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## Practicing CPA, vol. 8 no. 6, June 1984

American Institute of Certified Public Accountants (AICPA)

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### Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Practicing CPA, vol. 8 no. 6, June 1984" (1984). *Newsletters*. 1534.

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# The Practicing CPA

JUNE 1984

An AICPA publication for the local firm

## A WEALTH OF INFORMATION YOU CAN USE

Have you ever needed prior years' tax forms for another state? Or perhaps you wanted to get some information on a company or industry or even on a person located in another part of the country. Obtaining material or information from out of state can often be very difficult or so time consuming as to be well-nigh impossible. However, there is one resource center where much of this type of information is readily available to members. That place is the AICPA library.

Many members now utilize the Institute's toll-free telephone numbers to obtain assistance on accounting and related subjects, for example, accounting and auditing for condominiums. Perhaps less well known are the other types of information available. If the library does not have the specific information needed, the librarians will try to track it down and notify the inquirer.

Let's say your interest is certain corporate financial data. The library has a collection of Moody's manuals going back to about 1960 that contains information on bank, finance, industrial and transportation companies as well as on municipal governments and public utilities. The library also has annual reports of NYSE, AMEX & OTC companies on microfiche.

To make it easier for members to obtain information about small businesses, the library has a new service—Area Business Databank. Data is drawn from regional publications and the coverage includes new products, market and management strategies, financial data, economic statistics and business opportunities.

To supplement the *Accountants' Index*, the library has a variety of other indexes. These include *Index to Legal Periodicals* and *Management Contents*, a bi-weekly compilation of the tables of contents from business magazines.

If you have read an article in a newspaper such as the *Wall Street Journal* and then lost it, the library

can help you find it by checking Information Access Company's *Business Index*. Updated monthly, it covers a broad range of business subjects.

Computer literature? Well, the library has a subject/author/publisher index to computer and data processing literature, and another one that covers over 2,000 microcomputer magazine articles each month on just about anything to do with computers—hardware, software, applications, you name it. If you have trouble naming it because you know so little about computers and think a computer magazine might help you learn, the library can assist again with *Computer Contents*—a bi-weekly compilation of the tables of contents from computer, electronic and telecommunications journals.

While the library will not engage in tax research, it has a wealth of tax information that you can use. Tax forms for every state, reports and decisions of the tax court, IRS letter rulings, capital adjustments, state, federal, international tax information; these items are all on the library's shelves and will never be discarded.

*The AICPA library can assist you in many ways so don't hesitate to use the toll-free numbers. In New York State dial 1-800-522-5434. Elsewhere, dial 1-800-223-4155.* ☑

### What's Inside . . .

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## Practice Analysis Published

"Practice Analysis of the CPA Profession"—a three-year AICPA study was completed recently. More than 7,500 CPAs responded to the questionnaire which identifies 41 specific work activities performed by CPAs in public practice, and the numerous skills and types of knowledge needed to competently execute a professional engagement.

The study data can be used by firms to help identify strengths and weaknesses. For example, a firm experiencing declining profits may gain insight into the cause of the problem through comparison of key statistics with other firms that meet particular criteria. Firms can also compare the services they offer with those of other firms. This can enhance understanding of their own market positions and aid in establishing marketing policies.

Personnel directors may find the data useful when recruiting and when developing orientation materials for new employees. The specific knowledge and skills needed for advancement and the work expected of employees at various levels are pinpointed. This helps in planning and coordinating training and development courses and in making sure that work assignments are based on relevant skills and experience.

The practice analysis data might show, for example, that some tasks could be reassigned to lower-level professionals or even to paraprofessionals. Future managers can be exposed to a predetermined sequence of work activities that enhances their potential, and appropriate performance and promotion criteria can be selected. The data make it easier to compare the various skills required for different jobs and to evaluate compensation and reward systems that take these items into consideration.

Problems often arise because of confusion over job descriptions and because of overlapping roles. Practitioners might find the study data helpful in more clearly defining jobs and in establishing career paths for promising staff members.

Copies of the study, "The Report of the Practice Analysis Task Force" are available for \$15 from the AICPA order department (Product no. 874514). ☑

## A Philosophy of Accounts Receivable Management

Anyone who is not insistent about being paid for services rendered is likely to find that people take advantage of the situation. It is the squeaking wheel that gets the grease. Tardiness in paying usually has little to do with clients' perceptions of whether value has been received or whether they are satisfied with the product or service. It is simply that people don't like parting with their money. Because of this tendency, we believe that the best way to manage accounts receivable is to first establish a fair system and then to be firm about collecting the fee.

In reality, you are not doing people favors by allowing them to incur large fees without discussion as to how and when these fees will be paid. Clients become embarrassed when fees are delinquent and will begin to avoid you. This ultimately leads to their not receiving needed services and your not receiving any money. The better approach is to meet the problem head-on and work out a plan for repayment. From that point on, the account is not considered delinquent and clients are more at ease.

We believe that it is a mistake to bill clients for more than you intend to collect. Billing adjustments should be done before the invoice is rendered, and once the receivable is recorded, you should have every intention of collecting it.

Adopting this policy places you in a position to determine which accounts or portions of accounts are to be treated as "charity" at the time the service is performed. You will then have a better grasp of what percentage of your services are performed for less than regular fees. Billing more than you intend to collect hides this statistic.

You must not undermine the system by accepting terms more liberal than previously agreed upon. To avoid this, we strongly advocate that all billing matters be handled by someone other than the professional practitioner. We have such a system in our firm and have successfully implemented similar systems for other professionals. ☑

—by Joe D. Jones, CPA  
Jackson, Mississippi

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## Open Door Policy: Is it Obsolete?

If you walk through most accounting firms you will see open doors. Accountants in this age of hi-tech need to project an up-to-date, caring image by having their office doors open. They know that management writers have long praised the concept of the open door and that it has numerous benefits. It gives subordinates access to information and the secure feeling which comes from knowing the boss is there if needed.

Unfortunately, subordinates fearing the consequences of interrupting the boss, may be reluctant to enter through the open door. Junior accountants realize that the open door might be a trap. They might walk in with a job but leave without one if their inadequacies are discovered.

Let's be honest! For some, the open door is out of date. It sounds good in theory but fails in application. It is time, many have suggested, to replace the open door with the closed door. But not just any door will do. The closed door must reflect the managerial philosophy of the individual whose office it protects. Let's look at some examples.

- Screen doors. These say you may look in but don't come in. The message is clear. The boss is willing to recognize little problems, but the big ones stay out in the hall for someone else to solve. It makes sense! You cannot be expected to solve a problem which never gets into your office.
- Swinging doors. Like those on the old saloons, these doors can be looked over or under to find out what is going on inside. Subordinates know that behind that door is a brave boss who will deal with any problem. Also known is that the door swings both ways. One may enter without much restraint but one must also be prepared to leave without resistance.
- Dutch doors. Originally designed to let air into the house but keep the livestock outside, these doors are for the wary supervisor. They are helpful when superiors fear plots and employees suspect plots. The boss is secure in the office and subordinates are locked out. However, both know what the other is doing.
- Peep-hole doors. These are used by the overly sensitive superiors who live in fear of conflict. When anyone approaches the door, their hearts pound, their hands sweat, their 3 H pencils shake and their emotional control dissolves. The peep hole allows them to look before they leap to open the door. They can let in people who don't have problems and simply not respond to those who do.
- Combination-lock doors. With such a door, senior accountants can be given the correct combination so they can enter at will. Junior employees, on the other hand, are given false combinations. Twin benefits are gained. The boss is available to his peers but protected from neophytes who are left spinning tumblers in futile circles.
- Firehouse doors. Some managers recognize the need to be available instantly in times of crises and install this type of door which stays closed to protect firefighting apparatus but swings open when the alarm sounds. The boss comes out to quench a problem. Once solved, the button is pushed and the door closes again. Fine tuning is important to differentiate between false alarms and real crises. After all, subordinates have a way of generating heat, smoke and, maybe, even flames when no real crisis exists. Auditors like this type of door.
- Doggie doors. A door like this assures respect because subordinates must crawl into the office and extend greetings from the prone position. Thus they and visitors from the Internal Revenue Service can be kept at bay without much prodding. And the boss is never intimidated by anyone crawling across the floor.
- Church doors. Only open for about one hour a week, these doors are another option. Most folks can find any number of reasons not to enter at all. But if enter they must and the boss is the fire and brimstone type, they tend to think the shorter the visit the better. As a matter of fact, most subordinates would be happy if the door is only open between 11 A.M. and 12 noon on Sundays.

If the closed door policy is implemented, visitors to an accounting firm can be greeted by a hall of different doors. Each of these will give senior accountants the time needed to work for clients while at the same time project an appropriate message to subordinates. Clients will be assured of privacy and alert subordinates will recognize when and whose office they may enter.

However, the really up-to-date managers are taking their doors off the hinges to allow maximum access by employees. They do not need protection and want to create an environment that provides for employee growth and maximum information for decisions. With proper application, the open door policy will never be obsolete. ☑

—by Walter S. Griggs, Jr., J.D.  
and Wallace R. Johnson, D.B.A.  
Virginia Commonwealth University  
Richmond, Virginia 23284

## Getting a Favorable R.O.I. from your Computer

Microcomputer technology is advancing at such a rapid pace that local practitioners are obliged to give some thought as to how this might precipitate changes and affect various functions in their firms. Even now, powerful personal computers with enhanced storage capacity and sophisticated communication and printing equipment are readily available. CPAs are under growing pressure from clients and staff to obtain computers and become experts in their use.

During the next few years, there will be further developments such as bubble and optical memories to permit much more information to be stored and allow faster access to it. In addition, applications will become easier because of software advances such as integrated programs that combine various tasks, and users will be better able to modify or customize programs. Let's look at a few ways in which these advances will affect local firms.

Firm management will probably be directed more toward planning and forecasting. The prerequisites for budgeting, scheduling personnel, identifying clients within industries through market studies, etc., are more easily achieved through computer utilization. Significant productivity increases in other activities of the firm will be realized as the use of word processors and electronic mail becomes widespread.

The computer will permit a more scientific approach to work paper preparation and the audit program—particularly in the monitoring of clients' financial systems. Local practitioners will be in a better position to provide clients with tax advice—do more tax research and planning—as opposed to providing elegant reports to the federal government. The general accounting staff will become occupied with the installation of good, basic, computerized accounting systems for clients; management advisory services will probably become a larger part of the local practice and the data processing department will gravitate toward providing industry with specialty timesharing and/or installation services.

The first step in obtaining a favorable return on investment is to purchase the best system available that meets most of your requirements at the least cost. This means that you must identify specific needs—not just current needs but future requirements as well. Eventually, you may want to use your computer on more than one task at a time and need considerable storage capacity. If this is the case, you must consider computers that will not only enable you to run a wide variety of programs but have

operating systems that are capable of multitasking. You might also want to consider the purchase of a hard disk drive because of its large storage capacity.

Costs don't stop at the purchase of hardware and software. There are the additional costs of installing the system and training personnel to run it. You must also give some thought to the support offered by vendors and what this will cost.

Identifying and matching system capabilities with the requirements of your firm, making sure that the systems under consideration are fast enough and powerful enough to do the job, then finally choosing one that is indeed the best system that will meet your needs at the least cost can be a daunting prospect for many practitioners. If you shy from the task, you may want to consider hiring a professional consultant to evaluate your firm's needs and screen available systems. If you go this route, make sure your consultant is competent. Talk to previous clients to check that he or she has a demonstrated ability to understand your requirements, and a track record of successfully installing the latest computer systems.

Electronic spreadsheets have widespread uses in local firms. They can be utilized in cash flow analysis and income tax planning as well as for budgeting and financial forecasting. Among many other uses are projecting future personnel requirements, depreciation and real estate evaluation.

One of the biggest paybacks to a computer investment can come through its utilization in tax planning. Clients tend to expect simple answers to complex questions at a low cost and high speed—answers that are made easier by using a computer.

Tax return preparation is a service that can offer a good return on the investment in a computer. A fast printer should be obtained if the firm prepares a lot of returns and it should make sure the software package is complete regarding state and local tax regulations.

Computer-produced graphics is another area that offers promise. The typical illustrations that are suitable for business purposes are bar, line and pie charts. There are many other examples, of course, but some, such as the CAD-CAM (computer aided design-computer-aided manufacturing) and three-dimensional charts don't seem to have much application in local practices.

The types of information best adapted to graphic presentation are comparisons, trend analysis and highlights. CPAs can include these graphics as part of financial statements, or separately as a forecast or prospectus. Graphics can also be utilized internally by a CPA firm in its own management, for MAS purposes and in practice development efforts.

—by *Thomas J. Koger, CPA*  
*Beaumont, Texas*

### Types of services that can be offered for a favorable R.O.I.

#### *Firm applications*

Time & billing  
 Work-in-process  
 Accounts receivable  
 Time analysis  
 General ledger  
 Financial statements  
 Budgeting  
 Forecasting & modeling  
 Due date monitoring  
 Staff scheduling  
 Payroll  
 Accounts payable  
 Word processing  
 Mailing lists  
 Marketing plan

#### *General support services*

Write-up  
 Fixed assets  
 After-the-fact payroll  
 Tax return preparation  
 Tax planning  
 Forecasting & modeling  
 Amortization  
 Statistical sampling  
 Audit software

#### *Consultation*

Computer feasibility studies  
 Systems definition  
 Computer selection  
 Software selection  
 Installation assistance  
 Systems documentation  
 Data communications studies  
 EDP controls review

#### *General service bureau services*

General ledger  
 Payroll  
 Order entry & invoicing  
 Receivables  
 Purchase orders  
 Payables  
 Fixed assets  
 Inventory  
 Notes receivable  
 Pure timesharing

#### *Industry specialized service bureau services (facilities management)*

Attorneys  
 Banks  
 Contractors  
 Credit unions  
 Doctors  
 Freight & forwarding  
 Hospitals  
 Hotels & motels  
 Insurance  
 Manufacturers  
 Municipalities  
 Oil & gas  
 Real estate  
 Retailers  
 School districts  
 Utilities  
 Wholesalers

#### *Software services*

System design  
 Systems development  
 Turnkey systems

**Note:** Many applications may be utilized in more than one area.

*Editor's note: Practitioners who are contemplating acquiring their first computer might find the article, "A Review of Microcomputer Basics" in the July and August 1982 issues of the Practicing CPA helpful. For another viewpoint—one that advocates hiring a consultant to help you select the right computer—see that year's December issue.*

*We also ran several articles in 1982 on simple and profitable ways that practitioners can use computers to provide small-business clients with the type of help they need. These articles are "Graphics to Help Managers" in August, "Com-*

*puter-Generated Financial Ratios" and "How One Firm Uses a Computer to Perform Analytical Review Computations" in September, and "Computer-Generated Breakeven Analysis" in the November issue.*

*We have not had any articles specifically about word processing programs. However, "Making Use of Word Processors" in the October 1981 Practicing CPA explored the benefits to expect and the pitfalls to be aware of when using that type of equipment. Much of this is pertinent when using a word processing program on a microcomputer.*

## How CPAs are Perceived

Small businesses and professionals represent a growing market for members of the New Jersey Society of CPAs. Prior to planning a public relations program to reach this audience, the society determined that it must first find out how small-business owners and professional people perceive CPAs and to what extent they use specific CPA services. To obtain this information, the society, in cooperation with the Rutgers University department of communication, conducted a survey last spring of a representative market sample in the state.

Responses were received from 179 (36 percent) of the 478 people who received the 44 question survey. Approximately 65 percent of these respondents are involved in some type of small business and 35 percent have professional practices (law or medicine). At the time, the average small-business respondent employed 19 people and had been operating for 17 years. The average professional had been in practice for 15 years and employed 6 people. Although the survey was confined to one state, the responses should be of interest to local practitioners throughout the country.

The respondents, in general, are significant consumers of many professional services, such as lawyers', bankers', bookkeepers' and, particularly, CPAs'. Seventy-nine percent indicate that they either "employ" or use CPAs for a range of financial services.

The vast majority (over 90 percent) of the respondents who use CPAs, turn to them for traditional services, such as help with taxes, preparing financial reports and to perform audits. CPAs are also preferred over bankers, lawyers, stockbrokers and "others" to help respondents establish benefit programs, invest in or buy a new business, expand an existing one, or just to help them keep up with financial developments. The CPA usage rates for these four services are between 50 and 60 percent—lawyers and bankers being used to a significant degree as well.

*The fact that just over half of the respondents turn to CPAs for these services suggests that these markets could be further developed. The remaining respondents might be unaware that CPAs provide such services.*

There are two areas where professionals other than CPAs are immediately associated with a particular service. These involve investments and estate planning. In both cases the CPA usage level is about 40 percent. The respondents turn to stockbrokers at least as often as to CPAs for advice on investments, and twice as often to lawyers for estate planning assistance.

The survey revealed that 20 percent of the respondents don't use the services of CPAs at all, al-

though just over half of this number do use accountants. The nonusers, who have an average of 6 employees each, as opposed to an average of 14 for the entire sample, seem to believe that their businesses or practices are too small or too simple to require a CPA's services.

*This raises the question of whether or not advertising would be the best way for CPAs to inform small-business owners and professional people about the services they could provide. The survey results were not very encouraging in this respect.*

The majority of respondents did not rely on advertisements when seeking professional services, and tended to think that professionals should not engage in this type of promotional activity. At the least, most of them indicated, quite strongly, that they expected professional people to exhibit more integrity in the use of advertising than they would expect from other advertisers.

Once the decision to utilize the services of a CPA is made, the survey showed that reputation and recommendations are the primary determinants of whom will be selected. However, the CPA's education and personality and the cost of the services are also significant and might, under some circumstances, deter a prospective client despite the CPA's reputation and recommendations. To nonusers, recommendations are apparently more important than reputation, and cost is a more significant factor than it is to people who actually use CPAs' services.

*Generally speaking, the respondents hold CPAs in high esteem and consider their services to be helpful in saving time and money. Nevertheless, there seems to be scope for informing small-business owners and professionals about the range of services CPAs provide. ☑*

### We Would Like to Hear from You

Small businesses and professional practices are an important and growing market for CPAs in many parts of the country. Perhaps you would like to let us know your ideas for reaching the decision makers and explaining about the various services you can offer them.

Letters to the editor are always welcome, space permitting, on matters within the *Practicing CPA's* frame of reference. Also, we are still very interested in hearing about any new ideas or methods you have developed that make running an accounting practice easier.

If the *Practicing CPA* can draw on your skills and experiences, it can be an effective medium for the exchange of much practical information.

## Second-class Partners

Practitioners often ask my opinion about admitting a "second-level" partner. Sometimes the reason is because they have someone on the staff who has potential and is definitely partner material but who is not yet ready for full partner status. Other times it is the firm that is not ready for an additional partner. On occasion, the reason is that the individual in mind is not a CPA and therefore lacks the qualifications for partnership. Whatever the reason, my answer is always that I don't think the position of "second-level" partner accomplishes much.

My general philosophy is that when a member of a firm becomes a partner, he or she should be like all other partners. Differences should be recognized in such areas as ownership, salary and profit participation, but a partner should be a full partner and share in the responsibilities of a partnership as well as in its assets and liabilities.

If individuals are non-CPAs, they should be made principals or directors or given some other title, and have all of the rights of the partnership other than the voting rights from which they are legally excluded. If they have the legal qualifications but the conditions are not yet right, don't try to make a special class of partner. My preference in this case is to establish an employee level that can be rewarded in different ways from other employees. Some firms use the title of principal to designate profit-sharing employees prior to their becoming partners. Other firms use the manager level in much the same way.

### What partnership means

Partnership implies a lot of things besides sharing in the profits and losses of the firm, and it should be reserved for people who have demonstrated the ability and earned the right to be made a partner. Those who share the responsibilities and perquisites of partnership should be full partners and not a subordinate group. You are dealing as much with a psychological situation in developing partners as you are with any other particular attributes or abilities.

Partnership should be something that is anticipated and looked forward to, and which is given at the proper time from the perspective of both the firm and the individual. This should never be treated lightly or done as a half-way step. Either people are partners or they are not.

There is little value in the establishment of a second-class citizen within the partner ranks. It doesn't do much for the partnership and it does even less for the individual. ☐

—by Donald B. Scholl  
D.B. Scholl, Inc.  
P.O. Box 297  
Paoli, Pennsylvania 19301

## Management Advisory Services Practice Aids

Many CPAs are expanding their practices by providing management advisory services (MAS). These MAS opportunities may be the result of a request by a client or a recommendation by the practitioner based on observation and analysis. They may be limited to an MAS consultation based on the practitioner's knowledge of the client's current situation or may involve an engagement requiring considerable research and effort.

While experienced CPAs may be able to provide correct answers to clients' questions about business matters without the need for much study or research, there are many occasions where this cannot be done. In these instances, the best response may be no answer at all, or a referral to someone who is better qualified to provide an answer.

Nevertheless, CPAs are skilled at gathering data, research and analysis—skills that will often make it possible to provide help. However, this necessitates that both CPA and client are prepared to invest the time to ensure that questions are properly answered and problems are correctly solved.

One service particularly appropriate for practitioners or clients new to structured MAS engagements is the organizational review. These engagements usually include an analysis of client operations and recommendations for improving productivity and profitability. To assist practitioners in organizational review engagements, the AICPA has issued MAS Small Business Consulting Aid No. 3, *Assisting Clients in Maximizing Profits: A Diagnostic Approach* (055268).

The primary purpose of the practice aid is to describe a diagnostic review technique for studying selected areas of a client's operation and establishing priorities in addressing needs and objectives. It illustrates how diagnostic forms (diagnostic review questionnaire and diagnostic review summary) can assist a practitioner in conducting an MAS engagement to improve a client's profitability. The diagnostic review questionnaire lists questions that, when answered by the practitioner, provide a better understanding of the current effectiveness of a client's profit-affecting activities. The diagnostic review summary aids the collection of information and related comments from the questionnaires.

Other important features of the practice aid is that it helps the practitioner

- Identify problems and document the findings.
- Decide the significance of findings in a specific client area.
- Determine whether comment on the findings is appropriate.
- Support comments to the client. →



- Recognize areas needing corrective action.
- Document the degree of severity of the problems.
- Establish priorities for corrective action.

The practice aid describes in detail typical engagement considerations such as the client evaluation, reaching an engagement understanding, preliminary survey and initial judgments, information gathering, selection of diagnostic review areas, communication with the client and the final report.

Sample diagnostic questions for eight review areas are provided:

- Organization
- Management goals and objectives
- Sources and adequacy of capital
- Marketing
- Products and services
- Production
- Human responses
- Management information and controls.

Also included are selected sources for developing additional review questions.

The following MAS practice aids are available from the AICPA order department and can be obtained under the Institute's "standing order" plan.

MAS Small Business Consulting Practice Aids Series

- No. 1 EDP Engagement Systems Planning and General Design*
- No. 2 Identifying Client Problems: A Diagnostic Review Technique*
- No. 3 Assisting Clients in Maximizing Profits: A Diagnostic Approach*

Technical Consulting Practice Aids Series

- No. 1 EDP Engagement Systems Planning and General Design*
- No. 2 Financial Model Preparation*
- No. 3 Financial Ratio Analysis*
- No. 4 EDP Engagement: Software Package Evaluation and Selection*
- No. 5 EDP Engagement: Assisting Clients in Software Contract Negotiations*

MAS Practice Administration Aids Series

- No. 1 Developing an MAS Engagement Control Program*

For further information, contact Monte Kaplan in the AICPA MAS division (212) 575-7057.

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