidance in this SOP or be prepared to justify a conclusion that a different accounting treatment better presents the substance of the relevant transaction or event in the circumstances.

Results Are In From *The CPA Letter* Readership Survey

To assess whether *The CPA Letter* is meeting members' information needs, a readership survey was conducted in Oct. 1991. Questionnaires were mailed to a random sample of 4,000 AICPA members representing all the Institute's membership groups, and about 40 percent of the recipients responded. A summary of the results follows.

- 85% of the members surveyed gave the newsletter an overall rating of "good" or "excellent," and 76% said that it is either as useful or more useful now than it was two years ago.
- 86% said the newsletter adequately identifies important issues affecting members or the profession, and a solid majority responded that the coverage given to various topics, such as news about accounting and auditing, the FASB, the IRS, Washington activities, professional matters, and AICPA products and services is about right. Suggestions for other topics are currently being evaluated.

Thank you for the suggestions and your continued interest in *The CPA Letter.*

► *New IRS Commissioner Appointed*

Shirley D. Peterson is the new IRS Commissioner, succeeding Fred T. Goldberg, Jr., who is now the Assistant Secretary for Tax Policy at the Treasury Department. Previously, Peterson was the head of the U.S. Department of Justice's tax division and had been a partner with the Washington, D.C., office of the law firm of Steptoe & Johnson prior to that position. During confirmation hearings before the Senate Finance Committee, Peterson supported tax-simplification legislation. Peterson is the first woman to serve as IRS Commissioner.

► *CPAs Sought for OCC Fellowship*

The Office of the Comptroller of the Currency (OCC) is accepting through Apr. 3 applications from CPAs for its Professional Accounting Fellowship Program. The individual selected for the two-year program will work with the Chief Accountant on matters concerning questions of OCC accounting policy. A minimum of five years' experience in public accounting is required (teaching accounting at the college level would qualify as such experience), with one to two of the five years having been at the manager level or equivalent. For more information, call the OCC at 202/874–5180.

► *Disciplinary Actions*

Three members were expelled from the AICPA under the automatic disciplinary provisions of the Institute's bylaws:

- Joel D. Davis of Silver Spring, Md., on May 30, 1991, following his conviction in a U.S. District Court of conspiracy to murder an IRS agent, to which he pleaded guilty, and of aiding and abetting arson and mail fraud and interstate travel in aid of racketeering.
- John Marshall Mathewman of Macomb, Ill., on July 31, 1991, following the revocation of his CPA certificate by the Texas Board of Accountancy for violating the Board's rules and the Public Accountancy Act by misapplication of fiduciary property.
- David N. Hainsworth of Fairfax, Va., on Aug. 20, 1991, following his conviction in a U.S. District Court on his plea of guilty of attempted income tax evasion by filing a false income tax return and by aiding in the preparation and filing of false income tax returns for other taxpayers.

Paul R. Greenberg of Woodbridge, Conn., was admonished by a hearing panel of the Joint Trial Board on July 22, 1991, for violating the rules of professional conduct of the Connecticut Society of CPAs and the AICPA. The violations included permitting his name to be associated with financial statements in a manner implying that he was acting as an independent public accountant without complying with generally accepted auditing standards; expressing an opinion that financial statements were presented in conformity with generally accepted accounting principles, when such statements contained material departures therefrom; and failing to follow statements and/or procedures or other requirements in governmental audits.

In addition to the admonishment, Mr. Greenberg is required to complete 96 hours of specified CPE courses within two years with a minimum of 40 hours per year, and to submit to the Institute's Professional Ethics Division at the end of calendar year 1992 a list of governmental audits performed, if any, from which one audit will be selected for financial-statement and working-paper review. Failure to provide evidence of completion of the required CPE courses annually will result in automatic expulsion from memberships in the Connecticut Society of CPAs and the AICPA.

Mr. Greenberg, who was present with counsel at the hearing, requested a review of the decision within 30 days and offered additional information in support of his request for review. The request was denied by an ad hoc committee on Dec. 19, 1991, and the decision of the hearing panel became effective on that date.

► *FDIC Improvement Act Update*

The AICPA is monitoring initial steps toward implementation of audit and accounting provisions of the new banking law (*The CPA Letter,* Jan.-Feb.). The Institute has offered technical assistance to the federal banking agencies responsible for developing regulations to implement the law's provisions, and sponsored an informational meeting for regulators in Feb. Presentations were made on Auditing Standards Board projects involving standards for attestation engagements and internal control criteria developed by the Committee of Sponsoring Organizations of the Treadway Commission. The audit and accounting regulations that will result from the rule-making process will generally be effective for fiscal years ending Dec. 31, 1993, and thereafter.

Further developments will be reported in *The CPA Letter*.

► *South Dakota Passes 150-Hour Education Requirement*

South Dakota has become the 19th state to pass the 150-semester hour education requirement for CPAs. Additionally, legislation on the requirement is pending in California, Indiana, Maryland, Michigan, Minnesota, Missouri, and Ohio.

► *New Fax Number Announced for GPO*

The Government Printing Office (GPO) has changed its fax number. The new number, 202/512–2250, should now be used when ordering publications from the GPO.

► *POB Moves to Connecticut*

The Public Oversight Board (POB) of the AICPA's SEC Practice Section has relocated from New York City. The POB's new address is One Station Place, Stamford, CT 06902; tel. 203/353–5300, fax 203/353–5311.

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Geoffrey L. Pickard *Vice-President - Communications*

Ellen J. Goldstein *Editor*

AICPA *"The Measure of Excellence"*
American Institute of Certified Public Accountants

Accounting Educators: FYI

Volume III, Number 4 — March 1992

Educational Opportunities

Profession Looks to Global Issues

Two important international conferences will be held in October 1992 in the Washington, DC, area. International matters are of growing interest and concern to accounting educators and their students, and these two meetings will provide participants with opportunities to explore the practical and pedagogical aspects of these issues.

The first meeting, to be held October 8–12 in Arlington, Virginia (just across the Potomac from the nation's capital) is the Seventh International Conference on Accounting Education. Co-sponsored by the International Association for Accounting Education and Research and the American Accounting Association, this meeting is entitled *Accounting Education for the Twenty-First Century: The Global Challenges.* Topics to be addressed by speakers, paper presentations, and panel discussions include accounting education in changing economies and in developing countries, ethics and values in accounting education, accreditation and common standards, the influence of information technologies, instruction innovations, performance assessment, comparative accounting education, faculty recruiting and retention, and other important topics. For more information, contact the congress secretary at the AAA at (813) 921-7747.

Immediately following this meeting of educators is the XIV World Congress of Accountants. Sponsored by

(continued on page 2)

ADMINISTRATORS FOCUS ON TOTAL QUALITY MANAGEMENT

Meeting in San Antonio on February 2–4, the Administrators of Accounting Programs Group (AAPG) of the American Accounting Association (AAA) took an in-depth look at Total Quality Management (TQM) and its potential in accounting education. The 1992 AAPG seminar attracted close to 200 participants, who listened to presentations from business representatives, colleagues from academe, and firm representatives in a far-reaching exploration of ways in which accounting education can be improved to the benefit of its primary consumers: the student, the organization in which he or she will work, and, ultimately, the public.

The group heard spirited discussions of the definition and applicability of TQM in academe, in public practice, and in industry and government. This was followed by a presentation on the changing demographics of potential accounting students and the impact of these on recruiting efforts.

In a major summary presentation late in the seminar, Doyle Williams (KPMG Peat Marwick Professor at the University of Southern California and Chairman of the Accounting Education Change Commission) addressed the question, "Do principles of TQM fit academic institutions?" Williams's talk began with the premise that quality is a matter of survival for colleges and universities faced with demands to "do more with less;" to be more accountable; to compete for students and to satisfy those students, their sponsors and future employers; and to produce "relevant" research. Summarizing the work of such TQM "gurus" as W. Edwards Deming, J. M. Juran, and Philip B. Crosby, Williams went on to define TQM as a commitment to quality improvement throughout the organization; a focus on processes, not people, striving to eliminate problems that diminish quality; identifying "customers" and satisfying their requirements; and fostering teamwork while encouraging innovation and permanent quality improvements.

As an example of one way in which TQM might be employed in an academic environment, Dr. Williams discussed Oregon State University, which in July 1990 published a strategic plan directed at integrating quality processes throughout the university. OSU clearly stated its mission, values, and guiding principles in terms of "continually [improving their] contributions to the general welfare," and went

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Writing Skills

Advice for Juniors

by T.A. Monahan

The following is excerpted from an article in a recent issue of The Practicing CPA, *an* AICPA *publication for local firms. (Copyright 1991 by the American Institute of Certified Public Accountants; reprinted by permission.) The author is a partner in Monahan & Monahan of Erie, Pennsylvania. The piece is reprinted here with the thought that students might be interested in a practitioner's viewpoint on the importance of written communication skills.*

Each year, thousands of bright, ambitious, young graduates join the ranks of public accountants. Is there any single secret that will point them to success in public accounting? Most of them will work long hours, study hard, and pass the CPA examination, but few will become partners. My advice to them could be summarized in a single word. Write.

Let's take the case of the young, obscure junior who has just joined the firm. We'll call this person Joe (or Jane) Clunen. Clunen is bright and talented, but a face in the crowd. Instead of just working hard, however, Clunen does something different. He researches a subject and then, voluntarily remember, begins the task of putting his research efforts on paper. Clunen encounters the problems of organization, phrasing, rewriting, and groping for the right word. But as he perseveres, his work improves. His style develops and his writing becomes tighter. Eventually, some of his articles are published

Clunen is with a major firm, and partners in every office read his articles. While they may not always agree with him, he is becoming one of the best known accountants in the firm, partners included. If he isn't tapped for partnership with that firm, he should have offers from other firms.

Accountants who write well, or for that matter, write at all, are uncommon. Clunen will find that being published in an accounting publication is not as difficult as being published in, say, *The New Yorker*. Accounting publications are numerous and are always looking for fresh articles. If Clunen has the talent to breathe life into the articles and make the words dance a little, he might actually fall into that rare category: an accountant who can really write.

Mark your calendar!

The 1992
ACCOUNTING EDUCATORS
MINI-CONFERENCE

INNOVATIONS IN
ACCOUNTING PEDAGOGY

November 6-7, 1992
Tempe, Arizona

Sponsored by the
AICPA Academic and Career Development Division
and hosted by Arizona State University

International Conferences

(continued from front page)

the International Federation of Accountants (IFAC) and jointly hosted by the AICPA, the Institute of Management Accountants, and the Institute of Internal Auditors, this august gathering will take place in Washington on October 11–14. Held every five years, this year's theme is *The Accountant's Role in a Global Economy.* With the globalization of trade in services and the focus on Europe 1992, this Congress is designed to provide accounting professionals throughout the world with key insights to the challenges, concerns and opportunities faced by the profession.

Plenaries will focus on international accounting developments, the impact of regional marketing trends, global capital formation, and the internationalization of financial reporting standards. The technical program consists of concurrent sessions on joint ventures, ethics, finance, information systems, the profession's role in the privatization of markets, privatization, taxation, and more.

Among the important benefits to participants, the World Congress provides an opportunity to share views and establish contacts with accountants in business and industry, government services, education, and public practice from 78 countries.

For more information, contact the World Congress Registration Headquarters, % ITS, 104 Wilmont Road, Deerfield, IL 60015-0825.

International issues are of increasing interest to accounting students as the borders between nations become less and less relevant to commerce. The AICPA's Curriculum and Instruction Subcommittee has appointed a task force to study the impact of business globalization on the accounting curriculum, and to explore means to assist accounting educators looking for ways to add an international dimension to their curricula. These two conferences provide excellent opportunities for accounting educators to broaden their international perspectives.

TQM *(continued from front page)*

on to identify ten specific goals and objectives designed to promote quality in all that the institution does. Setting out a five-year plan directed at achieving a level of quality worthy of a Baldrige award, OSU detailed items to accomplish each year, necessary system changes, and training and team-building needs across their organization.

Williams also presented to the administrators an outline of steps that might be undertaken in pursuit of a Malcolm Baldrige Award. Established by public law in 1987, the Malcolm Baldrige National Quality Award promoted an awareness of quality as an increasingly important element in competitiveness, an understanding of the requirements of quality excellence, and the dissemination of information on successful quality strategies. The framework for applying the Baldrige criteria is constructed of goals, "drivers" toward those goals (such as senior management), systems to attain the goals, and regularly applied measures of progress.

Williams suggested that the principles behind the Baldrige award are applicable to departments and schools of accounting. Through customization of the criteria to meet the mission and objective of the accounting program, which parallel in large measure the tenets of the new accreditation standards now being implemented by the American Assembly of Collegiate Schools of Business, accounting programs have an opportunity to systematically incorporate quality principles in the operations, curricula, and faculty development efforts.

The question implied but not addressed by Williams or other participants in the AAPG seminar is, "Should there be a national quality award for accounting programs?" It seems likely that within the next few years a movement in this direction will be proposed, and those programs focused on the precepts of TQM will be well-positioned to compete.

No. 19: South Dakota Enacts 150-Hour Legislation

On February 10, South Dakota became the nineteenth state to enact legislation adopting the 150-hour requirement, when the governor signed a bill passed by the legislature on February 5. The law, which also requires candidates to possess a bachelor's or higher degree as a prerequisite for licensure, becomes effective on January 1, 1998.

Most of the states which have passed legislation have incorporated language identical or substantially similar to the NASBA/AICPA model; that is, calling for 150 semester hours of higher education, including at least a bachelor's degree and an accounting concentration as defined by the state board.

The AICPA expects that by the end of the year, most of the 54 U.S. jurisdictions which license certified public accountants will have made progress toward adoption, either through legislation or regulation, of the 150-hour requirement.

Options Unlimited: High Tech, Low Cost

The power of desktop computers has increased dramatically in the decade since the first IBM personal computer made its debut. At the same time, the real costs of computing have plummeted. In fact, a recent article in the *New York Times* suggested that if automobile technology had developed in a similar manner, we would all be driving Rolls-Royces that could be driven at a million miles per hour and be purchased for 25¢!

Computers offer virtually unlimited opportunities for educators to develop materials to more fully engage learners. Two specific desktop technologies are within easy reach of instructors looking for ways to "reach out" to students.

The first of these — hypermedia — is a software-based interactive learning technology which offers significant potential for learning in business and accounting education. "Hypermedia" defines a system whereby students learn by accessing databases of information through associative linking between elements and a consistent and easy-to-use interface.

Providing quantitative and qualitative differences in how a student obtains information, hypermedia allows fast, easy access to vast quantities of text, diagrams and images (both still and full-motion), speech and sound. Because of the associative links between pieces of information in a variety of formats, the process closely parallels human associative memory and thus maximizes recall of information.

A related but separate technology — multimedia — is more hardware-based. Multimedia, as the name suggests, is an approach to integrating, combining, overlaying, and editing different sources of information to create materials that interactively involve the student in the learning/teaching process. Multimedia has been around for decades: the film-strip with associated audio tape and discussion guide is a simple multimedia presentation.

Of course, computers allow for much more sophisticated multimedia applications. Today, for less than $1,000, you can get started with the ability to create color animated graphics for integration into text files. Can you afford *not* to explore this option?

Bob Jensen, an accounting professor at Trinity University, has been making presentations about these technologies for several years. Recently, with his colleague Petrea Sandlin, Dr. Jensen has released a paper detailing many cost-effective options for accounting educators. For a copy of *Working Paper 208: Multimedia Education of the Future,* write to Professor Jensen at Trinity's Department of Business Administration, 715 Stadium Drive, San Antonio, TX 78212; telephone (512) 736-7347.

News & Notes

Through its Aid to Minorities program, the AICPA offers **scholarships to undergraduate and graduate students** in accounting. This program has helped thousands of students enter accounting programs. In January, the AICPA awarded over $60,000 in scholarship aid for the Spring semester to over 140 students. This amount included $5,000 in joint Arthur Andersen–AICPA awards.

This year, some significant changes in eligibility requirements are being made. Specifically, to be eligible for an AICPA scholarship, *undergraduates must have completed the equivalent of at least one year* of college work. All students must be *enrolled full-time to be eligible.* Also, the AICPA has *initiated use of the standard Financial Aid Form (FAF)* in its application procedure, to simplify the process for applicants. Also, beginning this year, the minority scholarships will be *awarded only once a year,* in July, for the next academic year.

Complete details on the program are available from the AICPA. For an application package, write to the AICPA Aid to Minorities Program, 1211 Avenue of the Americas, New York, NY 10036.

Professor Brad Brown of the University of Virginia's McIntire School of Commerce has developed a computerized simulation game to effectively teach 4th-year students how the five disciplines of management, marketing, finance, MIS, and accounting work together in business. The game, used in McIntire's capstone course for all business students, provides an opportunity for participants to run their own manufacturing business in a simulated industry setting. Contact Professor Brown at the University of Virginia, Charlottesville, VA 22903.

A related development at Indiana University has students in the introductory financial accounting course playing the Parker Brothers board game, *Monopoly.* Modified for this purpose by Professor James Frederickson, students grade each other on their abilities to record *Monopoly* transactions on double-entry ledgers. Contact Frederickson at the Indiana University School of Business, Bloomington, IN 47405.

The AICPA's new **Professor/Practitioner Case Development Program** attracted an impressive response from accounting educators working with practitioners. Proposals in the areas of financial, managerial, international, and ethics were solicited, and close to 60 applications were received.

The selection task force is presently reviewing the submissions. Eight cases will be chosen for full development and presentation at the 1992 Accounting Educators Mini-Conference; educator and practitioner authors will be invited to attend the conference as guests of the AICPA. These cases will be published and distributed gratis to accounting departments.

A number of alternate cases also will be selected, and those whose authors choose to develop the materials will also be included in the case compendium.

Information about the 1992 program will be available at the Mini-Conference (November 6–7 at Tempe, Arizona).

The AACSB is revising the exposure drafts of the proposed processes and procedures to implement the **new accreditation standards,** based on responses to earlier exposure drafts. The Assembly will take up this issue at its April meeting, at which final documents will be promulgated.

It's not too late to register for the 1992 AICPA CPE **Workshops for Accounting Educators** to be held at the Southeast and Western AAA Regional Meetings in late April. To register, send your name and address to AICPA Meetings Registration at PO Box 1008, New York, NY 10108-1008. *Be sure to indicate which meeting you wish to attend* (Charlotte, NC, on April 23 or San Jose, CA, on April 30) *and to include the registration fee* of $80 for AICPA members, $95 for non-members. Don't wait; space is limited.

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Stephen J. Anspacher, ***Editor***

The **100 Ways for CPAs to Prosper in Today's Economy** one-day workshop will help members discover how to tackle and take advantage of the current economy. Participants will discuss practical ideas to enhance performance, learn income-generating and cost-saving techniques, and develop an action plan for immediate financial results. Dates and locations: May 5, Westin Bonaventure, Los Angeles; May 7, Hyatt Regency Dallas, Dallas; May 21, Grand Hyatt, New York; June 2, Chicago Marriott Downtown, Chicago; and June 4, Stouffer Concourse Hotel, St. Louis. Registration: $245. Recommended CPE credit: 8 hours.

For more information on these conferences, call the AICPA Continuing Professional Education Division at 800/242-7269; in NY call 212/575-5696.

The **1992 AICPA Banking School** conference will provide CPAs with an in-depth explanation and analysis of the financial services industry as well as an update on current and emerging issues. Lectures, group discussions and problem-solving sessions will be conducted by leading educators and speakers in the accounting profession. The conference is available at two levels: Unit I (Intermediate) focuses on performance measurement and decision making; Unit II (Advanced) looks at strategic planning and advanced performance measurement. Dates and location: Unit I, May 10-15 and Unit II, June 7-12 at The McIntire School of Commerce, University of Virginia, Charlottesville, Va. Registration: $1,295 per unit. Recommended CPE credit: 40 hours per unit.

AICPA Offers Certificate of Educational Achievement Programs

The AICPA offers four Certificate of Educational Achievement (CEA) Programs designed to enhance your capabilities and improve the skills required to succeed. The following programs, which are sponsored by state CPA societies nationwide, provide comprehensive training:

- **Tax Planning and Advising for Closely Held Businesses CEA.** Improve the quality and range of your tax planning skills and resolve complex issues associated with these businesses.
- **Financial Management CEA.** Learn to apply, implement and evaluate a broad range of strategic financial management concepts and techniques using real case studies and examples.
- **Governmental Accounting and Auditing CEA.** Find out how to plan, conduct and report on governmental audits using GAAS and GAGAS in accordance with GAAP. To date, there are more than 2,000 graduates of this CEA program.
- **Personal Financial Planning CEA.** Acquire the training needed to provide comprehensive personal financial planning advice. Over 3,500 CPAs have benefited from this program.

For complete course and registration information about CEA programs, write to: Debra Reich, AICPA, CPE Marketing, 1211 Avenue of the Americas, New York, NY 10036-8775; or call the AICPA-CPE Course Information Hotline, at 800/242-7269; in NY call 212/575-5696.

PRODUCTS AND PUBLICATIONS

The AICPA's guide for federal candidates, ***Compliance With Federal Election Campaign Requirements,*** provides information about how to comply with federal election campaign laws; suggestions for disclosure of personal financial information by candidates and officeholders; tax considerations for political organizations, candidates, officeholders, and contributors; and internal control considerations for campaign committees. It has proven to be a valuable resource for federal candidates and CPAs working in federal campaigns. For more information, write to: FEC Guide, AICPA, 1455 Pennsylvania Avenue, Washington, DC 20004-1081, or call 202/737-6600.

A new Auditing Procedure Study (APS), titled ***Consideration of the Internal Control Structure in a Computer Environment: A Case Study*** (No. 021055), has been published. The APS provides guidance in applying SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit,* for a client that has a relatively complex data processing environment. Guidance is presented in the form of an illustrative case study of a hypothetical audit client.

The case study focuses primarily on the aspects of the internal control structure that relate to the revenue cycle, with an emphasis on data processing. Price: $10.00. To order, write to: AICPA Order Department, CL392, P.O. Box 1003, New York, NY 10108-1003; send your order via fax, 212/575-6841; or call 800/334-6961, or 800/248-0445 in New York State.

Government Releases Its Program Audit Guide Survey

The President's Council on Integrity & Efficiency (PCIE) has released its ***Program Audit Guide Survey.*** The survey was conducted to determine the existence and status of program audit guides available from various federal government entities to help ensure that practitioners obtain the most current guidance. One free copy of the survey (PCIE stock number PCIE-06-064) can be obtained by writing to: Department of the Treasury, Office of Inspector General, Room 7210, ICC Building, 1201 Constitution Avenue, NW, Washington, DC 20220, or faxing a request to 202/927-5418.

Wrong Address on 1040-ES Envelopes

The wrong address is printed on IRS Form 1040-ES envelopes available from vendors or from the IRS's Aug. reproduction package, and these envelopes should not be used to send estimated tax payments, the IRS has said. The incorrect addresses are for IRS service centers and have zip codes in the following format: XXXXX- 0004. The envelopes mailed to taxpayers in the 1040-ES tax packages are correct, as are the addresses in the Form 1040-ES instructions. Plain envelopes with the correct address may also be used to submit the payments. IRS service centers will process any Apr. 1992 estimated tax payments they receive, but there may be a delay in processing.

Congress Increases Corporate Estimated Tax Payments Again

Congress has again increased the percentage of total corporate tax that must be paid in quarterly installments to avoid an underpayment penalty. The action by Congress on Feb. 4 accelerates the phase-in rule (*The CPA Letter,* Jan.-Feb.). For taxable years beginning in 1992, 93 percent of the total tax must be paid to avoid an underpayment penalty. Beginning in 1993, the percentage increases to 95 percent. Congress modified the phase-in rule to help fund a second bill extending unemployment compensation benefits.

IRS Issues Revised Reporting Requirements for Corporate Nondividend Distributions

Calendar-year entities are required to attach IRS Form 5452 (Corporate Report of Nondividend Distributions) and supporting data to the income tax return for the tax year in which the nondividend distribution is made under revised reporting requirements issued by the IRS. Corporations using a fiscal year must file Form 5452 and supporting data for each calendar year in which a nondividend distribution has been made, and must attach Form 5452 to the income tax return for the fiscal year ending after the calendar year of the distribution. The AICPA has worked with the IRS to recommend ways to improve compliance with filing Form 5452. For more information, see Announcement 92-1 in Internal Revenue Bulletin No. 1992-2, dated Jan. 13, 1992.

IRS Broadens Definition of "Cash" for Form 8300 Filings

The definition of "cash" has been broadened by the IRS for the purposes of filing IRS Form 8300, "Report of Cash Payments Over $10,000 Received in a Trade or Business." The new definition was effective Feb. 2. Form 8300 is due by the 15th day after the date of a transaction. Civil and criminal penalties, including up to five years imprisonment, are provided for failure or causing the failure to file a report. Clients who may be affected by this change should be notified immediately. For more information, see the *Federal Register,* Nov. 15, 1991.

NCUA Accepts Changes Proposed by AICPA

The National Credit Union Administration (NCUA) in Mar. 1991 proposed revisions to its regulations governing corporate credit unions. One NCUA proposal was that copies of the CPA's workpapers be available for review by the examiner. The AICPA recommended, instead, that the actual workpapers be available for review by the examiner. The NCUA also proposed that a "management letter" be submitted. The AICPA, in turn, suggested that copies of the audit report and reportable-conditions letter be submitted by the corporate credit union to NCUA. The NCUA accepted the Institute's changes.

IRS Issues Final and Proposed Estate Tax Rules

The IRS has issued final regulations under Chapter 14 of the Internal Revenue Code. The regulations provide special valuation rules and guidance on lapsing rights and other transactions that are treated as completed transfers under Chapter 14. The regulations are effective as of Jan. 28, 1992. The IRS also issued proposed regulations providing for an adjustment in computing the federal estate tax imposed on the transfer of interests to which the special valuation rules of section 2701 previously applied. Written comments and requests for a public hearing on the proposed rules must be received by May 4. For more information, see the *Federal Register,* Feb. 4.

The CPA Letter

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The CPA Letter

A News Report to Members

April 1992
Vol. 72 No. 3

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Many Tax Proposals Won't Help the Economy, CPAs Say

Members believe an investment tax credit on all equipment purchases and a 15-point capital gains preferential rate will spur growth

CPAs believe that many of the tax proposals Congress is considering (at press time) are not likely to stimulate economic growth, according to a recent AICPA tax-policy survey. Respondents stated, for example, that a $300 tax credit per child and a deduction for loss on the sale of a residence would not be effective in jolting the country out of recession.

However, an overwhelming majority of the AICPA members in public practice surveyed thought an investment tax credit on all equipment purchases (which received the highest rating) and a capital gains preferential tax rate of 15 points below top marginal rates (given the third-highest rating) would be most likely to stimulate economic growth. A non-tax proposal — reducing the federal budget deficit — received the second-highest rating.

Other recommendations that members rated as very effective included expanding deductible IRAs, allowing passive loss deductions from real estate investments for those actively engaged in such activity, and eliminating the double taxation on corporate dividends.

The survey also asked which of the proposals would have the greatest short-term impact. Again, the investment tax credit on equipment purchases ranked highest. A $5,000 tax credit for first-time home buyers tied for second with the 15-point preferential tax rate on capital gains.

Percentage of respondents citing each measure as effective or not effective

Effective at Stimulating Economic Growth

1. Investment tax credit on all equipment purchases	63%
2. Reducing the federal budget deficit	58%
3. Preferential rate on capital gains, 15 points below top marginal rates	56%
4. Expanding deductible IRAs	51%

Not Effective at Stimulating Economic Growth

1. A deduction for loss on sale of residence	30%
2. Indexing basis of capital assets	23%
3. A $300 tax credit for each child	20%
4. Preferential rate on capital gains, 5 points below top marginal rates	17%

March 11, 1992 *1,400 surveyed; 40% response rate*

Second Annual Tax Simplification Day Scheduled for April 16

"Blueprint" to determine a proposed tax law's complexity will be unveiled

A "Blueprint for Tax Simplification" will be the centerpiece for the second annual Tax Simplification Day on Apr. 16. Through application of a number of "indicators," the blueprint will serve as a guide in determining whether proposed legislation adds undue complexity to the tax code.

The blueprint will be unveiled at the AICPA's Tax Simplification Press Conference to be held at the National Press Club in Washington, D.C. Headlining the event will be Tax Division Executive Committee Chairman Leonard Podolin and Tax Simplification Committee Chairman Robert Brown.

Also, many state CPA societies will join in the Tax Simplification Day campaign with events of their own.

Tax Simplification Day is intended to reaffirm the AICPA's position as the leading proponent of simplification and to draw congressional and media attention to the need for tax reform. A recent resolution of the Institute's governing Council states that "the American Institute of Certified Public Accountants (AICPA) urges Congress and the administration to give the highest priority to tax simplification. The AICPA pledges to continue to work with Congress and the administration to simplify the tax law and to promote greater public awareness of the need for tax simplification."

► *Indiana Passes 150-Hour Education Requirement*

Indiana has become the 20th state to pass the 150-semester hour education requirement for future CPAs.

► *AICPA Insurance Companies Committee Will Address IASA Conference*

The AICPA Insurance Companies Committee will give a presentation at the annual Insurance Accounting & Systems Association (IASA) conference and business show on June 2 from 8:30 a.m. to 10:30 a.m. (Session 351). The conference site is the Loews Anatole Hotel in Dallas from May 31 to June 3. For registration materials, contact the IASA at 919/489–0991.

► *IRS Issues New Rules for Accounting Method Changes*

On Mar. 2 the IRS released Rev. Proc. 92-20, which significantly revises the general procedures for obtaining IRS consent to change a method of accounting. The IRS designed the new rules to give a "better deal" to taxpayers requesting a method change before receiving an audit notice than to taxpayers who wait to be contacted. The rules are effective for changes in method made after Mar. 23. Because the new rules are quite complex, the Tax Division plans to comment on them.

► *Disciplinary Actions*

Three members have been expelled from the AICPA under the automatic disciplinary provisions of the Institute's bylaws:

- Thomas C. Herrmann of Tulsa, Okla., on Oct. 8, 1991, following his conviction in a U.S. District Court on his plea of guilty of devising a scheme to defraud a federally insured financial institution and of making a false statement to a federally insured financial institution.
- Kevin A. Williams of Worthington, Ohio, on Nov. 25, 1991, following his conviction in a Huron County, Ohio, Court on his plea of guilty of grand theft and forgery.
- James W. Dougan of University Park, Pa., on Nov. 22, 1991, following the revocation of his CPA certificate by the Texas State Board of Public Accountancy as a disciplinary measure for not properly preparing audited financial statements of several clients.

► *AICPA Proposals Included in Tax Bill*

Provisions proposed by the AICPA to help relieve work load compression problems caused by the switch from fiscal to calendar years were included in the House and Senate versions of the tax bill recently passed by Congress. The Tax Reform Act of 1986 required most partnerships, S corporations and personal service corporations to adopt a calendar year-end for tax purposes. The AICPA's proposal would generally allow these entities to elect any fiscal year. Also, language changing the new personal estimated tax rules was in the House bill, as urged by the AICPA. At press time it appears likely that President Bush will veto the legislation because it includes a tax increase, but the Institute believes these provisions must be in the bill sent to the President because it will serve as a starting point for any future tax bill Congress may develop.

► *Report Published on Upward Mobility of Women, Family Issues in Accounting Profession*

A status report examining the accounting profession's progress in addressing the upward mobility of women and family issues in the workplace has been published by the AICPA Upward Mobility of Women (UMW) Committee. Numerous firms and companies were surveyed to determine the types and prevalence of specific programs to foster women's advancement to partnership or senior management, as well as to learn how family issues can be integrated effectively into the work environment. Issues such as child and elder care, flexible work schedules, gender-awareness workshops, female mentoring programs, and leaves of absence are explored.

The report also summarizes the new, proactive activities of the UMW Committee, such as development of a resource clearinghouse and improved state liaison efforts, and provides some guidelines on what employers can do to encourage women's advancement. For more information about the report, *How the Accounting Profession Is Addressing Upward Mobility of Women and Family Issues in the Workplace,* or to share information on an employer's programs to address family and women's issues, write to: John Daidone, Academic and Career Development Division, 1211 Avenue of the Americas, New York, NY 10036–8775.

► *SEC Seeks Deputy Chief Accountant, CPAs for Fellowship Program*

The SEC seeks a CPA to fill the position of Deputy Chief Accountant and serve as its principal adviser on accounting and auditing matters. Minimum annual salary: $90,000. For more information or an application, call Carol Smith of the SEC Human Resources Management Department in Washington, D.C., at 202/504–3386. *Application deadline is Apr. 10.*

The SEC's Division of Market Regulation seeks CPA applicants for professional accounting fellowships in its new Capital Markets Risk Assessment Program. The two-year term begins in July, and the application deadline is May 31. Salary range: $54,607–$83,502. For more information, call Michael Macchiaroli at 202/272–2904 or Lester Shapiro at 202/504–2421.

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Geoffrey L. Pickard
Vice-President—Communications

Ellen J. Goldstein
Editor

Report of the Nominations Committee

To: Members of the American Institute of Certified Public Accountants

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

Donald J. Schneeman, *Secretary*
March 5, 1992

The Nominations Committee hereby proposes the following nominees as Officers, Members of the Board of Directors, Members of Council-at-Large, elected Members of Council, Members of the Joint Trial Board, and Members of the Quality Review Executive Committee.

- ***Chairman and Vice Chairman of the Board:*** The Committee affirmed the nomination of Jake L. Netterville, *Louisiana*, as Chairman of the Board of the Institute for 1992–93 and nominated Dominic A. Tarantino, *New York*, as Vice Chairman of the Board for a like term.

Upon election, the candidates will serve in the positions indicated from the Annual Members Meeting in 1992 until the Annual Members Meeting in 1993 or until their successors shall be elected.

- ***Board of Directors:*** The Committee nominated the following for election as members of the Board of Directors:

For three-year terms ending in 1995:
Louis J. Barbich, *California*
Ellen J. Feaver, *Montana*
J. Curt Mingle, *Illinois*
A. Tom Nelson, *Utah*
Eric L. Schindler, *Washington*

For two-year terms ending in 1994:
Robert Mednick, *Illinois*
Thomas G. Jordan, *Michigan*

For one-year terms ending in 1993:
Charles E. Keller III, *Maryland*
Kenneth J. Hull, *Illinois*

- ***Council Members-at-Large:*** The Committee nominated the following as Council Members-at-Large for three-year terms ending in 1995:

Jerrell A. Atkinson, *New Mexico*
Robert L. Bunting, *Washington*
James T. Clarke, *District of Columbia*
Mary A. Finan, *New York*
Gary L. Holstrum, *Florida*
Leonard Podolin, *Illinois*
Joseph H. Todd, *North Carolina*

The Committee nominated the following as Council Members-at-Large to fill two vacancies for one-year terms ending in 1993:

Patricia B. Bissell, *Maryland*
Larzette Hale, *Utah*

- ***Elected Members of Council:*** After consideration of the recommendations submitted by the state societies of CPAs, in accordance with the provisions of Article VI, Section 6.1.5 of the bylaws, the Committee nominated the following 40 members from 27 jurisdictions as directly elected members of Council. Unless otherwise noted, upon election nominees will serve three-year terms commencing in the fall of 1992.

California — Dennis R. Brach
David A. Summers
Michael G. Ueltzen
Janice I. Vincent
Colorado — John R. Armour
Connecticut — Michael Weinshel
Delaware — Barry A. Crozier
District of Columbia — Margaret A. DeBoe
Florida — Robert R. Harris
Ramon A. Rodriguez
Georgia — John W. Cook
Idaho — Richard D. Maxey
Illinois — David L. Landsittel
Louisiana — Edward D. Conway
Maryland — Joseph T. Healy, Jr.
Massachusetts — Allen G. Katz
Michigan — Richard E. Rewalt
Minnesota — Reed A. Stigen
Mississippi — Philip M. Stevens
New Jersey — Douglas P. Stives
Z. Thaddeus Zawacki
New York — Steven C. Baum
Andrew J. Capelli
Richard D. Isserman
Anthony R. Pustorino
North Carolina — David Earl Williams
Ohio — Jerry L. Esselstein
Wayne C. Landes
Oklahoma — James E. Thielke
Oregon — Alan L. Steiger
Pennsylvania — David C. Kennaday
James H. Weber
Puerto Rico — Juan L. Martinez
Texas — Robert D. Clyde
Nita J. Dodson
Dan H. Hanke
Edward M. Polansky
Utah — Mark W. Stevens
Virginia — Robert J. Neuland
Wisconsin — Gary L. Berger

- ***Joint Trial Board:*** The Committee nominated the following members to serve on the Joint Trial Board for three-year terms ending in 1995:

Russell S. Bogue, Jr., *Florida*	Emmitte J. Haddox, *Mississippi*
George V. Curchin, *New Jersey*	Earl A. Jensen, *Colorado*
Ralph D. Dickson, *Ohio*	Rex S. Leforgee, *Idaho*
Harry F. Dodge, *Arkansas*	Bernard Mintz, *New York*
William J. Fisk, *Vermont*	Arthur H. Morrison, *Illinois*
Curtis L. Frazier, *Texas*	Larry F. Moseback, *Iowa*

- ***Quality Review Executive Committee:*** The Committee nominated the following members to fill three vacancies on the Quality Review Executive Committee for three-year terms ending in 1995:
  Howard H. Anderson, *Virginia*
  Ronald P. Foltz, *Montana*
  Christopher Rouse, *Georgia*

The Committee will nominate the Officers, Directors, Council Members-at-Large, Elected Members of Council, Members of the Joint Trial Board, and Members of the Quality Review Executive Committee at the Council Meeting, Friday, October 9, 1992, in Washington, D.C. No nominations from the floor will be recognized. However, independent nominations may be made by any 20 members of Council if filed with the Secretary by June 9, 1992, which is four months prior to the Annual Members Meeting of the Institute to be held in Washington, D.C., on October 10, 1992.

Pursuant to the bylaws, balloting for directly elected Council members in any state where vacancies shall arise will occur only if a contest for one or more seats develops as a result of submission of independent nominations to the Secretary by any 20 Institute members in the state at least four months prior to October 9, 1992. In the absence of any contest, all Council nominations will be declared elected by the Secretary and they will assume office at the Council meeting on October 9, 1992.

Respectfully submitted,

Nominations Committee

Thomas W. Rimerman, *California, Chairman*	Donald L. Neebes, *Ohio*
Mason L. Backus, *Texas*	David A. Nelson, *Minnesota*
Raymond L. Dever, *New York*	William J. Owen, Jr., *New Jersey*
Arthur S. Hoffman, *New York*	Joseph A. Puleo, *Connecticut*
William W. Holder, *California*	Stephen M. Walker, *New Mexico*
John R. Meinert, *Illinois*	

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SSARS, Statement on Responsibilities in PFP Practice Exposure Drafts Issued

The Accounting and Review Services Committee has issued an exposure draft (ED) of a proposed Statement on Standards for Accounting and Review Services (SSARS), ***Omnibus Statement on Standards for Accounting and Review Services – 1992*** (No. 800024), which amends various sections of SSARSs. Among the Statement's more significant provisions are:

- Revised wording of the SSARS review and compilation reports to help differentiate the SSARS review report from the review report presented in Statement on Auditing Standards (SAS) No. 36, *Review of Interim Financial Information.*
- A requirement that the accountant obtain a client representation letter when performing a review engagement.
- Deletion of the prohibition against merely typing or reproducing financial statements as an accommodation to a client.

Comments on the ED are due June 30. Price: First five copies are free; each additional copy costs $2.50.

The Personal Financial Planning (PFP) Division has issued an exposure draft on a proposed Statement on Responsibilities in Personal Financial Planning Practice, ***Basic PFP Engagement Functions and Responsibilities*** (No. 800025). The Statement presents the definition and scope of the PFP process, lists standards and guidance practitioners should follow, and discusses a CPA's responsibility in PFP engagements. Comments are due by May 31. Price: First five copies are free; each additional copy costs $2.50. The ED will be mailed automatically to each PFP Division member.

To order, write to: AICPA Order Department, CL492, P.O. Box 1003, New York, NY 10108–1003, or send your order via fax, 212/575–6841. Prices do not include shipping and handling.

SAS/SSARS Strategic Briefings Scheduled Nationwide

The Auditing Standards Division will offer nine one-day strategic briefings across the country to cover recently issued SASs and SSARSs. The briefings will also focus on proposed attestation guidance covering reporting on an entity's internal control structure over financial reporting.

The briefings will be led by members of the Auditing Standards Board and senior Auditing Standards Division staff who participated in the development of the standards. Registration: $150. Recommended CPE credit: 8 hours. For a copy of the brochure and additional information about the briefings, contact the AICPA at 800/242–7269; in NY call 212/575–5696.

Dates and cities:

May 27	Dallas, Tex. Charlotte, N.C.	June 1	Secaucus, N.J.
May 28	Washington, D.C.	June 3	Chicago, Ill.
May 29	Columbus, Ohio Denver, Colo.	June 5	Atlanta, Ga. Miami, Fla.

AICPA Offers CPE Seminars on Government, Nonprofit Issues

The AICPA offers 18 seminars and the Governmental Accounting and Auditing Certificate of Educational Achievement (GAA CEA) Program to help members understand the nuances of governmental and nonprofit accounting, auditing, and taxation. Participants will be kept abreast of all the latest regulations and applications with in-depth practical coverage on issues of importance.

The courses include such current topics as advanced government auditing and reporting issues, tax considerations in nonprofit organizations, communicating material noncompliance and material internal-control weaknesses, and the audit requirements of *OMB Circular A-133*. Members working for governmental or nonprofit agencies as well as members with such types of clients will benefit from these AICPA seminars. Additionally, Dec. 31 is a "Yellow Book" deadline for meeting the two-year CPE requirements.

To register for AICPA Government and Nonprofit Seminars and/or the GAA CEA Program, or to receive a brochure with all the course information and registration details, write to: Alan Coleman, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775, or call the CPE Course Information Hotline at 800/242–7269.

1992 National Management Consulting Services School Scheduled

The AICPA and Ohio State University will jointly sponsor the 1992 National MCS School. The intermediate-level program is designed to enable an accounting firm partner or professional staff member to enhance MCS skills and expand in this area. The program covers the new Statement on Standards for Consulting Services and professional ethics, the consulting process, MCS practice development and marketing, several important practice areas and skills — including litigation services, and case studies.

Dates and location: June 15–19, Ohio. Recommended CPE credit: 40 hours. For more information, call the program administrator, Jim Kinard, at 614/292–2328, or write to: Ohio State University, College of Business, MCS School, 1775 College Road, Columbus, OH 43210.

Proposal Requiring Electronic Filing of Call Reports Is Withdrawn

The Federal Financial Institutions Examination Council (FFIEC) has withdrawn its proposal to establish a timetable for the electronic filing of Reports of Condition and Income (Call Reports) by banks (*The CPA Letter,* Nov. 1991). After reviewing comment letters on the proposal, the FFIEC concluded that further study of the costs and benefits of submitting Call Reports electronically and of alternative approaches is warranted. Under the proposal, banks with $100 million or more in total assets would have been required to start sending their Call Reports electronically as of Mar. 31, with other banks required to start doing so over the following two years. For a copy of the letter (FIL-09-92) announcing the withdrawal of the proposal, write to: FDIC, Office of Corporate Communications, Washington, DC 20429.

Former AICPA Board Member Appointed As New Secretary of Commerce

Barbara Hackman Franklin, who served as a public member of the AICPA Board of Directors for eight years, chaired the Board's Audit Committee, and is currently a public member of the Auditing Standards Board Planning Committee, was confirmed on Feb. 27 by the Senate as the Secretary of Commerce. She was nominated for the post by President Bush in Dec. Franklin runs Franklin Associates Inc., a Washington, D.C., consulting firm.

Revised Bill Requiring Notification of Illegal Acts Is Introduced

Rep. Ron Wyden (D-Ore.) has introduced a revised version of a bill introduced last year (*The CPA Letter,* Sept. 1991) that would require, among other things, independent auditors of publicly held companies to report illegal acts to the SEC under certain circumstances. The AICPA opposes the bill as it was introduced primarily because it grants the SEC the authority to prescribe auditing methods and it does not provide adequate limitation on auditors' legal liability.

The bill, H.R. 4313, is co-sponsored by Reps. John Dingell (D-Mich.) and Ed Markey (D-Mass.), chairman of the House Energy and Commerce Committee and chairman of the Energy and Commerce Subcommittee on Telecommunications and Finance, respectively.

AICPA Urges HUD to Revise Its Consolidated Audit Guide to Provide Clearer Guidance

The AICPA has written the U.S. Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) urging that the *Consolidated Audit Guide for Audits of HUD Programs* (Oct. 1991) be revised as soon as possible to provide clearer guidance for independent auditors of the covered HUD-assisted programs (*The CPA Letter,* Nov. 1991 and Jan.-Feb. 1992). The AICPA pointed out to the HUD OIG that the guide may not achieve HUD's objectives inasmuch as it is likely there will be a lack of uniform implementation. The AICPA offered to work with the HUD OIG to ensure that HUD's objectives are met by appropriate guidance for auditors. The HUD OIG has not indicated whether the AICPA's request will be considered.

Supreme Court Agrees to Hear RICO Case Involving Accounting Firm

The U.S. Supreme Court has agreed to consider a case which focuses on the question of whether accountants and other professionals can be sued under the federal Racketeer Influenced and Corrupt Organizations (RICO) Act for fraudulent involvement with a client. At issue is whether the accountant's involvement, or level of participation, amounted to management or operation of the enterprise sufficiently to meet the requirement of the statute, 18 U.S.C. 1964(c), "...to conduct or participate, directly or indirectly, in the conduct of such enterprise's affairs...." Lower federal courts are split over the level of participation necessary to be liable under the civil RICO law. In *Reves vs. Arthur Young & Co.*, the district court dismissed the RICO suit on the grounds that the accounting firm had not taken sufficient part in the client's affairs to be held liable. The ruling was upheld by a U.S. Appeals Court. This case is important to the accounting profession because its outcome will demonstrate the law's recognition of the distinction between major participants and peripheral defendants.

The CPA Letter

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AICPA *"The Measure of Excellence"*

The CPA Letter

A News Report to Members

May 1992
Vol. 72 No. 4

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FASB Publishes Special Report on Accounting for Income Taxes

An interpretation and exposure drafts are also issued

The FASB has published a special report answering implementation questions about its recently issued Statement 109, *Accounting for Income Taxes* (*The CPA Letter,* Mar.). The report includes questions and answers still relevant from the report issued for the Statement's predecessor, Statement 96, but modified for the new Statement. Price: $10.

Also, the FASB has issued an interpretation on offsetting to clarify the circumstances under which amounts recognized for certain contracts (e.g., forwards, interest-rate swaps, options) may be offset against amounts recognized for other contracts and reported as a net amount on the balance sheet. It is effective for financial statements issued for periods beginning after Dec. 15, 1993. Price: $9.

For *A Guide to Implementation of Statement 109* or the interpretation, write to: FASB Order Department, P.O. Box 30816, Hartford, CT 06150. CT orders add 6 percent sales tax; call 203/847–0700, ext. 555, for discounts.

In other FASB actions, two exposure drafts (EDs) were issued. An ED on reinsurance amends Statement 60, and would require that reinsurance receivables and unearned premiums paid to a reinsurer be reported as assets. It also establishes the conditions required for a contract with a reinsurer to qualify for reinsurance accounting. Comments are due June 30.

An ED on guaranteed investment contracts (GICs) would require defined benefit pension plans to account at fair value for GICs issued by insurance companies or similar contracts issued by other entities, such as banks or thrifts. The proposal amends Statement 35, and comments are due June 18.

To order one free copy of either ED during its comment period, write to: FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

Technical Sections to Accept Non-CPA Section Associates May 1

All technical sections are open to non-CPAs

Non-CPAs employed by CPA firms and meeting other eligibility requirements (*The CPA Letter,* Dec. 1991) may now affiliate with the AICPA's technical sections. Section associates will be afforded the same technical-section benefits as CPA members.

Associates of the **Management Consulting Services** (MCS) section will receive practice aids, special reports and a quarterly newsletter. There is also a referral service to share information and expertise among section members. For details, call the division at 212/575–6290.

Section associates of **Information Technology** (IT) will be entitled to substantial discounts on software and hardware purchases from selected vendors, a quarterly newsletter, technology planning aids and other relevant publications, and demonstration copies of software. For more information, call Nancy Cohen at 212/575–5393.

Affiliation with the **Personal Financial Planning** (PFP) section provides a three-volume *PFP Manual* and other publications, a bimonthly newsletter, a public-awareness program, and legislative support. For more information, call the division at 800/966–PFP9.

The **Tax Division** section offers the annual *Tax Practice Guides and Checklists* package, other practice guides and publications, *The Tax Adviser* magazine, and the *Tax Division Newsletter.* Agendas and minutes of selected committees are available, and discounts for selected tax publications are also offered. For details, call William Stromsem at 202/737–6600.

The annual fees for section associates are $150 for MCS, $165 for IT, $180 for PFP, and $150 for Tax. Section associates will also receive subscriptions to the *Journal of Accountancy* and *The CPA Letter.* For applications, write to: AICPA Membership Administration, CL592, 1211 Avenue of the Americas, New York, NY 10036–8775; or call 212/575–6409, operator CL592. Affiliation will begin as soon as fees are received and expire on July 31, 1993.

► New AICPA Vice-President – Taxation Appointed

Gerald W. Padwe has been named Vice-President – Taxation, succeeding Donald H. Skadden when Skadden retires on July 1. Padwe is currently Associate National Tax Director – Professional and Practice and a member of the Washington National Tax Group of Deloitte & Touche.

Skadden became the AICPA's first Vice-President – Taxation in 1987. Under his leadership, the AICPA greatly improved its working relationships with the IRS and the tax-writing committees of Congress. Skadden also led the effort to organize AICPA members interested in tax matters into a new membership division of the Institute, and the Tax Division now has 24,000 members.

► AICPA Board Public Member Nominated

The AICPA Board of Directors has elected Paul Kolton, of Conn., to serve as a public member of the board. His term, which continues until Oct. 1993, takes effect immediately. The board action will be offered for confirmation by the AICPA's governing Council in May.

► Member Affinity Program Expands

The AICPA plans to expand its affinity program offering members significant savings on externally produced products and services. The first agreement is with Xerox Corporation. Xerox will provide members with a 15- to 20-percent discount on the sale or lease price of all its product lines (service contracts are not included). Members will be entitled to the discount over and above Xerox's periodic promotional discounts and equipment trade-in programs. Additionally, the affinity program does not preclude further price negotiations.

Members should contact their local Xerox representatives for sales information. For more information on affinity programs, write to: Jay L. Rothberg, VP, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775.

► Insurance Offerings for Members

The next entrance date for eligible AICPA members to begin or increase their Spouse Life Insurance is June 1. Up to $750,000 of term life insurance, plus an equal amount of accidental death and dismemberment coverage, is available. For more information, call the Plan Agent, Rollins Burdick Hunter (RBH), at 800/223–7473, ext. series 440.

The AICPA Personal Liability Umbrella Security Plan now has more than $24 billion of insurance in force. The plan's features include coverage amounts from $1 million to $5 million and economical group rates. Enrollment is open; members should contact RBH 60 days before coverage is to begin. Call RBH at 800/221–3021, ext. series 220.

► AICPA Video Courses to Train IRS Agents

The IRS will soon be using two of the AICPA's video training courses for the continuing professional education of its revenue agents around the country. Both video courses, *Current Tax Developments* and *Individual Tax Returns*, are moderated by noted practitioner, author and instructor Sid Kess, CPA. In addition, Kess interviewed experts from the IRS to provide its perspective in a video supplement to the AICPA courses. The IRS views the video courses as a significant opportunity to provide effective in-house training.

Kess also authors two highly rated AICPA-CPE seminars, *Corporate Income Tax Returns Workshop* and *Individual Income Tax Returns Workshop*, available through state CPA societies.

► SEC Accounting Fellows Named

The SEC's Office of the Chief Accountant has named Chris M. Holmes of Ernst & Young in Wash., D.C.; Randy J. Larson of KPMG Peat Marwick's New York National office; and Jeff A. Swormstedt of Deloitte & Touche in Cincinnati as professional accounting fellows for two-year terms beginning in June.

Public Meeting Notices

The **Accounting Standards Executive Committee** will meet May 12–14 from 9:00 a.m. to 5:00 p.m. each day at the AICPA New York office. For the agenda, call Ruth Jackson at 212/575–6369.

The **Professional Ethics Executive Committee** will meet on June 9 at the Royal Sonesta Hotel in New Orleans to consider adoption of interpretations and rulings relating to the Code of Professional Conduct. The agenda includes independence issues concerning family relationships, service as campaign treasurer, government oversight entities and component units, bank directorships, and prospective financial information. Other pronouncements relate to confidential client information and commissions and contingent fees. For more information, call the division at 212/575–3841.

The **Auditing Standards Board** will meet June 9–11 from 9:00 a.m. to 5:00 p.m. each day at the AICPA New York office. For information about the agenda, call the Auditing Standards Division at 212/575–3850.

The **Board of Examiners** will meet on June 18 from 3:30 to 5:00 p.m. at the Forum Hotel in Chicago to discuss the position paper, *A Nondisclosed Uniform CPA Examination*. For more information, call the Examinations Division at 212/575–3873.

The **Personal Financial Planning Executive Committee** will meet on June 25 from 9:00 a.m. to noon at the AICPA New York office to discuss three new projects (implementation, monitoring, and working with other professionals) for proposed *Statements on Responsibilities in Personal Financial Planning Practice*. For more information, call the division at 212/575–6588.

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Geoffrey L. Pickard
Vice-President—Communications

Ellen J. Goldstein
Editor

THE FINANCIAL MANAGER'S REPORT

A Quarterly Update for CPAs in Business & Industry ■ May 1992

"Internal Control — Integrated Framework": A Blueprint for Management

A special task force of the Members in Industry Executive Committee reviewed and commented on a draft of "Internal Control — Integrated Framework." The Feb. 1992 revised draft was issued by the Committee of Sponsoring Organizations of the Treadway Commission, which has undertaken a comprehensive study on internal control (*The CPA Letter*, Apr. 1991).

The draft's Executive Summary states: "This report deals with management's needs and different expectations. It defines and describes internal control to:

- Establish a common definition serving the needs of different parties.
- Provide a standard against which business and other entities — large or small, in the public or private sector, for profit or not — can assess their control systems and determine how to improve them."

The task force members agreed that the revised draft will make a major contribution to business management. Task force member David Summers describes the draft as one of the best works on "how to run a company" that he's ever come across. The Members in Industry Executive Committee has also recommended that the Institute cover the final report in its publications, CPE programs and other educational materials.

The revised draft defines internal control as: "A process, effected by an entity's board of directors, management and other personnel, which is designed to provide reasonable assurance regarding the achievement of objectives in one or more categories:

- Effectiveness and efficiency of operations — including performance and profitability goals, and safeguarding resources.
- Reliability of financial information — both internally and externally disseminated, including the prevention of fraudulent financial reporting.
- Compliance with applicable laws and regulations — federal, state and local, to which the entity is subject."

At a special "review session," industry representatives joined members of the Auditing Standards Board and the Technical Issues Committee of the Private Companies Practice Executive Committee in providing comments on the revised draft. The response of the special task force was also compiled and formally submitted to COSO. The task force had three areas of concern:

- Make a stronger point that estimates are an integral part of financial reports.
- Increase the emphasis on the benefits of having outside directors on an entity's board of directors.
- Include a discussion of how different cultural values affect how people view ethics. This is of particular significance to American businesses today because of the growth of a multicultural work force and globalized capital markets.

The final COSO report is expected to be available in July of this year.

Industry Members Nominated to AICPA Board of Directors

Prominent members in industry were proposed as nominees to serve on the AICPA Board of Directors for terms commencing in Oct. 1992 (*The CPA Letter*, Apr. 1992). Members in Industry Executive Committee Chairman Eric Schindler and former committee chairman Thomas Jordan would join Kenneth Hull, now serving on the board as a vice-president, and Brenda Acken, whose term as a director ends in 1993. The July-Aug. issue of *The Financial Manager's Report* will provide some insights into how these leaders see the profession and the industry member's role in it.

1992 World Congress of Accountants Approaching

Industry members interested in joining their colleagues at the XIV World Congress of Accountants (see article in this month's *CPA Letter*) in Washington, D.C., Oct. 11–14, should contact the AICPA Meetings & Travel Division at 212/575–6451 for details and registration information.

State Societies Continuing Focus on Industry Members

With members in industry comprising a growing portion of state society membership, many societies have stepped up efforts to develop programs and services to meet the concerns of this constituency. Following is a sampling of some of these initiatives.

Illinois

One of the most successful programs provided by the Illinois CPA Society (ICPAS) for industry members is the 14 Industry and Business Forum Groups. Some of these small (20–25 people), informal meetings are offshoots of committees (e.g., real estate, manufacturing, international business), while others have members who belong to the same state society chapter. To make these three-year-old roundtable discussions more personal, locations rotate among members' offices. Guest speakers often share their expertise. Attendees receive rosters and can network or call their peers for answers to difficult questions, resulting in a pooling of knowledge.

According to the society, the forums also provide two-way benefits by drawing in members who have no prior involvement with the ICPAS, while helping the society to identify potential new leaders.

North Dakota

The North Dakota Society of CPAs' Committee on Business, Industry and Government has recently proposed setting up a reference desk at the society office that would allow industry members to "tap into" other firms or refer members to persons knowledgeable in a specific area. "Coming from a CPA firm into industry, you lose contact with other CPAs," says David A. Anderson, committee chairman. "The reference desk will allow industry members to consult with other members of various backgrounds and expertise."

Minnesota

With approximately 30 members, Members in Industry (MII) is the largest committee of the Minnesota Society of CPAs. Industry members currently comprise slightly more than 50% of the society's membership. "Over the last several years there has been a growing ground swell of influence, awareness and activity among industry members," says MII Chairman Robert Reuss.

In addition to two one-day conferences (spring and fall) in Minneapolis/St. Paul, the MII Committee sponsors a three-day summer regional conference and a one-day conference outside of the Twin Cities area. A special subcommittee during the past year worked closely with the society leadership and the state board to institute a revised rule allowing CPAs in industry who do not maintain their licenses to publicly display their CPA certificates and put "CPA" on their business cards. The state board's previous rule did not permit such uses.

North Carolina

According to Henry Brown, former chairman of the North Carolina Association of CPAs' Members in Industry (MII) Committee, close contact and cooperation with the association's 12 chapters are among the committee's special projects and continuing activities. "The chapters seem to appreciate the visits of our committee," Brown says. "Word gets around that the MII leadership stays in touch and that has a positive effect over time." With approximately 30 members, MII meetings represent a good cross-section of the association's membership. The committee's goal is to have representation from every chapter in the state.

Two society projects that arose from MII studies are an electronic bulletin board and an employment clearinghouse. The committee is planning its first Management Information Systems trade show at the end of May; the bulk of CPE for industry CPAs currently is provided by the spring and fall MII conferences.

Virginia

According to Cindy Gray, the Virginia Society of CPAs' public relations director, the society now has two Industry and Government Committees: one to plan an annual conference and one to focus on recruitment, retention and other issues.

Because the industry group is so diverse, making it difficult to find out what members want, the society this year will conduct focus groups of industry members who have never joined or have resigned from the society. "We are using an outside consultant who specializes in focus groups to make certain we ask the right questions," Gray says. "We're hoping these focus groups will give the society an idea of the industry members' thinking so that we can better serve them."

These are some of the ways the state societies are trying to meet the needs of members in industry. For information on the efforts in your state, please contact your state society or Tom Lemmon, AICPA, technical manager, Industry, at 212/575-6439.

Sources of Help in Developing an International Market

Many U.S. companies are unaware of their international market opportunities. There are millions of dollars worth of business for companies willing to take the time and effort to pursue business outside the United States.

Bonnie Wolfe, president of New Venture Development Corporation, a Washington, DC-based consulting firm, and a speaker at the 1992 National Industry Conference, cautions that to begin developing an international market, it is necessary to research the use of your product or service abroad and identify potential users.

Wolfe lists six prime sources of information for businesses intent on competing with the multinationals on foreign shores.

1. Bureau of the Census, U.S. Department of Commerce

The Census Bureau publishes export statistics which indicate where specific products are being exported by quantity and country. By analyzing statistical data from recent years, you can identify trends which indicate whether a foreign country seems to have an increasing or decreasing need for the type of product you produce. Census Bureau reports are available at most public libraries.

Tools for the Industry CPA

Selected Readings for Financial Executives is a new self-study CPE course based on articles reprinted from major business and academic journals. *Selected Readings* contains 48 articles ranging in topic from "The Foolproof Interviewer's Guide" to "A Guide for Understanding Japanese Corporate Finance."

The course will be available in early July. For a complete list of the articles included or more information about *Selected Readings*, call Tom Lemmon, AICPA, Industry, at 212/575–6439.

Holding Down Health Care Costs: A Guide for the Financial Executive (No. 090050) is proving to be popular among members in industry. The book describes the nature and extent of the health care crisis and offers strategies for minimizing an organization's health care costs. Price: $12.50.

To order this publication, write to: AICPA Order Department, CL592, P.O. Box 1003, New York, NY 10108–1003; send your order via fax, 212/575–6841; or call 800/334–6961, or 800/248–0445 in New York State. Ask for Operator CL592.

2. Country and Industry Desks, U.S. Department of Commerce

Country Desks produce specific data for various countries on economic and market trends. Industry Desks produce data on the areas of the world where demand for certain products is growing or declining. Contact the Department of Commerce office in your state.

3. Foreign Agriculture Service, U.S. Department of Agriculture; (202) 720–7937

The Foreign Agriculture Service (FAS) produces market profiles for high-value agricultural products which are country specific and cover about 40 overseas markets. FAS also publishes a Dictionary of International Trade that defines the most commonly used terms.

4. U.S. Embassies

Economic/Commercial Officers in U.S. Embassies offer a wealth of information on specific country cultures, economics, methods of doing business and other valuable data. They can provide such useful information as a list of potential distributors and local freight forwarders, and arrange introductions to appropriate firms, individuals or foreign government officials.

5. World Trade Centers

A world trade center is the focal point of foreign trade activities for a city or region. Centers offer a wide variety of services, including educational facilities providing expert instruction on international business; information services, providing reports on world markets, government regulations and tariffs; and exhibit facilities, where tenants and visiting business people can show their goods and make contact with buyers.

6. U.S. Chambers of Commerce Overseas

The United States has many Chambers of Commerce located throughout the world. When initially considering a list of countries for export, the Chambers can provide specific information about a country vis-a-vis your product.

According to Wolfe, proper research is essential to narrow down the list of potential countries with which an American firm can conceivably do business. "There are many examples of small and medium-sized U.S.-based firms that have tapped into foreign markets in ways that they hadn't dreamed possible," says Wolfe. Perhaps your business might be in a position to take the international plunge.

Strengthening the Less Effective Employee

Every organization has a bottom half, those in the lower 50% in performance and productivity. These individuals are not necessarily the least talented employees. They may in fact have the most potential for making a significant contribution to an organization. The problem is tapping into that potential in a way that benefits both employer and employee.

With proper motivation you can raise the level of performance of your bottom-half employees. Lonnie Barone, a management consultant in Doylestown, Pa., believes that there are six (and only six) possible causes of less-than-great performance. Employers who can determine the cause of consistent poor performance from among six deceptively simple problems have taken the first step towards elevating the productivity of bottom-half employees.

According to Barone, a speaker at the 1992 National Industry Conference, the cure for less effective performance is good, active management. "Before seeking a cure for poor performance, managers should seek the reason by exploring each of these six causes in the sequence listed. You must diagnose what's wrong in each individual case and then apply the cure, that is, the action that will improve performance."

The six causes of substandard performance and their related curative actions are:

Cause: Employee does not understand what is expected.
Cure: Set smart objectives.

Cause: Employee does not know how he or she is doing.
Cure: Give ongoing feedback on performance.

Cause: Employee does not have the time, tools or other resources to succeed.
Cure: Get the employee what he/she needs to do the job (within your budgetary limitations).

Cause: Employee does not have the knowledge or skills necessary.
Cure: Train the employee to do the job at hand.

Cause: Employee does not receive appropriate rewards or sanctions.
Cure: Adjust rewards or sanctions to fit employee performance.

Cause: Employee finds task/job unsatisfying.
Cure: The only one where a change of jobs may be appropriate.

Think about the underachieving employees at your organization and how you might diagnose the cause — and take action.

Speaking With Confidence

One of the greatest fears of many business people is that they may be asked to give a presentation at an important meeting for which there is little or no opportunity to prepare. Being called upon to speak at the 11th hour can cause speakers to stumble, ramble in a disorganized fashion, or totally blank out. According to Linda Jerris, a consultant and former director of human resources at a national hotel chain, an easy and effective way to deliver impromptu talks is to limit your focus. Simply ask, and then answer, three questions — any three — about the topic you have been given.

Jerris suggests a structure to follow when you find yourself in such a situation. "First, state or restate the topic. Then, ask three questions about the subject. If you think quickly, you ought to be able to identify three things about which you have knowledge and about which others in the room may not be aware. After all, you're the one being called upon to respond. Answer the questions, and then summarize by restating the main points of the topic."

If you have a little more time to prepare for a talk, Jerris, a speaker at the 1992 National Industry Conference, suggests that you ask yourself four questions:

1. What is the specific purpose of my talk?

Example: The purpose of my talk is to discuss the preliminary review of our division's monthly financial results with line managers.

2. What is the key idea I want my listeners to understand, believe and remember?

Example: I want my listeners, the operations managers, to understand what the numbers mean and how they were compiled.

3. What points can I create to drive home the central idea?

Example: Explain which key variances stand out and will be viewed as important by top management.

4. What evidence (statistics, quotations, etc.) do I need to explain or emphasize my point?

Example: Trace some transaction they understand from an operating standpoint and show them how that number is reflected in the financials.

Putting these tips into practice can help you to be a more effective member of your organization's management team.

AICPA "The Measure of Excellence"
American Institute of Certified Public Accountants
FYI
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Recruiting Update

AICPA Originates New Marketing Plan

The AICPA Accounting Careers Subcommittee is in the process of selecting a positioning statement which will attract high-quality high school and college students to the accounting profession.

Several months ago, the AICPA contracted with Decision Research of Lexington, Massachusetts, to develop a positioning statement. The firm submitted several proposals which were reviewed by the subcommittee. Subsequently, the proposed positioning statements were exposed to student focus groups in Kansas City and Atlanta. The subcommittee hopes to decide on a positioning statement by early May.

The positioning statement represents the first logical step in the marketing plan process which began in the fall of 1990. As reported in the September 1991 issue of FYI, the AICPA contracted the Gallup Organization of Princeton, New Jersey, to survey 1,000 high school and 1,000 college students on their perceptions of and interest in the accounting profession, as well as on how and when college and career decisions are made.

Gallup completed its study and submitted its findings to the AICPA in the spring of 1991. The AICPA subsequently contracted a consulting firm, Tom Yaegel & Associates of Richboro, Pennsylvania, to develop a profession-wide marketing plan for recruiting students into the accounting profession. Among other items, the plan

(continued on page 2)

TEACHING THE PRINCIPLES COURSE: A SPECIAL CHALLENGE FOR SENIOR FACULTY

by Belverd E. Needles, Jr. (Arthur Andersen & Co. Alumni Distinguished Professor of Accounting, DePaul University) and Henry R. Anderson (Professor of Accounting and Cost Management, University of Central Florida)

The effective teaching of principles of accounting requires both talent and dedication. Although gifted individuals can be found anywhere in the ranks, the most experienced and talented teachers are usually assigned to upper division and graduate classes. Principles of accounting classes are often taught by part-time instructors, new Ph.D.s, or graduate students who, though dedicated, may not be the most appropriate teachers for the principles course. Because the first priority of part-time teachers has to be their full-time jobs, they may have difficulty developing innovative teaching techniques and maintaining regular contact with students. New Ph.D.s must put their research efforts ahead of teaching in order to gain tenure, and graduate students need to regard themselves as students first and teachers second. Moreover, new Ph.D.s and graduate students often do not have the experience necessary to undertake advanced teaching techniques. This leaves talented senior faculty members as the most logical choice to teach the principles classes. They alone have the experience and can put teaching as their top priority. But why should senior faculty members agree

(continued on page 2)

Report on the Upward Mobility of Women

In early April, the AICPA issued a report entitled *How the Accounting Profession Is Addressing the Upward Mobility of Women and Family Issues in the Workplace*, citing studies which illustrate how few women are in positions of power and the realities that inhibit their upward mobility. Nonetheless, some employers have taken steps to effect changes, and significant progress in helping employees balance work and family concerns is evident.

The report concludes with an overview of the activities of the Upward Mobility of Women Committee, and guidelines on ways to address these concerns positively. To obtain a copy, write to John Daidone at the AICPA Academic and Career Development Division, 1211 Avenue of the Americas, New York, NY 10036. ◆

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Marketing Plan *(continued from page 1)*

recommended the development of a positioning statement which would portray the positive aspects of accounting to various target markets (e.g., students, parents, career changers). All future projects would reflect the positioning statement.

Additional possible projects include a new video for high school and college audiences, an accounting careers guide, and an "800" number for accounting career information. An advisory panel composed of representatives from state CPA societies, CPA firms, industry, and education was recently appointed to provide input on various projects identified in the plan, beginning with the positioning statement.

Other recruiting-related projects of the Division include *Accounting Careers,* a newsletter geared to college students published three times each academic year. The 1992 Supply and Demand report will be available in mid-May. Finally, the AICPA has undertaken a joint effort with Junior Achievement (JA) on several activities, including guidelines for CPAS who participate in JA's "Project Business" program for middle school students, expected to be available this fall. ❖

New AICPA InfoTech Section

As a member in education, you can join the new AICPA Information Technology section. Membership offers a variety of benefits, including opportunities to learn how computer users in firms and other organizations apply new technologies in practice, advance (demo) copies of new accounting software to enable you to evaluate its usefulness in your curricula, and a quarterly newsletter designed to keep you abreast of the latest technologies in accounting. In addition, Section members may purchase hardware and software, including many products that might not be available through your school's purchasing programs, at special discount prices. For more information, call Nancy Cohen, AICPA Information Technology Section, (212) 575-5393.

Principles Course *(continued from page 1)*

members agree to teach the principles course when they can usually pick and choose any course they want?

Like many young professors, we were absorbed by the extent of our knowledge of accounting, when we began teaching more than 20 years ago. Our desire was to teach upper level and graduate courses in order to work with more advanced students and center on our specialized areas. As our teaching skills matured, however, we came to realize that every class, no matter the level, holds special and intriguing challenges. Although at the upper level we now teach auditing and management accounting, respectively, we have found that the principles of accounting course presents challenges that make it a very desirable teaching assignment. The following paragraphs will describe these challenges.

DIVERSITY OF STUDENTS

Whether the enrollment policy is open or restricted, principles of accounting classes are made up of a diverse group of individuals. They differ in age, maturity, educational background, career orientation, academic ability, desire to learn, and awareness of business concepts and values. Students in upper-level accounting courses, by contrast, tend to be more homogeneous, if only because as accounting majors they have gone through a filtering process that usually ensures similarity in their educational backgrounds, levels of ability, and reasons for taking the course.

Belverd E. Needles, Jr.

Henry R. Anderson

The diversity found in a principles of accounting course makes it necessary for the teacher to present the subject matter in ways that will arouse the interest of all the students. Instead of trying to use different approaches to reach different sets of people, the teacher must pull information from the students about their backgrounds and goals and devise teaching methods that allow them to learn from each other. While making sure that the essential areas of accounting are covered, the teacher should also stress the impact of accounting information on other business disciplines. The key to dealing with such a diverse audience is to create an atmosphere of excitement and challenge in which all students recognize that their needs are being addressed.

MOTIVATION OF STUDENTS

In the principles of accounting course, motivating students to want to learn accounting is a major challenge for the teacher. Junior and senior accounting majors know the importance of developing high grade-point averages and of obtaining recommendations from senior professors. Moreover, their upper-division courses are more relevant to preparation for the CPA and CMA examinations. Because of their commitment to these goals, upper-division students will try hard to learn the material even if a class is taught in a lackluster manner.

The typical principles-level student, on the other hand, is a non-accounting major who is taking the class because it is a required business core course. Most principles students have not formed career goals or chosen majors; this course is most likely their first exposure to the business curriculum. They may even

(continued on page 4)

Annual Meeting Report

AACSB Focuses on New Challenges

The American Assembly of Collegiate Schools of Business held its annual meeting in Washington in mid-April. The meeting reflected a set of mixed feelings by members of the Assembly, who feel that they are poised at the beginning of a new era in business education in the United States.

Most Assembly members feel substantial pride in the new accreditation and visitation process, which will begin to be seen in the accreditation of schools under the "mission-based" approach within the next year or so. In addition, "candidacy status" will be put into effect, creating a new tier of participation for schools which aspire to accreditation but have not yet reached the point of being able to file a self-study or be visited for final approval.

Tempering this positive feeling, however, is growing concern as schools begin to recognize that the "boom time" for business schools is clearly ended, and that business education will develop in a new environment in the future.

The definition of this new environment will be made very clear in two new documents which will be issued by the AACSB in the near future. The first of these is a strategic plan for the Assembly which has been in the works for many months and which contains a new mission statement. The new strategic plan will be distributed within the next few months.

The second document is a study commissioned by the AACSB, which will be published as a book entitled *After the Boom: Management Majors in the 1990s* (McGraw-Hill/Primis; $25.00). Prepared by Kenneth Green of the University of Southern California, the report draws on the fall 1991 survey of U.S. college freshmen by the Cooperative Institutional Research Program (CIRP).

The key point in the book is a dramatic decline in interest among freshmen majoring in business — dropping from some 25% to 18% over the past four years. Specifics about accounting will be detailed in the book, which addresses a wide range of issues, including curriculum design and development, recruitment and admissions, student values, intellectual and social development, and student retention. "The report identifies areas such as academic and leadership skills where business schools can enhance their programs to better serve their students," said Green, commenting on the report.

Copies of the report, which will be issued in June, can be ordered directly from McGraw-Hill.

The AACSB also extended new accreditation to four accounting programs and reaffirmed that of six others:

Schools with Newly Accredited Accounting Programs

University of Northern Colorado (Type A)
Illinois State University (Types A&C)
Southwest Missouri State University (Types A&C)
Brigham Young University (Types A&C)

Schools Whose Accounting Programs' Accreditation Was Reaffirmed

University of North Carolina–Charlotte
Cleveland State University
Florida International University
University of Mississippi
University of Tennessee–Knoxville
University of Houston–Clear Lake

This brings to 97 the total number of schools with accredited accounting programs. ❖

INNOVATIONS IN ACCOUNTING PEDAGOGY

This workshop-based conference will focus on the **use of cases** (Richard Brownlee, *University of Virginia),* with a particular emphasis on the **group method** (Larry Michaelson, *University of Oklahoma).* A special session will concentrate on **developing writing skills** among accounting students (Claire May, *University of South Alabama),* and **hands-on exhibit/workshops** will enable participants to review books and computer-based educational tools and practice their use (Bob Jensen, *Trinity University;* Joel Levy, *Goldstein Golub Kessler & Co., PC).* **Winners of the 1992 Professor/Practitioner Case Development Program** will present their cases in concurrent sessions.

The conference will be hosted by the School of Accountancy at Arizona State University.

For more information and a complete brochure, call the AICPA at (212) 575-8687.

The 1992 AICPA Accounting Educators Mini-Conference
November 6 – 7, 1992; The Buttes Resort, Phoenix, Arizona

REGISTRATION FORM

Mail to: AICPA Meetings Registration, PO Box 1008, New York, NY 10108-1008.

Reg. Fee: $180 (AICPA MEMBERS); $195 (NON-MEMBERS). **CPE:** 15 hours.

Please register me for the 1992 AICPA Accounting Educators Mini-Conference. My check for $______ is enclosed. (Full payment must accompany registration.)

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AICPA Membership Number for Discounted Registration *A/C & Daytime Telephone*

Name and telephone number of individual to contact in case of emergency

HOTEL INFORMATION: Reserve your hotel accommodations directly. Call THE BUTTES RESORT at (602) 225-9000, or write to them at 2000 Westcourt Way, Tempe, AZ 85282 by October 15, 1992. After October 15, rooms will be on a space-available basis only. Identify yourself as an attendee of the AICPA Accounting Educators Mini-Conference in order to obtain our group rate of $125 for a single or double room. To guarantee your room for late arrival, a credit card number or first night's deposit is required.

CANCELLATION POLICY: Full refunds will be issued on written cancellations received by October 16, 1992. Written cancellations received after October 16 but before October 30, 1992, will be issued a refund less a $25 administrative charge. No refunds will be issued on cancellation requests received after October 30, 1992.

AIRLINE DISCOUNT: Due to current and ongoing changes in airline fare structures, at present we cannot arrange for a specific airline discount. As soon as we can make appropriate arrangements, all registrants will be notified.

Principles Course *(continued from page 2)*

dread taking the course. For these reasons, the principles course must develop the students' knowledge of both business and accounting, thus preparing a foundation upon which upper-division business courses can build. The principles course must feature modern computer applications, class discussions, videotapes of business in action, field trips, business decision cases, and many other experiences that build analytical skills. The teacher's goal should be to provide an exciting, continuously changing, fast-moving learning experience that makes accounting come alive so that it is more than just another hurdle to overcome.

KNOWLEDGE AND SKILLS LEVELS

Because advanced accounting students have had the advantage of several years of study in general education, business, and accounting, it is possible to draw on a wider assortment of case materials and readings in upper-level courses with the confidence that the students will respond to it. In the principles course, however, an entire vocabulary of concepts and techniques must be developed. The basic vocabulary for accounting students has been enlarged in recent years, taking in the areas of ethics, international accounting, accounting for non-business entities, time value of money, computer spreadsheet analysis, new management philosophies such as Just-in-Time and Total Quality Management, and communication skills. It is important to begin teaching this vocabulary at the principles level because it cannot be learned and reinforced in a single course or year at the upper levels. Therefore, the principles teacher must devise methods and materials that will provide this basic knowledge while also developing the skills that students will need to use in upper-level courses. In order to maintain the students' interests, the professor must design creative instructional methods, including communication activities, group projects, cases, and other advanced learning techniques that are tailored to the needs and abilities of a particular class. The teacher should show care in balancing the knowledge component with the skills development component in order to achieve a multiple set of objectives.

THE OPPORTUNITY TO MAKE A DIFFERENCE

Student diversity, motivation, and knowledge and skills levels present daunting challenges for the principles teacher. It takes an experienced, talented teacher to turn them into a positive learning experience. The personal rewards of doing so are great. As senior accounting faculty, we have both experienced inspiration by working with students at the advanced and principles levels. Seeing an accounting major perform well in class, pass a professional examination, and become a contributing member of a firm or company is a most satisfying part of being an accounting professor. At the principles level, the same degree of satisfaction can be achieved. The teacher's effort results in increased student maturity and confidence, enhanced knowledge of business and accounting, improved skills, and an appreciation of the role of accounting in society. The principles course is the point at which the senior faculty member can perhaps have the greatest impact on students' commitment to careers. Even though upper-level accounting majors face choices between public versus private accounting and industry versus government, and the like, their fundamental commitment to accounting has been formed earlier, usually in the principles course. Thus, the final special challenge in teaching the principles course is to present a fair, balanced, and realistic picture of accounting careers in a way that will attract students who will do well in accounting. ❖

Needles Named 1992 AICPA Outstanding Accounting Educator

Dr. Belverd E. Needles, Jr., of DePaul University, is the recipient of the AICPA's 1992 Outstanding Accounting Educator Award.

He served as director of DePaul's School of Accountancy for eight years. Needles is well-known for his widely used textbooks, and is a prolific researcher. Chair of the Careers/Recruitment Executive Committee and the 150-Hour Implementation Task Force of the Illinois State Society of CPAs, Needles is also a member of the AICPA's Academic and Career Development Executive Committee.

The award, a plaque and a check for $5,000, will be presented at the AICPA Council's spring meeting. ❖

AICPA Updates Illustrative Curriculum

With accounting curricula undergoing intensive reexamination, the AICPA's Academic and Career Development Executive Committee decided to issue *Academic Preparation to Become a Certified Public Accountant*. Intended to serve as a guide to curriculum planners, the document describes an illustrative 150-semester-hour program for the educational preparation of a beginning CPA. The updated program recognizes that the profession's body of knowledge and requisite skills have continued to evolve since the publication of *Horizons for a Profession* in 1967. The revision also puts increased emphasis on the imporance of academically preparing CPAs to operate in a global economy and to understand the principles of total quality management.

The document, which also includes the AICPA's statements of policy pertaining to pre-licensing education for CPAs, will be available in early summer and will be widely distributed. ❖

Published five times each academic year by the AICPA Academic and Career Development Division, 1211 Avenue of the Americas, New York, NY 10036-8775; telephone (212) 575-6358. Except where otherwise copyrighted, reproduction of the material in this publication is encouraged and permitted if source acknowledgement is made and a copy of the reproduction is sent to the editor. In addition, we welcome submissions for consideration for publication. Please send all submissions and inquiries to the editor at the address above. Opinions expressed in this publication do not necessarily reflect policy of the American Institute of Certified Public Accountants.
Stephen J. Anspacher, *Editor*

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Two SOPs, Two Exposure Drafts, and SAS No. 70 Issued

The Accounting Standards Executive Committee has issued Statement of Position (SOP) 92-3, ***Accounting for Foreclosed Assets*** (No. 014855). The SOP provides guidance on determining the carrying amount of foreclosed assets after foreclosure and should be applied to foreclosed assets in annual financial statements for periods ending on or after Dec. 15, 1992. Under Statement on Auditing Standards (SAS) No. 69, members will be required to follow the guidance in this SOP or be prepared to justify a conclusion that a different accounting treatment better presents the substance of the relevant transaction or event in the circumstances. Price: $5.

The Auditing Standards Division has issued SOP 92-4, ***Auditing Insurance Entities' Loss Reserves*** (No. 014866), which supplements the AICPA Audit and Accounting Guide, *Audits of Property and Liability Insurance Companies*. The SOP provides guidance on developing an effective approach when auditing the liability for loss reserves on the financial statements of property and liability insurance entities. Price: $5.

The AICPA's Credit Unions Committee has issued an exposure draft of a revised audit and accounting guide, ***Audits of Credit Unions*** (No. 800023). The comment deadline is June 18. Price: First five copies are free; each additional copy costs $2.50.

The Auditing Standards Board has issued an exposure draft of a proposed Statement on Standards for Attestation Engagements (SSAE), ***Reporting on an Entity's Internal Control Structure Over Financial Reporting*** (No. 800021). The proposed SSAE would supersede SAS No. 30, *Reporting on Internal Accounting Control,* and provide guidance for examining and reporting on management's written assertion about the effectiveness of an entity's internal control structure over financial reporting. Comments are due on Aug. 14. Price: First five copies are free; each additional copy costs $2.50.

The Auditing Standards Board also issued SAS No. 70, ***Reports on the Processing of Transactions by User Organizations*** (No. 060441). SAS No. 70 supersedes SAS No. 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*. The revised SAS incorporates the audit risk model as well as the terminology and concepts of SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*. It provides guidance to practitioners engaged to audit the financial statements of an entity that uses a service organization in connection with the processing of transactions. It also provides guidance to auditors who issue reports for use by other auditors on procedures performed at service organizations. Price: $5. SAS No. 70 is scheduled to be published in the July issue of the *Journal of Accountancy*.

The Tax Division has issued a 49-page ***Bankruptcy Tax Practice Reference Guide*** (No. 061054) to assist practitioners in dealing with the problems that arise from an entity's bankruptcy proceeding. The guide includes references to certain aspects of related nonbankruptcy debt restructurings, workouts and reorganizations. It has been mailed gratis to Tax Division members. Price: $10.

A new brochure, ***Business Succession: Planning for a Change in Ownership*** (No. 338694), can help members market their services to business owners. The brochure stresses the importance of having a business succession plan to ensure the financial security of an owner's retirement as well as the continued success of the operation. Space is provided for firms to imprint their names on the back panel. Price: $17 per 100 copies.

The ***Accounting Profession in Taiwan, Republic of China*** (No. 010130) and the revised ***Accounting Profession in Mexico*** (No. 010107) and ***Accounting Profession in Belgium*** (No. 010131) books describe accounting and auditing standards in those countries and compare them with those generally accepted in the United States. Price: $27.50 each.

A new computer-based product, ***Diagnostic Review Checklists for Maximizing Client Profits*** (No. 055010), provides information that can help practitioners identify opportunities to improve a client company's operation and permits practitioners to manipulate hundreds of diagnostic questions covering a client's organization, management goals, capital, marketing, products and services, production, human resources, and management information system. Users can customize the checklists to fit a wide range of client situations. The product is presented on two 5¼ inch, high-density floppy disks and runs through WordPerfect 5.1 software. Price: $40.

To order AICPA products, write to: AICPA Order Department, CL592, P.O. Box 1003, New York, NY 10108–1003; order via fax, 212/575–6841; or call 800/334–6961, or 800/248–0445 in New York State. Ask for Operator CL592. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Time. Orders for exposure drafts must be written or faxed. Prices do not include shipping and handling.

Key Industry Executives to Speak at World Congress of Accountants

The XIV World Congress of Accountants' theme, "The Accountant's Role in a Global Economy," has attracted industry executives from around the world as speakers, including:

Pehr G. Gyllenhammar, *AB Volvo*
Enrique Iglesias, *Inter-American Development Bank*
Anders Ljungh, *European Bank for Reconstruction & Development*
Stanley R. Pylipow, *Fisher Controls International*
Patrick Wolff, *BP*
Jim Rigby, *Hewlett-Packard*
Clark H. Johnson, *Johnson & Johnson*
John Flaherty, *PepsiCo Inc.*
Kimimasa Tarumizu, *Asian Development Bank*
Graeme McGregor, *BHP Steel*
Hilmar Kopper, *Deutsche Bank AG*
Hugh R. Collum, *SmithKline Beecham*

For a complete program and registration materials, write to: AICPA Meetings & Travel Division, 1211 Avenue of the Americas, New York, NY 10036–8775; or call 212/575–6451.

AICPA Testifies in Support of Uniform Accounting Standards for Federal Agencies

The Federal Accounting Standards Advisory Board recently heard testimony on its first exposure draft, *Financial Resources, Funded Liabilities, and Net Financial Resources of Federal Entities,* from the AICPA and others. The AICPA's statement emphasized the need for consistent accounting and reporting for similar operations and transactions at all levels of government. The AICPA said the standards established by the Advisory Board should be consistent with generally accepted accounting principles established by the FASB and the GASB, unless the transactions or events are truly unique to the federal government. In addition, the AICPA urged that all liabilities, funded and unfunded, be presented in the financial statements, so that a complete picture of the federal government's financial position is provided.

AICPA Writes U.S. Trade Representative on GATT

The AICPA wrote U.S. Trade Representative Carla A. Hills to urge that specific commitments regarding accountancy be included in the General Agreement on Tariffs and Trade (GATT) Uruguay Round General Agreement on Trade in Services. The AICPA said the agreement should remove discriminatory barriers to trade in accountancy services, promote mutual recognition of professional qualifications, and encourage the development and use of international accounting standards. The Mar. 10 letter, signed by AICPA President Philip B. Chenok, suggested that an annex to the services agreement is the best way to ensure that these objectives are met.

Iowa Taxes Consulting Services; Legislation Pending Elsewhere Too

A new law in Iowa imposes a sales tax on consulting services, including many performed by CPAs. The Iowa Department of Revenue's position is that consulting services not requiring a state license will be subject to the tax.

The law, which took effect on Apr. 1, specifically excludes certain types of state-licensed professional consultants and taxes the remaining businesses providing consulting services for a fee. Taxable consulting services are those in which a person or firm charges individuals, private nonprofit organizations, or public organizations for expert or professional advice in areas including, but not limited to, business; computers and data processing; financial planning and budgeting; human resources policies and practices planning; information systems planning, evaluation and selection; insurance; management; marketing; production scheduling and control planning; and strategic or organization planning.

Sales tax legislation has been initiated in other states as well. In Rhode Island, legislation imposing a sales tax on tax preparation services, as well as computer programming and data preparation and processing services, has been introduced. No other accounting services have yet been included.

Legislation in Tennessee was recently passed that will impose an annual $200 professional fee on CPAs and other professionals licensed in the state. Some perceived this legislation to be in lieu of a general service tax.

In Wash., D.C., a 2-percent gross receipts licensing fee on a variety of professions, including accounting, was introduced as part of the Mayor's budget plan. The plan was rejected by the City Council because of opposition. The Council's compromise plan includes an increase in annual licensing fees.

PWBA Reporting Compliance Program Implemented

The Department of Labor's Pension and Welfare Benefits Administration (PWBA) has implemented a reporting compliance program to identify and penalize plan administrators who either file their reports (Form 5500 series) late or not at all. The penalty to be assessed against *late filers* will be $50 a day per plan for the period for which they failed to file for those voluntarily filing annual reports for the 1988 and subsequent reporting years after the due date, with extensions. *Non-filers* will be assessed $300 a day per plan up to $30,000 per year per plan until a filing is submitted.

During a *one-time only* grace period which ends on Sept. 30, plan administrators who voluntarily file previously unfiled annual reports for 1988 and subsequent reporting periods will be assessed $50 a day per filing up to a maximum of $1,000. Additional information concerning the assessment of the penalty is contained in DOL regulations 29 CFR 2560.502c-2 and 2570.60. Contact the Division of Reporting Compliance at 202/523–8776 with questions concerning filing requirements and penalty assessments.

The CPA Letter

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The CPA Letter

A News Report to Members

June 1992
Vol. 72 No. 5

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Executive Committee for Women and Family Issues to Be Formed

Council also approves a dues increase

At its May meeting, the AICPA's governing Council authorized the formation of a new Executive Committee for Women and Family Issues. The vote to establish such a committee resulted from discussions about the need for the Institute to be more effective in helping women CPAs' career advancement and to be more involved in how the accounting profession addresses family issues in the workplace. Creation of the executive committee will give greater emphasis to the AICPA's efforts to enhance the upward mobility of women in the profession, as provided for in the Institute's strategic plan.

The AICPA Board of Directors had proposed to establish a voluntary membership section to represent women CPAs' interests. Such action also was favored by the board of directors of the American Woman's Society of Certified Public Accountants, which intended to urge its members to become the nucleus of the new Institute effort. However, Council members believed that the goals set for the section could as well be accomplished without the need for a separate, dues-paying, membership section.

In other actions, the Council:

- Approved a dues schedule which increases membership dues for the first time since 1989. The increase of about 20 percent will be reflected in dues statements being mailed later this month.
- Honored Belverd E. Needles, Jr., for receiving the AICPA's 1992 Outstanding Accounting Educator Award. Mr. Needles, of DePaul University, was presented with the award, a plaque and a $5,000 check.
- Received reports from Financial Accounting Standards Board Chairman Dennis Beresford and from AICPA Special Committee on Financial Reporting Chairman Edmund Jenkins.
- Approved the Institute's 1992–1993 operating budget.

The AICPA Board of Directors, at a meeting prior to the Council meeting, approved a final draft of the joint Uniform Accountancy Act that previously had been approved by the National Association of State Boards of Accountancy. The Act is expected to be distributed this fall.

CPAs Volunteer to Help Los Angeles Riot Victims

Members of the California Society's L.A. Chapter to provide free assistance

Members of the Los Angeles Chapter of the California Society of CPAs are volunteering their time and expertise to help business owners and residents who suffered losses during the city's recent rioting. Free assistance to those who need help in filing for federal, state and local aid, in addition to advice relating to insurance claims, loan applications and tax information, will be offered. The volunteers intend to provide information in Korean, Spanish and other languages.

"Our members have overwhelmingly responded to our call to action," said Los Angeles Chapter Vice-President Paul Kuperstein, chair of the CPAs Committed to Rebuilding Los Angeles Committee. "So far, 100 percent of the members we've contacted have expressed their willingness to help." The committee is waiting for responses from Los Angeles Mayor Tom Bradley and Peter Ueberroth, who is leading the effort to revitalize the affected areas.

"The L.A. Chapter and state society leaders conferred immediately after the rioting to discuss how members might assist in the rebuilding effort," says Janice Vincent, incoming president of the California Society and past president of the 10,000-member L.A. Chapter. Vincent added that similar CPA volunteer efforts were organized to assist communities that suffered losses from the numerous natural disasters that have plagued California recently.

The next *CPA Letter* will be a combined issue for the months of July and August and is scheduled to be published the beginning of August.

► *Tennessee Court Acts on Legal Liability*

A recent ruling by the Tennessee Supreme Court eliminated the doctrine of "contributory negligence," based on its conclusion that the doctrine unfairly deprived plaintiffs of their right to compensation in cases where others bore primary responsibility for their damages. The doctrine held that if a plaintiff were at all at fault, the defendant would not have to pay any compensation. This doctrine was replaced by one of "comparative negligence," which instead only reduces the amount of a plaintiff's compensation to the extent that his or her own negligence contributed to his or her own losses.

The Court also decided to eliminate the doctrine of joint and several liability, which often leaves one defendant in a suit paying more than his or her fair share of damages, and perhaps the entire amount of damages awarded, if the other co-defendants are bankrupt or unable to pay for any other reason. The Court concluded that it would now be unfair to retain this rule since it sometimes "imposes a degree of liability that is out of all proportion to fault." As a result of this decision, CPAs should only be liable for damages to the extent that they are at fault in future cases in Tennessee.

► *172 Members Pass APFS Exam*

A total of 172 members passed the Accredited Personal Financial Specialist (APFS) exams given in Sept. 1991 and Jan. 1992. The number of CPAs (159) taking the exam in Sept. increased by 50 percent over Sept. 1990. The Jan. exam was offered in connection with the Personal Financial Planning Division's technical conference for the first time. Nearly 600 members now hold the APFS designation. The exam will again be given nationwide on Sept. 25. For more information or the *APFS Candidate's Handbook,* call the division at 800/966–PFP9.

► *Firms Expelled from PCPS*

Effective Apr. 23, 1992, the accounting firms of Marten R. Vegter and Theodore P. Sherwin were terminated from membership in the AICPA's Private Companies Practice Section (PCPS) for not submitting a copy of the report, letter of comments, or response to matters discussed in the letter of comments on the most recent peer review of the firms' accounting and auditing practices.

Effective Apr. 24, 1992, the accounting firm of Bernell McGhee was terminated from PCPS for noncompliance with action(s) the PCPS peer review committee deemed necessary.

► *Ohio, Iowa and Connecticut Pass 150-Hour Education Requirement*

Ohio has become the 21st state, Iowa the 22nd and Connecticut the 23rd to pass the 150-semester hour education requirement for future CPAs.

► *Elijah Watt Sells Medal Winners Announced*

Four candidates from the Nov. 1991 Uniform CPA Examination have been awarded the AICPA Elijah Watt Sells Medals for achieving the highest grades among the 70,000 individuals who took the exam.

Chad Koehler of Cedarburg, Wis., won the gold medal for the highest score; Mary Joan Selberg of Madison, Wis., received the silver medal for the second highest score; and David F. Crofoot of Tampa, Fla., and Robert C. Tesch, Jr., of Albuquerque, N.M., tied for bronze medals.

The CPA Examination was last given May 6–8, and approximately 65,000 candidates sat for the exam.

► *Accounting Background Is a Best Choice for Future CEOs*

An accounting background may provide a competitive edge for those aspiring to become chief executive officers, according to a recent Robert Half International survey. The survey, conducted by an independent research firm, polled 200 executives of the nation's 1,000 largest companies.

A related survey showed that 72 percent of executives believed that during the '90s, top management would be more reliant on information provided by the accounting department than it was during the '80s.

► *AICPA Offers 1040 Tax Clinic Seminars Nationwide*

Beginning in Oct. the AICPA, in conjunction with 28 state CPA societies, will be offering the **1040 Tax Clinic,** a basic-to-intermediate two-day tax preparation course. This program is ideal for practitioners with less than five years' tax experience, new or relatively new professional staff, experienced paraprofessionals, and seasonal tax preparers. The course materials provide the latest information on key tax law changes, regulations and rulings, procedures, tips and tax form changes, and will deal with the more complex issues of tax preparation. To receive course and registration information, dates and locations, write to: AICPA Tax Clinic, c/o Alan Coleman, 1211 Avenue of the Americas, New York, NY 10036–8775, or call the AICPA course information hotline at 800/242–7269 (in NY 212/575–5696). Price: $195 for Early Bird Registration (fee must be received 14 or more days prior to seminar); $219 regularly.

Public Meeting Notices

The **Auditing Standards Board** will meet Aug. 4–6 at the AICPA's New York office. Call the Auditing Standards Division at 212/575–3850 for agenda information.

AcSEC will meet Aug. 4–6 at Hotel Sofitel Ma Maison in Los Angeles. Call Ruth Jackson of the Accounting Standards Division at 212/575–6369 for the tentative agenda.

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Geoffrey L. Pickard, *Vice-President—Communications*
Ellen J. Goldstein, *Editor*

Members were expelled from membership as of the dates noted by the Joint Trial Board for failing to cooperate with the AICPA's Professional Ethics Division in its investigations of alleged violations:

- Bruce A. Corrette of St. Johnsbury, Vt. — Jan. 19, 1992.
- Noemi L. Rodriguez Santos of Hacienda Heights, Calif. — Feb. 9, 1992.
- Charles E. Washburn of Dallas, Tex. — Mar. 25, 1992.

Messrs. Corrette and Washburn were also expelled from membership in their state CPA societies on the same dates.

Hearing panels of the Joint Trial Board also expelled:

- Miguel Sanchez of Houston from membership in the Texas Society of CPAs and the AICPA effective Sept. 2, 1991, for violating their Rules of Conduct by failing to exercise due professional care; failing to follow standards and procedures required in governmental audits; failing to comply with generally accepted auditing standards; and failing to follow standards and procedures required by GAO standards and the *Health and Human Services Guide for Audits of Head Start Program Grants* in connection with an audit of a Head Start Program for the year ended Aug. 31, 1985.
- Arthur W. Junker of Sayre, Pa., from membership in the AICPA, the Pennsylvania Institute of CPAs and the New York Society of CPAs effective Dec. 18, 1991, for violating their Rules of Conduct by permitting his name to be associated with financial statements of a governmental audit for the year ended June 30, 1987, in such manner so as to imply that he was acting as an independent public accountant when he did not comply with generally accepted auditing standards or their interpretations; by expressing an opinion that financial statements of governmental audits for the years ended Dec. 31, 1987, and June 30, 1988, were presented in conformity with generally accepted accounting principles when they contained material departures therefrom; and by failing to follow standards and procedures required in governmental audits.
- Cynthia Natalie Oster of Ocean City, N.J., from membership in the New Jersey Society of CPAs and the AICPA effective Jan. 19, 1992, for violating the New Jersey Society and AICPA Acts Discreditable Rules by misappropriating funds from a client and signing another's signature on the client's check.
- Duane L. Brown of Springfield, Tenn., from membership in the Tennessee CPA Society and the AICPA effective Feb. 14, 1992, for violating the Tennessee Society and AICPA Rules of Conduct by failing to comply with generally accepted auditing standards in his audit of a client for the year ended June 30, 1987.
- P. Roger Hickey of Jefferson City, Mo., from the Missouri Society of CPAs and the AICPA effective Feb. 22, 1992, for violating the Missouri Society of CPAs and AICPA Rules of Conduct by failing to exercise due professional care; by expressing an opinion that financial statements were presented in conformity with generally accepted accounting principles when such statements contained material departures therefrom; and by failing to comply with standards and to follow procedures or other requirements for governmental audits in connection with the audit of a technical college and its Student Financial Aid Programs for the fiscal years ended June 30, 1986 and 1987.
- Gary L. Jackson of San Francisco from membership in the Institute on July 18, 1991, for violating the Auditing Standards Rule and the Accounting Principles Rule of the Institute's Code of Professional Conduct in connection with an audit of a real estate investment trust for a two-month period ending June 30, 1991. Mr. Jackson's request for a review of the decision was denied on Apr. 28, 1992. The decision, therefore, became effective on Apr. 28, 1992, and his expulsion from membership became effective on that date.

In addition, the following members were suspended by hearing panels of the Joint Trial Board:

- Gerald Okrant of Manchester, Conn., from membership in the Connecticut Society of CPAs and the AICPA for one year from Dec. 18, 1991 to Dec. 18, 1992, for violating AICPA and Connecticut Society of CPAs Rules of Conduct in connection with the audit of a township for the year ended June 30, 1986, by failing to exercise due professional care in performing the engagement; by failing to comply with generally accepted auditing standards; by issuing an opinion that financial statements were presented in conformity with generally accepted accounting principles when they were not; and by failing to follow standards and procedures required in a governmental audit. In addition, Mr. Okrant is required to complete an 8-hour course on Government Auditing Standards from the 1988 Yellow Book, in addition to his state CPE licensing requirements, and his firm is to undergo an accelerated quality review.
- Kenneth R. O'Neal of Houston from membership in the Texas Society of CPAs and the AICPA for up to two years or until he has submitted proof of completion of 80 hours of CPE courses for violating AICPA and Texas Society of CPAs rules on compliance with auditing standards and accounting principles in connection with his audit of a client for the year ended Dec. 31, 1984. In addition to the suspension, he is required to submit an unqualified quality review report resulting from a review under the Institute's quality review program within the two-year period. Failure to comply with the hearing panel's requirements within two years will result in expulsion from memberships in the AICPA and Texas Society of CPAs without further proceedings. Mr. O'Neal's request for a review of the decision was denied on Dec. 19, 1991. The decision, therefore, became effective on Dec. 19, 1991, and the suspension period began running from that date.
- Anthony V. Denito of Trenton, N.J., from membership in the Institute for one year for violating the Institute's Code of Professional Conduct by failing to follow generally accepted accounting principles and generally accepted auditing standards in his audit of the Apr. 30, 1987, financial statements of a client, and for rejecting a letter of required corrective action issued to him by the Institute's Professional Ethics Division. In addition to the suspension, he is required to complete 80 hours of specified CPE courses within two years of the hearing panel's decision and to submit to the Professional Ethics Division a list of audit and review engagements completed

by him during each of the next two years, from which the division will select one audit and one review engagement for review each year. Failure to comply with the hearing panel's requirements will result in automatic expulsion from membership. Mr. Denito's request for a review of the decision was denied on Apr. 28, 1992. The decision, therefore, became effective on Apr. 28, 1992, and the one-year suspension of membership began running from that date.

■ Donald E. Bark of Arlington Heights, Ill., was found guilty on Aug. 22, 1990, of violating the Codes of Professional Conduct of the Illinois CPA Society and the AICPA in connection with Dec. 31, 1987, audits of a Fire Protection District and its Pension Fund and was expelled from membership in the Illinois CPA Society and the AICPA. Mr. Bark's request for a review of the decision was granted. On Jan. 22, 1992, a review panel reconsidered the charges against Mr. Bark and confirmed the original hearing panel's guilty finding, but reduced his expulsion from membership in the Illinois CPA Society and the AICPA to two-year suspensions of membership. The review panel also directed that a copy of the firm's next annual inspection report be submitted to the Institute's Professional Ethics Division upon completion. The panel also voted to bring the results of the hearing to the attention of the Illinois State Board of Accountancy. Mr. Bark was not present at the original hearing, but was present with counsel at the hearing on review. Decisions of review panels cannot be appealed. The suspension of Mr. Bark's membership, therefore, began on Jan. 22, 1992, and will end on Jan. 21, 1994.

Also, the following members were admonished by hearing panels of the Joint Trial Board:

■ John F. Mackey of Boston, effective Jan. 10, 1992, for violating the Institute's compliance with auditing standards rules and failing to follow standards and/or procedures or other requirements for governmental audits in connection with his audit of a U.S. Department of Health and Human Services Grant for a 22-month period ended June 30, 1985. In addition to the admonishment, he is required to complete 88 hours of specified CPE courses over a period of two years, with 48 of those hours to be taken the first year. Also, Mr. Mackey must submit to the Institute's Professional Ethics Division within six months of the effective date of the decision a list of audit engagements similar to the engagement in question performed during the six-month period, from which the division will select one engagement for financial statement and working papers review and report the results of that review to the Joint Trial Board for its final action. In addition, a general review of the respondent's work product should be conducted by the Professional Ethics Division by Jan. 10, 1993.

■ Charles D. Ulrich of Brainerd, Minn., effective Jan. 21, 1992, for violating AICPA and Minnesota Society of CPAs Rules of Conduct by offering and performing Medicare reimbursement services on a contingent fee basis for an audit client.

■ David Gene Clarke of Murphysboro, Ill., effective Jan. 22, 1992, for violating Illinois CPA Society and AICPA Rules of Conduct in connection with his examination of a Local Health and Welfare Fund for the period ended Dec. 31, 1988, by failing to have the necessary competence to complete the engagement according to professional standards and by failing to comply with generally accepted auditing standards in performing the engagement. In addition, Mr. Clarke is required to complete 80 hours of specified CPE courses within two years, to undergo independent inspections of his practice for each of the next two years and to submit reports of those inspections to the Professional Ethics Division for its evaluation. Failure to complete the CPE or undergo the independent inspections will result in his automatic expulsion from memberships in the Illinois CPA Society and the AICPA.

The following members have had their memberships terminated under the automatic disciplinary provisions of the Institute's bylaws:

■ James A. Galinsky of Des Moines on Mar. 18, 1992, following exhaustion of appeals of a conviction of possession with intent to distribute cocaine and of tax evasion.

■ Robert L. Steele of Dayton on Mar. 18, 1992, following the denial by the U.S. Supreme Court of his petition for review of his conviction of conspiracy to defraud the IRS, filing false income tax returns and causing a document containing false information to be submitted to the IRS. On Jan. 13, 1988, Mr. Steele's membership was suspended because of his conviction and pending his appeal (*The CPA Letter*, Apr. 15, 1988).

■ Ira Wayne Berry of Southport, N.C., on Mar. 9, 1992, following his conviction in a U.S. District Court of "making and subscribing false tax returns."

■ Gilbert I. Rifkin of Nanuet, N.Y., on Mar. 19, 1992, following the revocation of his license by the University of the State of New York, State Education Department, upon its acceptance of a finding by a Board of Regents hearing panel and confirmation by the Regents Review Committee that he was guilty of "fraudulent practice."

■ Richard L. Brown of Dallas on Oct. 16, 1991, following his conviction in Texas Judicial District Court of misapplication of fiduciary property.

Also, the following members were suspended under the automatic disciplinary provisions of the Institute's bylaws:

■ Alejandro S. Martinez of Poth, Tex., on Mar. 18, 1992, pending the appeal of his conviction of murder by a Texas Judicial District Court.

■ William C. Schlapman of Denver on Apr. 17, 1991, pending the appeal of his conviction in a U.S. District Court of "conspiracy to defraud" and "money laundering."

■ Richard E. Ellis of Madison, S.D., from Mar. 11, 1991 to Mar. 11, 1996, coincident with the suspension of his permit to practice for failing to complete municipal and school audits in a timely manner.

■ Kyle K. Morse of Bedford, Tex., on Mar. 23, 1992, following his suspension for a period of five years or until such time as an affirmative showing of compliance with current and past continuing education requirements is submitted to the Texas State Board of Accountancy.

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XIV WORLD CONGRESS OF ACCOUNTANTS SCHEDULE

Saturday, 10 October	Sunday, 11 October	Monday, 12 October	Tuesday, 13 October	Wednesday, 14 October
08:00 – 18:00 Registration for the Congress	08:00 – 18:00 Registration for the Congress	09:00 – 12:00 Plenary Session 2	09:00 – 12:00 Plenary Session 3	09:00 – 12:00 Plenary Session 4
09:00 – 12:00 Half-Day City Tours	09:00 – 12:00 Half-Day City Tours	10:00 – 16:00 Full-Day Tours for Accompanying Persons	10:00 – 16:00 Full-Day Tours for Accompanying Persons	10:00 – 15:00 Exposition Open
14:00 – 17:00 Half-Day City Tours	14:30 – 17:30 Opening Session/ Plenary Session 1	12:00 – 18:00 Exposition Open	10:00 – 18:00 Exposition Open	15:00 – 16:30 Closing Session
	19:30 – 21:30 Opening Reception Air & Space Museum	12:30 – 14:00 Luncheon w/Speaker Lord Mayor of London	12:30 – 14:00 Luncheon w/Speaker George Will Syndicated Columnist	19:30 – 23:30 Optional Dinner Dance Hyatt & Ramada
	Starting at 20:30 Washington by Night Tour	14:30 – 17:30 Concurrent Sessions (16)	14:30 – 17:30 Concurrent Sessions (16)	
			20:00 – 22:00 Entertainment Gala	

Registration or More Information

Please complete the registration form below and return via mail or fax. If you would like to register, send applicable fees to the World Congress of Accountants Registration and Housing Office. The registration fees can be remitted in US funds by check or credit card or we can invoice AICPA members. Checks made payable to: **XIV World Congress of Accountants/ ITS.** You can fax this form if you want more information or if paying by credit card or requesting to be invoiced. Upon receipt of your registration and payment, complete information regarding hotels, session selection and accompanying person program will be forwarded to you.

Cancellation Policy: Cancellation requests must be made in writing to the XIV World Congress of Accountants Registration and Housing Office. A refund of 85% of the total registration amount due will be issued on cancellation requests received by July 1, 1992. Cancellation requests received after July 1, but by September 11, 1992, will be issued a refund of 50% of the total registration amount due. Due to financial obligations incurred by the XIV World Congress of Accountants, no refunds will be issued on cancellation requests received after September 11, 1992.

The XIV World Congress of Accountants/ITS
Registration and Housing Office 104 Wilmont Road, P.O. Box 825, Deerfield, IL 60015–0825 USA
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Closing Dinner Dance @ US $100	X [ ] persons	______
Subtotal		______
Less Registration Deposit Paid Prior to September 1, 1991		______
Amount Due		______

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[ ] Invoice me: I agree to remit payment upon receipt of invoice. (AICPA members only)

Signature ______________________________

[ ] Credit Card [ ] MC 16 Digits [ ] VISA 13 or 16 Digits

Card Number ______________________________

Exp. Date ______________________________

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Signature ______________________________

Only credit card or invoice payments can be faxed 708–940–2386

Photocopy this form for additional registrants

Statement on Auditing Standards No. 71 Issued

The Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 71, ***Interim Financial Information*** (No. 060440), which supersedes SAS Nos. 36 and 66. SAS No. 71 provides expanded guidance on the knowledge of the internal control structure that accountants need to obtain when they have been engaged to perform reviews of interim financial information but have not audited the most recent annual financial statements; requires the accountant to be assured that the audit committee is adequately informed of irregularities, illegal acts, reportable conditions, or other specified matters of which the accountant becomes aware while conducting the audit; and revises the review report to include a statement of management's responsibility for the financial information.

This SAS is effective for interim periods within fiscal years beginning after Sept. 15, 1992, and reports issued or reissued after that date should conform with its reporting guidance.

Price: $5.* SAS No. 71 is scheduled to be published in the Aug. issue of the *Journal of Accountancy.*

The Auditing Standards Division has issued an exposure draft of a proposed Statement of Position (SOP), ***Compliance and Internal Control Auditing For Student Financial Assistance Programs Using Service Organizations*** (No. 800026). The proposed SOP would supplement the AICPA Auditing and Accounting Guide, *Audits of Colleges and Universities,* and provide guidance in auditing compliance with laws and regulations applicable to student financial assistance (SFA) programs and the internal control structure at institutions that participate in the U.S. Department of Education's SFA programs and engage service organizations to perform certain functions relating to the administration of those programs. Comments are due July 13. Price: First five copies are free; each additional copy costs $2.50.*

A new book, ***Small Business Consulting — Making It Work*** (No. 003570), describes how to plan for successfully expanding a practice to include small-business consulting, improve communication and selling skills, and identify potential weaknesses. Engagement planning and control forms and checklists are included. Price: $44.*

The Accounting Profession in Japan — second edition, revised (No. 010075), describes Japan's accounting and auditing standards and compares them with those generally accepted in the United States. Price: $27.50.*

AcSEC has issued SOP 92-5, ***Accounting for Foreign Property and Liability Reinsurance*** (No. 014862). The SOP provides guidance on how U.S. companies should account for property and liability reinsurance assumed from foreign insurance companies (*The CPA Letter,* Mar.). Its provisions are effective for contracts entered into in fiscal years beginning on or after Dec. 15, 1992. Price: $5.*

Three new Audit Risk Alerts have been issued. ***Employee Benefit Plans Industry Developments*** (No. 022086), ***Not-for-Profit Organizations Industry Developments*** (No. 022095) and ***State and Local Governmental Developments*** (No. 022097) provide overviews of current issues which may affect audits relating to these industries. The alerts include discussions of recent economic, industry, regulatory and professional developments. Price: $5 each.*

To order AICPA products, write: AICPA Order Department, CL692, P.O. Box 1003, New York, NY 10108–1003; order via fax, 212/575–6841; or call 800/334–6961, or 800/248–0445 in New York State. Ask for Operator CL692. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Time. Orders for exposure drafts must be written or faxed.

* Prices do not include shipping and handling.

FASB and GASB Publish Documents for Comment

The Financial Accounting Standards Board has issued an exposure draft, ***Accounting for Postemployment Benefits,*** on an employer's accounting for benefits provided to former or inactive employees and their beneficiaries. If adopted as a final Statement, the proposal would be effective for calendar-year 1994 financial statements. Comments are due Aug. 10. One free copy of the exposure draft is available during its comment period from: FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

The Governmental Accounting Standards Board (GASB) has issued its "Preliminary Views" document on major display issues related to state and local governments' implementation of the GASB's Statement 11, ***Measurement Focus and Basis of Accounting — Governmental Fund Operating Statements.*** That Statement requires the flow of financial resources measurement focus to be used in governmental fund operating statements for periods beginning after June 15, 1994. That measurement focus considers financial resources only and uses an accrual basis of accounting. The preliminary views document considers such issues as how accrued assets and liabilities should be reported in the balance sheet. Written comments are due by Aug. 31. Public hearings at which individuals may provide testimony have been scheduled for June 24 in Orlando and Aug. 30 in Washington, D.C. A free copy of the document is available through Aug. 31.

The GASB also issued a discussion memorandum, ***Grants and Other Financial Assistance,*** to gather views on how state and local governmental entities should account for and report on grants and other financial assistance of cash, food stamps, and vouchers in their external financial statements. It considers such issues as recognition, measurement, and reporting of grants and financial assistance received and given. Comments are due Aug. 14, and a free copy of the discussion memorandum is available until then.

For GASB documents, write: GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

WASHINGTON AT A GLANCE

Insurance Bill Would Regulate Accounting Profession

The right to set accounting and auditing standards in the private sector would be removed by a bill to federally regulate the financial condition of insurance companies. The measure, H.R. 4900, was introduced by Rep. John Dingell (D-Mich.). It would create a Federal Insurance Solvency Commission and grant the Commission the authority to set accounting standards, and would permit non-CPAs to perform audits and to express opinions on the financial statements of insurers or reinsurers. H.R. 4900 also would require the independent accountant to report directly to the Commission when the accountant has substantial reason to believe the company's records reveal material misrepresentations or illegal acts. Although a vote on H.R. 4900 is not expected in the full House this year, the AICPA views the legislation as a threat to the profession. Hearings will be held on the bill later this year, and Rep. Dingell is expected to reintroduce the bill next year, at which time substantive action is likely. The AICPA Insurance Companies Committee and Institute staff will be working on the issue and monitoring action on H.R. 4900.

Favorable Action Announced on Iowa's Tax on Consulting Services

The Iowa sales and use tax on consulting services (*The CPA Letter,* May) is on its way to being repealed. A repeal measure passed by the Iowa State Legislature on May 21 is expected to be signed by the governor. Previous to this development, the Iowa Department of Revenue issued a declaratory ruling stating that consulting services performed by a CPA firm as part of its regular practice of public accounting would not be subject to the tax.

AICPA Tells Congressional Subcommittee It Opposes Wyden Bill

The AICPA in a recent letter told members of the House Energy and Commerce Subcommittee on Telecommunications and Finance that it opposes the Financial Fraud Detection and Disclosure Act, H.R. 4313, introduced by Rep. Ron Wyden (D-Ore.) (*The CPA Letter,* Apr.). The letter said the AICPA "...opposes H.R. 4313... because it would transfer the setting of auditing standards from the private sector to the government, and it does not provide an adequate protection from unwarranted legal liability for independent public accountants." The letter pointed out that current auditing standards already exist for detecting illegal acts, identifying related party transactions and evaluating an issuer's ability to continue as a going concern — three areas in which the bill seeks to have the federal government prescribe auditing methods. The AICPA also stipulated that "any legislation that changes the role of independent public accountants must also provide protection from unwarranted lawsuits against them." At press time, action on the bill was expected shortly.

HUD Responds to Concerns about Consolidated Audit Guide

The U.S. Housing and Urban Development (HUD) Office of Inspector General (OIG) and the staff of the AICPA met recently to discuss the AICPA's and housing industry representatives' concerns with the *Consolidated Audit Guide for Audits of HUD Programs* (*The CPA Letter,* Nov. 1991, Jan.-Feb. 1992 and Apr. 1992). The HUD OIG has said it will conduct a series of Quality Control Reviews (QCRs) of audits conducted in accordance with the guide. Based on the information obtained from the QCRs, the HUD OIG will determine whether revisions to the guide are necessary.

Estimated Tax Practice Guide Available

A guide to assist practitioners in calculating individual estimated taxes under the rules issued last Nov. (*The CPA Letter,* Dec. 1991) is now available. Copies have been mailed to Tax Division members. To receive a copy, send a 10"x13" self-addressed, stamped envelope with 75¢ in postage to: AICPA, *Estimated Tax Practice Guide,* 1455 Pennsylvania Ave., NW, Washington, DC 20004–1081.

The CPA Letter

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XIV WORLD CONGRESS
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SEE PAGE 3 FOR AICPA DIRECTORY WITH NEW JERSEY PHONE NUMBERS

AICPA *"The Measure of Excellence"*

The CPA Letter

A News Report to Members

July-August 1992
Vol. 72 No. 6

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Survey Shows Extent of Members' Concern Over Legal Liability

The growing liability crisis continues to trouble public accounting firms, especially those providing audit services. And large firms are not the only ones experiencing problems. Mid-sized and small firms as well as sole practitioners are among the targets for seemingly unlimited liability damages.

To assess the scope of the liability plague on the profession, the AICPA recently conducted a nationwide survey of nearly 5,000 firms, including sole practitioners (large firms were *not* included), of which approximately 1,700 responded. Here are some of the survey's significant findings:

- 47% of respondents believe that their firms' exposure to legal liability has increased over the past five years, and 54% feel that their firms' exposure will increase over the next five years.
- 74% of accounting firms believe that Congress or state legislatures should act to impose reasonable limitations on accountants' legal liability.
- Firms responding to the survey provided some information on their claims: The median claim was $155,000, with 30% reporting claims exceeding $1 million; the median fee for the professional service underlying a claim was $5,000.
- Audit work constituted 14% of billings, but accounted for 39% of claims.
- Because of the liability issue, many firms intend to offer fewer services in the future, particularly audits and reviews of financial statements.

The AICPA is aggressively pursuing several avenues for helping to bring legal liability in line with responsibility. The Institute has a subcommittee specifically addressing accountants' legal liability, is a leading participant in CEASS (Coalition to Eliminate Abusive Securities Suits), continues to communicate with Congress and the news media about the need for tort reform, and encourages states to enact legislation allowing non-partnership forms of practice, including limited liability companies.

Illinois Law to Limit Suits

The Illinois State Legislature passed legislation that would limit legal liability suits against CPAs. The bill eliminates joint liability in negligence cases where the CPA is found to be less than 25 percent responsible for the total damages suffered by a plaintiff, and bars any recovery by a plaintiff who is more than 50 percent responsible for the total damages. The governor is expected to sign the bill, according to the Illinois CPA Society.

AICPA Pursuing Solutions to Fiscal Year, Estimated Tax Problems

Efforts to enact legislation to help correct the workload compression problem and the new, unworkable estimated-tax rules have borne fruit with the July 2 passage of the urban-aid bill (H.R. 11) by the House of Representatives. The AICPA's fiscal-year and estimated-tax proposals in that bill are substantially similar to those included in the tax bill that was vetoed by President Bush in Mar. (*The CPA Letter*, Apr.).

The fiscal-year proposal generally would allow most partnerships, S corporations and personal service corporations to elect any fiscal year. The estimated-tax proposal would replace the current law with a simple 115 percent of prior year's tax "safe harbor" for all taxpayers in 1993. However, taxpayers could elect to apply the 115 percent safe harbor for 1992. H.R. 11 also includes other items the AICPA has worked to see enacted, including tax simplification, taxpayer-rights provisions, and intangibles amortization.

H.R. 11 next will be considered by the Senate. The Tax Division is presently coordinating an unprecedented campaign among the division's 25,000 members, 49,000 AICPA practice units, and the 1,300-member "key persons" group to vigorously urge members of Congress to include the provisions in urban-aid legislation.

► *AICPA Relocation Begins*

Beginning this month, many technical and operational areas of the Institute will relocate to Harborside Financial Center in Jersey City, N.J. See page 3 for an updated directory of member services which identifies the departments relocating and provides their new telephone numbers.

Also, the AICPA's fifth-floor library in New York will be closed for 2–4 weeks beginning in late August while it is being relocated to the concourse level of the building. Members are advised to call the library in advance if planning to visit.

► *Environmental Disasters Creating Environmental Accounting Specialists*

In trying to determine how to account for such environmental disasters as an oil spill that damaged an ecosystem, a need for environmental accounting specialists has emerged, according to Robert Half International Inc. The recruiting firm says that public accounting clients are increasingly asking for such people and that demand for these experts appears to be rooted in the litigation support area of public accounting.

A session at the XIV World Congress of Accountants (*The CPA Letter*, Dec. 1991) will address environmental accounting. Also, the AICPA Accounting Standards Executive Committee and Auditing Standards Board currently have a joint project to consider environmental accounting issues.

► *XIV World Congress to Help Members See Globally*

To remain competitive in the United States, businesses need international financial savvy and a global perspective. Clients and companies will increasingly look to CPAs for world-class knowledge and advice. Members can learn about the changes coming with EC92, the North American Trade Agreement, and other global issues by coming to the XIV World Congress of Accountants, Oct. 11–14 in Washington, D.C. In return for this four-day investment, participants will develop a greater understanding of the emerging global economy and learn about changes in international accounting and standards setting. For more information or registration material, call the AICPA Meetings & Travel Services Division at 212/575–6451 (201/938–3232 after 8/24).

Public Meeting Notices
For a detailed agenda, call 800/TO-AICPA one week prior to the meeting.
Accounting Standards Executive Committee: Sept. 15–17, New York; Nov. 10–12, Orlando.
Auditing Standards Board: Sept. 30–Oct. 2; Nov. 10–12; Dec. 1–3. Locations to be determined.
Board of Examiners: Sept. 24, San Diego.
Personal Financial Planning Executive Committee: Nov. 9, Nashville.

► *AICPA Benevolent Fund Urgently Needs Donations*

The AICPA Benevolent Fund was founded 60 years ago to help members and their families in times of need. Cases run the gamut of CPAs with multiple sclerosis to members' children with serious heart defects. Donations often are used to provide food and shelter as well as counseling or job retraining.

The number of recipients has more than doubled in the past four years, and the fund is being depleted. Donations are urgently requested to continue to help members. Send tax-deductible contributions (make check payable to AICPA Benevolent Fund) to: AICPA Benevolent Fund Inc., 1211 Avenue of the Americas, New York, NY 10036–8775; or call 201/938–3479 after 8/24.

► *Revised* Code of Professional Conduct *Available*

A revised *Code of Professional Conduct and Bylaws* (No. 881431) booklet incorporating amendments to Jan. 14, 1992, has been published. Copies of the booklet are available to members without charge through the AICPA Order Department (see "New Products and Publications" on page 5 for order information). Any further amendments or modifications to the Code or Bylaws will be reported in the "Official Releases" section of the *Journal of Accountancy*.

► *California Supreme Court Says Only CPAs Are "Accountants"*

The California Supreme Court upheld a 1990 appellate court decision which found that the terms "accountant" and "accounting" standing alone are misleading to the public and may not be used by unlicensed individuals. The court said that they either could use terms such as "unlicensed accountant" or "bookkeeper," or a disclaimer saying that no license was needed for their services. The decision came as a result of a 1986 case brought by Bonnie Moore, a San Francisco unlicensed accountant.

► *Annual Members Meeting, Council Scheduled*

The next meeting of the AICPA's governing Council is scheduled for Oct. 9 in Washington, D.C. The Council's meeting will begin at 9:00 a.m. and should adjourn before noon. The AICPA's 1992 Annual Members Meeting will begin at 2:00 p.m. that afternoon in the same location. The Council will reconvene Oct. 10, if necessary to complete its agenda. These meetings are being held in conjunction with the XIV World Congress of Accountants. Call the AICPA Meetings & Travel Services Division at 212/575–6451 (201/938–3232 after 8/24) for registration and other information.

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Geoffrey L. Pickard
Vice-President—Communications

Ellen J. Goldstein
Editor

Directory of AICPA Services

The following is a list of the direct telephone numbers for frequently called AICPA services and activities. Much of the Institute's operations will be moving to Jersey City, N.J., in three stages this summer. Member services provided by areas moving appear in bold. (See footnotes below for effective dates.) A new toll-free number, 800/TO–AICPA (800/862–4272), will replace all existing 800 numbers for divisions that are relocating.

To order publications, call the Order Department and not the issuing division. Also, all accounting and auditing practice questions should be directed to the Technical Information Hotline.

AICPA, New York	212/575–6200
Fax number	212/575–3846
AICPA, New Jersey [1]	**201/938–3000**
	212/318–0500
Fax number [2]	**201/938–3329**
AICPA, Washington	202/737–6600
Fax number	202/638–4512
AICPA CPE Course Information [3]	**800/TO–AICPA**
AICPA Political Action Committee	202/737–6600, x444
Academic and Career Development Division	212/575–6358
General Accounting [1]	**201/938–3244**
Accounting and Review Services	212/575–6401
Accounting Research Association	212/575–6828
Accounting Standards	212/575–6369
Audit & Accounting Guides	212/575–6399
Auditing Standards	212/575–3850
Benevolent Fund [3]	**201/938–3479**
Car Rental — Hertz	800/654–2210
Car Rental — National	800/227–7368
Committee Appointments	212/575–6449
Computer Software Support (9 a.m.–7 p.m. EST)	800/226–5800
CPA Client Bulletin [2]	**800/TO–AICPA**
CPA Client Tax Letter [2]	**800/TO–AICPA**
The CPA Letter	212/575–5417
Division for CPA Firms (public file information)	
— outside New York State	800/272–3476
— within New York State	212/575–6446
Private Companies Practice Section	212/575–6359
SEC Practice Section	212/575–6366
Examinations (The Uniform CPA Exam) [3]	**201/938–3429**
Federal Government Affairs	202/737–6600
— Federal government (regulatory matters)	x667
— Legislation (congressional matters)	x444
General Counsel	212/575–6469
Industry Member Programs	212/575–6439
Information Technology	212/575–5393

Insurance Programs	
Rollins Burdick Hunter Co.	
Life Insurance	800/223–7473
Disability Insurance	800/221–4722
Personal Liability Umbrella Insurance	800/221–3021
Professional Liability Insurance	800/221–3023
International Relations	212/575–3695
Joint Trial Board	212/575–3852
Journal of Accountancy [3]	**201/938–3292**
Library Services	
— outside New York State	800/223–4155
— within New York State	800/522–5434
Management of an Accounting Practice	212/575–3841
Management Accounting	212/575–7645
Management Consulting Services [2]	**201/938–3503**
Meetings and Travel [3]	**201/938–3232**
Member Programs and Benefits	212/575–3641
Membership Admissions/Records [2]	**201/938–3100**
Minority Recruitment and Equal Opportunity	212/575–7641
National Automated Accounting and Retrieval Services (NAARS) [2]	**201/938–3248**
Order Department [4]	**800/TO–AICPA**
Credit and Collections [2]	**201/938–3460**
Personal Financial Planning/ APFS Designation [2]	**800/TO–AICPA**
The Practicing CPA	212/575–6278
Professional Ethics [3]	**201/938–3190**
Public Meeting Notices/Agendas [3]	**800/TO–AICPA**
Public Relations and Communications	212/575–3689
Quality/Peer Review [3]	**201/938–3030**
Retirement Programs (T. Rowe Price)	800/38–AICPA
State Legislation and Legislative Relations	202/737–6600, x742
State Society Relations	212/575–6464
Subscriptions and Publications Customer Service [2]	**201/938–3333**
Taxation	202/737–6600, x723
The Tax Adviser [3]	**201/938–3444**
Technical Information Hotline [2]	**800/TO–AICPA**

Note: The Institute's headquarters and mailing address remain at 1211 Avenue of the Americas, New York, NY 10036–8775.

[1] Already in effect

[2] Effective Aug. 10

[3] Effective Aug. 24

[4] Effective Aug. 10. Please be advised that phone orders cannot be accepted Aug. 7 or Aug. 10 due to a change in phone system. However, faxed orders will be accepted on those dates; the Order Department's new, toll-free fax number will be 800/362–5066.

(Clip for reference)

FASB May Rescind Statement 32, Issues ED on Loan Impairment

The Financial Accounting Standards Board (FASB) has proposed to rescind its Statement 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*, and its related pronouncements.

The Statement specifies that certain AICPA-issued Statements of Position and Guides are preferable for purposes of justifying a change in accounting principles as required by Accounting Principles Board Opinion 20, *Accounting Changes*. However, the hierarchy of generally accepted accounting principles changed with the AICPA's issuance of Statement on Auditing Standards (SAS) No. 69 (*The CPA Letter*, Jan.-Feb.). To that end, the FASB believes its Statement 32 is unnecessary and should be rescinded. If adopted as a final Statement, the proposal would become effective immediately. Comments are requested by Aug. 31.

Also, the FASB issued for comment a proposal that would prescribe the accounting by creditors for the impairment of a loan. The proposal would apply to all creditors and all loans that are individually and specifically evaluated for impairment — uncollateralized as well as collateralized — except those loans accounted for at fair value or the lower of cost or fair value. It also would amend FASB Statements 5 and 15 and require that an impaired loan be measured at the present value of expected future cash flows by discounting those cash flows at the loan's effective interest rate. The effective interest rate is the contractual interest rate adjusted for any deferred loan fees or costs, premium, or discount existing at the inception of the loan. If adopted as a final Statement, the proposal would be effective for calendar-year 1994 financial statements. Public hearings on the proposal are scheduled for Nov. 3, 4 and 9. Comments are requested by Sept. 30.

A free copy of either proposal is available until its comment deadline by writing to: FASB Order Department, 410 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

GASB Issues Statement 9 Implementation Guide, SEA Research Report

The Governmental Accounting Standards Board (GASB) has issued an implementation guide to help financial statement preparers and attestors in applying GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting.* The material in the implementation guide is presented in a question-and-answer format, most of which is based on technical inquiries received by the staff since Statement 9 was issued. It also contains 11 examples of statements of cash flows that include transactions unique to specific industries. Price: $20, prepaid ($16 for members of the Financial Accounting Foundation–GASB and academicians). CT orders add 6 percent sales tax.

Additionally, the GASB has published a research report on service efforts and accomplishments (SEA) indicators for police department programs. It recommends a number of input, output, outcome, and efficiency measures for crime-related functions, along with explanatory variables that can assist users in analyzing the data provided by SEA indicators. Price: $15, prepaid. CT orders add 6 percent sales tax.

To order either publication, write to: GASB Order Department, P.O. Box 30784, Hartford, CT 06150.

GASB Delays Issuance of Concepts Statement on SEA Reporting, Issues Proposal on Landfill Costs

The GASB has announced that it will delay issuance of its proposed Concepts Statement on service efforts and accomplishments reporting until after a board member is appointed to replace a retiring member. The board had voted 3 to 2 in favor of issuing the document for comment but the retiring member was one of the assenting votes.

Also, the GASB has issued for comment a proposal on accounting for solid-waste landfill closure and post-closure care costs. The proposal is based on a 1991 rule of the U.S. Environmental Protection Agency that establishes closure requirements for landfills that accept municipal waste. If adopted as a final Statement, the proposal would be effective for financial statements for periods beginning after June 15, 1993. The deadline for comments is Sept. 30. A public hearing on the proposal will be held Oct. 14 at the GASB office in Norwalk, CT.

For a free copy of the proposal during its comment period, write to: GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

AICPA Board of Directors Meeting Highlights

At its meeting July 9–10, the AICPA Board of Directors:

- Authorized development of a long-term care insurance policy for members.
- Heard that staff's future CPE plans include offering more interactive CPE programs and analyzing programs to identify opportunities for improvement.
- Authorized appointment of a task force to monitor implementation of a program for member recruitment and retention.
- Received a report that the Board of Examiners will no longer distribute copies of CPA Examination questions and unofficial answers after 1995.
- Was given an update on formation of the Executive Committee for Women and Family Issues, authorized by the governing Council at its May meeting.

An exposure draft of a proposed Statement of Position (SOP), ***Reporting on Advertising Costs*** (No. 800032CL), has been issued. The SOP would require: (1) reporting all advertising costs as expenses in the periods in which those costs are incurred, or the first time the advertising takes place, unless the advertising is "direct-response" advertising that results in probable future economic benefits; (2) reporting the costs of the future benefits of "direct-response" advertising as assets; (3) amortizing the amount reported as assets over the estimated period of the benefits; and (4) disclosure of certain information if the future benefits are reported as assets. Comments due Sept. 21. Price: Five free; each additional $2.50.*

The ***1992 SAS/SSARS Update Videocourse*** explains SAS Nos. 67–71, the proposed SSARS *(Omnibus Statement on Standards for Accounting and Review Services — 1992)*, and a proposed attestation standard *(Reporting on An Entity's Internal Control Structure Over Financial Reporting)*. The 90-minute video features the vice president and senior staff of the AICPA's Auditing Standards Division. Recommended CPE credit: 8 hours group study; 6 hours self study. Price: $140* for VHS tape and manual (No. 182225CL). Additional manuals (No. 352225CL) $50* each.

The ***1992 Government/Nonprofit Accounting and Auditing Videocourse*** interviews seven experts who provide definitive answers to questions on recent GASB statements, AICPA SASs and SOPs, Yellow Book developments, OMB circulars and PCIE guidance. The two-hour video is moderated by William A. Broadus, Jr., CPA. Recommended CPE credit: 8 hours group study; 6 hours self study. Price: $140* for VHS tape and manual (No. 182600CL). Additional manuals (No. 352600CL) $50* each.

The **International Accounting Standards Committee** has issued the following exposure drafts:
- ***Revenue Recognition*** (No. 800028CL) — Comments due Sept. 15.
- ***Construction Contractors*** (No. 800029CL) — Comments due Sept. 15.
- ***Property, Plant, and Equipment*** (No. 800030CL) — Comments due Oct. 15.
- ***The Effects of Changes in Foreign Exchange Rates*** (No. 800031CL) — Comments due Oct. 31.

Price: Five of each free; each additional $2.50.*

Practice Bulletin (PB) 10, ***Amendment to Practice Bulletin 7, "Determining Whether Collateral for a Loan Has Been In-Substance Foreclosed"*** (No. 033155CL), has been issued. The PB deletes PB 7 paragraph 12, which may have caused unintended differences in the interpretation of the criteria for determining when an in-substance foreclosure has occurred. Price: $ 2.50.*

The Representation Letter in an Audit (No. 050119CL) booklet explains the purpose of management representation letters used in audits and provides an understandable explanation for clients. Price: $15* per 10 copies.

The Personal Financial Planning Library Series is a collection of guides developed for the *Personal Financial Planning Manual.* The guides may be purchased as a set (No. 017114CL) for $60,* a savings of over $45 if purchased separately. (Members of the PFP Division have received the guides as updates to the manual.)

Guide to Investment Planning (No. 017111CL) covers asset allocation, methods for assessing a client's resources, cash flow, liquidity and investment objectives. Price: $33.75.*

Guide to Risk Management and Insurance Planning (No. 017112CL) enables practitioners to help clients make informed decisions about their various insurance needs, including life insurance, disability insurance, health and long-term care insurance. Price: $42.50.*

Guide to the Personal Financial Planning Process and Professional Standards (No. 017113CL) covers ethics, written financial plans, reporting on personal financial statements, and preparing personal financial statements and projections. It also describes the PFP process and discusses applicable literature and standards. Price: $29.*

To order, write to: AICPA Order Department, CL892, P.O. Box 1003, New York, NY 10108–1003; order via fax, 212/575–6841 (until 8/6); or call 800/334–6961, or 800/248–0445 in New York State (until 8/6). Ask for Operator CL892. After 8/10 fax to 800/362–5066 or call 800/TO–AICPA. Orders for exposure drafts must be written or faxed.

*Prices do not include shipping and handling.

Staff Training Seminars — Fall 1992

AICPA/AHI staff training seminars are for members with minimal to a few years' public accounting experience:
- **Staff Training Basic:** Learn how to bridge the gap between the theory learned in college and the application skills needed in practice. Includes training in basic engagement skills.
- **Staff Training — Semi-Senior:** Find out how to maximize quality and profitability on compilation, review, and audit engagements by approaching technical and practice problems using common sense and professional judgment.
- **Beginning In-Charge:** Enhance planning skills, make better evidence decisions for improved quality and profitability, improve the firm's growth, and learn to communicate more effectively with partners, clients and assistants.
- **Staff Training — Supervisory:** Prepare for engagement responsibilities, including those dealing with staff, partners and client personnel.

All courses except **Staff Training — Supervisory** are available in three- and five-day formats. For a brochure with dates, locations and registration information, write to: Alan Coleman, AICPA CPE, 1211 Avenue of the Americas, New York, NY 10036–8775; or call 800/242–7269 (800/TO–AICPA after 8/24).

The following members have had their memberships automatically *terminated* because of convictions of crimes punishable by more than one year of imprisonment:

- Anthony F. Franjoine of Lancaster, N.Y., on May 8, 1992 — plea of guilty of fourth-degree grand larceny and of filing a false income tax return.
- Cecil R. Whitlock of Bremerton, Wash., on Apr. 8, 1992 — plea of guilty of filing a false claim for a tax refund. Mr. Whitlock had been suspended from membership on Aug. 1, 1989, following the suspension of his CPA certificate for preparing for himself an unauthorized W-2 form and issuing a review report on financial statements for a company in which he had a financial interest. (*The CPA Letter*, Sept. 11, 1989.)
- Joseph D. Ariano of Aldan, Pa., on Apr. 10, 1992 — plea of *nolo contendere* of "conspiracy to obstruct the lawful functions of the IRS and false income tax returns."
- Robert M. Phillips, Sr., of Elk Point, S.D., on Apr. 17, 1992 — plea of guilty of mail fraud.
- Terry D. Etcheverry of Las Vegas on Apr. 27, 1992 — of the felony of "Driving While Under the Influence of Intoxicating Liquor."
- Whan Choi of Melrose Park, Pa., on May 13, 1992 — plea of guilty of bribery of a Federal official and aiding and abetting in committing an offense against the United States.

The following member has had his membership *suspended* pending an appeal under the automatic disciplinary provision:

- Allan F. Meyer of Hollywood, Fla., on May 13, 1992 — conviction of conspiracy, making false statements in relation to documents required by ERISA, embezzlement from an employee benefit plan, and fraud.

The following members have had their memberships automatically *terminated* because of suspension or revocation of their CPA certificates by a state board of accountancy:

- Albert Rich of Springfield, N.J., on Apr. 10, 1992, for knowingly misrepresenting facts by compiling for a client two sets of financial statements reflecting substantially different figures for the same accounting period.
- David K. Griffiths of Elkader, Iowa, on Apr. 15, 1992, following the Arizona State Board of Accountancy's revocation of his Arizona CPA certificate for failure to reply to a directive to respond to a client's complaint and also the revocation of his Iowa CPA certificate due to his failure to respond to communications from the Iowa state board regarding the revocation of his Arizona CPA certificate.
- Maynard B. Hurwitz of San Diego on Apr. 24, 1992, for gross negligence in tax advice and for accepting commissions from brokers in various investments in which he invested client funds, thereby, the state board found, compromising his independence and objectivity and creating a conflict of interest in rendering professional services.
- John D. Gravier of Salt Lake City on May 4, 1992, following the California State Board of Accountancy's revocation of his CPA certificate for engaging in "unprofessional conduct which includes dishonesty, fraud or gross negligence" and for violating its Code by "engaging in conduct which constitutes fiscal dishonesty or breach of fiduciary responsibility of any kind."
- Deborah K. Edmiston of Benton, La., on Apr. 17, 1992, for failure to exercise due professional competence in performing professional services, failure to return tax-related records and data to clients after numerous requests, failure to respond to state board communications regarding her conduct, and failure to appear or to communicate intent to appear before an administrative hearing.
- Mark J. Siegelman of Phoenix on May 13, 1992, for advertising as a CPA after his certificate had been suspended for failure to renew his registration.

The following members have had their memberships *suspended* because of suspension or revocation of their CPA certificates by their state accountancy boards:

- Gail E. Bass of Jackson Heights, N.Y., from Nov. 20, 1991 to Nov. 19, 1992, coincident with the one-year suspension of her license for professional misconduct in which she was charged with fraudulent practice in knowingly preparing false and inaccurate financial statements with fraudulent intent.
- Norman W. Abrams of Beverly Hills from Nov. 26, 1991 to Feb. 25, 1992, coincident with the three-month suspension of his license because the Securities and Exchange Commission had suspended his right to practice as an independent accountant before the Commission for a three-year period beginning Feb. 1988 and ending Feb. 1991.

Ethics Division Activities for 1990–91

The following is a statistical report from the Professional Ethics Division of investigation activity for the years ended Dec. 31, 1990, and 1991. Since the AICPA and the state CPA societies participate in the Joint Ethics Enforcement Program, this report includes investigations conducted by state societies resulting in findings of ethics code violations. The increase in investigations opened is primarily attributable to referrals from federal government agencies and departments.

Activities	1991	1990
Investigations open at start of period		
Active	341	262
Deferred – Litigation	229	215
Subtotal	570	477
Add: Investigations opened during the period	448	437
Subtotal	1,018	914
Less: Investigations closed during the period	379	344
Total	639	570
Investigations open at end of period		
Active	411	341
Deferred – Litigation	228	229
Total	639	570

Disposition of Closed Cases	1991	1990
Trial Board	61	49
Letter of Required Corrective Action	110	68
No Violation	102	90
Complaint Dismissed	74	101
Complied with Required Follow-Up Actions	9	10
No Jurisdiction	7	7
Other	16	19
Total	379	344

Survey Reveals Increase in Master's in Accounting Recipients

More than 59,000 bachelor's and master's degrees in accounting were awarded during the 1990–91 academic year, representing a 3-percent increase from the previous year, according to *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* 1992 survey. Additionally, it was found that 5,540 master's degrees in accounting were awarded during the 1990–91 academic year — a 10-percent increase from the previous academic year.

The survey results also show that fewer new graduates were hired by CPA firms during 1991, reflecting the nationwide recession and the growing use of technology for entry-level work. Other significant findings of the survey were that men and women each comprised 50 percent of the number of accounting graduates; slightly more women than men were hired by public accounting firms in 1991; and nearly 20 percent of accounting graduates were minorities.

One free copy of this year's *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits* (No. G00098) is available by writing to: AICPA Order Department, P.O. Box 1003, New York, NY 10108–1003.

Work Continues on FDIC Improvement Act Regulations

The federal banking regulatory agencies are continuing work on regulations to implement the new banking law *(The CPA Letter,* Jan.-Feb., *Journal of Accountancy,* Apr.). Besides audit and accounting provisions requiring new CPA attestation reports, the law will result in changes in every major area of regulation of banks and thrifts.

The AICPA has learned that some insured depository institutions may not be aware of the major impact that implementing regulations are likely to have. Several draft regulations have been published for comment recently, including one that would implement the law's required "tripwires" to initiate corrective regulatory action at certain institutions based on their capital levels. *Practitioners serving federally insured banks and thrifts should consider alerting their clients to the new law.* Other proposed implementing regulations will be published in the *Federal Register* as they are developed.

The AICPA continues to monitor the rule-making process for proposals affecting CPAs (*The CPA Letter,* Mar.), including implementation of CPA attestation reports on management assertions about compliance with laws and regulations. A draft regulation implementing the new reporting requirements is expected to be published in the *Federal Register* this summer. For a copy of the FDIC Improvement Act (Stock No. 869-015-00242-6), call the Government Printing Office at 202/783–3238, or fax order to 202/512–2250 (VISA or MasterCard charges only; include expiration date). Price: $4.50.

GAO Report Released on Accounting Rules for Depository Institutions

A GAO report on accounting rules for banks concludes that "accounting rules applicable to problem loans are ambiguous and so flexible that, in practice, they are being misused to delay recognition of losses in financial reports." AICPA President Philip B. Chenok responded to the GAO report in a letter to chairmen and ranking minority members of the U.S. House and Senate banking committees. He noted that the Institute supports the setting of standards in the private sector and is confident that the FASB will consider the GAO's concerns in its current project dealing with the question of recognizing and measuring loan impairments. The AICPA also opposes the GAO's suggestion that regulators exercise their authority under the FDIC Improvement Act to prescribe as a "temporary measure" regulatory accounting principles (RAP) that are different from GAAP. The AICPA has consistently cautioned Congress and regulators against creating GAAP/RAP differences.

With respect to "how" the current standards are being applied, Chenok stated that the Institute strives to improve practice among its members by continually providing accounting and auditing guidance. To that end, it will address, as appropriate, the GAO's findings in the 1992 *Audit Risk Alerts* for the banking and thrift industries.

See the Aug. *Journal of Accountancy* for excerpts of Chenok's letter to the GAO and the Oct. issue for an article on implementation. For a free copy of the GAO report (GAO/AFMD-92-52), write to: GAO, P.O. Box 6015, Gaithersburg, MD 20877; call 202/275–6241; or fax (24 hours a day) to 301/258–4066.

AICPA Opposes Legislation Regulating CPA Financial Planners

The AICPA recently told a congressional subcommittee that Congress should not subject CPAs to sweeping new SEC registration requirements because CPAs have not been shown to be a part of fraud and abuse in the investment advisory industry. Still, some in Congress want to regulate as investment advisers all CPAs who market themselves under the title "financial planner." This regulation includes disclosure of compensation, inspection of a practice by the SEC, and compliance with standards on the suitability of advice given to every client.

The AICPA told a House subcommittee that financial planners give general planning advice in areas ranging from estate planning to college funding. Investment advisers, on the other hand, generally have custody of client funds to invest on a discretionary basis and accept fees or commissions from their clients' purchases or sales of *specific* investment products. However, CPAs who do perform these "high-risk" activities would be required to register.

The AICPA will work to block passage of the Investment Adviser Regulatory Enhancement and Disclosure Act of 1992 unless it is amended to exclude those CPAs who do not perform these activities. Providing reinforcement to AICPA efforts, Federal Key Person Contacts and Personal Financial Planning Division members who live in the districts of the subcommittee members have urged the subcommittee members to support these changes.

WASHINGTON AT A GLANCE

AICPA Comments on SEC Small Business Proposal

The AICPA commented on an SEC proposal which would simplify disclosure requirements for both the registration of securities and ongoing reporting requirements for small businesses. The AICPA directed its comments primarily to the proposed definitions of a Small Business Issuer, financial reporting requirements for Regulation S-B filings, and limited offerings subsequent to an initial public offering (IPO). Among the AICPA's recommendations were the following: (1) a Small Business Issuer should be defined as a company with annual average market capitalization that does not exceed a specified amount for the preceding fiscal year; (2) Regulation S-B should require post-IPO filings to include audited financial statements for the same number of periods currently required by Regulation S-X; and (3) simplified reporting requirements are needed for limited offerings by Small Business Issuers that wish to raise additional capital subsequent to an IPO.

AICPA Comments on Proposed Transfer Pricing Rules

In commenting on IRS-proposed regulations concerning intercompany transfer pricing, the AICPA emphasized that regulations should be fully consistent with the arm's-length standard, the internationally accepted norm for evaluating the appropriateness of profit allocations resulting from transfer pricing between controlled taxpayers. To do otherwise, according to the Institute, would subject U.S. taxpayers to a risk of double taxation. The AICPA also said that the regulations should utilize standards that are reasonably flexible and sensibly tolerant of the wide variety of transactions, patterns of business conduct, and investment and trade situations present in international transactions, rather than trying to take into account all of the real-world complexities. The AICPA, reiterating the need for tax simplification, also recommended that optional safe harbors be included to reduce the compliance burden on taxpayers in situations where the potential for tax avoidance is minimal.

Wyden Bill Passes in Subcommittee

The Financial Fraud Detection and Disclosure Act, H.R. 4313, introduced by Rep. Ron Wyden (D-Ore.) (*The CPA Letter,* Apr., June) won approval July 9 from the House Energy and Commerce Subcommittee on Telecommunications and Finance. While the approved bill had improved "safe harbor" provisions on accountants' liability, the AICPA believes H.R. 4313 still is inadequate in terms of protecting auditors from unwarranted lawsuits. The Institute said that H.R. 4313 would federalize professional standards and permit courts "almost unfettered discretion in interpreting the standards." The bill now goes to the full Energy and Commerce Committee for consideration.

CAP Experiences Wanted

To correct pension-plan defects, the IRS wants to complete outstanding audits of pension programs by using its closing agreement program (CAP). The AICPA's CAP Working Group requests accounts of members' experiences with the CAP program for evaluation purposes. Send comments to: Lisa Winton, AICPA, 1455 Pennsylvania Avenue, NW, Washington, DC 20018.

Questions and Answers on OMB Circular A-133 *Issued*

Clarification and guidance about audits of not-for-profit organizations performed under *Office of Management and Budget Circular A-133*, issued in 1990, is provided in ***Questions and Answers on OMB Circular A-133*** (Stock No. 041-001-00374-6). Price: $4.50. To order, write to: Government Printing Office, Superintendent of Documents, Mail Stop; SSOP, Washington, DC 20402–9328; or call 202/783–3238.

SEC Job Openings

The SEC is seeking CPAs to fill staff accountant positions. Candidates should have three years' accounting or auditing experience in a public accounting firm or with a publicly held corporation dealing with corporate reporting practices and SEC disclosure requirements. Salary range: $42,746–$76,447. For an application, call 202/272–7067.

The CPA Letter

American Institute of Certified Public Accountants, Inc.
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036-8775

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AICPA *"The Measure of Excellence"*

The CPA Letter

September 1992
Vol. 72 No. 7

A News Report to Members

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Objectionable Provisions Dropped from Financial Planning Bill

AICPA members played key role

The AICPA collaborated successfully with Rep. Rick Boucher (D-Va.) on legislation to provide broader regulation of financial planners. A bill approved by the House Energy and Commerce Subcommittee on Telecommunications and Finance did not contain either of the provisions the AICPA opposed — the private right of action, under which investors would have been allowed to sue advisers, or a grant of rule-making authority to the SEC to interpret the provisions of the Investment Advisers Act of 1940. Deletion of the rule-making authority preserves the Act's present exclusion from registration granted to accountants who provide investment advice to clients as an incidental part of their services. AICPA Key Persons and members of the Personal Financial Planning Division played the critical role in convincing members of the subcommittee that these two provisions should be removed from the measure.

The amended version of the bill, which the AICPA supports, was introduced by Rep. Boucher as H.R. 5726 and has been approved by the full Energy and Commerce Committee. The AICPA commends Rep. Boucher for moving the bill forward and hopes Congress can enact a bill before it adjourns for the year. The measure next goes to the full House for a vote.

The primary thrust of H.R. 5726 is to increase the SEC's enforcement resources by requiring the Commission to charge higher registration fees, based on the amount of assets the adviser manages, so that more examiners could be hired. The measure also directs existing self-regulatory organizations that govern broker/dealers, but not CPAs, to conduct periodic examinations to determine compliance with the bill. Few, if any, CPAs would be covered under the provision. H.R. 5726 also encourages the SEC to cooperate with state securities agencies to achieve maximum effectiveness of regulations, inspection, and enforcement, as well as maximum uniformity in federal and state regulatory standards. State investment adviser statutes or regulations would not be preempted by H.R. 5726.

Senate Recesses Without Completing Tax Bill

Workload compression, estimated-tax rules remain

The Senate recessed on Aug. 12 without completing work on H.R. 11, the urban-aid bill that includes tax provisions to help correct the workload compression problem and the unworkable, estimated-tax rules. The bill, which passed the House in July (*The CPA Letter*, July-Aug.), is embroiled in election-year politics and faces a number of obstacles before it can gain final congressional approval. First, under Senate rules, unlimited amendments are allowed to be offered to the measure, and more than 100 amendments are waiting in line to be considered when the Senate resumes consideration of H.R. 11 in Sept. Second, the bill is entangled in a tug-of-war between Democrats and Republicans regarding what to do about urban enterprise zones and how the urban-aid changes should be financed. Third, the time remaining to reach agreement on H.R. 11 is running out because Congress is scheduled to adjourn for the year on Oct. 2, and the bill will not be the first to be considered when the Senate returns. The nearness of the Nov. elections means it is not possible for the bill to have an economic effect, which decreases the incentive to reach a compromise and increases the potential for political rhetoric.

If Congress approves H.R. 11, chances are excellent that the AICPA's fiscal-year proposal will be in the bill since it is in the House and Senate versions of the measure. However, the individual estimated-tax provision has become contentious. The Senate version of H.R. 11 raises the safe harbor to 120 percent, from 115 percent in the House version, to pay for other proposals by the Senate Finance Committee, including Chairman Lloyd Bentsen's (D-Tex.) provision to expand Individual Retirement Accounts. Many small firms and businesses find the safe harbor increase unacceptable.

Rhode Island Passes 150-Hour Requirement

Rhode Island's revised accountancy statute, adopted into law on July 21, makes the state the 24th to pass the 150-semester hour education requirement for new CPAs. The law also included a statutory ban on the acceptance of commissions and contingent fees and a quality review privilege provision.

HUD Adopts OMB Circular A-133

The U.S. Department of Housing and Urban Development has adopted OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions,* which establishes uniform requirements for audits of awards provided to institutions of higher education and other nonprofit organizations. Comments on the adoption are due Sept. 25. For more information, see the *Federal Register,* July 27.

Member Life Insurance Plan Entrance Date Approaching

The next entrance date for eligible CPAs to begin or increase coverage in the CPA Plan (for individuals) or the Group Insurance Plan (for firms) is Oct. 1. Up to $750,000 of term life insurance, plus an equal amount of accidental death and dismemberment coverage, is available under the CPA Plan. Similar insurance benefits are provided under the Group Insurance Plan which has a maximum of $300,000 available.

Invitations and descriptive literature about the CPA Plan and Group Insurance Plan were mailed to members recently. For more information, write the Plan Agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, NY 10158; or call 800/223-7473.

Correction

The telephone number for the AICPA's Management of an Accounting Practice Division is 212/575-3814. Members should note the correction on the "Directory of AICPA Services" that appeared in the July-Aug. issue of *The CPA Letter.*

Public Meeting Notices

For a detailed agenda, call 800/TO-AICPA one week prior to the meeting.

Accounting Standards Executive Committee: Sept. 15–17, New York; Nov. 10–12, Orlando.

Annual Members Meeting: Oct. 9, Washington, D.C.

Auditing Standards Board: Sept. 30–Oct. 2, New York; Nov. 10–12, location to be determined; Dec. 1–3, New York.

Board of Examiners: Sept. 24, San Diego.

Council: Oct. 9, Washington, D.C.

Personal Financial Planning Executive Committee: Nov. 9, Nashville.

World Congress Registration Encouraged

To learn about the emerging global economy, members should come to the XIV World Congress of Accountants in Washington, D.C., Oct. 11–14. Take advantage of the last time in this century that the World Congress will be in the United States. Financial professionals from 78 countries will give participants an international networking opportunity. Such distinguished speakers as Pehr Gyllenhammar, Executive Chairman, AB Volvo; Anders Ljungh, The European Bank for Reconstruction and Development; Clark Johnson, CFO, Johnson & Johnson; Ray Groves, Chairman, Ernst & Young; and Arthur Wyatt, Chairman, International Accounting Standards Committee, will address international accounting developments, the international impact of regional market trends, capital formation on a global basis, and the internalization of financial reporting standards. In addition, panels of AICPA Tax Division members will discuss recent important legislative and policy thrusts, as well as what the important tax-policy issues of the next Administration and the '90s are expected to be.

Call the AICPA Meetings & Travel Services Division at 201/938-3232 (fax, 201/938-3169) for details and registration information.

IRS Issues Form 8275-R

The IRS has released Form 8275-R, "Regulation Disclosure Statement," which must be used to disclose items or positions contrary to Treasury regulations. Form 8275-R is filed to avoid the portions of the accuracy-related penalty due to negligence or disregard of regulations or to a substantial understatement of income tax. It also can be used for disclosures relating to preparer penalties for income tax understatements due to positions taken contrary to regulations. For non-regulatory disclosures, Form 8275 continues to apply. The IRS will no longer accept Form 8275 as a substitute for Form 8275-R.

Have You Moved or Changed Jobs?

It is important that all Institute records reflect a member's current status. Please notify AICPA Membership Records about any job, business affiliation or mailing address change. Send a notice of such changes to AICPA Membership Records, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311-3881; or send via fax, 201/938-3108.

Firm Expelled from PCPS

The public accounting firm of Malcolm W. Hughes, Decatur, Ga., was terminated from membership in the Private Companies Practice Section on July 10. The termination is a result of the firm's failure to submit a copy of the report, the letter of comments, and the firm's response to the letter of comments on the most recent peer review of the firm's accounting and auditing practice.

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Geoffrey L. Pickard *Vice-President—Communications*

Ellen J. Goldstein *Editor*

THE FINANCIAL MANAGER'S REPORT

A Quarterly Update for CPAs in Business & Industry ■ September 1992

Industry Members on AICPA Board of Directors Express Their Views

As mentioned in the May edition of *The Financial Manager's Report,* the AICPA Board of Directors for 1992–93 will include four members in industry. We recently spoke to these leaders about their professional activities and their goals as board members. In this issue, we will discuss the comments of Eric Schindler and Ken Hull.

Eric Schindler will join the board in October after serving as Chairman of the Members in Industry Executive Committee (MIEC) for the past two years. Eric is V.P. Finance and Administration for Columbia Paint Company in Spokane, Washington.

When asked what issues would be high on his agenda as a member of the Institute board, Eric cited efforts to reinforce the position of the CPA designation as the premier professional credential for financial managers in business and industry. "The AICPA must continue to communicate to employers about the benefits of employing CPAs on their financial management staffs. I want to be able to read a classified advertisement for a top financial management position ten years from now and see 'CPA required' or 'preferred.'"

Eric also mentioned tort reform as a key issue for the entire profession, including industry members. "Members in industry need to understand and support the AICPA's efforts in fighting for tort reform. Without reform in the professional liability area, escalating insurance costs will shrink the pool of qualified members of the profession willing to perform financial statement audits, thus driving up the costs to businesses of what are often 'required' audits." Eric also feels that the Institute's tort reform initiatives, including efforts to change the comparative negligence rules for securities-related lawsuits, could have a spill-over effect. "Comparative negligence tort reform should eventually lead to product liability reform and directly benefit many employers of industry CPAs."

According to Eric, industry CPAs who want to become more involved in the profession and make the Institute more responsive to their needs should consider volunteering for committee service at the state society or chapter level. "The MIEC is establishing a data base of key industry members, which will include state society committee members. This data base should be useful in alerting these members to current developments and opportunities at the AICPA and can be a valuable resource in obtaining a broad sampling of industry member feedback on professional issues." For those unable to serve on a committee, Eric suggested attending industy forums and conferences sponsored by the AICPA and state CPA societies. "At our annual National Industry Conference, we have established an Industry Committee Forum. We've used the feedback from these forums to shape the committee's positions on key issues, such as the Uniform Accountancy Act."

Industry members often say they feel disconnected from the AICPA. We asked **Ken Hull,** who will be serving his second year on the Institute's board, how he got connected. "After 10 years of paying dues, to both the AICPA and the Illinois CPA Society without realizing why, I decided to find out just what benefits these professional organizations were providing, so I signed on for a committee. Having been actively involved now for many years, I can honestly say that the value returned is far greater than the dues paid."

Ken, V. P. Finance for Follett Corporation in Chicago, added, "The better informed you are about the services provided members, the more you realize how they assist in skills development and professional improvement. And as you become actively involved, at least to the point of remaining informed about all the activities of your state society and the AICPA, that disconnected feeling disappears."

While acknowledging that any one board member can only have a limited short-term influence on AICPA activities, Ken does have an overall goal in mind with respect to his service on the Institute's Board of Directors. " During my term on the board, I would like to see the AICPA move programs forward that will continue to build on the general public's high level of confidence

continued on page 2

Lessons From An Internal Auditor

Chuck Brown, General Auditor of JCPenney Company, Inc., is one of the leading practitioners of internal auditing. He has carved out an important and dynamic role for his function at the retailing giant. At the recent AICPA National Industry Conference, Brown discussed the role of internal audit in an organization. The editors believe this information can be instructive for financial managers who perform a variety of functions for all types of businesses.

Chuck Brown describes auditing as a partnership with management. "The audit function must participate with management to ensure that strategies and expectations are being properly implemented and achieved. Our job is to challenge policies, procedures, programs and activities that are inappropriate, inconsistent, inefficient and ineffective."

An unfortunate perception in some organizations is that internal auditors exist to "dig up dirt," to "create trouble," or, at best, to identify potential problem areas. In a more enlightened approach, Brown says that JCPenney management's instruction to its internal audit staff is to resolve issues, opportunities and problems, not create them. In a cooperative effort with line management, Penney's IA staff acts as a catalyst for resolving issues. "The introduction of objective 'outsiders' (internal auditors) can be especially helpful in the resolution of issues that are cross-functional, sensitive or otherwise controversial."

An important aspect of the internal audit function is working with the audit committee. According to Brown, the committee has some specific expectations from internal audit. These include an annual report on its activities; early notification of significant or sensitive issues; an opinion report on the control system; a statement on the adequacy of the audit staff; the establishment and maintenance of a reporting process to ensure that corrective action is taken; and an assurance of independence.

In return for the commitment to deliver on the organization's needs, Brown believes that the internal auditor is entitled to have certain expectations from management. JCPenney has fashioned an **Internal Auditor's Bill of Rights** (see box). This Bill of Rights consists of a set of principles that can be applied to internal auditors at organizations of all sizes and could certainly apply to all financial managers.

Management's Attitude
Internal Auditor's Bill of Rights

1. **The right to a precise and detailed definition of their responsibilities.**
2. **The right to a full understanding of the corporate policies they are expected to enforce.**
3. **The right to know what kind of moral behavior management expects of its people.**
4. **The right to be problem solvers as well as problem identifiers.**
5. **The right to be brought into the mainstream of the company.**
6. **The right to a complete understanding of the company's goals and aspirations.**
7. **The right to a career path in the company.**
8. **The right to the total support of their company's top management.**
9. **The right to expect senior management to set the right tone for the environment in which they work.**
10. **The right to feel important — indispensable, in fact — to corporate management.**

Industry Members on AICPA Board *(continued from page 1)*

in the services provided by CPAs. Promoting the image that all CPAs are valued advisers to business in areas where they have special skills is critical. In turn, I would like to see all industry CPAs recognize the value of this image by becoming active members of the AICPA. This will build a much stronger professional organization that can be a force for the betterment of all CPAs."

Ken believes that industry members can play an important role in shaping the Institute's future. "I believe all members should continually challenge the Institute leadership to meet their needs. The AICPA is the members' organization and it should provide products and services that the members see as having value."

As always, we welcome readers' comments in reaction to the ideas expressed by Ken and Eric. Please join the AICPA in wishing them success in their terms on the Institute's Board of Directors.

In our next issue, we will talk to Brenda Acken and Tom Jordan, two other industry members who will serve on the Board in 1992–93.

LEARN MORE WHILE LETTING THE AICPA DO YOUR MAGAZINE BROWSING FOR YOU

Are you too busy to catch up on all the business magazines you know you should be reading?

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The AICPA has come up with a solution to all of the above.

Forty-six recently published articles chosen by your peers — recognized leaders in the profession and members of the AICPA Members in Industry Executive Committee — are now available in our new course, ***Selected Readings for Financial Executives.***

Selected Readings is a self-study CPE course which is based on a two-volume collection of recent articles addressing various management, technical and professional issues. To produce *Selected Readings,* the AICPA Members in Industry Executive Committee reviewed over 30 top business and professional periodicals to select the best of the best.

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- *Financial Executive*
- *Management Review*
- Other leading journals

To organize your readings, the CPE Division provides a companion educational workbook that allows you to absorb the key information in a convenient format. Using a question and answer approach, the workbook focuses on the practical applications of the articles and condenses the material into 11 easily digestible chapters.

The chapter format of *Selected Readings* allows readers to focus on one important topic at a time in their reading. Each volume of articles is about the size of a typical business magazine, perfect for business trips or bus and train commutes.

Selected Readings for Financial Executives (No. 731450CL) is available for only **$79,** and you can earn **8 hours of CPE credit.** To order, fill out the form on the back of this notice or call the AICPA Order Department at 800/862–4272. When ordering by phone, please ask for operator CL9. *(If you are a resident of Florida, Missouri or New York, please order by calling your state CPA society: Florida 904/224–2727, Missouri 314/997–7966, New York 212/973–8300.)*

HOW TO ORDER

To order by phone, please call the AICPA Order Department at **800/862–4272.** For prompt service, ask for Operator CL9. Give the operator the product number and your membership number.

By Mail: Enclose your payment or, if you prefer to be billed later (AICPA members only), just complete this form and mail to: **American Institute of CPAs, ATTN: Order Department, P.O. Box 1003, New York, NY 10108–1003.**

By Fax: Just fill out the order form and fax it to the AICPA Order Department at 800/362–5066.

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A New Model for Financial Management

David Allen is chairman of the Financial and Management Accounting Committee (FMAC) of the International Federation of Accountants (IFAC), the coordinating body for the world's accountancy associations. In the following excerpt from an article available through IFAC, he describes in concise and clear language the global trend in the profession away from a historical, passive scorekeeping role to a forward-looking, management-oriented active role. Industry accountants are at the forefront of this trend as their employers look to cut back on any activities not considered value-added. Does your job description fit in with the new model outlined below?

Accounting vs. Financial Management

There are some key differences between the accounting model designed to serve the needs of a passive independent reporter on stewardship and the financial management model designed to serve the needs of the financial manager, proactively involved in the control of an enterprise:

- Accounting is concerned with verifiable facts about the past. This leads to a focus on how much of the wealth created by an enterprise has been realized in the form of tangible assets. Financial management, on the other hand, is concerned with judgments about an uncertain future. Its focus is on the creation of wealth, and hence, on profits as yet unrealized and assets as yet intangible.
- Accounting is governed by objectivity — the characteristic of an outsider looking in. It is therefore rooted in costs and oriented towards capital maintenance: Profit is what you could afford to distribute and still be as well off as you were. Financial management, on the other hand, must embrace subjectivity — the characteristic of an insider looking out. It is therefore rooted in values and oriented towards earning an adequate return: What you need to be capable of distributing in order to warrant the employment of capital.
- Accounting is essentially static, seeking to report on a relatively short, discrete time frame, and is based on such concepts as the distinction between capital and revenue. Financial management, meanwhile, is essentially dynamic, paying due attention to the long-term continuum and based on cash flows and the time value of money (otherwise known as the cost of capital).

None of this is to denigrate the traditional accounting model, which is vital to stewardship reporting. Neither is it to support calls heard in many quarters to modify it so as to include some judgment (e.g., replacement costs or intangibles) which, by definition, would destroy objective verifiability. Rather, it is to highlight the fact that members of the profession who are employed within enterprises are concerned not only with accounting but also with financial management.

Two Aspects of Financial Management

In this respect, financial management comprises two distinct but interrelated aspects. The external aspect, usually referred to as the treasury function, is concerned with the relationship between the enterprise and the capital market, notably:

- The identification of sources of funds, ranging from borrowings through various hybrids to equity capital;
- The assessment of the likely reward expectations of the providers of funds, which will take the form of interest and dividends and, usually, also tax; and
- The employment of the various sources to the extent, and in the proportions, deemed appropriate.

Meanwhile, the internal aspect, usually referred to as the financial control function, is concerned with the relationship between the enterprise and its constituent businesses (in most cases defined in terms of products and/or markets), notably:

- The identification of opportunities to expand in particular business areas;
- The assessment of the likely returns on each; and
- The deployment of funds in support of those opportunities considered to be worthwhile.

The key link between the two aspects is the time value of money — what the treasurer sees as the rate of return necessary to warrant the employment of funds, the controller sees as the criterion for their deployment. In this way, the discipline of the capital market is harnessed as a basis for the allocation of resources within the enterprise, thereby maximizing its chances of survival and growth.

Specifically, this leads to the expression of the financial objective of an enterprise as being the maximization of the value of the enterprise which, for all practical purposes, means the maximization of the net present value of projected cash flows to its investors.

Industry accountants should embrace the role as a key member of the management team working toward meeting that objective.

The full text of the original article can be obtained by calling Milou Kelley of IFAC at 212/486–2446.

Benchmarking and Competitive Superiority

By Gary D. Zeune, CPA, CPC, and Jerald D. Vaughan

As we move well into the '90s, the quality movement has gained considerable momentum in the U.S. At several larger manufacturing firms, such as Ford Motor and Xerox Corporation, an early component of their quality-improvement efforts was benchmarking. However, you don't have to be a large company to use benchmarking. Smaller companies are now discovering the power of this process-improvement technique.

What is benchmarking? It is simply selecting an internal process or practice that can be improved and identifying, through research, the firm that is the "benchmark" for that particular process. In discovering what's behind the "best of the best," benchmarking allows you to not only find out *what* "world-class" firms are doing, but also *how* they are doing it. Basically, you are determining the extent of the gaps between your performance and the benchmark's and developing improvement action plans to close those gaps.

Benchmarking can be a powerful tool to achieve competitive superiority. But how do you know what to benchmark? It is important to establish priorities, or the organization may become overwhelmed with so many studies and projects that successful implementation is jeopardized. A key question: What are my company's critical success factors? Your strategic planning process will be a good place to start; however, don't forget to ask, "What's important to the customer?" Benchmarking is an excellent tool for clarifying customer requirements and building effective internal processes for delivering them.

You don't have to be a Xerox to gain the benefits of benchmarking. Many small to mid-sized companies, both manufacturing and service, are now using the process. For example, Atlanta-based Risk Sciences Group, Inc., a $2.6 million insurance firm, used benchmarking to gain better cost control and to assure their clients that they are getting the best service at the most competitive prices. As a result, Risk Sciences has achieved much higher client retention and 1991 revenue growth of 57% over 1990.

Benchmarking is not a quick fix. It requires commitment by top management and extensive training for successful implementation. There will be a unique learning curve associated with your specific business, but benchmarking can provide "windows" to the external environment and to customers. Benchmarking is a way for firms to become learning organizations focusing on the continuous improvement that will allow them to attain competitive superiority.

World-class companies have used benchmarking to achieve and maintain that status. Such companies will share their success with you as long as you return the favor (other than trade secrets). Do your research. Find the best, make a telephone call and get started.

Gary D. Zeune of Columbus, Ohio, specializes in strategy formulation and implementation for small to mid-sized companies and publishes *The Competitive Superiority Report: How "Ordinary" Companies Thrive on Competition.* For a free copy, call 614/221–6228.

Jerald D. Vaughan of Discovery Organizational Consulting in Columbus, Ohio, specializes in quality strategy development and implementation. For information on process improvement and training, call 614/236–9636.

Industry Executives Highlight World Congress of Accountants Program

Business globalization means your company will increasingly look to you for advice. Develop your international financial savvy by attending the XIV World Congress of Accountants, October 11–14, 1992, in Washington, D.C. Industry executives like Pehr G. Gyllenhammar (Executive Chairman, AB Volvo), John Flaherty (Vice President & General Auditor, PepsiCo, Inc.), W. Selwyn MacFarlane (Finance Director, SA Breweries, Ltd.), Clark H. Johnson (CFO, Johnson & Johnson) and Hugh R. Collum (CFO, SmithKline Beecham) will bring an international corporate perspective to this World Congress program that you'll value and appreciate.

Even if your company doesn't yet participate directly in the world market, you need to broaden your understanding of the emerging global economy and learn about changes in international finance and accounting. The World Congress convenes only once every five years and won't return to the U.S. until sometime in the 21st century! Boost your career and enhance your global knowledge by participating in the XIV World Congress of Accountants! Call the AICPA Meetings & Travel Services Division at 201/938–3232 for details and registration information.

AICPA "The Measure of Excellence"

American Institute of Certified Public Accountants

Accounting Educators: FYI

Volume IV, Number 1—September 1992

In this issue . . .

Robert K. Elliott of KPMG Peat Marwick and the Accounting Education Change Commission, with contributions from the PW and AICPA foundations, turned his Wildman award check into a $40,000 scholarship fund for minority Ph.D. students.

See story on page 2.

The 1992 AICPA **Accounting Educators Mini-Conference** is selling out quickly. You should register soon to assure your place at this important colloquium.

See notice on page 3.

Firms are using **computer-based accounting packages** more and more in everyday practice. You'll want to keep your students current, and you might even find a need for hands-on training programs among practitioners in your area.

See story on page 4.

The AECC released its position statement on **the first course in accounting.**

See story on page 5.

The AICPA's Academic and Career Development Division is issuing the first-ever ***Directory of Accounting Programs***, containing up-to-date information on over 700 accounting programs.

See notice on page 6.

Once again, Ernst & Young is ranked as the **largest of the large** firms. While the big firms provide many opportunities, smaller concerns have much to offer as well.

See stories on page 8.

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Volunteer Opportunities 4
1992 AICPA Fellowships 5

FINDING THE SILVER LINING

by Rick Elam

The modern accounting profession may be going through the most dramatic changes since it was born with the Securities Acts of 1933 and 1934. The silver lining among the clouds is that accounting faculty have a forceful incentive to look beyond their daily activities by participating in the creation of a strategic plan for their department or school.

The profession has matured to the point that accounting firms and university accounting programs are faced with an environment of level-to-declining demand for their products. At the same time, a general sluggishness in the United States economy is causing severe budget problems for state-funded colleges and universities and families considering sending their children to private institutions. Heaped on top of all that is the litigation crisis which threatens the very existence of the most prestigious CPA firms. Speaker after speaker at the most recent American Accounting Association meeting lamented the changes in the profession and outlined threats to its future.

The grim news is not limited to the accounting profession. In fact, university accounting programs may be the least impacted of the traditional business disciplines. The American Assembly of Collegiate Schools of Business recently published a special report of its Strategic Issues Committee, *Crisis and Survival.* That report is summarized in the opening paragraph which says, "Economic hard times have reached North American universities and business schools. Problems being faced by these institutions are not likely to be temporary in nature, but rather to last through the decade of the '90s....It is not an overstatement to say that a crisis is at hand and that survival is a key issue ...."

To receive a copy of *Crisis and Survival*, a special report of the Strategic Issues Committee of the American Assembly of Collegiate Schools of Business, write to the AACSB at 605 Old Ballas Road, Ste. 220 St. Louis, MO 63141.

STRATEGIC PLANNING

The only way that accounting programs can survive and maybe even prosper in these troubled times is through serious strategic planning efforts. Gone are the days when the most important agenda item for accounting faculty meetings is choice of a new intermediate text. No longer is the department chair's biggest problem finding seats to accommodate an ever-growing number of students. Most schools are still full of students, but the number of applicants is falling.

A key first step in strategic planning is to understand who you are and whom you serve. My impression, based on many accreditation visits and working with many schools considering implementing 150-hour or graduate programs, is that almost no accounting department has taken the trouble to analyze the demographics of its student body. Some have a vague notion of the percentage of

(continued on page 7)

News & Notes

Thomas I. Snelling, of Wake Forest's Babcock Graduate School of Management, has been appointed the SEC Academic Fellow for the 1992–93 academic year. Snelling will be taking over for outgoing Fellow **Robert W. Rouse,** who is moving into a new position as Chair of the Accounting Department at the College of Charleston in Charleston, SC.

Beta Alpha Psi, the national honor society for accounting, recognized three "Accountants of the Year" at its Honors Banquet on August 8 in Crystal City, VA. In education, the honoree was **Belverd Needles** of DePaul University, who also won the 1992 AICPA Outstanding Educator Award last spring. **Kathryn Whitmire,** former Mayor of Houston, was recognized in the industry/government category, and in public accounting, BAΨ selected AICPA Chairman **Gerald A. Polansky** of Deloitte & Touche.

Winners of the 1992 EDUCOM Higher Education Software Awards were announced on August 7 in Snowmass Village, CO. The 1992 program, operated jointly with the University of Maryland, focused on the disciplinary categories of Social Sciences, Natural Sciences, and Accounting.

In accounting, *Introduction of Audit Excellence, Part II,* was selected for recognition. This program, by **Murray Hirsch, Brent Inman, Maria Sieber,** and **Sean Wood,** all of Coopers & Lybrand, was also a cited as a Best Accounting Curriculum Innovation.

The software award mentioned above will be presented at **EDUCOM '92,** a national conference on technology in education to be held in Baltimore, MD, on October 28–31. For more information, send E-Mail to CONF @ EDUCOM.

The 1992 Conference of the **League for Innovation in the Community College** will be held on October 21–24 in Orlando, FL. For more information, call Pat Grunder at (904) 395-5180; FAX (904) 395-5581.

Next Spring, the third **Critical Perspectives on Accounting Symposium** will he held in New York City. The meeting, scheduled for April 16–18 at Baruch College, will focus on "Critically Re-Appraising Accounting." For more information, including the call for papers, contact Toby Tinker at (212) 447-3202; FAX (212) 447-3193.

Putting an Award to Work

Elliott Makes Award-Winning Gift

Robert K. Elliott, a partner at KPMG Peat Marwick and winner of this year's Wildman award, demonstrated the commitment for which he won that award by using it as the cornerstone of a $40,000 scholarship fund for minority accounting Ph.D. students.

The Wildman Medal Award, presented annually by the American Accounting Association in recognition of outstanding contributions to the profession, is funded by Deloitte & Touche. Mr. Elliott, Assistant to the Chairman of KPMG Peat Marwick, is well-known to accounting educators for his insightful presentations on the changing nature of the profession at myriad meetings and conferences. He also serves on the Accounting Education Change Commission and numerous other committees and task forces. His most recent service to the AICPA has been on the Strategic Planning Committee and the Board of Directors.

Robert K. Elliott

Elliott added to the $2,500 award with $7,500 of his own, creating a seed fund of $10,000. He then asked the KPMG Peat Marwick Foundation to match that amount, which they agreed to do, thus raising the amount to $20,000. He next approached AICPA President Philip Chenok about the possibility of the Institute matching the $20,000 already committed. Recognizing the importance of this effort, Chenok asked the AICPA Foundation to allocate $20,000 not already earmarked for this purpose to the new fund, thereby making a total of $40,000 available for awards.

This fund will be used solely and specifically to encourage African-American Ph.D. students to complete their doctoral degrees in accounting and to enter university teaching. Amounts will be awarded to qualified students (that is, African-Americans who have earned at least a bachelor's degree from an accredited institution and who have been accepted into a Ph.D. program in accounting).

The awards will be made by the AICPA's Minority Recruitment and Equal Opportunity Committee in conjunction with its ongoing Minority Doctoral Fellowships Program. As with all minority financial assistance programs, awards and renewals are subject to regular review by the trustees of the AICPA Foundation and are contingent upon the students' maintenance of good academic standing and satisfactory progress toward their terminal degrees. Acknowledging the impact this gift will have, AICPA Vice President – Education Rick Elam extended thanks to Mr. Elliott "on behalf of the members of the AICPA and future African-American accounting professors."

Application information and materials for the 1993 AICPA Minority Doctoral Fellowships program will be mailed to accounting departments in December 1992. ❖

AICPA Academic and Career Development Division
announces

The 1992 ACCOUNTING EDUCATORS MINI-CONFERENCE

November 6 – 7, 1992
The Buttes Resort, Phoenix, Arizona

in cooperation with the
School of Accountancy, Arizona State University

INNOVATIONS IN ACCOUNTING PEDAGOGY

PROGRAM

Friday, November 6

8:00a – 8:30a	Continental Breakfast
8:30a – 10:30a	WORKING WITH GROUPS (Larry Michaelson, *University of Oklahoma)*
11:00a – 12:00n	CASE "WARM-UP" (Richard Brownlee, *University of Virginia)*
12:00n – 1:30p	Box Lunch and CASE PREPARATION
1:30p – 3:30p	USING THE CASE METHOD (Richard Brownlee)
4:00p – 6:00p	TEACHING WRITING SKILLS (Claire May, *University of South Alabama)*
6:00p – 8:00p	Reception
6:30p – 12:00m	EXHIBITS/WORKSHOPS (Robert Jensen, *Trinity University;* Joel Levy, *Goldstein Golub Kessler PC)* **Refreshments served at 10:00p.**

Saturday, November 7

7:30a – 8:00a	Continental Breakfast
8:00a – 10:00a	CONCURRENT CASE SESSIONS (Four sessions at each of which two winners of the 1992 Professor/Practitioner Case Development Program will present.)
10:30a – 12:30p	CONCURRENT CASE SESSIONS repeated
12:30p – 1:30p	Luncheon Banquet and Adjournment
2:00p – ?	Social Events

Registration Fee ..... $180/AICPA members
$195/non-members
Recommended CPE .... 15 hours

The 1992 AICPA Accounting Educators Mini-Conference
November 6 – 7, 1992 at Phoenix, Arizona

REGISTRATION FORM

Mail to: AICPA Meetings Registration, PO Box 1008, New York, NY 10108

Registration Fee: $180 (AICPA MEMBERS)/$195 (NON-MEMBERS)

Please register me for the 1992 AICPA Accounting Educators Mini-Conference. My check for $______ is enclosed. (Full payment must accompany registration.)

BATES#___________
(AICPA USE ONLY)

Registrant's Last Name *First Name* *MI* *Nickname*

College or University Name or Affiliation

Street Address *Room Number or Suite*

Post Office Box

City *State* *Zip Code*

AICPA Membership Number (for discounted registration) *Daytime A/C & Tel.*

Name and telephone number of individual to contact in case of emergency

HOTEL INFORMATION: Reserve your hotel accommodations directly. Call THE BUTTES RESORT at (602) 225-9000, or write to them at 2000 Westcourt Way, Tempe, AZ 85282 by October 15, 1992. After October 15 rooms will be on a space-available basis only. Identify yourself as an attendee of the AICPA Accounting Educators Mini-Conference in order to obtain our group rate of $125 for a single or double room. To guarantee your room for late arrival, a credit card number or first night's deposit is required.

CANCELLATION POLICY: Full refunds will be issued on written cancellations received by October 16, 1992. Written cancellations received after October 16 but before October 30, 1992, will be issued a refund less a $25 administrative charge. No refunds will be issued on cancellation requests received after October 30, 1992.

AIRLINE DISCOUNT: AMERICAN AIRLINES is offering an exclusive discount for this conference. Call them at (800) 433-1790 and refer to Star File #S-05Z2B3 to receive 5% off the lowest available fare or 45% off regular coach fare. (The AICPA is not liable for penalties incurred if you cancel or change your airline reservations.)

Supporting Future CPAs

Scholarships for Minority Students

In late July, the Scholarships Task Force of the AICPA Minority Recruitment and Equal Opportunity Task Force met to review applications for the 1992 AICPA Scholarships for Minority Accounting Students. These awards, made annually each summer, are designed to assist students with a significant potential to become CPAs in the pursuit of their educational goals.

In the 1992 round, close to 2,000 applications were received and over 230 awards made, totalling $357,000. Several recipients were designated joint AICPA-Arthur Andersen Scholars, in recognition of a gift by the large public accounting firm.

Information and application materials for the 1993 awards will be mailed to accounting and financial aid departments in December 1992. ❖

Volunteer Opportunities

Accountants for the Public Interest (API) is seeking accountants to volunteer their time and expertise to nonprofits, small businesses, and individuals who need, but cannot afford, professional accounting services.

Volunteers are needed in several areas, including direct service (such as short-term technical or tax assistance), advisory service (for example, financial management, budgets, and loan applications), and community affairs service (through workshops and Boards of Directors service).

Volunteering provides an opportunity to help an organization or small business in your community while broadening your professional skills, gaining practical experience, and developing professional contacts. So make an offer that can't be refused: volunteer! Contact Accountants for the Public Interest in Washington, DC; telephone (202) 347-1668.

Technology Update

1992 Accounting Software Survey

by Sheldon Needle

This article originally appeared in the June 1992 issue of The Practicing CPA, *and is reprinted here with permission. The report on which this summary is based is available from CTS, 11708 Ibsen Drive, Rockville, MD 20852; telephone (800) 433-8015 [in Maryland, (301) 468-4800].*

Last March, CTS, a publisher of software evaluation materials, released the results of its fifth annual accounting software survey in which consultants and CPAs are asked to rate the accounting software systems they recommend and install. The survey findings are helpful to businesses in the process of selecting a system as well as to consultants. The software rated includes nine of the leading integrated accounting systems: ACCPAC PLUS, ACCPAC BPI, Platinum, Great Plains, RealWorld, Macola, State of the Art (MAS90), Open Systems, and Solomon III. These systems, priced at between $395 and $995 per module, are used by a variety of businesses, including wholesale distribution, service, retail, and light manufacturing.

Survey participants were asked to rate the systems according to the following criteria:

- ❑ *Performance.* The speed of menu and screen changes, file updates, report generation, and so on.
- ❑ *Stability.* Database reliability, file/error recovery, lack of program bugs.
- ❑ *Flexibility.* The system's adaptability to specialized needs through built-in customization features (data entry screens, forms generators, field additions, etc.), report writers, file import utilities, and/or modifications to source code.
- ❑ *Ease of use.* The ease of installing, learning, and using the package; the ability of the client to use and maintain the system without constant support from a consultant or vendor.
- ❑ *Consultant/vendor relations.* The consultant's overall satisfaction in working with the vendor. This includes sales leads, product image and presence in the marketplace, cooperative advertising, sales territory protection, product training programs, qualified installer programs, and upgrade policies.
- ❑ *Vendor support.* The overall quality of vendor support, including telephone response time and nature of response, notification of problem fixes, and critical update (e.g. payroll) availability.

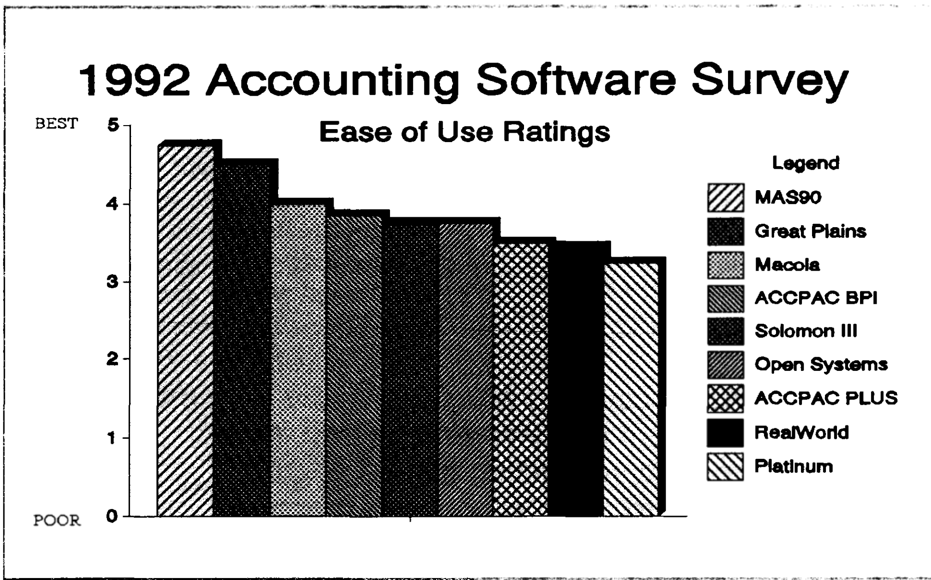
In addition to assigning ratings on a scale of 1 (unacceptable) to 5 (outstanding), the participants were asked to state what they like best and least about each system.

HIGHLIGHTS OF RESULTS

The three top-rated accounting packages were Great Plains, Macola, and State of the Art (MAS90). Great Plains was rated best for support, stability, and consultant/vendor relations. MAS90 was rated best for ease of use and was rated second only to Platinum for flexibility. Macola, while not at the top of any one category, rated well across the board.

After years of steady slippage, Solomon III seems to be regaining its traction in the marketplace and showed improved ratings for support, vendor relations, and performance. Open Systems also has regained a bit of its former strength, with consultants generally being pleased with versions 4.0 and 4.1. ACCPAC PLUS fell somewhat behind, and several respondents believe it needs a major face-lift.

Platinum is an interesting question mark for many consultants. Although IBM is no longer marketing Platinum, its involvement left the product with much more integrity in terms of documentation and stability than before. There seems to be still room for improvement in support of the Platinum product, however.



SPECIFIC CONCERNS

Some of the more important concerns are the availability and location of training programs. Consultants and CPAs wish to remain current. They do not want to have to travel long distances to receive training, however. Turnaround time on support calls is another concern, especially when the call is made at the client's site.

Some respondents complained of vendors having too many upgrades and of clients having to pay both for the upgrades and for the work necessary to install them. Presumably, however, the upgrades are at least partly due to consultant and user requests. The availability of software customization tools such as source code, interfaces to executive information systems, and links to third-party software were also mentioned as important ways of providing a greater level of client satisfaction.

Polling the opinions of consultants who work extensively with leading accounting software highlights what issues are critical to them and their clients. Two areas always at the top of the list are support and ease of use. ❖

Building on Objectives

AECC Releases Statement on the "First Course"

The Accounting Education Change Commission recently released is Position Statement No. Two, "The First Course in Accounting." The statement discusses the importance of this course, noting that "organizations have accountability and responsibilities to their constituencies, and accounting, properly used, is a powerful tool in creating information to improve the decisions that affect those constituents."

The statement goes on to explore the objectives of the first course in accounting, primary among which "is for students to learn about accounting as an information development and communication function that supports economic decision-making." The AECC paper also looks at faculty issues and teaching methods relevant to the first course.

Copies of the statement may be obtained from the AECC at 21515 Hawthorne Boulevard, Union Bank Tower Suite 1200, Torrance, CA 90503-6503. ❖

Tomorrow's Educators

AICPA Fellowships; Carey Scholarships

The Financial Assistance Task Force awarded new AICPA Fellowships to 15 CPAs returning to school to obtain their Ph.D. degrees and join the accounting professoriate. The 1992 AICPA Fellows are:

Benjamin Ayers (University of Texas at Austin); **Barbara Chaney** (University of Georgia); **Barbara Esteves** (Michigan State University); **David Gelb** (New York University); **Rita Jankovich** (University of North Carolina at Chapel Hill); **Mary Kasson** (Washington University); **Kevin Litke** (University of Illinois at Urbana-Champaign); **Dana McCartney** (University of Texas at Austin); **Lillian Mills** (University of Michigan); **Michael Mikhail** (University of Chicago); **Stephen Moehrle** (Indiana University); **Laura Simmons** (University of North Carolina at Chapel Hill); **James Wallace** (University of Washington); **Constance Weaver** (Arizona State University); **Kurt Wojdat** (State University of New York at Buffalo).

These Fellowships, worth $5,000 for each of up to three years, are designed to encourage practicing CPAs interested in teaching to return to school in pursuit of their doctoral degrees. Applicants must be U.S. citizens and CPAs. The task force also looks at the nature and depth of practical experience each applicant can bring to the classroom.

In a related activity, the Task Force awarded a John F. Carey Scholarship to **Jen-Jen Lin,** an MFA graduate of the University of Illinois at Urbana-Champaign who has been accepted into Bentley College's MS in Accounting program. The Carey Scholarships, honoring the late AICPA chief of staff, provide support for Master's-level study in accounting for baccalaureate graduates of Yale and the University of Georgia as well as UIUC.

Application materials for 1993 awards under these programs will be distributed in December 1992. ❖

AICPA Academic and Career Development Division
announces

The 1992 - 93 AICPA DIRECTORY OF ACCOUNTING EDUCATION

Containing up-to-date information on over 700 accounting programs in the United States. Names, addresses and telephone numbers of administrators and faculty, concise program descriptions for each accounting degree offered, and other important data are included for each school and program.

Anticipated publication date: October 19, 1992
Cover price: $42.79
(Educators' price of $29.95 reflects 30% discount)

To: **AICPA Order Department**
PO Box 1003
New York, NY 10108-1003

Please reserve _____ copy(ies) of the 1992-93 *AICPA Directory of Accounting Education,* which will be available in October 1992.

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TOTAL......__________

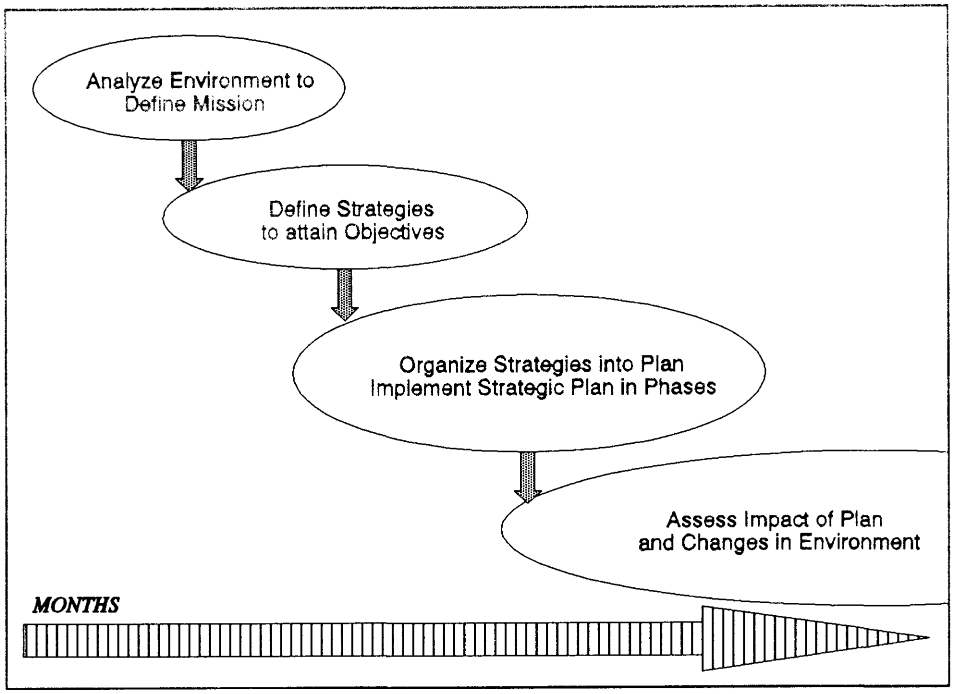
Silver Lining *(continued from page 1)*

females and possibly the percentage of minority students, but none seems to know which high schools are its primary feeders, how many students come through community college or, maybe more important, what becomes of all its students. Faculty know about a few top students, particularly those that come back to recruit, but don't have a clue about what percentage of their graduates actually go to graduate school, become certified public accountants, or remain in public accounting firms. Strategic planning requires a consensus about the future. Members of the faculty must study and debate environmental issues and trends that are going to effect their program in the future. National statistics are of little use because most colleges and universities serve a very limited geographic population. Your planning effort should include a meeting with the central administration's chief planner. They know the demographics of your institution and can also discuss central administration's view of the future. With the demographic and environmental information in hand the faculty can begin to make assumptions about the future.

MISSION STATEMENT

A mission statement is the fundamental starting point for any strategic planning effort. The faculty deliberations necessary to come to a consensus for a department's mission can be an agonizing process. But they serve to bring consensus among the members as to the environment and direction of the organization. Without that debate and consensus with its final mission product, an accounting department is simply going to be thrown by the winds of change rather than able to navigate through the rough waters ahead.

With the mission statement in hand, general objectives and more specific strategies can then be discussed and approved. From these strategies come implementation and a looping process



A Strategic Planning Model

to reevaluate them for further refinement and improvement of the accounting program.

PITFALLS

There are four recurring pitfalls in every strategic planning effort:

① The effort looks at too short a time horizon.

② The discussion rushes too quickly to the strategies without being firmly anchored with a well-developed mission statement.

③ The planning effort gets bogged down in a discussion of details of proposed activities before their strategic importance has been thoroughly debated.

④ The strategic plan is not implemented. One of the keys to implementation of a strategic plan is to carefully link it to all budgeting activities.

FINDING THE SILVER LINING

A well-conceived strategic plan produces a clear understanding of the environmental issues and trends which have an impact on the program; a sense of the various constituencies served by the program and their needs; a lucid and well-structured mission statement, including attainable objectives; workable strategies for accomplishing those objectives, and the well-reasoned and enthusiastic support of those involved in implementing the plan.

These are troubled times for the accounting profession and for universities. Accounting departments that make the effort to understand their environment, create a realistic mission statement, and implement a dependable strategic plan will be able to look through the clouds for new opportunities and future success. ❖

RICK ELAM, Ph.D., CPA, is Vice President – Education of the AICPA. His views, as expressed in this article, do not necessarily reflect the views of the American Institute of Certified Public Accountants. Official positions are determined through certain specific committee procedures, due process and deliberation.

Size alone reinforces the view of the largest firms as offering substantial opportunity for joint projects, consulting, student placement, and other interaction; they have tremendous resources and commitment to academe. However, as is pointed out in the accompanying piece (from the June 1992 issue of *The Practicing CPA)*, smaller firms also have much to offer local campuses.

1992 Firm Rankings

E&Y's PA Practice Is Nation's Largest

Ernst & Young's public accounting practice was ranked the country's largest in *Public Accounting Report*'s 1992 survey of America's top 100 public accounting firms.

Although Arthur Andersen is a larger firm when its consulting division is included, the survey found that E&Y, with net revenues of more than $2.2 billion in its last fiscal year, has the largest public accounting practice. (Overall, AA had more than $2.4 billion in net revenues in its last fiscal year.)

Growth among the six largest firms averaged 3.5%, with Price Waterhouse leading the way with an 8.3% increase in net revenues versus the previous fiscal year. Overall, PW had net revenues of $1.3 billion. Deloitte & Touche, with net revenues of nearly $2 billion, ranked third, followed by KPMG Peat Marwick ($1.8 billion), Coopers & Lybrand (nearly $1.5 billion), and PW.

Grant Thornton, with net revenues of $206 million, ranked seventh, followed by McGladrey & Pullen, Kenneth Leventhal & Co., and BDO Seidman. Among these firms, Kenneth Leventhal was the growth leader with a 9.7% increase in net revenues versus the previous fiscal year.

Large regional firms that experienced significant growth in the last fiscal year include Larson, Allen, Weishair & Co., Minneapolis (26.3%), Altschuler, Melvoin and Glasser, Chicago (21%), and Goldstein, Golub, Kessler & Co., New York (19%). Miller, Kaplan, Arase & Co., of North Hollywood, California, with net revenues of $6.5 million, experienced a 20.4% growth versus the previous fiscal year.

Overall, the survey found that 20% of the 100 largest firms experienced a decline in revenues, and another 20% failed to achieve revenue growth equal to the rate of inflation. Mark Carr, managing editor of *PAR*, says many firms experienced revenue decline in traditional areas such as audit and tax.

"The competition among firms for audit work has increased," Carr explains. In addition, the competition has increased between firms with consulting practices and pure consulting firms. ❖

Opportunities Abound

Making Students Aware of Smaller Firms

Two years ago, a number of local and regional firms in the Phoenix area met to discuss ways to tell students about the career opportunities available with smaller CPA firms. The meeting was the idea of Kumen Jones, faculty advisor to the Beta Alpha Psi chapter at Arizona State University (ASU), and Carlos Wagner, partner in Phoenix-based Miller Wagner & Company, Ltd., who were concerned that students think of careers primarily at large firms.

As a result of that meeting, a coalition was formed of about 10 local and regional firms actively involved at ASU and with Beta Alpha Psi (BAΨ) to support a program to make students aware of the benefits of working for a smaller CPA firm.

The Quality Career Alternatives (QCA) program was formed during the 1990–91 academic year. The coalition sponsored a reception following the BAΨ pledge orientation meeting, hosted a firm tour, and doubled smaller firm representation at two "Meet the Firms" evening sessions.

This year, the QCA coalition has held a reception for accounting faculty, provided a speaker for the BAΨ annual honors and initiation banquet, and cohosted a baseball game tailgate party. In addition, a number of QCA members attended BAΨ's annual accounting circle banquet. These efforts have been well received.

QCA has been successful in reaching students early in their college years, one of its aims. BAΨ and the ASU School of Accountancy have strongly supported the program, and the coalition members have developed the close camaraderie essential to making it work. The common goal is to help students make the right career decision and to choose the firm environment best suited to them. After all, no one gains when a student makes a wrong decision and must find a new job a few years later.

The coalition members can point to many benefits a smaller CPA firm can offer. These include diversity of experience, the chance to work with smaller clients, a more personal relationship with partners and clients, and the opportunity for early responsibility. By making the advantages known, the QCA coalition has significantly boosted the number of students seeking positions at smaller firms.

As word has spread that a program can be developed to let students know about career options, other universities have inquired about contacting firms and getting their students involved. If you are interested in starting a similar program, call Mr. Jones at (602) 965-7219, or Mr. Wagner at (602) 264-6835 for further information. ❖

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Stephen J. Anspacher, *Editor*

Securities Litigation Reform Legislation Introduced; AICPA Supports Bills

Bipartisan securities litigation reform legislation was introduced this week in the House and Senate (S. 3181 and H.R. 5828). The chief Senate cosponsors of S. 3181 are Senators Pete Domenici (R-N.M.) and Terry Sanford (D-N.C.), while Rep. Billy Tauzin (D-La.), Rep. Norman Lent (R-N.Y.), Rep. Ralph Hall (D-Tex.), and Rep. Don Ritter (R-Pa.) introduced H.R. 5828 in the House. Hearings will be held in both the House and Senate in early 1993. The legislation was endorsed by the Coalition to Eliminate Abusive Securities Suits (CEASS) and its 300 corporate, accounting, financial institution and association members. The AICPA is a leading participant in CEASS.

Both bills require that judgments against certain co-defendants be based on proportionate contributions to claimed losses rather than on ability to pay most or all of the entire judgment. The measures also put potential plaintiffs and their lawyers on notice that they may have to pay the defendant's legal fees if their allegations are deemed meritless. Large legal bills and the threat of joint and several liability are powerful inducements for defendants to settle baseless securities-fraud allegations, according to CEASS. The Coalition believes the "loser pays" and proportionate liability provisions will give innocent defendants a compelling reason to fight frivolous suits.

At the same time, the legislation has been carefully drafted to ensure that investors with valid claims are not discouraged from filing suits. By relieving the courts of baseless suits, the bills also will help investors with legitimate claims recover losses in a timely and equitable manner.

"Proportionate liability is especially welcomed by the accounting profession and others who are sued because they are deep pockets," said AICPA President Philip B. Chenok. "The current doctrine of joint and several liability must be replaced if accountants are to continue performing audits in high-risk situations, such as initial public offerings," added Chenok, pointing out that a competent outside audit is a requirement for any company seeking to raise capital.

AICPA Brief Aids New York Court in Reaffirming Favorable Ruling

The New York Court of Appeals in a July 1 ruling strengthened the protection of auditors against claims by non-clients based on allegedly negligent audits. The court refused to impose liability upon an auditor in a negligence action brought by a lender where the only link between the auditor and the lender was a 10-minute telephone call, placed by the lender after the completion of audit field work, in which the lender advised the auditor that it intended to rely on the audit report in extending credit to the auditor's client.

The Institute filed an amicus brief to the Court of Appeals contending that a professional relationship, and concomitant legal duties, should not be thrust upon an accountant by the unilateral act of a non-client. The Institute argued that any decision permitting a third party to impose that duty unilaterally would undermine prior case law requiring mutual obligations similar to a contract, and would wrongfully create a loan-insurance vehicle for free-riding lenders.

The court rejected the lender's claim, finding that no negligence claim could be asserted by the lender because no relationship of privity or near-privity existed between the parties. The court stated that: "[the third-party lender] cannot unilaterally create such an extraordinary obligation, imposing negligence liability of significant commercial dimension and consequences by merely interposing and announcing its reliance.... The facile acquisition of deep pocket surety coverage, with no opportunity for actuarial assessment and self-protection, by the party sought to be charged, at the mere cost of a telephone call by the lender, is a bargain premium rate indeed."

The Court of Appeals also rejected the implication that sweeping liability should be newly and involuntarily imposed on the entire accounting profession by the simple act of lenders communicating their reliance. In so doing, the court enhanced the protections available to accountants under the law of New York and those jurisdictions that have adopted the New York rule.

IRS Impersonators Swindling Taxpayers; Members Asked to Help

The U.S. Department of the Treasury has reported that the number of people impersonating IRS employees has been steadily increasing. Impersonators often use illegal methods to gain access to confidential records, specifically those of elderly people, widows, widowers, minorities, and small-business owners.

The IRS's Internal Security Division investigated more than 157 cases in the first six months of 1992, compared to 167 cases in all of 1991. As a result, the Department has undertaken an educational campaign to help prevent citizens from being swindled.

Members are asked to notify their clients, customers and associates, as well as family and friends, that they should not give information about their credit cards, bank accounts, or other financial matters to someone who calls on the phone. Individuals who suspect they are being victimized by an impersonator should call their local IRS Inspectors or the toll-free Inspection Hot Line at 800/366–4484 immediately.

Members also can help clients, customers and associates, and inform themselves of impersonator schemes, by requesting that an IRS employee speak at a meeting. IRS Inspection employees are available to speak about the typical schemes, proper identification of IRS officials, Internal Security's jurisdiction, and how taxpayers should protect themselves against impersonation schemes. For further information on obtaining an IRS speaker, call either your local Internal Revenue Service Office or 800/829–1040.

For examples of the types of schemes used to prey on unsuspecting individuals, see next month's issue of the *Journal of Accountancy*.

AICPA Acknowledged for Helping to Improve Pension Plan Audits

The cooperative working relationship between the AICPA and the Pension and Welfare Benefits Administration to help improve the performance of ERISA-required audits was recounted by Secretary of Labor Lynn Martin in the U.S. Department of Labor's Semi-Annual Management Report. Secretary Martin referred to the AICPA's audit and accounting guide, *Audits of Employee Benefit Plans,* and the annual National Audit and Accounting Conference as critical milestones toward raising the quality of ERISA audits.

Also, Secretary Martin on May 12 provided Congress the Administration's legislative proposal that addresses: (1) the repeal of the limited-scope exemption for certain pension plan audits; (2) the establishment of triennial peer reviews of independent public accountants who audit pension plans; (3) the requirement that plan auditors and administrators report certain information directly to the Secretary of Labor when they have reason to believe that violations of certain criminal laws may have occurred with respect to the plan; and (4) the requirement for more timely notification to the Secretary of any termination of an accountant from an auditing engagement. Bills (S. 2708 and H.R. 5158) were introduced on May 13 by Senator Orrin Hatch (R-Utah) and Congresswoman Marge Roukema (R-N.J.). The AICPA supports some of the provisions, such as repeal of the limited-scope exemption, but not the entire proposal as currently drafted.

FASB's Fair Value Project Continues; Prepayment Risk Is Off Agenda

The Financial Accounting Standards Board announced it will move ahead with expanding the use of fair value accounting for investments in debt and equity securities, but retain the current practice of using the amortized cost method for debt securities for which management has both a positive intent and the ability to hold to maturity. The FASB's approach would restrict the types of debt securities that could be considered as investments and reported at amortized cost. A formal proposal for public comment is expected to be voted on in early fall.

The FASB also announced that it has removed from its technical agenda a project on accounting for investments with prepayment risk. An exposure draft, *Accounting for Investments with Prepayment Risk,* was issued last Sept. (*The CPA Letter,* Nov. 1991) and a final Statement was expected to be issued this summer. After narrowing the scope of the possible Statement, based on comments received on the exposure draft and the advice of Financial Instruments Task Force members, the FASB decided that the improvements in financial reporting expected to result from the narrowed scope would not be sufficient to justify requiring a change at this time.

Statement Issued on Coordination, Communication Between Bank Auditors and Examiners

An interagency policy statement on coordination and communication between the external auditors and examiners of banks and thrifts was issued by the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. Included are guidelines about what reports and supervisory documents should be provided by institutions to their external auditors, as well as guidelines on attendance by external auditors at meetings between management and examiners. Institutions are encouraged to promptly advise their external auditors of the dates and scope of supervisory examinations to facilitate the auditor's planning and scheduling of work.

The policy statement encourages institutions to provide their external auditors with a report of any actions initiated or undertaken by a federal banking agency since the beginning of the period covered by the audit, or any similar action taken by an appropriate state bank supervisor. The policy statement also encourages auditors to attend examination exit conferences upon completion of field work or other meetings between supervisory examiners and an institution's management or board of directors, at which examination findings are discussed that are relevant to the scope of the audit. In addition, the auditor may request a meeting with any or all of the appropriate federal bank and thrift regulatory agencies that are involved in the supervision of the institution or its holding company during, or after completion of, examinations to inquire about supervisory matters relevant to the institution being audited. For a copy of the July 15 policy statement, call the Federal Reserve at 202/452–3244.

AICPA Comments on Rules for Changing Accounting Methods

The AICPA commented to the IRS about an area that taxpayers and practitioners have had particular difficulty understanding—rules for changing accounting methods. The AICPA told the IRS that although new guidance issued in Rev. Proc. 92-20 (*The CPA Letter,* Apr.) is an improvement over guidance contained in Rev. Proc. 84-74, it creates many new questions. The Institute also said that Rev. Proc. 92-20 does not meet the AICPA's goal of a simpler, more consistent approach to accounting-method changes. The AICPA made specific suggestions about how Rev. Proc. 92-20 could be improved, but said that adoption of the suggestions "will not remedy the systemic problem presented by the current rules." Practitioners are cautioned about the complexity and difficulty of working with these rules. For a copy of the AICPA's comments, send a 10" x 13" self-addressed, stamped envelope with 98 cents in postage to: AICPA, Rev. Proc. 92-20 Comments, 1455 Pennsylvania Ave., NW, Washington, DC 20004–1081.

The Sept. 15 date for submitting estimated tax payments is fast approaching, and Congress has not repealed the new estimated-tax rules. The AICPA's ***Estimated Tax Practice Guide*** will assist practitioners in calculating individual estimated taxes under the rules enacted last Nov. (*The CPA Letter,* Dec. 1991). Copies were mailed to Tax Division members earlier this year. To receive a copy, send a 10" x 13" self-addressed, stamped envelope with 98 cents in postage to: AICPA, *Estimated Tax Practice Guide,* 1455 Pennsylvania Ave., NW, Washington, DC 20004–1081.

The AICPA Auditing Standards Division has issued Statement of Position 92-2, ***Questions and Answers on the Term "Reasonably Objective Basis" and Other Issues Affecting Prospective Financial Statements*** (No. 014865CL). The SOP provides guidance about accountants' services on prospective financial information and makes recommendations regarding presentation and disclosure of prospective financial information. Price: $5.50.*

Year-end tax planning materials, designed for use through Dec., are now available. These items are designed for presentation to general audiences:

21 Tax-Saving Tips for 1992 (No. 890658CL) is a brochure which outlines actions and strategies individuals can follow to reduce their 1992 tax bills. It includes a summary of recent tax changes and a chart of 1992 tax rates. Price: $20* per 100 copies.

Year-End Tax Planning: Covering All the Bases (No. 889523CL) is a 34-color-slide presentation, with a script, covering topics from basic tax-saving strategies to specific actions to reduce tax liability. The brochure above may serve as a handout. Price: $140* for the first set; additional set $70.* No returns will be accepted.

Tax-Trimming Tips for 1992 (No. 890666CL) is a 20–25 minute speech summarizing recent tax changes and providing tips to help individuals lower taxable income and maximize itemized deductions. The speech comes with a media interview guide containing 20 questions similar to those CPAs may receive during press interviews. Price: $4.50.*

The Management of an Accounting Practice Committee has issued ***Managing the Malpractice Maze*** (No. 090380CL). The book alerts members to the full extent of malpractice litigation against accountants and addresses strategies for reducing the likelihood of claims. It provides information on identifying and screening high-risk clients, engagements and industries; drafting effective engagement letters; and choosing among malpractice insurance carriers and policies. A 10-step plan to follow when a claim is brought against a CPA firm is featured as well. Price: $37.*

The Accounting Profession in Mexico — second edition, revised (No. 010107CL), describes Mexico's accounting and auditing standards and compares them with those generally accepted in the United States. Price: $30.*

The Employee Benefit Plans Committee has issued Statement of Position 92-6, ***Accounting and Reporting by Health and Welfare Benefit Plans*** (No. 014869CL), which amends chapter 4 of the audit and accounting guide, *Audits of Employee Benefit Plans.* The SOP updates the guide to conform to the standards set forth in FASB Statement 106, *Employers' Accounting for Post-Retirement Benefits Other Than Pensions,* as applicable, and changes or clarifies various accounting and reporting requirements for health and welfare plans. Price: $5.50.*

The **International Federation of Accountants** has issued the following pronouncements:

- ***Other Information in Documents Containing Audited Financial Statements*** (No. 019437CL)
- ***Applicability of International Standards on Auditing to the Audit of Financial Statements of Governments and Other Non-Business Public Sector Entities*** (No. 019367CL)
- ***Audit Evidence — Additional Guidance on Long-Term Investments and Segment Information*** (No. 019039CL)

Price: $5.50* each.

Minimizing Homeowner Expenses: Cost-Cutting Tips (No. 889519CL) is a new brochure in the **"Consumer Guide"** series. The brochure offers suggestions for lowering mortgage expenses and discusses property taxes, home equity loans, and the tax deductions available to homeowners. Price: $20* per 100 copies.

Developing and Improving Clients' Recruitment, Selection, and Orientation Programs (No. 055133CL) is a practice aid that provides both practitioners and members in industry with useful information for establishing or enhancing policies and procedures regarding recruitment, selection, and orientation of personnel. A case study and sample forms provide specific examples of how to apply the general information. (Copies have been mailed to MCS Division members.) Price: $13.*

Assisting Closely Held Businesses to Plan for Succession (No. 055134CL) describes the issues practitioners need to consider and an approach they may take to assist clients in planning for business succession. Family succession and sale to key employees are emphasized, but information on other alternatives is also provided. The practice aid includes a sample checklist of company and industry information and a case study illustrating several approaches to succession planning. (Copies have been mailed to MCS Division members). Price: $13.*

To order AICPA products and publications, write: AICPA Order Department, CL992, P.O. Box 1003, New York, NY 10108–1003; order via fax, 800/362–5066; or call 800/TO–AICPA. Ask for Operator CL992. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., Eastern Time.
*Prices do not include shipping and handling.

New Videocourses Focus on Tax Issues and Recent Accounting Standards

New videocourses offered by the AICPA's CPE Division will help members keep current on various tax developments and explain recently issued accounting standards.

There are four 90-minute tax updates in which Sid Kess interviews leading tax experts who review the most important tax changes affecting businesses and individual clients. The videos have been improved in format and clarity and are enhanced with full-screen video graphics that show major points and examples covered. A paperback manual containing an outline guide, plentiful review items, and related readings comes with each video.

The **1992 Tax Planning for Individuals Videocourse** covers investments, personal residences, retirement plan distributions, charitable giving, and estate planning. Specialists discuss tax-planning strategies. Additional strategies are included in the course manual's video outline guide. Recommended CPE credit: 6 hours group study; 4 hours self study. Price: $125 for one VHS tape/manual (No. 111230CL); additional manual (No. 111450CL) $25.

The **1992 Tax Planning for Businesses Videocourse** focuses on S corporations, business valuations, pension plans, alternative minimum tax, and the troubled business. The course manual's video outline guide includes additional tax-planning tips and techniques. Recommended CPE credit: 6 hours group study; 4 hours self study. Price: $125 for one VHS tape/manual (No. 111216CL); additional manual (No. 111416CL) $25.

Two of the videocourses will be available after Sept. 29. The **1992 Tax Developments for Individuals Videocourse** discusses income items, personal residence and estimated tax; deductions, losses and credits; retirement distributions; fringe benefits; and estate and gift tax, including legislative developments and their effects on tax-planning opportunities. Recommended CPE credit: 6 hours group study; 4 hours self study. Price: $125 for one VHS tape/manual (No. 119405CL); additional manual (No. 119415CL) $25. The **1992 Tax Developments for Businesses Videocourse** covers the latest tax developments crucial to the financial plans of companies and business clients. Tax experts address S corporations, C corporations, tax accounting, and retirement plans. Recommended CPE credit: 6 hours group study; 4 hours self study. Price: $125 for one VHS tape/manual (No. 119326CL); additional manual (No. 119526CL) $25.

Also available is the **1992 Accounting Standards Update Videocourse.** This two-hour video explains the key provisions of the most recent accounting standards issued by the Financial Accounting Standards Board (including its Statement 109) and the AICPA's Accounting Standards Executive Committee. Representatives from the FASB and the AICPA are interviewed by John Hudson, vice-president, Technical Standards and Services. The course covers SFAS Nos. 106, 107, 108, and 109; SAS 69; and SOPs 91-1, 92-2, 92-3, and 92-5. Recommended CPE credit: 8 hours group study; 6 hours self study. Price: $140 for one VHS tape/manual (No. 182200CL); additional manual (No. 352200CL) $50.

To order videocourses, write: AICPA Order Department, P.O. Box 1003, New York, NY 10108–1003; call 800/862–4272; or fax to 800/362–5066. Prices do not include shipping and handling.

New 1040 Tax Clinic *Offered Nationwide*

The AICPA, in conjunction with 28 state societies, will offer a two-day **1040 Tax Clinic** beginning next month (*The CPA Letter,* June). This basic-to-intermediate course will provide participants with all the latest information on key tax-law changes, procedures, preparation tips, and tax-form changes. The seminar, which focuses on the more complex issues of 1040 tax-form preparation, is designed for practitioners with less than five years' experience and experienced paraprofessional, part-time or seasonal staff. Early-bird price: $195 (fee must be received 14 or more days prior to Clinic; $219 after that date). For a brochure with course details and registration information, write: AICPA Tax Clinic, c/o Alan Coleman, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311–3881; or call CPE Group Study Marketing at 800/862–4272.

IIA Releases Exposure Drafts of Three New Statements

The Internal Auditing Standards Board (IASB) of the Institute of Internal Auditors (IIA) has issued exposure drafts of three new Statements on Internal Auditing Standards (SIASs). SIASs are authoritative interpretations of the *Standards for the Professional Practice of Internal Auditing.* The exposure drafts are: (1) *1992 Omnibus Statement* which addresses a number of issues related to audit working papers and communicating results; (2) *Planning the Audit Assignment* which provides additional guidance to improve the quality and effectiveness of audit performance; and (3) *Follow-up in the Performance of Audit Work* which provides additional guidance on how to arrive at an effective follow-up process.

To order these exposure drafts, call Bonnie Ulmer of the IIA's Professional Practices Division at 407/830–7600 ext. 240. The first three copies are free. The comment deadline for each exposure draft is Oct. 3.

DOL Announces Additional Clarification for "Grace Period" Reporting

The Department of Labor's (DOL) Pension and Welfare Benefits Administration (PWBA) has clarified two issues involving its "grace period" for filing annual employee benefit plan reports (*The CPA Letter,* May). Technical details about the clarifications are in the July 24 *Federal Register.*

Currently, "top hat" pension plan (plans for select groups of management or highly compensated employees) administrators who failed to comply with the DOL's alternative method of reporting by filing a required one-time statement must file annual reports with the DOL. During the grace period, however, which ends Sept. 30, administrators of "top hat" plans will be allowed to file retroactively the one-time statement instead of annual reports. In addition, any plan administrator who filed an annual report after its due date, but prior to Mar. 23 (when the grace period began), will be eligible to take advantage of the grace period's lesser penalty amount. The penalty rate during the grace period is substantially lower than normal penalties and applies to each employee benefit plan for every year a required annual report is not filed. The rate, $50 a day per filing up to a maximum of $1,000, also applies to unfiled "top hat" statements. Additional information concerning PWBA's grace period for submitting employee benefit plan annual reports is available by calling the PWBA at 202/523–4006.

Federal IGs Report Some Audits Improved, Others Need Improvement

The federal Inspectors General (IGs) reported that audits under OMB Circular A-128, *Audits of State and Local Governments,* performed by independent public accountants were generally of good quality. Their findings were based on desk and quality control reviews conducted during the six-month period ended Mar. 31. The IGs found only 2.4% of the A-128 audits required major changes or were significantly inadequate. The IGs also reported, however, that improvement is needed in the quality of audits performed under OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions,* which became effective in 1990. Forty-three percent of the A-133 audit reports subjected to desk and quality control reviews required major changes or were significantly inadequate. The reasons cited include incomplete auditors' opinions, lack of adherence to government auditing standards, inadequate financial statement disclosure, and inadequate documentation of substantive testing of compliance with laws and regulations.

DISCIPLINARY ACTIONS

The following members were suspended from membership on May 8, coincident with the Arizona State Board of Accountancy's indefinite suspensions of their CPA certificates for failure to comply with the board's CPE requirements: Glen B. Banks, Mesa; Stephen M. Woloshin, Scottsdale; Richard R. Flinn, Flagstaff; and Jeffrey B. Cohn, Richard H. Dozer, Frank B. Pugh, Larry M. Steffes, Wilfred H. Vandenberg and Robert A. Williams, Phoenix.

The following actions were taken by the Joint Trial Board on May 27:

- Theodore D. Miller of Neshaminy Valley, Pa., was expelled from membership in the AICPA and the Pennsylvania Institute of CPAs for failing to cooperate with the Pennsylvania Institute's Committee on Professional Ethics in a disciplinary investigation.
- Charles J. Davitian of New York City and Timothy O. Johnsen, Jr., of Bayshore, N.Y., were expelled from membership in the New York State Society of CPAs and the AICPA for failing to cooperate with the New York State Society of CPAs' Professional Ethics Committee in disciplinary investigations.
- Alan G. Harrow of Merrick, N.Y., was admonished for violating the auditing standards and accounting principles rules of the codes of professional conduct of the New York State Society of CPAs and the AICPA in connection with his preparation of statements and related independent auditors report of an employee's pension fund for the year ended Dec. 31, 1988. In addition, he is required to submit within 90 days one work product of an audit of an employee benefit plan for review by the Institute's Technical Standards Subcommittee and to submit proof of completion of specified CPE courses. If he does not comply with the panel's directives, the panel reserved the right to reconvene and reconsider its decision.

None of the respondents requested reviews of the decisions, which then became effective on June 26.

On Dec. 10, 1991, the Joint Trial Board found James F. Belfiore of Simsbury, Conn., guilty of violating the codes of professional conduct of the AICPA and the Connecticut Society of CPAs by failing to exercise due professional care in the performance of a governmental audit for the fiscal year ended June 30, 1989, by expressing an opinion that financial statements were presented in conformity with generally accepted accounting principles when such statements contained material departures therefrom, and by failing to follow standards and/or procedures or other requirements in governmental audits. He was admonished and directed to complete specified CPE courses within one year of the hearing panel's decision. Failure to complete the courses would result in automatic expulsions from membership in the AICPA and the Connecticut Society of CPAs. Mr. Belfiore's request for a review of the decision was denied on May 27, the decision's effective date.

The membership of Jay R. Lehn of New York City was terminated on June 17, 1992. Mr. Lehn had been convicted in a New York State county court on his plea of guilty of failing to file his 1987 New York State income tax returns on time.

The membership of Mack E. Tarwater of Phoenix was suspended from Dec. 9, 1991 to June 15, 1992, coincident with the suspension of his CPA certificate for failure to comply with the Arizona State Board's CPE requirements.

Final Rule on Lender Liability Issued by EPA

The Office of the Comptroller of the Currency (OCC) has issued Banking Bulletin (BB) 92-38 regarding lender liability under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The law exempts from liability those persons who hold indicia of ownership in a facility primarily to protect their security interest; however, the exemption does not apply if such a person participates in the management of the facility. The key terms defining what actions constitute management of a facility are set forth in a final rule regarding lender liability issued by the U.S. Environmental Protection Agency on Apr. 29. The OCC notes in BB 92-38 that the final rule does not address banks acting in a fiduciary capacity and suggests such banks continue to assure themselves that they are properly addressing potential CERCLA liability. In the bulletin, the OCC suggests that national banks can protect themselves by not participating in the management of properties in which they have a security interest. For a copy of BB 92-38, write: OCC, Publications Division, 250 E Street, SW, Washington, DC 20219; or fax a request to the OCC at 202/874–5263, ATTN: Publications Division.

AICPA Testifies Before Congress on Independent Contractor Issue

Recommendations to help alleviate problems regarding the misclassification of employees as independent contractors were made by the AICPA while testifying at a recent House Ways and Means Subcommittee hearing. The Institute recommended: 1) a definitive safe harbor be created which would result in less complexity and would increase the likelihood of taxpayer compliance; 2) a uniform definition of "employee" be developed since it is now defined differently for payroll tax, fringe benefit, pension, and itemized deduction purposes; and 3) the prior audit rule of Section 530 of the Revenue Act of 1978 be modified. Modification of the prior audit rule would ensure that a taxpayer could rely on independent contractor status only where, as in previous audits, the worker-status issue has been raised. The AICPA also recommended an education program be developed to heighten awareness of rules relating to independent contractors for the contractor, employee, employer, and professional adviser; additional requirements be imposed to notify independent contractors; and the penalty be increased for failing to file Form 1099.

AICPA Comments on Proposed Regulations Regarding Deposits of Payroll Taxes

The AICPA told the IRS that it is pleased with efforts to simplify the payroll-tax deposit system, but that additional simplification measures could be adopted. The Institute recommended the IRS examine other payroll-tax deposit systems, such as one where all employers (other than $100,000, one-day depositors) would deposit payroll taxes three banking days after the payroll date. Significant comments on the proposed regulations were as follows: 1) Before an employer is required to become a semi-weekly depositor, there should be at least two calendar-year quarters in the base period when the employment-tax deposit obligation exceeds $12,000; 2) An employer should be allowed to determine its payroll depositor status for a period of four quarters, rather than having to test the status each quarter; and 3) The *de minimis* safe harbor should be $1,000 or less, rather than $500 as proposed.

Wyden Bill Gains Full Committee Approval

The Financial Fraud Detection and Disclosure Act, H.R. 4313, introduced by Rep. Ron Wyden (D-Ore.) (*The CPA Letter,* Apr., June), was approved by the full House Energy and Commerce Committee on July 28, following subcommittee approval on July 9 (*The CPA Letter,* July-Aug.). The AICPA continues to oppose H.R. 4313. While the House is expected to pass the bill before Congress adjourns in the fall, Senate consideration of the legislation is unlikely this year. However, Congress will renew its consideration of Rep. Wyden's bill next year.

The CPA Letter

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The CPA Letter

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AICPA Board Urges Tort Reform, Endorses Large-Firm Position Paper

Specialty designation in business valuation and "super majority" approval requirement for AcSEC established

In recognition of the growing litigation crisis, the AICPA Board of Directors at its Sept. 10–11 meeting approved a strongly worded resolution regarding legal liability. The board expressed its belief that reform of federal securities laws would be an important first step in instituting broader liability reform and expressed support for work being done at the state level to reduce the threat posed by unwarranted liability.

As part of the resolution, the board endorsed a position paper released by the largest accounting firms on the liability crisis (see story on page 4). According to the board, the paper fairly reflects the nature of the litigation crisis and appropriately emphasizes that in seeking litigation reform, the profession is not attempting to avoid responsibility where accountants have breached their duty.

"The board's resolution is yet another demonstration of the seriousness of the litigation threat affecting this country," said AICPA President Philip B. Chenok. "Under the concept of 'joint and several liability,' accountants, as 'deep pockets,' can be forced to pay 100 percent of the damages in a case in which they are found to be only partially at fault. That's unfair," he added.

The board's resolution and the large-firm position paper will appear in full text in the Nov. issue of the *Journal of Accountancy.*

Also approved at the meeting was creation of a new specialty in business valuation and a "super majority" voting requirement for the Accounting Standards Executive Committee.

Acknowledging that CPAs are widely recognized as possessing the skills and experience to perform business valuations, the board agreed to a specialty designation to enable members to obtain their business valuation credentials from within the CPA profession. A program for accreditation will now be developed by the AICPA's Specialization Accreditation Board with input from the Management Consulting Services Division's Executive Committee and Business Valuation Specialist Subcommittee.

AcSEC's switch to a two-thirds vote from a simple majority comes after a similar move by the Financial Accounting Standards Board in Jan. 1991. The requirement will apply to approvals for exposure drafts and final issuance of AcSEC statements of position, industry audit and accounting guides, and practice bulletins. It follows issuance of Statement on Auditing Standards No. 69 which gave added authority to AcSEC-issued pronouncements (*The CPA Letter,* Jan.-Feb.).

In other actions, the board:

- Approved the appointment of 17 members to the newly created Executive Committee on Women and Family Issues (*The CPA Letter,* June).
- Was given an overview of the AICPA's new Communications Strategy and Plan, which was developed after holding focus groups with buyers of accounting services and conducting surveys of representatives of the national print media. The plan's primary objectives are to further improve the external image of CPAs and to increase awareness of the CPA's broad business expertise. Implementation of the plan will take place over the next 18 to 24 months.
- Received a progress report from the chairman of the Task Force on Non-CPA Ownership in CPA firms.
- Approved a recommendation on AICPA initiatives to encourage the best and the brightest minority students to enter accounting programs and earn the CPA certificate.

Profession Mobilizes to Help Hurricane Andrew Victims

Consistent with the accounting profession's volunteer efforts after natural disasters and other crises, such as the Los Angeles riots (*The CPA Letter*, June), the Florida Institute of CPAs, the Society of Louisiana CPAs, and the AICPA have organized public service activities to help victims of Hurricane Andrew.

The Florida Institute of CPAs established a volunteer telephone assistance program whereby individuals and businesses can call toll-free for basic financial advice, and sent local radio stations public service announcements (PSAs) promoting its help hot-line. The Society of Louisiana CPAs has designated Oct. 17 for its volunteering members to provide in-person consultations to hurricane victims; the society will promote this assistance through PSAs. Pro bono technical assistance, in the form of advising on reconstructing financial records, calculating loss deductions, filing amended 1991 income tax returns, obtaining replacement credit cards and identification, and applying for available federal disaster-relief loans, among other things, is being offered by the societies' volunteers. Society members affected by the hurricane have been offered emergency office space and technical supplies by their colleagues.

The Private Companies Practice Section of the AICPA's Division for CPA Firms also pledged support for accounting firms in Hurricane Andrew's path. Relief efforts are being coordinated with the state societies.

Taking a general and long-term approach to disaster support, the AICPA's Tax Division is preparing a practice guide detailing proper tax treatment of events or transactions resulting from disasters. The guide will be distributed to state societies for their members to use in helping disaster victims. The Institute also plans to pursue changes in the tax law relating to disaster victims. A bill introduced in the House of Representatives (H.R. 5640) would extend from two years to four years the time people have to replace property lost in a presidentially declared disaster. The bill also would allow people to not pay tax on insurance money received for loss of personal property as long as the lost property is replaced.

At press time, the Hawaii Society of CPAs was considering what assistance it could provide to victims of the island's mid-Sept. hurricane.

Firm Terminated from Enrollment in AICPA Quality Review Program

Effective June 29, the enrollment of the firm of Posen, Patron & Co., N.Y., in the AICPA's Quality Review Program was terminated because the firm did not submit a response to matters discussed in the letter of comments on the most recent quality review of the firm's accounting and auditing practice.

AICPA Library Move Rescheduled

The relocation of the AICPA's New York Library (*The CPA Letter*, July-Aug.) has been rescheduled. The library will close at 5:00 p.m. on Oct. 2 and reopen at 9:00 a.m. on Nov. 2, Eastern Time. During this time, books may be returned by insured mail or in person to the sixth-floor reception desk. The library's new location will be on Concourse Level 1 at 1211 Avenue of the Americas, New York City.

Tax Bill Action Possible

At press time, the Senate was expected to resume consideration of the tax bill (*The CPA Letter*, Sept.) at the end of Sept. Any of the bill's provisions affecting members, such as those to help correct the workload compression problem and the current estimated-tax payment rules, will be discussed in the Nov. issue of *The CPA Letter*.

Journal of Accountancy *Wins Award*

For the third year in a row, the AICPA's *Journal of Accountancy* has won an award for excellence in a national competition sponsored by Communications Concepts, a Washington, D.C., publisher of materials for professional communicators. The *Journal* competed in the category of Subscription Magazines/Journals and was given the award based on "excellence in graphic design, editorial content and the ability to achieve overall communications excellence."

Have You Moved or Changed Jobs?

So that all Institute records reflect a member's current status, please notify AICPA Membership Records about any job, business affiliation or mailing address change. *Membership Records will ensure that address changes are made for all publications included in your membership.* Send a notice of above-mentioned changes to AICPA Membership Records, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311–3881; or send via fax, 201/938–3108.

Public Meeting Notices

For a detailed agenda, call 800/TO–AICPA one week prior to the meeting.

Accounting Standards Executive Committee: Nov. 10–12, Orlando.

Annual Members Meeting: Oct. 9, Washington, D.C.

Auditing Standards Board: Nov. 10–12, New York; Dec. 1–3, New York.

Council: Oct. 9, Washington, D.C.

Personal Financial Planning Executive Committee: Nov. 9, Nashville.

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Geoffrey L. Pickard
Vice-President—Communications

Ellen J. Goldstein
Editor

FASB Issues EDs on Insurance Companies, Fair Value Accounting, and Statement 110

The Financial Accounting Standards Board has issued an exposure draft that would make it clear that all applicable authoritative accounting pronouncements, such as those issued by the FASB, must be followed by a mutual life insurance enterprise wishing to describe its financial statements as being in conformity with generally accepted accounting principles (GAAP). The proposal concludes that financial statements of mutual life insurance enterprises based on statutory accounting practices should not be described as "prepared in conformity with GAAP." If adopted as a final Interpretation, the proposal would be effective for calendar year 1993 financial statements. Comments are due Nov. 16.

Also issued was an exposure draft that would expand the use of fair value accounting for investments in debt and equity securities (*The CPA Letter,* Sept.). Under the exposure draft, securities would be classified as either "held to maturity" and reported at amortized cost; "trading securities" and reported at fair value, with unrealized gains and losses included in earnings; or "securities available for sale" and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

The exposure draft would supersede FASB Statement 12 on marketable securities and its related Interpretations, as well as amend FASB Statement 65 on mortgage banking to eliminate mortgage-backed securities from its scope. If adopted as a final Statement, the proposal would be effective in calendar-year 1994. Comments are due Dec. 8.

For a copy of either exposure draft, available without charge through its comment period, write: FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

The FASB's recently issued Statement 110 on investment contracts specifies that a defined benefit pension plan must report investment contracts issued by insurance enterprises or other entities at fair value. The Statement is effective for financial statements for fiscal years beginning after Dec. 15, 1992, but need not be applied to deposit administration and immediate participation guarantee contracts entered into before Mar. 20, 1992. Statement 110 amends FASB Statement 35.

For a copy of Statement 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts,* write: FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116; or call its Order Department at 203/847–0700, ext. 555. Price: $10, prepaid; quantity and other discounts may apply. CT orders add 6 percent sales tax.

Dept. of Ed. Issues Technical Bulletin; New HEA Audit Requirements Delay SOP

The U.S. Department of Education on Sept. 4 issued Non-Federal Technical Bulletin 92-1, updating its guide for audits of student financial assistance programs and the related compliance supplement for audits conducted in accordance with OMB Circular A-133, *Audits of Institutions of Higher Education and Other Non-Profit Institutions.* The bulletin takes effect Oct. 4.

In audits for which fieldwork begins prior to Oct. 4, auditors may issue their reports in accordance with the interim guidance in the AICPA's Audit Risk Alert, *Not-for-Profit Organizations Industry Alert — 1992.* Audits in which fieldwork begins after Oct. 4 will be expected to include audit coverage of activities carried out by service organizations. To satisfy this requirement, the institution's auditors may: (1) perform the necessary audit procedures themselves; (2) use and take responsibility for the audit work performed by the service organization's auditors; or (3) obtain a report prepared by the service organization's auditor and submit both reports.

Also, new audit requirements contained in Congress's Higher Education Amendments of 1992 resulted in the AICPA's decision not to finalize the proposed statement of position, *Compliance and Internal Control Auditing for Student Financial Assistance Programs Using Service Organizations,* issued as an exposure draft in Apr. (*The CPA Letter,* June). The SOP proposed guidance on using approach (3) described above. However, for audits in which fieldwork begins after Oct. 4, the Department of Education has indicated that the guidance in the proposed SOP should be followed if approach (3) is used. To minimize duplication of audit reporting, the department is advising institutions or their auditors to contact the cognizant regional Office of Inspector General to determine whether it will be necessary to physically submit the service organization's audit reports. Copies of the proposed SOP are available from there as well.

When the new audit requirements are finalized, the applicability of this guidance to future audits will be addressed.

QREC Acts to Reduce Quality Review Costs for Small Firms

To reduce review costs for small firms, the Quality Review Executive Committee (QREC) has agreed that a previous interpretation applicable only to sole practitioners with no professional staff should be extended to those who have up to four professionals. As a result, such practitioners may be able to reduce the out-of-pocket costs associated with their reviews by having the review conducted "through the mail and over the phone." (QREC also eliminated an earlier interpretation's requirement for a personal meeting between reviewer and sole practitioner.) Electing this approach has no effect on the report that is issued. It is still a report on the firm's system of quality review.

Also, the committee decided not to act on a proposal affecting sole practitioners and small firms having only a few audits and having already had an unqualified report on an on-site review. Under that proposal, subsequent reviews of those firms could be off-site report reviews supplemented by review of audit working papers. However, QREC concluded, partly from informal comments by members around the country, that such a change would confuse both the public and members by creating another type of report and would also reduce confidence in the profession's commitment to improving the quality of practice.

Large Firms Unite in Fighting Liability Crisis

The nation's six largest accounting firms have collaborated on an intensified effort to find solutions to the liability problems plaguing the accounting profession, businesses and the economy. In a recently issued position paper, *The Liability Crisis in the United States: Impact on the Accounting Profession,* the six firms spell out the repercussions of the liability explosion and articulate the reasons why reform is needed.

"A liability system seriously lacking in logic, fairness and balance is not just the accounting profession's crisis," the firms' paper says. "It is a business crisis and a national crisis." The statement estimates that the accounting profession faces about 4,000 lawsuits and a staggering $30 billion in claims. In 1991, the six largest firms spent 9% of their domestic auditing and accounting revenues on litigation.

According to the paper, which was sent to partners and clients of the firms, as well as to the media, the principal cause of unwarranted litigation against the profession is the doctrine of "joint and several liability," which makes each party to a lawsuit potentially liable for 100% of the claimed damages regardless of degree of fault. The doctrine is said to expose marginally culpable and even blameless parties to litigation for no other reason than their "deep pockets."

Beyond its effects on the profession, the current litigious environment will likely increase audit fees, making raising capital more expensive and putting U.S. businesses at a competitive disadvantage worldwide. High-technology companies new to capital markets could be especially hard hit, and these companies currently provide the bulk of innovation and job creation in the country.

"Unwarranted litigation doesn't just hurt auditors," said AICPA President Philip B. Chenok, "...the cost of such litigation is passed on to the general public and damages the entire economy."

The paper adds that substantive reform of both federal and state liability laws is required to restore equity and sanity to the liability system and to provide reasonable assurance that the profession will be able to continue to meet its public obligations. Proportionate liability and an end to baseless securities suits (*The CPA Letter,* Sept.) are cited as critical first steps.

The position paper, along with the AICPA Board of Directors' resolution endorsing it (see page 1), will appear in full text in the Nov. issue of the *Journal of Accountancy.*

AICPA Brief Helps Convince California Court to Limit Auditor Liability

In *Bily vs. Arthur Young,* in which the AICPA submitted an amicus brief, the California Supreme Court ruled for the first time on the extent of an independent auditor's liability to third parties. The court concluded that in California, an auditor owes no general duty of care regarding the conduct of an audit to persons other than the client. However, an auditor can be held liable to non-clients for negligent misrepresentation when it is shown that the plaintiff was a person or member of a defined class of persons whom the accountant intended to influence and knew would rely on the information supplied, and that the plaintiff relied on and was influenced by the information. California's scope of liability for independent auditors now conforms to most other states, according to the California Society of CPAs.

Prior to the Supreme Court's ruling, lower California courts had held that accountants owe a duty of care to those third parties who reasonably and foreseeably rely on an audited financial statement, a much larger group than that covered under the new, narrower holding.

Final Report on Internal Control Issued by COSO

The five organizations that sponsored the National Commission on Fraudulent Financial Reporting (the Treadway Commission) have issued the final report on *Internal Control — Integrated Framework,* defining internal control and providing a practical standard against which entities can assess and improve their control systems.

The report brings to a close a three-year effort by the Committee of Sponsoring Organizations (COSO). The project was undertaken in response to the Treadway Commission's 1987 recommendations that its sponsoring organizations work together to provide practical, broadly accepted criteria for establishing and evaluating internal control.

Internal Control — Integrated Framework spells out the responsibilities everyone in an organization has for proper functioning of controls: boards of directors, managements, internal auditors, and other personnel. The report also will help managements assess their companies' controls and enable all relevant parties to have a common understanding of internal control. In addition, it will enable companies that issue reports on internal control to do so against the COSO standard, vastly improving communications to stakeholders. Finally, legislators and regulators can look to the report to get a thorough understanding of what internal control is.

The full report consists of four volumes: "Executive Summary" provides a high-level overview; "Framework" defines internal control and describes its various components; "Reporting to External Parties" provides guidance to entities that report publicly on internal control over preparation of their published financial statements; and "Evaluation Tools" provides materials to help in evaluating an internal control system.

The four-volume set (No. 990002CL) costs $50; the "Executive Summary" (No. 990001CL) is available individually for $3. Prices do not include shipping and handling. To obtain either item, contact the AICPA Order Department (see order information on page 5). Not subject to member discounts.

Two new practice aids have been issued by the Management Consulting Services Division. ***Law Firms*** (No. 055135CL) provides information about private practice law firm economics, operations, industry trends, issues and typical consulting services engagement opportunities. The practice aid includes a sample law firm operational analysis and planning questionnaire and a list of selected sources of additional information. Price: $13.*

Automating Small and Medium-Sized Business in Selected Industries (No. 055136CL) presents information to assist in automating companies in construction, law, medicine, restaurants, property management, retailing and distribution. Many sample engagement letters, forms and checklists are included. Price: $13.*

To order, write: AICPA Order Department, CL1092, P.O. Box 1003, New York, NY 10108–1003; order via fax, 800/362–5066; or call 800/TO–AICPA. Ask for Operator CL1092. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., EST.

*Prices do not include shipping and handling.

The **International Federation of Accountants** has issued the following pronouncements: ***Statement of Policy of Council: Assuring the Quality of Audit and Related Services*** and ***Code of Ethics for Professional Accountants.*** For copies of these two pronouncements, write: Loretta Szabo, AICPA Technical Standards and Services, 1211 Avenue of the Americas, New York, NY 10036–8775; or call 212/575–7260.

API Publishes Two Guides for Accountants Involved with Non-Profits

What a Difference Preparation Makes: A Guide to the Non-Profit Audit, published by Accountants for the Public Interest (API), guides a non-profit organization through the auditor-selection process and discusses many tips to reduce staff time and frustration during the audit. Auditors and volunteer accountants can provide this helpful resource to the executive directors and board members of non-profit organizations to help them prepare for their annual independent audits. Price: $15.

API also has published *What a Difference Non-Profits Make: A Guide to Accounting Procedures,* which provides an overview of accounting and auditing for non-profits, discusses accounting information processing, and offers helpful internal controls for non-profit organizations. Price: $10.

For copies of either publication, write: Accountants for the Public Interest, 1012 14th St., N.W., Suite 906, Washington, DC 20005. Prices include shipping and handling.

CPE UPDATE

Group Study

To assist CPAs in preparing for the 1993 tax season, the AICPA is offering three important courses that cover new tax laws, important issues, legislative developments, and tax-planning tips.

For nearly three decades, Sidney Kess's two workshops (two days each) have provided CPAs with the latest tax-saving ideas. The **Individual Income Tax Returns Workshop** and the **Corporate Income Tax Returns Workshop** cover recent developments and review the basic principles of tax preparation. Both workshops feature comprehensive, fully indexed course manuals that are valuable reference guides for future use. *New this year* is a free follow-up newsletter that provides additional planning tips and late-breaking tax developments.

Mastering the 1992 Tax Season: An Annual Update reviews the latest developments in federal taxation, including IRS rulings, pronouncements, regulations, and case law. "Hot topics" are covered and sophisticated planning tips are provided to help CPAs save dollars for their clients. This popular one-day course is co-authored by top AICPA instructors/tax experts Andrew R. Biebl, Albert L. Grasso, and Robert J. Ranweiler.

All three courses will be presented coast to coast during the next four months. To receive a brochure that provides content and registration details for any of these courses, write: AICPA, CPE Marketing-Seminar Brochures, Harborside Financial Center, 201 Plaza III, Jersey City, NJ 07311–3881; or call CPE-Group Study Marketing at 800/862–4272.

Self-Study Courses

Accounting for Post-Retirement Benefits (available mid-Oct.) will help members understand and accurately apply FASB Statement 106 on post-retirement benefits other than pensions. It illustrates the computations of all cost components and measurements of assets and liabilities with easy-to-use pro forma schedules. Also included is guidance on settlements, curtailments and plan design options. Recommended CPE credit: 8 hours. Format: Text (No. 737090CL), $115.*

Accounting for Income Taxes — The Latest Requirements offers comprehensive coverage of FASB Statement 109 on income taxes. It clarifies the differences between SFAS #109 and SFAS #96 (the Statement it superseded) and examines the new requirements and their financial statement implications. Featured topics include recognition and measurement of deferred tax assets and liabilities; the valuation allowance; financial statement presentation; and tax-planning strategies. Included with the course is a copy of SFAS #109. Recommended CPE credit: 8 hours. Format: Text (No. 731245CL), $115.*

To order, contact the AICPA Order Department.

Conferences

Three AICPA conferences scheduled for this month are: **The CPA's Role in Litigation Services** (Oct. 22–23, Las Vegas), **National Conference on Federal Taxes** (Oct. 29–30, Washington, D.C.), and **Practice Management Conference** (Oct. 25–28, Orlando). Next month is **Auditing Post-Retirement Benefits** (Nov. 10, Chicago). For information on the **Practice Management Conference,** call AICPA Meetings & Travel Services at 201/938–3232; for the others, call 800/862–4272 (menu item 3).

New Fund for African-American Ph.D. Candidates Established

A new fund to be used to encourage African-American Ph.D. students to complete their doctoral degrees in accounting and to enter university teaching has been created, courtesy of a member of the AICPA Board of Directors and his firm, and the AICPA Foundation.

Generous contributions raised $40,000 for the fund. Board member Robert K. Elliott, who is assistant to the chairman at KPMG Peat Marwick, donated the $2,500 he received from being awarded the American Accounting Association's Wildman Medal and supplemented it with $7,500 of his own money, bringing his total contribution to the new fund to $10,000. At Elliott's request, the KPMG Peat Marwick Foundation matched his contribution. With $20,000 committed to the cause, the AICPA agreed to match that contribution with funds from the AICPA Foundation.

The AICPA's Minority Recruitment and Equal Opportunity Committee will make the awards, subject to review by the AICPA Foundation, in conjunction with its ongoing Minority Doctoral Fellowships Program. To qualify for grants from the new fund, students must be African-Americans who have earned at least a bachelor's degree from an accredited institution and who have been accepted into a Ph.D. program in accounting. For more information, contact Beatrice Sanders, director of the Academic and Career Development Division, at 212/575–6434.

Minority Recruitment Committee Seeks Minority CPAs for Brochure

To assist in its recruitment efforts, the Minority Recruitment and Equal Opportunity Committee is producing a new promotional brochure. The brochure will feature interviews with current minority CPAs pursuing careers in public accounting, industry, academia, and government.

Members are encouraged to submit the names of interview candidates — minority CPAs with a record of achievement. Send submissions as soon as possible to AICPA, Academic and Career Development Division, 1211 Avenue of the Americas, New York, NY 10036-8775; or call 212/575–6295.

DISCIPLINARY ACTIONS

The Joint Trial Board took the following disciplinary actions against members who violated the AICPA's and/or state society's code of professional conduct:

- G. James Kmetz of Westmont, Ill., was expelled from the AICPA and the Illinois CPA Society on June 17 for failing to comply with their requirement that he complete specified CPE courses.
- Pete S. Miller of Galveston was expelled from the Texas Society of CPAs and the AICPA on June 17 for failing to cooperate with the Institute's Professional Ethics Division in a disciplinary investigation. Additionally, the AICPA was directed to file a complaint against Mr. Miller with the Texas State Board of Public Accountants.
- Robert A. Lewis of Paradise Valley, Ariz., was suspended from the AICPA for one year beginning July 17 for failing to comply with generally accepted auditing standards and by failing to follow standards and/or procedures required in governmental audits in connection with his audit of a school's financial assistance program for the year ended June 30, 1985.
- Charles F. Kuntz of Wheeler, Tex., was suspended from the Texas and Oklahoma CPA societies and the AICPA for two years beginning July 17 in connection with an audit of a school district for the year ended Aug. 31, 1988, by permitting his name to be associated with financial statements without complying with generally accepted auditing standards and their interpretations; by expressing an opinion that financial statements were presented in conformity with generally accepted accounting principles when they contained material departures; and by failing to follow required standards and/or procedures in governmental audits. He is also required to successfully complete 80 hours of specified CPE courses within the two-year suspension period and to submit to the AICPA, within 18 months of the decision's effective date, a list of the highest level of engagements performed during the period. The AICPA will select one engagement for financial statement and working paper review. Failure to comply with these requirements will result in automatic expulsions from membership.
- Deborah Fisher of Norman, Okla., was suspended from membership in the Oklahoma Society of CPAs and the AICPA for two years beginning July 17 for knowingly making false and misleading entries in her personal financial statements in that she failed to report a debt which she owed to the estate of a deceased partner for which she was co-personal representative. However, she was found not guilty of committing an act discreditable to the profession by violating the trust bestowed upon her by her deceased partner. Ms. Fisher is required to successfully complete a seven-hour CPE course in professional ethics within the two-year suspension period. Failure to complete the course will result in her automatic expulsions from membership. The Institute was directed to file a complaint with the Oklahoma State Board of Accountancy regarding this matter.
- Sharon J. Fussell of Longview, Tex., was admonished on June 16 for acquiring shares of stock in an audit client and expressing an opinion on the client's annual financial statements during the four years in which she held the shares. In addition, Ms. Fussell is required to complete specified CPE courses within one year. Failure to comply with the CPE requirements will result in automatic expulsions from the Texas Society of CPAs and the AICPA.
- Thomas Kyle Priour of Kerville, Tex., was admonished on June 17 for preparing financial reports which contained misrepresentations designed to conceal his employer's failure to comply with certain contractual obligations. He was also required to successfully complete a CPE course on professional ethics within one year. Failure to complete the course will result in automatic expulsion from the AICPA.

Rule-Making Process Continues for New Banking Law

The federal banking agencies continue to draft regulations that will implement provisions of the new Federal Deposit Insurance Corporation Improvement Act (*The CPA Letter,* Jan.-Feb., Mar., July- Aug.; *Journal of Accountancy,* Apr.). At its Sept. 1 meeting, the FDIC Board of Directors approved proposed regulations that would implement the audit, accounting and reporting requirements established in Section 112 of the law (*Federal Register,* Sept. 15).

Among other implementation matters, the proposed regulation would: (1) require audited GAAP financial statements to include an audited footnote reconciliation of GAAP- and regulatory-basis capital; (2) cause an institution to obtain from its independent accountant a report that contains negative assurance about the institution's compliance with FDIC assessment requirements; (3) require that reports on compliance address laws and regulations concerning affiliate transactions, legal lending limits, loans to insiders, dividend restrictions, and accuracy of regulatory financial reports; (4) consider accountants not to be independent of an institution if they perform bookkeeping services or are retained to prepare or help prepare management reports required by the regulation; and (5) accept the AICPA practice-monitoring programs and require practice monitoring workpapers to be made available to the FDIC.

Copies of the proposed rules, on which the AICPA will comment, can be obtained from the FDIC's Corporate Communications Department at 202/898–6996. Members who have an interest are encouraged to review and comment on the proposed rules. The law requires the FDIC to adopt final rules by Dec. 19, 1992, to be effective for fiscal years ending Dec. 31, 1993, and thereafter.

***How to Obtain the* Federal Register**

Articles in *The CPA Letter* often refer members to the *Federal Register;* the publication contains notices about the actions of federal government agencies. It may be purchased from the U.S. Government Printing Office by calling 202/783–3238 or by writing to New Orders, Superintendent of Documents, P.O. Box 371954, Pittsburgh, PA 15250–7954. Individual copies cost $1.50; yearly subscriptions cost $340. Telephone orders may be paid for with VISA or MasterCard; written orders must include a check or money order made payable to the Superintendent of Documents. Most public libraries also have copies of the *Federal Register.*

IRS Pursues Non-Filers; Cuts Recordkeeping Burden

The IRS has begun an aggressive campaign to bring non-filers back into the voluntary income tax system by using a "carrot and stick" approach. The IRS will work to enable taxpayers to pay balances due over time or will consider acceptable compromise offers from taxpayers who come forward voluntarily and file accurate, but delinquent, returns. The IRS also will offer assistance in preparing delinquent returns and in securing documents necessary to prepare those returns. These are the "carrots" of the program. The "stick" will be used against taxpayers who do not come forward voluntarily. Criminal penalties and prosecution will be aggressively pursued, such as in cases where taxpayers have demonstrated willful intent.

Separately, the IRS has issued new procedures which could make recordkeeping easier for taxpayers. In Revenue Procedure 92-71, the IRS describes the information needed to be shown on account statements, such as check, credit card, or electronic funds transfer, for them to be treated as proof of payment of an expense. The new procedures mean that taxpayers with such statements will no longer have to keep their original checks or charge slips. Information required on the account statement includes transaction date, amount and payee's name. However, proof of payment does not necessarily establish the tax treatment of an expense. Taxpayers need to keep other documents that describe the items purchased to support the deductions they claim. The new procedures do not change the circumstances under which the IRS might ask taxpayers for proof of payment — they only clarify the various forms such proof may take. For more information, see Internal Revenue Bulletin 1992-35, dated Aug. 31.

AICPA Testifies on Proposed Transfer Pricing Rules

The AICPA testified at an IRS hearing about proposed regulations concerning intercompany transfer pricing. The Institute submitted written comments on the proposed rules in June (*The CPA Letter,* July-Aug.). The AICPA again emphasized that regulations should be fully consistent with the internationally accepted norm for evaluating the appropriateness of profit allocations resulting from transfer pricing between controlled taxpayers. Otherwise, U.S. taxpayers would be subject to the risk of double taxation. The AICPA also urged the IRS to provide optional safe harbors to reduce the compliance burden on taxpayers in situations where the potential for tax avoidance is minimal.

The CPA Letter

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The CPA Letter

A News Report to Members

November 1992
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IRS Commissioner Emphasizes Non-Filer Program

Professionals may be targeted

The Tax Executive Committee recently held its annual meeting with Commissioner of Internal Revenue Shirley D. Peterson. During the meeting, Peterson discussed the IRS's non-filer program, which was initiated on Oct. 1 (*The CPA Letter*, Oct.). This program is to encourage non-filers to come forward voluntarily. Those who file "complete and honest" returns before the IRS contacts them will not have to worry about criminal prosecution. "The Commissioner and other Service executives have indicated they will pursue every sanction available, including criminal prosecution, for non-filers who do not come forward at this time," said AICPA Vice-President – Taxation Gerald W. Padwe.

The Commissioner pointedly noted that based on IRS data and experiences, non-filer taxpayers include professionals such as CPAs and attorneys (they are not exempt from the pressures which result in their dropping out of the system). Since many non-filers have been identified, and information is beginning to be sent from the IRS National Office to local districts or service centers, the message is clear: If any taxpayers — including AICPA members or their clients — have unfiled returns not on valid extension, the returns should be filed sooner rather than later. Once the IRS contacts a taxpayer, the "window of opportunity" for voluntary disclosure will have closed. Members are advised to consult counsel to cover concerns about privileged communications and to make sure clients are current with return filings.

Uniform Accountancy Act to Be Distributed to States

Implementation will be a focus at Dec. conference with state boards, state societies

After several years in the making, the recently approved Uniform Accountancy Act (*The CPA Letter,* June) is on its way to state CPA societies and state boards of accountancy. The Act includes updated sections on important initiatives, such as legal liability reform, 150-semester hours of education for future CPAs, and interstate and foreign reciprocity.

A plan to assist states with legislative passage of the Act has been developed. The kick-off will be next month's Conference on State Regulation of the Accounting Profession, a biennial joint effort of the AICPA and the National Association of State Boards of Accountancy (NASBA), which will include a session on implementation of the Act. The conference will be attended by representatives from state boards of accountancy and state societies.

The major provisions of the Act include:

- Legal liability sections providing for proportionate liability, privity, and statute of limitations.
- Mandatory one-year experience requirement.
- 150-hour education requirement to be completed before applying to take the CPA Exam.
- Interstate and foreign reciprocity provisions.
- One-tier licensing system, meaning certificate only with no separate permit to practice.
- Continuing professional education requirement for all CPAs.
- Mandatory Quality Review for all firms. The provision has been designed to ensure confidentiality.
- Definition of practice of public accountancy that includes financial advisory services.

The Uniform Act was designed to be a "living" document. To ensure that the Act always remains current, it will be amended and published as often as necessary. In addition, there are plans to produce model regulations to accompany the Act.

A copy of the Act (No. G00403CL) is available without charge from the AICPA Order Department (see page 5).

CPAs Score Big Win in South Carolina

In a decision hailed as a victory for the accounting profession, the South Carolina Supreme Court ruled in favor of CPAs in a case concerning the unauthorized practice of law. In its order, the court recognized the "unique status" of CPAs and acknowledged respect for the training and procedures under which CPAs operate. "We are confident that allowing CPAs to practice in their areas of expertise, subject to their own professional regulation, will best serve to both protect and promote the public interest," the court said.

The ruling thwarts the South Carolina Bar Association's attempts to define the practice of law through a comprehensive set of rules that would have prohibited CPAs from engaging in estate planning work and income tax practice, other than preparation. The court rejected the comprehensive rules as "neither practicable nor wise" and instead will decide the unauthorized practice of law on a case-by-case basis. The court's order ended months of dispute between the bar and CPAs.

The success resulted from the South Carolina Association of CPAs leading a cooperative effort with the AICPA and the large firms, according to John Sharbaugh, vice-president – state legislation and legislative relations. Together, all three had filed a document with the court in opposition to the proposed rules.

150 CPAs Take APFS Exam

A total of 150 CPAs sat for the AICPA's Accredited Personal Financial Specialist designation examination on Sept. 25 at 30 locations nationwide. The exam will next be given in San Diego on Jan. 10, 1993, the day before the division's annual technical conference. Presently there are nearly 600 APFS designees. Also, beginning in Jan., the name of the designation will change to Personal Financial Specialist. For information on either the designation or the conference, call the Personal Financial Planning Division at 800/862–4272 (dept. #5).

McCloy Award Nominations Sought

The Public Oversight Board is seeking nominations for the John J. McCloy Award for significant contributions to the strengthening of quality control and improvement of auditing in the United States. The POB has noted the improvement in independent audit performance since the AICPA Division for CPA Firms was established in 1977 and believes that those who have significantly contributed to that progress deserve recognition.

The award is named after the first chairman of the POB who had a long and distinguished record of public service. Send the names of candidates for consideration, along with summaries of their contributions, to: Public Oversight Board, One Station Place, Stamford, CT 06902. Nominations must be received by Nov. 30.

Washington Office to Have New Leader

John E. Hunnicutt has been named to lead the AICPA's Washington office as group vice-president – government affairs. Hunnicutt joined the AICPA in 1991 as vice-president – federal affairs. He succeeds B.Z. Lee, who has served as deputy chairman for federal affairs since July 1988 and will retire later this year.

Committee Members Wanted

There will be approximately 600 openings for AICPA members who would like to serve on an Institute committee beginning Oct. 1993. To apply, write: Committee Appointments Coordinator, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775 (no phone calls, please). Members will receive a Committee Booklet listing current committees, objectives, major projects, estimated time commitments, and a biographical form to complete. To ensure being considered for the 1993–94 committee year, the biographical form must be returned by Feb. 15, 1993.

AICPA Long-Term Disability Income Plan Election Deadline Is Jan. 1

Members desiring to begin or increase their coverage under the AICPA Long-Term Disability Income Plan **must act before Jan. 1.** Special features of the Plan include monthly disability income benefit payments ranging from $500 to $5,000 for disabilities caused by either sickness or accident (up to $1,500 of monthly benefits is available regardless of earnings or other disability coverage in force); a "your occupation" definition that applies for the duration of the benefit period; disability income benefits that may be paid for life after a 13- or 26-week waiting (elimination) period if disability was incurred before age 50 (payments to age 65 if incurred at or over 50); and a voluntary rehabilitation program under which the insured CPA may return to work while receiving monthly disability income benefits in reduced amounts.

Descriptive literature about the Long-Term Disability Income Plan was mailed to members recently. For additional information, write to the Plan Agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, NY 10158, or call 800/221–4722; in New York call collect at 212/973–6200 and ask for extension series 447.

Public Meeting Notices

For a detailed agenda, call 800/862–4272 (dept. #6) one week prior to the meeting.

Auditing Standards Board: Dec. 1–3, New York

Personal Financial Planning Executive Committee: Feb. 11, Ft. Lauderdale

Professional Ethics Executive Committee: Dec. 22, New York

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Geoffrey L. Pickard
Vice-President—Communications

Ellen J. Goldstein
Editor

NOTICE TO PRACTITIONERS

Audits Conducted in Accordance with *HUD Audit Guide*

This notice from the AICPA Auditing Standards Division provides guidance on reporting in audits conducted in accordance with the U.S. Department of Housing and Urban Development's *Consolidated Audit Guide for Audits of HUD Programs* (the "Guide") for entities not already reporting under OMB Circulars A-128 or A-133. It has been reviewed and approved by the HUD Office of Inspector General, which has issued similar guidance to HUD field offices. This notice also withdraws Statement of Position 90-4, *Auditors' Reports Under U.S. Department of Housing and Urban Development's Audit Guide for Mortgagors Having HUD Insured or Secretary Held Multifamily Mortgages.*

Chapter 3 of the Guide contains illustrations of combined auditor's opinions on both the "common" and "specific" program requirements set forth in the Guide. However, auditors conducting audits in accordance with the Guide should report on the "common" requirements (i.e., cash management and federal financial reports — see chapter 2 of the Guide) *and* on the "specific" requirements related to civil rights (i.e., marketing and nondiscrimination — see paragraphs 4-5(A) and 5-5(B) of the Guide) in a manner similar to the guidance on reporting on "general" requirements in paragraphs 50–52 of Statement on Auditing Standards (SAS) No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance* (AU section 801.50 – .52). Thus, auditors should issue a separate report on the results of procedures used to test compliance with those requirements, providing positive assurance on matters tested and negative assurance with respect to items not tested.

Also, compliance with "specific" requirements other than those related to civil rights, which are discussed above, should be reported on in a manner similar to the guidance in SAS No. 68 for major programs (AU section 801.53 –.86) and for nonmajor programs (AU section 801.87 –.90). Statement of Position 92-7, *Audits of State and Local Governmental Entities Receiving Federal Financial Assistance,* provides illustrative audit reports that may be adapted for purposes of reporting in HUD audits (see "Two SOPs Issued," page 5).

To obtain the unofficial answers to implementation questions that HUD has provided the AICPA (*The CPA Letter,* Jan.-Feb.), send a self-addressed, stamped envelope (52 cents for standard business envelope) to: AICPA Federal Government Division, Attention: *HUD Audit Guide,* 1455 Pennsylvania Ave., NW, Washington, DC 20004-1081.

Exposure Draft of Statement of Position on ESOPs to Be Issued

Later this year, the Accounting Standards Executive Committee plans to release an exposure draft of a proposed statement of position (SOP), *Employers' Accounting for Employee Stock Ownership Plans* (ESOPs). The exposure draft will propose that employers recognize compensation cost equal to the fair value of the shares released. It also will propose changes to the accounting for dividends and the calculation of earnings per share. The accounting provisions therein will apply to shares acquired by ESOPs after Sept. 23, 1992. Employers would be permitted, but not required, to apply the accounting provisions of the proposed SOP to shares acquired by ESOPs before that date. An announcement regarding how to obtain a copy of the exposure draft will appear in next month's issue of *The CPA Letter.*

FASB Hosts Meeting with International Standards Setters

More than 40 standards setters from 13 countries and organizations participated in a meeting hosted by the FASB in its Norwalk, Conn., offices after the World Congress of Accountants. The meeting consisted of two half-day sessions and included a follow-up on issues discussed at the last meeting of world accounting standards setters, held in 1991 in Brussels. The sessions also focused on the environment and issues in each country represented, the cooperative efforts being made internationally to improve accounting standards, and the meetings' issues with an eye to future meetings of the group and how that may be accomplished. The Institute was represented by AICPA President Philip B. Chenok.

GASB to Delay Statement 11, Issues Bulletin on Compensated Absences

The Governmental Accounting Standards Board has tentatively voted to delay implementation of its Statement 11 on measurement focus and basis of accounting (*The CPA Letter,* June). That Statement, which provides accrual standards for governmental funds, was to have gone into effect for financial statements for periods beginning after June 15, 1994. An exposure draft will soon be issued proposing that the Statement's effective date be postponed indefinitely. The GASB board believes the delay will allow for sufficient progress to be made in reexamining the financial reporting model before final decisions are made on implementing Statement 11.

Also, the GASB has published a Technical Bulletin that clarifies how governmental colleges and universities should display their compensated absences liabilities in their financial statements. To order a copy of the Technical Bulletin on compensated absences liabilities in higher education, write: GASB Order Department, P.O. Box 30784, Hartford, CT 06150. Price: $4.75, prepaid. CT orders should add 6 percent sales tax.

Highlights of Council and Annual Members Meetings

Netterville Sets Out Agenda for His Term as Chairman

The AICPA's governing Council met on Oct. 9. At the meeting, the Council elected Jake L. Netterville of Baton Rouge, La., chairman of the AICPA Board of Directors for 1992–93 and Dominic A. Tarantino of New York as vice-chairman.

In other actions, the Council:

- Elected Louis J. Barbich of Calif., Ellen J. Feaver of Mont., J. Curt Mingle of Ill., A. Tom Nelson of Utah, and Eric L. Schindler of Wash. to three-year terms as directors.
- Rejected a proposal that would have directed the Professional Ethics Executive Committee to modify its current policy of deferring investigations of all matters that are the subject of active litigation.

In his inaugural speech before Council, Netterville discussed the areas he will focus on during his tenure as chairman. He cited, among other things, the work of the new Executive Committee for Women and Family Issues; initiatives to encourage minority students to become CPAs; enhancement of the Washington office's Federal Key Person Program in which individual CPAs foster relationships with their local members of Congress; and implementation of a new communications plan (*The CPA Letter,* Oct.) to enhance and update the CPA's image and to convey externally the value of the public accounting profession.

Additionally, Netterville said the profession's biggest challenge is to achieve liability reform. "I am firmly convinced Congress still has a great deal of confidence in the value of the audit function," he said. "Those who truly understand know that CPAs are not part of the problem but part of the solution."

Gold Medal, Elijah Watt Sells Awards Presented at Annual Meeting

The highest honor the AICPA can bestow for distinguished service to the accounting profession, the Gold Medal, was presented to A. Marvin Strait, chairman of the board of Strait, Kushinsky & Company of Colorado Springs and Denver. Strait has served the profession for more than 35 years and was chairman of the AICPA Board of Directors in 1987–88.

Among his achievements was the successful implementation of the Plan to Restructure Professional Standards. He also served as chairman of both the Colorado Society of CPAs and the Colorado State Board of Accountancy, and participated on numerous committees of the Colorado Society and of the AICPA.

Elijah Watt Sells Awards were presented to the three top scorers of the Nov. 1991 and May 1992 Uniform CPA Examinations: Chad M. Koehler of Cedarburg, Wis. (gold, Nov.); Mary Emmerling of Silver Spring, Md. (gold, May); Mary Joan Selberg of Madison, Wis. (silver, Nov.); Eric T. Langmack of Cedar Rapids, Iowa (silver, May); David F. Crofoot of Tampa, Fla., and Robert C. Tesch, Jr., of Albuquerque, N.M. (tied for bronze, Nov.); and Raymond P. Tierney of Oak Lawn, Ill. (bronze, May).

A total of 70,000 candidates took the Nov. 1991 exam, while 65,000 took it in May 1992.

World Congress of Accountants Speakers Focus on Global Economy

Every five years a World Congress of Accountants takes place somewhere in the world, and this year it was held in the nation's capital, Oct. 11–14. Congress participants were welcomed by U.S. Secretary of Commerce Barbara Hackman Franklin. Pehr Gyllenhammar, executive chairman of AB Volvo, gave the keynote address on the accountant's role in a global economy, the theme of the conference.

Secretary Franklin began her welcoming remarks by reading a letter from President Bush. "In this new era of international economic competition," it said, "these services that are provided by members of the accounting profession have become even more crucial to national economies." Commenting that mathematics is a universal bond knowing no boundaries, the letter continued, "Investors in world markets look to members of your profession to provide the information that is central to making responsible decisions, and your work is the key to preserving the structure of international financial markets."

Pehr Gyllenhammar took conference participants through a history of world economics, explaining how it has changed each decade from the 1950s through to the 1990s. "The world economy in the 1990s is operating with an entirely different set of systems from those of the '50s and '60s," Gyllenhammar said. "But there was in those days, whether you liked it or not, very clearly someone in charge of the systems. In what we call today's multi-polar world, there is no clear leadership," he continued. "No one has the power or the means to assume responsibility for managing the new systems, and we don't seem to be able to do it collectively. ... The risk is that we will be driven by accident and not by design." He added that drive and commitment to more uniform accounting standards are an important proactive step for a global economy.

"For me the major achievement would be to look for harmony and balance as the pendulum swings, and it always does," Gyllenhammar said in closing his address. "I feel that at this point, perhaps pessimism is prevailing a bit too much. ... Going to fundamentals in harmony and balance is exactly what the global community does need."

Audiotapes Available from Conference

All sessions of the World Congress are available on audiotape. For information, write: Conference Copy, Inc., 8435 Route 739, Hawley, PA 18428; or call 717/775–0580.

AUDIT RISK ALERT — 1992

General Update on Economic, Industry, Regulatory and Accounting and Auditing Matters

Notice to Readers *This audit risk alert provides auditors with an overview of recent economic, industry, regulatory, and professional developments that may affect the audits they perform. This document has been prepared by the AICPA staff. It has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.*

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Introduction *This alert is intended to help auditors plan their 1992 year-end audits. Successful audits are a result of a number of factors, including acceptance and retention of clients who have integrity; adequate partner involvement in planning, supervising, and performing audits; an appropriate level of professional skepticism; and the allocation of sufficient audit resources to high-risk areas. Addressing these factors in each audit engagement requires substantial professional judgment based, in part, on a knowledge of professional standards and current developments in business and government.*

Throughout the audit process, from the initial consideration of whether to accept a client to the issuance of an audit report, auditors should consider overall engagement risk. Engagement risk consists of three components: (1) the client's business risk—the risk associated with the client's survival and profitability; (2) audit risk—the risk that the auditor may unknowingly fail to appropriately modify his or her opinion on financial statements that are materially misstated; and (3) the auditor's business risk—the risk of potential litigation costs from an alleged audit failure and the risk of other costs (whether an audit failure is alleged or not) such as fee realization and reputational effects from association with the client. Although this alert does not provide a complete list of risk factors to be considered, and the items discussed do not affect risk in every audit, it can be used as a planning tool for considering matters that may be especially significant for 1992 audits.

Implications of the Current Economic Environment

The current state of the country's economy is not clear. It may be argued that the economy is in recovery, stagnation, or in a double- or triple-dip recession. According to some economists, the recession technically has ended in the United States. However, this does not appear so to businesses because this current recovery is more sluggish than ones following similar recessions in the past.

These economic conditions mean *added* audit risks. Past experience indicates two areas especially vulnerable to profit pressures accompanying an economic slump: (1) revenue recognition, and (2) measurement and disclosure of such items as unusual and complex transactions. This year is not likely to prove an exception to these vulnerabilities. In addition, going-concern problems continue to generate complex accounting and auditing questions. Finally, changes in product or service mix may require revamped business segment disclosures.

Revenue Recognition

The current economic environment may require auditors to carefully consider a client's compliance with or changes in revenue recognition policies. Difficult economic conditions may have required changes in a client's operating policies that affect the timing and propriety of revenue recognition. Auditors should consider the fundamental issues involved in evaluating a client's revenue recognition practices. These include economic performance, delivery, the customer's right to return a product, and "bill and hold" arrangements.

Particular attention should be given to the following when evaluating a client's revenue-recognition practices:

- Any proposed changes in revenue-recognition practices must be supported as *preferable*. (Refer to section titled *New GAAP Hierarchy* for additional discussion of preferability of accounting changes made by public entities.)
- Individually material year-end revenue transactions should be reviewed and, when applicable, consideration should be given to confirming terms with other parties.
- Any obligations that are not fulfilled by the seller should be reviewed to assess the propriety of revenue recognition.
- A buyer's ability and intent to make payment should be reasonably assured before revenue is recognized.
- Barter transactions should be approached with intense professional skepticism. These transactions may sometimes involve an exchange of inventory or other assets for a dollar "value" of credit that may be used in the future to purchase advertising or other services.

Significant and Unusual Transactions or Events

Auditors should scrutinize significant, unusual, and complex transactions or events, with particular attention to those occurring at or near year-end, and carefully evaluate the accounting for such items and the adequacy of disclosure. Disappointing third-quarter results, combined with dismal prospects for a significant recovery in the fourth quarter, may persuade some entities, in an effort to improve income, to enter into transactions the substance of which would ordinarily preclude revenue recognition.

Examples of unusual or complex transactions to be evaluated include—

- Transactions involving the sale of real estate. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 66, *Accounting for Sales of Real Estate* (FASB, *Current Text*, vol. 1, sec. R10), specifies conditions to be met before profit may be realized.
- Significant sales of assets outside the ordinary course of business when the consideration received is other than cash (a possible related-party transaction or payment contingent on the success of a buyer's future operations) or a cash sale to a new or relatively unknown entity (a possible related party, with proceeds obtained indirectly from seller).
- Significant increases in sales in the last several months that are inconsistent with prior periods and industry trends (possible side agreements offering a right of return, consignment shipments or shipments FOB destination recorded as sales before transfer of title, "bill-and-hold" arrangements, or outright fictitious sales).
- Abnormal increases in gross profit percentages in the last month or two and unsatisfactory explanations to inquiries (a possible overstatement of inventory).

Going-Concern Problems

In the current sluggish economy, many entities are unable to meet their obligations as they become due and are considering such options as substantial disposition of assets, restructuring of debt, and even dissolution. Such conditions should prompt auditors to carefully consider the provisions of Statement on Auditing Standards (SAS) No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341). SAS No. 59 requires auditors to evaluate, based on the results of audit procedures performed, whether there is substantial doubt about an entity's ability to continue as a going concern.

Auditors should be especially alert to the following conditions or events that may threaten an entity's continued existence or be symptomatic of a going-concern problem:

- Recurring operating losses
- Working capital deficiencies
- A default on loan or similar agreements
- Work stoppages or other labor difficulties
- The need to seek new sources or methods of financing, or to dispose of substantial assets
- Legal proceedings or legislation that might jeopardize the entity's ability to operate
- Loss of a principal customer or supplier
- Uninsured or underinsured catastrophe such as a hurricane, flood, drought, or earthquake

If the results of procedures performed during the audit indicate that there may be substantial doubt about the entity's ability to continue as a going concern, the auditor should obtain additional information, including information about how management plans to overcome its problems. In evaluating these plans, the auditor should consider whether the plans are feasible in the circumstances. For example, although management may plan to dispose of a division that is operating at a loss, the absence of valid offers from buyers may raise doubt about management's ability to accomplish its plans.

If the auditor concludes that substantial doubt about an entity's ability to continue as a going concern exists, the auditor's report should clearly convey that conclusion. A going-concern explanatory paragraph should not contain conditional language, such as "if the Company is unsuccessful in obtaining financing, there may be substantial doubt about its ability to continue as a going concern." Such language leaves the reader unsure about the auditor's conclusion. SAS No. 59 does, however, require that the terms *substantial doubt* and *going concern* be used in the explanatory paragraph when the auditor has reached that conclusion.

Paragraphs 10 and 11 of SAS No. 59 provide guidance on evaluating the adequacy of going-concern disclosures. Even if management's plans appear to alleviate the auditor's doubt about the going-concern assertion, the auditor should consider the need to disclose the conditions or events that initially caused him or her to believe there was substantial doubt. Omission of a required disclosure is a departure from generally accepted accounting principles (GAAP). If the auditor concludes that there is substantial doubt about the entity's ability to continue as a going concern and management does not disclose this information in the financial statements, the auditor should qualify his or her opinion or express an adverse opinion on the financial statements, in addition to the inclusion of a going-concern explanatory paragraph.

SAS No. 59 states that the auditor is required to evaluate an entity's ability to continue as a going concern *for a reasonable period of time*, which is defined as a period not to exceed one year from the date of the financial statements. When a significant event that may have going-concern implications for the entity is to occur after the one-year period (for example, a balloon payment that will become due 14 months after the date of the financial statements), that information may be conveyed in an emphasis-of-a-matter paragraph. It is also recommended that the terms *substantial doubt* and *going concern* not be used in an emphasis-of-a-matter paragraph because these terms connote a going-concern conclusion.

Segment Disclosures

Changes in the economic environment or business climate often are accompanied by changes in services or products offered by businesses. Downward pressure on margins for existing products may create a need for diversification into other product lines or require primary business activities to be supplemented with ancillary fee-based services. These new or expanded products and services, which were previously nonexistent or inconsequential, may begin to contribute more substantially to operating results. The size of such operations may become of such significance that disclosures would be required by FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise* (FASB, *Current Text*, vol. 1, sec. S20). Public entities and their auditors are reminded to assess each year the emergence and materiality of potential reportable segments, as defined by FASB Statement No. 14.

Regulatory Developments

Environmental Matters

The subject of environmental liabilities was discussed in *Audit Risk Alert—1991* (see *The CPA Letter*, November 1991) and continues to be of interest to investors, creditors, and the Securities and Exchange Commission (SEC).

The AICPA frequently receives inquiries about how to account for environmental contingencies and liabilities and the related audit consequences. The applicable accounting literature includes FASB Statement No. 5, *Accounting for Contingencies* (FASB, *Current Text*, vol. 1, sec. C59), and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss* (FASB, *Current Text*, vol. 1, sec. C59). In addition, guidance is included in the FASB's Emerging Issues Task Force (EITF) Issue No. 89-13, *Accounting for the Cost of Asbestos Removal*, and Issue No. 90-8, *Capitalization of Costs to Treat Environmental Contamination*. In applying the accounting literature, auditors should be alert to the possibility of an inappropriate delay of the accrual of an environmental loss until sufficient information is available to determine the *best* estimate of the liability. Interpretation No. 14 requires entities to accrue a loss contingency when the estimated loss is within a range of amounts.

The applicable auditing guidance is found in SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments* (AU sec. 337); SAS No. 54, *Illegal Acts By Clients* (AU sec. 317); and SAS No. 57, *Auditing Accounting Estimates* (AU sec. 342).

Auditors should consider asking management whether the entity or any of its subsidiaries has been designated as a "potentially responsible party" (PRP) by the Environmental Protection Agency (EPA) or otherwise has a high-risk exposure to environmental liabilities. When more than one PRP is associated with a contaminated site, each party may be contingently liable for the full amount of cleanup costs and fines because of the joint and several nature of environmental laws. Such exposure could result in the need for an entity to accrue for cleanup costs or disclose a contingency and, possibly, necessitate the addition of an explanatory paragraph in the audit report.

Examples of "red flags" that may indicate an increased risk of an entity's exposure to environmental liabilities include—

- Participation in a real estate transaction or corporate merger involving properties with environmental risks (for example, chemical companies)
- The purchase of land at a price significantly below local market prices (a possible "bargain" sale due to environmental risk)
- Piecemeal sale of assets (while retaining real property)
- The acquisition of new or increased insurance coverage against environmental risks or liability to third parties

Over the past several years, the SEC staff has been closely monitoring the adequacy of environmental disclosures in connection with its review of filings. In an effort to ensure appropriate disclosure, the SEC staff receives from the EPA lists of all entities that have been named as PRPs on hazardous waste sights as well as information concerning entities subject to the cleanup requirements under the Resource Conservation and Recovery Act.

New Auditing Pronouncements

Confirmation Process

In November 1991, the Auditing Standards Board (ASB) issued SAS No. 67, *The Confirmation Process* (AU sec. 330), which provides guidance for auditors using confirmations as audit evidence. SAS No. 67 specifically discusses the use of negative confirmation requests. When using confirmations, auditors should carefully consider the assertions being audited, which may affect the type of information confirmed and the parties to whom the confirmation request is sent. The auditor should also consider whether the recipient of the confirmation request is sufficiently objective, knowledgeable, and willing to give appropriate attention to the confirmation request.

Auditors are reminded that the intent of SAS No. 67 was to permit the use of negative confirmations as a substantive procedure to reduce audit risk *only* when three conditions are met: (1) the combined assessed level of inherent and control risk is low, (2) a large number of small balances is involved, and (3) the auditor has no reason to believe that the recipients of the requests are unlikely to give them consideration.

Compliance Auditing

As part of audit planning, auditors should consider whether the entity is subject to additional audit requirements that extend beyond generally accepted auditing standards, such as those in the General Accounting Office's (GAO's) *Government Auditing Standards* (the Yellow Book), Office of Management and Budget (OMB) Circular A-128, *Audits of State and Local Governments*, and OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. The Yellow Book is applicable when required by law, regulation, agreement or contract, or policy. The applicability of Circulars A-128 and A-133 is triggered when federal financial assistance is received by the entity. Auditors should refer to SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance* (AU sec. 801), which provides guidance on performing audits in accordance with these requirements. SAS No. 68 requires auditors to notify management or the audit committee or its equivalent when they become aware, during an audit of the financial statements in accordance with generally accepted auditing standards, that the entity is subject to audit requirements that may not be encompassed in the terms of the engagement.

New GAAP Hierarchy

In January 1992, the ASB issued SAS No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report* (AU sec. 411), which revised the GAAP hierarchy. The revised hierarchy elevates the authority of certain accounting pronouncements, including AICPA Audit and Accounting Guides (Guides) and Statements of Position (SOPs), and FASB EITF consensus positions.

The new hierarchy requires, for example, a business entity that follows an industry accounting practice to change to an accounting treatment specified by AICPA Guides and SOPs and by EITF consensuses that become effective after March 15, 1992. Also, for initial application of an accounting principle after March 15, 1992 (except for EITF consensuses), the auditor should follow the new hierarchy, including AICPA Guides and SOPs and EITF consensuses effective before March 15, 1992, in determining whether an entity's financial statements are fairly presented in conformity with GAAP.

Because category (*b*) and (*c*) pronouncements, which include AICPA Guides and SOPs and EITF consensuses, often represent the best available guidance, the Auditing Standards Division staff recommends that auditors apply all existing pronouncements in categories (*b*) and (*c*) even if not required by SAS No. 69. The FASB's *EITF Abstracts*, which summarizes the proceedings of the EITF, is available from the FASB (203/847–0700, extension 10, $30).

SAS No. 69 also established two parallel hierarchies: one for state and local governmental entities and one for nongovernmental entities. Questions have been raised about whether an entity subject to the jurisdiction of the Governmental Accounting Standards Board (GASB) (for example, a government hospital or university) could follow the non-government hierarchy as an "other comprehensive basis of accounting" (OCBOA). Such a treatment does not constitute GAAP, nor does it constitute OCBOA, as defined in SAS No. 62, *Special Reports* (AU sec. 623). Thus, an auditor reporting on such a presentation would be required to issue a modified report—qualified or adverse—depending on the materiality of the departures from GAAP.

When an accounting change is made by a public entity, the SEC requires a letter from the independent accountants commenting on the preferability of the new accounting principle. However, the SEC's Regulation S-X, *Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and Energy Policy and Conservation Act of 1975*, provides that a preferability letter need not be filed when the change is required by a new FASB Standard. In recognition of the requirements for public exposure and clearance by the FASB for pronouncements in category (*b*) of the GAAP hierarchy, which includes FASB Technical Bulletins and AICPA Guides and SOPs, the SEC will not require a preferability letter when the accounting change is required by a category (*b*) pronouncement. In addition, preferability letters are not required in connection with a registrant's adoption of a FASB EITF consensus.

Reports on the Processing of Transactions by Service Organizations

In April 1992, the ASB issued SAS No. 70, *Reports on the Processing of Transactions by Service Organizations* (AU sec. 324), which supersedes SAS No. 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*. When an entity (a user organization) uses a service organization to process or record transactions that affect financial statement assertions, auditors may need to consider certain control policies and procedures of the service organization to comply with the requirements of SAS No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit* (AU sec. 319). Examples of service organizations include data processing centers that process transactions and related data for others, and bank trust departments that provide services to employee benefit plans. If the user organization is relying on the service organization's control policies and procedures, auditors will need to obtain information about those controls. In determining what information is needed, auditors should consider the nature and materiality of the transactions processed by the service organization, the extent of the interaction between the user organization and the service organization, and the extent to which the user organization is relying on controls at the service organization.

Auditors may be able to obtain information about the service organization by reviewing information in the client's possession, such as manuals or system overviews of the service organization, or by visiting the service organization to make inquiries and perform procedures. If the service organization has many clients who need information about its control structure policies and procedures, it may engage a service auditor to perform procedures at the service organization for the benefit of all the user organizations. The service auditor issues a report that provides user auditors with the information they would have obtained if they had visited the service organization and performed procedures themselves. SAS No. 70 notes that a service auditor may perform two types of engagements. In the first, the service auditor evaluates a service organization's description of its control structure policies and procedures and reports on whether it fairly presents those policies and procedures, whether the policies and procedures were suitably designed to achieve specified control objectives, and whether they had been placed in operation as of a specific date. This report should provide user auditors with the information needed to satisfy the SAS No. 55 requirement to obtain an understanding of the entity's internal control structure. This report, however, is not intended to provide any evidence of the operating effectiveness of the policies and procedures that would allow user auditors to reduce the assessed level of control risk below the maximum. The second type of engagement is the same as the first except that the service auditor also performs tests of the operating effectiveness of specified control policies and procedures and reports on the results of those tests. A user organization's auditor may be able to use the service auditor's report in this type of engagement to assess control risk below the maximum for related assertions and reduce substantive procedures.

SAS No. 70 is effective for service auditors' reports dated after March 31, 1993. Earlier application is encouraged.

Interim Financial Information

In May 1992, the ASB issued SAS No. 71, *Interim Financial Information* (AU sec. 722), effective for interim periods within fiscal years beginning after September 15, 1992. Reports issued or reissued after September 15, 1992, should conform with the reporting guidance in this SAS. SAS No. 71 supersedes SAS No. 36, *Review of Interim Financial Information*, and SAS No. 66, *Communication of Matters About Interim Financial Information Filed or to Be Filed With Specified Regulatory Agencies—An Amendment to SAS No. 36, Review of Interim Financial Information*.

If the client is a public entity, the SAS is applicable when accountants are engaged to review stand-alone presentations of interim financial information that purport to conform with Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting* (FASB, *Current Text*, vol. 1, sec. I73), and when interim financial information accompanies, or is included in a note to, the audited financial statements. SAS No. 71 also provides guidance for auditors when certain selected quarterly financial data required to be presented with audited financial statements by Item 302 (a), "Supplementary Financial Information," of the SEC's Regulation S-K, *Standard Instructions for Filing Forms Under Securities Act of 1933, Securities Exchange Act of 1934 and Energy Policy and Conservation Act of 1975*, are not presented or are presented but have not been reviewed.

If the client is a *nonpublic* entity, SAS No. 71 is applicable only when the interim financial information is included in a note to the audited financial statements. Accountants engaged to review the interim financial statements in a stand-alone presentation of a *nonpublic* entity should refer to the guidance in Statement on Standards for Accounting and Review Services (SSARS) No. 1, *Compilation and Review of Financial Statements* (AICPA, *Professional Standards*, vol. 2, AR sec. 100).

SAS No. 71 also—

1. Provides expanded guidance on the knowledge accountants should obtain of an entity's internal control structure when engaged to perform a review of interim financial information.
2. Establishes certain communication requirements.
3. Provides expanded guidance on applying analytical procedures in a review of interim financial information.
4. Amends the review report to include a statement of management's responsibility for the interim financial information.

Audit Communication and Reporting Issues

Communication With Audit Committees and Others Having Oversight Responsibility

Auditors are required by SAS No. 61, *Communication With Audit Committees* (AU sec. 380), to determine that certain matters related to the conduct of an audit are communicated to audit committees. The communication requirements are applicable to entities that either have an audit committee or that have otherwise *formally designated* oversight of the financial reporting process to a group equivalent to an audit committee, and to all SEC engagements as defined in footnote 2 of SAS No. 61.

Auditors should communicate the following matters required by SAS No. 61 to the audit committee in an understandable, nontechnical manner:

1. The auditor's responsibility under generally accepted auditing standards
2. Significant accounting policies
3. Management judgments and accounting estimates that may be particularly sensitive because of their significance to the financial statements
4. Significant audit adjustments
5. The auditor's responsibility for other information in documents containing audited financial statements
6. Disagreements with management
7. Consultation with other accountants
8. Major issues discussed with management prior to retention
9. Difficulties encountered in performing the audit

Auditors should be aware that communication with the audit committee or others having oversight responsibility is also required on the following specific matters when they arise in the conduct of an audit:

- Irregularities, unless they are clearly inconsequential, as discussed in SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors and Irregularities* (AU sec. 316).
- Illegal acts, unless they are clearly inconsequential, as discussed in SAS No. 54, *Illegal Acts By Clients* (AU sec. 317).
- Reportable conditions as discussed in SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit* (AU sec. 325).

The three items above, in contrast to SAS No. 61, are required to be communicated in *all* audits.

Reporting on Uncertainties

SAS No. 58, *Reports on Audited Financial Statements* (AU sec. 508), requires an auditor to consider adding an explanatory paragraph (after the opinion paragraph) to the standard report when a material uncertainty is not susceptible to reasonable estimation by management. Examples of uncertainties include lawsuits against the entity and tax claims by tax authorities when precedents are not clear.

Generally, matters that relate to typical business operations and the outcomes of which depend on the actions of management should be susceptible to reasonable estimation, and therefore are estimates inherent in the accounting process—not uncertainties.

Because resolution is prospective, management sometimes cannot estimate the effect of an uncertainty on the entity's financial statements. However, some situations in which management asserts that it is unable to estimate certain financial statement elements, accounts, or items have been inappropriately treated as uncertainties. An assertion by management that it is not able to estimate in these situations should raise concerns about the possibility of financial statement misstatement or a scope limitation. If the auditor believes that the financial statements are materially misstated, a qualified or adverse opinion is required because of the departure from GAAP. A scope limitation should result in a qualified opinion or a disclaimer of opinion. An explanatory paragraph describing an uncertainty may be included in the audit report *only* after the auditor has determined that the financial statements are prepared in accordance with GAAP.

Audit Problems to Watch For

Note Disclosures

The auditor's standard report covers the basic financial statements, which include disclosure of accounting policies and other financial information in the notes to the financial statements as required by GAAP. Note disclosures assist readers in understanding the primary financial statements and provide additional financial information that is of great interest to shareholders, lenders, and other users of financial statements.

For example, FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (FASB, *Current Text*, vol. 1, sec. F25), requires disclosure of the fair values of financial instruments. FASB Statement No. 5, *Accounting for Contingencies* (FASB, *Current Text*, vol. 1, sec. C59), requires disclosure of the potential additional loss beyond that which is recorded in the financial statements if there is a reasonable possibility of loss in excess of the amount accrued. Disclosures of related-party transactions pursuant to FASB Statement No. 57, *Related Party Disclosures* (FASB, *Current Text*, vol. 1, sec. R36), are often described and quantified in the notes.

Auditors should apply the same diligence in auditing note disclosures as in auditing the dollar amounts that enter into the determination of financial position, results of operations, and cash flows. Generally accepted auditing standards (GAAS) govern the independent auditor's procedures applied to information disclosed in notes included as part of the basic financial statements. Among other things, the auditor should assess internal control structure and management's key assumptions and estimates that support note disclosures. The auditor should plan and perform audit procedures specifically designed to provide "sufficient competent evidential matter through inspection, observation, inquiries, and confirmation" related to disclosures contained in the financial statements.

Valuation of Marketable Securities

Current unstable economic conditions have caused many entities to experience declines in the market value of

THE FINANCIAL MANAGER'S REPORT

A Quarterly Update for CPAs in Business & Industry ■ November 1992

Customer Service: A Paramount Issue for CPA Financial Managers

As more businesses define their strategies as customer driven and financial managers become key contributors to their employers' strategic decision making, CPAs must have an understanding of strategies for developing a customer service organization.

The following guidance is provided by Jack Pyle, a communications consultant/trainer who helps organizations improve their operations.

Building customer loyalty means creating a customer-centered management and staff. Service leaders typically do the following:

1. Research. Excellent customer service professionals know you begin with open-ended questions, focus groups and other non-directive methods to find out what customers *really* value and want from the organization.

A common research mistake is asking the wrong questions. One failure mode is to ask staff to brainstorm a list of service attributes, then turn them into a customer questionnaire. This approach gives you data for developing a service strategy that supports the existing approach.

2. Develop a service strategy. Create a simple, long-term strategy focused on customer needs based on your research. It is difficult to provide excellent service to more than one market segment. Liz Clairborne and Frito-Lay concentrate on store owners, not consumers; Scandinavian Airlines and Embassy Suites target business travelers. Every aspect of American Express service is shaped by research; frequent focus groups and two-hour follow-up interviews are used to develop four-page customer satisfaction surveys which are sent to 12,000 customers annually.

3. Encourage two-way communication. It's an essential foundation for building employee and customer satisfaction. Managers and executives must model the behavior they expect from others. They need to learn to ask questions and listen well. Recent research has shown most quality improvement and worker empowerment programs fail because top managers continue their autocratic methods.

4. Educate the organization. An absolute truth for creating customer satisfaction is that you first must achieve employee satisfaction. To develop a customer-service culture, frontline employees must be *allowed and encouraged* to make decisions.

Education is more than a training seminar. Education is a continuous process which includes ongoing formal training and on-the-job reinforcement. Managers and supervisors must be trained to be mentors and coaches so they help employees rather than give orders.

Is it worth all this effort? Research suggests customers remain loyal to good service organizations even when things go wrong. Customers tend to be sympathetic when they feel frontline employees care about them, understand their needs and do their best to fix things.

Editor's note: For a copy of Jack Pyle's "10 Tips on Customer Service for Financial Managers," send a self-addressed envelope to Tom Lemmon, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775.

Non-Financial Measures of Control: Key Success Factors

By Joseph Fisher

Following is a summary of Mr. Fisher's article published in The Journal of Cost Management, *which describes the implementation of non-financial control systems at several high-tech manufacturers.*

Many firms are experimenting with control systems that simplify the control process by focusing on only a few key success factors. Many of these factors are non-financial. The rise of non-financial measures is an attempt to reassert the primacy of being operations driven. This article will discuss the six steps several high-technology firms followed in implementing new control systems.

continued on page 2

Non-Financial Measures of Control: Key Success Factors *(continued from page 1)*

Step 1: Shock

The company faced a perceived shock to its operating environment. This shock both led management to conclude that current management practices did not lead to desired results and served as a catalyst in motivating management to find new ways of managing, measuring and controlling the process.

Step 2: Current Control System is Deficient

The second step consisted of management concluding that the current control system, typically a variance system built on standard costs, was deficient as a control system. Rather than refining the current control systems, a radically new method of control was needed. A complaint about the old cost system was that the variance was not actionable at the operating level—because the numbers were summarized on such an aggregate level, managers did not feel individually responsible for the variances.

Step 3: Definition of Key Success Factors

To overcome the perceived shortcomings of the control process, the company had to determine what factors give it a competitive advantage. The third step consisted of defining these key success factors (KSF). This step required extensive characteristics that would allow the firm to survive and thrive in its markets. Some of these imperatives included customer satisfaction, manufacturing excellence, market leadership, quality, reliability, responsiveness and technological leadership. Many of the KSFs were not based on cost considerations.

Step 4: Finding Quantifiable Measures

With these factors identified, the fourth step involved attempting to find objective measures. Many key success factors did not have an easy mapping to quantifiable measures. For example, assume a firm determines that innovation is a key success factor. A business strategy of innovation does not lead to easily quantifiable measures that indicate success on this strategy.

The use of non-financial control systems did not do away with the importance of financial results. However, the firms believed that positive financial outcomes would ensue from successfully implementing the KSFs through the non-financial controls.

Step 5: Implementation

After identifying the key success factors and quantifiable measures, the new control system was implemented. The major step in implementation revolved around placing responsibility within the firm for individual non-financial measures. Implementation was not a trivial step, and companies handled this step in very different ways. During this stage, the firms also attempted to find a benchmark for acceptable performance. This step can be considered analogous to setting the standard in a standard cost system; however, the firms used innovative methodologies in defining these benchmarks.

Step 6: New Outcomes

Lastly, these new control systems resulted in new outcomes, both positive and negative. The firms noted many strengths of the new measures as compared to using the standard cost system for control purposes. First, the non-financial measures were more directly traceable to the strategy of the firm. Another perceived benefit was that the measures were actionable. The non-financial system was also found to couple well with the new high-technology manufacturing systems.

While the new measures were considered superior to the old methods of control, the non-financial system was not problem free. One of the key difficulties of the system was the inability to dollarize the amount of improvements in the non-financial measurements. Another weakness of this implementation process is that, without an overall theoretical framework, the non-financial measures themselves may conflict and make proper trade-offs difficult to determine. As with all measurement systems, the possible 'gaming' of measures is a problem that may arise. Gaming is defined as managers optimizing their performance at the expense of optimal performance for the organization.

The implementation of non-financial systems is in its infancy. Firms are just beginning to design and implement these systems. Understanding the strengths, weaknesses and trade-offs in the systems awaits development of an overall framework that explains these relationships. Much of the uncertainty facing firms in implementing these systems will dissolve once an accepted framework is developed.

Joseph Fisher is an Associate Professor of Business Administration at the Amos Tuck School at Dartmouth College and coauthor of the AICPA course Management Accounting for the 90's, *which is part of the Institute's Certificate of Educational Achievement Program in Financial Management.*

The Job Interview and the Americans with Disabilities Act

The Americans with Disabilities Act (ADA) went into effect on July 26th of this year for employers with 25 or more employees (*The Financial Manager's Report*, Feb.; *Journal of Accountancy*, May). Title I of the ADA discusses the responsibilities of covered employers during the recruiting and screening stages of the hiring process and has been incorporated into regulations of the Equal Employment Opportunity Commission.

All employees of your company involved in the recruiting, testing and interviewing of new employees should be made aware of the regulations, in particular the types of questions that you can and cannot ask when interviewing a candidate. The following list of DOs and DON'Ts is adapted from *ADA: Employee Rights and Employee Obligations* by Ogletree, Deakins, Nash, Smoak & Stewart (copyright 1992, Matthew Bender & Company), and is used with permission.

The questions are intended as examples; an interviewer should tailor his or her questions to those that relate to "the essential functions" of the job and to the qualifications of the applicant being interviewed. The interviewer should also keep in mind the ADA concept of "reasonable accommodation," which relates to changes in facilities, equipment and staffing that will enable an applicant to perform a function.

- DON'T ask applicants how their disabilities occurred, e.g., DON'T ask a deaf applicant, "How did you lose your hearing?"
- **DO** ask a blind applicant, "How do you input and retrieve data from a computer?," **if this facility is an essential function of the job.**
- DON'T ask, "Do you expect to go to the doctor a lot?"
- **DO** say, "Our business hours are 9:00 a.m. to 5:00 p.m. Will you be able to work those hours?"
- DON'T say, "I don't see how you can do this job."
- **DO** say, "These are the tasks of the job. How would you complete each task?"
- DON'T ask, "Do you have a disability that would prevent you from doing the job?"
- **DO** ask, "Is there any reason why you cannot perform the requirements of the job?"
- DON'T ask an applicant with only one leg, "Do you drive a car?," if driving is not an essential function of the job.
- **DO** ask a person with only one leg, "Can you stand for four hours without a break?," **if operating machinery while standing for four hours at a time is one of the essential functions of the job.**

Look for more helpful hints on implementing the ADA in future editions of *FMR*.

The Americans with Disabilities Act: Tax Provisions Related to Businesses

The ADA requires a fresh look at the tax implications for disabled and handicapped persons and their employers. The information below is excerpted from the Sept. issue of *The Tax Adviser* and will assist you in coping with the new rules.

Both deductions and credits related to expenses incurred due to the employment of handicapped persons are available to businesses. The provision for barrier removal expensing (Sec. 190) was in effect long before enactment of the ADA. Available tax credits include the targeted jobs credit and a new "small business credit" (Sec. 44) authorized by companion legislation to the ADA.

Congress passed the Sec. 44 tax credit in response to the immediate needs of the ADA (effective after Nov. 5, 1990). The credit is available to "small businesses" (no more than 30 employees or $1 million in annual gross receipts) and is nonrefundable up to $5,000 for qualified expenditures. The rules call for a credit for up to 50% of qualified expenditures over $250, but not to exceed $10,250 {($10,250 – $250) x 50% = $5,000 total credit}.

The small business credit applies to expenditures for Sec. 190 barrier removal and also applies to the following employment-related provisions of the ADA:

- Purchasing equipment to assist disabled workers.
- Purchasing services or materials for disabled workers.

A unique planning opportunity applies to the employment-related provisions of the ADA. Employers can be required by ADA rules to provide "assistance providers," such as readers for blind employees or signers for hearing impaired workers. This can add considerably to employment fringe benefit costs if new employees are added for this purpose.

An alternative approach would be to provide sufficient compensation to the disabled workers to allow them to provide these services for themselves at their own expense and under their own control. This eliminates the employers' fringe benefit costs related to hiring assistance-providers. Furthermore, it should not burden the disabled worker because the full cost of the assistance-provider is wholly deductible as an employment-related worker's expense.

As always, consult your company's tax adviser before taking any specific actions relating to the above.

Taking Responsibility for Your Communications

It has been said that the quality of our communications determines the quality of our lives. That is the premise upon which H. Peter deLisser, Executive Vice President of Beam Pines, bases his work with business organizations. "The obvious objective is through an increase in the quality of communications to raise the level of employee productivity and improve the quality of managerial decisions. A less obvious objective is to build individual self-esteem and to assist people in reaching their full potential," says deLisser.

To meet both agendas, deLisser stresses three principles of communication: responsibility, uniqueness and awareness of the listener's advantage.

I Am Responsible — In conversations with others, we are 100% responsible for the results. When others speak to us, we accept responsibility for understanding what is said, no matter how poorly it is communicated. When we speak to others, we accept responsibility for the other person understanding what we say no matter how poorly he/she listens. When we accept responsibility, we can no longer get angry at or resent the other person, but must focus on the communication skills necessary to complete the conversation with mutual respect and understanding.

We Are Unique — Every person is unique, including us. Therefore, we need to give up the idea that other people should feel and act like we do. Not only do poor communications occur, but strong reactions when we judge people's actions and conversations in terms of our own standards, as the following quotation indicates: "Do not judge as you too will be judged. For in the same way you judge others, you will be judged, and the measure you use, it will be measured to you." For us to be perceived as trustworthy, we need to eliminate judgments and accept the uniqueness of all people.

They Have an Advantage — When we communicate, we need to be aware of a 600-word advantage. Physically, when we speak to people, we speak at a rate of 150 to 250 words per minute. Listeners are capable of hearing up to 750 words per minute. When they listen to us, they fill that 600-word advantage with judgments of our character and ready their responses before we can finish talking. Since this 600-word advantage exists, we need to use the fundamentals necessary both to speak so people will listen and to listen so people will speak.

These three communications principles can greatly improve your effectiveness as a manager.

NEW— Important Tools for CPA Financial Managers

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has published a four-volume report entitled ***Internal Control – Integrated Framework.*** The Members in Industry Executive Committee (MIEC) believes the document will make a major contribution to the field of business management and has recommended that the AICPA make use of the report's contents in publications, CPE programs and other educational materials.

A special task force of the MIEC reviewed preliminary and revised drafts of *Internal Control – Integrated Framework*, which provides a unified concept of internal control while avoiding a cookbook approach to providing guidance on internal control implementation. The task force believes that the revised draft provides a more valuable and versatile tool for businesses of all types and sizes. The COSO report is of particular importance to CPA financial managers, who are charged by their employers with implementing effective internal control systems.

Whether you've studied the earlier drafts, read or heard about the report's contents, or are completely unfamiliar with it, you should consider obtaining a copy by calling the AICPA Order Department and asking for **product no. 990002CL.** The cost is $50 for the four volumes — Executive Summary, Framework, Management Reporting to External Parties, and Evaluation Tools — or $3 for the Executive Summary (product no. 990001CL).

Forty-six recently published articles have been chosen by the AICPA Members in Industry Executive Committee for inclusion in the first edition of a new self-study CPE course, ***Selected Readings for Financial Executives.***

The articles, reprinted from over 30 top business and professional periodicals, were compiled in two volumes and address a variety of management, technical and professional issues. An accompanying educational workbook focuses on the practical applications of the articles, concentrating them into 11 easily digestible chapters. ***Selected Readings for Financial Executives*** **(product no. 731450CL)** is available for only $79, for which you can earn **8 credit hours of CPE.** If you are a resident of Florida, Missouri or New York, please order by calling your state CPA society: Florida 904/224–2727, Missouri 314/997–7966, or New York 212/973–8300.

AICPA Order Department 800/TO–AICPA (800/862–4272)

AICPA *"The Measure of Excellence"*

American Institute of Certified Public Accountants

Accounting Educators: FYI

Volume IV, Number 2—November 1992

In this issue . . .

The AICPA held its 105th annual meeting in October, and with that meeting a new committee year began. In this issue, a special tear-out page listing all **Academic and Career Development committees and staff** is included for your reference in the months ahead.

See page 3.

The Institute's new Information Technology Section is making good on its promise to **keep members current on cutting-edge technology.** The IT section recently released a report on expert systems.

See story on page 2.

Various opportunities for **continuing professional education and faculty development** are available from the AICPA.

See stories on page 5.

The 1992 AICPA Professor/Practitioner Case Development Program created 14 new teaching cases for use in accounting curricula; these will be distributed to U.S. accounting departments free of charge in December. The **1993 Professor/Practitioner Case Development Program** is now underway, so another round of opportunities is open.

See notice on page 6.

Each year, the AICPA awards hundreds of thousands of dollars in **prizes and scholarships** to outstanding educators and students under several different programs with specific and varied objectives. For the first time, all are summarized in a single-page format for your information and that of your students.

See page 8.

News & Notes 2

AICPA APPROVES POSITIONING AND TAGLINE FOR RECRUITING PROGRAM

by John Daidone

The AICPA Accounting Careers Subcommittee is making significant progress in launching a profession-wide program to recruit the "best and the brightest" students into accounting.

Recently, the committee approved a positioning platform and tagline which will be used in all future recruiting materials. The development of a positioning and tagline follows a logical process whereby over a two-year period the AICPA has contracted the Gallup Organization, Princeton, New Jersey, to survey students on their perceptions of and interest in accounting, and contracted a consulting firm, Tom Yaegel & Associates, Richboro, Pennsylvania, to develop an overall marketing plan for recruiting students into accounting (see May 1992 and September 1991 issues of *ACCOUNTING EDUCATORS: FYI*).. The AICPA's profession-wide recruiting effort is designed to involve participation from state societies, educators, firms, and others with a vested interest in attracting the better students into the study of accounting and, subsequently, the profession.

ACCOUNTING.
Don't just learn a business. Learn the business world.

The positioning platform—"Accounting offers diversity in work and careers"—demonstrates to students that accounting offers many options in terms of the type of work and career path that one can choose. The tagline—"Accounting. Don't just learn a business. Learn the business world"—feeds off of the positioning by suggesting that accounting is the foundation through which students obtain the skills and knowledge to understand how business operates. In public practice they will be exposed to many types of businesses, and in industry they will experience the many facets of how a company operates. The difference between the position statement and the tagline is that the positioning will be a running theme throughout the materials but will not appear as a statement; the tagline, on the other hand, will serve in that capacity (much like the "Be All That You Can Be" campaign used by the U.S. Army).

Both the positioning and tagline will be incorporated in a career guide currently being developed by Hill, Holliday, an advertising agency in Boston. The career guide, which is expected to be available in early 1993, is targeted primarily to high school juniors and seniors and college freshmen and sophomores. The objective of the guide is to familiarize students with the diversity offered by a career in accounting, and hopefully, encourage them to pursue the study of accounting and enter the profession.

The AICPA contracted Hill, Holliday in July to develop the tagline and career guide. A key reason why Hill, Holliday was selected over four other agencies was

(continued on page 7)

News & Notes

The American Assembly of Collegiate Schools of Business (AACSB) recently announced its 1992–93 Fall/Winter workshops and seminars. Among the offerings this year is the **Strategic Planning Workshop,** scheduled for January 27–30 in Houston. Designed for school teams with responsibility for implementing a strategic plan, this workshop includes interactive sessions and the development of a framework within which the process of strategic planning can proceed. For more information, contact the AACSB at (314) 872-8481.

❦

The 105th annual meeting of the AICPA took place on October 9 in Washington, DC, in connection with the XIV World Congress of Accountants. At the meeting, **Jake L. Netterville** of Baton Rouge was installed as Chairman of the Board of Directors of the Institute, succeeding **Gerald A. Polansky.** In his inaugural address, Netterville focused on several issues as having high priority during his term, including the legal liability crisis now facing the profession. Increasing interaction with the state CPA societies and putting forward the image of the CPA as a high-tech, modern professional will also be important concerns.

❦

Also at the annual meeting, the highest award the accounting profession can confer on a member was presented to **A. Marvin Strait,** chairman of the board of Strait, Kushinsky & Company of Colorado. The Gold Medal Award was presented to Strait, who was chairman of the AICPA in 1987–88, for meritorious service to the profession over his 35-year career, including the successful implementation of the Plan to Restructure Professional Standards, which brought about landmark changes to the AICPA's Code of Professional Conduct in 1988. Strait is a member of the AICPA's Academic and Career Development Executive Committee and represents the Institute on the Accounting Education Change Commission (AECC).

❦

The **Apple Business/Education Partnership Program** is a new program to help schools purchase computer materials. Offering hardware and software bundles for different levels of higher education, the program also offers a kit for establishing and sustaining a partnership. Contact Apple Computer Customer Assistance at (800) 776-2333.

❦

The **Federation of Schools of Accountancy (FSA),** the organization of accredited graduate programs in accounting, will be holding its 16th annual meeting in New Orleans, December 6–8. The conference theme, "Joining Forces: A Partnership to Educate Our Profession," is designed to draw attention to the need for cooperative efforts among students, faculty, administrators, accreditors, practice, industry, regulators, state boards and societies to assure the continuation of high-quality education for the profession of the future. For more information, contact the FSA Administrative Office at (312) 362-8055.

❦

The top scorers on the November 1991 and May 1992 Uniform CPA Examination were presented the **AICPA Elijah Watt Sells Awards** at the AICPA annual meeting in Washington. Gold, silver, and bronze medals are presented annually to those candidates who score the highest on all four sections of the examination. To be eligible, all four sections must be passed at one time. A total of 70,000 candidates took the November 1991 exam, while 65,000 took it in May 1992.

The November 1991 Gold Medal winner is Chad M. Koehler of Cedarburg, Wisconsin; he is a graduate of the University of Wisconsin at Madison and a tax accountant with Deloitte & Touche. The May 1992 Gold Medal winner is Mary Emmerling of Silver Spring, Maryland, who is a graduate of the University of Wisconsin at Eau Claire and Old Dominion University and is currently employed as a financial auditor with the U.S. General Accounting Office.

❦

U.S. Secretary of Education Lamar Alexander has announced the appointment of five members to the national advisory board of the **Fund for the Improvement of Postsecondary Education (FIPSE),** a discretionary grant program authorized by the Higher Education Act to support innovative reform projects.

The 15-member board advises the Secretary on priorities, programs, and operations of the fund and recommends grant and contact awards. Appointed to the board were Mark Blitz of the Hudson Institute, Lynn Chu of Writers Representatives, Pricilla Laws of Dickenson College, Robert Sasseen of the University of Dallas, and Steven Tigner of the University of Toledo. For information about FIPSE and its programs, contact the U.S. Department of Education at (202) 401-0570.

AICPA Releases Expert Systems Report

Spotlighting the latest breakthroughs in technology for its Information Technology (IT) Section members, the AICPA has released a research report entitled *Audit and Security Issues with Expert Systems.*

"Today's competitive environment demands that businesses use cutting-edge technology," said Daniel E. O'Leary, CPA, member of the IT Research Subcommittee and author of the report. "Expert Systems are an important part of this technology, so it's crucial that the CPA is informed about these systems in order to perform effective audits."

Audit and Security Issues with Expert Systems (product #038500) is the first in a series of publications produced by the IT Section, which will include practice aids, technology bulletins, and technology alerts. For information about this important report or membership in the IT Section, call Nancy Cohen at (212) 575-5393. ❖

1992–93 Academic and Career Development Committees and Staff

ACADEMIC AND CAREER DEVELOPMENT EXECUTIVE COMMITTEE

Objective: To formulate and recommend to the Board of Directors AICPA policy on recruitment, pre-certification education and the career development of Certified Public Accountants, and to coordinate the implementation of projects and programs that support the policy.

Larzette G. Hale, CPA, *Chair* (Brigham Young University, UT). **Miguel A. Cabrera, Jr.,** CPA(M.A. Cabrera & Company, P.A., FL). **Nita J. Dodson,** CPA(The University of Texas at Arlington). **Charles B. Eldridge,** CPA(Ernst & Young, NY). **Barron H. Harvey,** CPA(Howard University, DC). **William Markell,** CPA(University of Delaware). **Joseph E. Mori,** CPA (San Jose State University, CA). **Belverd E. Needles, Jr.,** CPA (DePaul University, IL). **Jack Steven Oppenheimer,** CPA (Geller, Ragans, James, Oppenheimer & Creel, FL). **Frank R. Rayburn,** CPA (University of Alabama at Birmingham). **Amelia Anne Ripepi,** CPA (Arthur Andersen & Company, IL). **Linda J. Savage,** CPA (University of Central Florida). **Robert E. Schlosser,** CPA (Rutgers—The State University of New Jersey). **A. Marvin Strait,** CPA (Strait, Kushinsky & Company, P.C., CO). **James B. Thomas, Jr.,** CPA (U.S. Department of Education, DC). *Staff Aides:* Rick Elam, Beatrice Sanders.

CURRICULUM AND INSTRUCTION IN ACCOUNTING EDUCATION SUBCOMMITTEE

Objective: To maintain channels of regular communication with and increase the supply of qualified CPA educators; to encourage professional interaction; to recognize outstanding scholars through several award programs; and to encourage curricular and faculty development.

Barron H. Harvey, CPA, *Chair* (Howard University, DC). **Louis W. Adams,** CPA (Southwestern Bell Telephone Company, MO). **Teddy L. Coe** (University of North Texas). **Richard H. Fern,** CPA (Eastern Kentucky University). **Robert M. Keith,** CPA (University of South Florida). **Loc T. Nguyen,** CPA (California State University, Long Beach). **Walter F. O'Connor,** CPA (Fordham University, NY). **Martin Rotheim,** CPA, Goldstein, Golub, Kessler & Co., P.C., NY). **D. Gerald Searfoss,** CPA (Deloitte & Touche, CT). **Paula B. Thomas,** CPA (Middle Tennessee State University). **Jerry E. Trapnell,** CPA (Clemson University, SC). **Jean C. Wyer,** CPA (Coopers & Lybrand, NY). *Staff Aide:* Stephen J. Anspacher.

ACCOUNTING CAREERS SUBCOMMITTEE

Objective: To develop programs and activities to attract the best and brightest into accountancy and to assist the state CPA organizations in developing student recruiting programs.

Nita J. Dodson, CPA, *Chair* (The University of Texas at Arlington). **Maryan Ackley,** CPA (Frank, Rimerman & Co., CA). **Richard M. Broich,** CPA (Larson, Allen, Weishair & Company, MN). **Dan Stuart Deines,** CPA, Kansas State University). **Cindy M. Gray** (Virginia Society of CPAs). **Robert Hickman** (McGladrey & Pullen, IA). **Dieter M. Kiefer,** CPA (U.S. General Accounting Office, KS). **Mitchell A. Martin,** CPA (Martin, Harps, Syphoe, & Co., GA). **Francine Mellors,** CPA (Chase Manhattan Bank, NY). **Gayle L. Rayburn,** CPA (Memphis State University, TN). **Mary Wood,** CPA (KPMG Peat Marwick, FL). *Staff Aide:* John Daidone.

150-HOUR EDUCATION REQUIREMENT COMMITTEE

Objective: To develop a program for legislative implementation of a 150-hour education requirement to sit for the CPA examination; to give advice and assistance in achieving a 150-hour education requirement to the states; and to seek the support, cooperation, and participation of the state societies, of the state boards of accountancy, and of other professional organizations in developing and implementing the program.

Ronnie Rudd, CPA, *Chair* (Arthur Andersen & Co., TX). **Jack Brooks** (Connecticut Society of CPAs). **Frank J. Champi,** CPA (Lefkowitz, Garfinkel, Champi, & DeRienzo, P.C., RI). **Tonya K. Flesher,** CPA (University of Mississippi). **Raymond L. Hellmuth,** CPA

New Location ➔ New Numbers

With the AICPA's recent relocation of the majority of its operations to a new facility in Jersey City, New Jersey, many departments have received new telephone numbers. Following are some of the new direct numbers:

AICPA New Jersey (Main Switchboard)	(201) 938-3000
Benevolent Fund	(201) 938-3479
CPE Course Information	(800) 862-4272
Examinations	(201) 938-3429
General Accounting	(201) 938-3244
Meetings & Travel	(201) 938-3232
Membership Administration	(201) 938-3100
NAARS	(201) 938-3248
Order Department	(800) 862-4272
Public Meeting Notices	(800) 862-4272
Quality/Peer Review	(201) 938-3030
Subscriptions/Customer Service	(201) 938-3333
Technical Information Hotline	(800) 862-4272

The Academic and Career Development Division is remaining in New York; its telephone numbers remain the same. The AICPA Library, which is moving to new quarters in the same New York building, will also keep the same telephone numbers.

(Deloitte & Touche, MA). **T. Edward Hollander,** CPA (Rutgers — The State University of New Jersey). **Raymond E. Howard,** CPA (MI). **Donald N. Jones,** CPA (Baker, Peterson & Franklin, CA). **Martha S. Marshall,** CPA, University of North Carolina at Asheville). **Eugene J. Miller,** CPA (Broan Manufacturing Company Inc., WI). **B.J. Schwieger,** CPA (St. Cloud State University, MN). **Jenice P. Stewart,** CPA (University of Missouri–Columbia). *Staff Aides:* Rick Elam, Beatrice Sanders, Virgil Webb III.

WOMEN AND FAMILY ISSUES EXECUTIVE COMMITTEE

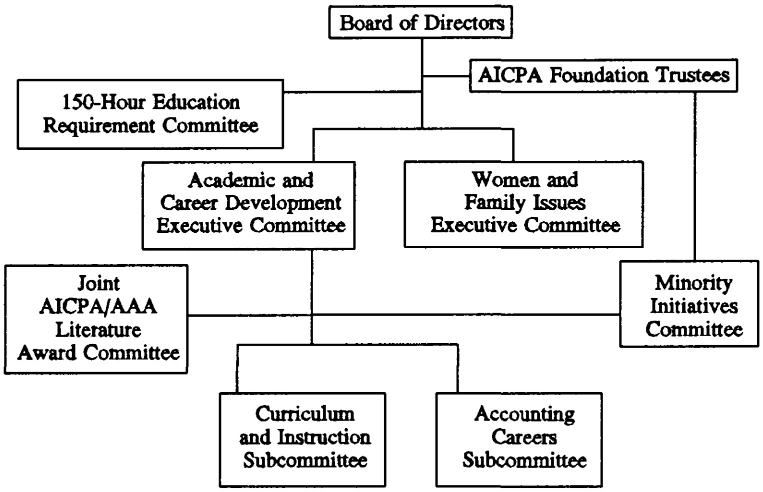
Objective: To implement and/or monitor recommendations to strengthen the upward mobility of women in the profession.

Samuel A. Vitkoski, CPA, *Chair* (BDO Seidman, CA). **Steven R. Berlin,** CPA (CITGO Petroleum Corporation, OK). **Patti Bissell,** CPA (MD). **Bill Carmichael,** CPA (Sara Lee Corporation, IL). **Shirley J. Cheramy,** CPA (Price Waterhouse, CA). **Denise L. Devine,** CPA (Murray Devine & Company, PA). **Michael A. Diamond,** CPA (University of Southern California). **Sharon S. Fierstein,** CPA (Metropolitan Life Insurance, NY). **Ellen P. Gabriel,** CPA (Deloitte & Touche, MA). **Marguerite R. Griffin,** CPA (AT&T, NJ). **Nancy M. Heimer,** CPA (Heimer & Associates, MN). **Kathy Ingle,** CPA (McGladrey & Pullen, IA). **Maryann Correnti,** CPA (Arthur Andersen & Company, TX). **Joyce M. Simon,** CPA (Ernst & Young, IL). **Jerry C. Skelly,** CPA (U.S. General Accounting Office, DC). **Teresa D. Thamer,** CPA (Embry-Riddle Aeronautical University, FL). **Kathryn J. Whitmire,** CPA (Rice Institute for Policy Analysis, TX). *Staff Aide:* Beatrice Sanders.

MINORITY EDUCATION INITIATIVES COMMITTEE

Objective: To implement the 1969 resolution of Council to integrate the profession in fact as well as in ideal by encouraging and assisting young men and women from minority groups to prepare themselves for professional careers in accounting and encouraging public accounting firms and other business organizations to take special affirmative action to recruit and promote qualified members of minority groups.

Miguel A. Cabrera, Jr., CPA, *Chair* (M.A. Cabrera & Company, P.A., FL). **Quinton Booker,** CPA (Jackson State University, MS). **Joseph L. Boyd,** CPA (Norfolk State University, VA). **Beverly L. Everson-Jones,** CPA (National Association of Black Accountants Inc., DC). **Ruth C. Harris,** CPA (Virginia Union University). **James P. Hayes,** CPA (Coopers & Lybrand, NY). **Judy L. Johnson-Wright,** CPA (Financial Reporting Consultants, DC). **Kikuo Nakahara,** CPA (Greene, Nakahara & Lew, A.C., CA). **John R. Plymyer** (Washington Society of CPAS, WA). **R. Todd Rossel** (Deloitte & Touche, CT). **Robert G. Seabrooks,** CPA (U.S. Department of Education, IL). **George Sill** (Arthur Andersen & Company, DC). **Angela D. Washington,** CPA (Farmers Insurance Group, CA). *Staff Aides:* Beatrice Sanders, Stephen J. Anspacher.



AICPA Academic and Career Development Division Organization

JOINT AICPA/AAA ACCOUNTING LITERATURE AWARD COMMITTEE

Objective: To select for recognition those articles, monographs, or books, published in English, which in the view of the committee make outstanding contributions to the literature of accounting.

J.J. Willingham, CPA (AICPA), *Chair* (KPMG Peat Marwick, NJ). **C. Richard Baker,** CPA (AICPA), (NY). **Rajiv D. Banker,** CPA (AAA) (University of Minnesota). **Barry J. Brinker,** CPA (AICPA) (Warren, Gorham & Lamont, NY). **Anna C. Fowler,** CPA (AAA) (University of Texas at Austin). **Robert Libby,** CPA (AAA) (Cornell University, NY). **Michael L. Moore,** CPA (AICPA) (University of Southern California). **Lawrence A. Ponemon,** CPA (AAA) (Babson College, MA). **Gerald L. Salamon,** CPA (AAA) (Indiana University). **Jack Edward Wilkerson, Jr.,** CPA (AICPA) (Wake Forest University, NC). *Staff Aide:* Stephen J. Anspacher.

DIVISION STAFF

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Committee service — a great way to contibute to your profession!

AICPA 1993 CPE Programs for Accounting Educators

The Academic and Career Development Division is once again planning to offer a series of continuing professional education workshops at several regional meetings of the American Accounting Association in the Spring of 1993.

Two programs will be presented this year. The tremendously popular and successful *Improving Teaching Effectiveness* program, designed and led by Georgia State University Professor Yezdi Bhada, will be offered at some meetings again this year.

At other meetings, a new program, currently being put together by a task force of the Curriculum and Instruction Subcommittee, will be presented. The new program, the *150-Hour Curriculum Planning Workshop,* is conceived of as a hands-on program bringing together academics who have had the experience of designing and implementing 150-hour programs with their colleagues who are just beginning the process. Participants and workshop facilitators will be matched by school demographics, and the overall objective of the program will be to get a firm "leg up" on planning the process.

More information about the dates and locations of each of these programs will be available shortly. If you're planning on attending an AAA Regional Meeting this year, consider going a day early for the AICPA CPE Program for Accounting Educators.

Offered Across the Country

AICPA Continuing Professional Education Seminars of Interest to Accounting Educators

Although many of the AICPA's Continuing Professional Education seminars have some applicability for members in education, six stand out as being the most useful to most educators. They provide updated information or a review of essential basics in a general sense. Thus they assist educators in keeping up-to-date with all the latest and most important happenings that would affect how certain subjects might best be approached in the classroom.

Recommended Accounting and Auditing courses are *Accounting and Auditing Annual Updating Workshop, Accounting and Auditing Annual Standards Refresher* and *FASB/APB Review. Accounting and Auditing Annual Updating Workshop* is a two-day program that provides educators with a general review of this year's accounting and auditing developments. Current authoritative guidelines on financial reporting are reviewed, and case studies are used to illustrate the pronouncements covered in the program. For an overview of the recent changes, *Accounting and Auditing Annual Standards Refresher* is an excellent one day course. Educators will benefit from its summarized coverage of the major changes in accounting and auditing standards. *FASB/APB Review* covers the application of major APB and FASB pronouncements in preparing or reviewing financial reports and disclosures. The course also includes information on the major pronouncements issued during the year.

In the area of Taxation, three update courses are suggested for members in education. By taking *Corporate Income Tax Returns Workshop, Individual Income Tax Returns Workshop,* and *Mastering the 1993 Tax Season: An Annual Update,* educators would learn the latest and most important tax happenings. Sidney Kess, CPA, LLM, the distinguished tax practitioner and educator, is the author of *Corporate Income Tax Returns Workshop* and *Individual Income Tax Returns Workshop.* Each of these two, two-day workshops covers a wealth of information. Newly enacted legislation, realistic return preparation problems, and informed analysis of corporate or individual income tax principles provide educators with a comprehensive review and updated information on the latest developments and tax planning ideas. *Mastering the 1993 Tax Season: An Annual Update* provides a one-day update on the significant changes from one year to the next in federal taxation. It covers the latest developments in new legislation, regulations, rulings, and case law. It is co-authored by three of the AICPA's top instructors and tax experts, Andrew R. Biebl, CPA; Albert L. Grasso, LLM; and Robert J. Ranweiler, CPA.

These courses are located around the country during the remainder of this year. For schedules and registration information, please call or write: LaTanya Junior, CPE Marketing, 1211 Avenue of the Americas, New York, NY 10036-8775, (201) 938-3205. ❖

Teaching Minority Students

1993 Faculty Summer Seminar Set for Lexington, Kentucky

The 1993 AICPA Faculty Summer Seminar, organized by the Minority Educational Initiatives Committee (formerly the Minority Recruitment and Equal Opportunity Committee), has been scheduled for May 30–June 2 in Lexington, Kentucky.

This will be the 23rd annual seminar, funded by the AICPA Foundation to provide faculty development opportunities specifically directed at teachers of minority students. This invitational program, which has been a traditional gathering for this special group of accounting educators, has undergone major changes in the past year to better reflect developments in the field.

Additional information and invitations will be mailed in mid-January 1993. ❖

American Institute of Certified Public Accountants
Academic and Career Development Division

1993 PROFESSOR / PRACTITIONER CASE DEVELOPMENT PROGRAM

In 1992, the AICPA launched a new program to encourage the joint development of teaching cases by accounting educators and practitioners. This ***Professor/Practitioner Case Development Program*** yielded over 65 applications. Eight of these were selected as "winners" and invited to present their cases at the 1992 Accounting Educators Mini-Conference in Phoenix; an additional six cases were designated as "alternate" winners. The 14 winning cases will be published and donated to the public domain by the AICPA so that they may be freely duplicated and used in the classroom. (The 14 winning cases will be distributed free of charge to all accounting departments in the U.S. in early December.)

The Institute is pleased at this time to announce the initiation of the 1993 case development program, which will culminate in presentations at the next Accounting Educators Mini-Conference.

OBJECTIVE

The program is designed to bring together practitioners and accounting educators for the preparation of case materials based on actual incidents and situations. Cases based on data from SEC files are also acceptable. These real-world-based cases should be for classroom use in the teaching primarily of financial and managerial accounting courses and may include appropriate materials for international accounting and ethics. Cases should be designed for use in one- to three-hour class periods.

Authors will waive copyright and royalty rights, so that cases may be published in reproducible form and distributed to academic institutions and interested firms. Recipients of these cases will be free to copy the material for use in educational programs.

PARTICIPATION PROCEDURE

Interested professors should submit a completed application to Robert M. Keith, %AICPA Academic and Career Development Division, Case Development Program, 1211 Avenue of the Americas, New York, NY 10036-8775. Questions may be directed to Bob Keith at (813) 974-4186. The deadline for submissions is January 15, 1993.

Applications will be screened by an AICPA task force, drawn from the Curriculum and Instruction Subcommittee and composed of educators and practitioners; selections will be made by March 15, 1993. Professors should have obtained the consent of a practitioner to participate in supplying data and developing the case, and detail such arrangements in their proposals. Practitioner co-authors may be in public accounting, private industry, or the non-profit or governmental sectors.

The AICPA would especially like to encourage the development of materials for intermediate-level courses. Thus, proposals for cases appropriate for undergraduate use will receive special attention.

CASE PRESENTATION/PUBLICATION

Authors of eight cases will present their work at the 1993 Innovations in Accounting Education Mini-Conference, tentatively scheduled for November 1993 at a location to be announced. One academic author and one practitioner will attend as guests of the AICPA. These eight cases, along with a group of alternates, will be published by the AICPA and made available gratis to educators.

FOR MORE INFORMATION

To obtain a copy of the required application form, or if you need additional information abut this program, please contact:

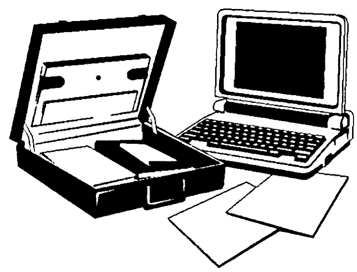
AICPA Academic and Career Development Division
1211 Avenue of the Americas
New York, NY 10036-8775

Recruiting Program *(continued from page 1)*

based on a commercial produced by the agency which portrays CPAs in a very positive light. The commercial features two young, female CPAs driving an Infiniti.

The tagline and career guide development process began in August when Hill, Holliday conducted focus groups in Boston and Chicago of high school and college students and recent graduates working in public accounting. Approximately 20 taglines were tested in the focus groups, along with numerous career guides from accounting and other professions in order to determine what type of career guide the students would be attracted to and what kind of information they would want the guide to feature.

One of the leading contenders was "Accounting. You'll be surprised how many doors it can open." As a result, the "you'll be surprised" element will be used as a short-term strategy, primarily in the development of the career guide. The agency recommended "Don't just learn a business. Learn the business world" as the tagline because it will serve the professon's efforts much better over the long run. As one agency representative noted, "Hopefully, students won't be surprised about the diverse opportunities offered by accounting a few years from now."



Hill, Holliday recently presented the positioning platform, tagline, and preliminary career guide concepts at the AICPA/State Societies Accounting Careers Conference in Phoenix. The participants were very impressed with the career guide, which literally features surprises with every turn of the page. As FYI went to press, the career guide was being tested among high school and college students and high school teachers in order to determine its appeal and usefulness, among other things.

In addition to the career guide, Hill, Holliday is producing supplemental materials which incorporate the same concepts and design elements. These materials include a tagline logo which state societies and others could use in their recruitment efforts; a poster which could be hung in the classroom, career counselor's office, etc.; and a folder which will enable state societies and others to include their own materials (e.g., in-state firm directory) when distributing the guides. The folders could even be used by CPAs participating in classroom discussion.

Another piece of the recruitment package — a new video to replace the current AICPA recruitment videos "A License to Succeed" and "It All Adds Up" — will begin production shortly. The AICPA is plans to modify the video for two audiences — high school and early college students unfamiliar with accounting and still forming career decisions, and college students with an eye toward becoming CPAs. Like the career guide, the video is expected to be available in early 1993.

In order to market these new materials, the AICPA is developing a plan of action to get state societies, firms, educators, and others involved in the overall recruitment effort. The AICPA believes it is important that efforts be coordinated among all constituents so that a uniform message is provided.

The plan of action includes a coordinated distribution plan which emphasizes the development of an ongoing relationship with "key" educators who are influential in students' career decisions. The agency is currently identifying high school teachers and college faculty members who will receive a solicitation piece from which they can request the video, copies of the career guide, etc. By maintaining these names in a database, the AICPA can go back to these key individuals periodically with new materials, and ultimately, foster a relationship to get high-achieving students into the accounting "pipeline."

OTHER EFFORTS UNDERWAY

In addition to the projects mentioned previously, the AICPA is working closely with Junior Achievement (JA) on a major "career awareness" effort targeted to junior high students. JA's "Project Business" program involves classroom volunteers from the business world who, over a 10- to 12-week period, provide lesson plans to middle-school students on how business and economics work in today's society.

To guide accountants and CPAs who participate in this program, the AICPA and JA have produced a document, Project Business Guidelines for Accountants/CPAs, which directs volunteers to those lesson plans in the Project Business Consultant Manual that might be most appropriate for them to teach. The guidelines will be distributed through JA's national office to the local offices, where training of volunteers takes place. Distribution will take place in January/February in time for the spring semester.

On the horizon, the AICPA plans to produce a brochure to encourage CPAs to participate in JA's many programs. The brochure would most likely be distributed at the state society level.

A recruitment brochure targeted to minority students is expected to be available in early 1993. The brochure profiles successful minority CPAs — some of whom were recipients of the AICPA minority scholarship program. The objective of the brochure is to attract qualified minority students to a CPA career by highlighting minorities that have made it in the profession. ❖

JOHN DAIDONE is staff aide to the Accounting Careers Subcommittee. His views, as expressed in this article, do not necessarily reflect the views of the American Institute of Certified Public Accountants. Official positions are determined through certain specific committee procedures, due process and deliberation.

1993 AICPA Awards and Scholarships

The AICPA Academic and Career Development Division makes several awards and scholarships available each year. These different programs are described below.

OUTSTANDING ACCOUNTING EDUCATOR AWARD

Through its Outstanding Accounting Educator Award program, the AICPA provides recognition for the vital contributions that the academic world makes to accounting. The program is also intended to promote role models in education. Award recipients receive $5,000 and a plaque, which is presented at the AICPA Council meeting each spring.

Full-time college accounting educators distinguished for excellence in classroom teaching and for active involvement in the accounting profession are eligible for this annual award. Nominations are submitted to the AICPA by the state CPA societies, and the AICPA makes the final selection. The deadline for the receipt of nominations is March 1, 1993. Nominations *must* come to the AICPA from state societies.

SCHOLARSHIPS FOR MINORITY ACCOUNTING STUDENTS

These competitive merit- and need-based awards of up to $5,000 are for outstanding accounting students who, in the opinion of the Institute's Selection Committee, show significant potential to become certified public accountants. These scholarships are awarded by the Institute's Minority Education Initiatives Committee and funded by the AICPA Foundation from monies contributed by the AICPA, public accounting firms, individual CPAS, and others.

AICPA scholarships are awarded once each year (in July) for the following academic year, and all application materials must be received by the AICPA by July 1, 1993.

AICPA Scholarships for Minority Accounting Students are available to full-time undergraduate and graduate students at regionally accredited institutions. For purposes of this program, the AICPA defines minority students as those of Black, Native American, or Pacific Island races, or of Hispanic ethnic origin. All applicants must be U.S. citizens.

Eligibility requirements differ by academic level. Undergraduate applicants must have completed at least 30 semester hours (45 quarter hours) of college coursework, including at least six semester hours (or equivalent) in accounting. In addition, they must be full-time students and declared accounting majors.

To be eligible for a graduate scholarship, students must be enrolled in a five-year accounting program or have an undergraduate accounting major and be presently enrolled in a mater's-level accounting, business administration, finance or taxation program, or have any undergraduate degree and presently be enrolled in a master's-level accounting program.

In addition to the application, students seeking these scholarships are required to file a Financial Aid Form (FAF) and an official transcript and financial aid worksheet. Complete application information and materials will be distributed to all U.S. accounting departments and university and college financial aid offices, Beta Alpha Psi chapters, and other outlets in mid-December 1992.

DOCTORAL FELLOWSHIPS

The AICPA provides several types of fellowships to support students at the doctoral level. The AICPA Doctoral Fellowships program provides $5,000 per year, for up to three years, for CPAS who are seeking their terminal degrees preparatory to entering a new career in academe. The Minority Doctoral Fellowships program provides $12,000 per year up to three years for in-service minority faculty members pursuing their Ph.D. degrees. The newly funded Robert K. Elliott Fellowships will be used to support minority doctoral students for up to one year after completion of their coursework as they write and defend their dissertations.

More information about all these programs will be sent to accounting departments in December. The deadline for applications for the AICPA Doctoral Fellowships is April 1, and for the Minority and Elliott Fellowships, June 1.

JOHN F. CAREY SCHOLARSHIPS

John L. Carey was chief of staff of the AICPA for over 30 years. This scholarship fund was created by contributions from members of the accounting profession to honor him upon his retirement from the Institute in 1969. A graduate of Yale University, Mr. Carey was a Visiting Professor at the University of Illinois at Urbana-Champaign and the University of Georgia after his retirement.

The Carey Scholarships are awarded annually to outstanding liberal arts graduates of Yale University and the Universities of Illinois and Georgia who enter a master's degree program in accounting and work toward a career in professional accounting. The program provides $4,000 per year for up to two years. Applications and information will be distributed to accounting departments in December 1992. ❖

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Stephen J. Anspacher, *Editor*

investments in their marketable equity and debt securities. Auditors should examine evidence to determine whether management has properly classified the marketable securities (as current or noncurrent assets) and whether the amounts at which they are carried in the financial statements are appropriate.

Currently, the applicable accounting literature includes FASB Statement No. 12, *Accounting for Certain Marketable Securities* (FASB, *Current Text*, vol. 1, sec. I89); Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*, chapter 3A, paragraph .09 (FASB, *Current Text*, vol. 1, sec. I89); and EITF Issue No. 85-39, *Implications of SEC Staff Accounting Bulletin No. 59 on Noncurrent Marketable Equity Securities*. However, on September 9, 1992, the FASB issued an exposure draft of a proposed Statement of Financial Accounting Standards titled *Accounting for Certain Investments in Debt and Equity Securities*. The proposed Statement expands the use of fair value accounting for those securities but retains the use of the amortized cost method for investments in debt securities that the reporting entity has the positive intent and ability to hold to maturity. If adopted as final Statement, it would be effective for fiscal years beginning after December 15, 1993.

The applicable auditing literature includes SAS No. 1, *Codification of Auditing Standards and Procedures* (AU sec. 332, *Long-Term Investments*), and its Interpretation, "Evidential Matter for the Carrying Amount of Marketable Securities" (AU sec. 9332.01-.14).

For SEC registrants, reference should also be made to guidance provided in the SEC Staff Accounting Bulletin (SAB) Topic 5-M, *Noncurrent Marketable Equity Securities*, and the Accounting and Auditing Enforcement Release Nos. 309, 316, and 416.

Impairment of Long-Lived Assets

As noted above, 1992 has been a difficult year for many entities. In response to disappointing earnings, management may undertake drastic measures to reduce their losses, such as discontinuing marginally profitable product lines or disposing of businesses recently acquired at a substantial premium. Frequently, these key decisions are made in the fourth quarter.

Auditors should be cognizant that such measures may significantly and adversely affect the recoverable value of certain tangible and intangible assets. For example, discontinuance of a product line may obsolete specialized equipment used in production. Disposition or discontinuance of all or a portion of a business acquired in a purchase business combination at a premium may necessitate a write-off of all or a portion of the related goodwill and other intangibles.

Related-Party Transactions

Related-party transactions continue to be a significant audit concern. Paragraph 16 of an auditing interpretation of SAS No. 45, *Omnibus Statement on Auditing Standards—1983* ("The Nature and Extent of Auditing Procedures for Examining Related Party Transactions," AU sec. 9334.16), provides guidance on the *extent* to which audit procedures should be applied to examine related-party transactions. The procedures should be sufficient to provide reasonable assurance that related-party transactions are adequately disclosed and that identified related-party transactions do not contain misstatements that when aggregated with misstatements in other balances or classes of transactions, could be material to the financial statements taken as a whole.

The risk associated with management's assertions about related-party transactions is often assessed as higher than for many other types of transactions. In assessing the risk of related-party transactions, auditors should obtain an understanding of the *business* purpose of such transactions.

In addition, auditors should evaluate whether the provisions of FASB Statement No. 5, *Accounting for Contingencies* (FASB, *Current Text*, vol. 1, sec. C59), relating to the collectability of receivables from related or affiliated parties, have been applied.

Client's Significant Lack of a Segregation of Duties

In many owner-managed entities and in some large entities, the entire accounting function may be centralized in one or a few employees. That individual or individuals may also have custodial responsibility for unissued checks, and may even be an authorized check signer and receive the bank statements and canceled checks directly and reconcile the bank accounts. This type of control environment is not unusual in a smaller entity with limited accounting personnel and may be especially prevalent in smaller nonprofit organizations that operate on limited budgets.

Auditors should understand the owner-manager's or executive director's oversight of the employee in whom the accounting and custodial duties have been entrusted. Documentation of that understanding should be made as required by SAS No. 55. If the understanding reveals that the oversight is weak, there is a heightened risk of material irregularity. In addition, a reportable condition may exist and auditors should refer to the guidance in SAS No. 60.

Moreover, a focused audit response should be developed and executed to address the potential for irregularity. Examples of such audit procedures include receipt of the bank cut-off statements, expanded tests of bank reconciliations, review of selected canceled checks for unusual payees or amounts, extended review of the general and subsidiary ledgers and, possibly, reconciliation of book and bank receipts, and disbursements for a month or longer.

Management's Representations

Auditors should be careful not to over-rely on management's representations by merely accepting and including in the representation letter or working papers management's explanations of significant matters that auditors should corroborate through other audit procedures. Many SEC enforcement releases cite as one of the principal causes of audit failures an over-reliance on management's representations and a failure to exercise the proper degree of professional skepticism in auditing those representations.

There are, of course, specific representations that should be included in the representation letter that are not subject to independent verification (for example, management's intent to take a specific course of action). Although auditors may be unable to corroborate management's intent through independent verification, consideration should be given to the *feasibility* of the intended specific action in the circumstances and the consistency of management's expressed intent with previous transactions and current economic conditions.

Recurring Peer and Quality Review Comments

This section sets forth certain reminders to auditors based on frequently recurring comments noted in peer and quality review letters of comment.

Written Audit Programs

SAS No. 22, *Planning and Supervision* (AU sec. 311), requires the auditor, in planning all audits, to consider the nature, timing, and extent of work to be performed *and* to prepare a written audit program. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit. Also, the audit program should be tailored to the specific client.

Working Papers

Peer and quality reviews continue to identify deficiencies in working papers. In some circumstances, reviews have noted an absence of working papers or inappropriate or incomplete working paper content. SAS No. 41, *Working Papers* (AU sec. 339), provides auditors with guidance on the functions, nature, content, ownership, and custody of working papers.

Auditors should ensure that the working papers are *sufficient* to show that the accounting records agree or reconcile with the financial statements or other information being reported on *and* that the standards of fieldwork have been observed.

SAS No. 41 requires that working papers ordinarily should include *documentation* showing that—

1. The work has been adequately planned and supervised.
2. A sufficient understanding of the internal control structure has been obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
3. The audit evidence obtained, the auditing procedures applied, and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion.

Auditors should recognize that certain SASs contain *specific* documentation requirements that are summarized in footnote 2 of SAS No. 41. In addition, auditors performing engagements under *Government Auditing Standards* are reminded to refer to those standards for certain additional requirements for working papers.

Analytical Procedures

SAS No. 56, *Analytical Procedures* (AU sec. 329), requires auditors to apply analytical procedures during the planning *and* review stages of an audit. In addition, the auditor may use analytical procedures as a substantive test to obtain evidential matter about particular assertions related to account balances or classes of transactions.

Consideration of the Internal Control Structure

SAS No. 55 requires the auditor to *obtain and document* a sufficient understanding of the three elements of an internal control structure—the control environment, the accounting system, and control procedures. After obtaining this understanding, the auditor should assess control risk for the assertions embodied in the financial statements. These requirements apply even if the auditor does not intend to rely on the internal control structure to reduce substantive tests. If the auditor seeks to reduce control risk to a level at which substantive tests may be reduced, he or she should perform tests of controls as discussed in SAS No. 55.

Communication of Internal Control Structure Related Matters

SAS No. 60 requires auditors to report, preferably in writing, matters considered to be reportable conditions. If the information is communicated orally, auditors are required to document the communication in the workpapers.

Incomplete Financial Statement Disclosures

SAS No. 32, *Adequacy of Disclosure in Financial Statements* (AU sec. 431), sets forth the auditor's responsibility to ensure that audited financial statements include disclosures required by generally accepted accounting principles. This is most effectively accomplished through use of disclosure checklists and review of the financial statements by someone not otherwise associated with the engagement. Some of the more common disclosure deficiencies noted in peer reviews relate to disclosure requirements set forth in—

■ FASB Statement No. 13, *Accounting for Leases* (FASB, *Current Text*, vol. 1, sec. L10), as amended. For example, the Statement requires disclosures related to future minimum rental payments as of the date of the latest balance sheet presented, in the aggregate and for each of the five succeeding fiscal years.

■ FASB Statement No. 95, *Statement of Cash Flows* (FASB, *Current Text*, vol. 1, sec. C25). For example, the Statement requires disclosure of the accounting policy for determining what items are treated as cash equivalents and when the indirect method is used, amounts of interest paid and income taxes paid during the period.

■ FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk* (FASB, *Current Text*, vol. 1, sec. F25). Auditors should be aware that many entities other than financial institutions have concentrations of credit risk. For example, a retailer of family clothing that has three stores in the same town and that grants credit to customers generally should disclose that its credit is concentrated among local residents.

Unpaid Prior Professional Fees

Independence of a member's firm is considered to be impaired if, when the report on the client's current year is issued, fees remain unpaid, whether billed or unbilled, for professional services (whether audit or nonaudit) provided more than one year before the date of the report (AICPA, *Professional Standards*, vol. 2, ET sec. 191.103).

Requirement to Notify the SEC of Changes in Auditors

The SEC Practice Section of the AICPA requires that members notify the SEC of changes in auditors for SEC registrants. Each CPA firm that has been the auditor for an SEC registrant and has resigned, declined to stand for reelection, or been dismissed is required to report that fact directly in writing to the former SEC client, with a simultaneous copy sent directly by the firm to the chief accountant of the SEC. This letter must be sent by the end of the fifth business day following the CPA firm's determination that the client-auditor relationship has ended.

Lessons From Litigation

Auditors frequently find themselves in disputes involving the services provided by their firms. The cost of litigation to audit firms is increasing rapidly and acceptance of audit engagements is becoming a risky venture. Special consideration should be given to *accepting* and *retaining* clients, which are both equally important.

The following reminders are not new; however, the potentially damaging cases almost always involve a departure from existing professional or firm standards, not something the auditor did not already recognize as a potential problem:

■ Retention of audit clients completing their first year with firms should be evaluated with particular skepticism. Auditors should ask themselves, "Would we have accepted this client if we knew then what we know now?" Severance of this relationship at the earliest possible date if the answer is "no" may minimize the CPA firm's risk.

■ High turnover in key management positions of an existing audit client should be investigated as though this was a prospective new audit client. Careful assessment of the risks associated with the turnover should be made.

■ Assessment of risks associated with the particular audit climate should be realistic. Special attention should be given to the client's financial condition, a pending merger, an initial public offering, and extraordinary pressure exerted by owners or top management.

■ Lack of a well-controlled and well-managed client environment, especially in charitable organizations, may substantially increase engagement risk and should be evaluated carefully. Auditors should determine whether there is adequate board oversight of (1) the executive director or chief executive officer, (2) administrative costs, such as travel and entertainment, (3) compensation packages for key executives that would not be well received under public scrutiny, and (4) any other practices that could adversely affect the reputation of the client and those with whom it associates.

■ Staff should be adequately trained for the specialties of the audit—for example, specialized industries or high-risk and complex account balances and classes of transactions.

■ Records of time allotted to specific audit areas and by whom should be complete and accurate.

■ Documentation of all the facts leading to decisions on the "tough calls" should be *adequate* and include explanations of why certain factors were considered more persuasive in reaching conclusions.

■ Written representations by management, client counsel, and other experts should be timely (SAS No. 19, *Client Representations*, AU sec. 333).

Accounting Issues and Developments

Postretirement Benefits Other Than Pensions

In December 1990, the FASB issued Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (FASB, *Current Text*, vol. 1, sec P40). Although it applies to all forms of postretirement benefits other than pensions, FASB Statement No. 106 focuses principally on postretirement health care benefits. It significantly changes the prevalent current practice of accounting for postretirement benefits on a pay-as-you-go (cash) basis by requiring accrual, during the years that the employee renders the necessary service, of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents. FASB Statement No. 106 generally is effective for fiscal years beginning after December 15, 1992. (However, for plans outside the United States and for plans of nonpublic entities that sponsor defined benefit postretirement plan(s) with no more than 500 plan participants, the effective date is for fiscal years beginning after December 15, 1994.)

Auditors should recognize that the financial statement assertions required by FASB Statement No. 106 result primarily from actuarial calculations; therefore, auditors will generally need to follow the auditing requirements of SAS No. 11, *Using the Work of a Specialist* (AU sec. 336). Because postretirement benefit costs are dependent on future events, auditors should also consider the guidance in SAS No. 57. An article titled "Auditing Postretirement Benefits: How to Deal with FASB 106" in the August 1992 *Journal of Accountancy* discusses what to consider when auditing the amounts required by FASB Statement No. 106.

An important part of the audit process related to financial statement assertions resulting from FASB Statement No. 106 is auditors' communications with actuaries. To assist auditors with this communication, the AICPA, with input from actuaries, has developed a standard confirmation request for auditors to send to the client's actuary. (See the *Journal of Accountancy*, November 1992.)

In SAB Release No. 74, *Disclosures Regarding Accounting Standards Issued but not yet Adopted*, the SEC staff expressed its belief that disclosure of *impending* accounting changes is necessary to inform readers about expected effects on financial information to be reported in the future and should be made in accordance with existing management discussion and analysis (MD&A) requirements. Supplemental guidance regarding SAB No. 74 is provided in the November 1990 EITF minutes.

The SEC staff have indicated their expectation that entities will be disclosing the impact of adopting FASB Statement No. 106. In some cases, entities may be considering altering current plan provisions before adopting FASB Statement No. 106. At the November 1991 EITF meeting, the SEC staff commented that disclosure of the impact of adopting FASB Statement No. 106, based on the entity's current substantive plan, should be made in all cases when the impact has been quantified, except in circumstances where the entity has identified a specific probable plan amendment that it fully expects to implement before adopting FASB Statement No. 106.

Disclosures about Fair Value of Financial Instruments

In December 1991, the FASB issued Statement No. 107, *Disclosures about Fair Value of Financial Instruments* (FASB, *Current Text*, vol. 1, sec. F25). FASB Statement No. 107 requires all entities to disclose the fair value of financial instruments (as defined in its paragraph 3), for which it is practicable to estimate fair value. If estimating fair value is not practicable, disclosure of certain descriptive information is required. FASB Statement No. 107 is effective for financial statements issued for fiscal years ending after December 15, 1992 (1995 for entities with less than $150 million in total assets in the current statement of financial position). Earlier application is encouraged.

As required by SAS No. 57, when auditing management's estimate of the fair value information, the auditor should obtain sufficient competent evidential matter to reasonably assure both of the following:

1. The valuation principles are acceptable, are being consistently applied, and are reasonably supported by the underlying documentation.
2. The method and significant assumptions used are properly disclosed.

To assist auditors whose clients are disclosing required fair value information of financial instruments and, in some cases, disclosing voluntarily the fair value of nonfinancial assets and liabilities, the following guidelines may be useful (assuming no other report modifications are necessary).

Required Disclosures Only. When an entity discloses in its basic financial statements only required information, the auditor may issue a standard unqualified opinion. The auditor may consider adding an emphasis-of-a-matter paragraph describing the nature and possible range of such fair value information, especially when "management's best estimate of value" is used in the absence of quoted market values (paragraph 11 of FASB Statement No. 107) and the range of possible values is significant.

Required and Voluntary Disclosures Combined. When voluntary information is presented in addition to required information in an auditor-submitted document, the auditor must either audit such information or disclaim an opinion on it. An auditor may audit the information only if both the following conditions exist:

1. The measurement and disclosure criteria used to prepare the fair value financial information are reasonable.
2. Competent persons using the measurement and disclosure criteria would ordinarily obtain materially similar measurements or disclosures.

In applying this guidance to fair value disclosures, the intention is that another auditor would reach similar conclusions regarding the reasonableness of the valuation or estimation techniques and methods used by the entity. [Refer to Interpretation 11 of SAS No. 62, "Reporting on Current-Value Financial Statements That Supplement Historical-Cost Financial Statements in a General-Use Presentation of Real Estate Entities," (AU sec. 9623.56).]

Voluntary information may be presented on the face of the financial statements or in the notes, in such a fashion as to constitute either a complete balance sheet (the fair value of all material items in the balance sheet) or a presentation of less than a complete balance sheet. Alternatively, such information may be presented outside the basic financial statements as additional information. When the auditor has not been engaged to audit such information or is unable to audit it because it does not meet both conditions above, a disclaimer of opinion should be issued.

Additional auditing guidance related to disclosure of required and voluntary fair value information will be published in a forthcoming issue of *The CPA Letter.*

Accounting for Income Taxes

In February 1992, the FASB issued Statement No. 109, *Accounting for Income Taxes* (FASB, *Current Text*, vol. 1, sec. 127), which supersedes Statement No. 96, *Accounting for Income Taxes*. FASB Statement No. 109 requires an asset and liability approach for financial accounting and reporting for income taxes. It requires recognition of (1) current tax liabilities or assets for the estimated taxes payable or refundable on tax returns for the current year, and (2) deferred tax liabilities or assets for the estimated future tax effects attributable to temporary differences and carryforwards. FASB Statement No. 109 is effective for fiscal years beginning after December 15, 1992.

FASB Statement No. 109 requires that deferred tax assets be recognized for temporary differences that will result in deductible amounts in the future and for carryforwards. A deferred tax valuation allowance must be established if it is "more likely than not" that all or a portion of the deferred tax assets will not be realized.

The judgment about the need for a valuation allowance depends on each entity's specific facts and circumstances; there are no precise formulas for determining whether a valuation allowance is needed, or the amount of the allowance. Such need is based on an assessment of the likelihood of the entity's ability to generate sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward period under the applicable tax law to realize the tax benefits recognized as a result of deductible temporary differences, operating loss carryforwards, and tax credit carryforwards.

There are four sources of taxable income that may be available under the tax law to realize a tax benefit for deductible differences and carryforwards (paragraph 21 of FASB Statement No. 109). Two of these sources, future reversals of existing taxable temporary differences and taxable income in prior carryback year(s), are susceptible to objective verification and therefore may provide sufficient evidence that a deferred tax asset does not require a valuation allowance regardless of future events.

However, the other two sources, tax planning strategies and estimates of future taxable income exclusive of reversing temporary differences and carryforwards, are less susceptible to objective verification. Auditors should comply with the requirements of SAS No. 57 by considering all available evidence, both positive and negative, to determine whether, on the basis of that evidence, a valuation allowance is needed. The weight given to the potential effect of positive and negative evidence should be commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, (1) the more positive evidence is necessary and (2) the more difficult it is to support a conclusion that a valuation allowance is not needed for some or all of the deferred tax asset.

Tax-planning strategies are actions that (1) are prudent and feasible, (2) an enterprise ordinarily might not take, but would take to prevent an operating loss or tax credit carryforward from expiring unused, and (3) would result in realization of deferred tax assets.

A qualifying tax-planning strategy (examples of which are included in paragraph 21 of FASB Statement No. 109) provides more objectively determinable evidence of realizability of a deferred tax asset (and therefore is given more weight) than an estimate of future taxable income, exclusive of reversing taxable temporary differences and carryforwards.

When negative evidence exists (examples of which are included in paragraph 23 of FASB Statement No. 109), and there is no taxable income from future reversals of existing temporary differences and taxable income in a prior carryback year(s), or when the realization of the deferred tax asset is dependent on estimated future taxable income, forming a conclusion that an income tax valuation allowance is not needed is difficult. In addition, the conditions and events identified in SAS No. 59 may also be examples of negative evidence.

Examples of positive evidence (provided in paragraph 24 of FASB Statement No. 109) with respect to estimated future taxable income, exclusive of reversing temporary differences and exclusive of a loss that was generated from a nonrecurring item, are subject to objective verification and may, in some cases, be sufficient to overcome the negative evidence that exists.

When there are roughly equal amounts of positive and negative evidence, the evaluation of an entity's budgets, "forecasts," and pro-forma income statements becomes critical in assessing the need for a valuation allowance. While FASB Statement No. 109 explicitly states that the need to consider future taxable income does not require either a financial forecast or a financial projection, as those terms are defined in the Statement on Standards for Accountants' Services on Prospective Financial Information, *Financial Forecasts and Projections* (AICPA, *Professional Standards*, vol. 1, AT sec. 200), in certain circumstances the auditor may need to request that the client prepare prospective financial information to provide sufficient evidence to support the estimate of future taxable income and its achievability.

Loss Contingencies

Auditors often encounter difficulty in evaluating the accounting for and disclosure of litigation, guarantees of indebtedness of others, disputed tax assessments, environmental liabilities, obligations to repurchase receivables previously sold, pending and potential product liability claims, and other loss contingencies. Such contingencies pose audit difficulty because of the judgments required by management and a lack of information available for (1) assessing the probability that a loss has been incurred and (2) making a reasonable estimate of the amount of any probable loss.

Auditors should keep in mind that according to FASB Statement No. 5, *Accounting for Contingencies* (FASB, *Current Text*, vol. 1, sec. C59), "probable" means "likely to occur," not "virtually certain." For example, if the client and its competitor manufacture similar products and liability claims have been filed against the competitor's product, then it may be appropriate to conclude that the "likely to occur" criterion has been met, even though no such claims have yet been asserted against the client.

Subjective Acceleration Clauses and Debt Classification

Issues related to the classification of debt continue to surface, especially those involving debt agreements that contain subjective provisions that, if violated, accelerate the maturity of the debt. FASB Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced* (FASB, *Current Text*, vol. 1, sec. B05), permits a short-term obligation to be excluded from current liabilities provided that the enterprise has the ability and intent to refinance the obligation on a long-term basis. The existence of a financing agreement that clearly allows the short-term obligation to be refinanced on a long-term basis is one means of demonstrating that ability. However, FASB Statement No. 6 indicates that a financing agreement can be used as the basis for excluding the short-term obligation from current liabilities *only* if the financing agreement cannot be canceled by the lender on the basis of a subjective acceleration clause. For a long-term debt agreement containing a subjective acceleration clause, FASB Technical Bulletin No. 79-3, *Subjective Acceleration Clauses in Long-Term Debt Agreements* (FASB, *Current Text*, vol. 1, sec. B05), indicates that neither reclassification to current liabilities nor disclosure of the clause would be required if acceleration of the due date is remote. For example, the lender historically has not accelerated due dates of loans containing similar clauses, and the financial condition of the borrower is strong and its prospects are bright. See also EITF Topic No. D-23, *Subjective Acceleration Clauses and Debt Classification*.

Settlements and Curtailments of Defined Benefit Pension Plans

Some employers may be "downsizing" or otherwise terminating or laying off employees because of the current state of the economy. These events may result in special or contractual termination benefits and may cause curtailments or settlements in the employers' pension plans.

The guidance applicable to these situations is FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (FASB, *Current Text*, vol. 1, sec. P16).

Recognition of Revenue on Software Transactions

On December 12, 1991, the Accounting Standards Executive Committee (AcSEC) issued SOP 91-1, *Software Revenue Recognition* (No. 014854). This SOP provides guidance on applying generally accepted accounting principles in recognizing revenue on software transactions. The basic principle is that revenue is to be recognized on delivery of software; however, certain exceptions are noted in the SOP. The SOP applies to all entities that earn revenue from licensing, selling, leasing, or otherwise marketing computer software. It does not apply to revenue earned on a product containing software that is incidental to the product as a whole. SOP 91-1 became effective for financial statements issued after March 15, 1992, that are for fiscal years and interim periods in such fiscal years beginning after December 15, 1991.

Industry Developments

The AICPA issues Audit Risk Alerts that focus on recent developments in various industries to provide auditors with an overview of current economic, industry, regulatory, and professional developments that they should be aware of as they plan and conduct their audits. The following industries are covered:

- Agribusiness (No. 022109)
- Airline (No. 022104)
- Casino (No. 022106)
- Common Interest Realty Associations (No. 022110)
- Construction Contractors (No. 022103)
- Credit Union (No. 022104)
- Depository Institutions (No. 022113)
- Employee Benefit Plans (No. 022118)
- Federal Government Contractors (No. 022112)
- Finance Companies (No. 022105)
- Health Care (No. 022116)
- Insurance Companies (No. 022115)
- Investment Companies (No. 022111)
- Not-for-Profit Organizations (No. 022119)
- Oil and Gas Producers (No. 022107)
- Securities (No. 022102)
- State and Local Governments (No. 022117)

Copies of these industry updates are available from the AICPA Order Department 800/862-4272. Price: $5.50.

CPE UPDATE

The CPE reporting deadlines for the "Yellow Book," the AICPA, and many states are Dec. 31. To help members meet these requirements and to obtain information for use on the job, the AICPA offers a full range of CPE courses. For self study or group study catalogs, as well as conference information, call 800/862–4272 (dept. #3).

One of this fall's tax-season seminars, **Mastering the 1993 Tax Season: An Annual Update,** now includes information on the new payroll-tax deposit regulations issued in final form by the IRS on Sept. 22 and effective as of Jan. 1, 1993 (see page 8). The extensive changes affect nearly all practitioners and their clients.

Seminars

The AICPA offers many courses that may be useful to members in education. A sampling of these are **Accounting and Auditing Annual Updating Workshop, Accounting and Auditing Annual Standards Refresher,** and **FASB/APB Review** in accounting and auditing. There also are three update courses in taxation: **Corporate Income Tax Returns Workshop, Individual Income Tax Returns Workshop,** and **Mastering the 1993 Tax Season: An Annual Update.** To receive a brochure or catalog providing content and registration details, call CPE-Group Study Marketing at 800/862–4272 (dept. #4).

Conferences

Three upcoming AICPA conferences are: the **Annual Conference on the Securities Industry** (Nov. 18–19, New York City); the **Credit Unions Conference** (Dec. 3–4, Scottsdale, Ariz.); and the **Construction Industry Conference** (Dec. 3–4, Phoenix). For more information, call 800/862–4272 (dept. #3).

Tax Training Videocourses

In two videos, Sid Kess interviews leading tax experts and reviews the most important tax law changes that affect business and individual clients. The **1992 Individual Tax Returns Videocourse** (available Nov. 16) is for CPAs who prepare Form 1040 annually and want to review the latest developments affecting preparation. Featured topics include the latest legislation; form changes; common return errors; filing requirements; income items; retirement plans; deductions; losses; credits; estimated taxes; and a comprehensive return problem. Recommended CPE credit: 12 hours group study, 8 hours self study. Format: 2 VHS tapes/manual/loose-leaf text (No. 113546CL), $245*; additional manual/loose-leaf text (No. 113726CL), $80.* The **1992 Corporate Tax Returns Videocourse** thoroughly covers developments affecting preparation of Form 1120 for a C corporation and Form 1120S for an S corporation. It features the latest legislation; form changes; common return errors; tax accounting; income items; AMT; deductions; benefit plans; losses; credits; estimated taxes; and a comprehensive problem. Recommended CPE credit: 12 hours group study, 8 hours self study. Format: 2 VHS tapes/manual/loose-leaf text (No. 112556CL), $245*; additional manual/loose-leaf text (No. 112726CL), $80.*

To order videocourses, contact the AICPA Order Department (see below).

NEW PRODUCTS & PUBLICATIONS

Two SOPs Issued

Statement of Position 92-7, ***Audits of State and Local Governmental Entities Receiving Federal Financial Assistance*** (No. 014868CL), was issued Sept. 23 as a supplement to the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units.* The recommendations in the SOP are effective for audits done in accordance with the Single Audit Act and Office of Management and Budget Circular A-128 for audits of fiscal years ending on or after Dec. 15, 1992, although earlier application is encouraged. Price: $15.*

SOP 92-8, ***Auditing Property/Casualty Insurance Entities' Statutory Financial Statements — Applying Certain Requirements of the NAIC Annual Statement Instructions*** (No. 014867CL), was also issued. The SOP provides independent certified public accountants of property/casualty insurers with guidance on the impact of certain requirements of the National Association of Insurance Commissioners' *Annual Statement Instructions.* Price: $5.50.*

To order, write: AICPA Order Department, CL1192, P.O. Box 1003, New York, NY 10108–1003; order via fax, 800/362–5066; or call 800/862–4272 (dept. #1). Ask for Operator CL1192. Orders for exposure drafts must be written or faxed.

* Prices do not include shipping and handling.

The **International Federation of Accountants** has issued two exposure drafts:

- ***Communication with Management*** (No. 800034CL) — Comments due Jan. 31, 1993.
- ***Reporting on Comparatives*** (No. 800035CL) — Comments due Jan. 31, 1993.

Price: One copy of each is free; each additional copy costs $2.50.*

The **International Accounting Standards Committee** has issued exposure drafts of two proposed statements:

- ***Business Combinations*** (No. 800037CL) — Comments due Nov. 30.
- ***Extraordinary Items, Fundamental Errors and Changes in Accounting Policies*** (No. 800038CL)—Comments due Nov. 30.

Price: One copy of each is free; each additional copy costs $2.50.*

The AICPA Academic and Career Development Division has published the ***1992–1993 AICPA Directory of Accounting Education*** (No. 876795CL). This comprehensive book contains up-to-date information on more than 700 undergraduate and graduate accounting programs in the United States, including concise program descriptions for each degree offered; school and student body characteristics; names, addresses and telephone numbers of administrators and faculty; and other useful data. Price: $49.79.*

Many Bills Fall Victim to Adjournment Pressure

Many bills of importance to the accounting profession died in the waning hours of the 102nd Congress. While the bills the AICPA opposed were defeated, legislation the Institute fought for ended up trapped in the traditional end-of-session morass confronting Congress at adjournment. Following is a wrap-up of what happened to these important bills.

Taxation

Twice this year the AICPA succeeded in having tax provisions of the highest priority for CPAs — to help correct the workload compression problem and to amend the 1991, unworkable, estimated-tax rules — included in major tax bills passed by Congress. Unfortunately, for political considerations unrelated to the merit of these provisions, President Bush vetoed the first bill in Apr. (*The CPA Letter,* Apr.) and, at press time, is expected to veto the second measure as well. The bills also included other taxation provisions for which the profession battled — simplification, amortization of intangibles, and taxpayers' rights. If the President does veto the latest tax bill, the Institute will continue its campaign to have these provisions enacted next year. (The Dec. issue of *The CPA Letter* will include detailed information about provisions in the tax bill if it is signed into law.)

Liability

Introduction of liability reform legislation represents a major stride forward in the profession's efforts to have the issue of liability reform considered by Congress. The litigation reform bills introduced in Aug. in the House and Senate are the result of months of intense efforts by a coalition of businesses and professional organizations, including the AICPA, to develop such legislation (*The CPA Letter,* Sept.). Although the bills pertain only to federal securities suits, the concept of proportionality incorporated in them is critical. Enactment of these measures would establish a precedent for proportionate liability that is badly needed to restore balance to the litigation system. As soon as the bills were introduced, the profession launched an effort to educate all members of Congress about the need for such legislation and to build support for the measures. Because the bills were introduced so late in the Congress, it was known that they would not be considered this year. However, their introduction lays the groundwork for reintroduction and consideration of the measures by the next Congress, which convenes in Jan. 1993. Enactment of the bills will be at the top of the profession's legislative agenda.

Auditor Responsibilities

House-passed legislation expanding the auditor's role in auditing public companies (*The CPA Letter,* Sept.), which was opposed by the AICPA, died when the Senate declined to consider the measure prior to adjournment. The language expanding the auditor's role was introduced earlier this year as H.R. 4313 by Rep. Ron Wyden (D-Ore.). The AICPA opposed the Wyden bill for two major reasons — it would have allowed auditing standards to be set by the federal government, and the legal liability coverage in the legislation was inadequate. The fight about expanding auditors' responsibilities will continue next year because Rep. Wyden is expected to reintroduce his bill.

Regulation of Financial Planners

During the 102nd Congress, the House and Senate each passed legislation, H.R. 5726 and S. 2266, respectively, to regulate financial planners. However, major differences between the House and Senate versions of the bill prevented members of the House and Senate from agreeing on what should be included, and the bill died. Earlier versions of the House bill were unacceptable to the Institute (*The CPA Letter,* Sept.), and the AICPA, with assistance from its members in the Personal Financial Planning Division and Key Person Program, succeeded in having the objectionable provisions removed. The financial planning provisions of H.R. 5726 were supported by the AICPA when the bill was considered by the House.

Know a Member of Congress?
If so, the Key Person Program Needs You

CPAs' personal relationships with their members of Congress are the foundation of the AICPA's Federal Key Person Program. This personal link ensures that the Institute has the most effective means possible of communicating the profession's views to Congress. The large number of newly elected members of Congress presents new opportunities and challenges to the profession.

If you know someone who will serve as a member of Congress next year, the Key Person Program and the profession need your help. Interested AICPA members should write: John Sharbaugh, vice-president – state legislation and legislative relations, AICPA, 1455 Pennsylvania Ave., NW, Suite 400, Washington, DC 20004–1081; or call 202/434–9257.

New Training Requirement for SECPS Peer Review Captains

Effective Apr. 1, 1993, SEC Practice Section peer review team captains will be required to attend a peer review training course in 1992 or later. Both the introductory AICPA training course titled "How to Conduct a Review Under the AICPA Practice-Monitoring Programs" and the advanced AICPA course "Current Issues in Practice Monitoring" will fulfill this requirement. For information on these courses, call 800/862–4272 (dept. #3).

The SECPS Peer Review Committee implemented this training requirement because of major changes in the SECPS peer review standards effective for SECPS peer reviews performed on or after Apr. 1, 1993. Those changes include a risk-based approach for selecting offices and engagements for review.

Under the automatic disciplinary provisions of the Institute's bylaws, the following members have had their memberships:

—***Terminated*** because of their final convictions of crimes punishable by imprisonment for more than one year:

- Gary A. Mitchell of St. Louis on May 18 — plea of guilty of making false statements to a bank.
- Bruce H. Arps of Bryan, Ohio, on May 8 — plea of guilty of aggravated theft.
- Murray Gottfried of Lambertville, N.J., on June 25 — plea of guilty of conspiracy to defraud the IRS.
- Richard Herman of Westbrook, Conn., on June 26 — plea of guilty of aiding and abetting false statements to a federal agency.
- Martin E. Cianciaruso of Staten Island, N.Y., on July 2 — found guilty of conspiracy and mail fraud. The conviction was affirmed by a U.S. Circuit Court of Appeals.
- James A. Ratchford of Afton, Okla., on Mar. 9 — found guilty of bank fraud and misapplication of bank funds. The conviction was affirmed by a U.S. Circuit Court of Appeals and a petition for review was denied by the U.S. Supreme Court.
- Neil B. Godick of Philadelphia — plea of guilty to wire fraud and "aiding and abetting," effective July 15 upon denial of his request that the bylaws not apply in his circumstance.
- Brian R. Miller of Afton, Okla. — plea of guilty of embezzlement by a trustee, effective Aug. 6 upon denial of his request that the bylaws not apply in his circumstance.
- Frederick H. Van Alstyne of Oakland, N.J., on July 21 — plea of guilty of "theft by deception."
- Michael K. Smith of Grandville, Mich., on Aug. 14 — plea of guilty of forgery of records with intent to defraud.
- Emanuel M. Leaf of Franklin Lakes, N.J. — plea of guilty of conspiracy to impede tax collection by the IRS, effective Sept. 16 upon denial of his request that the bylaws not apply in his circumstance.
- Jerry W. Friedman of Hagerstown, Md. — found guilty of theft and fraud, effective Sept. 16 upon denial of his request that the bylaws not apply in his circumstance.

— ***Terminated*** because of their final convictions of willfully failing to file individual income tax returns, the filing of a false or fraudulent income tax return on their own or a client's behalf, or willfully aiding in preparing and filing a false and fraudulent income tax return of a client:

- Charles L. Chrein of New York City on June 26 — plea of guilty of knowingly and willfully failing to file U.S. income tax returns.
- Thomas C. McEvoy of Great Neck, N.Y., on June 25 — plea of guilty of intentional failure to file a state income tax return.
- J. Richard Hoffman (a.k.a. Jimmy R. Hoffman) of Merrick, N.Y., on June 24 — plea of guilty of willful assistance in filing false tax returns.
- Felix I. Delgado of White Plains, N.Y., on July 31 — plea of guilty of filing a false U.S. income tax return.
- Joel A. Hochman of Forest Hills, N.Y., on Aug. 14 — plea of guilty of failing to file a state income tax return.

— ***Terminated*** because of revocation of their CPA certificates and/or licenses by a state board of accountancy:

- James C. Atkins of Norfolk, Va., on June 25 — for his failure to appear before the Virginia State Board when requested and his failure to comply with sanctions imposed by the board for violating its Rules and Regulations relating to competence and auditing standards.
- William F. Young of Vernon, Conn., on June 26 — following his resignation as a certified public accountant as ordered as a disciplinary measure by the Connecticut State Board in lieu of revocation proceedings whereby he relinquished "any authority or control over any property belonging to another which he holds in any trustee or fiduciary capacity, including but not limited to any clients' funds' accounts."
- Randall S. Reetz of Philadelphia on June 24 — for committing conduct discreditable to the profession by falsely billing clients and misappropriation of funds.
- Michael J. Grota of Englewood, Colo., (formerly of El Cajon, Calif.) on July 17 — for violating the terms of his three-year probation and 90-day suspension of his license to practice as a CPA in Calif. due to gross negligence in preparing financial statements and for holding himself out as a CPA during the term of his license suspension.

The following members have had their memberships ***suspended*** under the automatic disciplinary provisions of the Institute's bylaws because of suspension of their CPA certificates and/or permits by their state boards of accountancy:

- Eugene E. Jennings of Kearney, Mo., from Nov. 25, 1991 to Nov. 25, 1994 — for violating the terms of probation in a Consent Order of the board by performing audits for clients for whom he was not authorized to perform audits and by failing to follow the review provisions in the instances where appropriate.
- Mark A. Earley of Tucson, Ariz., on May 8 — for an indefinite term, for failure to comply with the Arizona State Board's CPE requirements.
- John K. Dow of Phoenix from Jan. 14, 1991 to July 13, 1992 — for failure to comply with the Arizona State Board's CPE requirements.

The following members have had their memberships ***suspended*** under the automatic disciplinary provisions of the Institute's bylaws because of their convictions of crimes punishable by imprisonment for more than one year which are under appeal:

- Kenneth Carpenter of Hinesville, Ga., on June 29 — conviction of conspiracy to launder money of a drug enterprise.
- W.C. Hatfield of Dallas on July 2 — conviction of conspiracy, bank fraud, misapplication of funds, unlawful participation in loans, and money laundering.

Labor Department Extends Grace Period for Filing Pension Reports

The U.S. Department of Labor's Pension and Welfare Benefits Administration has extended the grace period for late filers and non-filers of annual pension and welfare plan reports to Dec. 31 (*The CPA Letter*, Sept., May). The grace period provides reduced penalties and an opportunity for filers to submit overdue annual plan reports as far back as the 1988 plan year. The extension information appeared in the *Federal Register*, Sept. 21. Additional information concerning PWBA's grace period is available by calling 202/219–8794.

Final Payroll-Tax Deposit Rules Issued

The IRS has issued final, simplified payroll-tax deposit rules that will require employers to deposit withheld taxes on either a monthly or semi-weekly basis. Employers who reported $50,000 or less during the lookback period — July 1 through June 30 of the prior year — will deposit monthly beginning Jan. 1, 1993. Employers reporting over $50,000 during the lookback period will deposit semi-weekly in 1993. The monthly, or semi-weekly, deposit schedule is retained all year. The new regulations include several changes suggested by the AICPA and others to the proposed regulations issued by the IRS (*The CPA Letter*, Sept.). The suggestions concerned simplification of the lookback provision and the increased dollar amount to allow seasonal fluctuations before an employer is required to report semi-weekly. The new rules are effective Jan. 1, 1993, but include a one-year transition period to allow employers to change their payroll systems. For more information, refer to the *Federal Register*, Sept. 24. See page 5 of this *CPA Letter* for an AICPA CPE course incorporating the new rules.

CPA Applicants Sought for SEC Fellowship Program

The Securities and Exchange Commission is seeking CPA applicants for professional accounting fellowships in the Office of the Chief Accountant. During two-year terms beginning in 1993, the fellows will study and develop proposed federal securities rules. The application deadline is Dec. 31. For information, write: Office of the Chief Accountant, SEC, 450 Fifth St., NW, Washington, DC 20549.

Treasury Department Issues Proposed IRS Practice Rules

Rules amending regulations governing the practice of individuals before the IRS under Treasury Department Circular 230 have been proposed by the Department of the Treasury. The proposed rules replace rules proposed in 1986 and would "more closely" reflect the realistic possibility standards adopted by the AICPA and the American Bar Association, as well as the preparer penalty provisions of Section 6694 of the Internal Revenue Code.

The proposed amendments provide that a practitioner may be disciplined under Circular 230 only if a failure to comply with the realistic possibility standard is willful, reckless, or a result of gross incompetence. A practitioner will not be considered to have so acted if there was reasonable cause for the position and the practitioner acted in good faith. Under the proposed rules, a practitioner may not advise a client to take a position on a return, or prepare the portion of a return on which a position is taken, unless the practitioner determines that either there is a realistic possibility of the position being sustained on its merits or the position is not frivolous and the practitioner advises the client to adequately disclose the position. Practitioners generally are required to advise a client of penalties reasonably likely to apply to a return position, of any opportunity to avoid the penalties by disclosure, and of the requirements for adequate disclosure. The proposed rules also would generally prohibit contingent fees for preparing tax returns. For more information, see the *Federal Register*, Oct. 8.

OCC Seeking Accounting Fellow

Applications for the Office of the Comptroller of the Currency Professional Accounting Fellowship Program are being accepted through Dec. 11. The fellowship is a two-year position beginning in Mar. 1993. Work assignments typically include studies of significant accounting issues affecting banks, development of regulatory accounting policy, and evaluations and revision of current reporting requirements. Five years' experience in public accounting and some experience with the banking industry are desired. For more information, call the OCC at 202/874–5180.

The CPA Letter

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The CPA Letter

A News Report to Members

December 1992
Vol. 72 No. 10

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FASB to issue final Interpretation early next year

At a meeting on Dec. 9, the FASB is expected to begin deliberations on issuance of a final Interpretation, *Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance Enterprises* (*The CPA Letter*, Oct.). The FASB issued an exposure draft of the Interpretation on Aug. 17, 1992, and expects to issue a final document in early 1993. The effective date of the proposed Interpretation is "for fiscal years beginning after Dec. 15, 1992." Therefore, mutual life insurance enterprises are permitted to consider statutory-basis financial statements to be prepared in accordance with generally accepted accounting principles (GAAP) for 1992 calendar year-end financial statements, but could not continue that practice for fiscal years beginning after Dec. 15.

Questions have arisen about how auditors should report on mutual life insurance enterprise financial statements prepared on a statutory basis for periods prior to the effective date of the Interpretation. Until the FASB Interpretation becomes effective, the staff of the Auditing Standards Division believes that auditors reporting on financial statements of mutual life insurance enterprises prepared on a statutory basis, which are considered in practice to be prepared in accordance with GAAP, may continue reporting practices used in prior years. However, auditors are well advised to consider whether there is a need for any financial statement disclosure of impending accounting changes that may result from the FASB Interpretation and whether to add an emphasis-of-a-matter paragraph to their reports highlighting such disclosure.

AICPA Comments on Treasury Department Circular 230

Institute disagrees with contingent fee proposal

The AICPA in its comments on rules to amend the regulations governing the practice of individuals before the Internal Revenue Service (*The CPA Letter*, Nov.) requested expansion of the circumstances where a contingent fee in tax matters may be charged. The proposed regulations generally prohibit a practitioner from charging a contingent fee for preparing a tax return or a claim for refund. The proposal contains an exception for refund claims filed in anticipation of litigation because these claims do not have the same potential for undermining voluntary compliance that the Treasury believes is possible with other return filings.

The Institute agrees that contingent fees should be banned for the preparation of original returns; however, the AICPA does not believe only claims for refund that will be litigated should be allowed a contingent-fee arrangement. The Institute therefore suggested the proposed regulations allow a practitioner to "charge a contingent fee for preparing an amended tax return or claim for refund if the practitioner can demonstrate a reasonable expectation at the time of the fee arrangement that the amended tax return or claim will receive substantive consideration by the IRS." This definition would more closely agree with the 1990 agreement between the AICPA and the Federal Trade Commission regarding contingent fees.

The Tax Division will be testifying on these proposed regulations at a public hearing on Dec. 16.

► *U.S. 1992 Economic Census to Be Conducted*

Later this month, the U.S. Census Bureau will be sending its 1992 Economic Census questionnaires to more than 3.5 million American businesses. Activity in finance, insurance, real estate, communications, and utilities has been added to the list of traditionally covered industries: retail and wholesale trade, service, transportation, manufacturing, mining, and construction.

The economic survey is conducted every five years. Its purpose is to identify trends in business activity that help to measure growth in the economy.

Members whose firms or organizations receive the questionnaire are advised that the economic survey is required by law to be returned by Feb. 15. All information will be kept confidential.

► *Airborne Express Discount Program Announced*

The AICPA recently expanded its member affinity program to include an agreement with Airborne Express. The affinity program takes advantage of the AICPA's group buying power and offers members significant savings on externally produced products and services. Under the Airborne program, a rate of $8.75 (8-oz. overnight letter) has been negotiated for AICPA members, a savings of approximately 44% over the rates of other leading overnight-delivery services. Members who ship more than 100 next-morning packages per month will receive even lower rates. Member rates include flexible free pick-up and next-morning delivery, within most areas, to virtually every zip code in the United States. Airborne Express also services more than 200 countries worldwide.

To enroll in the Airborne Express program, members should call 800/289–2776 and identify themselves as members of the AICPA. An account number and starter kit will be sent within a week. For more information on affinity programs, write: Jay Rothberg, VP, AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775.

► *HUD to Revise Its* Consolidated Audit Guide

The U.S. Department of Housing and Urban Development Office of Inspector General announced it will revise the *Consolidated Audit Guide for Audits of HUD Programs* (*The CPA Letter*, June). The revisions will encompass clarifying or expanded guidance based on experience in implementing the Oct. 1991 guide and revisions to program regulations. The HUD OIG expects the revised guide would be effective for audits of fiscal years ending on or after June 30, 1993. The AICPA will provide suggested revisions.

► *Guide on International Tax Forms Issued*

The AICPA International Taxation Committee has prepared a *Practice Guide to International Forms*. The guide lists the relevant U.S. forms with an explanation of the purpose, due date, and relevant Internal Revenue Code section(s). To receive a copy, send a self-addressed envelope with 98 cents in postage (stamps only) to: AICPA, 1455 Pennsylvania Avenue, NW, Suite 400, Washington, DC 20004–1081, Attn: International Forms.

► Disaster Area Practice Guide *Developed*

The AICPA Tax Division has published a practice guide focusing on the tax treatment of involuntary conversions and casualty losses resulting from natural disasters (*The CPA Letter*, Oct.). The practice guide has been given to all state CPA societies for their use and adaptation to their communities' needs.

Practitioners from California, Florida, Louisiana, New York and South Carolina contributed to the development of the guide. Members may obtain a copy without charge by sending a self-addressed, 9" x 13" envelope with $2.59 in postage to: AICPA, 1455 Pennsylvania Avenue, NW, Washington, DC 20004–1081, Attn: *Disaster Area Practice Guide*.

► *Members Warned About Credit Card Solicitation*

Members recently may have been solicited to apply for a "CPA" credit card. The AICPA is not affiliated in any way with this promotion. However, the AICPA is pleased to announce that effective Jan. 1, a new affinity credit card program for members will be launched with Marine Midland Bank. This card will feature no annual fee and a variable interest rate currently at 15.2% APR. This credit card can also serve as an AICPA Membership Card and will include the member's membership number.

More information on this program, including how to get an application, will be announced in *The CPA Letter* next month.

Public Meeting Notices

For a detailed agenda, call 800/862–4272 (dept. #6) one week prior to the meeting.

Accounting Standards Executive Committee: Jan. 26–28, New York
Auditing Standards Board: Feb. 9–11, Phoenix
Personal Financial Planning Executive Committee: Feb. 11–12, Ft. Lauderdale
Professional Ethics Executive Committee: Dec. 22, New York

The CPA Letter (ISSN 0094-792x), December 1992, is published monthly, except bimonthly Feb.- Mar. and July - Aug. Publication and editorial office: 1211 Avenue of the Americas, New York, NY 10036-8775, 212/596-6200. Second-class postage paid at New York, NY and at additional mailing offices. Postmaster: Send address changes to *The CPA Letter*, Circ. Dept., Harborside Financial Ctr., 201 Plaza III, Jersey City, NJ 07311-3881.

Geoffrey L. Pickard
Vice-President —Communications

Ellen J. Goldstein
Editor

First Three-Year Reporting Period for AICPA's CPE Requirement Ends

Dec. 31 marks the end of the first three-year reporting period for the AICPA's continuing professional education requirement. CPAs who were members on Dec. 31, 1989, should have completed 120 hours if they are in public practice or 60 hours if they are not in public practice. Members who are retired are exempt from the CPE requirement.

Members who are in compliance with their state board or state society membership requirements are deemed in compliance, regardless of whether that requirement is for a calendar year, provided such state requirements are for an average of 40 hours a year (20 hours for members not in public practice) with at least 20 hours each year (10 hours for members not in public practice).

For members who are not in compliance by Dec. 31, there is a grace period extending until the end of Feb. 1993. Members report their compliance simply by paying their dues in mid-1993. A random audit of members' CPE documentation is planned for late next year.

Members who joined after Dec. 31, 1989, began their three-year reporting period in the first full calendar year after they joined. All CPE requirements for these members are the same except that members not in public practice must complete 90 hours in their first three-year reporting period, with a minimum of 15 hours each year.

Starting Jan. 1, 1993, all members not in public practice must complete 90 hours over three years, with a minimum of 15 hours each year. The 120-hour requirement for members in public practice remains the same.

Latitude in Course Selection

Members can choose from a broad range of subjects to fulfill the AICPA's CPE membership requirement. The CPE membership policy states that "the underlying principle is that all programs should contribute to the member's professional competence." According to Joe Cote, vice-president–CPE, any course that enhances the professional skills a member applies to job-related activities will meet the Institute's standards. For example, a member in industry who serves on the management team of a retail business can take courses in marketing, franchise operations, and other subjects relating to managing that business.

"The AICPA, unlike many state boards of accountancy, does not require its members to take a specific quantity of courses in accounting, auditing or taxation," says Jay Rothberg, vice-president–member and state relations. "Most AICPA members do need to keep current on these topics, but many are involved in other aspects of financial management and prefer to take such courses as finance, information technology, or strategic planning. Our requirement recognizes the diversity of the membership and accommodates that diversity by allowing wide latitude in CPE course selection."

For more information about the CPE membership requirement, or for a copy of "Policies for the CPE Membership Requirement," call Pat Williams or Elinor Paige at 201/938–3559, or Arlene Cohen at 201/938–3534.

Timely AICPA Programs Will Help Members Meet CPE Requirements

The AICPA is offering a number of programs during the month of Dec. for members in industry or public practice.

Group study tax seminars include **Mastering the 1993 Tax Season: An Annual Update** (30 locations nationwide); 24 presentations of the Sidney Kess **Individual Income Tax Returns Workshop;** nine presentations of the Sidney Kess **Corporate Income Tax Returns Workshop;** and six presentations of the **1040 Tax Clinic,** the new two-day program for less experienced tax preparers.

Offered in four locations, **Accounting and Auditing Annual Standards Refresher** provides a one-day review of financial accounting developments. **Governmental Accounting and Auditing Update,** with four presentations, provides a concise review of significant developments relating to governmental accounting and auditing.

Industry members can choose among five presentations of **FASB Review for Industry,** a popular review of recent accounting standards, and four presentations of **Improving Capital Budgeting Decisions.**

For dates and locations, call 800/862–4272 (dept. #3).

Conferences

Four conferences scheduled for mid-Dec. and Jan. are: the **Employee Benefit Plans Conference** (Dec. 14–15, Washington, D.C.); the **Personal Financial Planning Conference** (Jan. 11–13, San Diego); and the **Conference on Current SEC Developments** (Jan. 12–13, Washington, D.C.). For information on these conferences, call the AICPA Meetings & Travel Services Department at 201/938–3232. For information on the **Small Business Tax Conference** (Jan. 11–12, Orlando) call the AICPA CPE Division at 800/862–4272 (dept. #3).

Self Study

Members who help their companies or business clients with retirement or other benefit planning will profit from the new **Cash or Deferred 401(k) Plans** course. The course explains why 401(k) plans are the fastest-growing qualified plans today; discusses factors involved in adopting such a plan and meeting both employer and employee objectives; and outlines design specifications—with special attention to employee *pretax* contributions. Recommended CPE credit: 8 hours. Format: 2 audiocassettes/workbook (No. 749450CL), $115.

The **I-Hate-Selling** audiocourse shows members how to sell professional services methodically and effectively. It covers, among other things, the secrets of successful fee negotiation; 10 techniques used by successful CPAs to sell more business; and key steps for finding new business. Recommended CPE credit: 8 hours. Format: 8: audiocassettes/ 50-page study guide (No. 740080CL), $115.

To order self study courses, contact the AICPA Order Department (see page 6).

FASB Issues Proposal on Not-For-Profit Financial Statements

The Financial Accounting Standards Board (FASB) has issued a proposal that would establish standards for a set of general-purpose external financial statements provided by not-for-profit organizations. The proposal would require not-for-profit organizations to provide a statement of financial position, a statement of activities, and a statement of cash flows. The organization's total assets, liabilities, and net assets would be reported in the statement of financial position; the change in its net assets would be reported in the statement of activities; and the change in its cash and cash equivalents would be reported in the statement of cash flows.

An organization's net assets, revenues, expenses, gains, and losses would be classified based on whether there are donor-imposed restrictions. Additionally, the proposal would require that amounts for the three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—be displayed in the statement of financial position. The amount of change in each class of net assets would be displayed in the statement of activities.

Comments on the proposed Statement are requested by Feb. 19, and public hearings will be held Feb. 25 and 26 at the FASB's offices in Norwalk, Conn. If adopted as a final Statement, the proposal would be effective for financial statements issued for fiscal years beginning after Dec. 15, 1994.

A copy of the proposal is available without charge until Feb. 19 from the FASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856–5116.

Five Proposed Ethics Rulings on Independence Explained

Effective Jan. 1992, independence standards were revised to prohibit almost all loans to or from attest clients. The standards contained certain "grandfathering" provisions. Inquiries relating to the new standards resulted in five proposed rulings released in a Sept. 25 exposure draft (No. 800036CL). Comments on the exposure draft will be considered by the Professional Ethics Executive Committee in Dec., with final publication of the rulings in Mar. Should there be any questions regarding a member's independence until that time, the rulings below state the current positions of the ethics committee:

Partially Secured Loans

Question — Prior to Jan. 1, 1992, a member obtained a loan that was permitted under Rule 101 and its interpretation from a financial institution client. The loan is partially secured by real estate. Is the loan grandfathered under Interpretation 101-5?

Answer — The loan is grandfathered if at Jan. 1, 1992, and at all times thereafter the portion of the loan that exceeds the value of the collateral is not material to the member's net worth.

Loan Commitment or Line of Credit

Question — Is a loan commitment or a line of credit from a financial institution client existing prior to Jan. 1, 1992, grandfathered under Interpretation 101-5?

Answer — Yes, as long as a loan made pursuant to such a loan commitment or line of credit would have met the conditions specified in Interpretation 101-5. If such a loan commitment or line of credit were renegotiated (including renewals) after Jan. 1, 1992, independence would be impaired.

Loans to Partnership in Which Members Are Limited Partners

Question — A member is a limited partner in a limited partnership that has obtained a loan from a financial institution client. Is the loan to the limited partnership ascribed to the member and, therefore, does it impair independence under Interpretation 101-1.A.4?

Answer — As stated in Interpretation 101-5, a loan to a limited partnership in which members have a combined interest exceeding 50% of the total limited partnership interest is considered a loan to those members. Solely for purposes of the exceptions in the interpretation for grandfathered loans, the loan is ascribed to each limited partner on the basis of his or her legal liability. Even though the amount ascribed may be zero, it should be noted that independence will be considered impaired if such a partnership renegotiates the loan or enters into a new loan after the latest of the dates in (a) through (d) of Interpretation 101-5.

Loans to Partnership in Which Members Are General Partners

Question — A member is a general partner in a partnership that has obtained a loan from a financial institution client. Is the loan to the partnership ascribed to the member and, therefore, does it impair independence under Interpretation 101-A.4?

Answer — If the member as a general partner can control the partnership, a loan to that partnership is considered to be a loan to the member. Solely for purposes of the exceptions in Interpretation 101-5 for grandfathered loans, the loan is ascribed to the member on the basis of his or her legal liability as a general partner, which is usually the entire loan because of the joint and several liability usually assumed by a general partner.

Credit Card Balances and Cash Advances

Question — Under Interpretations 101-1.A.4 and 101-5, if a member has credit cards and cash advances from a financial institution client and the aggregate balance outstanding exceeds $5,000, would independence be considered to be impaired?

Answer — Independence would not be considered to be impaired if the aggregate outstanding balance is reduced to $5,000 or less on a current basis.

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Directory of AICPA Services

Below is a list of the direct telephone numbers for frequently called AICPA services and activities. **Note that the New York office (including the AICPA Library) has new telephone numbers, which take effect Dec. 7.**

To order publications, call the Order Department and not the issuing division. Also, all accounting and auditing practice questions should be directed to the Technical Information Hotline.

AICPA, New York	212/596–6200
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Auditing Standards	212/596–6036
Benevolent Fund	201/938–3479
Committee Appointments	212/596–6097
Computer Software Support (9 a.m.–7 p.m. EST)	800/226–5800
CPA Client Bulletin, CPA Client Tax Letter	800/TO–AICPA
—Editorial	201/938–3301
The CPA Letter	212/596–6112
Division for CPA Firms (public file information)	
— outside New York State	800/272–3476
— within New York State	212/596–6100
Private Companies Practice Section	212/596–6145
SEC Practice Section	212/596–6141
Examinations (The Uniform CPA Exam)	201/938–3429
Federal Government Affairs	202/434–9205
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— Legislation (congressional matters)	202/434–9205
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Management Consulting Services	201/938–3503
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Car Rental—National	800/227–7368
Retirement Programs (T. Rowe Price)	800/38–AICPA
Xerox Corporation	800/832–6979, ext. CPA
Airborne Express	800/289–2776

The Institute's headquarters and mailing address remain at 1211 Avenue of the Americas, New York, NY 10036–8775.

(Clip for reference)

The **Accounting Standards Executive Committee** has released an exposure draft of a proposed statement of position, ***Accounting for the Results of Operations of Foreclosed Assets Held for Sale*** (No. 800040CL). Comments are due Feb. 10. Price: First copy is free; each additional copy costs $2.50.*

The **Personal Financial Planning Executive Committee** has issued Statement on Responsibilities in PFP Practice *No. 1, **Basic PFP Engagement Functions and Responsibilities*** (No. 017204CL). The Statement defines the scope of a personal financial planning engagement, lists standards and guidance practitioners should follow, and offers guidance for practitioners engaged to provide such services. It also includes reporting guidance for CPAs who perform limited-scope or segmented planning engagements. (The Statement has been mailed to all PFP Division members.) Price: $5.*

To assist members with tax season, the AICPA offers ***Lighten Your Tax Burden: A CPA's Tax Preparation Guide for Individuals*** (No. 889520CL). This eight-panel brochure presents tips for tax preparation, such as the financial records needed and how to uncover deductions. Price: $20* per 100 copies.

A CPA's Guide to Navigating Your Tax Return (No. 890668CL) is a 20- to 25-minute speech that provides tips for organizing records and strategies for reducing tax liability. It comes with an interview-preparation guide listing 10 questions similar to those CPAs may be asked during interviews with reporters. Price: $4.50* per copy.

The **Management Consulting Services Division** has issued three new practice aids. Price: $13* each.

Preparing Financial Models (No. 055137CL) will help practitioners and members in industry to construct financial modeling tools that facilitate development of forecasts and projections used in financial and operational planning. A sample engagement letter, a modeling task and output chart, a glossary, and a bibliography are included.

Selecting a Telecommunications System (No. 055138CL) provides practitioners and members in industry with guidance in selecting, negotiating contracts for, and installing telecommunications systems. The practice aid contains a sample engagement letter, numerous checklists, a glossary, and a bibliography.

Assisting a Financially Troubled Business (No. 055140CL) describes the consulting services a practitioner may provide to a financially distressed client. A case study with a sample engagement letter and final report, and illustrative checklists and forms are included.

To order AICPA products, write: AICPA Order Department, CL1292, P.O. Box 1003, New York, NY 10108–1003; order via fax, 800/362–5066; or call 800/862–4272 (dept. #1). Ask for Operator CL1292. The best times to call are 8:30 to 11:30 a.m. and 2:00 to 5:30 p.m., EST. Orders for exposure drafts must be written or faxed.

* Prices do not include shipping and handling.

Technical Practice Aids for REA and HUD Audit Requirements Issued

The AICPA Technical Information Division has issued two new Technical Practice Aids (TPAs) addressing specific Rural Electrification Administration (REA) and Housing and Urban Development (HUD) audit requirements:

- TPA Section 6200.04, "Reporting on Certain Matters of REA Borrowers," provides an illustrative Independent Auditor's Management Letter designed to satisfy the requirements in the REA's "Policy on Audits of REA Borrowers" (7 CFR Part 1773.34).
- TPA Section 6985.01, "Reporting Under the 'Consolidated Audit Guide for Audits of HUD Programs (HUD Handbook IG 2000.4)," provides guidance on auditors' reports required by Chapter 3 of the *HUD Audit Guide.*

The above TPAs are included in the Nov. loose-leaf update of the *AICPA Technical Practice Aids.* Copies can also be obtained by sending a standard business-sized, self-addressed, stamped envelope with 52 cents in postage to: AICPA, Federal Government Division, 1455 Pennsylvania Avenue, NW, Washington, DC 20004–1081, Attn: *REA Technical Practice Aid* or *HUD Technical Practice Aid.*

Federal Banking Regulators Agree to Tax Loss Letters

On Oct. 5, federal banking regulators jointly announced an agreement to furnish federally insured financial institutions with letters that will help those institutions support bad-debt deductions before the IRS. Recent IRS regulations allow an institution, after Oct. 1, 1992, to supplement internal documentation supporting bad-debt deductions with a special determination letter from its primary federal regulator. The letter would expressly state that an institution's loan loss classification standards are consistent with regulatory standards concerning loan charge-offs. The regulatory announcement authorizes examiners to provide these "express determination" letters on request, enabling banks and thrifts to establish for federal income tax purposes a conclusive presumption of worthlessness for loans that have been charged off for regulatory reporting purposes. For more information, contact the issuing agencies: the Office of the Comptroller of the Currency at 202/874–4884, the Federal Deposit Insurance Corporation at 202/898–6996, the Federal Reserve Board at 202/452–3245, and the Office of Thrift Supervision at 202/906–6427.

Notice to Readers *This compilation and review alert provides accountants with an overview of recent practice, regulatory, and professional developments that may affect the compilations and reviews they perform. This document has been prepared by the AICPA staff. It has not been approved, disapproved, or otherwise acted upon by a senior technical committee of the AICPA.*

ALAN J. WINTERS
Director, Auditing Research
Auditing Standards Division

JUDITH M. SHERINSKY
Technical Manager
Auditing Standards Division

Introduction

This alert is intended to help accountants plan their 1993 compilation and review engagements. It clarifies certain existing standards, suggests ways of avoiding pitfalls that frequently occur in compilation and review engagements, and summarizes new pronouncements.

Going Concern

Continuation of an entity as a going concern is assumed in financial reporting in the absence of information to the contrary; however, in the current sluggish economy, business failure is not an uncommon occurrence. Such an economic climate creates going-concern issues and prompts practitioners to raise questions about reporting when a going-concern matter arises in a compilation or review engagement. Here are some questions practitioners frequently ask:

What guidance about going-concern disclosure applies to compiled or reviewed financial statements?
Paragraphs 10 and 11 of Statement on Auditing Standards (SAS) No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* provide guidance on evaluating the adequacy of going-concern disclosure in financial statements. The disclosure guidance in those paragraphs applies to compiled, reviewed, and audited financial statements.

How should the accountant report when going-concern disclosure is omitted from full-disclosure financial statements?
The omission of going-concern disclosure in full-disclosure financial statements is a departure from generally accepted accounting principles (GAAP). If the financial statements are not revised, the accountant should add a paragraph to the report describing the departure from GAAP, as required by paragraphs 39 and 40 of Statement on Standards for Accounting and Review Services (SSARS) 1, *Compilation and Review of Financial Statements.*

How is the accountant's report affected when going-concern disclosure is included in full-disclosure financial statements?
When financial statements include appropriate disclosure about a going-concern matter, the accountant is *not* required to modify the standard compilation or review report. However, nothing in SSARSs precludes the accountant from emphasizing a matter regarding the financial statements, such as a going-concern matter, in a separate paragraph of the report. The following paragraph could be used in such situations:

> As discussed in Note X, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.

SAS No. 59 requires that the terms *substantial doubt* and *going concern* be used in the explanatory paragraph when the auditor concludes that substantial doubt exists. The auditor determines there is substantial doubt on the basis of evidence obtained from procedures performed in an audit, not from compilation or review procedures. Accordingly, the phrase *substantial doubt about the entity's ability to continue as a going concern* is reserved for audit reports and should not be used in an emphasis-of-a-matter paragraph of a compilation or review report.

How should the accountant report when going-concern disclosure is omitted from compiled financial statements that omit substantially all disclosures?
Many practitioners feel uneasy when financial statements that omit substantially all disclosures also omit disclosure about a going-concern matter; however, Interpretation No. 11 of SSARS No. 1 states that such disclosure is not required in financial statements that omit substantially all disclosures. The rationale for this conclusion is that users are adequately

warned of the limitations of the financial statements by the special report language reserved for such financial statements.

GAAP for Compiled or Reviewed Financial Statements

Although there are different reporting and performance standards for compilation, review, and audit engagements, practitioners should remember that the accounting principles to be followed in compiled and reviewed financial statements are the same as those in audited financial statements. Recently issued SSARS 7, *Omnibus Statement on Standards for Accounting and Review Services—1992*, adds a footnote to SSARS 1 to remind practitioners that the definition of generally accepted accounting principles and the hierarchy of established accounting principles presented in SAS No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*, is also applicable to compilations and reviews of financial statements.

A deficiency frequently noted in quality reviews of compilation and review engagements is the omission of certain financial statement disclosures required by GAAP. To avoid inadvertent omission of required disclosures, many practitioners use a disclosure checklist that typically consists of a number of brief questions or statements accompanied by references to authoritative pronouncements. Checklists may be firm-generated or purchased from the AICPA or commercial publishers. The AICPA sells a generic corporation checklist and many industry-specific checklists. For additional information about these checklists, consult the *AICPA Catalog of Publications*. A free catalog may be obtained by writing or calling the AICPA Order Department (see "Ordering Information" section).

The effective use of a disclosure checklist requires that a practitioner own or have access to certain authoritative accounting pronouncements. Because several organizations establish GAAP, there is no one publication that includes all GAAP pronouncements; however, the following references contain pronouncements included in levels "a" through "c" of the GAAP hierarchy and should provide practitioners with an appropriate library for a compilation or review engagement:

FASB Accounting Standards—Original Pronouncements
This two-volume set contains the original text of accounting pronouncements and includes Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board (APB) Opinions, AICPA Accounting Research Bulletins, and FASB Technical Bulletins. The pronouncements are arranged chronologically and the text includes a topical index. (Product No. 005042; $80.00)

AICPA Audit and Accounting Guides
These guides summarize the practices applicable to specific industries and describe relevant matters, conditions, and procedures unique to these industries. *AICPA Audit and Accounting Guides* are included in level "b" of the GAAP hierarchy. See the *AICPA Catalog of Publications* for a listing of available guides. ($24.00 per guide)

AICPA Technical Practice Aids (Including Statements of Position)
Statements of Position (SOPs) issued by the AICPA Accounting Standards Division (level "b" GAAP) and Accounting Standards Executive Committee (AcSec) Practice Bulletins (level "c" GAAP) are included in this text, which also contains a selection of nonauthoritative audit and accounting questions answered by the AICPA's Technical Information Services. SAS No. 69 elevated the status of AcSEC Practice Bulletins to the authority of established accounting principles. (Product No. 005052; $55.00)

FASB Emerging Issues Task Force (EITF) Abstracts
This text contains a summary of the proceedings of the FASB's EITF. Each abstract summarizes the accounting issues involved and the results of the discussion, including any consensus reached on the issue. SAS No. 69 elevated the status of EITF consensuses to the category of established accounting principles. ($30.00)

Practitioners who compile or review the financial statements of state and local governmental entities should supplement their professional libraries with the following:

Codification of Original Pronouncements: Governmental Accounting and Financial Reporting Standards
This text contains current authoritative accounting and financial reporting standards for state and local governmental entities. Governmental Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins are included. (Product No. GCD92; $40.00)

A practitioner's library should also include the professional standards that prescribe how compilation and review engagements are to be performed. Practitioners performing compilation or review engagements should consult ***AICPA Professional Standards*** (Product No. 005012; $80.00), a two-volume set that includes all the pronouncements and interpretations currently in effect. Of particular importance to compilation and review practice are—

- *Statements on Standards for Accounting and Review Services* (SSARSs). These are the standards by which compilation and review engagements are performed.
- *Statements on Auditing Standards* (SASs). Practitioners performing compilation and review engagements may need to consult the auditing standards because SASs are the only source of authoritative accounting guidance in areas such as subsequent events and evaluation of the adequacy of going-concern disclosure and are generally held to be part of GAAP. In addition, SSARSs frequently refer the reader to SASs for amplification of topics mentioned in SSARSs (for example, the definition of the term *comprehensive basis of accounting other than generally accepted accounting principles*).

■ *Code of Professional Conduct.* This includes the Principles and Rules that govern the performance of professional services by members.

Ordering Information

FASB Emerging Issues Task Force (EITF) Abstracts may be ordered from the FASB by calling 203/847-0700 or writing to the FASB Order Department, P.O. Box 30816, Hartford, CT 06150. Orders must be prepaid; CT orders add 6 percent sales tax.

Codification of Original Pronouncements: Governmental Accounting and Financial Reporting Standards may be ordered from the GASB by calling 203/847-0700 or writing to the FASB Order Department, P.O. Box 30784, Hartford, CT 06150. Orders must be prepaid; CT orders add 6 percent sales tax.

All other references may be ordered from the AICPA by calling the toll-free number 800/862-4272 or by writing to the AICPA Order Department, P.O. Box 1003, New York, NY 10108-1003. Orders may be faxed to 800/362-5066.

All prices quoted herein are approximate and apply to paperback editions. Discounts are available when certain texts are ordered in combination.

There are several ways practitioners can keep their professional libraries current without subscribing to a looseleaf service. *The CPA Letter* announces the issuance of recently promulgated accounting and auditing standards and the "Official Releases" section of the *Journal of Accountancy* reprints many of these standards and their interpretations. In addition, EITF consensuses are summarized every other month in a column in the *Journal of Accountancy.*

Creative Report Language

The sample compilation and review reports presented in SSARSs are illustrative rather than authoritative. A practitioner's report does not have to read exactly like the sample reports in SSARSs; however, a compilation or review report that does not include the elements listed in paragraphs 14 and 32, respectively, of SSARS 1 will be considered deficient. Although a practitioner does have some latitude in how these elements are expressed, the courts have demonstrated a preference for the standard compilation and review reports and deviating from the standard report elevates a firm's malpractice risk. The Auditing Standards Division recommends that firms use the standard report formats presented in SSARSs.

Reporting on Supplementary Information

Compiled or reviewed financial statements frequently include, as an attachment, voluntary supplementary information such as schedules detailing cost of goods sold; selling, general, and administrative expenses; or sales by product line. Other types of supplementary information are budgets for expired periods, analyses of aged accounts receivable, consolidating information, and statistical data and ratios. This information is considered supplementary because, although it may be useful to management, it is not required by GAAP.

Although supplementary information is routinely included with financial statements, practitioners frequently neglect to report on it. SSARS 1 requires the accountant to describe in his or her report on the financial statements, or in a separate report, the degree of responsibility, if any, he or she is taking for the supplementary information.

An example of a report on compiled financial statements and supplementary information follows:

> I (we) have compiled the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, and the accompanying schedules of cost of goods sold and of selling, general, and administrative expenses, in accordance with standards established by the American Institute of Certified Public Accountants.
>
> A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. I (we) have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

When both the financial statements and the supplementary information have been reviewed, the titles of the supplementary information should not be inserted directly after the titles of the basic financial statements in the review report. Instead, an additional paragraph should be added to the report. An example of such a paragraph follows:

> My (our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the schedules of cost of goods sold and of selling, general, and administrative expenses is presented only for supplementary analysis purposes. This information has been subjected to the inquiry and analytical procedures applied in the review of the financial statements and I (we) are not aware of any material modifications that should be made to that information.

When the financial statements have been reviewed and the supplementary information has been compiled, the following additional paragraph would be added to the review report.

> My (our) review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the accompanying

financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the schedules of cost of goods sold and of selling, general, and administrative expenses is presented only for supplementary analysis purposes. This information has not been subjected to the inquiry and analytical procedures applied in the review of the financial statements. We compiled this information from information that is the representation of management, without audit or review, and I (we) do not express an opinion or any other form of assurance on this supplementary information.

Reporting on Required Supplementary Information

A recently issued AICPA Audit and Accounting Guide, *Common Interest Realty Associations* (CIRA guide), requires that CIRAs disclose certain supplementary information outside of the basic financial statements. Although SSARS 1 describes the accountant's responsibility when financial statements are accompanied by information presented for supplementary analysis purposes, it does not address the subject of reporting on required supplementary information. To fill that gap, the Accounting and Review Services Committee recently issued an exposure draft of a proposed statement of position (SOP), *Reporting on Required Supplementary Information Accompanying Compiled or Reviewed Financial Statements of Common Interest Realty Associations,* which supplements the CIRA guide by providing guidance on reporting on required supplementary information. The proposed SOP requires that the accountant at least compile the required supplementary information when the financial statements have been compiled or reviewed and specifies the procedures that should be performed when required supplementary information is compiled. Copies of the exposure draft may be obtained by writing to the AICPA Order Department and requesting Product No. 800039.

Communicating Internal Control Weaknesses

Paragraph 8 of SSARS 1 states that a compilation or review engagement cannot be relied on to disclose errors, irregularities, or illegal acts; however, if such matters come to the accountant's attention, the accountant is required to inform the appropriate level of management of any material errors and any irregularities or illegal acts, unless they are clearly inconsequential. Unlike the accountant's responsibilities for errors, irregularities, and illegal acts, the accountant is not required to report internal control structure weaknesses to a client in a compilation or review engagement. Although it might be beneficial to a client to be made aware of internal control weaknesses, it is unrealistic to expect an accountant to provide this service within the context of a compilation or review engagement. Professional standards do not require it and sound economics dictate not doing this. A far better course of action is to inform the client of the limitations of a compilation or review engagement and give the client the option of engaging the accountant to perform a separate consulting service in which the entity's internal control structure is studied and recommendations for improvement are made.

SAS No. 60, *Communication of Internal Control Structure Related Matters Noted in an Audit,* requires that an auditor communicate reportable conditions observed during an audit to the audit committee or its equivalent. SAS No. 60 is applicable to audits of financial statements, not to reviews or compilations.

Workpaper Documentation in SSARS Review Engagements

Peer and quality reviews of SSARS review engagements reveal workpaper deficiencies in these engagements. Although SSARS 1 does not specify the form or content of review engagement working papers, it does require that the accountant's working papers describe the matters covered in the accountant's inquiry and analytical procedures and any unusual matters that the accountant considered during the performance of the review, including their disposition.

Computer-Generated Financial Statements

The use of computers to generate compiled financial statements and reports has grown increasingly popular because of the efficiency with which a computer can accomplish this task; however, practitioners should remember that variations in financial statements, such as the basis of accounting, affect items such as the titles of the financial statements and the wording of the compilation report. Paragraph 7 of SAS No. 62, *Special Reports,* provides guidance on suitable titles for financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles. For example, cash-basis financial statements might be titled "Statement of Revenues Collected and Expenses Paid" instead of "Statement of Income." In addition, paragraph 20 of SSARS 1 states that if financial statements are compiled in conformity with a comprehensive basis of accounting other than generally accepted accounting principles and do not include disclosure of the basis of accounting used, the basis should be disclosed in the accountant's report. Practitioners using software geared to GAAP-basis financial statements should carefully review computer-generated financial statements and reports to determine whether modifications need to be made to tailor the wording of the financial statements and report to the basis of accounting used.

Omnibus Statement on Standards for Accounting and Review Services—1992

In November 1992, the Accounting and Review Services Committee issued SSARS 7, *Omnibus Statement on Standards* *for Accounting and Review Services—1992,* (Product No. 060664), which amends various sections of SSARSs. Some provisions of SSARS 7 clarify existing guidance while others change compilation and review practice. Major provisions that change compilation and review practice—

- Revise the wording of the SSARS compilation and review reports to clarify that the Standards referred to in these reports are Statements on Standards for Accounting and Review Services. This will help readers differentiate the SSARS review report from the review report presented in SAS No. 71, *Interim Financial Information,* issued in May 1992. The requirements included in SAS No. 71 are more extensive than the requirements included in SSARS 1 and the similarity between the SAS and SSARS review reports could cause financial statement users to assume that the requirements of a SAS No. 71 engagement have been fulfilled when, in fact, they have not. Here is what the first paragraph of the new review report will look like. New language is shown in boldface italics and deleted language is shown by strike-through.

> I (We) have reviewed the accompanying balance sheet of XYZ Company as of December 31, 19XX, and the related statements of income, retained earnings, and cash flows for the year then ended, in accordance with ~~standards~~ ***Statements on Standards for Accounting and Review Services*** ~~established~~ ***issued*** by the American American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management (owners) of XYZ Company.

- Make obtaining a representation letter a required, rather than an optional, procedure in a review engagement. The AICPA is preparing a brochure titled *The Representation Letter in a SSARS Review Engagement* to familiarize clients with the purpose and contents of representation letters. Watch *The CPA Letter* for announcement of its publication.
- Exempt a practitioner who types or reproduces financial statements, without modification, from compiling those statements. After amendment, SSARS 1 will include a definition of *submission of financial statements* that was previously found in Interpretation No. 16 of SSARS 1.

Major provisions of SSARS 7 that clarify existing practice include amendments that—

- Clarify the applicability of SSARS 1 by indicating that in certain circumstances, an accountant may perform a review of a public company under the provisions of SSARSs.
- Indicate that the definition of GAAP and the hierarchy of established accounting principles presented in SAS No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report,* is also applicable to compilations and reviews of financial statements performed under SSARSs.
- Indicate that the source of guidance for evaluating the adequacy of disclosure in financial statements prepared in conformity with another comprehensive basis of accounting is paragraphs 9 and 10 of SAS No. 62, *Special Reports.*
- Inform the reader of sources of guidance for preparing and reporting on financial forecasts, projections and similar presentations.
- Make explicit that the accountant is not required to communicate to a client errors that are not material and irregularities or illegal acts that are clearly inconsequential.
- Indicate that guidance for evaluating the adequacy of disclosure of going-concern uncertainties is found in paragraphs 10 and 11 of SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern.*
- Clarify the accountant's reporting responsibilities in a compilation or review engagement when he or she decides there is an uncertainty about an entity's ability to continue as a going concern.

SSARS 7 is effective for periods ending after December 15, 1993. Reports issued or reissued after December 15, 1993, should conform with the reporting guidance in the Statement. Earlier application is encouraged.

SSARS Reviews for Public Companies

A number of states have established securities laws that permit public companies to raise a limited amount of capital without having to submit audited financial statements to the state regulatory agency. For example, the Arizona Securities Act allows corporations that are not SEC reporting companies to raise up to $500,000 from the public every twelve months by filing the Small Corporate Offering Registration Form (Form U-7). The Act permits these companies to submit financial statements that have been reviewed in accordance with SSARSs with Form U-7.

At the federal level, Regulation A of the Securities Act of 1933 exempts certain offerings from the registration requirements of that Act when the amount that will be received from the sale of the securities during a twelve-month period does not exceed $5 million. Exempt entities are not required to have their financial statements audited and many of these entities choose to have their financial statements reviewed under SSARSs. Footnote 4 of SAS No. 26, *Association With Financial Statements,* states that a public entity that does not have its annual financial statements audited may engage an accountant to perform a review of its annual or interim financial statements in accordance with SSARSs. Although many state regulatory agencies and the Securities and Exchange Commission (SEC) permit qualifying entities to forgo audit, and although auditing standards do not prohibit these public companies from having a SSARS review, practitioners should consider whether a review level of service will meet client and user needs because there is significant risk involved in initial public offerings of securities, even in small offerings.

FHA Relaxes Certain Audit Rules Because of Natural Disasters The Farmers Home Administration has amended its guaranteed loan program regulations, including certain audit rules, to provide procedures for guaranteeing loans to businesses impacted by natural disasters, such as Hurricanes Andrew and Iniki. Current law requires an annual audited financial statement for borrowers under the Business and Industry Disaster (BID) loan program. The new regulations relax the requirements for minimum annual financial statements for BID loans as follows: 1) for nonagricultural borrowers with a business and industry (B&I) indebtedness of $500,000 or less, an annual compilation is required; 2) for nonagricultural borrowers with a B&I indebtedness of $500,001 through $1,000,000, an annual review is required; and 3) for nonagricultural borrowers with a B&I indebtedness of more than $1 million, an annual audited financial statement is required. The new rules went into effect Oct. 5. Note that these rules apply only to business and industry **disaster** loans, not to all business and industry loans. For more information, see the *Federal Register*, Oct. 5.

Import Administration Seeking CPAs The U.S. Department of Commerce International Trade Administration is seeking CPAs to fill staff accountant and senior accountant positions that focus on international finance and accounting and auditing functions related to antidumping and countervailing duty trade laws. International travel will be required. Auditing and/or work with an international corporation is desired; MBA also is preferred. Salary starts at $38,861. Send résumé or Form 171 to: U.S. Department of Commerce, ITA/Office of Accounting, Room 3087B, Washington, DC 20230, Attn: Carolyn Craig; or call 202/482–2210.

Freddie Mac to Revise Reporting Requirements In June 1991, the Federal Home Loan Mortgage Corporation (Freddie Mac) issued its *Audit Guide for Use by Independent Public Accountants in Audits of Freddie Mac Approved Seller/Servicers* (*The CPA Letter*, Dec. 1991). The Guide addresses the scope of financial statement audits for institutions that sell or service mortgage loans under Freddie Mac programs, sets forth certain procedures to be performed, and presents required reporting formats. However, AICPA Statement on Auditing Standards No. 62 and a proposed Statement on Standards for Attestation Engagements being prepared by the Auditing Standards Board both specify a report format different from that specified in the Guide. Therefore, Freddie Mac is revising its Guide; revisions are scheduled to be completed in early 1993 and to be effective for periods ending on or after June 30, 1993. Pending these revisions, Freddie Mac has stated that reports prepared using the format specified in either SAS No. 62 or the Guide will be accepted. For more information, contact Steve Smith of Freddie Mac at 703/903–2186.

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