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Achieving the profession's objectives: 1968 report of Council to the Membership of the American Institute of Certified Public Accountants

American Institute of Certified Public Accountants. Council

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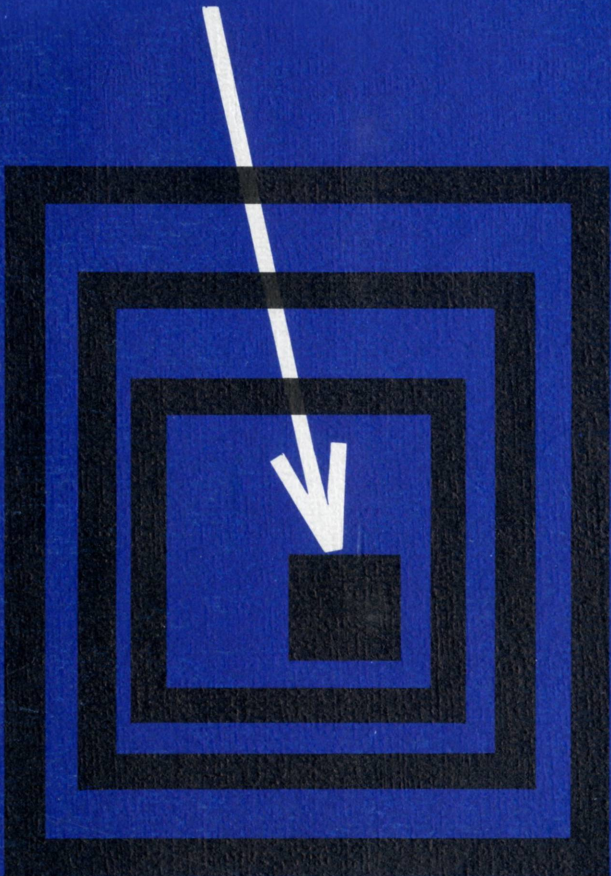
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Achieving the Profession's Objectives

1968 Report of Council
to the Membership of the American Institute
of Certified Public Accountants



Achieving the Profession's Objectives

**1968 Report of Council
to the Membership of the American Institute
of Certified Public Accountants**

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INTRODUCTION

A useful insight into what the Institute did in behalf of its members this past year —that's what this concise report provides.

It was prepared by a committee of Council composed of Gordon W. Tasker of Connecticut, chairman, Edward A. DeMiller, Jr. of Mississippi, and Lawrence M. Walsh of Pennsylvania — with the assistance of the staff.

I urge every member to take a few minutes to examine this review of the Institute's efforts to advance the objectives of the accounting profession.

Marvin L. Stone
President

September 10, 1968

Report of the Council

**To the Members of the
American Institute of Certified
Public Accountants**

In the past decade the Institute's Council has approved a number of objectives and thus more sharply defined the purpose of the organization.

As consolidated and restated recently by the Executive Committee, these objectives provide a framework in which to review the important events of this year. A full statement of the objectives is reproduced in the appendix to this report because of their continuing importance.

THE AUTHORITATIVE SOURCE OF PRINCIPLES AND PROCEDURES

Much committee and staff effort during this past year was aimed at maintaining and enhancing acceptance of the Institute as the authoritative source of principles

and procedures in the broad field of accounting—including accounting principles, auditing, federal taxation and management services.

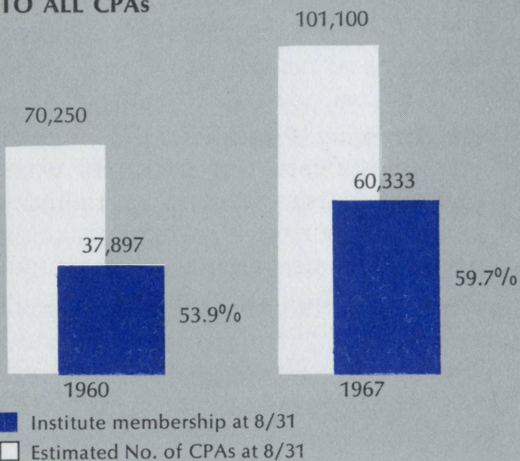
Accounting Principles. The Accounting Principles Board, for example, promoted improvements in accounting principles and financial reporting—particularly the elimination of some variations not justified by substantial differences in circumstances.

- One notable action of the APB was its issuance of Opinion 11 on accounting for income taxes. It called for comprehensive allocation of the tax effects of timing differences. On a related issue, the APB is continuing its study of the investment credit's impact and transitional approaches of accounting for the credit.

- The Board also approved Opinion 12, which temporarily suspended paragraphs 8 and 9 of APB Opinion 10. Companies which issue convertible debt were given the option of adhering to the treatment of Opinion 10, or of presenting two earnings-per-share figures on the income statement: one, computed on the basis of shares outstanding during the period; the other, computed on the assumption that all convertible securities, options and warrants were converted. The Board expects to issue a pronouncement on this subject in 1968.

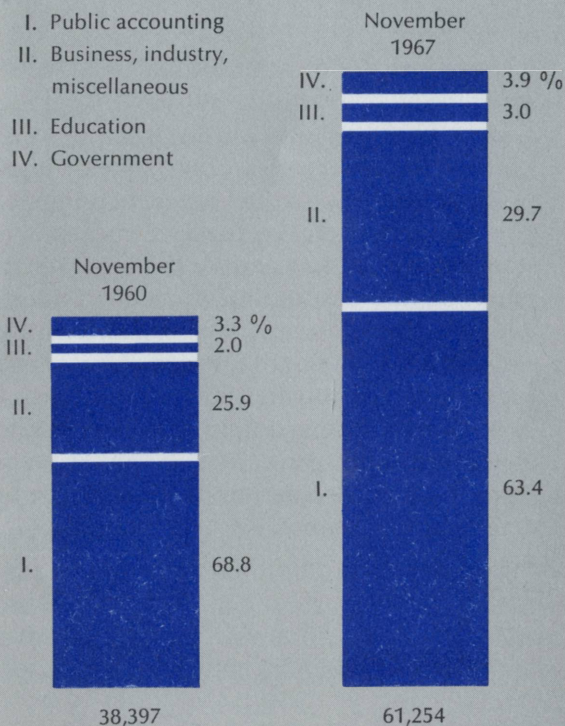
- Opinion 12, in addition, called for the disclosure and deduction of allowances from their related assets; the disclosure of depreciation method(s) and expense, depreciable asset balances and accumulated depreciation; the accrual of estimated amounts to be paid under deferred compensation contracts with individual em-

RATIO OF INSTITUTE MEMBERSHIP TO ALL CPAs



OCCUPATIONAL CLASSIFICATION OF MEMBERS

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



ployees; and the disclosure of changes in shares outstanding and in each of the stockholders' equity accounts during the most recent fiscal period.

- The Board issued a Statement urging diversified companies to study means for voluntarily providing investors with supplemental financial data on industry segments of business. The Board is continuing its study of this subject.

- The APB is exposing a proposed Opinion making Opinion 9 (on reporting the results of operations) applicable to commercial banks.

With these and other improvements in accounting principles and financial reporting, Institute members will find helpful the newly launched looseleaf service updating Accounting Research Bulletins and APB Opinions.

Auditing. There were also notable developments in accounting and auditing.

- The Committee on Bank Accounting and Auditing issued a controversial bank audit guide which called for reporting a net income figure, the inclusion of gains and losses on securities transactions in net income, and the treatment of estimated loan losses as an operating expense — with excessive provisions being treated as appropriations of undivided profits. The recommendations of the guide provide support for the proposed APB Opinion making Opinion 9 applicable to commercial banks.

- Another significant event was the issuance of an audit guide developed by the Committee on Personal Financial Statements. It recommended, among other things, that a parallel column of estimated

values be presented next to the usual cost-basis figures in statements of assets and liabilities. This guide was the first to contain the Council-approved "notice to readers" alerting members to the fact that they may be called upon to justify departures from the recommendations of audit guides.

- To be submitted for the approval of the Committee on Auditing Procedure before the annual meeting in Washington, D. C. is proposed Statement on Auditing Procedure 40 on reporting on financial statements following a pooling of interests. The Statement modifies paragraphs 35-36 in Chapter 8 of Statement 33 in light of Opinions 9 and 10 of the Accounting Principles Board.

Federal Taxation. In the area of tax practice responsibilities, two Statements were approved for ballot by the Committee on Federal Taxation.

- Proposed Statement 5 on knowledge of error provides for the prompt notification of the client upon discovery of an error in a previously filed return, advises the CPA to be reasonably sure that the error is not repeated or allowed to reduce the tax liability for the current year if the client has refused to rectify it and the CPA has decided to proceed with the preparation of the current year's return, and suggests withdrawal from an engagement involving an administrative proceeding about a return with an error which the client will not disclose to the IRS. Withdrawal is preferred practice in most instances except when the very act of withdrawal would constitute a violation of the confidential relationship between the CPA and his client.

● Proposed Statement 6 deals with the use of estimates. It would require the CPA to satisfy himself that estimated amounts are reasonable under the circumstances, and are presented in a manner that does not imply undue precision.

Management Services. In the management services area, proposed Statements 1 and 2, concerning the nature of and competence in management services, are being exposed for comment by the Committee on Management Services.

Professional Ethics. Proposed interpretive Opinions on definition of a "client" and independence of a bank auditor having loans or deposits with the client were approved for exposure by the Committee on Professional Ethics.

While 1967-68 was an active period in terms of pronouncements completed, much of the effort of committees and staff was invested in pronouncements still in process. Although drafts are not available until approved for exposure, most of these are listed below with an indication of their current status.

APB Opinions

Exposure Stage

Application of Opinion 9 to commercial banks

Scheduled to receive full-Board consideration in 1968-69

Earnings per share

Convertible debt and debt with warrants

Accounting changes
Accounting policies (Statement)
Business combinations and goodwill
Leases
Price-level accounting
Investment credit
Equity method
Diversified companies
Fundamentals of financial accounting
Interim financial statements

Other proposed Opinions

Substantial authoritative support
Public utilities
Components of a business enterprise
Extractive industries
Off-balance-sheet financing
Asset and liability recognition
Intercorporate investments
Foreign operations
Research and development expenditures

Statements on Auditing Procedure

Draft stage

Subsequent discovery of facts existing
prior to the auditor's report
Reporting on price-level financial
information
Negative assurances
Extensions of auditing procedure
Revision of the short-form report

Preliminary research stage

Using the work of other auditors
Disclaimer of auditor lacking in
independence
Internal control

Audit Guides

Draft stage

Audits of brokers and dealers (revision)

Audits of savings and loan associations
(revision)

Medicare

Defense contracts

Life insurance companies

Hospitals

Finance companies

Preliminary research stage

Health, welfare and pension funds

Colleges and universities

Statements on Responsibilities in Tax Practice

Draft Stage

Examinations of supporting data for
income tax returns

Statements on Management Services

Exposure stage

Nature of management advisory services

Competence in management advisory
services

Draft Stage

Role and responsibility in management
advisory services

Preliminary research stage

Disclaimers

Working paper documentation

Interpretative Opinions of the Committee on Professional Ethics

Exposure stage

Definition of a "client"

Independence of a bank auditor having
loans or deposits with the client

Draft stage

Conduct of educational seminars

Preliminary research stage

Restatement of Code of Professional
Ethics

Incompatible occupations

COMMUNICATION WITH THE PUBLIC

Through its performance the Institute strives to earn public respect and thereby exert a constructive influence upon public opinion, including all levels of government.

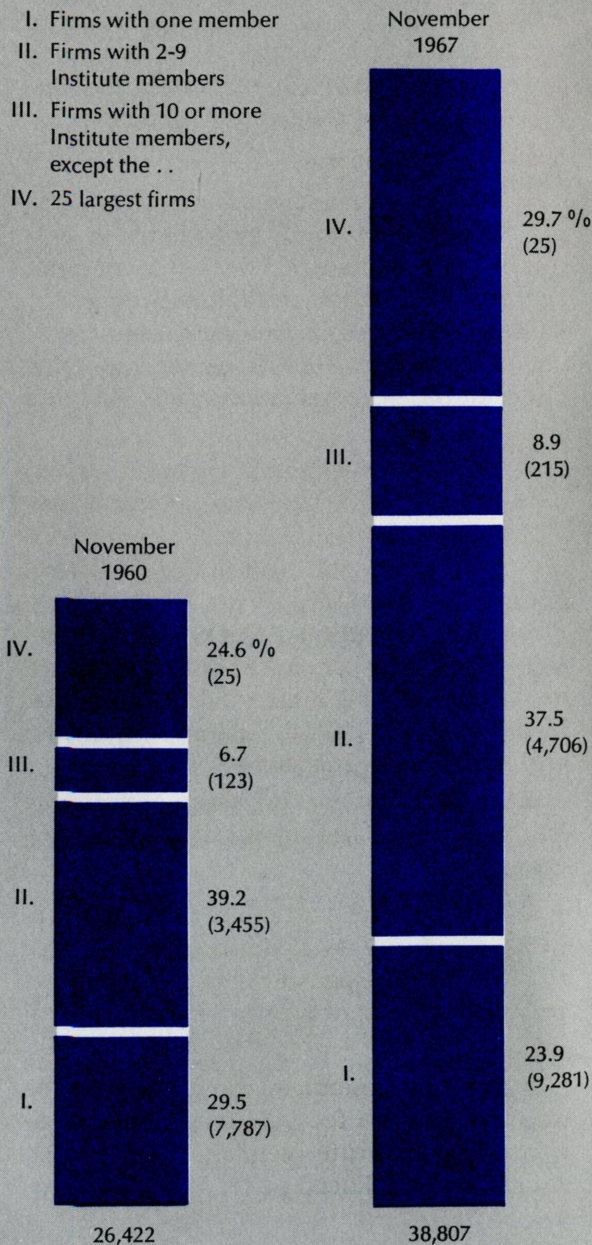
● The press gave extensive coverage to technical pronouncements issued during the year.

● The Institute was complimented before Congress on its position as to Medicare auditing costs and the help rendered by the Committee on Health Care Institutions.

● Of unusual importance was the enactment of a law providing for a feasibility study by the Government Accounting Of-

SOURCES OF PRACTICING MEMBERSHIP

- I. Firms with one member
- II. Firms with 2-9
Institute members
- III. Firms with 10 or more
Institute members,
except the . . .
- IV. 25 largest firms



fice, the accounting profession and others on the development of "uniform cost accounting standards" for certain defense contracts. Earlier, Executive Vice President Leonard M. Savoie testified before a Senate committee that was considering a House-passed bill which would have required the GAO to develop "uniform accounting standards" for this purpose.

- Mr. Savoie endorsed before Congress the independent audit provisions of Administration-sponsored welfare and pension fund legislation. Although chances for passage in the 90th Congress seem slim, HR 6498 would include audit language close to that recommended in Mr. Savoie's testimony.

- The press reported several newsworthy speeches by Institute officers. President Stone appeared before the prestigious Economic Club of Detroit and the Society of American Business Writers. Mr. Savoie addressed the National Industrial Conference Board, the Credit Policy Committee of the American Bankers Association, the Machinery and Allied Products Institute, and the Woman Investor's Clinic.

- More seminars for financial writers were held, this year in San Francisco and Atlanta.

- Through its participation in the National Conference of Bankers and CPAs, the Institute helped develop a booklet on financial statement provisions in term-loan agreements.

- Institute members continued to be appointed to top federal government positions. Two Institute members — Robert M. Trueblood and Theodore O. Yntema — par-

ticipated in President Johnson's Commission on Federal Budget Concepts. The Commission's recommendations, adopted for the most part by the Administration, were endorsed by the Institute's Executive Committee in a statement addressed to government officials.

- Institute committees, consultants and staff continued to review and comment upon technical regulations and audit guidelines proposed by agencies of the federal government. In addition, the Institute's Committee on Federal Taxation submitted comments to the taxation committees of Congress, assisted the IRS in its development of revenue rulings, and conferred with key tax officials.

PRODUCTION OF NEW KNOWLEDGE

Pointing toward the goal of producing new knowledge, the Planning Committee released an exposure draft of a position paper on research. It proposes that the Institute mount a coordinated program of research in all areas of concern to the profession.

The Institute also launched the Accounting Research Association. More than 2,000 firms and 1,700 individuals have joined the Association — representing annual membership dues of \$363,000. Research studies and related publications financed with ARA funds will be made available to ARA members at a special discount. Thus far, members of the ARA have received sev-

eral newsletters with late-breaking technical news and a complimentary copy of the first study produced by the Accountants International Study Group – a comparative review of accounting and auditing approaches to inventories in Canada, the United Kingdom and the United States.

In 1967-68 the Institute completed several other major studies.

- One of the most important was Accounting Research Study 10 on accounting for goodwill.

- A landmark publication was the book on auditing and EDP, available after two years of intensive research. Also published were administrative guidelines for management advisory services engagements, the use of EDP in an accounting practice, and planning for the future of an accounting practice.

- Documents being printed at this time include practical techniques and policies for inventory control and the auditor's approach to stratified random sampling.

Still other studies are in process but not yet ready for distribution. Most are listed below with indications of their current status.

Accounting Research Studies

Nearing completion

Financial reporting in the extractive industries

Draft stage

Intercorporate investments

Accounting for research and
development expenditures
Foreign operations
Stockholders' equity

Preliminary research stage

Concept of materiality
Working capital
Inventory pricing
Depreciation methods
International accounting problems
Asset and liability valuation and periodic
income measurement

Accounting and Auditing Publications

Nearing completion

Accounting trends and techniques—1968

Draft stage

Programed learning text on discovery
sampling

Preliminary research stage

Programed learning text on ratio and
difference estimation
Basic theory and concepts of auditing

Studies in Federal Taxation

Nearing completion

Incorporation of a closely held business

Preliminary research stage

Tax planning techniques for individuals
Tax planning for the small business man

Management Services Technical Studies

Nearing completion

Forecasting demand

Draft stage

Management information systems, I
Management information systems, II

Preliminary research stage

Production scheduling
EDP feasibility study
Systems analysis

Accountants International Studies

Nearing completion

Reporting standards of auditors

Draft stage

Reliance on other auditors

Preliminary research stage

Financial reporting for diversified
companies
Internal control in a manager-dominated
small client

Management of an Accounting Practice Bulletins

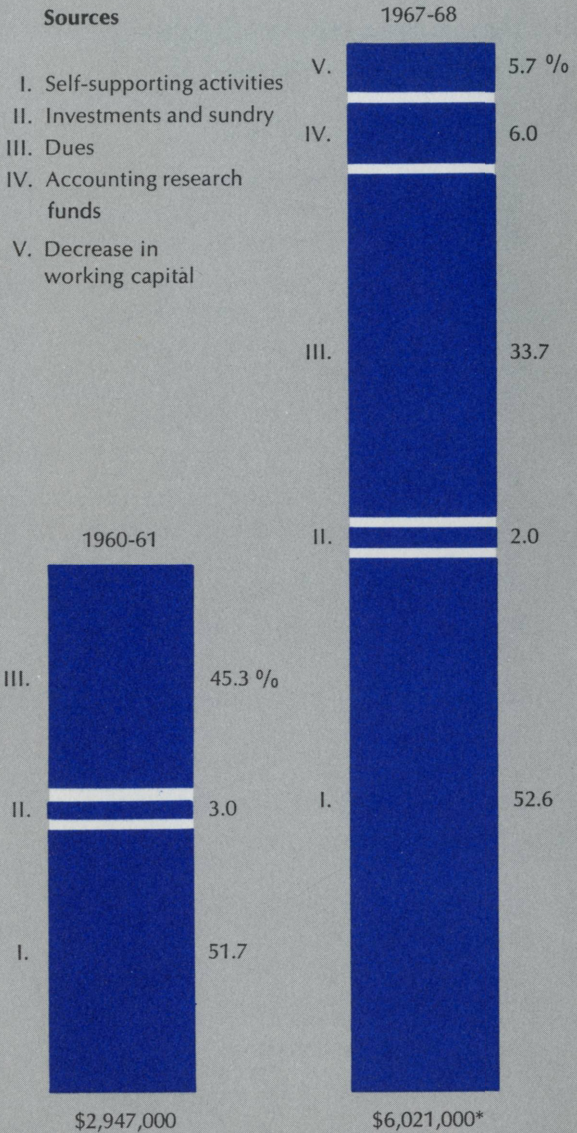
Draft stage

Staff manuals

Preliminary research stage

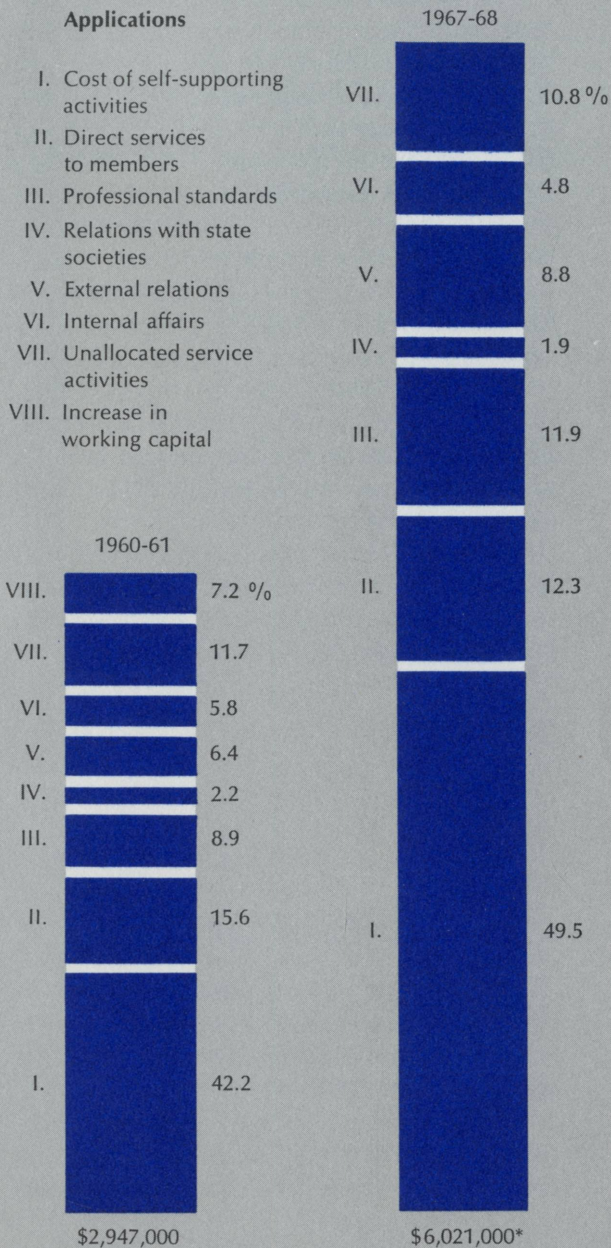
Partnership agreements

SOURCES OF INSTITUTE FUNDS



*Budgeted 6/30/68

APPLICATIONS OF INSTITUTE FUNDS



*Budgeted 6/30/68

NEED FOR THE CPA'S ATTEST FUNCTION

The production of new knowledge can lead to the identification of areas in society where a need exists for the CPA's attest function. As the Council-approved "Description of Professional Practice . . ." recognized, the distinctive role of the CPA has encouraged demand for his opinion "... on a wide variety of other representations, such as compliance with rules and regulations of governing agencies, sales statistics under lease and royalty agreements, and adherence to covenants in indentures."

- It is estimated that the federal government alone stimulates more than 50,000 financial, cost-reimbursement and compliance examinations annually. New programs continue to emerge.

- Several major newspapers have noted with interest a *Journal* article on the need for management audits by CPAs — an indication, perhaps, of things to come.

A WIDE RANGE OF SERVICES

The Institute seeks to encourage CPAs to perform a wide range of services consistent with their professional competence and ethical responsibilities.

- This has been done by sponsoring professional development courses in each of the major areas of practice, and by pub-

lishing books and periodicals covering the broad field of accounting.

- As previously noted, the first of a series of administrative guidelines for engagements in management advisory services was published for practitioners who wish to benefit from the administrative experience of other firms.

- In addition, the Institute has been exploring ways of applying measurement techniques of accounting to determine cost-benefit relationships of social programs. The annual meeting in Washington, D. C. will include a plenary session on this subject.

- The Institute has sponsored two national conferences for CPAs providing computer services for clients, or considering the possibility of doing so.

- Practicing CPAs who subscribe to the *Auerbach Computer Notebook for Accountants* are receiving more supplements and special reports than before, including increased coverage of small computers and other developments.

SURVEILLANCE OF PRACTICE

In the interest of promoting high standards of performance in the profession and public confidence in the wide range of services it provides, the Institute has sought to maintain surveillance over practice.

- After studies and exposure to groups representing financial statement users who want the profession to retain its reputation for integrity and independence, the Ad Hoc

Committee on Independence is releasing an interim report to interested parties for comment.

- Soon to be available is Practice Review Bulletin 2 on departures from generally accepted auditing standards and accounting principles – emerging from the Institute's Practice Review Committee as a part of its program of self-discipline through education.

- During the fiscal year, the Committee on Professional Ethics replied to more than 65 formal inquiries. Some 73 alleged violations of the Code also came to its attention. After exploration, 18 such cases were sent to the Trial Board. In addition, 45 cases were closed by the Committee because its investigation led to the conclusion that the complaint was not fully justified, or because the inquiry itself produced a promise of reformation on the part of a first-time offender which seemed to warrant dismissal of the case.

- A national conference on professional ethics was held for the first time. About 100 representatives of state societies and state boards discussed compliance and the exchange of information among disciplinary authorities.

- The Planning Committee is considering a proposal to encourage quality control in independent audits.

UNIFORM STANDARDS

The growth of domestic and world business also has made it imperative for the Institute to promote the adoption of uni-

form standards governing the issuance of CPA certificates, recognition of qualified accountants of other countries, and freedom of movement in interstate and international accounting practice.

- The Institute's main contribution to the existence of nationwide standards, under the policy direction of the Board of Examiners, was the preparation of two Uniform CPA Examinations and the grading of 121,500 examination papers of 34,300 candidates from 54 jurisdictions—including the Territory of Guam, a new jurisdiction.

- To further the development of uniform standards, a blue-ribbon Commission on State Legislation, including representatives of the public, was proposed by Administrative Vice President John L. Carey. The idea has been endorsed by the National Association of State Boards of Accountancy and a committee of the American Accounting Association. The Planning Committee is now preparing a prospectus.

- In the meantime, the third national conference on state legislation was held for representatives of state societies and state boards of accountancy.

- During the year the Executive Committee authorized the submission of an *amicus* brief urging the U. S. Supreme Court to consider the appeal of a case involving practice by out-of-state firms in Florida (*Mercer v. Hemmings*). The brief was confined to a statement of the national implications involved in the case without reference to the merits of the positions taken by any of the parties in the litigation. The Supreme Court decided not to review the case, on the ground that it did not involve a substantial federal question.

● In the interest of promoting the recognition of qualified accountants from other countries, a Council resolution supplementing the proposed Institute by-laws would establish an international associate class of membership for overseas graduates of accredited American universities who pass the CPA examination and do not intend to practice in the United States. These individuals, who cannot meet state citizenship and residence requirements, could thus demonstrate competence in accounting even though they could not practice in the United States.

A CONSTRUCTIVE FORCE IN IMPROVING EDUCATION

During the year the Institute exercised a constructive influence in improving education for the profession.

● The Planning Committee's paper on the education of certified public accountants was approved. This long-range plan of action urges that all states introduce a baccalaureate requirement for the CPA certificate pending the requirement of a graduate degree. It encourages the widest discussion of *Horizons for a Profession* and more open channels of communication between practitioners and educators; suggests concrete steps for encouraging and assisting faculty improvements; underlines the need for continuing research into the career choice process; and recommends expansion and diversification of the professional development program — including “catch-up” education developed in cooperation with the

American Accounting Association and universities.

- The Committee on Relations with Universities – after a year-long appraisal which included field research – decided to strengthen the Institute's personnel testing programs. The Institute also will cooperate in the development of achievement examinations in first-year accounting for the Educational Testing Service acting on behalf of the College Entrance Examination Board. The examinations will be used to grant college credit for accounting knowledge not obtained in a course at the school administering the examination.

- The Canadian Institute's new recruiting film—*Men of Account*—was adapted for use in the United States. Institutional ads about the profession were run in 55 college newspapers during the spring and fall. A booklet portraying, in text and photos, the education and work of a young CPA was published for general distribution.

- A guide to hiring staff assistants – an aid primarily for the local firm that wants to develop and enlarge its practice – was completed.

- The Planning Committee has undertaken the development of a long-range plan for attracting personnel to CPA firms.

- More than 50 Institute-sponsored seminars on *Horizons for a Profession* were held on university campuses, and reports from all were forwarded to the Committee on Education and Experience Requirements for CPAs and the Committee on the Content of the CPA Examination. A con-

densation of the reports will be published during the coming year.

● In the course of its deliberations, the Committee on Education and Experience Requirements completed a position paper on academic preparation for professional accounting careers. The paper offers guidance on the development of curricula that are consistent with the recommendations of *Horizons for a Profession*.

● The Institute's role in the joint project to facilitate evaluation of the educational background of CPA candidates, particularly those from schools with nonaccredited programs which are not known to state boards, was completed this year when the American Association of Collegiate Schools of Business and the National Association of State Boards of Accountancy independently urged state boards to adopt the accreditation proposal of the Standing Committee on Education.

PUBLICATIONS AND PROFESSIONAL DEVELOPMENT

The Institute also has sought to maintain a high level of quality in its publications and professional development programs.

As a rough indication of readership, circulation of *The Journal of Accountancy* reached 123,000 in August — about 4,500 above circulation for the same issue last year. *The Journal* has a new format and an enlarged "Taxation" department. *Management Services* has a circulation of 21,800. *The CPA* is sent to all Institute members.

Under the policy direction of the Board

of Managers, participation in the professional development program soared to 41,000 man-days in 1967—about six times the participation in 1960. At present, the professional development program consists of some 44 courses with 81 days of instruction, and it continues to grow.

New courses released during the fiscal year included tax research methods and techniques, Subchapter S corporations, 1968 tax lecture series, tax problems of individuals, bank auditing and the Level II staff training program. Also released were a programmed-learning booklet on sampling for attributes, and recorded discussions concerning accountants' fees and the problems of fiduciary income and estate taxation.

Other courses, still in process, are listed below with indication of their current status.

Professional Development Courses

Nearing completion

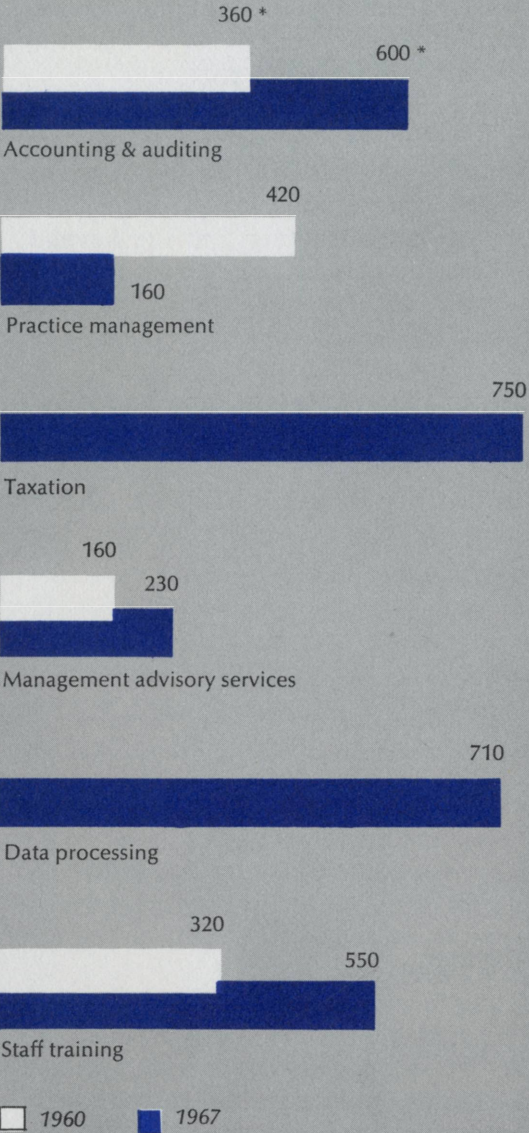
- Capital budgeting
- Fundamentals and applications of probability and statistics
- Minimizing the CPA's legal liability*

Draft stage

- Multiple corporations
- Preparation of estate and gift tax returns
- Preparation of fiduciary income tax returns for estates and trusts
- Accounting systems workshop
- Principles of computer programing

PROFESSIONAL DEVELOPMENT PROGRAM

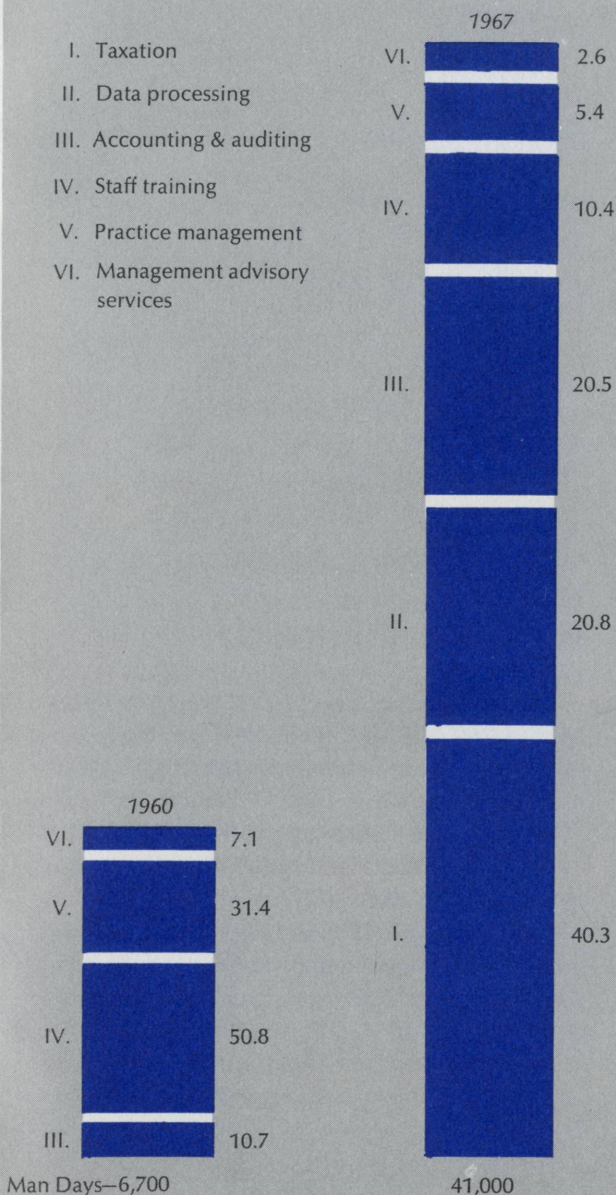
Relative Demand



*Man-days of participation *per day of current course materials.*

PROFESSIONAL DEVELOPMENT PROGRAM

Participation *



*Does not include individual study materials or courses developed by other societies and firms.

Preliminary development stage

Fiduciary accounting
Income tax allocation*
Audits of inventories
Price-level changes
Basic concepts of estate planning
Estate planning for the estateless
Estate planning for the affluent
Estate planning for the executive
Estate planning for the owner of the
 closely held corporation
Procedural problems in tax practice*
Liquidation of a corporation
Level I tax training program
Management of a tax practice*
Use of service bureaus

*Major course revisions

VOLUNTARY COORDINATION OF STATE SOCIETY AND INSTITUTE PROGRAMS

In many areas like professional development, the Institute and state societies coordinated their respective plans, programs and activities.

● Uniform codes of professional ethics and enforcement procedures were major topics at the first national conference on professional ethics – mentioned earlier.

● The Institute also sponsored a state society leadership conference to facilitate overall planning. Still more opportunities were presented at the Institute-sponsored annual meeting of the State Society Executives Association and in direct requests for assistance from state societies. The *State Society Newsletter* continued to be a useful source of information.

● State societies received such public relations aids as a series of tax articles and feature stories for placement in local newspapers with attribution to state society officers. The societies also received reproductions of the institutional recruiting ads for insertion in college newspapers beyond the major ones covered by the Institute itself. The Institute's speakers bureau helped provide speakers for state society programs and conferences.

Reciprocally, the Institute was the beneficiary of much assistance from the societies. In addition to the promotion of professional development, for example, societies arranged field trips for Institute staff in many communities so that they might sample the views and concerns of members firsthand. State society technical committees were also of great assistance in reviewing exposure drafts of proposed pronouncements.

COOPERATION WITH ALL ORGANIZATIONS OF ACCOUNTANTS

The Institute took every opportunity to cooperate with organizations of accountants, at home and abroad, to facilitate the profession's contribution to the public good.

● At home, the Institute participated in the work of the Accounting Careers Council and "Summit" gathering of five national accounting associations. There also was a joint meeting of American Accounting Association and Institute officers.

● Abroad, the Institute was represented in the Ninth International Congress, two

meetings of the Accountants International Study Group, the Fifth Conference of Asian and Pacific Accountants, the annual meeting of the Canadian Institute of Chartered Accountants, and the 50th anniversary meeting of the Instituto Mexicano de Contadores Publicos.

● The staffs of the national professional societies in Australia, Canada, the United Kingdom and the United States continued to exchange information on a number of topics of mutual interest.

● The Institute made a grant for establishing a Spanish-language accounting newsletter for distribution in Latin America. Professor Stephen A. Zeff of Tulane University will be the managing editor.

A FULL-TIME STAFF OF SUFFICIENT SIZE AND COMPETENCE

The Committee on Structure noted in its 1966 report that the Institute had passed over the line that separates a small from a large organization — in sheer size, as well as complexity in program. For this reason, it became the Institute's objective to strengthen the full-time staff, both in size and competence, so that the organization could move with speed and precision in the service and leadership it provides in the course of a typical day.

On a Typical Day at the Institute . . .

. . . more than 270 outside telephone calls will be received;

- . . . some 40 visitors will be welcomed;
- . . . 2,500 pieces of mail will arrive;
- . . . 4 times that number will be dispatched from the office;
- . . . the library will respond to 155 inquiries and ship out 70 books on loan to members.

The full-time staff of 235 also will be . . .

- . . . drafting a CPA examination and supervising a force of 100 graders reviewing some 60,000 individual papers from the last CPA examination;
- . . . writing or editing, designing and proofreading several of the nearly 45 issues of Institute periodicals and newsletters published each year – as well as 3 dozen books and pamphlets;
- . . . processing some of the 150,000 orders received each year for books and pamphlets;
- . . . drafting, revising or reviewing two dozen or so research studies in process and some 50 proposed pronouncements on accounting principles, auditing, taxation and management services;
- . . . preparing for or attending several of the 300 meetings of 70 Institute committees;
- . . . keeping track of scores of bills in Congress – buried among thousands – which could have an impact on the profession's future;
- . . . processing some of the 4,500 membership applications received annually,

and preparing for the annual round of Council nominations and committee appointments;

- . . . preparing or revising the 15 or so new courses to be introduced into the \$900,000 professional development program over the next year;
- . . . handling — on the basis of committee precedent — several of the 1,500 ethics inquiries received annually;
- . . . fulfilling some of the 110 speaking engagements accepted each year;
- . . . and conferring with literally scores of people — members and educators, financial editors and government officials, state society executives and the staffs of other professional and trade associations, legal counsel and insurance advisers, Congressmen and public relations consultants, representatives of the United Nations and visitors from abroad.

AN ORGANIZATION OF DISTINCTION

In 1966 the Committee on Structure emphasized the importance of sustaining the Institute as an organization of distinction. The Committee recognized, too, the importance of keeping the Institute's organizational form suited to the needs of all its members, both in and out of practice.

Prompted by the Structure Committee's report, a comprehensive study of the Institute's organization was conducted by the Executive Committee and staff in 1966-67.

Proposals which did not involve by-law changes are being put into effect gradually by administrative action. Others were cast in the form of by-law amendments and approved at the spring 1968 meeting of Council. These will be discussed further at the 1968 annual meeting in Washington, D. C. and submitted to the entire membership in a mail ballot. If adopted, they will be implemented in 1969-70.

The proposed changes were described in the July-August issue of *The CPA*, and a complete copy of the revised by-laws will be sent to all members with the mail ballot.

CONCLUSION

The accounting profession's service to society has been advanced by the accomplishments of committees and staff in conformity with the Institute's objectives.

The full story, of course, cannot be told in a brief report such as this. The progress made during the year under review required uncounted hours of support from many individuals. The contributions of many of them go unmentioned. But the constructive achievements thus far realized in dealing with the opportunities and problems of a great and growing profession reflect the interest, talent and energy invested through the Institute by its members and staff.

Objectives

of the American Institute of Certified Public Accountants

Note: The following statement of the Institute's objectives reflects a series of actions by Council over the last decade. The objectives set forth here supplement, or in some cases amplify, the opening paragraph of the by-laws devoted to the purposes of the organization.

- *To sustain itself as an organization of distinction by the wide participation of its members, by the intense and creative involvement of the best of the profession in Institute affairs, and by an exceptional quality of staff performance.*
- *To adopt a form of organization best designed to meet the needs of all its members both in and out of practice.*
- *To engage a full-time staff of sufficient size and competence and to organize their efforts — both in terms of direct staff work and assistance to committees, so that the organization can move with speed and precision to strengthen continually its service and its leadership.*
- *To perform in a manner which will persuade all parties at interest — government, financial institutions, the business community, universities and the public generally — to accept the organization as the authoritative source of principles and procedures in its field.*

● *To promote improvements in financial reporting by seeking to eliminate variations in reporting practices which are not justified by substantial differences in circumstances.*

● *To communicate effectively to the public, as well as to all levels of government, in regard to matters of concern to the profession.*

● *To produce valuable, new knowledge in its field through research and experimentation, the analysis and synthesis of experience, and the development and adaptation of new techniques.*

● *To identify those areas in society where the need for the CPA's attest function exists and to assist its members in equipping themselves to perform the attest function wherever a useful social purpose would be served.*

● *To maintain surveillance over practice in the interest of promoting high standards of performance by the profession and public confidence in its work.*

● *To promote the adoption of uniform, nationwide standards governing the issuance of CPA certificates, recognition of qualified accountants of other countries, and freedom of movement in interstate and international accounting practice.*

● *To serve as a constructive force in improving education for the profession and, ultimately, all business education.*

- *To encourage a continuous restatement of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice, and a clarification of the responsibilities appropriate to universities, practitioners and professional societies in the education and training of CPAs.*
- *To maintain a high level of quality in its publications and in its program of professional development, and thus to aid its members in discharging their commitment as professional men to a lifetime of study and self-improvement.*
- *To coordinate, on a voluntary basis, the plans, programs and activities of the state societies and of the Institute, with particular emphasis on the adoption of uniform codes of professional ethics and enforcement procedures.*
- *To cooperate fully with all organizations of accountants, both at home and abroad, to the end that the entire accounting function can make its maximum contribution to the public good.*
- *To encourage every eligible CPA, in furtherance of his personal development and in fulfillment of his professional obligations, to become a member of both his state society and the Institute.*
- *To encourage all CPAs to perform a wide range of services in the broad field of accounting consistent with their professional competence and their ethical responsibilities. (Refer below to "A Description of*

the Professional Practice of Certified Public Accountants” which was approved by Council in 1966 as an official statement of Institute policy.)

A description of the Professional Practice of Certified Public Accountants

Certified Public Accountants practice in the broad field of accounting.

Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization.

The information which accounting provides is essential for (1) effective planning, control and decision making by management, and (2) discharging the accountability of organizations to investors, creditors, government agencies, taxing authorities, association members, contributors to welfare institutions, and others.

Accounting includes the development and analysis of data, the testing of their validity and relevance, and the interpretation and communication of the resulting information to intended users. The data may be expressed in monetary or other quantitative terms, or in symbolic or verbal forms.

Some of the data with which accounting is concerned are not precisely measurable, but necessarily involve assumptions and estimates as to the present effect of future events and other uncertainties. Accordingly, accounting requires not only techni-

cal knowledge and skill, but even more importantly, disciplined judgment, perception and objectivity.

Within this broad field of accounting, certified public accountants are the identified professional accountants. They provide leadership in accounting research and education. In the practice of public accounting CPAs bring competence of professional quality, independence, and a strong concern for the usefulness of the information and advice they provide, but they do not make management decisions.

The professional quality of their services is based upon the requirements for the CPA certificate—education, experience and examination—and upon the ethical and technical standards established and enforced by their profession.

CPAs have a distinctive role in examining financial statements submitted to investors, creditors and other interested parties, and in expressing independent opinions on the fairness of such statements. This distinctive role has inevitably encouraged a demand for the opinions of CPAs on a wide variety of other representations, such as compliance with rules and regulations of government agencies, sales statistics under lease and royalty agreements, and adherence to covenants in indentures.

The examination of financial statements requires CPAs to review many aspects of an organization's activities and procedures. Consequently they can advise clients of needed improvements in internal control, and make constructive suggestions on financial, tax and other operating matters.

In addition to furnishing advice in conjunction with their independent examinations of financial statements, CPAs are engaged to provide objective advice and consultation on various management problems. Many of these involve information and control systems and techniques, such as budgeting, cost control, profit planning, internal reporting, automatic data processing, and quantitative analysis. CPAs also assist in the development and implementation of programs approved by management.

Among the major management problems depending on the accounting function is compliance with tax requirements. An important part of the practice of CPAs includes tax planning and advice, preparation of tax returns, and representation of clients before government agencies.

CPAs also participate in conferences with government agencies such as the Securities and Exchange Commission, and with other interested parties, such as bankers.

Like other professional men, CPAs are often consulted on business, civic and other problems on which their judgment, experience, and professional standards permit them to provide helpful advice and assistance.

The complexities of an industrial society encourage a high degree of specialization in all professions. The accounting profession is no exception. Its scope is so wide and varied that many individual CPAs choose to specialize in particular types of service.

Although their activities may be diverse, all CPAs have demonstrated basic compe-

tence of professional quality in the discipline of accounting. It is this which unites them as members of one profession, and provides a foundation for extension of their services into new areas.

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