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Institute at Midyear, 1970-71, a Program and Interim Report for the Spring Meeting of Council of the American Institute of Certified Public Accountants

Rex B. Cruse

Herbert W. Kearsse Jr.

American Institute of Certified Public Accountants

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THE INSTITUTE AT MIDYEAR 1970-71

A program and interim report
for the spring meeting of
Council of the American
Institute of Certified Public
Accountants

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**A program and interim report
for the spring meeting of
Council of the American
Institute of Certified Public
Accountants**

**Edited by
Rex B. Cruse, Jr., CPA**

**Designed by
Herbert W. Kears, Jr.**

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666 Fifth Avenue, New York, N.Y. 10019**

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PROGRAM

**American Institute of Certified Public Accountants
Meeting of Council
May 10-12, 1971**

Main Ballroom

The Broadmoor
Colorado Springs, Colorado

Registration Desk

Second floor, outside Main Ballroom

Sunday, May 9: 1-7 p.m.

Monday, May 10: 8-10 a.m.

Information Desk and Message Center

Second floor, outside Main Ballroom

Sunday, May 9, through Wednesday, May 12

Daily 9 a.m.-1 p.m.

Staff Headquarters

Pourtales Room

Saturday and Sunday Mornings,
May 8-9, 1971

C. Oliver Wellington Memorial Golf Tournament. All Council members and guests are invited to participate. Contact Pro Shop upon arrival for starting times and tournament instructions.

Monday Morning
May 10, 1971, 9 a.m.-1 p.m.

Call to Order and Introductory Statement by President
Marshall S. Armstrong

Elections

- Trial Board
- Ballots for admission to Institute

Approval of Minutes for Meeting of Council, September 19, 1970

“APB: It’s Still Where the Action Is”

Philip L. Defliese, Chairman
Accounting Principles Board

“Defensive Auditing: Taking the Offensive”

Thomas L. Holton, Chairman
Committee on Auditing Procedure

“Is Tax Practice Changing?”

William T. Barnes, Chairman of the Executive Committee
Division of Federal Taxation

“MAS: An Expanded Program”

James E. Seitz, Chairman of the Executive Committee
Division of Management Advisory Services

Report of the Executive Vice President

Leonard M. Savoie

Monday Evening Informal reception and cocktail party, with all in attendance as
May 10, 1971, 6-7:30 p.m. guests of the Institute

Tuesday Morning **Interim Financial Statements of the Institute**
May 11, 1971, 9 a.m.-1 p.m. Walter E. Hanson, Treasurer

Special Report of the Board of Directors on Institute Finances
Walter J. Oliphant, Chairman
Committee on Planning and Finance

“The Current Status of the Code Revision”
Wallace E. Olson, Chairman of the Executive Committee
Division of Professional Ethics

“Disciplinary Procedures of the Profession”
William H. Westphal, Chairman
AICPA-NASBA Committee on Enforcement of
Ethical Procedures

“An Updated Briefing on the Liability Problem”
Arthur P. Bartholomew, Chairman
Committee on Accountants' Legal Liability

“The Views of Three Friends”

- James Don Edwards, President
American Accounting Association
- Carl Dechow, Jr., President
National Association of State Boards of Accountancy
- Jack Brooks, President
CPA Society Executives Association

Wednesday Morning “Three Major Professional Issues”
May 12, 1971, 9 a.m.-1 p.m.

- **The Question of Continuing Education as a Professional Requirement**
Elmer G. Beamer, Chairman
Committee on Continuing Education
- **The Question of Recognizing Specialists**
Ralph F. Lewis, Chairman
Committee on Specialization
- **The Question of Displacement**
John W. Hoyt, Chairman
Special Committee to Study Displacement of CPA Firms

New Business and Forum

Discussion based upon the questions and comments of Council members

Report of Administrative Vice President

John Lawler

Concluding Statement by President

Marshall S. Armstrong

MIDYEAR REPORT TO COUNCIL



Marshall S. Armstrong,
President

From the President

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.”

In my view, one of the responsibilities of the president of the Institute is to bring issues forward for decision and to help the organization retain the ability to shape alternatives of the future.

My year as the Institute’s president began with a prediction that “The 1970’s would be our time to excel.”

I have been fortunate to serve with others—volunteers and staff—who are committed to that goal of excellence. And I have been grateful for the chance to serve at a time when the maturity of the profession, achieved in the decade of the sixties, has provided a solid base from which to advance.

At this mid-point in the year, it seems appropriate to review some

of the projects and plans mentioned in my inaugural address.

I spoke then of the profession's need for an information retrieval system. By that means, the Institute could eliminate the needless duplication of accumulating and indexing data in many separate firms for use as background in resolving accounting issues. Last fall the Institute's staff set out to identify the information needs of our membership and to explore the capabilities of available delivery systems. Information retrieval systems of other professions and organizations were evaluated.

Now two task forces have been appointed to frame 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 circumstances. With the help of these task forces, the Institute should be able to meet this need before anyone must go his own way and thereby preclude the development of a profession-wide system.

Seven months 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. I repeat that now. Unity—of purpose and in spirit—was never more important than in this time of challenge to existing ways and this period of debate over proposed new approaches.

This conviction led me, with the concurrence of the Board of Directors, to summon a conference last January to consider the best way of reexamining, in the light of current business and social conditions, the procedures for establishing accounting principles. Those present at the conference recommended that the Board of Directors authorize me to appoint two study groups,

acting independently of one another—the one to explore whether the Institute could improve on its present method and, if so, how; the other to refine the objectives of financial statements.

After receiving the Board's authorization in late February, I asked Francis M. Wheat to chair the former group and Robert M. Trueblood to chair the latter. Serving with these distinguished men are equally outstanding individuals—including representatives of society other than our own profession. I am confident that the profession will respond with cohesiveness and unity to the conclusions of these study groups concerning our ability to perform a mission of high public significance. Without such unity, the alternatives for decision may be formulated by others.

My address to the annual meeting referred as well to the need for 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 also specify the level whose breach would be ground for disciplinary action. A draft of the restatement was exposed this fall, and a revision is being readied for exposure. Plans now call for submitting the restatement to 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, I have appointed a committee composed of members of the Institute and the National Association of the State Boards of Accountancy to explore the exchange of ethics information and ways to enhance the effectiveness of enforcement by the entire profession—state

societies, state boards and the Institute.

Like my predecessors, I believe that our auditing research should be accelerated to extend the authoritative literature in support of generally accepted auditing standards. If auditing standards were more precisely elaborated, disagreements among litigants and expert witnesses could be settled more often without leaving professional judgment to juries of nonaccountants.

While the accelerated productivity of the Committee on Auditing Procedure and industry audit guide committees is encouraging, the amount of auditing research continues to be inadequate in relation to the need. The Institute's auditing research consultant cannot be expected to conduct alone an adequate program of research leading to monographs and papers on the many areas in need of improvement or vulnerable to court review because of divergent professional views. We shall continue to search for means to do more auditing research.

The long-range need for regional training centers was noted in my inaugural address because such centers would facilitate communication among practitioners and enable them to meet the educational necessities of professional life. At this very meeting, Council will be asked by the Committee on Continuing Education to adopt a policy calling for state boards to require continuing education of CPAs eligible to practice public accounting. If Council approves and the states act upon it, the need for regional training centers will be even greater than before. Having nearly reached the objective of rounding out the professional development curriculum and turned its attention to the management of the program, the Institute should remain alert

to the planning requirements for such an undertaking and be ready to move swiftly.

You may recall that I also referred to the “cost of progress.” With the assistance of the Planning and Finance Committee, the Board of Directors will be recommending that Council approve an upward adjustment of one third in the dues of all members except those classified as retired at the end of the fiscal year. Recent issues of *The CPA* alerted the membership to the likelihood of such an increase. It is, in my view—and, I believe, the view of the membership at large—essential to produce the revenues needed to maintain current programs without impairment of effectiveness.

Without the restoration of purchasing power eroded by inflation, and without provision for a modest expansion in service to a growing membership, attempts to bring significant issues forward for decision will be greatly impeded by concern for austerity and retrenchment—a halting attitude if not actually a step backward in the profession’s aspiration for excellence.

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 expected to be supplemented by about \$10 million of revenue 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 likely to be 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.

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

My year began with an admission that most of the matters mentioned in my platform were not things to be accomplished in a year, which is why my forward look extended over a much longer period. I assured you, however, that we would do our utmost to advance the best interests of the profession and to achieve an extent of progress that would merit your approval.

One of the principal purposes of this interim report is to provide the basis for inquiries or comments at the forthcoming meeting in Colorado Springs on May 10-12. By distributing the report in advance of the meeting, we are reserving our limited time there for a profitable review of issues of concern to the profession—with full participation by members of Council and committee chairmen in the discussion.

Moreover, a good deal of time on Wednesday morning has been set aside for Council members—either for themselves or on behalf of their constituents—to raise questions or make comments about any aspect of the Institute's policies or activities not previously discussed on the formal agenda. Question boxes will be placed in convenient locations at the meeting site.

The significant work summarized in this report was performed by well over a thousand individuals genuinely devoted to advancing the welfare of the whole profession.

“The joy of life,” Oliver Wendell Holmes once remarked, “is to put out one’s power in some natural and useful or harmless way. There is no other. And the real misery is not to do this.”

I ask your continued involvement in attempting to bring momentous issues to the fore for decision; each of us individually, as well as the profession we seek to advance, will be the beneficiary.

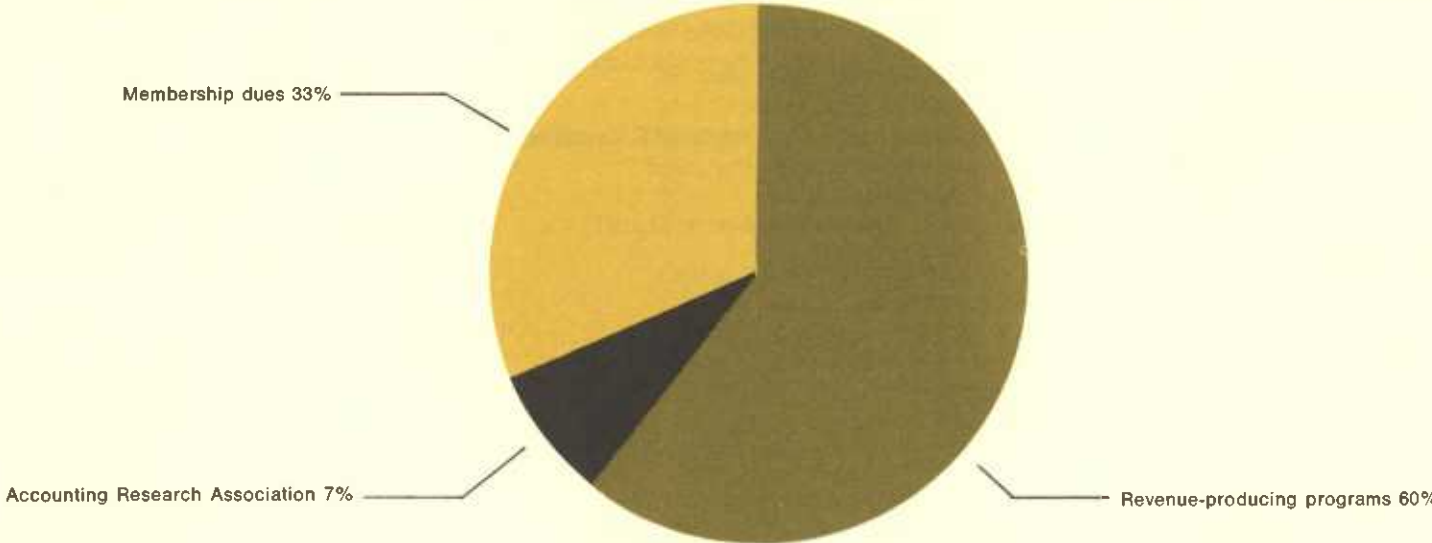
Marshall S. Armstrong,
President

March 21, 1971

Analysis of Operations by Objectives

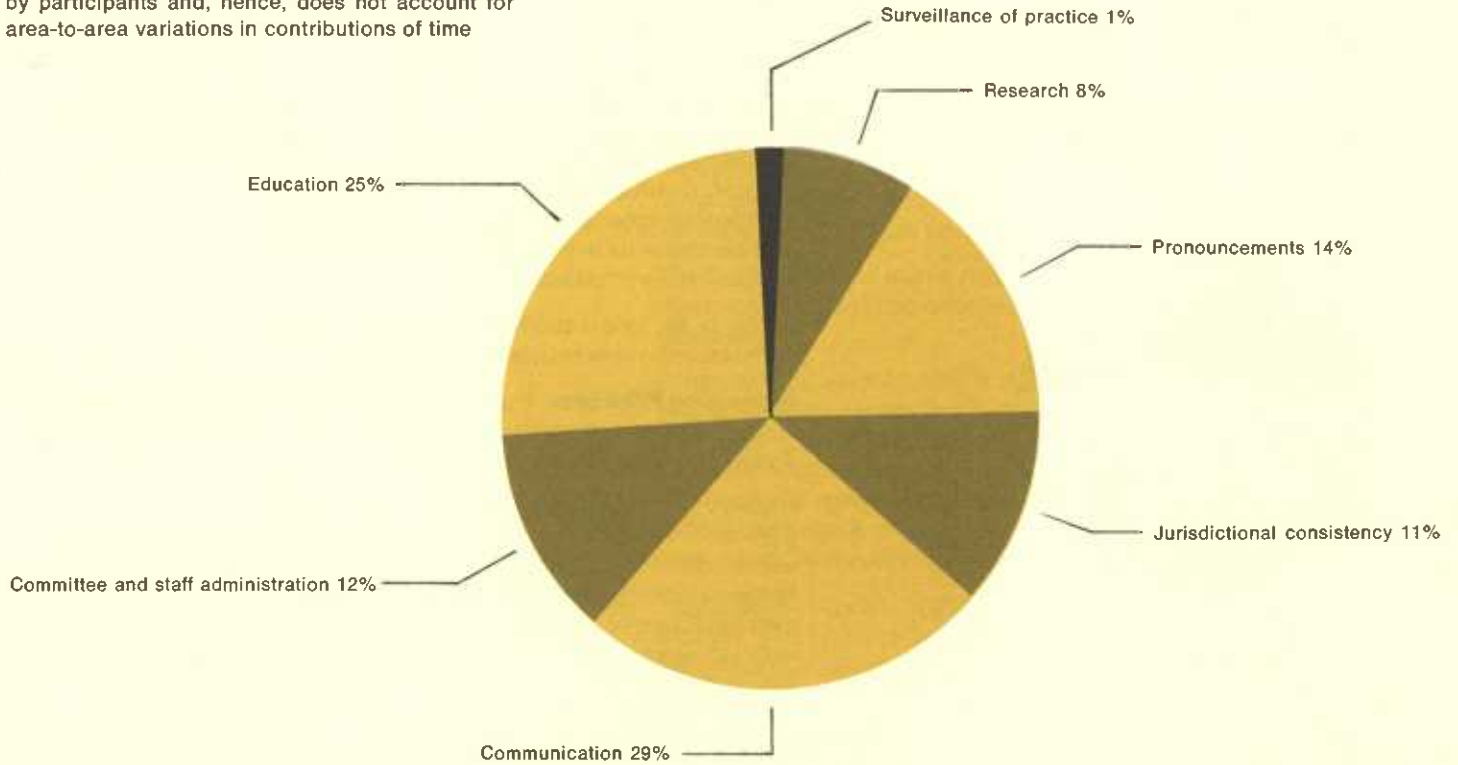
Derived from recasting results of operations in 1969-70 into program areas based upon the Institute's continuing objectives

Percentage of Revenues by Sources

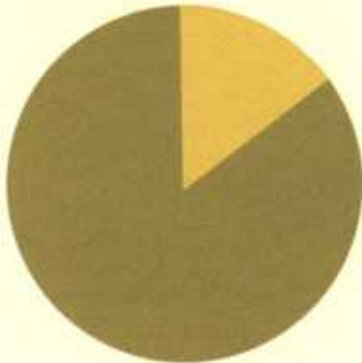


Percentage of Expenses by Program Areas

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 expenses.

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 proportionate share of income or loss (equity) in foreign subsidiaries, 50 per cent-owned companies, 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 considered to be present 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.

A memorandum of the Board calls for the retroactive adjustment of prior years' consolidated financial statements when reverting to the LIFO inventory method as a result of the Treasury's recent decision to require LIFO in consolidated financials if used by a subsidiary in its income tax return.

The Board released exposure drafts of proposed Opinions concerning accounting changes and interest on receivables and payables.

Organizations participating in the establishment of accounting principles also received early discussion outlines—the preliminary conclusions of APB committees—on accounting for dispositions of assets in noncash transactions and on financial reporting by diversified companies. The comments of participating organizations are helpful in the development of proposed Opinions for the consideration of the Board.

Interested groups and individuals will have the opportunity to express their views on reporting investments in marketable equity securities at a public hearing scheduled by the Accounting Principles Board for May 25-26.

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.

The objectives of financial statements and the Institute's mechanism for establishing accounting principles are to be subjects of in-depth studies. A conference of prominent CPAs and the Board of Directors agreed that the studies are essential to developing a unified approach to this mission of high public significance. The studies are being commissioned under the separate leadership of Robert M. Trueblood and Francis M. Wheat respectively. The public is 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.

The Committee on Auditing Procedure also exposed proposed Statements on letters for underwriters, using the work and report of another auditor, piecemeal opinions, and subsequent events.

The Committee on Health Care Institutions revised and re-exposed its proposed audit guide on hospitals. Other exposures include a proposed audit guide on health and welfare funds by the Committee on Health, Welfare and Pension Funds; 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; and a proposed position paper on income from films licensed to television by the Committee on Accounting in the Entertainment Industries.

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.

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 ground 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 readied for exposure.

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-March. Drafts of the proposed pronouncements are not available until approved for exposure by the appropriate committee.

APB Opinions Exposure stage

Accounting changes
Interest on receivables and payables

Draft stage

Noncash transactions

Preliminary development stage

Marketable securities
Diversified companies
Accounting policy (Statement)
Leases
Extractive industries
Tax allocation—special situations
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
Using the work and report of another auditor
Subsequent events
Piecemeal opinions

Draft stage

Internal control
Short-form report (revision)

Preliminary development stage

Reporting on accounting changes
Degrees of qualification

Negative assurance
Transactions with affiliates
Reporting on forecasts
Reliance on nonaccounting experts
Reporting on funds statements
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)
Health and welfare funds
Savings and loan associations
Life insurance companies

Draft stage

Service-center-produced records
Stock brokers and dealers
Governmental accounting and auditing
Finance companies
Colleges and universities
Defense contractors

Preliminary development stage

Pension funds

Fire and casualty insurance companies

Land development companies (position paper)

Companies in the development stage

Investment companies

Federal grant programs

Franchise operations (position paper)

Statements on Responsibilities in Tax Practice

Draft stage

Procedural questions in preparing returns

Amendments to the Code of Professional Ethics

Exposure stage

Restatement of the Code

Research

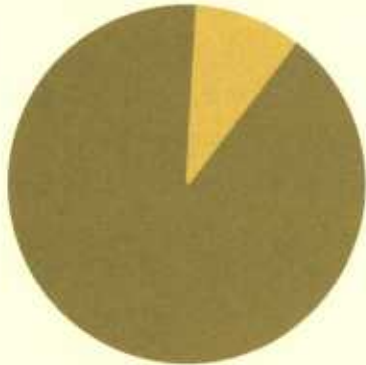
Nearly 8 per cent of the Institute's expenses have been associated with research, producing new knowledge and—to a minor extent—identifying new areas for the application of the CPA's attest function. Nearly four tenths made available new knowledge in accounting principles; more than one fourth advanced 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 continues 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 are published in *The Journal of Accountancy*.

The second volume of John L. Carey's history of the profession was released. 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 long-time 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. Of special interest were changes in financial reporting brought about by APB Opinions.



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. Accordingly, task forces have been appointed to frame recommendations for the Board of Directors.

Audit opinion criteria—the subject of the first Auditing Research Monograph—are under development.

The first Study in Tax Policy has begun. It will explore relationships between tax and financial accounting.

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

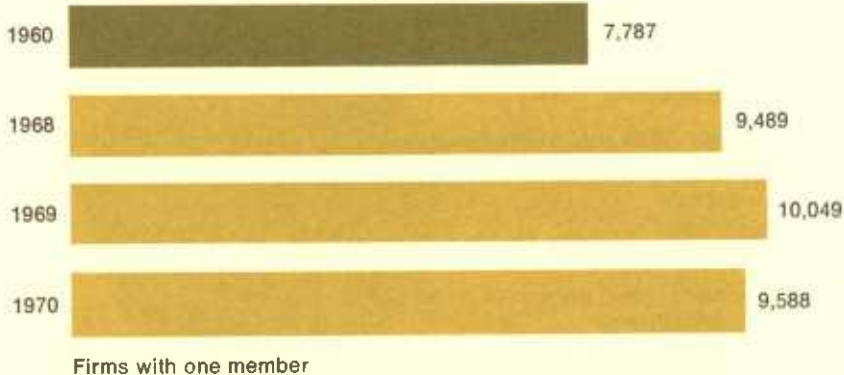
Draft stage

Intercorporate investments
Research and development
Foreign operations
Stockholders equity
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**

Relationship between tax and financial accounting
Taxation of business combinations
Capital gains taxation

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

Preliminary research stage

Accounting trends and techniques

Education

Education for the profession has been the object of almost 25 per cent of the Institute's expenses. 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 more and 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.

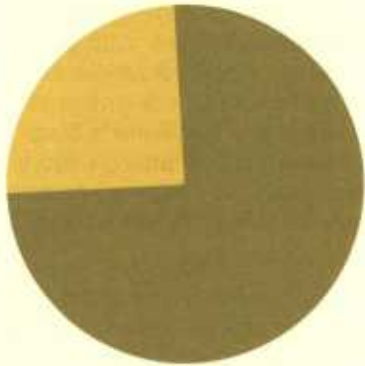
Recruiting for the Profession. Several hundred thousand high school and college students received information about accounting opportunities and were urged to become accounting majors.

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 plan at the high school, community college and university levels was developed for state societies.

The project to estimate the supply of and demand for accounting graduates on a continuing basis is under way.

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 chicano and 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 are each spending two consecutive days as visiting professors at two traditionally black universities.

A week-long summer seminar for the accounting faculties of similar schools is being planned as well.

Academic Preparation. The American Association of Collegiate Schools of Business will be devoting one full day of its annual meeting in May to the discussion of academic preparation in accounting.

Department chairmen in universities with accounting programs were offered free sets of CPA examination questions to acquaint them with the changing nature of the exam's content.

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.

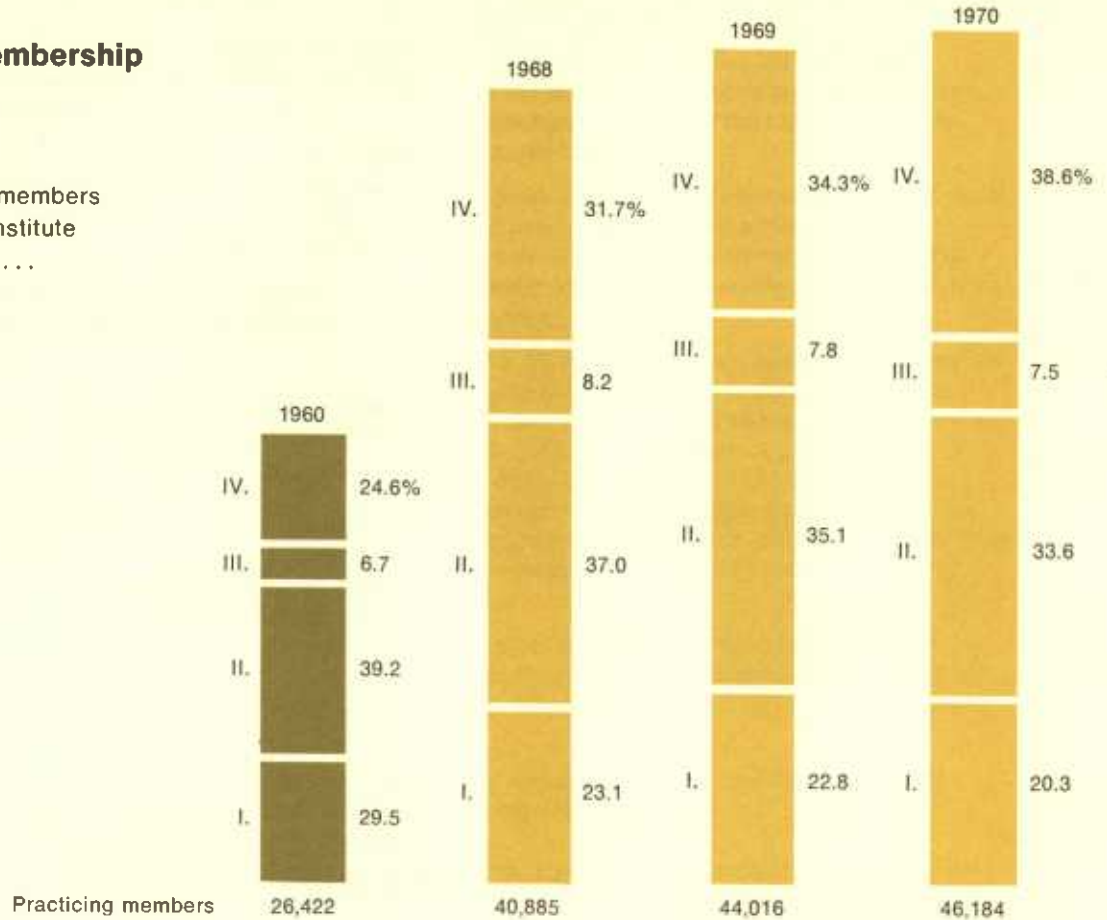
Testing. The Institute's Accounting Testing Program began its 25th year of service to accounting firms, industry, governmental agencies, and educational institutions. Revised orientation tests are being introduced in the spring 1971 college program. Also featured is a new Level II achievement test which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

Continuing Education. The Committee on Continuing Education, with the approval of the Board of Directors, is recommending that Council adopt a policy calling for each of the states to require continuing education for CPAs who are eligible to practice public accounting. Consideration of the recommendation appears on the agenda of the spring meeting of Council.

Wider geographical offerings of professional development courses are expected to result from regional planning meetings of state society and Institute representatives.

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



New or wholly revised professional development courses completed this year include income statement presentation, accounting for pension costs, bank auditing, the AUDASSIST systems workshop, individual income tax returns, the tax problems of individuals, multiple corporations, the tax lecture series, international finance and taxation, depreciation problems, computer selection and evaluation, a hands-on computer course and writing for executives. Several CPAudio tapes also were released, including a new series on APB Opinions and several cassettes analyzing the 1969 tax reform act.

Also published from articles in the Institute's periodicals were an analysis of the 1969 tax reform act—a significant contribution to the effectiveness of practitioners—and a guide to working with the Internal Revenue Code in 1971.

Study in Federal Taxation 2, just released, reviews recognized techniques for minimizing the federal tax impact on executives, employees, investors, professionals and other self-employed individuals.

Questions and unofficial answers for the Uniform CPA Examination were made available for students and others who have an interest in the changing content of the examination.

The Committee on Management of an Accounting Practice began a project to update and revise the MAP handbook. The revised handbook, to be published in a looseleaf format, will incorporate the material previously presented in MAP Bulletins and other relevant publications of the Institute.

The Institute's speakers bureau helped regional conferences, state

societies and their chapters plan technical sessions and obtain speakers for them.

The annual conference on computers and information systems is scheduled for May 24-26 in Boston. Auditing service-center-produced records, generalized audit programs, auditing via time sharing, mini-computers, and time-sharing and terminals are among the topics 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

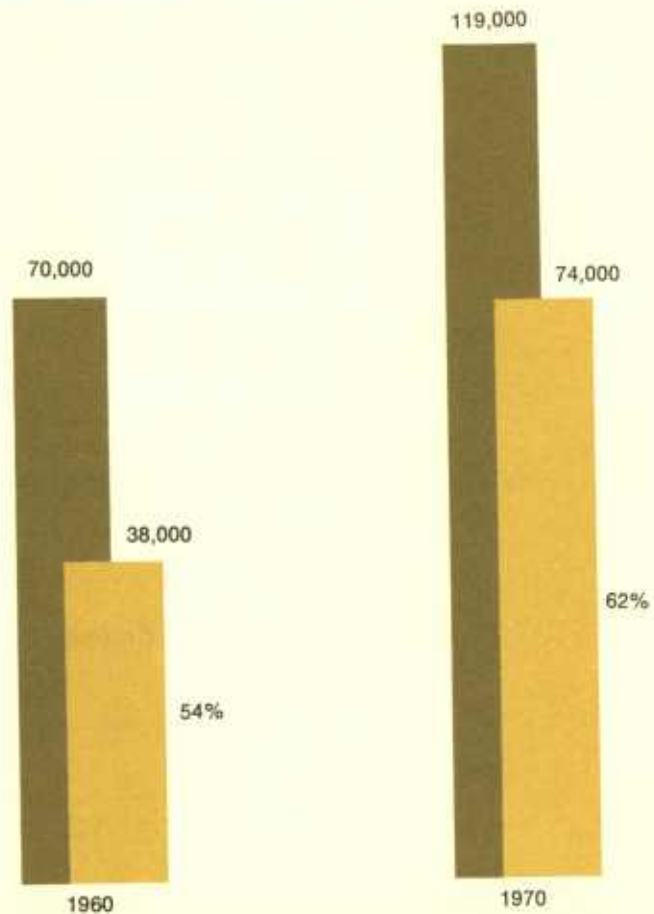
Preliminary development stage

Operating a domestic corporation

U. S. tax aspects of doing business abroad

Ratio of Institute Membership to all CPAs

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



Management Services Technical Studies

Draft stage

Production scheduling
EDP feasibility study

Preliminary development stage

Service bureaus
Management information techniques
Managing the programming effort
Systems analysis
Planning, programming and budgeting

Management of an Accounting Practice

Preliminary development stage

Accounting practice management handbook (revision)

Professional Development Courses

Nearing completion

Level III training program—management advisory services
Local government accounting and auditing
Accounting for pension costs
Financial reporting and general price-level changes
Accounting for income taxes (revision)
Level I training program (revision)
Level II training program (revision)
Level III training program—accounting and auditing (revision)
Level IV training program—accounting and auditing (revision)

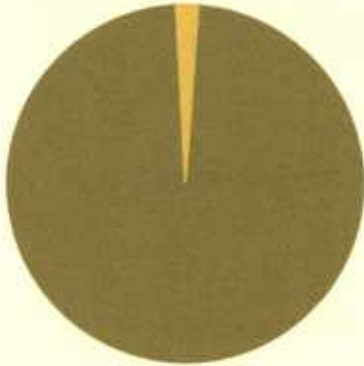
Draft stage

Government contract accounting
Fiduciary accounting

Preliminary development stage

Stock redemptions
Accounting for leases
Financing the small business (revision)
Tax research methods and techniques (revision)

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 expenses 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.

The Board of Directors prepared a white paper in response to a Securities and Exchange Commission request that the Institute reexamine the propriety of accounting firms providing executive search services to audit clients. The paper provided the Commission with a lengthy analysis of the profession's practice in this area of service.

A review of the procedures and organizational arrangements of the Professional Ethics Division 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 Board of Directors accepted the report in principle and transmitted it to the Trial Board and the Committee on Professional Ethics for implementation.

The Institute and the New York State Society submitted a brief as friends of the court for the appeal of the trial court decision in the 1136 Tenants' Corporation case. The brief is 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 first half of the year, the Division of Professional Ethics received 30 formal inquiries. Some 66 alleged violations of the Code also came to its attention.

The financial reports of over 500 publicly held companies were reviewed for the Committee on Practice Review.

A committee composed of members of the Institute and the National Association of State Boards of Accountancy is exploring the exchange of ethics information and ways to enhance the effectiveness of enforcement by the entire profession—state societies, state boards and the Institute.

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 expenses. 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.

Nearly 27,000 candidates wrote over 99,000 papers for the November 1970 CPA examination—a record.

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 is being introduced in about two thirds of the states. Legislation adverse to CPAs has appeared or is expected to appear in over one fourth 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 requirement, 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 recently appointed task force is undertaking a thorough 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 will be explored.

The Board of Directors intends to develop an Institute policy concerning the nature of a permanent international secretariat.

Communication

Effective communication and cooperation with others on matters of concern to the profession has accounted for 29 per cent of the Institute's expenses. 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.

In view of the complexity of the profession's relationships with the federal government, the Institute's involvement in Washington activities was reviewed by the Board of Directors.

The Institute has offered its cooperation to the Cost Accounting Standards Board, the new 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. Art Schoenhaut, also an Institute member, was named its executive secretary. The Board is expected to be staffed by some 40 employees and numerous voluntary task forces.

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 stimu-

lated examinations of financial statements after 1975 to CPAs and to a dying class of public accountants who held licenses at the end of 1970.

Following discussions with a state board of accountancy concerning competitive bidding for audits of manpower contracts, the Department of Labor developed a procedure for requesting proposals for required audit services. Contracts are to be awarded on the basis of understanding of the work to be performed and prior or equivalent experience, qualifications of assigned staff, location of office, and price. In selecting auditors, the Labor Department will assign a point range to each of the factors. Public notice of the request for proposals is published in *Commerce Business Daily*, a publication of the Department of Commerce.

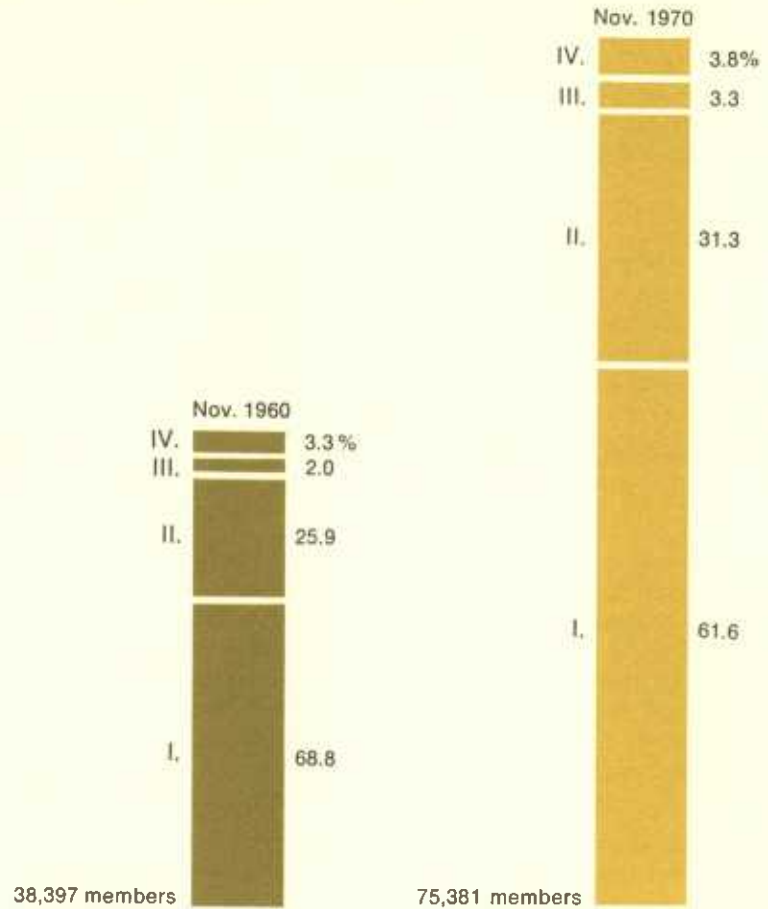
Many Congressional bills which would affect accounting practice were introduced—further indications of increasing federal interest in the use of independent auditors. Institute committees and staff also continued to review and comment on technical regulations and audit guidelines proposed by agencies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

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

Occupational Classification of Members

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



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 proposal for study groups on financial reporting, and New York and American Stock Exchange support for APB Opinions 16 and 17.

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 20,000. *The ARA*

Newsletter is distributed to some 26,000 persons who are individual members of the Accounting Research Association or are employed by firm members. *The CPA* is sent to all 77,000 members of the Institute. Circulation for *The Journal of Accountancy* rose to 136,000.

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.

Tax committees of the Illinois and California societies of CPAs are joining the Division of Federal Taxation in a study of the accumulated earnings tax and collapsible corporations for the purpose of making the tax law more simple and equitable. A number of societies also are participating in the development of proposals for the next edition of the 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 Concurrent Membership Task Force submitted its report to the State Society Relations Committee for review.

The Committee on Specialization plans to present at the spring meeting of Council a tentative proposal for an associate class of membership open to nonCPA specialists employed by CPA firms in management advisory services.

The Special Committee to Study Displacement also is expected to submit its recommendations shortly. Among them are likely to be proposals leading to an increase in the number of firms qualified to perform SEC engagements and in the means by which such firms may be identified.

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 expenses.

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.

On Council's agenda is a recommendation of the Board of Directors calling for a one-third increase in dues at the beginning of the next fiscal year, excluding members who are classified as retired at that time. After exploring alternatives, the Planning and Finance Committee and later the Board became convinced that only the revision of the membership dues schedule would produce the needed revenues to maintain the current programs without serious impairment of their effectiveness.

To strengthen the ability of the Institute to meet the increasing demands which will inevitably be placed upon it in the 1970s, the Board of Directors intends to recommend the appointment of two additional vice presidents who, together with administrative vice president John Lawler, will have reporting responsibility to executive vice president Leonard M. Savoie. Guy W. Trump is to be designated the educational officer; the position of technical officer is expected to be filled shortly. Submission of this and other proposed amendments to the Institute's bylaws and implementing resolutions of Council is being deferred so that they can accompany the proposed Code restatement in a mail ballot to the entire membership now scheduled for the fall of 1972.

Upon recommendation of the Insurance Committee, the Board of Directors authorized improvements in disability installments and clarified the distribution of funds for participants holding joint memberships in the Institute and sponsoring state society.

The Institute's accounting was changed to an accrual basis.

The first computer-prepared directory of Institute members was made available to the membership.

Space at 666 Fifth Avenue formerly subleased to Metropolitan Life Insurance Company became available and was converted for Institute use. Duplicating facilities located at 666 Fifth Avenue were combined with the professional development shipping location at 136 West 52 Street. The Board authorized the creation of suitable meeting quarters for Institute committees in recently acquired space at 1700 Broadway.

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.