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1971

## **70's: a Decade for Decision, 1971 Report of Council to the Membership of the American Institute of Certified Public Accountants**

Rex B. Cruze Jr.

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American Institute of Certified Public Accountants (AICPA)

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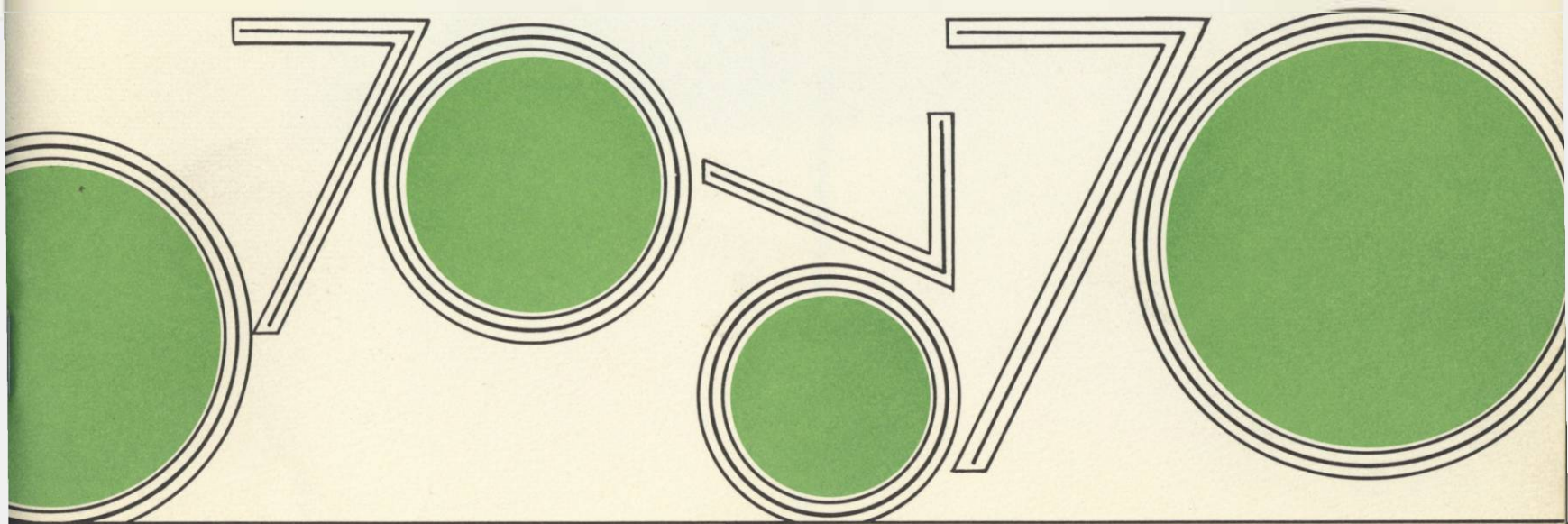
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# The '70's: A Decade for Decision

1971 Report of Council  
to the Membership of the  
American Institute of  
Certified Public Accountants

SEP 21 1971



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**Marshall S. Armstrong,**  
President

## The '70's: A Decade for Decision

The late French critic Charles Du Bos wrote, "The important thing is this: to be able at any moment to sacrifice what we are for what we could become."

Becoming what we *could* be—fully realizing the potential of accounting in service to humanity—depends crucially on our bringing issues forward for decision before the most desirable alternatives for the future become inaccessible.

My year as the Institute's president began with a prediction that the 1970's would be our time to excel. And I have been fortunate to serve with others, volunteers and staff, who are committed to that goal. I am grateful that the profession has attained a level of

maturity, achieved in the decade of the sixties, that provides a solid base from which to prepare for the future—while mindful that responding to the demands of the present and preserving the best of the past are equally necessary.

A year ago I stated my conviction that an allegiance to the profession is essential if we are to dwell in a healthy and comfortable house of accountancy. Unity of purpose and spirit was never more important than in this time of challenge, change and debate.

This conviction led me to convene a special Conference on Accounting Principles last January. The Conference included thirty-five prominent CPAs representing twenty-one major accounting firms.

In opening the Conference, I observed that the Institute's Board of Directors, in authorizing such a meeting, recognized that the profession has a special obligation to reexamine from time to time whether and how its standards-setting role could be made more responsive to the needs of those who rely upon financial statements.

After a long day's discussion, the Conference adopted a resolution recommending the appointment of two study groups, and with the approval of the Board of Directors I acted upon this recommendation.

The first study group is reviewing the structure and operating procedures of the Accounting Principles Board and is determining

what changes would be necessary to attain better results faster. The second group is reexamining the objectives of financial statements in light of their appropriateness to today's conditions.

Each group is comprised of representatives from segments of business and professional life other than accounting.

The accounting principles study group is chaired by Francis M. Wheat, a recent member of the Securities and Exchange Commission and a distinguished attorney now practicing in California. Serving with Mr. Wheat are several exceptionally able men—a university professor, a financial analyst, a financial executive and three men engaged in the public practice of accounting.

The second study group, to deal with objectives of financial statements, is chaired by Robert M. Trueblood, an outstanding practicing CPA and a past president of the American Institute. Serving with him are a financial analyst, an economist, an industrial executive, two professors, and two CPAs from public practice—all of whom were selected for their wide range of experience and known abilities.

The call for greater accountability is part of the general mood of our time. As society has become more complex, the particular groups within it have become more dependent upon one another, but, at the same time, less able to know at first-hand what the others are doing. From this circumstance stems a rising insistence for new standards of accountability. I am convinced that the work of these two groups will result in substantial benefits for the business

community, users of financial statements and our profession. I am confident as well that the profession will respond with unity to the conclusions of these study groups.

My acceptance speech also emphasized the profession's need for an automated information retrieval system. By this means, the Institute could eliminate wasteful duplication of effort by separate firms in accumulating and indexing data for use as background in resolving accounting issues.

Two task forces are framing recommendations for the Board of Directors on the categories of information that will be most useful and the kind of computer system best suited to our purpose. With the help of these task forces and their feasibility studies, the Institute should be able to meet this need for a profession-wide system.

I referred as well to the need for conscientious observance of technical standards and the contribution which the proposed restatement of the Code of Professional Ethics would make to that goal.

The proposed restatement will present the rationale for a high level of ethical conduct and will specify also the level which if breached would be grounds for disciplinary action. A draft of the restatement and a subsequent revision, based upon the reactions of interested parties, have been exposed in anticipation of widespread discussion in the coming year and a vote by the membership in the fall of 1972.



**Our profession can fulfill its mission only if its members conduct themselves in a way that merits the respect and confidence of the public. Accordingly, the Division of Professional Ethics is exploring the exchange of ethics information and ways to improve enforcement by the entire profession—state societies, state boards and the Institute.**

**During the year, the Committee on Auditing Procedure and some of the industry audit guide committees have performed admirably. Their plans, with the encouragement of President-Nominee Walter J. Oliphant, call for even more effort in the coming year.**

**Like my predecessors, I also expressed support for auditing research to extend the authoritative literature underlying generally accepted auditing standards. If auditing standards were more precisely elaborated, disagreements among litigants and expert witnesses could be settled more often without recourse to juries of nonaccountants.**

**Although starting from a low base, we have virtually doubled the resources which are being directed to auditing research. The commitment should lead to better decisions concerning areas in need of improvement or open to the uncertainties of interpretation by legal contest.**

**The long-range need for regional professional development training centers was noted a year ago because such centers would facilitate communication among practitioners and enable them to meet the**

educational necessities of professional life.

Since then Council has recommended that each of the states require, by legislation or regulation as may be appropriate, CPAs to demonstrate that they are continuing their professional education as a condition precedent to the reregistration, renewal of permit to practice, or other validation of the designation. Although individual home study materials on a broad range of subjects are being developed to facilitate convenient but formal learning, it is reasonable to assume that many CPAs will choose to participate in group study as we always have known it. This underscores the need for adequate professional development facilities at regional locations.

Having nearly reached the objective of rounding out the professional development curriculum, the Institute must plan for such an undertaking and must be ready to move swiftly. A long-range planning committee of the Professional Development Board is considering this and other aspects of the profession's continuing education needs in the decade of the 1970's.

You may recall that I also referred to the cost of progress.

Council approved an increase of one third in the dues of all members except those classified as retired at the end of the fiscal year. The decision followed a thorough study of the Institute's financial situation in light of inflation and of growing expectations within the membership. Two columns in *The CPA* presented an analysis of the problem and some of the alternatives under consideration.

In addition, the study included a review of the planning process for allocating the Institute's resources to its continuing objectives. The process involves a substantial number of members and staff—which is an element of strength since their participation guarantees that a number of viewpoints will be considered throughout the deliberations. It also establishes a record that can provide a bench-mark for analysis whenever budgetary deviations occur.

The policies and procedures now in force to provide a periodic appraisal of actual performance related to plans and budget also were reviewed, along with policy statements related to financial controls in salary administration, centralized purchasing and expense reimbursements.

With restoration through the dues increase of purchasing power which had been eroded by inflation, and with provision for a modest expansion in service to meet membership needs, attempts to bring forward significant issues for decision will be greatly facilitated.

The main purpose of this report is to help members keep informed about the activities of their organization in a few minutes of thoughtful review. The report is intended also to provide the basis for inquiries or comments at the Institute's annual meeting in Detroit during October. Prepared before the end of the fiscal year, it is of necessity incomplete. However, the Institute's financial statements and the accompanying report of the independent auditors will be published in a forthcoming issue of *The CPA*, along with late developments of significance.

Uncounted man-years of service are donated annually by members to the advancement of the continuing objectives reproduced in the appendix of this report. This contribution of service, in many ways conditioned upon adequately financed operations, is being supported by revenues in excess of \$10 million this year. Membership dues may account for about a third of this revenue. Financial contributions by the Accounting Research Association and revenue earned in investment and related transactions may add another tenth. The balance—well over six tenths—is being produced by ongoing programs, perhaps an indication of the considerable value of the Institute's diverse operations to the profession and others in our society.

For purposes of perspective, the rest of this report presents an analysis of the Institute's operations by objectives. The approximations in the analysis are derived from recasting results of operations for the 1969-70 fiscal year into program areas based upon the Institute's continuing objectives. Significantly different percentages are not expected when the results of this year are analyzed.

My year began with an admission that most of the matters mentioned in my platform were not things to be accomplished in a year. I assured you, however, that the other elected officers and I would do our utmost to advance the best interests of the profession and to achieve an extent of progress that would merit approval.

The courageous German theologian Dietrich Bonhoeffer observed that the strong characteristically “. . . bring momentous issues to

the fore and make a decision about them"—while the weak “. . . are forced to decide between alternatives they have not chosen for themselves.”

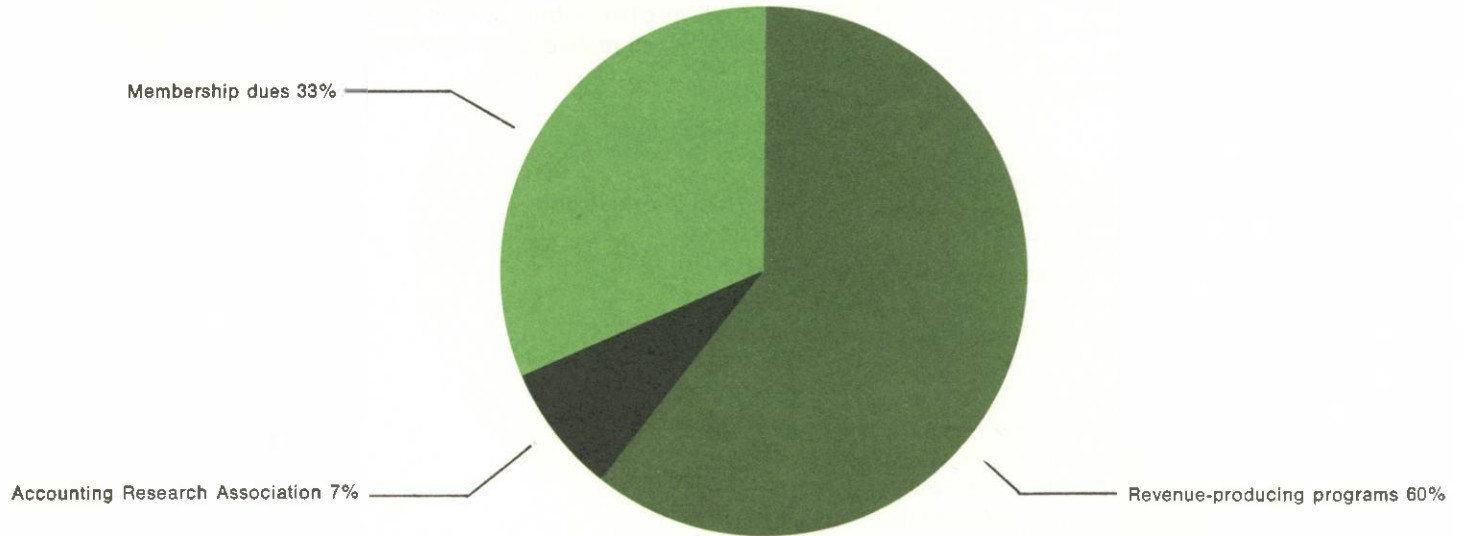
The significant work summarized in this report was performed by thousands of individuals who, in bringing issues forward for decision and helping the organization retain the ability to shape alternatives of the future, seek to ensure that the accounting profession will realize its full potential in service to mankind.

**Marshall S. Armstrong**  
President  
August 15, 1971

## Analysis of Operations by Objectives

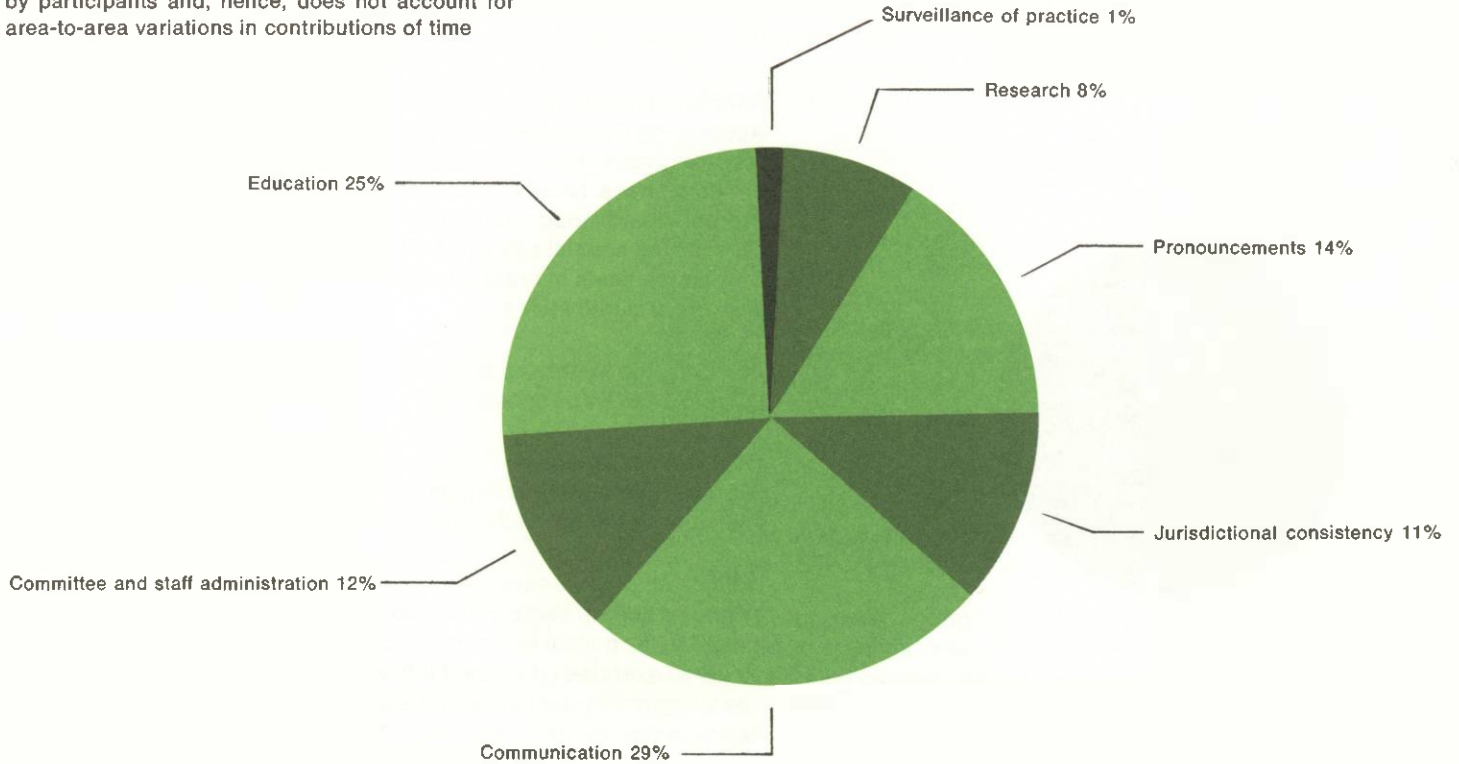
Derived from recasting results of operations in 1969-70 into program areas based upon the Institute's continuing objectives

## Percentage of Revenues by Sources



## Percentage of Expenses by Program Areas

This analysis excludes the value of time donated by participants and, hence, does not account for area-to-area variations in contributions of time



## Pronouncements

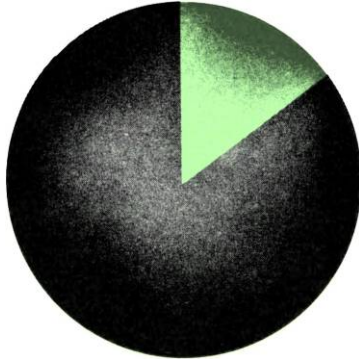
Maintaining and enhancing acceptance of the Institute as the authoritative source of principles and procedures in the broad field of accounting has been the purpose of nearly 14 per cent of the Institute's budget.

Somewhat less than two thirds of these expenses furthered the Accounting Principles Board's effort to eliminate accounting and reporting variations not justified by substantive differences in circumstances. Nearly three tenths has been associated with the program to advance auditing and reporting, particularly in industries posing special problems. The balance has been related to pronouncements in federal taxation, management advisory services and professional ethics.

Similarly, the talent and time contributed to this program—while unmeasured—was substantial.

**Accounting Principles.** The Accounting Principles Board's output to improve financial reporting and disclosure of information to investors has continued to accelerate.

Opinion 18 of the Board requires a company to report its equity—its proportionate share of income or loss—in unconsolidated subsidiaries, corporate joint ventures and holdings which give it the ability to exercise significant influence over the financial and operating policy decisions of the investee. In the absence of evidence to the contrary, the ability to exercise significant influence is presumed for investments of 20 per cent or more of the voting stock and to be lacking for investments of less than 20 per cent.





A statement of changes in financial position was declared a basic statement, necessary for fair presentation in accordance with generally accepted accounting principles, by Opinion 19. Such a statement—often referred to as a statement of sources and uses of funds or a funds statement—summarizes the financing and investing activities of a company.

Opinion 20, in defining various types of accounting changes and specifying the way they should be reported, limits accounting changes to those which are deemed preferable. An Opinion of the Accounting Principles Board or an Industry Audit Guide of an Institute committee that expresses a preference for, approval or rejection of an accounting principle is sufficient support for a change; the burden of justifying other changes rests with the entity proposing the change. Opinion 20 requires most changes in accounting, with certain exceptions which warrant retroactive restatement, to be recognized by reporting the cumulative effect of the difference between the former accounting principle and the retroactive application of the new one as a separate item just above net income for the year. Financial statements of prior years are not to be restated, but the effect of the change on those years is to be disclosed as supplemental information.

Opinion 21 requires imputing interest to most long-term receivables and payables bearing no interest or an interest rate much lower than the prevailing current rate for a comparable note. The difference between the present value and the face amount is to be amortized over the life of the note at a constant rate of interest on the unamortized principal outstanding at the beginning of any given period.

Before their issuance, these Opinions were exposed to nearly a hundred thousand individuals and organizations for comment. Organizations participating in the establishment of accounting principles also received discussion outlines—usually the preliminary conclusions of APB committees—on several subjects under early consideration by the Board. Views on reporting investments in marketable equity securities were expressed by groups and individuals at the first formal public hearing of the Board.

The Board's first official utterance on fundamentals was issued in Statement 4 on basic concepts and accounting principles underlying financial statements of business enterprises. The Statement will be useful in pinpointing deficiencies in financial reporting and guiding the Board's consideration of basic issues.

Timely guidance was given through several accounting interpretations published without the formal procedure required for an APB Opinion. Accounting interpretations, which are reviewed with informed members of the profession, are not pronouncements of the Board. However, members may be called upon to justify departures from the interpretations.

The objectives of financial statements and the Institute's mechanism for establishing accounting principles became subjects of in-depth studies. The studies, commissioned under the separate direction of Robert M. Trueblood and Francis M. Wheat, were launched to develop a unified approach. Segments of business and professional life other than accounting are represented in both study groups.

**Auditing and Reporting.** The Institute's enlarged effort in auditing and reporting is producing results.

Statement on Auditing Procedure 43, among other things, requires the auditor to follow up nonresponses to positive confirmation requests on significant receivables. When it is impossible or impracticable for the auditor to confirm receivables or observe the taking of inventories, he is no longer required to disclose the omission of these procedures if he has satisfied himself by other means. However, when a restriction is imposed by the client, the auditor must disclose this fact in the scope paragraph (or in a middle paragraph) and, generally, disclaim an opinion on the financial statements taken as a whole.

Statement 44 on reports following a pooling of interests was prompted by Opinion 16 of the Accounting Principles Board. In this Statement the Committee on Auditing Procedure reminds the auditor that management's failure to recognize a pooling in the prior years of comparative financial statements and other historical data as well as in the current year in which the pooling has been consummated is an inconsistency requiring a qualified opinion. Similarly, management's omission of the disclosure of a pooling transaction from a single-year presentation and its effect on the revenues, extraordinary items and net earnings of the constituent companies for the preceding year on a combined basis would require the auditor to qualify his opinion for lack of disclosure as well as for inconsistency.

Statement 45 establishes criteria for reliance and guidelines for reporting when the principal auditor of financial statements utilizes

the work and reports of other independent auditors who have performed the examinations for underlying subsidiaries, divisions, branches or other components. If the criteria for reliance are not met, the principal auditor may have to qualify or disclaim an opinion.

In general, Statement 46 prohibits the issuance of an opinion on segments of financial statements if the client imposes restrictions on the scope of the independent auditor's work. Although the Statement permits the use of such piecemeal opinions in connection with buy-sell agreements and internal client reviews, it precludes a CPA from issuing an opinion on the financial statements of bank holding companies unless the underlying banks have been audited.

Statement 47 reclassifies subsequent events into two types: (1) those requiring adjustment of the financial statements because they provide additional evidence about conditions existing at the balance sheet date and affect the estimates inherent in the process of preparing financial statements; and (2) those requiring only disclosure in the financial statements or supplementary pro-forma financial data because they provide evidence of conditions which arose after the balance sheet date. The Statement also recommends procedures to ascertain the occurrence of subsequent events, identifies certain problem areas in dating the auditor's report, and discusses reissuance of reports.

The Committee on Auditing Procedure also exposed proposals concerning letters for underwriters, internal control and statements of changes in financial position.

The Audit Guide addressed to the special financial problems of health and welfare benefit plans funded in a definite manner was approved for publication by the Committee on Health, Welfare and Pension Funds. Among other conclusions, the Guide calls for the use of the accrual basis with recognition of contributions receivable from employers. Internal controls adequate to disclose and follow-up delinquent employer reports and contributions as well as employer over or underpayments also are required.

The Committee on Health Care Institutions revised and re-exposed its proposed Audit Guide on hospitals. Other exposures include a proposed Audit Guide on life insurance companies by the Committee on Insurance Accounting and Auditing; a proposed Guide on savings and loan associations by the Committee on Savings and Loan Associations; a proposed paper on income from films licensed to television by the Committee on Accounting in the Entertainment Industries; and a proposed Guide for audits of brokers and dealers in securities by the Committee on Stockbrokerage Accounting and Auditing.

**Federal Taxation.** Along with two other Statements on Responsibilities in Tax Practice which were approved in time for the 1970 report of Council to the membership, the Statement on knowledge of error in administrative proceedings was published by the Division of Federal Taxation. It calls for the CPA to request the client's agreement to disclose to the Internal Revenue Service an error (including an omission) known to the CPA that has resulted or may result in a material understatement of tax liability. The Statement observes that lacking such agreement, the CPA may be under a duty to withdraw from the engagement.

A proposed Statement on procedural questions in preparing returns has been approved for exposure.

**Management Advisory Services.** Guideline 2 on documentation of MAS engagements, prepared by the 1969-70 Committee on Management Services, was published.

The Committee on Standards of the new Division of Management Advisory Services has begun the development of a set of general standards for the MAS area of practice. Work on other proposed Statements and Guidelines has been suspended in view of this project.

**Professional Ethics.** A proposed restatement of the Code of Professional Ethics was exposed and later revised in view of the comments received. The proposed restatement, in addition to specifying the minimum level of conduct whose breach would be grounds for disciplinary action, broadly and affirmatively presents the rationale for a high level of ethical conduct. Scheduled for consideration by the membership in the fall of 1972, the revision is being exposed.

Interpretive Opinion 7 on data processing services was revised to conform with Rule 4.06 of the Code permitting practice in the form of a professional corporation or association subject to the public safeguards prescribed in resolutions of Council. The Opinion states that a member would not be prohibited by Rule 4.06 from becoming

**an officer, director, stockholder or agent of a corporation offering services solely to practicing public accountants who are regulated by state law even if the characteristics of the corporation do not conform to resolutions of Council.**

**Opinion 22 of the Division of Professional Ethics establishes guidelines on the performance of record-keeping and other accounting services for audit clients. A small client without anyone in its employ to maintain accounting records may rely on the CPA to do so. However, the client must prepare source documents and be sufficiently knowledgeable of the enterprise's activities that it can take responsibility for its financial statements. The Opinion also cautions members to avoid becoming so involved in client affairs that a reasonable observer would conclude that the member is virtually an employee and therefore lacking in independence. The processing or maintenance of accounting records cannot eliminate the need to conform to generally accepted auditing standards. In addition, when the client's securities are offered to the public and become subject to regulation by the Securities and Exchange Commission or similar bodies, responsibility for the maintenance of accounting records—including accounting classification decisions—must be assumed by the client.**

**Much committee and staff activity was devoted to proposed pronouncements. Most of them are listed below with an indication of their status in mid-August. Drafts of the proposed pronouncements are not available until approved for exposure by the appropriate committee.**

**APB Opinions    Draft stage**

Extractive industries  
Marketable securities  
Tax allocation—special situations

**Preliminary development stage**

Diversified companies  
Accounting policy (Statement)  
Leases  
Noncash transactions  
Interim financial statements  
Components of a business enterprise  
Common stock equivalents  
Stock compensation  
Retirement of debt

**Statements on Auditing Procedure    Exposure stage**

Letters for underwriters  
Internal control  
Statements of changes *in financial position*

**Draft stage**

Short-form report (revision)



Transactions with affiliates  
Reporting on accounting changes

**Preliminary development stage**

Degrees of qualification  
Negative assurance  
Reporting on forecasts  
Reliance on nonaccounting experts  
Qualitative aspects of inventory taking  
Auditing fair value  
Continuous auditing  
Audit supervision  
Auditing long-term investments  
Codification of Statements on Auditing Procedure  
Reporting on financial summaries

**Audit Guides Exposure stage**

Hospitals  
Income from films licensed to television  
(position paper)  
Savings and loan associations  
Life insurance companies  
Stock brokers and dealers

**Draft stage**

Service-center-produced records  
Governmental accounting and auditing  
Finance companies  
Colleges and universities  
Companies in the development stage  
Defense contractors  
Land development companies (position paper)

**Preliminary development stage**

Pension funds  
Fire and casualty insurance companies  
Investment companies  
Federal grant programs  
Franchise operations (position paper)  
Private foundations  
Real estate transactions

**Statements on Responsibilities in Tax Practice**      **Exposure stage**

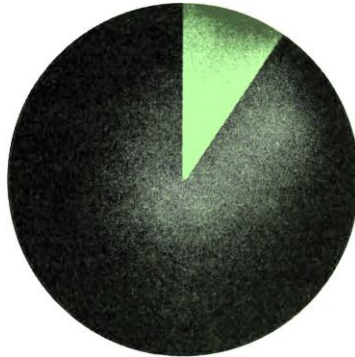
*Procedural questions in preparing returns*

**Amendments to the Code of Professional Ethics**      **Exposure stage**

Restatement of the Code

## Research

Nearly 8 per cent of the Institute's budget has been associated with research, producing new knowledge and—to a minor extent—identifying new areas for the application of the CPA's attest function. Nearly four tenths made available knowledge in accounting principles; more than one fourth advanced auditing and reporting. Direct research assistance to members through the technical information service and the library has been supported by three tenths of the amount; the remainder has been associated with other activities.



Much of the Institute's research continued to be directed to the analysis of issues before the Accounting Principles Board and, to a lesser degree, the Committee on Auditing Procedure. Some of the reports and commentary were published in *The Journal of Accountancy*.

The first Study in Tax Policy was approved by the Division of Federal Taxation. Exploring the relationships between tax and financial accounting, the Study provides background for the Institute's overall review of its policy on this matter of significance to the profession.

The second volume of John L. Carey's history of the Institute was published. The Board of Directors, in a resolution, cited the work as the latest in a long series of distinguished services performed for the profession by Mr. Carey and his associate, Mrs. Elizabeth Arliss Nicholson.

The Accountants International Study Group—representatives from

professional bodies in Canada, the United Kingdom and the United States—published a Study on the allocation of corporate income taxes.

The latest index of accounting books and periodicals was published. Recent accounting trends and techniques were surveyed and the findings published.

Planning a profession-wide information retrieval system progressed to the point of obtaining a consensus on the key features of information requirements and computer systems.

Other studies are in process but are not yet ready for distribution. Most are listed below with indications of their current status.

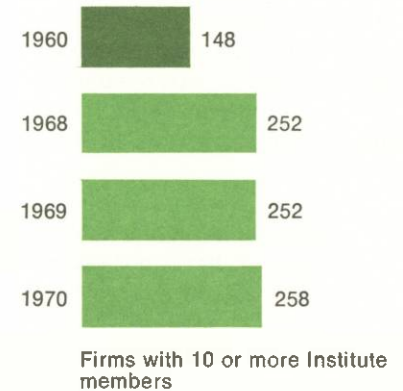
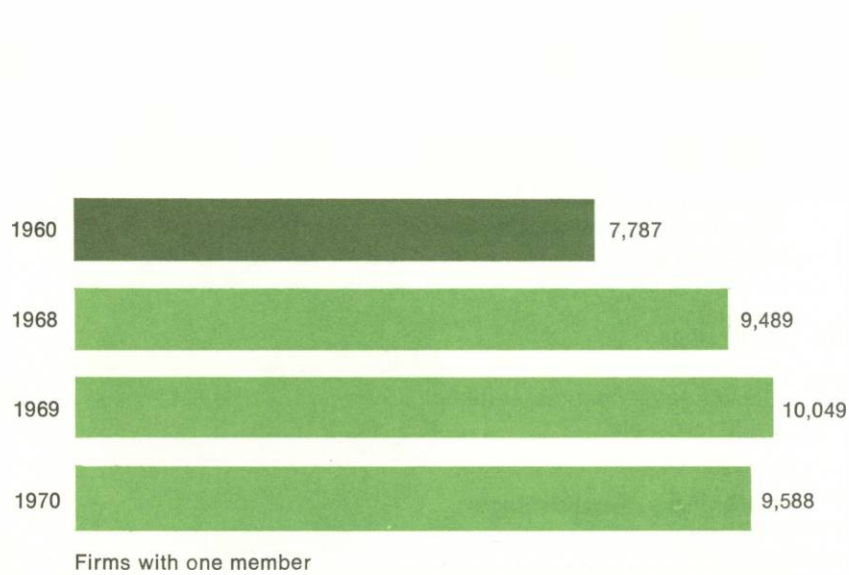
**Accounting Research Studies    Draft stage**

Foreign operations  
Stockholders' equity  
Intercorporate investments  
Research and development  
Inventory pricing

**Preliminary research stage**

Concept of materiality  
Depreciation methods  
Working capital  
Asset and liability valuation  
Worldwide financial reporting

## Practice Units Represented in the Membership



**Auditing Research Monographs**    **Preliminary research stage**

Audit opinion criteria  
Reporting on forecasts

**Studies in Tax Policy**    **Preliminary research stage**

Capital gains taxation  
Taxation of business combinations  
Value-added tax

**Accountants International Studies**    **Draft stage**

Consolidated financial statements  
Profit forecasts

**Preliminary research stage**

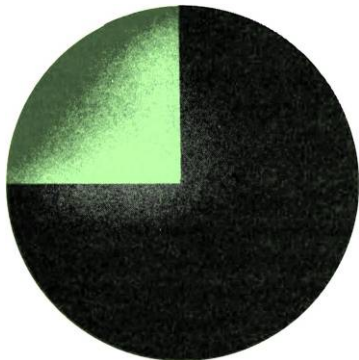
Extraordinary and prior-year items  
Funds statements  
Diversified companies

**Other Research**    **Draft stage**

Basic cost concepts and implementation criteria  
Accounting trends and techniques

## Education

Education for the profession has been the object of almost 25 per cent of the Institute's budget. Nearly seven eighths of this amount assisted members in discharging their commitment to continuing study and self-improvement through professional development courses, technical studies and practice aids. Most of the remainder has been committed to attracting better students to the profession; the balance helped the Institute serve as a constructive force in improving academic preparation for CPAs and personnel testing for guidance and selection.



**Recruiting for the Profession.** Several hundred thousand high school and college students received information about accounting opportunities and were urged to become accounting majors.

A new college-level brochure about accounting careers emphasizes the involvement of the CPA in attention-getting and socially useful accounting engagements. Fifteen new radio spots on recruiting were made available to state societies. Some Institutional recruiting ads were placed in cooperation with state societies. One of the ads was reduced in size for use by CPAs who are asked by high schools and other organizations to buy ad space in yearbooks and newspapers; all were available in poster form for school bulletin boards.

A guide on the effective use of the one-for-one recruiting plan at the high school, community college and university levels was developed for state societies.

A study of the supply of accounting graduates and the demand for

public accounting staff was published as a useful guide to present conditions as well as a base for observing trends.

The pre-employment attitudes of students planning to enter public accounting were measured in schools selected nationwide. The second phase of the study, to be spaced over several years, will survey post-employment attitudes of the same individuals as they pursue their careers.

A survey of minority groups represented on the professional staffs of public accounting firms revealed that the numbers are almost double the previous year, demonstrating the significant support of the profession for the objective of equal opportunity in fact as well as in concept.

Efforts to increase the AICPA Foundation's Accounting Education Fund for Disadvantaged Students were accelerated. With the guidance of the Institute's Committee on Minority Recruitment and Equal Opportunity, the AICPA Foundation also made grants of \$50,000 each over a three-year period to five traditionally black universities for assistance to undergraduate accounting majors. The Committee is studying another system for granting assistance to other needy and qualified minority accounting majors in all schools.

Through the joint effort of the National Urban League and the Institute's Committee, twelve black CPAs each spent two consecutive days as visiting professors at two traditionally black universities.



Two dozen minority group educators participated in the Institute's top-level seminar on the latest developments in professional accounting.

**Academic Preparation.** The Standing Committee on Accounting Education—composed of representatives from the American Accounting Association, the American Association of Collegiate Schools of Business, the National Association of State Boards of Accountancy and the Institute—has undertaken discussions of the Institute's educational policies in light of the recent Carnegie report and the current academic environment.

The AICPA Distinguished Professorship enabled Professor Paul Fertig to consult with the faculty at Virginia Polytechnic Institute and State University in Blacksburg, Va., while on leave from Ohio State University.

Other awards and grants-in-aid were made to symbolize the Institute's interest in accounting education and literature.

**Testing.** The Institute's Accounting Testing Program began its 25th year of service to accounting firms, industry, governmental agencies, and educational institutions. Revised orientation tests were introduced in the spring 1971 college program. Also available now is a new Level II achievement test which places greater emphasis on managerial accounting and provides coverage of topics in auditing, internal control, statistical sampling, operations research and EDP.

**Continuing Education.** Recognizing that academic preparation is merely a beginning, Council adopted a resolution of the Committee on Continuing Education recommending that each state require, by legislation or regulation as may be appropriate, CPAs to demonstrate that they are continuing their professional education as a condition precedent to the reregistration, renewal of permit to practice, or other validation of the designation. The Committee's suggested guidelines would permit each CPA to determine what he should study provided that it is a formal program of learning which contributes directly to his professional competence after he has been licensed to practice public accounting. The guidelines call for the completion of 120 class hours of formal programs or the equivalent in the three years immediately preceding reregistration.

For the first time, the Institute's professional development offering included multi-media instructional programs utilizing cassettes and integrated workbooks. New or wholly revised courses completed this year include the Level III training program in management advisory services, income statement presentation, accounting for pension costs, financial reporting and general price-level changes, accounting for income taxes, national accounting and auditing issues, local government accounting and auditing, bank auditing, the AUDASSIST systems workshop, individual income tax returns, corporate income tax returns, the tax problems of individuals, multiple corporations, the tax lecture series, international taxation, depreciation problems, computer selection and evaluation, a hands-on computer course and writing for executives. A new CPAudio Series on APB Opinions and several

cassettes analyzing the 1969 tax reform act also were released.

Educational studies published or approved for publication include an analysis of the 1969 tax reform act, a guide to working with the Internal Revenue Code in 1971, Study in Federal Taxation 2 on recognized techniques for minimizing the federal tax impact on individuals, Management Services Technical Study 9 on production scheduling, and questions and unofficial answers for the Uniform CPA Examination.

Auditing service-center-produced records, generalized audit programs and time sharing were among the topics discussed at the annual conference on computers and information systems. The conference was designed for CPAs who are currently involved in some facet of EDP or who are considering such involvement.

Educational publications or courses still in process are listed below with an indication of their status.

**An Auditor's Approach to Statistical Sampling**    **Draft stage**

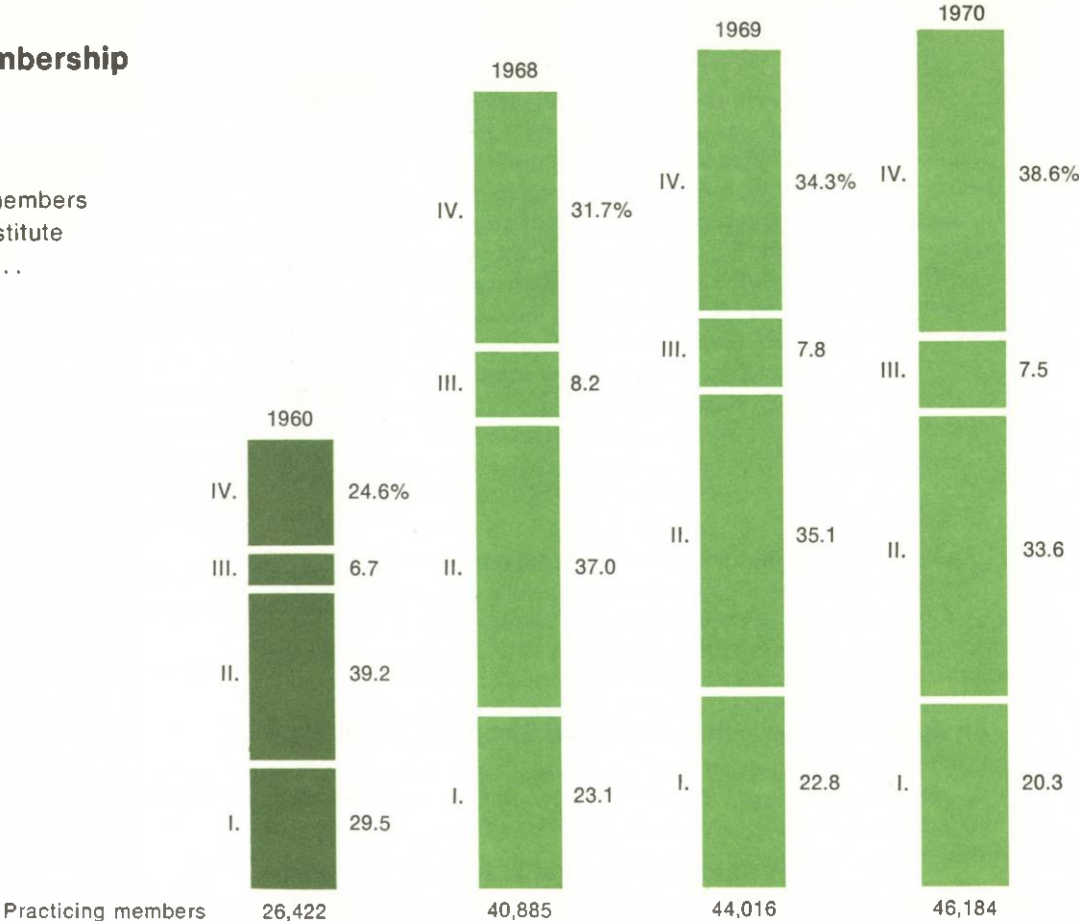
Ratio and difference estimation

**Studies in Federal Taxation**    **Draft stage**

Tax elections

# Sources of Practicing Membership

- I. Firms with one member
- II. Firms with 2-9 Institute members
- III. Firms with 10 or more Institute members, except the . . .
- IV. 25 largest firms



**Preliminary development stage**

Operating a domestic corporation  
U. S. tax aspects of doing business abroad

**Management Services Technical Studies    Draft stage**

EDP feasibility study  
Service bureaus  
Systems analysis

**Preliminary development stage**

Management information techniques  
Managing the programming effort  
Planning, programming and budgeting

**Management of an Accounting Practice    Preliminary development stage**

Accounting practice management handbook (revision)

**Professional Development Courses    Nearing completion**

Fiduciary accounting  
Financing the small business (revision)  
COBOL programming for auditors

Pension and profit-sharing plans (revision)  
Going public (revision)  
Depreciation problems (revision)  
Tax planning, time sharing and you  
Computer security and the auditor's responsibility  
Unaudited financial statements

**Draft stage**

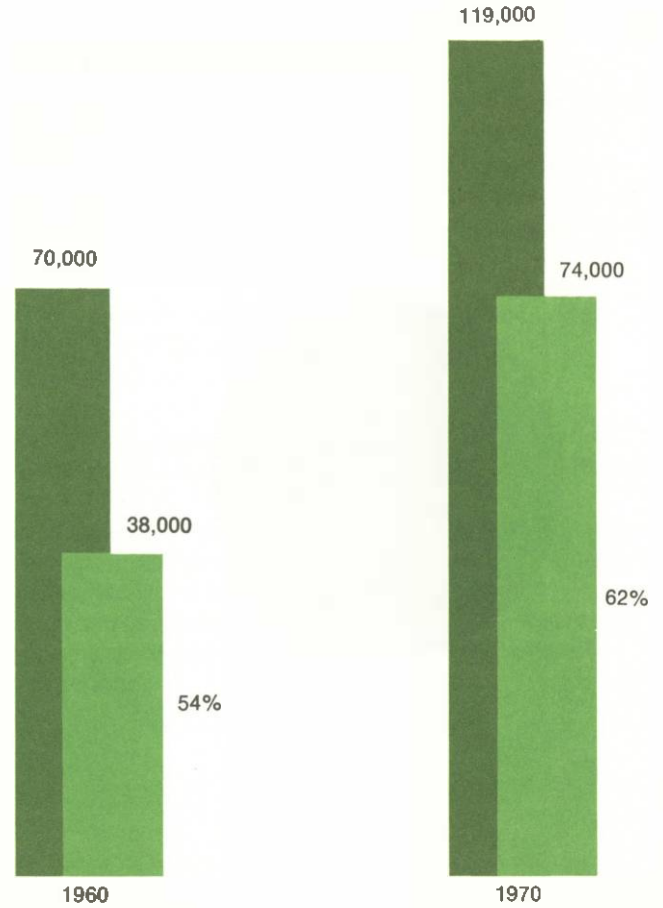
Consolidated tax returns  
Building and administering an accounting practice  
Government contract accounting  
Accounting for leases  
Tax research

**Preliminary development stage**

Stock redemptions  
Services to clients in the construction industry  
Accumulated earnings tax  
Deferred compensation  
Fiduciary income tax returns

## Ratio of Institute Membership to all CPAs

- Estimated number of CPAs at 8/31
- Institute membership at 8/31



## Surveillance of Practice



Maintaining surveillance of practice in the interest of promoting high standards of performance in the profession and public confidence in the wide range of services which it provides has been supported by a little more than 1 per cent of the Institute's budget and a significant amount of members' time. Nearly two fifths has been in the nature of preventive education (such as responses to inquiries) and about one fifth has been in the nature of corrective education (such as practice review). The remaining two fifths supported disciplinary measures.

A review of the procedures and organizational arrangements of the Division of Professional Ethics and the Trial Board was completed. An Ad Hoc Committee found the present procedures and organizational arrangements of the ethics and Trial Board operations essentially sound and effective. It recommended, among other things, that criteria be developed as the basis for penalties to promote consistency in the decisions of the sub-boards of the Trial Board; that the Committee on Professional Ethics avoid any action that could be construed as a disciplinary action having the same impact as a guilty finding by the Trial Board; and that a number of organizational and procedural changes be made, including separate staffing for the Committee on Professional Ethics and the Trial Board.

The Institute and the New York State Society submitted joint briefs as friends of the court in appeals of lower court decisions in the 1136 Tenants' Corporation case. The briefs were concerned primarily with the scope of the CPA's responsibilities in the preparation of unaudited financial statements.



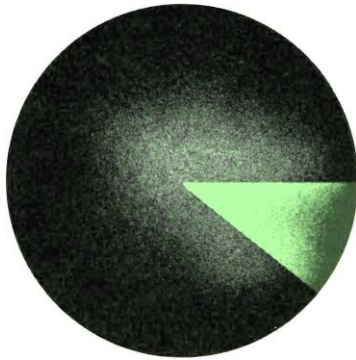
Assisting members to obtain professional liability insurance continued to be an important activity of the Committee on Accountants' Legal Liability in cooperation with state societies and the insurance companies. Beyond the Committee's program of basic and excess coverage for the vast majority of practice units in the profession, coverage of firms with over 50 partners and affected staff can be arranged—on a review of individual cases—through the program's administrator.

During the year, the Division of Professional Ethics received 63 formal inquiries. Some 126 alleged violations of the Code also came to its attention.

The financial reports of over 500 publicly held companies were screened for possible review by the Committee on Practice Review.

The Advisory Committee on Quality Review developed a tentative basis for a self-supporting review service which would be available to firms represented in the membership as a part of the Institute's program of preventive education. Arrangements for pilot reviews are being made with firms to refine the effectiveness of the proposed service.

## **Jurisdictional Consistency**



Promoting the adoption of uniform standards governing the issuance of the CPA certificate, the recognition of qualified accountants of other countries, and freedom of movement in interstate and international accounting practice was supported by nearly 11 per cent of the Institute's budget. The Uniform CPA Examination accounted for more than seven eighths of the total. The other eighth was divided between the membership admissions process and activities concerned with state legislation and practice rights.

The Committee on Professional Recognition and Regulation is exploring the effectiveness of current procedures for professional recognition and regulation of CPAs. It also will consider the implications of a national CPA certificate. The exploration is the joint effort of the Institute and the National Association of State Boards of Accountancy.

The full cooperation of state societies made it possible for the Institute's State Legislation Committee and its advisory service to assist individual states with specific problems. Legislation affecting the profession was introduced in about two thirds of the states.

The national conference on state legislation in St. Louis explored technician legislation, state society legislative programs and other current developments.

The legislative form bill has been revised to provide for the Institute's new policies on corporate practice, education and experience requirements, deletion of the U. S. citizenship require-

ment, broadening of the attest function, and temporary practice provisions. The form bill is the Institute's model for state societies planning modifications in state accountancy laws.

A political campaign treasurer's handbook was exposed by the Committee on State Legislation. The final version of the handbook is expected to be useful in planning and implementing the campaign treasurer's function.

A manual on the development and implementation of continuing state legislative programs also was prepared as an aid to state societies.

A task force is undertaking an appraisal of tax, accounting and auditing services performed by nonprofessional firms. Their future, the substantial public interest involved, and the profession's response to changes in the environment of practice also are being explored.

The Board of Directors developed an Institute policy concerning the nature of a permanent international secretariat whenever one is established. Consultations with associations representing the profession in other countries will precede any formal introduction of the proposal.

## Communication

Effective communication and cooperation with others on matters of concern to the profession has accounted for 29 per cent of the Institute's budget. Almost a fourth of this amount has been used to communicate with groups beyond the profession; the other three fourths supported communication with groups and individuals within the profession.



**Beyond the Profession.** Somewhat less than three fifths of the expenses devoted to communication beyond the profession have been required for liaison with government. Press relations required an additional one fifth. The remaining one fifth has been divided among activities directed to the general public and liaison activities with other professions and users of financial statements.

The Institute's new liaison committee offered its cooperation to the Cost Accounting Standards Board, the federal body assigned responsibility for development of cost accounting standards related to federal negotiated procurement contracts. Herman W. Bevis and Robert K. Mautz, AICPA members, were appointed as representatives of the accounting profession to the five-man Board. Arthur Schoenhaut, also an Institute member, was named its executive secretary.

Tentative standards for audits of federally assisted government programs were developed by the Federal Intergovernmental Audit Standards Work Group and an AICPA Task Force. The standards, which encompass compliance and performance

requirements as well as financial presentation, would be applicable to all public sector audits without regard to who performed them—independent auditors or government auditors at the federal, state and local levels.

The Comptroller General of the United States revised the GAO-recommended language for audit provisions used in federal legislation. The new language would restrict federally stimulated examinations of financial statements after 1975 to CPAs and to a dying class of public accountants who held licenses at the end of 1970.

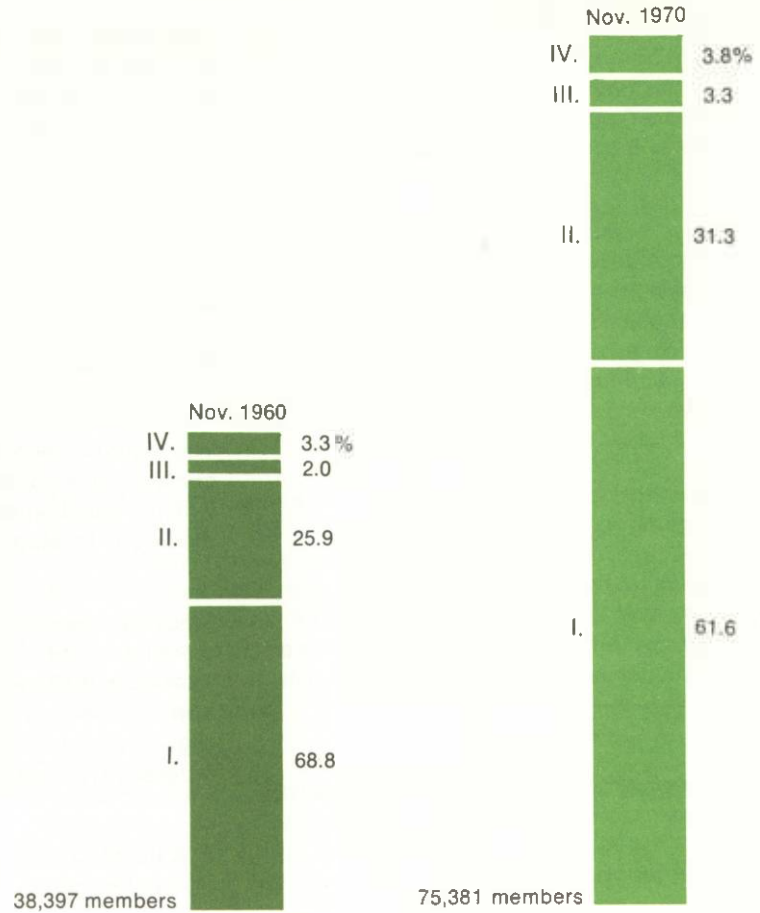
The Institute undertook a reexamination of its broad policy on conformity of tax and financial accounting in view of the effect which a financial statement reporting requirement might have on the future development of accounting principles.

Many Congressional bills which would affect accounting practice were introduced—further indications of increasing federal interest in the use of independent auditors. Institute committees and staff also continued to review and comment on technical regulations and audit guidelines proposed by agencies of the federal government.

The Institute's Division of Federal Taxation presented testimony before the House Ways and Means Committee regarding Nixon

## Occupational Classification of Members

- I. Public accounting
- II. Business, industry, miscellaneous
- III. Education
- IV. Government



Administration proposals for the acceleration of estate and gift tax payments.

The Treasury sought the counsel of the Tax Division prior to the issuance of tentative regulations proposing an asset depreciation range system. Comments on many other proposed regulations and drafts discussing appreciated property at death and generation-skipping transfers also were submitted. The Division conferred with the Internal Revenue Service on a number of administrative matters—among others, the retention of machine-readable accounting records and the development of forms required of exempt organizations under the tax reform act.

Among the Institute activities prominently mentioned in the press were the annual meeting, speeches by officers, exposure drafts of APB Opinions and audit guides, scholarship grants to predominantly black colleges, articles from *The Tax Adviser*, the appointment of study groups on financial reporting, and New York and American Stock Exchange support for APB Opinions 16 and 17. The Institute's one-minute television news feature on annual reports was used by dozens of stations, usually at prime time. Another on a pioneering water pollution control program was released recently.

Another in the continuing series of seminars for financial writers was held in Arlington, Va. These seminars provide writers with the opportunity to discuss various aspects of corporate financial reporting with prominent members of the accounting profession and the financial community.

Articles outlining the benefits a CPA brings to the small and medium-sized business were placed in trade publications directed to various groups of retailers and service companies.

**Within the Profession.** Periodicals and correspondence with members have accounted for roughly nine tenths of the amount devoted to communication within the profession. The remaining one tenth has supported liaison with state societies and the various national accounting associations.

*The Tax Adviser* completed its first full year of operation with well over 11,000 subscribers and an award for excellence in overall design, printing and format. *Management Adviser*, formerly *Management Services*, has a circulation of about 17,000. *The ARA Newsletter* is distributed to some 27,000 persons who are individual members of the Accounting Research Association or are employed by firm members. *The CPA* is sent to all 80,000 members of the Institute. Circulation for *The Journal of Accountancy* rose to 140,000.

The partnership nature of the missions to be performed by the profession's national and state organizations in the coming year was the theme of the Institute-sponsored planning conference attended by incoming presidents and executive directors of state societies last fall. State societies proved to be the most effective vehicle for distribution of news features on tax incentives for pollution control and tax information articles.



A number of societies also participated in the development of proposals for the 1971 edition of the Division of Federal Taxation's booklet presenting recommendations for amendments to the Internal Revenue Code.

The Committee on Economic Opportunity held two regional meetings to encourage state society participation in its program.

The Board of Directors adopted a policy calling for non-CPA associates on the staffs of public accounting firms who meet educational, technical and moral standards equivalent to those of present Institute members to be brought into a professional relationship with the Institute. The Committee on Specialization was requested to develop an acceptable plan of implementation.

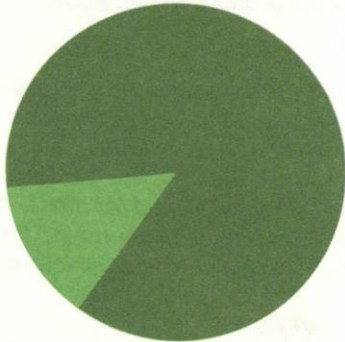
The Institute arranged to make available to members a generalized computer audit program known as AUDASSIST. The program enables practitioners—including those whose data processing experience is limited—to use the computer to retrieve machine-readable data from the client's files and perform such functions as aging, confirming, sampling, stratifying and calculating.

The Advisory Committee on Systems Development and Exchange is facilitating the exchange of computer programs among CPAs to reduce needless duplication in writing computer programs. Many

accounting applications already have been developed.

**The Institute was represented at the IX Inter-American Accounting Conference in Bogotá, Colombia, and at the Conference of Asian and Pacific Accountants in Malaysia.**

## Committee and Staff Administration



Administration by the Institute's governing bodies, committees and staff has required a little more than 12 per cent of the budget.

The reapportionment of Council called for by the bylaws was completed in accordance with U. S. Congressional reapportionment procedures. The procedures minimized state-to-state variation in the number of Institute members represented by a Council member. Alabama, Arizona, Kansas, Kentucky, and Missouri lost one seat. Illinois, New Jersey and New York gained one seat. California picked up two seats.

Council authorized a one-third increase in the Institute's dues schedule at the beginning of the new fiscal year, excluding members who are classified as retired at that time. The adjustment grew out of the careful reexamination of the Institute's financial situation in light of inflation and enlarged expectations of the membership. The reexamination included reviews of the planning process of ensuring an orderly allocation of the Institute's resources to continuing objectives, policies and procedures for providing periodic appraisals of actual performance related to plans and budgets, and internal financial controls.

**Objectives**  
of the American Institute of  
Certified Public Accountants

Note: The following statement of the Institute's objectives reflects a series of actions by Council over the last decade. The objectives set forth here supplement, or in some cases amplify, the opening paragraph of the bylaws devoted to the purposes of the organization.

*To perform in a manner which will persuade all parties at interest—government, financial institutions, the business community, universities and the public generally—to accept the organization as the authoritative source of principles and procedures in its field.*

*To promote improvements in financial reporting by seeking to eliminate variations in reporting practices which are not justified by substantial differences in circumstances.*

*To maintain surveillance over practice in the interest of promoting high standards of performance by the profession and public confidence in its work.*

*To produce valuable, new knowledge in its field through research and experimentation, the analysis and synthesis of experience, and the development and adaptation of new techniques.*

*To identify those areas in society where the need for the CPA's attest function exists and to assist its members in equipping themselves to perform the attest function wherever a useful social purpose would be served.*

*To encourage all CPAs to perform a wide range of services in the broad field of accounting consistent with their professional competence and their ethical responsibilities. (Refer to "A*

*Description of the Professional Practice of Certified Public Accountants" which was approved by Council in 1966 as an official statement of Institute policy.)*

*To serve as a constructive force in improving education for the profession and, ultimately, all business education.*

*To encourage a continuous restatement of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice, and a clarification of the responsibilities appropriate to universities, practitioners and professional societies in the education and training of CPAs.*

*To maintain a high level of quality in its publications and in its program of professional development, and thus to aid its members in discharging their commitment to a lifetime of study and self-improvement.*

*To promote the adoption of uniform, nationwide standards governing the issuance of CPA certificates, recognition of qualified accountants of other countries, and freedom of movement in interstate and international accounting practice.*

*To cooperate fully with all organizations of accountants, both at home and abroad, to the end that the entire accounting function can make its maximum contribution to the public good.*

*To communicate effectively to the public, as well as to all levels of government, in regard to matters of concern to the profession.*

*To coordinate, on a voluntary basis, the plans, programs and activities of the state societies and of the Institute, with particular emphasis on the adoption of uniform codes of professional ethics and enforcement procedures.*

*To encourage every eligible CPA, in furtherance of his personal development and in fulfillment of his professional obligations, to become a member of both his state society and the Institute.*

*To adopt a form of organization best designed to meet the needs of all its members both in and out of practice.*

*To sustain itself as an organization of distinction by the wide participation of its members, by the intense and creative involvement of the best of the profession in Institute affairs, and by an exceptional quality of staff performance.*

*To engage a full-time staff of sufficient size and competence and to organize their efforts—both in terms of direct staff work and assistance to committees—so that the organization can move with speed and precision to strengthen continually its service and its leadership.*

*A description of the*  
**Professional Practice of  
Certified Public Accountants**

*Certified Public Accountants practice in the broad field of accounting.*

*Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization.*

*The information which accounting provides is essential for (1) effective planning, control and decision making by management, and (2) discharging the accountability of organizations to investors, creditors, government agencies, taxing authorities, association members, contributors to welfare institutions, and others.*

*Accounting includes the development and analysis of data, the testing of their validity and relevance, and the interpretation and communication of the resulting information to intended users. The data may be expressed in monetary or other quantitative terms, or in symbolic or verbal forms.*

*Some of the data with which accounting is concerned are not precisely measurable, but necessarily involve assumptions and estimates as to the present effect of future events and other uncertainties. Accordingly, accounting requires not only technical knowledge and skill, but even more importantly, disciplined judgment, perception and objectivity.*

*Within this broad field of accounting, certified public accountants are the identified professional accountants. They provide leadership in accounting research and education. In the practice of public accounting CPAs bring competence of professional quality,*

*independence, and a strong concern for the usefulness of the information and advice they provide, but they do not make management decisions.*

*The professional quality of their services is based upon experience and the requirements for the CPA certificate—education and examination—and upon the ethical and technical standards established and enforced by their profession.*

*CPAs have a distinctive role in examining financial statements submitted to investors, creditors and other interested parties, and in expressing independent opinions on the fairness of such statements. This distinctive role has inevitably encouraged a demand for the opinions of CPAs on a wide variety of other representations, such as compliance with rules and regulations of government agencies, sales statistics under lease and royalty agreements, and adherence to covenants in indentures.*

*The examination of financial statements requires CPAs to review many aspects of an organization's activities and procedures. Consequently they can advise clients of needed improvements in internal control, and make constructive suggestions on financial, tax and other operating matters.*

*In addition to furnishing advice in conjunction with their independent examinations of financial statements, CPAs are engaged to provide objective advice and consultation on various management problems. Many of these involve information and control systems and techniques, such as budgeting, cost control, profit planning, internal reporting, automatic data processing, and quantitative*



*analysis. CPAs also assist in the development and implementation of programs approved by management.*

*Among the major management problems depending on the accounting function is compliance with tax requirements. An important part of the practice of CPAs includes tax planning and advice, preparation of tax returns, and representation of clients before government agencies.*

*CPAs also participate in conference with government agencies such as the Securities and Exchange Commission, and with other interested parties, such as bankers.*

*Like other professional men, CPAs are often consulted on business, civic and other problems on which their judgment, experience, and professional standards permit them to provide helpful advice and assistance.*

*The complexities of an industrial society encourage a high degree of specialization in all professions. The accounting profession is no exception. Its scope is so wide and varied that many individual CPAs choose to specialize in particular types of service.*

*Although their activities may be diverse, all CPAs have demonstrated basic competence of professional quality in the discipline of accounting. It is this which unites them as members of one profession, and provides a foundation for extension of their services into new areas.*