

University of Mississippi

eGrove

---

AICPA Annual Reports

American Institute of Certified Public  
Accountants (AICPA) Historical Collection

---

1979

## AICPA annual report 1978-79

American Institute of Certified Public Accountants

Follow this and additional works at: [https://egrove.olemiss.edu/aicpa\\_arprts](https://egrove.olemiss.edu/aicpa_arprts)



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Recommended Citation

American Institute of Certified Public Accountants, "AICPA annual report 1978-79" (1979). *AICPA Annual Reports*. 5.

[https://egrove.olemiss.edu/aicpa\\_arprts/5](https://egrove.olemiss.edu/aicpa_arprts/5)

This Book is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in AICPA Annual Reports by an authorized administrator of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

**Annual Report 1978-1979**

---

**American Institute of Certified Public Accountants**

**AICPA**

# American Institute of Certified Public Accountants

---

“This is a period of transition  
in which our ability to regulate  
ourselves is being challenged. . . .  
We are optimistic that these  
challenges will be dealt with  
successfully.”

JOINT STATEMENT 1979

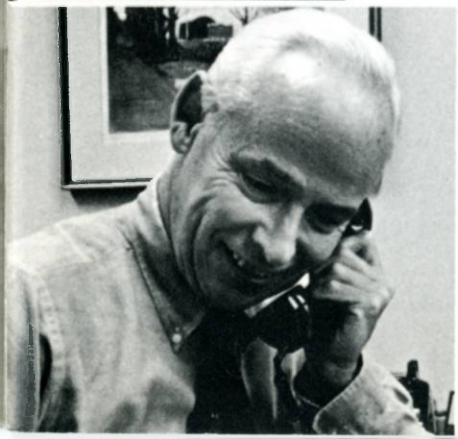
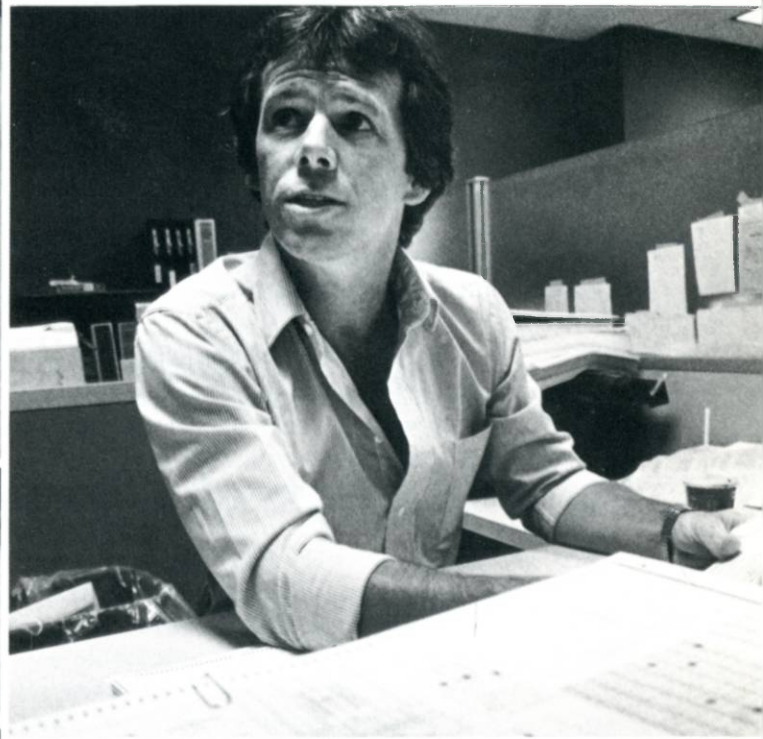
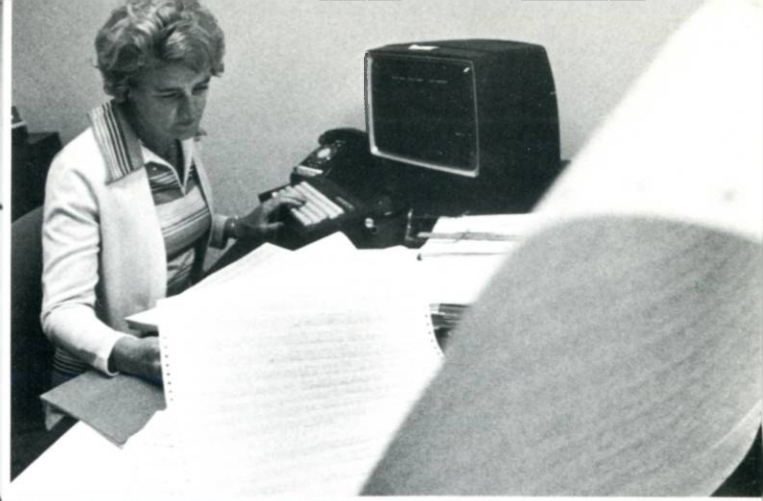
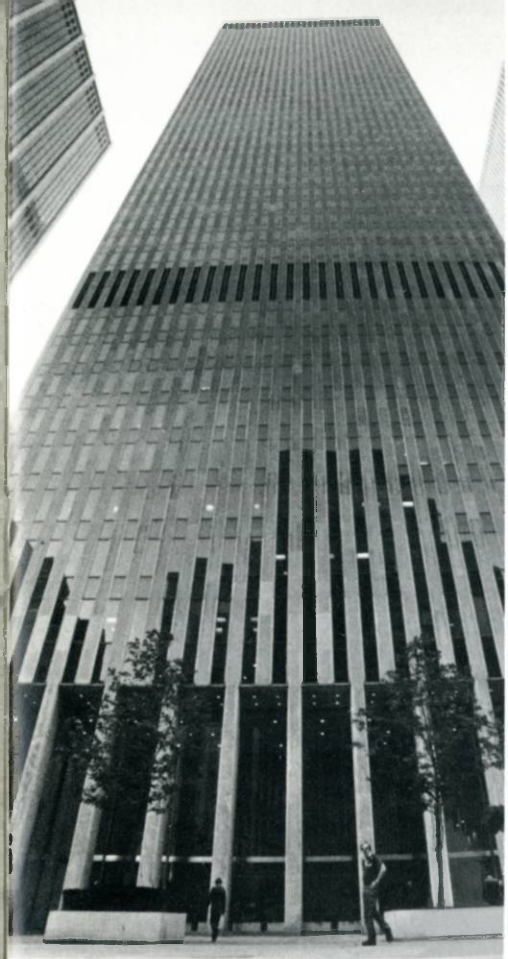
Joint Statement / 2

Year in Review / 5

Report of Independent Certified Public Accountants / 20

Financial Statements / 20







We are pleased to report that this year we have been making solid progress toward implementing the many initiatives of the preceding two years. On the surface, the pace of events has slowed somewhat, partly as a result of recognition in the new Congress and by the SEC that we require more time to deal with the many complex issues we face. In short, this has been a period of consolidation. But this is a temporary lull in the continuing scrutiny of our profession, and it would be a serious mistake for CPAs to become complacent.

Much attention has been focused on perfecting the Division for CPA Firms and making its two sections fully effective. The Private Companies Practice Section completed its policies and procedures for peer reviews and began conducting reviews of member firms this summer. The section's executive committee has matured into an effective representative for the interests of the member firms and has influenced a number of important policy decisions within the AICPA.

The SEC Practice Section has been actively engaged in conducting peer reviews since 1978 and has substantially increased the number of reviews in 1979. The section's executive committee has been aggressively working toward solutions to a number of complex problems including defining the appropriate scope of services for member firms, establishing procedures to deal with cases that involve major alleged audit failures, and determining whether and how engagements performed outside the United States can be included within the scope of peer reviews.

Membership in both sections has remained relatively stable throughout this formative stage. However, it is expected that during the coming year substantially more firms will seek membership as they become aware of the record of successful peer reviews and the measures already in effect to assure that membership costs will not be unduly burdensome. Publication of a membership directory, as authorized by Council, is expected to add a further incentive for firms to join one or both sections.

If the profession is to be judged successful in its self-regulatory program, the broad support of a large proportion of CPA firms is necessary. For example, in June, the SEC filed its second annual report to Congress on its oversight of the profession. Although the commission continued to support our self-regulatory program in lieu of new regulatory legislation, it expressed concern about several matters including the need for increased membership in the Division for CPA Firms.

Other significant developments in Washington during the past year were—

- The Department of Justice ended its inquiry into our Rules of Conduct based upon the membership ballot decision to repeal rule 401 prohibiting encroachment and to amend rule 502 to remove restrictions on direct, uninvited solicitation of potential clients.

- The Senate Subcommittee on Governmental Efficiency and the District of Columbia held hearings August 1-2, 1979, regarding the activities of the profession.

- As part of a long-range program to better acquaint members of Congress with the profession, a continuing series of breakfasts for state delegations and key CPAs from the states was launched. Nine states participated through September 1, 1979.

- The Federal Trade Commission completed its investigation of the profession but had not issued a report at this writing.

Although it is difficult to predict the course of events, we believe that the profession and the Institute are now in a far stronger position to deal with continuing challenges from the federal government.

One of the most important issues in recent years has been whether auditor independence is impaired by performance of management advisory services for audit clients. The Public Oversight Board of the SEC Practice Section was requested to study this matter. After intensive analysis and public hearings, the board issued its report on March 9, 1979, concluding that, with certain exceptions, specific services should not be proscribed and that any potential problems would be brought to light by the SEC-required proxy statement disclosures about such services.

On June 14, 1979, the SEC issued Accounting Series Release 264, an interpretative release, that again raised questions about this matter. In some respects, these questions present far more serious implications for the profession's future than other questions relating to regulation. The Institute has expressed strong objections to the release's concepts and the way they were expressed. We believe that the quality of audits and the credibility of auditors is substantially dependent upon the broader knowledge of business that results from the consultative role and intend to do everything possible to defend this position.

There were also a number of important developments in our standards-setting activities during the past year:

- The Auditing Standards Board has functioned

## Joint Statement

well as a new structure. An advisory council was established and began providing advice to the board on its operations.

- The Management Advisory Services Division sought and obtained a Council resolution to make its pronouncements enforceable under rule 204 of the Rules of Conduct.
- The FASB decided to assume responsibility for the accounting provisions of special industry audit and accounting guides and statements of position of the Accounting Standards Executive Committee. During a period of transition, it is proposed that such accounting provisions will be regarded by the FASB as preferable under APB Opinion 20.
- A special committee concluded, after study and public hearings, that audit committees are not necessary to perform an audit or to maintain the independence of auditors. Nevertheless, the AICPA continues to support reasonable efforts by others to require audit committees.
- A special committee developed a report to provide guidance on evaluating systems of internal accounting controls for use in meeting requirements of the Foreign Corrupt Practices Act.
- A special committee developed recommendations for matters to be covered in a report by management to accompany financial statements.

Perhaps of greatest importance to a majority of Institute members in public practice are our efforts to provide assistance to local CPA firms. In addition to a host of ongoing services listed in the pamphlet included with this report, the following actions were taken:

- An accounting and auditing manual was published on August 1 to help practitioners comply with the growing body of technical standards.
- The Accounting and Review Services Committee issued its first statement defining two types of unaudited financial statement engagements and reports thereon to more closely conform to the needs of clients and users.
- Based upon a resolution at the AICPA's 1978 annual meeting, a special committee was appointed to study and seek solutions to the problems of small- and medium-sized CPA firms.
- A meeting was held to explore ways in which associations of CPA firms can be assisted by the AICPA.
- Largely at the urging of the AICPA, the FASB relieved smaller and privately held companies from complying with requirements for disclosure of earnings-per-share and segment reporting. Also, the FASB intends to provide similar relief to smaller companies by requiring certain types of future disclosures to be reflected outside of financial statements.

Other important special projects were launched during the year. Special AICPA committees were appointed for the following purposes:

- To develop general guidelines for use by the Professional Ethics Division in deciding whether members' claims to being specialists violate rule 502 prohibiting false, misleading, or deceptive advertising in the event self-designation as specialists is permitted in the future.
- To study and make recommendations on the need for a special examination for the granting of



J. P. CUMMINGS



W. E. OLSON

CPA certificates to foreign applicants who are members in good standing of the organized profession in their native countries.

- To review the entire disciplinary machinery applicable to the profession, including that of the state boards of accountancy, to determine how it can be more effective and to eliminate unnecessary duplication.

Other new developments of significance were—

- The production of a journal of professional developments on videotape for use by state societies at local meetings.
- A general shift in policy in the Continuing Professional Education Division to provide course materials for in-firm training designed as either self- or group-study using audio-visual techniques such as videotape.

Most of the many new initiatives involve the commitment of additional AICPA funds. Fortunately, the Institute continued to enjoy an excess of revenues over expenditures that amounted to \$1,571,699 for the year ended July 31, 1979. Although the budget for the coming year also reflects an excess of revenues of \$531,700, a five-year forecast indicates that we will experience deficits in increasing amounts starting with the year ended 1981. This may be accelerated if the current rate of inflation continues and it may become necessary to increase dues within the next two to three years.

Not reflected in the accompanying financial statements is the value of the large number of hours contributed by members to work on the many AICPA committees and task forces. The availability of this pool of talent coupled with the efforts of a capable staff is vital to the success of the Institute's wide range of activities.

We approach the coming year with both concern and optimism. We are concerned about issues that remain to be resolved with the SEC and about the increasing internal tensions resulting from intense competition and competitive

bidding. We are disturbed by the decreasing number of large firms but encouraged by the rapid growth in both the number and size of local and regional firms and associations of firms. We are anxious to find additional ways to assist these firms and associations to enjoy continuing success in serving a rapidly expanding demand.

This is a period of transition in which our ability to regulate ourselves is being challenged and our future role and credibility as broad-gauged professionals are being threatened by proposals that would drastically narrow the scope of our services. We are optimistic that these challenges will be dealt with successfully by applying the basic integrity and competence that characterize our profession.

Even more positive is our belief that the demand for our services will continue to increase in both the volume and the nature of responsibilities to be assumed. If we put aside internal differences to work together, we will be equal to the task and will make an important contribution toward a better society.



CHAIRMAN OF THE BOARD



PRESIDENT



---

## Auditing Standards

In a move to make the profession's standards-setting mechanisms more responsive to public concern, the Auditing Standards Board was created in the fall of 1978. Successor to the Auditing Standards Executive Committee, the board develops audit standards. The Auditing Standards Advisory Council, whose fourteen members also represent outside interests (government, industry, other professions), is charged with monitoring the Auditing Standards Board and channeling outside views into the standards-setting process.

In a further move to strengthen the standards-setting function, fundamental changes were made in the staff organization. A new post, Director of Auditing Research, was created to consolidate the research effort to support board projects. Some supplemental support was sought with the introduction of fellowships aimed at attracting talented researchers from universities or public practice; a fellowship recipient from public practice is now active on the staff. Overall, the staff effort now falls within the responsibility of a vice president-auditing, who, in the new structure, focuses entirely on audit standards development.

During the year, the Auditing Standards Board issued two statements on auditing

standards: *Analytical Review Procedures* (SAS no. 23) and *Review of Interim Financial Information* (SAS no. 24). The latter adds an expression of limited assurance to the auditor's report on a review.

The Auditing Standards Division staff published a booklet explaining the purpose and benefits of management representation letters to audit clients that should help independent auditors obtain the letters as part of their examination of financial statements.

The division requested public comment on proposed SASs and audit and accounting guide topics:

- Relationship of generally accepted auditing standards to quality control standards.
- Association with financial statements (unaudited statements).
- Oil and gas reserve information required by regulation S-X.
- Banks (part of the series of special industry accounting and audit guides).

The division also issued a Statement of



Dan Guy assumes new post —  
Director of Auditing Research.

### *Position, Confirmation of Insurance Policies in Force.*

A number of reports during the year had visible impact on practice units. These included a special advisory committee report on evaluating the internal accounting control system, which should assist the management of a company in determining whether the company stands in compliance with the Foreign Corrupt Practices Act of 1977.

Another committee report endorsed the usefulness of corporate audit committees, but could not find substantive professional reason to impose such a requirement. A special advisory committee, comprising financial executives, attorneys, and user groups, issued tentative recommendations on a management report, regarded at the time as a significant step toward public acknowledgment of management's responsibilities for its actions. Another committee compiled warning signals of possible existence of fraud.

Current projects include a study on the expression of an opinion on internal accounting control and one on auditor involvement with supplemental information required by the Financial Accounting Standards Board to be presented outside the financial statements.

Other projects in process include—

- A study of the implications of SAS no. 24 for comfort letters and similar engagements.
- Development of guidance on audit procedures for "going concern problems."
- Development of guidance on financial statement assertions and evidential matters.
- Review of responsiveness of existing SASs to

## Year in Review



current needs, particularly for auditors of smaller companies.

- An exposure draft of a guide on financial forecasts.
- Preparation of new or revised audit and accounting guides for agribusiness, property and liability insurance, nonprofit organizations, defined benefit plans, and brokers and dealers in securities.

Of the seventeen auditing interpretations issued by the staff, five provide guidance when part of an examination is made by other auditors. Others deal with the Foreign Corrupt Practices Act, consolidated financial statements, analytical review procedures, management representations on violations of law, related-party transactions, subsequent events, and review of interim financial information.

---

## Accounting Standards

With a sharp increase in the volume of its activity this past year, the Accounting Standards Division exerted significantly more influence on the development of financial accounting and reporting standards. It maintained continuous liaison with the Financial Accounting Standards Board, the Securities and Exchange Commission, and the Cost Accounting Standards Board, submitting letters of comment on all significant accounting proposals by those bodies.

The division's work is expected to be affected by the FASB's proposed amendment to APB Opinion 20 in a June 1979 exposure draft, *Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides and Statements of Position*. This amendment would establish that

reporting principles and practices in those documents are generally accepted accounting principles and are regarded as preferable in applying APB Opinion 20.

The division's activities also will be significantly affected by the FASB's decision to issue pronouncements and exercise final authority over the specialized industry accounting matters now treated in SOPs. Whatever the outcome, the division will continue developing issues papers on such matters and will work closely with the FASB to assure that guidance of the type now provided in SOPs is available on a timely basis.

During the year, the division issued the following statements of position:

- 78-5 *Accounting for Advance Refundings of Tax-Exempt Debt*
- 78-6 *Accounting for Property and Liability Insurance Companies*
- 78-7 *Financial Accounting and Reporting by Hospitals Operated by a Governmental Unit*
- 78-8 *Accounting for Product Financing Arrangements*
- 78-9 *Accounting for Investments in Real Estate Ventures*
- 78-10 *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*
- 79-1 *Accounting for Municipal Bond Funds*
- 79-2 *Accounting by Cable Television Companies*
- 79-3 *Accounting for Investments of Stock Life Insurance Companies*
- 79-4 *Accounting for Motion Picture Films*

Other projects completed include—

- *Financial Reporting and the Evaluation of Solvency, Accounting Research Monograph 3*
- *The Accounting Responses to Changing Prices: Experimentation With Four Models*

Projects resulting in FASB action include—

- *Accounting for Stock Appreciation Rights, FASB Interpretation no. 28, issued December 1978*
- *Profit Recognition on Sales-Type Leases of Real Estate, FASB Statement no. 26, issued April 1979*
- *Involuntary Conversions, FASB exposure draft, issued April 1979*
- *Accounting for Service Transactions, FASB Invitation to Comment, issued October 1978*
- *Accounting for Income Taxes Related to U.K. Tax Legislation Concerning Stock Relief, FASB exposure draft, issued July 1979*

Thousands of staff hours precede every new pronouncement.



- *Balance Sheet Classification of Deferred Income Taxes*, FASB proposed interpretation of APB Opinion 11, issued June 1979

Projects added to the FASB agenda in response to projects of the division include—

- Compensated Absences (Time Paid Not Worked)
- Intercorporate Tax Allocations
- Preacquisition Contingencies

Projects on which exposure drafts of proposed SOPs are outstanding include—

- *Accounting for Title Insurance Companies*
- *Accounting and Financial Reporting by Governmental Units*
- *Accounting for Real Estate Acquisition, Development, and Construction Costs*

Projects cleared by the FASB for AcSEC action include—

- Personal financial statements. The division is preparing for exposure a revision of the 1968 industry audit guide that will require the measurement of assets and liabilities at current values in personal financial statements.
- Construction contractors audit and accounting guide. The division is preparing for exposure a revision of the 1965 industry audit guide to provide more comprehensive guidance on accounting and auditing in the construction industry.
- Accounting for performance of construction-type and certain production-type contracts. The division is preparing for exposure a proposed statement of position that deals broadly with accounting for contracts under all circumstances and in all industries and provides comprehensive coverage and elaboration of existing contract accounting principles.

Projects reviewed by the FASB and neither added to its agenda nor cleared for AcSEC action include—

- Accounting for changes in estimates. The FASB reviewed an issues paper on this topic and concluded that APB Opinion 20 in general provides adequate guidance.
- Accounting for project financing arrangements. The FASB reviewed an issues paper on this topic and concluded that the issues raised were similar to issues currently under consideration in other projects. At the board's request, AcSEC is identifying specific and pressing problems relating to the topic for further consideration by the board.
- In-substance foreclosure. The FASB reviewed an issues paper on the desirability of clarifying the meaning of "in substance a repossession or foreclosure" under FASB Statement no. 15 and concluded that no action was warranted.



Alert handling of communications is the key to providing good member services.

Other projects in process include—

- An experimentation project for state and local governmental units involving the preparation of general purpose financial statements in accordance with principles similar to those applicable to business enterprises.
- Issues papers on—
  - Accounting for allowances for losses on certain real estate and loans and receivables collateralized by real estate
  - Accounting for termination indemnities
  - Accounting for finance subsidiaries
  - Accounting for government grants
  - Accounting for pension costs arising from plant closings
  - Joint venture accounting
  - "Push down" accounting
- Letters to the FASB—
  - Requesting an interpretation of APB Opinion 21 for the broadcasting industry.
  - Requesting an interpretation of FASB Statement no. 8 relating to currency swaps.

---

## Accounting and Review Services Committee

Responding to the needs of smaller, nonpublic entities and local practitioners, the Accounting and Review Services Committee issued its first statement, *Compilation and Review of Financial Statements*.

The committee also has issued an exposure draft, *Reporting on Comparative Financial Statements*, that would establish standards when statements for one or more periods have been compiled or reviewed.



Other projects in process include—

- Reporting requirements for financial statements or information presented on prescribed forms.
- Continued consideration of matters related to the question of independence.
- Guidance for unaudited special reports for nonpublic companies.

---

## Management Advisory Services

Management advisory services were the focus of considerable attention this year. Council authorized the MAS Division to develop new practice standards under rule 204 of the AICPA Rules of Conduct that would be binding on practitioners performing MAS engagements. In the months that followed, the division moved to assess practitioners' experiences with current MAS standards and to consider revisions. It also began work on guidelines for firms setting up internal quality assurance programs for MAS engagements.

Not all the attention to MAS was internal. Late in the year, the Securities and Exchange Commission issued a release on scope of services by independent accountants that heightened concerns about auditor independence when MAS engagements are performed for audit clients. Legislators, especially those with oversight authority, also addressed those concerns. The profession moved quickly to respond to these continuing efforts to curtail a basic element of a CPA's services. Neither the independent findings of the Commission on Auditors' Responsibilities nor the Public Oversight Board recommended applying broad restrictions to MAS practice.

As part of its continuing effort to improve the quality of MAS practice, the MAS Division published *University Education for Management Consulting*. It was distributed to universities and individual educators to provide guidance aimed at enhancing the consulting skills of graduates who might then use those skills in MAS practice or other occupations.

The division held its sixth annual MAS conference in September 1978 in New York City.

---

## Technical Information

Throughout the year the Technical Information Division kept practitioners informed of technical developments through publications and by direct response to inquiries. Its Technical Information Service staff answered more than eight thousand telephone and written requests for information. Its material is published by Commerce Clearing House, and appears as the *AICPA Professional Standards* looseleaf service, the *Technical Practice Aids* service and the new *Audit and Accounting Manual*. The division published *Accounting Trends & Techniques* (the thirty-second in the annual series) and the *Index to Accounting and Auditing Technical Pronouncements*. In conjunction with Information Retrieval, the staff publishes *Financial Report Surveys*, an examination of annual reports.

---

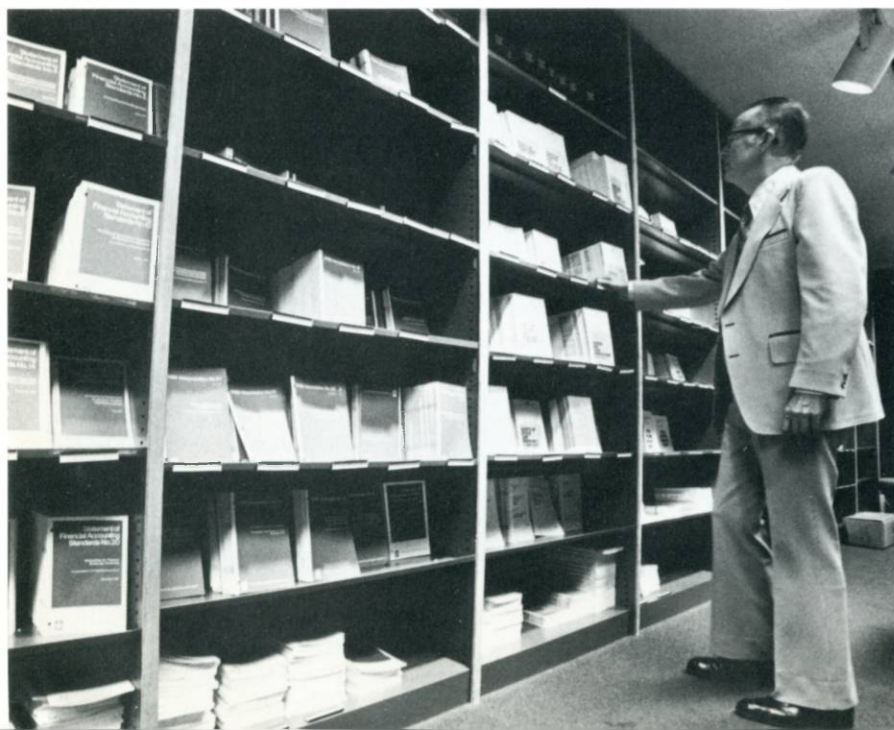
## Information Retrieval

The National Automated Accounting Research System (NAARS) can perform computer-assisted research of annual reports of 4,000 companies. The system has expanded its data base to include samples of certain proxy-statement disclosures, detailing executive compensation including "perks," related-party transactions, and fees charged by independent CPAs for nonaudit services. Also added to the data base were management-responsibility letters on financial statements.

During the year, AICPA added three titles to the *Financial Report Surveys*, bringing the total to eighteen such how-to-do-it publications produced from annual report data.

Public accountants, corporate executives, educators, researchers, and others without terminals of their own continue to utilize NAARS via the AICPA individual-inquiry service on a fee basis.

AICPA bookstore — scores of new publications are added yearly.





Members volunteer thousands of hours yearly to AICPA committee work.

---

## Practice and Quality Control Review

Quality control received renewed attention this year. The Quality Control Standards Committee issued an exposure draft of its first statement on quality control standards, *System of Quality Control for a CPA Firm*, and a guide, *Sample Quality Control Documents for Sole Practitioner CPA Firms*.

During the year the AICPA reviewed seventy-five documented systems of quality controls submitted by firms.

The AICPA Practice Review Committee and representatives of practice review committees in thirty-six states participated in a national conference last fall at which several state societies indicated plans to expand review activities to help members comply with quality control standards.

---

## Professional Ethics

One year after the repeal of the fifty-year-old advertising ban, the membership rescinded both the "encroachment" provisions of rule 401 (by a 72 percent vote) and the direct-solicitation prohibition under rule 502 (by a 69 percent vote).

Accordingly, the Professional Ethics Division eliminated code interpretations based on the changes in rules 502 and 504—502-3: Other Forms of Solicitation and 504-1: Incompatible Occupations. The executive committee announced that numerous rulings relating to old bans on advertising and solicitation and encroachment, suspended as of March 31, 1978, are deleted.

During the year the division issued ethics interpretation 101-7: Application of Rule 101 to

Professional Employees; 101-8: Effect on Independence of Financial Interests in Non-Clients Having Investor or Investee Relationships With a Member's Client; 501-2: Discrimination in Employment Practices; and 502-5: Engagements Obtained Through Efforts of Third Parties.

The division also issued new rulings under rule 101: Employee Benefit Plans—Member's Relationships With Participating Employers; Member and Client Are Limited Partners in a Limited Partnership; and Participation of Member's Spouse in Employee Stock Ownership Plan of Client. Ethics ruling 40, relating to independence rule 101, Controller Entering Public Practice, was deleted as being inconsistent with new interpretation 101-7, and ruling 49, Investor and Investee Companies, was superseded by interpretation 101-8.

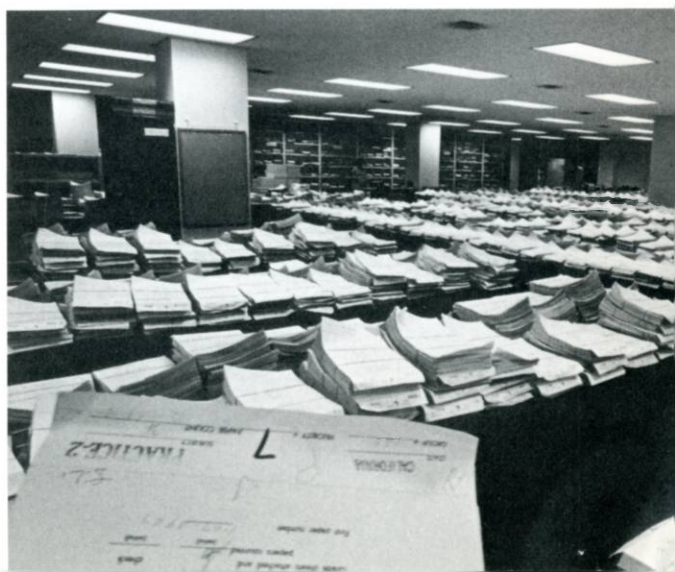
Other rulings issued were under rule 501, Employment by Non-CPA Firm; rule 502, Course Instructor, Newsletter, Letterhead: Lawyer-CPA, Member Interviewed by the Press, and Data Processing Billing Services; rule 503, Computer Service Franchise, Referral, and Data Processing: Fees Paid to Other CPAs; and rule 504, Location of Separate Business. Ethics ruling 175, Bank Director, relating to incompatible occupations, was made consistent with changes in rule 504 mandated last year.

---

## State Legislation

The Institute's state legislation programs remained active. The State Legislation Committee is revising the AICPA Model Accountancy Bill, which serves as the profession's guide for the enactment of uniform state accountancy laws. It

Awaiting grading are some of the 54,000 May examination papers.





also revised three widely used publications of the Legislative Reference Service: *The Campaign Treasurer's Handbook*, the *Legislative Reference Service Manual*, and *Reciprocity and Temporary Practice Requirements for CPAs*.

The committee is completing plans for a national conference in November on "Preparing for the Legislative Challenges of the 1980s." The conference is planned to provide state CPA societies with information on how to develop effective legislative programs.

## Examinations

Record-breaking numbers of candidates sat for the Uniform CPA Examinations.

	Candidates	Papers Graded
November 1977	49,112	180,878
November 1978	54,720	203,660
May 1978	49,791	180,264
May 1979	53,969	196,984

Underway this year is a statistical information study project to find out more about the growing number of candidates for this national examination. Results are expected to contribute toward the continuing effort to maintain the test as a valid and reliable measuring instrument.

The Institute reached an agreement with the National Association of State Boards of Accountancy to establish a NASBA Review Board to monitor the design, grading, administration, and security of the CPA examination.



## Computer Services

This year, with computers becoming as common as pencils to accountants, the Computer Services Division contributed an audit guide and two computer services guidelines to the body of knowledge on using computers in auditing and in managing an accounting practice.

The audit guide, *Computer-Assisted Audit Techniques*, explains how the computer can be used in an examination of financial statements and describes various EDP tools and techniques available to the auditor. *Guidelines to Assess Computerized General Ledger and Financial Reporting Systems in CPA Firms* helps practitioners select a general ledger system. *Controls Over Using and Changing Computer Programs*, regarded as another effort to curb computer fraud, provides guidance on internal controls that can help ensure that the proper version of a computer program is processed as authorized.

Current projects being developed in committee are these:

- Guidelines to assess computerized time and billing systems in CPA firms.
- Audit approaches to a computerized inventory system.
- Control and audit considerations in a mini-computer environment.
- Audit considerations for remote banking systems.
- A revised edition of *Auditing and EDP*.
- Guidelines for managing an EDP facility in a CPA firm.
- Audit considerations for on-line computer applications.
- Knowledge items and ability objectives for auditing computer-based accounting records.
- Audit and control considerations for data-base systems.
- Computer fraud in the banking industry.

In addition, following a survey of all practice units, the division published statistics on CPA involvement with computers for over 8,000 firms. And, it has expanded the AICPA timesharing libraries. AICPA/COMSHARE now has 106 programs and 610 subscribers; AICPA/TYMSHARE has 32 programs and 275 subscribers.

In May, the division held its fifteenth annual Computer Services Conference in San Francisco.

Computers still need the human touch.



Microfiche helps keep the world's largest accounting library to manageable proportions.

---

## Library Services

Periodicals and reference works still provide the backbone for professional research. The AICPA library, entering its sixty-second year of operation, continues to offer free service to AICPA members and maintains a reading room open to the public for reference use. In addition to assisting 14,000 who visited our fifth floor library, our staff answered 15,000 telephone requests for information and sent out 3,500 letters. Members borrowed—and returned—more than 15,000 items.

The staff of seven professional librarians and six support personnel publishes the *Accountants' Index*, the annual case-bound volume plus supplements that reports on all the library's periodicals and books. The *Index* from 1974 to the current quarter is also available as an on-line bibliographic data base to subscribers of SDC Search Service.

The library's collection now surpasses 69,000 books, pamphlets, and bound journals, and features more than 300 current periodical subscriptions, an extensive tax reference section, and a collection of corporate annual reports on microfiche. A monthly list of book and pamphlet acquisitions is available to members on request.

---

## Insurance and Retirement Programs

To provide practitioners and their families with financial protection, more than \$6 billion of life

insurance is now in force on the more than 60,000 individual CPAs insured under the CPA Plan and the approximately 60,000 proprietors, partners, employees, and eligible dependents covered under the Group Insurance Plan. This is an increase of some \$1 billion in coverage since last year.

Approximately 12,000 CPAs are currently insured under the Long Term Disability Income Plan introduced on January 1, 1978. This plan includes liberal definitions, a rehabilitation program, and up to \$3,000 of monthly benefits.

More than 9,000 practice units are covered under the Professional Liability Insurance Program. Directed by the AICPA Accountants Professional Liability Insurance Plan Committee, its objective is to maintain stable rates while providing high liability protection without critical gaps in coverage.

The Members Retirement Plan provides firms with retirement income benefits for proprietors, partners, and employees. At December 31, 1978, more than \$48 million had been accumulated for these purposes, and more than \$8 million in contributions were received during the latest year.

The American Institute Benevolent Fund, administered by its Board of Trustees, granted \$90,270 in financial assistance to members or former members and their families. The Fund received \$99,808 in contributions during the past fiscal year. Professional social workers provide information for the board's evaluation of each request.

---

## Publications

The linchpin in the Institute's chain of publications is the *Journal of Accountancy*, reaching 235,000 subscribers monthly. The *Journal* regularly features practice-oriented articles covering the full range of professional services—accounting, auditing, MAS, and taxation. This year one issue was devoted entirely to practice management. Advertisers have responded in record numbers, accounting for a new high in annual billing, \$1,295,000.

Supplying members with timely news and other information are the three newsletters: the *CPA Letter*, the *Practicing CPA* and the *CPA Client Bulletin*.

The semimonthly *CPA Letter* reports to all members technical news and information on AICPA's professional activities. The monthly *CPA Client Bulletin*, sent by subscribing small- and medium-sized firms to clients, is the Institute's most widely circulated periodical. More



than 3,300 firms (up 400 from last year) are distributing about 300,000 copies (up 55,000). The *Practicing CPA* carries items on practice management and practical applications of professional standards to approximately 60,000 members, primarily those with smaller firms—an increase of about 5,000.

Again this year, the production department processed more than fifty publications, including eleven Accounting Standards Division and Auditing Standards Division statements of position, two statements on auditing standards, three computer services guidelines, three tax division position papers, and the first statement on accounting and review services.

Three special committee reports were issued on studies of audit committees, internal accounting control, and the restructure of the Auditing Standards Executive Committee into the Auditing Standards Board. The department also produced peer review manuals for both sections of the AICPA Division for CPA Firms.

In addition, the department published a collection of material from the *Journal's* Practitioners Forum department entitled *Operating a Successful Accounting Practice*.

---

## Public and State Society Relations

This year the Public and State Society Relations Division reached out to wider audiences with programs that found new applications for all media.

While continuing a press information program that channels hard news on the developments of the profession to newspapers nationally, the division inaugurated a "backgrounder"

effort. In-depth discussions of vital issues—such as foreign currency translation and compilation and review, or the meaning of financial statements—were distributed to a select group of financial editors. The purpose was to explain a topic to journalists writing for the more influential regional publications. As an additional resource, a knowledgeable local spokesman from a roster of AICPA and state society practitioners is offered as a press contact. By the year's end the new information service was registering an impact.

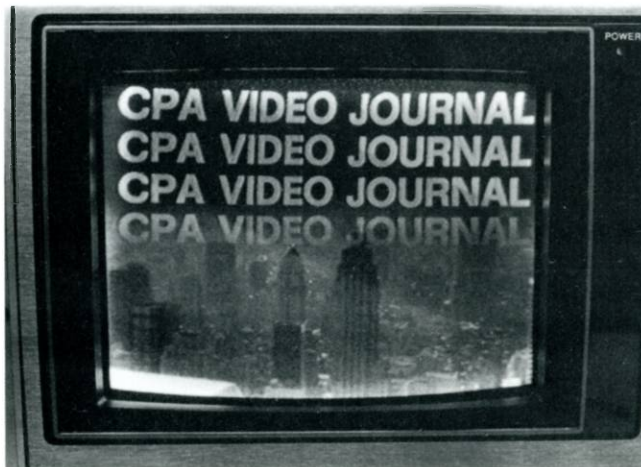
Some progress was made opening up channels to broadcasters. Collaborating with state societies, the division distributed a series of recorded public service announcements (tax return preparation was one subject) that gained wide use. This led to an increasing number of opportunities for practitioners to appear on panel discussion programs in both radio and television. The talk was about issues that tie together the public and the practitioner.

The year was marked by the introduction of an unusual number of new and complex standards. To explain them to an audience that reached beyond practitioners to include their clients and the general public, the division produced a number of attractively designed leaflets and booklets. In layman's terms, they explained the new standards prescribed for compilation and review services, outlined the genesis of the new Division for CPA Firms, and offered new insights on extracting non-financial information from financial statements. The last booklet, *What Else Can Financial Statements Tell You?* was the subject of extensive press coverage including a two-page summary in *Business Week*. Shortly after its issuance, 50,000 copies were circulated and reprints ordered.

As the conduit between the Institute and the fifty-four jurisdictions making up the state society network, the division reorganized its staff to separate writers from those with liaison assignment. This makes AICPA more responsive to societies' requests and permits the division to enlarge the public relations programs prepared for state societies.

Early in 1979, with the encouragement and support of our board of directors, the division expanded AICPA's audio recording studio into a fully operational color TV recording center. Those facilities enabled the division to introduce monthly videotape programs—under the title *CPA Video Journal*—for replay at society and chapter meetings. These furnish reports, discussions, and analyses of current developments. Subjects covered in a magazine format, permitting wide latitude in selection of materials,

Stand by: Cue members for the new monthly videotape program on current professional developments.





Shipping sends out around 25,000 packages and letters every day.

included new audit and accounting developments, an examination of compilation and review services, and a review of computer controls from the standpoint of helping clients deter fraud.

Societies, to which AICPA donated playback units, played videotapes for their members and interested outsiders (teachers and other professionals). During the summer, this TV capability was directed toward enhancement of continuing professional education courses.

---

### Relations With Educators

Intent on establishing accreditation standards for accounting programs, the AACSB's Accounting Accreditation Planning Committee, which includes representatives of the American Accounting Association, the National Association of Accountants, the Financial Executives Institute, and the American Institute of CPAs held several two-day meetings during which they developed standards which will be exposed this fall, with public hearings scheduled for early 1980.

Council endorsed a task force report summarizing the Institute's concern with the quality of education. That report reaffirmed the Institute's policy that 150 semester hours of education should be required to sit for the CPA examination.

The Relations With Educators Division's Grants-In-Aid Selection Task Force awarded \$37,500 to accounting doctoral candidates interested in becoming accounting educators. Two Yale students were awarded the John L. Carey Scholarship to help them study accounting at the graduate level.

The division published its annual *Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, and a statistical

survey of accounting education, which is prepared every five years.

The division sponsored a conference for state society executives and state education committee representatives to bring participants up to date on recent developments in accounting education and to discuss the various education-related activities of the state societies and AICPA. A manual of state society and AICPA programs for students and educators, which serves as a central source of information about these kinds of programs, was prepared by the staff and distributed to the state societies.

The Personnel Testing Subcommittee continued its revision of the Level-I Achievement Test, which is designed to measure a student's understanding of financial and managerial accounting concepts at the end of introductory courses in these areas. The division is also considering development of an admission test for students enrolling for accounting studies. The Interest in Accounting Careers Subcommittee completed a Presentation Guide for members called upon to make presentations about careers in accounting, which will aid them in developing their own speeches.

---

### Minority Recruitment and Equal Opportunity

The AICPA Minority Recruitment and Equal Opportunity Program awarded scholarships of up to \$1,000 each to more than three hundred minority undergraduate accounting majors. The ninth Faculty Summer Seminar in Louisville, Kentucky, was attended by more than seventy accounting faculty representatives of minority colleges and universities and twenty-five other interested parties.

A representative group of forty Hispanic professional employees of thirteen CPA firms attended the May Career Development Seminar in Dallas. The seminar's purpose was to develop ideas for stimulating the upward mobility of minorities in public accounting.

AICPA and the American Accounting Association sponsor a program to help the minority accounting faculties of developing institutions pursue doctoral studies and provide temporary teaching replacements in their absences. During the year, five accounting educators participated in this Doctoral Fellow and Visiting Scholar Program, which is supported by an HEW grant.





AICPA's new color TV studios record the new CPE VIDEOFLEX™ home study series.



---

## Continuing Professional Education

For the CPA practitioner, professional education does not end with a university degree or even certification. For most practicing in public accounting, CPE is becoming mandatory. Thirty-four jurisdictions require up to forty hours yearly for retaining the state awarded license. Additionally the two sections of the Division for CPA Firms stipulate course requirements for their member firms, as do three state societies.

The final report of the special committee on CPE accreditation recommends that both the state boards of accountancy and the Division for Firms require that CPE programs comply with AICPA *Standards for Formal Group-Study and Formal Self-Study Programs* or the equivalent now under consideration by the National Association of State Boards of Accountancy.

Among the CPE Division's principal accomplishments this year is the introduction of VIDEOFLEX™, a series of courses that employs videotapes and manuals adapted for individual

or small-group sessions in local practice offices. These in-firm programs will reduce instructor time and travel costs of training.

For the first time AICPA joined with the Professional Development Institute (PDI) of North Texas State University, in Denton, to provide accounting and tax courses for the petroleum and insurance industries and for their CPAs. Another first is an estate and gift tax series of self-assessment CPE programs being developed to allow participants to compare their knowledge with others in the privacy of their own offices. It also allows them to measure both the adequacy of their information-gathering and the appropriateness of the estate plans they design.

The division developed timely instruction on the Revenue Act of 1978 and the new standard on compilation and review. More than 14,000 participated in 50 presentations of the Individual Income Tax Returns Workshop. Nearly 5,000 attended the overview Lecture Series on Compilation and Review of Financial Statements, and several thousand more have registered for 125 presentations of the in-depth two-day seminar. Self-study courses are also available for both topics.

The division is developing courses on quality control. Courses are offered on how to document and review compliance, including a new course for reviewees.

The Association of Government Accountants and AICPA, with participation of the Municipal Finance Officers Association, cosponsored the first National Governmental Training Program in two week-long presentations.

Demand for low-volume CPE courses continues to be consolidated with the introduction of a one-week program on Business Planning and Control Systems at the National Management Advisory Services Training Program, given at The University of Texas at Austin.

Education subcommittees have surveyed the curricula for major technical areas to foster improvements. Participant evaluations are processed by computer, and the results are factored into decisions affecting the courses.

As part of these efforts to improve CPE, the division inaugurated a data bank of educators interested in becoming authors, technical reviewers, and converters of CPE material. Forty-three group-study and forty-one self-study courses were introduced during the year.

---

## Member Relations

Member Relations activities encompass a wide spectrum of information for members in every occupation. The Management of an Accounting

Practice Committee sponsored the fifth annual series of four National Practice Management Conferences, held its fifth annual Conference for State Society MAP Committees and published the third supplement to the *Management of an Accounting Practice Handbook*. It also coordinated eight Local Firm Management Reviews (formerly Administrative Reviews), responded to 250 requests (up 50 from last year) for practice management assistance from individual members and developed a *MAP Roundtable Discussion Manual* for local-practitioner meetings.

The Member Relations Division held its fifth series of Local Practitioners Seminars in Denver, Atlanta, and St. Louis to discuss current issues, and it published a revised edition of *AICPA Aids for Local Practitioners*.

Interest expands in the annual Conference for Members in Industry and Government. The third, held in Chicago last year, more than doubled the attendance of the previous year. This year's will be held in Dallas. Following the success of the first Conference for Chairmen of State Society Industry and Government Committees in Chicago, they again will meet in Dallas.

The Small Business Development Committee prepared an *Accounting Resource Center Manual* for CPA volunteers assisting needy individuals and organizations. It is also coordinating involvement of various Institute committees in the White House Conference on Small Business and is continuing to work with state societies and accounting resource centers to assist minority businesses.

The Public Service Committee developed a CPA Distinguished Public Service Awards Program.

In cooperation with forty-five state societies, the division is holding Member Forums through-

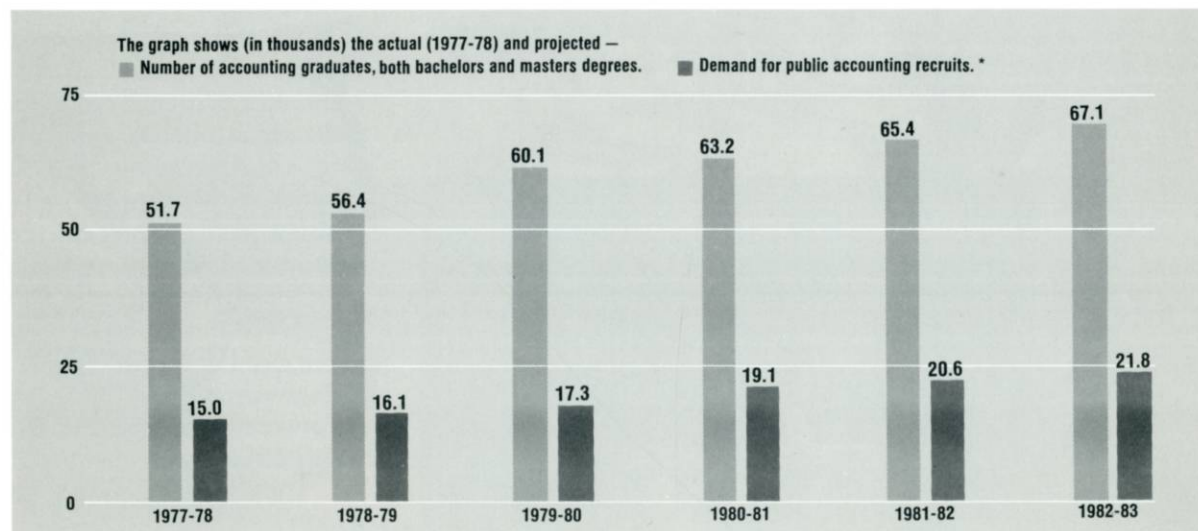
out the country on Information for Small- and Medium-Size Firms. Top-level AICPA staff plan to visit ten states under the field trip program.

### Major AICPA Meetings and Conferences 1978-79

Event	Approximate Attendance
Annual Meeting	3,000
Career Development Seminar	100
Computer Conference	450
Computer Services Divisional Meeting	100
Council Meeting (Spring)	300
Council Meeting (Fall)	300
Estate Planning Seminar	350
Faculty Summer Seminar	100
Industry & Government Conference	300
Key Person Conference	75
MAP Conferences (4)	1,400
MAS Conferences (2)	400
National Banking Conference	550
National Conference on CPE in Firms	100
National Conference on State Legislation	150
National Ethics Conference	120
National Government Training (2)	100
National Tax Conference	300
Practice Management	100
Private Companies Practice Section	525
Public Relations Conference	125
Relations With Educators	60
Savings & Loan Conference	550
SEC Conference	550
State Society Planning Conference	125
Tax Division Meetings (2)	450
<b>TOTAL</b>	<b>10,680</b>

An important part of AICPA communication and education programs, these major conferences and meetings, along with some twelve hundred committee meetings, continue to serve a vital function for the profession.

### Accounting Graduates and Public Accounting Demand



\*Limited to Public Accounting Firms. Does not represent demand from private industry, government, education or other segments.



---

## International Practice

Cooperating with affiliated groups, the International Practice Executive Committee continues to promote worldwide harmony in accounting and auditing practices.

The International Federation of Accountants, which AICPA helped found in 1977, has grown to seventy-two accountancy bodies representing fifty-five countries. IFAC has issued exposure drafts on the *Objective and Scope of the Audit of Financial Statements*, *Audit Engagement Letters*, *Basic Principles Governing an Audit*, and *Professional Ethics for the Accountancy Profession*. Proposals are being considered on audit planning, on using the work of another auditor, and on delegation and supervision, including quality control.

In addition, the IFAC Auditing Practices Committee and representative banking supervisors of central banks of ten countries have approved issuance for exposure of a new Standard Interbank Confirmation Request. IFAC also published a Preface to the International Auditing Guidelines, setting forth the authority and operating procedures for the IFAC International Auditing Practice Committee.

The International Accounting Standards Committee, represented in the United States by the Institute, issued two international standards, *Accounting for Construction Contracts* and *Accounting for Taxes on Income*, and approved a third entitled *Presentation of Current Assets and Current Liabilities*. It is also considering procedures for treating changing prices in financial statements, supplementary disclosures of the effects of changing prices, and disclosures in financial statements of banks.

A member of the Inter-American Accounting Association, the Institute participated in its thirteenth conference in Panama City, presenting seven technical papers on unification of accounting practices in the Americas.



Joseph Cummings, second from left, flanked by Oklahoma Rep. Tom Steed, left, and Sen. David Boren, with CPA Bob Hammons at legislative breakfast program.

AICPA also participated in the ninth conference of the Confederation of Asian and Pacific Accountants in Manila, at which an AICPA member was a featured speaker. In addition, Institute President Wallace E. Olson was a keynote speaker at the sixth National Congress of Chartered Accountants in Cape Town, South Africa, where he gave a forecast of the profession in the 1980s.

---

## Federal Government

The Federal Government Division continues to assist the White House, federal agencies, Congress, the public, and the profession by participating in many projects and by responding to requests for information in areas related to accounting, including advising the President's Council on Wage and Price Stability.

The division's Subcommittee on Federally Assisted Programs meets frequently with the newly appointed Inspectors General to discuss current issues.

The technical committees continued to develop industry audit guides and papers on accounting matters, such as the revision of the audit and accounting guide, *Audits of Savings and Loan Associations*. The Subcommittee on Health Care Matters exposed a statement of position on accounting and reporting practices by organizations that support hospitals.

The division sponsored three major conferences on banking, SEC developments, and savings and loan associations, bringing together high government officials and practitioners to review critical new developments at sessions for which CPE credits could be gained.

The Congressional Breakfast Program was

In Washington, Senator Eagleton hears directly from AICPA officers on how the profession regulates itself.



introduced as an opportunity for members to offer their help to those shaping our laws. It has been extremely well received by both the members of Congress and representatives of state societies.

The Federal Legislative Affairs Division screens federal legislation and agency regulations to identify conflicts or misunderstandings that could affect the profession. The tracking of bills and proposed rules require contact with congressmen and their staffs and often results in recommendations by AICPA staff and committees. This division also publishes the weekly *AICPA Washington Report* chronicling legislative and regulatory activities.

The division's Key Person program identifies CPAs from every state who voice a common concern to congressmen, senators, and their staffs on issues involving the profession and its practitioners.

---

## Federal Taxation

Among its major projects, the Federal Taxation Division is helping Congress and the Treasury Department simplify the Internal Revenue Code. In 1979 the division offered its comments at hearings aimed at code simplification. In this regard, the division's biennial publication, *Recommended Tax Law Changes*, is a respected source for identifying Internal Revenue Code provisions that require simplification.

In 1978 the division published a *Proposal for Complete Revision of Subchapter S Corporation Provisions*. Many of its recommendations have been incorporated into the proposals of the

Joint Committee on Taxation. It is hoped that this will result in new legislation for subchapter S.

The division also published its approach to the problem of taxing fringe benefits and communicated its opinion on the status of the individual as an employee or an independent contractor.

It registered opposition to extending "sunset" legislation to tax expenditures and published *Proposals for the Improvement of Subchapter K*, the partnership-reporting provisions. The division also proposed tax incentives for small businesses and commented to the Joint Committee on Taxation on specifications for a bankruptcy-tax bill.

During the year, the division provided guidance to practitioners on section 274-type expenses recently modified on the form 1120 series and commented on the development of criteria for determining creditable foreign taxes for U.S. income tax purposes.

It also offered guidance in dealing with the Supreme Court decision in *Thor Power Tool Co.* And legislative work has been carried forward on relief from social security benefit reductions for certain retired partners.

In addition, the AICPA is examining the concept of selectively indexing the Internal Revenue Code to minimize the consequences of inflation and is exploring the use of tax incentives to encourage capital formation, particularly through the accelerated recovery of capital costs by increasing depreciation allowances.

The division held its fourth annual National Tax Conference in Washington, D.C., and cosponsored the Family Tax and Estate Planning Conference with the Continuing Professional Education Division.

Federal taxation committees work on tax simplification and other problems.







In Washington, AICPA President Wallace E. Olson, right, and Walter Hanson, second from right, chairman of the SEC Practice Section's Executive Committee, give progress report to SEC Chairman Harold Williams, center, and SEC Chief Accountant Clarence Sampson.

Both sections are launching aggressive recruitment programs, and preliminary indications show that many firms are prepared to join. Interest in the division has increased since publication of each section's *Peer Review Manual*, which removed uncertainties about the program. The SEC Practice Section's (SECPS) reduction of dues and insurance requirements for firms with less than five SEC clients has made belonging to that section more attractive. Council has approved publication of a directory of member firms in mid-1980.

More than five hundred attended the Private Companies Practice Section's (PCPS) first conference in Reno, which stressed the objectives of the section and explained peer review.

The section intensified efforts to present the local practitioner's viewpoint on professional matters, including development of technical standards. The PCPS Technical Standards Subcommittee has been established to concentrate on

### Division for CPA Firms

As of July 31, membership in the Division for CPA Firms was as follows:

SEC Practice Section only	33
Private Companies Practice Section only	1,093
Members of both sections	513

### Sources and Occupations of AICPA Membership

	1973	1975	1977	1979
<b>Total AICPA Membership</b>	95,415	112,494	131,300	149,314
Public Accounting	59.8%	59.1%	57.5%	55.0%
Business, Industry, Miscellaneous	33.6%	34.6%	36.2%	38.6%
Education	3.1%	2.9%	2.8%	3.0%
Government	3.5%	3.4%	3.5%	3.4%
	<b>1973</b>	<b>1975</b>	<b>1977</b>	<b>1979</b>
<b>Membership in Public Practice</b>	57,057	66,506	75,528	82,141
Firms with one member	20.9%	22.1%	22.1%	23.5%
Firms with 2 to 9 members	31.5%	29.7%	30.1%	32.3%
Firms with 10 or more members, except the	8.7%	10.1%	12.0%	12.6%
25 largest firms	38.9%	38.1%	35.8%	31.6%

these matters. In general, the section's contact with other divisions and committees has been effective.

Well over half of the state societies have assigned committees to work with the PCPS, whose own committee members have addressed society meetings nationwide to explain the section's activities and purpose.

The Public Oversight Board—an independent body that monitors SEC section activities—issued a report entitled *Scope of Services by CPA Firms*. It concluded that no prohibition need be imposed on specific Management Advisory Services (MAS). However, the POB did recommend specific changes—since adopted by the SEC section—that relate to membership requirements for firms offering MAS services to audit clients who are SEC registrants. The SEC

responded in ASR 264 that the POB report did not “adequately sensitize” the profession and its clients to a potential impairment of auditor independence. A special committee, including representatives from both SECPS and PCPS, responded strongly against ASR 264.

The POB's first Annual Report on the SECPS stated it believes that “due to the substantial progress to date, the strong commitment of the profession, and the encouragement and the support of the Securities and Exchange Commission, the section's program of self-regulation will be effective. Moreover, the Board believes that, as a matter of principle, self-regulation is preferable to additional governmental regulation and that every effort should be made to assure the success of that section's program.”

The July 1, 1979, SEC report to Congress identified some open issues yet to be resolved to the SEC's satisfaction. However, the section believes it will be able to prove—with the support of the profession—the efficacy of self-regulation.

A major part of self-regulation is a workable peer review program. The SEC Practice Section conducted a pilot program of ten peer reviews during the latter part of 1978, which proved useful in evaluating the program. Approximately fifty firms in the SECPS are expected to undergo peer review in 1979. Although many more will undergo a review in later years, firms that, in the aggregate, audit approximately 5,200 SEC clients will have had a peer review by the end of 1979.

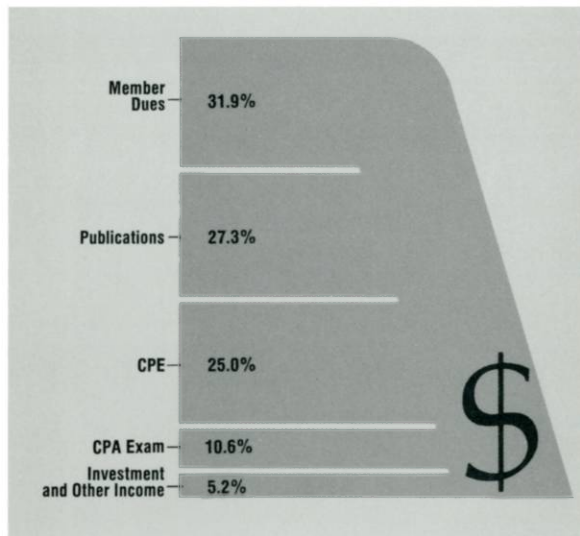
The first Peer Review Manual for the SECPS included a single comprehensive compliance review program for firms of all sizes. Experience with the first round of reviews suggested the need for a more efficient approach. Both sections now have adopted four separate sets of guidelines for use with firms of different sizes.

The PCPS Executive Committee has decided that the first three-year period during which each member firm must have a peer review shall have started July 1, 1979, for members at that date.

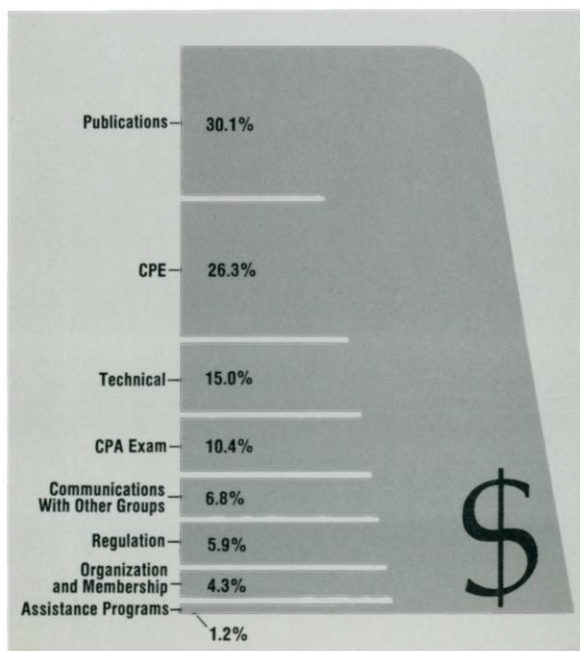
The Quality Control Standards Committee issued an exposure draft of its first statement, *System of Quality Control for a CPA Firm*. The statement will provide a framework for future pronouncements. Member firms in the division are required to adhere to this committee's statements.

Part of the committee's charge in relation to the Voluntary Quality Control Review Program for CPA Firms is to provide a quality-control document review. During the past year, approximately eighty were performed. Technical standards review checklists now include one for compilation and review engagements.

### Revenue by Source



### Expense by Activity



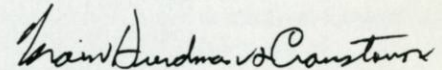


# Report of Independent Certified Public Accountants

## 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, 1979 and 1978 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, 1979 and 1978 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, 1979 and 1978 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 4, 1979

## Financial Statements

### American Institute of Certified Public Accountants

### Balance Sheet

	July 31,	
	1979	1978
<b>Assets</b>		
Cash	\$ 869,710	\$ 516,547
Marketable securities (quoted market: 1979, \$13,004,382; 1978, \$12,052,460)	13,001,878	12,042,139
Accounts receivable (less allowance for doubtful accounts: 1979, \$15,000; 1978, \$10,000)	2,866,154	2,297,037
Inventories (Note 1)	1,818,076	1,805,380
Deferred authorship costs and prepaid expenses	1,113,650	1,208,672
Furniture, equipment and leasehold improvements (Note 2)	2,216,137	2,029,060
	<u>21,885,605</u>	<u>19,898,835</u>
Funds held for Division for CPA Firms (Note 8)	165,642	178,632
Endowment and other restricted funds:		
Cash	2,577	905
Marketable securities (quoted market: 1979, \$584,888; 1978, \$565,858)	533,909	547,949
	<u>\$22,587,733</u>	<u>\$20,626,321</u>
<b>Liabilities and Fund Balances</b>		
Liabilities and deferred revenues:		
Accounts payable and other liabilities	\$ 2,785,913	\$ 2,584,838
Accrued taxes (Note 3)	193,206	379,736
Advance dues	7,237,830	6,498,872
Unearned publication subscriptions and advertising	2,195,586	2,547,008
	<u>12,412,535</u>	<u>12,010,454</u>
Commitments and contingent liabilities (Notes 4 and 5)		
Fund balances:		
General Fund	9,638,712	8,067,013
Endowment and other restricted funds	536,486	548,854
	<u>10,175,198</u>	<u>8,615,867</u>
	<u>\$22,587,733</u>	<u>\$20,626,321</u>



**American Institute of  
Certified Public Accountants**

**Statement of  
Revenues and Expenses**

	Year Ended July 31,	
	1979	1978
Revenues:		
Membership dues .....	\$ 9,890,968	\$ 9,241,310
CPA examination fees .....	3,283,802	2,965,460
Publications .....	8,444,663	7,895,968
Continuing professional education .....	7,748,602	6,076,361
Sundry self-sustaining programs .....	320,785	331,693
Investment and sundry income .....	1,292,860	848,191
Loss on sale of securities .....	(14,610)	(66,113)
	<u>30,967,070</u>	<u>27,292,870</u>
Expenses (see also summary of expenses by activity):		
Salaries and fees .....	10,549,419	9,177,264
Personnel costs .....	1,627,720	1,559,583
Occupancy .....	3,198,032	2,748,072
Printing and paper .....	6,550,351	5,892,898
General .....	7,469,849	6,108,817
	<u>29,395,371</u>	<u>25,486,634</u>
Excess of revenues over expenses .....	<u>\$ 1,571,699</u>	<u>\$ 1,806,236</u>
Summary of expenses by activity:		
CPA examinations .....	\$ 3,061,465	\$ 2,716,269
Publications:		
Cost of sales .....	6,955,597	6,043,413
Distributed to members and others .....	1,906,408	1,886,599
Continuing professional education .....	7,720,016	6,050,748
Technical:		
Accounting and review services .....	127,269	47,778
Accounting standards .....	425,866	517,328
Auditing standards .....	1,061,064	723,782
Federal taxation .....	316,527	260,179
Management advisory services .....	168,711	210,434
Computer services .....	320,923	285,786
International practice .....	333,913	297,534
Quality control standards .....	146,325	193,928
Technical assistance to members .....	364,002	334,824
Library service .....	446,189	433,836
Information retrieval and index programs .....	338,446	337,131
Financial Accounting Foundation contribution .....	280,316	262,600
Commission on Auditors' Responsibilities .....	—	138,652
Accountants' legal liability .....	76,533	93,435
Regulation:		
Ethics and trial board .....	604,481	529,623
State legislation .....	195,212	202,989
Division for CPA Firms .....	930,740	577,644
Organization and membership:		
Board, council and annual meetings .....	459,781	411,902
Nominations and committee appointments .....	66,649	47,694
Communications with members .....	100,269	109,514
Membership admissions and records .....	532,870	474,358
Membership benefit plans .....	64,246	52,574
Special organizational studies .....	35,548	40,820
Communications with other groups:		
Public relations .....	423,650	393,828
State societies .....	351,966	249,298
Universities .....	302,814	228,772
Federal government .....	907,950	971,466
Assistance programs for minority students and businesses .....	369,625	361,896
	<u>\$29,395,371</u>	<u>\$25,486,634</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 \$2,414,811 and \$2,323,070 for 1979 and 1978, respectively.

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**

**Statement of Changes  
in Fund Balances**

	Year Ended July 31,	
	1979	1978
General Fund:		
Fund balance, beginning of year .....	\$ 8,067,013	\$ 6,260,777
Excess of revenues over expenses .....	1,571,699	1,806,236
Fund balance, end of year .....	<u>9,638,712</u>	<u>8,067,013</u>
Endowment and other restricted funds:		
Fund balances, beginning of year .....	548,854	574,410
Excess of revenues over expenses .....	68	134
Loss on sale of securities .....	(12,436)	(25,690)
Fund balances, end of year .....	<u>(12,368)</u>	<u>(25,556)</u>
Fund balances, end of year .....	<u>536,486</u>	<u>548,854</u>
	<u>\$10,175,198</u>	<u>\$ 8,615,867</u>

**American Institute of  
Certified Public Accountants**

**Statement of Changes  
in Financial Position**

	Year Ended July 31,	
	1979	1978
Cash and marketable securities, beginning of year .....	<u>\$12,558,686</u>	<u>\$ 9,594,711</u>
Sources of funds:		
From operations:		
Excess of revenues over expenses .....	1,571,699	1,806,236
Add back expenses not requiring outlay of funds — depreciation and amortization, including amortization of authorship costs .....	<u>1,248,274</u>	<u>759,924</u>
	2,819,973	2,566,160
Increase (decrease) in liabilities and deferred revenues:		
Accounts payable and other liabilities .....	201,075	956,991
Accrued taxes .....	(186,530)	23,068
Advance dues .....	738,958	547,556
Unearned publication subscriptions and advertising .....	<u>(351,422)</u>	<u>715,750</u>
	<u>3,222,054</u>	<u>4,809,525</u>
Uses of funds:		
Additions to deferred authorship costs and prepaid expenses .....	858,961	815,040
Additions to furniture, equipment and leasehold improvements .....	481,368	463,225
Increase (decrease) in other assets:		
Receivables .....	569,117	177,482
Inventories .....	12,696	237,012
Funds held for Division for CPA Firms .....	(12,990)	178,632
Unrealized loss on marketable securities .....	<u>—</u>	<u>(25,841)</u>
	<u>1,909,152</u>	<u>1,845,550</u>
Increase in funds:		
Cash .....	353,163	84,059
Marketable securities .....	<u>959,739</u>	<u>2,879,916</u>
	<u>1,312,902</u>	<u>2,963,975</u>
Cash and marketable securities, end of year .....	<u>\$13,871,588</u>	<u>\$12,558,686</u>

**American Institute of  
Certified Public Accountants Foundation**

**Balance Sheet**

	July 31,	
	1979	1978
<b>Assets</b>		
Cash .....	\$ 11,781	\$ 43,743
Marketable securities (quoted market: 1979, \$662,142; 1978, \$565,825) .....	643,494	555,959
Pledges receivable (less allowance for uncollectible pledges: 1979 and 1978, \$205) .....	1,930	3,875
Other receivables .....	1,358	163,769
	<u>\$658,563</u>	<u>\$767,346</u>
<b>Liabilities and Fund Balances</b>		
Liabilities and deferred credits:		
Accounts payable (includes scholarships: 1979, \$163,500; 1978, \$267,000) ..	\$163,750	\$285,406
Contributions designated for future periods .....	1,930	3,875
	<u>165,680</u>	<u>289,281</u>
Fund balances:		
General .....	15,304	13,882
Library .....	102,396	102,909
John L. Carey Scholarship Fund .....	83,566	82,139
Accounting Education Fund for Disadvantaged Students .....	291,617	279,135
	<u>492,883</u>	<u>478,065</u>
	<u>\$658,563</u>	<u>\$767,346</u>

**American Institute of  
Certified Public Accountants Foundation**

**Statement of Changes  
in Fund Balances**

	Year Ended July 31,	
	1979	1978
Additions:		
Investment income .....	\$ 41,742	\$ 28,537
Contributions:		
General .....	400	—
John L. Carey Scholarship Fund .....	—	100
Accounting Education Fund for Disadvantaged Students .....	273,673	338,385
	<u>315,815</u>	<u>367,022</u>
Deductions:		
Contributions to American Institute of Certified Public Accountants for library expenses .....	7,950	5,618
Expenditures:		
Custodian fees .....	718	1,881
Legal fees .....	3,408	—
John L. Carey Scholarship Fund (scholarships) .....	4,431	9,030
Accounting Education Fund for Disadvantaged Students (grants and scholarships) .....	282,254	417,116
	<u>298,761</u>	<u>433,645</u>
Increase (decrease) in funds before loss on sale of securities .....	17,054	(66,623)
Loss on sale of securities .....	(2,236)	(6,713)
Net increase (decrease) in funds .....	14,818	(73,336)
Fund balances, beginning of year .....	478,065	551,401
Fund balances, end of year .....	<u>\$492,883</u>	<u>\$478,065</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,	
	1979	1978
<b>Assets</b>		
Cash .....	\$ 39,182	\$ 18,997
Marketable securities (1979 quoted market \$555,751; 1978 cost \$530,074) .....	548,785	524,406
Notes and mortgages receivable (less allowance for doubtful amounts: 1979, \$23,321; 1978, \$19,375) .....	66,015	50,330
Other receivables .....	9,121	5,708
	<u>\$663,103</u>	<u>\$599,441</u>
<b>Liabilities and Fund Balance</b>		
Accounts payable .....	\$ 250	\$ 640
Fund balance before unrealized loss on marketable securities .....	662,853	604,469
Less unrealized loss on marketable securities .....	—	5,668
Fund balance .....	<u>662,853</u>	<u>598,801</u>
	<u>\$663,103</u>	<u>\$599,441</u>

**American Institute  
Benevolent Fund, Inc.**

**Statement of Changes  
in Fund Balance**

	Year Ended July 31,	
	1979	1978
<b>Additions:</b>		
Contributions .....	\$ 99,808	\$ 68,832
Investment income .....	36,894	30,297
Notes and mortgages received in consideration of benefits paid .....	19,085	5,485
Repayments of assistance to members and families .....	1,855	1,450
	<u>157,642</u>	<u>106,064</u>
<b>Deductions:</b>		
Assistance to members and families .....	90,270	67,530
Stationery, printing and other expenses .....	5,558	4,025
	<u>95,828</u>	<u>71,555</u>
Increase in fund before loss on sale of securities .....	61,814	34,509
Loss on sale of securities .....	(3,430)	(22,710)
Net increase in fund .....	58,384	11,799
Fund balance, beginning of year .....	604,469	592,670
Fund balance before unrealized loss on marketable securities .....	662,853	604,469
Less unrealized loss on marketable securities .....	—	5,668
Fund balance, end of year .....	<u>\$662,853</u>	<u>\$598,801</u>

**Accounting Research  
Association, Inc.**

**Balance Sheet**

	July 31,	
	1979	1978
<b>Assets</b>		
Cash .....	\$ 8,724	\$ 11,301
Marketable securities (1979 cost \$1,326,000; 1978 quoted market \$1,898,000) . .	1,322,250	1,898,000
Dues receivable .....	138,272	134,750
Other receivables .....	12,475	12,707
Prepaid FASB subscription service .....	45,378	44,438
	<u>\$1,527,099</u>	<u>\$2,101,196</u>
<b>Liabilities and Fund Balance</b>		
Liabilities and deferred credits:		
Accounts payable .....	\$ 830	\$ 3,568
Due to Financial Accounting Foundation .....	—	175
Unearned advance dues .....	383,988	367,831
	<u>384,818</u>	<u>371,574</u>
Fund balance before unrealized loss on marketable securities .....	1,146,031	1,729,622
Less unrealized loss on marketable securities .....	3,750	—
Fund balance .....	<u>1,142,281</u>	<u>1,729,622</u>
	<u>\$1,527,099</u>	<u>\$2,101,196</u>

**Accounting Research  
Association, Inc.**

**Statement of Changes  
in Fund Balance**

	Year Ended July 31,	
	1979	1978
Additions:		
Dues .....	\$ 897,046	\$1,380,953
Investment income .....	162,299	156,260
	<u>1,059,345</u>	<u>1,537,213</u>
Deductions:		
Payments to Financial Accounting Foundation (Note 6) .....	1,512,300	1,648,716
Membership promotion .....	13,917	17,686
Reports to members .....	159	5,021
Stationery, supplies and other expenses .....	8,185	11,296
FASB subscription service .....	108,375	58,067
	<u>1,642,936</u>	<u>1,740,786</u>
Net decrease in fund .....	(583,591)	(203,573)
Fund balance, beginning of year .....	1,729,622	1,933,195
Fund balance before unrealized loss on marketable securities .....	1,146,031	1,729,622
Less unrealized loss on marketable securities .....	3,750	—
Fund balance, end of year .....	<u>\$1,142,281</u>	<u>\$1,729,622</u>



# 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 recorded in operations when publications are issued.
- Contributions to specific funds are recorded 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, except such costs related to retired persons are being funded over a 10-year period.

## Notes to Financial Statements July 31, 1979 and 1978

### 1. Inventories

Inventories of the Institute at July 31, 1979 and 1978 consisted of the following:

	1979	1978
Paper and material stock . . .	\$ 410,019	\$ 436,407
Publications in process . . . .	351,299	253,590
Printed publications and continuing professional education course material . . . . .	1,056,758	1,115,383
	<u>\$1,818,076</u>	<u>\$1,805,380</u>

### 2. Furniture, equipment and leasehold improvements

The following presents the amounts of furniture, equipment and leasehold improvements of the Institute at July 31, 1979 and 1978:

	1979	1978
Furniture and equipment . . .	\$2,216,618	\$1,933,438
Leasehold improvements . . .	1,391,551	1,228,158
	<u>3,608,169</u>	<u>3,161,596</u>
Less accumulated depreciation and amortization . . . . .	1,392,032	1,132,536
	<u>\$2,216,137</u>	<u>\$2,029,060</u>

Depreciation and amortization charged to operations for the years ended July 31, 1979 and 1978 amounted to \$294,291 and \$263,867, respectively.

### 3. Taxes

The Internal Revenue Service examined the Institute's Federal payroll tax returns covering the calendar years 1969 through 1973 and contested the Institute's position that graders of CPA examinations were independent contractors. This matter was settled during the year ended July 31, 1979, and accruals in prior years, no longer needed, approximating \$260,000 have been credited to Personnel Costs.

### 4. Lease commitments

Rental commitments under noncancellable leases in effect as of July 31, 1979 aggregated approximately \$36,851,000. 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,	
1980 .....	\$ 2,610,000
1981 .....	2,600,000
1982 .....	2,555,000
1983 .....	2,480,000
1984 .....	2,361,000
years subsequent to 1984 .....	24,245,000
	<u>\$36,851,000</u>

Rental expense for the years ended July 31, 1979 and 1978 approximated \$2,485,000 and \$2,280,000, respectively.

### 5. Retirement plan

Pension expense relating to the Institute's retirement plan amounted to approximately \$679,000 and \$505,000 for the years ended July 31, 1979 and 1978, respectively. The estimated amount required to fund prior service costs under the plan is \$1,678,000 as of May 1, 1979, including \$876,000 established in 1979 to fund through the plan retirement income previously paid directly to recipients by the Institute. At July 31, 1979, the actuarial value of vested benefits exceeded pension fund assets by approximately \$70,000.

### 6. Commitment of Foundation funds

The Foundation plans to distribute, from the Accounting Education Fund for Disadvantaged Students, approximately \$300,000 each year for direct scholarships to minority students and to assist in strengthening the educational level of the accounting faculty of minority universities.

### 7. Commitment to Financial Accounting Foundation (FAF)

The Accounting Research Association, Inc. (ARA) 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.) For the calendar years 1978 and 1979, the trustees authorized additional \$750,000 commitments of funds held by the ARA, of which \$250,000 was unpaid at July 31, 1979.

### 8. Division for CPA Firms

The AICPA acts as custodian of the cash and marketable securities of the Division for CPA Firms. These are shown on the accompanying balance sheet as assets and liabilities in offsetting amounts. At July 31, 1979, the amounts were as follows:

	Cash	Marketable Securities	Total
Private Companies			
Practice Section . . .	\$ 8,313	\$95,000	\$103,313
SEC Practice Section .	62,329	—	62,329
	<u>\$70,642</u>	<u>\$95,000</u>	<u>\$165,642</u>

The Division's balance sheet and statement of changes in fund balances on the accrual basis follow:

Balance Sheet	July 31, 1979	
	Private Companies Practice Section	SEC Practice Section
<b>Assets:</b>		
Cash .....	\$ 8,313	\$ 62,329
Marketable securities (quoted market \$95,000)	95,000	—
Dues and other receivables	6,329	5,750
Prepaid expenses .....	—	30,000
	<u>\$109,642</u>	<u>\$ 98,079</u>
<b>Liabilities and Fund Balances:</b>		
Accounts payable .....	\$ 130	\$ 40,115
Unearned advance dues ..	23,652	255,504
Fund balances .....	85,860	(197,540)
	<u>\$109,642</u>	<u>\$ 98,079</u>

Statement of Changes in Fund Balances	Year Ended July 31, 1979	
<b>Additions:</b>		
Dues .....	\$ 44,608	\$ 409,588
Other .....	4,219	24,468
	<u>48,827</u>	<u>434,056</u>
<b>Deductions:</b>		
Expenses of Public Oversight Board:		
Salaries and fees .....	—	309,273
Legal fees .....	—	158,900
Other administrative costs	—	155,778
	<u>—</u>	<u>623,951</u>
Net increase (decrease) in funds .....	48,827	(189,895)
Fund balances, beginning of year .....	37,033	(7,645)
Fund balances, end of year ..	<u>\$ 85,860</u>	<u>\$ (197,540)</u>

The AICPA incurred expenses of \$930,740 during the year ended July 31, 1979 in connection with its sponsorship of the Division for CPA Firms. This amount is included in the accompanying Summary of Expenses by Activity.

The AICPA Board of Directors has authorized the Institute to lend funds not to exceed \$250,000 to the SEC Practice Section at interest rates equal to interest received on the AICPA's short-term investments. During the year ended July 31, 1979, \$245,000 was borrowed and repaid by the SEC Practice Section under this arrangement.



## **9. 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.

## Officers and Board of Directors 1978-79

JOSEPH P. CUMMINGS, *Chairman of the Board*  
WILLIAM R. GREGORY, *Vice Chairman*  
WALLACE E. OLSON, *President*  
JOHN L. FOX, *Vice President*  
BERNARD Z. LEE, *Vice President*  
JOHN L. RICKETTS, *Vice President*  
HARRY R. MANCHER, *Treasurer*  
DONALD J. SCHNEEMAN, *Secretary and General Counsel*

WILTON T. ANDERSON  
GEORGE R. CATLETT  
BARBARA HACKMAN FRANKLIN\*\*  
ROBERT F. ISLER  
WILLIAM S. KANAGA  
ARCHIBALD E. MacKAY  
ROBERT D. MAY  
ROBERT A. MELLIN  
BERT N. MITCHELL  
RUSSELL E. PALMER, JR.  
THOMAS C. PRYOR\*\*  
JOHN C. SAWHILL\*\*  
STANLEY J. SCOTT\*

\* Immediate Past Chairman of the Board

\*\* Public Member

**American Institute of Certified Public Accountants**  
1211 Avenue of the Americas  
New York, NY 10036