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American Institute of Certified Public Accountants

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The CPA Letter

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AcSEC Meeting Highlights

The following were among the actions taken by the accounting standards executive committee at its meeting in Orlando last month:

- ☐ Approved, subject to clearance by the auditing standards board and review by the FASB, the audit and accounting guide, *Audits of Investment Companies*.
- ☐ Approved an exposure draft of a statement of position on *Illustrative Bank Financial Statements* with release expected this spring, pending revisions and clearances.
- ☐ Approved, subject to AcSEC review at its meeting later this month, a notice to practitioners on accounting for acquisition, development or construction arrangements.
- ☐ Approved a letter of comment on Securities Act Release no. 33-6590, concerning financial assets and transactions.
- ☐ Discussed a draft of the revised audit and accounting guide for hospitals.
- ☐ Discussed draft issue papers on quasi reorganizations and continuing care retirement communities.

Requirements Changed in Division for CPA Firms

In view of the current limitations on the availability of professional liability insurance coverage, the executive committees of both the private companies and SEC practice sections have suspended each section's membership requirement for such coverage. Both executive committees strongly encourage member firms to maintain adequate liability insurance coverage to protect the public and themselves.

Effective October 1, 1986, firms that are members of the SEC practice section will be required to have developed a statement of firm philosophy covering the broad principles of the firm's quality control and operating policies and procedures for communication to all professional firm personnel. This requirement is considered a means of providing an ongoing reminder to the personnel of member firms about the importance of professionalism in the performance of the firm's services. More detailed information on this requirement is being sent to member firms.

IFAC Approves Ethics Draft for Exposure

The council of the International Federation of Accountants has approved the release of Ethics Exposure Draft 12 for public comment.

Implementation and Enforcement of Ethical Requirements provides guidance to the 97 professional accountancy bodies from 71 countries who are members of IFAC to ensure that standards of conduct laid down will be maintained when implementing ethical requirements. The proposed statement of guidance also discusses the procedures which could be used by member bodies to administer disciplinary action. Examples of the sanctions that could be imposed, according to severity, are also included.

Comments should be submitted by May 1 to Herbert Finkston, director of professional ethics at the AICPA. Free copies of the draft may be obtained from the AICPA order department (Product no. G00334); 212/575-6426. To speed delivery, please supply mailing label.

Heavy Year-end Activity by the FASB...

In a year-end burst of activity, the Financial Accounting Standards Board has issued two final statements on standards to be followed by employers in accounting for pensions, a concepts statement on elements of financial statements and two technical bulletins applying to repurchase of treasury stock and to business combinations.

Statement no. 87, *Employers' Accounting for Pensions,* requires companies to use a standardized method for measuring net periodic pension cost over the employee's service life, to disclose more information about their plans in the notes to financial statements and to recognize a liability when the accumulated benefit obligation exceeds the fair value of plan assets. While retaining certain elements of current practice, the new statement will require changes in the way companies account for their pension cost and obligations.

According to FASB Chairman Donald J. Kirk, two significant changes "were made to the board's most recent proposal. . . . Statement no. 87 will allow employers to reduce volatility by calculating return on assets using an averaging technique that would lessen the effects of changes in asset value. Also, the statement drops certain previously proposed disclosure requirements that respondents to the exposure draft believed to be excessive or difficult to provide."

In general the effective date is for fiscal years beginning after December 15, 1986.

Under Statement no. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* which supersedes Statement no. 74, *Accounting for Special Termination Benefits Paid to Employees,* and which is closely related to Statement no. 87, previously deferred gains or losses associated with the termination or curtailment of the plan are to be recognized in earnings when a pension obligation is settled. The board defines a settlement as any irrevocable action that relieves the employer of primary responsibility for a pension obligation and the assets used to effect the settlement.

Concepts Statement 6, *Elements of Financial Statements,* applies the definitions of assets, liabilities, net assets, revenues, expenses, gains and losses to not-for-profit organizations. It defines the three classes of net assets for these organizations as permanently restricted, temporarily restricted and unrestricted. The statement replaces Concepts Statement 3 to encompass not-for-profit organizations as well as business enterprises. The board also concluded that the qualitative characteristics, such as relevance, reliability, consistency and comparability as originally adopted in Concepts Statement 2 apply equally to business and not-for-profit organizations.

According to Technical Bulletin 85-5, *Issues Relating to Accounting for Business Combinations...,* when an acquiring company in a business combination closes some of its own facilities because they duplicate those purchased, the costs incurred would be charged to expense, but if duplicate facilities of the purchased company are closed, the costs incurred would be considered part of the acquisition cost. Several other situations are also dealt with.

Under Technical Bulletin 85-6, *Accounting for a Purchase of Treasury Shares at a Price Significantly in Excess of the Current Market Price...,* there is a presumption that a company is purchasing more than stock when it repurchases its stock for a price significantly higher than the current market price. Only the fair value of the stock should be accounted for as cost of shares acquired if the repurchase includes receipt of stated or unstated rights, privileges or agreements in addition to the capital stock.

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William J. Corbett
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...Includes Two Exposure Drafts Issued

A proposed statement, on which comments are due by April 30, would amend FASB Statement no. 71, *Accounting for the Effects of Certain Types of Regulation*, for three types of events that have recently occurred in the electric utility industry—phase-in plans, abandonments and disallowances of costs of newly completed plants.

It would require that deferred costs associated with phase-in plans be capitalized if all of three cited criteria are met. Probable revenue that may result from the regulator's inclusion of the cost of an abandoned plant for rate-making purposes is to be reported at its present value. Also, any disallowed costs of newly completed plant are to be recognized as a loss.

The proposed statement would be effective for fiscal years beginning after December 15, 1986.

Nonrefundable fees and costs associated with acquiring or originating loans would be deferred and amortized over the life of the related loan, according to an exposure draft of a proposed statement of financial standards on which comments are due by April 30. The provisions of *Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans* would apply to all types of lenders, whether or not they are financial institutions, and to leasing activities. If adopted, the proposed statement would be effective for fiscal years beginning after December 15, 1986, and would be applied retroactively with restatement of prior years' financial statements if practicable.

The board will hold a public hearing on the issues in this draft on July 16-18 in Washington, D.C.

Practicing CPA Distribution Policy

Members are reminded that one copy of The Practicing CPA is sent automatically to each practice unit and to those members who have specifically requested it. If you would like to receive your own copy, please send your name and your firm name and address to the membership records department at the AICPA, requesting that you be included on the mailing list.

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards
The accounting standards executive committee will meet on January 28-31 in the AICPA boardroom, New York, starting at 8:30 a.m. each day. The agenda is now being developed and is likely to include the following topics:

- ☐ Accounting and Financial Reporting for Special Assessments (consider comment letter).
- ☐ Nonrefundable Loan Losses and Costs (consider FASB proposed standard).
- ☐ Distribution Fees of Mutual Funds (consider issues paper).
- ☐ Computer Software Revenue Recognition (initial discussion of issues paper).
- ☐ Medical Malpractice Self-Insurance (consider proposed SOP for final issuance).
- ☐ Transfers of Lifo Inventories (consider notice to practitioners).
- ☐ Regulated Enterprises (consider comment letter).

The next meeting of the committee is scheduled for March 18-20 in New York.

Auditing Standards
The meeting of the auditing standards board originally scheduled for January 21 has been canceled. The meeting of March 4-6 will proceed as planned.

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

Conferences and Seminars

XIII World Congress of Accountants—Registration forms are now available for the XIII World Congress of Accountants, which will be held in Tokyo on October 11-15, 1987. It is being cosponsored by the International Federation of Accountants and the Japanese Institute of CPAs. The theme of the congress is "The Role of the Accountant in a Computer Environment," and it will consist of several overview sessions, simultaneous technical programs and a number of social activities. Among the topics will be selection and applications of microcomputers; audits of EDP systems; and managements' role in EDP systems.

The preregistration form is due in the congress office by March 1, 1986; copies are available from Kathleen Carter at the AICPA, 212/575-6464.

CAPA Goes to Melbourne—"Accountancy's Image: Challenge and Change" is the theme of the 11th conference of the Confederation of Asian and Pacific Accountants, scheduled for November 9-13, 1986, in Melbourne, Australia. A series of plenary sessions and workshops will explore various facets of the theme, and a range of social programs is planned. For information, contact Marilyn Gunn, Accountants House, 170 Queen Street, Melbourne, Victoria 3000, Australia.

AICPA Marketing Seminar—A seminar specifically designed to help CPA firms augment their marketing efforts has been scheduled by the AICPA on June 9-10 at the Marriott Hotel in downtown Chicago. The program will feature group discussions and workshops dealing with a pragmatic approach to expanding firm profitability. For details, call David McThomas at 212/575-6439.

National Industry Conference—Loews Anatole in Dallas will be the site of the 11th National Industry Conference, to be held April 17-18. It has been designed to meet the interests of this segment of the membership. It will provide updates on current financial developments affecting business and will feature several well-known speakers. A brochure will be mailed next month to all AICPA members in industry. For further information, contact the meetings department; 212/575-6451.

Year in Review on Tape

CPA video journal program no. 44, "1984-85: The AICPA Year in Review," originally produced for the AICPA annual meeting, is now generally available on both 1/2 and 3/4 inch videotape. The 41-minute program covers the Dingell congressional hearings, held from February through September; RICO; Institute participation in the federal income tax reform process; the National Commission on Fraudulent Financial Reporting; and the AICPA division for CPA firms. Excerpts from major speeches are included as well as Board Chairman Herman J. (Monday) Lowe's inaugural address and an introduction by President Philip B. Chenok in which he narrates scenes from the annual meeting.

The tapes are available at $50.00 each (please specify format) from Teresa Zimmerer at the AICPA: 212/575-5573.

Tax Return Checklists Available

The Institute's management of a tax practice subcommittee has developed an updated package of sample practice aids for adaptation to a firm's specific practice and local law requirements. As in prior years, the package includes preparation and review checklists for individual, partnership, corporation and S corporation tax returns. Also included is a sample draft of a tax engagement letter that can also serve to inform clients of the record-keeping requirements under the 1984 tax act.

Comments are being sought to improve the checklists' future usefulness.

The checklists will be automatically distributed free to all AICPA tax division members. Copies may also be obtained by sending a self-addressed 9 x 12 envelope, along with a check for $8, payable to the AICPA, to AICPA Checklists, P.O. Box 1012, New York, N.Y. 10108-1012.

Supplement, *CPA Letter,* January, 1986

AUDIT QUALITY REVIEW OF FEDERALLY ASSISTED PROGRAMS

Considerable congressional interest in the accounting profession continues, with increasing attention being paid to the quality of audits by CPAs of federal grants to state and local governments and to nonprofit organizations.

At the request of Congressman Jack Brooks (D-Tex.), chairman of the Legislation and National Security Subcommittee of the House Committee on Government Operations, the accounting and financial management division of the General Accounting Office undertook a study of the quality of such audits performed by nonfederal auditors. The study was aimed at determining the extent to which CPAs comply with professional auditing standards during their audits of recipients of federal assistance and the overall quality of their audits.

The first report on the study was issued on November 13, 1985, and was based on a study of 46 Regional Inspector General offices (RIG), representing six federal departments and one agency which administered 95 percent of all federal assistance in 1984. The first phase of the study was to evaluate both the audit quality systems of the offices of inspectors general as well as to report on the results of the IGs' reviews of audits performed by nonfederal auditors. The second phase is aimed at determining the extent to which CPAs comply with professional auditing standards and the overall quality of these audits.

In general, the GAO found the desk reviews conducted by the RIGs to have been adequately performed, with the following results:

The GAO estimated that there were problems with about 25 percent of the 9,500 individual reviews conducted. RIGs were concerned with the way reports were prepared, and deficiencies ranged from failing to date the report to omitting a required statement on compliance. The GAO sample of 328 audits identified problems in 84 cases related to standards requiring auditors to

- ☐ Identify instances of noncompliance with laws and regulations;
- ☐ Identify internal controls studied and evaluated;
- ☐ Use due professional care in preparing audit reports;
- ☐ Cite correctly the auditing standards followed.

The RIGs typically desk-reviewed 100 percent of the audits they received and, in addition, they usually conducted quality control reviews on at least 5 percent of the audits.

The percentage of quality control reviews, which included a review of an auditor's working papers, varied widely among the RIG offices. The reports selected for review were largely from among those likely to have problems. The GAO estimated that the RIGs found problems with about 45 percent of the audits and they did not accept as submitted about 22 percent of the audits that were subjected to quality control review.

In other words, one out of every five of these audits was not accepted until the auditor (1) performed more audit work, (2) clarified work performed or (3) provided more support for work performed. A few reports were never accepted because the auditor did not obtain and document sufficient, competent evidential matter to support conclusions and opinions. The RIGs found audits where there was little or no evidence showing that the auditors properly planned, supervised and reviewed the audit, or tested for compliance with laws and regulations.

The GAO found that much of the inadequate audit report language resulted from using outdated audit guides and the following three reporting standards were among those most frequently violated:

- ☐ A statement in the auditor's report that the examination was made in accordance with the Standards for Audits of Governmental Organizations, Programs, Activities and Functions, issued by the Controller General of the U.S., for financial and compliance audits.
- ☐ A statement of positive assurance on tested compliance items and negative assurance on those items not tested.
- ☐ A report on the auditor's study and evaluation of internal controls as part of the financial and compliance audit.

The GAO report noted that current efforts by the IGs, the President's Council on Integrity and Efficiency (PCIE), the Office of Management and Budget, and the AICPA to improve audit quality "are very constructive and seem to be addressing a number of our recommendations to the inspectors general." However, while the deficiencies identified cannot be cited on a statistically valid basis, the IGs have identified numerous instances of work they did not accept. These results demonstrate a need for continued and improved monitoring by the inspectors general. Therefore, the following recommendations are being made by the GAO to the inspectors general in order to provide a quality control system that adequately identifies, disseminates and corrects audit problems. They should

- ☐ Prepare and update program audit guides for nonfederal auditors to use in the conduct of their audits;
- ☐ Develop and require RIGs to use standardized checklists that are annotated to the auditing standards;
- ☐ Require all RIGs to conduct quality control reviews on an established percentage of the audit reports they receive;
- ☐ Clarify and revise policies on taking actions against CPAs on unacceptable audits, even when an acceptable report is ultimately provided;
- ☐ Work with AICPA and appropriate state boards of accountancy to expedite referrals of complaints of substandard work to them;
- ☐ Require RIGs to keep data on their quality control reviews to identify and correct trends or patterns of quality problems;
- ☐ Require RIGs to report review results to headquarters using consistent formats so that nationwide trends and patterns can be identified;
- ☐ Report problems identified and efforts to improve audit quality to agency heads and to Congress in their semiannual reports.

It is expected that this report on the GAO's review of audit quality will be a key element in hearings that may be held in early 1986 by the Legislation and National Security Subcommittee of the House Committee on Government Operations. In the meantime, CPAs who audit federally assisted programs should review their own procedures relating to the most significant problem areas, especially in light of the Single Audit Act.

The AICPA revised audit guide on *Audits of State and Local Governmental Units*, to be issued shortly, will provide practitioners with guidance in the conduct of those audits.

ASB Comments on SEC Interpretation of Oral Guarantees

The SEC recently issued an interpretation, *The Significance of Oral Guarantees to the Financial Reporting Process* (Release 33-6613), which emphasizes that the substance of oral agreements should be considered by financial institutions and others in completing audit confirmations. The planning subcommittee of the auditing standards board has reviewed the literature and has concluded that existing guidance is appropriate and covers both oral and written guarantees. There may be situations, however, where the auditor may wish to supplement the wording of the standard bank confirmation inquiry form, make appropriate inquiries of the lending officer and consider additional wording in the client representation letter to explicitly reference oral and written guarantees.

Tax Aids Available from Institute

Now that most clients have received their 1040 forms, members may be interested in three aids published by the AICPA's communications division that will relieve you of the burden of repetitive questions and demonstrate your expertise:

- ☐ "50 Tax Facts: A Guide to Filing Your 1985 Federal Tax Return" is a pamphlet designed for giveaway distribution to clients or others that answers some common questions and identifies some frequently overlooked deductions. It is available at $5.00 per hundred (Product no. 889308) from the AICPA order department, P.O. Box 1003, New York, New York 10108.
- ☐ "Your 1985 Federal Income Tax Return" is a speech designed for general audiences. Two versions address the interests of both the nonitemizer and the itemizer. This is a freebie. Just ask the order department for Product no. G00141.
- ☐ For audiences that are more visually oriented, a 20-minute color slide program and a script on 1985 tax returns are available at $70.00 for the first copy ($35.00 for each additional copy) from David Bondy at the AICPA (212/575-5574).

AICPA Member Admonished

At a meeting of a hearing panel of Regional Trial Board XI on July 16, 1985, Donald L. Bunsis of Merrick, New York, was found guilty of violating the independence, technical and general standards of the Rules of Professional Conduct of the Institute's Code of Professional Ethics in connection with a client's financial statements and was admonished. In addition, the panel required that he complete 40 hours of continuing professional education courses in auditing and accounting for each of three years, including a course in professional ethics for CPAs, and that he report his progress annually to the secretary of the Joint Trial Board division.

Mr. Bunsis, who was present with counsel at the hearing, requested a review of the decision by the National Review Board. The request was denied by an ad hoc committee of the National Review Board on November 13, 1985, and the decision of the hearing panel, which had been stayed pending the outcome of the request for review, therefore became effective on that date.

Washington Briefs

OMB Conference Set—The Office of Management and Budget (OMB) and the Office of Personnel Management (OPM) are cosponsoring a conference, "Using Off-the-Shelf Financial Systems in Federal Agencies," on February 3, 1986, at the Shoreham Hotel in Washington, D.C. It will bring together agency officials and private sector experts with firsthand experience with these systems. Cost is $80.00. Contact Ed Murphy at Financial Systems, P.O. Box 7230, Washington, D.C. 20044; 202/632-5600.

Two Appointments Confirmed—The Senate has confirmed the appointments of Edward H. Fleischman as an SEC commissioner, filling the unexpired term of James C. Treadway, Jr. (to June 5, 1987), and Stanley Sporkin, CPA, as a federal judge for the District of Columbia. Fleischman had been a partner with the law firm of Gaston, Snow, Beekman & Bogue, and Sporkin, former director of the SEC's enforcement division, had been general counsel of the Central Intelligence Agency.

IRS Mulls Simpler Keogh Forms—An IRS spokesman recently said that the service is studying ways of easing filing of reports on Keogh pension plans in 1987, which might involve the filing of a simplified Form 5500-C by one-participant plans. Some other plans, such as dormant or smaller Keogh plans, could be exempt. No decisions have been made, however.

Proposed Fringe Benefit Regulations—The IRS published in the December 23 Federal Register extensive temporary and proposed regulations on how most types of common employer-provided fringe benefits will be taxed this year. They explain how to figure what benefits are taxable and how to calculate a monetary value for them. The regulations tell employers how to value personal trips in a company car or airplane; when a fringe benefit is due to "working conditions," such as parking, and tax-free; and how much to tax employees who eat in employer-subsidized facilities. Comments are also sought on free plane flights and other bonuses given by commercial airlines.

The IRS plans to hold public hearings on the regulations early this year and written comments are due by February 21. They should be addressed to the Commissioner of Internal Revenue, Attn: CC:LR:T, Washington, D.C. 20224.

SEC Issues SAB no. 42—A Staff Accounting Bulletin no. 42A expresses the SEC staff views on goodwill amortization periods for financial institutions that become registrants after a business combination. It amends section A of Topic A, relating to the purchase method. For information, contact Laurel Bond at 212/272-2130.

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Governmental Audit Guide Released

The AICPA's accounting and auditing guide *Audits of State and Local Governmental Units* is now available from the Institute's order department.

The guide discusses and presents recommendations by the state and local government committee on the application of generally accepted auditing standards to audits of financial statements of nonfederal governmental units. It also deals with single audits required under the Single Audit Act of 1984.

Price from the order department is $14.75; $11.80 to members (Product no. 012050). Telephone: 212/575-6426.

Accounting and Review Services Draft Exposed

The AICPA accounting and review services committee has issued an exposure draft of a proposed statement on standards for accounting and review services *Reporting on Personal Financial Statements Included in Personal Financial Plans.*

The proposal would provide an optional exemption from the provisions of SSARS 1, as amended, for personal financial statements included in written personal financial plans prepared by an accountant when such statements and the related plan have been developed solely to assist a client and a client's advisers in achieving the client's personal financial goals and objectives. It includes specifications of the form of written report required under the exemption. The proposed statement would not preclude an accountant from complying with SSARS 1 in such engagements.

Limited copies have been distributed, and additional copies are available from the AICPA order department (Product no. G00316). For faster service send a self-addressed shipping label. The interest of the membership in this subject is demonstrated by the fact that the limited initial distribution has yielded more than 100 comment letters so far. Comments are due by May 15.

GASB Exposes Proposed Statement on Objectives of Financial Reporting

The Governmental Accounting Standards Board has issued a proposed statement of governmental accounting concepts, *Objectives of Financial Reporting,* for public reaction, with a deadline of April 30, 1986, for comments on this exposure draft.

This proposal would establish the objectives of external reporting by state and local governmental entities. It is presented in two parts to distinguish between governmental units engaged primarily in government-type activities and units or funds engaged in business-type activities. It holds that governmental financial reporting objectives are influenced by the characteristics of state and local governmental environment and by the needs of those who use governmental financial reports. It identifies some of these environmental factors as the budget, involuntary resource providers (taxpayers) receiving services unrelated to the resources they provide, the nature of the political process, the use of fund accounting and major investments in nonrevenue-producing capital assets.

It then sets forth the financial reporting objectives in terms of the three groups of primary users of external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors.

Copies of the proposed statement may be obtained from the GASB, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

A public hearing on the issues will be held in Arlington, Virginia, on March 19.

Handsome Is as Handsome Does, Implies SEC Commissioner

Accountants "are beginning to realize that in 1986 it will be at least as important to look effective as to be effective," said SEC Commissioner Charles C. Cox in a speech in early January at the Institute's thirteenth National Conference on Current SEC Developments. The profession, he added, "realizes that public approval cannot be legislated or mandated by rule, but must be sought and won."

Cox said that now the profession has found both its public and private roles misinterpreted by their customers. "To dispel this misunderstanding, the profession must place its feet squarely in the public camp and take the initiative in creating the future regulatory environment," added the commissioner.

The most pressing problem is the perception, or credibility, gap. "This is the source of most, if not all, of the customer revolt," which became evident last year, said Cox.

In other actions at the conference, James C. Treadway, Jr., chairman of the National Commission on Fraudulent Financial Reporting, said that the commission's report will likely be available to the public for comment.

The former SEC commissioner said that areas to be considered by the commission will include deterrence of management fraud and modification of records, which leads to defective financial statements.

The accounting profession "can take measures to cope" with problems such as increased competition and management fraud, and "on many fronts, I believe it is doing just that," said A. A. Sommer, Jr., vice-chairman of the Public Oversight Board. Sommer, speaking at the conference, cited the efforts of the Treadway commission and the Anderson committee on standards of professional conduct as "promising initiatives" by the profession in confronting its problems.

In another speech at the conference, Gary Lynch, director of the SEC's division of enforcement, predicted that efforts by the division involving accounting "will not abate" and may even increase. More cases involving "cooked books" and "cute accounting" are likely to be brought in the future, he added.

More on the conference will appear in a forthcoming issue of the *Journal of Accountancy.*

Draft Agricultural Guide Issued for Exposure

A proposed accounting and auditing guide, *Audits of Agricultural Producers and Agricultural Cooperatives*, prepared by the special committee on agribusiness, has been released for exposure with comments due by May 15.

Primarily, the guide codifies existing practices, discussing the following areas among others:

☐ Cost accounting and cost allocations by agricultural producers.

☐ Normal versus abnormal costs of agricultural producers.

☐ Accounting for income taxes by such producers and cooperatives.

☐ Accounting for losses by agricultural cooperatives.

☐ Departmental and functional accounting by agricultural cooperatives.

☐ Auditing procedures applicable to producers' and cooperatives' investments in agricultural cooperatives.

Illustrative financial statements of an agricultural producer and of an agricultural cooperative are also included.

Copies are available from the AICPA order department (Product no. G00285). For faster service send a self-addressed shipping label.

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William J. Corbett
Vice President–Communications

Roderic A. Parnell
Executive Editor

NOTICE TO PRACTITIONERS—ADC ARRANGEMENTS

The AICPA accounting standards executive committee (AcSEC) has prepared the following guidance on accounting for real estate acquisition, development, or construction (ADC) arrangements of financial institutions. This guidance is intended to clarify and expand upon the two Notices to Practitioners issued in November 1983 and November 1984 on this subject; accordingly, it supersedes those notices. Because practice and guidance on this matter have been the subject of debate and evolution over time, the guidance contained in this notice should be applied to ADC arrangements entered into after its issuance.

1. Financial institutions may enter into ADC arrangements in which they have virtually the same risks and potential rewards as those of owners or joint venturers. AcSEC believes that, in some instances, accounting for such arrangements as loans would not be appropriate and thus is providing this guidance in determining the proper accounting.

Scope

2. This notice applies only to those ADC arrangements in which the lender participates in *expected residual profit,* as further described below.

Expected Residual Profit

3. Expected residual profit is the amount of profit, whether called interest or another name, such as equity kicker, above a reasonable amount of interest and fees expected to be earned by the lender.

4. The extent of such profit participation and its forms may vary. An example of a simple form might be one in which the contractual interest and fees, if any, on a condominium project are considered to be at fair market rates; the expected sales prices are sufficient to cover at least principal, interest, and fees; and the lender shares in an agreed proportion, for example, 20 percent, 50 percent, or 90 percent, of any profit on sale of the units.

5. A slightly different form of arrangement may produce approximately the same result. For example, the interest rate and/or fees may be set at a level higher than in the preceding example, and the lender may receive a smaller percentage of any profit on sale of the units. Thus, a greater portion of the expected sales price is required to cover the contractual interest and/or fees, leaving a smaller amount to be allocated between the lender and the borrower. The lender's share of expected residual profit in such an arrangement may be approximately the same as in the preceding example. A different arrangement may cause the same result if the interest rate and/or fees are set at a sufficiently high level and the lender does not share in any proportion of profit on sale of the units. Another variation is one in which the lender shares in gross rents or net cash flow from a commercial project, for example, an office building or an apartment complex.

6. The profit participation agreement may or may not be part of the mortgage loan agreement. Consequently, the auditor should be aware of the possibility that such agreements may exist and should design audit procedures accordingly. Those procedures could include inquiries to, and requests for written representation from, both the lender and the borrower.

7. The accounting guidance in paragraphs 16 and 17 is based on a consideration of the following characteristics of ADC arrangements. A particular ADC arrangement may have one or more of these characteristics.

Characteristics of ADC Arrangements Implying Investments in Real Estate or Joint Ventures

8. As stated in the "Scope" section, this notice applies to an ADC arrangement in which the lender participates in expected residual profit. In addition to the lender's participation in expected residual profit, the following characteristics suggest that the risks and rewards of an ADC arrangement are similar to those associated with an investment in real estate or joint venture:

a. The financial institution agrees to provide all or substantially all necessary funds to acquire, develop, or construct the property. The borrower has title to but little or no equity in the underlying property.
b. The financial institution funds the commitment or origination fees or both by including them in the amount of the loan.
c. The financial institution funds all or substantially all interest and fees during the term of the loan by adding them to the loan balance.

d. The financial institution's only security is the ADC project. The financial institution has no recourse to other assets of the borrower, and the borrower does not guarantee the debt.

e. In order for the financial institution to recover the investment in the project, the property must be sold to independent third parties, the borrower must obtain refinancing from another source, or the property must be placed in service and generate sufficient net cash flow to service debt principal and interest.

f. The arrangement is structured so that foreclosure during the project's development as a result of delinquency is unlikely because the borrower is not required to make any payments until the project is complete, and, therefore, the loan normally cannot become delinquent.

Characteristics of ADC Arrangements Implying Loans

9. Even though the lender participates in expected residual profit, the following characteristics suggest that the risks and rewards of an ADC arrangement are similar to those associated with a loan:

a. The lender participates in less than a majority of the expected residual profit.

b. The borrower has an equity investment, substantial to the project, not funded by the lender. The investment may be in the form of cash payments by the borrower or contribution by the borrower of land (without considering value expected to be added by future development or construction) or other assets. The value attributed to the land or other assets should be net of encumbrances. There may be little value to assets with substantial prior liens that make foreclosure to collect less likely. Recently acquired property generally should be valued at no higher than cost.

c. The lender has 1) recourse to substantial tangible, saleable assets of the borrower, with a determinable sales value, other than the ADC project that are not pledged as collateral under other loans; or 2) the borrower has provided an irrevocable letter of credit from a credit worthy, independent third party to the lender for a substantial amount of the loan over the entire term of the loan.

d. A take-out commitment for the full amount of the financial institution's loans has been obtained from a credit worthy, independent third party. Take-out commitments often are conditional. If so, the conditions should be reasonable and their attainment probable.

e. Noncancelable sales contracts or lease commitments from credit worthy, independent third parties are currently in effect that will provide sufficient net cash flow on completion of the project to service normal loan amortization, that is, principal and interest. Any associated conditions should be probable of attainment.

Personal Guarantees

10. Some ADC arrangements include personal guarantees of the borrower and/or a third party. AcSEC believes that the existence of a personal guarantee alone rarely provides a sufficient basis for concluding that an ADC arrangement should be accounted for as a loan. In instances where the substance of the guarantee and the ability of the guarantor to perform can be reliably measured, and the guarantee covers a substantial amount of the loan, concluding that an ADC arrangement supported by a personal guarantee should be accounted for as a loan may be justified.

11. The substance of a personal guarantee depends on a) the ability of the guarantor to perform under the guarantee, b) the practicality of enforcing the guarantee in the applicable jurisdiction, and c) a demonstrated intent to enforce the guarantee.

12. Examples of personal guarantees that have the ability to perform would include those supported by liquid assets placed in escrow, pledged marketable securities, or irrevocable letters of credit from a credit worthy, independent third party(ies) in amounts sufficient to provide necessary equity support for an ADC arrangement to be considered a loan. In the absence of such support for the guarantee, the financial statements and other information of the guarantor may be considered to determine the guarantor's ability to perform. Due to the high-risk nature of many ADC arrangements, AcSEC believes financial statements that are current, complete, and include appropriate disclosures and that are reviewed or audited by independent CPAs are the most helpful in this determination.

13. Particular emphasis should be placed on the following factors when considering the financial statements of the guarantor:

a. *Liquidity as well as net worth of the guarantor* — There should be evidence of sufficient liquidity to perform under the guarantee. There may be little substance to a personal guarantee if the guarantor's net worth consists primarily of assets pledged to secure other debt.

b. *Guarantees provided by the guarantor to other projects* — If the financial statements do not disclose and quantify such information, inquiries should be made as to other guarantees. Also, it may be appropriate to obtain written representation from the guarantor regarding other contingent liabilities.

14. The enforceability of the guarantee in the applicable jurisdiction should also be determined. Even if the guarantee is legally enforceable, business reasons that might preclude the financial institution from pursuing the guarantee should be assessed. Those business reasons could include the length of time required to enforce a personal guarantee, whether it is normal business practice in that jurisdiction to enforce guarantees on similar transactions, and whether the lender must choose between pursuing the guarantee or the project's assets, but cannot pursue both. The auditor should consider obtaining written representation from management regarding its intent to enforce personal guarantees.

Sweat Equity

15. Some ADC arrangements recognize value, not funded by the lender, for the builder's efforts after inception of the arrangement, sometimes referred to as *sweat equity*. AcSEC believes that sweat equity is not at risk by the borrower at the inception of an ADC project. Consequently, AcSEC believes sweat equity should not be considered a substantial equity investment on the part of the borrower in determining whether the ADC arrangement should be treated as a loan.

Accounting Guidance

16. In the interest of more uniformity in accounting for ADC arrangements, AcSEC believes the following guidance is appropriate:

a. If the lender is expected to receive over 50 percent of the expected residual profit, as previously defined, from the project, the lender should account for income or loss from the arrangement as a real estate investment as specified by Statement of Financial Accounting Standards (SFAS) no. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects,"[1] and SFAS no. 66, "Accounting for Sales of Real Estate."[2]

b. If the lender is expected to receive 50 percent or less of the expected residual profit, the entire arrangement should be accounted for either as a loan or a real estate joint venture, depending on the circumstances. At least one of the characteristics identified in paragraph 9, b through e, or a qualifying personal guarantee should be present for the arrangement to be accounted for as a loan. Otherwise, real estate joint venture accounting would be appropriate.

   1. In the case of a loan, interest and fees may be appropriately recognized as income subject to recoverability. Statement of Position (SOP) no. 75-2, "Accounting Practices of Real Estate Investment Trusts,"[3] and the AICPA audit and accounting guide entitled, "Savings and Loan Associations,"[4] provide guidance that may be relevant in those industries in assessing the recoverability of such loan amounts and accrued interest.

   2. In the case of a real estate joint venture, the provisions of SOP no. 78-9, "Accounting for Investments in Real Estate Ventures,"[5] and SFAS no. 34, "Capitalization of Interest Cost,"[6] as amended by SFAS no. 58, "Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method,"[7] provide guidance for such accounting. In particular, paragraph 34 of SOP no. 78-9 provides guidance on the circumstances under which interest income should not be recognized.

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[1] Statement of Financial Accounting Standards (SFAS) no. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects" (Stamford: FASB, 1982).

[2] SFAS no. 66, "Accounting for Sales of Real Estate" (Stamford: FASB, 1982).

[3] Statement of Position (SOP) no. 75-2, "Accounting Practices of Real Estate Investment Trusts" (New York: AICPA, 1975).

[4] Committee on Savings and Loan Associations, "Savings and Loan Associations" (New York: AICPA, 1979).

[5] SOP no. 78-9, "Accounting for Investments in Real Estate Ventures" (New York: AICPA, 1978).

[6] SFAS no. 34, "Capitalization of Interest Cost" (Stamford: FASB, 1979).

[7] SFAS no, 58, "Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method" (Stamford: FASB, 1982).

17. ADC arrangements accounted for as investments in real estate or joint ventures should be combined and reported in the balance sheet separately from those ADC arrangements accounted for as loans.

Other Considerations

18. Transactions have occurred in which the lender's share of the expected residual profit in a project is sold to the borrower or a third party for cash or other consideration. If the expected residual profit in an ADC arrangement accounted for as a loan is sold, AcSEC believes the proceeds from the sale should be recognized prospectively as additional interest over the remaining term of the loan. The expected residual profit is considered additional compensation to the lender, and the sale results in a quantification of the profit. When an ADC arrangement is accounted for as an investment in real estate or joint venture and the expected residual profit is sold, gain recognition, if any, is appropriate only if the criteria of SFAS no. 66 are met after giving consideration to the entire ADC arrangement including the continuing relationship between the financial institution and the project.

19. If the financial institution was the seller of the property at the initiation of the project, gain recognition, if any, should be determined by reference to SFAS no.66.

20. The factors that were evaluated in determining the accounting treatment at inception subsequently change for some ADC arrangements, for example, as a result of a renegotiation of the terms. Consequently, the accounting treatment for an ADC arrangement should be periodically reassessed. An ADC arrangement originally classified as an investment or joint venture could subsequently be treated as a loan if the risk to the lender diminishes significantly, and the lender will not be receiving over 50 percent of the expected residual profit in the project. The lender must demonstrate a change in the facts relied upon when initially making the accounting decision, not just the absence of, or reduced participation in, the expected residual profit. For instance, risk may be reduced if a valid take-out commitment from another lender who has the capability to perform under the commitment is obtained and all conditions affecting the take-out have been met, thus assuring the primary lender recovery of its funds. If the lender on the other hand assumes further risks and/or rewards in an ADC arrangement by, for example, releasing collateral supporting a guarantee and/or increasing its percentage of profit participation to over 50 percent, the lender's position may change to that of an investor in real estate. Neither an improvement in the economic prospects for the project or successful, on-going development of the project nor a deterioration in the economic prospects for the project justifies a change in classification of an ADC arrangement. A change in classification is expected to occur infrequently and should be supported by appropriate documentation. The change in factors in an ADC arrangement should be evaluated based on the guidance in this notice and accounted for prospectively.

21. If an ADC arrangement accounted for as a real estate joint venture continues into a permanent phase with the project generating a positive cash flow and paying debt service currently, income should be recognized in accordance with SOP no. 78-9.

22. Regardless of the accounting treatment for an ADC arrangement, management has a continuing responsibility to review the collectibility of uncollected principal, accrued interest, and fees and provide for appropriate allowances. The auditor should determine whether the allowances provided by management are adequate. In connection with this determination, the auditor should review relevant evidential matter including feasibility studies, appraisals, forecasts, noncancelable sales contracts or lease commitments and information concerning the track record of the developer. In addition, ADC arrangements may involve related parties and the auditor should be aware of such a possibility and design procedures accordingly. Progress information may be less than desirable for the auditor's purpose and may require supplemental procedures. Additional procedures might include on-site inspection of projects or the independent use of experts such as property appraisers or construction consultants to assist in the assessment of the collateral value.

23. Many participations in loans or whole loans are bought and sold by other financial institutions. The accounting treatment for a purchase that involves ADC arrangements should be based on a review of the transaction at the time of purchase in accordance with the guidance in this notice. In applying this guidance, a participant would look to its individual percentage of expected residual profit; for example, a participant who will not share in any of the expected residual profit is not subject to this notice. However, the responsibility to review collectibility and provide allowances applies equally to purchased ADC arrangements. Any reciprocal transactions between institutions, including multi-party transactions, should be viewed in their entirety and accounted for in accordance with their combined effects.

AcSEC Notes Scope of FASB Proposal

AcSEC is concerned that AICPA members may be unaware of the broad scope of the proposed FASB statement "Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans." The scope of the proposed statement includes costs and discounts and premiums associated with acquiring obligations such as bonds, notes or bills that are issued by governments, corporations and trusts in addition to fees and costs associated with originating or acquiring loans. It would apply to the investing and lending activities of all enterprises except when the assets are reported at market value.

An AcSEC issues paper on the subject that was used by the FASB as the basis for an Invitation to Comment was limited to "lending activities by business enterprises that regularly engage in such activities," such as financial institutions.

A copy of the FASB's exposure draft may be obtained prior to the end of the April 30 comment period from the FASB order department, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

Special Committee on Women in Accounting Formed

The AICPA has established a special committee on the upward mobility of women in accounting to recommend strategies to the board of directors to strengthen the upward mobility of women accountants in public practice, industry, government and education.

The nine-member group, headed by Brenda T. Aiken of Bluefield, West Virginia, has identified some of the major issues facing the profession in this area, including

- ☐ Reducing the high cost to firms of turnover due to pregnancy.
- ☐ Developing policies to enable and encourage women to return to work after giving birth.
- ☐ Overcoming traditional barriers that women face in fitting into male upper management teams.
- ☐ Changing stereotypical perceptions of women that may be barring them from moving into upper management.

Member Admonished; Training Specified for Another

At a meeting of a hearing panel of Regional Trial Board IX in Tampa, Florida, on September 17, 1985, Lawless J. Barrientos of Marietta, Georgia, was found guilty of violating the acts discreditable rule of the codes of professional ethics of the Florida Institute of CPAs and the AICPA, and was admonished.

Mr. Barrientos, who was present with counsel at the hearing, requested that the National Review Board review the decision. An ad hoc committee of the National Review Board met on November 13, 1985, and voted that his request be denied. Therefore the Regional Trial Board Hearing Panel's decision, which was stayed pending the outcome of the request for review, became effective on November 13, 1985.

At a meeting of a hearing panel of Regional Trial Board VI on October 24, 1985, Donald E. Bark of Arlington Heights, Illinois, was found guilty of violating the auditing standards rule of the codes of professional ethics of the Illinois CPA Society and the AICPA in connection with his examinations and reports on the financial statements of several Illinois school districts and municipalities. The panel required that the respondent and his full-time auditing staff attend a two-day staff training program on governmental accounting and auditing sponsored by the Illinois CPA Society in April of 1986 and 1987. In addition, it was required that the respondent have his practice undergo a quality review by April 1986 and that he complete at least 50 percent of the CPE courses in accounting and auditing standards that are required by Illinois standards.

Mr. Bark, who was present with counsel at the hearing, did not request a review of the decision, which therefore became effective on November 23, 1985.

Washington Briefs

REA to Require Peer Reviews by Auditors—The Rural Electrification Administration has become the first federal agency to require that all CPAs who audit REA borrowers participate in an approved peer review program for audited financial statements prepared by an REA borrower after December 31, 1987. An amendment to 7CFR Part 1789 (published in the January 21 issue of the *Federal Register*) provides that an approved program include either the mandatory peer review program conducted by the AICPA division for CPA firms or an independent program that meets cited criteria.

In a related matter, the SEC has proposed in Release no. 6592 that registrants disclose in proxy statements "whether or not their independent accountants participate in a professional organization which has both a peer review program and an independent oversight function, both of which are subject to review by the commission," and "whether the auditor, if a member of such an organization, has undergone a peer review, and, if so, the date of the review." Final action has not been taken on the SEC proposal.

IRS Publishes Business Tax Information—The IRS has available a guide to federal tax laws that apply to businesses for use in preparing 1985 income tax returns. *The Tax Guide for Small Business,* publication no. 334 (revised, November 1985) has eight parts covering such areas as tax aspects of accounting for assets used and how to figure business income for tax purposes. A copy can be obtained by calling 800/424-FORM and requesting the specific publication.

Disclosure of Repurchase and Reverse Repurchase Agreements Required—In Release no. 33-6621, the SEC has amended Regulation S-X to require disclosure of the nature and extent of registrants' repurchase and reverse repurchase agreements and the degree of risk involved in these transactions. For further information, call Laurel Bond at 202/272-2997.

IRS Commissioner to Resign—Roscoe L. Egger, Jr., CPA, has announced his intention to resign by the end of April, but not before the end of this year's filing season. Prior to his appointment in 1981, Egger had been a partner with Price Waterhouse.

IRS Advisory Group to Meet—At a meeting scheduled for February 26-27, the IRS Commissioner's Advisory Group will discuss the results of the IRS study on the quality of collection notices and a proposal to revise Form 5500, which is filed for retirement plans maintained by self-employed individuals.

The CPA Letter

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Highlights of AICPA Board of Directors Meeting

At a meeting on February 6-8, the AICPA board of directors

- ☐ Heard a report from the special committee on accountants' legal liability as to the initiatives being undertaken to bring accountants' liability exposure within reasonable limits. Matters being pursued include adopting "several liability" in proportionate liability statutes to replace joint and several liability; making it more difficult for plaintiffs to pursue frivolous suits; retaining the concept of privity (i.e., claims could be brought only by contracting parties rather than unknown third parties); limiting lawyer's contingent fees; and pursuing initiatives to enhance the benefits of incorporation for a broader range of firms.

- ☐ Received a report from the mission committee and agreed to recommend a proposed mission statement for adoption by council.

- ☐ Approved in concept the recommendations of the special committee on standards of professional conduct for CPAs and expressed its views on a number of matters being considered. Tentatively placed the committee's recommendations on the agenda for discussion at the Spring council meeting, subject to further discussion at the April 3-4 board meeting.

- ☐ Approved a recommendation that the AICPA develop a program of examination and accreditation of specialties for adoption by council.

- ☐ Approved proposals to increase the amounts of group term life insurance offered through the AICPA-sponsored program, and to reduce coverage if a participant ceases to be a member of either a state CPA society or the AICPA.

- ☐ Approved a position opposing creation of a federal self-regulatory organization for personal financial planners and requested further refinement by the state legislation committee of a position paper opposing state licensing of such individuals.

- ☐ Indicated concurrence with the advertising program developed and paid for by the division for CPA firms, which will end in early April, and recommended that the division give consideration to concerns expressed by some Institute members if any future advertising program is to be developed.

- ☐ Approved a series of recommendations to be made to the federal government that would be responsive to findings of the GAO that substantial improvement is needed in the quality of audits of state and local governments and nonprofit organizations administering federal grant programs; specifically agreed to recommend that those involved in such audits (a) complete CPE courses in the unique aspects of auditing and reporting on federal financial assistance programs, (b) agree to have the AICPA report the status and disposition of an investigation triggered by an inspector general of a department or agency involved, (c) participate in an approved peer review program similar to the requirement in the program recently adopted by the Rural Electrification Administration.

IFAC Approves Two Statements on Ethics

The International Federation of Accountants has approved for publication next month two statements of guidance prepared by the IFAC ethics committee.

Ethics in Tax Practice (SGE 9) provides guidance on the ethical principles to be followed when an accountant performs professional tax services for a client. The statement holds that an accountant is entitled to put forward the best position in favor of a client, provided that the service is rendered with professional competence and that it does not in any way impair the accountant's standards of integrity and objectivity and is consistent with the law. It also prescribes the responsibility of an accountant when a material error or omission is discovered in a client's tax return for a prior year or when it is determined that a client has failed to file a required tax return.

Incompatible and Inconsistent Businesses, Occupations or *Activities* (SGE 10) provides that an accountant should not concurrently engage in such areas that would be incompatible with the rendering of public accountancy services.

A business, occupation or activity should be considered inconsistent and therefore incompatible when it

☐ Creates or might create a conflict of interest with existing clients.
☐ Impairs or might impair integrity, objectivity or independence in rendering professional services to clients.
☐ Impairs or might impair, to a material extent, the ability to provide professional services to the general public.
☐ Impairs or might impair the good reputation of the profession.

IFAC is the world organization for the accountancy profession dedicated to the international harmonization of standards. Its membership consists of 97 professional accountancy bodies from 70 countries.

Copies will be available from the AICPA order department at $2.50 each ($2.00 to members). Product nos. are 019685 and 019690, respectively. (Telephone: 212/575-6246.)

CPA Funds Accounting School

The University of Florida has renamed its School of Accounting the Fisher School of Accounting in honor of CPA Frederick Fisher and his wife, Patricia, whose recent gift of a portfolio of securities, valued at $6.5 million, is the largest individual contribution ever made to a Florida university.

According to Fisher, while the legislature is sympathetic to university needs, the future remains uncertain and the overall goal of the gift is to aid the university in planning for long-term excellence.

Formerly a partner in the accounting firm of Fisher, Morrison & Company in Clearwater, Fisher has more recently been involved in real estate, particularly as vice-chairman and chief financial officer of U.S. Home Corporation, a national leader in construction of single-family homes.

New IASC Member Named

John F. Chironna, director of accounting for IBM–Europe, has been named to the board of the International Accounting Standards Committee. Chironna, a former national vice-president of the National Association of Accountants, had been chairman of its management accounting practices committee. He replaces Ralph Harris as the industry representative and joins Ralph Walters as the other U.S. representative on the IASC board.

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William J. Corbett
Vice President–Communications

Roderic A. Parnell
Executive Editor

AcSEC Meeting Highlights

At its recent meeting in New York, the accounting standards executive committee took the following actions among others:

- ☐ Approved two statements of position for issuance, subject to negative clearance by AcSEC and review by the FASB: "Reporting Repurchase–Reverse Repurchase Agreements and Mortgage-Backed Certificates by Savings and Loan Associations" and "Accounting for Asserted and Unasserted Medical Malpractice Claims of Health Care Providers and Related Issues."
- ☐ Approved letters of comment to the Governmental Accounting Standards Board on its August 20, 1985, exposure draft, "Disclosure of Defined Benefit Pension Information for Public Employee Retirement Systems and State and Local Governmental Employers," and on the October 21, 1985, discussion memorandum, "Accounting and Financial Reporting for Special Assessments."
- ☐ Discussed two draft issues papers, "Computer Software Revenue Recognition" and "Distribution Fees of Mutual Funds."

Fraud Commission Completes Advisory Board

The National Commission on Fraudulent Financial Reporting has completed the composition of its 12-member advisory board with its appointment of the following five members:

- ☐ Philip B. Chenok, president of the AICPA;
- ☐ James J. Leisenring, director of research and technical activities, Financial Accounting Standards Board;
- ☐ Richard M. Phillips, Kirkpatrick & Lockart;
- ☐ Frank S. Sato, inspector general, Veterans Administration;
- ☐ Jerry D. Sullivan, Coopers & Lybrand.

The seven other members, whose appointments were previously reported, are Donald R. Baker, William G. Bishop III, William J. Duane, Jr., P. Norman Roy, Robert J. Sack, A. Clarence Sampson, Jr., and Doyle Z. Williams.

At its meeting last month, the commission's primary topic for discussion was the self-regulation of the public accounting profession. In this connection, it heard from representatives of Price Waterhouse, the AICPA, the Public Oversight Board and the SEC. A draft of its report on the overall issues is expected to be available for exposure by the end of November, with a final report to be issued in the first quarter of 1987.

Member Expelled; Another Suspended

The membership of Solomon Weiss of Hillside, New Jersey, has been terminated and that of Arthur R. Kupperman of Newark, New Jersey, has been suspended under the automatic provisions of the AICPA bylaws. They provide that membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year and shall be terminated in like manner upon the similar filing of a final judgment of conviction.

- ☐ The membership of Mr. Weiss was terminated on November 18, 1985, following receipt by the secretary of evidence that his judgment of conviction of racketeering, perjury and mail fraud had become final following unsuccessful appeal. Mr. Weiss had been suspended from Institute membership on August 13, 1984, because of this conviction in a U.S. District Court which was then being appealed (see November 26, 1984, *Letter*).

- ☐ Mr. Kupperman's membership was suspended on November 1, 1985, pending appeal of a judgment of conviction in a New Jersey Superior Court of second-degree theft.

Interpretation Issued on Completeness Assertion

The AICPA's auditing standards division has approved an auditing interpretation, *The Auditor's Consideration of the Completeness Assertion*, the text of which will appear in the April issue of the *Journal of Accountancy*.

An interpretation of Statement on Auditing Standards no. 31, *Evidential Matter*, it holds that management's representations about the completeness assertion, whether considered alone or in combination with the auditor's reliance on internal accounting controls, do not constitute sufficient audit evidence to support that assertion. Obtaining such representations complements but does not replace other auditing procedures that the auditor should perform. The interpretation then provides guidance to the auditor in obtaining evidence about the completeness assertion.

Effect of FASB Statement no. 87 on Consistency

Many companies will have a change in accounting principle as a result of implementing FASB Statement no. 87, *Employers' Accounting for Pensions*. SAS no. 1, *Consistency of Application of Generally Accepted Accounting Principles*, section 420, requires the auditor's opinion to be modified for consistency when there is a change in an accounting principle having a material effect on the financial statements.

According to the AICPA's auditing standards division, if the change is made on a piecemeal basis as permitted by FASB Statement no. 87 and each change is material, the auditor should modify his report as to consistency for each change. If the change does not have a material effect in the year it is made but may be expected to have such an effect in the future, no consistency modification is required in the auditor's report, but disclosure of the change nevertheless should be made in the notes to the financial statements.

GASB Deferred Compensation Statement Out

Statement no. 2, *Financial Reporting of Deferred Compensation Plans Adopted under the Provisions of Internal Revenue Code Section 457*, has been released by the Governmental Accounting Standards Board.

The statement requires that, for employees using governmental fund accounting, Internal Revenue Code (IRC) Section 457 deferred compensation plan balances be displayed in an agency fund of the governmental employer that has legal access to the resources, whether the assets are held by the employer, a public employee retirement system (PERS), a nongovernmental third party or another governmental entity under a multiple-jurisdiction plan. Government public utilities and public authorities should report the liability in the balance sheet with a corresponding designated asset.

Note disclosure is required of (a) the requirement of IRC Section 457 that the assets in the plan remain the property of the employer until paid or made available to participants, subject only to the claims of the government's general creditors, and (b) the government's fiduciary responsibilities under the plan.

According to GASB Chairman James F. Antonio, "Currently, financial reporting practices for deferred compensation plans vary widely because of the different perceptions or interpretations of the relationship that exists between the governmental entity and the funds held for plan participants."

The effective date of the statement is for financial statements for periods ending after December 15, 1986.

The board expects to come out next month with a final statement on deposits, reverse repurchase agreements and investments.

Previewing the forthcoming statement, Antonio said, "The disclosure requirements focus primarily on the credit risk, although some measure of market risk will be required. State and local governments will be required to disclose, as of the balance sheet date, whether their deposits and investment balances are insured or collateralized and, if collateralized, where the collateral is being held."

FASB to Provide Guidance on Regulated Industries

At its February 5 meeting, the FASB agreed to provide guidance on how to report the accounting change that results from discontinuing application of FASB Statement no. 71, *Accounting for the Effects of Certain Types of Regulation.*

The board tentatively concluded that, ideally, the accounting entry that results from discontinuing application of Statement no. 71 should result in a balance sheet, at the date of the change, that reflects assets, liabilities and shareholders' equity as they would be if Statement no. 71 had never been applied. The board also tentatively agreed that the net effect of the change should be included in net income as an extraordinary item in the period of the change.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

There will be an open meeting of the accounting standards executive committee on March 18-20 in the AICPA boardroom, New York, starting at 8:30 a.m. the first day. The tentative agenda includes the following:

- ☐ Using Lifo in the Income Statement While Using Fifo in the Balance Sheet (consider issues paper).
- ☐ Transfers of Lifo Inventories (consider notice to practitioners).
- ☐ Airlines (discuss accounting issues under consideration in the revision to the airline guide).
- ☐ Regulated Enterprises (consider comment letter on proposed FASB standard).
- ☐ Nonrefundable Loan Fees (consider comment letter on proposed FASB standard).
- ☐ Real Estate Practice Problems (consider letter to FASB).

The next meeting is scheduled for May 6-8 in Washington, D.C.

Auditing Standards

An open meeting of the auditing standards board will be held in New York in the AICPA boardroom on March 4, starting at 9:30 a.m., and in the Hemisphere Club of the Time and Life Building on March 5, starting at 9:00 a.m. The agenda is as follows:

Tuesday, March 4

A.M. —Reporting on Financial Statements Used in Other Countries (consideration of draft for publication).

P.M. —Analytical Review Procedures (discussion of preliminary draft).

Wednesday, March 5

A.M. —Internal Accounting Control: Revisitation of Section 320 (preliminary discussion of subject).

P.M. —Errors, Irregularities and Illegal Acts (preliminary discussion of subject).

The next meeting of the board is scheduled for April 21-23 at Amelia Island, Florida.

Professional Ethics

The professional ethics executive committee will hold an open meeting on March 18 in Orlando, Florida, at the Wyndham Hotel, starting at 9:30 a.m.

The following items will be considered for exposure:

- ☐ Ruling no. 64 under ET Section 191—Joint Investment with a Promoter and/or General Partner.
- ☐ Modification to Interpretation 502-2—False, Misleading, or Deceptive Acts: Testimonials and Endorsements.
- ☐ Interpretation 501-2—GAAP Assurance by Member Not in Public Practice.
- ☐ Ruling no. 66 under ET Section 191—Use of CPA Designation by Member in Industry.
- ☐ Modification to Interpretation 201-3—Request for Advice on Accounting or Auditing Standards.
- ☐ Modification of Interpretation 201-2—Forecasts.
- ☐ Interpretation 201-4—Definition of the Word Engagement As Used in Rule 201: General Standards.
- ☐ Ruling no. 182 under ET Section 591—Termination of Engagement Prior to Completion.
- ☐ Ruling no. 183 under ET Section 591—Sale of Computer Products.

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

Washington Briefs

Feature of Gramm-Rudman Law Found Unconstitutional—A panel of the U.S. District Court for D.C. has ruled that the automatic budget-cutting mechanism of the Gramm-Rudman law is unconstitutional. This feature has a provision that automatically results in the issuance of a presidential order that would cut funds across the board without congressional involvement. The U.S. Supreme Court is expected to act soon on an appeal.

IRS Issues Temporary Regulations on Employee Benefit Provisions of 1984 Tax Act—The IRS published in the February 4 *Federal Register* a notice of temporary regulations, "Income, Excise and Estate Gift Taxes; Effective Dates and Other Issues Arising Under the Employee Benefit Provisions of the Tax Reform Act of 1984." The regulations will affect qualified employee benefit plans, welfare benefit funds and employees receiving benefits through such plans and will serve as the comment document for a notice of proposed rule making. For information on specific provisions, call the appropriate attorney listed in the same issue of the *Federal Register* or write, Office of Chief Counsel, IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224 (Attn: CC:LR:T).

Extension of Expired Tax Breaks Expected—The House Ways and Means Committee is expected to start drafting late this month a tax bill that will temporarily extend a laundry list of tax provisions that expired at the end of 1985 (see December 23, 1985 *Letter*).

Back to School for Enrollees, Says Treasury—Final rules (published in the January 22 *Federal Register*) specify the number of continuing education credits required by individuals enrolled to represent clients before the IRS based on the renewal dates of their enrollments. The Treasury said the need for a reeducation program is "manifest" and points out that "our federal laws and procedures are volatile and dynamic."

Auto Hearing on March 3—A hearing has been set for March 3 on the proposed and temporary regulations requiring taxpayers to keep records substantiating deductions and credits claimed for a company automobile, personal computer and other property that can be used for both business and personal purposes.

CPA Appointed to Presidential Commission—James E. Seitz of Touche Ross & Company has been appointed to the President's Commission on White House Fellowships. The group does the final screening and makes recommendations to the President, who appoints 13-15 individuals annually who serve for a year in various government positions.

The CPA Letter
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The CPA Letter

A Semimonthly News Report Published by the AICPA

Issues Paper on Credit Losses Released

An issues paper, *Accounting for Estimated Credit Losses on Loan Portfolios*, is now available from the AICPA's order department. Prepared by the accounting standards division, the paper considers accounting issues related to estimated credit losses of loan portfolios held by enterprises. However, those credit losses resulting from the sale of goods or services by any entity within a reporting group are excluded. Issues discussed include

- ☐ When the amount of estimated credit losses should be recognized;
- ☐ How changes in estimated credit losses should be accounted for;
- ☐ Whether an additional loss should be recognized in the current period if identified probable losses to date exceed the amount of estimated credit losses recognized to date; and
- ☐ How loans receivable and estimated credit losses should be presented in the balance sheet.

Product number is 830484, and price is $3.50; $2.80 to members. The Institute's order department number is 212/575-6426.

GASB Proposes Bulletin on Applicability of Pension Statement

A technical bulletin on the applicability to state and local governmental units of FASB Statement no. 87, *Employers' Accounting for Pensions*, is under consideration by the Governmental Accounting Standards Board. The proposal recommends that state and local governmental units not change their pension accounting and reporting as a result of FASB Statement no. 87 because the GASB expects to issue one or more statements on pensions in the near future.

Such statements would apply to all governmental employers and, according to GASB Director of Research Martin Ives, "The board believes that needless confusion would result from applying FASB Statement no. 87 and shortly thereafter applying a GASB statement on the subject."

FASB Sets Open Meeting on Emerging Issues

The Financial Accounting Standards Board's task force on emerging issues is holding an open meeting on March 13-14 in the Rainbow Room of the Sheraton Stamford Hotel and Towers in Stamford, Connecticut, starting at 9:00 a.m. each day.

Among the topics that may be discussed are the following:

- ☐ Discontinued operations with expected gain and interim operating losses.
- ☐ Amortization of goodwill resulting from recording time savings deposits at fair values.
- ☐ Sale-leaseback with repurchase options.
- ☐ Net operating loss carry-forwards.
- ☐ Retroactive regulations regarding Internal Revenue Code section 338 purchase price allocations.
- ☐ Dividends paid to employee stock ownership plans.
- ☐ Antispeculation clauses in real estate sales contracts.
- ☐ Recognition by homebuilders of profit from sales of land and related construction contracts.
- ☐ IRC section 338 and push-down accounting.

FHLBB to Amend Bulletin

Last fall, the Federal Home Loan Bank Board issued Bulletin PA-7a-3, which sets forth procedures the independent auditor must perform regarding an FSLIC-insured institution's compliance with the Bank Secrecy Act.

After discussions with the AICPA's savings and loan associations committee, the FHLBB agreed that the provisions of the bulletin were too broadly written. Therefore, the bank board has issued an "alert" memorandum stating that the language is too broad to convey the intended guidance effectively and that the bulletin is being revised for release in the near future.

Until the amended bulletin is available, questions should be directed to Deputy Director Robert J. Moore at the board's office, 1700 G Street, N.W., Washington, D.C. 20552 (202/377-6480).

Minority Scholarships Awarded

Eighty-one minority undergraduate and graduate students at 51 schools have received scholarships from the AICPA for the second semester of the 1985-86 academic year. Since the scholarship program began in 1970, the Institute has awarded over $2.6 million in aid to some 2,800 students.

The $33,750 granted to minority accounting students this term is in addition to the $247,250 granted to 317 students last semester. Of the most recent awards, five students were recipients of RCA–AICPA scholarships and ten received General Mills–AICPA awards.

The scholarships, designed to encourage minority individuals to enter the accounting profession by making accounting education accessible to as many eligible students as possible, are offered twice each year by the Institute. For further information about the program, contact Sharon Donahue at the AICPA (212/575-7641).

Insurance Trust Approaches $24 Billion

Life insurance in force under the AICPA's CPA Plan and Group Insurance Plan increased by approximately $3 billion in 1985, bringing total coverage in force to almost $24 billion. Only some 4 percent of the life insurance companies in the United States have a larger volume in force, according to leading industry publications.

The maximum amounts of life insurance available are $300,000 under the CPA Plan (for individual CPAs) and $150,000 per person in the Group Insurance Plan (for public accounting firms).

Literature concerning the CPA Plan was mailed recently to AICPA members who are also members of one of the 53 state societies of CPAs that sponsor the plan. Any such member who did not receive this material or who desires additional information should write or call the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158 (800/223-7473—in New York, call collect, 212/661-9000—ask for extension series 406).

How's Your Tax Season?

The tax administration subcommittee of the AICPA tax division would like to know how your tax season is progressing. What is the IRS doing better, what worse? What should it be doing that it isn't? Please send your comments to Edward S. Karl, tax administration subcommittee, AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006.

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William J. Corbett
Vice President–Communications

Roderic A. Parnell
Executive Editor

California Court Permits Third Party Suits

A three-judge panel of the California Court of Appeals is the latest court to address the subject of third party liability of accountants. It reversed a lower court opinion that held that third parties could not collect damages simply because the accountant was negligent in performing the audit of an organization.

In previous rulings, courts in New Jersey and Wisconsin had also granted to third parties the right to sue accountants for damages related to negligent audits.

A contrary position was taken last summer when the New York Court of Appeals (the state's highest court) upheld the more than 50-year old *Ultramares* decision, which held that an accountant may not be held liable, absent privity of contract, to a party who suffers a loss after relying on a negligently prepared financial report. It also reaffirmed the criteria against which accountants' liability to third parties is measured.

The New York decision was in keeping with the AICPA position reflected in an amicus curiae brief filed earlier.

FASB Reaches Tentative Decisions on Stock Compensation, Income Taxes

At its February 19 meeting, the Financial Accounting Standards Board tentatively concluded that compensation cost for employee stock purchase plans that allow variable purchase prices should be measured as the difference between the market price of the stock at the date of purchase and the amount paid by the employee. For employee stock purchase plans with a fixed purchase price, compensation cost should be measured at the date of grant, using the minimum value model and an estimated number of shares that will be purchased. This must be adjusted to reflect the actual number of shares purchased.

The board also tentatively decided that the provisions specified in paragraph 11(f) of APB Opinion no. 25, *Accounting for Stock Issued to Employees*, should continue to apply to employee stock compensation plans involving convertible stock and that compensation cost should be measured as the difference between the fair value of the convertible debenture and the amount paid by the employee to plans involving convertible debt.

On another matter, the board discussed requirements for the adoption of the board's tentative conclusions on accounting for income taxes. The board favors permitting retroactive restatement of previously issued financial statements. If the financial statements for all years presented are not restated, the cumulative effect of applying the statement should be included in determining net income for the year in which the statement is first applied.

The board reaffirmed an earlier decision that the ability to control the reversal of differences between financial and taxable income does not provide a basis for failing to recognize a liability for the deferred tax consequences of those differences.

Program Set for Industry Conference

Final arrangements have been completed for the AICPA's 1986 National Industry Conference. It will be held in Dallas, Texas, on April 17-18 at the Loews Anatole.

The purpose of the conference is to prepare the CPA in industry for decisions in such key areas as taxes, financial reporting, human relations, cash management and executive techniques. A series of eighteen lectures (most of which will be repeated) will enable the CPA to choose those topics most closely related to the participants' interests. Also, plenary sessions and luncheons will feature talks on

- ☐ "Reinventing the Corporation"—Patricia Aburdene, co-author with John Naisbitt of the book of the same name.
- ☐ "Personal Goal Setting"—Roger Staubach, head of the Staubach Company.
- ☐ "What's So Smart About Working Late?"—Kathy Kolbe, president of Resources for the Gifted, Inc.
- ☐ "The Outlook for the Economy"—Paul Erdman, economist and author.

A brochure has been sent to AICPA members in industry. For further information, contact the meetings department at 212/575-6451.

Washington Briefs

IRS Loosens Reins on CD Reporting—Requirements that financial institutions and other issuers of certificates of deposit with original-issue discount file specific information on Form 8281 have been temporarily withdrawn by the IRS. Until regulations are released in the near future, the IRS said that issuers of these obligations must comply with the less stringent information provisions under tax code section 6049.

More Refunds Approved, Says IRS Commissioner—According to Commissioner Roscoe L. Egger, Jr., the IRS has so far approved nearly twice as many tax refunds as it had last year at this time; 672,000 refunds were certified as of February 7. Subsequently, the commissioner proposed to the House Appropriations Subcommittee a supplemental request for fiscal year 1986 of 6,950 positions and $340 million "to get tax administration back on a sound foundation." In a separate matter, John Wedick, assistant IRS commissioner for planning, finance and research, said that the IRS expects next year to expand its test program that enables taxpayers to file electronic copies of their returns to include all types of Form 1040 individual returns. He said that the program may be further expanded to 32 million individual and corporate taxpayers by 1991, although the present system is not designed to handle corporate returns.

Completed-Contract Method Restrictions Urged—In a recently released report, "Congress Should Further Restrict Use of the Completed-Contract Method," the General Accounting Office states that in its review of 135 contractors most of the contractors "used the completed-contract method of accounting to report long-term contract income to the IRS and a different method—primarily the percentage-of-completion method—to report income for public financial accounting purposes." The report concludes that "the use of the completed-contract method of accounting should not be allowed except for those contractors who can satisfactorily demonstrate to the IRS that they cannot obtain reasonably dependable estimates of the costs to complete [or to evaluate] the extent of progress toward completion of a particular contract." Copies of the report, GAO/GGD-86-34, are available from the GAO by calling 202/275-6241.

CPA Reappointed to Presidential Commission—AICPA member David W. Christopher has been reappointed to the President's Commission on Executive Exchange for a two-year term. The commission oversees an exchange program in which executives in the public and private sectors are placed in positions in the opposite sector for one year.

The CPALetter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

Editor's Note

Three items in this issue should be of particular concern to CPAs, all of them centered in Washington.

Congressman Jack Brooks (D-Tex.) held a hearing at which he said the frequency of unsatisfactory CPA audits of federally assisted programs is "unacceptable." (See page 3.)

Congressman John D. Dingell (D-Mich.) is expected to extend his probe of the accounting profession for at least another year. (See page 4.)

Former AICPA Board Chairman, Ray J. Groves urges major changes in liability insurance programs before a House subcommittee. (See page 4.)

Conference Set on SEC and Financial Reporting

The SEC and Financial Reporting Institute has announced a one-day conference to be held on May 13 at the Bonaventure Hotel in Los Angeles.

In addition to reports on current developments at the SEC and in the private sector, sessions will include discussion of the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) program and enforcement actions in accounting. Featured speakers will be James C. Treadway, Jr., chairman of the National Commission on Fraudulent Financial Reporting, and Commissioner Joseph A. Grundfest of the SEC. Others on the program include Walter P. Schuetze, chairman of the AICPA accounting standards executive committee, and Jerry D. Sullivan, chairman of the AICPA auditing standards board.

The all-inclusive registration fee is $240. For further information, contact Professor Jerry L. Arnold, School of Accounting, University of Southern California, Los Angeles, Calif. 90089-1421 (213/743-8789).

New Publications from Auditing Standards Division

Codification of Statements on Auditing Standards nos. 1 to 49 (including the statement on financial forecasts and projections) is a reprint of the auditing part of the loose-leaf edition of *AICPA Professional Standards*. It also includes auditing interpretations issued by the AICPA staff.

Copies are available from the order department at $16.00; $12.80 to members (212/575-6426). Product no. is 058976.

An ASD study group under the chairmanship of Richard M. Steinberg of New York has issued an auditing procedures study, *Auditors' Use of Microcomputers*, which is designed to familiarize practitioners with ways that microcomputers are being used on audit engagements. Its objectives are

- ☐ To make practitioners aware of what kinds of microcomputer software can assist in performing an audit;
- ☐ To provide practitioners with a basic understanding of what the typical software applications do and how they work;
- ☐ To provide information about the complexity and applicability of the various uses; and
- ☐ To make practitioners aware of issues to consider when selecting microcomputer software and in using it properly.

Copies are available from the order department at $6.50; $5.20 to members. Please specify Product no. 021030.

Upcoming Conferences

National Tax Education Program—All past participants in the AICPA's annual National Tax Education Program will be given a $100 discount when they register for a more advanced unit of this five-unit series. Others who register before April 18 will receive a $50 discount on the registration fee.

The program at the University of Illinois, Urbana, opens with Unit I—Basic, June 15-20; followed by Unit II—Basic, June 22-27; Unit III—Intermediate, July 13-18; Unit IV—Intermediate, July 20-25; Unit V—Advanced, July 27-August 1.

For detailed information call 800/AICPANY; in New York State, 212/575-5696.

Annual PCPS Conference—The private companies practice section of the division for CPA firms will hold its eighth annual conference on May 4-6 at the Hyatt Regency Grand Cypress, Orlando, Florida.

The program will provide discussions on current technical topics and sessions on how to apply modern management and marketing techniques to achieve your firm's greatest potential. Sam M. Gibbons (D-Fla.), senior Democratic member of the House Ways and Means Committee, will be the luncheon speaker, and he will direct his remarks to current tax reform proposals.

Small Firm Conference—In order to accommodate the expected attendance, the AICPA will hold its sixth annual Small Firm Conference on two different dates at two different locations—on August 21-22 at the Seattle Sheraton Hotel, Seattle, and on September 18-19 at the Waverly Hotel, Atlanta.

The program, developed by the Institute's management of an accounting practice committee, features the same topics and speakers at each site and focuses on the interests and problems common to small firms, especially sole practitioners and firms with two or three partners.

For further information, call Rob Gannon at the AICPA, 212/575-3826.

Controllership II—The AICPA industry committee will present its second seminar in the five-part controllership series at the Loews Anatole in Dallas on April 16, the day before the National Industry Conference (see March 10 *Letter*) convenes at the same site.

Three aspects of human relations will be discussed: management skills for success in a financial environment, five practical guidelines for motivating the marginal employee, and building and maintaining credibility.

The other three controllership presentations will be on data processing and information systems (June 18, Atlanta), asset management (July 17, Chicago) and inventory and production control (September 18, New York).

For information on this series or on the industry conference, contact Lloyd Bosca at the AICPA, 212/575-6437.

Postage Reminder to *Letter* Readers

AICPA members who would like to start receiving the *Letter* by first-class mail should send their checks for $5.60 to the Institute's circulation department as soon as possible. This sum, a proration of the annual charge of $6.50, will assure them of first-class mail delivery for the period from April 28, 1986, through February 28, 1987. Otherwise, their copies will be sent at the usual lower-class rate. Those who had previously elected to take advantage of this service were billed accordingly.

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CONGRESSMAN CONCERNED OVER FEDERAL GRANT AUDITS

A leading congressman expressed concern over CPA audits of federal grant funds at a hearing of the Legislation and National Security Subcommittee of the House Government Operations Committee on CPA Audits of Federal Grant Funds on March 19. Chairman Jack Brooks (D-Tex.) said that the "General Accounting Office's work has documented serious and widespread deficiencies in CPA audits of grant funds. The findings also make it clear that the public accounting profession is facing a crisis situation. Congress simply will not tolerate continued sloppy, unprofessional, substandard CPA audits of federal grant funds."

In citing the need for "decisive corrective actions to dramatically improve the quality of these audits," Congressman Brooks said, "Failure to achieve such improvements would force the Federal Government to reconsider its policy of relying on audits performed by CPA firms."

Chairman Brooks then called upon Charles A. Bowsher, comptroller general of the United States, to report on the latest GAO study, which concluded that 34 percent of the governmental audits performed by CPAs did not satisfactorily comply with standards. Based on the sample surveyed, the GAO estimates that 2,200 of 6,420 audits of grants in fiscal 1984 were unsatisfactory. More than half of the unsatisfactory audits had "severe standards violations." The two biggest problems in performing governmental audits, according to Bowsher, were insufficient audit work in testing compliance with governmental laws and regulations and in evaluating internal accounting controls including controls over federal expenditures. He said that these findings were consistent with those identified in the GAO's December report (see January 1986 *Letter*).

Smaller firms had more problems than larger ones as evidenced by the frequency of unsatisfactory reports—15 percent by firms with 50 or more partners, 45 percent by firms with fewer than 50 partners.

The latest GAO report suggests that the accounting profession take the following actions:

- ☐ Strengthen enforcement efforts through positive enforcement programs and referral of substandard audits to disciplinary bodies which should act promptly and decisively;
- ☐ Broaden requirements for continuing professional education to include a specified level of governmental accounting and auditing for CPAs performing governmental audits;
- ☐ Require governmental audits to be included in peer reviews;
- ☐ Place greater emphasis on governmental accounting and auditing in the uniform CPA examination;
- ☐ Include governmental audits in CPA firms' internal reviews of their audit quality; and
- ☐ Seek expansion of college curricula to include greater attention to the nature and performance of governmental accounting and auditing.

Bowsher concluded his remarks by stating there is no single solution to these problems and many organizations have a role. However, the public accountant, through the Single Audit Act, has a key role in meeting the rising expectations of public accountability.

Following Bowsher's remarks, Board Chairman Herman J. Lowe, testifying on behalf of the AICPA, generally agreed with the objectives to improve audit quality in the governmental area, presented three recommendations approved by the AICPA board of directors last month and reviewed some of the Institute's activities designed to improve audit quality in meeting the provisions of the Single Audit Act.

In presenting the Institute's recommendations, Lowe said that they involve requirements that would be implemented through the process of engaging auditors and involve education, evaluation and enforcement. Therefore, as a condition of accepting an engagement to audit a recipient of federal financial assistance under the act, auditors should be required to

- ☐ Complete continuing education courses in the unique aspects of auditing and reporting of federal financial assistance programs;
- ☐ Agree to have the AICPA report the status and disposition of an investigation triggered by an inspector general;
- ☐ Participate in an approved peer review program similar to the requirement in the program recently adopted by the Rural Electrification Administration.

Some of the actions taken by the Institute in the areas of education of auditors, evaluation of audit quality and enforcement of standards cited by Lowe included, publication of an audit guide on audits of state and local governmental units; presentation of training programs throughout the country on the Single Audit Act, circulation to the members of the findings of the December 1985 GAO study; and expansion of the peer review program of the division for CPA firms to include examination of governmental audits.

Accompanying Chairman Lowe were AICPA President Philip B. Chenok; Harold I. Steinberg, chairman of the AICPA task force on quality of audits of governmental units; Thomas P. Kelley, AICPA group vice president—professional; and Theodore C. Barreaux, AICPA vice president—Government Relations.

The final witness was Thomas Iino, president of the National Association of State Boards of Accountancy, who described the role of his organization and cited some steps being taken to improve audit quality. "NASBA," he said "is a federation of state licensing agencies and is a manifestation of the fact that the licensing of public accounting practitioners, and to a significant degree the regulation of public accountancy, are matters governed by state laws and state governmental agencies."

NASBA, he said, has been encouraging state boards to adopt a positive "proactive" program of enforcement. To date, 13 states have such a program in force and 22 others have it under consideration.

In response to a question as to why the state boards have not done more, Iino replied that it was basically a matter of resources—finding sufficient qualified volunteers or staff aides.

In concluding the hearing, Chairman Brook said that, although progress is being made, there is no doubt that there are serious problems in the quality of governmental audit audits and, "if the accountants can't solve them, somebody else will. A word to the wise is sufficient." He indicated that he would be calling the witnesses back again to see what improvements have been made.

Other members on the hearing panel were Congressmen Joseph J. DioGuardi, CPA (R-NY), Frank Horton (R-NY) and James Saxton (R-NJ).

Accounting Inquiry Extended

An investigation of the accounting profession and the oversight roles of the SEC and other federal agencies by a House oversight subcommittee will continue for another year or two, according to a key subcommittee aide.

In a recent speech, Michael F. Barrett, Jr., chief counsel of the Oversight and Investigations Subcommittee of the House Energy and Commerce Committee chaired by Congressman John D. Dingell (D-Mich), said "our inquiry to date has been most fruitful, but there are many more things into which we should inquire."

Among the problems he cited were financial reporting by defense contractors, accounting for banks and savings and loan institutions and their regulation by federal agencies.

He said that possible conflicts of interest that may arise when an auditor supplies management advisory services to an audit client will be pursued. Responses to last year's survey of the 16 largest CPA firms on MAS were incomplete, he said, but informative.

In concluding his remarks, Barrett said, "The subcommittee will review the results of the Treadway commission's study. It will watch the SEC to see that it exercises the authority it now has to override regulatory accounting and we are working on a number of recommended regulatory proposals in the defense contractor area."

AICPA Urges Liability Insurance Reform

"The current liability climate poses a great threat to the economic viability of the accounting profession and its ability to continue to serve the public need for competent and objective financial reporting." So said Ray J. Groves, former AICPA board chairman, in testimony scheduled for delivery on March 24 before the Oversight Subcommittee of the House Ways and Means Committee headed by Congressman J. J. Pickle (D-Tex.).

Groves, who is chairman of the AICPA's special committee on accountants' legal liability cited two reasons for the "dramatic increase" in the number and size of legal claims against accountants: the "deep pocket" syndrome and the increasing tendency of courts to look to those associated with the events at issue to provide recovery regardless of the degree or proportion of fault of the individual defendants. "Malpractice insurance rates for accounting firms increased from 200 percent to 400 percent in 1985 and some insurance programs have been withdrawn," said Groves.

To deal with this situation, Groves' committee has focused on several major areas that need reform. They include

- ☐ Proportionate liability—Replace "joint and several" liability with "several" liability, whereby a defendant would not have to pay more than a proportionate share of a claimant's loss.
- ☐ Privity—Deny third parties with whom the accountant has no contractual or other relationship the right to sue.
- ☐ Frivolous Suits—These affect many occupations and contingent fee arrangements encourage lawsuits against "deep pocket" defendants.
- ☐ RICO—The AICPA has been actively seeking changes because, contrary to the intent of Congress, this statute has federalized a wide variety of local commercial disputes.

IASC Approves Three Proposals for Exposure

At its March meeting, the board of the International Accounting Standards Committee moved ahead with three proposed IASC statements. It approved an exposure draft, *Accounting for Investment in Associates and Joint Ventures,* for release on July 1 with a comment period ending December 31, 1986. Preliminary exposure drafts on liabilities and owner's equity were approved for distribution to member bodies. Following their comments, exposure drafts of these proposed statements are expected to be issued.

Small Business Week Proclaimed

In proclaiming the week of May 18 through May 24, 1986, as Small Business Week, President Reagan noted that "nothing characterizes the American economy better than our 14 million small businesses." He went on to say that "the recommendations prepared by the delegates to the National White House Conference in August will help us in formulating a small business agenda designed to make sure our economy continues to grow and to prosper."

In a related matter, the conference issued its "midway" report based on the results of 33 of the scheduled 57 state-level conferences. In discussing the results, then Executive Director Jack Courtemanche said, "It's evident that small business men and women everywhere are faced with the same problems and have the same overall concerns."

Among the major concerns addressed by the state-conference participants were product liability and liability insurance reform, federal spending and tax reform, Social Security reform and privatization.

Courtemanche has since been appointed chief of staff to Mrs. Reagan, and the successor to his conference position is expected to be announced soon. Until then, Catherine Sands Hiler, formerly Courtemanche's executive assistant, will serve as acting executive director.

The national conference will be held in Washington, D.C., on August 17-21.

U.N. Review of Accounting Issues Released

The United Nations Center on Transnational Corporations has recently published *International Accounting and Reporting Issues: 1985 Review*. This 141-page report contains a review of the issues considered by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting during its third session in March 1985.

The working group is meeting again this month to discuss, among other matters, information to be provided in financial statements on foreign direct investment; accounting for property, plant and equipment; and accounting for investments, including joint ventures and revenue recognition.

Copies of the U.N. review (sales no. E.85.II.A.13) are available from United Nations Publications, DC 2-853, New York, N.Y. 10017. Price is $15.

Two New Video-Assisted Programs Offered

The AICPA's CPE division has made available through the state societies two new video-assisted courses.

☐ *Reporting on Personal Financial Statements* focuses on reporting guidelines and requirements set forth in SOP 82-1, *Accounting and Financial Reporting for Personal Financial Statements*. It also contains suggestions for conducting compilations, reviews or audits of personal financial statement engagements.

☐ *Divorce Taxation* enables practitioners to recognize tax problems commonly encountered in divorce matters. It shows the effect on divorce settlements of the rules under the 1984 Tax Reform Act and the federal divorce tax law.

Further information on prices and ordering may be obtained from your state society. For information on all video-assisted courses available from your state society, call 800/AICPANY; in New York State, 212/575-5696.

Technical Hotline Expands Service

The AICPA's technical information service has recently added staff and telephone equipment to respond to the growing number of inquiries to its telephone hotline. There were 2,391 such inquiries in February of this year compared with 1,491 in February 1985. Currently about 90 percent of all calls are answered immediately by CPA technical managers, with the remainder returned within 24 hours. Members are encouraged to use this free information service for specific auditing or accounting problems. The toll-free numbers are 800/223-4158; in New York State, 800/522-5430.

Washington Briefs

SEC Seeks Staff Accountants—The Securities and Exchange Commission has a number of openings in various locations for CPA staff accountants with at least three years' professional experience primarily with a public accounting firm or a public corporation. Duties include reviewing financial statements filed with the commission and checking 10-K and registration statements for compliance with SEC disclosure requirements. Salary range is $26,381 to $37,599. For further information contact Edith Hocutt, Office of Personnel, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 (202/272-7064).

No Transfer of Control, No Assignment, Says SEC—In a proposed rule under the Investment Advisers Act of 1940, the SEC would provide that a transaction that does not result in a change of actual control or management of an investment advisory company should not be deemed an "assignment" requiring client consent for the purposes of that act. The commission is currently reviewing comments that were received during the comment period that ended on March 21.

Temporary Regulations on Tax Shelters Issued—The IRS has issued temporary regulations affecting organizers, sellers, investors and others associated with tax shelter investment. They also cover tax shelter registration. Comments are due by May 5 and should be sent to the Commissioner of Internal Revenue, Attn. CC:LR:T (LR-66-85), Washington, D.C. 20224. For further information, contact Paulette Chernyshev at 202/566-3288.

Tax Amnesty Stirs Interest—Both Houses of Congress are currently considering a one-time tax amnesty program as a means of increasing revenue collection. Although there are some 13 measures being considered, the general thrust is for a six-month one-time-only general amnesty from criminal prosecution and civil penalties for any individual who has evaded taxes, underreported income, overreported deductions or failed to file a federal tax return prior to January 1, 1986. Interest due, as well as the taxes, would be required. One proposal would also strengthen the enforcement program by increasing the number of auditors and doubling some of the penalties.

Hearing Set on Fringe Benefits—Hearings have been scheduled on April 29-30 by the IRS in its auditorium at 1111 Constitution Avenue in Washington, D.C., on proposed and temporary regulations on taxation of fringe benefits. They will provide guidance on the taxability of certain benefits. The text of the regulations was published in the December 23, 1985, *Federal Register*, and copies are available from Room 4429 at the above address.

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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The CPA Letter

A Semimonthly News Report Published by the AICPA

Highlights of Board of Directors Meeting

At its meeting on April 3-5, the AICPA board of directors

- ☐ Recommended that, at its meeting on May 15-17, Council authorize exposure to the membership of the Report of the Special Committee on Standards of Professional Conduct for CPAs;
- ☐ Approved a revised objective for the CPE executive committee that clarifies the committee's responsibilities. Among other things, the committee also was asked to consider whether changes should be recommended in the Council policy that CPE be self-sustaining;
- ☐ Approved a public opinion poll of attitudes about CPAs and the accounting profession;
- ☐ Recommended that Council take action to make standards issued by the Governmental Accounting Standards Board (GASB) enforceable under Rule 203 of the Institute's Rules of Conduct;
- ☐ Approved conveying to the International Federation of Accountants (IFAC) an interest in having the United States host the World Congress of Accountants in 1992; and
- ☐ Received updates on Washington developments including hearings by Congressmen Dingell, Brooks and Pickle; on the FTC investigation of certain rules of conduct; on the efforts for RICO reform; and on activities of the special committee on accountants' legal liability.

Regional Council Meetings Held

Continuing its practice of prior years, the AICPA held a series of unofficial regional council meetings at five central locations in late March. The purpose of the meetings was to discuss in smaller groups in an informal atmosphere the issues that are apt to arise at the regular May meeting.

Among the matters discussed were

- ☐ A mission statement for the AICPA developed by a special committee appointed for that purpose;
- ☐ The work of the special committee on standards of professional conduct (Anderson committee);
- ☐ A report to the board of directors from the task force on specialization, recommending action by Council to accredit specialists; and
- ☐ Proposals recommended by the board of directors to authorize formation of voluntary membership divisions for management advisory services and personal financial planning.

Because of the number and importance of the issues on the agenda, the spring meeting of Council in Boca Raton will convene for two-and-a-half days instead of the usual three half-days.

Five Members Disciplined

At a meeting of a hearing panel of Regional Trial Board II in Seattle, Washington, on November 14, 1985, Harvey R. Lipp of Seattle was charged with violating the "acts discreditable" rule of the codes of professional ethics of the Washington Society of CPAs and the AICPA by failing to return client records, including general ledgers and worksheets serving in lieu of books of original entry.

Mr. Lipp, who was present with counsel at the hearing, claimed that the client had signed a credit letter permitting him to retain the client's records until all outstanding fees were paid. The panel, nevertheless, found that the respondent was guilty as charged and voted that he be admonished.

Mr. Lipp did not request a review of the decision which, therefore, became effective on December 24, 1985.

The membership of Eugene C. Bell of Marietta, Georgia, has been suspended from January 1, 1986, to December 31, 1987, for failing to comply with CPE requirements set by a hearing panel that adjudicated ethics charges against him at a regional trial board hearing on August 8, 1985.

At that hearing, Mr. Bell was found guilty of failing to cooperate with the Institute's ethics committee in its investigation of him and was censured. He was also required to complete a home study course in professional ethics by December 31, 1985. If he did not, his membership was to be suspended for two years. (See October 14, 1985, *Letter*.)

The memberships of Marvin I. Goldberg of Englishtown, New Jersey; Arthur R. Kupperman of Newark, New Jersey; and Gregory V. Harrell of Grundy, Virginia, have been terminated under the automatic disciplinary provisions of the AICPA bylaws.

- ☐ Mr. Goldberg's membership was terminated on December 2, 1985, following receipt by the secretary of a final judgment of conviction in a New Jersey superior court of theft by deception and of obtaining money under false pretenses.
- ☐ Mr. Kupperman's membership was terminated on January 28, 1986, following receipt by the secretary of a final judgment of conviction in a New Jersey superior court on his plea of guilty to forgery, theft by deception, attempted theft by deception, fabricating evidence, passing bad checks and hindering apprehension in connection with a scheme to defraud a savings bank.
- ☐ Mr. Harrell's membership was terminated on December 16, 1985, following the revocation of his certificate and license to practice as a CPA by the Virginia State Board of Accountancy for failing to comply with an order of the board. That order required him to pay a fine, suffer censure and submit to a competency review of his practice in lieu of suspension of his certificate for failing to cooperate with an investigation of the board into his conduct as a CPA.

Ed. note—Occasionally, members question the publication of disciplinary actions in the Letter. *These notices are required under the bylaws for those violations found in the application of their automatic provisions and those from trial board actions.*

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William J. Corbett
Vice President–Communications

Roderic A. Parnell
Executive Editor

GASB to Exempt Small Pension Plans from Disclosure Rule

At a meeting last month, the Governmental Accounting Standards Board tentatively decided to exempt pension plans of smaller governmental units from certain aspects of its proposed disclosure rules.

The tentative agreement is that single employer public employee retirement programs with fewer than 100 active participants will not have to make the standard computation and disclosure if they use an entry age accrual funding method that produces an "acceptable" substitute, provided that the employer has fewer than 200 participants in all plans.

"Acceptable" is defined as meaning the result will be at least as large as if the obligation measure had been computed under the method required by the exposure draft.

Project Manager Richard Haas said that the GASB will consider the matter further this month.

In a related matter, the GASB also decided to issue a technical bulletin, exposed for comment last month (see March 10 *Letter*), which recommends that state and local governments not change their pension accounting and reporting as a result of FASB Statement no.87 because the GASB is likely to issue pension statements that may call for a different set of disclosures.

***Client Bulletin* Offers Special Issue on Business Planning**

Business planning is the theme of the June issue of the *CPA Client Bulletin*, a six-page special which is being offered free to new subscribers whose orders are received by May 15.

The newsletter is used by nearly 7,000 CPA firms, which distribute about 800,000 copies monthly. The minimum subscription of 50 copies per month costs $135 per year, with additional lots of 25 billed at $36 per year. Imprinting of a four-line name and address above the masthead is $72 per year for the first 50 copies; $6 per year for each additional lot of 25. No imprinting of June copies is possible for new subscribers.

Nonsubscribing CPA firms wishing to distribute only the June (undated) special issue may obtain copies in lots of 25 at $10 per lot; $5 per lot to subscribers who wish to supplement their current order.

To order, write the AICPA circulation department or call 212/575-5515.

AICPA Honored for Public Service Programs

For the second year in a row, the President's Citation Program for Private Sector Initiatives has recognized two AICPA public service projects with the coveted C-Flag, denoting "We Can" and "We Care." The projects are the Public Service Award Program for State Societies and the Financial Management Seminar for Nonprofit Organizations.

The citation program was established by President Reagan to recognize the contributions that businesses and professional or trade associations make to their communities.

Rose Parade to Kick Off Centennial

The AICPA has accepted an invitation to participate in the 98th Pasadena Tournament of Roses Parade, which will be held January 1, 1987. The Institute's participation in the parade, which has an estimated international television audience of 125 million viewers, will serve to kick off the celebration of the accounting profession's 100th anniversary in the United States.

According to William S. Kanaga, chairman of the AICPA's centennial steering committee, "The Institute's participation in the parade will be designed to impress upon the public how the profession has changed over the last 100 years, and stress the vast array of services that practitioners offer the modern world."

The centennial celebration will culminate in September 1987 in New York City at the Institute's annual meeting.

Tax Education Symposium Set

The 1986 Graduate Tax Education Symposium is scheduled for June 2-3 in Ann Arbor and will be hosted by the University of Michigan, Graduate School of Business Administration. The purpose of this biennial symposium is to bring academics involved in graduate tax education and tax practitioners together to discuss matters of mutual interest. It is jointly sponsored by the AICPA and ten large accounting firms.

The program includes the following topics:

- ☐ Updates on graduate tax education programs and on recent developments in such areas as personal financial planning, real estate and financial institutions;
- ☐ Practitioners' expectations of tax program graduates;
- ☐ Executive education and other noncredit opportunities;
- ☐ Teaching of tax policy;
- ☐ Program accreditation problems; and
- ☐ Computers in the tax curriculum.

The format features panels of invited speakers, followed by general discussion.

The registration fee includes two luncheons, a reception and a dinner. For further information, contact Carol B. Ferguson, AICPA Tax Division, 1620 Eye Street, N.W., Washington, D.C. 20006 (202/872-8190).

Sells Awards Announced

Women continue to dominate the top spots in the November Uniform CPA Examinations, winning two of the three Sells medals in the November 1985 exam.

For achieving the highest grade total in the four sections of the examination, the Sells Gold Medal goes to Min-ying C. Tseng of Cypress, California. Holder of degrees from National Taiwan Normal University and the University of Utah, she is currently studying for an M.S. degree in accountancy at California State University, Long Beach.

For the second highest grades, the Sells Silver Medal is to be awarded to Troy R. Martin III of Arvada, Colorado. He is now a staff accountant in the Denver office of Arthur Young & Company, which he joined after an outstanding academic career at the University of Colorado at Boulder, where he maintained a perfect 4.0 grade point average throughout his collegiate career.

The Sells Bronze Medal for third place was won by Joyce Ann Kastler of Texarkana, Texas. She is a magna cum laude graduate of East Texas State University at Texarkana and is a staff accountant with the CPA firm of Grier, Reeves and Lawley in Texarkana.

In addition, 120 Certificates for Performance With High Distinction will be awarded. For this examination, 72,185 candidates wrote a total of 261,012 papers—a slight increase over the comparable examination in November of 1984.

The medals will be presented to the top three winners in conjunction with the Institute's annual meeting in Kansas City, Missouri, in October.

New MAS Practice Aid Available

The AICPA has recently published MAS Practice Administration Aid no. 2, *Cooperative Engagements and Referrals*. This booklet is part of a series designed as educational and reference material. Although it does not set standards or cite preferred practices, this practice aid provides practitioners with information about planning and executing cooperative engagements and referrals.

The booklet holds that, under some circumstances, practitioner participation in such engagements can benefit clients by providing

- ☐ Technical skills necessary to complete an engagement;
- ☐ Resources beyond a firm's internal capacity; and
- ☐ Coordination and control as the primary contractor, at the client's request, even though technical skills to complete the engagement will come from more than one source.

Copies can be obtained from the AICPA order department. List price is $4.00; $3.20 to members (Product no. 055906).

FASB Okays AICPA Credit Union Guide; Finance Exposure Draft

The Financial Accounting Standards Board has approved for final publication the proposed AICPA accounting and auditing guide *Audits of Credit Unions*. This guide is designed to assist the independent CPA in examining and reporting on financial statements of federal credit unions. It will be effective for fiscal years beginning after December 15, 1986, and will require restatement of prior periods.

In clearing the guide, the FASB also supported the AICPA credit unions committee's proposed accounting for credit union share accounts as liabilities and dividends as interest expense. This is a change from the regulatory requirement to report members' share accounts as equity and dividends as dividends expense.

Copies of the guide are expected to be available in May.

Also, the proposed accounting and audit guide for finance companies was given approval for exposure. The major change in the finance guide is requiring accrual accounting and the use of the interest method for income recognition.

Short Takes Here and There

CPA to Be New Orleans' No. 2 Man—Kurt D. Steiner has been appointed chief administrative officer for the City of New Orleans. Currently a partner in the accounting firm of Grant Thornton (formerly Alexander Grant & Company), he will be in charge of budgeting, finance and the day-to-day operations of the city. He has a degree from the University of Cincinnati and has had 30 years of accounting experience in public practice and with other government agencies.

L.A. CPA Gets SBA Award—Institute member Harvey A. Goldstein, managing partner of Singer, Lewak, Greenbaum & Goldstein in Los Angeles, has been named Accountant Advocate of the Year 1986 by the Small Business Administration. In announcing the award, M. Hawley Smith, SBA district director for Los Angeles, cited Goldstein for "the application of creative solutions to the financial problems of small firms and promoting legislation that strengthens their financial condition."

Possible IRS Commissioners—Although the Treasury won't discuss the selection process for replacing IRS Commissioner Roscoe Egger, Jr., who resigns on April 30, a Dallas lawyer appears to be the front-runner. He is Lawrence Gibbs, a partner in the law firm of Johnson & Swanson and a former assistant commissioner. Other candidates include four tax-oriented CPAs: David A. Berenson, Ernst & Whinney; Frank O'Connell, Laventhol & Horwath; Don J. Summa, Arthur Young & Company; and William L. Raby, Touche Ross & Co.

Financial Report Survey no. 32 Correction—If your copy of this survey on in substance defeasance of debt doesn't have a white sticker revising page 1, contact the customer service department for a replacement (212/575-6428).

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards

An open meeting of the accounting standards executive committee will be held in Washington, D.C., on May 6-8 at the Embassy Row Hotel, starting at 8:30 a.m. on the first day. The tentative overall agenda is

- ☐ Accounting for Participating Mortgages (consider an issues paper).
- ☐ Income Recognition by Real Estate Syndicators (discuss the subject).
- ☐ Hospital Audit Guide (consider for exposure).
- ☐ Reporting Funds Flows, Liquidity and Financial Flexibility for Banks (consider final issuance of a proposed SOP).
- ☐ Accounting for Sales of Loans Under Committed Facilities and Term Loans (consider proposed practice bulletin).
- ☐ Nonrefundable Loan Fees (consider a comment letter on proposed FASB standard).
- ☐ Rate-Regulated Enterprises (consider a comment letter on proposed FASB standard).
- ☐ Accounting for Venture Capital Investment Companies (consider a proposed SOP for exposure).
- ☐ Objectives of Financial Reporting (consider a comment letter on proposed GASB statement).

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

Washington Briefs

SEC Names Fellows—Three AICPA members have been selected to assist A. Clarence Sampson, SEC chief accountant over the next two years. Wesley T. Andrews, Jr., has been appointed to serve as the Academic Fellow in the Office of the Chief Accountant of the SEC for a one-year term beginning in August. Professional Fellows for two-year terms starting in July will be James R. Bradow of Hudson, Ohio, and John A. Heyman of Dallas. Dr. Andrews is a professor of accounting at Florida Atlantic University in Boca Raton; Bradow is an audit manager with Ernst & Whinney in Cleveland, and Heyman is an audit manager with Seidman & Seidman in Dallas.

The three Fellows will be involved in the study and development of rules under the federal securities laws, liaison with professional accounting standard-setting bodies, and consultation with registrants on accounting and reporting.

Staff Changes at IRS—John Rankin, formerly the deputy assistant commissioner for criminal investigations, has been named assistant IRS commissioner for inspection. He will be in charge of agency internal audits, security checks of new employees and investigations of allegations of wrongdoing and attempted bribery of employees. He replaces Robert Rebein, who has retired.

Peter Scott has been appointed associate chief counsel–technical of the IRS. He will advise the chief counsel on the activities of a number of legal offices. Scott had been director of the legislation and regulations division and replaces Charles Morgan, who has returned to private practice.

Take Sex Out of Annuities, Says IRS—Proposed rulemaking by the IRS, Unisex Annuity Tables, would affect the annuity tables used to compute the portion of the amount received as an annuity that is includable in gross income. Comments are due by May 6, and further information can be obtained from Annette Guarisco at 202/566-3238.

CPA Presidential Adviser Appointed—Charles G. Steele, chairman and CEO of Deloitte Haskins & Sells, has been appointed to a two-year term on the President's Commission on Executive Exchange. He joins fellow AICPA member David W. Christopher (see March 10 *Letter*) in overseeing a program that exchanges executives in the private and public sectors for a year.

Oops!

Some staff accountants were inadvertently promoted when we listed the break point between large and small firms in the GAO study reported in the March 24 issue as 50 or more partners. It should have read "50 or more members of the AICPA."

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The CPA Letter

A Semimonthly News Report Published by the AICPA

FASB Sets Hearing on Regulated Enterprises

The Financial Accounting Standards Board will hold a public hearing on its proposed statement, *Regulated Enterprises—Accounting for Phase-in Plans, Abandonments and Disallowances of Plan Costs,* on June 4-6 at the Sheraton Hotel, First Stamford Place, Stamford, Connecticut.

The proposal would amend SFAS no. 71, *Accounting for the Effects of Certain Types of Regulation.* It would require that all allowable costs, including an equity return, be deferred as a separate asset in connection with a regulated enterprise's phase-in plan if the plan meets all of the following requirements:

- ☐ The regulator must agree to a formal plan;
- ☐ The plan must specify the timing of recovery of all deferred costs; and
- ☐ All costs deferred under the phase-in plan must be scheduled for recovery within ten years of the initial deferral date.

Costs that are deferred for future recovery could not be capitalized unless the plan meets all these criteria. Any indirect disallowance of costs of a newly completed plant incorporated in the formal plan would have to be recognized as an immediate loss.

A record number of more than seventy organizations and individuals have indicated that they want to testify at the hearing.

The proposed statement would be effective for fiscal years beginning after December 15, 1986. Paul LePage at the FASB is the project manager.

Also, at its April 16 open meeting, the FASB discussed a staff draft of the major portion of the proposed tentative conclusions document on the concept of a reporting entity and its major implications for consolidated financial statements.

New Audit Publications Forthcoming

A new audit and accounting guide on credit unions and an auditing procedure study on inventories are scheduled to be released in May, and copies can be obtained from the Institute's order department (212/575-6426).

Audits of Credit Unions is designed to assist CPAs in examining and reporting on the financial statements of credit unions and in determining whether they are in conformity with generally accepted accounting principles. It reviews the study and evaluation of internal controls and recommends applications of auditing standards when dealing with a credit union's special circumstances. Price is $9.00; $7.20 to AICPA members (Product no. 012046).

Produced jointly by the AICPA and the Canadian Institute of Chartered Accountants, *Audits of Inventories* provides nonauthoritative assistance to practitioners in the planning, selection and implementation process in auditing inventories. It also discusses financial statement presentation and disclosure.

Price is $9.50; $7.60 to members (Product no. 021045).

Bruschi Retires

Philip B. Chenok, AICPA president, has announced the retirement of William Bruschi, AICPA vice president-examinations and regulations, after 27 years on the Institute's staff. For the past 16 years, Bruschi has supervised Institute activities in the areas of professional ethics, state legislation, the CPA examination and the National Automated Accounting Research System (NAARS).

Six Members Disciplined

Three AICPA members have been expelled and another three have been suspended under the automatic provisions of the AICPA bylaws or by trial board action.

- ☐ The membership of Rodney Coe Hosford of Tallahassee, Florida, was terminated on January 16, 1986, following the revocation of his CPA certificate by the Florida Board of Accountancy for violating Florida statutes. The board action followed guilty findings against Mr. Hosford in a U.S. district court of conspiracy to commit murder, racketeering and submitting a false statement on a passport application.
- ☐ On November 18, 1985, the membership of Leonard D. Bezark of Philadelphia, Pennsylvania, was terminated following his conviction in a U.S. district court on his plea of guilty to aiding and assisting in the preparation of a false income tax return and bribery of a public official.
- ☐ Thomas Soltz of Miami, Florida, has been expelled from membership for failing to comply with a regional trial board hearing panel's requirement that he complete a course in professional ethics for CPAs within six months.

  Mr. Soltz was found guilty of violating a provision of the Institute's bylaws at a regional trial board hearing on August 9, 1985, and was admonished. He was also required to complete the CPE course within six months of the effective date of the decision of the hearing panel or be expelled from membership (see the *Letter*, October 28, 1985).
- ☐ Carl Kanter of West Orange, New Jersey, has been suspended from May 16, 1985, to May 16, 1987, following conviction on his plea of guilty to supplementing the salary of a U.S. Government employee.
- ☐ Harry Zack of Boston, Massachusetts, was suspended from April 25, 1985, to October 25, 1985, following his conviction on his plea of guilty to supplementing the salary of a U.S. Government employee.
- ☐ John Joseph Sieczkowski of Middleton, Massachusetts, has been suspended indefinitely as of October 10, 1985, for failing to cooperate with the Massachusetts State Board of Accountancy and failing to return client records as ordered by the board.

Ethics Exposure Drafts Authorized

The professional ethics executive committee will release in May an omnibus document that includes exposure drafts on two rules and four interpretations. The exposure drafts are

- ☐ Ruling no. 64 under ET Section 191—Joint Investment with a Promoter and/or General Partner.
- ☐ Ruling no. 66 under ET Section 191—Use of CPA Designation by Member Not in Public Practice.
- ☐ Interpretation 201-3—Request for Advice on Accounting or Auditing Standards.
- ☐ Interpretation 201-2—Prospective Financial Information.
- ☐ Interpretation 201-4—Definition of the Term "Engagement" as Used in Rule 201—General Standards.
- ☐ Interpretation 502-2—False, Misleading or Deceptive Acts.

The committee is expected to consider three proposed rulings for exposure at its June meeting. They are

- ☐ Ruling no. 67 under ET Section 191—Independence and Fees.
- ☐ Ruling no. 68 under ET Section 191— Client Fees Constituting a Significant Portion of the Member's Total Annual Client Fees.
- ☐ Ruling no. 17 under ET Section 391—Personal Financial Management Services.

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William J. Corbett
Vice President–Communications

Roderic A. Parnell
Executive Editor

Special Supplement, the CPA Letter, April 28, 1986

REPORT OF THE NOMINATIONS COMMITTEE

To: Members of the American Institute of Certified Public Accountants

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

Donald J. Schneeman, Secretary
New York, N.Y., March 14, 1986

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

For Officers *(to serve from the 1986 Annual Meeting to the 1987 Annual Meeting or until their successors shall be elected):*

Chairman of the Board: J. Michael Cook, New York

Vice Chairman of the Board: A. Marvin Strait, Colorado

Vice Presidents: George L. Bernstein, Pennsylvania Robert L. Bunting, Washington Sidney Davidson, Illinois

Treasurer: Gerald A. Polansky, District of Columbia

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

Ulyesse J. LeGrange, Texas
Robert Mednick, Illinois
Thomas W. Rimerman, California
Kathryn D. Wriston, New York (Public Member)

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

Brenda T. Acken, West Virginia
Robert K. Elliott, New York
Johnnie L. Clark, Georgia
Joseph X. Loftus, New York
Albert B. Ellentuck, District of Columbia
John T. Schiffman, New Hampshire

(Two years and one year respectively—to fill vacancies created by nomination of Ulyesse J. LeGrange, Texas, to the Board of Directors and Robert L. Bunting, Seattle, Washington, as Vice President):
Richard E. Piluso, New York J. Curt Mingle, Illinois

For Elected Members of Council *(three years unless otherwise noted):*

California—Duane C. Hansen
William W. Holder
Robert A. Petersen
Michael J. Schwarz
Colorado—Douglas M. Sparks
Connecticut—Joseph P. Germain, Jr.
Delaware—Lee Kesselman
District of Columbia—Victor E. Barton
Florida—Sharon C. Brown
Charles E. Van Middlesworth
Georgia—William J. Bomar
Idaho—Rex S. Leforgee
Illinois—Anthony M. Mandolini
Louisiana—Melvin M. Pechon
Maryland—Paul W. Hart
Massachusetts—Thomas M. Feeley
Michigan—Angelo A. Agnello
Minnesota—John E. Thomas
John F. Schilling *(one-year term)*
Mississippi—Herman L. Gray
New Jersey—John C. Kelly
William J. Owen, Jr.
Leon H. Turner *(two-year term)*
New York—Michael L. Borsuk
Arthur F. Dignam
Bernard Mintz
Donald M. Tannenbaum
North Carolina—C. Kenneth Spruill
John J. Murphy, Jr. *(two-year term)*
Ohio—Robert M. Garber
John J. Kron
Oklahoma—Walter H. Webb
Oregon—Allen B. Hatfield
Pennsylvania—Nicholas P. Constantakis
John H. Kennedy
Puerto Rico—Antonio Ginorio Gómez
Texas—Paul W. Hillier, Jr.
Robert C. Mann
Fred J. Nemec
John A. Poteet, Jr.
Utah—F. Duane Blackley
Virginia—Embree W. Potts, Jr.
Wisconsin—Audrey J. Kleinschmidt

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

Harvey Frank, Michigan
Edwin M. Lamb, California
Roy E. Garland, Georgia
Raymond L. Hellmuth, Massachusetts

The Committee will nominate the above Officers, Members of the Board of Directors, Members of Council-at-Large and the National Review Board Members at the Council Meeting on Saturday, October 18, 1986, in Kansas City, Missouri. No nominations from the floor will be recognized. However, independent nominations may be made by any twenty members of Council if filed with the Secretary by June 18, 1986, which is four months prior to the Annual Meeting of the Institute which is to be held in Kansas City, Missouri, beginning October 19, 1986.

Pursuant to the bylaws, balloting for directly elected Council members by members in any state where vacancies shall arise will occur only if a contest for one or more seats develops as a result of submission of independent nominations to the Secretary by any twenty Institute members in the state at least four months prior to October 18, 1986. In the absence of any contest, all Council nominations will be declared elected by the Secretary and will assume office as members at the Council Meeting on October 18, 1986.

Respectfully submitted,

Nominations Committee
Ray J. Groves, New York
Chairman
David H. Abramson, Minnesota
Stephen D. Holton, Virginia
Charles T. Horngren, California
Charles W. Jenkins, Georgia
Archibald E. MacKay, Maryland
Andrew P. Marincovich, California
Clinton J. Romig, Louisiana
Robert C. Sassetti, Illinois
John P. Thomas, Florida
John W. Zick, New York

Upcoming Conferences

National PR *Conference*—The AICPA will hold its annual Public Relations Conference in Seattle, Washington, on July 7-9. It will focus on current issues facing CPAs and suggested public relations strategies and techniques. Concurrent sessions will deal with such topics as organizing special events, media placement techniques, marketing CPA services and evaluating PR programs. Three full-day workshops are slated for July 7. Registration is $150 for the two-day conference and $150 for the July 7 workshops. For information, contact Helene Kennedy at the AICPA (212/575-3880).

Audit Forum—The International Intergovernmental Audit Forum has scheduled its Sixth Biennial Conference for June 8-11 in Seattle. Governmental leaders will discuss, among other matters, audit quality, revisions to generally accepted auditing standards (the yellow book), single audit and audit resolution. For information, call Roger D. Hayman at 206/442-5356 (West Coast) or Joseph Comtois at 202/275-9363 (East Coast).

Microcomputers—The annual AICPA Microcomputer Conference and Exhibition being held in Boston on June 1-4 combines technical information with the application needs of the accounting profession. For information, call toll-free, 800-AICPANY; in New York State, call 212/575-5696.

Jerusalem Accountancy Conference—The fourth Jerusalem Conference on Accountancy will be held on November 16-19 in Jerusalem, Israel. Under the overall theme of Challenges Confronting the Accountant, topics will include audit risks and unlimited liability, the accountant's role in view of rapid technological developments and changes in scope of services, and accounting and reporting in a high-inflation environment. Registration until September 1 is $350 US. For information, contact Kenness International, 1 Park Avenue, New York, New York 10016, or call 800/235-6400; in New York State, 212/684-2010.

Accounting Education—The sixth International Conference on Accounting Education will be held in Kyoto, Japan, on October 7-10, 1987, immediately preceding the World Congress of Accountants. It is sponsored by the International Association on Accounting Education and Research. For information, write to International Congress Service, Inc., Kasho Building 2F, 2-14-9 Nihombashi, Chuo-ku, Tokyo 103, Japan.

Accountants' Supply and Demand Study Released

The Institute's 16th annual survey of the supply of accounting graduates and the demand for public accounting recruits has just been released.

Here are some of the highlights:

- ☐ The total number of accounting graduates is expected to increase by 3 percent in 1985-86 to 59,400, as compared with 57,900 last year.
- ☐ A 6 percent increase over last year is anticipated in public accounting firm hirings, projected at 18,900 for 1985-86, up from 17,800. The remaining accounting graduates will go into business and industry, not-for-profit organizations and other areas such as teaching.
- ☐ The schools are expecting greater growth in the numbers of graduates with master's in accounting degrees compared with those with M.B.A.s in accounting and master's in taxation. The firms project a greater increase in hires with tax degrees than with the other two types of master's degrees.
- ☐ The percentage of female accounting graduates has increased from 28 percent in 1976-77 to 48 percent in 1984-85. Firms' hirings have followed a similar pattern.

This survey is based on results from 648 colleges and universities and 291 public accounting firms with ten or more AICPA members.

Copies of the survey may be obtained from the AICPA order department (Product no. G000092).

Carey Scholarship Winner Announced

Anne S. Wallace of Greenwich, Connecticut, is the recipient of the annual $4,000 John L. Carey Scholarship for 1986. Named after the former Institute administrative vice-president and chief staff officer, the scholarship is awarded to a Yale University senior who plans to do graduate work in the field of accounting with the intention of pursuing a career in the profession.

Wallace is a December 1985 graduate of Yale University with a B.A. in economics. She is currently enrolled in the New York University Masters of Business Adminstration program and plans to transfer in June to the university's Masters of Science degree in accounting. She expects, at that time, to rejoin Arthur Young & Company, for whom she has worked the last three summers.

CPAs Win Awards

Robert L. Haddad, partner-in-charge of the small business tax group at Price Waterhouse in Boston, has been named National Small Business Accountant Advocate of the Year by the U.S. Small Business Administration. Criteria used in the selection were efforts to improve financial conditions for small firms and special efforts to train small business owners in accounting and tax management. Haddad will be honored in Washington, D.C., during National Small Business Week, May 18-24, an annual occasion proclaimed by the President to honor the nation's 15 million small businesses.

John D. Abernathy III, chairman of Seidman & Seidman/BDO, has been awarded the City of Hope's highest honor, the "Spirit of Life" award. The City of Hope is a Los Angeles-based medical center. Former California Governor "Pat" Brown, the City of Hope's trustee chairman, said, "Mr. Abernathy truly represents the finest ideals to be found in the corporate world."

Abernathy is also chairman of the SEC practice section of the AICPA's division for CPA firms.

Edward J. Mazur, comptroller of the Commonwealth of Virginia, has been presented with the Donald L. Scantlebury Award for Distinguished Leadership in Financial Management Improvement. Named after the former chief accountant of the General Accounting Office, the award is presented by the Joint Financial Management Improvement Program, which is jointly sponsored by the General Accounting Office, the Office of Management and Budget and the Office of Personnel Management. Mazur was nominated by Virginia Governor Charles S. Robb.

Surveys on Minority Employment Issued

The Institute's minority recruitment and equal opportunity committee recently issued its surveys of minority employment and placement of accounting graduates from the traditionally black and minority colleges and universities for the spring of 1985. A list of 1985 scholarship award winners is also included. (Almost $250,000 was awarded to 317 minority students last semester.) Copies of the report are available from Sharon Donahue at the AICPA (212/575-7641).

NOTICE OF AICPA PUBLIC MEETING

Federal Taxation
The tax division executive committee will hold an open meeting on May 22 at the Capital Hilton Hotel in Washington, D.C., starting at 9:00 a.m. The agenda has not yet been determined.

The next meeting is scheduled for July 8-9 in Denver.

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

Washington Briefs

IRS Drops Interest Rate—The IRS has announced that the annual interest rate applied to tax underpayments and tax overpayments will drop from 10 percent to 9 percent effective July 1. The service also noted that interest on substantial underpayments arising from tax-motivated transactions is figured at a rate equal to 120 percent of the standard rate.

The new rates, based on the average prime interest rate for the six-month period ending March 31, are set forth in Revenue Ruling 86-59.

Hearings Set by IRS—A public hearing will be held on May 22 in Room 4415 of the main IRS building on proposed rules restricting an employee's right to receive alternative benefits under qualified pension plans.

On June 12 there is to be a public hearing in the seventh floor auditorium on proposed regulations concerning the filing of information reports on the sale or exchange of an interest in a partnership.

June 18 is the date for a hearing on rules governing when real estate agents and direct sellers of consumer products will be considered independent contractors rather than employees. The seventh floor auditorium will also be the site.

Recommendations to IRS on Communications—*Recommendations for Improvement in Communications with the Internal Revenue Service* is the title of a document prepared by the tax administration subcommittee of the AICPA tax division. Many of the comments are based on an analysis of responses from CPA firms in answer to the subcommittee's appeal for input. Copies are available from Edward Karl of the AICPA's Washington office at 1620 Eye Street, N.W. 20006 (202/872-8190).

SBA to Commerce?—Legislation to transfer the Small Business Administration to the Department of Commerce, effective October 1 of this year, has been sent to Congress, according to SBA Acting Director Charles L. Heatherly. The proposed bill would implement the provisions of President Reagan's fiscal 1987 budget calling for the transfer of the SBA to the Department of Commerce and eliminating SBA credit activities. The proposed legislation would also transfer the SBA's loan portfolio to the Department of the Treasury for continued collection and liquidation. The proposal has not yet been introduced in either house.

Transition Change in Section 338 Rules Announced—The IRS has announced, in release IR-86-43, that it will amend temporary regulations governing stock acquisitions to provide for a special transitional allocation election. The special election will be available for stock acquisitions occurring on or before January 29, 1986, or pursuant to a binding contract entered into on or before that date.

The CPA Letter

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The CPA Letter

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GASB Issues Statement on Certain Deposits

The Governmental Accounting Standards Board has released Statement no. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Purchase Agreements.*

This statement provides guidance for disclosures by governmental entities about deposits in the cited areas. It also provides guidance on accounting and reporting areas for repurchase and reverse repurchase agreements.

It requires that entities, as a whole, make certain disclosures about

- ☐ Legal or contractual provisions for deposits and investments, including repurchase agreements;
- ☐ Deposits and investments, including repurchase agreements, as of the balance sheet date and during the period being reported on;
- ☐ Legal or contractual provisions for reverse repurchase agreements; and
- ☐ Reverse repurchase agreements as of the balance sheet date.

The provisions of this statement are effective for financial statements issued for the periods ending after December 15, 1986, with earlier application encouraged.

For copies of the statement and information on applicable prices and discounts, contact the Order Department, Governmental Accounting Standards Board, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

Leadership Conference on Legal Liability Held

For the first time, the AICPA and CPA/State Executives Association jointly sponsored a CPA Leadership Conference on Accountants' Legal Liability on April 23. About 140 committee members, executives and officials from 46 state societies, the Institute and other accounting organizations participated in the conference, which was designed to acquaint the leadership with the overall problems of legal liability and liability insurance.

Following an introduction by Joe Sperstad, chairman of the CPA/SEA professional liability insurance committee, and a welcome by AICPA President Philip B. Chenok, Ray J. Groves, chairman of the AICPA special committee on legal liability and former AICPA board chairman, presented an overview of the situation. He urged increased efforts, especially in the legislative area, emphasizing that the basic problems are in legislation rather than in insurance, where coverage and rates tend to reflect the environment. The need to develop the concept of proportionate liability and the preservation of the privity rule were cited as basic issues.

Louisiana Executive Director Jay Rothberg summarized his state's activities, including its participation in a coalition group to help meet the profession's needs.

Representatives of the insurance industry cited the increase both in frequency of claims and size of awards as having the greatest impact on premiums and coverage. The ratio of losses to premiums under the AICPA plan is now about three to one and this is the first year that there have been claims in excess of $1 million against smaller CPA firms.

A panel discussion, led by James R. Kurtz, CPA/State Executive Association president, at which state societies exchanged information on their programs concluded the conference.

Member Firm Expelled from PCPS Section

On March 21, 1986, the private companies practice section executive committee met as a hearing body under its Rules of Procedure for the Imposition of Sanctions. After hearing testimony from a partner of the firm of Nemiroff, Cosmas, Titus and Colchamiro of Secaucus, New Jersey, the executive committee voted that the firm should be expelled from the section, effective April 30, 1986, and that a notice to that effect should be published in *The CPA Letter*. This decision was reached because the executive committee found that the firm continued to be in willful violation of the section's membership requirements and standards relative to the peer review process.

New MAS Aid Available

Business Planning, the sixth in a series of small business consulting practice aids, is now available from the AICPA order department at $7.50 per copy; $6.00 to members (Product no. 055291).

Prepared by the MAS small business consulting practices subcommittee, the new aid introduces concepts that should be useful in assisting clients with business planning. It describes a typical engagement approach, sets forth alternatives for providing limited assistance and includes illustrative case studies.

The booklet is designed to provide guidance, rather than standards, and discusses a six-phase engagement approach, which deals with the following:

- ☐ Gathering essential information;
- ☐ Documenting the data;
- ☐ Developing goals;
- ☐ Establishing programs, plans, projects and tasks;
- ☐ Summarizing the client's plan and preparing the final report;
- ☐ Following up and evaluating progress.

Telephone orders may be placed by calling 212/575-6426.

Additional Schools Accredited in Accounting

The Accreditation Council of the American Assembly of Collegiate Schools of Business (AACSB) last month accredited an additional 13 accounting programs at nine colleges and universities.

Since the start of this specialized accreditation in 1982, there have been 106 programs at 61 schools that have qualified. Three types of programs have been considered: (A) bachelor's programs in accounting (60); (B) MBA programs with an emphasis in accounting (14); and (C) master's in accounting, including 150-semester-hour programs (32). Schools and programs accredited in 1986 are

- ☐ University of Arkansas, Fayetteville (A,C);
- ☐ University of Houston at Clear Lake City (A,C);
- ☐ North Carolina A & T State University, Greensboro (A);
- ☐ University of North Carolina at Charlotte (A);
- ☐ The Ohio State University, Columbus (A,B);
- ☐ Oregon State University, Corvallis (A);
- ☐ University of South Carolina, Columbia (A,C);
- ☐ Tennessee Technological University, Cookeville (A); and
- ☐ Florida International University, Miami (C). (Type A previously accredited.)

This accreditation program is a cooperative effort between the AACSB and representatives of the AICPA, the American Accounting Association, the National Association of Accountants, the Association of Government Accountants and the Financial Executives Institute, who serve on the accounting accreditation committees of the AACSB.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

AUDITING STANDARDS BOARD RÉSUMÉ

The Auditing Standards Board is one of the most visible components of the AICPA's standard-setting mechanism. Yet, many members are not familiar with what the Board is, how it works or what some of its significant projects are.

The Board's Mission

The Auditing Standards Board was formed in October 1978 as the successor to the Auditing Standards Executive Committee. It is the AICPA's senior technical committee responsible for setting auditing standards for the Institute's more than 240,000 members. Its 15 members, all members of the AICPA, serve on a volunteer basis, usually for three consecutive one-year terms. The Board is supported by a staff of eight CPAs under the direction of an AICPA staff vice-president and has the following charge:

☐ The AICPA Auditing Standards Board shall be responsible for the promulgation of auditing standards and procedures to be observed by members of the AICPA in accordance with the Institute's rules of conduct.

☐ The Board shall be alert to new opportunities for auditors to serve the public both by the assumption of new responsibilities and by improved ways of meeting old ones, and shall as expeditiously as possible develop standards and procedures that will enable the auditor to assume those responsibilities.

☐ Auditing standards and procedures promulgated by the Board shall:
a. Define the nature and extent of the auditor's responsibilities.
b. Provide guidance to the auditor in carrying out his duties, enabling him to express an opinion on the reliability of the representations on which he is reporting.
c. Make special provisions, where appropriate, to meet the needs of small enterprises.
d. Have regard to the costs which they impose on society in relation to the benefits reasonably expected to be derived from the audit function.

☐ The Auditing Standards Board shall provide auditors with all possible guidance in the implementation of its pronouncements, by means of interpretations of its statements, by the issuance of guidelines, and by any other means available to it.

The Board is primarily concerned with developing Statements on Auditing Standards (SASs) which are the auditing pronouncements most familiar to accountants and financial executives. SASs are, in effect, interpretations of the ten generally accepted auditing standards approved by the AICPA membership in the late 1940s, and compliance with them is enforceable under the AICPA Code of Professional Ethics. To date, 49 SASs have been issued.

SASs are the result of the Board's due process. First, the need for a project may be identified through comments from practitioners, regulatory pressure, litigation, or actions of other groups that affect the profession. Then research is performed. The shape of guidance is assessed through analyzing the issues, gathering data on current practice, reviewing existing literature, and developing alternative approaches. This is done by the Auditing Standards Division staff and a small task force of practitioners, some of whom may be members of the Board. A proposed pronouncement is then submitted to the Board, which considers it and evaluates alternatives.

After the Board considers the draft at one or more public meetings, it usually decides to expose the proposed pronouncement. Issuance of an exposure draft must be approved by at least 9 of the 15 members. Exposure drafts are distributed for comment to the offices of all CPA firms with AICPA members, and to regulators and similar interested parties, and anyone else who requests them. Ordinarily, 90 days are allowed for comments.

Comments are reviewed by the Board, and matters raised in the comments that it did not consider previously are evaluated. After further consideration, the Board usually decides to issue the draft as an SAS. Again, issuance of an SAS must be approved by at least 9 of the 15 members.

The Board does more than react to the needs of practitioners. It also develops standards in response to developments in the environment in which the profession exists. Meeting the needs of practitioners while establishing minimum standards for the profession to ensure the continuation of high-quality audits is not an easy task. Too many standards can hamper the exercise of professional judgment and can never cover all the circumstances an auditor may face.

The Board recognizes the fine line between too little and too much guidance. Its goal in setting standards is not to eliminate professional judgment but to focus it.

Membership of the ASB

The 15 Board members are all CPAs but come from diverse backgrounds, making the Board aware of the practices and problems of all types of practitioners. The 1985-86 Auditing Standards Board consists of practitioners from five of the eight largest firms, a regional firm, and local practices in Portland, Maine; Quincy, Florida; Colorado Springs; New York City; Miami; Dallas; and Shreveport, Louisiana. Also members are an academician and the elected auditor of state for Iowa.

Narrowing the Expectation Gap

Among the Board's most important projects are those that address the "expectation gap," that is, the gap between what financial statement users expect from statements and audit opinions and how auditors see their responsibilities. Some of the Board's significant initiatives regarding the expectation gap concern the following:

- ☐ Errors, irregularities, and illegal acts. The auditor has a responsibility, described in SAS no. 16, to search for errors and irregularities that would be material to the financial statements. The auditor's responsibilities regarding illegal acts are described in SAS no. 17. The auditor views these responsibilities as components of a larger responsibility—to report on the financial statements. The public seems to expect more, and its concerns have been intensified by recent allegations of audit failure. The Board is considering whether the auditor's responsibility for detection and reporting of errors, irregularities, and illegal acts is appropriately described in the authoritative auditing literature.
- ☐ Auditor communications. Several attempts have been made in recent years to revise the auditor's standard report. They have failed, in part, because they were perceived as self-serving efforts to minimize the auditor's responsibilities. However, the Board believes that the issue must be considered again in an effort to communicate to users the auditor's responsibilities. The Board will consider and develop guidance regarding improved communications of the auditor's responsibilities. The consideration may include, but is not limited to, changes in the auditor's standard report.
- ☐ Client judgments and accounting estimates. Client judgments and accounting estimates are pervasive in financial statement preparation and usually involve uncertainty about future events. More consistency among auditors in the methods used to gather evidence about judgments and estimates and in auditor evaluations of them might increase user confidence in financial reporting. The Board will develop guidance on how the auditor obtains and evaluates evidence regarding management's judgments and accounting estimates.
- ☐ Study and evaluation of internal control. Existing standards for the study and evaluation of internal control are complex and subject to differing interpretations. Further, users seem to expect an audit opinion to convey some assurance about a company's control system. The Board will consider areas in which the standards on the study and evaluation should be amended and will revise them as necessary.
- ☐ Reporting on internal accounting control. Users of reports on internal accounting control perceive the reports to be inconclusive, and they expect auditors to take more responsibility for the integrity of controls. The Board will consider the need for, and if necessary develop, additional guidance on communicating the scope of the auditor's study and evaluation of internal controls.
- ☐ Opinion shopping. In December the Board exposed a proposed SAS, *Reports on the Application of Accounting Principles*. The proposed SAS addresses two expectation-gap concerns: opinion shopping and opinions given to persons marketing investments (often called "generic letters"). At its April meeting the Board tentatively agreed to issue the SAS.

The Board considers these expectation-gap projects to be high priority and is expending a considerable portion of its resources in resolving them. Nonetheless, because the Board believes that it should consider all points of view and because extensive due process is required of issues as important as these, exposure drafts are not expected on most of the projects before 1987. In the meantime the Board will discuss the matters in public meetings and expose its tentative conclusions about the issues being considered.

Institute Lauded for Public Service

At a reception in Washington, D.C., capping National Consumers Week (April 20-26), Virginia Knauer, special adviser to the President for consumer affairs, praised the AICPA for a "splendid public service program" in the publication and distribution of its brochure on credit cards.

Introduced by Edward Weinstein, chairman of the AICPA public service committee, to some 165 consumer-group leaders, government officials and the press, Knauer said that she has promoted this brochure, *Choosing a Credit Card? These 25 Tips May Save You Money*, in speeches from coast to coast. Credit cards have become a way of life, she said, but they are subject to fraud. This project, according to Knauer, deserves national attention for clarifying this complex selection process.

Multiple copies of the brochure and the text of a speech, "Credit Cards: The Responsibilities of the Consumer," had been previously made available to the state societies.

Bulk copies of the brochure, at $6 per 100, are available from the AICPA order department at 212/575-6426. Please specify Product no. 889312. For single copies of the brochure or copies of the speech text, contact Terry Zimmerer of the AICPA public relations division at 212/575-5573.

NAARS Adds Emerging Issues Material

The AICPA's National Automated Accounting Research System (NAARS) has added three new items to the retrieval system related to the Financial Accounting Standards Board project on emerging issues. They can be accessed by NAARS subscribers, at no additional charge, through the system's LIT file. The items are

☐ FASB Emerging Issues Task Force minutes (FEITFM);
☐ FASB Emerging Issues Task Force issues summary (FEITFIS); and
☐ FASB Emerging Issues Task Force dates when issues were discussed and their disposition (FEITFDDD).

Both the minutes and issues summary items will be updated about every six weeks following meetings of the task force.

The dates issues were discussed and their disposition will be revised about every eight weeks pending receipt by NAARS of the pertinent material from FASB.

For further information, contact Hal Clark at the AICPA (212/575-7075).

In a related matter, the FASB has announced that it is including emerging issues material in its subscription service, for an additional $100 per year; $80 for associate members of the FAF and members of the Accounting Research Association. Contact the subscription department, FASB, High Ridge Park, Stamford, Conn. 06905.

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

The auditing standards board will hold an open meeting on June 4-5 in the AICPA boardroom, New York City, starting at 8:30 a.m. each day. The tentative agenda is as follows:

Wednesday, June 4
☐ Auditor Communications (discussion of point outline).
☐ Auditing Client Judgments and Accounting Estimates (discussion of point outline).

Thursday, June 5
☐ Errors, Irregularities and Illegal Acts (discussion of preliminary draft).
☐ Pro Forma Financial Information (consideration of draft for publication).
☐ Update on Federal Government Accounting and Auditing Issues.

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

Washington Briefs

Pension Plan Amendment Deadline Extended—Under IRS announcement 86-60, specified employers have until June 30 to file amendments to pension plans for compliance with recent tax legislation. According to some plan administrators, this additional extension may not be sufficient to amend many plans.

Target Date on Certain Pension Rules Set—According to the *Federal Register* of April 21, December 1986 is listed as the proposed publication date on the tax treatment of cafeteria plans and Section 401(k) cash or deferred compensation plans. A Treasury Department official has indicated that current tax proposals regarding these items should not affect the final rules, since the current proposed tax reform provisions would not be retroactive.

Two Government Agencies Seek Staff Accountants—The SEC's enforcement division is looking for CPAs with at least three years' experience for its Washington, D.C., office to, among other things, investigate possible financial fraud violations by public companies. Salary range is in the mid-40s. For further information, contact Gene Johnson, Office of Personnel, 450 Fifth Street, N.W., Washington, D.C. 20549.

The Office of Surface Mining of the Department of the Interior has openings for about 30 field auditors in the reclamation and enforcement operation, primarily in the eastern U.S., who will be responsible for on-site audits of coal mining companies. Salaries range from $17,800 to $44,000. Contact Ms. Barbara Chadwick, Personnel Division, Office of Surface Mining Reclamation and Enforcement, 1951 Constitution Avenue, N.W., Washington, D.C. 20240.

Acting IRS Commissioner Designated—IRS Deputy Commissioner James I. Owens has been named Acting Commissioner of Internal Revenue until a new commissioner is nominated by the President and confirmed by the U.S. Senate. Owens is a career staff member with the IRS and became Deputy Commissioner in 1981. Former Commissioner Roscoe L. Egger, Jr., resigned on April 30, 1986.

FHLBB Issues Audit Requirements—Audit requirements regarding the Currency and Foreign Transaction Reporting Act were issued by the Federal Home Loan Bank Board in Bulletin PA-7a-3. It requires the independent auditor to study and test the institution's procedures for compliance with FHLBB T Memorandum 53-7 and to issue a special purpose report as described in AICPA SAS no. 30.

Staggered Filing? No!—About 75 percent of about 1,500 taxpayers questioned in a phone survey by the IRS prefer to continue filing by April 15 rather than having returns processed throughout the year.

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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Council Acts on a Variety of Proposals

Among its actions at its spring meeting in Boca Raton, Florida, on May 15-16, the AICPA council adopted a mission statement for the Institute prepared by a special committee, approved the formation of two voluntary membership divisions and authorized issuance to the members of the report of the special committee on standards of professional conduct for CPAs.

The following is a summary of the meeting highlights. Council

- ☐ Elected four members to the council to fill unexpired terms. They are F. Duane Blackley, Utah (to October 1986); Paula C. O'Connor, member-at-large—Washington State (to October 1986); Gary John Previts, Ohio, (to October 1987); and Ralph E. Wallingford, Texas (to October 1988).
- ☐ Adopted in principle a mission statement for the AICPA and received a background paper prepared by a special committee. It also authorized broad dissemination of the statement after final review by the board of directors.
- ☐ Authorized issuance of the report of the special committee on professional conduct for CPAs for consideration by the membership. (Supplementary materials will be forthcoming.) Committees will be appointed to deal with implementation issues. The report is scheduled for distribution in June.
- ☐ Received a report from a task force of the board of directors recommending the recognition and accreditation of specialties and authorized the creation of a senior committee on specialization.
- ☐ Authorized the formation of two more voluntary membership divisions to enhance the Institute's ability to respond to the needs of members with special interests in management advisory services and in personal financial planning.
- ☐ Amended an implementing resolution adopted in 1979 on Rule 505 of the code of Professional Ethics to eliminate the requirement that stockholders of professional corporations be jointly and severally liable for acts of the organization or its employees. It was believed that this requirement could impede legislative action to move toward the concept that each party would be severally liable for his or her proportionate share of loss.
- ☐ Heard a report from Financial Accounting Foundation President Rholan E. Larson on the activities of the special review committee, which was appointed to carry out certain oversight functions related to the FASB. This included a study of the criteria and qualifications desirable in the composition of the board.
- ☐ Adopted a resolution specifying the Governmental Accounting Standards Board as the designated body to establish accounting principles for state and local governmental entities, enforceable under Rule 203 of the Code of Professional Ethics. Prior to this action, GASB Chairman James Antonio gave a progress report on the board's work.
- ☐ Received a report from the task force on accounting standards overload, which has monitored the actions of the profession on the issue of standards overload.
- ☐ Accepted the interim financial statements for the eight months ending March 31, 1986, and the treasurer's report that estimates an excess of revenue over expenses of around $1.4 million for the fiscal year-end.
- ☐ Awarded the AICPA Medal of Honor, which goes to a nonmember for outstanding contributions to the profession, to Thomas C. Pryor, a retired financial analyst, and presented the Outstanding Educator Award to Joseph A. Silvoso, professor of accounting at the University of Missouri—Columbia.

Attestation Standards Issued by ASD

A recently issued statement by the AICPA auditing standards division covers services in which a CPA expresses a conclusion about the reliability of another party's representation and is similar to the standards proposed in February 1985.

Statement on Standards for Attestation Engagements provides that, in such cases, the CPA should either examine, review, or apply agreed-upon procedures to the assertion in accordance with this statement. Specifically, the statement which provides guidance in the five following areas:

- ☐ Defines an attest engagement;
- ☐ Provides standards for all attest engagements, which are a natural extension of (but do not supersede) the ten generally accepted auditing standards;
- ☐ Makes explicit five preconditions for attest services to be performed;
- ☐ Provides for two levels of attest assurance that can be reported for general distribution; and
- ☐ Provides for attest services based on agreed-upon procedures or agreed-upon criteria as long as the report is restricted to the parties who agreed upon the procedures or criteria.

Copies can be obtained from the AICPA order department (212/575-6426) at $1.75 per copy; $1.40 to members. (Product no. is 023021.)

Highlights of AcSEC Meeting

At its meeting earlier this month, the accounting standards executive committee conditionally approved publication of a statement of position, an auditing and accounting guide, and two exposure drafts and authorized issuance of three comment letters to the FASB. The following summarizes action taken:

- ☐ Approved for issuance, pending review by the FASB, a statement of position, *Reporting Funds Flows, Liquidity and Financial Flexibility for Banks.*
- ☐ Approved the issuance of a practice bulletin, *Accounting for Sales of Loans under Committed Facilities*, subject to clearance by the accounting standards planning subcommittee.
- ☐ Approved for exposure a draft audit and accounting guide, *Audits of Health Care Entities*, subject to clearance by the chairman of AcSEC and the FASB and review by the Governmental Accounting Standards Board.
- ☐ Approved for exposure a proposed statement of position, *Accounting for Venture Capital Investment Companies*, subject to clearance by the AcSEC chairman and review by the FASB.
- ☐ Approved for issuance three comment letters based on FASB exposure drafts. They are *Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans; Regulated Enterprises—Accounting for Phase-in Plans, Abandonments and Disallowances of Plant Costs;* and *Objectives of Financial Reporting.*

GASB sets Public Meeting Dates

The Governmental Accounting Standards Board has set dates for public meetings for the next few months. All of the meetings will be held in Stamford, Connecticut. The dates are June 12-13, July 10-11, August 14-15 and September 11-12. Precise time and agenda will be announced about one week before each meeting.

Also, a public meeting of the Governmental Accounting Standards Advisory Council (GASAC) will be held on July 9 at the Hotel Westin in Stamford, Connecticut, beginning at 9:00 a.m.

For additional information, call the GASB at 203/968-7300.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

ASB Meeting Highlights

At its meeting last month, the auditing standards board

- ☐ Voted to ballot on a final SAS, *Reports on the Application of Accounting Principles*, after discussions are held with the ethics division on the proposed ethics interpretation;
- ☐ Approved further study of issues raised by the reporting on internal control task force including
  1. Reconsideration of the author's responsibilities with respect to material weaknesses,
  2. Solicitation of input from the focus group of report recipients and users,
  3. Review of the attestation standards for possible opportunities for adapting to internal control reporting situations,
  4. Review of the auditor's reporting responsibilities for study and evaluation of internal control including modification of current report language;
- ☐ Agreed with a task force that the language of the auditor's standard report should be reconsidered. Also agreed that further consideration should be given to the responsibility of the auditor to communicate with the board of directors and audit committee; and
- ☐ Voted not to issue the proposed SAS, *The Auditor's Consideration of Uncertainties*. The board will consider initiating a project to reconsider the auditor's responsibility for "going concern" questions and when a "subject to" opinion is appropriate.

FASB Publishes Research Report on Functional Currency

The Financial Accounting Standards Board has issued a research report that discusses the results of a questionnaire survey on the process used by 180 multinational corporations to determine the functional currencies of their foreign subsidiaries. It is intended to provide insight into the approaches taken by companies, the factors used in the decision-making process and the relative weight given to each factor.

The study concludes that different determinations of functional currencies appear to reflect substantive differences in foreign operations and that, on the whole, the functional currency decisions appear to be consistent with FASB Statement no. 52 guidelines. The research report, *Determining the Functional Currency under Statement no. 52*, is available from the FASB order department, High Ridge Park, P.O. Box 3821, Stamford, Connecticut 06905-0821.

NOTICE OF AICPA PUBLIC MEETING

Accounting and Review Services

The AICPA'S accounting and review services committee will hold an open meeting on June 26-27 in the Washington, D.C., office of the AICPA, starting at the times shown on the following agenda:

Thursday, 10:30 a.m.-3:30 p.m.

- ☐ Forum to identify factors that prompt practitioners to extend the scope of their compilation and review engagements beyond the requirements of SSARS no. 1.

Friday, 9:00 a.m.-5:00 p.m.

- ☐ Consider draft for publication of proposed SSARS on reporting on personal financial statements included in personal financial plans.

Professional Ethics

The professional ethics executive committee has an open meeting scheduled for June 24 at the AICPA offices in New York, starting at 9:30 a.m. The following items will be considered for exposure:

- ☐ Ruling no. 67 under ET Section 191—Independence and the Amount of a Fee;
- ☐ Ruling no. 68 under ET Section 191—Client Fees as a Percentage of a Member's Total Annual Fees;
- ☐ Ruling no. 11 under ET Section 391—Personal Financial Management Service.

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

AICPA Board Receives Recommendations for Improving Financial Reporting

A special meeting of the board of directors was held on May 17 in Boca Raton, Florida, following the spring council meeting to receive recommendations submitted to the board by the heads of seven large accounting firms.

The recommendations were developed for consideration by the accounting profession, the Financial Accounting Standards Board, the business community and others. They are designed to enhance the future relevance, reliability and credibility of financial information.

According to AICPA president Philip B. Chenok, the board welcomed the initiative of these AICPA members in developing recommendations to aid the profession in responding to current challenges. He noted that "the document acknowledges the foundation for change already built by the profession's responsiveness to evolving challenges, and the relevant initiatives already undertaken by the accounting profession and others."

Nevertheless, Chenok said "the board believes that there is always room for improvement, the the Institute should continue to initiate changes where warranted."

Copies of the paper are being submitted to appropriate Institute groups for consideration. Among the overall recommendations are the following:

- ☐ Disclosure of risks and uncertainties should be improved and made subject to audit coverage. Specifically, consideration should be given to requiring *public companies* to disclose information on risk concentration; uncertainties, significant judgments, assumptions and estimates; as well as to enhance management discussion and analysis.
- ☐ The SEC should consider requiring all firms that audit SEC registrants to belong to the SEC practice section of the division for CPA firms.
- ☐ Congress should extend SEC jurisdiction to all companies in which there is a sufficient public interest, such as nonpublic deposit-taking institutions, insurance companies and government securities dealers.
- ☐ Enhance the auditing standards board's capacity to develop auditing standards by considering a full-time chairman, full-time board members, increased staff, and increased budget and expanded representation for large firms.
- ☐ Enhance the public's perception of the independence and objectivity of auditors, by requiring them to have regular communications with audit committees of public companies or the boards of directors on such matters as consultations with other CPAs, business and other risks facing a company, large and unusual transactions, and situations where alternative generally accepted accounting principles could materially affect the financial statements. Also, the POB should complete its study on the promotion of MAS work and its effect, if any, on the perception of audit independence and objectivity.
- ☐ Enhance public confidence in the work of the special investigations committee of the SEC practice section by taking appropriate steps to obtain the SEC's endorsement of the SIC process.
- ☐ Eliminate the potential abuse of "opinion shopping" such as (1) strengthened Form 8-K disclosures when there are auditor changes and follow up when there are reported differences on accounting or auditing matters, (2) Form 8-K disclosures for auditor changes by regulatory agencies other than the SEC, (3) peer review coverage of engagements involving 8-K disclosures of disagreements or the resignation of a former auditor and (4) expansion of audit standards to require successors to focus more sharply on the circumstances of a change in auditors where there is no 8-K type requirements.

The recommendations were submitted by J. Michael Cook, Deloitte Haskins & Sells; William L. Gladstone, Arthur Young; Ray J. Groves, Ernst & Whinney; Larry D. Horner, Peat, Marwick, Mitchell & Co.; Edward A. Kangas, Touche Ross & Co.; Duane R. Kullberg, Arthur Andersen & Co.; and Peter R. Scanlon, Coopers & Lybrand.

Copies are available, upon request, from the AICPA order department. Please specify publication no. G00460.

Mellin Named FAF Trustee; Simpson to Head FASAC Staff

Robert A. Mellin, former senior partner in the CPA firm of Hood and Strong, has been elected to a three-year term as a Financial Accounting Foundation trustee. A former member of the AICPA's council and board of directors, he also chaired several AICPA committees.

Paul G. Simpson, a partner in Ernst & Whinney, has been appointed executive director of the Financial Accounting Standards Advisory Council, according to Paul Kolton, chairman of the council. The appointment was effective May 1.

Simpson has been executive partner of Ernst & Whinney since 1983 and succeeds Clyde W. Moonie who left to form a new business venture.

The advisory council consults regularly with the Financial Accounting Standards Board on major policy questions, technical issues on the board's agenda, project priorities and formation of task forces. Its 33 members represent preparers, auditors and users of financial information.

CPE National Curriculum Draft Exposed

The AICPA's CPE division recently sent copies of the exposure draft, *National Curriculum, A Pathway to Excellence,* to various segments of the membership, including state society leaders, pertinent AICPA committees and a sample of members of accounting firms and associations. The goal of the proposed curriculum is to provide members with assistance in program selection through the use of an overall framework of specified knowledge and skills and to provide course developers with a guide to aid them in developing comprehensive CPE programs. An accompanying questionnaire sought information on how a recipient would use this material, and comments on its structure and content.

Although the due date for comments is the end of this month, copies of the draft curriculum are still available. Contact Lorrin Philipson at the AICPA (212/575-5402).

GASB Proposes Statement on Applicability of SFAS no. 87

The GASB proposes to formalize its previous recommendation that state and local governments not change their pension accounting and financial reporting as a result of the issuance by the FASB of its Statement no. 87, *Employers' Accounting for Pensions.* Pronouncements in this area by the GASB should be forthcoming in the near future.

The exposure draft also presents a historical background of the GASB's activities in dealing with this and related subjects. Comments are due by July 25, and copies of the proposal are available from GASB, High Ridge Park, P.O. Box 3821, Stamford, Connecticut 06905-0821.

FIELD TESTERS WANTED FOR AICPA SELF-STUDY COURSES

The AICPA has a policy of field-testing self-study CPE courses before they are marketed in order to ensure their quality. In return for providing feedback, testers may keep the course materials and be eligible for recommended CPE credit at no cost. If you are interested, check your area of interest and return this form to Cecile Segal at the AICPA. For further information call her at 212/575-6223.

☐ Accounting and Auditing ☐ CPAs in Industry
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____
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Washington Briefs

Tax Chairman Testifies at Ways and Means Hearing—In general support for adequate IRS funding, AICPA Tax Division Chairman Albert B. Ellentuck told the House Ways and Means Subcommittee on Oversight on May 12 that "weakened IRS operations have served to erode the public confidence which is essential to our self-assessment system." He noted that "reduced budget allocations to the IRS not only affect operations but also taxpayer perceptions of the IRS, which in turn affect voluntary compliance."

Senator Would Consider Repeal of Civil RICO—In an exchange between Senator Dale Bumpers (D-Ark.) and SEC Chairman John S. R. Shad at an Appropriations Subcommittee hearing on the SEC's budget, the senator said that Congress never intended the law to operate in the manner discussed. After Mr. Shad replied affirmatively to a question as to whether he favored amendment to the civil provisions of RICO, Senator Bumpers concluded by saying that he would consider "outright repeal of civil RICO."

SEC Revises Rule on Consolidations—The SEC has revised rule 3A-02 of Regulation S-X, which provides guidance on the consolidation of financial statements of a registrant and its subsidiaries. Effective date is June 11. Contact Robert Kueppers at 202/272-2130 for further information.

CPA Named Assistant IRS Commissioner—Percy Woodward has been appointed to the newly created position of Assistant Commissioner for International Matters. Woodward, who joined the IRS in 1959, most recently served as Assistant Commissioner for Examination in Washington State.

CPA Wins SBA Award—Anthony R. Wilkinson, senior vice-president, Stillwater National Bank and Trust Company in Oklahoma, has been selected as the Financial Services Advocate of the Year by the Small Business Administration. He was cited for his "outstanding contributions as a small business lender."

Continuing Education for Enrolled Agents—The IRS announced in an information release (IR-86-65) that enrolled agents other than CPAs and lawyers will soon receive information on new continuing education requirements for renewal of their enrollments. After an initial qualification period such agents will have to complete at least 72 hours of continuing education every three years.

SEC Secretary Resigns—John Wheeler, secretary of the SEC, has resigned, effective May 23, to work full time on several nonprofit projects. He had been with the SEC since 1978.

The CPA Letter

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

June 9, 1986
Vol. 66 No. 11

The CPA Letter

A Semimonthly News Report Published by the AICPA

New Legislation Would Change Auditor Responsibilities

Congressman Ron Wyden (D-Ore.) has introduced in the House of Representatives the "Financial Fraud Detection and Disclosure Act of 1986."

The bill (H.R. 4886) is cosponsored by six other Democratic members of the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce including Congressman John D. Dingell (D-Mich.), the committee's chairman.

If enacted, the bill would require auditors of public companies to

- Detect, without regard to materiality, *any* actual or suspected illegal or irregular activity by any director, officer, employee, agent, or other person associated with the audited entity.
- Report publicly and to applicable federal, state, or local regulatory or enforcement agencies all instances of actual or suspected illegal or irregular activities.
- Evaluate and report publicly on the audited entity's system of internal administrative and accounting controls.
- Sign the audit report as individuals, rather than using just the firm name.

The bill would protect auditors, who act in good faith, from liability for any public or other report on actual suspected illegal or irregular activities.

The Institute expects to comment on the bill when AICPA representatives appear at the next subcommittee hearing, scheduled for June 19.

Need for More Useful Federal Financial Information Found

The federal government is providing inadequate information to legislators, government managers and other users of government financial data, according to a joint study conducted by the General Accounting Office and the Office of the Auditor General of Canada.

A basic finding of *Federal Government Reporting Study, A Summary Report,* "was the prevailing view of user respondents that a comprehensive but concise annual financial report of the federal government would be extremely valuable. The respondents want such a report to provide a broad and complete picture and understanding of the government's many and varied activities and resulting overall financial position, and to serve as a key into the more detailed information the government now provides in other financial documents."

User groups indicated that government reports were often insufficient and they had to rely on each other, analysts and the media to communicate financial information about the federal government.

Copies of the *Summary Report* (GAO/AFMD-86-30) and the *Illustrative Annual Financial Report of the U.S. Government* (GAO/AFMD-86-30A) are available from the GAO, P.O. Box 6015, Gaithersburg, Maryland 20877.

Gibbs Nominated as IRS Commissioner

As expected, President Reagan has nominated Dallas lawyer Lawrence Gibbs as IRS Commissioner to replace Roscoe Egger, Jr., who resigned effective April 30. (See April 14 *Letter*.)

Two AICPA Vice-presidents Named

George R. Dick has been named to the position of vice-president—review and regulation, according to an announcement by AICPA President Philip B. Chenok. Dick replaces William Bruschi, who recently retired after 27 years on the Institute staff.

He assumes responsibility for Institute activities in the areas of professional ethics, quality control review, state legislation, the uniform CPA examination, aid to minorities and relations with educators. Dick joined the AICPA staff in 1970 as a manager in the CPE division, served as director of technical information and, most recently, was director of the examinations division.

Dr. Edward A. Buckley has been appointed to the newly created position of vice-president—member services, according to AICPA President Philip B. Chenok. He joined the Institute staff on June 4.

Buckley has executive staff experience with other professional societies. Most recently, he was managing director—member affairs and education with the American Society of Mechanical Engineers. Prior to that he was programs director for the Society of Plastic Engineers.

In his new capacity, Buckley will have overall responsibility for members services other than the CPE and publications divisions. He will be responsible for keeping the Institute attuned to changing member needs and insuring that it responds with effective programs and services. In addition to coordinating the array of services now being offered by the Institute, Buckley will undertake to identify, develop and deliver appropriate new member services.

Oveson Nominated to Fill Council Vacancy

The AICPA nominations committee has proposed W. Val Oveson of Salt Lake City for a three-year term as Council member-at-large. Oveson, who is Lieutenant Governor of Utah, was formerly state auditor for Utah. His nomination, as well as others, will be acted upon at the meeting of Council on October 18, 1986 (see nominations report in April 28 *Letter*).

Disability Insurance Deadline Is July 1

AICPA members who wish to begin or increase their coverage under the Long Term Disability Income Plan must act before July 1. Special features of the plan, which is available to individual members of the Institute, include the following:

☐ Monthly disability income benefit payments that range from $500 to $5,000 for disabilities caused by either sickness or accident;

☐ Disability income benefits, after a 26-week waiting (elimination) period, may be paid for life, if the disability is incurred before age 50, or to age 65 if the disability is incurred at or over age 50;

☐ A voluntary rehabilitation program under which the insured CPA may return to work while receiving monthly disability income benefits in reduced amounts. The program also includes provision for the payment of approved rehabilitation training and education expenses.

Invitations and descriptive literature are being mailed this month. Additional information is available from the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158. Telephone: 800/221-4722; in New York call collect at 212/661-9000. Ask for extension series 436.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

MAP Committee Schedules Conferences

The AICPA's management of an accounting practice committee has scheduled two conferences, each to be held at two locations, this summer and fall.

The first session, Practice Management (East), will be held at the Opryland Hotel, Nashville, Tennessee, on July 14-16. Among the topics to be discussed are positioning the firm, partner compensation, practice development, career paths for professional staff and mergers for growth.

The second presentation, Practice Management (West), is scheduled for November 10-12 at the Pointe at Tapatio Cliffs, Phoenix, Arizona, where such subjects as partner evaluation, managing for profit and annual business plans will be on the agenda.

Registration fee for each conference is $370. David McThomas at the AICPA can supply more information (212/575-6439).

The 1986 Small Firm Conference has been set for August 21-22 at the Seattle Sheraton Hotel, Seattle, Washington and on September 18-19 at the Waverly Hotel, Atlanta, Georgia. Using a combination of presentations, group discussions and question-and-answer sessions, this two-day program will deal with such topics as practice development, specialization, developing a personal financial planning practice and the problems and opportunities offered by the firm's computer.

Registration fee is $285, and additional information, including a brochure, can be obtained from Robert Gannon at the Institute (212/575-3826).

Division for CPA Firms Issues Manuals

The AICPA's division for CPA firms has issued revised editions of the loose-leaf and bound volumes of the PCPS and SECPS manuals.

The bound booklets include the respective section's organizational document (which contains membership requirements), revised standards for performing and reporting on peer reviews, standards for involvement by associations of CPA firms and state societies, and other administrative peer review procedures. The SECPS manual also includes a description of the objectives, organization and operations of the special investigations committee. The loose-leaf manuals include revamped programs and instructions for performing peer reviews and a new checklist for reviewing audits of governmental entities.

The changes in peer review standards and programs are expected to simplify the conduct of reviews while further enhancing the consistency of reported results. The new approaches were developed by a joint PCPS-SECPS task force, and were extensively field tested.

Copies of the revised loose-leaf manuals, including the bound booklets, have been mailed to members of both sections. Additional copies are available from the AICPA order department at $42 each (Product no. 018095 for PCPS and no. 017976 for SECPS). Copies of the booklets may be obtained separately at $5 each (Product no. 018019 for PCPS and no. 018080 for SECPS). The telephone number is 212/575-6426; or write to P.O. Box 1003, New York, New York 10036-1003.

Three AICPA Members Expelled

The following members have been expelled from AICPA membership under the automatic provisions of the Institute's bylaws:

- ☐ Russell Houston Strong of Breckenridge, Texas, on February 24, 1986, following his conviction in a U.S. district court on his plea of guilty to filing false claims against the U.S.
- ☐ Max Septimus of New York City, on March 3, 1986, following his conviction in a U.S. district court on his plea of guilty to conspiracy and to receiving unlawful compensation.
- ☐ Harvey Tanton of New York City, on March 5, 1986, following his conviction in a U.S. district court on his plea of guilty to assisting in the preparation and presentation of a fraudulent income tax return.

Washington Briefs

IRS Practitioner Survey—The AICPA's tax division has asked the *Letter* to announce that it has neither approved nor disapproved of the current IRS-sponsored nationwide survey to determine attitudes of tax practitioners toward the IRS and certain areas of tax preparation. Some potential respondents were given the impression that the Institute supported the survey.

Although a tax division subcommittee had reviewed drafts of the survey, and had provided suggestions to the IRS, many of the recommendations were not adopted.

If you have any questions about the survey, contact Edward S. Karl of the AICPA at 1620 Eye Street, N.W., Washington, D.C. 20006 (202/872-8190).

Tort Reform Bill Introduced—*Professionals' Liability Insurance Reform Act of 1986* is the title of a bill (H.R. 4874) which would require states to pass laws conforming to the minimum standards set by the bill, or have them imposed by federal regulation. Introduced by Congressman Don Ritter (R-Pa.), the bill would apply to civil actions in state courts based on negligence, strict liability or malpractice. "Accountants" are among the covered professionals. Included in the minimum standards are pretrial screening, limitation of joint and several liability, restrictions on contingent fees and limitation of noneconomic damage awards to no more than $250,000.

RICO Reform Gets Further Support—In a recent speech, Richard K. Willard, assistant attorney general for the civil division, Department of Justice, said that "private civil RICO has evolved into something entirely different from the original conception of its enactors." He cited an AICPA survey of 132 published decisions that showed only 5 suits involved the kinds of activity associated with organized crime, such as arson, extortion or bribery. Willard concluded by saying, "Many respected groups have begun to speak out about the need for reform. Even the Judicial Conference of the U.S. adopted a resolution this month [May] urging the Congress to 'narrow the reach' of civil RICO...."

Effective Date of New Tax Provisions—Most provisions of any tax reform legislation passed this year will be effective January 1, 1987. The only exceptions are repeal of the investment tax credit, provisions regarding arbitrage bonds and the penalty tax on reversions when qualified plans are terminated, all of which would be effective as of January 1, 1986. Individual rate reductions would take effect on July 1, 1987. These comments were made by Assistant Secretary J. Roger Mentz before the AICPA's spring tax meeting last month.

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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Testifies on Proposed Fraud Legislation

"Independent auditors, as the public's watchdog, must be accountable for reasonably assuring that the financial statements they are certifying are not misleading because of fraud." So said Congressman John D. Dingell (D-Mich.) in opening the June 19 hearing of the House Energy and Commerce's Subcommittee on Oversight and Investigations. The subcommittee is looking into recent proposals for improving the performance of independent auditors, particularly in detecting and disclosing financial fraud.

Much of the hearing dealt with a bill recently introduced by Congressman Ron Wyden (D-Ore.) that would require auditors to report publicly and to regulatory or enforcement authorities any fraudulent or illegal acts, even if only suspected and even if not material.

In leading off the testimony by AICPA representatives, Board Chairman-Elect J. Michael Cook said the Institute doesn't believe that management fraud is widespread nor that there is evidence of a major breakdown in our system of corporate accountability. He emphasized that "we cannot accept the assertion that a business failure necessarily includes a failure on the part of the independent auditor." He concluded by saying, "Despite our different views on the nature and magnitude of the problem, I can assure you that we hear you loud and clear, and you have my personal commitment that we will respond as appropriate and necessary, on a timely basis."

Responding to a question from Congressman Wyden, Cook said that the primary responsibility for dealing with fraud and illegal acts, including the responsibility to report such matters to the appropriate regulators, rests with the companies' boards of directors and audit committees. He stressed the independent auditor's responsibility to report reservations in the auditor's opinion and to consider resigning from an engagement in specified circumstances. Cook stated that the AICPA would soon recommend to the SEC more expanded disclosure of the reasons for resigning from an audit engagement, particularly where there are questions about management's integrity.

AICPA President Philip B. Chenok testified that "the profession is acting conscientiously and responsibly to meet public expectations." He addressed the initiatives undertaken by the AICPA and others to enhance the effectiveness of independent audits since he last appeared before the subcommittee a year ago. These include participation in the creation of an independent commission on fraudulent financial reporting, extensive projects by the auditing standards board on internal control, fraud and illegal acts, auditors' communications and other "expectation gap issues." Chenok said: "We need to strengthen the existing system and there is a need for added vigilance, but we do not see justification for legislation."

Chenok was followed by George D. Anderson who summarized the report of his special committee on standards of professional conduct by CPAs.

Wyden indicated a willingness to make revisions to his bill. He focused on a suggestion proposed by Congressman Joseph DioGuardi, CPA (R-N.Y.) which would have the auditor bring possible fraudulent activities first to the attention of the company's audit committee. The auditor would report to regulatory authorities only if the audit committee failed to deal with the matter to the satisfaction of the independent auditor.

Fraud Commission: The First Six Months

In recent speeches and in testimony before the Dingell hearings, Chairman James R. Treadway, Jr., of the National Commission on Fraudulent Financial Reporting, has given a six-month progress report on the work of the commission. This period saw the generation of many research projects, exchanges among the commission members on a variety of topics related to this "multidimensional" problem and several presentations by outside experts. This summer various internal and external research projects will be analyzed for consideration at fall meetings, when final decisions will be made on numerous issues. These decisions will serve as the basis for an exposure draft which will be distributed for public comment early in 1987.

In its efforts to determine the causes of fraudulent financial reporting, the commission has focused on a number of areas, Treadway said, including management, the audit committee and corporate environment—all parts of what he termed the corporate governance area—as well as the independent public accountant and the accounting profession's system of regulation and enforcement.

The final report is expected to be published in mid 1987.

1986 Tax Reform Act Provisions to Be Discussed

For the CPA

To disseminate information on the 1986 Tax Reform Act to members as soon as possible, the AICPA is preparing CPE seminars, self-study courses, audio and video programs.

A comprehensive cassette/workbook/reference book self-study course, covering the act in detail, will be available two weeks after a bill is enacted. A video-based program, featuring Sidney Kess and several other expert tax panelists, will present an overview of the Tax Reform Act. Three additional video programs will analyze the effect of the act on three specific areas—real estate and tax shelters, retirement plans, and the alternative minimum tax.

Self-study audiocassettes of these four Kess programs also will be available. The overview program will be ready for shipment two weeks after the bill's enactment; the remaining courses will be available 30 days after passage. Seminars on the act, including workshops on individual and corporate income tax, will reflect the changes brought about by the act.

For information on any CPE programs regarding the 1986 Tax Reform Act, call 800/AICPANY; in New York State, call 212/575-5696.

For the Client

The CPA *Client Bulletin* will devote an entire six-page issue to the new major tax reform legislation, as part of the regular subscription service. Due to the uncertainties in the timing of the proposed bill's final enactment, its provisions probably will not be reported before the October issue.

Annual subscriptions to this monthly client information service are available to AICPA members at $135 for the minimum of 50 copies per month. Each additional lot of 25 copies per month is $36 per year. Imprinting of the firm name and three additional lines of copy above the masthead costs $72 a year for the first 50 monthly copies; $6 for each additional lot of 25.

Additional undated quantities of the special issue can be obtained by members in lots of 25: $10 each for nonsubscribers; $5 for subscribers.

To order, write the AICPA circulation department after the bill is enacted.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

Special Report, *The CPA Letter*, June 30, 1986

AICPA LEGISLATIVE PROGRAM FOR TORT REFORM

The following statement has been prepared by the special committee on accountants' legal liability to explain the work and goals of the committee.

The American Institute of Certified Public Accountants (AICPA), representing 240,000 members across the country, has developed a program to address the crisis of expanding liability exposure which is affecting not only accountants but a range of other business, professional and public service groups.

The pervasiveness of the problem is reflected in the number of trade, professional, industry and civic organizations that have formed special task forces or joined coalitions to devise solutions to the liability crisis. The AICPA has joined forces with representatives of these various special groups.

Recent public attention has focused primarily on the insurance aspect of the liability crisis, reflected in escalating premium costs and shrinking coverage. We believe, however, that the insurance crisis is only one facet of the liability crisis and is, in fact, a symptom rather than a cause.

It is our conviction that the chief cause of the liability crisis is a tort system which has become dangerously out of balance as the result of a trend of expanding liability, which began approximately 20 years ago. We recognize that legitimate grievances require adequate redress, but fairness demands equity for the defendant as well as the plaintiff. Such equity is now lacking in the system, and the balance must be restored.

In order to redress the present imbalance in the tort system, the AICPA has identified five principal areas in need of legislative reform, whether at the state or federal levels:

1. *Proportionate Liability*

The most significant area in need of reform is the replacement of the prevailing rule of "joint and several" liability with "several" liability alone, in federal and state actions predicated on negligence. Under the "joint and several" rule, a claimant can collect all or part of his damages from any defendant found liable, irrespective of that defendant's proportionate fault. For example, an auditor-defendant that is held to be only 5 percent responsible, may be required to pay all of the damages awarded and, in seeking contribution from other tortfeasors, bears the risk that they may be judgment-proof.

Although many states have adopted comparative negligence laws that provide for liability apportionment based on the parties' relative degrees of fault, all but a few states continue to maintain the rule of "joint and several liability," and an evaluation of comparative fault is meaningless if a minor tortfeasor must bear the cost of all damages. If the "joint and several" rule is replaced with a "several" liability rule, a defendant would not be compelled to pay more than his proportionate share of the claimant's loss relative to other responsible persons.

2. *Suits by Third Parties—The Privity Rule*

The second target area for reform is the promotion of adherence to the privity rule as a means of countering the growing tendency to extend accountants' exposure to liability for negligence to an unlimited number of unknown third parties with whom the accountant has no contractual or other relationship. The AICPA endorses the privity rule formulated by the New York Court of Appeals, which permits third party negligence suits against accountants only where the accountant knows and understands that the financial statements are intended for use by that particular party, for a particular purpose, and the accountant shows that he understands this through some direct contact and communication with that particular party.

The AICPA strongly opposes the "foreseeability" rule adopted in New Jersey and a few other states, which allows a negligence suit to be brought by any third party whose reliance on financial statements audited or otherwise reported on by an accountant could reasonably have been foreseen by that accountant. The AICPA supports efforts to enact legislation that embodies the New York privity rule. Through the submission of *amicus curiae* briefs, the AICPA also supports efforts to persuade appellate courts in states considering this issue to adhere to the privity rule.

3. *Racketeer Influenced and Corrupt Organizations Act (RICO)*

A third major area of concern is the proliferation of RICO claims against accountants and others. The AICPA supports corrective legislation to amend federal and state RICO statutes to provide that treble damage civil actions brought under those statutes may only be initiated against businesses and individuals who have been convicted of criminal violations under the act. Such legislation would confine the situations in which RICO suits can be filed to those in which public prosecutors have segregated those individuals who may fairly be charged with being involved in criminal activity from those who should not be subject to accusations of "racketeering."

If Congress enacts such an amendment, persons allegedly injured by conduct that has not led to criminal prosecution and conviction would still have available all *other* federal and state law remedies that apply to commercial disputes and alleged torts. The AICPA believes that the prior criminal-conviction requirement would be the most direct and precise way to return RICO to its intended use as a weapon against career criminals, and its abuse as a weapon in ordinary commercial litigation would end.

4. *Costs and Frivolous Suits*

Another prime concern is deterrence of the increasing numbers of frivolous suits and attorneys' fees arrangements that provide incentives for the plaintiffs' bar to file lawsuits against "deep pocket" defendants, regardless of merit. The AICPA supports a variety of measures that would help to curb the abuses that have arisen under the current system, including legislative proposals to provide for the following:

(a) Adoption of the "British Rule," which imposes the costs of litigation on the losing party;
(b) Imposition of sanctions on parties or their counsel who bring baseless suits or engage in dilatory practices;
(c) Establishment of maximum or reduced levels for contingency fees;
(d) Abolition of punitive damages; and
(e) Reduction of the statute of limitations for negligence actions.

5. *Aiding and Abetting Liability*

The AICPA also believes there is a need to clarify the *scienter* or knowledge standard by which auditors may be held secondarily liable for aiding and abetting a violation of law by those who are primarily responsible. Specifically, the AICPA supports legislative reforms to require a finding of actual knowledge by the CPA of the primary party's wrongdoing, as opposed to reckless disregard of facts which would have led to the auditor's discovery of such wrongdoing.

The need for reform in this area is dictated by the judicially adopted legal doctrines under which accountants are routinely charged with liability for violations of law by indirectly "aiding and abetting" another person in the commission of such violations. Although the CPA is the "secondary" and not the "primary" violator, he may be liable for the full extent of the loss. While an essential element of a fraud claim is *scienter* or knowledge of wrongdoing, many courts have held that reckless conduct of an auditor, such as ignoring an indication of some underlying fraud or impropriety in a client's business, is also sufficient to meet the *scienter* standard. Some courts do require actual auditor knowledge of the wrongdoing, but the uncertainty as to the *scienter* requirement itself breeds uncertain results, stimulates more litigation and increases the rate of settlement to avoid the risk of an uncertain outcome.

INCORPORATION AS A VEHICLE TO LIMIT LIABILITY EXPOSURE

Accountants may be able to achieve some protection from personal liability for the acts of others in the firm by incorporating, either individually or as a firm, as a professional service corporation. A partner in a partnership is almost always personally liable for the obligations of the partnership that exceed the partnership's assets, and vicariously liable for the wrongful acts of his partners. A member of a professional service corporation may be afforded protection against vicarious personal liability for acts committed by someone not under his direct supervision and control.

In a recent action, AICPA Council removed from its Implementing Resolution under the Corporate Practice Rule (Rule 505) the requirement that members practicing as shareholders in a professional corporation or association had to be jointly and severally liable for the actions of other shareholders.

AICPA encourages members to investigate the opportunities of practice as a professional corporation, keeping in mind certain important limitations. The statutes commonly impose licensing and qualification requirements that make corporate practice on a multi-state basis impractical. For example, many of the professional service corporation statutes and corresponding accounting regulations require that all shareholders be licensed to practice in the state of incorporation. There may also be obstacles to the admission in one state of a corporation domiciled in another. Thus, regional or intrastate firms may find incorporation a more attractive option than larger firms with a nationwide practice.

Five International Accounting and Auditing Documents Readied

An auditing guideline and three exposure drafts have been issued by the International Federation of Accountants (IFAC); the International Accounting Standards Committee (IASC) has also released an exposure draft.

- ☐ International Auditing Guideline no. 23, *Going Concern*, provides guidance when the going concern assumption, as a basis for preparing financial statements, is in question. It provides examples where "going concern" should be questioned, outlines standards for collecting audit evidence in such cases and describes the audit procedures that may be performed to obtain such evidence.

  Copies may be obtained from the AICPA order department (212/575-6426) at $2.50 each; $2.00 for members (Product no. 019238).
- ☐ Exposure Draft no. 25, *Materiality and Audit Risk*, defines and describes the concepts of materiality and audit risk, their interrelationship and application to planning and executing an audit, and in evaluating audit procedures.
- ☐ Exposure Draft no. 26, *Audit of Accounting Estimates*, provides guidance on the procedures that should be used to obtain reasonable assurance as to the appropriateness of accounting estimates contained in financial information.

  Comments on both proposed guidelines should be directed to Dan Guy at the AICPA by October 31, 1986. Copies of the proposals may be obtained upon written request from the AICPA order department (Product nos. G00343 and G00344 respectively).
- ☐ A proposed international education guideline prepared by IFAC's education committee has been released for exposure. It is designed to assist developed and developing countries in drawing up their own operational guidelines for education and training of accounting technicians. The draft is in response to the conclusions reached at the Asia and Pacific Conference on Accounting Education for Development. Copies of the paper may be obtained by writing the AICPA's relations with educators division. Comments should be sent to James MacNeill at the Institute by October 31, 1986.
- ☐ The International Accounting Standards Committee (IASC) issued its Exposure Draft no. 28, *Accounting for Investments in Associates and Joint Ventures*, this month, and copies are available from the AICPA order department (Product no. G00362). Comments should be submitted to Fred Gill at the Institute by November 30. The proposed standard will deal with accounting for those investments in other enterprises in which the investor has significant influence over the financial and operating policies of the investee. It proposes that these instances be accounted for in consolidated financial statements under the equity method, except in certain instances.

Draft SOP Issued by AcSEC

The not-for-profit organizations committee of the AICPA's accounting standards division has exposed a proposed statement of position, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund Raising Appeal*. It would amend SOP 78-10 on nonprofit organization accounting and reporting, and the industry audit guide on voluntary health and welfare organizations.

If approved, the proposed SOP would recommend that if it can be demonstrated that a bona fide program of management and general function has been conducted in conjunction with an appeal for funds, joint costs of informational materials or activities that include a fund-raising appeal should be allocated between fund raising and the appropriate program of management and general function. Otherwise, these costs should be reported as fund-raising expense.

Copies can be obtained by writing the AICPA order department and requesting Product no. G00264. Comments are due by August 23 and should be directed to Fred Gill at the Institute.

CPAs Appointed to Conference

The White House Conference on Small Business has announced the appointment of two CPAs as national commissioners:

☐ Harvey A. Goldstein of Los Angeles, managing partner of the accounting firm of Singer, Lewak, Greenbaum & Goldstein, will specialize in the area of taxation. He is a member of California's State Small Business Development Board, an appointee to the National Productivity Advisory Committee and a former Small Business Administration Accountant Advocate of the Year.

☐ Specializing in international trade matters will be Thomas S. Watson, Jr., who is chairman and chief executive officer of Watson, Rice and Company, CPAs, in Washington, D.C. He has served on the Department of Commerce's Advisory Council for International Trade Policy for Small and Minority Business and has participated on an export policy task force for the U.S. Chamber of Commerce.

Also, the President has appointed Gregory K. Washington, CPA, of Washington, D.C., as a delegate to the conference.

Public Service Winners to Be Honored

Once again, the AICPA will hold a reception during the annual meeting in Kansas City this fall to honor Public Service Award recipients cited by their state societies. To be a candidate for a Public Service Award, a CPA must have met at least one of the following criteria:

☐ Participation in community, charitable or other civic activities on an ongoing basis;

☐ Responsibility for a public service project which had a significant and positive effect on the community;

☐ Service in a notable volunteer capacity in government at the local, state or national level;

☐ Service in an outstanding manner as an appointed or elected governmental official at the local, state, or national level.

State societies have been requested to submit information on their award recipients to the AICPA by July 18. Last year, 28 state societies participated in this program.

For further information, contact Terry Zimmerer at the AICPA (212/575-5573).

FASB Revisits Stock Compensation Plans

At its June 11 meeting, the Financial Accounting Standards Board revised its prior tentative decisions on the measurement method and date for stock compensation plans, and reached the following tentative decisions:

☐ The measurement method for compensation cost is the fair value of the options with a rebuttable presumption that fair value is not less than the minimum value;

☐ The final measurement date is the later of the vesting date or the first date on which certain measurement factors, including number of shares and purchase price, are known; and

☐ The provision in some plans requiring exercise on or shortly after termination is not sufficiently material to delay the final measurement of compensation cost beyond the date described in the previous paragraph.

Ecuador Is Site of Next Interamerican Conference

More than 1,000 delegates are expected to attend the XVII Interamerican Accounting Conference to be held in Quito, Ecuador, July 20-23, 1987. The AICPA is a member of the Interamerican Accounting Association (IAA) whose membership consists of 29 organizations from 23 countries in North, Central and South America. Conference headquarters will be at the Hotel Colon International in downtown Quito.

Registration forms and additional information can be obtained from the AICPA Delegate to IAA, Howard P. Keefe, P.O. Box 273327, Boca Raton, Florida 33427.

AICPA Members Disciplined

Two AICPA members have been expelled and another suspended under the automatic provisions of the AICPA bylaws.

☐ The membership of Martin Forman of Philadelphia, Pennsylvania, was terminated on April 7, 1986, following receipt by the secretary of the Institute of evidence that his judgment of conviction of aiding and abetting the bribery of a public official had become final following an unsuccessful appeal.

☐ The membership of Walter Lewis DeMoss, Jr. of Shreveport, Louisiana, was terminated on May 2, 1986, following receipt by the secretary of the Institute of evidence that his judgment of conviction of conspiracy, making false statements, and possessing false papers in order to defraud a governmental agency had become final following unsuccessful appeal.

☐ The membership of Anthony M. Dans of Los Angeles, California, was suspended from February 17, 1986, to April 2, 1986, following the suspension of his CPA certificate by the California Board of Accountancy for willful violation of a regulation of the board relating to fiscal dishonesty.

Governmental Accounting Conference Is Scheduled

The AICPA National Governmental Accounting and Auditing Update Conference will be held on August 25-26 at the Hyatt Regency Hotel on Capitol Hill in Washington, D.C. The program is designed to provide guidance on procuring and implementing single audits and to acquaint participants with emerging developments in federal, state and local governmental accounting and auditing areas.

Registration fee is $295. For further information, contact the AICPA's meetings department (212/575-6451).

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards—An open meeting of the accounting standards executive committee will be held in the AICPA boardroom, New York City, on July 29-31, starting at 9:00 a.m. Among the tentative agenda topics are the following:

☐ Discussion of a draft issues paper on intercompany transfers of Lifo inventories;

☐ Discussion of the task force's report on risks and uncertainties; and

☐ Determination of which "Notices to Practitioners" should be included in the division's proposed Practice Bulletin no. 1.

The next meeting of the committee is set for September 9-11 in New York City.

Auditing Standards—On July 16 and 17 the auditing standards board will hold an open meeting in the AICPA boardroom, New York City, starting at 8:30 a.m. on July 16. The agenda is as follows:

Wednesday, July 16

☐ Errors, Irregularities and Illegal Acts (discussion of point outline).

☐ Reconsideration of Internal Control (discussion of preliminary draft).

Thursday, July 17

☐ Reporting on Internal Accounting Control (discussion of point outline).

☐ Analytical Review Procedures (consideration of draft for exposure).

The next meeting of the board is scheduled for August 19-21 in New York City.

Federal Taxation—The tax division's executive committee will hold an open meeting on July 8-9 in Denver at the Marriott City Center, starting at 9:00 a.m. each day. The agenda has not been determined, but will be reported by the telephone information service.

The next meeting will be held in Washington, D.C., on September 29-30.

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

Washington Briefs

Senate Vetoes IRS "Car-Log" Regulations—This month the Senate voted to bar the IRS from implementing its record-keeping regulations that require a taxpayer to keep written records supporting tax deductions for vehicles used for business. According to Senator James Abdnor (R-S.D.), this does not relieve taxpayers of the responsibility to keep records and "would require them to produce records when asked by the IRS."

Accountants Sought by ITA—The Import Administration, International Trade Commission, Department of Commerce, has openings for accountants to perform international accounting related to the administration of the antidumping and countervailing duty laws. International travel is required; salaries start at $31,619. For information write to Elizabeth Sager, ITA/Office of Personnel, Room 4808, 14th and Constitution Avenue, N.W., Washington, D.C. 20230 or call 202/377-1533.

Additional Regulation of Investment Advisers?—Following a hearing by the House Subcommittee on Telecommunications, Consumer Protection and Finance on June 11, to determine whether existing regulation of investment advisers and financial planners is adequate to protect consumers, the SEC was asked to examine and survey alleged abuses. The consensus of the subcommittee and witnesses, including SEC Chairman John S.R. Shad, was that there is no need for additional legislation at this time, pending the results of the SEC study and the current pilot program of the National Association of Security Dealers.

IRS Says TIN Errors to Be Penalized—Some 3,400 payers of interest and dividend income, who filed large numbers of information returns with incorrect taxpayer identification numbers, have been mailed notices by the IRS. The IRS is enforcing the $50 penalty per return provided under the Interest and Dividend Compliance Act of 1983. A description of conditions for waivers was also enclosed.

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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The CPA Letter

A Semimonthly News Report Published by the AICPA

Highlights of Board of Directors Meeting

At its meeting on July 10-11, the AICPA board of directors

☐ Received a report on the proposed auditing standards board activities through the end of 1986 and decided the following:
1. To extend the authority of the present ASB through December 31, 1986, to complete work on six major exposure drafts of SASs.
2. To increase the size of the ASB from 15 to 21 without restriction as to the makeup of the board's constituency.
3. To increase staff support to the ASB so that work presently done by task forces can be more expeditiously accomplished.

☐ Received a report from the chairman of the SEC practice section on specific steps being considered by the SECPS executive committee responsive to needs identified in the congressional hearing. Recommended that SECPS and PCPS consider a membership standard that would require that all eligible CPAs in member firms be members of the AICPA.

☐ Received an update on the possibility of AICPA-sponsored reform of the Federal Racketeer Influenced and Corrupt Organizations Act (RICO) in this session of Congress.

☐ Received a report on activities of the special committee on accountants' legal liability regarding the results of tort reform efforts.

☐ Received a proposed plan of action from a task force of the federal government relations committee which responds to deficiencies found by the GAO and inspectors general in audits by CPAs of federal government grants. Authorized exposure of the program to affected committees.

☐ Was informed that the Federal Trade Commission investigation into a number of the AICPA Rules of Conduct may be concluded by the fall of 1986. Also discussed the impact of a lawsuit being prepared on behalf of two members seeking to enjoin enforcement of the present rule on contingent fees as a violation of the federal antitrust laws. If successful, that suit could nullify the existing rule and impact efforts to modify the rule as proposed in the Report of the Special Committee on Standards of Professional Conduct for CPAs (the Anderson Committee) which has been submitted to the membership for consideration. Accordingly, decided to request Council in October to approve a mail ballot of the membership to modify the Rule as proposed in the Anderson Committee report. Under the proposed rule, a member in public practice who performs an engagement for a contingent fee would be considered to have lost independence with regard to that client because a common financial interest has been established. The current rule precludes any contingent fee engagements.

☐ Approved a budget for fiscal year 1986-87 for submission to Council. The budget shows an excess of expenses over revenue of $250,000.

For further information, contact Donald J. Schneeman, at the AICPA office, 212/575-6469.

Notice to Members: Anderson Committee Report

The mailing of the report of the Anderson Committee to each AICPA member was completed on June 30. The committee, more formally known as the special committee on standards of professional conduct for certified public accountants, has titled its report "Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment." The buff-colored booklet offers significant changes in the Code of Professional Ethics and how it is enforced. Also recommended is a new program for systematic monitoring of practice and membership requirements for both CPE and basic education for AICPA members.

The report will be the subject of member forums held throughout the late summer and fall which will provide input and guidance from the membership for the committees which have been appointed to develop specific implementation proposals. Consideration by Council and ultimately by the membership will follow.

It is important that members read and understand the proposals and participate to the fullest extent in the local forums that their CPA societies have been asked to hold. Additional copies of the report can be obtained by writing to the order department and requesting Product no. G00423.

Over 100 state society leaders from 41 states met with Institute officials on July 15 in Rosemont, Illinois, to discuss the conclusions and the implications of the Anderson Committee Report, especially as they affect state societies. President Chenok urged the states to conduct member forums on the report by early fall. He indicated that in October the AICPA Council will receive a report on the results of the member forums. A special meeting is planned for January 15 to consider a mail ballot of the membership that would implement the committee's recommendations.

Recent AICPA Publications

AICPA Technical Practice Aids—Includes technical information service inquiries and replies, SOPs of accounting standards division and auditing standards division plus issues papers of ASD—as of June 1, 1986. Copies available from order department at $22.50 each; $18.00 to members.

Report on the Activities of the Special Investigations Committee of the SEC Practice Section of the AICPA Division for CPA Firms (through December 31, 1985). Copies, upon written request to the AICPA order department, specifying Product no. G00424.

Technical Information for Practitioners Series no. 1—Other Comprehensive Bases of Accounting. List price is $7.50; $6.00 to members, from the AICPA order department, Product no. 008017.

Disclosure Checklists for Nonprofit Organizations is a nonauthoritative financial reporting practice aid which is available from the order department at $8.50 each; $6.80 to members (Product no. 007917).

Two exposure drafts have been issued by the professional ethics executive committee, comments on which are due by September 12. They deal with the use of the CPA title by a nonpracticing member (Product no. G00318 from the order department) and an omnibus proposal, Product no. G00317.

Finance Companies—A proposed accounting and auditing guide, on which comments are due by October 31, reflects changes in the literature that have occurred since 1973. Copies can be obtained from the AICPA order department by writing for Product no. G00284.

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William J. Corbett
Vice-President–Communications

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Executive Editor

THE AICPA 99th ANNUAL MEETING AND EXPOSITION

October 19–22, 1986
Kansas City, Missouri

1987

Shaping Tomorrow

THIS YEAR, the AICPA's annual meeting offers you the opportunity to be part of a very special program of educational and social events designed to help you in "Shaping Tomorrow." This meeting theme will be explored through a dynamic in-depth program of Plenary Sessions and Mini Conferences, complemented by the national accounting exposition, *Accountants World*.

The social program will bring Kansas City, the heart of America, into clear focus. Renowned as the "City of Fountains," Kansas City's beauty and excitement may take you by surprise – from the traditional European charm of Country Club Plaza to the spectacular Truman Sports Complex, home of baseball's world champion Kansas City Royals.

FEATURED SPEAKERS

Herman J. Lowe, CPA
1985-1986 Chairman of the AICPA Board

J. Michael Cook, CPA
1986-87 Chairman of the AICPA Board

Hugh S. Sidey, Columnist, *Time Magazine*

Louis Harris, *Louis Harris and Associates, Inc.*

Philip B. Chenok, CPA, *AICPA President*

The Honorable Robert Dole
U.S. Senator from Kansas (R) has been invited to speak

James C. Treadway, Jr., *Chairman*
National Commission on Fraudulent Financial Reporting

MINI CONFERENCES

11 *Promoting CPA Services*

Participants will learn about the various promotional activities in the marketing mix. Answers will be provided to such basic questions as when to use brochures, ads, and seminars. Who should design and implement your program...and how to get the greatest impact from your marketing dollar.

12 *Valuation of a Closely Held Business*

The need to establish the value of a business can result from a number of different circumstances including sale of a business ...merger or acquisition negotiations...divorce...and partner withdrawal. This session will discuss the marketing, conduct and reporting elements of the various types of business valuation engagements.

13 *Current Tax Developments*

Tax division representatives will report on current developments regarding tax administration problems and concerns and tax planning implications of proposed or enacted tax reform proposals.

14 *Prospective Financial Statements*

This session will discuss the recently issued standards on accountants' services on forecasts and projections...provide guidance on presentation of prospective financial statements ...explain how the new rules may affect the CPA's practice in the future...and suggest how they might be implemented.

21 *Partnerships: From Beginning to End*

Three practitioners will explain how to develop a planned system for partner selection...build an efficient and enthusiastic management team...and deal with the strategic real life decisions that have to be made when a partner leaves.

22 *Expanding Your Personal Financial Planning Practice–Risk Management and Investments*

This session will feature what the CPA should know about insurance and investments. It will also provide an update on the AICPA's personal financial planning activities.

Mini Conference descriptions continued inside...

Objectives:
(1) To provide an opportunity for the promotion of professional unity and understanding among AICPA members.
(2) To provide a forum for discussion of issues of concern to the profession.

Level of Knowledge: Overview
Prerequisite: None
Recommended CPE Credit: 11 hours
Method of Presentation: Lectures, panel discussions and question and answer sessions.

MINI CONFERENCES *(continued)*

23 ***What's Happening in Washington?***

An update on Washington events including the Dingell Hearings ... RICO Reform ... Legal Liability ... Brooks Investigation ... and other topical issues.

24 ***Developing a Working Relationship Between the Client and the Outside Auditor***

A public accountant, a financial officer and an internal auditor will lead a discussion on communications considerations and procedures involved in conducting an efficient and effective audit. The panel will examine—preparing for the annual audit ... audit planning and procedures ... subsidiaries, branches or divisions ... unusual transactions ... personnel and staff changes ... internal control ... computer auditing.

Hints, Helps & Haunts of Lotus 1-2-3
Optional CPE Session Offered by the Missouri Society of CPAs

Practical and different applications and hints in the use of Lotus 1-2-3. Copies of diskettes containing several templates, macros and sample spreadsheets will be available. The presentation will discuss the use, structure and development of some of these in detail.

Accountants World

Monday, October 20 • 11:00 am-4:00 pm
Tuesday, October 21 • 10:00 am-4:30 pm
Wednesday, October 22 • 9:00 am-12:00 noon

Join thousands of your colleagues at *Accountants World*, the comprehensive exposition designed with the needs of you and your clients in mind. This annual exposition is our largest to date and will provide you with the opportunity to view and compare a full range of accounting-oriented products which can assist you in streamlining, updating and renewing your office structures and systems.

NEW THIS YEAR! ***"Hands-On" Exhibitor Workshops***

Accountant's Practice Expansion
Techniques of Exchanging Minicomputer Data with Microcomputers
Computerized Estimating Workshop
Is Personal Financial Planning in Your Future?

HOTEL INFORMATION

Two of Kansas City's leading hotels will share in housing attendees: Hyatt Regency Kansas City and The Westin Crown Center. Please complete the hotel reservation form and mail it to the hotel of your choice. After September 26th, call the hotel reservations department directly, as rooms will be on an availability basis only. Mention that you are attending the AICPA 99th Annual Members Meeting & Exposition in order to obtain our group rate. Mail reservation forms to:

Reservations Department
Hyatt Regency Kansas City
at Crown Center
2345 McGee Street
Kansas City, Missouri 64108
(816) 421-1234

Reservations Department
The Westin Crown Center
One Pershing Road
Kansas City, Missouri 64108
(816) 474-4400

HOTEL	SINGLE	DOUBLE/TWIN	SUITES
Hyatt Regency	$ 85.00	$ 94.00	On Request
Hyatt Regency Club Level	$130.00	$145.00	On Request
The Westin Crown Center	$ 80.00	$ 90.00	On Request

Note, if your requested hotel does not have space available, your reservation will be forwarded to the other hotel.

HOTEL RESERVATION FORM MUST BE SENT DIRECTLY TO THE HOTEL

AICPA 99th ANNUAL MEMBERS MEETING & EXPOSITION • OCTOBER 19-22, 1986

Name ______
Company ______
Address ______
City/State ______ Zip ______
Sharing room with *Indicate if room will be shared by a third adult (over 18). If so an additional charge will prevail.* ______
Signature ______ One form per reservation please.

Hotel of Choice: ☐ Hyatt Regency Kansas City ☐ The Westin Crown Center

Type of Accommodation: ☐ Single ☐ Double ☐ Suite (Rate on Request)
Requested Rate: $______

To confirm your reservations, we accept only one of the following as means of payment:

☐ One Night's Deposit ☐ American Express ☐ VISA ☐ MasterCard

Credit Card No. ______
(Deposit is refundable if reservation is cancelled 48 hours prior to arrival.)

Exp. Date ______

Arrival Date ______ (Check in after 3:00pm)
Departure Date ______ (Check out by 12:00noon)

Reservations must be received by September 26, 1986.

SOCIAL PROGRAMS AND TOURS

SPOUSES TOURS
Monday, October 20

1 ***Mission Hills Homes Tour***

Mission Hills—one of the wealthiest residential areas in the nation—has become famous for its fine statuary, fountains and urns placed on traffic islands and at intersections. Roads wind picturesquely through rolling, tree-covered hills, past an assortment of breathtaking homes. You will be escorted on a privileged inside tour of three private residences. (This tour has a limited attendance and tickets will be sold on a first-come, first-served basis.)

2 ***Hallmark Visitors Center/Country Club Plaza Tour***

This tour begins with a visit to Hallmark Cards, Ltd. where you will view first hand the creativity and craftsmanship involved in the production of Hallmark products. The next stop will be Country Club Plaza where you will be escorted on a walking art tour of fountains, sculptures, murals and priceless creations from throughout Europe (or stroll through the Plaza at your own pace).

3 ***Heart of America/Miniature Museum Tour***

This delightful tour will introduce you to Kansas City's significant points of interest, from historical to the modern. You will view Crown Center, the ultramodern multi-million dollar complex ... historic Westport ... Mission Hills ... the Liberty Memorial with its panoramic view of the city ... and Country Club Plaza. You will also visit the unique Miniature Museum of Kansas City.

4 ***Truman's Hometown Tour***

Visit Independence, site of the beginning of the Santa Fe, Oregon and California Trails, and home of Harry S. Truman, 33rd President of the United States. Tour The Harry S. Truman Library and Museum which houses a reproduction of the President's White House office, with its fascinating Truman memorabilia. You will also visit the former home of artist and politician, George Caleb Bingham.

SPOUSES PROGRAM
Tuesday, October 21
The Romantic Story of Perfumes and the Unsuspected Links Between Fragrance and Health

EDWIN T. MORRIS

From ancient times, men and women have been obsessed by the perfumes emanating from natural flowers, fruits, woods and spices. Mr. Morris will explore the sources of the classic scents of yesterday and today and point out their many links to pharmacy, medicine, art, fashion, and the decorative arts. He will also discuss the new links between scent and psychological and physiological well-being: *aromatherapy*.

SPOUSES LUNCHEON
Diamond, Diplomats and Corporate Boardrooms—Accounting for Good Manners

LETITIA BALDRIDGE

The author of *Letitia Baldridge's Complete Guide to Executive Manners*, will discuss executive manners, rules and tips culled from the former White House Social Secretary's experiences and observations. Ms. Baldridge is currently working on plans for a television show related to manners.

SOCIAL PROGRAM

Opening Reception—Sunday, October 19

Step back in time to the exciting jazz era of yesteryear. It will be a silver lining evening with matchless melodies of synchopated sounds in music. Dust off your top hat and be prepared for a magic night of vivacious and stylish fun!

Entertainment—Tuesday, October 21

Enjoy the smooth style of singing great, Mel Torme, in this special musical event. Mr. Torme is truly a king of jazz, the most improvisational form of music.

OPTIONAL TOURS
Sunday, October 19

Truman's Hometown Tour/Brunch

An enjoyable brunch at a scenic restaurant will begin this historic tour. (See tour description for spouses.) A scenic drive past lovely churches and ante bellum homes will conclude your tour.

Heart of America Tour/Brunch

This delightful tour will introduce you to Kansas City and its significant points of interest. (See tour description for spouses.) Brunch will be served at a charming local restaurant.

Riverboat Cruise/Brunch

Enter a palatial world of yesteryear and cruise for 1½ hours on Missouri's largest and finest vessel, the *Missouri River Queen*, you will be entertained by the *River Queen's* famous musicians as you feast on a delicious brunch buffet.

OPTIONAL EVENT
Tuesday, October 21

Prayer Breakfast: ***In Search of Personal Excellence***
DR. THOMAS J. STEVENIN

AIRLINE INFORMATION

Save 40%-60% on Airfares and Earn Frequent Flyer Bonus Miles on Eastern Airlines.

For this conference, the AICPA has made arrangements for both Eastern Airlines and Ozark Airlines to assist AICPA members in securing the most cost effective and convenient flight reservations to Kansas City, Missouri. Simply call toll free the Airline that provides service to your area.

Save at least 60% on the round-trip coach fare by calling the Eastern Airlines Meeting Specialists at **1-800-468-7022** (In Florida **1-800-432-1217**) 9:00AM-8:00PM Eastern Time, 7 days a week. Our Easy Access number is #EZ10BP64. Travel Round-trip on Eastern and Earn 2000 Bonus Miles.

OR ... Save at least 40% on the round-trip coach fare by calling the Ozark Airlines Meeting Specialists at **1-800-272-2828**, 7:00AM-10:00PM Central time, 7 days a week.

Tell the Airline Representative you are attending the AICPA Annual Members Meeting & Exposition in Kansas City, Missouri, October 19-22, 1986 and ask to be booked on the lowest fare. In some cases, however, greater savings may be available through promotional fares being offered by other airlines.

If you normally use the services of a travel agent or corporate travel planner, encourage them to book through the special toll free numbers to obtain the discount rate. Remember, it's in your best interest, so call today.

ADVANCE REGISTRATION FORM

AICPA 99th Annual Members Meeting & Exposition
October 19-22, 1986 • Kansas City, Missouri

Send registration form and payment (check payable to AICPA) to: AICPA Meetings/Registrations
P.O. Box 1008
New York, NY 10018-1008

Please type or print carefully. Use photocopies of this form for additional registrants.

Check where applicable: ☐ AICPA Member ☐ Council Member ☐ First Annual Members Meeting

AICPA Use

Registrant Last Name First MI Nickname for Badge

Firm/Affiliation

Street Address

P.O. Box Suite #

City State Zip

Home Address

City State Zip

$ ( )
Total Amount Enclosed Telephone

Spouse/Guest Information

Last Name First MI Nickname for Badge

Last Name First MI Nickname for Badge

REGISTRATION FEES

Please refer to the Schedule of Events and Descriptions of Tours and Mini Conferences before making your selections.

Registration Packages
☐ Full Member/Professional Guest ____ @ $275.00 $______
☐ Full Spouse/Guest ____ @ $200.00 $______
☐ Partial Member/Professional Guest ____ @ $210.00 $______
☐ Partial Spouse/Guest ____ @ $160.00 $______

ADDITIONAL FEES FOR PARTIAL REGISTRANTS
☐ Opening Reception ____ @ $45.00 $______
☐ Entertainment ____ @ $25.00 $______

OPTIONAL EVENTS (not included in full or partial fees)
☐ Truman's Hometown Tour/Brunch ____ @ $30.00 $______
☐ Heart of America Tour/Brunch ____ @ $25.00 $______
☐ Riverboat Cruise/Brunch ____ @ $25.00 $______
☐ Prayer Breakfast ____ @ $17.00 $______

TOTAL AMOUNT ENCLOSED
(Check payable to AICPA) $______

Mini Conference Selections (Select only one per time period)
Monday, October 20 3:00pm-5:15pm
☐ 11 Promoting CPA Services
☐ 12 Valuation of a Closely Held Business
☐ 13 Current Tax Developments
☐ 14 Prospective Financial Statements

Tuesday, October 21 2:30pm-4:45pm
☐ 21 Partnerships: From Beginning to End
☐ 22 Expanding Your Personal Financial Planning Practice
☐ 23 What's Happening in Washington?
☐ 24 Developing a Working Relationship Between the Client and the Outside Auditor

Wednesday, October 22 Optional CPE Session
Hints, Helps & Haunts of Lotus 1-2-3
☐ 31 9:00am-11:00am ☐ 32 11:15am-1:15pm

Spouse Tour Selection (Select only one)
Monday, October 20
☐ 1 Mission Hills Homes Tour
☐ 2 Hallmark Visitors Center/Country Club Plaza Tour
☐ 3 Heart of America/Miniature Museum Tour
☐ 4 Truman's Hometown Tour

DESCRIPTIONS OF REGISTRATION PACKAGES AND OTHER FEES

Full Member/Professional Guest @ $275.00 includes: Opening Reception, Members' Meeting, Plenary Sessions, Mini Conferences, Joint Luncheon, Members' Luncheon, Entertainment and Accountants World.

Full Spouse/Guest @ $200.00 includes: Opening Reception, Monday Tour, Joint Luncheon, Spouse Program with Lunch, Entertainment, Spouse Favor and Accountants World.

Partial Member/Professional Guest @ $210.00 includes: Members' Meeting, Plenary Sessions, Mini Conferences, Joint Luncheon, Members' Luncheon and Accountants World.

Partial Spouse/Guest @ $160.00 includes: Monday Tour, Joint Luncheon, Spouse Program with Lunch, Spouse Favor and Accountants World.

Additional Partial Fees: The Opening Reception and Entertainment tickets will be sold individually to partial registrants who wish to attend these functions.

Optional Events: Sunday Tours and the Prayer Breakfast will be priced in addition to full and partial registration fees.

Cancellation Policy: Full refunds will be issued on written cancellation requests received by September 26, 1986. Written cancellations received after September 26th, but by October 10, 1986 will be issued refunds less a $25.00 administrative fee. Due to financial obligations incurred by the AICPA, no refunds will be issued on cancellations received after October 10th, 1986.

Eastern Bonus Mileage
☐ I/We are booked roundtrip on Eastern using the Eastern Meeting Specialist. Please send Bonus Mileage Coupon for 2000 miles.

REGISTRATION INFORMATION. Please complete the registration form carefully, indicating mini conference and tour selections where applicable. Early registration is recommended to guarantee session and tour selection, as functions will be filled on a space available basis. Please return the form with full payment (check payable to AICPA).

The American Institute of Certified Public Accountants is incorporated and, accordingly, no federal I.D. number will be required for services rendered. For your information, however, our I.D. number is 13-0432265.

For further information, write or call: AICPA Meetings and Travel Services Division, 1211 Avenue of the Americas, New York, NY 10036-8775, (212) 575-6451

AICPA Seeks Member Participation in Tax Effort

Of the many important provisions currently under consideration by conferees on the tax reform bill, four have been identified to be of particular concern to the accounting profession by the AICPA tax division executive committee.

The provision to require partnerships, S corporations and personal service corporations to conform their taxable years to the taxable years of their owners—This ignores natural business cycles in the selection of a fiscal and taxable year and would bunch return preparation and IRS processing in a compressed time period.

The provision to include a portion of "book income" in the determination of the corporate alternative minimum tax—This proposal could have a detrimental effect on financial reporting and is a "back-door" approach to taxing income already determined as not includable in the regular tax base. Book income is simply not a preference item; financial and tax accounting serve different purposes.

A provision to repeal certain miscellaneous itemized deductions—This would inequitably affect similar taxpayers in a dissimilar manner. If miscellaneous deductions are not permitted, deductibility of expenses related to income production will be determined by the specific situation of a taxpayer rather than by the legitimacy of the expense. Inequity also results from not allowing a deduction for the costs of complying with the income tax.

The proposed creation of a tax administration fund from penalties and interest collected—Although the AICPA has consistently supported additional appropriations to enable the IRS to function at an adequate level, this approach is troublesome. It bypasses the congressional appropriations process and puts the IRS in a conflict of interest position.

The Institute urges members who agree with these positions to write to their elected officials and express their views. AICPA position papers on these four issues may be obtained from the Washington office at 202/872-8190, ext. 47.

AICPA Member Suspended by Trial Board

A hearing panel of Regional Trial Board VI found, on April 17, 1986, Norbert G. Bigalke of Downers Grove, Illinois, guilty of violating the acts discreditable rule of the codes of professional conduct of the Illinois CPA Society and the AICPA by refusing to return corporate records to a client upon demand. He was present at the hearing and did not request a review of the decision which became effective on May 17, 1986.

The panel voted to suspend Mr. Bigalke's memberships in the Illinois CPA Society and the AICPA through February 1, 1987, during which time he is to complete 40 hours of specified CPE courses. Upon completion, the suspension will be lifted. If the courses are not completed by February 1, 1987, the respondent's memberships in the Illinois CPA Society and the AICPA are to be automatically terminated.

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards—An open meeting of the auditing standards board will be held in the AICPA boardroom in New York City on August 20-21, starting at 9:00 a.m. each day. The board will consider a revised draft of SAS no. 34, *Long-Term Investments* for exposure and discuss a preliminary draft on *Auditor Communications*.

Professional Ethics—At an open meeting to be held at the Four Seasons San Antonio Hotel in San Antonio on September 16, starting at 9:30 a.m. the professional ethics executive committee will consider the following for exposure:

- ☐ Member Owning a Financial Interest in a Common Interest Realty Association Attest Client.
- ☐ Member Providing Appraisal, Valuation or Actuarial Services to an Attest Client.
- ☐ Retention of Client Records when Engagement is Terminated.
- ☐ Application of GAAP and GAAS to Members not in Public Practice.

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

Washington Briefs

Small Business Conference Nears—About 100 CPAs will be among the 1,500 delegates to the White House Conference on Small Business to be held August 17-21 in Washington, D.C.

Over 2,000 recommendations for changes in federal policy came out of 57 state meetings conducted by the Conference, from which 11 basic issues were isolated. Four CPAs served on two of the teams that developed discussion papers in these areas. On the Taxation team were Kenneth F. Barkoff, New Orleans; Richard S. Bobrow, Washington, D.C., and Robert Engle, Indianapolis. Thomas E. Greer, Newport Beach, California, was a member of the Payroll Costs issues team.

GAO Accounting Fellowships—CPAs with at least six years of experience are being sought, for at least a two-year period, by the GAO's D.C. headquarters to manage financial audits, conduct reviews and help set accounting and auditing policies. Salary range is $44,430 to $67,940. For further information, contact William M. Solis, 441 G Street, N.W., Washington, DC 20548 (202/275-9454).

SEC Raises Asset Level—Effective August 15, the asset level above which entities will report to the SEC has been raised from $3 million to $5 million, but the minimum number of equity shareholders remains at 500. The commission is seeking comments by September 30 about possible revisions to the threshold levels, such as raising the asset amount to $15 million and increasing the shareholder level to 750 or 1,000.

SEC Issues New Staff Bulletin—Among other things, the SEC's recently issued SAB no. 62 sets forth the staff views on the "appropriate accounting and financial reporting when a registrant adopts or changes its policy with respect to discounting certain unpaid claims liabilities related to short-duration insurance contracts."

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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The CPA Letter

A Semimonthly News Report Published by the AICPA

ASB Issues Two Statements

Reports on the Application of Accounting Principles is the title of SAS no. 50 issued by the auditing standards board.

The statement provides guidance that an accountant should apply

- ☐ When preparing a written report on the application of accounting principles to specified transactions, either completed or proposed ("specific transactions");
- ☐ When requested to provide a written report on the type of opinion that may be rendered on a specific entity's financial statements;
- ☐ When preparing a written report to intermediaries on the application of accounting principles not involving facts or circumstances of a particular principal ("hypothetical transactions").

SAS no. 51, *Reporting on Financial Statements Prepared for Use in Other Countries*, provides guidance for an independent auditor practicing in the U.S who is engaged to report on financial statements of a U.S. entity that have been prepared in conformity with accounting principles generally accepted in another country for use outside the U.S.

Copies of SAS nos. 50 and 51 are available at $1.60 each; $1.28 to members, from the AICPA order department at 212/575-6426. Product nos. are respectively 060500 and 060514.

FASB Would Require Cash Flow Statement

In its latest exposure draft, the Financial Accounting Standards Board would require all companies, including financial institutions, to include a statement of cash flows as part of a full set of financial statements. This statement would replace the statement of changes in financial position.

Although some companies provide cash flows data in their statement of changes in financial position, "it is often difficult to distinguish transactions that affect cash flows from those that do not," said R.D. Nair, project manager.

The exposure draft would require companies to classify cash receipts and payments into operating, investing and financing categories.

The proposal would be effective for financial statements for fiscal periods ending after June 30, 1987. Statements for earlier periods would be restated.

Copies can be obtained from the FASB, Order Department, P.O. Box 3821, High Ridge Park, Stamford, Conn. 06905-0821. Comment deadline is October 31.

Notice to Members: Anderson Committee Report

Last month, copies of the report of the special committee on standards of professional conduct for certified public accountants (Anderson Committee), *Restructuring Professional Standards to Achieve Professional Excellence in a Changing Environment*, were sent to all AICPA members.

The report calls on the profession to make far-reaching changes in its professional standards and in the methods of achieving adherence to those standards. The AICPA council authorized distribution of the report primarily to obtain the informed reactions of members to the proposals before taking action to seek their implementation. Member comments will be critical in that process. All the state CPA societies have agreed to conduct member forums this summer and early fall. Members who are not reached by these forums are urged to read the report and send their comments to Thomas W. McCrae at the Institute.

IASC to Issue Standard on Retirement Benefit Plans

January 1987 is the publication date of a new standard approved by the board of the International Accounting Standards Committee on *Accounting and Reporting by Retirement Benefit Plans* (IAS 26).

The standard holds that the actuarial present value of promised retirement benefits should be disclosed either in the report of the plan or in an accompanying actuarial report. Plan investments should be carried at fair value—usually market value—although those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan may be carried at amounts based on their redemption value.

IFAC to Issue Two Documents

The International Federation of Accountants (IFAC) will issue a guideline and a statement of guidance in September.

The *Statement of Guidance on Clients' Monies, no. 11*, is an ethical statement which clarifies the fundamental principle that an accountant should "conduct himself in a manner consistent with the good reputation of the profession" when an accountant is entrusted with monies belonging to others.

The International Guideline on the *Core of Knowledge—Supportive Subjects, no. 6* outlines subjects that should be studied in the context of the overall ojectives of professional training for accountants.

Both documents are available from the AICPA order department at $2.50 each; $2.00 to members. Please specify Product no. 019830 for copies of no. 6 and Product no. 019702 for no. 11. Telephone no. is 212/575-6426.

Recent AICPA Publications

Litigation Services is the title of MAS Technical Consulting Practice Aid no. 7. This practice aid defines and explains the CPA's function in the civil litigation process. The CPA analyzes what actually happened, develops assumptions about what would have happened but for certain circumstances, and explains these facts and assumptions in the form of an opinion.

Price is $8.50; $6.80 to members, from AICPA order department (Product no. 055080).

Personal Financial Planning Practice Aid no. 1, *Issues Involving Registration Under the Investment Advisers Act of 1940*, holds that the financial planning services supplied by certain CPAs to their clients may require those CPAs to register under the Investment Advisers Act of 1940. Generally, registration would not be required if either the services rendered are such that the CPA does not meet the act's definition of "investment adviser" or if the CPA meets the definition, but may rely on the accountant's exception from the definition.

Copies are available from the order department at $15.00; $12.00 to members (Product no. 014906). Telephone no. is 212/575-6426.

Report on the Activities of the Special Investigations Committee—The report summarizes the activities of this committee of the SEC practice section of the division for CPA firms for 1985. It reports that 42 cases of alleged audit failure were received during the year—less than one percent of the more than 60,000 audits performed.

Free copies (Product no. G0042) can be obtained by writing to the order department.

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Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036—8775.

William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

GASB Issues Exposure Draft on Special Assessments

In a draft of a proposed statement, the Governmental Accounting Standards Board would eliminate the special assessment fund type for financial reporting purposes. Its exposure draft, *Accounting and Reporting for Special Assessments*, addresses both service-type and capital improvement special assessments.

Service-type special assessment transactions, according to the draft, would be accounted for in the general fund, a special revenue fund or an enterprise fund, whichever best reflects the nature of the transaction. Revenues from these transactions would be treated like user fees, and expenditures would be recognized in the same manner as other fund expenditures.

Transactions related to capital improvements financed by special assessments would be treated like any other capital improvement and financing transaction if the government is obligated in some manner to assume the debt payments if the property owner defaults.

A public hearing will be held in Washington, D.C., on August 27. Comment deadline is September 30.

Copies are available from the GASB order department, P.O. Box 3821, High Ridge Park, Stamford, Conn. 06905.

IRS Refund Procedure on Pacific Telesis Criticized

The AICPA tax division has received complaints concerning the IRS's refund procedures in connection with a recent Tax Court decision reversing a 1985 IRS ruling that a Pacific Telesis stock distribution relating to the AT&T divestiture resulted in a taxable dividend in 1984.

Practitioners have complained that the cost to prepare the refund claim (Form 1040X) usually will be more than the amount of the refund. Responding to a tax division suggestion that an automated refund procedure (bypassing the use of a 1040X) be established, the IRS said that "it was impossible to properly identify the Pacific Telesis dividend on most returns and to establish an automated refund program for all the shareholders involved." Reasons given were as follows:

- There were nominee situations where the IRS did not have names and addresses for all of the shareholders with Pacific Telesis stock distributed by AT&T; and
- The IRS could not determine, in most cases, if a taxpayer reported or excluded the dividend amount on tax year 1984 returns since most shareholders would not have itemized their stock dividends because they were under $400.

The IRS has said that it will expedite the issuance of refunds for completed claims which are marked "AT&T Claim."

We're Close Packwood Tells D.C. CPAs

Speaking before a D.C. Institute of CPAs tax reform conference on July 30, Senator Bob Packwood (R-Ore.), the chief negotiator in the House-Senate conference committee on tax reform, said "we're now down to some honest bargaining and should finish up in mid-August."

A panel of former IRS commissioners discussed specific areas of the proposed tax reform provisions. Regarding the proposed IRS trust fund concept Mortimer Caplin said, "Forget it." Under the proposed trust fund concept, tax penalty and interest payments to the federal government would be put aside in a fund to support specified tax administration functions.

Member Life Insurance Limits Raised

Higher life limits are being offered under the AICPA Insurance Trust, effective with the next entrance date, October 1, 1986. A new maximum of $500,000 is available for term life insurance plus an equal amount of accidental death and dismemberment coverage under the CPA Plan (for individuals). The new 1986 limit for the Group Insurance Plan (for firms) is $200,000.

A mailing about the plans is being made this month. For further information, contact the Plan Agent: Rollins Burdick Hunter, 605 Third Avenue, New York, N.Y. 10158. Telephone, 800/223-7473; in New York, call collect 212/661-9000.

Six Members Disciplined

Five Members Expelled—The following memberships have been terminated under the automatic disciplinary provisions of the AICPA bylaws. They provide that membership in the Institute shall be terminated without a hearing should there be filed with the secretary of the Institute a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year:

☐ Jackie Baines of Dalton, Georgia, on May 20, 1986, following his conviction of theft by receiving stolen property.

☐ Marc Pozner of Tenafly, New Jersey, on May 23, 1986, following his conviction of tax evasion and assisting in the preparation of false tax returns.

☐ Paul L. Skulsky of Englewood Cliffs, New Jersey, on May 23, 1986, following his conviction of aiding and assisting in the preparation of a false tax return, attempted tax evasion, mail fraud and racketeering.

☐ John A. Engleson of Pocatello, Idaho, on May 28, 1986, following his conviction of tax evasion and subscribing to a false tax return.

☐ Irving H. Kanarek of New York City, on June 7, 1986, following his conviction of paying an illegal gratuity to an IRS agent.

Member Disciplined by Trial Board—At a meeting of a hearing panel of Regional Trial Board IV in Bloomington, Minnesota, on November 15, 1985, Jim Schulz of Bismarck, North Dakota, was found guilty of violating the rule of conduct of the North Dakota Society of CPAs and the AICPA relating to due professional care, Statement no. 1 of standards for accounting and review services, and failure to return client records after a demand was made. The panel voted that the respondent complete specified CPE courses within a required period of time and submit specified financial statements to the report review committee of the North Dakota Society of CPAs. If the CPE courses are not completed within the required time period, the respondent will be suspended from membership in the North Dakota Society of CPAs and the AICPA for two years with no further proceedings.

Mr. Schulz, who was present at the hearing, requested that the decision be reviewed by the National Review Board. An ad hoc committee of the board met on June 24, 1986, and voted that his request be denied. Therefore, the Regional Trial Board hearing panel's decision, which was stayed pending the outcome of the request for review, became effective on June 24,1986.

AICPA Strives to Enhance Member Retirement Programs

The AICPA retirement and investment committees are in the process of developing a new range of investment options to help members meet their specific retirement objectives.

The goal is to have the new investment options available to practitioners by January 1, 1987. These new options, which are in addition to the existing funds, would include

☐ *Diversified Equity*—Long term capital appreciation; to seek income through investment in diversified equity securities.

☐ *Special Equity*—Capital appreciation in the equity securities of small-to-medium-sized companies.

☐ *Intermediate Bond*—High current income through fixed income securities with a maximum life for individual issues of 12 years or less.

Woodson Elected President of NAA

Glen E. Woodson of Naples, Florida, was elected president of the National Association of Accountants at its annual meeting on June 23 in Nashville.

He heads a slate of 14 officers who will direct the activities of the association for its 1986-87 year. Woodson, who is president of the Woodson Company, succeeds Herbert C. Knortz, CPA, who assumes the office of chairman.

AICPA Conferences

AICPA Schedules National Credit Union Conference—The first AICPA *National Conference on Credit Unions* will be held on September 25-26 at the Hyatt Regency Crystal City, Arlington, Virginia.

The sessions will cover, among other matters, regulatory compliance and legal liability; computer fraud prevention; and the future of credit unions. Senator Jake Garn (R-Utah), chairman of the Senate Committee on Banking, Housing and Urban Affairs, will be the luncheon speaker on September 25, and Roger W. Jepson, chairman of the National Credit Union Administration, will be the keynote speaker.

The registration fee, which includes most meals, is $375. For further information, contact the AICPA meetings department (212/575-6451).

Small Business/MAS Conference—The Dallas Market Center is the site of the twelfth annual AICPA *Small Business/MAS Conference* on September 8-10. The 2½-day program will feature a varied mix of MAS practice administration, marketing and technical subjects especially designed for CPAs whose clients are small and closely held. The registration fee, including most meals, is $400. Further information can be obtained from the AICPA meetings department.

National Conference on Savings Institutions—September 11 and 12 are the dates of the Ninth National AICPA *Conference on Savings Institutions* at the Sheraton Washington Hotel (D.C.). The objectives are concerned with the emerging issues in accounting and auditing for savings institutions and providing an update on regulatory matters affecting the operations of thrift institutions. Registration fee is $375 and $50 for the optional program on September 10, which involves in-depth studies of issues in bank board activities, thrift taxation and use of personal computers. AICPA meetings department has further information.

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards

An open meeting of the auditing standards board will be held on September 23-25 in the AICPA boardroom, New York, starting at 9:00 a.m. each day. The agenda follows:

Tuesday, September 23 a.m.

☐ Auditing Client Estimates and Accounting Estimates (discussion of preliminary draft).

Tuesday, September 23 p.m.

☐ Reporting on Internal Control (discussion of preliminary draft).

Wednesday, September 24 a.m. and p.m.

☐ Errors, Irregularities and Illegal Acts (discussion of point outline).

Thursday, September 25 a.m.

☐ Reconsideration of Section 320 on internal control of the SAS codification (discussion of preliminary draft).

Thursday, September 25 p.m.

☐ Pro Forma Financial Statements (discussion of preliminary draft).

The scheduled date of the next meeting is October 15-16 in Dallas.

Accounting Standards

The accounting standards executive committee will hold an open meeting in the New York boardroom of the AICPA on September 9-11, starting at 9:00 a.m. Agenda items include

☐ Computer Software Revenue Recognition (consider issues paper).

☐ Quasi-Reorganizations (consider issues paper).

☐ Practice Bulletin no. 1 (consider draft for final publication).

☐ Two GASB Exposure Drafts (consider comment letters).

The next meeting is scheduled for October 22-24 at the Mark Hopkins Hotel in San Francisco.

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

Washington Briefs

CPA Appointed to Oil Post—Dallas investment counselor and AICPA member Frank M. Burke, Jr., has been invited by Secretary of Energy John S. Herrington to serve on the National Petroleum Council, "a key advisory committee" to the secretary.

Auditing Procedures for Class 1 Railroads Clarified—As a result of the ICC final rule, Exparte 460, AICPA representatives met with Bureau of Accounts staff and developed procedures to be performed by independent accountants conducting a financial statement examination of a Class 1 railroad. Information on the procedures or ExParte 460 is available from William Holmes, AICPA, (202/872-8190) or William F. Moss, ICC, Bureau of Accounts, Chief, Section of Audit and Accounting, 202/275-7510.

IRS Proposes Rules on Installment Accounting—The IRS, in two separate documents, instructs dealers of personal property how to switch from accrual accounting to the installment sale method. LR-141-81 proposes rules to be followed. LR-141-83 changes the numbering of existing regulations, which remain in effect, for installment method of reporting to conform with the 1980 Installment Sales Revision Act. Comments are due by September 26 at the IRS Commissioner's office, attention CC:LR:T, Washington, D.C. 20224.

Below Market Loans—The IRS has issued temporary regulations which exempt certain below-market loans from the rules of section 7872. Contact Susan Hall at 202/566-3832 for further information.

Bulk Tax Forms to Be Discontinued—As of October 1, the IRS will no longer provide bulk quantities of tax forms to practitioners. Firms will be able to obtain up to 15 free information copies of most forms and two sets of any instruction or taxpayer information publication. Reproducible proof copies will be available at $1 per page. For additional information contact the Inventory Manager of Publishing Services Branch, IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

Report on Liability Issued—The American Tort Reform Association, which includes the AICPA among its 140 organizations, has issued a report on the need for legislative reform of the tort system. Copies are available, upon prepayment of $12, from ATRA, 1015 15th St., N.W., Suite 802, Washington, D.C. 20006.

"Successful Efforts" May Be Proposed—The SEC staff may request the commission to propose a rule this fall that would, in essence, require the use of the successful efforts method of accounting by all oil and gas producers, rather than continuing the current practice which permits them the option of this method or the full cost method.

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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The CPA Letter

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Highlights of Board of Directors Meeting

At its meeting on September 4-5, the AICPA board of directors

☐ Received a report on plans for implementing the report of the special committee on standards of professional conduct for certified public accountants (the Anderson committee). The board agreed that the membership should be asked to vote on the proposals on a segmented basis rather than a single vote on all of the report's proposals.

The board was informed that implementing committees will be developing recommendations relating to the various proposals in the light of input to be received from member forums being held by the various state CPA societies. Accordingly, it will not be feasible to hold a special meeting of Council in January to consider authorizing a membership ballot on the complete package of Anderson committee recommendations. In the light of that timetable, the board voted to ask Council at the October meeting to authorize a mail ballot of the membership early next year on an Anderson committee proposal to provide for a change in the bylaws to require that a member practicing as a proprietor, partner or shareholder of a firm auditing one or more SEC clients may retain membership in the Institute only if that firm is a member of the SEC practice section of the division for CPA firms. (At the July meeting, the board had agreed to request Council to approve a mail ballot of the membership to modify Rule 302 of the Rules of Conduct on Contingent Fees to provide that a contingent fee engagement impairs independence with regard to that client. That proposal with implementing interpretations also will be on the October Council agenda. (See July 1986 *Letter*.)

☐ Received reports on events in Washington, including the introduction of a bill that would impose greater responsibilities on auditors for detecting and reporting on illegalities and irregularities (see page 4). Projects currently on the agenda of the auditing standards board and expected to be in exposure by year-end relate to many of the areas dealt with in the proposed legislation.

☐ Authorized a cost-efficiency study of the AICPA operations. In connection with efforts to accommodate growth on a long-term basis, the board asked that consideration be given to whether savings could be achieved by moving segments of the Institute's operation away from midtown Manhattan while keeping the principal presence of the AICPA in midtown Manhattan.

☐ Received a report of the ongoing efforts of the AICPA to achieve meaningful tort reform for the profession.

☐ Authorized the CPE executive committee to implement a program leading to a Certificate of Educational Achievement.

☐ Received a report from the federal taxation executive committee on the implications of proposals in the Tax Reform Act of 1986 and of the tax division's efforts to influence some of those proposals.

Liability Insurance Reform Heads Recommendation by Small Business Conference

The "liability insurance crisis" is small business's greatest concern, according to the final report of the White House Conference on Small Business, to be released this month.

The conference was the culmination of a year long effort that included a nationwide series of local seminars at which some 20,000 participants developed over 2,000 recommendations. These were later boiled down to 100 items in 11 categories for consideration by the 1,800 national delegates, of whom some 140 were CPAs. In a series of forums at the conference in Washington, held August 18-21, the delegates further refined these 100 items to 60 final recommendations.

The delegates suggested a four-pronged effort at liability reform: civil justice reform; establishment of uniform standards for product, professional and commercial liability; regulation of the insurance and reinsurance industries; and development of viable, affordable alternatives to liability coverage.

Among 14 other recommendations that drew more than 1,000 delegate votes were these:

- ☐ Government should not mandate employee benefits such as employer-paid health benefits, parental leave and disability leave. Specifically, Congress should reject such legislation as H.R. 4300 and S. 2278 which would call for 4½ months of unpaid parental leave for both parents and guarantee 26 weeks of unpaid disability leave.
- ☐ Legislation should be passed to protect small businesses from unfair competition from tax-exempt nonprofit organizations and government.
- ☐ A balanced budget should be given top priority by the President and the Congress.
- ☐ A cabinet-level department of international trade should be created.
- ☐ The federal government should encourage the advancement of entrepreneurial and free-enterprise education through all levels of education.
- ☐ Congress should repeal the Davis-Bacon Act, requiring that prevailing wage rates be paid on government work and the Service Contract Act.
- ☐ The Social Security system should be reformed by, among other things, removing all nonretirement programs from the system (they should be paid from the general fund) and bringing all workers, government and private, under the system.

A more detailed summary will appear in the October issue of the *Journal of Accountancy*. Members who wish to discuss these proposals with their clients or business associates may obtain single copies of "Final Recommendations" by writing to the AICPA order department and requesting Product no. G00461.

FASB Issues Exposure Draft on Accounting for Income Taxes

A proposed statement of the Financial Accounting Standards Board would require an asset and liability approach to account for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It would supersede APB Opinion no. 11, *Accounting for Income Taxes*, and related pronouncements that require the deferred method. The objective of the board is to recognize the tax consequences of an event in the same year that the event is recognized in financial statements.

Comments are due by November 17. A public hearing will be held January 7-9, 1987, at the Sheraton Stamford Hotel and Towers in Stamford, Connecticut.

Free single copies of the exposure draft are available from the order department, FASB, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

Form 8-K Changes Proposed by AICPA

In testimony before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce on June 19, AICPA Board Chairman-elect Michael Cook and AICPA President Philip Chenok addressed Congressman John Dingell's (D-Mich.) criticism that auditors should do more than simply "depart the premises" in the face of possible irregularities or illegal acts. They suggested that existing SEC requirements should be strengthened to address situations where the auditor who resigns or is replaced has concerns about matters having a bearing on management integrity or the possibility of errors or irregularities.

Following up on this testimony in a recent letter to SEC Chairman John Shad, the Institute proposed revisions to Form 8-K requirements when there has been an auditor change. Under the proposal, management would report

- ☐ Whether the auditor has communicated, in connection with the last two audits, concerns or conclusions regarding management integrity or possible irregularities or illegal acts that were not resolved to the auditor's satisfaction.
- ☐ Whether the audit committee or board of directors had discussed the communication with the auditor.
- ☐ Whether the auditor had been authorized to respond fully to the inquiries of the successor accountant.

The Institute believes that adoption of these proposals would provide the SEC and the public with important information and that it would also stimulate managements and directors to take timely action when questions bearing on management integrity are raised.

Centennial Update; Pasadena Package

To recognize the Institute's centennial year, the AICPA has been given the opportunity to participate in a globally recognized national event—the 98th annual Tournament of Roses, to be held on January 1, 1987. For nearly 100 years, the tournament has been an American tradition. Four presidents of the United States have served as grand marshals, and participants have included some of the nation's largest business and civic organizations.

The Institute's participation in the tournament is a means of communicating to an international television audience of 125 million viewers the fact that the organized accountancy profession in the United States is celebrating its Centennial. Television commentators will be given information emphasizing the profession's commitment to excellence, and one of the major networks has agreed to carry a taped message announcing the Institute's Centennial.

A trip to Pasadena has been organized for members and their families who wish to join in the AICPA's participation in the Tournament of Roses. The package includes hotel accommodations from December 29, 1986, to January 2, 1987, a tour of Universal Studios, an AICPA float-decorating party, the Rose Bowl Football Game Kickoff Luncheon, the Rose Parade, the Rose Bowl game and other special events.

For further information, call the AICPA's meetings department at 212/575-6451. Due to limited facilities, requests will be filled on a first-come, first-served basis.

The Tournament of Roses Parade is just one of a number of events designed to draw attention to this milestone in the profession's history. A special edition of the *Journal of Accountancy* will be published on historical accounting matters, a book has been commissioned to tell the profession's story and a film is being planned for viewing at CPA meetings around the country. State CPA societies will participate in the occasion with special programs. The Centennial offers a unique opportunity for special media recognition of the profession throughout the year.

The centennial year will culminate in a grand celebration at the Institute's annual meeting in New York City in September 1987. All members, whether in public practice, business, industry, government or education, will have a special program in which to participate. The celebration of the Centennial will begin at the October 1986 annual meeting in Kansas City, Missouri.

Fraud Detection Bill Revised

A revised version of his "Financial Fraud and Detection Act of 1986" has been introduced by Congressman Ron Wyden (D-Ore.). (See June 9 and 30 *Letters*.) The revised bill reflects two major changes. It includes the notion of materiality, although the bill's discussion of materiality is much broader than financial statement materiality. Second, the primary burden for reporting irregularities and illegal acts to enforcement and regulatory agencies is placed on the client.

In introducing the revised bill, Congressman Wyden expressed the view that "when an auditor discovers a major financial fraud, the auditor is required to do nothing but inform corporate management and consider resigning." This misconception emphasizes the importance of the various projects of the auditing standards board dealing with the "expectation gap." (See May 12 *Letter*.) However, there is a potential weakness in existing requirements when the auditor has an unresolved concern about the possibility of errors or irregularities. As described in another article (see page 3), this has caused the AICPA to propose changes in existing Form 8-K requirements.

New Civil RICO Bill Proposed

The House Criminal Justice Subcommittee has adopted new civil RICO reform legislation which, if enacted, will substantially improve current law. The new bill (H.R. 5445) was offered by Congressman Frederick Boucher (D-Va.).

Some of its basic provisions include the following:

☐ Treble damages in private RICO cases would be eliminated. A private plaintiff could sue only for actual damages. Federal and state governments could still sue for treble damages but only if the United States Attorney General or the state's attorney general is willing to bring the action.

☐ A strict standard for determining whether a business organization could be held liable for acts of its partners, officers, employees or agents would be established. The organization would be liable only if the executive officer or the principal policy-making authority authorized or approved the pattern of alleged misconduct.

☐ A statute of limitations would be imposed requiring a plaintiff to sue within three years of the time the plaintiff knew or should have known of the conduct giving rise to the RICO claim.

☐ A higher burden of proof would be required in that the plaintiff must prove the allegation of fraud by "clear and convincing evidence," rather than the "preponderance of the evidence" prevalent in civil litigation.

☐ The proposed provisions would apply to cases pending at the time of enactment.

Because time is running out for the 99th Congress, federal key person coordinators have been asked to urge members of the House Judiciary Committee to encourage Chairman Peter Rodino (D-N.J.) to hold a mark-up session this month.

Tax Statements Being Revised

The AICPA's tax division is currently updating the original Statements on Responsibilities in Tax Practice (last published in 1976) to reflect the changed practice environment. An exposure draft is now being circulated to members of the division, and, after consideration of comments and an advisory poll of division members, it is expected that the revised statements will be approved by the executive committee for distribution to the firms represented in the Institute membership and to individual practitioners.

GASB Statement of Pension Accounting Imminent

At its August meeting, the Governmental Accounting Standards Board decided to issue this month a statement to the effect that state and local governments should not change their pension accounting and financial reporting as a result of the issuance of FASB Statement no. 87, *Employers' Accounting for Pensions*, pending future pronouncements of the GASB. Although changes have been made to the original exposure draft of this statement, the basic conclusion remains the same.

AICPA Tax Groups Seek Member Comments

Two subgroups of the AICPA's tax division want member comments in their respective areas:

☐ The tax forms subcommittee of the division would like suggestions for changes and improvements to IRS forms and instructions by the end of the year. In the past, the IRS has adopted almost 60 percent of AICPA recommendations.

☐ To aid in its efforts to provide recommendations to the IRS on direct filing of tax and information returns, the tax division's direct filing task force would like to hear from participants in the IRS's 1986 electronic filing pilot program. This pilot was limited to refund returns prepared for taxpayers in the Phoenix, Cincinnati and Raleigh-Durham-Fayetteville (North Carolina) areas.

Suggestions on both subjects should be sent to Edward S. Karl, AICPA, 1620 Eye Street, N.W., Washington, D.C. 20006 (202/872-8190).

Corrections

The advance registration form for the 1986 AICPA annual meeting, included as an insert in the July issue of the *Letter,* contains an incorrect zip code number for its return. The mailing address should be: AICPA Meetings/Registrations, P.O. Box 1008, New York, New York 10108-1008.

On the subject of goofs, the August issue stated that the special investigations committee of the SEC practice section reported that the committee received 42 allegations of audit failures representing less than one percent of 60,000 audits in 1985. The 60,000 actually represents a five-year total.

NOTICE OF AICPA PUBLIC MEETINGS

Annual Meeting

Notice is hereby given to the membership, pursuant to Sections 5.1 and 5.1.3 of the bylaws, that the regular annual meeting of the Institute will convene at 9:00 a.m. on October 20, 1986, in the Hyatt Regency Hotel, Kansas City, Missouri, to hear an address by Board Chairman Herman J. Lowe and to consider other business.

Council will convene at 8:00 a.m. in the Hyatt Regency Hotel on October 18, 1986, to consider the Institute's 1986-1987 budget, elect officers of the Institute and consider other matters that may be brought before the meeting.

Federal Taxation—An open meeting of the tax division's executive committee will be held on September 29-30 in Washington, D.C., starting at 9:00 a.m. each day. (Check telephone service for specific location.) The agenda follows:

September 29, Monday a.m.
CPAs in Government Service (report of task force).

September 29, Monday p.m.
Comments on Proposed Amendments to Treasury Circular 230 (discussion of preliminary draft).

September 30, Tuesday a.m.
Standards of Professional Conduct for CPAs (preliminary discussion of subject).

Accounting and Review Services

The accounting and review services committee will hold an open meeting in San Diego at the Vacation Village on September 29-30, starting at 9:00 a.m. each day. The tentative agenda includes discussion of engagement letters; consideration of the results of the ARSC research study on compilation and review engagements; discussion of the results of the June 1986 members' forum; and discussion of the reports on the application of accounting principles.

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

Washington Briefs

New Requirements for Audits of Federal Contractors Proposed—The Federal Contractors' Self-Governance Act (S.2738) has been introduced by Senator William Proxmire (D-Wisc.). This bill, which would amend the Securities Exchange Act of 1934, focuses on internal controls and independent audits. It calls for an independent audit report to the public on the system of internal accounting and administrative controls with respect to "estimate, cost, price, billing and performance measurement data" reported to the government by certain federal contractors. Generally, these would be contractors who receive long-term federal contracts of $10 million or more.

Treasury Proposes to Tighten Tax Preparer Rules—The Treasury has proposed amending Circular 230 regarding the requirements that tax practitioners exercise due diligence on advice with respect to positions to be taken on federal returns. "In a tax shelter situation,...there must be substantial authority for the position taken and a more likely than not belief the position will be sustained if challenged. In a non-tax shelter situation, if the position is not supported by substantial authority, there must be adequate disclosure in the tax return or in an attachment thereto," the Treasury said. Comments are due by November 13 at the IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224. Attention: PM: HR: CP. The AICPA tax division is examining these proposals and developing recommendations.

IRS Sets Seminars on Magnetic Tape—The IRS has announced a series of 40 seminars at 35 locations throughout the country for those who file information returns on magnetic media. Required filers are taxpayers filing more than 50 returns regarding interest or dividend payments, or proceeds from broker or barter exchange transactions and those who file more than 500 of the following forms: W-2, W-2G, W-2P, 1042S, 1098, 1099, 6248 and 8027. Contact the Taxpayer Education Coordinator in your IRS district for dates and sites near you.

Guidelines Issued for Nonpersonal Use Vehicles—In Rev. Rul. 86-97, the IRS sets guidelines for determining whether small trucks and vans can be classified as "qualified nonpersonal use vehicles," so that the value of their use is not taxable to employees. The guidelines relate to trucks and vans with a loaded gross weight of 14,000 lbs. or less. Larger vehicles already qualify.

IRS Advisory Group to Meet—Five CPAs are among the 18 members of the IRS Commissioner's Advisory Group that will meet with him on September 24-25 to discuss matters of mutual interest. They are L. Wayne Farrell, Va.; Gerald Pawde, D.C.; Carolyn Strobel, S.C.; Gerald Goldberg, Calif., and Dr. John Price, Miss.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA

AICPA Mission Statement Approved

At its May 1986 meeting, the AICPA council adopted in principle a mission statement for the AICPA pending final editing and review by the board of directors. A final statement was recently approved by the board.

Because of the changing economic and political environment, a special committee was established about three years ago "to study the objectives of the AICPA as those objectives relate to all its members, whether in public practice, industry, government, or education. Among other matters it was to consider if the AICPA's traditional focus on public practitioners continues to be appropriate."

The following is the text of the final statement:

MISSION STATEMENT
THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The American Institute of Certified Public Accountants is the national professional organization for all certified public accountants. The mission of the AICPA is to act on behalf of its members and provide necessary support to assure that CPAs serve the public interest in performing quality professional services. In fulfilling its mission, the AICPA gives priority to those areas where public reliance on CPA skills is most significant.

To achieve its mission, the AICPA:

1. Promotes uniform certification and licensing standards for CPAs.
2. Sets requirements for maintaining members' professional competence.
3. Assists members in the continuing development of professional expertise.
4. Provides standards of professional conduct and performance.
5. Monitors professional performance to enforce professional standards.
6. Promotes public confidence in the integrity, objectivity, competence, and professionalism of AICPA members and the services they perform.
7. Encourages highly qualified individuals to become CPAs and promotes the availability of appropriate educational programs.
8. Unites CPAs—whether in public practice, industry, education, or government—in their efforts to serve the public interest.
9. Serves as the national representative of CPAs to government, regulatory bodies and other organizations.
10. Assists members in understanding and adjusting to changes in the economic, political and technological environment.

Five National AICPA CPE Conferences Scheduled

The 22nd Annual Computer Conference—This year the emphasis will be on microcomputer networking, hands-on instruction (including sessions for advanced users), consulting and marketing sessions, as well as a variety of technical sessions.

The conference will be held on November 6-7 at the Chicago O'Hare Marriott Hotel. Registration fee is $445; recommended CPE credit: 17 hours.

Firm Administrators Conference—The curriculum is designed for CPAs and professionals responsible for firm administration. Participation in roundtable discussions highlight each day as problems and solutions are shared.

Two presentations at two locations are planned: November 17-18 at the Vista International Hotel, New York, and December 8-9 at the Westin Hotel Utah, Salt Lake City. Registration fee is $345; recommended CPE credit: 16 hours.

Personal Financial Planning Conference—Top-rated speakers with extensive knowledge and practical experience will provide up-to-date technical information, real-life approaches to marketing and pricing PFP services, and practice management information designed to make PFP more profitable.

The dates are December 4-5 at the Flamingo Hotel, Las Vegas. Registration fee is $445; recommended CPE credit: 16 hours.

Conference on the Taxation of Options and Futures—This program provides advance level coverage of the complex tax subject matter reflecting significant tax law changes. The main topics will be the mechanics of trading options and futures, as well as the taxation of options and futures, and will include the special problems of mutual funds, banks, insurance companies, dealers and traders. There will be workshops on accounting problems and stock index futures.

The dates are December 8-9 at the Marriott Marquis Hotel, New York. Registration fee is $495 and recommended CPE credit is 16 hours.

Annual Institute on Criminal Tax Fraud—Co-sponsored by the AICPA and the American Bar Association Section on Taxation, this third institute continues the earlier format, bringing together lawyers and accountants to review and update areas of importance to both professions. The practically oriented program offers both the government's perspective on emerging issues in the tax fraud area and insight as to how lawyers and accountants can work together to best represent taxpayers under criminal investigation. Two dates and sites are offered: November 17-18 at the St. Regis Sheraton in New York, and at the Westin Century City Hotel in Los Angeles on February 23-24, 1987. Registration fees are $400 for AICPA or ABA members, $450 for nonmembers and $200 for government employees. Recommended CPE credit is 13 hours.

For more information on the above conferences, call, toll free, 800-AICPANY; in New York State, call (212) 575-5696.

CPA Services Explained

A new AICPA brochure, *What Does a CPA Do? A Guide to CPA Services*, is designed to inform current and potential clients about the many services performed by CPAs. It highlights CPAs as auditors, tax advisors, small business and management advisors, and as personal financial planners.

This 12-page publication also explains CPAs' roles in business and industry, education, government and not-for-profit organizations. It emphasizes the qualifications of a CPA and the requirements to adhere to a code of professional ethics. The CPA is portrayed as a central figure in the nation's financial structure.

Copies (minimum order is 10) are available from the AICPA order department, P.O. Box 1003, New York, NY 10108-1003, or call 212/575-6426. Price is 30 cents per copy (20 percent discount to members). Quantity discounts are available.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

AcSEC Meeting Highlights

At its September meeting, the accounting standards executive committee took the following actions:

- ☐ Approved sending to the FASB for its consideration an issues paper, "Software Revenue Recognition," subject to clearance by the chairman of AcSEC.
- ☐ Approved for issuance two practice bulletins subject to clearance by the AcSEC chairman and review by the FASB and the GASB. They are "Elimination of Profits from Intercompany Transfer of LIFO Inventories" and "Purpose and Scope of AcSEC Practice Bulletins."
- ☐ Approved issuance of a comment letter by the state and local government committee on the GASB's June 20, 1986, exposure draft "Advance Refundings Resulting in Defeasance of Debt—An Interpretation of the National Council of Government Accountants' (NCGA) Interpretation 9."

ASB Meeting Highlights

At its meeting in New York last month, the auditing standards board

- ☐ Directed the staff to prepare a draft SAS on the "Auditor's Consideration of an Entity's Continued Existence."
- ☐ Discussed the draft of a revised standard auditor's report.
- ☐ Discussed and suggested revisions to a draft on required communication with audit committees.
- ☐ Directed its task force to proceed with a draft that would provide guidance when auditing "Management's Discussion and Analysis."
- ☐ Directed the task force to revise the draft on "Analytical Procedures" and resubmit it to the board.

IFAC Issues Three Documents

The International Federation of Accountants has approved for issuance three documents prepared by the international auditing practices committee:

- ☐ International Auditing Guideline 24, "Special Purpose Auditor's Reports," which provides guidance regarding independent audits of financial information other than that reported upon in accordance with IAG 13. Copies are available from the AICPA order department. Product number is 019242 and the price $2.50; $2.00 to members.
- ☐ An exposure draft on "Proposed Framework of International Auditing Guidelines," which is open to comment until March 31, 1987. It describes certain services auditors may perform and the levels of assurance resulting, provides a general framework for such services and describes the conditions for changing the scope of the engagement. (Product no. G00347, available from the order department.)
- ☐ Exposure Draft 27 (Limited Assurance Engagements Guideline no. 1), "Basic Principles Governing Limited Assurance Engagements." This is the first of the IAPC's series on limited assurance engagements and establishes the basic principles. Comments are due by March 31, 1987, and copies may be had from the AICPA order department by requesting Product no. G00346.

Beresford Appointed FASB Chairman

Dennis R. Beresford, national director of accounting standards for Ernst & Whinney, has been appointed to a five-year term as chairman of the Financial Accounting Standards Board, effective January 1, 1987. His appointment was announced by Rholan E. Larson, president of the Financial Accounting Foundation, which appoints board members and exercises general oversight of the board, except for technical decisions.

Beresford succeeds Donald J. Kirk, who has been chairman of the FASB since 1978 and is not eligible for reappointment. Among his many professional activities, Beresford is a former chairman of the AICPA's accounting standards executive committee and is a member of the FASB's emerging issues task force.

Minority Scholarships Awarded

The minority recruitment and equal opportunity committee has announced that 405 scholarships, totaling $308,000, have been awarded for the 1986-87 academic year. There are 154 undergraduate renewals, 243 new undergraduate awards, one graduate renewal and seven new grants.

These totals include 17 Arthur Andersen-AICPA awards amounting to $13,000 and 8 RCA-AICPA scholarships totaling $5,500.

Since its inception in 1970, the committee has awarded $2.9 million in scholarships to some 3,200 students.

Short Notes

Clarification on Draft Guide—Lest some potential commentators on the exposure draft of the proposed audit and accounting guide on finance companies believe it applies only to those companies, the *Letter* has been asked to report that the proposed guide includes the lending activities of other enterprises. Comments are due by October 31 and copies are available from the AICPA order department (Product no. G00284).

Liability Brochure Available—The statement of the special committee on accountants' legal liability regarding the Institute's legislative program for tort reform, which appeared in the June 30 *Letter*, has been reissued in booklet form. Copies may be obtained from your state society.

Centennial Pocket Calendar—A commemorative version of the new AICPA 18-month pocket calendar is now available to the membership. This two-color, embossed booklet has space for daily notations and includes the dates of most AICPA national conferences, names and telephone numbers of key officials and staff members, and a listing of future board and Council meeting dates.

Copies can be obtained from the AICPA order department at $3.00 each.

NOTICE OF AICPA PUBLIC MEETINGS

Accounting Standards

The accounting standards executive committee will hold an open meeting October 22-24 in San Francisco at the Hyatt Regency Embarcadero, starting at 8:30 a.m. the first day. The agenda includes the following:

- ☐ Discounting Applications (consider issues paper).
- ☐ Disclosure of Insurance (consider the paper).
- ☐ Risks and Uncertainties (consider task force report).
- ☐ Accounting for Sales of Loans Under Committed Facilities (consider proposed practice bulletin).
- ☐ Accounting for Airline Frequent Flyer Programs (consider proposed SOP).
- ☐ Cash Flow Statements (consider comments on FASB exposure draft).
- ☐ Income Taxes (consider comments on FASB exposure draft).
- ☐ Accretion of Leased Residuals (consider comments on FASB technical bulletin).

The next meeting is scheduled for December 8-10 in Orlando.

Auditing Standards

An open meeting of the auditing standards board will be held from 1-4 p.m. on October 14, and full days through the 16th, in Dallas at the Las Colinas Mandalay Four Seasons Hotel. The meeting will start at 8:30 a.m. the second day. Tentative agenda items are

Continued Existence (discussion of preliminary draft); Corporate Codes of Conduct (preliminary discussion); Control Risk (consider draft for exposure); Auditor Communications (consider draft for exposure); Illegal Acts (discussion of preliminary draft) and Analytical Procedures (consider draft for exposure).

The next scheduled meeting is November 18-20 in New York.

Sells Awards Announced

Five Elijah Watt Sells Awards are to be awarded to CPA candidates who had the three highest total scores on all four sections of the May 1986 CPA examination. (There was a three-way tie for second place.)

Gold medal (first place)—Ronald Stephen Tilley of Shreveport, Louisiana. He is a graduate of Tulane University and works in sales and management at his family-owned business.

Silver Medal (second place)—Three-way tie

- Chlen Chun Ng is a June 1986 graduate of the University of Washington. She recently returned to her native Malaysia.
- Joseph Patrick Nolan of Evergreen Park, Illinois. Nolan graduated with high honors from the University of Illinois, Urbana/Champaign, and is a staff accountant in the Chicago office of Coopers & Lybrand.
- Joel Edward Rubin of San Francisco, California. He is a graduate of the State University of New York at Purchase and did graduate work at several schools in accounting and music. Rubin is employed in the San Francisco office of Grant Thornton as a staff accountant.

Bronze Medal (third place)—Tony Dean Bartel of Wichita, Kansas. A summa cum laude graduate of Wichita State University, where he was first in his class, Bartel is with the tax department in the Wichita office of Peat, Marwick, Mitchell & Co.

In addition, 123 certificates for Performance with High Distinction will be granted. The medalists will receive their awards during the AICPA annual meeting in Kansas City.

An identical number of candidates, 67,269, wrote about 1,000 fewer papers (240,489) this May than in the May 1985 examination.

AICPA Member Suspended

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

☐ On July 24, 1986, the membership of Richard M. Jackson of Willimantic, Connecticut, was suspended pending appeal of a judgment of conviction in a U.S. district court of aiding and assisting in the preparation of fraudulent tax returns.

***CPA Client Bulletin* to Summarize Tax Law Highlights**

The next issue of the *CPA Client Bulletin* will enable members to alert clients and others to important features of the new tax law. It also includes effective dates and suggestions for moves prior to those dates, and notes widely discussed changes that were not adopted. For copies, please complete the order form below.

CPA CLIENT BULLETIN ORDER FORM for additional copies of special tax issue)

Circulation Department:
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P.O. Box 1003, New York, NY 10108-1003

Please send us ________ copies of the 1986 Tax Law issue of the *CPA Client Bulletin* (lots of 25 only) at $10.00 per lot for nonsubscribers to the *Bulletin*; additional copies (no imprint) to subscribers, $5.00 per lot.

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Please add 8¼ percent sales tax in New York City. Elsewhere in New York State add 4 percent state tax plus local tax if applicable. In Washington, DC add 6 percent tax and in Vermont add 4 percent tax.

Washington Briefs

Government Fellowships—Two CPAs, with at least six years' experience, will be selected in early 1987 to work directly with the SEC's chief accountant for a two-year period on a variety of accounting, auditing and reporting matters under the commission's Accounting Fellowship Program. For further information, write to the Office of the Chief Accountant, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549.

Applications for White House Fellowships are being accepted until December 15. Applicants are drawn from all occupations and professions to work with the top echelons of the federal government on a variety of matters. This fellowship program is designed to offer young Americans, early in their careers, an opportunity to serve for one year as special assistants in the Executive Office. Write the President's Commission on White House Fellowships, 712 Jackson Place, N.W., Washington, D.C. 20503 for details.

SEC Issues New SAB—The SEC's newest Staff Accounting Bulletin, no. 63, reflects the staff position on FASB Statement no. 68, *Research and Development Arrangements*, regarding R&D activities of affiliated or related parties. Contact John A. Heyman at 202/272-2130 for further information.

IRS to Mail Information Return Packages—The IRS will mail this fall some five million information return form packages to prior filers. The service hopes that the new procedure will reduce errors, thereby reducing expenses.

IRS Issues Final Regs on Cash Reporting—In T.D. 8098, the IRS has issued final rules requiring all businesses to report to the government cash payments that exceed $10,000. Lawyers had sought an exemption on the basis of lawyer-client confidentiality. This was rejected.

SEC Disciplinary Proceedings to Be Made Public?—The SEC voted to seek public comment on three alternatives to existing Rule 2(e), which requires that administrative disciplinary proceedings against accountants and attorneys remain private unless otherwise directed by the commission. The three alternatives are: (1) make all proceedings public, unless otherwise directed; (2) specified proceedings would be public; and (3) the commission would decide on a case-by-case basis whether Rule 2(e) proceedings would be made public.

Price Set for Bulk Tax Form Requests—The IRS will charge $1 per hundred or fraction thereof for tax forms to practitioners. Minimum order is $3. For additional information, contact Inventory Manager of Publishing Services Branch, IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224.

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The CPA Letter

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FASB Proposes Two Technical Bulletins...

A draft of a technical bulletin by the Financial Accounting Standards Board dealing with recognition and reporting of the effects of the new tax law has been exposed for public comment with a due date of October 20.

It states that companies should report the retroactive effects of the act in the interim period that includes the new law's enactment date when it is signed by the President. Prospective provisions of the act would not be recognized before their effective dates.

According to the proposal, adjustments related to a change in tax law would be included as components of income tax expense, and the income statement effect would be disclosed. The balance sheet amounts of deferred taxes existing prior to the law's enactment would not be adjusted for a change in tax rates except as already required by existing pronouncements.

The second draft technical bulletin released for exposure is *Accounting for an Interest in the Residual Value of a Leased Asset: Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments.* It would prohibit an enterprise from recognizing increases in the value of an acquired or retained interest in the residual value of a leased asset to its estimated value over the remaining lease term, regardless of whether the residual value is guaranteed. Comment deadline is November 24.

Copies of the proposed bulletins can be obtained from the order department, FASB, High Ridge Park, P.O. Box 3821, Stamford, Connecticut 06905-0821.

...and Exposes Proposed Statement on Changing Prices

An exposure draft of a proposed statement by the FASB, *Financial Reporting and Changing Prices,* would make voluntary the current rules that require companies to provide supplementary information about changing prices.

In effect, the new proposal would supersede the required disclosures called for under FASB Statement no. 33, *Financial Reporting and Changing Prices.*

According to Bruce Willis, project manager, those requirements were experimental, and "the board was committed to review the results of that experiment five years after these disclosures were first required."

Comments are due by November 14, and copies of the draft can be obtained from the FASB at the address listed above.

Accounting and Review Services Statement Issued

SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans,* has been issued by the accounting and review services committee. This statement provides an exemption from SSARS 1, *Compilation and Review of Financial Statements,* as amended, for personal financial statements that are included in written personal financial plans prepared by an accountant. It also specifies the form of written report required under the exemption. However, it does not preclude an accountant from complying with SSARS 1 in such engagements.

Copies are being sent to all AICPA members.

Position on Health-Care Plans

Comments on an exposure draft of a proposed statement of position, *Accounting by Prepaid Health-Care Plans,* should be received in the AICPA's Washington office (attention: F.S. Synowiec, Jr.) by January 6, 1987.

The proposal provides guidance on applying generally accepted accounting principles in accounting for health-care costs, contract losses, reinsurance, and acquisition costs of prepaid health-care plans. Among other things, the statement recommends that prepaid health-care plans should accrue health-care costs as services are rendered and that a loss should be recognized when expected future health-care and maintenance costs under a group of existing contracts will probably exceed anticipated premiums and reinsurance recoveries on those contracts.

Copies can be obtained from the AICPA order department by requesting Product no. G00265.

SOP on Repurchase Agreements Issued

The AICPA accounting standards division has issued a statement of position, *Reporting Repurchase–Reverse Repurchase Agreements and Mortgage-Backed Certificates by Savings and Loan Associations,* which amends the AICPA audit and accounting guide *Savings and Loan Associations.*

Since the AICPA savings and loan associations committee believes that specific guidance is needed to achieve uniform reporting practices for transactions involving repurchase and reverse repurchase of securities, this statement of position recommends certain disclosures for RP–RRP agreements by savings and loan associations. It also modifies the recommended classification of mortgage-backed, pass-through certificates by savings and loan associations, as discussed in the savings and loan guide.

Copies are available from the AICPA order department at $3.50; $2.80 to members. Product no. is 014732.

GASB Proposes to Clarify Book Entry Securities

The staff of the Governmental Accounting Standards Board has just completed a limited exposure of a proposed technical bulletin that would clarify how book entry securities should be categorized for purposes of disclosing credit risk. GASB Statement no. 3 requires governmental entities to determine and disclose the credit risk associated with investment and repurchase agreement securities. Under this statement, "book entry" is defined as a system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility.

This proposal would clarify the requirement that, when the book entry system of the Federal Reserve or Depository Trust Company is used, the entity's credit risk should be determined based on the identity of the holder of the account in which the securities reside and on whether the securities are being held in the name of the governmental entity.

Sommer Named POB Chairman

A.A. Sommer, Jr., has been elected chairman of the Public Oversight Board, which oversees the activities of the SEC practice section of the AICPA division for CPA firms. He replaces Arthur M. Wood, who has withdrawn as chairman but continues as a member of the board.

Sommer has been vice-chairman of the board and a member since 1983. A former SEC commissioner, he served as a public member of the AICPA board of directors from 1980 to 1983. Sommer is a partner in the Washington, D.C., office of the law firm of Morgan, Lewis & Bockius.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

Audit Study on Credit Losses Being Issued

Auditing the Allowance for Credit Losses of Banks is the title of an auditing procedure study being issued this month. It is designed to assist auditors of bank financial statements when auditing the allowance for credit losses. Specifically, the study's objectives are to

- ☐ Provide information on the lending process, internal control systems and other matters that will assist the auditor when planning the audit engagement as it relates to the allowance for credit losses.
- ☐ Make practitioners aware of matters to consider when evaluating the adequacy of a bank's allowance for credit losses.
- ☐ Describe methods by which the auditor can evaluate the adequacy of management's allowance for credit losses.

Copies are available from the AICPA order department (Product no. 021050). Price is $6.00; $4.80 to members. (The usual postage and handling charge of $2.00 applies to orders under $10.00.)

Banking Conference to Be Held in November

The Eleventh National Conference on Banking will be held at the Capital Hilton Hotel in Washington, D.C., November 20-21.

The conference, presented by the AICPA committee on banking, is designed to

- ☐ Make the participant aware of emerging developments in accounting and auditing, and the impact of competition and supervisory agency regulations on banking operations.
- ☐ Help the participant to recognize and cope with specialized transactions and developments applicable to the banking industry.

The issues will be covered through a series of lectures and panel discussions. Registration fee (including some meals) is $375, and recommended CPE credit for the conference is 15 hours.

Contact AICPA meetings department (212/575-6451) for further information.

AICPA Member Expelled

At a meeting of a hearing panel of Regional Trial Board X in Philadelphia, Pennsylvania, on July 23, 1986, Joseph Stanley Amundsen of Nazareth, Pennsylvania, was found guilty of violating the independence, general standards, auditing standards and accounting principles rules of the Institute's code of professional ethics in connection with the audits and financial statements of a client. He was also found guilty of violating Rule 505 by conducting his accounting practice in a partnership style when he was, in fact, a sole practitioner. The hearing panel voted that Mr. Amundsen be expelled from membership in the AICPA.

Mr. Amundsen, who was present at the hearing, did not request a review of the decision, which therefore became effective on August 22, 1986.

NASBA Elects Officers

Albert J. Derbes III, Louisiana, was elected president of the National Association of State Boards of Accountancy for the 1986-87 year at its annual meeting in San Antonio last month. He succeeded Thomas Iino, California, who assumed the office of immediate past president.

Other officers elected were Wilbert H. Schwotzer, Georgia, as president-elect; as vice-presidents, Charles W. Taylor, Mississippi; Sally Thompson, Kansas; and Sam Yellen, California. Reelected treasurer was Joseph J. Sorelle, New Jersey.

Two of the featured speakers were AICPA President Philip B. Chenok, who discussed the AICPA viewpoint toward assuring quality performance, and Arthur W. Bowman, editor of *Public Accounting Report*, who presented the perspective of the press on regulation of public accountancy.

Washington Briefs

Changing Accounting Years to Be Restricted—In announcement 86-101, the IRS states that it will soon issue temporary regulations restricting the ability of taxpayers to change accounting periods without the prior approval of the IRS.

The regulations will suspend current tax rules and revenue procedures that permit taxpayers to change accounting periods, under expedited procedures, without prior approval. The IRS sets forth the rationale in IR-86-128 to the effect that taxpayers might attempt to defer application of the new tax reform legislation provisions or to defer income to years when lower tax rates cited in the legislation are in effect.

Underreporters to Get IRS Notice—Some 3.2 million taxpayers who may have underreported income on their 1984 individual returns will soon start receiving notices from the IRS. For the first time, about 1.6 million taxpayers who failed to report interest or dividends will get notices that automatically include a negligence penalty of 5 percent of the additional tax on the unreported income, plus 50 percent of the interest on the additional tax. Absent clear and convincing evidence to the contrary, failure to report interest and divided income shall be treated as due to negligence. The IRS Public Affairs Division at 202/566-4024 can supply additional information.

Longer Prison Terms Recommended for Tax Evaders—Preliminary draft recommendations of the U.S. Sentencing Commission call for longer prison terms for convicted tax evaders. "Under current practices the sentence lengths tend to be relatively unrelated to the amount of tax evaded," according to the draft report.

"The [proposed] guidelines should result in moderate increases [in length] for the great majority of cases that involve less than $100,000 in tax evaded [and] the most significant change is that fewer cases will result in probation or fines without any imprisonment."

The preliminary draft recommendations were published in the October 1 issue of the *Federal Register* and comments are due by December 3 at the U.S. Sentencing Commission (attention: Guideline Comments), 1331 Pennsylvania Avenue, N.W., Suite 1400, Washington, D.C. 20004.

SEC Issues New Staff Accounting Bulletin—SAB no. 64, issued by the commission this month, sets forth the staff views in four areas: applicability of guidance contained in staff accounting bulletins; reporting of income or loss applicable to common stock; accounting for redeemable preferred stock; and issuance of shares prior to an initial public offering. For further information, contact Wayne G. Pentrack of the SEC at 202/272-2138.

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1887-1987

The CPA Letter

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Annual Meeting Overview

Some 2,000 CPAs and participants enjoyed the beauty and charm of the "City of Fountains," Kansas City, Missouri, while attending a wide variety of technical programs at the AICPA's 99th annual meeting held October 20-22.

Outgoing Board Chairman Herman "Monday" Lowe opened the meeting with the introduction of distinguished guests, including a number of international visitors. Also recognized were the Sells Medal winners from the last two CPA examinations and this year's AICPA Gold Medal recipient, Donald J. Kirk (see p. 4).

After presenting the annual report to members and conducting other business, Chairman Lowe turned the meeting over to AICPA President Philip B. Chenok, who moderated a panel that discussed plans for considering the proposals contained in the Report of the Special Committee on Standards of Professional Conduct (the Anderson Report).

Chairman Lowe then held an open forum, during which members commented on various issues. The appropriateness of the Institute's sponsorship of a float in the 1987 Tournament of Roses Parade was discussed and overwhelmingly approved by a voice vote of the members present.

The Monday luncheon speaker was Hugh S. Sidey, nationally known columnist, who spoke on "The Presidency." AICPA Centennial Chairman William Kanaga officially opened the Institute's centennial with a showing of a specially prepared film, "Serving America: A Tradition of Excellence."

There were four concurrent mini-conferences in the afternoon—promoting CPA services, valuation of a closely held business, current tax developments and prospective financial statements.

The Tuesday morning opening plenary session featured the well-known political commentators of the McLaughlin Group—John McLaughlin, Robert Novak, Ben Wattenberg, Fred Barnes and Eleanor Clift. They offered inside opinions and forecasts on key issues of the day. They were followed by James C. Treadway, Jr., chairman of the National Commission on Fraudulent Financial Reporting, who presented an update on the work of the commission. He reported that a public exposure draft of the commission's report is scheduled for distribution in March 1987. (More on the commission's tentative conclusions will be in the next issue of the *Letter*.)

Incoming AICPA Board Chairman J. Michael Cook spoke at the Tuesday luncheon and presented a 10-year retrospective of the profession and a look ahead to the future of the profession and the AICPA as its leading institution. (More on his remarks will appear in the next issue of the *Letter*.)

The afternoon was devoted to concurrent sessions which covered various aspects of partnership management, expanding a personal financial planning practice, together with examinations of risk management and investments, an update on Washington activities, and developing a working relationship between the company and the outside auditor.

The program concluded Wednesday morning with Louis Harris giving a report on his just-completed study of the attitudes of various publics toward the CPA. (See pp. 5 and 6 for summary.)

For the third year in a row there was a large exhibition by accountants' vendors and suppliers.

Congressional Report Issued on CPA Audits of Federally Assisted Programs

A recently released report submitted to Congress by the House Committee on Government Operations, chaired by Congressman Jack Brooks (D.-Tex.), concludes that dramatic improvements must be made in the quality of CPA audits of federal financial assistance funds. "Congress will not tolerate continued sloppy, unprofessional, substandard CPA audits of federal tax dollars," according to the report.

Based on a study by the Legislation and National Security Subcommittee, the report notes that "the public accounting profession, the GAO and federal inspectors general all have undertaken efforts to improve CPA audits" of these funds.

The basic recommendations in the report are

- ☐ The public accounting profession, the GAO and the inspectors general should take appropriate actions to assure that CPAs auditing federal financial assistance funds are properly trained in governmental auditing.
- ☐ The state boards of accountancy and the AICPA should impose strict sanctions on CPAs who perform substandard audits.
- ☐ The inspectors general of all agencies that receive CPA audits of federal financial assistance funds should strengthen their quality review systems for monitoring such audits.
- ☐ The GAO should revise *Standards for Audit of Governmental Organizations, Programs, Activities and Functions* (the "Yellow Book") to include a specified amount of CPE in governmental auditing for those CPAs involved in these audits, as well as a requirement that CPA firms auditing federal financial assistance funds undergo periodic peer reviews.

According to Congressman Joseph J. DioGuardi, CPA (R.-N.Y.), a member of both the subcommittee and the full committee, "the recommendations that the AICPA has made with respect to mandatory peer review and continuing education for CPAs conducting those audits go right to the heart of the problem. The committee's support of these recommendations will truly aid in their implementation which will significantly improve the quality of work."

Single copies of *Substandard CPA Audits of Federal Financial Assistance Funds: the Public Accounting Profession is Failing the Taxpayers* (House Report 99-970) are available, free, from the Senate Document Room, Hart Senate Office Building, Room B-04, Washington, D.C. 20510. For information, call 202/224-7860.

AICPA Sued Over Auditing and Accounting Guide

In a complaint for declaratory and injunctive relief, the Credit Union National Association (CUNA) told a federal district court that the AICPA *Audit and Accounting Guide for Credit Unions,* which calls for the classification of members' share accounts as liabilities rather than capital, will harm the financial condition of credit unions and should be withdrawn.

CUNA has asked the court to block the AICPA from enforcing the guide with respect to credit unions, require the AICPA to withdraw the guide and issue a correction, and prohibit the AICPA from issuing and distributing subsequent guides that state credit union shares should be classified as liabilities.

According to AICPA President Philip B. Chenok, "the AICPA has a responsibility to establish auditing standards and to offer auditing and accounting guidance to its members. Authoritative accounting principles are established by the FASB and not by the AICPA. The guide in question was adopted following full due process procedures and properly applies accounting standards issued by the FASB. The accounting principles are sound," Chenok said, "and we expect that the court will confirm that CUNA's claims are without merit."

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Council Meeting Highlights

The October 18th meeting of Council, held in Kansas City, Missouri was called to order by Board Chairman Herman "Monday" Lowe. Council faced a significant agenda on a variety of important issues.

Council heard a report from AICPA President Philip B. Chenok on developments in Washington including the House Energy and Commerce Committee study of the profession and the SEC, the Committee on Government Operations' study of the quality of governmental audits, the Institute's efforts with respect to the tax bill and the status of RICO legislation. Chenok told Council that the Institute would continue to oppose legislation introduced by Congressman Wyden (D.-Ore.) and cosponsored by Congressman Dingell (D.-Mich.) relating to the detection and reporting of fraud. "Efforts by the auditing standards board and the recommendations of the independent commission on fraudulent financial reporting will be sufficient to deal with the concerns of Congress," Chenok said.

Nationally recognized pollster Louis Harris addressed Council detailing the results of the recently completed survey (see pp. 5 and 6) and Marvin Strait (who was subsequently elected vice-chairman of the board of directors) reported to Council on the status of the efforts to develop a plan to implement proposals in the Anderson Report.

Council was then asked for a vote to authorize a mail ballot of the membership to amend the bylaws to require that "a member in the practice of public accounting as a proprietor, partner or shareholder of a firm auditing one or more SEC clients, as defined by Council, may retain membership in the Institute only if that firm is a member of the SEC practice section of the division for CPA firms." Council, by a 182-16 vote, authorized the ballot. Additionally, a resolution was passed by 146-24 urging the membership to vote favorably on the proposal.

Council was also asked to approve a mail ballot of the membership on the modification of Ethics Rule 302 on contingent fees, as proposed in the Anderson Report. This was introduced in light of pending FTC concerns and expected litigation in a pending ethics enforcement action. A substitute resolution that would have precluded contingent fees only for independence-related engagements was defeated by a vote of 181-7. The main motion that would have asked the membership to vote for a rule that would have provided that acceptance of a contingent fee would cause a loss of independence with respect to the client involved was then defeated by a single vote, 97-98. As a result, Chairman Lowe announced that existing investigations of violations of the rule would proceed.

Treasurer Don J. Summa reported that for the fiscal year-end July 31, 1986, the Institute's revenues exceeded expenses by $1.2 million. The net revenues were $600,000 below budget, due in part to activities in Washington.

Thomas J. Holton, chairman of the finance committee, explained that the proposed budget for 1986-87 projects an excess of expenses over revenues by $245,000. He also reported that the zero-based budget process initiated last year, after some fine tuning, would be used again this year. He also announced that the Institute would be undergoing an efficiency study to determine if operations could be improved and to insure that all areas operate in an efficient manner.

Barbara Franklin, chairman of the Institute's audit committee, reported on the committee's oversight of the Institute's financial reporting process as well as the audits of its financial statements.

Ray Groves, a past board chairman, reported on the progress of his committee on accountants legal liability, identifying areas for legislative reform. These included proportionate liability, suits by third parties—the privity rule, RICO, cost of frivilous suits, and aiding and abetting liability.

Rholan E. Larson, chairman of the Centennial committee's subcommittee on liaison with state CPA societies, detailed ways in which the societies can participate in the Centennial.

During the open forum, a resolution was introduced to terminate the Institute's participation in the Tournament of Roses Parade. It was overwhelmingly defeated.

AICPA Officers, Directors, Members of Council and NRB Elected

At the elections held during the October 18 meeting of Council, J. Michael Cook of New York was elected chairman of the AICPA board of directors, moving up from vice-chairman, and A. Marvin Strait of Colorado was elected vice-chairman for the 1986-87 year. Cook is chairman and CEO of Deloitte Haskins and Sells, and Strait heads the accounting firm of Strait, Kushinsky & Company. Elected as vice-presidents for the same period were George L. Bernstein, Pennsylvania; Robert L. Bunting, Washington; and Sidney Davidson, Illinois.

New directors, elected for three years, are Ulyesse J. LeGrange, Texas; Robert Mednick, New York; Thomas W. Rimerman, California; and Kathryn D. Wriston, New York (public member). Gerald A. Polansky, District of Columbia, was elected as treasurer.

Council Members—Seven Council members-at-large to serve three-year terms were elected. They are Brenda T. Acken, West Virginia; Johnnie L. Clark, Georgia; Albert B. Ellentuck, District of Columbia; Robert K. Elliott, New York; Joseph X. Loftus, New York; W. Val Oveson, Utah; and John T. Schiffman, New Hampshire.

To fill Council vacancies caused by the election of Mr. LeGrange to the board of directors and Mr. Bunting as vice-president, Richard E. Piluso, New York, (two years) and J. Curt Mingle, Illinois, (one year) were elected members-at-large. John W. Grimsley, Colorado, was elected to fill the unexpired term (one year) of Robert M. Coffman, who has resigned.

Forty-three directly elected members of Council were installed (see April 28 *Letter*, except that Maryland will be represented by Terry W. Miller.)

National Review Board—Harvey Frank, Michigan; Roy E. Garland, Georgia; Raymond Hellmuth, Massachusetts; and Edwin Lamb, California, were elected to three-year terms as members of the National Review Board.

AICPA Gold Medal Goes to Kirk

Donald J. Kirk, chairman of the Financial Accounting Standards Board for the past ten years was awarded the Institute's highest honor at the annual meeting: the AICPA Gold Medal for Distinguished Service. According to the citation, Kirk "has led the board in a commendable and constructive way thereby contributing immeasurably to the establishment of accounting principles in the private sector."

In accepting the award Kirk said: "I would like to stress the need to guard jealously the independence of the FASB. If financial reporting is to be credible, there must be public confidence that the standard-setting system is credible, that the selection of board members is based solely on merit and that standards are developed neutrally with the objective of relevant and reliable information, not purposeful manipulation."

Prior to becoming a charter member of the FASB in 1973, Kirk had been a partner in Price Waterhouse.

Nominations Committees Elected

At its meeting, Council elected the following to serve on the nominations committees of the AICPA and the two sections of the division for CPA firms:

AICPA	PCPS	SEC Practice Section
*Herman J. Lowe, Louisiana	*Herman J. Lowe, Louisiana	*Herman J. Lowe, Louisiana
Patricia B. Bissell, Maryland	R. Philip Baker, Texas	Donald M. Dale, Virginia
William D. Devlin, California	Thomas L. Holton, New York	Thomas L. Holton, New York
David H. Dievler, New York	Glenn Ingram, Jr., Illinois	Conrad A. Kappel, Connecticut
Gerald W. Hepp, Michigan	James H. Naus, Indiana	James H. Naus, Indiana
Thomas L. Holton, New York	Dominic A. Tarantino, New York	Arnold N. Parris, Pennsylvania
Glenn Ingram, Jr., Illinois	Alfred M. Walpert, Maryland	Dominic A. Tarantino, New York
John H. Kennedy, Pennsylvania		
James H. Naus, Indiana		
A. Tom Nelson, Utah		
Dominic A. Tarantino, New York		

*denotes chairman

CPAs Rate Highly in Public Survey

The CPA profession can take great pride in the results of a recent attitudinal survey of over 3,400 members of the general public and 11 specially targeted knowledgeable groups by Louis Harris and Associates, the nationally known pollsters.

In introducing his report before the annual meeting, Louis Harris said: "By any standard, the reputation of CPAs and the accounting profession is high. Any suggestion that CPAs and the accounting profession are highly vulnerable and have little reservoir of good will to tap is simply not in accord with the facts. By the same token, as with any fount of good will, you cannot rest on your laurels. You must use this good will positively in terms of the professional way you conduct yourselves and at the same time reinforce your adherence to high standards of integrity more than ever before."

Not only is the accounting profession "among the best regarded institutions in the country," according to the study, CPAs get top marks for their ethical and moral practices, when compared to other professions.

More than 90 percent of those surveyed believe that the accounting profession is performing better today than it ever has in the past. However, four out of five respondents in all groups think that the profession needs to be better understood.

Some of the conclusions:

- ☐ *Ethics and Morality*—CPAs emerged at the top or close to it when compared to 12 other professional and occupational groups.
- ☐ *Performance*—Over 75 percent of all groups believe that the accounting profession is performing better today than in the past and 90 percent believe that an accountant has to be well trained and educated to win the CPA designation.
- ☐ *Concern for the Public Interest*—All of the key sample groups came up with essentially the same 55 percent positive rating for CPAs. However, majorities of congressional aides and media people were critical of CPAs for not keeping the public interest paramount in fulfilling their professional responsibilities.
- ☐ *Other Characteristics*—At least 75 percent of all groups gave a positive rating to CPAs on "honesty" the only exception being the general public, which gave a 61 percent positive rating. The "competence," "reliability" and "objectivity" of CPAs were generally well recognized. CPAs scored the lowest in the attribute of "creativity," with the majority of the leadership groups being negative, but with the public and stockholders being positive by varying majorities.
- ☐ *What it Takes to Be a CPA*—Over 80 percent of all groups are aware of the uniform CPA examination and even a larger number believe an exam should be required. A somewhat smaller majority believes that a bachelor's degree is required and about two-thirds believe practice experience is a prerequisite to obtaining a certificate. A similar number believe that a CPA candidate must show evidence of good moral character. Well over three-quarters of all groups are convinced that, to remain a CPA, a person must abide by a code of ethics.
- ☐ *Enforcement of Professional Ethics*—Over 60 percent of all groups believe that an effective system now exists that disciplines CPAs who violate professional standards, with a greater majority of the leadership groups believing this to be true. Most are also convinced that a system of peer review now exists under which the quality of a CPA firm's accounting and auditing practice is assessed by other CPAs. Two-thirds of all groups would make such a system mandatory.
- ☐ *Commissions and Contingent Fees*—By sizable margins, all key groups opposed CPA firms receiving commissions for providing to audit clients services and products of others, such as computer hardware and software, and tax shelters. The special leadership groups opposed this practice at a higher rate than did the bare majority of the general publics. The same groups also opposed accounting firms' doing this for nonaudit clients, but by a lesser margin.

  There was general agreement that CPA firms should not receive fees contingent on the services they provide, for either audit or nonaudit clients. More than two-thirds of the top leadership groups believe that CPA firms should

(continued next page)

Survey (continued)

not receive such contingency fees from audit clients and a majority think the same about nonaudit clients. The major exception is congressional aides, who see nothing wrong with this practice by a 2-to-1 majority.

The survey shows clearly that both the commission and contingency fee areas are viewed negatively by these key publics. The strong overtone, according to Harris, is that these practices by public accounting firms smack of nonprofessional behavior, even if they are perfectly legal and common business practices for others.

☐ *Government Regulation*—A solid majority of the leadership groups and a plurality of stockowners oppose stricter government regulation of independent auditors. However, a plurality of those who say they are knowledgeable about accounting and a majority of the general public do favor stricter government regulation. Among the leadership groups, the only one favoring stricter government regulation was congressional aides.

☐ *Assessing Public Accounting Firms*—By a wide margin, every surveyed group is convinced that competition among CPA firms results in better service and that it is increasing.

Among the nonaudit services a CPA firm ought to offer, a clear majority supported assistance in computer hardware and software selection, general management consulting, educational programs, actuarial services and operation of service bureaus for record-keeping functions. Appraisal services received narrower but positive reviews. Decidedly mixed or downright negative views were expressed for executive search services and packaging and selling tax shelters.

More than 80 percent of all groups surveyed gave CPAs the nod for their competence as tax advisors and as financial advisors. More than two-thirds of all groups believed that CPAs make better management advisors compared to management consulting firms. Concurrent with these attitudes was the view that when an independent audit firm serves as an advisor in these areas, the firm's ability to be objective when auditing a client's financial statements could be affected.

☐ *To Whom is an Independent Auditor Responsible?*—All groups surveyed agreed that in preparing an audit of a company's financial statements, the public accounting firm is primarily responsible to the stockholders or owners.

☐ *What Does a "Clean" Opinion Mean?*—Well over 80 percent of all groups think that it means the auditing firm believes the financial statements are reasonably reliable. With the exception of congressional aides, executives from large companies and academics, solid majorities are convinced that a "clean"opinion means that the CPA firm has found no fraud.

Whether a "clean" opinion means that the auditor believes that management is doing a competent job resulted in sharp differences of opinion. Two-thirds of the publics thought it does, while the top leader groups thought definitely not.

Close majorities and pluralities of those who say they are knowledgeable as well as stockowners groups believe that a "clean" opinion certifies the company as a good investment. Over 80 percent of the top leadership groups disagree.

A detailed report on the survey will appear in the December issue of the *Journal of Accountancy.*

CPE Helps Make Taxes Less Taxing

The CPE division has published the *1987 Tax Calendar and Reference Guide to the Tax Reform Act of 1986,* for purchase by members or for distribution to clients.

This 160-page book includes a matrix showing prior tax law, the new tax law, and types of clients affected by the changes. A calendar highlights effective dates of new provisions and important filing dates for employment and income taxes.

Price is $9.95 each for members from the order department, P.O. Box 1003, New York, New York 10108-1003 (212/575-6426). Product no. is 734501. For information on quantity discounts, telephone 800-AICPANY.

AICPA Staff Vice-president Appointed

The appointment of Donald H. Skadden to the newly created post of vice-president—taxation has been announced by AICPA President Philip B. Chenok.

In his new capacity, Dr. Skadden will have overall staff responsibility for the Institute's federal taxation activities. He is currently associate dean of the Graduate School of Business Administration and Arthur Young Professor of Accounting at the University of Michigan. As a teacher and AICPA member, Skadden has had a long and varied career. He has been a member of Council, a member of the CPE and federal taxation executive committees, served on numerous tax subcommittees and task forces as well as the Financial Accounting Standards Advisory Council.

Skadden is also past president of the American Accounting Association and the American Taxation Association.

He will be based in the Institute's Washington office.

FAF Trustees Name Executive Vice-president

As part of a new administrative structure, the trustees of the Financial Accounting Foundation have appointed Joseph S. La Gambina to the position of executive vice-president and chief administrative officer of the foundation, starting January 1, 1987.

In effect these changes will consolidate the administrative activities of the Financial Accounting Standards Board and the Governmental Accounting Standards Board directly under the foundation, which, among other responsibilities, exercises general nontechnical oversight of both boards.

According to Foundation President Rholan E. Larson, "the new structure will relieve the chairmen of both boards from devoting considerable time and effort to administrative matters and permit the boards to concentrate almost exclusively on standard setting. We believe the new structure will provide more effective and more efficient utilization of resources."

La Gambina is currently director of administration for the FASB and acting executive director of the foundation.

Centennial Logo

This is the first issue of the *Letter* to feature the AICPA Centennial logo, which will appear on most periodicals during the year. The design was selected as representing progress and upward movement of the profession. The four converging light rays symbolize both the four quarter centuries of the profession's history and its four membership segments—public practice, industry, government and education. The rays converge in the center of the logo, representing the unity of the profession which has contributed toward the progress made over the past 100 years.

NOTICE OF AICPA PUBLIC MEETINGS

Auditing Standards

The auditing standards board will hold an open meeting in New York City from November 18 to November 20 at the AICPA boardroom, starting at 9:00 a.m. The agenda includes discussion of revised drafts on the following subjects:

November 18—Control Risk; Auditor Communications.

November 19—Continued Existence; Auditing Client Estimates and Judgments.

November 20—Errors and Irregularities; Control Risk.

The next meeting is scheduled for December 17-18 in New York City.

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

Washington Briefs

RICO Reform: Almost—After passing the House by a vote of 371-28, a bill to amend the civil provisions of the Racketeer Influenced and Corrupt Organizations Act (H.R. 5445) was narrowly defeated in the Senate (47-44) during the waning hours of the 99th Congress. The proposed legislation would have reduced substantially the misuse of civil RICO in ordinary commercial litigation. Among other provisions (see September 11 *Letter*) it would have generally eliminated treble damages for cases in which civil RICO provisions had been violated. A major reason for its defeat has been attributed to the Justice Department which opposed it because the bill did not require a prior criminal conviction before civil RICO provisions could be invoked.

Financing the IRS—A study, partially funded by the AICPA, on the administration of tax laws has been released by the American Enterprise Institute for Public Policy Research. Among the conclusions of the study, described by IRS Commissioner Lawrence Gibbs as "a very beneficial study and worthwhile product," are

- ☐ Increased resources for enforcement are likely to result in greater revenues than the costs incurred.
- ☐ The budget process for determining IRS funding is inadequate and the IRS should receive a modest budget increase.
- ☐ Some programs the IRS is charged with administering are "essentially unadministrable."

Copies of *Who Should Pay for Collecting Taxes? Financing the IRS*, at $6.00, can be obtained from the AEI, 4720 Boston Way, Lanham, Md. 20706

Automobile Mileage Rates Retained—The IRS, in Rev. Proc. 86-38, retained the 1985 automobile rates for tax deduction purposes for 1986. Business use for a car not fully depreciated remains at 21 cents for the first 15,000 miles; 11 cents per mile thereafter and for all business use of a fully depreciated car. For charitable activities the rate is 12 cents and for medical and moving expenses the 9-cent-a-mile rate will continue. In lieu of these standard rates, a taxpayer may deduct actual expenses.

FASB Urged to Speed Up Statement—Assistant Treasury Secretary Roger Mentz has asked the SEC to try and persuade the FASB to speed the implementation of its proposed statement *Accounting for Income Taxes*, currently in the exposure stage, especially now that the President has signed the Tax Reform Act of 1986 into law.

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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The CPA Letter

A Semimonthly News Report Published by the AICPA
Vol. 66 No. 19 November 12, 1986

Cook Looks Ahead Based on Past Agenda

The newly elected chairman of the AICPA's board, J. Michael Cook, said in his inaugural speech before the Institute's 99th annual meeting in Kansas City last month that "we are at a crossroads for the profession" and "critical decisions will be made this year and next that will largely determine the future of the AICPA and its appropriate role in the accounting profession."

Chairman James Treadway of the National Commission on Fraudulent Financial Reporting, Chairman George Anderson of the special committee on standards of professional conduct for CPAs and Congressman John Dingell (D-Mich.) chairman of the House Subcommittee on Oversight and Investigations "have filled our plates for the coming year." In 1976, Congressional investigations, the Cohen Commission and a special AICPA committee had set the agenda for the Institute, Cook said. "I was struck by the almost eerie similarities between the profession then and our circumstances today—truly dèjá vu." Many of the problems that were with us then are still with us today, although great progress has been made, according to Cook.

In citing the report of the Anderson committee, he said that the key question is "whether we are to accept the role of a self-regulatory organization committed to the public interest and monitoring the quality of our profession" or relegate the role of the AICPA to that of an organization "whose primary mission is to provide services to its members."

The second area of challenge and opportunity is the "expectation gap" between "the perceived needs of the public and the responsibilities and performance of the profession. In my view, our response to this issue will also be a key determinant of the future role of the profession. If we continue to respond defensively by pointing out the public's lack of understanding of our limitations and the limitations of financial reporting, we will not move ahead." He mentioned, among other things, the troubling problems of liability and insurance, which will get close attention.

Cook emphasized that his addition to the agenda for 1986-87 will be to try to meet the "overwhelming need for greater unity in the profession. We must provide avenues of expression within the profession for dissenting view . . . [but] must seek to address and resolve differences within the profession rather than resorting to the support of outsiders to further our own positions. The saying 'United we stand, divided we fall' has never been so true as it is for the profession today," he said.

Cook concluded by saying, "I will do all I can to contribute to an open dialogue and to provide constructive responses to the needs of all of our constituencies."

FASB Issues Bulletin on Reporting Tax Act Effects

The Financial Accounting Standards Board has released a technical bulletin *Accounting for Certain Effects of the Tax Reform Act of 1986* for interim and annual periods ending on or after January 1, 1986.

It states that companies should report the aggregate tax effects of retroactive provisions of the act as a component of income tax expense in the financial statements issued for these periods. Also, the balance sheet amounts of deferred taxes existing prior to the effective date of the change in the tax rates provided in the new law should not be adjusted to reflect the new rates, except as already required by current accounting literature. The FASB expects to issue a final statement in this area in 1987.

Ethics Committee Adopts Seven Pronouncements

At a recent meeting the professional ethics executive committee adopted the following pronouncements which will become effective December 31, following publication of the texts in the December issue of the *Journal of Accountancy:*

- ☐ Ruling no. 64, Rule 101—Member as Director of Agency for Which Client Raises Funds.
- ☐ Ruling no. 65, Rule 102—Use of CPA Designation by Member Not in Public Practice.
- ☐ Revision of Interpretation 101-9, Rule 101—The Meaning of Certain Independence Terminology and the Effect of Family Relationships on Independence.
- ☐ Interpretation 201-2, Rule 201—Prospective Financial Information.
- ☐ Interpretation 201-4—Definition of the Term "Engagements" as Used in Rule 201.
- ☐ Deletion of Subsection 5 from Interpretation 502-2 under Rule 502—Testimonials and Endorsements.
- ☐ Ruling no. 181, Rule 503—Sale of a Practice—Purchase of Accounts.

The committee also approved the following proposed rulings for exposure:

- ☐ Ruling no. 54, Rule 101—Independence Considerations Regarding Members Providing Appraisal, Valuation or Actuarial Services.
- ☐ Ruling no. 182, Rule 501—Termination of Engagement Prior to Completion.

AICPA Member Expelled; Another Suspended

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

On September 3, 1986, the membership of Gary J. Imbrie of Corvallis, Oregon, was terminated following his conviction in a U.S. district court on his plea of guilty to theft and forgery.

At a meeting of a hearing panel of Regional Trial Board XI in New York City on May 20, 1986, Robert H. Horn of Manhasset, New York, was found guilty of violating the AICPA bylaws. He failed to cooperate with the Institute's professional ethics division in its investigation of a complaint against him for failing to return client records after appropriate demands were made for them by the client. The panel voted that the respondent be suspended from membership for two years.

However, the suspension would be limited to 90 days if the client records were returned within 90 days of the effective date of the decision. If the client records are not returned during the two-year suspension period, the respondent will be automatically expelled. Mr. Horn, who was not present at the hearing but was notified in writing of the hearing panel's decision, did not request a review, and the decision therefore became effective on June 20, 1986. Since he did not return the records within the 90-day period, the two-year suspension of his membership will either end or his expulsion will become automatic on June 20, 1988.

Tax Planning for Closely Held Businesses

The AICPA's CPE division will sponsor a national all-lecture conference to bring tax practitioners in small to medium-sized firms up-to-date on tax changes resulting from the Tax Reform Act of 1986, as they affect closely held businesses and their owners. It will deal with S vs. C Corporations or Both; Partnerships; and Trusts and Estates. There are two presentations: January 12-13 at the Point at Tapatio Cliffs, Phoenix, and January 29-30 at the Hyatt Regency Grand Cypress, Orlando.

Registration fee is $445 and recommended CPE credit is 16 hours. For information call 800/AICPANY (in New York State, call 212/575-5696).

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

Preliminary Report on Fraudulent Reporting Presented

One of the highlights of the Institute's annual meeting last month was a report on the initial conclusions of the National Commission on Fraudulent Financial Reporting by James C. Treadway, Jr., its chairman.

Before citing the unanimous views of the six commissioners, Treadway pointed out that fraudulent financial reporting is a multi-dimensional problem and noted that the commission's initial conclusions "potentially impact all—issuer, regulator, auditor, director, law enforcer, professional organizations and educators." In referring to various research studies, he mentioned that analysis of 458 bankruptcies over the last 25 years showed management fraud was involved in about half the cases. About 20 percent of the cases revealed litigation against the auditors, over half of which also involved management fraud.

Here are some of the commission's initial conclusions:

☐ Audit committees should be required of all publicly owned and other entities that accept public funds. The committees should be heavily involved in the financial reporting process. They should be more visible and their role better communicated to the public. The chairman of the audit committee should include a letter in the annual report to stockholders describing the committee's activities.

☐ Corporate management should be required to express an opinion on the adequacy of internal controls and affirmatively acknowledge in the annual stockholders' report that it has the foremost and ultimate responsibility for accurate financial statements; and

☐ The public auditor should provide negative assurance on internal controls.

☐ All public companies should have an internal audit function and the chief internal auditor should report to the CEO or senior financial officer who does not have direct involvement with the preparation of financial statements.

☐ The commission rejects the approach taken by proposed legislation that would require the auditor to report fraudulent activities. However, auditing standards should be revised to include some affirmative obligation to detect fraud and the auditor's report should better communicate the auditor's role and responsibilities.

☐ Membership in a quality assurance program, such as the AICPA SEC practice section, should be required for all auditors of publicly held companies.

☐ The independence of the public auditor should be evaluated regularly by the audit committee and the level of audit fees to nonaudit fees should be a required disclosure by the auditor.

Copies can be obtained from the National Commission on Fraudulent Financial Reporting, 1701 Pennsylvania Avenue, N.W., Washington, D.C. 20006.

AICPA PUBLIC MEETING NOTICES

Accounting Standards—The accounting standards executive committee will hold an open meeting at the Hilton Hotel at Lake Buena Vista, Orlando, from December 9 to 11, starting at 8:30 a.m. the first day. The committee will consider papers in the following areas: Risks and Uncertainties; Disclosure of Insurance; Continuing Care Contracts; Insurance Agents and Brokers; and Discounting Applications. Comment letters will be considered on FASB exposure drafts on Income Taxes and Cash Flow Statements for Financial Institutions.

Professional Ethics—An open meeting of the professional ethics executive committee will be held in the AICPA's New York offices on December 3, starting at 9:30 a.m.

The following rulings under Rule 101 (Independence) will be considered for exposure: No. 68—Member's Investment in an IRA or Keogh Retirement Plan; no. 69—Member's Investment in a Financial Institution; no. 70—Servicing of a Loan; no. 71—Blind Trust. Also are a revision to Interpretation 101-5—Meaning of the Term "Normal Lending Procedures, Terms and Requirements"; Proposed Interpretations regarding Application of (GAAP, 501-5) and (GAAS, 505-6) Provided by a Member not in Public Practice.

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

Washington Briefs

SEC Issues Tax Effect Interpretation—The SEC plans to remind registrants of their existing obligation to discuss potential effects of the new tax law. The commission has voted to allow companies to present disclosures which quantify the effects of the act on the deferred tax amounts in their historical financial statements by the pro forma application of the provisions in the FASB exposure draft *Accounting for Income Taxes*. For information, contact John Heyman at the SEC (202/272-2130).

CPAs Sought as Advisors to Trade Policy Group—Thomas Watson, Jr., CPA, chairman of the Industry Sector Advisory Committee for Small Business Trade Policy (ISAC no. 14) urges CPAs with "knowledge, experience and interest in trade negotiations" to seek appointment to this group which advises the Secretary of Commerce and the U.S. Trade Representative as they set policy, conduct negotiations and carry out U.S. trade policy. For information about applying for appointment, contact Helen Burroughs at the Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230 (202/377-2829).

SBDC Operations Rule Proposed—The Small Business Development Center Program has, according to the SBA, "necessitated the promulgation of regulations to ensure that the program operations are uniform nationwide." The proposed rule (in the Federal Register of October 23) contains provisions governing audits, as well as recordkeeping requirements for SBDCs providing services directly to small businesses. Comments are due by December 22. For information, contact Freddie Collins at the SBA (202/653-6768).

IRS Seeks Advice on Implementing New Tax Law Provisions—IRS Information Release 86-143 lists provisions of the new tax law on which it is preparing early guidance and specific projects on which it seeks advice. Comments on the list should be submitted by November 28, and other comments as soon as possible.

IRS Advance Announcement 86-108 is concerned with prompt payment of actual or contested deficiencies. Copies of both pronouncements are available by calling the IRS at 202/566-4054.

SEC Seeks Accountants—The SEC has several openings in its Washington office for CPAs with at least three years' professional experience. Duties include reviewing financial statements, 10K forms and registration statements for compliance with SEC requirements. Salary range is $31,619 to $48,876. Contact E. Hocutt, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549 (202/272-7064).

Correction

An incorrect first name was listed in the October 29 *Letter* for a newly elected council member-at-large. He is James W. Grimsley of Colorado. Our apologies.

The CPA Letter

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The CPA Letter

A Semimonthly News Report Published by the AICPA
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POB Issues Survey Results on MAS and Independence

The results of a survey conducted under the auspices of the Public Oversight Board suggest that members of key publics think that performing certain management advisory services by CPAs can impair objectivity and independence. The Board oversees activities of the SEC practice section of the AICPA division for CPA firms.

In releasing the report, POB Chairman A. A. Sommer, Jr., emphasized that the survey was concerned with perceptions and noted that in the nine-year history of the peer review program, no instance has been found where an auditor's independence was impaired or objectivity affected by the performance of consulting services.

Half or more of the respondents think that advising or assisting management in the following areas could cause a "great deal of" or "some" impairment:

- ☐ Identifying merger and acquisition candidates or negotiating combinations and divestitures.
- ☐ Performing actuarial services directly affecting amounts on the balance sheet.
- ☐ Developing or implementing a strategic plan.
- ☐ Carrying out searches for senior management personnel.
- ☐ Renegotiating or redetermining price under a procurement contract.
- ☐ Valuing assets acquired in business combinations.
- ☐ Developing an executive compensation plan.

Services that are perceived to cause little or no chance for independence impairment include the following:

- ☐ Performing a plant site location study.
- ☐ Designing or installing a computer system.
- ☐ Developing a market feasibility study.
- ☐ Designing a control system for managing long-term contracts.
- ☐ Performing actuarial services for the company's pension plan.
- ☐ Designing or implementing a cash management system.

In commenting on the POB survey, John D. Abernathy III, chairman of the SEC practice section, noted that the recent Harris poll (see October 29 *Letter*) covered some similar ground. The poll concluded that "five areas do emerge clear-cut as fitting and proper for CPA firms to be in: assisting in computer hardware selection and software design or selection, general management consulting, educational programs, actuarial services, and service bureaus for various record-keeping functions. Appraisal services also were found acceptable by a narrow margin. But executive search services, and packaging and selling tax shelters met with real opposition."

Abernathy pointed out that the SEC practice section already has proscriptions relating to, among other things, executive search services, certain actuarial services, and merger and acquisition services for a finder's fee. However, he also said "the SEC practice section regards the provision of MAS services and the questions it raises as an important matter. As we do in all matters, the section will carefully consider the report and any suggestions the POB might make to us, when it has completed its own study of the survey."

A 25-page summary of the survey is available from the POB, 540 Madison Avenue, New York, N.Y. 10022.

SEC Conference Set

The 14th annual AICPA National Conference on Current SEC Developments will be held in Washington, D.C., at the Capital Hilton Hotel on January 6-7.

The objectives of the conference are to enable participants to work more effectively and efficiently within the existing framework of SEC rules and to discuss future activities of the SEC as they deal with matters of concern to the profession.

Among the featured speakers will be Edward Fleischman, SEC commissioner, and A. Clarence Sampson, SEC chief accountant. AICPA Board Chairman J. Michael Cook and President Philip B. Chenok will also speak.

Registration fee is $395.00, and recommended CPE credit is 16 hours. For further information, contact the AICPA meetings department (212/575-6451).

Three AICPA Members Expelled; One Suspended

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

- ☐ The membership of Stanley Levy of Philadelphia, Pennsylvania, was terminated following his conviction in a U.S. district court, on his plea of nolo contendere, of conspiracy to bribe and of bribing an IRS agent.
- ☐ The membership of Franklin William Onstine of Concord, California, was terminated on September 24, 1986, following his conviction in a U.S. district court on his plea of guilty to embezzlement.

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

- ☐ The membership of Paul J. Safranek of Omaha, Nebraska, was terminated on September 22, 1986, following the revocation of his CPA certificate as a disciplinary measure by the Nebraska Board of Public Accountancy.
- ☐ The membership of Vincent K. Maloney of Kirkland, Washington, was suspended on September 17, 1986, for an indefinite period, following the suspension of his CPA certificate as a disciplinary measure by the Washington State Board of Accountancy.

Memberships Available in Two New Divisions

The two new voluntary membership divisions of the AICPA, approved by Council last May, are anxious to expand membership.

Management Advisory Services—Offers a wide range of opportunities to expand competence, exchange experiences and ideas, and membership includes automatic receipt of several pertinent publications. More than 3,000 AICPA members have elected to join to date. Annual membership fee is $70.

Personal Financial Planning—Provides an outlet for the sharing of knowledge by CPAs with an interest in personal financial planning, issues periodic publications and communicates the competence of CPAs in this area to the public. The fee for one year is $100.00, with about 1/3 of it to be devoted to a national public awareness program. Almost 5,000 AICPA members are currently signed up.

For information on either of these programs, write to the relevant division at the AICPA.

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

GASB Issues Exposure Draft; Research Report . . .

A revised exposure draft of a proposed statement by the Governmental Accounting Standards Board *Objectives of Financial Reporting* has been released for public comment, with a deadline of January 15. The proposal would establish the objectives of general purpose external financial reporting by state and local governmental entities and reflects modifications based on comments received on the initial exposure draft.

The proposal holds that state and local governmental financial reports should possess the basic characteristics of understandability, reliability, relevancy, timeliness, consistency and comparability, as defined.

A research study detailing the results of a survey on infrastructure assets, such as roads and bridges, that users would like to see reported has been issued by the GASB.

According to Martin Ives, GASB director of research, "current accounting principles do not require that information on infrastructure assets be provided in financial reports, and many believe that appropriate financial reporting standards about such matters as deferred maintenance would help financial statement readers to assess any problems and deal with them."

Single free copies of the exposure draft and copies of the research report at $10 each are available from the GASB order department, High Ridge Park, P.O. Box 3821, Stamford, Connecticut 06905-0821.

. . . and Issues Proposed Technical Bulletin

GASB also has issued a proposed technical bulletin for comment that clarifies the definition of "counterparty" for purposes of investment disclosures made by state and local governmental entities under GASB Statement 3.

Statement 3 requires that state and local governmental entities disclose in notes to their financial statements certain information regarding the credit risk involved with investments, including repurchase agreements. It lists three categories of credit risk:

- ☐ Insured or registered, or held by the government or its agent in the government's name;
- ☐ Uninsured and unregistered, with securities held by a counterparty's trust department or agent in the government's name;
- ☐ Uninsured and unregistered, with securities held by a counterparty, or by its trust department or agent but not in the government's name.

The proposed bulletin states that a broker-dealer or financial institution that acts as a purchasing agent for the governmental entity would be considered a counterparty to the transaction, regardless of whether the securities were purchased from the broker's or institution's trading inventory or on the open market.

Comments are requested by December 10, and copies of the draft are available from GASB at 202/968-7300.

Minority Doctoral Fellowships Announced

As part of the Institute's program to help increase the number of minority group Ph.D.'s in accounting and to improve the research and teaching competencies of faculty members in traditionally minority colleges and universities, the AICPA has awarded or renewed $8,500 grants to each of the following, who are on leave from their "home" universities:

- ☐ Martin F. Akor, from West Virginia State College, attending Memphis State University.
- ☐ Ronald L. Campbell, from Oakwood College, attending Texas A & M University.
- ☐ Sharon G. Finney, from Clark College, attending Georgia State University (Arthur Young-AICPA fellowship).
- ☐ Dorothy M. Mattison, from Morgan State University, attending George Washington University.

Four CPAs in 100th Congress

With the election of Owen B. Pickett to Congress from the 2nd district of Virginia, the number of CPAs in the new Congress remains at four—two Democrats and two Republicans, all AICPA members.

Reelected were Joseph J. DioGuardi (R-N.Y.), Ronnie G. Flippo (D-Ala.) and E. Clay Shaw (R-Fla.). David S. Monson, Utah, did not run for reelection.

Congressman-elect Pickett was a member of the Virginia House of Delegates since 1972 and served on its committees on appropriations; privileges and elections; health, welfare and institutions; and the Chesapeake and its tributaries. He has been chairman of the Democratic state central committee, the second congressional district Democratic committee and of the Democratic city committee of Virginia Beach. Pickett was a partner in the law firm of Pickett, Lyle, Siegel, Drescher and Crowshaw and has been an AICPA member since 1956. He is also a member of the Virginia Bar.

Two Congressmen Join API Board

Two congressmen-CPAs have joined the board of Accountants for the Public Interest (API), a Washington-based nonprofit group that organizes volunteer accountants to assist nonprofit organizations, small businesses and local governments on a "pro bono" basis.

The volunteer accountants help in setting up accounting systems, preparing financial reports and assist in analyzing public issues from a financial perspective and provide training in financial management skills.

The congressmen, both AICPA members, are Joseph J. DioGuardi (R-N.Y.) and Ronnie G. Flippo (D-Ala.). Also elected was another AICPA member, William L. Raby of Arizona, who is a partner in Touche Ross & Co.

SAS Interpretation to Be Published

An interpretation of Statement on Auditing Standards no. 30, *Reporting on Internal Accounting Control*, entitled "Compliance with the Currency and Foreign Transactions Reporting Act" will be published in the January 1987 issue of the *Journal of Accountancy*.

The interpretation provides guidance to auditors on the procedures and form of report that are necessary to comply with the requirements of the Federal Home Loan Bank Board's T-Memorandum 53-7, *Currency and Foreign Transactions Reporting Act: FHLBB Explanations of Compliance Requirements*.

AICPA Seeks Committee Members

Members who wish to volunteer for one of the approximately 600 AICPA committee openings that are expected to become available starting in October 1987, should write to Torny Berntsen at the Institute. She will provide a booklet listing current committees and their objectives, approximate time commitment and a biographical form which, when completed, will supply the necessary information for consideration by the incoming chairman of the board.

To be considered for the 1987-88 committee year, the bio form should be returned by February 16, 1987.

Recent AICPA Publications

Accounting Trends and Techniques (1986 edition)—This annual study is a compilation of data from a survey of 600 annual reports to shareholders which analyzes the accounting information disclosed. They cover the period of February 22, 1985, to February 2, 1986. Price is $46.00; $36.80 to members. Product no. 009861.

Disclosure Checklists for Banks—This is the 1986 update. A financial reporting practice aid, this publication is designed to help banks and their independent auditors ensure that proper disclosures are made. Price is $8.50; $6.80 to members. Product no. 007936.

AcSEC to Issue Three Comment Letters; Approves SOP Exposure

At its meeting last month, the accounting standards executive committee approved issuance of comment letters on the following proposed FASB pronouncement:

☐ "Statement of Cash Flows." (FASB's July 31, 1986, exposure draft.)

☐ "Financial Reporting and Changing Prices." FASB's September 30, 1986, exposure draft.)

☐ "Accounting for an Interest in the Residual Value of a Leased Asset: Acquired by a Third Party or Retained by a Lessor That Sells the Related Minimum Rental Payments." (FASB's September 25, 1986, exposure draft of proposed technical bulletin.)

The committee also approved for exposure a proposed statement of position *Accounting for Frequent Travel Award Programs, Developmental and Preoperating Costs, Sales and Exchanges, Take-off and Landing Slots, and Airframe Modifications*, subject to clearance by the chairman of AcSEC and review by the FASB. Publication is expected in 1987 and copies will be available from the AICPA order department at that time.

IASC Approves Draft on Bank Disclosures for Exposure

At its meeting in London earlier this month, the International Accounting Standards Committee's board approved exposure draft E29 on *Disclosures in the Financial Statements of Banks* for publication next April with a comment due date of September 30, 1987. It is based on comments received on its preliminary exposure draft, distributed last year.

The draft proposes that banks should disclose the information necessary to assist users of their financial statements in assessing their liquidity, solvency and the risk attaching to their assets and liabilities. Proposed disclosures include maturity groupings, substantial geographical and customer concentrations, and substantial currency exposures. Disclosures are also proposed in relation to uncollectible loans and advances, off balance sheet items and reserves for general banking risks.

The board expects to consider an exposure draft on *Financial Reporting in Highly Inflationary Economies* at its next meeting in March 1987.

Chironna Named Executive Director of NAA

John F. Chironna, director of accounting of IBM Europe in France, has been appointed executive director and principal administrative officer of the National Association of Accountants, according to Glen E. Woodson president of this association of management accountants.

Chironna has been a NAA national vice president and is one of two U.S. representatives to the International Accounting Standards Committee (IASC).

NOTICE OF AICPA PUBLIC MEETING

Auditing Standards

An open meeting of the auditing standards board will be held in the AICPA boardroom (New York) on December 17-18, starting at 9:00 a.m. The tentative agenda calls for it to consider issuing exposure drafts in six areas.

Wednesday, December 17

Control Risk; Estimates and Judgments; Auditor Communications.

Thursday, December 18

Continued Existence; Analytical Review; Reporting on Internal Account-Control.

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

Washington Briefs

IRS Seeks Volunteers—The IRS is looking for CPA volunteers to assist in preparing returns and conducting self-help classes for the elderly, handicapped and non-English speaking taxpayers as well as groups of workers and small business people. Contact Irene Cain, IRS Taxpayer Service Division, D:R:T:I, IRS, 1111 Constitution Avenue, N.W., Washington, D.C. 20224 (202/566-4904.)

Accounting Period Changes—In Announcement 86-113 the IRS says that it will soon issue temporary regulations limiting the ability to adopt or retain certain accounting periods that result in a deferral of income. In modifying Announcement 86-101, the new announcement notes the suspension of Rev. Proc. 72-51, in the case of partnerships requesting approval for the adoption of an annual accounting period that would result in the deferral of income to the partners of three months or less. For further information contact the IRS Public Affairs Office at 202/566-4024.

Disclosures by New SEC Registrants—New SEC registrants will be required to disclose previous changes of accountants and any related disagreements regarding accounting and financial disclosure under final rules adopted by the Commission earlier this month. For further information contact JoAnn Zuercher at 202/272-2589.

New SEC Staff Accounting Bulletin—In SAB no. 65 staff views are discussed on certain matters involved in the application of Accounting Series Release nos. 130 and 135 regarding risk sharing in business combinations accounted for as pooling of interests. Contact Lawrence Salva of the SEC at 202/272-2130.

PBGC Wants Comments on Agenda—The semiannual agenda of regulations of the Pension Benefit Guaranty Corporation has been published in the October 27 Federal Register (pp. 39086-92), and the PBGC seeks comments by CPAs on these 20 items. Contact J. Ronald Goldstein, PBGC, 2020 K Street, N.W., Washington, D.C. 20006 (202/956-5050).

Deadline Extended on Proposal Regarding Practice Before IRS—The proposal by the IRS, issued August 14, 1986, sought to amend Circular 230 to require that in a situation where the provisions of IRC section 6661 may apply, a practitioner must exercise due diligence with respect to tax return preparation and advice provided on tax return positions. The comment deadline has been extended to February 13, 1987. Contact Leslie Shapiro of the IRS at 202/535-6787 for further information.

The CPA Letter

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

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GASB Issues Statement on Pension Plan Disclosures

In Statement no. 5, the Governmental Accounting Standards Board sets forth standards for disclosure of pension information by public employee retirement systems (PERS) and state and local governmental employers in notes to financial statements and in required supplementary information. It standardizes pension disclosure guidance by superseding the pension disclosure requirements of paragraph 9 of GASB Statement no. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*.

The disclosures required by the statement, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers*, are intended to provide information needed to assess the funding status of a PERS on a going-concern basis, progress made in accumulating sufficient assets to pay benefits when due, and whether employers are making actuarially determined contributions.

According to James F. Antonio, GASB chairman, "the use of a standardized measure of the pension benefit obligation will significantly improve the ability to compare relative pension funding status among governmental employers and pension plans. This will enable users of governmental financial statements to see whether the pension funding status of a particular plan is improving."

For price information and copies of the statement, write: Order Department, GASB, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

IASC Approves Standard on Retirement Plans

The board of the International Accounting Standards Committee (IASC) has approved a new international accounting standard (IASC 26) which will be published in January 1987. Entitled *Accounting and Reporting by Retirement Benefit Plans*, the new statement deals with accounting and reporting by a plan to all participants as a group.

In this statement, the board confirms its view that the actuarial present value of promised retirement benefits should be disclosed either in the report of the plan or in an accompanying actuarial report. Plan investments should be carried at fair value—usually market value—although those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan may be carried at amounts based on their redemption value.

This statement is based on exposure draft E27, published in July 1985, and complements IAS 19, *Accounting for Retirement Benefits in the Financial Statements of Employers*, which is concerned with the determination of the cost of retirement benefits in the financial statements of employers. The management advisory services division has issued Technical Consulting Practice Aid 8, *Mergers, Acquisitions and Sales*. It provides information to practitioners who assist clients in merging, acquiring or selling businesses. The aid focuses on smaller clients, generally closely held companies in which the owner-managers participate directly in daily operations.

This practice aid, one of a series, is designed as an educational and reference source for members and other interested parties, but does not establish standards or preferred practices. Copies have been distributed to members of the MAS division and are available to others through the AICPA order department at $7.50 each; $6.00 to AICPA members. Request Product no. 055094.

Disability Income Plan Entry Date Set

Members who wish to begin or increase their coverage under the Long Term Disability Income Plan should act before January 1, 1987.

Special features of the plan, which is available to eligible members, include:

- ☐ Monthly disability income benefit payments that range from $500 to $5,000 for disabilities caused by either sickness or accident.
- ☐ Benefit payments may be made for life after a 26-week waiting (elimination) period if disability was incurred before age 50 (payments to age 65 if incurred at or over age 50).
- ☐ A voluntary rehabilitation program under which the insured CPA may return to work while receiving monthly disability income benefits in reduced amounts. The program also includes provision for the payment of approved rehabilitation training and education expenses.

Literature was mailed recently. For information, contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158 (Telephone 800/221-4722; in New York, call collect 212/661-9000, and ask for extension series 436).

Corporate Strategy Conference Scheduled

The AICPA and the National Association of Accountants are jointly sponsoring a two-day conference on the impact of the 1986 Tax Reform Act on corporations to be held February 26-27 at the Westin Hotel, Washington, D.C.

Speakers will advise on structuring business plans to minimize tax cost and maximize tax opportunities, with ample time allocated for questions. Designed for corporate financial-decision makers, it is aimed primarily at publicly and closely held companies in the $10 million to $500 million annual sales range.

Registration is $545 for AICPA and NAA members; $645 for nonmembers. Recommended CPE credit is 15 hours.

For a brochure or further information on the conference, call toll free: 800-AICPANY; in New York State call 212/575-5696.

It's Coming up Roses: Watch for the AICPA Float

As reported in previous issues of the *Letter*, the AICPA will be participating in the Tournament of Roses Parade in Pasadena, California, on January 1. This is part of the Institute's ongoing celebration of its centennial. The tournament committee recently announced a new satellite hookup which will enable the parade to be broadcast, live, to five continents—Asia, Australia, Europe, North America and South America. This new arrangement could double the parade's international viewing audience to 250 million.

Members can view the AICPA float, "New World Discovery," on any of the six television networks covering this event. Among them are NBC, CBS, Fox and Tribune television. The parade is scheduled to start at 8:20 a.m. (Pacific Standard Time); 11:20 a.m. (Eastern Standard Time). Check your local listings for the exact time that coverage begins.

The float salutes the pioneering spirit which CPAs have brought to American business for the past 100 years.

1987 CPA Exams Will Cover 1987 Tax Laws

Chairman Perren A. Cherry of the AICPA board of examiners has announced that beginning with the May 1987 Uniform CPA Examination, questions on the examinations pertaining to tax matters will be based on the tax laws in effect in 1987 (Internal Revenue Code of 1986).

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William J. Corbett
Vice-President–Communications

Roderic A. Parnell
Executive Editor

TRA May Require Immediate Taxpayer Action on S Corporations

Under the new tax reform legislation a corporate-level tax will be imposed on any gain recognized on the sale or distribution of property by an S corporation within ten years after the beginning of the first S corporation year. This "built-in" gains tax can be entirely avoided if a corporation files an S election before January 1, 1987, according to the Institute's tax division. Many regular corporations are considering S corporation status because of the new tax rate structure effective in 1987.

The S corporation election must become effective no later than the beginning of the first tax year after the tax year in which the election is made. It must also be made when a corporation meets all the statutory requirements for S corporation status.

In some cases, small corporations can obtain partial relief from the "built-in" gains tax even if the election is made after January 1, 1987. In such a case, however, the corporation must satisfy additional requirements contained in TRA Section 633(d).

Details of the requirements are contained in Revenue Ruling 86-141, published in Internal Revenue Bulletin 1986-49, dated December 8, 1986.

The division notes, however, that other tax law changes may require S corporations to use a calendar tax year in 1987, unless a business purpose for using a different year-end can be established. What may constitute such a business purpose is uncertain at this time, other than those purposes established by the Conference Committee report on the Tax Reform Act of 1986.

Supplemental Disclosure of Changing Prices No Longer Required

Large publicly held companies issuing financial statements after December 2, 1986, are no longer required to provide supplementary disclosures about changing prices, according to a statement to be issued before year-end by the Financial Accounting Standards Board. These disclosures may continue to be provided on a voluntary basis. The required disclosures had been mandated by FASB Statement no. 33, *Financial Reporting and Changing Prices,* and its subsequent amendments. An exposure draft of the new statement was circulated this fall.

"The changing prices disclosures required by SFAS no. 33 were experimental, attempting to reflect the impact of inflation and changes in specific prices on a company's financial statements," said Bruce Willis, an FASB project manager. According to Willis, the board encouraged a wide range of research studies on user experiences and invited comment. "The research studies and comment letters indicated that the data were little used," and it was suggested that this requirement be discontinued because costs outweighed benefits.

Helping Clients to Understand TRA 1986

Four aids have been prepared by the Institute to assist members in explaining the ramifications of the Tax Reform Act of 1986 to clients:

- ☐ *The Tax Reform Act: Its Impact on Year-end Tax Planning*—A speech for delivery to a general audience. Available from the AICPA communications division. Call 212/575-5574.
- ☐ *Tax Reform: How Will It Affect You?*—A brochure giving a general overview of the 1986 Tax Reform Act and its effect on the individual taxpayer. One copy free to members. Write the AICPA order department or call 212/575-6426 (Product no. G00152).
- ☐ *Tax Reform and You: The 1986 Tax Reform Act*—A 32-slide presentation on the effects of the 1986 Tax Reform Act on the individual taxpayer. Price is $70.00 for the first set; $35.00 for each additional set. Write or call the AICPA order department (Product no. 889153).
- ☐ *Are You Confused About Tax Reform?*—A brochure on the effects of tax reform on the individual. It includes a worksheet outlining the changes and how they will affect your tax return. Price is $12.50 per lot of 50; $10.00 to members. They are available from the order department (Product no. 889115).

Washington Briefs

Small Business Report Available—"The continuing economic recovery is a vivid reminder of the pivotal role small business has been playing in recent years," noted President Reagan in transmitting to Congress *The State of Small Business: A Report of the President*. Copies are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 (202/783-3238).

IRS Extends Deadline on Pension Plans—The IRS has issued an advance notice (86-14) which extends to December 31, 1987, the deadline by which qualified pension plans and individual retirement accounts must make minimum distributions for 1985 and 1986. "Because regulations will not be published in sufficient time to provide guidance necessary to enable plan administrators and individuals to make required minimum distributions for 1985 and 1986 from qualified plans and IRAs by December 31, 1986, this notice further delays the date by which minimum distributions for 1985 and 1986 must be made," the IRS says. Tax regulations, including guidance for 1987, are scheduled by March 1, 1987.

REIT Rules on Losses Issued—In T.D. 8107 the IRS has changed the rules on taxable years to which a net operating loss of a real estate investment trust may be carried. These rules follow the regulations proposed by the IRS in 1984.

SEC Amends Bank Disclosure Rules—On November 25, the SEC authorized publication of a final rule amending Industry Guide no. 3, *Statistical Disclosure by Bank Holding Companies*, that would change the form of disclosure for outstanding loans, accrued interest, acceptances, interest-bearing deposits or investments to borrowers in foreign countries experiencing liquidity problems. The amendments require uniform disclosure in tabular form of outstanding balances and an analysis of changes. Contact Wayne Pentract of the SEC at 202/272-2157.

Technical Tax Corrections Apt to Be More Than Technical—The minority chief of staff of the House Ways and Means Committee, A. L. Singleton, said in a recent speech that the Committee will spend much of next year producing legislation to make technical corrections to the TRA of 1986. He indicated that the bill could include substantive provisions as well. "The word 'technical' will probably be applied in an extremely loose way to this product," he said.

Small Business Recommendations to Be Reviewed—A conference to start implementing the recommendations of the recent White House Conference on Small Business has been scheduled for January 15-16 in Orlando by the U.S. Chamber of Commerce. It will bring together Conference delegates, association, Chamber and business executives. Registration is $100. Contact Tom Donley at the Chamber, 202/463-5503.

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Highlights of Board of Directors Meeting

At its meeting on December 11-12, the AICPA board of directors

- ☐ Endorsed the appointment of former Board Chairman B.Z. Lee as Special Assistant to the Chairman of the Board for Washington Activities. (See below.)
- ☐ Received a report from the federal taxation executive committee on the impact of recent changes in the tax laws; identified the provisions requiring partnerships, S corporations and personal service corporations to conform their tax years to the tax years of their owners and for all tax exempt trusts to use the calendar year as the most critical negative aspect of the new law; authorized the taxation committee to take every reasonable step to achieve ultimate repeal of these provisions. (See special report pp. 5 & 6.)
- ☐ Received an update on Washington matters including the Dingell hearings, Congressman Wyden's fraud bill, the work of the Treadway Commission and the prospects for civil liability reform by Congress in the next session; decided to continue active and strong support for amendment of civil RICO.
- ☐ Received an update on the status of the auditing standards board's proposed SASs responding to the expectation gap (see page 3); approved a requirement that an affirmative vote of two-thirds of the board (recently increased to 21 members) is needed to approve a pronouncement for exposure or final issuance.
- ☐ Authorized distribution to state societies of a statement expressing the AICPA's opposition to licensing of the personal financial planning function.
- ☐ Confirmed its prior position that, to gain admission to membership in the AICPA, applicants must have passed the Uniform CPA Examination.
- ☐ Received a report on the progress of developing a program of implementation of the recommendations in the Anderson committee report.
- ☐ Authorized an invitation to be submitted to the International Federation of Accountants to hold the 1992 World Congress of Accountants in the United States.
- ☐ Approved the filling of two Council vacancies: Paul J. Gerry, Massachusetts, to complete the unexpired term (1988) of Brian A. Brooks, who has resigned; Dean McKee, Wyoming, to fill the vacancy (1988) created by the resignation of Edwin B. Broyler.

Lee to Augment Washington Staff

Chairman of the Board J. Michael Cook has announced that B.Z. Lee, a former AICPA board chairman, has been appointed Special Assistant to the Chairman of the Board for Washington Activities. Lee, senior partner in Seidman & Seidman/BDO, will work closely with Chairman Cook, the board of directors, President Philip B. Chenok and Theodore Barreaux, Vice President—Government Relations, as the level of Institute activity in Washington continues to grow. He will be functioning out of the AICPA's Washington office.

"We are indeed fortunate to have an individual with the expertise and experience of B.Z. Lee available and willing to work with us during this challenging period," said Chairman Cook.

Lee currently serves as U.S. representative to the Council of the International Federation of Accountants (IFAC). He was chairman and chief executive partner of Seidman & Seidman from 1974 to 1983 and will continue in his role as chairman of the executive committee for BDO, Seidman's international partnership.

Operation Link—Cooperation Between the IRS and Practitioners

Last month, the IRS launched Operation Link—a new cooperative effort between its Problem Resolution Offices and tax return preparers.

Practitioners can now write directly to a special post office box number or mail stop number for their district or service center Problem Resolution Office.

According to Jack G. Petrie, assistant to the commissioner (taxpayer ombudsman), practitioners should only use these special addresses and phone numbers set up for them after being unable to resolve a problem through normal channels.

The Problem Resolution Program has three major goals:

- ☐ To assure that individual taxpayers are afforded an independent, monitored system for the resolution of problems that have not been resolved through regular organizational channels.
- ☐ To research and identify recurring internal systemic and procedural problems; to determine the cause or source of the problem; and to document findings for evaluation and further action by line management.
- ☐ To serve as an advocate for taxpayers within the IRS, representing their interests and concerns in the agency decision-making process.

Since the IRS needs documents to resolve most problems, Petrie suggests that it is better to write first using the special addresses. "We are confident that practitioners will continue to protect the integrity of the Problem Resolution Program as they have done in the past by only using this special access when appropriate," he said.

The IRS has produced a publication, 1320, which describes the program and lists the special addresses and telephone numbers for each district or service center. Copies are available from the IRS district offices.

Tax Division Conference Highlights

Senior federal tax officials stressed the problems of implementing the new tax law and supported the proposed revisions to Circular 230 at the AICPA tax division meeting in San Diego early this month.

IRS Deputy Commissioner James Owens said that guidelines implementing the new law will be presented in many ways and that more than half of the 500 IRS forms need to be changed. Peter Scott, IRS associate chief counsel (technical), stated that "we'll make maximum use of our resources" to provide guidance as soon as possible and noted that the IRS had a priority list of projects even before the Senate voted on the tax measure last fall.

Leslie Shapiro, IRS director of practice, defended the proposed changes to Circular 230 that would place stricter standards on practitioners when rendering advice on positions taken in a taxpayer's return. They would require "substantial authority" on a tax-shelter item and a "more likely than not belief" that the position would be sustained, if challenged. Shapiro held that the existing standard requiring a "reasonable basis" for tax return positions has been eroded.

New Guide to CPA Services Published

The CPA as Advisor to Small Business is the title of the just-issued brochure which is the sixth in a series of Guides to Understanding and Using CPA Services. It briefly describes the CPA's role in helping small businesses.

The other brochures in the series are *The CPA as Estate Planner, The CPA as Personal Financial Planner, The CPA as Management Consultant, The CPA as Tax Advisor* and *Understanding and Using CPA Services.*

Copies of these brochures are available through your state society office.

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ASB Approves for Exposure Proposals to Narrow "Expectation Gap"

At its December meeting, the auditing standards board voted to expose for comment nine proposed statements on auditing standards and one proposed attestation standard which are designed to improve auditor communications, improve the planning and performance of audits, clarify the auditor's responsibility for fraud and improve detection of fraud, and provide early warning about possible bankruptcy.

The following is a summary of the proposed pronouncements:

- ☐ *Auditor's Standard Report*—This proposed SAS would require the auditor's report to include statements that all information in the financial statements is the representation of management and, that the audit is designed to evaluate whether the financial statements are materially misstated. It would also require a discussion of factors involved in making that evaluation and an opinion as to whether the financial statements are fairly presented, in all material respects, in conformity with GAAP. It would delete the reference to consistency.
- ☐ *Consideration of an Entity's Ability to Continue*—This proposal would supersede AU Section 340, *The Auditor's Considerations When a Question Arises About an Entity's Continued Existence,* and would require the auditor to evaluate continued existence in all audits and to modify the audit report when substantial doubt exists about continued existence.
- ☐ *Errors and Irregularities*—The proposed SAS would require the auditor to design an examination to detect material misstatements, errors and irregularities, and provides additional guidance on warning signs that should heighten professional skepticism.
- ☐ *Illegal Acts*—Among other things, the draft SAS would require that the auditor assure himself that the audit committee, or others having equivalent responsibility, are adequately informed about illegal acts that come to the auditor's attention.
- ☐ *Assessing Control Risk*—This proposal would supersede AU Section 320, *The Auditor's Study and Evaluation of Internal Control.* It describes the elements of a control structure and provides guidance on the auditor's responsibility to assess control risk in an examination of financial statements. It would require the auditor to obtain an understanding of the control structure sufficient to plan the audit.
- ☐ *Communication of Control-structure Related Matters*—The draft would replace the concept of "material weaknesses" with the concept of "reportable conditions" when reporting on internal accounting control as part of an audit. It would require the communication of reportable conditions to the audit committee, or others with equivalent responsibility.
- ☐ *Communication with Audit Committees or Equivalents*—The proposal would require the auditor to communicate certain matters related to the audit to the audit committee. Some of the items to be communicated include implications of audit adjustments and difficulties encountered in performing the audit.
- ☐ *Analytical Procedures*—The proposal requires the use of analytical procedures at the planning and final review stage of an audit.
- ☐ *Accounting Estimates*—This proposed statement provides guidance on evaluating the reasonableness of accounting estimates in historical financial statements.
- ☐ *Examination of "Management's Discussion and Analysis"*—This proposed statement on attestation standards provides guidance to accountants who are requested to examine and report on an entity's "Management Discussion and Analysis."

These pronouncement proposals will be available in February 1987, with a common comment deadline of July 15, 1987. They will be batched in a single mailing, but each exposure draft is treated separately. Copies will be available from the AICPA order department in February.

FASB Issues Special Report on Pensions...

The Financial Accounting Standards Board has published a special report intended as an aid in applying FASB Statement 87, *Employers' Accounting for Pensions*. It was prepared by members of the FASB staff, assisted by a task force.

The major areas covered in the report included questions regarding the selection of discount rates, business combinations, differences between the dates of measurement of pension obligations and those of the financial statements, effective dates and transition. Illustrations are included.

The special report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*, is available from the FASB order department, High Ridge Park, P.O. Box 3821, Stamford, Connecticut 06905-0821.

...an Exposure Draft on Subs and a Technical Bulletin

Consolidation of All Majority-owned Subsidiaries is the title of a proposed standard released by the FASB. It would require companies to consolidate all majority-owned subsidiaries in their financial statements, including those with operations different from the parent company. The proposal would also require that financial statements continue to provide either summarized information about or separate financial statements of previously unconsolidated subsidiaries. If adopted, the statement would amend ARB no. 51 and related amendments of APB Opinion no. 18 and ARB no. 43, chapter 12. The effective date would be for financial statements for fiscal years ending after December 15, 1987.

Comments on the draft are due by April 14, and a public hearing is scheduled for May 18-20.

In question and answer form, FASB Technical Bulletin no. 86-2 discusses 12 points in regard to accounting for an interest in the residual value of a leased asset acquired by a third party or retained by a lessor that sells the related minimum rental payments.

AICPA Member Expelled

At a meeting of a hearing panel of Regional Trial Board VI in Chicago on September 25, 1986, Frank W. Morrasy of DeKalb, Illinois, was found guilty of violating the general standards rule of conduct on planning and supervision, and the auditing standards rule of the Codes of Professional Ethics of the Illinois CPA Society and the AICPA in connection with a 1983 audit of DeKalb County and the DeKalb County Public Building Commission. Following its guilty finding, the panel voted that the respondent be expelled from membership in the Illinois CPA Society and the AICPA.

Mr. Morrasy, who was not present at the hearing but who was notified in writing of the panel's decision, did not request a review of the decision, which, therefore, became effective on October 25, 1986.

Recent AICPA Publications

Disclosure Checklists for Corporations—This financial reporting practice aid has been extracted from the AICPA Audit and Accounting Manual, Nonauthoritative Technical Practice Aids by the staff of the AICPA's technical services division. The checklists are "tools" and have no official authority. Price is $8.50; $6.80 to members, from the AICPA order department (Product no. 007372).

Auditing the Allowance for Credit Losses of Banks—An AICPA auditing procedure study, this publication is designed to help auditors evaluate the appropriate allowance for credit losses in a bank's financial statements. The study is a joint effort by the auditing standards division and the committee on banking. It provides detailed guidance on considerations to be taken into account in making this evaluation. Price is $6.00; $4.80 to members, from the AICPA order department (Product no. 021050).

Special Report *CPA Letter*, December 29, 1986

TRA '86—THE YEAR-END CONFORMITY ISSUE

The AICPA is deeply concerned about a troublesome provision contained in the Tax Reform Act of 1986 (TRA '86) which will significantly impact tax practitioners. This provision would require most partnerships, subchapter S corporations, and professional service corporations to adopt a calendar year end.

The AICPA board of directors, at its meeting earlier this month, approved a major initiative to seek legislation in the 100th Congress to first modify and ultimately repeal this provision. *This legislative issue will have the Institute's highest priority in the new Congress.* Some background on this issue which may answer the question: How did the year-end conformity provision become law?

The provision was neither part of the Treasury Department proposal, released in December 1984, nor the President's proposal which was released in May 1985. It was not part of the tax bill passed by the House in December 1985. During 1985, the Senate Finance Committee and House Ways and Means Committee held 36 days of hearings and listened to testimony by hundreds of witnesses. At no time was this proposal discussed.

The genesis of the year-end conformity proposal was a Senate Finance Committee staff recommendation. Working behind closed doors, members of the Senate Finance Committee hurriedly drafted a tax reform package in one week in May. The Finance Committee legislation included the proposal that would require entities to more closely conform their tax years to those of their owners.

From the beginning of the tax reform debate, President Reagan and Chairmen Rostenkowski and Packwood all insisted that any changes be "revenue neutral"—that is, any proposed change that would lose tax revenue would have to be balanced with a change that would add revenue.

In the final hours of Senate deliberation and debate on tax reform, an amendment was proposed by Senator George Mitchell (D-Me.). As a trade-off to allow increased tax benefits for developers of low-income housing, the Mitchell amendment made the proposed year-end conformity rule even more stringent. After brief debate and with little guidance, the Mitchell amendment was adopted. When voting in support of the amendment, members of the Senate were not properly informed about the many problems the proposal would cause American business. It was advanced for revenue neutrality rather than for sound tax policy. In early summer, a Joint Conference Committee was appointed to work out a compromise between the House and Senate passed versions of the tax reform bill. In June an AICPA tax division effort was initiated to have the year-end conformity requirement stricken from the bill. This effort involved many aspects.

Numerous meetings were held with members of the Conference Committee and with their technical tax staffs to discuss the many problems which the AICPA anticipated would result. In addition, the AICPA membership was alerted to the potential problem and was asked to participate in the effort to change the provision. Thousands of AICPA members in tax practice took the time to write to their elected officials explaining to them the serious problems that would occur if this provision were not eliminated.

Members of the Conference Committee, deliberating once again behind closed doors, were facing many political pressures. They needed to produce "revenue neutral" legislation, and they were being asked by literally hundreds of special interest groups to add favorable treatment or to eliminate troublesome provisions. The Committee produced a compromise tax bill that did not address the accounting profession's concerns regarding the calendar year-end conformity provision.

What are the AICPA plans regarding the 100th Congress? As previously mentioned, members of the AICPA board of directors consider the modification and repeal of this provision a "highest priority" issue. This will be a major undertaking involving tremendous effort on the part of the accounting profession, yet the leadership believes it is possible to accomplish.

The Institute is now in the process of developing its legislative strategy and, as soon as Congress convenes in January, it will begin working with members of the House Ways and Means and Senate Finance Committees who have indicated their support for modification or repeal. To enhance their efforts, they will need to demonstrate to their committee chairman and to the congressional leadership that the provision is causing tremendous hardship on their constituents.

Support for meaningful reform will need to be broad-based and will require the personal participation of thousands of AICPA members. Institute members are being asked to write personal letters to their elected officials describing for them the hardship this provision entails. They are also being asked to discuss this issue with their elected representatives during meetings in their districts. Working together, the profession can effect this change.

On the next page is a list of compelling reasons for modification or repeal. Members are urged to write or call their senators and congressmen expressing their concern. Also, in the cover article in the January issue of the *Journal of Accountancy*, Donald C. Wiese discusses this issue under the title "The Fiscal Year: An Endangered Species Under Tax Reform."

Getting a two-year deferral, followed by outright repeal, will require a major effort. For further information contact Ted Barreaux, Ken Thomas or Mary Widner at the AICPA Washington office, 1620 Eye Street, N.W., Washington, D.C. 20006 (202/872-8190).

TAX REFORM ACT OF 1986

AICPA Comments on Conformity of Tax Years of Partnerships, S Corporations, Personal Service Corporations and Trusts

Recommendations

The AICPA believes that the 1986 Act provisions, requiring partnerships, S corporations and personal service corporations to conform their tax years to the tax years of their owners, and all nonexempt trusts to use the calendar year, should be repealed or modified. The AICPA believes that the ultimate repeal of these provisions is in the public interest, and it is essential that a decision be reached as soon as possible. As a first step, therefore, it is hoped that the Senate Finance and House Ways and Means leadership will publicly support, at a minimum, a two-year deferral of application of the required change to a calendar year for affected existing entities. A two-year deferral will avoid the uncertainty of application and the impact of bunched income on 1987 estimated tax payments.

Rationale for Repeal

1. The provisions will make it difficult, and in many cases impossible, for taxpayers and return preparers to complete partnership, S corporation and trust returns in sufficient time to allow partners, shareholders and beneficiaries to file individual income tax returns by the original due date. This will necessitate costly and inconvenient extensions of time to file returns. Encouraging the filing of extended tax returns is inconsistent with the best interests of our self-assessment system.

2. All affected entities would be required to incur the costs of closing their books two times and filing two sets of tax returns (both federal and state) for each of the two periods ending in calendar 1987. This cost and administrative burden should not be imposed on the affected entities, many of which are engaged in small business.

3. It is in the public interest to encourage staggered tax return filing dates. The IRS, taxpayers and tax practitioners can better meet tax filing requirements if the demands are spread throughout the year. Tax compliance will not be enhanced by compressing tax filing requirements into a short time period, as required by these provisions.

4. The required change in tax year will be disruptive and counterproductive to the economy. Businesses which have used a fiscal year for many years will now have to amend contracts, compensation arrangements, and retirement and employee benefit plans because these provisions apply to existing, as well as newly formed, entities.

5. The 1986 Act provisions will present significant scheduling problems for CPA firms who will be required to compress their tax return preparation, financial reporting and auditing work into a short time period. In this regard, the provisions will overturn past IRS actions in promulgating flexible and reasonable rules which allowed the selection of a fiscal year other than the calendar year to "even out" both professional workloads and IRS processing requirements. Eliminating this flexibility will increase the cost of professional services with the greatest negative impact on the small business community.

6. The 1986 Act fails to recognize that there are many legitimate business reasons to select a fiscal year rather than a calendar year. Often fiscal years are chosen to coincide with the "natural business year" of an entity. These provisions will cause tax requirements to interfere improperly with business operations.

7. The 1986 Act provisions will increase the annual return processing costs for the IRS by increasing certain peak points in the filing cycle. This is inconsistent with Congressional and other recommendations to stagger return filing to alleviate the heavy workload that has precipitated processing problems in recent years.

Conclusion

THIS ISSUE DESERVES THE PROFESSION'S ATTENTION *NOW* BECAUSE IT DIRECTLY OR INDIRECTLY ADVERSELY AFFECTS LITERALLY MILLIONS OF TAX REPORTING ENTITIES.

SECPS Adopts Communication Rules

At its December 5 meeting, the SEC practice section executive committee decided that section members will be required, effective for audits of financial statements for periods ending June 30, 1987, to communicate with the audit committee (or their counterparts) of SEC audit clients on the following matters:

- ☐ Material errors, irregularities or illegal acts.
- ☐ Material weaknesses in internal accounting control.
- ☐ Opinions on accounting and financial reporting obtained by management from other accountants.
- ☐ Accounting and disclosure considerations associated with material contingencies or unusual transactions.
- ☐ Adoption of or change in an accounting principle.

The executive committee's action emphasizes the importance of timely auditor communication and should enhance the perception of auditor independence. These communications must occur on a regular basis, at least annually, and member firms are required to establish policies and procedures to document their audit committee communications. The auditing standards board has a similar requirement under consideration. These procedures will be evaluated during the firm's peer review.

SECPS members are already required to communicate with their public client audit committees about disagreements and the nature of management advisory services and fees for them.

New Video Self Study Is on TRA '86

The first two programs in the AICPA CPE division's new video self study format offer digests of the Tax Reform Act of 1986. *Issues in Individual Taxation* and *Issues in Corporate Taxation* both feature Sidney Kess and a group of panelists who present an overview of TRA '86 in condensed, no-frills versions. Prices are $79.95 each ($99.94 to nonmembers); $144.95 per set of two courses ($181.19 to nonmembers); additional workbooks, $15.00 each and $27.00 for a set of two ($18.75 and $33.75 respectively to nonmembers).

The same tax authorities can also be heard on three audio-cassette courses which deal with the impact of TRA '86 in specialized areas: *Real Estate and Tax Shelters; Retirement Plans;* and *Alternative Minimum Tax*. Price is $39.95 each ($49.95 to nonmembers).

Recommended CPE credit is three hours for each of the five courses. To order, or for more information, call 800/AICPANY (in New York State, call 212/575-5696).

Survey Results Available on Public Attitudes Toward CPAs

The complete report of the recent Louis Harris and Associates survey on perceptions and attitudes toward the accounting profession, commissioned by the AICPA, is now available to members. A summary of the results appeared in the October 29 issue of the *Letter* and a more extensive interpretive article was published in the December issue of the *Journal of Accountancy*.

The complete report on "A Survey of Perceptions, Knowledge and Attitudes Toward CPAs and the Accounting Profession" can be obtained from the AICPA order department at $35.00 per copy; $28.00 to members. Product no. is 889401.

NOTICE OF AICPA PUBLIC MEETING

Accounting Standards—An open meeting of the accounting standards executive committee will be held in New York City in the AICPA boardroom January 20-21, 1987, starting at 8:30 a.m. The agenda follows:
January 20—Discussion of disclosures on risks and uncertainties.
January 21—Discussion of issues paper on discounting application.

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

Washington Briefs

Pension Plan Forum Set—The Small Business Administration's Office of Advocacy will hold a half-day forum on January 27 in Washington which will focus on incentives for small employers to provide pension plans and will include discussion regarding the continued need for the "top heavy" rules as a result of changes prescribed in the Tax Reform Act of 1986. No charge. To register or for information, call Lynne Garbose at the SBA (202/634-6115).

SEC No Longer Requires Inflation Disclosure—Reflecting the FASB's decision to make disclosures on changing prices voluntary, the SEC has adopted a release amending Regulation S-K, Form 20-F to remove this requirement. For information, call Kohn Heyman at the SEC (202/272-2130).

Two Staff Accounting Bulletins Issued by SEC—SAB no. 66 and amendments to Industry Guide 3, *Statistical Disclosure by Bank Holding Companies*, have been issued by the SEC as well as SAB no. 67 which expresses the staff's views regarding appropriate income statement presentation of restructuring charges. It states that these charges should be presented as a component of income from continuing operations, separately disclosed if material.

Two CPAs Receive Washington Appointments—David L. Kunkler has been appointed Deputy to FDIC Chairman L. William Seidman. He has been serving as a consultant to the FDIC since May 1986.

Secretary of Labor William E. Brock has announced the appointment of Kermit Berylson to a three-year term on the Advisory Council on Employee Welfare and Pension Benefit Plans. Each of its 15 members represent a specific field or group and Mr. Berylson will be the accounting profession's representative.

IRS on Foreign Investment in U.S.—The IRS has issued proposed (INTL-88-86), temporary (T.D. 8114) and final (T.D. 8115) dealing with changes to the foreign investment in real property tax act (FIRPTA). The new and proposed temporary rules concern withholding taxes on the disposition of interests in U.S. real property by publicly traded partnerships, publicly traded trusts and REITS.

Reproducible Tax Forms for Sale—Orders for reproducible 1986 IRS tax forms and instructions, IRS Publication 1132, which can be used for quantity reproduction, can be ordered from the Superintendent of Documents, Dept. 36-VH, IRS Tax Forms, 8610-A Cherry Lane, Laurel, MD 20707-4907. It will be issued in two parts: those areas unaffected by the new tax law, now available, and all modified material to be available at a yet to be determined date.

The CPA Letter

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