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Practicing CPA, vol. 7 no. 11, November 1983

American Institute of Certified Public Accountants (AICPA)

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Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Practicing CPA, vol. 7 no. 11, November 1983" (1983). *Newsletters*. 1517.
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The Practicing CPA

NOVEMBER 1983

An AICPA publication for the local firm

THE ORGANIZATIONAL PROBLEMS OF RAPID GROWTH

The beginning of our rapid growth really began in 1970 when four of us got together to form a firm with annual revenues of about $200,000. We came from disparate backgrounds and held no common approach to the problems of firm management. Still, we dreamed of creating a larger firm, and increasing the number of employees seemed logical.

At that time, our idea of a larger firm was one of 20 people in total, conceptually 25, but certainly no more than 50. Today, we find ourselves with approximately eighty people in the firm. Between 1976 and today, we have grown from 12 people to our present level. We have gone through the addition of partners by merger, acquisition and internal promotion, and have lost partners through separation and death to the point where we now have seven partners in the firm. In this highly compressed time period, we have experienced both the pros and cons of rapid growth.

In the early 1970s, I would attend conferences and listen to speakers proclaiming the values of specialization and departmentalization and wonder how they related to our firm. Now, 10 years later, we find ourselves going through these same processes. In particular, we have developed expertise in the servicing of small- to medium-size businesses and real estate ventures. We have established quality control, scheduling, tax, real estate and syndication departments and continue to anticipate the need for further departmentalization.

In the business world, natural evolution has progressed from individual entrepreneurs, through the formation of guilds and trade associations in which individuals perform their own tasks yet join together for the natural benefits of shared knowledge and resources, to the higher level of the corporate entity. A corporation has an organizational structure which enables it to function in a manner that provides for self-perpetuation and a clear delineation of responsibilities.

Many managers of service businesses, particularly accounting professionals, see themselves as still functioning in a guild environment. Yet, professional service organizations bring a variety of skills to the resolution of client problems, and it is the managers' task to effectively weld these skills together so that the clients benefit to the fullest extent possible. This suggests a need to think corporate—i.e. to think of our public accounting practices and their needs and problems the same way we define and address the needs and problems of growth-oriented manufacturing clients. The problems of any company that is in a period of rapid growth can usually be characterized in the following broad areas—financial controls, quality control and the optimal use of productive resources.

Financial controls

When it comes to evaluating our own operations, we have for some reason become acculturated to looking at what we individually draw. When we get past that point and begin to look at the actual business, we tend to look at the earnings of the firm after draws or at the average earnings per partner. That these evaluative approaches are misleading becomes obvious when we compare them to the ways we analyze a corporate entity.

We don't look at a corporation in terms of officers' salaries; we look at its earnings. A corporation's earnings are often reflected in the buildup of accounts receivable and inventory, which we would say are analogous to our accounts receivable and work in process. We would never tell a client that inventory and accounts receivable don't count and,

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similarly, we should consider the collectibility and realization of work in process and accounts receivable when attempting to evaluate the economic efficiencies of our own organizations. In the same vein, in order to properly evaluate a business entity, we wouldn't be satisfied with earnings before officers' salaries to arrive at the true results.

In the management of our firms, we tend to mix together reasonable compensation for services provided—salary, and the return on our entrepreneurial efforts—the participation in the earnings of the firm. If we are to effectively evaluate the efficiencies of our firms, I believe we should separate partners' compensation for services provided from their participation in the earnings of the business. The question then is how to set their salaries.

Setting partners' salaries for evaluative purposes does not necessarily mean setting draw, which is merely the amount of cash taken out of the business. Briefly put, the marketplace sets salaries. For example, if you hire an employee and propose to pay him $25,000 a year and bill him out at $50 an hour (which is acceptable in the marketplace at his level of experience), then the marketplace has set his rate and therefore the ratio. A partner who sets his own hourly billing rate at $150 is therefore saying that the marketplace is willing to pay him the equivalent of a $75,000 salary (three times that of the employee) for his marketable skills. If this is so, any compensation above and beyond the partner's technical worth in the marketplace is either a function of his entrepeneurial abilities or return on capital.

In our firm, we take the classical or historical costs of operations plus an allowance for partners' salaries, as well as interest on the opening accrual basis capital accounts at the prevailing prime rate. We believe it is only by subtracting these economic costs from revenues earned that one can arrive at the actual net profit.

If we take all the time charges at standard (we all tend to use standard hourly rates) and determine a ratio to all the costs as previously defined, the result should be the standard cost percentage for every standard dollar of time. It is then relatively easy to evaluate the efficiency of operations based upon that ratio and make comparisons from one year to another and between entities.

Also, if we accept the premise that it costs X number of dollars to generate Y amount of revenue, any deviation from the revenue at standard can be viewed as either an overhead or bottom-line cost, much as in any cost accounting system of a manufacturing operation. In our firm, we evaluate deviations from standard as bottom-line costs because we are oriented to providing one single product—billable hours. We use a cost and profit center base for setting our relative compensation in the ensuing year. The exhibit on page 5 is a brief summarization of how we determine our profitability and relative compensation per partner.

Now, after going through this analytical process, certain things become apparent, one of which is that our primary unit of production is billable hours. Our hourly rates are limited by the marketplace and the number of billable hours each individual can generate is limited by the number of hours he can work in a year. If our firm is to grow, we are compelled to increase the number of billable hours each partner is responsible for generating—i.e., not his personal billable hours but rather the billable hours of the people working on client engagements for which he is responsible. In order to increase these billable hours, the limitation becomes how well he can leverage his skills through others.

Surveys show that medium-size firms seem to peak at a ratio of approximately six staff people (assume two are clerical) per partner, whereas the national and international firms have ratios ranging from 12 to 18 people per partner. Let's assume that the average billing rate of a firm's people is $50 an hour and that a professional staff person averages 1,700 billable hours per year. In a firm with a professional staff-to partner ratio of four to one, the gross potential billings per partner are $340,000 (6,800 hours at $50 per hour). If we accept the old premise of one-third for overhead, one-third for direct labor and one-third for profitability, we find that the average partner can have an earnings level on staff of approximately one-third of that, or $113,000, plus

(Continued on page 5)

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Highlights of Recent Pronouncements

FASB Statements of Financial Accounting Standards (SFASs)

No. 74 (August 1983), *Accounting for Special Termination Benefits Paid to Employees*

- ☐ Requires an employer that offers, for a short period of time, special termination benefits to employees to recognize a liability and an expense when the employees accept the offer and the amount can be reasonably estimated.
- ☐ Applies to special termination benefits offered after June 30, 1983. Restatement is permitted.

No. 73 (August 1983), *Reporting a Change in Accounting for Railroad Track Structures*

- ☐ Amends APB Opinion no. 20, *Accounting Changes*, to specify that a change to depreciation accounting from retirement-replacement-betterment accounting shall be reported by restating financial statements of all prior periods presented.
- ☐ Effective for changes made after June 30, 1983.

No. 72 (February 1983), *Accounting for Certain Acquisitions of Banking or Thrift Institutions*

- ☐ Amends APB Opinion no. 17, *Intangible Assets*, regarding the amortization of the unidentifiable intangible asset recognized in certain business combinations accounted for by the purchase method. If, and to the extent that, the fair value of liabilities assumed exceeds the fair value of identifiable assets acquired in the acquisition of a banking or thrift institution, the unidentifiable intangible asset recognized generally shall be amortized to expense by the interest method over a period no longer than the discount on the long-term interest-bearing assets acquired is to be recognized as interest income.
- ☐ Specifies that financial assistance granted to an enterprise by a regulatory authority in connection with a business combination shall be accounted for as part of the combination if receipt of the assistance is probable and the amount is reasonably estimable.
- ☐ This Statement applies prospectively to business combinations initiated after September 30, 1982.

No. 71 (December 1982), *Accounting for the Effects of Certain Types of Regulation*

- ☐ Supersedes the Addendum to APB Opinion no. 2, *Accounting Principles for Regulated Industries*, and amends certain APB Opinions, FASB Statements and Interpretations.
- ☐ Provides guidance in preparing general purpose financial statements for most public utilities. Certain other companies with regulated operations that meet specified criteria are also covered.
- ☐ Applies to fiscal years beginning after December 15, 1983. Accounting changes shall be applied retroactively with certain exceptions.

No. 70 (December 1982), *Financial Reporting and Changing Prices: Foreign Currency Translation*

- ☐ Amends FASB Statement no. 33, *Financial Reporting and Changing Prices*, because of changes in the method of translating foreign currency financial statements set out in FASB Statement no. 52, *Foreign Currency Translation*.
- ☐ Exempted from FASB Statement no. 33's requirements to present historical cost information measured in units of constant purchasing power an enterprise that measures a significant part of its operations in functional currencies other than the U.S. dollar.
- ☐ States that operations that use functional currencies other than the U.S. dollar should measure current cost amounts and increases or decreases therein in the functional currency. Allows use of either U.S. CPI (U) or functional currency general price level indexes.
- ☐ Applies to fiscal years ending after December 15, 1982 for which an enterprise has applied FASB Statement no. 52.

No. 69 (November 1982), *Disclosures about Oil and Gas Producing Activities*

- ☐ Amends FASB Statements nos. 19, 25, 33 and 39.
- ☐ Requires publicly traded enterprises to disclose supplementary information about reserve quantities, certain capitalized costs, certain costs incurred, certain results of operations, and a standardized measure of discounted future net cash flows related to proved reserves.
- ☐ Permits historical cost/constant dollar measures to be used for changing prices information when presenting current cost information about oil and gas mineral interests.
- ☐ Applies to fiscal years beginning on or after December 15, 1982.

No. 68 (October 1982), *Research and Development Arrangements*

- ☐ Requires that a company determine whether it is obligated only to perform contractual research and development for others, or whether it is obligated to repay any of the funds provided. If the company is obligated to repay the funds, it must record a liability and charge research and development costs to expense as incurred.

- ☐ Requires that a company whose obligation is limited to performing research and development services for others shall disclose the terms of significant agreements under the arrangement as of the date of each balance sheet presented, as well as the compensation earned and contract costs incurred for each period for which an income statement is presented.
- ☐ Applies to research and development arrangements entered into after December 31, 1982.

FASB Interpretation

No. 37 (July 1983), *Accounting for Translation Adjustments upon Sale of Part of an Investment in a Foreign Entity* (interprets SFAS No. 52).

Statements on Auditing Standards

No. 46 (September 1983), *Consideration of Omitted Procedures After the Report Date*

- ☐ Provides guidance on the considerations and procedures to be applied by an auditor who, subsequent to the date of his report on audited financial statements, concludes that one or more auditing procedures considered necessary at the time of the examination in the circumstances then existing were omitted from his examination of the financial statements, but there is no indication that those financial statements are not fairly presented in conformity with generally accepted accounting principles or with another comprehensive basis of accounting.
- ☐ Effective as of October 31, 1983.

No. 45 (August 1983), *Omnibus Statement on Auditing Standards—1983*

- ☐ *Substantive Tests Prior to the Balance-Sheet Date*—Amends SAS no. 1 and provides guidance on (1) factors to be considered before applying principal substantive tests to the details of balance-sheet accounts at interim dates, (2) extending audit conclusions to the balance-sheet date, and (3) coordinating the timing of auditing procedures.
- ☐ *Related Parties*—Supersedes SAS no. 6 and removes guidance on accounting and disclosures now covered by FASB Statement no. 57. The nature and extent of the auditor's responsibilities and procedures remain unchanged.
- ☐ *Supplementary Oil and Gas Reserve Information*—Technical revisions to SAS no. 33 to be consistent with the requirements of FASB Statement no. 69. The nature and extent of the auditor's responsibilities and procedures have not been changed.
- ☐ The amendments of the entire statement are effective for periods ended after September 30, 1983.

No. 44 (December 1982), *Special-Purpose Reports on Internal Accounting Control at Service Organizations*

- ☐ Provides guidance on the independent auditor's use of a special-purpose report on certain aspects of internal accounting control of an organization that provides certain services to a client whose financial statements he has been engaged to examine.
- ☐ Applies to examinations of financial statements for periods beginning after December 31, 1982, and for independent accountants' special-purpose reports on internal accounting control as of a date after December 31, 1982, or for a period ending after that date.

Statement 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 no. 1.
- ☐ Applies to periods ending on or after December 31, 1982.

Statements on Standards for Management Advisory Services

No. 3 (November 1982), *MAS Consultations*

- ☐ Provides guidance on the application of certain of the general standards set forth in SSMAS no. 1, *Definitions and Standards for MAS Practice*, to MAS consultations.
- ☐ Establishes certain technical standards applicable to MAS consultations.
- ☐ Applies to MAS consultations occurring after May 1, 1983.

No. 2 (November 1982), *MAS Engagements*

- ☐ Provides guidance on the application of certain of the standards set forth in SSMAS no. 1 to MAS engagements.
- ☐ Discusses the nature of MAS engagements, professional competence, planning and supervision, sufficient relevant data, role of the practitioner, understanding with client, client benefit and communication of results in MAS engagements.
- ☐ Applies to MAS engagements undertaken on or after May 1, 1983.

Organizational Problems

(Continued from page 2)

the profitability associated with his own time. Surveys show that once firms grow to a certain size, most partners tend to generate fewer billable hours—around 1,000 or 1,100 hours each. If we go back to our one-third divisions, we can see that at a standard of 1,700 billable hours, they are barely covering their base salaries and overhead.

However, if we are only able to realize 90 percent of standard, that would reduce the earnings by 10 percent of the gross (in this case $340,000 less $34,000), thus reducing the profit from $113,000 to $79,000. That figure, plus a salary sum of $50,000 is more in line with the average earnings of partners of very profitable medium-size firms.

Now, if we can approach a ratio of seven to one under exactly the same conditions including a reduction of 10 percent for nonrealization, we can increase the average earnings per partner from $130,000 to $190,000. This can be an appealing way in which to structure a firm for profitability.

Profitability is an essential tool of growth. Without adequate profits, a firm is unduly restrained in its ability to attract, retain and take the risk of investing in people who can help it grow.

–by Ronald G. Weiner, CPA
New York, New York

Method of setting up a standard cost system

Standard hourly billing rates exist for all members of Weiner & Company, partners and employees alike, and all direct client-related time is charged on this basis. It is generally the policy of the firm to realize these rates on services provided, underage or overage becoming an additional cost or profit to the firm. Hourly billing rates have been set by the firm for its professional and support personnel as ratios of their annual salaries plus an allowance for other than out-of-town expenses. In 1982 the constant applied against an employee's compensation was .002.

Exception to the above rate formula is taken for the determination of a partner's salary which is to be the economic cost of a partner to the firm based upon his market value. Market value is self-determined at a standard hourly rate. Salary is arrived at by dividing standard hourly rate by a constant (.002 in 1982), as follows:

$$\frac{\text{Standard hourly rate}}{\text{constant}} = \begin{array}{c}\text{Partner's}\\ \text{salary}\end{array}$$

Allocation—The allocation of profits to the partners of the firm is the end product of a series of calculations and objective criteria. A logical sequence has been detailed below.

Profit as standard equals total standard hourly rates for the year less all operating expenses including partners' salaries and interest on capital.

The *net profit* is the profit at standard adjusted for any deviations from standard, i.e., write-ups or write-downs.

Earnings shares are calculated as follows:

Step 1: Profit at standard is expressed as a percentage.
Step 2: The standard time charges per administrator are totaled.
Step 3: Step 1 is applied to step 2 to arrive at the profit at standard per administrator.
Step 4: Profit at standard per administrator plus or minus any deviations from standard results in the *net profit contribution per administrator,* which is subject to two further adjustments before determining each partner's quantifiable contribution to the profits of the firm:

(1) One-half of the net profit contribution per administrator is credited to the firm. This recognizes the firm's contribution to the attraction and retention of clients.

(2) One-half of the remaining ($\frac{1}{2} \times \frac{1}{2} = \frac{1}{4}$) profit (loss) on a specific account basis is credited to the originator of the client if different from the administrator. This recognizes the fair value of the client originator.

Step 5: The sum of each partner's salary plus the net profit attributable to him relative to the respective sums of every other partner is then expressed as a percentage, the numerator being the sum of a partner's salary and quantifiable contribution and the denominator being the sum of all partners' salaries and quantifiable contributions, equaling *percentage earnings shares.*

The percentile relationships as determined above, which were based on the economic performance of the year just concluded, are the percentage earnings shares by which the succeeding year's net profits are allocated after compensating the managing partner and after additional subjective evaluation, to the extent required.

Checklist for Buy-Sell Agreements

The following checklist is designed to help in answering fundamental questions relating to the continuity of a business in the event of death, or partnership/shareholder dissolution, etc. We have attempted to identify key areas of substantive business and tax planning for closely-held corporations and partnerships—the mainstays of local practitioners' clientele.

The checklist also addresses some elements of basic estate planning which will help give the attorney involved some important advance information. Our procedure is to first complete the checklist with the client, then review it at a follow-up meeting with the client and the client's attorney. This not only makes CPAs more helpful to the attorney but also reduces the time spent by the attorney and saves the client legal fees.

The effectiveness of the questionnaire results in its playing a key role in our personal planning for business clients. With the questionnaire complete, one meeting with the attorney is usually sufficient to generate a buy-sell agreement, a basic will and estate plan, and numerous other documents.

This checklist, which has been evolving over the last ten years, has become invaluable to our firm and we hope it will prove to be equally helpful to other practicing CPAs.

–by Ralph C. Kuhn, Jr., CPA
Bakersfield, California

Suggested Review Items Regarding Buy-sell Agreements

Checklist dated February 1, 1983.

1 Should buy-sell agreement apply to just current shareholders/partners, or be binding on all new shareholders/partners through the life of the corporation?

2 There should be a statement in the buy-sell agreement to the effect that it supersedes all other agreements to redeem stock or purchase stock executed by the shareholders/partners.

3 Will the death of a shareholder/partner result in an automatic buy-out of his stock, or will a spouse/child or legal heir be allowed to remain in the corporation as a shareholder/partner?

4 How will the corporation fund a buy-out on the life of a shareholder/partner/officer? Will the corporation use life insurance, term vs. whole life, or a combination of insurance and working capital?

5 Will all of the death buy-out amount be funded by insurance, or just part of it? In the event of a death buy-out, will all the proceeds from the policy be used to redeem the stock? Or, will a part of the proceeds of the insurance be used to help the corporation recover from the loss of a key shareholder/partner/officer? e.g. an 80%-20% split.

6 In the event of death, what will be the disposition of shareholder/partner loans whether receivables or payables? What will be the disposition of officer's loans? What will be the disposition of those same shareholder's/partner's loans in the event of a termination?

7 If an employee resigns or is fired, the non-death buy-out price will obviously be different from the death buy-out which would be funded by life insurance. What will be the price paid to a shareholder/partner who resigns or is fired from the corporation? Will a covenant not to compete be involved, and, if so, what will be its geographic area (50 miles for example) and for how long will it be in effect (e.g. 5 years or in conjunction with the installment payments of the buy-out if not paid in cash)?

8 The buy-out should be different for a bankruptcy buy-out as opposed to a death, or termination, or disability buy-out. Most shareholders/partners don't believe that the corporation should be burdened by the mistakes of one of the shareholders. One possibility would be a limited buy-out say $2,000 in the event of a bankruptcy based on the negative community feedback of having a corporate shareholder go bankrupt. However, this should be discussed in depth with an attorney.

9 How many days should the corporation have in which to pay off a terminated, disabled or deceased shareholder/partner, or a shareholder/partner who has been fired? Terms should be discussed and specific interest rates should be set in the document.

10 Disability buy-out is a sensitive subject for shareholders/partners to discuss. However, a disabled partner can't be carried for very long in a small business. Most small businesses use a disability buy-out of between three and six months. In other words, if one of the shareholders/partners becomes totally disabled for a period of 3 months, on the first day of the fourth month his stock is automatically sold back to the corporation at a disability buy-out price. There are insurance policies that will pay a face amount based upon a disability buy-out. In addition, the company can fund a disability buy-out, or part of one, through a voluntary employee benefit associa-

tion or use other tools available. All of the above should be discussed at length with an attorney. Also for a disability buy-out to be valid, the corporation should require a physician's written statement concerning the disability of the shareholder/partner in question.

11 The corporation needs to discuss the possibility of one of the shareholders/partners finding a nonrelated third party to buy his stock. Does the corporation want shareholders/partners to have the right to sell on the open market to any third party and only have the right of first refusal? Or does the corporation want to restrict people's rights and only have shareholders/partners sell back to the corporation itself. There is quite a danger in allowing for unrelated third parties to make offers on stock of closely-held corporations. Obviously a competitor could make an offer, making it hard to tell if it was a bonafide offer, or just a ploy to drive the stock price up so the remaining shareholders/partners would have to pay a higher price. This item needs discussion among the shareholders/partners.

12 Will a shareholder/partner have the right to transfer or assign to a trust for estate tax planning purposes his rights and interests in the corporation? The extent and uses of this transfer should be discussed specifically in the terms of the buy-sell agreement to make sure there are no later misunderstandings.

13 If whole-life insurance policies that gather cash value as the years pass are purchased, the shareholders should discuss if these policies are to be transferred to the shareholders/partners at termination or at retirement. There can be an additional benefit if the cash value is distributed in exchange for the stock at retirement, because the shareholder/partner would receive capital gains on the cash value, plus a paid up life insurance policy. The right of the employee/shareholder/partner to receive the policy in the event of resignation or termination should also be discussed.

14 All shareholders/partners who sign a buy-sell agreement should have their spouses sign the agreement also. It is best to do this at the attorney's office and have the signatures witnessed or notarized. This prevents later problems in the event of a marital dissolution, etc.

15 Shareholders/partners must decide if the corporation will guarantee obligations to a departing or deceased shareholder/partner; or if the remaining shareholders/partners will *"personally guarantee"* the obligations. This is a key point because the corporation could easily be insolvent, with the individual remaining shareholders/partners being quite wealthy.

Letter to the Editor

If your firm needs to improve its system of controlling the quality of accounting and audit work, or if you want independent verification of your quality control system, I know of no better way to accomplish either than through a peer review. It's more than a "report" on your system of quality control, just as your audit of a client's financial statements is more than an opinion on the financial statements. The advice and counsel of the reviewer(s) is probably the greatest benefit of having a peer review, especially for first-time reviews!

Some firms undergo a peer review even though they have very little documentation of their system of quality control. And some of them get a clean report! If their "system" works for them, if their work product is good, then they will still usually emerge from the peer review with a clean opinion. But they will likely get a long list of ways to improve the quality of their practice and to obtain assurance that the possibility of producing deficient work is virtually nil.

You don't have to join the division for CPA firms (PCPS or SEC section) in order to undergo a peer review. If you do it on your own, you can avoid the possibility of encountering sanctions from the peer review committee due to a deficient quality control system. (See note). On the other hand, you can't claim to be a member of the division if you pass. You might want to undergo one peer review as a nonmember and then join the division after gaining some assurance. Most of the firms for whom I have performed peer reviews didn't have a quality control document at the time. But most of them began developing one after the review, and they were much less apprehensive about it than before.

Often there are disagreements among partners in a firm about how much quality control is necessary. This can cause a firm to operate like two or more separate accounting practices, rather than as a firm. Often a peer review will help develop a consensus among the partners and get everyone going in the same direction, rather than each partner going his own way. At least it forces the issues and, hopefully, provides a forum to resolve them.

If your firm is considering joining the division for CPA firms or having a peer review outside of the division, talk to a firm who has gone through one. You'll likely be told it's worth the cost and effort.

–Marlyn D. Felsing, CPA,
Longwood, Florida

Editor's Note: In its recent report to the AICPA's board of directors, the PCPS structure committee recommended that the section offer an abbreviated risk free, confidential pre-membership low-cost review.

Staff Participation

Firms like to encourage senior staff involvement in their training sessions. It is good partner training. Recently, Martin Mathisen, an audit supervisor with Atkinson & Co., Ltd., in Albuquerque, New Mexico, made a presentation at the firm's weekly staff meeting that was directed mainly to seniors and new managers, and that suggested some techniques they could use in the areas of billing and practice management and development.

Mr. Mathisen suggests that seniors make sure the client reads the engagement letter thoroughly and that they keep the engagement partner and client advised in writing of the budget status. Where involved in hiring staff, he says, keep an eye open for people who have both a positive attitude and a need to achieve. Some training hints are to answer a question with another question to make the staff person think for himself and not be dependent. And he says, find out what research the staff person has done if you are asked a technical question. Make people open books.

Mr. Mathisen recommends that senior staff keep in touch with school buddies and join different clubs from partners' to maximize exposure. He says, let clients know your value—how your suggestions have saved them money, etc. Keep them informed of new accounting promulgations and send them articles that pertain to their interests (with your business card attached of course).

Other suggestions are for senior staff to do the personal tax returns of the principals of corporate clients, to accompany younger clients to banks and to get involved in the hiring of bookkeepers. He says, let them know you can't do enough for them and would like more clients like them.

When it comes to billing techniques, Mr. Mathisen's suggestion is that if you show $480 in work in process, bill $510. He says they are both perceived as being approximately $500. Mr. Mathisen also proposes adding one percent to work-in-process for telephone, typing, etc., and believes that if you don't ask for money up front, you won't get it. If you have to write anything off, he says, get the balance paid immediately. And if you let clients have more time, get installment notes or other assurance of the full amount eventually being paid.

One final piece of advice to seniors is to learn to keep track of time. Mr. Mathisen thinks that if everyone can improve efficiency one percent, the firm will be more profitable.

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