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1980

## AICPA annual report 1979-80

American Institute of Certified Public Accountants

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AICPA  
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**American  
Institute of  
Certified Public  
Accountants  
Annual Report  
1979-80**



## American Institute of Certified Public Accountants

“Improvement of the profession’s system of self-regulation was the subject of intensive analysis and new initiatives during the year.... A comprehensive program is being mounted to monitor the quality of engagements performed by CPAs.”

JOINT STATEMENT 1980

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**T**O BE EFFECTIVE and retain their vitality, both people and institutions must be able to make timely response to changing circumstances. Over the last several years of especially rapid change, your Institute has demonstrated this capacity by its many initiatives in answer to the expectations of its members and their clients, government officials and the general public. The past year's activities have continued the Institute's commitment to remaining a vigorous and relevant professional organization.

The current year began with hearings by the Senate Subcommittee on Governmental Efficiency and the District of Columbia addressing whether the performance of manage-

ment advisory services by auditors should be proscribed. The hearings, coupled with the preceding SEC Accounting Series Release 264, made CPA firms and their audit clients more aware of their need to guard continually against relationships that might impair auditor independence. Although clients imposed some curtailment of management advisory services as a result of these events, it generally has been concluded that a broad-scale proscription would be unnecessary and undesirable. While the question has been fully considered and answered, the profession should continue to be sensitive to this issue and be prepared to respond when similar concerns are voiced in the future.

Improvement of the profession's system of self-regulation was the subject of intensive analysis and new initiatives during the year. A special committee, including representatives of the National Association of State Boards of Accountancy and the state societies of CPAs, comprehensively reviewed the profession's entire disciplinary machinery to determine

how it can be made more effective without duplication of effort. As a result of the committee's recommendations, a comprehensive program is being mounted to monitor the quality of engagements performed by CPAs. We are exploring with the state societies and state boards of accountancy the possibility of conducting coordinated reviews of work performed by CPAs for state and local governmental agencies. In addition, the feasibility of a program to review a sample of reports on engagements for non-publicly traded companies is being explored. Under such a program CPA firms not participating in peer reviews would be subject to a random sample selection for report reviews, a proposal that will be considered further during the coming year.

At the federal level, the Professional Ethics Division has worked closely with the U.S. General Accounting Office and the various grant agencies to implement a random sample review of reports filed by CPAs on audits of revenue sharing and federal grant programs. This effort is expected to improve the quality of such audits by independent CPAs and result in disciplinary actions when warranted.

The cornerstone of the profession's self-regulatory program continues to be the peer reviews conducted under the Division for CPA Firms. Steady progress was made by both the Private Companies Practice Section and the SEC Practice Section toward their goals of reviewing all member firms within a three-year period. The program is solving initial problems and is achieving greater efficiency. Although a substantial number of reviews remain to be completed during 1980 and 1981, we believe that a great deal has been accomplished and that significant benefits have been realized.

Of particular importance was the SEC Practice Section's establish-



*William R. Gregory (l.), chairman (1979-80), and Wallace E. Olson, president (through June 30, 1980).*



## Joint Statement

ment of a Special Investigation Committee and procedures to deal with cases involving major alleged audit failures. A key feature of this important new disciplinary machinery is a requirement that member firms report all litigation alleging substandard work filed against them on or after November 1, 1979.

Each of these efforts is a part of our profession's commitment to maintaining a self-regulatory system to ensure quality of practice, which is effective in fact as well as appearance, regardless of the presence or absence of governmental pressure.

The foregoing self-regulatory efforts are complemented by a special committee's comprehensive review of the Institute's bylaws to ensure their responsiveness to current needs. Considered during the review were proposals by 1,400 members to

- Permit 200 members to require any proposal to amend the bylaws or rules of conduct to be submitted to a membership vote without Council approval.
- Eliminate life membership on the Council for past elected presidents and chairmen of the AICPA.
- Provide for membership election of five of the seven-person nominating committee.

The committee recommended against these proposed changes, and the Council declined by an overwhelming majority to put them to a membership vote. However, the method of naming members to the nominating committee was modified by Council resolution to require the approval of candidates by the Board of Directors and appointment of the committee chairmen by the Council.

Related to these events was the call by 269 members for a special membership meeting to consider a mail ballot on proposals to prohibit publication of a directory of members of the Division for CPA Firms and the use of AICPA funds to support the

division. The nearly 700 members present at the special meeting, held in Chicago on July 11, 1980, declined by an approximate two-to-one margin to approve the requested action.

Although we believe these various proposals may not reflect the views of a broad segment of the membership, they nevertheless raise questions about the need for a referendum process when a significant number of members disagree with the decisions of their governing Council. Accordingly, Council has approved a mail ballot of the membership on two matters: (1) a proposed bylaw change whereby five percent of the members can bring to a membership vote proposed bylaw or rules of conduct changes without Council approval and (2) a proposal that the number required to call a special membership meeting be increased from 200 members to five percent of the membership. Members will be asked to vote on these two measures this fall, and we urge that they be approved. While there is a need for members to have the opportunity to register dissent, that need must be balanced against the necessity for timely decision-making by the representative governance of your Council and board of directors.

Another major area of concern has been our ongoing search for ways to meet the needs of local CPA firms. The special committee appointed in 1978 to study the problems of smaller and medium-sized CPA firms has continued its analysis and held five simultaneous public hearings in November 1979. The committee is expected to submit its final report at the Institute's annual meeting in October, and we are confident that any recommendations will receive full and prompt attention. The work of this committee complements that of the Private Companies Practice Section, which devotes efforts to serving the interests of smaller CPA firms, in-

cluding continuous reviews of newly proposed technical standards to determine their relevance to smaller, privately held companies.

In addition to the foregoing, progress was made during the year on a broad range of activities to serve the interests of all elements of the profession:

- We were influential in persuading the American Association of Collegiate Schools of Business to adopt a program and standards for the accreditation of professional accounting programs.
- The Institute and the Financial Accounting Foundation, in cooperation with various federal, state and local governmental groups, are pursuing the possibility of establishing a new standards board to set state and local government accounting standards.
- We have continued a highly successful program begun last year through our Washington office to better acquaint members of Congress with the profession through a series of breakfasts with state congressional delegations and key constituent CPAs. A total of 23 have been held through September 1, 1980.
- A proposed new model accountancy statute has been exposed for comment by interested parties prior to final adoption.
- The Industry and Government Committee was replaced by two committees, one for each group, to better serve their special interests.
- The special committee to study the problems connected with granting CPA certificates to foreign applicants exposed its conclusions to members of Council for comment.
- Steady progress was made toward international harmonization of the profession through the International Accounting Standards Committee and the International Federation of Accountants.
- A conference with representatives of federal agencies is planned to explore ways to improve audit standards and audit procurement procedures and to

# Joint Statement

develop continuing professional education courses related to audits of federally assisted programs.

The accompanying financial statements reflect the fact that the Institute continues in healthy financial condition. Revenues exceeded expenditures for the year ended July 31, 1980, by \$1,275,267, which was \$743,000 more than the budgeted amount. Most of the excess resulted from increased sales of publications, greater advertising revenue and higher income on short-term investments due to record-high interest rates. These trends are not likely to continue, however, with deficits expected to occur in the year ending July 31, 1982.

No comments on the Institute's operations are complete without according recognition to the invaluable contribution of the many members who devote countless hours to their profession's affairs. This huge amount of volunteer effort, involving over 1,700 members serving on more than 130 active committees, is aided and efficiently utilized through the efforts of a dedicated and effective full-time staff consisting of nearly 500 in New York and 23 in Washington.

On July 1, 1980, a new president, Philip B. Chenok, assumed office. We join with the board of directors and Council in expressing complete confidence in his leadership, which will play an important role in shaping the future of the profession. A separate message from our new president is included in this report.

From our vantage point, the outlook for the profession is filled with promise. The very large firms have greatly improved the effectiveness of audits of publicly traded companies, and the incidence of liability suits has abated. The medium-size and smaller firms are generally prospering from an increasing demand for a wide range of services. Although

intraprofessional competition is causing some strain, there is no reason to believe that it must necessarily prove fatal to any segment of the practicing profession. But, if we are to avoid excessive tension, self-discipline and self-restraint will be required of our practitioners. Mutual respect, pride in being a CPA and a high level of conduct are vital to our remaining a profession.

The Institute will continue its efforts to promote balance between the interests of the public and those of the various elements of the profes-

sion. To serve well, the Institute must be not only the profession's advocate when appropriate but also its conscience and an instigator of change to meet evolving public needs.

The complexities of present-day society create limitless opportunities to be of service to both government and the private sector. The real challenge that lies ahead is how to live up to and deliver all that will be expected of us. The Institute stands ready to work with all CPAs toward meeting that challenge.



WILLIAM R. GREGORY  
*Chairman of the Board*



WALLACE E. OLSON  
*President*

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*I wish to express my deep gratitude for the privilege and opportunity to have served as the Institute's chief staff officer during the past eight years. The honor, trust and support that have been provided by the entire membership and staff have left me deeply indebted.*

*The president must be a proponent of what the profession wants for itself as well as what it should do to best fill the role with which it is entrusted by the public. I have tried my best to maintain a proper balance between these two responsibilities. I hope that, overall, my contribution has been positive for all segments of our profession, which is destined to play an increasingly vital role in the years ahead.*

W. E. OLSON



## President's Message

**W**ALLACE E. OLSON led the AICPA for the past eight years with a dedication and foresight that has benefited us all. It is a great organization and I am proud to have been chosen to serve as its president.

A careful reading of this annual report shows the broad range of the Institute's activities. While the Insti-

tute's major emphasis is on public practice, increasing attention is devoted to the interests of those in industry, government and education.

When a profession grows at the rate experienced by CPAs in recent years, stresses are inevitable. We need to identify problem areas and seek consensus on how best to deal with them. The work of the special committee studying problems faced by smaller and medium-sized firms and the related efforts of the Private Companies Practice Section are examples of continuing efforts to identify and respond to such problems.

In recent years, emphasis has been placed on self-regulation. While the Division for CPA Firms and its peer review program hold substantial promise, I foresee a major test of our resolve coming with current efforts to expand the limits of ethics enforcement. If we are to retain the confi-

dence of a wary public, we must do all in our power to ensure that those who fail to meet the profession's standards are dealt with effectively by its disciplinary machinery.

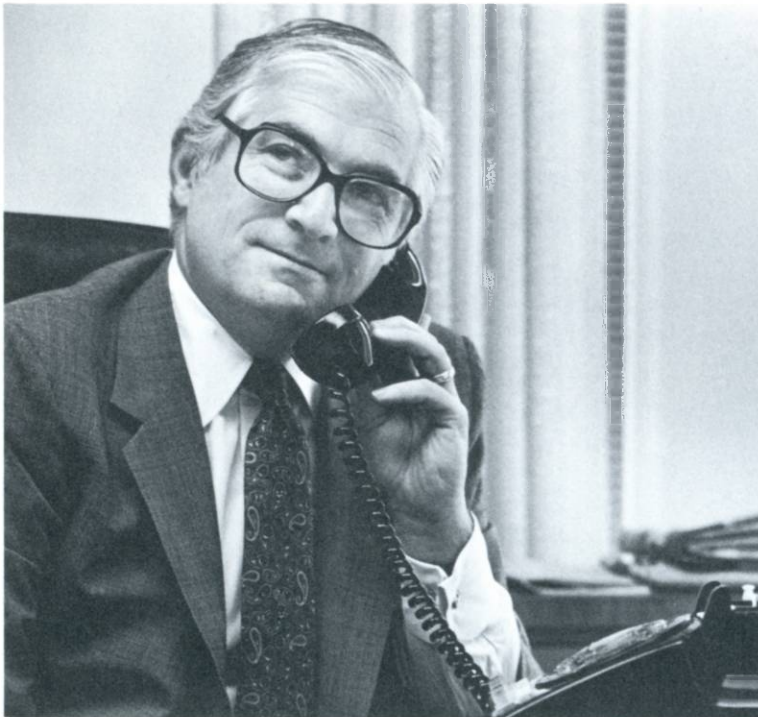
At the core of our efforts is the need to continue to provide effective and efficient services for the benefit of clients and the public. We have been called on to become involved with "soft information," such as financial forecasts and projections, and also to provide levels of assurance below those of the traditional auditor's standard report. As our professional organizations respond, there may be a temptation to cite the new complexities as another example of the "standards overload." Change is inevitable, however, if we are to continue to be a dynamic profession providing worthwhile and useful services.

Ahead of us are all the complex issues that accrue to a growing profession with growing responsibilities. Resolving those issues in a way that ensures that available resources are used effectively imposes obligations on all of us. Our challenge for the future is to see to it that together we continue to respond effectively to change.

I call on you to participate in the exchange of ideas, to join in the give-and-take of shaping policies that accommodate the needs of our profession.



PHILIP B. CHENOK  
*President (effective July 1, 1980)*



*Philip B. Chenok, president (effective July 1, 1980).*

## Auditing Standards

As a result of operational and organizational changes made the previous year, the Auditing Standards Division stepped up the pace of its activities across a broad spectrum. During the year, the Auditing Standards Board issued six Statements on Auditing Standards:

- *The Relationship of Generally Ac-*

*cepted Auditing Standards to Quality Control Standards (SAS no. 25).*

- *Association With Financial Statements (SAS no. 26).*

■ *Supplementary Information Required by the Financial Accounting Standards Board (SAS no. 27).*

■ *Supplementary Information on the Effects of Changing Prices (SAS no. 28).*

■ *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents (SAS no. 29).*

■ *Reporting on Internal Accounting Control (SAS no. 30).*

The ASB also requested public

comment on four exposure drafts of proposed SASs:

- *Adequacy of Disclosure in Financial Statements.*

■ *The Auditor's Considerations When a Question Arises About an Entity's Continued Existence.*

■ *Financial Statement Assertions, Related Audit Objectives, and the Design of Substantive Tests.*

■ *Supplementary Oil and Gas Reserve Quantity Information.*

In addition, the division has exposed three guides for comment on *Review of a Financial Forecast, Audits of Employee Benefit Plans and The Audits of Certain Nonprofit Or-*

*Thomas P. Kelley, vice-president – technical, discusses a point with two of the nine members (foreground) of the Special Investigations Committee, formed to deal with alleged audit failures by members of the SEC Practice Section of the Division for CPA Firms.*

*Martin J. Rosenblatt (r.), AICPA's first practice fellow, on leave from the accounting firm of Deloitte Haskins & Sells, explains a point to Ray Whittington, AICPA's first academic fellow, on leave from San Diego State University. Both work on auditing projects.*



*Douglas R. Carmichael, vice-president – auditing standards.*



## Year in Review 1979-80

ganizations. Two audit and accounting guides issued by other Institute divisions on the banking and airline industries also were cleared for exposure.

The Special Advisory Committee on Management Reports issued its conclusions and recommendations this year, providing advice to those companies that include a management report with their financial statements. Such a report is not, however, required.

The ASB issued a paper and held a public hearing on the possible revision of the auditor's standard report.

Other division projects include:

- A study of the implications of *SAS no. 24, Review of Interim Financial Information*, for comfort letters and similar engagements.
- Guidance on implementing auditing standards in auditing small businesses; this includes the auditor's study and evaluation of the client's internal accounting controls.
- Guidance on the auditor's consideration of manual and EDP aspects of a client's accounting system.
- New or revised audit and accounting guides for agribusiness, the gaming industry, property and liability insurance companies, securities brokers and dealers, and commodity-futures trading.

The division formed seven new task forces to work on emerging problems. Four of them monitor new developments and related audit issues with respect to other Institute committees and the International Federation of Accountants: Audits of Federally Assisted Programs; Bank Related Audit Issues; Implications of Practice Section Membership for GAAS; and International Auditing.

The Materiality and Audit Risk Task Force is developing guidance to make the concepts of materiality and audit risk more useful to auditors. The Single-Auditor-

Approach Task Force is developing guidelines on single-auditor reports when controls relating to a client's assets or related transactions are maintained by third parties. A new task force on working papers is considering whether SAS no. 1 offers adequate guidance on documentation for firms undergoing a peer review.

The division submitted a letter of comment to the Securities and Exchange Commission on alternative proposals affecting a CPA's liability under the Securities Act of 1933 when an SAS no. 24 report is included in a registration statement; the SEC subsequently exempted auditors from potential liability on reports on interim financial information. The division also commented to the SEC on proposed rules that would exclude accountants from potential liability under Section 11 for reports on supplementary information on the effects of changing prices and on oil and gas reserves. The division also submitted a letter of comment responding to the SEC's proposed rule on management's statement on internal accounting control.

Of the fourteen auditing interpretations issued, four provide guidance on special reports. Others deal with the effect of specific Financial Accounting Standards Board statements on consistency; the effect of accounting changes by an investee on consistency; using the work of a specialist; reporting on uncertainties; materiality of uncertainties; communication between audit and non-audit CPA-firm personnel; the auditor's consideration of accounting and audit guides; and guidance when an accountant's report, based on a review of interim financial information, is included in a 1933 Act filing.

### Accounting Standards

The Accounting Standards

Division continued to influence the development and application of financial accounting and reporting principles by:

- Maintaining a continuous liaison with, and submitting letters of comment to, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Cost Accounting Standards Board.
- Issuing or clearing for issuance statements of position and guides containing accounting recommendations.
- Developing issues papers to help the FASB identify accounting areas needing to be addressed or clarified.

One of the division's more exciting projects is an experiment in which 35 state and local government units have volunteered to prepare their financial statements using accounting and reporting principles similar to those used by business enterprises. The division plans to compile, evaluate and publish results late in 1980.

In 1979, the FASB assumed responsibility for specialized accounting and reporting principles and practices; it plans to extract them from AICPA SOPs and guides and issue them as FASB statements. It began by designating, in its Statement no. 32, the specialized accounting and reporting principles and practices in certain AICPA SOPs and guides as preferable accounting principles for justifying a change in accounting principle under APB Opinion 20.

Two final SOPs were issued during the year:

- 80-1, *Accounting for Title Insurance Companies*.
- 80-2, *Accounting and Financial Reporting by Governmental Units*.

Proposed SOPs and guides exposed for comment and expected to result in final documents after review by the FASB include:

- *Accounting for Dollar Reverse Repurchase Agreements*.

- *Accounting for Real Estate Acquisition, Development, and Construction Costs.*
- *Accounting for Performance of Construction-Type and Certain Production-Type Contracts.*
- *Clarification of Reporting Principles Concerning Hospital-Related Organizations.*
- *Construction Contractor Guide.*

Proposed guides approved for exposure pending review by the FASB include those for airlines and banks.

Issues papers sent to the FASB include:

- *Accounting by Investors for Distributions Received in Excess of Their Investment in a Joint Venture.*
- *Accounting by Lease Brokers.*
- *Accounting for Bulk Purchases of Mortgages Between Mortgage Bankers.*
- *Accounting for Grants from Governments.*
- *Accounting for Mortgage Guaranty Insurance.*
- *Accounting for Repurchase, Reverse Repurchase, Dollar Repurchase, and Dollar Reverse Repurchase Agreements for Savings and Loan Associations.*

ments for Savings and Loan Associations.

- *Accounting for Transfers of Receivables With Recourse.*
- *Accounting for the Inability to Fully Recover the Carrying Amounts of Long Lived Assets.*
- *Accounting for Vested Pension Benefits Existing or Arising When a Plant Is Closed or a Business Segment Is Discontinued.*
- *Accounting in Consolidation for Issuances of a Subsidiary's Stock.*
- *Joint Venture Accounting.*
- *Push Down Accounting.*

Proposed SOPs and guides in process include:

- Investment companies guide.
- Mortgage guaranty insurance SOP.
- Personal financial statements guide.
- Program accounting SOP.
- Real estate appraisals guide.

Proposed issues papers in process include:

- Accounting for intangibles in the motor carrier industry.
- Allocating fund-raising costs by nonprofit organizations.
- Discounting.
- Hospital malpractice self-insurance.
- Life insurance purchase accounting.
- Market performance, company performance, and combination plans: a reconsideration of APB Opinion 25.
- Real estate depreciation.
- Related-party disclosures.
- Reporting minority interests in consolidated financial statements.

The issues papers and other documents the division has sent to the FASB led to the following actions by that body.

The FASB issued:

- Statement no. 31, *Accounting for Tax Benefits Related to U.K. Tax Legislation Concerning Stock Relief.*
- Statement no. 37, *Balance Sheet Classification of Deferred Income Taxes.*

Wilbur D. Campbell (l.), deputy director, Financial Management and General Studies Division, U.S. General Accounting Office, and Don W. Meyers, director of finance and accounting, Arkansas Power & Light Company, discuss Operational Auditing at an MAS Division meeting in Nashville, Tennessee.





- Interpretation no. 30, *Accounting for Involuntary Conversions of Non-monetary Assets to Monetary Assets*.

The FASB exposed for public comment proposed statements on:

- *Accounting for Compensated Absences*.
- *Accounting for Preacquisition Contingencies of Purchased Enterprises*.
- *Disclosure of Guarantees, Project Financing Arrangements and Other Similar Obligations*.

The FASB exposed for public comment proposed interpretations on:

- The applicability of APB Opinion 21 to television film license agreements.
- Reporting intercorporate income tax allocations.

The FASB agreed to incorporate in existing projects issues relating to:

- Currency swaps in its project to reconsider FASB Statement no. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements*.
- Termination indemnities and vested pension benefits existing or arising when a plant is closed or a business segment is discontinued in its project to reconsider APB Opinion 8, *Accounting for the Cost of Pension Plans*.
- The mandatory use of the percentage-of-completion and the completed-contract methods of accounting for long-term contracts in its accounting recognition project.

The FASB directed its staff to develop recommendations on how the Board might proceed with issues relating to:

- Accounting for grants received from governments.
- Accounting for loss provisions based on net realizable value.
- Accounting by investors for distributions received in excess of their investment in a joint venture.

- Push down accounting.
- Reporting finance subsidiaries in consolidated financial statements.

The FASB returned *Accounting for Bulk Purchases of Mortgages Between Mortgage Bankers* for revision, after which it will be reconsidered in connection with FASB specialized industry projects.

## **Accounting and Review Services**

Continuing its efforts on behalf of nonpublic companies and the practitioners who serve them, the Accounting and Review Services Committee issued its second statement, *Reporting on Comparative Financial Statements*, and the staff issued three interpretations of Statement on Standards for Accounting and Review Services (SSARS 1). Other projects under active consideration relate to:

- Financial statements included in prescribed forms.
- Communications between predecessor and successor accountants.
- Subsequent discovery of information.
- Computer-prepared financial statements.
- Reporting after a merger or purchase of accounts.

Each project may result in a SSARS or in one or more interpretations, or it may be found that no additional guidance is required. The committee strives to provide helpful guidance while keeping in mind the problems practitioners have in keeping up with the proliferation of pronouncements.

## **Management Advisory Services**

The Management Advisory Services Division's major current project is the development of MAS

practice standards to be promulgated under the AICPA rules of conduct. The first statements are expected to be exposed for comment in the year ahead.

Subcommittees and task forces are preparing a series of publications on administrative, technical and small-business consulting aspects of MAS practice.

For the first time, the division began to consider what the AICPA can do to enhance the understanding of MAS by those outside the profession. As part of that effort, an MAS public-information-program development group has been organized.

In addition to the first division-wide meeting in several years, two conferences were held. More than 300 attended the sixth MAS Conference in Chicago last October, while more than 20 states were represented at the second biennial Conference for State Society MAS Committee Chairmen in Nashville in May 1980.

Assisted by MAS Division staff, the AICPA's Special Committee on Operational and Management Auditing developed and issued for comment an exposure draft on operational auditing by CPA firms.

## **Technical Information**

The Technical Information Division, furnishing timely aid to practitioners with specific questions about applications of standards, guidelines or interpretations, averaged approximately 50 telephone calls every work day of the year. The more complex questions were answered in writing. Those answering calls reported, surprisingly, that few requests covered the same ground. That diversity is reflected in the *AICPA Technical Practice Aids* service (published by Commerce Clearing House),



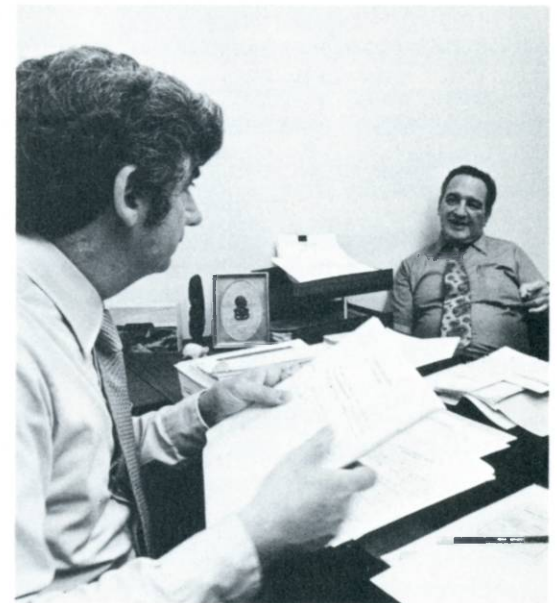
*Hortense Goodman, manager, Information Retrieval, puts AICPA's National Automated Accounting Research System through its paces.*

which includes representative questions and answers.

Other publications issued through the division are the *Audit and Accounting Manual; Trends & Techniques* (34th Edition), the annual survey of accounting practices in 600 annual reports; and the *Index to Accounting and Auditing Technical Pronouncements*.

### **Information Retrieval**

The *Financial Report Surveys*, which show in detail how specific



*Jack Shohet, manager (foreground), and Lawrence Lindenburg, manager, discuss a member's question, one of about 50 phoned in every work day to the Technical Information Division.*

*Professional Ethics Division staffers discuss business with Herbert Finkston (seated), director of the division.*



accounting and reporting questions are handled in financial reports and proxy statements, grew by three titles this year. Now 21 in all, they feature illustrations drawn from AICPA's National Automated Accounting Research System (NAARS), which stores data from thousands of published reports.

More accountants, business executives, educators, researchers and others without terminals of their own used the NAARS this year through AICPA's individual-inquiry service.

NAARS can perform computer-assisted research of over 8,000 corporate annual reports, including management-responsibility letters. It includes samples of certain proxy-statement disclosure matters such as executive perquisites, related-party transactions, corporate committee duties and responsibilities, legal proceedings and fees charged by CPAs for nonaudit services.

The NAARS can also provide authoritative and semi-authoritative promulgations of the AICPA, the Financial Accounting Standards Board and the Securities and Exchange Commission.

## Quality Control Standards

Concluding a three-year effort, the Quality Control Standards Committee has produced standards that provide the foundation for firms to implement systems of quality control. It issued its first Statement on Quality Control Standards, *System of Quality Control for a CPA Firm*, and two interpretations of quality control standards: *The Relationship Between Inspection and Monitoring and Implementation of Inspection in CPA Firms*. The committee also issued the guide, *Establishing Quality Control Policies and Procedures*.

During the year, 29 firms sub-

mitted documents on their systems of quality control for review by AICPA.

## Professional Ethics

The Professional Ethics Division issued several interpretations and increased its enforcement activities.

During the year, the Professional Ethics Division issued Interpretations 201-3: *Shopping for Accounting or Auditing Standards* and 203-3: *FASB Statements that Establish Standards for Disclosure Outside of the Basic Financial Statements*. It modified Interpretation 101-7: *Application of Rule 101 to Professional Personnel*.

The division also issued a new ruling under Rule 505: *Practice of Public Accounting Under Name of Association or Group* and modified Ruling 59 under Rule 101: *Account With Brokerage Client*.

Comments are being received on several exposure drafts regarding proposed modifications to Interpretation 101-4: *Effect of Family Relationships on Independence*; withdrawal of Ruling 37 under Rule 101: *Retired Partners as Co-Trustee*; new Interpretation 502-2: *Application of Rules of Conduct to Members Who Operate a Separate Business*; and new ruling under Rule 505: *Side Businesses Which Offer Services of a Type Performed by CPAs*.

For the year ending June 30, 1980, the division closed 105 technical-standards cases and 70 independence and behavioral-standards cases. Other investigations are continuing. Due to a reorganization of the Technical Standards Subcommittee to deal with the increased case load, the number of technical cases closed during the period increased 138 percent over the previous twelve months.

In cooperation with Inspectors

General of 12 federal government agencies, the division has begun a program of positive enforcement involving CPA audits of federally assisted programs. Government agencies randomly select audit reports and periodically submit them to the division for review. If it appears that a report is substandard, the division opens an investigation. This is in addition to investigations begun in response to complaints from federal agencies.

Composed of AICPA members with substantial experience in federally assisted programs, two task forces review audit reports and conduct investigations.

## State Legislation

The State Legislation Department focused much of its attention this year on amending the Model Accountancy Bill and on the progress of state sunset laws, which provide automatic termination of regulatory agencies not specifically extended by law.

The State Legislation Committee issued an exposure draft of the proposed Model Accountancy Bill in April for 120-day exposure. The bill, last revised in 1974, serves as the profession's guide for the enactment of uniform state accountancy laws. Its provisions conform with AICPA policies.

In addition, the committee published a revised edition of its 1978 *Sunset Handbook*. It also made extensive revisions to the *Campaign Treasurer's Handbook*, scheduled to be published toward the end of this year.

Favorable sunset reviews of state licensing authority in Alaska and Arizona led to passing modern accountancy laws in those states. Thirty-seven of the 54 states and other U.S. jurisdictions have enacted



*Uniform CPA Examination graders at work. Nearly 118,000 candidates sat for the exam last year, given in November and May.*



*A member researching a problem in AICPA's library, one of the largest of its kind in the world.*

*The Computer Services Division responds to the increasing use of computers by accountants and clients. The division issued a guideline, Audit Approaches for a Computerized Inventory System, to assist auditors with computerized inventory systems.*

modern accountancy laws incorporating the essential provisions of the Institute's Model Accountancy Bill, which provides, among other things, for continuing licensing of only one class of practitioners — CPAs.

## Examinations

Candidates continue to sit for the Uniform CPA Examination in record-breaking numbers.

	Candidates	Papers Graded
November 1979	59,659	222,334
November 1978	54,720	203,660
May 1980	57,746	211,836
May 1979	53,969	196,984

The Uniform Statistical Information Questionnaire project started last year continues to marshal more data about the growing roster of candidates who sit for this national examination.

In late October 1979, a breach of security was discovered involving examination booklets in the custody of a state Board of Accountancy. The Board of Examiners and staff reacted by printing, packing and shipping a replacement examination within ten days so that the examination could be administered — on schedule — in all 54 jurisdictions.

In March 1980, the Board of Examiners exposed for comment proposed content specifications for the examination, and it is currently analyzing the responses.

Recently the Board of Examiners and the Board of Directors authorized a practice analysis study for the profession. It is expected that such an analysis, requiring perhaps as long as two years, will provide documentation demonstrating the relationship between the content of the examina-



tion and what CPAs actually do. Results should contribute to maintaining the test as a valid, reliable measuring instrument.

## Computer Services

In response to the increasing use of computers by accountants and clients, the Computer Services Division published a computer-service guideline and continued to develop other documents on using computers in audits and in the management of an accounting practice.

The guideline, *Audit Approaches for a Computerized Inventory System*, is intended to help an auditor understand a computerized inventory system, identify control techniques to satisfy control objectives, and apply appropriate audit techniques for a computerized inventory system.

The Computer Services Executive Committee is also developing these current projects:

- Guidelines to assess computerized time and billing systems in CPA firms.
- Revision of the *Audits of Service-Center-Produced Records* audit guide.
- Control and audit considerations in a mini-computer environment.
- Audit considerations for remote banking systems.
- Guidelines to assess word-processing systems for use in the CPA firm.
- A revised edition of *Auditing and EDP*.
- Guidelines for managing an EDP facility in a CPA firm.
- Audit considerations for on-line computer applications.
- Guidelines for using interactive problem-solving techniques.
- Audit and control considerations for data-base systems.

■ Computer fraud in the banking industry.

In addition, the division has compiled a data base of EDP-related training courses and has expanded the AICPA timesharing libraries. AICPA/COMSHARE now has 120 programs and 575 subscribers; AICPA/TYMSHARE has 38 programs and 491 subscribers.

The division held its sixteenth annual Computer Services Conference in May at Dearborn, Michigan.

## Library Services

The AICPA library, one of the largest accounting libraries in the world, has a unique collection of both historical and contemporary business literature. The collection now exceeds 74,000 books, pamphlets and bound journals, more than 300 current periodical subscriptions, a comprehensive tax-reference library and corporate annual reports on microfiche.

During the year, 14,500 people visited the library, the staff answered 15,000 telephone inquiries and 3,700 written requests for information and loaned 15,000 books, pamphlets and journals to members.

To provide convenient access to the collection, the staff of seven librarians and six clerks compile the *Accountants' Index*, which is available both as a quarterly printed index and as an on-line bibliographic data base through SDC Search Service.

A monthly list of new acquisitions is available to members on request.

## Insurance and Retirement Programs

More than \$7 billion in life insurance is now in force covering more than 68,000 individual CPAs insured under the CPA Plan and the

more than 69,000 proprietors, partners, employees and eligible dependents covered by the Group Insurance Plan. This represents an increase in coverage of more than \$1 billion over last year.

Introduced in 1978, the Long Term Disability Income Plan includes liberal definitions, a rehabilitation program and up to \$3,000 in monthly benefits. More than 15,000 CPAs are currently insured under this plan.

The Professional Liability Insurance Plan is directed by the AICPA Professional Liability Insurance Plan Committee to maintain a stable rating structure while providing adequate liability protection without critical coverage gaps. As of April 1980, more than 10,000 practice units were covered.

As of year-end 1979, approximately \$56 million had been accumulated under the Members Retirement Plan and some \$7 million in contributions were received during that year. The plan provides firms with retirement income benefits to proprietors, partners and employees.

Administered by its Board of Trustees, the American Institute Benevolent Fund granted \$73,754 in assistance to members, former members and their families during the past year. In that period, the fund received \$91,644 in contributions.

## Publications

The Publications Division concentrated on information directly applicable to conducting a public accounting practice. Accompanying this shift in editorial focus, the division introduced some lively graphics in its newsletters and took a step forward in the new technology of printing with computer-set cold type for the *Journal of Accountancy*.

The *Journal*, whose monthly circulation has climbed to about 250,000 subscribers, regularly covers

practice-oriented material on accounting, auditing, management advisory services and taxation. To help readers keep abreast of today's professional frontiers, featured articles included such topics as sunset legislation, inflation accounting, scope of services and auditor independence, self-regulation, internal accounting control, advertising, and oil and gas accounting. Advertisers have responded in record numbers, bringing annual billing to a new high of \$1.5 million.

The Institute's three newsletters—the *CPA Letter*, the *CPA Client Bulletin* and *The Practicing CPA*—are concise sources of current information. Twice a month the *CPA Letter* reports on technical news and other information to the entire AICPA membership and about 1,000 outside subscribers. The monthly *CPA Client Bulletin* is the Institute's most widely circulated periodical. Almost four thousand small and medium-sized firms (up 700 from last year) distribute this four-page newsletter to clients.

Total circulation has increased 70,000, reaching close to 380,000 copies. New this year is an arrangement whereby firms with their own client letters may receive reproduction proofs, which permit them to publish articles from the *Bulletin* without resetting type. *The Practicing CPA* consistently receives high marks on its practice management articles and other items specifically oriented to the smaller firm.

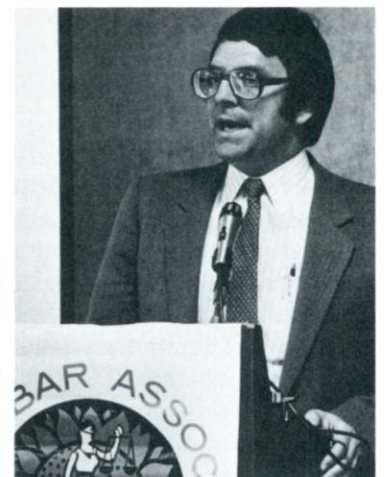
Three special committee reports were issued on reports by man-

*Two state society presidents-elect who spoke at the State Society Planning and Public Relations Conference in Dallas, Texas.*

*Thomas G. Bisky, news editor, Journal of Accountancy, discusses page layout with Barbara Trimarco, assistant production manager.*



*Donald J. Schneeman (r.), AICPA secretary and general counsel, and Rex Cruse, managing director, CPE, discuss AICPA member services with local practitioners at one of three annual Member Roundtable sessions with AICPA senior management.*



*Stanley House, CPA, of Laventhol & Horwath, Kansas City, Missouri, addresses the annual meeting of the Kansas Bar Association in Topeka. He was one of the many speakers placed by the Speakers' Bureau of the State Society Relations Department.*





agement, revision of the auditor's standard report, and guidelines for CPA participation in the ABA Preferred Group Bonding Plan. The production department also produced revised peer review manuals for both sections of the Division for CPA Firms and a revised edition of *Compliance With Federal Election Campaign Requirements* for the Federal Government Relations Division.

In addition, the department processed more than 80 reprints of current AICPA publications and produced more than 60 new publications.

## Public and State Society Relations

Building on established contacts with the media, the public relations programs achieved a higher impact this year. Newspapers published news of major developments, giving items prominence where warranted. Radio and television stations indicated a growing awareness of the CPA's role by offering increased airtime. NBC television, aided by AICPA staff, produced a two-part series on personal money management, featuring a tax practitioner. Then, through a summary published in *Reader's Digest*, the program ultimately reached another 17 million readers, presenting information reflecting the expertise of the CPA.

The division continued disseminating news to newspapers and periodicals, extending the range of contacts with financial writers and their editors. Interviews with senior staff, supplemented by phone inquiries from reporters, added considerably to the coverage the profession attracted. In all, the division circulated over 100 news releases, arranged special coverage of six major multi-day conferences and issued a number

of technical booklets and leaflets of particular interest to the practitioner.

The division continued to supply state societies with integrated, multi-media public relations programs on inflation and taxes; both were widely and effectively used by a majority of societies. The monthly Money Management newspaper column prepared by division staff for society distribution reached more people than ever, with over 300 newspapers in the country using the personal finance column on a regular basis.

The annual Planning Conference for State Societies and National Public Relations Conference were combined for the first time in 1980.

Local practitioners exchanged ideas with senior Institute staff at three regional Local Practitioners Seminars held in the spring. Teams of Institute senior staff met members in various states. Also, the nationwide series of Member Forums, coordinated by the Institute and state societies, were scheduled to offer members in more than 100 locations an opportunity to present their views on major issues confronting the profession.

*CPA Video Journal*, a monthly videotape service for state societies, covered a range of current topics from computer fraud, to advertising, to peer review. The monthly newsletter, *State Society Coordinator*, maintained its role as a channel of communications between the Institute and the state societies.

A seminar for members of the construction industry, the first in a series of special industry seminars produced by the division for state society presentation, was given a successful test run by the Georgia society. The Speakers Referral Service provided other opportunities for representatives of the profession to reach the public.

## Relations With Educators

The Institute's four-year effort to establish an accreditation process for accounting programs culminated in the American Assembly of Collegiate Schools of Business' approval of standards proposed by its Accounting Accreditation Planning Committee. This committee was composed of representatives of the American Accounting Association, the National Association of Accountants, the Financial Executives Institute and the AICPA. The standards are the result of revisions made following a February public hearing.

During the 1980-81 academic year, letters of intent to apply for accreditation will be submitted, and the Institute will participate in the implementation of the new process.

The Personnel Testing Subcommittee revised the AICPA Levels I and II Achievement Tests, which are now being pre-tested. As a result of the subcommittee's work on another project, AICPA contracted with Educational Testing Service to identify the skills and abilities needed to succeed in an academic accounting program. After researching the pertinent literature on the subject, ETS surveyed faculty members and administrators associated with over 600 accounting programs in colleges, universities, and two-year schools.

Working closely with the ETS on this project was an advisory committee of prominent accounting educators and practitioners nominated by the Institute and AAA. The study served as a basis for determining the feasibility of developing an admission test.

The Interest in Accounting Careers Subcommittee revised the AICPA's recruiting literature and is working with a film company on the production of a new recruiting film.

A selection task force awarded \$39,200 as grants-in-aid to doctoral candidates expecting to pursue academic careers. And the division selected another Yale student to receive this year's John L. Carey Scholarship.

In addition, the division published its 1980 edition of *The Supply of Accounting Graduates and the*

#### *Demand for Public Accounting Recruits.*

Following discussions with AAA's executive committee, new procedures were instituted for selecting recipients of AICPA's Accounting Literature Awards, which were presented at AAA's annual meeting.

The division staff, the Education Executive Committee and the

Relations with Educational Institutions Subcommittee coordinated efforts to promote the growth of the five-year program in professional accounting. The division also made panel presentations at regional AAA meetings, developed promotional material and made a tape on the topic for the Institute's *CPA Video Journal*.



*James H. MacNeill, director, Relations With Educators, discusses the annual supply/demand survey with Mary McInnes, coordinator.*



*Roger Shope, television director, video-taping a CPE production in AICPA's studio in New York.*



*CPE staff test a recent VIDEOFLEX™ production.*



**The Supply of Accounting Graduates and the Demand for Public Accounting Recruits**

	Estimated Supply of Accounting Graduates (Bachelors & Masters) (in thousands)	Estimated Demand of Recruits by Public Accounting Firms (Bachelors & Masters) (in thousands)
1978-79	54.4	15.7
1979-80	58.4	16.7
1980-81	61.7	18.0
1981-82	65.0	19.4
1982-83	67.1	20.8
1983-84	69.1	22.1

**Minority Recruitment and Equal Opportunity**

Efforts to expand representation of minority groups in the ranks of practitioners are having their impact.

The AICPA Minority Recruitment and Equal Opportunity Program awarded scholarships totaling \$192,620 to more than 250 minority undergraduate accounting majors and graduate students preparing for professional accounting careers.

More than 75 accounting faculty representatives from minority colleges and 25 other interested observers attended the tenth Faculty Summer Seminar in Birmingham, Alabama.

During the year, two accounting educators participated in the Doctoral Fellowship and Visiting Scholar program co-sponsored by AICPA and the American Accounting Association. The program is designed to help minority accounting faculties of developing institutions pursue doctoral studies and to provide temporary teaching replacements in their absences.

The Institute issued a report describing the efforts to integrate the profession during the past decade and to consider the future direction of these efforts.

**Continuing Professional Education**

Continuing Professional Education is now required in 37 states. This year two more state legislatures joined the lengthening list of those that have made CPE mandatory. Not only are there overall minimum hours (up to 40 hours a year), but in five states there are subject matter minimums as well. The National Association of State Boards of Accountancy recommends, and the Division for CPA Firms membership requirements provide, that courses meet the AICPA's *Standards for Formal Group-Study and Formal Self-Study Programs*.

Most state societies have agreed to provide AICPA continuing-education programs to firms or groups of firms. An important feature of this in-firm program is AICPA's expanding

commitment to the development of VIDEOFLEX™ courses. These videotapes, interactive with manuals, promote individual study or small-group sessions in local-practice offices. Their advantages include conserving time as well as eliminating the travel and instructor costs of training. KESettes™, video studio versions of popular tax workshops taught by Sidney Kess, were released through state societies to increase the availability of CPE courses to firms.

In cooperation with Professional Evaluation and Publications Services Inc., the division developed the first formal continuing self-assessment program in the accounting profession. This program in estate and gift taxation gives participants a more precise understanding of their learning needs and allows them to learn in a more efficient way. Also, it permits comparisons with group norms and educational critiques in the privacy of their own offices.

The division also appointed a CPE-needs-assessment subcommittee to identify other learning needs and opportunities for the AICPA to provide continuing education. Another new committee will recommend formats and media for AICPA programs.

Participants indicate their overall satisfaction with AICPA Staff Training Programs by rating them an average of higher than 4.0 on a 5.0 scale; instructors averaged higher than 4.5. In addition to Levels I through III, AICPA released new programs on *Becoming an Effective Manager* and *Tax Training for Staff*.

The first of nearly three dozen presentations on the Windfall Profits Tax Lecture Series was held just days after the law went into effect. This remarkable achievement was accomplished with the Professional Development Institute at North Texas University in Denton. PDI also pre-

sented the first two-week National Oil and Gas Accounting Training Program in cooperation with the Council of Petroleum Accounting Societies and the AICPA.

As part of a broader effort to expand educational programs for members in industry, the division offered the first in a series of tax lectures on New Perspectives in Taxation and Planning for Corporations and Shareholders.

As co-sponsor with the McIntyre School of Commerce of the University of Virginia, the division held the first National Banking School, a three-day program designed for practitioners with small bank clients.

Demand for specialized CPE courses of exceptional quality continues to be consolidated with the addition of a new one-week program on EDP Consulting for Small Business, at the National Management Advisory Services Training Program, given at The University of Texas at Austin.

The Association of Government Accountants and the AICPA continued their outstanding National Governmental Training Program to help bring accountability to government.

Education subcommittees have surveyed the curricula for major technical areas for possible improvement. The evaluations are considered in decisions affecting courses. This year, formal evaluation forms correspond with AICPA *Standards for Formal Group-Study and Formal Self-Study Programs*.

As part of the efforts to improve CPE, the AICPA maintains a data bank of educators and practitioners interested in being course developers, reviewers or converters of material from one format to another. During the year, 28 new group-study courses and 27 new self-study courses were made available.

## Industry and Practice Management

The Industry and Practice Management Division sought to expand its practice management aids for practitioners and its programs for members in industry.

The seventh annual series of Practice Management Conferences, sponsored by the Management of an Accounting Practice Committee, received top ratings from participants, as in previous years. Areas covered included practice growth and development, firm management and administration, partnerships and professional corporations, and people management. A new conference on Quality of Life was also extremely well received.

The seventh annual meeting of state society MAP committee chairmen and state society executive directors continued to further AICPA/state society cooperation in providing practice-management assistance to local practitioners.

To encourage practitioners to form small practice-management discussion groups, the division developed a MAP Roundtable Discussion Manual for state societies and individual members.

A Task Force on *The Practicing CPA* newsletter instituted a program to generate more articles by local practitioners. And a Task Force to Evaluate CPE Practice Management Courses reviewed existing AICPA courses and will submit its evaluations and recommendations for new courses to the CPE Division.

The committee published a revised *AICPA Aids for Local Practitioners* and is developing a local firm recruiting brochure. More than 1,720 copies of *Management of an Accounting Practice Handbook* were purchased in the fiscal year.

The committee is co-sponsoring a CPA office-design competi-



A member addresses a special AICPA meeting in Chicago; members voted against authorizing mail ballots on two issues affecting the Division for CPA Firms.



tion with Architectural Woodwork Institute.

A task force reviewed the American Assembly of Collegiate Schools of Business proposal to require relevant experience of accounting faculty and recommended to the Education Executive Committee that the proposal should be implemented to improve educators' understanding of local-firm practice.

The former Industry & Government Committee was reorganized into two separate groups. The Industry Committee remains in this division while its government responsibilities have been shifted to AICPA's Washington Office.

The fourth annual National Conference for Industry & Government Members was held in Dallas. The Industry Committee will extend the 1981 conference to two days. Chairmen of state society industry committees and executive directors exchanged information on their programs at the second annual meeting for the state committees sponsored by the Industry & Government Committee.

At the request of the Industry & Government Committee, AICPA appointed a Task Force on Application of the Code of Ethics to Industry and Government Members to study the feasibility of expanding ethics rules to cover these members.

The Small Business Development Committee published an *Accounting Resource Center Manual*, a step-by-step description of how CPAs can establish a funded center to provide assistance to minority businesses.

The committee coordinated AICPA participation in the White House Conference on Small Business and is developing a conference on joint engagements for majority and minority firms. The U.S. Department of Commerce's Office of Minority Business Enterprise awarded a grant

to AICPA to publish its revised *Businessman's Information Guide*, the committee's manual for small, minority businesses.

### Major AICPA Meetings and Conferences 1979-80

Event	Approximate Attendance
Accounting & Auditing Conference	300
Annual Meeting	3,000
Computer Conference	550
Computer Services Divisional Meeting	100
Conference on FEC Requirements	350
Council Meeting (Spring)	300
Council Meeting (Fall)	300
Estate Planning Conference	350
Faculty Summer Seminar	100
Fall Tax Division Meeting	225
Industry & Government Conference	300
Key Person Conference	75
MAP Conferences (3)	1,000
MAS Conferences (2)	400
National Banking Conference	600
National Joint Ethics Conference	120
National Tax Conference	300
Planning/Public Relations Conference	200
Private Companies Practice Section	525
Quality of Life	250
Savings & Loan Conference	550
Seaview Round Table	50
SEC Conference	550
Spring Tax Division Meeting	225
State Society CPE Conference	125
<b>TOTAL</b>	<b>10,845</b>

*An important part of AICPA's communications and education program, these major conferences—coupled with an estimated 1,200 meetings of committees, subcommittees, task forces or special groups—bring the membership together to analyze issues. They furnish the thrust for the profession's progress.*

### International Practice

The International Practice Executive Committee, reflecting growing concern around the world for more disclosure of financial data, accelerated its collaborative efforts with national professional organizations.

The International Federation of Accountants, of which the AICPA is a founding member, has grown to 75 accountancy bodies representing 57 countries. This year, IFAC's International Auditing Practices Committee has issued exposure drafts on *Planning (ED-4)*, *Using the Work of Another Auditor (ED-5)* and *Study and Evaluation of the Accounting System and Internal Control in Connection With an Audit (ED-6)* and has issued definitive guidelines on *Objective and Scope of the Audit of Financial Statements and Audit Engagement Letters*.

The Ethics Committee has issued as exposure drafts two statements this past year: *E-1—Statement of Guidance on Advertising, Publicity and Solicitation* and *E-2—Statement of Guidance on Professional Competence*. It also issued *Guideline on Professional Ethics for the Accounting Profession*. The Management Accounting Committee released as an exposure draft *Definition of Management Accounting, Responsibilities of Management Accountants, Interface with External Auditors*.

The International Accounting Standards Committee issued two exposure drafts: *ED-15—Reporting Financial Information by Segment* and *ED-16—Accounting for Retirement Benefits in the Financial Statements of Employers*. IASC has released one discussion paper, *Disclosures in Financial Statements of Banks*, and is considering procedures on accounting for leases, accounting for business combinations, accounting for gov-

ernment grants and accounting for capitalization of financial costs.

AICPA continues to participate actively as a member of the Inter-American Accounting Association and of the Conference of Asian and Pacific Accountants.

## Federal Government

Much of the activity of the Federal Government Relations Division involved consulting with congressional committees, the Executive

Office of the President and agencies of the federal government.

The division provides assistance to members and their staffs as liaison between the profession and Congress. It also offers services to agencies by suggesting revisions to agency audit guides and commenting on regulatory proposals.

The division sponsored four major conferences: SEC developments; federal election laws; banking; and savings and loan associations. The conferences brought together government officials and practition-

ers to review critical developments at sessions that offered CPE credits.

The technical committees develop industry audit guides and papers on accounting matters. This year those topics have included audit and accounting guides for banks, airlines and credit unions. In addition, the division produced the Third Edition of the *Compliance With Federal Election Campaign Requirements* publication.

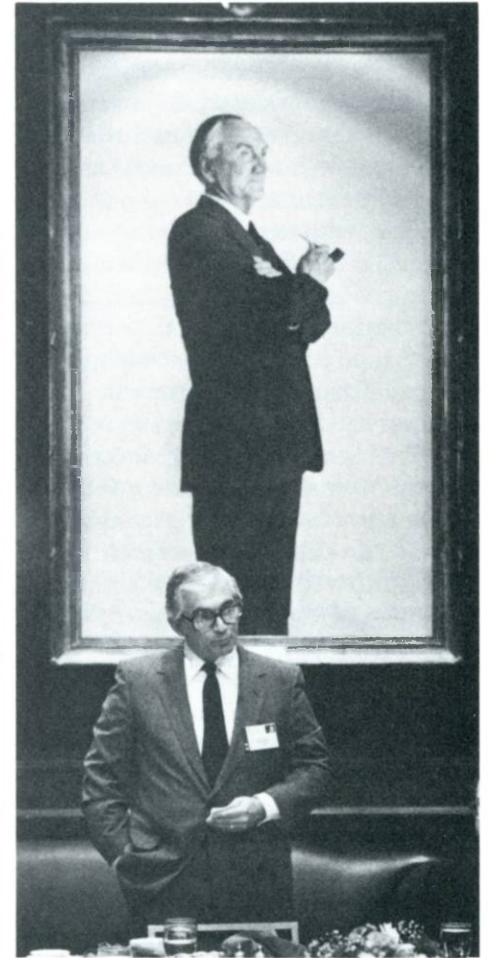
The Congressional Breakfast Program provides the opportunity to make legislators more aware of the



Wallace E. Olson (l.), AICPA president, Donald Kurth, a Seattle, Washington CPA, and Theodore C. Barreaux (extreme r.), vice-president—Federal Government Relations Division, share a humorous moment with U.S. Senator Henry Jackson, D., Washington, who spoke at a congressional breakfast sponsored by AICPA and state societies.



Jerome Kurtz, Internal Revenue Service Commissioner, speaks at a meeting of the Federal Tax Division in Tarpon Springs, Florida. To his left is Arthur J. Dixon, chairman of AICPA's Federal Taxation Executive Committee.



Philip B. Chenok, AICPA president, speaks at a Virginia congressional delegation breakfast meeting in Washington, D.C. Behind Mr. Chenok is a portrait of former U.S. Senator Mike Mansfield.



profession. It has been well received by members of Congress and representatives of the 22 state societies that have participated in the program to date.

The Federal Legislative Affairs Division identifies federal issues of potential applicability to the profession by monitoring, analyzing and tracking proposed legislation, rules, regulations and related amendments. The division maintains liaison with members of Congress and their staffs and attends congressional and regulatory agency hearings, analyzing testimony and speeches.

The division also chronicles legislative and regulatory activities in its weekly publication, the *AICPA Washington Report*.

The Federal Key Person Program has identified CPAs in every state who can be called upon to voice their concern to members of Congress on issues of interest to the profession.

## Federal Taxation

While continuing to comment on tax developments of concern to the profession, the Federal Taxation Division has been particularly active in the area of return-preparer penalty provisions. After the successful resolution of initial problems, attention has focused on the problem of aggressive assertion of negligence penalties by some IRS districts. Earlier issues that the division had helped to resolve included the elimination of penalties for failure to compute additional tax on underpayment of estimates; elimination of the requirement for detailed annual reporting when internal records are maintained; suspension of certain penalties during the first year; and avoidance of return disclosure of controversial tax positions.

After conducting a survey on return-preparer "conduct" penalties,

representatives of the division met with IRS Commissioner Jerome Kurtz to try to find a solution to members' problems with the application of these penalties. This is expected to result in a better definition of reasonable standards for the assertion of "conduct" penalties. The division will continue to work for the reduction of administrative problems and, if necessary, will seek remedial legislation.

The House of Representatives has passed legislation supported by the division that corrects certain 1977 Social Security Act amendments that inadvertently reduce benefits for many retired CPAs. The division hopes this bill becomes law before the end of the year.

Extremely effective in developing tax legislation to help small businesses, the division's Subchapter S improvements have formed the basis for recommendations by the staff of the Joint Committee on Taxation. Also, the division's simplified cost-recovery-depreciation concept has been included in major tax bills. In addition, the division published its *Tax Recommendations to Aid Small Business*. The division staff participated in the White House Conference on Small Business.

## Division for CPA Firms

*Membership as of July 31*

	1980	1979
SEC Practice Section only	28	33
Private Companies Practice Section only	1,623	1,093
Members of both sections	542	513
<b>Total division members</b>	<b>2,193</b>	<b>1,639</b>

Capital formation has been an important objective in three Tax Policy Statements: *Capital Cost Recovery, Taxation of the Formation and Combination of Business Enterprises* and *Indexation of Tax Laws for Inflation*. The division also published a Tax Policy Statement containing recommendations to put the Social Security system on a firmer, more business-like basis.

Continuing to work to resolve practitioner concerns with the Supreme Court decision on the Thor Power Tool case, the division has strongly protested retroactive application of that decision. In response, the Service has clarified several problem areas, and the division will continue to try to improve the regulations that gave rise to the case.

To deal with the increasing role of the tax system in energy matters, an Energy Taxation Subcommittee has been established for monitoring developments affecting oil and gas, alternative energy sources and taxes on producers and consumers.

Other major efforts involve bankruptcy taxation, installment sales, improvement of tax forms and IRS access to accountants' workpapers.

## Division for CPA Firms

The 34 percent growth in membership reflects the importance attached by firms of all sizes to an effective self-regulatory mechanism and to the benefits of membership.

The Private Companies Practice Section has devoted substantial effort to make the section an effective means for member firms to make known their views on professional matters, including the establishment of technical standards. The new PCPS Technical Issues Committee substantially increased the resources available for this. During the year, the committee (and its predecessor subcommittee) provided numerous comments to AICPA senior technical committees. Also, the section continued to draw attention to the standards-overload problem and to

certain independence issues. Many members consider these advocacy activities to be the PCPS's most important function in their behalf.

The *PCPS Reporter* summarizes the section's comments on technical matters.

More than 450 CPAs attended the second annual two-day PCPS Conference in Miami to discuss matters of interest to section members.

The Public Oversight Board, the independent body that monitors the SEC Practice Section, noted in its 1979-80 Annual Report that "progress made during the past year is evidence of the continued strong commitment of the section to its self-regulatory program." That progress included:

- Establishment of a Special Investigations Committee to deal with alleged or possible audit failures involving SEC clients of member firms.
- Development of procedures for dealing with the international aspects of peer reviews, which involved consul-

tation with representatives of foreign professional bodies.

■ Issuance of a report containing practical observations and suggestions for firms relative to the auditor's work environment and the possibility of substandard auditing as noted by the Cohen Commission.

Although the percentage of SEC clients audited by member firms is very high, the POB expressed concern that not all firms that audit SEC clients are members of the section. To encourage more firms with SEC clients to join the section, changes were made in 1979 in membership dues, insurance requirements and certain peer-review matters.

SEC access to peer-review working papers has been a matter for discussion. The Commission believed it must have such access to satisfy itself as to the effectiveness of the program. However, the section opposed any procedure that might enable the SEC to identify specific client engagements. An acceptable solution, under which the SEC will have limited access, has been developed.

An effective peer review is an essential part of the self-regulatory program. The SECPS conducted 11 in 1978 and 40 in 1979. The firms reviewed audit more than 5,200 SEC clients, approximately 59 percent of all SEC clients audited by section members. Thus, although a large number of firms remain to be reviewed, review coverage from a public-interest perspective has been significant.

In addition, the PCPS conducted 10 peer reviews in 1979 as a pilot program; many more will be reviewed in the future. The section adopted an optional engagement approach for firms with generally up to 20 professionals. This places more emphasis on the results of reviews of engagement working papers than on the firm's documentation of its com-

*Donna M. Roethel, staff assistant, updates membership records of the Division for CPA Firms.*





pliance with quality-control policies and procedures.

Also, both sections approved an interpretation that a separate quality-control document is not a prerequisite for peer reviews; a properly completed questionnaire can serve

this purpose. Since firms believed that the development of a detailed quality-control document was mandatory, this clarification removes an important obstacle to joining either section.

During February 1980, the division sent revised Peer Review Man-

uals to all SECPS member firms. It expects to send revised manuals to PCPS member firms during the latter part of the year.

At its May meeting, Council voted to postpone until 1982 publication of a directory of member firms.

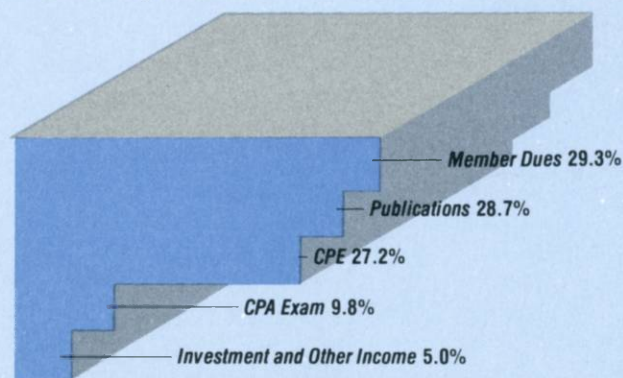
## Sources and Occupations of AICPA Membership

	1974	1976	1978	1980
<b>Total AICPA Membership</b>	103,863	121,947	140,158	161,319
Public Accounting	60.0%	58.5%	57.6%	54.1%
Business, Industry, Miscellaneous	33.6%	35.2%	36.2%	39.7%
Education	3.0%	2.9%	2.8%	2.9%
Government	3.4%	3.4%	3.4%	3.3%

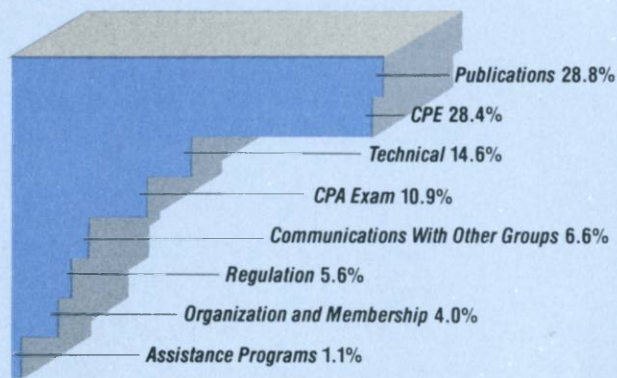
  

	1974	1976	1978	1980
<b>Membership in Public Practice</b>	62,430	71,314	80,723	87,339
Firms with one member	21.5%	22.3%	23.9%	23.8%
Firms with 2 to 9 members	30.5%	30.0%	29.9%	33.1%
Firms with 10 or more members, except the	9.3%	11.1%	11.8%	13.0%
25 largest firms	38.7%	36.6%	34.4%	30.1%

### 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, 1980 and 1979 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, 1980 and 1979 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, 1980 and 1979 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.

*Irwin D. Hundman & Constance*

CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK, NEW YORK  
SEPTEMBER 5, 1980

## Financial Statements

### American Institute of Certified Public Accountants

### Balance Sheet

	July 31,	
	1980	1979
<b>Assets</b>		
Cash .....	\$ 788,141	\$ 869,710
Marketable securities (quoted market: 1980, \$15,016,479; 1979, \$13,004,382) ...	14,640,143	13,001,878
Accounts receivable (less allowance for doubtful accounts: 1980, \$20,000; 1979, \$15,000) .....	4,062,389	2,866,154
Inventories (Note 1) .....	2,439,652	1,818,076
Deferred authorship costs and prepaid expenses .....	2,033,756	1,113,650
Furniture, equipment and leasehold improvements (Note 2) .....	2,788,245	2,216,137
	<u>26,752,326</u>	<u>21,885,605</u>
Funds held for Division for CPA Firms (Note 8) .....	631,942	165,642
Endowment and other restricted funds:		
Cash .....	29	2,577
Marketable securities (quoted market: 1980, \$680,038; 1979, \$584,888) .....	552,949	533,909
	<u>\$27,937,246</u>	<u>\$22,587,733</u>
<b>Liabilities and Fund Balances</b>		
Liabilities and deferred revenues:		
Accounts payable and other liabilities .....	\$ 5,320,793	\$ 2,785,913
Accrued taxes (Note 3) .....	205,869	193,206
Advance dues .....	7,139,816	7,237,830
Unearned publication subscriptions and advertising .....	3,803,811	2,195,586
	<u>16,470,289</u>	<u>12,412,535</u>
Commitments and contingent liabilities (Notes 4 and 5)		
Fund balances:		
General Fund .....	10,913,979	9,638,712
Endowment and other restricted funds .....	552,978	536,486
	<u>11,466,957</u>	<u>10,175,198</u>
	<u>\$27,937,246</u>	<u>\$22,587,733</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**

**Statement of  
Revenues and Expenses**

	Year Ended July 31,	
	1980	1979
Revenues:		
Membership dues .....	\$10,674,110	\$ 9,890,968
CPA examination fees .....	3,569,182	3,283,802
Publications .....	10,472,368	8,444,663
Continuing professional education .....	9,896,723	7,748,602
Sundry self-sustaining programs .....	294,732	320,785
Investment and sundry income .....	1,551,983	1,292,860
Loss on sale of securities .....	(13,348)	(14,610)
	<u>36,445,750</u>	<u>30,967,070</u>
Expenses (see also summary of expenses by activity)		
Salaries and fees .....	\$12,192,196	\$10,549,419
Personnel costs .....	2,170,645	1,627,720
Occupancy .....	3,696,596	3,198,032
Printing and paper .....	7,867,424	6,550,351
General .....	9,243,622	7,469,849
	<u>35,170,483</u>	<u>29,395,371</u>
Excess of revenues over expenses .....	<u>\$ 1,275,267</u>	<u>\$ 1,571,699</u>
Summary of expenses by activity:		
CPA examinations .....	\$ 3,839,325	\$ 3,061,465
Publications:		
Cost of sales .....	7,878,302	6,955,597
Distributed to members and others .....	2,226,011	1,906,408
Continuing professional education .....	9,970,532	7,720,016
Technical:		
Accounting and review services .....	126,537	127,269
Accounting standards .....	559,970	425,866
Auditing standards .....	1,290,392	1,061,064
Federal taxation .....	445,188	316,527
Management advisory services .....	153,438	168,711
Computer services .....	344,609	320,923
International practice .....	330,217	333,913
Quality control standards .....	251,916	146,325
Technical assistance to members .....	415,849	364,002
Library service .....	479,800	446,189
Information retrieval and index programs .....	324,429	338,446
Financial Accounting Foundation contribution .....	298,632	280,316
Accountants' legal liability .....	120,830	76,533
Regulation:		
Ethics and trial board .....	800,976	604,481
State legislation .....	214,557	195,212
Division for CPA Firms .....	964,310	930,740
Organization and membership:		
Board, council and annual meetings .....	512,604	459,781
Nominations and committee appointments .....	80,554	66,649
Communications with members .....	134,845	100,269
Membership admissions and records .....	578,295	532,870
Membership benefit plans .....	69,011	64,246
Special organizational studies .....	45,219	35,548
Communications with other groups:		
Public relations .....	444,869	423,650
State societies .....	340,123	351,966
Universities .....	363,212	302,814
Federal government .....	1,184,247	907,950
Assistance programs for minority students and businesses .....	381,684	369,625
	<u>\$35,170,483</u>	<u>\$29,395,371</u>

**Note:** With the exception of a \$225,000 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 \$2,799,355 and \$2,414,811 for 1980 and 1979 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,	
	1980	1979
General Fund:		
Fund balance, beginning of year . . . . .	\$ 9,638,712	\$ 8,067,013
Excess of revenues over expenses . . . . .	1,275,267	1,571,699
Fund balance, end of year . . . . .	<u>10,913,979</u>	<u>9,638,712</u>
Endowment and other restricted funds:		
Fund balances, beginning of year . . . . .	\$ 536,486	\$ 548,854
Excess of revenues over expenses . . . . .	114	68
Gain (loss) on sale of securities . . . . .	16,378	(12,436)
Fund balances, end of year . . . . .	<u>16,492</u>	<u>(12,368)</u>
Fund balances, end of year . . . . .	<u>552,978</u>	<u>536,486</u>
	<u>\$11,466,957</u>	<u>\$10,175,198</u>

**American Institute of  
Certified Public Accountants**

**Statement of Changes  
in Financial Position**

	Year Ended July 31,	
	1980	1979
Cash and marketable securities, beginning of year . . . . .	\$13,871,588	\$12,558,686
Sources of funds:		
From operations:		
Excess of revenues over expenses . . . . .	1,275,267	1,571,699
Add back expenses not requiring outlay of funds — depreciation and amortization, including amortization of authorship costs . . . . .	1,222,607	1,248,274
From operations:	<u>2,497,874</u>	<u>2,819,973</u>
Increase (decrease) in liabilities and deferred revenues:		
Accounts payable and other liabilities . . . . .	2,534,880	201,075
Accrued taxes . . . . .	12,663	(186,530)
Advance dues . . . . .	(98,014)	738,958
Unearned publication subscriptions and advertising . . . . .	1,608,225	(351,422)
From operations:	<u>6,555,628</u>	<u>3,222,054</u>
Uses of funds:		
Additions to deferred authorship costs and prepaid expenses . . . . .	1,788,753	858,961
Additions to furniture, equipment and leasehold improvements . . . . .	926,068	481,368
Increase (decrease) in other assets:		
Receivables . . . . .	1,196,235	569,117
Inventories . . . . .	621,576	12,696
Funds held for Division for CPA Firms . . . . .	466,300	(12,990)
From operations:	<u>4,998,932</u>	<u>1,909,152</u>
Increase (decrease) in funds:		
Cash . . . . .	(81,569)	353,163
Marketable securities . . . . .	1,638,265	959,739
From operations:	<u>1,556,696</u>	<u>1,312,902</u>
Cash and marketable securities, end of year . . . . .	<u>\$15,428,284</u>	<u>\$13,871,588</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,	
	1980	1979
<b>Assets</b>		
Cash .....	\$ 4,990	\$ 11,781
Marketable securities (quoted market: 1980, \$719,168; 1979, \$662,142) .....	676,465	643,494
Pledges receivable .....	1,210	1,930
Other receivables .....	3,430	1,358
	<u>\$686,095</u>	<u>\$658,563</u>
<b>Liabilities and Fund Balances</b>		
Liabilities and deferred credits:		
Accounts payable (includes scholarships: 1980, \$179,500; 1979, \$163,500) ..	\$179,700	\$163,750
Contributions designated for future periods .....	1,210	1,930
	<u>180,910</u>	<u>165,680</u>
Fund balances:		
General .....	17,157	15,304
Library .....	102,652	102,396
John L. Carey Scholarship Fund .....	85,507	83,566
Accounting Education Fund for Disadvantaged Students .....	299,869	291,617
	<u>505,185</u>	<u>492,883</u>
	<u>\$686,095</u>	<u>\$658,563</u>

**American Institute of  
Certified Public Accountants Foundation**

**Statement of Changes  
in Fund Balances**

	Year Ended July 31,	
	1980	1979
Additions:		
Investment income .....	\$ 53,915	\$ 41,742
Contributions:		
General .....	179	400
Accounting Education Fund for Disadvantaged Students .....	267,875	273,673
	<u>321,969</u>	<u>315,815</u>
Deductions:		
Contributions to American Institute of Certified Public Accountants for library expenses .....	10,854	7,950
Expenditures:		
Custodian fees .....	986	718
Legal fees .....	2,019	3,408
John L. Carey Scholarship Fund (scholarships) .....	6,800	4,431
Accounting Education Fund for Disadvantaged Students (grants and scholarships) .....	295,511	282,254
	<u>316,170</u>	<u>298,761</u>
Increase in funds before gain (loss) on sale of securities .....	5,799	17,054
Gain (loss) on sale of securities .....	6,503	(2,236)
Net increase in funds .....	12,302	14,818
Fund balances, beginning of year .....	492,883	478,065
Fund balances, end of year .....	<u>\$505,185</u>	<u>\$492,883</u>



**American Institute  
Benevolent Fund, Inc.**

**Balance Sheet**

	July 31,	
	1980	1979
<b>Assets</b>		
Cash .....	\$ 13,519	\$ 39,182
Marketable securities (quoted market: 1980, \$760,491; 1979, \$555,751) .....	688,850	548,785
Notes and mortgages receivable (less allowance for doubtful amounts: 1980, \$24,316; 1979, \$23,321) .....	20,200	66,015
Other receivables .....	15,630	9,121
	<u>\$738,199</u>	<u>\$663,103</u>
<b>Liabilities and Fund Balance</b>		
Accounts payable .....	\$ 200	\$ 250
Fund balance .....	737,999	662,853
	<u>\$738,199</u>	<u>\$663,103</u>

**American Institute  
Benevolent Fund, Inc.**

**Statement of Changes  
in Fund Balance**

	Year Ended July 31,	
	1980	1979
<b>Additions:</b>		
Contributions .....	\$ 91,644	\$ 99,808
Investment income .....	54,298	36,894
Notes and mortgages received in consideration of benefits paid .....	2,450	19,085
Repayments of assistance to members and families .....	2,905	1,855
	<u>151,297</u>	<u>157,642</u>
<b>Deductions:</b>		
Assistance to members and families .....	73,754	90,270
Stationery, printing and other expenses .....	3,660	5,558
	<u>77,414</u>	<u>95,828</u>
Increase in fund before gain (loss) on sale of securities .....	73,883	61,814
Gain (loss) on sale of securities .....	1,263	(3,430)
Net increase in fund .....	75,146	58,384
Fund balance, beginning of year .....	662,853	604,469
Fund balance, end of year .....	<u>\$737,999</u>	<u>\$662,853</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,	
	1980	1979
<b>Assets</b>		
Cash .....	\$ 6,052	\$ 8,724
Marketable securities (1980 cost and quoted market \$1,306,000; 1979 cost \$1,326,000) .....	1,306,000	1,322,250
Dues receivable .....	154,022	138,272
Other receivables .....	9,558	12,475
Prepaid FASB subscription service .....	58,200	45,378
	<u>\$1,533,832</u>	<u>\$1,527,099</u>
<b>Liabilities and Fund Balance</b>		
Liabilities and deferred credits:		
Due to Financial Accounting Foundation .....	\$ 69,840	\$ —
Accounts payable .....	680	830
Unearned advance dues .....	376,578	383,988
	<u>447,098</u>	<u>384,818</u>
Fund balance before unrealized loss on marketable securities .....	1,086,734	1,146,031
Less unrealized loss on marketable securities .....	—	3,750
Fund balance, end of year .....	<u>\$1,086,734</u>	<u>\$1,142,281</u>
	<u>\$1,533,832</u>	<u>\$1,527,099</u>

**Accounting Research  
Association, Inc.**

**Statement of Changes  
in Fund Balance**

	Year Ended July 31,	
	1980	1979
Additions:		
Dues .....	\$ 911,162	\$ 897,046
Investment income .....	138,330	162,299
	<u>1,049,492</u>	<u>1,059,345</u>
Deductions:		
Payments to Financial Accounting Foundation .....	954,229	1,512,300
Membership promotion .....	15,080	13,917
Reports to members .....	—	159
Stationery, supplies and other expenses .....	8,016	8,185
FASB subscription service .....	131,464	108,375
	<u>1,108,789</u>	<u>1,642,936</u>
Net decrease in fund .....	(59,297)	(583,591)
Fund balance, beginning of year .....	1,146,031	1,729,622
Fund balance before unrealized loss on marketable securities .....	1,086,734	1,146,031
Less unrealized loss on marketable securities .....	—	3,750
Fund balance, end of year .....	<u>\$1,086,734</u>	<u>\$1,142,281</u>

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



**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, 1980 and 1979**

**1. Inventories**

Inventories of the Institute at July 31, 1980 and 1979 consisted of the following:

	1980	1979
Paper and material stock . . .	\$ 534,038	\$ 410,019
Publications in process . . . .	510,681	351,299
Printed publications and continuing professional education course material .	1,394,933	1,056,758
	<u>\$2,439,652</u>	<u>\$1,818,076</u>

**2. Furniture, equipment and leasehold improvements**

The following presents the amounts of furniture, equipment and leasehold improvements of the Institute at July 31, 1980 and 1979:

	1980	1979
Furniture and equipment . . .	\$2,558,362	\$2,216,618
Leasehold improvements . .	<u>1,966,972</u>	<u>1,391,551</u>
Less accumulated depreciation and amortization . . . . .	4,525,334	3,608,169
	<u>1,737,089</u>	<u>1,392,032</u>
	<u>\$2,788,245</u>	<u>\$2,216,137</u>

Depreciation and amortization charged to operations for the years ended July 31, 1980 and 1979 amounted to \$353,960 and \$294,291, respectively.

**3. Taxes**

The Institute is a professional organization exempt from taxation under Section 501 (c) (6) of the Internal Revenue Code. The Institute is, however, subject to a tax on unrelated business income.

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 were credited to personnel costs.

**4. Lease commitments**

Rental commitments under noncancellable leases in effect as of July 31, 1980 aggregated approximately \$36,680,000. 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:

<b>Year Ended July 31,</b>	
1981 . . . . .	\$ 2,710,000
1982 . . . . .	2,660,000
1983 . . . . .	2,580,000
1984 . . . . .	2,466,000
1985 . . . . .	2,478,000
years subsequent to 1985 . . . . .	23,786,000
	<u>\$36,680,000</u>

Rental expense for the years ended July 31, 1980 and 1979 approximated \$2,611,000 and \$2,485,000 respectively.



## 5. Retirement plan

Pension expense relating to the Institute's retirement plan amounted to approximately \$749,000 and \$679,000 for the years ended July 31, 1980 and 1979, respectively. The estimated amount required to fund prior service costs under the plan is \$1,599,000 as of May 1, 1980. The accumulated plan benefits and plan net assets available as of the most recent valuation dates are shown below:

	May 1,	
	1980	1979
Actuarial present value of accumulated plan benefits:		
Vested .....	\$ 5,286,259	\$ 4,815,498
Non-vested .....	8,522,435	7,424,918
	<u>\$13,808,694</u>	<u>\$12,240,416</u>
Net assets available for benefits .....	<u>\$ 5,615,849</u>	<u>\$ 4,747,137</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent compounded annually for both 1979 and 1980.

## 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 1979 and 1980, the trustees authorized additional \$750,000 commitments of funds held by the ARA. The 1980 commitment was unpaid at July 31, 1980.

## 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, 1980, the amounts were as follows:

	Cash	Marketable Securities	Total
Private Companies Practice Section ....	\$ 9,638	\$185,000	\$194,638
SEC Practice Section ..	27,304	410,000	437,304
	<u>\$36,942</u>	<u>\$595,000</u>	<u>\$631,942</u>

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

Balance Sheet	July 31, 1980	
	Private Companies Practice Section	SEC Practice Section
Assets:		
Cash .....	\$ 9,638	\$ 27,304
Marketable securities (quoted market \$595,000)	185,000	410,000
Dues and other receivables ..	4,411	8,807
Prepaid expenses .....	—	23,333
	<u>\$199,049</u>	<u>\$469,444</u>
Liabilities and Fund Balances:		
Accounts payable .....	\$ 1,850	\$ 57,371
Unearned advance dues ...	34,590	387,282
Fund balances .....	162,609	24,791
	<u>\$199,049</u>	<u>\$469,444</u>

Statement of Changes in Fund Balances	Year Ended July 31, 1980	
Additions:		
Dues .....	\$ 74,158	\$797,307
Other .....	13,505	21,106
	<u>87,663</u>	<u>818,413</u>
Deductions:		
Expenses:		
Salaries and Public Oversight Board fees ..	—	376,877
Legal fees .....	—	94,626
Other administrative costs	10,914	124,579
	<u>10,914</u>	<u>596,082</u>
Net increase in funds .....	76,749	222,331
Fund balances, beginning of year .....	85,860	(197,540)
Fund balances, end of year ...	<u>\$162,609</u>	<u>\$ 24,791</u>

The AICPA incurred expenses of \$964,310 during the year ended July 31, 1980 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, 1980, \$210,000 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.



## Supplementary Information (Unaudited)

FASB Statement No. 33, *Financial Reporting and Changing Prices*, requires that certain large publicly held companies present information about the effects of price changes and encourages other enterprises, including non-business organizations, to experiment with such information. This supplementary information was prepared in response to FASB Statement No. 33.

The historical cost financial data adjusted for general inflation is the result of restating all historical revenue and expense measurements in terms of dollars of average 1979-80 general purchasing power as reflected by the Consumer Price Index. Restatement of the prior years' reported results in terms of a constant measuring unit, today's dollars, makes all years comparable. When adjusted for the effect of general inflation, the five-year presentation more clearly portrays the trends in revenues, expenses, and general fund balances.

The inflation-adjusted data indicates that the Institute's revenue and expense have increased at a rather modest rate when compared to the increases on an historical basis. As previously reported over the last five years, revenue has increased by 68.4 percent and expenses are up by 75.7 percent. When adjusted for the effects of inflation, these rates of

increase are 19.5 percent and 24.9 percent, respectively. During this same five-year period, membership has grown by 43 percent. Since Institute dues rates were not increased during that period, it seems clear that growth in membership has served to offset the impact of inflation and maintain revenue from dues at a relatively constant level. At the same time, growth in revenue-producing activities has generated funds that were used to provide services to an expanding membership.

General inflation also causes a loss of purchasing power from holding net monetary assets (the excess of cash, deposits, commercial paper, notes, and receivables over current payables). The Institute's investments in commercial paper and notes are income-earning assets, but from fiscal 1975 to 1980, annual interest income did not offset each year's loss in purchasing power on all net monetary assets. Basically, the rate of inflation exceeded earnings on investments.

During the five years ended July 31, 1980, the Institute reported depreciation expense of \$1,349,000 on an historical cost basis. On a constant dollar basis, depreciation was \$2,210,000 during this period. The constant dollar cost of furniture, equipment, and leasehold improvements as of July 31, 1980, net of accumulated depreciation and amortization, was \$3,531,000 compared to an historical cost value of \$2,788,245.

## Supplementary Information 1976-1980 (Thousands of Dollars)

### Historical Cost Financial Data As Reported in the Financial Statements

	Year Ended July 31,				
	1980	1979	1978	1977	1976
<b>Revenues:</b>					
Membership dues .....	\$10,674	\$ 9,891	\$ 9,241	\$ 8,606	\$ 8,008
CPA examination fees .....	3,569	3,284	2,966	2,672	2,498
Publications .....	10,473	8,445	7,896	6,377	6,228
Continuing professional education .....	9,897	7,748	6,076	5,134	4,167
Other, net .....	1,833	1,599	1,114	837	740
	<u>\$36,446</u>	<u>\$30,967</u>	<u>\$27,293</u>	<u>\$23,626</u>	<u>\$21,641</u>
Percent increase over prior year .....	17.7%	13.5%	15.5%	9.2%	26.3%
<b>Expenses:</b>					
Salaries and fees .....	\$12,192	\$10,549	\$ 9,177	\$ 8,138	\$ 7,641
Personnel costs .....	2,171	1,628	1,560	1,349	1,222
Occupancy .....	3,696	3,198	2,748	2,500	2,513
Printing and paper .....	7,867	6,550	5,893	4,924	4,393
General .....	9,245	7,470	6,109	4,922	4,251
	<u>\$35,171</u>	<u>\$29,395</u>	<u>\$25,487</u>	<u>\$21,833</u>	<u>\$20,020</u>
Percent increase over prior year .....	19.6%	15.3%	16.7%	9.1%	10.1%
Excess of revenues over expenses .....	\$ 1,275	\$ 1,572	\$ 1,806	\$ 1,793	\$ 1,621
Percent increase (decrease) over prior year .....	(18.9%)	(13.0%)	0.7%	10.6%	NC
General Fund balance at end of year .....	<u>\$10,914</u>	<u>\$ 9,639</u>	<u>\$ 8,067</u>	<u>\$ 6,235</u>	<u>\$ 4,468</u>
Percent increase over prior year .....	13.2%	19.5%	29.4%	39.5%	57.0%

### Historical Cost Financial Data Adjusted for General Inflation (in Average 1979-1980 Dollars)

<b>Revenues:</b>					
Membership dues .....	\$10,674	\$11,226	\$11,505	\$11,445	\$11,283
CPA examination fees .....	3,569	3,727	3,692	3,553	3,519
Publications .....	10,473	9,585	9,830	8,481	8,775
Continuing professional education .....	9,897	8,793	7,564	6,828	5,871
Other, net .....	1,833	1,814	1,386	1,113	1,042
	<u>\$36,446</u>	<u>\$35,145</u>	<u>\$33,977</u>	<u>\$31,420</u>	<u>\$30,490</u>
Percent increase over prior year .....	3.7%	3.4%	8.1%	3.1%	18.3%
<b>Expenses:</b>					
Salaries and fees .....	\$12,192	\$11,973	\$11,425	\$10,823	\$10,766
Personnel costs .....	2,171	1,847	1,942	1,794	1,721
Occupancy .....	3,863	3,724	3,518	3,470	3,631
Printing and paper .....	7,867	7,434	7,336	6,548	6,189
General .....	9,245	8,478	7,605	6,546	5,989
	<u>\$35,338</u>	<u>\$33,456</u>	<u>\$31,826</u>	<u>\$29,181</u>	<u>\$28,296</u>
Percent increase over prior year .....	5.6%	5.1%	9.1%	3.1%	3.4%
Excess of revenues over expenses .....	\$ 1,108	\$ 1,689	\$ 2,151	\$ 2,239	\$ 2,194
Percent increase (decrease) over prior year .....	(34.4%)	(21.5%)	(3.9%)	2.1%	NC
Loss of purchasing power on net monetary assets .....	\$ 1,600	\$ 1,304	\$ 739	\$ 475	\$ 278
General Fund balance at end of year .....	<u>\$10,346</u>	<u>\$10,838</u>	<u>\$10,453</u>	<u>\$ 9,041</u>	<u>\$ 7,277</u>
Percent increase (decrease) over prior year .....	(4.5%)	3.7%	15.6%	24.2%	35.7%
Average Consumer Price Index for fiscal year .....	235.1	207.1	188.8	176.8	166.9
Percent increase over prior year .....	13.5%	9.7%	6.8%	5.9%	6.7%



## **Officers and Board of Directors 1979-80**

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Wm. R. Gregory, *Chairman of the Board*  
William S. Kanaga, *Vice Chairman*  
Philip B. Chenok, *President (effective July 1, 1980)*  
Wallace E. Olson, *President (through June 30, 1980)*  
Raymond C. Lauver, *Vice President*  
Robert A. Liberty, *Vice President*  
Richard D. Thorsen, *Vice President*  
Harry R. Mancher, *Treasurer*  
Donald J. Schneeman, *Secretary and General Counsel*

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James Don Edwards  
John L. Fox  
Barbara Hackman Franklin\*\*  
Robert F. Isler  
Bernard Z. Lee  
Robert D. May  
Robert A. Mellin  
Bert N. Mitchell  
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Thomas C. Pryor\*\*  
William C. Rescorla  
A. A. Sommer, Jr.\*\*

\*Immediate Past Chairman of the Board

\*\*Public Member

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