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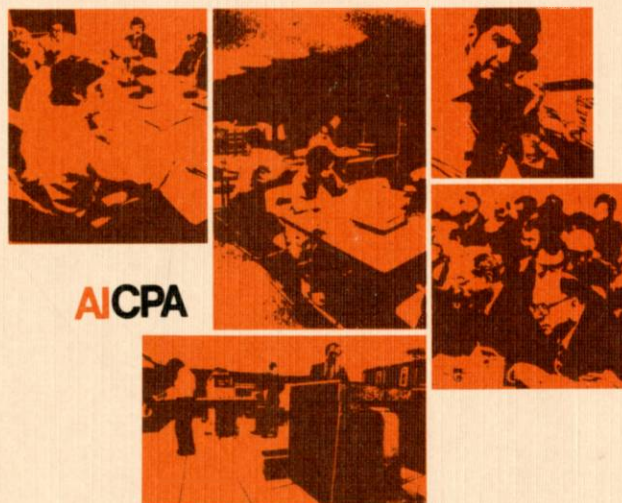
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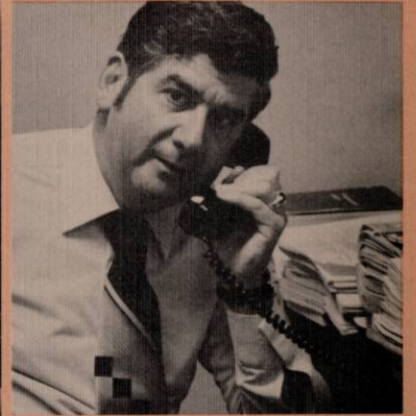
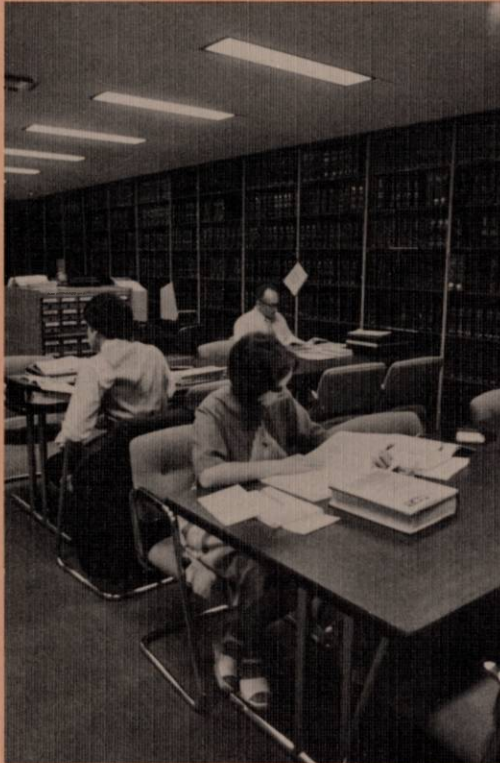
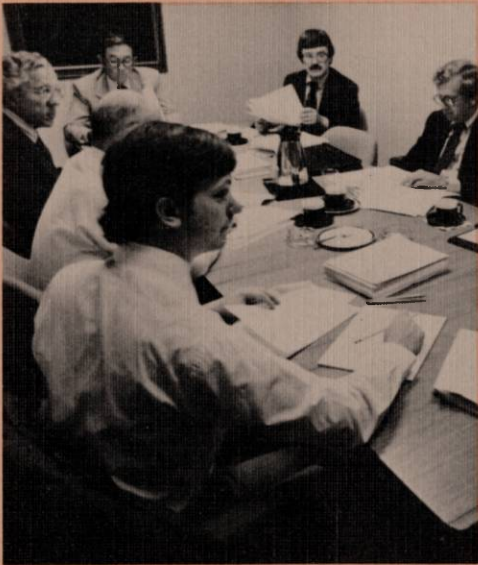
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American Institute of Certified Public Accountants
Annual Report 1977-1978



AICPA



AICPA



“The past year has been one of decision and implementation to meet the challenges that are confronting our profession. . . . Our Board of Directors, Council and members have [taken] an unprecedented number of watershed actions that will affect the profession for generations to come.”

JOINT STATEMENT, 1978

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A Joint Statement

The past year has been one of decision and implementation to meet the challenges that are confronting our profession. Starting in 1977, we found ourselves thrust into the unfamiliar role of defending ourselves before congressional hearings, in the courts, and in investigations by the Federal Trade Commission and Department of Justice. Our Board of Directors, Council, and members have responded by taking an unprecedented number of watershed actions that will affect the profession for generations to come. The most significant of these actions were—

- Establishment of a voluntary Division for CPA Firms consisting of sections for SEC and private companies practice to provide an organizational structure through which regulatory requirements and sanctions can be imposed on firms and to facilitate participation by smaller firms in the affairs of the profession.
- Opening to the public both meetings of Council and policy-making portions of meetings of senior technical committees.
- Amendment of the bylaws to permit adding three public representatives to the Board of Directors and also allow members not in public practice to serve as officers of the AICPA.
- Establishment of two new senior technical committees to set stand-

ards for quality control and for accounting and review services relating to unaudited financial statements.

- Modification of the rules of conduct to remove restraints on advertising and solicitation except those forbidding deception and false statements and to repeal the prohibition against initiating employment of employees of other public accounting firms. In addition, a set of general standards applicable to all areas of practice was incorporated in the rules of conduct, and the rule on incompatible occupations was changed to apply only to those occupations giving rise to conflicts of interest.
- Adoption of a policy of publishing periodic statistical reports on pending disciplinary matters and the names of all members found guilty in trial board proceedings.
- Reduction of the representation of the eight largest firms to provide more diversity in the composition of the senior committees.
- Establishment of a new committee to study, on a continuing basis, significant frauds and audit failures and publish analyses for the guidance of practitioners.
- Endorsement of the proposal that auditors be engaged and their fees arranged by a corporation's board of directors or audit committee rather than by management.
- Concurrence with the removal of the authority of the AICPA Board of Directors to appoint the trustees of the Financial Accounting Foundation.

In addition to these actions, a number of special studies were initiated to consider the following matters, some of which would require implementation by others:

- Imposing a requirement for a publicly held company to have an audit committee.



Chairman Scott and President Olson testify at Moss subcommittee hearings.

- Making it a requirement for auditors to attend shareholders' meetings to respond to questions.
- Including in public companies' annual reports the substance of present information on auditor changes now required in reports to the SEC.
- Proposed modifications of the present standard auditor's report.
- Criteria and standards for evaluating systems of internal control of publicly held companies and public reporting thereon.
- Reviews and reports on the actions of managements to assure compliance with corporate policy statements on conduct.
- Reports by management indicating the responsibilities assumed with respect to financial statements.
- Financial statement footnotes on uncertainties.
- Criteria for determining when departure from authoritative pronouncements on accounting principles is required under rule 203 of the rules of conduct due to unusual circumstances.

Many of these actions are in response to the recommendations contained in the final report of the Commission on Auditors' Responsibilities issued March 31, 1978. Others are designed to deal with problems identified by the SEC or by others during the course of congressional hearings regarding the profession's performance. All of them are in varying stages of implementation.

One of the more significant steps taken was the decision to modify the structure and staffing of the Auditing Standards Executive Committee. A new Auditing Standards Board, composed of fifteen members, is being established effective at the end of October, 1978, and a vice president-auditing has been named to direct the board's staff, which will include a research director. Also, members of the board will be paid, upon request, for time devoted to the board's activities. These changes are designed to

improve the Institute's effectiveness in setting auditing standards and to encourage service on the board by representatives of smaller firms.

Among other important developments during the year were the following:

- Agreement to defer full implementation of an Accounting Accreditation Council in view of the decision of the American Assembly of Collegiate Schools of Business to accredit professional accounting education programs. Representatives of the Institute will participate in that activity.
- Establishment of an International Federation of Accountants in October, 1977. The AICPA played a leading role in this achievement and is represented on the governing council.
- Completion of a study of the desirability of a plan for formal accreditation of specialization within the profession. Although a plan for such a program was developed by a special committee, the Board of Directors concluded that implementation of such a plan would not be appropriate at this time.
- Exposure for comments of a special committee report that concluded that the costs of a program for formal accreditation of continuing professional education courses would far exceed the benefits and that reliance should be placed upon agreements by suppliers to comply with the standards of the AICPA.

Included in other sections of this annual report are descriptions of many of the hundreds of other projects and activities that involve technical matters or are more routine in nature but are nevertheless important to the profession. They involve the devotion of an enormous amount of time and expertise of members serving on committees and task forces assisted by a conscientious and competent staff.

The continuing expansion in both the number and size of activities resulted in gross revenues of \$27,292,870 for the year, which exceeded total expenditures by \$1,806,236. This excess was \$860,000



Entrance to the New York headquarters for the 140,000-member AICPA.

A JOINT STATEMENT *(continued)*

more than was anticipated in the budget. Thus, we continue to enjoy a strong financial position that has been sufficient to meet the many unusual costs encountered in dealing with the challenges to the profession.

The year's events have occurred so rapidly that it is difficult to provide a report that is not outdated by the time it is published. However, at the beginning of September, we believe we have reached a point where the AICPA will be given time to demonstrate that its many initiatives will be effective. Enactment of federal regulatory legislation in 1978 is unlikely, and a favorable decision has been received in the lawsuit brought against the Institute challenging Council's authority to establish the Division for CPA Firms.

Even so, we cannot afford to relax our efforts to be responsive to the issues that have been or may be raised. The SEC has stated its intention to closely monitor our progress and report to Congress again next year. Senator Eagleton's subcommittee is likewise following the actions of the Institute and may hold hearings early in 1979. Also, we do not know whether the petitioners will appeal the decision in their lawsuit against the AICPA.

Still facing us are a number of difficult issues that must be resolved. These include such matters as a standard to require audit committees, the appropriate scope of services of auditors, access by the SEC to peer review working papers, disciplinary proceedings when litigation is involved, and inclusion of foreign work under peer reviews. In addition, the Justice Department is pressing for revocation of our rule of conduct prohibiting encroachment and further modification of the revised rule on advertising and solicitation, and the Federal Trade Commission is expected to issue a report this fall on its investigation of the profession.

Despite these many uncertainties, we are increasingly optimistic that our actions are responsive to public needs and will be successful

in avoiding additional government regulation. The Board of Directors and Council are to be commended for their prompt and bold action, and we express sincere gratitude to our members for their broad support and understanding during a difficult period.

It is understandable that in our ranks there are differing views and dissents to some of the actions that have been taken. Some feel we have moved too far and too fast while others are critical because we have not done enough. But we are convinced that nearly all our members agree that self-regulation is preferable to government control and that actions had to be taken in view of the criticisms that had been expressed.

We believe that all CPAs should have an increased pride in their pro-

fession as a result of the responsible way in which it has been meeting the recent challenges. As we emerge from this period, we urge all members to put aside any differences and join in the effort to make the new programs and structures work. There is strength in unity, and we are dedicated to working together within the Institute to solve the problems that stem from the diversity that exists in our profession.

The new area of unfettered competition, as well as the pressures to assume new responsibilities, will test our ability to adjust to a changing environment in the months ahead. But, we are more confident than ever that the competence and good judgment of our members will be more than equal to the challenge.

Wallace E. Olson

PRESIDENT

Stanley J. Scott

CHAIRMAN OF THE BOARD

The Year in Review

Auditing Standards

The Auditing Standards Executive Committee issued three Statements on Auditing Standards during the year: *Required Communication of Material Weaknesses in Internal Accounting Control*, *Segment Information*, and *Planning and Supervision*. These were part of a continuing response to increasing concerns about corporate accountability, expanding disclosure requirements, and efforts to codify existing practice. The division has established several committees to deal with recommendations of the Commission on Auditors' Responsibilities. One special advisory committee is developing criteria for evaluating internal accounting controls.

Another special advisory committee, composed of financial executives, attorneys, and representatives of various user groups, is preparing recommendations on a report by management. A third is developing

Technical committees meet to consider new guidelines.

guidelines for corporate codes of conduct. Another group has issued a discussion paper and has held public hearings on requiring corporations to have audit committees.

Other task forces have been appointed to consider the issues related to public reports on internal accounting control, compliance with corporate codes of conduct, and revision of the auditor's standard report.

The division has a number of other major projects in process:

- Consideration of comments on an exposure draft on analytical review procedures.
- A potential exposure draft on financial forecasts.
- Reconsideration of the procedures and form of reporting on limited reviews of interim financial information.
- Consideration of the auditing and reporting problems resulting from the auditor's association with oil and gas reserve data.
- Review of responsiveness of existing SASs to present needs, particularly for auditors of smaller companies.
- Reconsideration of SAS no. 11, *Using the Work of a Specialist*.
- Preparation of new or revised audit and accounting guides for agribusiness, property and liability insurance companies, motor carriers, nonprofit organizations, defined benefit plans, and brokers and dealers in securities.

During the year, the staff published a booklet entitled *Audit Committees: Answers to Typical Questions About Their Organization and Operations*.

Also, the staff issued seven auditing interpretations, four of which provided guidance on letters to underwriters. The others dealt with the effect of FASB no. 13, *Accounting for Leases*, on consistency; with reports on specified elements, accounts, or items of a financial statement; and with segment information for nonpublic companies.

To increase efficiency, the Institute has restructured its auditing standards-setting function (see Joint Statement, pg. 3) by replacing the 21-member Auditing Standards Executive Committee with a 15-member, volunteer Auditing Standards Board; forming a new independent Auditing Standards Advisory Council to monitor and aid the board; appointing a staff vice president-auditing; strengthening staff support; and adding a director of auditing research.

Accounting Standards

The Accounting Standards Division increased its activities, issuing ten statements of position and one industry audit and accounting guide. With the Financial Accounting Standards Board giving the division authority to specify implementation procedures in its statements of position, the new procedures allow quicker disposition of emerging practice problems with the FASB.

The division helped influence the FASB to suspend its requirement that nonpublic enterprises include segment and earnings-per-share reports in their financial statements



and to reconsider the entire subject of financial reporting for these enterprises.

In addition, the division initiated wider distribution of its exposure drafts and final statements. For the first time, the meetings of the Accounting Standards Executive Committee, as well as those of other senior technical committees, were open to the public. For the most part, only those with a special interest in the topics under discussion attended.

Statements of position were or are about to be issued on interfund transfers of state and local government units, hospital accounting for marketable securities, real estate investment trusts, initial rental operations of real estate projects, methods in accounting for sales of real estate, investments in real estate joint ventures, advance refunding of tax-exempt debt, cable television, and municipal bond funds.

The division has cleared for distribution a revised edition of the industry audit and accounting guide on savings and loan associations and also has sent out for exposure one on banks.

Nine more SOPs were issued for exposure covering hospitals operated by a governmental unit, hospital related organizations and funds held in trust by others, intercorporate tax allocations, product repurchase agreements, nonprofit organizations not covered by existing AICPA audit guides, title insurance companies, losses on certain real estate and loans and receivables secured by real estate, property and liability insurance companies, and supplementary current value information.

Other projects in progress deal with accounting for service transactions, the construction industry, and personal financial statements.

Besides coordinating with the FASB, the division continued close liaison with the Securities and Exchange Commission and the Cost Accounting Standards Board, sub-

Thousands of technical queries from members are answered on the phone each year.

mitting letters of comment on all significant accounting proposals issued by those bodies. It also is assisting the International Accounting Standards Committee.

Accounting and Review Services Committee

The Accounting and Review Services Committee was given senior technical committee status by the AICPA Council at last year's annual meeting. Its first exposure draft, issued this year, was *Compilation and Review of Financial Statements*.

Member forums have been held in 46 states on this proposal. Interest in this subject, as indicated by the large numbers of comment letters and the level of participation in the forums, is very high.

A major staff project is the development of an accounting and audit manual geared to needs of the local practitioner.

Technical Information

The Technical Information Division, formed this year, staffs the Technical Information Services, prepares the looseleaf service entitled *AICPA Professional Standards* published by CCH and publishes both *Accounting Trends & Techniques* and *Technical*

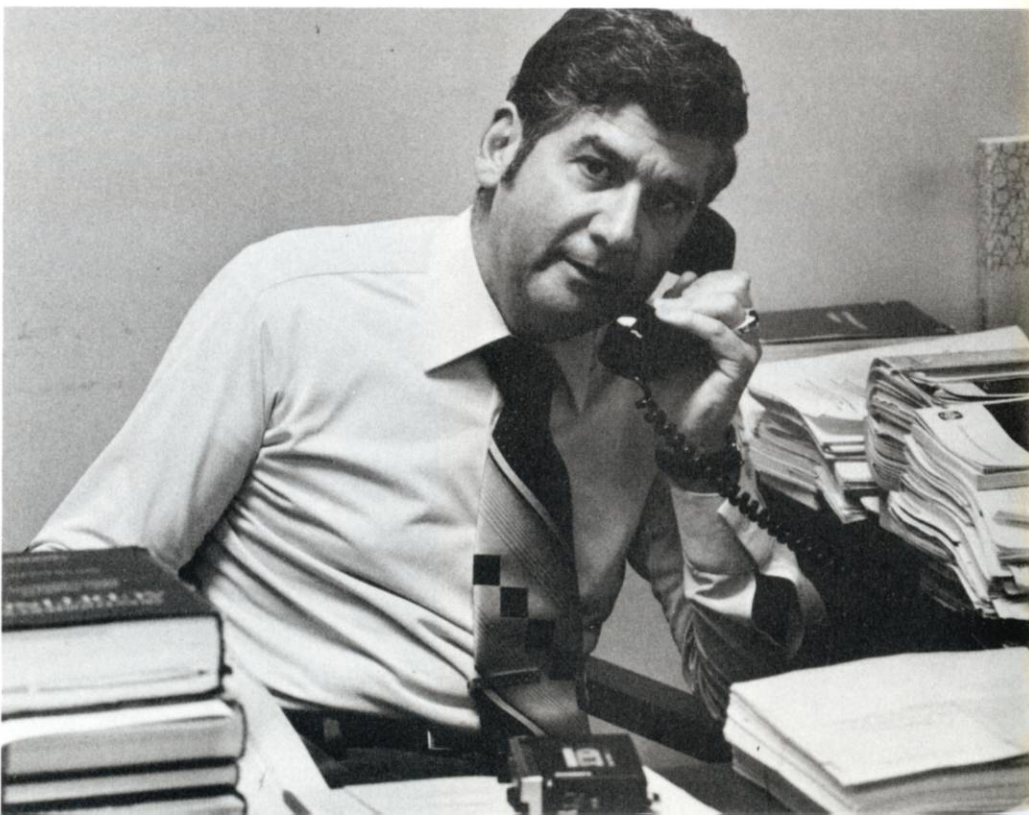
Report Surveys—all activities that help to keep practitioners informed of technical developments. Through the Technical Information Service, the division provided more than 425 written and 7,000 oral responses to inquiries.

The division also prepares and publishes the *Index to Accounting and Auditing Pronouncements*, which is revised on a continuing basis. It provided staff support to the Task Force on Conceptual Framework for Accounting and Reporting, the Commission on Auditors' Responsibilities, and the International Practice Division.

In conjunction with Information Retrieval, the division prepared and published four Financial Report Surveys: *Illustrations of the Disclosure of Unaudited Financial Information in Audited Financial Statements*, *Illustrations of Accounting for Employee Benefits*, *Updated Illustrations of the Disclosure of Accounting Policies*, and *Illustrations of Disclosure of Lease Accounting*.

Management Advisory Services

As part of its continuing interest in helping newcomers in the profession prepare for management advisory services assignments, the division sponsored a conference of educators



to consider management consulting programs in their curricula. The MAS Division further emphasized the needs and opportunities in this field through a series of presentations at annual meetings of educators' associations.

The division completed two surveys exploring the extent of MAS practice, the specific nature of the services provided, and the types of support required from the AICPA.

The Small Business Consulting subcommittee presented programs on the topic of "Business Advice by CPAs" to about a dozen state societies.

MAS committee chairmen from 27 states met with division members to discuss effective state society support of MAS activities.

The Energy and Environment Task Force conducted a workshop at Oklahoma State University to study how CPAs may assist clients in developing energy-management programs.

More than 250 practitioners attended the fourth annual MAS Conference last October; the division issued a special report on *Operational Reviews of the Electronic Processing Function*, and it advised the Continuing Professional Education Division on the development of MAS training programs.

Professional Ethics

This year, the 50-year-old ban on advertising was repealed. The membership vote was a 72 percent majority to wipe out the prohibition against advertising, except that which is false or misleading, following similar moves by other professions.

In its continuing efforts to develop a joint ethics-enforcement plan with state society ethics committees, the division published semiannual statistics on ethics investigations and actions taken by 40 state societies and the Institute. It issued a revised *Operations Manual* with descriptions of the procedures followed in ethics enforcement.

Through a mail ballot, the mem-

bership approved new rules of conduct: rules 201 on general standards and 502 on advertising and other forms of solicitation. Slight modifications were made in rules 101 on independence and 504 on incompatible occupations. These were based on recommendations of the Special Committee on General Standards and the Task Force on Advertising as a response both to legal trends for professionals and to public interest. On the same ballot, the members also repealed rule 402, on offers of employment, as no longer serving the public or the profession.

The division issued interpretations 101-6, "Effect of Actual or Threatened Litigation on Independence"; 502-1, "Informational Advertising"; 502-2, "False, Misleading, or Deceptive Acts"; 502-3, "Other Forms of Solicitation"; and 502-4, "Self-Designation as Expert or Specialist." It has ready for issue others under 101-1, "Honorary Directorships"; 101-7, "Application of Rule 101 to Professional Employees"; and 501-2, "Discrimination in Employment Practices."

As part of its modification on advertising and solicitation, the Ethics Executive Committee announced that any existing ethics pronouncements that were inconsistent with new rules 502 and 504 were superseded as of March 31, 1978. Those remaining rulings under section 591 of the AICPA Code of Ethics were identified.

The division issued a new ethics ruling under rule 502, "Newsletters and Publications Prepared by Others"; and has ready for issue others under rule 101, "Employee Benefit Plans—Member's Relationships With Participating Employer(s)" and "Participation of Member's Spouse in Employee Stock Ownership Plan of Client"; and under rule 301, "Confidentiality of Names of Clients."

State Legislation

The State Legislation Committee sponsored a National Legislative

Major AICPA Meetings and Conferences 1977-78

Event	Approximate Attendance
Annual Meeting	2,500
MAP Conferences (4)	900
National Tax Conference	300
Tax Division Meetings (2)	325
MAS Conferences (3)	800
FAP Conference	250
Industry & Government Conferences (2)	300
National Banking Conference	550
Seaview Symposium	100
State Society Planning Conference	125
Continuing Professional Development Conference	125
SEC Conference	450
Key Person Conference	75
Computer Conference	450
Computer Services Divisional Meeting	100
Council Meeting (Spring)	300
Career Development Seminar	100
National Legislative Conference on Sunset Review	100
Faculty Summer Seminar	100
Family Financial Planning Seminar	275
Public Relations Conference	125
Peer Review Orientation Program	125
Timesharing Conference	125
Practice Management	100
National Conference on CPE in Firms	100
Savings & Loan Conference	450
Total	9,250

An important part of the AICPA communication and education programs, these conferences and meetings continue to be well attended.

Conference on Sunset Review on May 19, in Chicago, which provided an effective forum for participants from various states to familiarize the accounting profession with the sunset review process and its impact on state accountancy regulation.

Authorized by the Institute's Board of Directors to revamp its structure and objectives, the committee is revising the key provisions of the AICPA Model Accountancy Bill to assure its continuing relevancy as a guide in promoting greater uniformity in state accountancy laws.

Examinations

Reflecting the ever-growing interest in the profession, the number of candidates, as well as the number of papers graded for the November, 1977, and May, 1978, Uniform CPA Examinations, continued to break records.

	Candidates	Papers Graded
November 1976	45,007	165,832
November 1977	49,112	180,878
May 1977	44,039	160,504
May 1978	49,791	180,264

The Board of Examiners announced it will award a Bronze Medal to the candidate attaining the third highest grades for all subjects in the examinations, as a companion award to the traditional gold for highest and silver for second highest. Instead of awarding Certificates of Honorable Mention to others receiving Elijah Watt Sells Awards, the board will issue certificates "With High Distinction."

In addition, the Examinations Division has completed and published results from its 1975 Uniform Statistical Information Questionnaire project. Some of the more significant findings are these:

- Over 98 percent of first-time candidates have at least a bachelor's degree.
- The probability of passing is substantially improved by more formal education.
- Work experience continues to have little relation to examination performance.

Practice and Quality Control Review

A special committee developed criteria for CPA-firm-association compliance reviews for the Voluntary Quality Control Review Program for CPA firms. The Quality Control Standards Committee issued a discussion draft of its first proposed statement on quality control standards, *System of Quality Control for a CPA Firm*.

During the year the AICPA inaugurated reviews of documented systems of quality control submitted by firms.

Two guides were issued to implement the program for CPA firms: *Quality Control Policies and Procedures for CPA Firms* and *Performing and Reporting on Quality Control Compliance Reviews*. Also published to guide documenting a quality-control system was *Sample Quality Control Documents for CPA Firms*.

Information Retrieval

The National Automated Accounting Research System (NAARS) continued to increase its data base with thousands of annual reports for listed and over-the-counter companies, supplemented by the literature file.

During the year, the AICPA added three titles to the Financial Report Surveys series bringing to 15 the number of publications in this area. These how-to-do-it publications are produced from the data bases of annual reports in NAARS.

Members, corporate executives, researchers, and others without terminals of their own continued to utilize NAARS on a fee basis.

At year's end, NAARS introduced new desk terminals. These efficient devices are expected to expand use of the system.

Public and State Society Relations

The division this year further established the Institute as the news media's primary source of information about the profession. It stepped up its output of technical and informational news releases, feature stories, and background pieces; arranged interviews by major financial writers and radio and television newsmen with the profession's leaders; maintained daily contact with key financial editors across the country; and helped reporters

gather information on a variety of accounting-related topics.

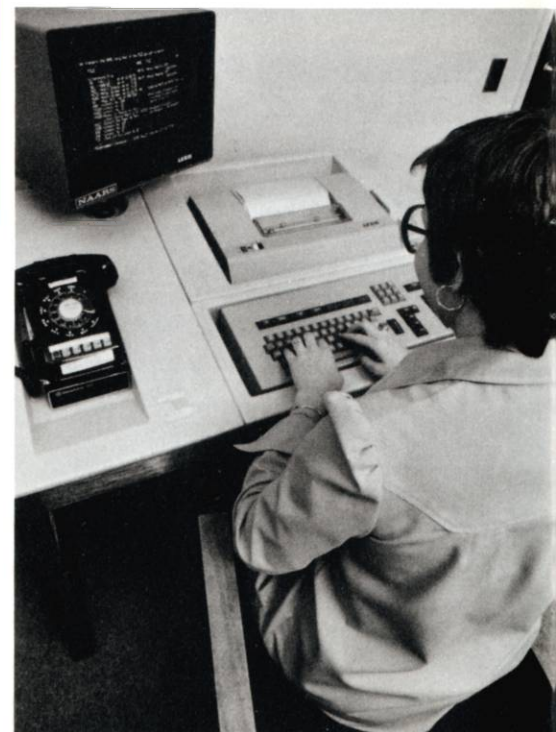
The division published and distributed a *Press Pocket Guide* to its special press list of more than 600 financial editors and writers here and abroad, providing a handy source of reference on Institute activities.

To promote press coverage of important developments, the division provided pressroom facilities at AICPA conferences, which led to expanded media attention both regionally and nationally. It helped draft major speeches and contributed to a guideline brochure on the AICPA open-meetings policy.

The division completed the first year of a nationwide, coordinated Institute-State Society program of public relations activities on behalf of the profession. Three campaigns brought widespread exposure of CPAs' skills as advisors to business, government, and individuals, as tax advisors and as auditors.

The division supplied state societies with a profusion of news releases, feature articles, speech texts, slide presentations, radio and television tapes, and other materials designed to dramatize and publicize the skills of their members. As a

The Year in Review continues on page 17.



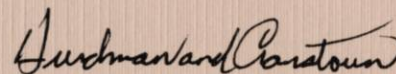
Console terminals permit instant information retrieval from annual-report data.

Report of Independent Certified Public Accountants

To the Members of the American Institute of Certified Public Accountants

We have examined the balance sheet of the American Institute of Certified Public Accountants as of July 31, 1978 and 1977 and the related statements of revenues and expenses, changes in fund balances, and changes in financial position for the years then ended. We have also examined the balance sheets of the American Institute of Certified Public Accountants Foundation, the American Institute Benevolent Fund, Inc., and the Accounting Research Association, Inc. as of July 31, 1978 and 1977 and the related statements of changes in fund balances for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of each of the aforementioned organizations at July 31, 1978 and 1977, and the results of their operations and the changes in their fund balances and, for the American Institute of Certified Public Accountants, the changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.



CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK, NEW YORK
SEPTEMBER 7, 1978

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31,	
	1978	1977
Assets		
Cash	\$ 516,547	\$ 432,488
Marketable securities (1978 quoted market \$12,052,460; 1977 cost \$9,188,064)	12,042,139	9,162,223
Accounts receivable (less allowance for doubtful accounts, \$10,000)	2,297,037	2,119,555
Inventories (Note 1)	1,805,380	1,568,368
Deferred authorship costs and prepaid expenses	1,208,672	889,689
Furniture, equipment and leasehold improvements (Note 2)	2,029,060	1,829,702
	<u>19,898,835</u>	<u>16,002,025</u>
Funds held for Division for CPA Firms (Note 9)	178,632	
Endowment and other restricted funds:		
Cash	905	2,168
Marketable securities (quoted market: 1978, \$565,858; 1977, \$574,898)	547,949	572,242
	<u>\$20,626,321</u>	<u>\$16,576,435</u>
Liabilities and Fund Balances		
Liabilities and deferred revenues:		
Accounts payable and other liabilities	\$ 2,584,838	\$ 1,627,847
Accrued taxes (Note 3)	379,736	356,668
Advance dues	6,498,872	5,951,316
Unearned publication subscriptions and advertising	2,547,008	1,831,258
	<u>12,010,454</u>	<u>9,767,089</u>
Commitments and contingent liabilities (Notes 4 and 5)		
Fund balances:		
General Fund:		
Fund balance before unrealized loss on marketable securities	8,067,013	6,260,777
Less unrealized loss on marketable securities		25,841
	<u>8,067,013</u>	<u>6,234,936</u>
Endowment and other restricted funds	548,854	574,410
	<u>8,615,867</u>	<u>6,809,346</u>
	<u>\$20,626,321</u>	<u>\$16,576,435</u>

**American Institute of
Certified Public Accountants**

**Statement of
Revenues and Expenses**

	Year Ended July 31,	
	1978	1977
Revenues:		
Membership dues	\$ 9,241,310	\$ 8,605,583
CPA examination fees	2,965,460	2,672,579
Publications	7,895,968	6,377,565
Continuing professional education	6,076,361	5,134,079
Sundry self-sustaining programs	331,693	309,101
Investment and sundry income	848,191	534,870
Loss on sale of securities	(66,113)	(7,341)
	<u>27,292,870</u>	<u>23,626,436</u>
Expenses (see also summary of expenses by activity):		
Salaries and fees	9,177,264	8,138,128
Personnel costs	1,559,583	1,349,315
Occupancy	2,748,072	2,500,393
Printing and paper	5,892,898	4,923,478
General	6,108,817	4,922,056
	<u>25,486,634</u>	<u>21,833,370</u>
Excess of revenues over expenses	<u>\$ 1,806,236</u>	<u>\$ 1,793,066</u>
Summary of expenses by activity:		
CPA examinations	\$ 2,716,269	\$ 2,330,902
Publications:		
Cost of sales	6,043,413	5,334,476
Distributed to members and others	1,886,599	1,309,546
Continuing professional education	6,050,748	5,148,295
Technical:		
Accounting standards	517,328	355,229
Auditing standards	723,782	550,270
Federal taxation	260,179	279,161
Management advisory services	210,434	196,049
Computer services	285,786	284,725
International practice	297,534	213,678
Research	72,426	117,647
Technical assistance to members	184,922	182,731
Library service	433,836	346,785
Information retrieval and index programs	337,131	301,288
Financial accounting foundation contribution	262,600	243,894
Commission on auditors' responsibilities	138,652	437,373
Accountants' legal liability	93,435	125,929
Accounting and review services	47,778	
Regulation:		
Ethics and trial board	529,623	450,464
Practice and quality control review	383,163	278,043
State legislation	202,989	171,306
Division for CPA firms	465,885	
Organization and membership:		
Board, council and annual meetings	411,902	345,781
Nominations and committee appointments	47,694	67,775
Communications with members	109,514	83,288
Membership admissions and records	474,358	379,099
Membership benefit plans	52,574	38,813
Special organizational studies	40,820	46,651
Communications with other groups:		
Public relations	393,828	291,458
State societies	249,298	235,628
Universities	228,772	222,699
Federal government	971,466	1,049,485
Assistance programs for minority students and businesses	361,896	414,902
	<u>\$25,486,634</u>	<u>\$21,833,370</u>

Note: With the exception of a \$200,000 AICPA Foundation contribution for the assistance programs and the Financial Accounting Foundation contribution, each of the above amounts includes a pro rata allocation of administrative expenses, which aggregated \$2,323,070 and \$2,163,529 for 1978 and 1977, respectively.

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Fund Balances**

	Year Ended July 31,	
	1978	1977
General Fund:		
Fund balance, beginning of year	\$ 6,260,777	\$ 4,467,711
Excess of revenues over expenses	1,806,236	1,793,066
Fund balance before unrealized loss on marketable securities	8,067,013	6,260,777
Less unrealized loss on marketable securities		25,841
Fund balance, end of year	8,067,013	6,234,936
Endowment and other restricted funds:		
Fund balances, beginning of year	574,410	573,679
Excess (deficiency) of revenues over expenses	134	(303)
Gain (loss) on sale of securities	(25,690)	1,034
	(25,556)	731
Fund balances, end of year	548,854	574,410
	<u>\$ 8,615,867</u>	<u>\$ 6,809,346</u>

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Financial Position**

	Year Ended July 31,	
	1978	1977
Cash and marketable securities, beginning of year	\$ 9,594,711	\$ 7,850,366
Sources of funds:		
From operations:		
Excess of revenues over expenses	1,806,236	1,793,066
Add back expenses not requiring outlay of funds — depreciation and amortization, including amortization of authorship costs	759,924	869,698
	2,566,160	2,662,764
Increase (decrease) in liabilities and deferred revenues:		
Accounts payable and other liabilities	956,991	(486,899)
Accrued taxes	23,068	(120,592)
Advance dues	547,556	336,595
Unearned publication subscriptions and advertising	715,750	(40,641)
	4,809,525	2,351,227
Uses of funds:		
Additions to deferred authorship costs and prepaid expenses	815,040	375,794
Additions to furniture, equipment and leasehold improvements	463,225	304,508
Increase (decrease) in other assets:		
Receivables	177,482	404,519
Inventories	237,012	(503,780)
Funds held for Division for CPA Firms	178,632	
Unrealized loss on marketable securities	(25,841)	25,841
	1,845,550	606,882
Increase (decrease) in funds:		
Cash	84,059	(120,438)
Marketable securities	2,879,916	1,864,783
	2,963,975	1,744,345
Cash and marketable securities, end of year	<u>\$12,558,686</u>	<u>\$ 9,594,711</u>

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

**American Institute of
Certified Public Accountants Foundation**

Balance Sheet

	July 31,	
	1978	1977
Assets		
Cash	\$ 43,743	\$ 66,751
Marketable securities (quoted market: 1978, \$565,825; 1977, \$593,958)	555,959	588,273
Pledges receivable (less allowance for uncollectible pledges: 1978, \$205; 1977, \$370)	3,875	6,550
Other receivables (Note 6)	163,769	9,277
	<u>\$767,346</u>	<u>\$670,851</u>
Liabilities and Fund Balances		
Liabilities and deferred credits:		
Accounts payable (includes scholarships: 1978, \$267,000; 1977, \$86,250) ...	\$285,406	\$112,900
Contributions designated for future periods	3,875	6,550
	<u>289,281</u>	<u>119,450</u>
Fund balances:		
General	13,882	13,306
Library	102,909	104,021
John L. Carey Scholarship Fund	82,139	87,404
Accounting Education Fund for Disadvantaged Students	279,135	346,670
	<u>478,065</u>	<u>551,401</u>
	<u>\$767,346</u>	<u>\$670,851</u>

**American Institute of
Certified Public Accountants Foundation**

**Statement of Changes
in Fund Balances**

	Year Ended July 31,	
	1978	1977
Additions:		
Investment income	\$ 28,537	\$ 22,392
Contributions:		
John L. Carey Scholarship Fund	100	
General		2,531
Accounting Education Fund for Disadvantaged Students	338,385	415,881
	<u>367,022</u>	<u>440,804</u>
Deductions:		
Contributions to American Institute of Certified Public Accountants for library expenses	5,618	4,365
Expenditures:		
Custodian fees	1,881	2,097
John L. Carey Scholarship Fund (scholarships)	9,030	9,000
Accounting Education Fund for Disadvantaged Students (grants and scholarships)	417,116	410,113
	<u>433,645</u>	<u>425,575</u>
Increase (decrease) in funds before loss on sale of securities	(66,623)	15,229
Loss on sale of securities	(6,713)	(10,183)
Net increase (decrease) in funds	(73,336)	5,046
Fund balances, beginning of year	551,401	546,355
Fund balances, end of year	<u>\$478,065</u>	<u>\$551,401</u>

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

**American Institute
Benevolent Fund, Inc.**

Balance Sheet

	July 31,	
	1978	1977
Assets		
Cash	\$ 18,997	\$ 40,599
Marketable securities (cost: 1978, \$530,074; 1977, \$502,602)	524,406	485,989
Notes and mortgages receivable (less allowance for doubtful amounts: 1978, \$19,375; 1977, \$13,325)	50,330	45,920
Other receivables	5,708	4,169
	<u>\$599,441</u>	<u>\$576,677</u>
Liabilities and Fund Balance		
Accounts payable	\$ 640	\$ 620
Fund balance before unrealized loss on marketable securities	604,469	592,670
Less unrealized loss on marketable securities	5,668	16,613
Fund balance, end of year	<u>598,801</u>	<u>576,057</u>
	<u>\$599,441</u>	<u>\$576,677</u>

**American Institute
Benevolent Fund, Inc.**

**Statement of Changes
in Fund Balance**

	Year Ended July 31,	
	1978	1977
Additions:		
Contributions	\$ 68,832	\$ 13,681
Investment income	30,297	26,038
Notes and mortgages received in consideration of benefits paid	5,485	5,660
Repayments of assistance to members and families	1,450	8,318
	<u>106,064</u>	<u>53,697</u>
Deductions:		
Assistance to members and families	67,530	68,444
Stationery, printing and other expenses	4,025	5,697
	<u>71,555</u>	<u>74,141</u>
Increase (decrease) in fund before gain on sale of securities	34,509	(20,444)
Gain (loss) on sale of securities	(22,710)	2,881
Net increase (decrease) in fund	11,799	(17,563)
Fund balance, beginning of year	592,670	610,233
Fund balance before unrealized loss on marketable securities	604,469	592,670
Less unrealized loss on marketable securities	5,668	16,613
Fund balance, end of year	<u>\$598,801</u>	<u>\$576,057</u>

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

**Accounting Research
Association, Inc.**

Balance Sheet

	July 31,	
	1978	1977
Assets		
Cash	\$ 11,301	\$ 81,888
Marketable securities (quoted market: 1978, \$1,898,000; 1977, \$2,250,000)	1,898,000	2,250,000
Dues receivable	134,750	476,005
Other receivables	12,707	10,750
Prepaid FASB subscription service	44,438	—
	<u>\$2,101,196</u>	<u>\$2,818,643</u>
Liabilities and Fund Balance		
Liabilities and deferred credits:		
Due to Financial Accounting Foundation	\$ 175	\$ 3,795
Accounts payable	3,568	3,369
Unearned advance dues	367,831	878,284
	<u>371,574</u>	<u>885,448</u>
Fund balance	1,729,622	1,933,195
	<u>\$2,101,196</u>	<u>\$2,818,643</u>

**Accounting Research
Association, Inc.**

**Statement of Changes
in Fund Balance**

	Year Ended July 31,	
	1978	1977
Additions:		
Dues	\$1,380,953	\$2,129,249
Investment income	156,260	103,292
	<u>1,537,213</u>	<u>2,232,541</u>
Deductions:		
Payments to Financial Accounting Foundation (Note 7)	1,648,716	1,174,817
Membership promotion	17,686	1,698
Reports to members	5,021	3,216
Stationery, supplies and other expenses	11,296	4,776
FASB subscription service	58,067	—
	<u>1,740,786</u>	<u>1,184,507</u>
Net increase (decrease) in fund	(203,573)	1,048,034
Fund balance, beginning of year	1,933,195	885,161
Fund balance, end of year	<u>\$1,729,622</u>	<u>\$1,933,195</u>

The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these statements.

American Institute of Certified Public Accountants and Related Organization Funds

Summary of Significant Accounting Policies

Following is a summary of the significant accounting policies of the American Institute of Certified Public Accountants (Institute) and, where applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the American Institute Benevolent Fund, Inc. (Benevolent Fund), and the Accounting Research Association, Inc. (ARA):

- Assets and liabilities, and revenues and expenses, are recognized on the accrual basis of accounting.
- Marketable securities are stated at the lower of aggregate cost or market. If there is a decline in market value below cost, the resultant valuation reserve is shown separately as a reduction of the fund balance. Realized gains and losses on security transactions are included in operations.
- Inventories are stated at the lower of cost (primarily first-in, first-out) or market.
- Authorship costs applicable to publications and continuing professional education courses, which the Institute expects will be sold in the future, are amortized over a three-year period.
- Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization computed on the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of from five to ten years and leasehold improvements are amortized over the shorter of the useful lives of the improvements or the lease period.
- Dues are recorded by the Institute as revenues in the applicable membership period. Dues of ARA members are assessed on a calendar year basis and recorded as additions to fund balance ratably over each calendar year; however, payments are made to the Financial Accounting Foundation and charged to fund balance generally as dues are collected.
- Subscription and advertising revenues are reflected in operations when publications are issued.
- Contributions to specific funds are reflected as additions to fund balances in the applicable support period; pledges received by the Foundation in support of future periods are recorded, and allowances for estimated uncollectible pledges are provided.
- Notes and mortgages received by the Benevolent Fund in consideration for assistance payments to members and their families are recorded as additions to fund balance in the period received, net of amounts deemed uncollectible.

- The Institute has a retirement plan covering all eligible employees. Pension expense is accrued in accordance with an actuarial cost method and, although the plan may be terminated by the Institute at any time, it is the Institute's policy to fund pension cost accrued. Prior service costs under the plan are being funded over a 30-year period.

Notes to Financial Statements July 31, 1978 and 1977

1. Inventories

Inventories of the Institute are stated at the lower of cost (primarily first-in, first-out) or market and, at July 31, 1978 and 1977, consist of:

	1978	1977
Paper and material stock . . .	\$ 436,407	\$ 179,644
Publications in process	253,590	337,844
Printed publications and continuing professional education course material	1,115,383	1,050,880
	<u>\$1,805,380</u>	<u>\$1,568,368</u>

2. Furniture, equipment and leasehold improvements

The following presents the amounts of furniture, equipment and leasehold improvements of the Institute at July 31, 1978 and 1977:

	1978	1977
Furniture and equipment . . .	\$1,933,438	\$1,589,999
Leasehold improvements . . .	1,228,158	1,119,815
	<u>3,161,596</u>	<u>2,709,814</u>
Less accumulated depreciation and amortization	1,132,536	880,112
	<u>\$2,029,060</u>	<u>\$1,829,702</u>

Depreciation and amortization charged to operations for the years ended July 31, 1978 and 1977 amounted to \$263,867 and \$218,818, respectively.

3. Taxes

The Internal Revenue Service has completed an examination of the Institute's Federal payroll tax returns covering the calendar years 1969 through 1973 and is contesting the Institute's position that graders of CPA examinations are independent contractors. The case is presently before the Appellate Division of the Internal Revenue Service and provision has been made in the financial statements for employment taxes that may be assessed.

4. Lease commitments

Rental commitments under noncancelable leases in effect as of July 31, 1978 aggregated approximately

\$35,674,000. This amount is exclusive of any future escalation charges for real estate taxes and building operating expenses. The principal lease, which commenced in 1974, can be terminated at the end of 15 years if certain penalties are paid. The minimum rental commitments are summarized below:

Years Ended July 31,	
1979	\$ 2,363,000
1980	2,354,000
1981	2,347,000
1982	2,300,000
1983	2,239,000
years subsequent to 1983	24,071,000
	<u>\$35,674,000</u>

Rental expense for the year ended July 31, 1978 was approximately \$2,280,000 and \$2,165,000 for 1977.

5. Retirement plan

Pension expense relating to the Institute's retirement plan amounted to approximately \$505,000 and \$478,000 for the years ended July 31, 1978 and 1977, respectively. The estimated amount required to fund prior service costs under the plan is \$825,000 as of May 1, 1978.

6. Commitment of Foundation funds

With the help of continuing grants from the AICPA and the U.S. Department of Health, Education and Welfare, the Foundation plans to distribute from the Accounting Education Fund for Disadvantaged Students more than \$400,000 each year for direct scholarships to minority students and to assist in improving the educational level of the accounting faculty of minority universities. At July 31, 1978, a grant of \$160,000 from HEW for improving the faculty of minority universities was included in other receivables.

7. Commitment to Financial Accounting Foundation (FAF)

The Accounting Research Association, Inc. has stated its intent to use its best efforts to raise sufficient funds from sources within the accounting profession to ensure that the FAF receives \$1,000,000 annually in each of the five years commencing January 1, 1978. (Prior to 1978, a five-year annual commitment of \$2,000,000 from these sources was met each year.) In 1978, the trustees authorized an additional \$750,000 commitment of funds held by the ARA, of which \$500,000 has been paid at July 31, 1978.

8. Effective Legislation Program

To further the interests of the Institute and its members, by contributing to campaign funds of concerned members of Congress, the AICPA Effective Legislation Committee was formed during 1977. As of July 31, 1978 and 1977, the Committee had received \$1,910 and \$61,672 in contributions and disbursed \$6,150 and \$1,697, leaving fund balances of \$55,735 and \$59,975,

respectively. The Fund is maintained independently of the Institute and, accordingly, these amounts are not included in the accompanying financial statements.

9. Division for CPA Firms

On September 17, 1977, Council of the AICPA approved sponsorship of a Division for CPA Firms with two sections, one for SEC practice and a second for private companies practice. Firms may elect to join either or both sections. The sections are governed by executive committees which have established dues which may be used for the expenses of public oversight boards and special projects. For the period ended July 31, 1978, the SEC practice section and the private companies practice section collected dues of \$274,373 and \$37,025, respectively. The SEC practice section incurred total costs for the Public Oversight Board of \$282,037, of which \$149,244 was unpaid at July 31, 1978.

The AICPA acts as custodian of the unexpended balances which are reflected on the accompanying balance sheet as assets and liabilities in offsetting amounts. At July 31, 1978, the unexpended funds were as follows:

	Cash	Marketable Securities	Total
SEC Practice Section .	\$55,599	\$ 86,000	\$141,599
Private Companies Practice Section . .	2,033	35,000	37,033
Total	<u>\$57,632</u>	<u>\$121,000</u>	<u>\$178,632</u>

The AICPA incurred expenses of \$465,885 during the year ended July 31, 1978, in connection with its sponsorship of the Division for CPA Firms. This amount is included in the accompanying Summary of Expenses by Activity.

10. Special purpose and related organization funds

The purposes of the special and related organization funds are as follows:

Endowment Fund

To maintain a reference library and reading rooms for members of the Institute. Investment income from marketable securities held by the Endowment Fund is included as revenue of the General Fund in accordance with provisions of the endowment.

Foundation

To advance the profession of accountancy and to develop and improve accountancy education.

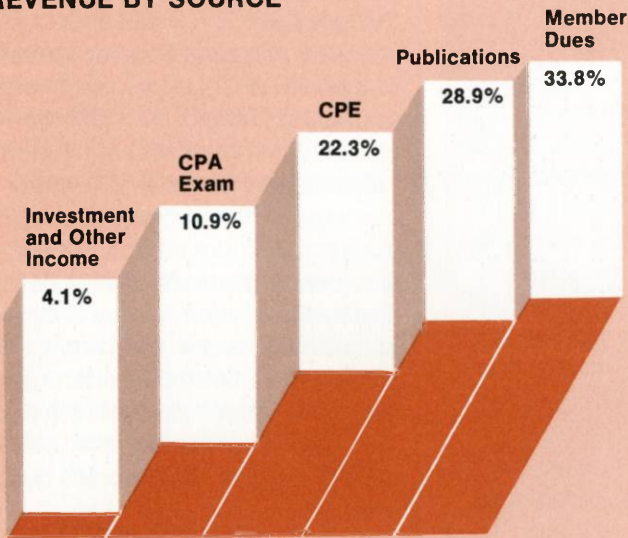
Benevolent Fund

To solicit, collect and otherwise raise money to provide financial assistance to needy members of the Institute and their families.

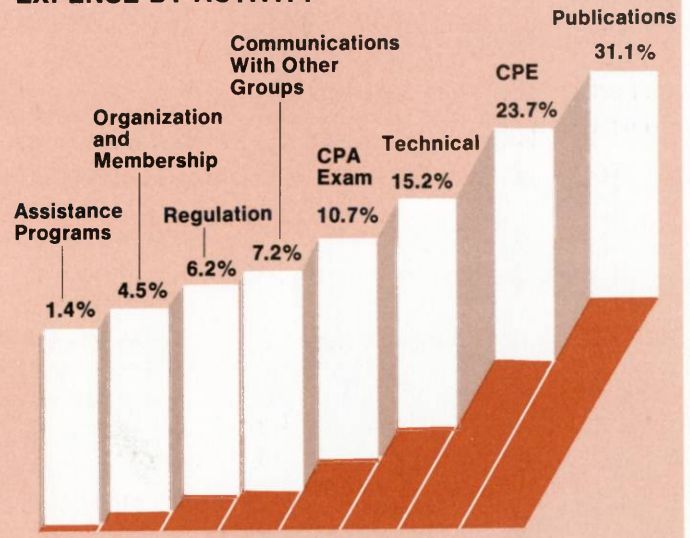
Accounting Research Association, Inc.

To encourage research in accounting, auditing and related areas of CPA practice through a best efforts commitment to provide financing for the Financial Accounting Foundation.

REVENUE BY SOURCE



EXPENSE BY ACTIVITY



result, thousands of column inches and many hours of air time (54 hours of 30-second radio announcements in one state alone) as well as hundreds of speaking engagements were devoted to telling the CPA's story in every corner of the country. These national campaigns stimulated many state societies to expand their public relations capabilities. In some states, effective techniques for using volunteer efforts were introduced; at more than a dozen societies, professional public relations people were added to the staffs.

The first year of the program began and ended with National PR Conferences, which attracted representatives of virtually every state society. The second of these conferences, in July, 1978, illustrated the great progress the campaigns had brought. Speaker after speaker recounted public relations successes in the various media, spelling out the techniques that produced results, proving that the talent and experience of CPAs are matters of importance and interest to persons outside the profession.

Supplementing its contributions to the ongoing national campaigns, the division provided staff assistance to the Executive Committee on Relations With State Societies and its Public Relations Coordination Subcommittee, presenting the annual

State Society Planning Conference to assist presidents-elect in the assumption of their official duties. It also promoted the interchange of ideas and information through the monthly *State Society Coordinator* and a weekly distribution of *Newsclips*—published items about, or of special interest to, the profession.

The newspaper column, *Money Management*, produced by the division and distributed by the state societies, now in its fourth year, continued to find new outlets, with newspapers that carry it now estimated to exceed 400.

Publications

The *Journal of Accountancy* has completed the first phase of its redesign, changing type styles and the lengths of its major articles and departments. It has also intensified its efforts to obtain more practitioner-oriented articles that are relevant, readable, and issue-oriented.

JofA advertising billing exceeded \$1 million for the first time with a record 500 pages of ads. Ad rates will go up an average of 20 percent starting next January, while circulation has increased nearly 12 percent. The

Tax Adviser circulation, too, is 11 percent higher.

The division now publishes three newsletters:

- The semi-monthly *CPA Letter*, the official publication that goes to all members, reports technical news and information on the AICPA's professional activities.
- The *CPA Client Bulletin*, sent by subscribing small- and medium-sized firms to their clients, is the most widely distributed of Institute periodicals; more than 2,900 firms are distributing about 242,000 copies.
- The *CPA Practitioner*, established last November to help members associated with smaller firms, carries items on practice management, tax-



AICPA public relations conferences help coordinate national programs for state societies.



Editorial staff prepares semi-monthly issue of CPA Letter.

tion, and practical applications of professional standards to approximately 55,000 members.

The production department processed more than 50 publications, among which were *Report, Conclusions, and Recommendations*, by the Commission on Auditors' Responsibilities; three statements on auditing standards; four accounting statements of position; two tax studies; one MAS special report; the AICPA's *Rules of Conduct and Bylaws* (as amended March 31, 1978); *Voluntary Quality Control Review Program for CPA Firms*; and the *Report of Progress: The Institute Acts on Recommendations for Improvements in the Profession*.

Publication sales reached record dimensions this year, with such categories as auditing standards and accounting guidelines leading the best-sellers list.

Relations With Educators

Having agreed to cooperate with the American Assembly of Collegiate Schools of Business to establish and implement accreditation standards

for accounting programs, the Institute has joined the American Accounting Association, the Financial Executives Institute and the National Association of Accountants in nominating candidates to the accreditation committee.

The AICPA Board of Directors will submit to the Council the AICPA Policy of Educational Requirements for Entry into the Accounting Profession. It clarifies the current Institute policy on accounting education, reflecting developments since the adoption of the Beamer report in 1969.

The division completed the 1978 *Survey of the Supply of Accounting Graduates and Demand for Public Accounting Recruits* and expects to publish in the fall a *Statistical Survey of Accounting Education*, last done in 1972-73, to monitor the changes in educational programs and resources. This latter study should help indicate the capabilities of colleges to implement the Institute's education policies.

The Grants-in-Aid Selection Task Force awarded \$25,300 to five doctoral candidates interested in becoming accounting educators. The division awarded a Yale University senior the John L. Carey Scholarship to permit her to do graduate work in accounting and has renewed two scholarships awarded last year.

Continuing Professional Education

Continuing education is mandatory in 27 states; both sections of the Division for CPA Firms also require continuing education. In addition, two state societies require CPE for membership.

A special committee on CPE accreditation has recommended that state boards of accountancy and the Division for CPA Firms require that CPE programs comply with *Standards*

for Formal Group-Study and Formal Self-Study Programs, published by the Institute.

The principal accomplishments of the CPE Division this year include introducing 28 group-study and 16 self-study courses; appointing education subcommittees to extend curricula in financial accounting, auditing, accounting and review services, and government accounting and auditing; promoting a course-author bank, and authorizing a section of the EDMAX CPE reference library, which will be available also to members, to encourage the joint development of new courses by CPA firms.

This year the division began revising materials for both the Accounting and Auditing Update Workshop and Financial Statement Disclosure course immediately after the announcement of new standards. Courses are normally updated annually. Others are being added. Hotlines were established to provide discussion leaders with last-minute information. Within weeks after the standards were approved, a special lecture series on how to document quality controls became available.

Among the innovations instituted this year were the consolidation of demand for intensive, though low-volume courses. Nationwide faculties of practitioners and educators held the first National Management Advisory Services Training Program at the University of Texas at Austin,



CPE shipped 30,000 audio-cassette self-study courses this year.

the expanded National Tax Education Program at the University of Michigan, and the first national Family Tax and Estate Planning Conference, cosponsored with the Federal Tax Division. Participants in the EDMAX library sponsored the first National CPE Conference for Firms to help them manage the development of their professionals.

Because local practitioners make up 75 percent of participants, CPE courses, with help from state societies, are keyed to their needs. Evaluations are processed by computer and factored into any decisions affecting the courses.

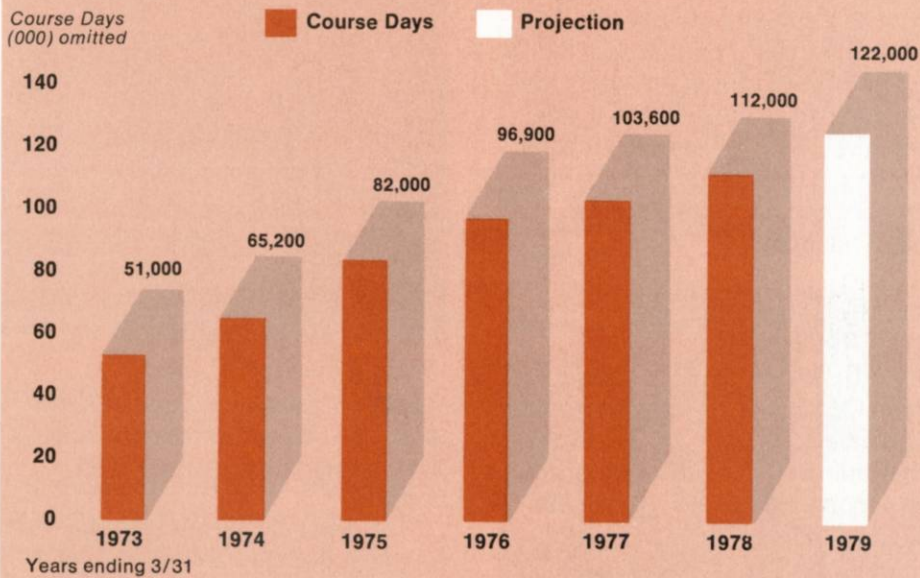
Member Relations

The Management of an Accounting Practice Committee sponsored four conferences during the year, attended by more than 900 members. The committee developed the second *MAP Handbook* supplement and is readying another for release in June. The fourth Conference for State Society MAP Committees was held, and the division responded to 200 requests for practice management assistance from individual members.

There were 14 Administrative Reviews, and increased promotional efforts during the past six months should result in substantially more reviews in the next fiscal year.

The fourth series of Local Practitioner Seminars was held in Denver, Chicago, and Washington and an

Continuing Professional Education Course Days Provided and Projected 1973-79



updated version of the brochure, *AICPA Services for Local Practitioners*, was published.

The division held its second Conference for Members in Industry and Government in Washington, attended by 110 members, and its first conference for chairmen of state society industry and government committees.

The committee explored the feasibility of including industry and government members more directly under the AICPA Code of Ethics and is developing a position on this issue.

The Small Business Development Committee continued to help state societies and accounting resource centers to operate minority-business assistance programs and to work with minority CPA firms.

In cooperation with 46 state societies, the division held member forums throughout the country on the proposed *Statement on Standards for Accounting and Review Services: Compilation and Review of Financial Statements*, in which 5,000 members participated.

Insurance and Retirement Programs

Life Insurance Plans

Approximately \$5 billion of life insurance was in force as of April 1, 1978,

on more than 55,000 individuals under the CPA Plan and on more than 55,000 proprietors, partners, employees, and eligible dependents under the Group Insurance Plan.

Long-Term Disability Income Plan

More than 10,000 CPAs responded to the new plan introduced this year that includes liberal definitions, a rehabilitation program, and up to \$3,000 of monthly benefits.

Professional Liability Insurance Plan

The plan is directed by the AICPA Professional Liability Insurance Plan Committee. Its objective is to maintain a stable rating structure while providing high liability protection without critical gaps in coverage. As of April 1, 1978, more than 8,000 practice units were covered.

Members Retirement Plan

By January 1, 1978, more than \$40 million had been accumulated for retirement under the Members Retirement Plan for proprietors, partners, and employees of eligible firms. More than \$7 million in contributions were received in 1977 alone.

Information about any of these plans may be obtained from Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10016.



Benevolent Fund

Established in 1933, the American Institute Benevolent Fund, administered by the Board of Trustees, provided \$68,970 in financial assistance to members or former members and their families in the past fiscal year. It received \$43,543 in contributions and began recommending financial advisors and making staff visits where necessary.

Minority Recruitment and Equal Opportunity

The AICPA Minority Recruitment and Equal Opportunity Program awarded scholarships of up to \$1,000 each to more than 250 minority undergraduate accounting majors. The eighth Faculty Summer Seminar, cosponsored by the Pennsylvania Institute of CPAs, was attended by more than 70 accounting faculty representatives of traditionally minority colleges and universities.

Approximately 50 black professional employees of 13 CPA firms attended the May pilot Career Development Seminar in Chicago. The seminar's purpose was to review the experiences of the group and develop their ideas on the retention and upward mobility of minorities in public accounting. A similar program for Hispanic professionals is planned for next year.

AICPA also sponsors a program with the American Accounting Association to help the minority accounting faculty of developing institutions pursue doctoral study and to provide temporary teaching replacements in their absence. During the year, seven accounting educators participated in this Doctoral Fellow and Visiting Scholar Program, which is also supported by an annual HEW grant.

Computer Services

Continuing to provide guidance on computer use, the division published an exposure draft of an audit and accounting guide on *Computer Assisted Audit Techniques*. It also released *Audit Considerations in*

Electronic Funds Transfer Systems. Slated for release are a revised edition of *Auditing & EDP, Guidelines to Assess Computerized Time and Billing Systems in CPA Firms*, *Guidelines to Assess Computerized General Ledger and Financial Reporting Systems in CPA Firms*, and *Controls Over Using and Changing Computer Programs*.

The division held its 14th annual Conference on Computers and Information Systems in Atlanta in May, attended by 507 people from the United States and abroad. The Computer Education Subcommittee developed three courses on computer related topics for the CPE Division.

In addition, the division expanded time-sharing libraries on COMSHARE, which contains 90 programs with 350 subscribers and TYMSHARE, which has 28 programs used by 120 firms. A time-sharing conference was held in St. Louis in September.

Task forces are working on an audit and accounting guide for internal controls in electronic funds transfer systems and on the study of EDP fraud cases.

The division hired a researcher to study the impact of data-based systems on the audit function, a project jointly sponsored with the Canadian Institute of Chartered Accountants and the Institute of Internal Auditors.

International Practice

The International Practice Executive Committee continues its efforts to promote harmony in worldwide accounting practices by cooperating with affiliated groups.

The International Federation of Accountants was established in Munich last fall. Registered under Swiss law, IFAC is headquartered in New York. Its chief function is to develop a coordinated international accountancy profession with harmonized standards. Already the

organization has elected officers, appointed an executive director, and approved the appointment of standing committees for Auditing Practices, Management Accounting, Education, Ethics, International Congress, Planning, and Regional Organizations.

The International Accounting Standards Committee, represented in the United States by the Institute, issued three international standards—*Unusual and Prior Period Items and Changes in Accounting Policies*, *Accounting for Research and Development Costs*, and *Contingencies and Events Occurring after the Balance Sheet Date*—and issued exposure drafts on foreign transactions and translations of financial statements, accounting for construction contracts, and current assets and liabilities. IASC is also considering accounting for banks, inflation accounting, and diversified operations.

The Institute was also represented on the Accountants' International Study Group, which published its last two studies—*Revenue Recognition and Related Party Transactions*—before it disbanded.

AICPA is also a member of the Inter-American Accounting Association, now headquartered in Mexico City with a full-time executive director, and the Confederation of Asian and Pacific Accountants.

Federal Government

The Federal Government Executive Committee oversees the activities of



Institute's computers speed internal operations.

OBJECTIVE STATEMENTS

- LOGICALLY FOLLOW FROM THE IDENTIFICATION AND ASSESSMENT OF NEED
- PERFORMANCE AND WORK LOAD MEASUREMENTS ARE THEN PREPARED FROM THESE OBJECTIVE STATEMENTS



Richard Harden, Special Assistant to the President, speaks at one of the AICPA Washington conferences.

the task forces and subcommittees that are involved in various technical projects and that advise and assist federal agencies in matters of accounting and auditing. This past year, the division responded to 11 requests for reviews of audit guides used in conjunction with various federal grant-in-aid programs. In addition, numerous comment letters were prepared and distributed on federal regulations affecting the work of CPAs. Comments were submitted on such matters as proposed rules and regulations of the SEC, health-care-provider reimbursement reporting, and auditor qualification criteria for federal programs. Also, the division conducts a series of national conferences on such topics as current SEC matters, banking, and federally assisted programs. The division has also prepared a publication concerning federal grants-in-aid.

Working with the Federal Legislative Affairs Division, the Federal Government Division analyzed numerous legislative proposals covering such issues as health care, federal procurement, banking reform, and municipal-securities disclosure, and expressed opinions on various provisions in such bills affecting CPAs. The weekly *AICPA Washington Report* summarizes federal agency regulatory activities.

The division's assistance is sought out by the White House, Cabinet departments, and federal agencies who recognize the benefit of the profession's advice on a wide range of accounting and auditing matters.

Federal Taxation

The division's activity on proposed legislation was highlighted by comments on President Carter's 1978 Tax Program. Considerable effort went into explaining the Institute's views on carryover-basis provisions, and division recommendations for tax-law changes were incorporated in final bills. In addition, the division testified on small-business tax revision, bankruptcy tax accounting, tax treatment of Americans working abroad, tax-form simplification, and indexing.

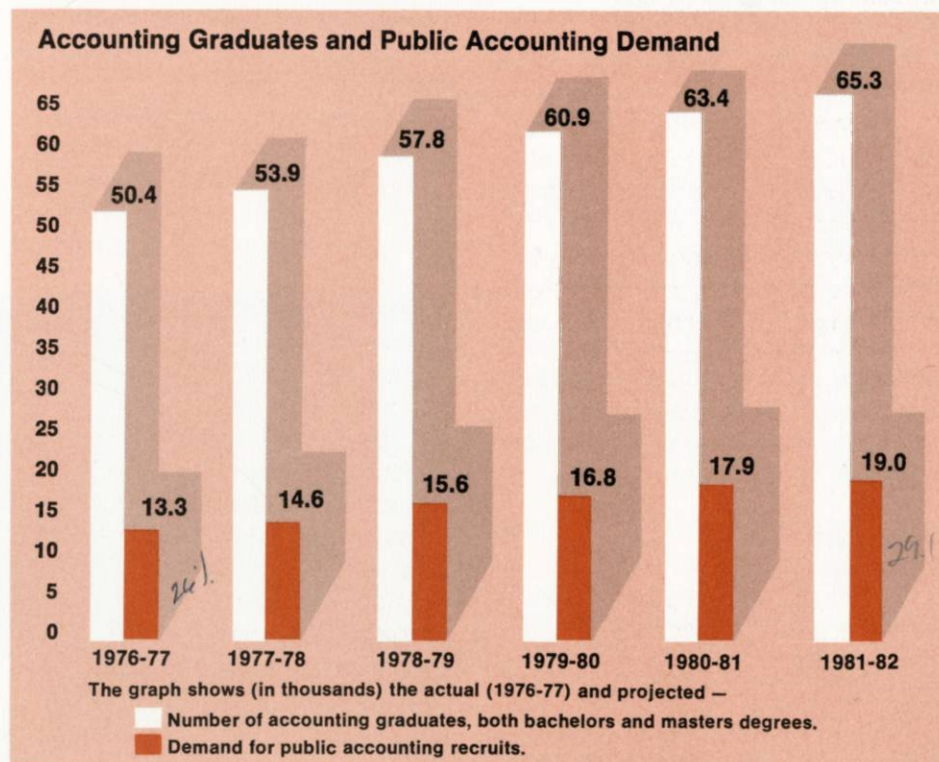
The division has been active in commenting on proposed rules and

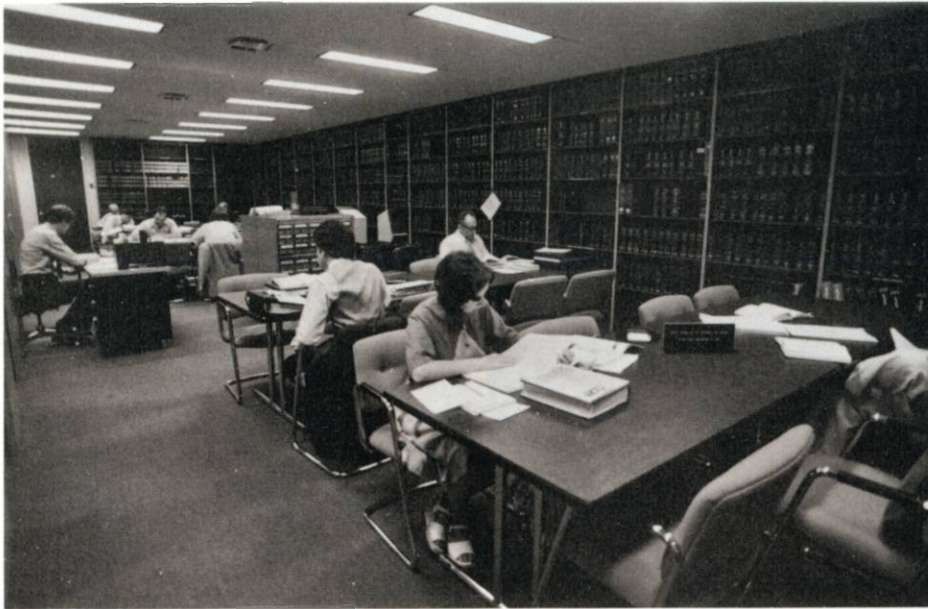
regulations having wide impact. Some examples have been the single-level system of appeals, jobs tax credit, deferred compensation, reporting requirements for non-qualified stock options, foreign-corporation transfers, and retirement-plan matters.

Efforts have been directed at maintaining effective working relationships with members of the White House staff, members of Congress and their staffs, as well as with Treasury Department and IRS officials.

The effect of the division's communications is illustrated by the protest lodged with the IRS early in 1978, which helped influence the Service to withdraw requirements to answer the question on section 274-type expenses on corporate income tax returns. Similarly, the division protested an IRS attempt to impose preparer penalties for failure to include taxpayer-underestimated payment penalties in the tax liability. These protests also offered longer range solutions.

The division has published





13,000 visit AICPA library each year; another 40,000 write or phone for assistance.

A Proposal for Complete Revision of Subchapter S Corporation Provisions and U.S. Tax Aspects of Doing Business Abroad as well as studies on both the social security system and earnings and profits. It is completing publications on business combinations, partnerships, and on the impact of foreign taxes on U.S. subsidiaries.

Reports in progress include a small-business task force report for tax-law changes other than subchapter S, a study of the common body of tax knowledge, a study of the taxation of fringe benefits, and the tax treatment of employees and the self-employed.

The division's National Conference on Federal Taxes in Washington, held annually in October, has become a significant factor in its tax training programs. The division cosponsored with CPE an Estate Planning Conference for CPAs.

In the year ahead, a major portion of the division's activities will be concentrated on evaluating and commenting on the anticipated deluge of proposals for tax reform.

Division for CPA Firms

Composed of the Private Companies Practice Section (PCPS) and the SEC Practice Section, the Division for CPA

Firms was established by a resolution of the Institute's governing Council at the annual meeting last year to provide structure through which regulatory requirements and sanctions can be imposed on firms.

Private Companies Practice Section

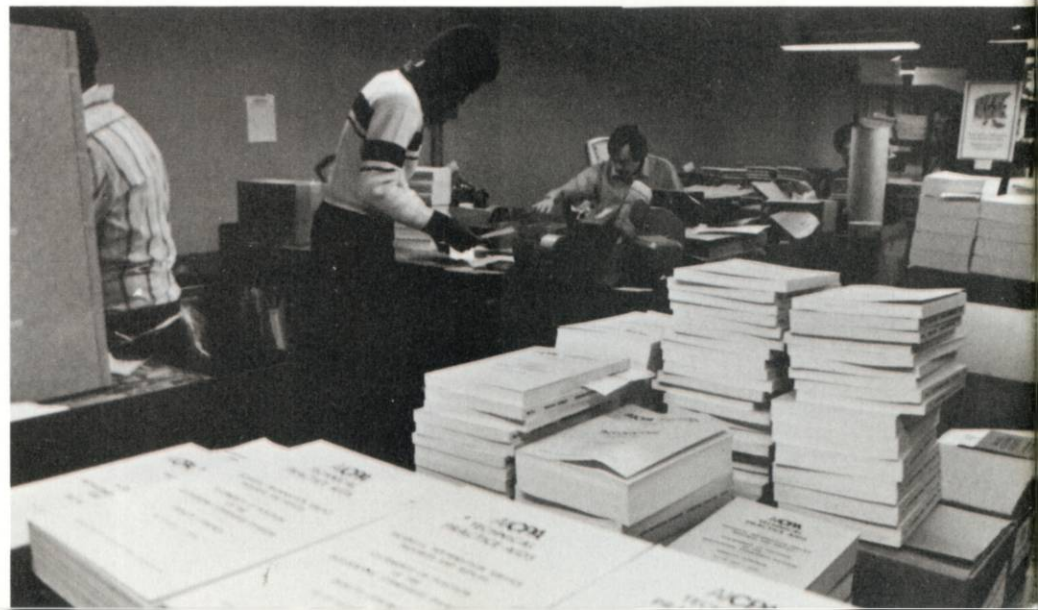
Much progress has been made since the first membership mailing last October, with membership holding at approximately 1,500 firms. More are expected to join when the section issues additional information on membership and peer review requirements.

A task force working with the Continuing Professional Education Division has developed CPE requirements calling for 120 hours of credit every three years—a minimum of 20

hours per year—for all of a firm's professional staff qualified to sit for the CPA exam or considered professional by the managing partner. Another task force determined the amount of liability insurance to be carried by member firms: \$50,000 per qualified staff member, with a firm minimum of \$250,000 and a maximum of \$5 million.

Task forces have reported to the section's executive committee on GAAP for Small Business and on the proposed statement on accounting and review services. They have reviewed existing SASs for possible modification for privately held companies and scope-of-service limitations requested by the Securities and Exchange Commission. They recommended that the PCPS resist further limitations on accounting services because the CPA is frequently the only one in many communities who can provide this kind of management advisory service to private clients. In this work, the section was assisted by the liaison committees of approximately 20 state societies.

Formed in January, 1978, the Peer Review Committee of the PCPS has assigned task forces to develop quality control review standards and the system for operating and monitoring them. A pilot program is just about completed, and test results will be reviewed before offering peer reviews to member firms in the spring of 1979.



Printed material by the millions goes out to members annually.

SEC Practice Section

The SEC Practice Section's first year has been devoted to research and development. The objective has been to establish an operative program for self-regulation and to begin peer review within 1978. That objective was met.

The following documents were developed for program implementation and were distributed to members in late summer:

- Organizational structure and functions of the section.
- Standards for performing and reporting on quality control compliance reviews.
- Standards for quality control review panels appointed when a firm conducts a review.
- A manual of instructions, guidelines, and checklists for performing reviews.

- Continuing professional education requirements.
- Minimum liability insurance requirements.

The 530 CPA firms participating in the section have been surveyed to determine the timing and type of review appropriate for each of them. A pool of nearly 600 reviewers has been established, and necessary data have been collected to facilitate the appointment of panels and review teams. In July, continuing professional education programs related to self-regulation began to be developed.

It is expected that CPA firms conducting audit engagements for about 85 percent of the SEC registrants will have submitted to peer reviews during the first three-year review period. The percentage will increase as additional CPA firms become participants. Reviews

scheduled for 1978 will provide an excellent field test of the section's standards, guidelines, policies, and procedures.

As the program evolves, modifications can be expected. There are some open issues, such as the amount of audit work performed outside the United States to be included in the scope of a quality control compliance review. Though unresolved, such issues will not interfere with an early start-up of the peer review program.

In the year ahead, it may be anticipated that the profession's self-regulatory program will be watched closely by congressional committees, the SEC, and other regulatory bodies. Also monitoring the program will be the section's Public Oversight Board, which next year is expected to issue its first report on the program's effectiveness.

Sources and Occupations of AICPA Membership

	1972	1974	1976	1978
Total AICPA Membership	88,163	103,863	121,947	140,158
Public Accounting	60.5%	60.0%	58.5%	57.6%
Business, Industry, Miscellaneous	32.9%	33.6%	35.2%	36.2%
Education	3.1%	3.0%	2.9%	2.8%
Government	3.5%	3.4%	3.4%	3.4%
	1972	1974	1976	1978
Membership in Public Practice	53,029	62,430	71,314	80,723
Firms with one member	20.5%	21.5%	22.3%	23.9%
Firms with 2 to 9 members	31.7%	30.5%	30.0%	29.9%
Firms with 10 or more members, except the	8.4%	9.3%	11.1%	11.8%
25 largest firms	39.4%	38.7%	36.6%	34.4%

1977-78

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American Institute of Certified Public Accountants

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AICPA in the News: Defends Self-Regulation

THE WALL STREET JOURNAL, September 19, 1977

CPA Panel Clears Plan to Oversee Firms That Audit Publicly Held Companies

By a WALL STREET JOURNAL Staff Reporter
CINCINNATI—As expected, the governing council of the American Institute of Certified Public Accountants approved a plan establishing a division of CPA firms according to whether they audit publicly held companies.

firm of Alford, Meroney & Co., said, "The entire profession will benefit from these structural changes."

NEW YORK TIMES, September 15, 1977

Accountants' Self-Regulation Plan Criticized by Moss

By DEBORAH RANKIN
Representative John E. Moss, a critic of the accounting industry, said yesterday that the industry's steps toward self-regulation were not useful and indicated that he thought they might decrease competition.

Mr. Moss's comments were contained in a letter written to Eli Mason, managing partner of Mason & Company, a medium-sized firm in New York City. Mr. Moss, a former vice president of the Institute, had expressed concern that the plan would prevent small firms from attracting publicly held clients.

was voluntary, and had earlier suggested legislative changes that would have brought accounting firms dealing with publicly held clients under Federal control.

NEW ORLEANS ITEM,
November 16, 1977

Self-regulation for accounting profession proposed

NEW YORK — A Senate subcommittee has called on the Securities and Exchange Commission to adopt a more vigorous role in overseeing the accounting profession and recommended that all accounting firms that audit public companies be required to join a

THE REPORT did not entirely abandon the recommendations of its staff, however. It urged, for instance, that firms that audit public companies be required to disclose financial and operating data on their own operations.

the assurances of the various accounting representatives. The next step is up to them," he said.

THE WALL STREET JOURNAL, January 30, 1978

Top Leaders in Accounting Field to Back Self-Regulation at House Panel Hearings

By TOM HERMAN
Staff Reporter of THE WALL STREET JOURNAL
NEW YORK—Leaders of some of the nation's largest accounting firms and the biggest accounting trade association will parade before a House subcommittee this week in an effort to persuade lawmakers that accountants can regulate themselves

Rep. Moss said he believes Congress would approve legislation along the lines of the bill he might introduce but some observers aren't so sure.

THE WASHINGTON POST,
February 9, 1978

Oversight of Accountants Raised at Hill Hearings

By Larry Kramer
Washington Post Staff Writer
Can accountants regulate themselves, or is some form of oversight needed to prevent future instances of illegal payments and corporate slush funds being kept off the books of many corporations?

But, Scott said, legislation is not needed now. He said the Securities and Exchange Commission has been "particularly in recent years, has been rigorous in its pursuit of wrongdoing in the profession."

NEW YORK TIMES, May 2, 1978

Taxes & Accounting New Reform Impetus From Eagleton

WASHINGTON—The Congressional push for reform of the accounting profession, which had appeared to wither after the death last winter of Senator Lee Metcalf, is now reviving.

likely to arise when accounting firms offer a variety of services beyond the examination of financial statements.

A spokesman said that the Congressman has been "extremely patient" with Public Accountants, but warned that legislation was likely unless the accountants' trade group makes certain changes in its new self-regulatory apparatus.

LAW JOURNAL, August 2, 1978

Court Upholds CPA Institute

Under pressure from Congress and the Securities and Exchange Commission over allegedly inadequate auditing and reporting procedures for publicly held corporations, a number of which failed, the American Institute of Certified Public Accountants created a special division last year that restricted membership to CPA firms serving public and other SEC-supervised corporations.

Kassal dismissed their challenge, ruling that the procedure was proper since it represented a proper exercise of the Council's authority and was not a bylaws amendment.

In his decision, *Matter of Alam (American Institute of Certified Public Accountants)*, which is published today under New York County, Supreme Court, Special Term, Part 1, Justice Kassal saw the individual membership requirement not being bypassed. He emphasized that while only firms may belong to the new division, the membership criterion was not altered.

New Grouping Formed
"What the Council has done, in essence, is to create and define a new grouping of individual members, based upon their being associated with a firm as a partner, etc., to establish a division of individual members consisting of those who

COLUMBUS EVENING DISPATCH, July 6, 1978

SEC Against Government Regulation Of Accounting

WASHINGTON (UPI)—The Securities and Exchange Commission (SEC) Wednesday told Congress that direct governmental regulation of the accounting profession is unnecessary at this time and that the accounting industry should be allowed to continue efforts at self-regulation.

The SEC issued its first report to Congress on efforts during the past year by the accounting profession to self and the commission's

FORBES, April 3, 1978

Follow-through

Clearer Skies For CPAs?

"Whom do the accountants work for?" FORBES asked last spring (Mar. 15, 1977). "Their clients? Investors? Or for Ralph Nader and the federal government?"

management's. So the commission wants management, among other things, to acknowledge that responsibility.

The congressional heat has also



California's Rep. Moss: A last hurrah?

abated. The SEC's accounting led by Metcalf has been folded into another tum for another the book has been slowed, to disappeared. Last fall, before death, all five members of mettee laid down a set of wanted the accountants to and promised new hearing check up on progress.

On the House side of California's Representative who led the charge for new legislation there, is retiring an knows if anyone will take up his Moss is leaving, however, in a parting shot. At hearings a ago, he promised to introduce before he packed ideas are still in the Moss has clearly indicated for one thing, would see CPA firms more voice in setup and to end wh Democrat calls the domination by the AICPA President timistic—but ca