

University of Mississippi

eGrove

AICPA Annual Reports

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1983

AICPA annual report 1982-83; Message to members

American Institute of Certified Public Accountants

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_arprts



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

Recommended Citation

American Institute of Certified Public Accountants, "AICPA annual report 1982-83; Message to members" (1983). *AICPA Annual Reports*. 9.

https://egrove.olemiss.edu/aicpa_arprts/9

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

American Institute of Certified Public Accountants

AICPA

Message to Members

"Finding effective and lasting solutions will demand concentrated effort by the leadership of the Institute and its members working together."

This has been a year during which the Institute considered a number of significant issues. Studies either were completed or are in process that could have a profound effect on the future of the accounting profession.

Division For CPA Firms

Both the Public Oversight Board and the Securities and Exchange Commission continue to express general satisfaction with the self-regulatory program voluntarily undertaken by the accounting profession over the last five years. Peer review has demonstrated itself to be highly effective in helping to improve the quality of accounting and auditing services.

Special committees were appointed during the

year to review the objectives and operations of each of the two sections—the SEC and Private Companies Practice Sections—in an effort to improve the program and make it more valuable to AICPA members. Among other matters being addressed by the SEC Practice Section Review Committee is the information that should be made available about the work of the Special Investigations Committee, which considers the need for action as a result of reported allegations of audit failure. An interim report of the special committee studying the PCPS has been issued. It presents a blueprint for increasing the effectiveness of PCPS and making membership more attractive, particularly for smaller firms. Changes are recommended in the peer review process and for additional member services. Plans will be implemented in the year ahead to explain the benefits of the program to AICPA members and others.

Standards Of Professional Conduct

Considerable attention was devoted in the past year to standards of professional conduct. An overall review was made of the Code of Professional Ethics and a study was undertaken of the effectiveness of the Joint Ethics Enforcement Program (JEEP) which the Institute entered into with most state societies to avoid unnecessary duplication in ethics enforcement. These efforts indicated the need for a more fundamental study. Accordingly, a special committee has been formed to evaluate the relevancy of present ethical standards to professionalism, integrity and commitment to both quality service and the public interest, in light of a changing economic, social, legal and regulatory climate. The committee also will consider the role of the Institute in the process of establishing standards of professional conduct. To respond to more immediate needs, plans are moving forward with a proposal to modify the Code to permit contingent fees for services for which independence is not required and to clarify the application of the commission rule through interpretation. Changes also are being proposed to certain provisions in the JEEP program to make it more effective.

Accounting Standards Overload

The Report of the Special Committee on Accounting Standards Overload, issued in February, concluded that "accounting standards overload is a real and pressing problem that must be addressed vigorously and expeditiously." Actions were recommended to be taken by both the FASB and the AICPA. Since a solution requires the mutual cooperation of both organizations, a task force to represent the Institute was appointed and several meetings were held with FASB representatives to explore the issues and make further recommendations. The FASB has indicated it will respond to the concerns expressed by the special committee.

Other Technical Matters

A special committee studied the work of several AICPA committees involved with standard-setting in the auditing, review and compilation, and quality control areas. The committee recommended changes intended to improve the effectiveness and efficiency of the Auditing Standards Board and its staff, and to involve more members in the standard-setting process. As a result of other recommendations, the Quality Control Standards Committee and the Audit-

ing Standards Advisory Council were disbanded and the Accounting and Review Services Committee was reduced in size.

Statements on Auditing Standards were issued by the Auditing Standards Board on such subjects as reports on internal accounting control at service organizations and omitted procedures discovered after the report date. Five auditing interpretations also were issued, including four designed to help auditors inquire about litigation involving clients. In addition, audit and accounting guides were issued covering audit sampling, banks, employee benefit plans and personal financial statements. Dan Guy was promoted to Vice President-Auditing when that position became vacant.

In addition to major projects on issues papers, statements of position and industry guides, the Accounting Standards Division is providing timely, non-authoritative guidance on emerging problems in the form of "Notices to Practitioners" in Institute publications.

The Accounting and Review Services Committee began a research project on how practitioners perform review and compilation services, the problems they encounter, and if more guidance is called for. The committee also is considering whether to permit scope limitations in these engagements.

Four practice aids were published by the MAS Division, fulfilling a commitment to produce practical material in the consulting and administrative areas for practitioners who offer MAS services. Early in the year, two MAS standards were issued on engagements and on consultations.

Member Services

A special committee, created last year, considered the implications of a proposal by the Federal Taxation Executive Committee to create a dues-paying membership subgroup within the Institute for those interested in tax matters. The special committee concurred with that recommendation and concluded that a more general need exists for subgroups to respond to members' special interests in other areas such as audit, financial accounting and reporting, and management. These subgroups would provide a forum for exchange of information and provide other necessary services. Membership would be open to all interested AICPA members; there would be no requirement for examination, experience or specific CPE programs. Based on these recommendations, the Board of Directors will recommend to Council that the Federal Taxation Executive Committee be permitted to move ahead with its plans for a tax division, with membership on a voluntary basis, under the Institute's overall program and budgetary controls.

Members Not in Public Practice

Members not in public practice have suggested that the Institute consider whether the AICPA's programs are sufficiently responsive to their needs. A position paper was issued late last year by the Industry Committee citing the need of members in industry for professional involvement, maintenance of proficiency, public recognition, and support and advancement of their professional interests. The increasing percentage of members not in public practice has implications for all AICPA members which reach far beyond the needs of any one group. Accordingly, a special committee will study the Institute's mission as it relates to members not in public practice.

Education

Last year's plans to impart a business/marketing orientation to CPE programs are having their impact. The position of Vice President-CPE was filled in November 1982 by Thomas Murphy, a publishing and marketing executive who more recently also assumed responsibility for the Institute's publishing activities. To further improve CPE's operating efficiency and member services, two additional director positions were filled in the areas of CPE marketing and CPE accounting.

Looking ahead, CPE is developing wide-ranging plans to improve the quality of its programs. Emphasis is being placed on practice-oriented courses. At mid-year, CPE began a major curriculum project at the suggestion of several state societies. If a pilot project in the tax area proves successful, task forces will be appointed to identify program needs for specialized industries, practice administration and personnel development, management advisory services, CPAs in industry, auditing and accounting, and other special

areas. In addition, CPE is making a particular effort to strengthen cooperative arrangements with state societies.

State requirements for mandatory CPE have been questioned in recent years. Consequently, a special committee has been formed to develop a response to those challenges and to aid in initiating requirements for continuing education in states that do not yet require such training.

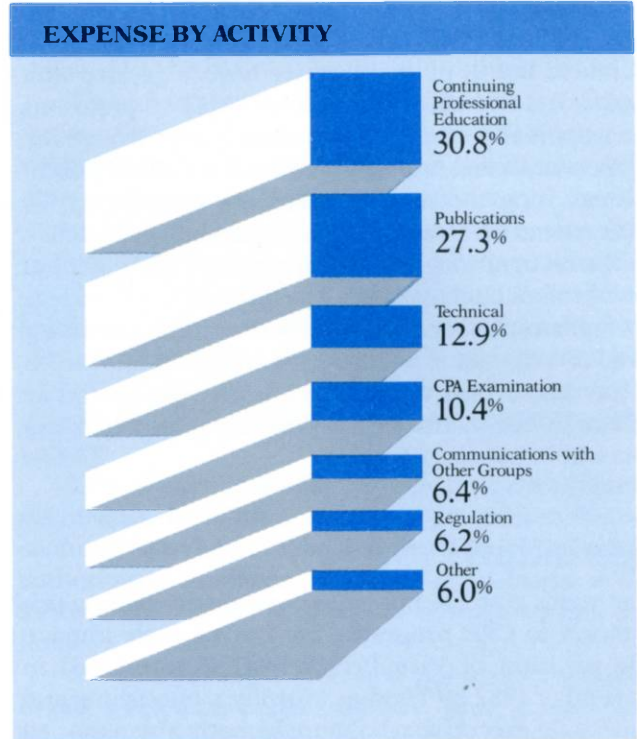
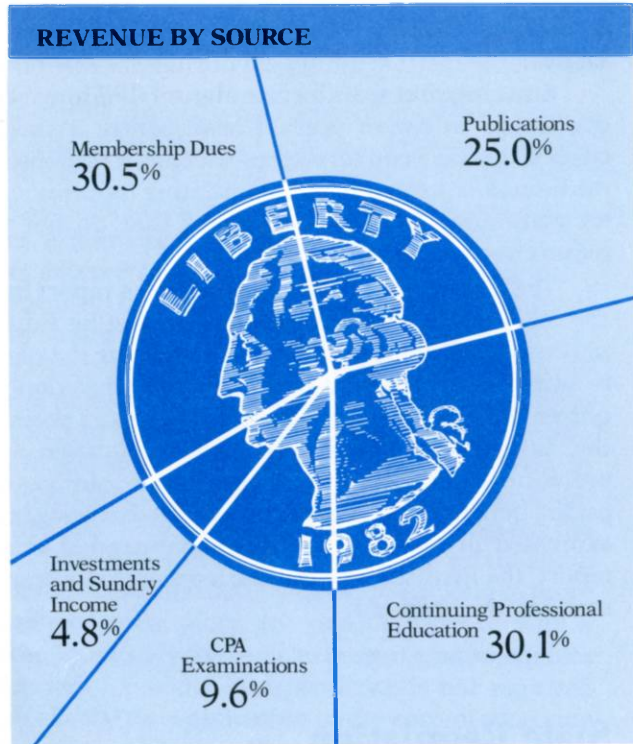
The Institute also recently received a report from the independent Commission on Accounting Education asking AICPA to take the lead in seeking to expand to other states the post-baccalaureate education requirement for the CPA profession. The report presents the rationale for post-baccalaureate education as a prerequisite for entry into the profession, outlines expected benefits, and analyzes concerns that have been expressed in recent years. As recommended in the report, the Institute will initiate a program for implementing the proposal.

State Regulation

As a result of initiatives at a joint AICPA/National Association of State Boards of Accountancy conference held during the year, several matters relating to state regulation of accountancy are actively being pursued. A special committee was formed to study the implications of centralizing state licensure functions and to propose a course of action to enhance the effectiveness of state boards of accountancy in the future. Progress is being made in merging the provisions of the Institute's and NASBA's model bills so that legislators can deal with one comprehensive document rather than two. NASBA and the AICPA also have established a joint effort to administer the CPA examination in states requesting such a service.

SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1973	1975	1977	1979	1981	1983
Total AICPA Membership	95,415	112,494	131,300	149,314	173,900	201,764
Public Accounting	59.8%	59.1%	57.5%	55.0%	53.5%	53.0%
Business, Industry, Miscellaneous	33.6%	34.6%	36.2%	38.6%	40.4%	41.0%
Education	3.1%	2.9%	2.8%	3.0%	2.8%	2.7%
Government	3.5%	3.4%	3.5%	3.4%	3.3%	3.3%
Membership in Public Practice	57,057	66,506	75,528	82,141	93,082	106,870
Firms with one member	20.9%	22.1%	22.1%	23.5%	21.8%	22.6%
Firms with 2 to 9 members	31.5%	29.7%	30.1%	32.3%	34.5%	34.0%
Firms with 10 or more members, except the 25 largest firms	8.7%	10.1%	12.0%	12.6%	14.2%	15.0%
	38.9%	38.1%	35.8%	31.6%	29.5%	28.4%



AICPA In Washington

Relationships with officials in Washington continue to improve as the Institute assumes a larger role in the nation's capital. Committees of the Institute espoused AICPA positions on banking, health care, management and the budget and advised on Federal government accounting matters and internal controls. Legislative breakfasts continued to bring together CPAs and their Congressional delegations, offering useful opportunities for exchanging viewpoints and information. In addition to these more visible activities, the Washington office conducted its routine review of Federal government activities that could affect the accounting profession.

The Tax Division concentrated on alerting Congress and the Administration to opportunities for improving proposed legislation and regulations. Collaborating with the Treasury Department and the tax writing committees of Congress, the division made proposals in connection with proposed legislation which set penalties for substantial understatement of tax liability and for improving Subchapter S of the Internal Revenue Code. Legislation also is being considered by Congress to enact proposals of the division for tax simplification. The division's suggestions for dealing with underreported income continue to receive positive Congressional and Administrative attention after attracting national press coverage.

Finances

The Institute continues to be in a strong financial position. As a result of the first dues increase in seven years, 1982-83 had been forecast to produce an excess of revenue over expenses. A combination of factors caused actual results to be better than forecast, including further cost-cutting efforts, a lower than anticipated rate of inflation, and postponement of an announced postal rate increase.

Other Developments

The Future Issues Committee, also created last year, is well on its way to identifying a number of the issues that may confront the profession and the Institute in the years ahead. Their inquiries are quite wide-ranging and include all aspects of the political, social, economic, business and professional matters that could have an impact on the Institute and its members.

Last year, the staff position of Vice President-Local Practitioner Activities was created to fill the need for a voice for local practitioners at the highest staff level and to coordinate Institute activities designed to help cope with problems that trouble local practitioners. During 1982-83, the first full year of this approach, encouraging progress was made toward

making Institute activities fully responsive to local firm needs.

Efforts continue in the creation of a Governmental Accounting Standards Board under the Financial Accounting Foundation, the parent body of the FASB. A number of governmental organizations are currently reassessing a proposal which was agreed to earlier in the year.

On the international scene, United States representatives continue to participate actively in the work of the International Federation of Accountants and the International Accounting Standards Committee. As a result of an agreement entered into at the International Congress in Mexico City, these organizations are committed to close cooperation as part of one worldwide accountancy profession.

Conclusion

Many of the matters addressed during the year represent challenges in search of resolution. Finding effective and lasting solutions will demand concentrated effort by the leadership of the Institute and its members working together.

Rholan E. Larson

Philip B. Chenok



Rholan E. Larson, Chairman of the Board, and Philip B. Chenok, President

American Institute of Certified Public Accountants

OFFICERS 1982-1983

Rholan E. Larson, Chairman of the Board
 Bernard Z. Lee, Vice Chairman
 Philip B. Chenok, President
 Thomas L. Holton, Vice President
 Sybil C. Mobley, Vice President
 Willis A. Smith, Vice President
 William B. Keast, Treasurer
 Donald J. Schneeman,
 General Counsel & Secretary

BOARD OF DIRECTORS 1982-1983

George D. Anderson†	Herman J. Lowe
George L. Bernstein	Andrew P. Marincovich
Barbara Hackman Franklin*	W. Ian A. McConnachie
Ray J. Groves	Thomas C. Pryor*
Gerald W. Hepp	A.A. Sommer, Jr.*
Glen Ingram, Jr.	(through February 24, 1983)
Raymond C. Lauver	Arthur R. Wyatt
Alan B. Levenson	†Immediate Past Chairman
(elected September 1, 1983)	*Public Member

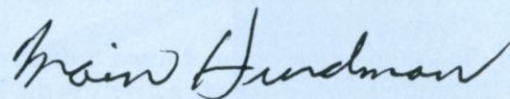
Report of Independent Certified Public Accountants

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, 1983 and 1982, and the related statements of revenue and expenses, changes in fund balances, and changes in financial position for the years then ended. We have also examined the balance sheet of the American Institute of Certified Public Accountants Foundation, the AICPA Benevolent Fund, Inc. and the Accounting Research Association, Inc. as of July 31, 1983 and 1982 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 afore-

mentioned organizations at July 31, 1983 and 1982, and the results of their operations and the changes in their fund balances and, for the American Institute of Certified Public Accountants, the changes in its financial position for the years then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.



CERTIFIED PUBLIC ACCOUNTANTS

New York, New York
September 12, 1983

Financial Statements

American Institute of Certified Public Accountants

Balance Sheet

	July 31,	
	1983	1982
Assets:		
Cash	\$ 284,396	\$ 188,070
Marketable securities (quoted market: 1983, \$18,512,606; 1982, \$13,535,053)	18,108,816	13,452,687
Accounts receivable (less allowance for doubtful collections: 1983, \$50,000; 1982, \$20,000)	5,205,050	5,590,157
Inventories (Note 1)	2,335,628	2,377,287
Deferred authorship costs and prepaid expenses	1,761,879	2,379,535
Furniture, equipment and leasehold improvements (Note 2)	4,193,461	4,118,637
	<u>31,889,230</u>	<u>28,106,373</u>
Funds held for Division for CPA Firms (Note 9)	1,457,931	1,357,657
Endowment and other restricted funds consisting principally of marketable securities (market: 1983, \$819,366; cost: 1982, \$623,088)	648,384	612,078
	<u>\$33,995,545</u>	<u>\$30,076,108</u>
Liabilities and Fund Balances:		
Liabilities and deferred revenue:		
Accounts payable and other liabilities	\$5,361,768	\$5,499,215
Accrued taxes (Note 3)	560,000	432,000
Advance dues	7,307,641	7,085,955
Unearned publication subscriptions and advertising	3,626,048	4,920,165
	<u>16,855,457</u>	<u>17,937,335</u>
Funds held for Division for CPA Firms (Note 9)	1,457,931	1,357,657
Commitments and contingent liabilities		
Fund balances:		
General Fund	15,033,773	10,169,038
Endowment and other restricted funds	648,384	623,088
Unrealized loss on marketable securities of endowment and other restricted funds	—	(11,010)
	<u>15,682,157</u>	<u>10,781,116</u>
	<u>\$33,995,545</u>	<u>\$30,076,108</u>

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

	Year Ended July 31	
	1983	1982
Revenue:		
Memberships dues	\$16,642,722	\$12,423,955
Publications	13,621,488	12,569,525
Continuing professional education	16,395,385	14,756,850
CPA examinations	5,237,410	4,857,363
Investment and sundry income	2,589,193	2,435,007
	<u>54,486,198</u>	<u>47,042,700</u>
Expenses (see also summary of expenses by activity):		
Salaries and fees	\$17,445,891	\$16,082,252
Personnel costs	2,866,801	2,844,110
Occupancy	5,584,833	5,378,783
Printing and paper	9,807,136	9,777,174
Postage and shipping	2,974,785	3,079,311
Meetings and travel	2,859,516	2,452,053
Commercial services	3,063,272	2,675,329
Professional services	1,078,966	862,570
Stationery and reproduction services	789,895	856,993
Contributions	833,565	771,400
Telephone	807,176	736,134
General and administrative	1,509,627	1,654,147
	<u>49,621,463</u>	<u>47,170,256</u>
Excess (deficiency) of revenue over expenses	<u>\$ 4,864,735</u>	<u>\$ (127,556)</u>
<hr/>		
Summary of expenses by activity:		
CPA examinations	\$ 5,186,161	\$ 4,935,235
Publications:		
Cost of sales	10,396,697	10,106,643
Distributed to members and others	3,155,508	2,978,075
Continuing professional education	15,287,400	14,808,424
Technical:		
Accounting and review services	112,339	138,948
Accounting standards	725,552	695,120
Auditing standards	1,621,737	1,612,563
Federal taxation	567,694	583,584
Management advisory services	330,951	290,924
Computer services	12,649	72,737
International practice	454,903	402,172
Technical assistance to members	566,411	621,444
Library	1,047,779	770,826
NAARS program	415,353	485,789
Financial Accounting Foundation contribution	377,416	347,798
Accountants' legal liability	145,602	150,844
Regulation:		
Ethics and trial board	1,134,866	1,043,283
State legislation	415,032	241,761
Division for CPA firms	727,543	644,760
Quality control programs	791,362	830,936
Organization and membership:		
Board, council and annual meetings	716,658	734,766
Nominations and committee appointments	106,374	142,130
Communications with members	381,787	263,507
Membership admissions and records	886,105	808,213
Membership benefit plans	71,288	84,631
Special organizational studies	285,807	47,353
Communications with other groups:		
Public relations	737,235	698,274
State societies	254,145	215,747
Universities	476,693	467,577
Federal government	1,689,401	1,507,243
Assistance programs for minority students and businesses	543,015	438,949
Total	<u>\$49,621,463</u>	<u>\$47,170,256</u>

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

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Fund Balances**

	Year ended July 31	
	1983	1982
General Fund:		
Balance at beginning of year	\$10,169,038	\$10,296,594
Excess (deficiency) of revenue over expenses	4,864,735	(127,556)
Fund balance, end of year	<u>15,033,773</u>	<u>10,169,038</u>
Endowment and other restricted funds:		
Fund balances, beginning of year	\$ 623,088	\$ 597,594
Excess (deficiency) of revenue over expenses	(2,575)	583
Gain on sale of securities	27,871	24,911
Fund balances, end of year	<u>648,384</u>	<u>623,088</u>
	<u>\$15,682,157</u>	<u>\$10,792,126</u>

**American Institute of
Certified Public Accountants**

**Statement of Changes
in Financial Position**

	Year ended July 31	
	1983	1982
Cash and marketable securities, beginning of year	\$13,640,757	\$11,049,572
Sources of funds:		
From operations:		
Excess (deficiency) of revenue over expenses	4,864,735	(127,556)
Add back expenses not requiring outlay of funds—depreciation and amortization, including amortization of authorship costs :	<u>2,375,436</u>	<u>2,463,662</u>
	7,240,171	2,336,106
Increase (decrease) in liabilities and deferred revenue:		
Accounts payable and other liabilities	(137,447)	1,176,003
Accrued taxes	128,000	107,000
Advance dues	221,686	957,105
Unearned publication subscriptions and advertising	<u>(1,294,117)</u>	<u>2,008,708</u>
	6,158,293	6,584,922
Uses of funds:		
Additions to deferred authorship costs and prepaid expenses	1,106,313	2,308,394
Additions to furniture, equipment and leasehold improvements	726,291	864,472
Increase (decrease) in other assets:		
Receivables	(385,107)	1,112,554
Inventories	<u>(41,659)</u>	<u>(291,683)</u>
	<u>1,405,838</u>	<u>3,993,737</u>
Increase (decrease) in funds:		
Cash	96,326	(219,519)
Marketable securities	4,656,129	2,810,704
	<u>4,752,455</u>	<u>2,591,185</u>
Cash and marketable securities, end of year	<u>\$18,393,212</u>	<u>\$13,640,757</u>

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

	American Institute of Certified Public Accountants Foundation		AICPA Benevolent Fund, Inc.		Accounting Research Association, Inc.	
	1983	1982	1983	1982	1983	1982
Balance Sheet—July 31,						
Assets						
Cash	\$ 11,415	\$ 18,233	\$ 16,012	\$ 20,203	\$ 17,504	\$ 30,761
Marketable securities, at lower of cost or market*	882,691	734,517	977,751	885,461	426,000	401,000
Notes and mortgages receivable (net of allowance for doubtful collections 1983, \$37,610; 1982, \$28,033)	—	—	82,000	70,800	—	—
Dues receivable	—	—	—	—	638,075	357,369
Other receivables	4,694	4,211	19,342	18,730	4,204	2,970
Prepaid expenses	—	—	—	—	83,067	82,557
	<u>\$898,800</u>	<u>\$756,961</u>	<u>\$1,095,105</u>	<u>\$995,194</u>	<u>\$1,168,850</u>	<u>\$874,657</u>
Liabilities and Fund Balances						
Liabilities and deferred credits:						
Accounts payable	\$ 360	\$ —	\$ 590	\$ 900	\$ 88,923	\$102,610
Unearned advanced dues	—	—	—	—	766,032	689,894
Scholarships payable	202,250	174,975	—	—	—	—
	<u>202,610</u>	<u>174,975</u>	<u>590</u>	<u>900</u>	<u>854,955</u>	<u>792,504</u>
Fund Balances						
General	92,796	21,900	1,094,515	1,002,349	313,895	82,153
Library	108,633	106,607	—	—	—	—
John L. Carey Scholarship Fund	97,098	95,289	—	—	—	—
Accounting Education Fund for Disadvantaged Students	397,663	365,020	—	—	—	—
Less unrealized loss on marketable securities	—	6,830	—	8,055	—	—
	<u>696,190</u>	<u>581,986</u>	<u>1,094,515</u>	<u>994,294</u>	<u>313,895</u>	<u>82,153</u>
	<u>\$898,800</u>	<u>\$756,961</u>	<u>\$1,095,105</u>	<u>\$995,194</u>	<u>\$1,168,850</u>	<u>\$874,657</u>

***NOTE:**

Marketable securities at market (m) or cost (c)	<u>\$1,014,190(m)</u>	<u>\$741,347(c)</u>	<u>\$1,124,676(m)</u>	<u>\$893,516(c)</u>	<u>\$426,000(m)</u>	<u>\$401,000(m)</u>
--	-----------------------	---------------------	-----------------------	---------------------	---------------------	---------------------

**Statement of Changes
in Fund Balances—
Year Ended July 31,**

Additions:						
Investment income	\$ 55,667	\$ 64,864	\$ 93,961	\$ 87,415	\$ 35,726	\$ 67,869
Contributions/dues	382,700	297,045	145,719	166,450	1,753,432	1,412,055
Other	—	—	—	51,125	—	—
	<u>438,367</u>	<u>361,909</u>	<u>239,680</u>	<u>304,990</u>	<u>1,789,158</u>	<u>1,479,924</u>
Deductions:						
Contributions/scholarships	346,798	305,445	—	—	1,343,344	1,694,125
Assistance to members and families	—	—	123,266	127,539	—	—
FASB subscription service	—	—	—	—	179,119	170,860
Other	1,302	1,792	25,421	4,526	34,953	37,836
	<u>348,100</u>	<u>307,237</u>	<u>148,687</u>	<u>132,065</u>	<u>1,557,416</u>	<u>1,902,821</u>
Increase (decrease) in fund balance	90,267	54,672	90,993	172,925	231,742	(422,897)
Gain on sale of securities	17,107	5,891	1,173	13,811	—	—
Net increase (decrease) in fund balance	107,374	60,563	92,166	186,736	231,742	(422,897)
Fund balance, beginning of year	588,816	528,253	1,002,349	815,613	82,153	505,050
Fund balances, end of year	<u>\$696,190</u>	<u>\$588,816</u>	<u>\$1,094,515</u>	<u>\$1,002,349</u>	<u>\$ 313,895</u>	<u>\$ 82,153</u>

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

American Institute of CPAs and Related Organization Funds

Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States. The accounting principles used also conform, in all material respects, with the International Accounting Standards adopted by the International Accounting Standards Committee (IASC).

A summary of the accounting policies of the American Institute of Certified Public Accountants (Institute) and, if applicable, the American Institute of Certified Public Accountants Foundation (Foundation), the AICPA Benevolent Fund (Benevolent Fund) and the Accounting Research Association (ARA) follows:

- Assets, liabilities, revenue and expenses are recognized on the accrual basis.
- Marketable securities are stated at the lower of aggregate cost or market. If market value has declined below cost, the resulting valuation allowance is shown as a reduction of the fund balance. Gains and losses on the sale of securities are included in operating results.
- 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 the Institute expects will be sold in the future are amortized over the lesser of a three-year period or the useful life of the course.
- Furniture, equipment and leasehold improvements are stated at cost, less accumulated depreciation or amortization computed on the straight-line method. Furniture and equipment are depreciated over their estimated useful lives of five to ten years. Leasehold improvements are amortized over the shorter of their useful lives or the remainder of the lease period.
- The Institute records dues as revenue in the applicable membership period. Dues of ARA members are assessed on a calendar year basis and recorded as additions to the fund balance in equal monthly amounts during each calendar year.
- Subscription and advertising revenue are recorded as publications are issued.
- Contributions to specific funds are recorded as additions to fund balances in the applicable period.
- Notes and mortgages received by the Benevolent Fund as security for assistance payments to members and their families are recorded, net of amounts deemed uncollectible, as additions to the fund balance in the period received.
- The Institute has a retirement plan covering all eligible employees. Pension expense is accrued in accordance with an actuarial cost method. Although the Institute may terminate the plan at any time, the policy of the Institute is to fund accrued pension cost. Prior service costs for active employees under the plan are funded over a 30-year period. The costs related to retired persons are funded over a 10-year period.

Notes to Financial Statements July 31, 1983 and 1982

1. Inventories

Inventories of the Institute at July 31, 1983 and 1982 consisted of:

	1983	1982
Paper and material stock	\$ 494,925	\$ 474,868
Publications in process	653,561	264,590
Printed publications and course material	1,187,142	1,637,829
	<u>\$2,335,628</u>	<u>\$2,377,287</u>

2. Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements of the Institute at July 31, 1983 and 1982 were:

	1983	1982
Furniture and equipment	\$3,873,819	\$3,653,419
Leasehold improvements	3,550,365	3,180,492
	7,424,184	6,833,911
Less accumulated depreciation and amortization	3,230,723	2,715,274
	<u>\$4,193,461</u>	<u>\$4,118,637</u>

Depreciation and amortization of leasehold improvements for the years ended July 31, 1983 and 1982 were \$637,309 and \$671,570.

3. Taxes

The Institute is a professional organization that qualifies under Section 501(c)(6) of the Internal Revenue Code. The Institute is subject to tax on unrelated business income arising from the sale of advertising in the *Journal of Accountancy*.

4. Lease Commitments

Rental commitments under noncancellable leases in effect as of July 31, 1983 were \$35,201,000. This amount excludes future escalation charges for real estate taxes and building operating expenses. The principal lease (which has a 20-year base period) started in 1974 and can be terminated at the end of 15 years if the Institute pays certain penalties. Minimum rental commitments are:

Year Ended July 31,	
1984	\$ 3,423,000
1985	3,435,000
1986	3,469,000
1987	3,371,000
1988	2,920,000
Years subsequent to 1988	18,583,000
	<u>\$35,201,000</u>

Rental expense for the years ended July 31, 1983 and 1982 were \$4,270,000 and \$4,122,000.

5. Retirement Plan

Pension expenses related to the Institute's retirement plan were approximately \$871,000 and \$953,000 for the years ended July 31, 1983 and 1982.

The accumulated plan benefits and plan net assets available as of the most recent valuation dates were:

	May 1,	
	1983	1982
Actuarial present value of accumulated plan benefits:		
Vested	\$ 7,069,351	\$6,595,572
Non-vested	1,430,129	1,279,915
	<u>\$ 8,499,480</u>	<u>\$7,875,487</u>
Net assets available for benefits	<u>\$10,643,467</u>	<u>\$7,803,648</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6 percent compounded annually for both 1982 and 1983.

6. Commitment of Foundation Funds

The Foundation plans to distribute, from the Accounting Education Fund for Disadvantaged Students, approximately \$350,000 each year for scholarships to minority students and for assistance programs to strengthen the accounting faculty of minority universities.

7. Commitment to Financial Accounting Foundation (FAF)

The Institute makes an annual contribution of \$2.00 per member to the FAF. The Accounting Research Association, Inc. (ARA) also makes a best efforts commitment to raise funds for the FAF from sources within the accounting profession, which commitment amounted to \$1,800,000 for the year 1983. It is anticipated the Institute and the ARA will continue to support the FAF.

8. Special Purpose and Related Organization Funds

The purposes of the special and related organization funds are:

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

Benevolent Fund: To raise money to provide financial assistance to needy members of the Institute and their families.

Accounting Research Association: To provide a best efforts commitment to the financing of the Financial Accounting Foundation.

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

9. Division for CPA Firms

The AICPA acts as custodian of the cash and marketable securities of the Division for CPA Firms. The amounts involved are shown on the accompanying balance sheets as offsetting assets and liabilities.

The balances at July 31, 1983 were:

	Cash	Marketable Securities	Total
Private Companies			
Practice Section . . .	\$ 8,371	\$ 416,000	\$ 424,371
SEC Practice Section .	52,560	981,000	1,033,560
	<u>\$60,931</u>	<u>\$1,397,000</u>	<u>\$1,457,931</u>

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

	July 31, 1983	
	Private Companies Practice Section	SEC Practice Section
Balance Sheet		
Assets:		
Cash	\$ 8,371	\$ 52,560
Marketable securities (quoted market \$1,397,000) ..	416,000	981,000
Dues and other receivables	5,250	46,419
Prepaid expenses	—	30,000
	<u>\$429,621</u>	<u>\$1,109,979</u>
Liabilities and Fund Balances:		
Accounts payable	\$ 24,595	\$ 109,282
Unearned advance dues	35,597	360,227
Fund balances	369,429	640,470
	<u>\$429,621</u>	<u>\$1,109,979</u>

Statement of Changes in Fund Balances

	Year Ended July 31, 1983	
Additions:		
Dues	\$ 82,338	\$ 914,489
Other	46,133	91,592
	<u>\$128,471</u>	<u>\$1,006,081</u>
Deductions:		
Expenses of Public Oversight Board:		
Salaries and fees	\$ —	\$ 577,056
Legal fees	—	64,250
Administrative expenses ..	—	233,978
		875,284
Membership directory	17,093	17,093
Special Investigation Committee	—	60,673
Legal fees	—	65,955
Administrative and other expenses	55,387	26,939
	<u>\$ 72,480</u>	<u>\$1,045,944</u>
Net increase (decrease) in funds	55,991	(39,863)
Fund balances, beginning of year	313,438	680,333
Fund balances, end of year	<u>\$369,429</u>	<u>\$ 640,470</u>

In addition to the expenses above, the Institute incurred expenses during the years ended July 31, 1983 and 1982 in support of the Division for CPA Firms and in connection with related quality control programs. These expenses are included in the accompanying Summary of Expenses by Activity.

Supplementary Information (Unaudited)

FASB Statement No. 33, *Financial Reporting and Changing Prices*, requires that certain 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 1982-83 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 revenue, expenses and general fund balances.

The inflation-adjusted data indicates that the Institute's revenue and expenses have increased at a rather modest rate when compared to the increases on a historical basis. As previously reported over the last five years, revenue has increased by

75.9% and expenses increased by 68.8%. When adjusted for the effects of inflation, these rates of increase are 23.7% and 18.8% respectively. For the year ended July 31, 1983, revenue exceeded expenses on a historical and constant dollar basis by \$4,865,000 and \$4,648,000 respectively.

General inflation also causes a loss of purchasing power from holding monetary assets (the excess of cash, deposits, commercial paper, notes and receivables over current payables). The Institute's investments, during the period from fiscal 1979 to 1983, generated enough income to more than offset the loss in purchasing power on all net monetary assets during the same period. Basically, earnings on investments exceeded the rate of inflation.

During the five years ended July 31, 1983, the Institute reported depreciation expense of \$2,448,000 on a historical cost basis. On a constant dollar basis, depreciation was \$3,971,000 during this period. The constant dollar cost of furniture, equipment and leasehold improvements as of July 31, 1983 net of accumulated depreciation and amortization, was \$4,959,000 compared to a historical cost value of \$4,193,461.

Supplementary Information 1979-1983 (Thousands of Dollars)

Historical Cost Financial Data as Reported in the Financial Statements	Year Ended July 31,				
	1983	1982	1981	1980	1979
Revenue:					
Membership dues	\$16,643	\$12,424	\$11,515	\$10,674	\$ 9,891
Publications	13,622	12,569	10,896	10,473	8,445
Continuing professional education	16,395	14,757	12,215	9,897	7,748
CPA examination fees	5,237	4,857	3,748	3,569	3,284
Investment and sundry income	2,589	2,435	2,362	1,833	1,599
	<u>\$54,486</u>	<u>\$47,042</u>	<u>\$40,736</u>	<u>\$36,446</u>	<u>\$30,967</u>
Percent increase over prior year	15.8%	15.5%	11.8%	17.7%	13.5%
Expenses:					
Salaries and fees	\$17,446	\$16,082	\$13,961	\$12,256	\$10,549
Personnel costs	2,867	2,844	2,381	2,171	1,628
Occupancy	5,585	5,379	4,533	3,696	3,198
Printing and paper	9,807	9,777	8,676	7,867	6,550
General	13,916	13,088	11,364	9,245	7,470
	<u>\$49,621</u>	<u>\$47,170</u>	<u>\$40,915</u>	<u>\$35,235</u>	<u>\$29,395</u>
Percent increase over prior year	5.2%	15.3%	16.1%	19.9%	15.3%
Excess (deficiency) of revenue over expenses	<u>\$ 4,865</u>	<u>\$ (128)</u>	<u>\$ (179)</u>	<u>\$ 1,211</u>	<u>\$ 1,572</u>
General Fund balance at end of year	<u>\$15,034</u>	<u>\$10,169</u>	<u>\$10,297</u>	<u>\$10,476</u>	<u>\$ 9,639</u>
Percent increase (decrease) over prior year	47.8%	(1.2%)	(1.7%)	8.7%	19.5%

Historical Cost Financial Data Adjusted for General Inflation (in Average 1982-83 Dollars)	Year Ended July 31,				
	1983	1982	1981	1980	1979
Revenue:					
Membership dues	\$16,643	\$12,911	\$12,953	\$13,371	\$14,065
Publications	13,622	13,061	12,257	13,119	12,009
Continuing professional education	16,395	15,335	13,741	12,397	11,018
CPA examination fees	5,237	5,047	4,216	4,471	4,670
Investment and sundry income	2,589	2,530	2,657	2,296	2,274
	<u>\$54,486</u>	<u>\$48,884</u>	<u>\$45,824</u>	<u>\$45,654</u>	<u>\$44,036</u>
Percent increase over prior year	11.5%	6.7%	.4%	3.7%	3.4%
Expenses:					
Salaries and fees	\$17,446	\$16,712	\$15,705	\$15,352	\$15,001
Personnel costs	2,867	2,955	2,678	2,719	2,315
Occupancy	5,802	5,953	5,368	4,860	4,692
Printing and paper	9,807	10,160	9,760	9,855	9,314
General	13,916	13,601	12,783	11,581	10,622
	<u>\$49,838</u>	<u>\$49,381</u>	<u>\$46,294</u>	<u>\$44,367</u>	<u>\$41,944</u>
Percent increase over prior year	0.9%	6.7%	4.3%	5.8%	5.1%
Excess (deficiency) of revenue over expenses	<u>\$ 4,648</u>	<u>\$ (497)</u>	<u>\$ (470)</u>	<u>\$ 1,287</u>	<u>\$ 2,092</u>
Loss of purchasing power on net monetary assets	<u>\$ 327</u>	<u>\$ 618</u>	<u>\$ 1,103</u>	<u>\$ 1,576</u>	<u>\$ 1,304</u>
General Fund balance at end of year	<u>\$14,793</u>	<u>\$10,472</u>	<u>\$11,587</u>	<u>\$13,160</u>	<u>\$13,449</u>
Percent increase (decrease) over prior year	41.3%	(9.6%)	(12.0%)	(2.1%)	6.2%
Average Consumer Price Index for fiscal year	<u>294.5</u>	<u>283.4</u>	<u>261.8</u>	<u>235.1</u>	<u>207.1</u>
Percent increase over prior year	3.9%	8.3%	11.4%	13.5%	9.7%