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Accountants (AICPA) Historical Collection

2-1991

PCPS Advocate, Volume12, Number 1, February 1991

American Institute of Certified Public Accountants. Private Companies Practice Section

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Activities of the Private Companies Practice Section.
Published by and for members of the AICPA Division for CPA Firms.
Editor: John R. Mitchell.



Annual PCPS Get-Together Set for May 5-8

PCPS members take pride in being among firms that rank at the top of the profession, and in being part of an organization that sponsors the AICPA's largest annual conference for members in practice. Registration is now open for up to 22 credit hours of partner-level CPE and the opportunity to share practice experiences with top partners of PCPS firms from around the country. The location is the new, luxurious Stouffer Esmeralda Resort in Indian Wells (Palm Springs), California.

Continuing the PCPS tradition of coupling a "Spring Break" with valuable learning, your 1991 conference focuses on how you can serve your clients more effectively and run your practice more profitably. Client service sessions include how to use ESOPs to advantage; the relative advantages of C corps, S corps and partnerships; and merger and acquisition assistance. Other sessions focus on business valuations, estate planning, bankruptcy work, and automation consulting.

Self help sessions include partner evaluation and compensation, managing personnel without getting sued, the CPA's own retirement planning, using the new voluntary tax practice review, and more. A "Crackerbarrel Forum" offers roundtable discussions patterned after the successful PCPS **TEAM** and **SET** conferences.

Technical sessions deal with advanced real estate accounting, not-for-profits, and other audit and accounting topics. Computer experts using IBM-provided PCs offer eight hands-on and three classroom sessions, including two on Windows.

The California Society offers, for a separate registration fee, three post-conference courses on preparing for and conducting practice monitoring reviews.

Members tell us that interaction with other PCPS people is a major benefit, and the conference features a full social and sports calendar. A Mexican Fiesta and a Hawaiian Luau are included. Optional events include golf and tennis tournaments and tours of the scenic mountains, desert, and town.

Registration fee is \$475; \$90 for a spouse or guest. Special airline fares are available. For a brochure and further information contact AICPA's Meetings Department, 212/575-6451. □

Tax Division Surveys Computer Usage

The AICPA's Tax Division recently distributed to its members the report on its 1990 survey of computer usage in tax practice. The report is based on almost 800 responses from the 2500 randomly selected firms that received questionnaires.

Here are some highlights.

- Six suppliers accounted for more than half the 1040 preparation packages. CCH Computax had 16%, Lacerte 12%, and Arthur Andersen 11%. They were followed by 1040 Solutions, Chipsoft, and Accounting Micro Systems, each with less than 10%.
- BNA was by far the most popular 1040 planning package, having been mentioned by more than half the respondents who use planning packages.
- For 1120 preparation, CCH Computax (20%), Lacerte (14%) and Creative Solutions (10%) were the leaders.
- 68 of the 788 respondents said they filed 1040s with the IRS via modem, and 159 plan to do so in 1991.
- One or more on line tax research services were used by 175 of the respondents. Seven services were mentioned. The leaders were Lexis, Veralex and PHINet.

James S. Clark of the AICPA's Washington office conducted the survey for the Tax Computer Applications Committee. If your firm does not have a copy you may request one from him at 202/737-6600 (facsimile: 202/638-4512). □

Chairman's Corner

by Jerrell A. Atkinson
Chairman, PCPS Executive Committee

Interesting Times Ahead

Press coverage on the Laventhol & Horwath bankruptcy has riveted public attention on the health of our profession. Of course, for 99.9% of all CPA firms, bankruptcy will never be an issue. Yet there's no question in my mind that this event has had—and will continue to have—a negative effect on public confidence in CPAs.



That's a concern to firms of all sizes. Public confidence is a prerequisite for many of our services, particularly the attest function. We need to do everything we can to maintain the public's high esteem.

Unfortunately, many external forces are weighing against us. They include the current recession, the S&L crisis, the profession's growing liability problem, the new crisis with commercial banks, and the mountain of debt that overhangs the country—not to mention the war in the Gulf with all its uncertainties. It's a tough time to be in business. It's a tough time to be a CPA.

Especially in tough times, the best thing we can do to improve our profession is to manage all of our own firms as healthy, profitable businesses. It's time to heed the warning signs and get back to basics.

In my mind, a lot of the excesses of the '80s are coming home to roost. Firms that overextended themselves—through merger, uncontrolled growth, overexpansion into Type II services—are particularly vulnerable right now.

We are likely to see the results of these decisions well into the '90s. And for the rest of us, that makes managing a CPA firm that much harder. Clients are putting downward pressure on us to reduce our fees and hours—while there's a strong upward pressure on the expenses of running a firm.

In times like these, we need to relearn the lessons we've all known for years. They are:

Client Services. With all our current clients, we need to place a new emphasis on timeliness, maintaining a good rapport, and demonstrating expertise in their industry. These are three things that can relieve fee pressure.

Types of Service. We need to recognize that fundamental services—auditing, accounting and tax—are the source of the majority of our strong, long-term business relationships. "Quality must be Job #1" in providing those services.

Management. For managing partners, your number-one client is your firm. We need to make decisions quickly and stay flexible as the market changes. Firms that can adapt quickly to increase staff or cut overhead will have an advantage.

Leadership. Managing partners need to be leaders. We need to show our people a vision of where the firm and the profession is going and then take them there. Never underestimate the power of a positive word of reinforcement.

CPE. Partners must make a new commitment to re-educate themselves and expand their current knowledge. Too many of us were lax and have not been able to keep up with developments in our clients' businesses.

Operations. "Lean and mean" is the watchword. Overstaffing is a luxury in this environment. Make sure everyone in your firm—including yourself—is working the hours and staying close to the client.

Retirement. Don't expect to have any income after age 65 if you don't put it away now. Unfunded programs should be out. The future is just too uncertain. For all of us over 40, start funding your retirement *now*. Assume no one else will do it for you.

Liability Insurance. Don't even think about going uncovered.

If history proves correct, PCPS member firms should emerge from this transition intact and leading the profession. We have already made a commitment to quality and put our reputations on the line. Let's work together—through PCPS and other accounting affiliations—to help each other keep getting better and stronger through this trying time. □

Ten Tips For Better Brochures

A fundamental principle of professional services marketing is *differentiation*. If your firm can demonstrate that it is different—or better—than the competition, then you've given potential clients a reason to select you.

Many CPA firms already have CPA marketing brochures, yet some brochures work much harder than others to create competitive advantages. The following tips are designed to help PCPS members develop brochures that do more than grace a reception table.

1. Communicate clearly. First and most important, decide in advance to whom the brochure is targeted and what you want it to say. Set up the structure in outline form, then strive for clean, simple language. If you use the services of a writer or public relations professional, make sure that you both agree from the beginning on the purpose and tone of the document. Finally, remember that the copy should do more than describe your firm—it should *demonstrate the benefits* of working with your firm.

2. Highlight services. Don't take for granted that potential clients know your firm provides accounting, auditing and tax services. Spell it out—and emphasize specialties such as PFP, business planning, industry expertise, tax examinations, litigation support etc. Consider using a case study to illustrate how the firm has helped a particular client save money or streamline financial reporting.

3. Inject some personality. Consider writing the brochure in question-and-answer format. Or include a picture of the firm softball team in action. Don't know what your firm's "personality" is? Ask your new hires, your longest-running client, your spouse. Find out what makes the people in the firm enjoy working there—then think of a way to show it.



4. Mention PCPS membership. If you've got it, flaunt it. In your brochure, note your firm's commitment to quality through voluntary participation in PCPS programs. As one firm has said, "Our membership means that clients and third-party users of financial statements can be assured that the firm will be measured by the same quality control standards used by the 'Big Six' firms."

5. Set a budget. Without close supervision, brochures have a way of costing four times as much as you expect. Request estimates for writing, graphic design, photography, typography, printing and envelopes. Then make sure all vendors stick to those estimates, unless you are the one making last minute changes.

6. Get professional design help. For advice on type size and style, paper stock, use of color and photos, rely on a graphic designer. Try to work with a designer with whom you're comfortable, and one who has done previous work with professional practices. If your budget is tight, consider using a freelancer or a graphic design student to reduce fees.

7. Consider photography. Stock photography costs less than original photography, but use it carefully to avoid an "off-the-shelf" look. Select photos that illustrate the firm's industry specialties, its history or geographic location. Pay close attention to captions, which are among the best-read sections of a brochure.

8. Make it easy to contact you. List the firm's office address(es), telephone and fax numbers on the back cover or in some other prominent place.

9. Streamline the approval process. "Too many cooks spoil the broth"—and add to the budget. Select one staff person to shepherd the project and one senior decision-maker to approve the final design and copy. If consensus is critical, circulate the first draft broadly to solicit comments, and then complete the project with the two-person team.

10. Don't be afraid to break the rules. If you want to stand out from the crowd, err on the side of creativity. If your firm is adventurous, let that show. After all, your brochure's most important role is to gain some attention to help your professionals sell.

Newkirk's PCPS Express

Want an inexpensive way to enhance your firm's image as an "expert" in the eyes of your clients? Through an arrangement with Newkirk Products, Inc., PCPS members can subscribe to *PCPS Express*, a client communication tool with a special price and unique benefits.

By carefully monitoring major information sources, Newkirk prepares regular articles on "hot" tax develop-

ments and financial planning ideas. Subscribers to *PCPS Express* can then use the articles in any way they wish—copied onto firm letterhead as a client alert, edited for a firm newsletter, or submitted as a bylined column or "advertorial" in a local paper or trade magazine.

Raefer Deese, partner in the Charlotte, North Carolina-based Dellinger & Deese, has been a subscriber to the service since its inception in March 1988. Each time he receives a *PCPS Express* in the mail, he sends it to the monthly trade magazine of the Carolina Electrical Contractor's Association, *Carolina Current*. The article, which he formats specifically for the magazine, carries his byline, firm name and photograph. Recently, Deese also started submitting articles to *Lawyer's Weekly*, a magazine for North Carolina attorneys. "Often, someone will say to me that they saw the article," says Deese.

At least 10 issues of *PCPS Express* are mailed each year, usually within days of fast-breaking news, covering topics ranging from 401(k) regulations to corporate-owned life insurance.

"Most of the issues we cover are those that affect owners of closely held businesses," says Newkirk representative Paul Ainsworth. "After all, that's the primary client group of a lot of PCPS firms—independent men and women who run their own companies. They want to know about fringe benefits or retirement plans for their businesses. Or they have personal concerns such as how to plan their estates."

Ainsworth notes that many PCPS firms have clients in the auto dealership, construction, development or manufacturing businesses. These enterprises often have large staffs—making information on issues such as benefits planning especially helpful.

The cost for a year's subscription to *PCPS Express* is \$250. That makes the cost of each issue about \$25.00. According to Ainsworth, "One of the biggest benefits is that you have lots of options. If the cost were higher, you might feel compelled to use every piece. But with the price so low, even if you use only one or two, it's still an excellent value."

Deese agrees: "There's absolutely no way that I could put that kind of information together for that cost."

In Ainsworth's opinion, the only drawback is that many firms neglect to think about how to use the information before they subscribe. He recommends that firms draw up an implementation plan, outlining what they want to accomplish, how they want to use the service and who's going to be responsible for what. "That's especially true for smaller firms," says Ainsworth. "If these kinds of things aren't spelled out initially, the perceived value of a subscription can be diminished."

For more information about *PCPS Express* or other Newkirk publications, call toll free 1-800-525-4237.



Small Firm Liability: Defensive Tactics to Avoid Lawsuits

The headlines remind us almost daily of the legal troubles befalling national firms. Yet did you know that:

- The majority of legal claims are against local accounting firms?
- Most claims involve firms being sued for the first time?
- Most claims are tax-oriented, the last area where you'd expect a serious problem?

That's the news from Ronald S. Katch, partner in the Northfield, Illinois-based firm of Katch, Tyson & Co. and a three-year veteran of the PCPS Executive Committee. Katch also serves as chairman of the AICPA's Professional Liability Insurance Committee.

Liability issues often dominate casual conversation among practitioners. Recently, Katch described several defensive tactics for firms, at the 10th Annual AICPA National Small Firm Conference. The following five tips, summarized from his talk, can help PCPS members avoid expensive lawsuits:

1. *Selectivity.* First and foremost, accept only those engagements you are qualified to handle—areas of practice and industries where you have a good foundation of knowledge and the technical capability to perform the work. "In my experience, I've seen too many one- and two-partner firms auditing S&Ls and commercial banks," says Katch. "Before taking on a client like this, be sure you have the expertise necessary to do such a specialized job. If you don't, pass."

Katch recommends that firms exercise caution even when they're in familiar territory. Before accepting an engagement, fully investigate the reputation of the company and its principals. Ask in-depth questions at the initial interview to evaluate the moral character of the owners, and request several years of financial statements and tax returns. And you should, of course, speak with the firm's previous accountant. "Some firms run a D&B—or similar credit check—on every potential new client," says Katch. "You may also want to get a D&B on the principals in certain cases."

2. *Professionalism.* Once you decide to accept an engagement, perform the work professionally. This includes using checklists and quality control procedures to ensure proper preparation and review of all workpapers, tax returns or tax opinions. "Don't try to cut corners, either," adds Katch. "That's especially tempting when you're doing municipal or not-for-profit work—usually bid jobs for low fees. If you accept the engagement, don't let the fee interfere with your professionalism. Do the job as

you know it should be done."

Adequate documentation is another critical component of professionalism. To avoid future problems, fully document telephone conversations, oral presentations and potentially controversial positions in workpapers. You should also make handwritten notes for a client's file when advice is given off-the-cuff. According to Katch, "You've just finished a call and have two others waiting. Even though it's hard to remember, jot a note of what you just said. Written documentation is one of the best defenses if what you said is ever questioned."

3. *Compliance.* A little common sense: don't ever suggest that a client not comply with rules and regulations. Often clients will ask, "Do we really have to do it that way?" One example: issuing a 1099 rather than putting someone on the payroll to avoid social security and payroll taxes. "While you can't strong-arm a client into compliance, you should protect yourself if you're aware of legal improprieties," notes Katch. "If a client wants to do something you know is wrong, write a letter informing them of the applicable requirements of the law. That way, no one can later accuse you of complicity."

4. *Insurance.* All firms should carry sufficient errors and omissions insurance. Even though such insurance is expensive, it's well worth the cost since defending even a minor lawsuit can run into tens of thousands of dollars. Many new MAS services may not be covered under traditional policies; check yours before entering uncharted waters.

5. *Fees.* Simply put: bill promptly and bill in detail. Don't let bills get too big or too old. Don't run the risk that someone will allege that unpaid fees affected your professional judgement.

Apart from these five key rules, Katch advises all firms to think carefully before suing for fees. "No matter how justified your position, a costly countersuit is likely. You'll find yourself spending half your time in court, and very few suits are worth that amount of energy."

That's not to say you shouldn't go after collections. According to Katch, "In most cases I've found that sending a lawyer's letter—which asks for payment in a we're-not-messing-around manner—does the trick." □

PCPS Advocate

American Institute of CPAs
1211 Avenue of the Americas
New York, N. Y. 10036-8775