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Determining Competence in Management Services

Kathleen Jacobs

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DETERMINING COMPETENCE IN
MANAGEMENT SERVICES

by

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Bachelor of Arts, Minot State College 1973

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CHAPTER I

INTRODUCTION AND REVIEW OF THE CONCEPT OF COMPETENCE

Competence is the cornerstone of all professions. No doctor, lawyer, engineer or accountant can exist without the trust and confidence of the public in his abilities. As a professional, the accountant has certain duties and responsibilities to his clients. A book on ethical standards reinforces this concept: "The public expects three things from anyone who holds himself out as a qualified member of a recognized profession--competence, responsibility and a desire to serve the public."¹

The meaning of the word, competence, seems rather elusive. The dictionary defines competence as: "Sufficient means for one's needs; ability; fitness; adequate."² The definition requires an individual value judgment as to what is sufficient or adequate. What may be adequate for one person may be inadequate for another.

The accounting profession, through the American

¹John L. Carey and William O. Doherty, Ethical Standards of the Accounting Profession (New York: American Institute of Certified Public Accountants, 1966), p. 11.

²David B. Guralnik, Editor, Webster's New World Dictionary (Cleveland: Collins World, 1974), p. 89.

Institute of Certified Public Accountants (AICPA) Code of Ethics, tries to establish what competence should mean in accounting. The Code states: "A certified public accountant should observe the profession's technical standards and strive continually to improve his competence and the quality of his services."³

The AICPA established the CPA exam in 1917 to help the profession determine if accountants are qualified in the profession's technical standards to be licensed as certified public accountants. The exam covers the subject areas of practice, law, auditing and theory. All fifty states have elected to use the exam for determining the applicant's skills in the accounting field.

Successful completion of the exam is not the only factor involved in determining qualifications. Each state issues its license individually and some states require other forms of proof of competence, such as education and work experience. The education requirement for some states stipulate the candidate must have at least a four year degree from an accredited college. Others require a period of one to three years of work experience under an established CPA. This work experience, the states feel, is a major factor in the intellectual growth of an accountant. The apprentice has

³American Institute of Certified Public Accountants, Code of Professional Ethics (New York: AICPA, 1974), p. 5.

a chance to watch accounting theory in action and is able to develop practical experience.

After the applicant has proven his qualifications to the state board, a license is issued to the accountant to practice as a CPA in that individual state. One state certificate does not automatically qualify him for practice in all states. If the CPA moves to another state, he must prove his professional ability by whatever methods that state requires.

The issuance of the license does not end the state's evaluation of the accountant's competence. The CPA must continuously prove his skill in the performance of his accounting duties with his clients. State ethics committees oversee the accounting profession to insure that the public is still receiving qualified services. If an accountant is brought before the committee and proven guilty of a lack of competence, the board can rescind the accountant's license to practice. Also, some states require the accountant to update his knowledge by continuing education. The CPA must attend a certain number of classes or seminars in related accounting fields each year to maintain his CPA certificate in good standing.

The duties and responsibilities of a professional are not only moral ones but legal ones also. The CPA has a legal liability to render competent professional services. Joseph Franscona, a leading authority on business law states:

The public accountant's legal responsibility to clients is: to possess that ability and competence which a member of that profession and status professes to have

and does have; to use the care, skill and dilligence of a reasonable man who is a public accountant, and to use his best prudence, discretion, and judgment as a public accountant. The professional man is an expert in the areas of his profession and the layman retaining his services does not have (and cannot be expected to have) the knowledge to appraise properly the quality of the professional work being done. The client relies on the professional man's superior knowledge in such areas and trusts in him. Accordingly, the law imposes a special duty on a professional man. The public accountant's legal responsibility is to ascertain the facts pertinent to the performance required of him, to act reasonably in properly utilizing such facts in such performance, and to use reasonable care in communicating the performance to his client so that the client may understand and properly utilize such performance.⁴

The CPA exam is a fairly accurate measure of an accountant's ability. The public can be reasonably assured of receiving qualified work from the CPA in all the areas covered by the exam, but what about management services? Is the accountant's competence in this areas measured by the CPA exam also?

The first step in determining the answers to these questions of competence is to establish what management services really are.

Just what is included in the spectrum of management services has never been definitely decided. Each individual has his own interpretation of what should be provided under the title of management services.

A University of Texas study stated: "Management (advisory) services by certified public accountants may

⁴Joseph L. Franscona, C.P.A. Law Review (Homewood, Illinois: Richard D. Irwin, Inc. 1972), pp. 966-967.

be defined as those services which are designed primarily to furnish advice or assistance to management through a professional relationship with respect to planning, organizing and controlling any phase of business activity."⁵

The Committee on Management Services defined management services as thus:

The term "management services," when used in connection with the services performed by CPA's, is not self-explanatory. It has come to have a meaning which may be delineated as follows:

1. It refers to services that are being rendered by an appreciable number of CPA's to business management in addition to the conventional or traditional services rendered by a public accountant.

2. The traditional services offered by CPA's include auditing, tax service, preparation of financial statements of various types and advice on matters of accounting principle or treatment. These are, in the broad sense, services to management but they are excluded from the extensions of service to which the term management services refer. Some services, such as accounting systems work, may be a "traditional service" for some practitioners and a "management service" for others. The line of distinction between the traditional services and management services cannot be sharply drawn, and it is not important to do so as long as there is an understanding of the general nature of the term.

3. The term "management services" includes, but is not restricted to, assisting the client in problems of managerial accounting, legal, reporting, budgeting, cost accounting and cost analysis, and operating cost control. It also included the problems of office operation and office equipment.

4. It includes services which CPA's are asked to perform primarily because of existing confidence in individuals and firms, and because of the reputation which the profession in general has for integrity and independence. Examples are: acting as arbitrator, and accumulating statistics for a trade association.

5. It includes various kinds of services performed for clients in conjunction with other expert advisors,

⁵Edward L. Summers and Kenneth E. Knight, "The AICPA Studies in CPA Firms," Journal of Accountancy, March 1975, p. 58.

Morton F. Moss, "Management Services and the CPA Examination," The Accounting Review, October 1962, p. 732.

such as attorneys, investment bankers, insurance counselors and industrial engineers.

6. Management services by CPA's tend to originate in connection with accounting records and problems, but often lead into areas which are related to the problem under consideration but not directly related to accounting. The internal use of accounting is only one part of overall business management, and well-rounded advice to management must consider all aspects of the management task. The services, then, may often appear to be unrelated to accounting, especially where the CPA and his staff members have had experience and training in other fields of business and management.⁶

The AICPA feels that management services are a natural outgrowth of the accounting services already performed. The society feels that the accountant has the background in financial areas to perform a range of management services and encourages its members to enter the field: "It is an objective of the Institute, recognizing that management service activities are a proper function of CPA's to encourage all CPA's to perform the entire range of management services consistent with their professional competence, ethical standards, and responsibility."⁷

Again the question of competence is brought into discussion. CPA's can perform management services as long as they are competent. But how can an accountant determine if he is qualified or not?

The areas of management services seem almost unlimited according to the definition formulated by the Commission on Management Services. It states that a management service

⁶Commission on Management Services, Management Services by CPA's (New York: AICPA, 1957), pp. 5-6.

⁷Morton F. Moss, "Management Services and the CPA Examination," The Accounting Review, October 1962, p. 732.

includes any services which a client has requested. These services can range from topics that are accounting related to services that have no relationship at all with traditional accounting concepts. *specially in the areas of specialization.*

~~The account~~ The broad base of knowledge that an accountant acquires through education and experience would certainly give him the qualifications to perform management services that are directly related to accounting. But, the fact that a person is a CPA does not automatically qualify him to provide all management services. Management consulting includes numerous areas of specialization. These areas of technical knowledge are so extensive that no one individual can possibly amass and retain all the information needed for each situation.

The accountant must seriously consider his capabilities before he accepts an engagement to perform management services. He must carefully consider the problem involved and determine if his background and abilities are sufficient to give his client service. If the accountant is not qualified at the outset but acquires the required knowledge by self-study he can still perform the service. If the subject is beyond his capabilities, he has an ethical and legal responsibility to inform the client that he is not qualified to perform the services, and, if possible, he should refer the client to a qualified specialist who can perform the services required.

It was determined that some management services related to accounting are within the qualifications of competence already determined by the accounting profession

through the CPA exam. But what about the areas that are not covered by the CPA exam?

Management services have increased substantially over the years and especially in the areas of specialization. The accounting profession needs further guidelines for establishing competence in management services. The needs some assistance in information gathering and decision-making procedures comes from a wide range of financial specialists, lawyers, and the accounting profession itself. With the growth of multinational corporations, the rapid advance of technology and the increased regulation of business by the government, few corporations can afford the large expense of having enough skilled employees to foresee the potential areas of trouble in the business world today. Business conditions change so quickly and the corporations who want to stay profitable must be able to identify areas of mobility and be able to adapt readily to any changes in conditions. If the companies do not, they may be left behind and it may become too late to change their tactics and retain their position in industry. The time has passed in our age of technology when one man in the corporate situation, can control and make decisions based totally on his own experiences. One individual can not possibly amass all the knowledge in the fields of advertising, economics, marketing and consumer motivation and be able to foresee the demand for new products and facilities.

without the help of highly knowledgeable people. He must have the resources to call on experts from all fields for input data on various

CHAPTER II

THE NEED FOR GUIDELINES IN MANAGEMENT SERVICES

The evidence that management in industry today needs some assistance in information gathering and decision-making procedures comes from a wide range of financial specialists, lawyers, and the accounting profession itself.

With the growth of multinational corporations, the rapid advance of technology and the increased regulation of business by the government, few companies can afford the large expense of having enough skilled employees to foresee the potential areas of trouble in the business world today. Business conditions change so quickly and the corporations who want to stay profitable must be able to identify areas of mobility and be able to adapt readily to any changes in conditions. If the companies do not, they may be left behind and it may become too late to change their tactics and retain their position in industry.

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without the help of highly knowledgeable people. He must have the resources to call on experts from all fields for input data on various topics that would influence his decisions. From all the information presented, the president of the company must analyze the concepts to make the most favorable decisions that will affect the profitability of his firm as a whole.

Some corporations are large enough to maintain their own staff of experts, but, due to the excessive costs involved, more firms are turning to consultants. In this way, the companies can have the information and advice they need at any time without the expense of maintaining their own staff that would not be used continuously.

When smaller companies decide to seek the advice of a consultant, frequently they turn to their professional accountant. They turn to him because they know the quality of his work and respect his professional opinion. The CPA already knows the financial information of the company through prior accounting practices. The accountant has been to the company and knows the layout of facilities and understands the structure and chain of command in the company's decision-making processes. The client feels more comfortable with the accountant because of past engagements performed. By using the CPA as a consultant, the company also saves the money it would require to familiarize a new consulting firm with the financial situation of the company. Therefore, the transition of an accountant to a management consultant seems to be a

natural progression for the accountant and for the client.

With increasing frequency, clients are seeking help on matters on finance and control in addition to the annual account services of preparation of financial statements and the yearly tax return. Large and small firms alike realize the need for more information to deal with the complex financial situations that keep evolving with increased technology.

The smaller companies accept the reality that they do not have the extensive financial resources that large corporations have, but this lack of money does not diminish the fact that they need financial advice as well as the larger firms. They are at a disadvantage because of their size and if they are to compete with larger firms for a bigger share of the market, they must have the advantages that sound financial advice can give them. Since they have limited resources, they must use what they have available to them to the most profitable advantage.

As one president of a smaller company explains:

There is a need for management services to handle the problems of the small business. . .small business needs the guidance of a CPA firm in seeking out possibilities of increased economy and efficiency—for example, in the organization of an internal accounting staff, the probable costs and profits resulting from diversification or expansion, the advantages of going public, the review of insurance coverage, saving money on freight bills, gas rates, long distance telephone bills, and so on.⁸

⁸ John L. Carey, The CPA Plans for the Future (New York: AICPA, 1965), p. 230.

He went on to point out that locating the advice that is needed is not an easy task:

... there is no one central agency which can provide a small business with varied information of this sort except the CPA firm. The firm may advise him to consult with other specialists, but he relies on the CPA to point the need or the opportunity, as the case may be.⁹

The executives in large corporations also understand the advantages that financial advice can generate for their businesses. In big companies, a problem can start and mushroom until, at the time of its discovery, it may have damaged the company to a point that full recovery may be impossible. This type of situation is a fear of all big companies. They realize their controls on corporate policy may not provide for all circumstances and that they need assistance in making intelligent corporate decisions and actively seek assistance from CPA's.

Some large companies have taken the position that CPA's have a duty to offer advice on areas that need the further study of a management consultant. The presidents of these corporations think that the accountant has an obligation to observe problems within a corporation, while they are conducting their regular accounting engagement, and communicate any knowledge to the management.

One president stated his opinion: "It would seem to me, that an accounting firm wouldn't just go in and make

⁹Ibid., p. 231.

¹²Ibid., p. 232.

an audit, but that they would have certain recommendations about getting control and assure the company that it is operating on a profitable basis."¹⁰

The idea that the accountant has an obligation to his client to identify areas that need investigation besides the regular accounting functions was expressed by the same president:

If they see something in an operation that looks as though you were not getting proper recording, proper reporting or proper control, it would seem to me that is is a function of the accounting firm to bring it to the attention of the chief financial officer and make provisions for implementation of it.¹¹

He feels that the accounting firm should identify itself with the profitability of the company and accept it as an obligation to point out areas that appear to need attention.¹²

It is evident that management services are desired by companies, large and small. The firms want advice and actively seek it, but just what types of management services are available from the accountants?

Areas of management services established by the Commission on Management Services are as follows:

"I. GENERAL MANAGEMENT

- "General Management: objectives and policies
- "Organization
- "Management Controls: system of internal reporting; cost and expense controls; budgetary control
- "Special Investigations: purchase and sale of business.

¹⁰Ibid.

¹¹Ibid., p. 232.

¹²Ibid., p. 232.

- "II. FINANCE
- "Financial structure: types and sources of capital or financing
 - "Financial requirements: short and long term needs
 - "Financial policies: retention or distribution of earnings; credit or collection
 - "Financial planning: forecasting; operating budgets; cash budgets; capital budgets
 - "Insurance
 - "Cost Accounting: systems; standards; principles and procedures
 - "Pensions and profit sharing
 - "Government contracts: costs; renegotiation or redetermination
- "III. PRODUCTION
- "Plant and equipment; economic justification; depreciation and obsolescence
 - "Production standards
 - "Production control: records and statistics; inventory control
 - "Material control
- "IV. SALES
- "Distribution and merchandising: distribution costs and statistics
 - "Sales management: pricing; sales results
- "V. OFFICE MANAGEMENT
- "Systems and records: accounting systems; forms and records; data processing
 - "Office equipment
 - "Office layout and space utilization"¹³

These areas in management services were developed almost twenty years ago and through the years, as the needs of companies have changed, so have the types of management services that are performed. As technology changes the way business is done, it also affects the accounting profession and with it, management services. An example of this change is the age of computers. Previously, companies recorded all the business

¹³Commission on Management Services, Management Services by CPA's, pp. 5-6.

transactions manually. With the development of computers and the changes with miniaturization and consequent reduction in cost, most companies today have computerized some portion of their business transactions. The use of computers has allowed companies of all sizes to operate more efficiently. This increased use of computers changes the way CPA's conduct audits and clients are anxious for management services personnel to offer increased advice in the areas of data processing techniques. Management services range from general areas that are compatible with regular accounting services to specialized areas in data processing or engineering. The general areas of management services relate closely to financial matters that are evident in the accounting process. According to MAS No. 2, there are differences and similarities between management services and accounting services. It reads:

The CPA is not only concerned with the propriety of what the client did in the past (attesting) but also with what should be done to improve matters in the future (management advisory services)--but the subject matter is the same.¹⁴

The specialized areas of management services, such as data processing and operations research require a background of technical knowledge and the ability to understand the

¹⁴American Institute of Certified Public Accountants, Statement on Management Advisory Services No. 2 (New York: AICPA, 1969), p. 18.

Robert M. Smith, Editor, "Nationwide MAS Surveys," The Journal of Accountancy, March 1975, p. 37.

concepts involved. The specializations change rapidly with technology and conditions in the economic world. In the early sixties there was hardly any talk of the environment in business circles, now each company watches carefully to see that environmental regulations are followed.

The areas of management services by CPA's has been expanding with demand. Evidence shows that accounting firms are performing management services in increasing numbers. A survey taken by the Roper organization found that over ninety percent of the accountants perform management services.¹⁵ This indicates that, sometime in the future, nearly all CPA's will be involved with management services of some kind.

Other indicators of growth were compiled by the Management Advisory Services Division of the AICPA through a mail questionnaire to 48 of the largest accounting firms. The results showed 5,000 partners and staff members to be involved in full-time management services. They determined that from 1973-1974 the growth of management services exceeded the rate of growth of regular accounting services.¹⁶

The firms that are involved in management services expect the growth to continue. Table 1 shows the growth anticipated.

¹⁵Summers and Knight, "The AICPA Studies MAS in CPA Firms," p. 56.

¹⁶Robert M. Smith, Editor, "Nationwide MAS Surveys," The Journal of Accountancy, March 1975, p. 87.

TABLE I
ANTICIPATED GROWTH IN MANAGEMENT SERVICES

	Among firms in which the percentage of professional time accounted for by MAS is:				
	0-4%	5-9%	10-14%	15-19%	20+%
Expect "great growth" in firms MAS	6%	11%	15%	31%	34%

SOURCE: Robert M. Smith, ed., "Nationwide MAS Surveys," The Journal of Accountancy, March 1975, p. 88.

The client categories where growth was anticipated are shown in Table 2.

TABLE II
ANTICIPATED GROWTH IN CLIENT CATEGORIES

Rank	Client Category
1	Service Industries
2	Health Care
3	Manufacturing Industries
4	State and Local Governments
5	Federal Government
6	Other Non-profit

SOURCE: Robert M. Smith, ed., "Nationwide MAS Surveys," The Journal of Accountancy, March 1975, p. 87.

The survey also compiled information in the types of services that accounting firms are now providing. The management areas they felt would have the largest growth in the future are listed in Table 3.

TABLE III
PRACTICE AREAS WHERE GROWTH IS ANTICIPATED

Rank	Practice Area
1	Systems development and design
2	Managerial planning, information and control
3	Electronic data processing
4	Systems installation
5	Financial and economic analysis
6	Operational analysis cost accounting
7	Operational analysis
8	Informal advice
9	Marketing
10	Personnel administration
11	Software development and evaluation
12	Executive and managerial recruitment
13	Operations research
14	Project management
15	Organizational analysis
16	Industrial engineering

SOURCE: Robert M. Smith, ed., "Nationwide MAS Surveys," The Journal of Accountancy, March 1975, p. 88.

Management services have become an important part of an accounting practice and as the surveys show, the demand

for services is increasing every year. The accounting industry feels that MAS may grow to equal the areas of practice already established.

The important issue involved is competence. Are CPA's qualified to provide management services? The fact that clients seek advice on MAS areas from the accountant does not automatically make the CPA competent in management services.

A book on ethical responsibilities states:

The growing demand for management, and the increasing number of speeches and articles encouraging certified public accountants to turn their attention to this field, may lead CPA's to assume that they are qualified to perform management services which are in fact beyond their competence. Nothing would discredit the accounting profession more rapidly than a general tendency on the part of CPA's to undertake engagements for which they are not qualified. Loss of clients confidence would have adverse effects even on the more familiar areas of accounting practice.¹⁷

The CPA's accounting competence is based on an accounting education in college, successful completion of the CPA exam, and in some states, a required amount of work experience. But what about management services? How can a CPA be able to determine if he is skilled in the areas of management services? A text on ethics expresses this opinion:

... the fact a man is a CPA does not automatically qualify him to render the entire range of management services. The ethical and legal requirement of competence must still be met. In fact, since the subject matter of management services is so extensive that no one person could develop specialized knowledge in all areas, the full range of management services (whatever that may prove to be) should be performed only by a firm which included both

¹⁷Carey and Doherty, Ethical Standards of the Accounting Profession, p. 109.

generalists and specialists.

In determining whether in fairness to his client he is in a position to undertake a given management services engagement, the CPA should consider his own background and ability as objectively as possible. He may not begin with complete knowledge of the characteristics of the business in question or of the available techniques; but he must either acquire the necessary knowledge or decline to serve and refer the engagement to someone else.¹⁸

The accountant has a professional responsibility to provide competent services to his client. This responsibility is established by the principles of ethics of the accounting profession and by law. An outstanding author of law texts writes:

If a man offers specialized service to the public and he does not have the degree of skill commonly possessed by others in the same work, he commits a species of fraud on every man who employs him.¹⁹

The areas of legal liability of accountants who perform MAS are of great importance. A workshop was held on "Legal Liabilities of Consultants" and Henry Conley, counsel for Haskins and Sells, was the key speaker. He stated there is an important difference between legal liability of accountants and management consultants. The liability for MAS services will be based on common law principles applicable to professionals rather than the federal securities laws that now trouble most CPA's. He foresees the greatest potential liability in MAS will be between the consultant and his client since there will

¹⁸Ibid., pp. 109-110.

¹⁹Torts, vol. 3, quoted in John L. Carey and William O. Doherty, Ethical Standards of the Accounting Profession (New York: AICPA, 1966), p. 12.

be little conflict with third parties.²⁰

The liability under common law would be for misrepresentation, negligence, breach of warranty and breach of contract. The management consultant, in certain circumstances, may be held liable for misrepresentation as was the case in Clements Auto Company v. The Service Bureau Corporation.²¹

The Service Bureau originally furnished a data processing service to a dealership. The owner was satisfied with the results and later on expanded the services to include monthly sales analysis reports and a weekly report on inventory movement. Later, the owner signed a contract with the Service Bureau to do a detailed history of the inventory system. The information presented proved to be unsatisfactory. The method was slow, expensive, full of errors, and was too voluminous to be of use. The suit was then brought for breach of implied warranty, breach of contract, reformation and fraudulent misrepresentation. The Service Bureau sued for payments due.

The court found the Service Bureau guilty of misrepresentation. The Service Bureau stated the proposed data processing system would be capable of supplying information to be used in inventory control. The Service Bureau held itself to be an expert in the data processing area and had extensive experience in the areas of inventory control. Establishing

²⁰Robert M. Smith, Editor, "MAS Annual Meeting Urges Multidisciplinary Approach," Management Services, January 1975, p. 79.

²¹Clements Auto Company v. The Service Bureau Corporation, 298 F. Supp. 115 (D. Minn. 1969). aff'd in part and rev'd in part, 444 F.2d 169 (8th Cir. 1971).

a data processing project of this type is a normal engagement for a data processing company and no difficulties were encountered. Therefore, the Service Bureau had a duty to perform competent work that would have resulted in the desired results.

This case was discussed by the workshop because it has significance for accountants entering into management service contracts. They have a duty to their clients to a competent job and if the accountants can't accomplish the engagement, they will be held legally liable.

The lesson sought after in this session was that the accountant should review his assets and qualifications before an engagement is started. He should not enter into a project where he does not have the necessary technical knowledge.

All the factors, the growth, the increased areas of specialization, and the legal liability, indicate that management services need guidelines in determining competence. If the accountant is going to expand his services to include management consulting, he must have some specific criteria to enable him to make sure that he is qualified.

As was mentioned before, the accounting profession as a whole has not developed any uniform standards. However, there are many recommendations from individuals, individual companies and societies within the accounting profession on determining competence in management services.

Some individual CPA's feel that the accountant, through his requirements of the CPA certificate, has the ability to perform management services of a general nature. They think

the CPA's broad knowledge and experience with the client's financial position allows him to make valuable suggestions on problems dealing with financial accounting problems. The

CHAPTER III

GUIDELINES FOR DETERMINING COMPETENCE IN MANAGEMENT SERVICES

Management services have been steadily increasing over the years. The business world has become more complex and with it, more complex management services have been requested by clients. As the services became more specialized and technical, the accountant became aware that his competence in accounting could not be carried to all management services.

The increase of legal liability for management services made the accountants more cautious. The discussions among the members of the accounting profession increased accordingly. The members continually asked for more specific guidelines on competence in accounting to determine if they should enter into certain areas of management services. They did not want to overstep their qualifications and wanted an arbitrary measure other than their own judgment.

As was mentioned before, the accounting profession as a whole has not developed any uniform standards. However, there are many recommendations from individuals, individual companies and societies within the accounting profession on determining competence in management services.

Some individual CPA's feel that the accountant, through his requirements of the CPA certificate, has the ability to perform management services of a general nature. They think

the CPA's broad knowledge and experience with the client's financial position allows him to make valuable suggestions on problems dealing with financial and accounting problems. The accountants agree that the subject matter is the same in general management services as in accounting, only the point of view and the methods for accomplishing the desired results differ. These CPA's have the opinion that requirements for performing management services should come from more experience in the field rather than any additional formal education.

But, the same accountants feel that the average CPA does not automatically have the qualifications to perform the more specialized tasks of management services. The CPA should realize that his capabilities do have limitations and every client's request for management services can not be accepted.

The first step in determining if he possesses the requirements in management services is for the CPA to be honest about his qualifications and experience. If the accountant is faced with a request for management services, he must assess his background in that field and determine if he already possesses the knowledge necessary to fulfill the objectives sought by the client. If he feels, in his professional judgment, that he does have the knowledge, he can accept the position. If he does not possess the technical requirements necessary, he has several alternatives available to him.

Just because a CPA does not have knowledge in certain subject areas at one point in time, does not disqualify

him for the rest of his career. The CPA can educate himself in the subject and increase his knowledge to the extent that would allow him to perform the engagement with competence. The accountant can improve his knowledge through self-study. This self-study can be done on a purely individual basis by the use of reading materials, which can be acquired through a library, or by course materials on topics in specialized areas that are produced by professional societies. The CPA can also increase his awareness by attending classes in specialized subjects at a college or university either full-time, or, if this is not possible, at night.

The AICPA holds seminars throughout the year on certain topics in cities across the nation and these meetings could be another source of information for the CPA. The CPA has the opportunity to question the experts who are conducting the seminars on certain aspects of the subject matter that he is interested in. Also, through the meetings, the CPA can meet other accountants who perform management services within their firms, and gain insight and valuable experience through the exchange of ideas during conversations with them. He has the opportunity to ask them what procedures they find the most valuable and through the interchange of ideas, he could receive some valuable advice on procedures that could save a great deal of time and energy when he performs the management services himself.

The CPA can also gain knowledge of a specialization by working within the areas himself. In some situations,

experience is the best teacher. By starting out in the general areas of management services, the accountant can learn by doing the actual work and by working in association with another CPA who has extensive knowledge of the subject. As with other skills, the longer a person is exposed to different situations and actually works in the field, the more knowledgeable he will become. In time he will be able to react to new situations confidently and be able to perform the tasks without assistance.

If the CPA can not fulfill the technical requirements of an engagement by his own capabilities, he still has other choices. He can supplement his own knowledge with outside sources. He has the options of hiring consultants, working with another firm, or declining the engagement and referring the client to a specialist.²²

The CPA can supplement his firm's services with a consultant only when the information required involves a portion of the engagement. The firm can't accept a job when they expect a consultant to perform all the work. The CPA must not delegate his authority or professional judgment to anyone. Therefore, the consultant is to be hired only to answer specific technical questions.²³

When the CPA needs the help of consultant, he has to know where he can find the person with the necessary qualifications. The sources for consultants are other companies

²²Ibid., p. 833.
John R. Mitchell, "The Do's and Don'ts of Management Advisory Services," The CPA Journal, October 1972, p. 832.

²³Ibid.

in the same city, other CPA firms that perform specialized management services, and university or college professors that are authorities in a certain subject. If a consultant can't be found within the local areas, the accountant can go to national consulting firms that list individual consultants that are available for special jobs.²⁴

The accountant can also work with another firm when faced with a problem beyond his competence. The agreement between the firms would be like a joint venture contract or a sub-lease arrangement. An example would be a CPA firm that does general management services in computers and has an arrangement with a large computer firm to help with technical problems. The two requirements for this agreement are that the client must know and approve of the other firms involvement and one firm must act as the project manager and accept complete responsibility for the completed job.²⁵

If the accountant determines by his professional judgment that he can not gain the knowledge necessary to undertake the engagement, he must decline the job. It is his ethical duty to help his client to the best of his ability. Therefore, if the CPA knows a qualified specialist that can help his client, he must inform his client. A specialist in management services can be found through conversations with

²⁴Ibid., p. 833.

²⁵Ibid.

with other CPA's, inquiries to the state CPA society, or by contacting the Association of Consulting Management Engineers in New York.²⁶ The CPA can make the contact between the client and the consultant and act as an intermediary and contribute any help as needed.

Larger CPA firms have an advantage over smaller firms in obtaining competence in management services. A larger firm can hire specialists who devote their time solely to management services. The company can hire engineers, computer programmers, and financial experts to handle the technical questions on areas of specialization. The CPA firm doesn't have to go outside the firm for advice, and more clients will go to CPA firms that already maintain a qualified MAS staff.

Several companies have established specific guidelines for determining what are desirable qualities in management services personnel. One company, Sempier, Nest and Co., CPA's, has established a qualification policy for management services personnel. The attributes they feel are important are as follows:

Education. Degree from accredited college or university is required. Major study concentration, preferably in accounting. Graduates with major study in management or engineering must have some courses in, or knowledge of, accounting. Postgraduate courses or study in fields such as management, business machines, electronics, and systems and procedures are considered favorable.

Experience. Management consulting or methods and procedures experience is desirable but not required. A good depth of business experience and understanding is called for.

²⁶Ibid. (New York: 1964), p. 7.

²⁸John D. Lesure, "Management Services Training in the Development of a CPA Firm," Management Services, November - December 1974, p. 41.

Experience which has involved contact with administrative and executive personnel, and which has required personal initiative rather than closely directed effort, is preferred. Evidence of having developed programs and written statements of proposals, and of having participated in the implementation and installation of such programs, is considered advantageous.

Personal attributes. A consultant must be able to work and communicate harmoniously and in a competent and businesslike manner with personnel at all organizational levels. He must be personable and diplomatic, yet have an inquiring approach and be an aggressive and diligent worker. He should have a high degree of intelligence, be imaginative, and have the capacity to proceed without close direction. He must be able to develop sound ideas clearly, and logically, both orally and in writing, and have the power to persuade.

Work on assignments usually breaks down into five phases. A man qualified within the areas of his specialization should have the capacity to perform the following:

1. Obtain the facts pertinent to the problem or situation
2. Analyze the facts
3. Prepare a program of recommendations for correction and improvement
4. Review the recommended program with management
5. Assist in or perform the installation after the program is accepted²⁷

The larger CPA firms also have the advantage of staff training. They can take individuals of various backgrounds and education and train them in the areas of management services. Some CPA firms prefer to hire accountants and train them in management services rather than train the specialists in areas of accounting.²⁸ The firms feel that the entire staff should have a common body of knowledge as a base of reference.

The success of a training program depends on the

²⁷Henry DeVos, Editor, Management Services Handbook (New York: AICPA, 1964), p. 7.

²⁸John D. Lesure, "Management Services Training in the Development of a CPA Firm," Management Services, November - December 1974, p. 41.

type of people involved. It is obvious that no firm will have employees from the same backgrounds, age group, work experience, and level of education. That is why the training program must reflect these variable factors. No program can compensate for all conditions but it should try to adjust to different situations. It is a waste of time to the employees and an expense to the firm to train all employees with the same methods. Accountants that have advanced degrees or experience will be bored with some topics while others will have difficulty learning the material. The people who are proficient in the areas should be excused, while others should have refresher courses in certain sections before instruction can be given.²⁹

The CPA firms should offer training in the areas of management services that the company is interested in offering. The training, if possible, should coincide with a job they are considering in the near future. The training should be given by a qualified person, either within the company or a hired professional consultant. The training material should be presented in a manner similar to situations that the students will see on the job.³⁰

The instruction should be a group discussion rather than a lecture. The students learn much faster when they are motivated and encouraged to participate in discussions with

²⁹Ibid.

³⁰Ibid., p. 44.

³⁴Ibid.

the experts leading the training program.³¹ Role-playing and the workshop technique are effective methods of instruction for the program. The participants can react to probable situations and learn in the interaction of ideas among the whole CPA firm when management services are performed. The use of videotape is also recommended to allow the students to see themselves the way others react to their comments.³²

Reinforcement of the ideas presented at the training session can be done with visual aids. Movies, film, TV tapes, and slides can interest students in understanding the subject matter.³³ A movie is remembered longer than an expert lecturer in any subject. One report showed that retention of subject matter is over 80% when audio-visual material is used.³⁴

The value of any training is lost unless the material is reinforced with subsequent work assignments and on-the-job training. The sooner the student is able to use his knowledge the more he will remember what he has learned. If the student can see how the material can be applied to different job situations, the retention will be higher also.

Without question, the previous recommendations were only broad guidelines for determining competence in management services. Others in the accounting profession have more specific guidelines.

³¹Ibid. "Management Services and the CPA Examination,"

p. 735.
³²Ibid.

³³Ibid.

³⁴Ibid.

An educator in the accounting field, Mr. Moss, states his recommendations:

First, the AICPA might establish a 'board' examination similar to the medical profession's approach to the problem of specialization.

Second, the AICPA (with the concurrence of the several states) could broaden the scope of the Uniform Examination to include questions in the basic aspects of management services.³⁵

The first recommendation has been promoted by John L. Carey.³⁶ He proposes to establish an Academy of Certified Public Accountants. A member would have to prove the knowledge of advanced study in one of three areas--auditing, tax accounting and management services--for admission to the Academy. To test the applicants qualifications, Carey proposes an oral or written examination that would cover a range of concepts involved in the specialization of management services.³⁷

Mr. Moss feels that management services are essential to the CPA's practice and a specific measurement of competence should be established. He proposes that candidates for the CPA exam should be tested in management services as well as the other sections of the exam. One method of accomplishing this task would be to set up a separate section of the CPA exam just for management services. The questions on the exam would be formulated to test the applicant's basic knowledge on management services and include optional questions on the

³⁵Moss, "Management Services and the CPA Examination," p. 735.

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³⁵Moss, "Management Services and the CPA Examination," p. 735.

³⁶Ibid.

³⁷Ibid.

various specializations.

The opponents of adding another section to the CPA exam express the fact that the CPA exam is accepted voluntarily by all the states to determine competence in accounting. If another section is added, each state would have to ratify the addition. Many feel that this would take years to complete.³⁸

Also, another areas of opposition is in the construction of the questions in the exam. Many have the opinion that the colleges and universities do not prepare their students sufficiently in the subject area of management services. They think the curricula does not offer the students an adequate background for successful completion of the examination.³⁹

An alternative to preparing a separate section of the CPA exam would be to broaden the scope of the existing CPA exam.⁴⁰ It would not change the format of the exam and questions on management services would be proportioned among the other sections of the exam. The questions involving standard areas of management services would be required, while questions dealing with certain specializations would be optional.

The proposals expressed by Mr. Moss are not new. The discussion on establishing methods of determining competence continues every year. Members of the profession make suggestions each year but little is done.

³⁸Ibid., p. 737.

³⁹Ibid. *Statement on Management Services No. 2*, pp. 19-20.

⁴⁰Ibid., p. 736.

⁴¹Summers and Knight, "The AICPA Studies MAS in CPA Firms," p. 56.

The AICPA issued the Statement on Management Advisory Services No. 2 which deals with competence in management services.⁴¹ This statement was very broad and did not establish any definite criteria. The pronouncement stated the general standards for practice established by the Statement on Auditing Standards No. 1 are also applicable to management services. The Standards are as follows:

1. Management advisory services are to be performed by persons having adequate training and experience in both the application of the analytical approach and process, and in the subject matter under consideration.
2. In all matters relating to a management advisory services assignment, an independence in mental attitude is to be maintained by the member and his staff.
3. Due professional care is to be exercised in the performance of management advisory services.⁴²

The standards of competence presented are still subjective in nature. The accountant still has to use his professional judgement when determining if he is competent in management services.

Members of the AICPA were not satisfied with MAS No. 2; they wanted the Institute to establish areas of examination and criteria for competence. Consequently, in 1973 the AICPA established the MASBOKE (Management Advisory Services Body of Knowledge and Examination) Study to examine tentative proposals on the practicality of an examination in MAS.⁴³

The MASBOKE Study was to be conducted by the Graduate

⁴¹Committee on Management Services, Statement on Management Advisory Services No. 2, pp. 19-20.

⁴²Ibid.

⁴³Summers and Knight, "The AICPA Studies MAS in CPA Firms," p. 56.

School of Business Administration of the University of Texas at Austin. The researchers were to contact members of the accounting profession in order to compile information on management services and other data relating to the project. They were to conduct an in-depth study of the MAS practice and to study the feasibility of the recommendations made for determining competence. The Study was to be completed in December of 1975.⁴⁴ However, at the time of this paper, the Study had just been sent to the Board of Directors of the AICPA for approval and publication is not expected until May 1976.

Unlike the AICPA, the National Association of Accountants, (NAA), has already established a method for recognizing competence with the Certificate in Management Accounting in 1972.⁴⁵

The applicant for the Certificate must have a baccalaureate degree in any area, from an accredited college or university, or have achieved a satisfactory score on the Graduate Record Examination or the Graduate Management Admissions Test.

The Institute of Management Accounting describes the certification requirements as follows:

A certificate in Management Accounting will be awarded to candidates who: (a) pass all four parts of the certifying examination and (b) pass the experience requirement to be established by the Board.

The four-part examination may be taken at one time

⁴⁴Ibid.

⁴⁵"Certificate in Management Accounting Established by NAA," Management Accounting, March 1972, p. 14.

or over a period of three years. No fewer than two examinations may be taken at one time unless three parts have been passed. For this purpose, Part IV, which is given in two sections, will be considered two examinations. The two sections, however, are graded as one part and must be taken together.

A candidate must pass all four parts of the certifying examination within three calendar years from the date of his acceptance into the program. Candidates who do not achieve this may apply for re-admission into the program under the same three-year consideration.⁴⁶

The examination is geared toward a college graduate with a bachelor's degree in business with a great deal of study in management accounting. The candidates should have a background in managerial economics, business theory and organizational theory.⁴⁷

The major and minor topic areas on the CMA examination are as follows:

		PREPARATION NEEDED
	"PART I MANAGERIAL ECONOMICS AND BUSINESS FINANCE	
	"Economic Environment of Business	
Subject	"Supply and Demand Analysis	Future
	"Pricing Theory	
	"Competition	
Managerial	"Sources of Corporate Capital	
Financial	"Acquisition Cost of Capital	
Business	"Capital Structure-Debt vs. Equity	
Economics	"Financial Flexibility	
Management	"PART II ORGANIZATION THEORY, MOTIVATION AND COMMUNICATION	
Behavior	"The Management Process	
Auditing	"Business Functions	
Taxation	"Organization Structure	
Quantitative	"Human Behavior in Organizations	
Information	"Communication	
Gov. and	"PART III ACCOUNTABILITY AND DISCLOSURE	
Total	"Internal Control (Custodial)	69
	"External Reporting	
	"Tax Accounting and Reporting	
SOURCE:	"Financial Statement Analysis	Harris, "The CMA

Examination: A Content Analysis, Management Accounting, October 1974, p. 23.

⁴⁶Ibid.

⁴⁷Ibid.

Jack L. Krogetad and John K. Harris, "The CMA Examination: A Content Analysis" Management Accounting, September 1974, p. 55.

"PART IV MANAGEMENT ACCOUNTING FOR PLANNING AND CONTROL

"Planning Concepts and Techniques

"Long Range Profit Planning

"Product Costing

"Financial Modeling

"Control Concepts and Techniques

"Standards for Costs and Revenues

"Budgets"⁴⁸

Students who wish to prepare for the exam need a background in a variety of subjects. A study was compiled by the College of Business Administration at the University of Nebraska-Lincoln.⁴⁹ The faculty members were asked to review the subject areas of the exam and recommend an academic program that would prepare future applicants for the exam. The results are shown in Table 4.

TABLE IV

SEMESTER HOURS OF PREPARATION NEEDED

Subject Areas	1972/1973	Future
Managerial accounting	6	9
Financial Reporting	12	15
Business Finance	6	6
Economics	6	6
Management and organizational behavior	6	9
Auditing	3	3
Taxation	6	6
Quantitative methods	0	6
Information systems	3	6
Gov. and business	<u>3</u>	<u>3</u>
Total	51	69

SOURCE: Jack L. Krogstad and John K. Harris, "The CMA Examination: A Content Analysis," Management Accounting, October 1974, p. 23.

⁴⁸Ibid.

⁴⁹Jack L. Krogstad and John K. Harris, "The CMA Examination: A Content Analysis" Management Accounting, September 1974, p. 55.

The experience requirements for the Certificate require two years of related professional experience in managerial accounting. In addition, successful candidates of the CMA Exam must complete an average of 30 hours a year of professional study in a three year period after the exam to maintain their proficiency.⁵⁰ The Institute will give credit toward requirements of continuing education for programs sponsored by the NAA, it's councils and chapter, businesses, educational institutions, other professional accounting organizations and trade associations. The programs may be regular college courses, seminars, workshops or technical meetings under the direction of speakers, instructors or discussion leaders. The method of instruction may include lecture, discussion, case studies and teaching aids such as training films and cassettes. Credit is also granted for home study courses, speeches, and publications of technical articles.⁵¹

The CMA Examination is a major breakthrough in determining competence but it also has one drawback. The exam is not required by the accounting profession or by individual state boards of accountancy. So, at this time, the CMA Certificate does not have the prestige it deserves. All the certificate holder can gain from his certificate is that it may give him an edge when competing for a job.

⁵⁰"Certificate in Management Accounting," Management Accounting, July 1974, p. 70.

⁵¹"Continuing Education Requirements and Rules," Management Accounting, September 1974, p. 55.

The experience requirements for the CMA Examination require two years of related professional services. Hopefully, managerial accounting. In addition, a CPA exam is needed also. CMA Exam must complete an average of 30 non-specific criteria for professional study in a three year period remains the only specific maintain their proficiency.⁵⁰ Ability to perform management

The Institute will give credit for management services, continuing education for programs of the Institute and criteria for councils and chapter, businesses, etc. In addition, for other professional accounting organizations in management accounting. The programs may be regular sessions of the Institute General or technical meetings under the direction of the Institute or discussion leaders. The complexity of the financial world, lecture, discussion, case studies, businessmen. In fact, the training films and case studies, accountant in all matters study courses, speeches, etc. of his firm. This increased

The CMA Examination, enormous growth of general and mining competence for services. The requirements for services required by the accounting services are a natural outgrowth of the boards of accounting concepts and accountants should be encouraged does not have the services. The accounting profession has evolved holder can gain access of services and the accountant should to edge when facing the challenge.

----- The CPA should not enter management services blindly;

"Certificate in Management Accounting," p. 71.

or foolishly think that because he is a CPA, he can automatically possess all the qualities necessary to perform all management services. The accountant CHAPTER IV
 engagements. The same ethical standards of competence that
 SUMMARY AND CONCLUSIONS
 are required in traditional accounting jobs are required for

management. The United States is far behind several countries of the world in recognizing competence in management services.

Great Britain, Canada and Australia established criteria for determining competence in management services long ago.

Their equillivancy to the Certificate in Management Accounting is the Registered Industrial Accountant or the Certified General Accountant.⁵²

The increase of the complexity of the financial world continually demands more of the businessman. In turn, he seeks advice from his professional accountant in all matters relating to the profitability of his firm. This increased complexity has created an enormous growth of general and specialized management services.

Management services are a natural outgrowth of traditional accounting concepts and accountants should be encouraged to perform these services. The accounting profession has evolved into a larger range of services and the accountant should be ready to meet the challenge.

But the CPA should not enter management services blindly;

determining competence in management services. They have

⁵²"Certificate in Management Accounting," p. 71.

or foolishly think that because he is a CPA, he can automatically possess all the qualities necessary to perform all management services. The accountant must prepare carefully for his engagements. The same ethical standards of competence that are required in traditional accounting jobs are required for management services as well. The accounting jobs are required for management services as well. The accountant has a duty to his client to see that the services he performs are competent.

Competence for traditional accounting engagements is determined by the successful completion of the CPA Exam. Some states also require additional experience in the field before a certificate is issued. All fifty states agree that these requirements are sufficient for determining competence in accounting.

If an exam is proof of competence in accounting, why not establish an exam for measuring competence in management services?

The National Association of Accountants has established the CMA Examination for just this purpose. The exam was first offered in 1972 and since that time it has received the acceptance and respect of the accounting community. The members of the profession feel that an examination of this type is what is needed.

The AICPA has not made any specific statements on determining competence in management services. They have established the MASBOKE Study and hopefully, the results of

Study will initiate some action on the part of the AICPA in this area.

The CMA Examination is an excellent measure of competence. It requires knowledge in general and specific areas of management services. Successful completion requires preparation by study in a comprehensive college curriculum and by self-study in certain topics.

Due to the growth of management services, colleges and universities realize that their course offerings in this area are lacking and are now adjusting their course offerings accordingly.

The accounting industry needs to establish a uniform examination in management services to equal the requirements of the CPA exam; either by a separate exam, like the CMA, or by an addition to the existing CPA Exam. Some affirmative action by the profession is required if management services are to be performed with the professionalism equal to the other services of tax preparation and auditing.

"Continuing Education Requirements and Rules." *Management Accounting*, September 1973, p. 55.

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