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GRAPHICS TO HELP MANAGERS

The computer industry has suddenly made "graphics for management" a hot new topic. But the AICPA's CPE division has sponsored a pioneering course in this field for five years—a course called "Accounting that Communicates." We asked the designer and discussion leader of this course to provide us with a description.

Of nearly 1,000 CPAs surveyed in advance of their participation in the AICPA's "Accounting that Communicates" course (ATC), 97 percent gave business managers very poor marks on their basic understanding and use of financial reports. About 60 percent of the responses are from local practitioners serving smaller businesses and 40 percent from inside managers, such as controllers, in larger companies. This rating has been born out in our courses for nonfinancial managers.

This indicates a serious need for new ways to improve managers' understanding and use of accounting. Graphic tools that meet this need can be very valuable to CPAs in improving the value of their services. This is the purpose of the AICPA course.

In the new computer-industry push into graphics, most of the current emphasis is on traditional "data presentation" graphs—bar graphs and trend-line graphs. These well-known graphs can be very effective in helping managers see the sizes of accounting numbers quickly. But we've found two lesser known types of graphics much more effective in improving managers' understanding and use of accounting numbers.

One of the fundamental reasons for low management use of accounting is that most managers do not really understand how financial reports reflect a business. This is illustrated by the almost universal question, "If we made so much profit, why did our cash balance drop?" Many small business owner-managers are unable to see how the financial reports are related to their checkbooks—and use their checkbooks instead of the reports.

The financial picture is a graphic map of a company's finances that makes it easy for managers to see how the parts of the income statement, the balance sheet and the cash flow report all fit together in a logical picture of the business.

Numbers can be entered right on the picture—to explain elementary accounting, to help present last year's or last month's reports and to explain development of projected reports including what-if analyses.

A financial picture can be customized to fit the particular nature and reports of any business. It can be fit to any company or to various divisions, plants, product lines or regional offices within a company.

CPAs can use financial pictures for three purposes:

- Manager education*—for informal explanations or formal short courses on financial reports.
- Report presentation*—as a supplement to standard financial reports showing the same numbers in the picture format, to help managers understand the reports better.
- Encouraging financial planning*—as forms that make it much easier for managers to think out and understand financial projections.

The ATC course provides a short demonstration of how CPAs can introduce a financial picture to managers and how to customize the picture so it fits the particular business the CPA serves.

In management use of accounting, the most important of all questions is this: "Now that we've seen all these numbers, what do we do?" For every

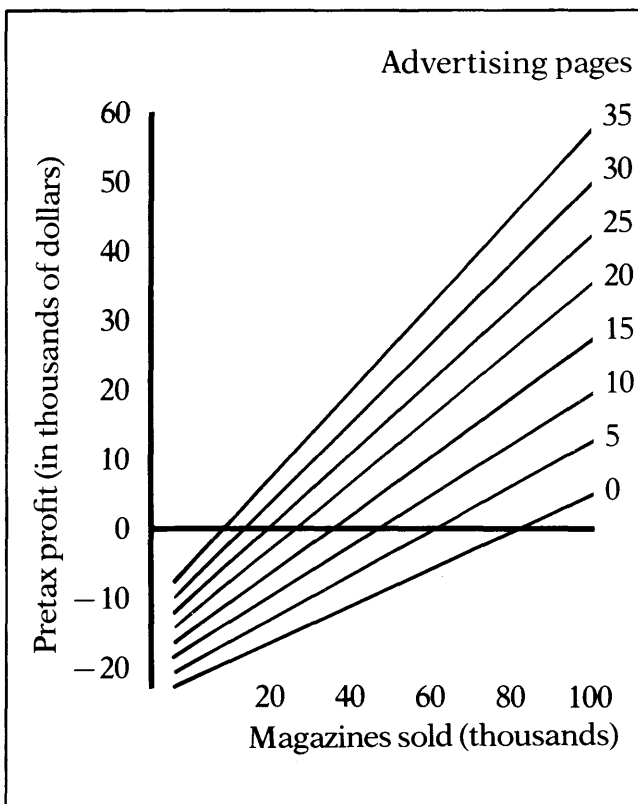
What's Inside . . .

- Highlights of recent pronouncements, p.3.
- A review of microcomputer basics and terminology, part 2, p.5.

manager, the practical payoff from accounting numbers is finding better plans and decisions. It's evident from our studies that most managers don't do nearly as well as they might at using the numbers to zero in on the best plans and decisions.

A decision graph is a single graph that compares the profitability of hundreds of future possibilities for a business. Compared to reports in tabular format or even bar graphs, a decision graph makes it easier for managers to see which business factors affect profit most and to pinpoint the key risk factors that should be watched and managed most closely.

To illustrate, consider a magazine business where the key unknown elements are the number of copies sold in a month and the number of advertising pages carried in each issue. Here is one example of a decision graph for this business.



From this single graph, a manager can easily do all of the following things:

- See the profit result for any combination of copies sold and advertising pages. Just note the height of the line for the selected number of advertising pages relative to the profit axis directly above the selected sales volume.
- Identify various ways to reach breakeven and to select the most practical way. Note where each line crosses the horizontal axis. Each represents a different breakeven point—a different combination of advertising pages and sales volume that achieves breakeven.
- Identify different ways to reach any profit goal. Say the profit goal is \$10,000. Put a dot where each line reaches this height. Each dot pinpoints a different way to reach the profit goal—a different combination of sales volume and advertising pages that will meet the profit goal.
- Compare profit-improvement proposals. Say the business is now selling 50,000 magazines with 15 pages of advertising which the graph shows means profit of \$7,000. And say the magazine is considering two alternative uses of a \$10,000 marketing investment: one will increase sales volume by 15,000, the other will increase advertising by 15 pages.

By putting two dots on the graph to represent the alternatives—one at 65,000 sales volume with 15 advertising pages, the other at 50,000 sales volume with 30 advertising pages—a manager can see in a minute that the investment to increase advertising does much more to increase profit.

This graph doesn't contain anything that couldn't be calculated or contained in tables of numbers. But it has a critical advantage in putting the information in a format that more managers can and will use.

It summarizes the equivalent of dozens of number tables on one easy-to-use graph. All our course

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Highlights of Recent Pronouncements

FASB Statements of Financial Accounting Standards (SFASs)

No. 61 (June 1982), *Accounting for Title Plant*

- Extracts the specialized principles and practices from AICPA Statement of Position 80-1, *Accounting for Title Insurance Companies*.
- Requires capitalizing costs incurred to construct a title plant until it can be used to do title searches.
- Requires that capitalized title plant costs not be depreciated; that costs of maintaining a title plant and doing title searches be expensed as incurred.
- Effective for fiscal years beginning after December 15, 1982; accounting changes adopted to conform to the statement shall be applied retroactively.

No. 60 (June 1982), *Accounting and Reporting by Insurance Enterprises*

- Extracts, without significant change, the specialized principles and practices from AICPA insurance industry guides and statements of position.
- Establishes financial accounting and reporting standards for insurance enterprises other than mutual life insurance and assessment enterprises and fraternal benefit societies.
- In applying the statement, insurance contracts are classified as short duration (such as most property and liability contracts and credit life insurance) or long duration (such as whole-life contracts).
- Effective for fiscal years beginning after December 15, 1982; accounting changes adopted to conform to the statement shall be applied retroactively.

No. 59 (April 1982), *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units*

- Amends FASB Statement no. 35. Defers the effective date of Statement no. 35 for plans sponsored by state or local governments.

No. 58 (April 1982), *Capitalization of Interest Cost in Financial Statements that Include Investments Accounted for by the Equity Method*

- Amends FASB Statement no. 34.
- Limits capitalization of consolidated interest cost to qualifying assets of the parent company and consolidated subsidiaries.
- Includes investments accounted for by the equity method as qualifying assets of the investor under certain conditions.

- Effective for investments made after June 30, 1982.

No. 57 (March 1982), *Related Party Disclosures*

- Requires disclosure of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business.
- Effective for financial statements for fiscal year ending after June 15, 1982.

No. 56 (February 1982), *Designation of AICPA Guide and Statement of Position (SOP) 81-1 on Contractor Accounting and SOP 81-2 concerning Hospital-Related Organizations as Preferable for Purposes of Applying APB Opinion no. 20*

- Amends FASB Statement no. 32.
- Specifies that the specialized accounting and reporting principles and practices contained in the AICPA *Audit and Accounting Guide for Construction Contractors* and in AICPA Statements of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, and 81-2, *Reporting Practices concerning Hospital-Related Organizations*, are preferable accounting principles for purposes of justifying a change in accounting principles under APB Opinion no. 20, *Accounting Changes*.
- Effective for financial statements for fiscal years beginning after December 31, 1981.

No. 55 (February 1982), *Determining Whether a Convertible Security is a Common Stock Equivalent*

- Amends APB Opinion no. 15.
- Substitutes the average Aa corporate bond yield as the new benchmark interest rate in the cash yield test to determine whether a convertible security is a common stock equivalent.
- The provisions of this statement shall be applied to determine whether convertible securities issued after February 28, 1982 are common stock equivalents; they may, but are not required to, be applied to convertible securities issued before March 1, 1982 in fiscal periods for which annual financial statements have not previously been issued.

No. 54 (January 1982), *Financial Reporting and Changing Prices: Investment Companies*

- Amends FASB Statement no. 33 to eliminate the requirement that investment companies disclose supplemental information adjusted for effects of changing prices.

- Effective on January 27, 1982, retroactive to fiscal years ending on or after December 25, 1979.

No. 53 (December 1981), *Financial Reporting by Producers and Distributors of Motion Picture Films*

- Extracts the specialized accounting principles and practices from the AICPA Industry Accounting Guide, *Accounting for Motion Picture Films*, and SOP 79-4, *Accounting for Motion Picture Films*.
- Establishes standards of financial accounting and reporting for producers and distributors of motion picture films.
- Exhibition rights transferred under license agreements for television program material shall be accounted for like sales by the licensor. The sale shall be recognized by the licensor when the license period begins and certain specified conditions have been met.
- Effective for financial statements for fiscal years beginning after December 15, 1981.

FASB Interpretations

No. 36 (October 1981), *Accounting for Exploratory Wells in Progress at the End of a Period* (interprets SFAS no. 19)

Statements on Auditing Standards

No. 41 (April 1982), *Working Papers*

- Supersedes SAS no. 1, section 338.
- Requires an auditor to have working papers sufficient to show that the standards of fieldwork have been observed.
- Provides guidance on the functions and nature, general content, and ownership and custody of working papers.
- Effective for engagements beginning after May 31, 1982, that are covered by Statements on Auditing Standards.

No. 40 (February 1982), *Supplementary Mineral Reserve Information*

- This statement should be read and applied in conjunction with SAS no. 27, *Supplementary Information Required by the Financial Accounting Standards Board*.
- Requires auditors to inquire about management's understanding of the specific requirements for disclosure of the supplementary mineral reserve information and prescribes procedures for such inquiries.
- Effective for examinations of financial statements for periods ended after March 31, 1982.

Statements on Standards for Accounting and Review Services

No. 5 (July 1982), *Reporting on Compiled Financial Statements*

- Amends the reporting standard and example set forth in paragraphs 14(a) and 17 of Statement on Standards for Accounting and Review Services 1.
- Effective for periods ending on or after December 31, 1982.

No. 4 (December 1981), *Communications Between Predecessor and Successor Accountants*

- Provides guidance to a successor accountant who decides to communicate with a predecessor accountant regarding acceptance of an engagement to compile or review the financial statements of a nonpublic entity.
- Requires the predecessor to respond promptly and fully in the event of such communications in ordinary circumstances.
- Provides guidance on additional inquiries a successor accountant may wish to make of a predecessor and the predecessor's responses to facilitate the conduct of the successor's compilation or review engagement.

No. 3 (December 1981), *Compilation Reports on Financial Statements Included in Certain Prescribed Forms*

- Amends SSARS 1 and SSARS 2 to provide for an alternative form of standard compilation report when the prescribed form or related instructions call for departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles.
- Provides additional guidance applicable to reports on financial statements included in a prescribed form.

Statement on Standards for Management Advisory Services

No. 1 (December 1981), *Definitions and Standards for MAS Practice*

- Defines management advisory services, engagements and consultations.
- Provides guidance to members regarding rule 201 of the AICPA Rules of Conduct within the context of management advisory services and establishes, under rule 204, other standards deemed appropriate for MAS engagements.
- Effective for MAS rendered after May 1, 1982.

Graphics to Help Managers

(continued from page 2)

experience indicates this is the difference between managers using or ignoring the decision value of accounting numbers.

There's almost no limit to the number of decision graphs for various businesses and decisions. They can be used to measure results in terms of profit, cash, return on investment or any other financial goal. They can be customized to focus on whatever decision factors are important to the particular business—e.g., verifying advertising pages and sales volume in the magazine business. Decision graphs range from new types of the well-known breakeven graph to sophisticated graphs showing how various decision factors affect discounted cash flow.

Participants at the ATC courses get extensive practice in learning to develop decision graphs for various situations. And after developing each graph, we discuss how CPAs can help managers use the graph for practical planning and decisions and what it takes to present each graph in the best way for management acceptance and use.

We're now getting into computer production of the graphics covered in the ATC course for two purposes: to develop software for production of the graphics covered in the course and to describe computer production of the graphics in a new monthly letter for managers and CPAs.

The cost of the types of new computer equipment we're using is so low that virtually any CPA practitioner can easily afford it. The graph shown on page 2 is an example.

Although the ATC course remains focused on how to develop and explain the graphics to help managers, we're now beginning to integrate computer graphics into the course.

Of 135 ATC participants who responded to a survey last year, over half reported using the graphics on the job after attending the course. Of these, over 90 percent reported the graphics effective. Among those who had not used the graphics on the job, over three-quarters said they thought the ATC graphics would be effective if used.

Considering that these views come from the same body of CPAs who say that traditional reports are effective with only 3 percent of managers, this approach to graphics may represent a quantum leap forward.

Members interested in this course should contact the AICPA CPE marketing department.

—by *W. R. Purcell, Jr.*
 929 South Front Street
 Columbus, Ohio 43206

A Review of Microcomputer Basics (Part 2)

Computer programs collectively are called software and are the means by which you can make a computer perform certain tasks. The actual program is a set of instructions, with each instruction covering one predefined step in the process of accomplishing the task. When selecting a package of accounting programs for use in your practice, don't choose the same ones that you would suggest for a client's use because your needs and a client's needs are not necessarily the same. This is illustrated in the following lists.

Client needs

Compute paychecks
 Record detailed sales
 Detailed subsidiary ledgers
 Audit trail
 Perpetual inventories
 Billing, remittance advices
 Trial balance
 Balance sheet and income statement
 Cash register
 W-2s, payroll reports
 Invoicing
 Word processing

CPA write-up needs

Record, ex post facto
 Record batch totals
 Control totals
 Audit trail
 Work sheets
 Client billing
 Trial balance
 Balance sheet and income
 Cash flow
 W-2s, payroll reports
 Consolidations
 Word processing
 Department and location statements
 Per unit statements
 Financial analysis and modeling

A program which requires a full-time operator who is also a CPA is a waste of talent. What you need is a program that is "user friendly," one designed so that essentially a high school graduate who has taken typing and bookkeeping courses can operate the system without supervision.

Some of the accounting software available today is based on the Osborne accounting program package written several years ago and now obtainable in most computer stores or on disk through the CP/M users' group. Published by McGraw-Hill, Inc., its copyright extends only to the printed form and several firms have modified, updated and resold the program. Although it is a well documented, interactive and integrated package, it does not contain many of the features practitioners need, but it may form an adequate basis for a client's accounting system.

The language it is written in is one of the variables in selecting a package. Two of the commonly used languages are versions of BASIC. M BASIC (the M stands for Microsoft, Inc., its developer) is an interpretive language. This requires the user to first load an interpreter into memory so that the

program can be interpreted into machine code before being run. C BASIC (a trademark of Compiler Systems) is similar but uses a two-step translator. (See definitions on this page.) Both companies now market true compilers so that the interpretations need only be done once. (A compiled program runs substantially faster than one being translated on a step-by-step basis.)

The other two languages are COBOL and PL/1. Many COBOL programs were first developed for larger machines, then restructured for micro-computers. While this means that a package could have had years of testing to eliminate errors, it could also mean that it does not include any new ideas. PL/1-80, a relatively new language, is considered to have great promise for accounting packages.

Due primarily to software piracy, few programs are now sold with the source code. If the program is in M BASIC you will have the source code. With other languages, however, you may get a program that is partially or fully compiled. In the past, if you wanted to eliminate program errors or modify a program, you had to have the source code. Now, documentation and instructional manuals have been vastly improved and software developers have sought professional assistance in assuring

complete audit trails and proper presentation. As a result, the source code for a program before compilation is becoming a security blanket few of us will use and, if the programmer has done a good job, may never need. Nevertheless, get it if you can. Software vendors do go out of business, or may cease to offer a package or support for it. With the source code, you can still fix or modify it.

Perhaps the most important item to the business person in selecting an accounting package is one of the least important to the CPA doing write-up work. This is the extent to which integration of the package has been completed. Integration is the use of one area of the program to create data input to another while eliminating multiple entries of the same transaction.

For example, does the program which prepares invoices post the charge to the subsidiary ledger of accounts receivable and decrease inventory and produce data for entry to the general ledger? Another example of integration would be the entry of a merchandise receipt. Not only should the program increase the inventory on hand and decrease the on-order level but it should also prepare data for accounts payable and general ledger.

Since the CPA doing write-up work rarely becomes involved with a client's subsidiary ledgers

Terminology

When you walk into the computer store, be prepared to learn a whole new language of computer-related terminology. A few of the more important terms are

Motherboard—a circuit board with sockets used to connect other boards together. It's placed in the bottom of a cage designed to hold printed circuit cards. The number of sockets determines the expansion capability. Normal configuration might require one slot or socket for the central processor unit, one for the disk controller and one for the memory. Thus a 12-slot board has 9 empty.

ROM, P ROM, EP ROM and EAP ROM—acronym for read only memory. P for programmable, E for erasable (by ultraviolet light), EA means electrically alterable. All are different kinds of ROM. Used to store interpreters, character sets, etc.

RAM—random access memory. RAM comes in two flavors, if you will, static and dynamic. Once you put something in a static-type chip, it stays there until you turn off the voltage. Dynamic needs to have its memory refreshed frequently by a jolt of electricity or it decays rapidly. Dynamic RAM once did not work well but advances in technology have come along so that it now works very well. Dynamic RAM is now prefer-

able because it stores data in a higher density per chip than does static RAM.

Bus—more typically an S-100 bus; a circuit design of 100 wires tied into sockets. A motherboard. There are other bus designs such as SS-50 and MultiBus.

CPU—central processor unit. Z-80, 6502 and 6800 are commonly used. Others are the 8085, 8088 and the Z-8000. The last two are 16 bit CPU chips.

Floppy disk—a piece of magnetic film, much like the tape in a tape recorder, cut out to look like a 45 rpm record. It rotates at 360 rpm and is encased in an envelope that protects it from fingerprints and other debris that would affect its reproduction capabilities. Floppies come in two sizes and may be either soft or hard sectored, single or double sided. The eight-inch size, when formatted to single density, is one of the most standard as it uses an IBM standard, making data the most transferable when stored in this manner.

BIOS—acronym for basic input-output system; the portion of the operating system in the computer that receives and disposes of data.

BDOS—another acronym, this one is shorthand for basic disk operating system; how the operating system reads and writes data on the disk.

in receivables, payables and inventory, this feature is not generally a requirement. The only integration needed is ex post facto payroll—an ability to tie in the processing of a client's payroll and disbursements so that there is no need to go through the same check stubs twice.

The 1979 study by the AICPA, "Guidelines to Assess Computerized General Ledger and Financial Reporting Systems for Use in CPA Firms," brings up a number of points regarding software needs. While written for minicomputers, it is generally applicable to micro systems as well. When deciding your needs, consider these suggestions.

If you are presently using a service bureau, use its transaction counts for data as to the number of entries, number of accounts, etc., then double it. Why? The charts of accounts you establish for a client on a service bureau's computer system is to some extent a function of cost. When clients find you can give them a more detailed report, they will want it. Make sure your system can handle this growth. Eventually you can computerize your smaller clients by writing account numbers on their check stubs, running an adding machine tape to get a control total and posting directly. Even your smallest clients will benefit from having more frequent financial statements and better accounting records.

In selecting a package, first find out what it will provide, then try it out at the dealer with some test data from a client. This is the best way to find out how easily the program works.

Read some of the computer periodicals in which companies offer CP/M accounting software. (New England Business Services, a stock forms house, has a catalog with the names of more than fifty firms that have written CP/M software to fit its forms.) My research into what is available was by no means exhaustive and relied mainly on vendor-supplied data. However, I did find that there are many different kinds of accounting packages available. Buy only what you need.

For example, if you don't keep detailed inventories or receivable and payable records, it's a waste of money to buy a package with purchase order management, inventory, receivables and payables. Similarly, if you are choosing a package for write-up work, select ones specifically designed for this purpose and rate them against the AICPA study. In making your selection, be aware that there may be a difference between being "designed for write-up work" and being "used by some accountants for write-up work."

If your selection is for a client with a significant inventory, then by all means get a package with full purchase order management integration. Re-

CCP—command control pointer; tells the computer where it is and where it's going. It also translates instructions from the operator through the keyboard and translates data back to the printer and cathode ray tube.

Modem—a device that converts digital signals to analog tones or vice versa to allow a computer to communicate with another over telephone lines.

Floating point versus integer—an integer system deals with whole numbers, not dollars and cents. With an integer system, you can't have a portion of one. So, for accounting use, you must use floating-point arithmetic.

Interpreter versus compiler—an interpreter is a program, often on a ROM chip which takes a language like BASIC and converts it into a machine-usable instruction, word by word. Every time you run the program, or the program loops back, it must reinterpret the same instruction. A compiler takes the instruction and converts it into a machine code instruction. A compiled program operates faster than an interpreted one. In some languages, the conversion is not directly into machine language. In C BASIC, there is a two-step interpreter, which allows the partial conversion of the program on a permanent basis, the effect here is to reduce the size of the run

time module, thus allowing more room for the data in a program in memory.

CRT—shorthand for cathode ray tube; a TV picture tube used as a monitor. Instead of pictures you get letters and numbers. Available in plain black and white or modern two-tone green. Amber on black is also available and is recommended in situations where there is high ambient lighting from outdoors. CRTs are often referred to by their size, 80x24, meaning characters wide by lines high.

Baud rate—not the going price of a lady of the evening, but the rate of transmission of characters from computer to terminal, computer to printer, etc.; 9600 is good and fast, 110 is slow. The baud rate when divided by 10 will usually give you the number of characters per second.

Chip—an integrated circuit created on a small piece of silicon, about one-quarter-inch square.

Multitasking—uses one CPU that processes several users simultaneously, each having access to the same data. It can be ideal for small businesses.

Multiprocessing—several microcomputers tied together using some common memory and peripheral devices such as printers. It can be ideal for word processing.

member that a number of packages have integration of sales with inventory but not of purchases and accounts payable with inventory. Do a thorough job of reviewing the package. For doctor, attorney or realtor clients, there are specialized packages which feature such things as automatic patient histories, medical insurance billing, real estate property management, professional billing for attorneys as well as group practice appointment calendars. In addition, they will need a basic general ledger package. Take your time. Have the vendor supply a list of users, discuss the package with them and try it out.

Converting from a service bureau or manual system takes time—probably twice as long as you would expect. Plan for this. Be prepared for a period of reduced growth and reduced net income. A reduction in growth is a temporary necessity in order to assure quality control. Once you start the conversion process, accept no new write-up engagements until all of your present clients are on the system, otherwise you will spend a year just trying to catch up. Net income is reduced because the time spent converting clients to your in-house data system should not be billed. This is for your convenience and will improve future billings.

Once the conversion process is complete, you can, of course, plan on a substantial growth capa-

bility. In the last year, I have been able to effectively double the number of write-up engagements I can handle and reduce turnaround time with the addition to my staff of only one data entry clerk.

After you have learned about the operating system and have selected your package, the first thing you must do when you start up your system is to copy all your program disks twice and put the originals in the bank vault. You now have a backup. Pity the auto parts store with a 27,000 item inventory when someone turned off the computer in the wrong order one night and lost the data. It can happen. (Luckily they had a backup.)

The second thing you should do is get a copy of the game "Adventure" and spend a quiet Sunday afternoon and evening playing it. Why? Because it will teach you how to respond to instructions to make the program work. As frustrating as the program initially is, once you learn how to enter the cave and leave with some of the treasure, you are then ready to tackle the accounting program.

Lastly, don't forget to ask your dealer about joining your local computer users' group. Not only can this provide you with a valuable source of free help but it can also give you free access to a large library of public domain software.

*-by William E. Young, CPA
Woodbridge, Virginia*

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