Woman C.P.A.

Volume 49 | Issue 2 Article 14

4-1987

Woman CPA Volume 49, Number 2, April 1987

American Woman's Society of Certified Public Accountants

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American Woman's Society of Certified Public Accountants and American Society of Women Accountants (1987) "Woman CPA Volume 49, Number 2, April 1987," *Woman C.P.A.*: Vol. 49 : Iss. 2 , Article 14.
Available at: https://egrove.olemiss.edu/wcpa/vol49/iss2/14

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- Professional Ethics and Values of Certified Public Accountants
- Sexual Harassment in the Workplace
- Personnel Selection Practices
- Mandatory Continuing Education
- Financial Accounting Disclosure Dilemma Illustrated
- The Effects of Joint Allocation Standards on Nonprofit Mailing Strategies
- Pension Plan Distributions May Be Subject to Penalties
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ISSN 0043-7271

APRIL, 1987 **VOLUME 49, NUMBER 2**

CONTENTS

Editor's Notes: Leaving the House Behind 2

ARTICLES

Professional Ethics and Values of Certified Public Accountants ... 3
Are CPAs Characteristic of Today's Society?
By Bruce Swindle, Lonnie D. Phelps, and Reuben Broussard

Sexual Harassment in the Workplace 7
Accounting vs. General Business
By Julie A. Sterner and Penelope J. Yunker

Personnel Selection Practices 11
A Checklist for Evaluation
By Paul E. Bayes and Thomas E. McKee

DEPARTMENTS

Education:
Mandatory Continuing Education — How Do State Societies View This Requirement? 12
By Dave E. Nix and Paul E. Nix

International:
Financial Accounting Disclosure Dilemma Illustrated — The Case of U.S. Multinational Banks 17
By Orapin Duangploy and Dahli Gray

Non-Business Organizations:
The Effects of Joint Allocation Standards on Nonprofit Mailing Strategies 20
By Denise Nitterhouse and Florence Cowan Sharp

Tax:
Pension Plan Distributions May Be Subject To Penalties 25
By Cherie J. O'Neil

Theory and Practice:
Implementation Issues in Accounting for Software Costs 26
By Michael T. Dugan

SPECIAL FEATURE
Money — How Much Are You Worth? 28
S. Jeanne Orr

REVIEWS
Commit to Quality 30
By Gaylah R. Cantrell

Information Technology and the Accountant 31
By Susan S. Ebersole

MANUSCRIPT GUIDELINES 32

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POSTMASTER: Send address changes to THE WOMAN CPA, 6600 Clough Pike, Cincinnati, OH 45244.

Change of address notices must be sent to Circulation Department giving both old and new addresses and zip code numbers. Please allow four weeks notice.

Manuscripts should be addressed to the Associate Editor, Manuscripts. Letters to the Editor, news items and other materials should be sent directly to the business office. Manuscript guidelines available upon request. All manuscripts are reviewed.

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Requests for information regarding advertising should be sent to the Business Manager.

All remittances for subscriptions should be sent directly to the Business Manager. Checks should be made payable to THE WOMAN CPA.

CIRCULATION DEPARTMENT:
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EDITOR'S NOTES

Leaving the House Behind

Since hearing Dr. Barbara Machoff at JAM and reading her interview in the last issue of *The Woman CPA*, I've thought a lot about the stress of women professionals. Dr. Machoff gears her remarks toward the stress caused by taking the office home and the necessity of making the transition from work to home. But I'm not at all sure that the stress encountered by women because they can't leave the office behind is as great as the stress encountered because they can't leave the house behind. And so I want to add to Dr. Machoff's advice and say that what we need to do is to go through a transition *twice* each day — once in the morning when we leave the house behind and once in the evening when we leave the office behind.

For the work-to-home transition, special significance has been attached to changing from a suit into sweats. According to Dr. Machoff, it is a transformational act, a visual representation that says you are through with that part of the day and starting on a new part. Equally important is the hanging up of the robe each morning. This says, "I am through with this part of the day; I am transformed from a homemaker/mother to a professional person." The trick is for the transition to actually occur when you hang up the robe. There can be no transition unless you are truly through with that part of the day.

Dr. Machoff suggests it is important that you consciously perform some act that signifies the leaving of the office. But it is just as important to consciously perform some act that signifies the leaving of the house. It may be adjusting the thermostat, turning off the coffeemaker, putting out the cat, or locking the door. Whatever it is, you should view it as the action that says, "My thoughts about this house and my efforts in this house are concluded for now. Period."

What any professional is trying to accomplish is to be emotionally, mentally, and physically at the same place at any given time. We never have any trouble knowing we are physically at the office, but we let emotional things tug at us so that we find we are mentally at home.

If you find there is a great deal of stress over leaving the house behind, perhaps you need to consider the causes. Is the stress caused because there is just too much for you to do in the house or because you resent or loathe the jobs you have to do in the house? You can change that; there are several things that you can do.

First of all, you can hire household help. And don't think to yourself, "Household help is not available in my area." Household help is almost always available if you are willing to pay the price. Just don't be so greedy; don't try to keep all your money if parting with some of it for household help will relieve the stress.

Secondly, you can make family members realize that **everyone** who lives in the house is **responsible** for the house. How many times have you heard, "Just tell me what you want me to do and I will help you?" What this statement really says is, "You are the manager, you are responsible, and when things are not done, it's your fault because you didn't tell me what to do." Even though some of the tasks get done because family members "help you" do them, this offers only a temporary solution to the stress caused from leaving the house behind.

Rather than offers of help, what you want and need is shared responsibility. It isn't your responsibility alone to do the laundry, load and unload the dishwasher, run the vacuum, clean the refrigerator; it is the responsibility of everyone who lives in the house. And I'm not talking about assigning tasks to family members and then having to remind them to perform and **then** having to check on their performance. Being responsible means that the members of the household do a task when they see it needs to be done.

Shared responsibility is an attitude. It's everyone in the house saying, "It's my responsibility to do the laundry, to run the vacuum, etc." And then it's everyone in the house doing the tasks because they need to be done rather than because of someone's direction or assignment. When there is shared responsibility, there should be no more questions such as, "Do we have any clean towels?" or "Do we have any milk?" In most cases, when these questions are asked, the person has already looked for the items and has already gotten the answer to the question. The question is being asked to register displeasure about your not having done a task. With shared responsibility, doing the tasks is no more your responsibility than that of someone else in the house. And when tasks are not done, it's not your fault any more than it is someone else's.

Perhaps "leaving the house behind" is stressful to you because you feel guilty about leaving. We've all been conditioned by the saying, "A woman's place is in the home." Don't permit your family to use your guilt feelings to cause stress over leaving the house behind. If family members are telephoning you all during the professional day, you must control this in much the same way that you control calls from the office at night or on weekends. This means that you screen the calls. At home, you use an answering machine; at work, you use your secretary. Ask your secretary to take a message and tell the family member you will return the call later. If it's an emergency, you can return the call immediately; if it's for anything else, you can telephone at your convenience. Once the family members learn that they will not get to talk to you any and every time they call, the number of calls will diminish and so will some of the stress.

Finally, is the stress caused because you have succumbed to the super woman theory? Remember, Superman is a character in a comic strip — and so is Superwoman. Dr.

(More on page 24)

Professional Ethics and Values of Certified Public Accountants

Are CPAs Characteristic of Today's Society?

By Bruce Swindle, Lonnie D. Phelps and Reuben Broussard

According to many observers of societal trends, the United States is experiencing a shifting of values. There is general agreement [Steiner, 1985] that values are shifting:

- from considerations of quantity ("more") toward considerations of quality ("better")
- from profligate use of resources to conservation
- from the concept of independence toward the concept of interdependence (of nations, institutions, individuals, all natural species)
- from mastery over nature toward living in harmony with it
- from the primacy of technical efficiency toward considerations of social justice and equity
- from the dictates of organizational convenience toward the aspirations of self-development in an organization's members
- from authoritarianism and dogmatism toward participation
- from uniformity and centralization toward diversity and pluralism
- from the concept of work as hard, unavoidable, and a duty toward the recognition of leisure as a valid activity in its own right
- from the satisfaction of private material needs toward the awareness of the need to attend to social wants

These shifting values have profound implications for business and the accounting profession. Society's values form a set of standards for determining what is ethical or acceptable behavior on the part of its members. Thus, public confidence is developed or maintained only as behaviors coincide with public expectations.

Public confidence in business has deteriorated significantly in recent years. According to a Harris poll [U.S. News and World Report, 1982], only sixteen percent of the U.S. population has "a great deal of confidence" in the people who run our major corporations. By comparison, this statistic was fifty-one percent only twenty years ago. Some questions remain about whether the ethics of business have actually declined or whether society's expectations have simply increased. Business may be more ethical than in the past, but it has not kept pace with society's demands.

The accounting profession, like business in general, is experiencing a confidence crisis. The changing society demands that the profession evaluate its existing standards of professionalism, integrity, ethics, and commitment to the public interest [Anderson, 1985]. Questions have been raised concerning the responsiveness of the profession to changes in society's values and society's expectations of ethical behavior. The authors investigated the issue of values and ethics in the accounting profession by asking one thousand CPAs randomly selected from the *AICPA List of Members, 1984*, to respond to a mail questionnaire. Usable responses were obtained from 224 CPAs, resulting in a response rate between 22 and 23 percent. Specifically, the authors questioned CPAs to determine:

a) what values are important to them
b) how accepting they are of ethically questionable behaviors
c) their assessment of the acceptance of ethically questionable behaviors by other CPAs
d) the rationales used by CPAs in making ethical judgments.

What Values Are Important to CPAs?

Values are defined by sociologists as strong, enduring beliefs about the desirability of certain end states of existence. To say that one embraces "world peace" as an important value means that this value is a "super goal" or "an ideal" that guides the person's behavior. This goal is what the person considers to be truly important in life — the bottom line. Generally, it is believed that a person is really known when that individual's personal values are known.

Using the Rokeach Value Survey, the authors elicited responses from a national sample of CPAs about their personal values. The survey has been used widely in the United States and other countries and is an accepted measure of values. The survey instructs the respondent to rank a list of eighteen values in order of importance as guiding principles in his or her life.

Society's values form a set of standards for determining what is ethical or acceptable behavior on the part of its members.

A composite values profile of the 224 responding CPAs is in Table 1. The composite ranks reported in Table 1 are median rankings. The respondents placed most importance on personal-oriented as opposed to social-oriented values. "Family security" (1), "self-respect" (2), and

TABLE 1
Values Profile of CPAs

Rank	Value
1	FAMILY SECURITY (taking care of loved ones)
2	SELF-RESPECT (self-esteem)
3	HAPPINESS (contentedness)
4	FREEDOM (independence, free choice)
5	INNER HARMONY (freedom from inner conflict)
6	WISDOM (a mature understanding of life)
7	TRUE FRIENDSHIP (close companionship)
8	A SENSE OF ACCOMPLISHMENT (lasting contribution)
9	MATURE LOVE (sexual and spiritual intimacy)
10	A COMFORTABLE LIFE (a prosperous life)
11	SALVATION (saved, eternal life)
12	A WORLD AT PEACE (free of war and conflict)
13	AN EXCITING LIFE (a stimulating, active life)
14	PLEASURE (an enjoyable, leisurely life)
15	EQUALITY (brotherhood, equal opportunity for all)
16	SOCIAL RECOGNITION (respect, admiration)
17	NATIONAL SECURITY (protection from attack)
18	A WORLD OF BEAUTY (beauty of nature and the arts)

"happiness" (3) are more important to the respondents than are the values of "a world of beauty" (8), "national security" (17), and "social recognition" (16). Are the respondent's values a reflection of society's values? Some observers of the changes in America's values say "no" [Steiner, 1985]. The personal orientation of the respondents does not appear to correspond precisely with reports that society's values are shifting from the concept of independence to the concept of interdependence, that is, away from a personal orientation toward a social orientation.

The respondents' emphasis on "family security" (defined as taking care of loved ones) indicates that the "good life" may be defined by CPAs as possessing a large monetary component. That is, CPAs may want "more" as well as "better" for their families. ("A comfortable life" or prosperity is not high on the list. Only when the family is considered does prosperity become important.) This emphasis does not appear to mirror the moving of society's values away from considerations of quantity ("more") toward considerations of quality ("better").

Aesthetic values are relatively less important to the respondents than are the personal-oriented values. "A world of beauty" was ranked eighteenth. This is not to say CPAs do not appreciate the aesthetic, but that when forced to choose, select values other than aesthetic as most important.

The position of "salvation" in the rankings requires some clarification. Actually, "salvation" was ranked first or last by a large majority (over 65%) of the respondents. When these extremes were used to calculate a median, the composite rank of eleven resulted. No other value was unique in this regard in that no other value evoked two extreme rankings.

Finally, the respondents are fairly indifferent toward "equality" as a major life influence. This observation appears to differ from the reported trend of society towards stronger considerations of social justice and equity. Perhaps CPAs are not accepting what some describe as a shift from equal opportunity to equal entitlements. Equal entitlements means that instead of all having the same "starting line," all are promised an even finish. The results of the survey indicate that CPAs do not place social justice high on their list of priorities.

Public confidence in business has deteriorated significantly in recent years.

Ethics of CPAs

To observe how CPAs might address ethical dilemmas, six vignettes were presented to the respondents. The vignettes cover a wide range of ethical situations, from questions of personal integrity (Vignette 2) to questions of conflict of interest (Vignette 6). The vignettes focus on the following issues:

Vignette 1 — Use of "insider" information for personal gain.
Vignette 2 — Product safety standards.
Vignette 3 — Padding a time report.

TABLE 2
CPAs' Responses to Ethical Questions

Vignette Number	Situation	CPAs' Response (Average)	Others* (Average)
1	Stock Purchase	4.01	3.81
2	Substandard Work	4.58	4.11
3	Padding on a Time Report	4.57	4.34
4	Fund-Raising	2.46	2.37
5	Compensation for Referral	2.64	2.44
6	Information About A Competitor	3.36	3.26

*Responding CPAs' judgments of how most CPAs would respond

Vignette 4 — Personal use of company resources.
Vignette 5 — Payment for client referral.
Vignette 6 — Providing information about previous employer to present employer.

The CPAs were asked to indicate on a scale of one to five their judgment of the acceptability of the behavior (1 - totally acceptable, 5 - totally unacceptable). In addition, they were asked to indicate how they believed other CPAs would assess the acceptability of the behavior. Finally, the CPAs were asked to explain why they answered as they did. Five of the vignettes have been used in other studies of the ethical behavior of professionals. However, the vignettes were modified to better address issues of CPAs in this study, and one vignette was written specifically for this study. The six vignettes are listed below.

Several significant observations about CPAs' responses can be made (Table 2). First, for only one vignette was the average response on the unethical half of the scale (i.e., 2.50). Responding CPAs were far more tolerant of the questionable behaviors described in vignette four — fund-raising.

The responding CPAs were far less accepting of the actions illustrated in vignette one, stock purchase; vignette two, substandard work; and vignette three, padding a time report. The CPAs classified the actions in these three vignettes as very unacceptable (i.e.,< 4.00). The remaining two vignettes, compensation for referral and information about a competitor, were also placed by CPAs on the unacceptable half of the scale (<2.50).

For each of the six vignettes, the responding CPAs rated other CPAs' assessments of the acceptability of the behavior as being less ethical than their own. That is, the respondents believe themselves to be more ethical than their peers, a result also observed by Baumhart [1961]. Perhaps, then, a more accurate picture of the behavior of CPAs in general is the respondents' judgments of how other CPAs would respond.

What Rationales Do CPAs Use For Making Ethical Decisions?

Traditional philosophy discussions

1. **Stock Purchase** [Loeb, 1971]
While visiting in the office of a manufacturing company, Leslie Dennison noticed by accident a report which obviously indicated the manufacturing company had just won a tremendous contract. Dennison glanced over the document while alone in the office. The contract would allow the company to have reported earnings substantially higher in the future than they have been in the past. Information about this contract is still very confidential. Dennison bought a large quantity of stock in this manufacturing company.

2. **Substandard work** [Fritzsche and Becker, 1984]
Jack Ward's firm received a large contract to manufacture transaxles to be used in a new line of cars soon to be introduced. The contract is very important to the continued economic viability of Jack's firm. An examination of recently completed safety test reports showed that the transaxle tended to fail when loaded at more than 20% over rated capacity. The auto manufacturer's specifications called for a transaxle carrying 130% of rated capacity without failing. Given the likelihood of failure and the lack of time to redesign the transaxle, Jack decided to go ahead with the delivery.

3. **Padding a Time Report**
All personnel, including the partners, of the large public accounting firm for which Joy Bradley works, are required to complete weekly time reports. These reports indicate how many of the employees' hours were devoted to their various tasks. Bradley's firm traditionally has looked favorably on "billable hours" and unfavorably on idle, unassigned, or nonbillable hours. Bradley is a CPA in this firm. She is above the lowest level of the organization but is not a partner. Bradley is now completing her weekly time report. This report would indicate the fifth consecutive week with a large quantity of idle time. Bradley believes she will receive a low personnel evaluation if this situation continues. She decided to "pad" the billable hours on the time report.

4. **Fund-Raising** [Loeb, 1971]
Mary Hart is an executive in a nonaccounting service profession. She is the chairperson of a fund-raising drive for a local hospital. She decided to solicit contributions for the hospital by writing letters on her firm's letterhead.

5. **Compensation For Referral** [Loeb, 1971]
Joe Jackson is an executive in a nonaccounting service profession. A customer, Mr. Hyatt, refers a new customer, Mr. Watson, to Mr. Jackson. Mr. Hyatt indicates that he expects some small compensation from Jackson for this "service." Compensation satisfactory to Mr. Hyatt would be a dinner, a small gift, and a reduced fee for the remainder of the current year. Jackson compensated Hyatt accordingly.

6. **Information About a Competitor** [Fritzsche and Becker, 1984]
Bill Smith has recently accepted a job with a young, vigorous microcomputer manufacturer. The microcomputer manufacturers are engaged in intense competition to become the first on the market with a software package which utilizes the English language and thus is easily used by the average customer. Smith's former employer is rumored to be the leader in this software development. When Smith was hired he was led to believe this selection was based upon his management potential. The morning beginning the third week on the new job, Smith received the following memo from the president: "Please meet with me tomorrow at 8:15 for the purpose of discussing the developments your former employer has made in microcomputer software." Smith provided the new employer with the software information.

Questions have been raised concerning the responsiveness of the profession to changes in society's values and society's expectations of ethical behavior.

characterize people's ethical reasoning as basically teleological or deontological. The teleologically reasoning person, or utilitarian, makes ethical decisions based on the consequences of the action. Moral worth is determined solely by the consequences of action or practices (i.e., a cost/benefit approach) [Beauchamp and Bowie, 1979]. A utilitarian view judges an action to be "ethical" if the consequences benefit society more than the costs incurred by society. An "unethical" action would be one which has greater costs to society than benefits.

A deontologist views certain acts, in and of themselves, as appropriate (ethical) and others acts not appropriate (unethical) based on certain ethical absolutes. Regardless of consequences, the moral absolutes should not be broken. For example, the deontologist would say stealing is always unethical because stealing is morally wrong.

Each responding CPA was asked to write a few words as a reasoning for the acceptable/unacceptable rankings discussed above. Their reasonings were characterized into the two basic philsophical groups. Group 1 represents the teleological view, the resolution of ethical dilemma according to the likely consequences of actions. Group 2 represents the deontological resolution of ethical decisions according to moral absolutes. Table 3 presents these classifications by vignette.

The CPAs in this study are primarily teleological. Fifty-eight percent of the ethical choices were made on the basis of a cost/benefit analysis of the consequences of the behavior. Forty-two percent of the decisions were made by a standard of moral imperative or moral duty.

For five of the six vignettes, the teleological rationale was the predominant rationale. Only for "padding the time report" was the deontological view predominant.

Summary and Conclusion

The CPAs of today's society appear to have values which are personal-oriented as opposed to social-oriented. "Family security," "self-respect," and "happiness" were listed by the responding CPAs as their three most important values, their most important "super goals."

CPAs do not seem to emphasize the values that, according to some authorities, are characteristic of today's society. The three most obvious explanations for this conclusion are (1) CPAs' values are not representative of society's values, (2) the authorities are incorrect in their views of society's values, or (3) the selected sample is not representative of the population.

The CPAs responded to questions concerning ethical dilemmas portrayed in six vignettes. In most cases, the CPAs rejected the "unethical" actions illustrated. Also, in no cases did the sampled CPAs clearly accept the actions of the vignettes. The CPAs believe themselves to be ethical, but they believe that other CPAs are less ethical; however, the CPAs did not rate others as being on the unethical half of the scale.

In five of the six vignettes used in this study, the teleological theory was the dominant rationale used by the CPAs. That is, ethical judgments are made on the basis of a consideration of costs and benefits of the consequences. The deontological rationale, which is based on the ethical acceptability of the act itself regardless of consequences, was the predominant rationale for only one vignette. Ω

TABLE 3
Rationales Used By CPAs In Ethical Decision Making

Vignette	Group 1 (Consequences)	Group 2 (Moral Imperative)	Total
Stock Purchase	123 (63%)	73 (37%)	196
Substandard Work	110 (54%)	94 (46%)	204
Padding on Time Report	77 (40%)	114 (60%)	191
Fund-Raising	112 (55%)	90 (45%)	202
Compensation for Referral	158 (77%)	47 (23%)	205
Information About a Competitor	109 (57%)	81 (43%)	190
Total	689	499	1,188
Overall Percentages	58	42	

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Sexual Harassment In The Workplace

Accounting vs. General Business

By Julie A. Sterner and Penelope J. Yunker

One manifestation of the feminist movement over the last two decades has been the rising concern among both men and women over the problem of sexual harassment in the workplace. Before this rising concern, it was a fairly prevalent view, particularly among male workers, that the kinds of behavior and activities now characterized as "sexual harassment" were "just good fun" or "part of the game." At the present time, however, it would appear that the majority of male workers have been sensitized to the viewpoint of their female co-workers, which is that sexual harassment is distressing, demeaning and disruptive and has no place in a civilized and productive workplace. This severely negative verdict on sexual harassment has been pronounced by practically all reputable professional commentators on the matter [Silverman, 1977; Renick, 1980; Sawyer and Whatley, 1980].

In November 1980, the problem of sexual harassment in the workplace prompted the Equal Employment Opportunity Commission (EEOC) to recognize sexual harassment as a violation of Section 703 of Title VII of the Civil Rights Act of 1964. The EEOC defined sexual harassment as "unwelcome sexual advances, requests for sexual favors, and other verbal and physical conduct of a sexual nature . . . ." Such conduct is declared illegal under three specific criteria: 1) submission to the conduct is either an explicit or implicit term or condition of employment; 2) submission to or rejection of the conduct is used as a basis for employment decisions affecting the person who did the submitting or rejecting; 3) the conduct has the purpose or effect of substantially interfering with an individual's work performance or creating an intimidating, hostile or offensive work environment. In addition, the EEOC called upon employers to establish specific programs within their organizations for the prevention of sexual harassment.

Most companies have policies proscribing sexual harassment, and some have even developed substantial employee awareness and training programs [Trost, 1986]. Recent Supreme Court decisions establish that employers are expected to do more than merely go on record as disapproving of sexual harassment; they also have a responsibility for meaningful enforcement of anti-harassment policies by means of establishing workable procedures for exposure and redress [Machlowitz, 1986].

The profession of accounting is not exempt from the problem, as has been strikingly demonstrated by the *Hopkins v. Price Waterhouse* case in which a woman employee successfully sued on grounds that she had been denied a promotion because of sexual stereotyping [Hutton et al., 1986]. Specifically, the plaintiff alleged that if she had been a man, her normal behavior pattern would not have been deemed "aggressive" and "macho" by partners objecting to her promotion. It is interesting to note in this regard that recent research suggests that successful women CPAs tend to have "androgynous" personalities; that is, personalities in which masculine and feminine characteristics are blended [Maupin, 1986]. Of course, in cases of women accountants being disappointed in their hopes for promotion, it is usually very difficult to ascertain what role, if any, was played by sexual stereotyping [Half, 1986]. In the substantial literature on the economic status of women in the accounting profession [Olsen and Frieze, 1986; Jayson and Williams, 1986], there is considerable speculation about the possible role that sexual stereotyping plays in the adverse salary differential for women accountants, but there is no clear indication that this is actually a significant factor.

The profession of accounting is not exempt from the problem, as has been strikingly demonstrated by the *Hopkins v. Price Waterhouse* case . . .

Another indication of substantial concern over the problem of sexual harassment is the unusual 1980 survey on sexual harassment sponsored jointly by *Redbook*, a popular magazine, and the *Harvard Business Review (HBR)*, one of the most prestigious professional publications in the field of business management. In 1976, *Redbook* published a questionnaire on sexual harassment in one of its issues and invited its readers to complete it and send it to the editors. Some 9,000 readers responded, and over 90 percent reported specific instances of sexual harassment that had adversely affected them in some way [Safran, 1976]. In some cases, women reported having to resign in order to escape sexual harassment or being fired or otherwise discriminated against because of their failure to submit to sexual harassment. However, because of the method *Redbook* utilized in obtaining the survey

results, this study was obviously very susceptible to self-selection bias.

But specifically, *how many* women experience various types of sexual harassment?

In the 1980 *Redbook-Harvard Business Review* survey, all *HBR* subscribers in the United States, over 7,000 in all, were sent questionnaires. Almost 25 percent returned completed questionnaires before the cut-off date. This survey did not turn up as many lurid tales as the 1976 survey, which is to be expected in view of the fact that the respondents were generally from a higher and more professional strata of society; nevertheless, it did reveal that sexual harassment of various forms was sufficiently prevalent, even in higher level business management, to be a legitimate source of concern [Collins and Blodgett, 1981; Safran, 1981].

One of the purposes of the 1980 *Redbook-HBR* survey was simply to quantify, to the extent possible, the incidence of sexual harassment. It is clear that a few individuals have devastating experiences of blatant sexual harassment. It is also clear that a great many more have much milder experiences, though they are sufficiently unpleasant and irritating to have a significantly demoralizing effect. But specifically, *how many* women experience various types of sexual harassment? Among the many other items included in the 1980 survey was a series of specific instances of sexual harassment (or in some cases, of "potential" sexual harassment) coupled with inquiries to the respondent as to whether he or she "had observed or heard of it in his/her own workplace." The instances ranged from extreme cases (such as, "A women tries to end an affair with her supervisor and is told she will be denied an expected promotion") to more ambiguous cases of "potential" harassment (such as, "A male associate puts his hand on a woman's arm [or other body part] when making a point"). Only seven percent had observed or heard of a woman being denied an expected promotion because of ending an affair with a supervisor, but 63 percent had observed or heard of a male associate putting his hand on a woman's arm (or other body part) when making a point.

In 1984, the authors carried out a survey of women CPAs in the state of Illinois in an effort to assess the nature and scale of the sexual harassment problem in the accounting workplace. Some 1,398 women CPAs received the survey, and 21.6 percent returned usable responses. The majority of the respondents were employed in industry/business organizations, with very few employed in government, not-for-profit, and educational organizations. There were 136 out of 302 respondents in public accounting, and most of these women were employed either in a local or "Big 8" accounting firm (53 and 55 respectively). The majority of women in public accounting classified themselves in the employee group (76) and in the audit division (79). The average number of years with the present firm was 5.2 years, and the average number of years of total accounting experience was 7.7 years. The average respondent was 32 years old. The majority were married but had no children. Most respondents reported annual salaries in the $30,000 to $40,000 range. All but one respondent had passed the CPA examination, and a large majority held a Bachelor's degree with an accounting major.

The questionnaire was substantial, representing an amalgam of several past sexual harassment surveys. A copy of the survey form and a full description of the results of the survey are contained in a monograph by the authors: "Is Sexual Harassment a Problem in the Accounting Workplace? A Survey of Woman CPAs" [Center for Business and Economic Research, Western Illinois University, Macomb, Illinois 61455]. This article concentrates on the incidence of sexual harassment in the accounting workplace versus the general business workplace covered by the 1980 *Redbook-HBR* survey.

Table 1 presents the results of the two surveys and how the results compare. Listed are ten instances of sexual harassment and the reported frequency of the instance being "observed or heard of" by respondents to the 1980 general business work environment survey. As the percentages indicate, the blatant cases of sexual harassment are relatively rare, while the less blatant are more frequent. Alongside the results for the 1980 *Redbook-HBR* survey are the results for the 1984 survey of women CPAs in Illinois, which concerns the more specific accounting work environment. It can be seen that the *relative* frequency of the various types of harassment is approximately the same as between the general business work environment and the specific accounting work environment. However, the *absolute* frequency is uniformly significantly lower in the accounting workplace than in the general business workplace. For example, while some seven percent of the *HBR* subscribers who responded to the survey reported that they had observed or heard of a woman being denied an expected promotion because of ending an affair with a supervisor, only one percent of the women CPAs in Illinois who responded to the survey had observed or heard of such an incident. At the other end of the scale, only 34.4 percent of the respondents to the accounting survey reported having observed or heard of a male associate putting his hand on a woman's arm (or other body part) while making a point, while 63.0 percent of the respondents to the general business survey reported that they had observed or heard of this.

As the percentages indicate, the blatant cases of sexual harassment are relatively rare, while the less blatant are more frequent.

The 1984 survey demonstrates that a certain amount of sexual harassment exists within the accounting workplace, and this is a source of

legitimate concern. But at the same time, the current survey suggests that sexual harassment is *less* of a problem in the accounting workplace than it is in the general business workplace. Presuming that this hypothesis is indeed correct, one might speculate on why this is the case.

One factor is that four years elapsed between the 1980 *Redbook-HBR* survey and the current survey. To some extent, sexual harassment is undoubtedly a transitory phenomenon (in a long-run sense) accompanying the influx of working women into traditionally male occupations. It is, therefore, to be expected that the incidence of the problem would decline over time. Related to this is the fact that the accounting profession in particular has experienced a very heavy influx of women over the past twenty years. The abundance of women in the accounting workplace may operate as a deterrent to sexual harassment ("in numbers there is safety"). Still another consideration is that the 1984 survey was confined to Illinois, a state in the "conservative Midwest," while the *Redbook-HBR* survey covered the entire nation.

TABLE 1
Incidence of Sexual Harassment
General Business versus Accounting

Instances of Sexual Harassment	Percentage of Respondents Who Have Observed or Heard of It in Their Own Workplace	
	Redbook-HBR survey	Illinois Women CPA survey
1. A woman tries to end an affair with a supervisor and is told she will be denied an expected promotion.	7.0	1.0
2. A woman refused sex with her supervisor and then learned she had received a poor evaluation.	10.0	3.6
3. A woman has been told by her supervisor that it would be good for her career if they went out together.	12.0	6.6
4. A woman cannot enter or leave her supervisor's office without being patted or pinched.	14.0	6.3
5. A male associate kisses a woman on the cheek every time he meets her.	18.0	7.9
6. A male associate continually asks out a woman who continually refuses.	42.0	8.6
7. A male associate starts each day with a sexual remark, insisting it is just an innocent social comment.	45.0	20.2
8. A woman cannot enter or leave her supervisor's office without being eyed up and down, making her feel uncomfortable.	61.0	20.5
9. A male associate continually glances at a woman in meetings.	61.0	13.6
10. A male associate puts his hand on a woman's arm (or other body part) when making a point.	63.0	34.4

The 1984 survey demonstrates that a certain amount of sexual harassment exists within the accounting workplace, and this is a source of legitimate concern.

Finally, of course, there is the ethos of the accounting profession, with its stress on probity, integrity and conservativeness. While the profession's moral rectitude is sometimes made the butt of satire by those outside the profession, it seems inescapable that this characteristic does indeed have some impact on the behavior of accountants. One woman respondent to the *Redbook-HBR* survey stated the following: "My department is financial, rather staid. The creative side of the business might well be rife with cases of sexual harassment." The authors of the *HBR* report included this quote along with several others of a quasi-amusing nature. But for women desirous of avoiding painful experiences of sexual harassment, the relatively "staid" atmosphere in the accounting workplace is very much to be cherished. The apparently fairly rare incidence of sexual harassment in the accounting workplace may be one of the contributing factors to the generally high level of job satisfaction experienced by women CPAs (Ward et al., 1986]. Ω

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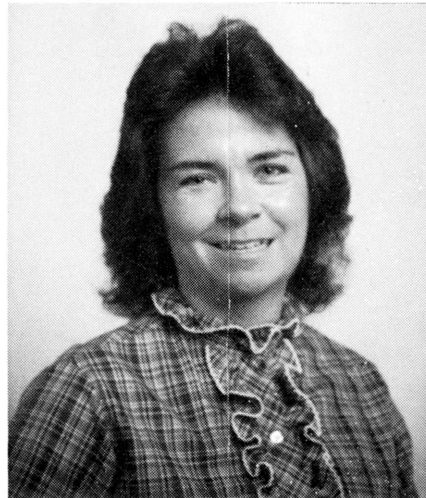

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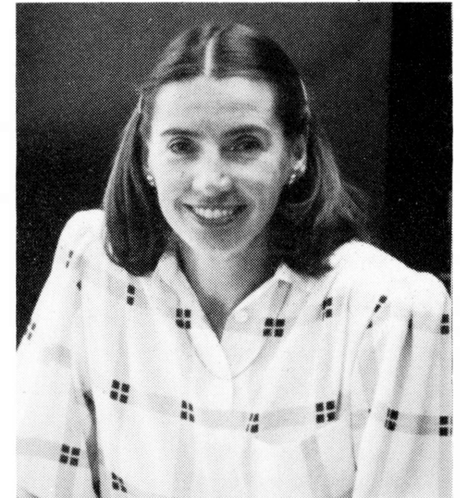

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Personnel Selection Practices

A Checklist for Evaluation

By Paul E. Bayes and Thomas E. McKee

EXHIBIT 1

Hiring Policy Evaluation Checklist

	YES	NO
1. Does your firm have a single individual or department in charge of hiring practices?		
2. Are individuals responsible for hiring in your firm aware of the provisions of Title VII of the Civil Rights Act of 1964, its amendment by The Equal Opportunity Act of 1972, and their effects on hiring practices?		
3. Are individuals responsible for hiring in your firm aware of the provisions of The Age Discrimination in Employment Act as it affects hiring practices?		
4. Are individuals reponsible for hiring in your firm aware of the provisions of the Vietnam Era Readjustment Assistance Act of 1974 as it affects hiring practices?		
5. Are individuals responsible for hiring in your firm aware of the provisions of state and/or local civil rights laws and their effect on hiring practices?		
6. Are individuals responsible for hiring in your firm aware of state-enacted Privacy of Information Acts which may affect acquisition of information?		
7. Does your firm require an official transcript to be sent directly from a college/university?		
8. Are written references required prior to hiring an applicant?		
9. Does your firm telephone an applicant's references prior to hiring?		
10. Does your firm use an interview checklist to standardize interview evaluations and avoid discriminatory questions?		
11. Are guidelines (such as ranking in the top quarter of the class) used as a measure of intelligence for applicants?		
12. Does your firm take any action upon discovery of misrepresentation by applicants?		
13. Does your firm have a low rate of personnel turnover?		
14. Does your firm conduct exit interviews to identify reasons for departure and/or deficiencies in the hiring process?		

Do your selection practices meet the intent of Statement of Auditing Standards (SAS) 1 or Statement of Quality Control Standards (SQCS) 1? Could your firm defend its hiring practices against a discrimination suit in a court of law? Will your employees' credentials stand up under legal scrutiny in other types of legal actions? Recent research by the authors on CPA firms' personnel policies indicates the answer to these questions may very well be an emphatic NO! The authors surveyed all 1,697 member firms of Public Practice Section of the AICPA and had responses from 764 firms. Ten percent of the respondent CPA firms indicated they had hired a professional employee based on falsified credentials and did not discover the falsification until after employment. This is a shocking failure rate for the profession! The employment policies of most CPA firms, whether those polices are formal or informal, can benefit from a careful review that could expose possible problems, from minor to litigious.

A checklist to assist you in evaluating your firm's hiring practices is given in Exhibit 1. "No" answers indicate a potential problem with a possible overall assessment of a firm's hiring policies provided by the following scale:

- 1-3 **No** answers:
  A minor problem exists
- 4-6 **No** answers:
  A serious problem exists
- 7 or more **No** answers:
  A potential litigation problem exists

Question 1 in Exhibit 1 indicates whether you have someone that has the "expertise" to develop and maintain an effective hiring policy and is current on regulations regarding employment practices. Questions 2 through 5 provide a measure of the knowledge that individuals responsible for hiring have of existing federal, state, or local laws. If you checked "no" in any of the first five categories, your firm could be at risk to litigation in the form of a discrimination suit. A "no" answer to question 6 indicates possible problems in acquiring substantive evidence in order to evaluate a candidate. A "no" answer to questions 7 through 12 indicates an inability to provide an adequate evaluation of candidates. A failure in these areas

(More on page 24)

Education

Mandatory Continuing Education

How Do State Accounting Societies View This Requirement?

By Dave E. Nix and Paul E. Nix

Editor: Tonya K. Flesher, The University of Mississippi, University, MS 38677

Historically, state accounting societies have been providers of high quality continuing professional education (CPE) for CPAs. The experience of state accounting societies in both mandatory and voluntary CPE should reveal much about the efficacy of mandatory continuing education (MCE) requirements for CPAs.

MCE for accountants is now widespread in the United States, with 46 states having some form of mandatory requirement. Advocates of MCE have long argued that *mandatory* requirements will (1) raise the professional competence of accountants, (2) help avoid governmental intervention in the profession, and (3) improve the public image of the profession.

Opponents of mandatory requirements counter that: (1) MCE has had little positive effect because CPAs who received good training in the past continue to work to improve competence while inadequately trained CPAs meet state requirements in the easiest way possible and do little to further their professional competence; (2) there is little, if any, evidence that mandatory as opposed to voluntary professional education is more effective; (3) the administration of MCE requirements is expensive both for state boards and the accountants subject to the requirements; and (4) having fulfilled the requirements, CPAs have little or no defense against professional malpractice claims.

Although the jury is not in yet regarding the costs and benefits of mandatory requirements, CPAs, boards, and state societies have now had several years of experience with the requirements. CPAs are aware that a much larger number and variety of CPE providers have now entered the arena in response to the demand created by mandatory requirements. CPAs also are aware that difficulty in defining exactly what CPE is has resulted in at least some CPE activities of little professional merit being allowed to meet mandatory requirements.

60 percent of the respondents indicated that the quality of CPE increased since MCE was required in their state.

With this background in perspective, a survey regarding MCE was mailed to the directors of the state societies of accountancy in each of the 46 states with a mandatory requirement. Twenty-eight of these 46 states responded, providing a response rate of over 60 percent. Several additional responses were not included in the data analysis because the state's mandatory requirement had been in effect for only a short period of time or because, in one instance, the requirement was a state society rather than a state board requirement.

The questionnaire was divided into the following five areas:

1. questions on the background of the respondents
2. questions regarding the possible effect of the states' MCE requirement on the quality of CPE
3. questions regarding providers of CPE
4. questions regarding use of the American Institute of CPAs' national curriculum
5. questions calling for a written response on the results of the move from voluntary to mandatory continuing professional education.

Results of the Survey

The results of the survey, divided into the five areas, are as follows:

AREA 1: Questions on the professional background of the respondents. Seventy percent of those responding held the position of executive director of their state society. The remaining respondents were CPE coordinators, directors of CPE, or held an equivalent position. Furthermore, more than one-half of the respondents had ten or more years' experience in the accounting field. Thus, the respondents have a professional background in MCE in accounting.

AREA 2: Questions regarding the possible effect of the states' MCE requirement on the quality of CPE. It may be reasonable to assume that before MCE was required, market demand helped ensure that only "quality" CPE would survive in the marketplace. Accountants had little reason to take low-quality CPE courses. Now, with MCE requirements in effect, accountants may have an additional reason to take CPE courses — to fulfill a mandatory requirement. This need to meet mandatory requirements could result in low quality CPE courses remaining in the marketplace. However, 60 percent of the respondents indicated that the quality of CPE increased since MCE was required

in their state. This increase in quality, which occurred during a corresponding increase in the quantity of CPE offerings, may be a result of the state societies providing a better quality product in response to increased competition among CPE providers.

In regard to who should monitor MCE requirements and the quality of allowed MCE credit, 85 percent of the respondents indicated that monitoring should be done by the state boards of accountancy.

All of the respondents indicated that MCE had widespread "legitimacy" from the perspective of their state's CPAs. Thirty percent of the respondents thought that this legitimacy would increase while less than 10 percent thought that it would decrease. Nearly 90 percent of the respondents felt that their state should not change the number of MCE hours required. These results indicate that the states will retain their MCE requirements at about the current level.

In regard to who should monitor MCE requirements and the quality of allowed MCE credit, 85 percent* of the respondents indicated that monitoring should be done by the state boards of accountancy. Other frequent choices were state accounting professional organizations (36 percent*) and a national organization such as the AICPA (29 percent*).

In regard to funding for monitoring MCE requirements, over 60 percent of the respondents indicated that this should come from CPA license fees. Other choices selected were provider fees and tuition charges on MCE courses.

*These responses will not total 100 percent because respondents could make more than one choice.

Sixty-five percent of the respondents indicated that the *quality* of MCE should be controlled by monitoring providers of MCE. Only 17 percent indicated that the quality of MCE should be controlled by monitoring what is allowed MCE credit.

An issue closely related to the quality of MCE is *what* should be allowed MCE credit. MCE is often described as a learning experience which contributes to the professional competence of the licensee. Definitions which are this broad are difficult to administer and inevitably give rise to horror stories regarding what, under particular circumstances, is allowed MCE credit. When asked if their state *should* more closely limit what it allows as MCE credit, approximately 60 percent of the respondents indicated that tighter controls were needed. Over 80 percent of the respondents indicated that there should be a limit on the number of MCE hours accepted from certain areas of study, such as personal development. When asked if their state should require all CPAs to complete a minimum number of MCE hours in specified areas of study such as auditing or practice, well over one-half of the respondents answered in the affirmative. Depending on the particular area, between one-fourth and one-third of the respondents indicated that there *should* be limits on the amount of MCE credit accepted from the following:

- In-house training
- Discussion leader
- Accounting professional meetings
- Video
- Cassette
- Self-study
- Magazine exams

A number of respondents suggested that there should be no credit allowed for magazine exams.

These results suggest that those providing CPE at the state society level believe that their respective state boards of accounting should place at least some additional restrictions on what is allowed MCE credit. As previously mentioned, professional education is frequently defined as "that which contributes to the professional competence of the accountant." Practically any activity could be claimed as CPE credit under definitions of CPE such as this. Therefore, unless the states further restrict what is allowed as CPE credit, the requirements may be abused to such an extent that a number of states will discontinue their mandatory requirements. However, in suggesting tighter restrictions on what is allowed MCE credit, we should keep in mind that 75 percent of the respondents indicated that their state should have the same MCE requirement for accountants in industry, public practice and government. Furthermore, 55 percent of the respondents indicated that a minimum number of hours be required in the areas of industrial, public and governmental accounting. With this in mind, possibly all CPAs should be required to take a minimum number of hours (such as 15-20) in the accounting, auditing and tax areas.

CPAs are the losers when poor quality products are offered.

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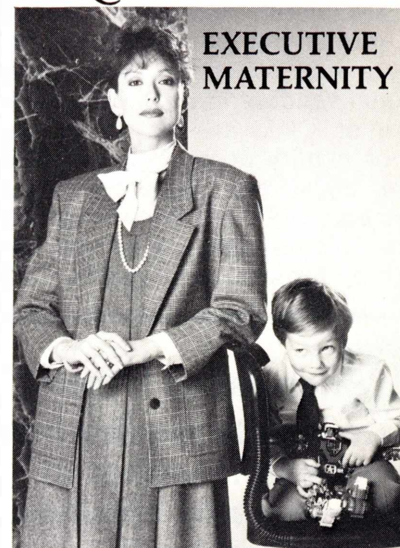

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It is encouraging to note that when asked if market demand would result in high-quality CPE offerings, over 85 percent of the respondents answered in the affirmative. However, it should not be overlooked that there are now many non-professional vendors in the CPE provider market. CPAs are the losers when poor quality products are offered. But, as several respondents suggested, CPAs are becoming more sophisticated and are turning back to their profession for quality CPE.

When asked if their state should require that a minimum number of MCE hours be obtained from professional provider groups such as the AICPA or their state society, less than 20 percent of the respondents indicated that such a requirement was desirable.

AREA 3: Questions regarding providers of MCE. As MCE requirements have become more widespread, the number and variety of those providing CPE has increased dramatically. In addition to traditional suppliers of CPE such as the AICPA and state societies, we now have stockbrokers, insurance salesmen, real estate salesmen, bankers and numerous other parties providing CPE. This increased number and variety of suppliers have made it more difficult to ascertain and control the quality of CPE. As earlier discussed, 65 percent of the respondents indicated that providers of CPE should be regulated as a means of insuring high-quality CPE. Thirty percent of the respondents indicated that providers of CPE are required to register with their state board of accountancy before providing CPE. At the same time, 90 percent of the respondents indicated that their state did allow MCE credit from providers who had not registered in advance. Although only one respondent indicated that providers of CPE *must* be "accredited," approximately one-half of the respondents indicated that providers of CPE *should* be accredited. These results are interpreted to mean that there will be additional regulation of providers in the future. Perhaps the state boards of accountancy should require that providers of CPE be registered and that they pay a one-time registration fee of $100. This would have the effect of limiting the number of providers who are perhaps less qualified to offer CPE. When asked if their state should require that a minimum number of MCE hours be obtained from professional provider groups such as the AICPA or their state society, less than 20 percent of the respondents indicated that such a requirement was desirable. Thus, changes such as this do not appear likely.

AREA 4: Questions regarding use of the American Institute of CPAs' National Curriculum. Although only two of the respondents indicated that, in their state, providers of CPE were required to submit or prepare their offerings in the format developed by the AICPA, one-half of the respondents indicated that their state *should* require that the format be used. Since the national curriculum is still being developed, it is not surprising that the respondents indicated both CPAs and providers of MCE need to be significantly more familiar with the curriculum in order to benefit from it. As time progresses and the curriculum becomes more widely known, the curriculum is expected to be far more widely used by CPAs and their state boards.

Use of the national curriculum developed by the AICPA could possibly provide an ideal format for state board officials to evaluate the legitimacy of CPE credit claimed. CPAs can benefit from use of the curriculum by being in a position to better plan and select CPE offerings appropriate to their career paths and unique needs.

Perhaps the state boards should require the use of the AICPA's suggested curriculum in the areas of accounting, auditing and tax. This would allow the states to better evaluate how much MCE credit should be granted for particular events.

AREA 5: Questions calling for a written response. In response to the question, "In your opinion, what has been the result of the move from voluntary to mandatory continuing professional education?" the comments received were generally positive. The following comments were offered as benefits of a *mandatory* requirement:

"More interest and attendance in CPE program,"
"greater awareness of changes in the field programs," and
"a forcing of marginal accountants to be at least minimally exposed to current standards."

In response to the question, "In your opinion, what changes do you feel *should* be made in your state's MCE requirement?" the following suggestions were made:

"Tighter controls on the quality of programs,"
"disallowing soft courses and monitoring more closely what is allowed CPE credit,"
"clearer definitions of what is acceptable for MCE credit and stricter standards for and better defined criteria for CPE provided by those developers not in the accounting professions," and
"an equitable method to disallow 'soft' courses."

These comments may indicate that state boards of accountancy need to develop stricter definitions regarding what is allowed MCE and to limit the acceptance of "soft" courses.

Use of the national curriculum developed by the AICPA could possibly provide an ideal format for state board officials to evaluate the legitimacy of CPE credit claimed.

Conclusions

Those at the state society level in states with mandatory requirements have had a generally favorable experience with the mandatory requirements. As a result of the requirements, there are now many more vendors offering a much broader

variety of CPE topics. As state boards of accountancy gain experience in administering mandatory requirements, they are undoubtedly clarifying and improving their MCE requirements.

The state societies indicate that the issues of allowed CPE credit and the quality of that credit need to be addressed by the state boards of accountancy. Limits need to be placed on the amount of credit allowed for "soft" CPE courses such as personal development. Also, the results of this survey indicate that the quality of CPE should be monitored by evaluating providers of CPE rather than evaluating what is allowed CPE credit. In order to further improve continuing professional education for accountants, it may be necessary that the state boards of accountancy more closely limit what is allowed CPE credit. Also, the state boards may need to begin implementing the AICPA's national curriculum format and perhaps put at least some controls on providers of CPE. Further research regarding the effectiveness of mandatory, as opposed to voluntary, CPE is needed.

Ω

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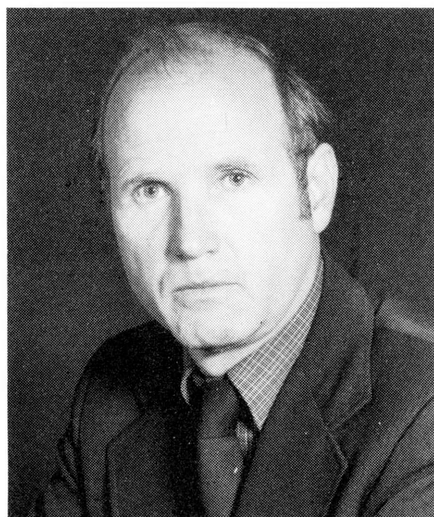

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Financial Accounting Disclosure Dilemma Illustrated

The Case of U.S. Multinational Banks

By Orapin Duangploy and Dahli Gray

Editor: Dahli Gray, University of Notre Dame, Notre Dame, Indiana 46556

Strong global competition, extreme interest rate and exchange rate volatility, and deregulation have prompted banks to enter into new fields and implement preferable accounting methods to meet their targeted profit growth. Unfortunately, the financial accounting disclosure requirements have not kept pace with the financial reporting creativity of the multinational banking system. Under these circumstances, it is no surprise to see comments concerning possibly misleading bank financial statements. Lissaker notes in a 1982 *Washington Post* article that "bank stocks have climbed in the bull market of recent months as the banks have reported higher earnings. (In some cases, banks exaggerate their profit reports by failing to cover potential losses.)" [p. C4]. Moreover, a *Wall Street Journal* article states that "the stock market is sending a message to the big banks. We don't believe your earnings" [Hertzberg, p. 23]. Throughout 1985 and 1986, and now in 1987, multinational banks (MNBs) have continued to make headlines.

MNB profits are affected by a variety of factors. This paper discusses several important financial practices (e.g., foreign currency translation, and off-balance-sheet commitments and contingent liabilities) as they affect the income statements and balance sheets of U.S.-based MNBs. This discussion is important to accounting practitioners, financial analysts, MNB managers and academicians.

The twelve largest U.S.-based MNBs were analyzed relative to their foreign currency translation (FCT) reporting practices for the years 1982 through 1985. These MNBs were inconsistent in the method and degree of disclosing their FCT gains (losses). Part of this problem rests with the flexibility allowed in defining the functional currency.

Assuming that the parent company is based in the U.S., management can define the functional currency of the non-U.S. subsidiary as the U.S. dollar; thus, the FCT adjustments are recognized in the income statement. If management defines the functional currency of the non-U.S. subsidiary as any currency but the U.S. dollar, FCT adjustments are reported in the balance sheet.

In this way, reported earnings can reflect managerial preference, rather than a transaction or event external to the firm. For financial accounting, a change of the functional currency is similar to a change in estimate. For tax purposes, the Tax Reform Act of 1986 deems this same change as a change in accounting principle.

For 1982, 1983, and 1984, massive FCT losses were reported by nearly all of the twelve largest U.S. banks (See Table 1). For example, BankAmerica reported FTC losses of $32.2 million ($.22 per share), $46.6 million ($.31 per share), and $44.8 million ($.30 per share) for 1982, 1983, and 1984, respectively. These sizable losses appear in BankAmerica's balance sheet but not in the income statement.

> **Unfortunately, the financial accounting disclosure requirements have not kept pace with the financial reporting creativity of the multinational banking system.**

In 1982, when the recession and deregulation adversely affected the banking industry, all but one of the twelve largest U.S. MNBs elected to exclude net FCT adjustments from their income statements. The bank choosing to continue including translation adjustments in the income statement was First Interstate. Beaver and Wolfson [1984] questioned the appropriateness of banks excluding translation adjustments from their income statements:

> Banks make borrowing and lending decisions at a multinational level to exploit "perceived" violations of interest rate parity among currencies. If the objective is to take advantage of interest rate disparities, however, exclusion of translation gains and losses from earnings will obscure an evaluation of effectiveness of this speculative activity [p. 33].

If MNB financial accounting practice is providing an unobscured view of performance, the FCT adjustment should correlate with economic reality. When the U.S. dollar was strengthening against other currencies, which was the case for 1982 through 1984, FCT losses should

TABLE 1
Largest Twelve U.S. Multinational Banks
Net Translation Gain (Loss) or Adjustment for the Year
In Dollars (in Thousands) and Per Share

	1982	1983	1984	1985
Citicorp	(13,000)	(39,000)	(63,000)	18,000
per share	(.10)	(.32)	(.50)	.13
BankAmerica	(32,182)	(46,572)	(44,773)	27,113
per share	(.22)	(.31)	(.30)	.18
Chase Manhattan	(13,921)	(8,420)	3,611	(3,535)
per share	(.21)	(.12)	.05	(.05)
Manufacturers Hanover	(184)	a	a	a
per share	(.01)			
JP Morgan	(5,000)	(4,000)	(11,000)	3,000
per share	(.12)	(.09)	(.13)	.03
Chemical	(6,281)	(13,692)	(5,897)	(1,622)
per share	(.22)	(.43)	(.11)	(.03)
Security Pacific	(6,739)	(3,763)	(8,935)	5,300
per share	(.22)	(.10)	(.12)	.07
Bankers Trust	(4,263)	(6,960)	(1,895)	65
per share	(.16)	(.24)	(.06)	.001
First Interstate	a	a	a	a
First Chicago	(1,062)	(1,904)	(1,462)	(8,252)
per share	(.03)	(.05)	(.03)	(.17)
Mellon	(429)	(419)	(877)	(1,388)
per share	(.02)	(.02)	(.03)	(.05)
Continental Illinois	(4,638)	(5,542)	-0-	(3)
per share	(.12)	(.14)	-0-	(.01)

Source: Compiled by authors from annual reports
a = Information not disclosed in annual report

have occurred. With the exception of Chase Manhattan in 1984, this indeed was the case for all of the banks studied (see Table 1). In 1985, when the U.S. dollar fell in value (relative to other currencies), FCT gains should have occurred. This was the case for Citicorp, BankAmerica, J.P. Morgan, Bankers Trust and Security Pacific. The other MNBs analyzed either did not report (i.e., First Interstate) or reported net losses. The latter is probably attributable to the combination of incorrect anticipation of the direction of exchange rate movements and the engagements in forward exchange contracts and swaps which recently have grown in importance.

The spectacular growth in the present decade of several new financial instruments has further obscured evaluation of bank earnings partially due to diverse disclosure practices. For example, the combined interest rate and currency swap (called a cross-currency interest swap) is not addressed by the FASB [Wishon and Chevalier, p. 68].

Under the current provisions of Statement of Financial Accounting Standards (SFAS) No. 52, exchange gains or losses for net investment hedges or foreign currency commitments are excluded from net income determination. Management can, however, remove these hedges at any time while continuing deferral of the related exchange gains or losses. Thus, for currency swaps and forward exchange contracts (covered under SFAS No. 52), the established criteria "created the possibility that transaction gains or losses that should be reported in net income currently may instead be reported as translation adjustments or deferred as hedges of commitments" [SFAS No. 52, p. 22].

Discretion in financial accounting disclosure of swaps and forward exchange contracts is a dilemma that is magnified by the reporting practices for standby letters of credit and guarantees. These are generally classified as off-balance-sheet commitments and contingent liabilities, which are exposed to the fluctuating foreign currency exchange rates.

An analysis of the 1985 annual reports of those twelve largest MNBs previously mentioned, reveals diversity in the manner and magnitude of disclosure of the off-balance-sheet financial instruments. A similar transaction may be omitted or disclosed differently by the MNBs. Despite the different financial position and risk exposure created by the various kinds of swaps ("unmatched," "matched," "hedged," and "offsetting" swaps that are different methods of valuation and income recognition) [Wishon and Chevalier, p. 74], not all of the MNBs disclosed which method they applied in accounting for swaps and the recognition of the gains or losses resulting from the changes in value. Nor did all of the MNBs display the separate amounts of their standby letters of credit.

In 1982, when the recession and deregulation adversely affected the banking industry, all but one of the twelve largest U.S. MNBs elected to exclude net FCT adjustments from their income statements.

Fee revenue generated from these off-balance-sheet commitments can be recognized currently or over the life of the contracts. However, out of the twelve MNBs examined, not all of the MNBs disclosed the timing recognition of fees received from standby letters of credit. The related fees were recognized over the life of the contracts. Some MNBs recognized fees received from interest-rate swap arrangements currently, while other MNBs recognized these fees over the term of the matched swap agreements.

However, out of the twelve MNBs examined, not all the MNBs disclosed the charging of these possible losses to the Reserve for Possible Loan Losses or the incorporation of the risks associated with standby letters of credit or off-balance-sheet agreements and obligations in their credit loss estimations.

Banks act as both intermediaries and guarantors for these instruments. Possibly customers will default on their obligations. However, out of the twelve MNBs examined, not all of the MNBs disclosed the charging of these possible losses to the Reserve for Possible Loan Losses or the incorporation of the risks associated with standby letters of credit or off-balance-sheet agreements and obligations in their credit loss estimations. MNBs' diverse disclosure practices for potential losses may be due to the lack of specific financial accounting guidelines for these banking services.

Summary and Conclusion

This paper provides a context for understanding how some U.S. multinational banks account for and disclose foreign currency translation, off-balance-sheet commitments and contingent liabilities. Financial accounting practices, in light of SFAS No. 52, have been analyzed for the years 1982 through 1985. This analysis reveals that although SFAS No. 52 may have settled some issues, many issues remain. Fortunately, the Financial Accounting Standards Board is addressing the issue of improving "disclosures about financial instruments and off-balance-sheet financing and hedging arrangements" [News Report, p. 14]. However, unless the accounting profession acts promptly to curb the wide diversity in disclosure and measurement practices used by the multinational banking community, the credibility of both the financial accounting profession and the MNBs will be in jeopardy. Ω

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Nonbusiness Organizations

The Effects of Joint Allocation Standards on Nonprofit Mailing Strategies

By Denise Nitterhouse and Florence Cowan Sharp
Editor: Yvonne C. Braune, City of Tacoma, Tacoma, WA

The differences between nonprofit organizations (NPOs) and businesses are reflected by differences in their financial statements. In the external financial reports of NPOs, a focus on the expense categories replaces the focus on net income of business enterprises. While program expenses accomplish the purpose of the NPO and are *good* uses of funds, fund-raising expenses may appear to draw funds away from the cause.

The fund-raising percentage (fund-raising expense/total expenses) is often used as a measure of fund-raising efficiency. The Civil Service Commission has ruled that charities whose fund-raising costs exceed 25 percent of their receipts may not solicit contributions from government employees [Katz, 1974, p. 56]. The attention paid to the fund-raising cost is illustrated by one fund-raiser's comment that allowing "development" costs to be reported as a separate expense "would enable *newly-established* charities to report a reasonable 'fund-raising' cost, thus making them more competitive for the donor dollar with older, more established charities" [Galardi, p. 17]. This presumed relationship between reported costs and contributions provides an incentive for NPO managers to charge expenses to other categories whenever possible, and auditors of NPOs need to consider this incentive in assessing their audit risk. It is not surprising, therefore, that industry representatives (e.g., The National Health Council), regulatory bodies (e.g., the offices of the State Attorney General of Illinois and New York), and the accounting profession (the AICPA and the FASB) have dealt with cost allocation and disclosure standards for external reporting that concentrate on fair presentation of the use of NPO resources.

While program expenses accomplish the purpose of the NPO and are good uses of funds, fund-raising expenses may appear to draw funds away from the cause.

This analysis considers the potential effects of different joint mailing cost allocation standards on the financial statements of NPOs and the mailing strategies NPO managers might adopt to minimize reported fund-raising expenses. Numerical examples illustrate how the allocation rule chosen could encourage inefficient mailing practices.[1]

Allocation of Mailing Costs

"Mailing"[2] refers to an organization's mailings to individuals to provide information or to solicit support. Several types of nonprofit organizations, especially voluntary health and welfare organizations, commonly use mailings for fund-raising. Mailings are also used to solicit non-financial support and to provide information and education about issues of concern, recent activities, and accomplishments.

It is often practical and cost-effective to combine fund-raising and program-related information in the same mailing, referred to hereafter as a "combined mailing." It may even be difficult to differentiate between the two types of information. The NPO's mailing strategy is the result of the decision to mail fund-raising and program materials separately (split) or together (combined).

If split mailings are used, the costs associated with each mailing are classified entirely as either program expense or fund-raising expense. If a combined mailing is used, it seems appropriate to allocate mailing costs between program and fund-raising expenses. Many costs are clearly related to only one category, but others are joint costs that cannot be clearly labeled as one or the other. The joint cost allocation situation is confusing for practicing accountants. Many CPAs and nonprofit accountants have interpreted the AICPA *Industry Audit Guide: Voluntary Health and Welfare Organizations* (1974) to require that all mailing

[1]The examples focus on the fund-raising percentage based upon expenses while the Civil Service Commission uses receipts. Since revenues and expenses are usually budgeted to be quite close in an NPO, these two measures should be similar.

[2]The industry term for mailing, as used in this paper, is "direct mail." The term is not used in this paper because of the possible confusion with direct costs of mailing and because, as Katz points out, "direct" is really a misnomer. In this form of fund-raising, he explains, the organization is actually most removed from the potential contributor.

costs of a joint-purpose mailing be charged to fund-raising expenses. This conservative approach assures that fund-raising costs are not understated, but it may penalize NPOs with material joint costs when NPOs are compared. An industry publication, *Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations* (1964), also advocates charging these costs to fund-raising. AICPA Statement of Position 78-10, "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations," requires a "primary purpose" concept, whereby all joint costs involving fund-raising are charged to fund-raising expense, except for incremental costs directly attributable to program activity.

The NPO's mailing strategy is the result of the decision to mail fund-raising and program materials separately (split) or together (combined).

In October 1984, partly in response to the different approaches suggested above, the FASB released Proposed Technical Bulletin No. 84-e [TB], "Accounting for the Joint Costs of Direct Mailings Containing Both a Fund-Raising Appeal and a Program Message." This bulletin proposed conditions under which *up to 50%* of joint costs should be allocated to program costs on a "reasonable" basis; otherwise, it recommended that these costs be classified as fund-raising expenses. The criteria for allocating joint costs proposed were: 1) the program component of the mailing provides a bona fide program message, and 2) the mailing goes to a recipient recently demonstrating more than a general interest in the program activity.

The FASB dropped the project without adopting the recommendations in the TB. This appeared to be due, in part, to the extremely conflicting responses of the interested parties: nonprofit organizations, donors, regulators, and accountants. In response to the FASB's abandonment of the project, the Committee on Not-for-Profit Organizations of the AICPA added the topic to its agenda. That committee recently proposed an amendment to SOP 78-10 (1986), cleared by the Accounting Standards Executive Committee, that allows joint costs to be allocated between fund-raising and program expenses if it can be shown that a bona fide program function has been conducted in conjunction with an appeal for funds. While the amendment proposes that the contents, purpose and audience be considered in determining *whether* a bona fide program function has been served, it provides no guidelines for making the allocations. Instead, it suggests that cost accounting literature be consulted. It also requires footnote disclosure of the total amounts of joint costs allocated and the amounts allocated to different functional expenses.

The analysis below looks at choosing different allocation rules and their potential efficiency costs to NPOs and the public they serve. Numerical examples illustrate possible effects of different cost allocation rules and mailing strategies on mailing costs and the relative magnitudes of reported fund-raising and program expenses. These examples highlight factors that auditors may use in assessing audit risk and factors that NPO administrators should consider in designing efficiency controls.

Effects of Different Cost Allocation Alternatives

A joint cost allocation rule and the expected donors' actions could influence an NPO manager's selection of a mailing strategy. If potential donors use the reported relative amounts of fund-raising and program expenses to decide whether, or how much, to contribute to the NPO, management may respond with strategies that have a favorable impact on those functional expense categories. Regulators have suggested that ambiguous cost allocation rules may lead to "all kinds of different interpretations, abuses, and unequal application" [Shea, p. 19].

The examples below illustrate which mailing strategies reduce or minimize the fund-raising percentage when joint costs are allocated to fund-raising in an extreme interpretation of earlier GAAP ("nonallocation") and allocated between fund-raising and program expenses with a limit of 50% as recommended in the FASB proposed TB ("allocation").

If potential donors use the reported relative amounts of fund-raising and program expenses to decide whether, or how much, to contribute to the NPO, management may respond with strategies that have a favorable impact on those functional expense categories.

Combined vs. Split Mailings

The cost components given in Table 1 will be assumed in the following example to compare the effects of combined and split mailing strategies on reported expenses when all joint costs are charged to fund-raising.

> An NPO uses an annual letter soliciting contributions as its only appeal for funding. The agency's only program is an educational bulletin mailed once a year to individuals recently demonstrating an interest in program activities. The same mailing list of 10,000 is used for both mailings. Both the solicitation letter and the educational bulletin are prepared by an outside public relations agency and separately billed to the NPO, as are outside printers' production costs. All personnel at the agency are volunteers, so the only costs are the direct cost of each document and mailing costs.[3]

[3]This example assumes some flexibility in expenses. We assume that the strategy adopted would be reflected in the annual budget, if there is one.

TABLE 1
Component Costs
Single vs. Combined Mailing Strategy

Component	Cost per Piece
Educational bulletin (10,000)	$0.600
Fund-raising letter (10,000)	0.400
Envelopes (10,000 or 20,000)	0.050
Postage	0.052

TABLE 2
Reported Expenses
Single vs. Combined Mailing Strategy

Functional Expense	Split Mailing[1]		No Allocation Combined[2]		50/50 Allocation Combined[2]	
Program	$ 7,020	58%	$ 6,000	54%	$ 6,510	59%
Fund-Raising	5,020	42	5,020	46	4,510	41
Total	$12,040	100%	$11,020	100%	$11,020	100%

[1] Fund-raising letter and educational bulletin mailed separately. Component costs: letter ($4,000), bulletin ($6,000), envelopes ($1,000), postage ($1,040).

[2] Fund-raising letter and educational bulletin mailed together. Joint costs of $1,020 (envelopes and postage), direct program costs of $6,000 (bulletin), direct fund-raising costs of $4,000 (letter).

Table 2 shows the reported fund-raising and program expenses for split mailings, a combined mailing with all joint costs charged to fund-raising, and a combined mailing with joint costs allocated 50% to fund-raising and 50% to program (the maximum proposed in the TB). A split mailing will cost $12,040: $6,000 program materials, $4,000 fund-raising materials, and $1,020 mailing costs for each mailing ($2,040 total). By using a combined mailing, the mailing costs are cut in half, and the total cost is $11,020.

A combined mailing has a lower total cost, but a nonallocation rule reports a higher fund-raising percentage than for a split mailing. All costs except direct costs of the program materials are charged to fund-raising; therefore, fund-raising expense includes the sum of the direct cost of the educational bulletin and the joint mailing costs. The program expenses (direct materials only) and total expenses will be lower with the combined mailing. Whenever joint mailing costs equal or exceed the cost of mailing the fund-raising material alone, the combined mailing produces a higher fund-raising percentage. This may encourage the use of a split mailing to drive the fund-raising percentage down.

The allocation of costs provides a possible solution to the dysfunctional incentive caused by nonallocation. When allocation is allowed, a joint mailing can reduce both program and fund-raising costs, but the fund-raising *percentage* may or may not decrease with a joint mailing. Table 2 shows the effect of a 50/50 allocation rule (maximum proposed by the FASB) when a joint mailing is used in our example. The fund-raising percentage decreases from 42% for a split mailing to 41% for a combined mailing. If, however, direct program costs were lower than direct fund-raising costs, the fund-raising percentage would increase using a 50/50 rule but not as much as it would increase with nonallocation.

Allocation of joint costs in proportion to direct costs would never make the split mailing more attractive. This seems to suggest that "proportionate share of direct cost" might be a useful criterion in determining "reasonable" allocation. This would apparently *not* violate the allocation guidelines of the proposed amendment to SOP 78-10, though it could exceed the 50/50 allocation limit proposed by the FASB. When two documents of distinctly different purpose are replaced by one document containing everything, however, the absence of identifiable "direct costs" prevents allocation on this basis.

Although the nature and direction of the effects on reported expenses is clear, the magnitude of the effects depends on the structure of mailing costs and their magnitude relative to other expenses of the NPO. The larger the cost of mailings is in relation to other fund-raising and program costs, the more powerful is its effect on the fund-raising percentage. For example, advocacy groups devoting a significant portion of their program efforts to informational mailings combined with requests for support would be particularly sensitive to cost allocation rules.

When allocation is allowed, a joint mailing can reduce both program and fund-raising costs, but the fund-raising *percentage* may or may not decrease with a joint mailing.

Single vs. Padded Mailings

A cost allocation rule could also lead to some types of dysfunctional activity. Joint cost allocation may provide some incentive to add program material to a fund-raising mailing, even if a separate program mailing would not otherwise be made (a "padded mailing"). Adding an educational brochure to a fund-raising letter may cause donors to give more, but even if it does not, the brochure could be used to justify allocating

some joint mailing costs to the program category. This strategy causes total costs to be higher by the amount of the program materials but can lower the fund-raising percentage.

Table 3 provides the component costs for an example illustrating a "padded mailing" in an organization that has program expenses of $20,000 and fund-raising expenses of $2,500 in addition to the mailing costs. The organization contracts for a solicitation letter costing $.40 each to be mailed to 10,000 prospective donors and considers including an educational bulletin costing $.20 each.

Joint costs allocation may provide some incentive to add program material to a fund-raising mailing, even if a separate program mailing would not otherwise be made (a "padded mailing").

TABLE 3
Component Costs
Single vs. Padded Mailing Strategy

Component	Cost per Piece
Educational bulletin (10,000)	$0.200
Fund-raising letter (10,000)	0.400
Envelopes (10,000)	0.050
Postage	0.052

TABLE 4
Reported Expenses
Single vs. Padded Mailing Strategy

Functional Expense	Single[1] Mailing		No Allocation Combined[2]		50/50 Allocation Combined[2]	
Program	$20,000	73%	$22,000	75%	$22,510	76%
Fund-Raising	7,520	27	7,520	25	7,010	24
Total	$27,520	100%	$29,520	100%	$29,520	100%

[1]Fund-raising letter alone — no program materials mailed. Cost of mailing: letter ($4,000), envelopes ($500), postage ($520). Other operating costs of $20,000 program and $2,500 fund-raising.

[2]Fund-raising letter and educational bulletin together. Joint costs of $1,020 (envelopes and postage), direct program costs of $2,000 (bulletin), direct fund-raising costs of $4,000 (letter). Other operating costs of $20,000 program and $2,500 fund-raising.

As shown in Table 4, sending the fund-raising material alone would cost $5,020, all of which would be charged to fund-raising expenses. This would lead to total fund-raising expenses of $7,520, 27% of total expenses for the year. For an additional $2,000, the organization can include an educational brochure without increasing other mailing costs. This brochure allows the $1,020 "joint" costs of envelopes and postage to be allocated between programs and fund-raising. Using a 50/50 allocation, total expenses are $29,520, and fund-raising expenses are lower both in dollars and as a percentage (24%) of total expenses.

The AICPA's recommendation that the audience and the purpose of a mailing, as well as the contents, be considered in determining whether a bona fide program activity has been carried out may be an attempt to prevent the use of padded mailings merely as a cost manipulation strategy. A decision *not* to allow allocation, however, would seem difficult to justify in the face of a brochure devoted to program purposes. The padded mailing strategy consumes more resources than the fund-raising mailing alone but does have the potential to serve some program purpose for the additional cost.

Conclusions

The effects of different joint cost allocation standards on the mailing strategies of NPO managers suggest that a requirement for allocation of all costs to fund-raising expenses will provide some incentive for using inefficient split mailings. Allowing allocation of some joint costs to program expenses may help alleviate the split mailing incentive, but it may also encourage padding fund-raising mailings with program materials.

Auditors, regulators, and NPO administrators should be aware of the incentives and potential costs created by the cost allocation standards for NPOs. These incentives should be considered in determining the audit risk faced by the independent auditors. Regulators and contributors might also consider these incentives in choosing the criteria by which they judge the quality of NPOs. Some regulators, such as the offices of the State Attorney General of Illinois and New York, have taken the position that additional disclosures in state filings are useful in interpreting NPOs' financial statements. These regulators require specific disclosures by NPOs registered in their states regarding the cost of fund-raising activities, payments to professional fund-raisers, and the allocations of joint costs that have taken place. The AICPA seems to have followed this line of reasoning by suggesting footnote disclosure on joint cost allocations. This approach allows a more conservative reconstruction of the operating statement for those who prefer no allocation of joint costs to program activities, but it does not provide information for assessing the reasonableness of allocations used in preparing the statements. Ω

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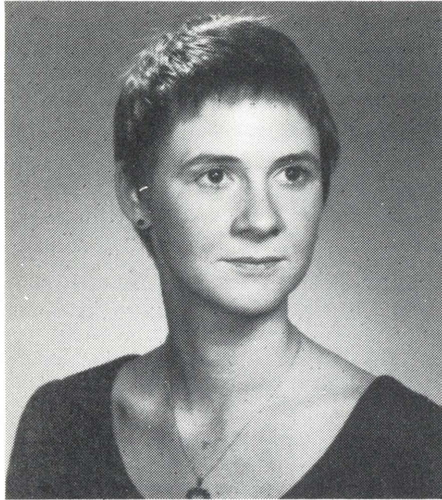

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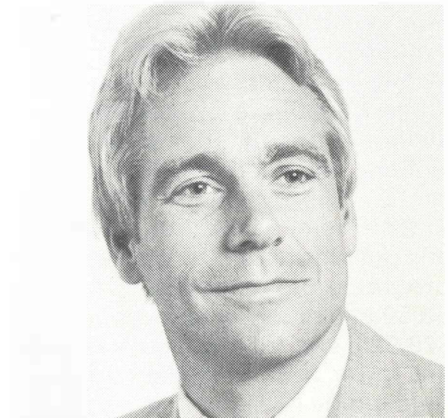
Florence Sharp *has a Ph.D. from the University of Illinois, an MAS degree from Florida State University, and a BA from Duke University. She is currently on the faculty at the University of Illinois at Urbana-Champaign where she teaches auditing and governmental and nonprofit accounting. She spent several years in public accounting practice with Coopers & Lybrand and Seidman & Seidman, where she had several government and nonprofit clients.*

Personnel Selection

From page 11

may result in noncompliance with SQCS 1 and possible litigation losses for failing to follow generally accepted auditing standards. Questions 13 and 14 relate to the effectiveness of the hiring process and the degree to which this effectiveness is monitored. Based on your responses, do your hiring policies need to be revised? Ω

Paul E. Bayes, D.B.A., *is Associate Professor of Accountancy at East Tennessee State University. He received his D.B.A. from the University of Kentucky, and has previously taught at Eastern Kentucky University. Dr. Bayes has made numerous presentations to professional organizations as well as authoring articles in professional journals.*



Thomas E. McKee, Ph.D., CPA, CMA, CIA, *is Professor of Accountancy at East Tennessee State University. He previously taught at the University of Maryland and Georgia State University. Dr. McKee was formerly a senior accountant with Price Waterhouse. He has co-authored an auditing textbook and authored two AICPA courses as well as numerous articles in professional journals.*

Editor's Notes

From page 2

Machoff says being super people is nonsense and very stressful. Furthermore, she believes that ". . . what we really need to do is make smoother transitions between different parts of our life and that's about as good as it is going to get."

Thus, in the morning, there must be a transition from home to work with a conscious effort to leave the house behind. Conversely, in the evening, there must be a transition from work to home with a conscious effort to leave the office behind. It's not being able to leave either one behind that creates stress.

Lillian C. Parrish

Tax Department:

Pension Plan Distributions May Be Subject To Penalties

Editor: Cherie J. O'Neil, VA Tech, Blacksburg, VA 24061

The Tax Reform Act of 1986 (TRA'86) imposes a new 15 percent penalty on large distributions for qualified employer AND individual retirement arrangement (IRA) plans. The TRA'86 also imposes a 10 percent penalty on early withdrawals from all qualified plans. Prior to 1987, this 10 percent penalty only applied to early withdrawals from IRA and Keogh plans. There is also a new 50 percent penalty on excess accumulations in qualified retirement plans.

The 15 Percent Penalty

The Sec. 4983 penalty is geared toward individuals who have large accumulations in qualified retirement plans. The TRA'86 requires payment of a 15 percent penalty on any partial distribution in excess of $150,000 per year or on any lump sum distribution in excess of $750,000. Distributions made pursuant to a qualified domestic relations order and distributions rolled over into another retirement plan are not subject to the 15 percent penalty. If the distribution is made after the death of the individual, the tax is imposed on the estate and may not be offset with the estate tax credit. There is also a grandfather clause exempting accrued benefits as of August 1, 1986, from the penalty if the accrued benefit exceeds $562,500. The exemption amounts will be indexed for future cost-of-living increases.

The 10 Percent Penalty

The 10 percent early withdrawal penalty of Sec. 72(t) has been expanded to include distributions occurring before age 59½ from qualified retirement plans. The prior rules permitting withdrawals without penalty from retirement plans for hardship, medical, and education purposes have been repealed.

The 50 Percent Penalty

Sec. 4974 requires that a minimum distribution must begin from a qualified plan by April 1 of the year following the calendar year in which the individuial reaches age 70½. Otherwise, a 50-percent penalty is imposed on the amount by which the minimum required distribution exceeds the actual amount distributed during the tax year.

Avoiding Imposition of Penalties

Individuals participating in qualified employer retirement plans, as well as those who are saving for retirement by making contributions to IRAs and Keoghs, must structure their retirement plans to avoid imposition of these penalties. The following suggestions should be followed:

1. Lump sum distributions from qualified retirement plans in excess of $750,000 should be rolled over into an IRA to avoid the 15 percent penalty on lump sum distributions.
2. Distributions from qualfied retirement plans should not begin prior to the year in which the individual reaches age 59½ to avoid the 10 percent early withdrawal penalty.
3. Minimum annual distributions from qualified retirement plans should begin no later than the year after the year in which the individual reaches age 70½ to avoid the 50 percent penalty. However, it may be necessary to begin making the distributions much earlier in order to keep the required minimum annual distribution below $150,000 to avoid imposition on the 15 percent penalty.

The TRA'86 makes planning for retirement more complex. Individuals with substantial accrued benefits in qualified retirement plans should seek assistance from a tax professional to insure that these penalties will not be imposed.

A message from the new Tax Department Editor

Since I have agreed to become the editor of the Tax Department of The Woman CPA, *I would like to tell you about my background and about my expectations for the Tax Department. I'm an associate professor of accounting at Virginia Polytechnic Institute and State University (VA Tech), where I teach both graduate and undergraduate tax courses. I received the CPA in Colorado in 1972 while working for the IRS as a Revenue Agent and received a Ph.D. in 1980 from the University of Colorado. I enjoy doing all kinds of tax research — including legal research and public policy research.*

I view the Tax Department of The Woman CPA *as a forum for readers to share their knowledge and expertise in taxation. Many of our readers research tax topics when preparing tax returns for clients and employers and* The Woman CPA *would like for you to share your research. For example, have you relied on a recent tax case or revenue ruling that you would like to share with others? Or in studying the Tax Reform Act of 1986 have you discovered an unintended result or a trap for the unwary on one of the new code sections that you would like to share? Or what techniques do you use in tax planning that you would like to share with our readers?*

If you have never submitted anything for publication, let me briefly review how you should begin. First, make sure your idea is original and one that would be of interest to our readers. Next, outline what you want to say. After you have put your thoughts in a logical order, write your manuscript using your outline as your guide. If what you have written is ten pages or less (double spaced), send it to me for consideration. (If your paper is longer, you may want to consider submitting it for publication as a main article, and in that case your manuscript should be sent to Dr. Roland Madison, Associate Editor, of The Woman CPA.*) I hope to begin receiving articles from you soon.* Ω

Theory and Practice

Implementation Issues In Accounting for Software Costs

By Michael T. Dugan

Editor: Karen L. Hooks, The Canadian Institute of Chartered Accountants, Toronto, Ontario, Canada M5S 2Y2

It seems that difficulties may arise in the situation where a firm incurs costs subsequent to the establishment of the technological feasibility of a given software product, and those costs cannot be specifically identified with that product or other software products in the firm's mix.

In August 1985, the Financial Accounting Standards Board (FASB) issued Statement No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed." The Statement requires that all costs that are incurred to establish the technological feasibility of a software product be expensed as incurred. The logic underlying this standard is that such costs are R&D expenditures, which need to be expensed as incurred per requirements of FASB Statement No. 2. In addition, once the "technological feasibility" of the product as defined by the Board has been established, any software production costs that are incurred should be capitalized and amortized to income on a product-by-product basis.

The purpose of this article is to discuss what this author perceives to be some of the implementation problems that might arise in the application of the requirements of Statement No. 86 in actual settings. Included will be a discussion of several potential implementation problems that are of interest from both conceptual and practical perspectives.

Amortization of Capitalized Software Costs

Paragraph 8 of the Statement requires that those software costs that are properly capitalized be amortized on a product-by-product basis. It seems that difficulties may arise in the situation where a firm incurs costs subsequent to the establishment of the technological feasibility of a given software product, and those costs cannot be specifically identified with that product or other software products in the firm's mix. In essence, these costs are joint costs. For example, suppose a firm wished to develop accounting software packages. Further, suppose that the first product it developed for which technological feasibility has been established is a general ledger package. How would any subsequent costs incurred to facilitate the development of interface between the general ledger package and other related packages (an accounts receivable subsidiary ledger system and a payroll system, for example) be allocated? It would seem that such a joint cost would need to be allocated arbitrarily between the general ledger package and the other related packages since Statement 86 requires that amortization be performed on a product-by-product basis.

One way around this problem might be to define the cost objective (product) more broadly. The joint cost allocation issue arises in the example because the cost objective is narrowly defined as each individual application package. However, if the cost objective were to be more broadly defined as the *set* of individual packages (i.e., the general ledger system, the accounts receivable subsidiary ledger system, the payroll system, etc., all combined), then the joint cost problem would not arise since all costs would be allocated to a single cost objective.

Despite these benefits, defining the cost objective more broadly introduces some additional implementation questions. For example, suppose establishment of the technological feasibility of individual packages contained within a broadly defined cost objective occurs at different points in time. AICPA Issues Paper states that:

> . . . for many products, technological feasibility can be established earlier in the process, for example, when the product does not differ significantly from existing products. For other products, the establishment of technological feasibility may require completion of some construction activities to resolve uncertainties inherent in the product [p. 19].

To what extent would these timing differences in the establishment of technological feasibility affect the allocation and subsequent amortization of such costs? These issues will need to be considered in some detail both by companies that need to apply the Statement and by auditors who need to assess the extent of their clients' compliance with the

provisions of the Statement.

Computation of Periodic Amortization

Paragraph 8 of the Statement requires that "the annual amortization [of capitalized software costs] shall be the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product including the period being reported on." This author is intrigued by the Board's adopting a variant of a "revenue contributions" approach (or "revenue ratio" approach) as the basis for amortization of these capitalized software costs. The FASB has previously applied this "revenue contributions" approach to amortization of motion picture film costs in its Statement No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films." It might be argued that the development and construction of software is not an activity comparable to the development and production of motion picture films. Whether the lack of commonality between the two types of activities should necessarily dictate different methods of amortization is an issue open to debate. However, given its required use within the provisions of Statement 86, it is important to note that this "revenue contributions" approach to amortization does pose additional implementation questions.

For example, just how reliable can or will be the estimates of anticipated future gross revenues over the remaining estimated economic life of the product? It would appear to be a difficult task to estimate the remaining economic life of a software product and an even more difficult undertaking to determine anticipated future revenues for a product. There are many factors that affect the marketability of a software product, some of which not only are beyond the control of the firm, but also are unable to be anticipated because of the rapidity of changes in technology and other factors in the industry. For example, the CP/M operating system's marketability was significantly adversely affected by IBM's decision to integrate Microsoft's DOS operating system into its personal computer systems. In addition, there may be instances where a firm will develop and market a successful software product and subsequently develop an upgraded, yet comparable, product whose sales cannibalize those of the original product. It would seem to be difficult to anticipate the occurrence and/or the extent of such cannibalization. All of these factors would affect the uncertainty surrounding the estimation of anticipated gross revenues and remaining economic lives of software products.

Another set of issues of relevance in the implementation of the Statement is whether construction of the software product is a development activity and how this determination affects the establishment of its technological feasibility. According to Statement No. 86, if the process of creating the product in question includes a detail program design, then its technological feasibility is generally deemed to be established when this detail program design has been completed. In such a circumstance, construction of the working model is not a development activity, and the related costs would be capitalized.

If the process of creating the software product in question does not include a detail program design, then, per Statement No. 86, its technological feasibility is not deemed to be established until the working model of the software product has been completed. In such a situation, construction of the working model would be construed as a development activity, and the related costs would be expensed as incurred per the requirement of FASB Statement No. 2.

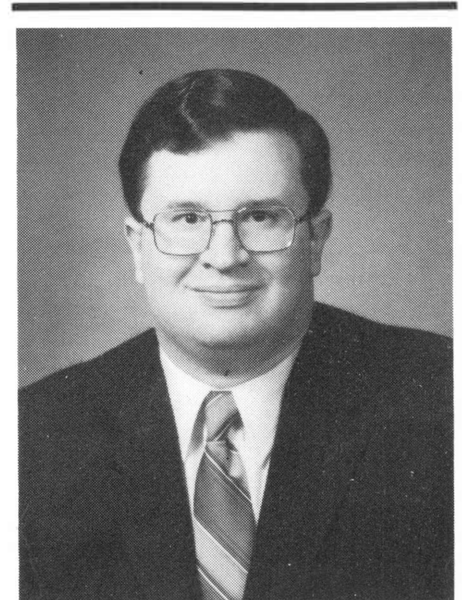
In assessing the reasonableness of the FASB's conclusions, one must examine the definition of development activities offered in FASB Statement No. 2:

> Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, *construction of prototypes,* and operation of pilot plants [8]. (Emphasis added by author.)

There are those who would argue that this definition unequivocally supports the contention that construction of a working model (prototype) is a development activity. There are others who would argue that a preliminary working version of a software package is not a prototype in the traditional sense of the word.

Conclusion

The purpose of this article is to address some of the implementation issues that may arise in the application of FASB Statement No. 86. It is hoped that the discussion of these issues will stimulate additional thought about the proper implementation of the provisions of the Statement. Ω



Michael T. Dugan, DBA, CPA (Louisiana), *is currently an Assistant Professor of Accountancy in the School of Accountancy at the University of Alabama. Dr. Dugan has had professional experience at Price Waterhouse & Co. and has previously taught at the University of New Orleans. He has had papers published in* Auditing: A Journal of Practice and Theory *and* Journal of Business Finance and Accounting.

Money — How Much Are You Worth?

By S. Jeanne Orr

This two-part article reprinted with permission of the Orange County Chapter, American Society of Women Accountants, Coast Communicator, *February 1987, and March 1987.*

PART ONE

How many of you feel that you're earning your fair share of compensation? Have you set salary goals for yourselves and then checked to see if you've met them?

Setting the goals may not be so easy, since accounting firms usually try to be very confidential about compensation issues. It seems the only salaries you hear about are those offered by "Big 8" firms for entry level, top of the line, straight-A Harvard MBAs, which may not apply to you or me.

There are other sources to check:

1. Employment agencies, although my experience tells me they're usually on the high side. (We welcome rebuttals, you chapter members from employment agencies.)
2. The California Society of CPA's *Management of an Accounting Practice* survey. For your information, following is some pertinent salary or earnings data from the 1986 survey:

(Ed. Note: Not all cities shown)

Category	All Areas	San Diego	Orange County	Citrus Belt	Los Angeles/ Long Beach
Starting salaries new full-time professional with degree and less than one year's experience Percent					
over $2,000	1.77	0.00	2.22	0.00	2.48
$1,700 to $1,999	9.61	2.70	12.22	4.76	12.41
$1,500 to $1,699	14.92	9.46	10.00	23.81	14.89
$1,300 to $1,499	8.18	22.97	4.44	19.05	4.96
Less than $1,300	3.43	4.05	2.22	0.00	1.77
None Hired	62.09	60.82	68.90	52.38	63.49
Starting salaries for CPAs with a degree and a minimum of 3 years experience					
over $3,200	2.35	1.35	2.33	0.00	2.12
$2,900 to $3,199	1.79	0.00	2.33	4.76	3.19
$2,600 to $2,899	2.80	2.70	0.00	4.76	4.26
$2,300 to $2,599	6.94	8.11	3.49	4.76	7.81
$2,100 to $2,299	3.47	4.05	1.16	0.00	2.84
$1,700 to $2,099	5.26	10.81	4.65	9.52	1.77
Less than $1,700	0.45	1.35	0.00	0.00	0.00
None Hired	76.94	71.63	86.04	76.20	78.01

	For Small (< $100,000 fees) Individual Calif. Practice	For Small (< $350,000 fees) Multi-Owner Calif. Practice	For Medium (< $350-$900,000) Multi-Owner Calif. Practice
Average "mean" net income for owners	$34,291	$48,137	$57,453

We wouldn't want to distort any conclusions one may draw from the above, but note that the highest % besides "None Hired" for Orange Country in both categories gives an almost identical salary range. Additional information from the CSCPA Survey was extracted as follows:

3. Firm hourly billing rate policy as a multiple of compensation. Often firms use a "rule of thumb" such as 2½ times to 3 times salary per hour or 2% of monthly salary.
4. Other salary surveys. AWSCPA published one a couple of years ago which I found quite depressing for working womankind. (Although, if women accountants really made so little, I should have been proud of my own accomplishments.) Check with local professional organizations.

I would strongly encourage you not to discuss salaries with co-workers. First, it's usually against company policy and second, it may cause hard feelings or discontent either from you or the co-worker sharing the information.

These are just a few comparison sources, usually defined by number of years "on the job." Many other

factors should also be considered, such as quality of experience, level of responsibility, client "P.R." skills, ability to enhance firm profitability, etc.

PART TWO

Seven years ago was the last time I had to ask for a raise. It may seem like ages ago, but it was a real turning point for me in my life-long search for self-confidence, thus I have not forgotten any of the details.

The CPA firm I worked for as an audit supervisor was quite progressive and had emphasized since day one that neither salary nor position in the firm was based on seniority. Therefore, when it was time for my third annual salary review, after having supervised six major concurrent audit engagements with as many different in-charge accountants, brought a good-sized quality client into the firm, met all my goals from my previous review and worked enough Sundays to make me sacrilegious, I WAS READY.

As women often do, I prepared myself endlessly with research and salary surveys and decided to go way on the high side. I rehearsed what I was going to say and, of course, when I said it, I got the hugest closed-mouth stare you can imagine from the audit partner. He argued that 3-4 year people at Alexander Grant didn't get that much. And I said, great, because I'm sure I have way more responsibility than a 3-4 year person at Alexander Grant. It went on and on. We took a 24-hour recess before we finally decided to take it up with the managing partner. After another marathon session and another night's sleep on it, they asked me if I was sure I wouldn't be happy with anything less. I confirmed. They complied. I was happy.

Since I've been a partner at Orr and Beck and have been on the other side of the salary-setting process, I've made a few observations regarding the subject matter. First, the salary I was asking for way back then wasn't so out of line.

Let me preface my second observation with a couple of statistics as food for thought: The Orange County Register two weeks ago reported that women still earn 64% of what men earn. They did not define any category of professionals or executives, but were very general in reporting the statistic. The Wall Street Journal recently reported that surveys of corporate officers indicate that men earn an average of $215,000 a year, compared to $116,810 for women, even though they put in the same 55-hour weeks. OK, OK, we all know by now that women are paid less than men across the board. (No one ever specifically identifies accounting firms, but why should they be any different?)

So, my second observation is that not only are profit-motivated employers seeking to pay less for an equally-qualified candidate, the equally-qualified candidate must be willing to accept less. That is to say, women seem to ask for less. WHY??? I don't have an answer, but I do have a few speculations:

- Women's lack of confidence or self-esteem, which contributes to an inability to first of all know what they deserve, and secondly, an inability to market themselves properly or fight for it.
- (I HATE this one) Women's lack of need. Perhaps their husbands are earning a substantial amount, so there is not a real hunger experience (hunger can mean as in "I hunger for a 300ZX"). Another quote from the "Wall Street" regarding a study of pay perceptions: "Employed wives feel less underpaid the more their husbands earn. This reflects the traditional view that the husband should be the principal breadwinner, Prof. Mirowsky suggests."
- (I HATE this one even more) Husband's discontentment with wife earning more. Again from the Wall Street, "having a wife earn more can be a problem that some male workers — especially older ones — may find difficult to abide . . . a wife's pay can be a serious problem that might very well be an important criterion in whether the husband should be hired."
- Different priorities between men and women. I believe women generally care more about working in a comfortable environment, doing good technical, challenging work vs. being in a high-stress, higher-paying environment.

I would like to see women asking for comparable pay. We've got to be convinced it's the right thing to do; we have to know what comparable pay is; and we have to develop that fighting spirit!

Look around . . . forget about seniority . . . review your performance . . . emphasize your successes . . . determine how the firm will be more profitable by paying you well . . . GO FOR IT! Ω

S. Jeanne Orr

AWSCPA
1987-88 Nominated Slate

President (elected March 15, 1986 for term starting July 1, 1987)
Varley M. Simons
President-elect (President 1988-89)
Diana L. Scott
Vice President — Affiliated Groups
Nancy O. Tang
Vice President — Members at Large and Forming Groups
Maryann R. Correnti
Vice President — Member Visibility and Professional Development
Deborah J. Whitmore
Treasurer
Mary Ann Merryman
Secretary
Teresa M. Davis
Regional Directors
Linda L. Allen
Betty Foster
Susanne E. Griesemer
Sandra A. Mayer
Lois A. Remis
Mary P. Shepard
Joyce M. Simon
Evelyn L. Wertz

As provided in the bylaws, Elizabeth Pozzi will become Director Ex-Officio of the 1987-88 Board of Directors.

ASWA
1987-88 Nominated Slate

President (elected April 25, 1986 for term starting July 1, 1987)
Mikki Folsom
President-elect (President 1988-89)
Patricia Morgan
Vice Presidents
Peggy Dodd
Sharon Lovell
Gayle Powelson
Secretary
Debra Ann Donaghy
Treasurer
Rachel Query
Directors (elected April 25, 1986, serving the second year of a two-year term)
Marlyn Covelli
Joyce Johnston
Dolores McCarley
JaNet Rogge
Theodora Sherman
To fill unexpired term of Peggy Dodd
Fay Von Gemmingen
To serve two years, July 1, 1987 - June 30, 1989
Nancy Drago
Alice Gorman
Mary Roensch
Marilyn Vito
Phyllis Wheeler
Immediate Past President
Gail E. Schiffer

REVIEWS

Editor:
Jewell Lewis Shane, CPA
Lewis-Shane CPA
Cincinnati, OH 45202

Commit to Quality by Patrick L. Townsend with Joan E. Gebhardt, John Wiley & Sons, Inc., New York, 1986, 189 pp., $19.95.

Many books have been written on achieving quality in industrial organizations, but Patrick Townsend's *Commit to Quality* is unique in its focus on the service organization. Tom Peters, well-known co-author of *In Search of Excellence*, says in the "Foreword" that *Commit to Quality* "is to my knowledge the **sole** analysis which deals specifically and exclusively with a service industry."

"The good news," writes Townsend, "is that not only is it possible to achieve quality in a service industry, it is also possible to measure it."

Although one can easily become entangled in the look-alike titles used to describe the teams and process, *Commit to Quality* is an exciting account of how quality is being achieved and measured by The Paul Revere Insurance Company of Worcester, Massachusetts, through a process it calls "Quality Has Value."

Formally launched on Friday, January 13, 1984, The Paul Revere's Quality Has Value process generated annualized savings of $3,250,000 in 1984 and $7,459,531 in 1985.

Quality for The Paul Revere, however, means more than the bottom line. "Quality in Fact" and "Quality in Perception" were identified as two distinct types of quality. The company's objective was not just superior service, or Quality in Fact; The Paul Revere recognized the need for the customer to perceive and believe its service to be superior. The company labels this latter concept Quality in Perception.

"Customer" as defined by The Paul Revere Company means any person to whom a service is provided. This includes the ultimate user of the company's services, but it also includes the user of any service within the organization. "If each person in the linked chain of quality treats the next person as a valued customer, the inevitable result is quality, in both senses of the word," contends Townsend.

The Paul Revere was not a struggling organization groping for survival when it instituted its Quality Has Value process. It was a successful, profitable company, seeking "to better its competitive position and to build the morale of its employees."

The Quality Team approach apparently grew out of the idea of the well-known "quality circle" concept developed in Japan and adopted by industries in this country; however, Townsend clearly believes the Quality Team approach to be superior and devotes considerable space to distinguishing between and comparing the two.

The Quality Has Value process uses a non-voluntary approach. (From its inception at The Paul Revere, everyone — from the president to the most recently hired employee — became a member of a Quality Team.) These teams have not only the capability of identifying areas they feel need change but the authority to make the needed change as long as it meets the goal of Quality in Fact or Quality in Perception. All employees can be involved in the decision-making process. This was a revolutionary approach for The Paul Revere but one Townsend believes to be essential to the success of the quality process.

To alleviate fears of loss of employment, management assured employees from the start that no one would be terminated because of the quality process. (If a job is eliminated, the employee will be offered another job "at the same or higher level within the company.")

The enthusiastic involvement of the employees is inspiring. They are encouraged to use their knowledge and talents to better the services and the working environment of The Paul Revere and then are rewarded for doing so through awards, recognition, and celebrations.

Patrick Townsend was hired by The Paul Revere as "Manager — Organization Development" and became director of Quality Team Central, a key role in the Quality Has Value process.

Townsend has a comprehensive understanding of Maslow's hierarchy of needs. He recognizes that people are reaching upward to higher levels of needs, but he also realizes that the lower levels of needs must be met. Using this knowledge, he and his team designed a varied and flexible plan of awards and recognition to express gratitude and, at the same time, to motivate employees. ". . . As long as a company insists on including human beings on its payroll," he says, "saying thank you will be necessary if superior performance is to be sustained . . . . For some, the thank you will be heard in the gift; for some, it will come in the presentation of the gift; and, for still others, it will come in the publicity announcing the award of the gift."

The spectrum of rewards ranges from gold awards to a plaque which entitles the recipient to park in the parking area closest to the building — an especially prized award during the winter months. Bronze, silver, and gold awards are given to team members when they reach predetermined goals based upon the number of ideas actually implemented. Participation ran so high during the first year that new goals were set for "Double Gold Teams," and before the year ended one team reached "Triple Gold Team" status.

But could this momentum be maintained? In 1985, the second year of Quality Has Value, not one, but 12 teams became "Triple Gold Teams." More awards were added until finally one team earned "Septuple Gold Team" status. Townsend's enthusiasm is so contagious that one wants to ask, "How are we doing in 1986, Pat?" For the long-term, however, the question of whether the momentum can be maintained waits to be answered.

In two years, The Paul Revere has become "a strong company, a better place to work" because of the Quality Has Value process. The company has increased profits, and it has accepted, utilized, appreciated, and rewarded the ideas and talents of its employees. It is exciting to visualize the new self-worth and higher visions and goals that have resulted.

Commit to Quality is written about a service organization, but it is relevant for all organizations. It is written by someone who clearly understands and believes in the Quality

Has Value process — a process the author believes to be adaptable to any organization willing to make the commitment.

Tom Peters says of *Commit to Quality:* "Read it for its philosophy, read it for its practicality, and then get on with it."

Gaylah R. Cantrell

Information Technology and the Accountant by J.G. Carr, Gower Publishing Company Limited, Gower House, Croft Road, Aldershot, Hants GU 11 3 H R, England, 1985, $89.95.

Information Technology and the Accountant presents the results of the twelve-month Information Technology Accountancy Study jointly sponsored by the Chartered Association of Certified Public Accountants and the Department of Trade and Industry in Great Britain. Although the study was conducted in Great Britain, its observations can be applied equally well to situations in the United States.

The study sets out to examine the effect of information technology on such issues as:

- The role of the accountant, both in the present and in the future
- Emerging opportunities for accountants
- Changing employment patterns
- Implications for professional education and skills training

The study consists of an analysis of current technology, case studies of leading organizations and a broad-based survey of individual accountants. The existing scene is thoroughly explored through these means, and ways of adapting to change are presented.

The data developed by the study teams has been organized under three main topics: Organizational Studies, Membership Survey, and the Technological Future.

Organization Studies

Case studies are used to investigate the extent to which different industries are utilizing modern computer technology to enhance the efficiency and productivity of office procedures.

According to the study, one of the most interesting trends in employment patterns in the 20th century is the rise in the number of information workers. Information workers are "those whose primary occupational task is the production, processing, or distribution of information or the infrastructure support for those tasks." Information workers are generally known as "office workers." Although the number of office workers has continued to rise, it appears that very little evidence of any significant improvement in office productivity can be discerned. The team concludes that to remain competitive, companies must bring the growth of office staff under control. It is believed that providing more information technology support will result in increased office productivity and fewer employees.

Membership Survey

As part of the study, a postal survey of 344 Certified Accountants, representing every section of the profession, was conducted. In this section of the book, the results of the survey are presented in a series of tables in statistical fashion. In addition, this section examines how effectively accountants in all areas of the profession are dealing with the information technology revolution and how the accountant envisions his role and function in the 1990's.

The membership survey revealed that while accountants recognized the importance of an understanding of information technology in their work, only 49% felt their current understanding of computer hardware to be sufficient. The difficulty of obtaining the necessary knowledge and skills was emphasized by survey participants, and this response indicated that programs to provide education and training in these new areas are of critical importance. Recently-trained accountants already have, and will continue to have, a real advantage over older accountants in this area.

The Technological Future

This section of the study examines the future technological scene in terms of hardware, software, applications and patterns of implementation. Along these lines, among the more interesting conclusions reached by the study team are the following:

1. Presently, almost 50% of the British workforce can be categorized as "information workers." By providing information workers with more information technology, it should be possible to quadruple office productivity by the 1990's.
2. Since the typical accountant spends 81% of his/her time on information-related activities, gains in productivity of up to 18% for professionals using information technology have been predicted.
3. The following trends will continue to grow in importance:
   a. Price/performance ratio of equipment will continue to improve. Hardware will become more compact and reliable. Software will be easier to use.
   b. Personal computers will proliferate, and the level of computer skills in the general population will continue to rise.
   c. Improvement and expansion of communication facilities will lead to more flexible working arrangements, including the possibility of working from the home.

This study provides a useful overview of the relationship between the accountant and information technology. While industry is beginning to understand and profit from the enormous potential of the technology, many individual practitioners are lagging behind. Obtaining the necessary education and skills is crucial for older members of the profession, for a new class of professional accountants is emerging. These "systems accountants" combine accounting and computing skills, and their services are already much in demand. The study is important reading for those who are seeking to understand the current situation and attempting to prepare for the future.

An abridged version of the study, *Information Technology and the Accountant — Summary and Conclusions,* has been published in paperback form for those who find this format more convenient.

Susan S. Ebersole

The Woman CPA Manuscript Guidelines

Content

Articles should be relevant to the field of accounting with focus on accounting theory and practice, tax theory and practice, auditing, and other specialized areas related to accounting. Most of the articles should be of broad interest to accountants in public practice, industry, government, education and other fields, although some may relate to specific industries or techniques.

Wanted are more articles of a practical nature that offer guidance in complex situations, or help resolve questions arising in practice or offer insight to hidden problems. Articles should be of immediate interest or applicability although some space is dedicated to theoretical discussions.

Format

All manuscripts should be typed on one side of 8½" × 11" paper and be double-spaced, except for indented quotations, footnotes, and references. As a general rule, manuscripts should be as concise as the subject and research method permit. Margins should be at least one inch to facilitate editing.

The cover page should contain the title and author's name.

When not in lists, numbers from one through ten should be spelled out, except where decimals are used. All others should be written numerically. The manuscript should be written in third person and in nonsexist language. Articles by one author should not employ the editorial "we."

A helpful guide to usage and style is *The Elements of Style* by William Strunk, Jr., and E. B. White. It is published in paperback by Macmillan Publishing Co., Inc.

Length

Manuscripts of 2,000 to 3,000 words (eight to twelve typed pages) and no more than two tables are a good length. However, manuscripts should not exceed 4,000 words exclusive of tables or other illustrative material.

Headings

All headings should be flush left with the margin, with initial capital letters. Subheadings should be placed flush left with the margin, and underscored, with initial capital letters. If third-level headings are necessary, they should be indented the same as a paragraph indent, underscored, with only the initial letter of the first word capitalized, and followed by a period with the text following immediately.

Tables and Figures

Each table and figure should appear on a separate page and bear an arabic number and a title. A reference should appear in the text for each table or figure.

Literature Citations

Footnotes should not be used for literature citations. Instead, the work should be cited by the author's name and year of publication in the body of the text in square brackets, e.g., [Armstrong, 1977]; [Sprouse and Moonitz, 1962, p. 2]; [Hendriksen, 1973a]. Citations to institutional works should employ acronyms or short titles, where practical, e.g., [AAA ASOBAT, 1966]; [AICPA Cohen Commission Report, 1977]; [APB Opinion No. 15]; [SFAS No. 5]; [ASR No. 191]. If an author's name is mentioned in the text, it need not be repeated in the citation, e.g., "Armstrong [1977, p. 40] says . . ."

If a reference has more than three authors, only the first name and et al. should appear in the citation. In the list of references, however, all of the names must be shown. As indicated in the Hendriksen citation, above, the suffix, a, b, etc., should follow the year when the reference list contains more than one work published by an author in a single year.

When the manuscript refers to statutes, legal treatises or court cases, citations acceptable in law reviews should be used.

Footnotes

Textual footnotes should be used for definitions and explanations whose inclusion in the body of the manuscript might disrupt the reading continuity.

Numerous footnotes and citations do not necessarily make for a better article and are not an indication of thorough research.

Reference List

When the manuscript cites other literature, a list of references to follow the text must be included. Each entry should contain all the data necessary for identification. The entries should be arranged in alphabetical order according to the surname of the first author. Institutions under whose auspices one or more works without authors have been published should also be shown in alphabetical order. Multiple works by the same author(s) should be listed in chronological order of publication. Samples of entries are:

American Accounting Association, Committee to prepare a Statement of Basic Accounting Theory, *A Statement of Basic Accounting Theory* (1966).

American Institute of Certified Public Accountants, Report of the Study on Establishment of Accounting Principles, *Establishing Accounting Principles* (1972).

Sprouse, R.T., "Accounting for What-You-May-Call-Its," *Journal of Accountancy* (August 1966), pp. 45-54.

Submission of Manuscripts

Three copies of each manuscript should be submitted. Manuscripts should not be submitted elsewhere. Previously published materials should not be submitted.

Manuscripts should be sent to the Associate Editor, Manuscripts, as listed on the table of contents of each issue.

All persons submitting manuscripts will receive a letter of acknowledgement. Manuscripts are blind refereed and the process takes one to two months. Authors will be notified concerning acceptance, recommended revision, or rejection of their manuscripts. Manuscripts will not be returned unless preaddressed, stamped envelopes accompany the submissions.

Acceptance rate is approximately thirty percent. The author(s) of an accepted manuscript will be asked to sign a "permission to publish" form.

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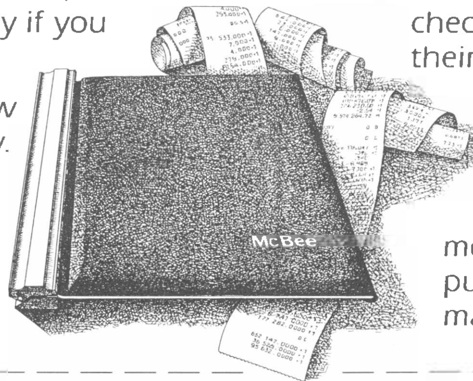

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Alfred M. King, *National Assn. of Accountants*

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