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Financial Manager's Report, March 1995

American Institute for Computer Sciences

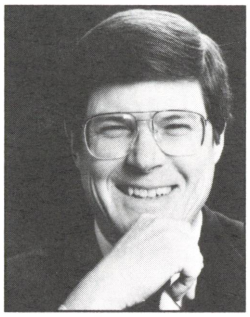
THE FINANCIAL MANAGER'S REPORT

A Periodic Update for CPAs in Business & Industry ■ March 1995

Join Us In Palm Springs for the National Industry Conference!!!

Spring is just around the corner and so too is the **AICPA 1995 Spring National Industry Conference.** The conference is sponsored by the Industry CPE Liaison Subcommittee of the Members In Industry Executive Committee and will be held **May 4–6, 1995, at The Stouffer Esmeralda Resort in Palm Springs, California.**

The Spring '95 program will follow the same successful format as prior Fall and Spring National Industry Conferences. Within a two and one-half day period, you can earn up to **21 hours of CPE credit** by attending eight concurrent sessions and one forum. The conference sessions cover a variety of topics and were chosen to address the expanding business and educational needs of CPA financial managers.



Morton Kondracke

The featured speakers in Palm Springs will include **Dr. Charles Dwyer** of the Wharton School, who will open the program with his moving and enlightening session on **"Self Design." Muriel Siebert,** President of Muriel Siebert & Co., Inc., will share her views on Technology, Regulations and the Securities Industry. **Mort Kondracke of the McLaughlin Group** and *Roll Call* magazine will give us "A View From Washington." This spring's program also features the return of **Dr. John Shank** from Dartmouth College, who will present "Strategic Cost Management — A Value Chain Perspective." **Mike Harnish** of Lotus will conduct a very special session on Lotus Notes entitled "The ENTERPRISE of Tomorrow — To Boldly Go Where No Business Has Gone Before."

Concurrent session topics will include: **How To Avoid Becoming Roadkill on the Information Superhighway; Managing People; The Role of Strategic Performance Measures in Business Analysis; Helping Senior Management Get More Out of Their Financial Statements; How To Sucessfully Integrate Your Business and Finance Function; How to Get More Stress Into Your Life** and **How To Make Economic Value Added (EVA) Work,** just to name a few.

Muriel Siebert

We will continue to have our networking breakfasts, welcome reception on Wednesday evening and our fabulous Thursday evening cocktail reception. This year we will be saying **"HOORAY FOR HOLLYWOOD"** so don't forget to bring your camera and autograph book. **NEW!!!** This year is the **AICPA NATIONAL INDUSTRY CONFERENCE GOLF TOURNAMENT** which will be held Saturday, May 6, immediately following the close of the conference. Keep this in mind when you make your plane reservations and don't forget your clubs.

Another very special moment at this year's conference will be the presentation of the annual **AICPA OUTSTANDING CPA IN BUSINESS AND INDUSTRY AWARD.** The Members In Industry Executive Committee developed this award to properly recognize the achievements of the CPA employed in business and industry and to promote the CPA designation as the premier professional credential for financial managers. The award will be presented during Thursday's luncheon and we hope to see all of you there to help us honor this distinguished individual.

We think you will find this program to be very exciting, timely and informative and we look forward to seeing you in Palm Springs.

For a conference brochure, or further information, please call the AICPA Meetings and Travel Department at (201) 938–3232.

Don't Ignore Potential Savings/ Take Advantage of Postal Discounts

by Jack Davis, CCS Group, Inc.

Postal rate increases always cause business mailers to search for ways to cut back on their mailing costs. One strategy might be to stop mailing those letters, cards, bills and checks to reduce the cost, but as of yet, no one's invented a better or cheaper method to physically deliver paper documents across town or across the country than the U.S. Postal Service. In fact, the use of the mail has jumped substantially for two years in a row to a total of 177 billion pieces last year.

The new 32¢ stamp is both bad news and good news. The good news is that the incentive discounts for correctly prepared letter mail have gone up too.

The Postal Service is striving to convert mail to an electronic sorting process that speeds its delivery and reduces cost. Correctly addressing your mail for machine sorting drops their cost from a present $21 per thousand letters down to $3 per thousand. Only about half the mail

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AICPA Promotes Subchapter "S" Improvement Proposal

Should Congress improve Subchapter S of the Internal Revenue Code to make S corporations more available and more useful for small business? A proposal supported by the AICPA calls for such a change.

BACKGROUND

Following enactment of the Tax Reform Act of 1986, many businesses opted to change their tax status from the traditional two-tier system of corporate taxation to the single-level tax permitted by subchapter S. Currently, over 1,600,000 corporations file as S corporations. This is more than 44% of all corporations that file tax returns.

Subchapter S is only available for certain corporations that can meet sharply defined requirements such as a maximum number of shareholders, a single class of stock, and certain types of shareholders. These strictures make subchapter S more complicated to use, foreclose certain types of financing vehicles, necessitate unnecessarily complex corporate structures to manage liability concerns, and create a number of "traps" which business owners can unwittingly fall into with serious tax consequences. These problems make subchapter S less useful for small businesses. Also, many CPAs have found the rules for subchapter S to be unnecessarily complicated.

Since 1992, the AICPA has worked with members of the American Bar Association's Section of Taxation (ABA), and the U.S. Chamber of Commerce (the Chamber) to develop a proposal to modernize subchapter S. The S Corporation Reform Act introduced last Congress in the Senate and House of Representatives incorporated many of the proposals developed by the AICPA, the ABA, and the Chamber. They included the following:

- Increase the allowable number of shareholders from 35 to 50;
- Aggregate members of one family so they can be counted as one shareholder;
- Permit tax-exempt organizations, such as pension funds (including ESOPs) and charities, to own shares of S corporation stock;
- Expand "safe harbor debt" to permit convertible debt, and permit venture capitalists and lending institutions to hold safe harbor debt;
- Expand the types of trusts that can own S corporation stock;
- Remove tax traps by permitting the Secretary of the Treasury to treat invalid elections as effective and by providing for automatic waivers of certain inadvertent terminations; and
- Change the S corporation laws so that S corporation shareholders are treated the same as owners of regular corporations with respect to fringe benefits. The legislation received broad, bipartisan support, but was not passed before the 103rd Congress adjourned.

RECENT ACTION

Subchapter S reform legislation is expected to be reintroduced early in the 104th Congress. S corporation reform proposals were not included in the House Republicans' *Contract with America,* but such provisions could be considered as part of a second tax bill later this year.

The AICPA strongly supported the S Corporation Reform Act in the last Congress and will continue its fight to modernize subchapter S. Last Congress, AICPA Key Persons[1] were called on to ask their representatives to cosponsor the bills and to explain what S corporations are, how they operate, and what the bills would achieve. Once the legislation is reintroduced in this Congress, we likely will ask Key Persons to help us reach Congressional members again. We anticipate that odds of passage in this Congress are good.

For more information on Subchapter S reform, write to Thom Fritz, Technical Manager, AICPA Tax Division, 1455 Pennsylvania Avenue, NW, Washington, DC 20004–1081. Please include a phone number where Thom can reach you.

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[1]***The Key Person Program** is utilized when it becomes important to make Congress aware of the profession's position on legislative issues. Federal key persons are CPAs with close personal and/or professional relationships with elected members of Congress. For more information on the Key Person Program, write to John Sharbaugh, AICPA Vice President, State Legislation and Legislative Relations, 1455 Pennsylvania Avenue, NW, Washington, DC 20004–1081.*

The Financial Manager's Report is a publication of the AICPA Members in Industry Executive Committee and is mailed four times per year to all AICPA members in industry as an insert to *The CPA Letter.* Opinions of the authors are their own and do not necessarily reflect policies of the Institute.

The Committee and Staff welcome your input on ways to make FMR *more responsive to your needs. Please address comments in writing to AICPA, Industry Member Programs, 1211 Avenue of the Americas, New York, NY 10036–8775.*

The Power of Non-Financial Information

by Nat Goodman

First class accountants should not relegate non-financial information to a second class status.

Companies are stating their objectives more in terms of long run competitive relationships for customers. Business Process Reengineering has concentrated on linking processes with real outputs in terms of the customer. Consequently, many companies have modified their traditional measurement emphasis on return on investment, return on sales, etc. as they recognize that view as being too short term. They understand that a reduced investment in areas such as training, morale- builders, innovative product development, quality, safety, health, software development, image advertising, preventive maintenance, distribution pipelines, customer service and system development programs can increase quarterly earnings but may not be in the long run competitive interest.

There is a trend toward longer term measurements and away from the 1970s–80s emphasis on the short term. American companies have studied the Japanese, who have always regarded market share as important as ROI; although many U.S. firms will criticize their focus as too long term and investor-market insensitive.

Traditional measurements stressed financial goals. Accordingly, the financial manager was designated the ultimate scorekeeper. Now with redefined goals, data covering customer service, employees and system development are receiving an increased focus. However, in many companies, these reports are coming from marketing and operations — not finance.

Unfortunately, the financial staff has been generally viewed as treating customers, employees and systems as secondary abstractions — not bottom line items. Finance concentrates on the income statement, balance sheet, and the statement of cash flows while marketing determines how customers behave and operations primarily focuses on costs. Traditionally, the CEO evaluates each function's agenda in a competitive arena. The strongest, most influential, or most vocal function frequently wins and their issues are promoted at the expense of the others. This behavior is not in tune with the nineties!

As non-financial data becomes increasingly meaningful, financial managers will lose influence unless they radically change the way things are done. The gains of the past two decades that liberated accountants from *green eyeshades* could be reversed.

Let's review a simple example, the process/cost of employee training. As part of the monthly financial package produced on the 7th workday, the financial manager releases human resource department costs. Financial reports reveal that expenses were a *whopping* 32% below budget. This positive information results in applause for HR. Three weeks later, HR produces a report stating that the level of training has significantly eroded. Readers become concerned! Revoke the applause at the beginning of the month and invert optimistic impressions during the past three weeks! To evaluate the data, executives have to recall the positive cost information and relate the diminished state of training. The bottom line is that data in a vacuum does not provide the reader all the relevant facts and more specifically the trade-offs.

If the financial manager would report the status of training relative to HR costs, the user would be much better informed. Furthermore, reengineering gurus would argue that HR expense tells about the functional organization and does not relate to the processes that should drive companies. Reporting costs and outputs of processes/subprocesses that HR performs or participates in namely: recruiting employees, developing employees, compensating employees and providing employee information is more appropriate. Consequently, the process of developing employees should be reported separately and related to the state of training.

Nowhere are trade-offs more consequential than those affecting the customer. All levels of management constantly attempt to optimize the delicate balance between service and cost. Accountants must enable managers to evaluate the results by providing the complete picture.

When financial managers incorporate non-financial key performance indicators into the professionally-prepared monthly financial package, these elements acquire added prestige, credibility, and significance. In the past this data may have been prepared by marketing or operations on an *ad hoc* basis without the benefit of finance's discipline, objectivity and analytical resources.

Typically, finance departments are not popular organizations among lower level employees due to their bureaucracy and their orientation. Employees view finance as primarily serving senior management due to their financial reporting responsibility. Lower and many middle level associates identify more strongly with customers, employee programs and systems than income statements, balance sheets and statements of cash flows. Today, we are reengineering our companies to empower and unify our workforce in cross-functional teams. Finance can achieve a higher level of acceptance in an enhanced atmosphere of teamwork through greater involvement with customers, employee programs, system development, etc.

In order to become a more effective business partner, financial executives must involve themselves more in non-financially strategically-linked factors; report and analyze relationships between financial and non-financial objectives; and finally, monitor the company's progress toward total goal achievement.

Nathaniel Goodman, CPA, *is a pioneer in business process reengineering, is president of an independent management consulting firm. He has 26 years of diversified operational and financial management experience which include comptroller for Sears Roebuck de Mexico and controller for Hartmarx Specialty Stores. He is a featured speaker at the Spring National Industry Conference.*

AICPA/THG Benchmark Study Reports Updated Conclusions

Finance costs are dropping quickly, as companies make a concerted effort to eliminate unnecessary activities, streamline their organizations and leverage technology.

According to updated results of the AICPA/Hackett Group Benchmark Study of Finance released in December, the overall cost of finance has declined 32% since 1988 when it was 2.2% of revenue. On average, it now costs a company 1.47% of its annual revenues to provide financial services. This includes processing of basic transactions such as payables, payroll and receivables, as well as management reporting, budgeting and activities like tax, treasury and financial analysis. The cost of these functions as a percentage of revenue ranges from 0.5% to 7.1% among companies participating in the study.

Since the study findings were last analyzed, one year ago, finance staffing has decreased 10%, mostly in the processing of transactions. The average fully loaded (labor, systems and overhead) cost per finance employee is $92,000, up from $88,000 — validating a shifting employee skill mix from transaction processing to the higher-value activities of control and risk management, and decision support.

Similarly, the percentage of labor devoted to lower value-adding activities dropped in 1994 from 86% to 84%. The fourth quartile in the database has more than seven times more employees involved in transaction processing than the first quartile, an increase over the prior year. While total numbers have dropped in each quartile, first quartile performers have made proportionally more progress than fourth-quartile companies.

With respect to best practices, the study indicates that there still is plenty of room for improvement. Only 14% of companies are able to close their books in fewer than four days. The average is 6.8 days, and an additional four days are required to produce the monthly reports. Only nine percent of companies do a hard close of their books on a quarterly basis. The companies in the study take almost four months to prepare their budgets, with the average being 106 days, a drop of six days since the data was examined a year ago.

The number of accounting systems per billion dollars of revenue has declined from 75 to 52 between the 1993 and 1994 studies of the data. Given the average age of these systems – 6.6 years – many companies in the study are due to update and replace numerous systems.

Spans of control are increasing for all business processes, and stand at 1:6 on average. This signals the trend towards flattening organizations. Turnover averages approximately 10% annually.

Close to 500 companies are now participating in the benchmark study. About two-thirds of participants are in the manufacturing sector, while one-third are service businesses. A wide range of industries and all sizes of companies are represented. Finance staff sizes range from fewer than 100 to nearly 14,000. 1994 averages are based on 65 companies with completed data submitted at the time of the study. 1995 averages are based on 144 companies with completed data. In 1988, 15 companies had submitted completed benchmarking data that was used to calculate averages.

The study collects data across 27 processes organized into three broad categories of transaction processing, control and risk management, and decision support. Stringent process definitions enable solid comparisons to be made between different sizes of companies, and across industries. Participants receive detailed reports comparing their performance to average and best-in-class in the database.

Companies with at least $50 million in annual revenues, and employing at least one AICPA member are invited to participate in the AICPA/Hackett Group Best Practices Benchmarking Study of Finance. **For additional information, contact John Morrow, AICPA Director of Management Accounting, on 201–938–3011.**

Take Advantage of Postal Discounts

Continued from page 1

being processed today lends itself to machine barcoding and sorting. To help fix that situation, all mail will be reclassified in 1996, meaning you can look for another change in the rules and the rates.

Any size business can benefit from a review of how their mail is being produced particularly from the standpoint of addressing. Most businesses consider deliverability more important than cost, so if you want to be sure your letters are delivered quickly, follow the new USPS addressing guidelines which make delivery addresses machine readable. The Postal Service reports that one-third of the mail they deliver contains errors in the address. Another 20% is printed too lightly or is handwritten, so that a machine can't be sure where to send it. Bad mail is diverted to hand sorting which slows down the delivery process and increases the cost.

Discounts are not just for large mailers. Computer matched addressing (Zip+4), clear unobstructed print, and proper envelope sizes are the secrets to speeding up delivery and minimizing postage costs. Many large companies and outsourcing services have been following these guidelines since automation discounts were introduced four years ago. If your business needs to cut its mailing costs it will take some effort to do it right, but you'll be surprised, maybe even shocked by the savings.

When doing bulk mailings of 200 pieces or more, be sure to send the list in digital form to someone who can do address correction, ink jetting, laser printing, and presorting. If you don't like the work, but still want the discounts, think about sharing the discounts with an automated mail presorting and processing service who can do it for you.

Computer people call it "Snail Mail," but even they have to depend on it to deliver hard copy documents to distant locations who are not connected to E-Mail systems or fax machines. Believe it or not, business mail is a growth industry. Call your local USPS Business Center for help and think about mail as one of your most important business communication tools . . . which is what it is.

***Jack Davis** is President of Cost Control Strategies Group Inc., in Leawood, Kansas. Call Jack at 913–491–1748 or write to CCS Group, Inc., 12208 Alhambra St., Leawood, KS 66209–2233.*

New & Noteworthy Self-Study for CPA Financial Managers

NEW: Investment Strategies for Risk: Derivatives, Options, Straddles and Other Hedges

This indispensable course clearly defines and explains new investment tools to help you knowledgeably analyze the advantages and pitfalls of each. Find out how to:

- Correctly use new financial instruments.
- Analyze the underlying risks.
- Estimate probable cash flow.
- Understand tax advantages and tax consequences.

Author: David B. Lippman, CPA, JD
Recommended CPE Credit: 8 hours
Course Format: Text (737052CLN) $119.00

CPE Now Offered Based on *Journal of Accountancy* Articles

CPE DIRECT, the AICPA subscription series that enables members to earn CPE credit for reading certain *Journal of Accountancy* articles and completing a study guide, is fast becoming a popular choice with the membership. Up to 24 hours a year may be earned at a cost of just $129.

The price includes four study guides, issued quarterly, which are based on designated articles in the three preceding monthly issues of the *Journal*. The articles will cover information on a broad range of subjects, including financial accounting, auditing, taxation, international business, consulting services and human resources. CPE DIRECT study guides will also contain other readings, checklists or practice aids to enhance members' insight. The study guides will be released in March, June, September and December.

To receive CPE credit, members need to read the designated articles, complete the study guide, answer the questions and return the answer sheet for grading. A passing grade affords the member an AICPA Certificate of Completion stating that the member has earned 6 recommended CPE credits in a specified field of study. Six credits in specified fields of study will be given each time a quarterly answer sheet is sent in, for a total of 24 credits. Since CPE requirements vary from state to state, please contact your State Board of Accountancy for information concerning your State requirements as to the number of CPE credit hours which you must earn and the acceptable fields of study.

Order now to receive the March 1995 study guide. CPE DIRECT (No. GO1051CLN) call the AICPA Order Department (give Operator Code CLN and AICPA membership number) or state CPA societies. Price: $129. Recommended CPE credits: 24 hours.

For more information on CPE DIRECT, call the AICPA's CPE Division 1-800-862-4272 (dept. #3).

NEW! The Computer-Ready CPA: Selected Readings

To keep you up to date on computer technology, this new course contains eight generous chapters crammed with all-new readings on:

- CPAs and computers — what's the competition using?
- Networking to save money.
- How to prevent computer disaster.
- The latest on computer telephony business.
- The best of what's new.
- Emerging CD-ROM services.
- Tips for choosing the best accounting software.

Recommended CPE Credit: 8 hours
Format: Text (730537CLN) $79.00

New! Environmental Alert Videocourse

This 2-hour video shows you the steps that you can take to minimize your company's risk of exposure to environmental liabilities. Highlights include:

- Major areas of environmental law and regulation.
- Areas of inquiry during financial audit or review.
- SEC environmental disclosure requirements.
- Elements of an environmental compliance program.
- Evaluating an environmental compliance program.

Moderator: John S. Guttmann, JD
Authors: John S. Guttmann, JD and Holly Cannon, JD
Recommended CPE Credit: 8 hours group study and self study
Format: 1 VHS Tape/Manual (180230CLN) $129.00
Additional Manual (350230CLN) $30.00

Produced in cooperation with the CPE Liaison Subcommittee of the Members in Industry Executive Committee.

Business Valuation Videocourse

Moderated by Shannon P. Pratt, an acknowledged authority in Business Valuation, this 2½-hour video is packed with valuable insights. Highlights include:

- Valuation approaches and methods
- Minority interest discounts
- Company analysis
- Comparative company data sources and criteria
- Professional standards
- Common questions. . . common errors

Recommended CPE Credit: 10 hours group study; 8 hours self study
Format: 1 VHS Tape/Manual (180010CLN) $194.00
Additional Manual (350115CLN) $50.00

To order: Call 1-800-862-4272 (dept. #1), fax to 1-800-362-5066, or write the AICPA Order Department, P.O. Box 2209, Jersey City, NJ 07303-2209. These courses are also available through your state society.

New Publication!! Mexico: A Business and Investment Guide

The first of a planned series of international business guides has recently been made available through the efforts of the AICPA Members in Industry Executive Committee.

NAFTA has put Mexico at the forefront of the international business scene. If your company is considering expanding into the Mexican market either through exporting or opening a facility south of the border, this new publication serves as an excellent general guide. Areas covered include:

- The emerging economy — the country and its people, political organization, education, an extensive discussion of the economic environment under NAFTA, copyrights, and much more.
- Communication and transportation — telecommunication, air, highway and rail transportation, press, etc.
- Foreign investment — regulations, real estate, required procedures.
- Forms of business organization — the standard corporate form, the limited liability company, branch of a foreign corporation, maquiladoras (in-bond industries), etc.
- Taxation — fiscal code, commercial and individual income tax.
- Employment — unions, employing Mexican management, labor regulations, mandatory profit sharing, and much more.

Look for information about future publications in this series (focusing on Canada, China and other countries) in future issues of FMR.

AICPA Order Department, **1–800–862–4272,** publication number **090301CJ.** Cost: **$10;** (nonmembers $11).

AICPA Seeks Industry Voices on Technical Issues

The AICPA, through its Industry Professional Issues Subcommittee (PIC) is establishing a pool of members in industry with a strong interest in and knowledge of professional and technical issues. The PIC, by establishing this resource, will be able to provide, to the Institute's technical committees, the names of volunteers for possible future service on AICPA task forces.

The length of assignments and time commitments will vary, depending on the assignment. AICPA policy generally permits reimbursement of travel expenses for task force members.

The PIC is particularly interested in members who work for companies that are **not** in the **$1 billion** (annual sales) club. According to Mike Bohan, PIC Chairman, "The perspective of the 'Fortune 500' company is well represented in the standard setting process. We are looking to get the views of companies large enough to employ a full-time professional accounting staff but small enough where their viewpoint has historically been underrepresented."

If you have the aptitude, the interest, and can make the commitment to work with the AICPA to have an impact on professional standards, fill in the form below and return to: Thomas J. Lemmon, CPA,
Sr. Technical Manager, Industry Member Programs,
American Institute of CPAs, 1211 Avenue of the Americas,
New York, NY 10036–8775

To be added to the database described above and considered for appointment to an AICPA technical task force, please complete all applicable portions of this form. Be specific and reply in as much detail as **space permits. Feel free to attach a maximum of two additional pages if necessary.**

(PLEASE PRINT)

BIOGRAPHICAL INFORMATION

NAME: ____
First Middle Last Member Number

FIRM OR ORGANIZATION: ______________________________

BUSINESS ADDRESS: __________________________________

If no business address please give home address) ____________

____
City State Zip Code

DAYTIME PHONE NUMBER (   ) ____________ EX: ______ Fax Number (   ) ____________

Company Size (annual sales) ☐ **>$1 billion** ☐ **$500 million to $1 billion** ☐ **$50 million to $100 million** ☐ **<$50 million**

Primary Industry of Your Company ____________________

Your title ____________________

I have responsibility for the preparation of external financial reports for review by ☐ CFO ☐ Controller ☐ CEO ☐ Other (Explain) ____________

State CPA Society membership and service (name, state and list officer and committee position, if any): ____________

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Other Relevant Committee Experience (e.g., IMA, FEI, trade association): ____________

COMMENTS: Any Additional relevant experience, pertinent background and qualifications for service on a technical task force or committee.

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Date: ____________________ Submitted by: ____________________