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MARCH 1978

the CPA practitioner

An AICPA publication
for the local firm

HOW TO RUN A MEETING

To a busy CPA who attends a lot of meetings, a poorly conducted one can be a major time waster.

Very often this is because participants go to a meeting without knowing its exact purpose, precisely what will be discussed or what preparation is needed for them to be able to make a valuable contribution.

It is most unlikely that maximum benefit can be obtained from a meeting without advance preparation for it.

Also, as is often the case, participants become enamored with the process of carrying on the meeting rather than focusing upon the results they want it to achieve.

Therefore, the most important thing to think about in planning a meeting is its prime objective, that is, the output you wish to have at the end of it.

Once the meeting objective and purpose have been determined, the next thing to do is plan the agenda. The responsibility for this will fall heavily on the chairperson who should probably spend as much time planning a meeting as conducting it. Here are a number of tips that he or she should keep in mind:

- ☐ List all items of possible discussion and determine the specific problem, situation or opportunity that makes each one particularly appropriate.
- ☐ Keep clearly in mind what the discussion of a specific problem, situation or opportunity is expected to accomplish.
- ☐ Determine in advance who should be at the meeting. The only people who should attend are those who are essential in view of the items suggested for discussion.
- ☐ Based on the above analysis, select those items that you (the chairperson) consider would be the most profitable to work on and list them in order of their importance.
- ☐ Develop an agenda for the meeting, showing the items to be worked on, the objective(s) of the meeting, questions that should be answered and the preparation that is required.
- ☐ This detailed agenda should then be sent to each participant in advance of the meeting in order to permit adequate time for preparation.

If two-way communication is desired during a meeting, it is the chairperson's responsibility to ask questions that will produce worthwhile participation. You must plan these questions in advance, taking care to avoid those with built-in answers.

During a meeting, it is often useful if the chairperson frequently summarizes the points that have been brought out up to that stage. This helps prevent repetition and pushes the group ahead.

Here are some things to think about on that score:

- ☐ Summaries should be recapped in terms of the objective(s) of the meeting. It is useful to visually record the group's ideas on a chart or blackboard. This also helps prevent repetition and aids in summary analysis.
- ☐ As the summaries are made, and if the purpose of each is to reach a conclusion, then the chairperson must ask for or give a conclusion in order to move on to the next point.
- ☐ Once a conclusion is reached, it is necessary to spell out some action so that there is sufficient follow-through at the end of the meeting. In other words, who is going to do what and when.

The chairperson should never leave a subject until he or she has clearly stated what action will be taken by whom and by what date. Remember, the purpose of the meeting is to come to some conclusion as to what action will be taken.

—by W. Thomas Porter, Jr., CPA, PhD, Seattle

To the Editor

A Very Big Plea to the FASB

Accountants, accountants, everywhere
harken!
The time has come to do some loud barkin'.
Cannot the FASB be denied
Its decree that segment disclosure be applied
Not only to audits where clients are owned
publicly
But to all small businesses universally?

Segment disclosure may have merit
For a General Motors or Electric,
But for the corner grocer to be shown
divisible
May cause his profits to become invisible!

So why then, board, do you now extend GAAP
To where the results are mere claptrap?

–by Herbert Haber, CPA, New York

National MAS Training Program

The first annual AICPA National MAS Training Program will be held at the University of Texas–Austin during the week of June 11-16, 1978. The program will develop consulting skills for practitioners with less than two years experience in MAS whether or not their firms have formal MAS departments.

Some of the major topics to be covered include: engagement planning, scheduling, conduct and documentation; systems design and implementation; analytical and problem solving processes; small business consulting; and communications.

Instruction will consist of lectures by a nationwide faculty of outstanding, experienced practitioners as well as small group application sessions led by University of Texas Graduate School of Business faculty members.

The tuition fee is $575 and room and board will be about $125. For information on this program, please contact Paul Miranti at the AICPA.

AICPA Changes Distribution Policy for CPE Catalog

Although there is no change in the practice of mailing informative brochures about specific CPE courses to CPAs in ample time for them to make decisions on registration, the AICPA has changed its distribution policy for the 1978-1979 CPE catalog.

While each practice unit will continue to automatically receive a catalog because of its use by firms as a planning aid, copies will no longer be mailed to all 140,000 members of the Institute.

Therefore, each practice unit should file its CPE catalog in a central location such as the office library or with the training coordinator.

However, anyone who would like to obtain a free personal copy of the catalog can do so by writing to the CPE marketing department, AICPA.

The SSA Announces Procedures for 1978 FICA Reporting

The Social Security Administration has announced that recent amendments to the act have greatly simplified employer reporting procedures for annual reporting of wages for employees.

Previous legislation, which was effective with the 1978 tax year, established annual reporting procedures eliminating the requirement that employers file quarterly reports of employee wages (Form 941A) to the IRS.

The law requires that wages be reported directly to the SSA yearly by sending Form W-2. However, the W-2 was to reflect quarterly earnings. This requirement would have involved a major costly reprogramming of payroll systems.

The recent amendments have eliminated the requirement that quarterly breakouts be shown. The W-2 will be used for total wages only.

According to the administration, employers will still be required to send quarterly reports (Form 941) of withholdings and deposits directly to the IRS as in the past.

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A Program of Professional Reading

CPAs are faced with a difficult task in staying abreast of the flood of developments in accounting, auditing, tax and related areas. And since it is impossible to read everything at the office, many CPAs, myself included, have professional literature mailed directly to their homes.

The practitioner in a local firm usually does not have a research staff to review and summarize the often lengthy and complex pronouncements and regulations, and there is no simple way to keep current. However, I have developed a reading program that has been helpful to me and may be of interest to other CPAs.

Usually, this professional literature can be divided into four general categories. These are:

- ☐ Monthly items.
- ☐ Items that are issued periodically.
- ☐ Periodic items that must be ordered separately.
- ☐ Annual items.

The first group consists mostly of magazines and CPA association newsletters which I handle in the following way:

- ☐ They are first placed in a "to be read" file at my home.
- ☐ All items are then read within a week, a note being made of any topic that pertains to a client or is of professional interest.
- ☐ Any news releases mentioned in the text and thought to be informative are ordered.
- ☐ After these publications have been read they are filed at my home, by months, for possible future reference.

The principal items in the second group are the statements and interpretations of the Financial Accounting Standards Board, statements on auditing standards and exposure drafts. These are dealt with as follows:

- ☐ Each pronouncement is listed in numerical order in a loose-leaf binder, a note being made of the date it was issued, its effective date, the previous pronouncements that it supersedes and the names of clients it may affect. (I also try to make appropriate notes on the copy of the pronouncement that has been superseded or amended.)
- ☐ The item is then placed in the "to be read" file and read before the effective date of the new pronouncement in one of three ways:
    1. If it directly affects my current work, I read it thoroughly, underlining or making notes where appropriate.
    2. If it is relevant to my work at a future date, I scan it for highlights.
    3. If it is not particularly applicable, I just scan the index and paragraph titles.
- ☐ When the necessary reading has been completed, all items are taken to the office and filed in sequence with earlier pronouncements of the same type.

The third group of publications includes industry audit or accounting guides, financial report surveys, self-study course materials, etc., that I become aware of through monthly newsletters and AICPA advertisements. These items are also routed through the "to be read" file at home before being taken to the office to be stored. How soon and to what extent they are read depends on the nature of each.

The fourth category essentially contains reference materials that, again, must be individually ordered. Among the more significant annual publications are the *Professional Standards Series*, the *Index to Accounting and Auditing Technical Pronouncements* and various tax guides. Since most of these pronouncements are compilations of material that has been read during the year, I usually file them at the office straightaway.

At first, this program may seem extremely time consuming, but it is not if each publication is read promptly. The most important benefit is that it will enable a CPA to be thoroughly familiar with developments that directly pertain to his work and to be at least aware of other developments that are less important to him. This must surely be the goal of any professional reading program.

—by John M. Schwarz, CPA, Greensboro, North Carolina

Anonymous Response Requested

Each January for the past nine years, A. Dean Lynn, a sole practitioner in Encino, California, has sent his clients a questionnaire asking them to evaluate his performance during the previous year.

The current batch of questions covers such topics as the promptness of his service, whether or not clients think he shows sufficient interest in their overall problems, the usefulness of clients' financial statements, clients' desire for other services and their interest in attending seminars on accounting, taxes, etc.

Mr. Lynn says that most signed responses are flattering but that is not what he wants. He welcomes constructive criticism that will help him provide the type of services that his clients need. Accordingly, he requests that they respond anonymously.

Implementing Financial Accounting Standards Board Statement no. 13

Financial Accounting Standards Board Statement no. 13 removes the conceptual differences in lease classification between lessors and lessees. The subject has been discussed in four APBOs, three ASRs, one research study and one research bulletin. Now, the FASB has definitely specified the accounting for leases. This illustrative example summarizes a guideline approach for lessees.

The New Changes

FASB Statement no. 13 has established new standards of financial accounting and reporting for both lessees and lessors for leases entered into or revised on or after January 1, 1977. Retroactive application to all leases is required in years ending after late December 1981 but earlier adoption is encouraged. The changes are examined here in two parts: (1) financial accounting changes and (2) reporting changes. For lessees, financial accounting changes focus around:

1. Whether a lease is categorized as a capital lease or operating lease.
2. Appropriate discount rate to compute present value of minimal capital lease payments.
3. Amortization and interest expense of a capital lease.

Reporting changes of lessees focus around:

1. Appropriate asset and liability reporting of capital leases on the balance sheet.
2. Footnotes on leases will describe leasing arrangements plus various schedules for future minimum lease payments, leasing by classes of property and composition of rental expense for operating leases.

Financial Accounting

The prime financial accounting decision is whether a lease is a capital or operating lease. Four major criteria are considered for a lease to be categorized as a capital lease. If any one is met, the lease is a capital lease.

1. If ownership is transferred to the lessee by the end of the lease term.
2. If the lease contains a bargain purchase option (less than fair value).
3. If the lease term is 75% or more of the leased property's estimated economic life.*
4. The present value of the minimum lease payments is 90% or more of the fair value of the property to the lessor.*

*Cannot be used if lease term begins within last 25% of the leased property's total estimated economic life.

Reporting Changes

Capital leases are to be capitalized and accounted for as assets and liabilities of the lessee.

Capitalized lease liabilities are based on the present value of minimum payments using the lessee's incremental borrowing rate, except when rates implicit in leases are less and are known to the lessee. The assets capitalized are to be amortized using established depreciation policies for owned assets over the leased term or, if either criterion 1 or 2 is met, over the particular assets' estimated useful lives. Reporting changes in footnotes are as follows:

For capital leases:

1. The gross amount of assets capitalized by major classes according to nature or function.
2. Future minimum lease payments in the aggregate, and for each of the five succeeding fiscal years, along with separate deductions for executory costs and the amount of imputed interest which reduces the payments to present value.
3. Total minimum sublease rentals receivable under noncancelable subleases.
4. Total contingent rentals paid during the period.

For operating leases:

1. Rental expense for the period with a breakdown showing minimum, contingent and sublease rentals.
2. Future minimum rental payments in the aggregate and for each of the five succeeding years for leases having terms in excess of one year.
3. Total minimum sublease rentals receivable for leases exceeding one year.

For all leases: A general description of leasing arrangements including the basis for determining contingent rentals, the existence and terms of renewal or purchase options and escalation clauses, and the restrictions imposed by lease agreements.

Example lease:

1. Lease of new machinery.
2. Lease signed 12-1-74.
3. First annual payment due 1-1-75.
4. Lease term 10 years.
5. Executory costs negligible or $0.
6. Fair value $1,000.
7. Borrowing rate is 8½ percent.
8. Lease does not contain bargain purchase option or transfer of ownership.
9. Economic life of machinery is 15 years; there-

(Continued on page 7)

Exhibit I
Balance Sheet
Year Ending 12/31/74
($M)

ASSETS

	1974	1973
Leased property under capital leases	$1,000	0
Less accumulated amortization	0	0
	$1,000	0

LIABILITIES

	1974	1973
Current:		
Obligation under capital leases	$150.5	0
Noncurrent:		
Obligations under capital leases	849.5	0
Deferred taxes	–	0
Stockholders' equity	–	0
	$1,000	0

Footnotes

Note 1 – Capital leases

	Asset balances at December 31	
Classes of Property	1974	1973
Machinery	$1,000	0
Less accumulated amortization	0	0
	$1,000	0

Note 2 – The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 1977.

Year ending December 31:	
1975	$ 150.5
1976	150.5
1977	150.5
1978	150.5
1979	150.5
Later years	752.5
Total minimum lease payments	$1505.0
Less amount representing estimated executory costs	0
Net minimum lease payments	$1505.0
Less amount representing interest	505.0
Present value of net minimum lease payments	$1000.0

Exhibit II
Balance Sheet
Year Ending 12/31/75
($M)

ASSETS

	1975	1974
Used property under capital leases	$1,000	$1,000
Less accumulated amortization	100	0
	900	1,000
Deferred taxes benefit	19.4	–
	$919.4	$1,000

LIABILITIES

	1975	1974
Current:		
Obligations under capital leases	$150.5	$150.5
Noncurrent:		
Obligations under capital leases	788.2	849.5
Deficiency in assets	19.3	–
	$919.4	$1,000

Footnotes

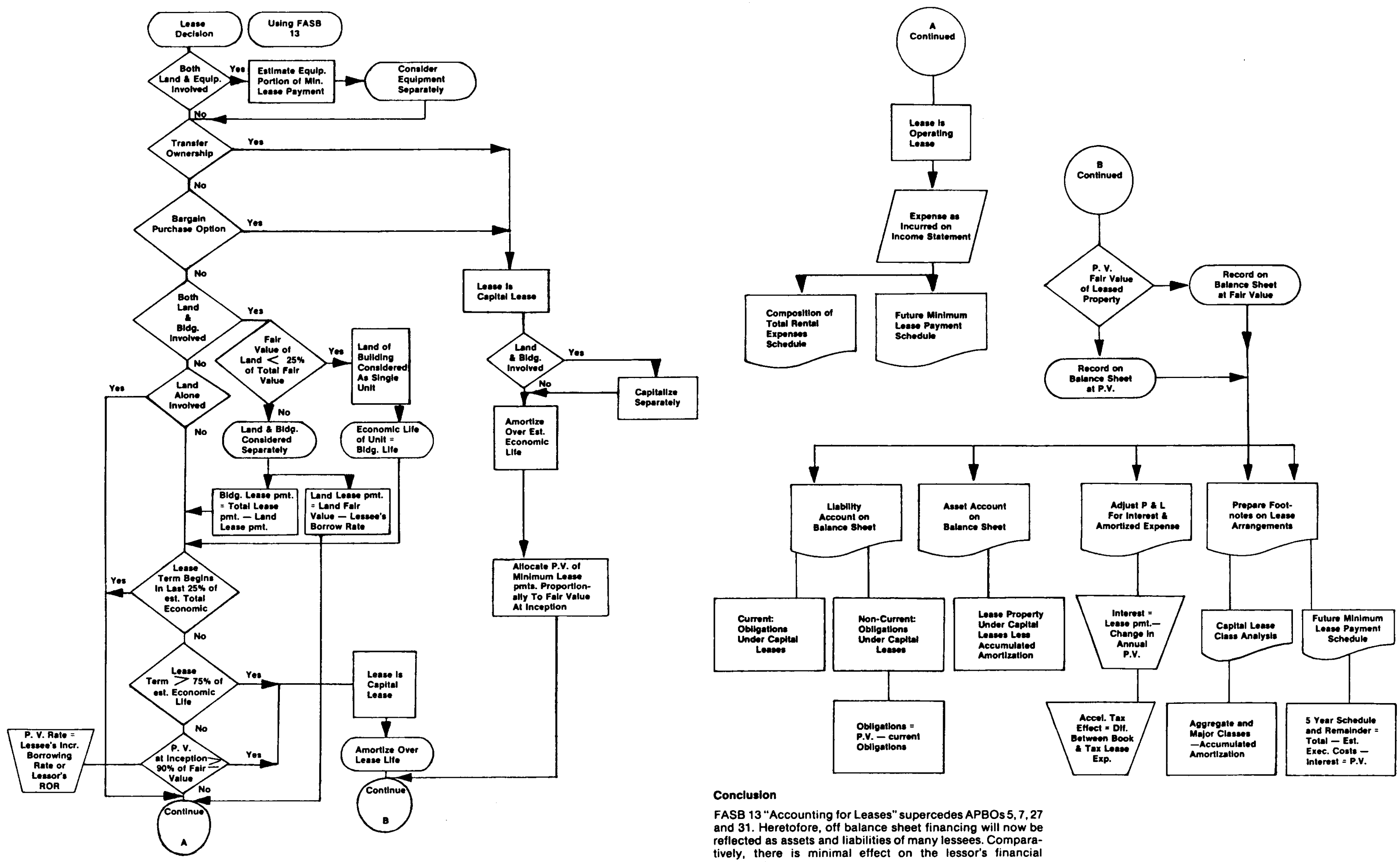
Note 1 – Capital leases

	Asset balances at December 31	
	1975	1974
Machinery	$1,000	$1,000
Less accumulated amortization	100	0
	$ 900	$1,000

Note 2 – The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 1977.

Year ending December 31:	
1976	$ 150.5
1977	150.5
1978	150.5
1979	150.5
1980	150.5
Later years	602.0
Total minimum lease payments	$1354.5
Less amount representing estimated executory costs	0
Net minimum lease payments	1354.5
Less amount representing interest	415.8
Present value of net minimum lease payments	$ 938.7

Exhibit III Lessee Disclosure Decision



Conclusion

FASB 13 "Accounting for Leases" supercedes APBOs 5, 7, 27 and 31. Heretofore, off balance sheet financing will now be reflected as assets and liabilities of many lessees. Comparatively, there is minimal effect on the lessor's financial statements.

fore, lease term is less than 75 percent of economic life, but greater than 25 percent of total economic life. The present value of the lease must therefore be examined since three of the four capital lease criteria are not met.

Present Value vs. Fair Value

Present value of minimum lease payment over 10-year lease discounted at 8½ percent interest rate	$1071
Fair value	1000
90 percent of fair value	900

10. Thus present value of minimum lease payments is greater than 90 percent of fair value and lease is classified as a capital lease and would be amortized over the lease term, i.e.,

$$\frac{\$1000}{10\text{ yrs.}} = \$100 \text{ per year}$$

Two balance sheets are presented to depict how the lease is reported. Following the balance sheets are schedules showing the changes in annual present value and interest expense. The accelerated tax effect (the opposite of deferred taxes) is shown by comparing actual lease payments to the book charges to operations of amortization plus interest expense. Exhibit III charts the necessary decision factors.

–by Tawn Allen Rose, CPA
and Bob Newman, MBA.

This article first appeared in the 12/77—1/78 issue of the Texas CPA News

Good Pay and Job Prospects for Accounting Graduates

The latest survey of trends in the employment of graduates in business and industry, conducted by Frank S. Endicott of Northwestern University, shows the future to be extremely bright for accounting graduates.

A total of 202 well-known companies responded to the inquiry, and most of these have recruited college graduates for many years. Reports came from 24 states and Washington, D.C., representing all major regions of the country.

Based on reports submitted by 183 companies that indicated the skills they were looking for, graduates with bachelors' degrees in accounting will continue to enjoy second ranking to graduate engineers in the number of job opportunities offered them in 1978, while those with master's degrees in accounting will again top the field.

While the demand for engineers continues to outpace that for all other professions, the number of young accountants with bachelors' degrees who are hired this year should be almost 10 percent above the 1977 level. For those with a master's degree in accounting, the increase should be about 3.7 percent compared with a 3 percent increase for all non-engineering graduates.

Starting pay is good too and most accounting graduates will be hired this year at a salary of between $1,101 and $1,200 per month. The average starting salary (which takes into account the number of graduates hired at each salary level) will be $1,122 per month, up from $1,088 in 1977. Those with masters' degrees will fare better, of course, and the average starting salary for them will be $1,329 as against $1,284 per month last year.

Additional insight into accountants' earnings can be obtained from a survey conducted by the Robert Half Personnel Agencies, which was cited in an article in the January 1978 issue of *News Notes*, published by the Florida Institute of CPAs. The article points out that in 1950, the median salary for a public accountant with less than one year of experience was $1,920 and that for a senior was about $5,500. In 1977, these median salaries were $13,000 and $22,000 respectively, and it is projected that in 1980 they will have risen to $14,000 and $27,000.

Other statistics show that while all U.S. salaries and wages rose an average of 7.2 percent in 1976, the median increase for accountants' salaries that year varied from 3.1 percent for managers to 21.8 percent for internal managers in large public firms or companies. In 1977, however, the top gainers were, for the most part, in private accounting and most of the public accounting categories were below the average salary increase for all jobs nationwide.

Experience Counts

A special 1½-hour forum session is included in the program at the 14th Annual AICPA Computer Conference on May 22-25. (See announcement on page 2 of the February *CPA Practitioner.*)

This session will give CPAs who have been using computers in their practice an opportunity to discuss mutual concerns and to suggest AICPA programs and activities that will meet their needs.

For additional information, write to Alan Frotman, assistant manager, practice applications, AICPA.

Help Build Understanding for the Profession

Currently, hundreds of members of at least 42 state societies are involved in a national project, jointly with the AICPA, to strengthen the CPA's image as the public's primary authority on tax planning and preparation.

Most societies have organized public relations committees for this and future projects, and committee members are looking eagerly for CPAs who can

- ☐ Fill speaking engagements.
- ☐ Provide the expertise necessary for guest appearances on radio and television programs.
- ☐ Make contacts with local financial reporters and editors.
- ☐ Help distribute materials to the media.

As examples of what is being done, here are some of the ongoing activities of the current program:

- ☐ Public service announcements giving tax hints to radio and television audiences are running on nearly 1,000 stations across the nation.
- ☐ Newspaper features, including a five-part series on tax preparation for taxpayers with average returns, have begun appearing in several hundred dailies and weeklies.
- ☐ Slide presentations, often tailored for specific audiences such as small businessmen, farmers, or women's groups, are being given by CPAs at civic and social meetings.
- ☐ CPAs are appearing on radio and television programs in unprecedented numbers to talk on tax topics. They are also taking part in other special projects sponsored by their state societies.

The AICPA's public and state society relations division prepared the materials that are being used by the state societies. They are part of a continuing national public relations effort carried out by the societies with the AICPA coordinating the overall project.

This program will strengthen the public's understanding of the full range of CPA services and emphasize the attractive nature of a career within the profession.

If you would like to join the growing number of CPAs who are participating in these public relations programs, please contact your state society.

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