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PROVIDING FOR RETIREMENT

A retirement compensation plan is one of the long-range provisions in a partnership agreement, and if it is a good one it can be of as much advantage to the firm as it is to the partner who wishes to retire. Without such a plan, a partner whose contributions to the firm have been reduced by age might resist retirement because of financial reasons. This could block the way for a more vigorous partner.

The major problems involved in setting up retirement provisions are in deciding on the following:

- The amount of the annual payments.
- The period of years in which payments will be made.
- When retirement becomes effective.

Quite obviously, there is no one plan suitable for all firms. Much depends on the size and makeup of the firm and the contributions that individual partners have made to it in the form of capital or clients. But it is most important to have the plan in writing. You must let people know where they stand.

Locke Grayson, CPA, of New York believes that many smaller partnerships think of retirement as selling out for a definite amount of money that has been funded over a period of time, and that, although the partnership may continue to use his name, the retired partner retains no real interest in the firm, except perhaps as a kind of creditor.

All of the partners in his firm were originally staff members; no one contributed significant clients before or on achieving partnership and no one paid into a capital account for his share. In providing for retirement (or death), they consider that a partner is being rewarded not only for the past, but also because his work has an impact on the firm even after he has left.

Their partners will not "sell out" but they will retire from active work. How much the partnership will provide will depend directly on the future prosperity of the firm. If it does well, the retired partners will benefit accordingly. The converse is equally true.

The retirement of a partner has its greatest impact on the firm in the years immediately following, and then gradually this effect diminishes as the void is filled in various ways. At Mr. Grayson's firm, a retired partner's percentage share declines over a 10-year period, after which it stabilizes at a relatively low level for the rest of his life.

Their accounts are still kept on a cash basis. When Mr. Grayson and his partners first set up a partnership agreement, they decided that, because the years in which expenses are paid are so easily managed, they should base their retirement payments on a percentage-of-gross fees. He says that, although they now realize that the year of collection of fees can also be controlled to some extent, they are still using the same basic system 20 years later.

They do not have a mandatory retirement age and a partner can retire at 60. But for every year under 65 his payments are permanently lowered by 5 percent. Death and disability provisions are consistent with those arrangements.

Their partnership agreements contain a hardship clause so that it's worthwhile for the remaining partners to continue. This way, they aren't left with less than a stated amount, plus cost of living adjustments, after payments have been made to the retired partners. Because his firm has prospered more rapidly than the cost of living index has risen, Mr. Grayson believes that the hardship floor should rise with the firm's net or gross.

Mr. Grayson points out that because his firm has not lost any partners through death, disability or retirement since it was reorganized 20 years ago, they have no experience in how well their system works. They hope they are not in for any unexpected shocks.

CPAs who would like to read other ideas on providing for retirement should see chapter 410 of the MAP Handbook.

Letter to the Editor

To the Editor:
As chairman of the Institute's state legislation committee, I'd like to invite readers' attention to an important federal appellate court decision concerning temporary practice by out-of-state CPAs. If the decision becomes a precedent for other courts, many CPAs who practice across state lines could find themselves in difficulty.

Briefly, the case, *Bauman & Vogel* v. *Del Vecchio et al.*, may be summarized as follows:

Bauman & Vogel, CPAs, a New Jersey professional corporation, was held to be not entitled to collect its $100,000 fee for services rendered to Del Vecchio et al., a Pennsylvania client. The U.S. District Court for the Eastern District of Pennsylvania based its decision on the fact that the accounting firm did not qualify to do business in Pennsylvania, either under the accountancy law or the general business corporation law.

The Pennsylvania accountancy statute permitted out-of-state CPAs to practice without registration in Pennsylvania, when the services were "temporality incident" to their regular practice. The court found that the firm did not qualify for this exemption since the services spanned more than a year and were rendered entirely on behalf of a Pennsylvania client. "Taking an inventory," the court continued, "in an out-of-state client's warehouse in Pennsylvania would, we think, constitute temporary practice as an incident to an accountant's services to that out-of-state client. Here, in sharp contrast, extensive services were rendered entirely on behalf of a Pennsylvania client and were performed almost exclusively in Pennsylvania."

The decision, handed down by the district court in October 1976, was upheld by the U.S. Court of Appeals for the Third Circuit on November 1, 1977.

Pennsylvania's temporary practice provisions are similar to those of many other states, and the court's ruling on their meaning — at least on the facts in this case — is contrary to many practitioners' understanding of their obligation to register with the state accountancy board or to obtain a CPA certification in that state.

Practitioners who engage in temporary practice in other states where they do not hold certificates, do not maintain an office and are not registered to do business might therefore be well-advised to contact the accountancy board in each state to be sure they are complying fully with the requirements of the law.

—by George D. Anderson, CPA
Helena, Montana

Computer Services Conference

The AICPA will hold its fourteenth annual computer services conference, dealing with various aspects of computer-based business systems, on May 22-25 at the Marriott Motor Hotel in Atlanta.

This year there are five different tracks, all designed to allow participants to choose specific courses of study in basic computer auditing, advanced computer auditing, practice management, industry applications and general topics in EDP.

Besides basic courses on computer auditing and concepts, there is a short course on auditing mini-computer systems. (See announcement of a new, small computer, page 4.)

Participants from local firms may also find the practice management track to be of particular interest. This has courses on using EDP for practice management purposes and on computer operations in a CPA firm. Other courses give guidelines on assessing computerized tax return and general ledger and financial reporting systems.

In addition, there will be several 1½ hour forum sessions where ideas can be exchanged on subjects such as the audit implications of a CPA's participation in the implementation of a computer system, or on word processing, etc.

The registration fee for the conference is $225 and the recommended CPE credit is estimated at 21 hours. An advanced program describing the conference in detail will be available in March. For information, contact Alan Frotman at the AICPA.

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How to Select and Recruit Competent Personnel

People are the only inventory that a CPA firm carries. But because of the relationship of its personnel (or raw material) to the services offered its clients, a firm's reputation depends on the quality of the people it hires.

Good people are obviously a rare and perishable commodity and often a firm will find that its needs are best met by hiring them at entry level. Once this decision is made, the question arises as to which colleges or universities should be approached and how best to go about selecting and recruiting the right people for your firm. Here are some ideas:

- ☐ Recruit at universities and colleges in your local area. Students have made contacts in the area and will probably want to practice there.
- ☐ Stick to schools with a proven record in accounting disciplines.
- ☐ Assess your past experience with a school. Is it successful or not from your point of view?
- ☐ Get to know the faculty. Have them to lunch or invite them to the office. Remember, the school will not approach you.

Before interviewing candidates, there are some preparatory steps that you can take that will make the process easier for all concerned.

- ☐ Get the application forms in advance and look at them thoroughly. The more you know about a candidate, the more comfortable you will be able to make him feel.
- ☐ Learn interview techniques. Practice with your partners and remember your own interview. The interviewer should be the person best able to identify with graduates. If he is an alumnus from the same school, that is even better.

Some Interview Techniques

- ☐ Be friendly and encourage responsiveness. You must draw out that information which is not on the application form. Ask him what he liked best and least about his part-time work.
- ☐ However, you must avoid asking questions that can be answered with a simple yes or no. For example, rather than ask, "Did you enjoy your part-time work?" ask instead, "What did you find most enjoyable about your part-time work?"
- ☐ Listen to him. Get him to ask questions and always give honest answers. Never get people into your firm under false pretenses.

How to Evaluate a Student's Qualifications

Evaluation is based on personal judgment and there is no way to strip subjectiveness out of it. However, you must consider a candidate's

- ☐ *Personal qualities.* What impression is he likely to make on others, both initially and later?
- ☐ *Reliability characteristics.* Could you depend on him to carry out an assignment?
- ☐ *Mental abilities.* How well would he be able to carry out an assignment? Is he good at identifying problems and planning effective strategy?
- ☐ *Qualifications.* How well do the candidate's qualifications match with the job description?

Criteria for Evaluating a Candidate

- ☐ When reviewing a student's academic achievements, try to obtain the class standard.
- ☐ Check his involvement in related activities and try to determine how his interests mesh with your objectives.
- ☐ He must be able to communicate — be fluent and precise. He is useless to you otherwise.
- ☐ Personal appearance is important because of its effect on clients. He should be neat and well dressed by today's standards.

You can sometimes learn a bit more about a person during an interview from his mannerisms. He may be telling you one thing but his hands, legs and especially his feet may be signalling something quite different. What you are looking for in a person is

- ☐ *Maturity.* Can he accept his limitations and overcome dissatisfaction? Is he responsible towards his family? Check to see if he got good grades in subjects that he did not like.
- ☐ *Stability.* Can he maintain composure and take criticism? You don't want a moody person with peaks and valleys.
- ☐ *Industry.* Is he willing and conditioned to work hard? Find out if he earned a portion of his college tuition.
- ☐ *Perseverance.* Is he easily distracted? Is he a self-starter? Can he finish jobs? It is very important that the person you hire be willing to work hard and persevere.
- ☐ *Self-reliance.* Is he willing to take action on

his own initiative to rectify errors, etc? You need someone who can operate successfully without close supervision.

- ☐ *Motivation.* Is he opinionated? Does he have a *star* complex? Remember, although you want a self-starter, he must be a *team* player.
- ☐ *Leadership.* Is he a class leader, a member of honorary societies, etc? Has he shown leadership in extracurricular activities? He must also be able to get along with others.

The accurate evaluation of an individual's assets and liabilities is the determining factor in recruiting the right person for your firm. There are no absolute answers and your judgment depends on the data gathered. So make sure that the information you have on a person is correct and complete. And get all the facts you can. Draw conclusions by checking the consistency of the candidate's responses throughout the interview and search for other possible meanings.

If the applicant has made a favorable impression on you, tell him that he will be invited to your office to meet other members of the staff. This should be done within a short time after the interview. Make sure that your staff knows about him so that he feels important. In fact, treat him as you would a client. Remember, our future partners will come from personnel hired at entry level.

—adapted from a speech by Charles Kaiser, CPA, Los Angeles

Practitioners might like to refer to the MAP Handbook, chapter 302, for additional ideas, forms and types of letters that can be used in successful recruiting.

A New, Small Computer

The International Business Machines Corporation has introduced a computing system that enables small businesses to automate their accounting operations.

Designed to fill the needs of companies with revenues of about $1 million — a rapidly growing market for small computers — the machine, the IBM 5110, ranges in price from $9875 to $32,925 depending on memory size and other features.

According to the company, the new system and related programs can handle general ledger and accounts payable operations and could be programmed to provide a variety of reports that would aid in analyzing data.

The Case of the Missing Tidbit

One of our California readers noticed something puzzling in the article "Musings from Maine" on page 2 of the December 1977 edition of *The CPA Practitioner.*

When the A, B and C percentage figures are added, it appears that 100 percent of your time produces only 90 percent of your results.

That intrigued us too and we looked all over Maine for that missing 10 percent. It wasn't there and so it seems that it got lost in our typewriter.

While we won't divulge how much of our time was actually spent on the search, we will admit to giving it a "C" ranking.

It should read, 65 percent of your time produces 15 percent of your results, instead of 5 percent as reported.

–Editor

IRS Publications for Payers and Preparers

The Internal Revenue Service has announced the availability of Publication 1054 which explains the rules federal income tax return preparers are subject to under the Tax Reform Act of 1976 and recently published regulations.

The publication, *Highlights of New Rules for Income Tax Return Preparers,* points out the new requirements, such as manually signing returns and including identifying numbers and addresses, filing an annual information return each July, keeping copies of all returns prepared, as well as the penalties for failing to do these things.

The publication will be mailed to all return preparers who filed Form 5717, *Annual List of Income Tax Return Preparers,* which was required to be filed by July 31, 1977. Local IRS offices will also have copies of the publication.

Final regulations were published in the *Federal Register* on November 23, 1977 and apply to all income tax returns prepared after December 31, 1977.

The service has also issued Publication 509, its tax calendar and checklist for 1978. In compiling the calendar, the IRS has taken Saturdays, Sundays and legal holidays into account, but not local banking holidays. And, among other things, the checklist draws attention to some of the federal taxes and returns that could concern a sole proprietor, partnership or corporation.

How the IRS Analyzes Compliance with Voluntary Self-Assessment Tax

The Internal Revenue Service devotes approximately 35 percent of its total budget to its audit program. This results in its auditing only a small percentage of the income, estate, gift, partnership and small business corporation returns filed (about 2.4 percent in fiscal 1977).

Data gathered by IRS surveys can be used to represents the results that the IRS could expect if all returns in an audit class were examined. Over time, the surveys provide estimated levels of voluntary compliance which is the amount of tax that *was* self-assessed by taxpayers stated as a percentage of the amount that *should have been* self-assessed.

The tables below represent a comparison of voluntary compliance levels (VCL) for 1969 and 1973 based on adjusted gross income (AGI) for individual returns and asset size for small corporation returns.

INDIVIDUAL RETURNS

AGI	VCL-1969	VCL-1973	Difference
NONBUSINESS			
UNDER $10,000			
Standard	96.5%	94.2%	– 2.3%
Itemized	90.2	86.1*	– 4.1
$10,000-$50,000	96.5	96.1	– 0.4
$50,000 and Over	94.7	95.6	+ 0.9
BUSINESS			
UNDER $10,000	69.4	57.2*	–12.2
$10,000-$30,000	88.4	86.8	– 1.6
$30,000 and Over	91.6	91.2	– 0.4
TOTAL	93.1%	92.8%	– 0.3%

*The declines in Compliance between 1969 and 1973 are statistically significant at the 95% Confidence Level.

SMALL CORPORATION RETURNS

(Asset Size)	VCL-1969	VCL-1973	Difference
UNDER $50,000	60.7%	52.6%	– 8.1%
$50,000-$100,000	74.4	73.4	– 1.0
$100,000-$250,000	85.0	78.7	– 6.3
$250,000-$500,000	83.9	83.2	– .7
$500,000-$1,000,000	88.4	86.0	– 2.4
TOTAL	83.7%	80.5%	– 3.2%

The service's first consideration is to determine the audit coverage for each class of taxpayers that will produce the most revenue for the budget dollars spent; but because of the costs involved in auditing them, this approach does not adequately cover the low complaint classes such as small individual businesses and lower asset corporations.

Since research has shown that an audit does affect the level of taxpayer compliance and that an audit coverage in a particular class increases the compliance level of those who are not audited, as well as those who are, the service does divert some of its audit resources from higher to lower compliance levels.

MAP Your Way Ahead

When planning their continuing education courses, many CPAs neglect those that have the management of an accounting practice as the central theme. They are more inclined to attend technical meetings that can help them improve their client services, the direct benefits of which are more readily apparent.

This is a pity because, in avoiding courses that are designed to increase management abilities, the CPA could be neglecting his most important client — his own firm.

After attending many of these courses and being involved in local and state MAP committees, it is my view that the indirect benefits of these courses lead directly to increased client services and profit.

Let's review a few of the benefits that I have found.

- ☐ *Time savings.* Because of group interaction, many MAP courses reveal other practitioners' opinions on a given subject or what they have done in that area. With a little follow-up, I sometimes obtain various documents from other practitioners. These include office and procedural manuals, filing system forms, budgets, partnership agreements, etc. I put them to good use, not to mention that I save time by not having to write my own.
- ☐ *Personal relations.* Very often, MAP courses will give guidance on problem areas such as recruiting, training, motivation, remuneration, etc. If this results in decreased turnover and higher productivity from satisfied employees, it can lead directly to higher profits.
- ☐ *Increased billings.* The more efficient and productive the firm, the more time will be available to develop business and increase billings and profits. Also, other CPAs will be more inclined to refer clients that they are unable to service to a well-managed and efficient firm.
- ☐ *Mistake avoidance.* Many successful CPAs are willing to discuss the steps they have taken during their careers. By participating in group discussions at MAP courses, I am able to learn from their experiences and to avoid making the mistakes they made in the past.
- ☐ *Increased CPE time.* I find that these courses increase my managerial abilities and thus my profits. This enables me to make more time available for research and CPE technical courses.

And so the cycle continues. If you are wondering why the firm down the street is growing so quickly, ask for their CPE curriculum.

If it's still hard for you to find the time to attend MAP courses, try to organize a meeting of a few firms in your area to discuss subjects of common interest. Through my work on local and state MAP committees, I have recently organized two groups that meet once a month for breakfast to discuss their problems. The initial results of these meetings have been beyond my expectations.

–by Richard K. Kornmeier, CPA, Fort Lauderdale

Practice Management Conferences

The management of an accounting practice committee has announced the dates of the fifth annual series of AICPA practice management conferences.

A conference on firm management and administration is scheduled for July 31 and August 1. Participants will be given step-by-step instructions on how to develop and use strategic and operational objectives in profit planning or how to develop and use a long-range plan and annual budget. Other major topics include establishing a firm philosophy and using administrative reviews to improve firm effectiveness.

A second conference, on August 3 and August 4, will be on people management. This will cover subjects such as staff evaluation and motivation, and the preparation and use of a personnel policy manual. Both conferences will be held at the MGM Grand Hotel in Las Vegas, Nevada.

Practice growth and development will be covered at the third conference on September 28 and 29 at the Hyatt Hotel in Cambridge, Massachusetts. This will offer guidance on training partners and staff to develop new engagements and provide new insights into growth through mergers and through MAS.

The fourth conference, on November 2 and 3 at the Marriott Hotel in Atlanta, Georgia, will deal with partnerships and professional corporations. Topics include partner selection and retention, the role of the managing partner, and the advantages and disadvantages of professional corporations.

The recommended continuing professional education credit is 16 hours for each conference. Brochures on the conferences will be mailed to all partners of practice units towards the end of May. For further information, contact Barry Kuchinsky, member relations division, AICPA.

Close Encounters of the First Kind

Eyeball to eyeball contact with prospective clients (the buyers) is always the best way of securing (selling) an engagement. There has never been a brochure, letter of recommendation or proposal written that will do the job you can do in person. So place yourself with a prospective client whenever you can.

How much does your firm spend on written proposals? Undoubtedly too much.

Those one-inch thick, boring proposals sell little. I'll bet the ultimate decision maker doesn't read them. (If he's a busy and effective executive he shouldn't read them.) He's interested only in a few accounting oriented matters.

- ☐ Can he "live with and be comfortable with" the people in the accounting firm?
- ☐ Are they competent?
- ☐ Fees.

The rest of the information in the written document is, as far as he is concerned, secondary.

The proposal serves a real purpose as a confirming document, but it is clearly not what clinches the engagement. The people interacting with the prospective client will do that.

Consider the following observation: If accounting firms spent as much on preparing effective oral presentations as on written proposals, they might increase their success rate 100 percent.

Obviously, sometimes proposals are necessary, even valuable. However, you should never mail proposals. Carry them to the prospective client and review them carefully with him. When this is done, you are in the selling and closing process once again. Did you ever consider what your mailed proposal is accompanied by? (The *Wall Street Journal,* complaint letters to the president, junk mail, etc.)

Even at oral presentations you should not hand out proposals until the presentation is completed. It is too easy for the prospective client to pay attention to it instead of to you.

The proposal should be primarily an in-person tool to help you show the client why he needs your services. Telling him in a letter is not as effective as going over each item with him.

A well-done brochure, while necessary, does not persuade anyone. Too often, the buyer reads it and then thinks, "Well now, I know all about them — or what they are like — or what they do." The implication is that now he does not need to talk to you. Your goal should always be to meet with prospective clients. Brochures frequently neutralize the need to do so in the mind of the client; therefore, don't hand them out until after you have met and talked.

What's the most important time when you make a one-hour speech? It's the 15 minutes following. If someone asks you for information about your firm or its services, don't give it to him and don't hand him a brochure either. Arrange an appointment.

When people call or write saying, "Why don't you put some information in the mail for me?" don't do it. It's usually the last you will hear of them. Instead, arrange an appointment. Think about this! How can a brochure ask questions, show insight, really hear about problems or offer the right kind of suggestions? Only you can do that, at a meeting with that person.

You, the auditor, tax adviser, MAS partner, manager or supervisor, are the best, most effective first impression your firm can make. You only have one chance to make a good first impression, so always make it eyeball to eyeball.

–based on material supplied by Mike McCaffrey, Mike McCaffrey & Associates, 3822 Campus Dr., Suite 133, Newport Beach, CA 92660

Taxpayers versus IRS

An article in the December 1977 *Client Information Bulletin* of Doty, Jarrow and Co. points out the most common areas of controversy between taxpayers and the IRS.

Apparently, the General Accounting Office (GAO) found that the eight most significant issues brought to the IRS appellate division level over the fiscal years 1972-1976 were:

- ☐ Compensation for services.
- ☐ Unreported, understated, reconstructed income.
- ☐ Degree versus nondegree students for scholarship exclusion purposes.
- ☐ Support tests for children of divorced parents.
- ☐ Definition of trade or business.
- ☐ Travel expenses. (Deduction)
- ☐ Education expenses. (Deduction)
- ☐ Personal casualty loss. (Deduction)

The GAO also identified the following six issues which comprised 1 percent or more of all docketed cases received.

- ☐ Dependency exemption. (Does an individual, claimed as a dependent, qualify?)
- ☐ Dependency support. (Did the taxpayer contribute more than one-half of the support of a person claimed as a dependent?)

- ☐ Substantiation of business expenses. (Issues concerning the approximation of deductible expenses under the Cohan rule, allocation of expenses between business and personal and adequate records.)
- ☐ Deduction of employee business expenses. (Items subject to dispute concerning uniforms, tools, meals and lodging, use of personal residence for business purposes, as well as outlay for travel and entertainment.)
- ☐ Substantiation of deductible gifts. (Essentially an issue involving inadequate records.)
- ☐ Substantiation of medical expenses. (Essentially an issue involving inadequate records.)

Keeping Time

There is a drawing board in the office at Mark J. Verrastro's firm in Stamford, Connecticut, and by using horizontal line charts (spaced for writing or typing) run off by a local printer, and drawing vertical lines where needed, the staff is able to design forms for their own or their client's use.

Using their own forms, they have set up the following timekeeping procedure:

- ☐ All partners, professional and support staff are required to use a pocket-sized day timer in which to record their daily activities.
- ☐ Every Thursday (when their week ends) they prepare a weekly time report from their day timers and on Friday the chargeable time is posted to the client record sheet.
- ☐ The total hours chargeable to each client are then cumulated weekly on another form that allows comparisons to be made with the projected annual budget for that client.
- ☐ The total hours worked by all personnel are then transferred to another form to obtain a weekly summary of staff hours worked.

This information is reviewed on Friday afternoons by one of the partners to determine how time has been spent by their production people, and what the details are for each client.

There is a staff meeting every Monday morning where this information is discussed; then bills can be sent out or other action taken.

Mr. Verrastro says that the system is simple but has proved adequate for his firm.

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