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**Activities
of the
Private Companies
Practice Section**

Reporter

Published by and for the Members of the Private Companies Practice Section of the AICPA Division for CPA Firms

Editor: John R. Mitchell

Committee Acts on Insurance and CPE Membership Requirements

What many regard as a crisis in professional liability insurance has resulted in a situation where a firm, through no fault of its own, could lose its coverage and therefore receive a modified peer review report. Accordingly, the Executive Committee has provided for emergency exemptions from the requirement that each member firm maintain a prescribed level of coverage.

Specifically, the Committee authorized the staff to grant a ninety-day exemption from the insurance requirement to any member firm that is making a good faith attempt to replace coverage that had met the requirement but was cancelled or could not be renewed. The SECPS Executive Committee subsequently authorized its staff to grant similar exemptions.

It is important to note that the exemption is not automatic. To obtain an exemption, a member firm should contact the staff of the section that administers its peer review.

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Member Services Committee Launches Member Information Manual; Announces Tax Planning Guide

In conjunction with this year's Conference the Member Services Committee (MSC) introduced two new services developed exclusively for PCPS member firms. The *PCPS Member Information Manual* provides a handy and concise source of reference about the PCPS and the services available to members of the Section and of the AICPA. The *Manual* was mailed to each member firm in late May, along with instructions for ordering additional copies.

In its present form the *Manual* is just a start. It will be supplemented regularly with new and replacement materials. The MSC will welcome members' suggestions for what should be included.

As initially distributed, the *Manual's* opening pages present basic information about the Section and rosters of its committees. The next part outlines the Division's public relations program, explains how member firms can help the program and at the same time benefit themselves; and

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Peer Reviews Conducted By PCPS Committee-Appointed Review Teams Cost Summary—1984 Review Year

Firm Description	Number of Firms	Average Number of Professionals	Cost Per Review		
			Low	Average	High
Sole Practitioner, No Professional Staff	8	1	\$ 878	\$1,303	\$ 1,768
2-5 Professionals:					
1 Partner	14	4	1,304	2,235	3,018
2 or more Partners	14	4	1,386	2,278	2,985
6-10 Professionals	38	8	1,494	3,059	5,335
11-20 Professionals	30	16	1,864	4,436	7,077
Over 20 Professionals	14	31	3,125	7,896	12,482

Notes:

1. Cost includes reviewers' time charges, AICPA's 10% administrative fee, and reviewers' expenses.
2. The 1984 reviews include all those conducted by PCPS committee-appointed review teams for which the costs were fully processed at the time of compilation. Cost information is not available for firm-on-firm reviews and those administered by state societies or associations.
3. Hourly billing rates for reviews of firms with less than 20 professionals and no SEC clients are \$60 for team captains, \$50 for team members who are partners or proprietors, and \$40 for other team members. For firms with 20 or more professionals and all firms with SEC clients, the rates are \$10 higher in each classification. (These rates are the same for 1985.)
4. PCPS member firms normally incur these costs once every three years.

TIC Comments on Attestation Standards, Scores Pension Changes, Urges OCBOA Guidance

For about two years the Technical Issues Committee has been following the development of a proposal that the AICPA issue a set of "attestation standards," designed "to provide guidance and establish a broad framework for a variety of new and evolving attest services [and] to ensure that the current and future expansion of attest services takes place in an orderly manner within professional guidelines that ensure consistency in practice and quality in the delivery of services." Attestation services are, briefly, those involving the accountant's written conclusion on an assertion by the client for use by a third party.

In its early deliberations, the TIC was strongly opposed to the proposal as it then seemed to be taking shape. A major concern was that while the standards would apply to both audits and reviews of financial statements, they were being developed and would be issued just by the Auditing Standards Board. The TIC was concerned that this would, at least implicitly, appear to subordinate the Accounting and Review Services Committee to the Board. Because of the A&RSC's special understanding of unaudited financial statements of nonpublic entities, the TIC believes it is essential to preserve that Committee's autonomy.

This was the most important of several concerns that TIC representatives and other interested parties discussed with the proposal's sponsors before the exposure draft was finalized. As issued in February, the draft is responsive to this concern, and the TIC's comment letter supports the draft. "We recognize," it states, "the need for attestation standards, and are pleased that the Accounting and Review Services Committee has joined in the issuance of the proposed statement. We strongly support that committee's role in the development of this broad framework for attest services and look forward to that committee's continued involvement with emerging attest services within areas affected by their charge." This is followed by specific recommendations for improvement in the details of the proposed standards.

ACCOUNTING FOR PENSIONS

Just as with the proposed attestation standards, the TIC had several opportunities to express their concerns about early versions of the FASB's March 22 proposals on employers' accounting for pensions. Here the similarity ends. The TIC objects to the exposure draft as issued. Its comment letter states that "We do not believe that the expected benefits of this proposed standard will be commensurate with the expected costs identified in this letter and urge the FASB to permit nonpublic companies that sponsor defined benefit pension plans with less than 100 participants to continue to follow the requirements of APB Opinion 8 and FASB Statement 36."

The letter points to the substantive differences between large companies' pension plans and those that small, nonpublic companies establish primarily to provide tax benefits for owner-managers. In the latter, pension charges are far more discretionary, and the proposed more cumbersome accounting for them would therefore do little to enhance comparability between companies or between reporting periods.

The TIC's letter identifies a number of specific cost increases that the proposed standard would impose, and points out that these costs will be proportionately greater in small companies than in large. It challenges the relevance of some proposed requirements to small nonpublic companies, and concludes that if the FASB rejects the suggestion that these companies be permitted to account for their pension plans as they do at present, "we encourage the Board to, at a minimum, allow a choice among acceptable alternative actuarial methods. This flexibility will alleviate some of the additional costs . . .," which are detailed elsewhere in the letter.

The FASB hopes to issue a standard on employers' accounting for pensions later this year. During the TIC's deliberations on the subject, it received a report that the FASB had tentatively rejected a recent proposal that it consider authorizing differential recognition and measurement for private companies' pension accounting.

ANOTHER COMPREHENSIVE BASIS

Earlier this year, after hearing that the AICPA might develop guidance on tax basis financial statements, the TIC agreed to urge the Institute, "in addition to providing guidance on tax basis financial statements, to consider developing an additional comprehensive basis of accounting other than GAAP." Since then, TIC representatives have discussed this recommendation twice with the AICPA's Accounting Standards Overload Task Force, a high level group composed of outstanding leaders of the profession. This task force is charged with monitoring the FASB's actions related to standards overload, and recommending "actions by bodies within AICPA . . . to reduce the realities and perceptions of accounting standards overload."

In order to develop information that would be helpful to the task force, and to the TIC itself, participants at the 1985 PCPS Conference were asked to express their views on the need for guidance on alternatives to GAAP, in the form of several straw votes reported on page 4.

By more than two to one, the Conference participants favored the AICPA's providing guidance on the tax basis of accounting, another non-GAAP basis, or both. By a ten to one margin they expected the income tax basis to be suitable for at least a few of their clients. Almost three-quarters of the respondents expected the alternative basis (as described in the straw vote question) to be suitable for at least a few clients. □

Samson, Stone and Jarrow Highlight the Fort Worth Conference

The evaluation sheets submitted by the Conference participants are an essential guide to those planning future meetings. At this year's PCPS Conference the participants rated "The Computer-Trained Professional—Today's Competitive Edge, Tomorrow's Necessity" first among the plenary technical sessions. It was presented by Thomas F. Samson of Arthur Young & Co., Dallas. The ratings of the subsequent breakout sessions on computer usage were somewhat uneven, apparently because of a wide variation in the individual registrants' prior familiarity with computer disciplines.



Thomas F. Samson (Arthur Young, Dallas) keynotes the Conference segment focusing on computer usage.

Other concurrent sessions focused on a variety of diversified CPA services. Two presentations almost tied for first place among the breakouts. The first was "A CPA's Day in Court—Litigation Support, A Profitable Service," presented by Marvin L. Stone, a former AICPA president whose practice is in Denver. Also very popular was "Personal Financial Planning—Formalizing an Informal Service," featuring Sidney Jarrow of Chicago's Doty, Jarrow & Co.

Traditionally, the member forums at the annual PCPS Conference have been billed as opportunities for registrants to air their views on PCPS and to discuss its activities with committee representatives. This year's forums were no exception.

The forums followed right after the plenary presentation "Communicating Excellence—A Public Information Program for CPA Firms," in which Donald P. Zima, Chairman of the Division's Joint Coordinating Committee, and Martha Sawyer, Vice President of Hill and Knowlton, Inc., the Division's public relations counsel, reported on the program's impressive list of accomplishments. Forum

participants' comments were particularly favorable, and indicated a broadly felt need for the program to continue actively. (Ms. Sawyer's presentation has since been mailed to all member firms.)

The forums also featured a series of straw vote questions designed to provide input to the leaders of the Section and the profession. Because the wording of the issues could have influenced participants' votes, the accompanying article presents the full text of the questions along with a tally of the responses.

For more detailed coverage of the 1985 Conference presentations, see the August *Journal of Accountancy*. □



AICPA Vice Chairman Herman J. Lowe (H.J. Lowe & Company, Baton Rouge) addressing the Conference on the PCPS role in a changing profession.

Orlando to Host 1986 Conference

The Eighth Annual PCPS Conference is scheduled for May 4-6, at the Hyatt Regency Grand Cypress, in Orlando. The Conference Task Force is planning a full technical schedule Monday and Tuesday, despite the many resort attractions. These attractions include the nearby Walt Disney World and EPCOT Center, a Jack Nicklaus golf course, tennis, racquetball and water sports, and a day care center that operates till 11:00 p.m. Many Conference registrants will probably plan to bring their families and spend a few extra days before or after the Conference. □



Conference Chairman Howard A. Mesh (KMG Main Hurdman, Miami) introducing the Texas CPA Society President Jimmie Lee Mason (Mason, Nickels & Warner, Lubbock), who warmly welcomed the Conference participants.



James J. Leisenring explains the FASB's Emerging Issues Task Force, which he chairs, as Auditing Standards Board Chairman David L. Landsittel (Arthur Andersen, Chicago) and AICPA Group Vice President-Professional Thomas P. Kelley listen. Also on the Technical Developments Panel were AcSEC Chairman Roger Cason (KMG Main Hurdman, New York), Professional Ethics Executive Committee Chairman Leonard A. Dopkins (Dopkins & Company, Buffalo), and Accounting and Review Services Committee Chairman Stephen D. Holton (Martin, Dolan & Holton, Richmond).

Member Forum Questions—And Answers

Here is the full text of the straw vote questions posed May 21 at the PCPS Conference member forums, and a summary of the votes.

Guidance on Alternatives to GAAP

Many CPAs believe that private companies need relief from certain requirements of generally accepted accounting principles (GAAP). Where only *disclosure* is involved (e.g., earnings per share, segment reporting) the FASB has responded by exempting nonpublic enterprises. However, where *measurement* standards are involved (as with accounting for leases or for deferred income taxes) it seems unlikely that private companies will receive any special relief within GAAP.

To provide some measure of relief, PCPS committees have recommended that the AICPA develop guidance on two bases of accounting other than GAAP—the income tax basis; and an alternative basis that would use existing GAAP as a starting point and then designate specific requirements that would be excluded from the new basis. Proponents maintain that the latter basis would be more suitable for medium size private companies than either GAAP or the income tax basis, and would be easy to master because it is based on GAAP.

Would you favor the AICPA's providing guidance on one or both such accounting bases?

Yes	183
No	88

If AICPA developed such guidance, would you expect these accounting bases to be suitable for your clients?

	Income Tax Basis	Alternative Basis
No	24	69
For very few	148	135
For quite a few	93	63

Postbaccalaureate Education Requirement

Since 1969 the AICPA has officially supported a postbaccalaureate education requirement that would require new CPAs to have, generally, a bachelor's degree plus 30 additional semester hours. Three states have legislated such a requirement.

Which of the following best describes your position on such a requirement?

Strongly favor	86
Probably desirable	102
Neutral	23
Probably not desirable	50
Strongly oppose	23

Publicizing Letters of Comment

Nine out of ten peer review reports are accompanied by letters of comment. In the SECPS these letters and the firms' responses are available for public inspection along with the peer review reports. Comment letters and responses are not available from PCPS files. This difference usually has to be mentioned in any discussion of the similarities of and differences between the peer review programs of the two sections.

Should the PCPS comment letters and responses be available for public information?

Yes, definitely	30
Yes, probably	38
No opinion	7
No, probably	98
No, definitely	88

Committee Acts on Insurance

Continued from page 1

The insurance situation continues to be a major concern of the Committee, which is monitoring Institute attempts to mitigate premium increases and to ensure that all member firms have access to the coverage they need. The crisis, however, continues.

Walter R. Stock, Chairman of the AICPA Professional Liability Insurance Plan Committee, wrote recently to some 14,000 policyholder firms, "Your committee wishes that it could tell you that the problems . . . have been resolved, but they have not. Capacity in our program to accept new business continues to be less than the committee would desire. . . . In addition, the continuing deterioration of our claims experience mandates that greater selectivity in underwriting risks be imposed . . . poor risks will have to pay more for their coverage; and some firms . . . may not be offered insurance in the plan at all. During this time, we have seen underwriters of a number of state society plans withdraw . . . or impose substantial premium increases . . . our goal continues to be to offer stable coverage at a fair premium . . ."

Several members have suggested that the PCPS establish its own "captive" insurance program. A preliminary consideration indicated that this approach would probably offer few benefits. A major problem is that, for their own protection, underwriters must reinsure some of their risks. Many of the current problems are a reflection of developments in the reinsurance market, which is a small one. Any new plan would probably have to turn to the same reinsurance market, where it would fare no better than the established plans.

CPE FOR SEASONAL AND PART-TIME PROFESSIONALS

Page 6-4 of the *Peer Review Manual* booklet states that "Professionals who were not employed during the entire most recent educational year being reported upon are not required to have participated in any continuing professional education." This clearly exempts seasonal personnel from the membership requirement, although licensed CPAs would still have to comply with applicable state requirements.

In the past, the staff has received a number of questions about professionals who work year-round but on a limited schedule—for example, a semi-retired partner or staff member, or a CPA who is also a homemaker. The staff has responded that the criterion cannot be the number of hours worked, but whether the person is considered a professional. This is a judgment made by the firm that depends on a number of factors. For example, the staff has expressed the view that a semi-retired partner whose activities are primarily client and community relations, and who does not perform any technical functions or provide technical counsel, would not be subject to the CPE requirements.

To clarify this for all member firms the Executive Committee recently adopted the following interpretation:

Member firms have a responsibility to adopt policies and procedures to provide reasonable assurance that all professional

personnel are properly trained. The nature and extent of training needed by part-time personnel depend on a number of factors, including the type of work they perform, the degree of supervision they receive, and the number of hours they work. A firm should be prepared to justify any decision not to require a part-time professional to participate in the required number of continuing professional education hours.

The SECPS Executive Committee subsequently adopted the same interpretation.

Member Services Committee

Continued from page 1

provides speech segments, sample peer review announcements, and other useful materials. The *Manual* describes the Section's Member Consultation Service, and outlines the many technical services that are available to all AICPA members. Another part highlights other AICPA services that are of particular value to local practitioners. Also included are summary information about the peer review program, an explanation of the AICPA's Tax Division and how to apply for membership, and samples of that Division's tax return checklists.

These materials will be supplemented and updated periodically.

TAX PLANNING GUIDE

All member firms have been notified about the *1986 Tax Planning Guide*, which the MSC first announced at the Conference. Designed as an attractive affordable goodwill-building giveaway, the *Guide* will be shipped by early November to member firms that order it promptly. This should enable firms to distribute copies in time for them to be most useful.

Actual production of the *Guide* is contingent on enough copies being ordered—by early August—for the project to be economically feasible. The *Guide* will be produced and published by the Research Institute of America (RIA), in close cooperation with the MSC. To make sure the contents are up to date, RIA will not prepare the text until the latest possible date consistent with the targeted shipping date.

The *Guide's* "boilerplate" will include, on the inside back cover, a brief message about the Division, its purpose, and peer review. There will be space on either side of the front cover for member firms to identify themselves by affixing a sticker or business card, or in some other way. The cover will be a glossy but dignified white, and the size will be just right for No. 10 envelopes.

Guides must be ordered in multiples of 25. The price (before freight or UPS charges) is \$1.50 each for less than 100 copies, \$1.25 for less than 500, \$1.10 for less than 1000, and \$1.00 for 1000 or more. For timely delivery, orders should be received by August 16. Orders should specify the *PCPS 1986 Tax Planning Guide*, and should be sent to the Research Institute of America, Inc., 589 Fifth Avenue, New York, NY 10164, Attention: National Accounts. All customers must be identified as PCPS members.

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