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IMPROVING WHITE-COLLAR PRODUCTIVITY: A NEEDED SERVICE (Part 2)

In Part One of this article I suggested using the scientific method of problem solving to improve productivity. This, simply, is a systematic approach to improving existing methods, procedures, and systems and basically consists of the following six steps: defining the problem, researching the "given," developing alternatives, evaluating alternatives, implementing the solution, and following up. This half of the article will describe more fully how to go about each of the steps.

Define the problem

The auditor should determine whether a client has truly identified a problem or is merely reacting to symptoms that are camouflaging it. A common pitfall is to underestimate the difficulties of this first step. Unless carefully analyzed, the problem can easily be misdiagnosed.

For example, a client, concerned that customer payments were slowing, hired another collection clerk. Yet outstanding balances continued to age. Asked to evaluate the procedures followed by the collection clerks, my first step was to look closely at the overall operation. This revealed that the procedures for handling returns, not the collection process, was the root of the problem. Evidently, orders were being returned without supporting documents, and, as a result, credit memoranda were not being issued, and customers were holding payment on the entire invoice. Little would have been gained by auditing the collection process, as requested, because the client was addressing a symptom of the problem, not the cause.

To help identify the problem, traditional charting techniques can be used. Proper use of these charts also enables the analyst to synthesize solutions. To analyze a product, for example, the analyst might use one of the following graphic techniques:

- Process-product chart.
- Flow diagram.
- Procedure analysis chart.

For an analysis that focuses on people rather than the product—"man analysis"—there are other techniques available, such as

- Process-man charts.
- Man-flow diagrams.
- Workplace layouts.
- Operation charts.
- Multiple-activity charts.

To illustrate the difference between product analysis and man analysis, consider process charts. Both product and man analysis are graphic presentations of separable steps. For a product, the analyst graphs the steps involved in performing the work required to modify a product from one stage of completion to another. A process-man chart, however, treats the person as a single unit and illustrates the steps people perform when doing tasks that require them to move from place to place in the course of their work.

Research the "given"

When auditors research the given information, they should be careful to distinguish whether the type of information gathered is that which is prescribed by fact and/or constraints, or that which is assumed.

Some of the best opportunities result from being willing to challenge information that is assumed to be true.

Develop alternatives

The concept of productivity improvement stems from the premise that every operation can be made

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more efficient or effective. This step is probably the most difficult in that it requires the auditor to be creative. Most helpful in this respect, I find, are work simplification techniques.

I believe a typical internal control questionnaire or checklist might limit the auditor to items on it, and thereby stifle creativity. Nevertheless, there are questions that should be addressed for each task, such as who, what, when, where, why, and how. For examples of the ways these questions can be applied, see the sidebar on this page.

It should also be determined if the task is necessary; and if it is, whether there is a better or cheaper way of performing it. The flowchart on page 6 illustrates the process of combining and eliminating tasks in order to simplify an operation and make it more efficient and effective.

Evaluate the alternatives

Once possible alternative methods have been developed, these must be evaluated in order to select the best one. It is important to keep both the objectives as well as the problems of the present system in mind during the elimination process, and to consider the advantages and disadvantages of each alternative. Only then can you make an objective selection.

Final recommendations should be clearly docu-

Essential Questions: An Order-Processing Example

If we were to analyze the activity of processing an order, we might ask the following:

WHO	Receives, processes, and files the order? Is it necessary that this person (these people) be involved?
WHAT	Are the different types of orders? Are they handled differently? Are these differences necessary?
WHEN	Is the order received, processed, and filed? Is that time schedule necessary? What are the time constraints?
WHERE	Is the order received, processed, filed, etc? Is it necessary that it occur at that location? Is there a better place?
WHY	Is the order handled this way? Why, for example, is the order manually recorded on an order form before being keyed? Is this necessary, or can it be directly keyed?
HOW	Is the order received, processed, and filed? If, for example, orders are filed numerically by customer number or by order number, why? What information is known when an order is retrieved? What information is sought?

mented. I recommend devoting ample time to preparing the final report. After all, it is your "product" and reflects you, your firm, and your work. The report should be easy to read and tailored for each client. Although an oral presentation is also necessary, it is inadequate by itself because (a) clients may misinterpret the recommendations and (b) they need something they can review and digest and from which they can develop action plans.

Implement the solution

Together with the client, determine which recommendations should be implemented first, and which employees will be responsible for each one. I believe it is better to select on the basis of quick implementation rather than on importance. This will get things rolling and do wonders for your credibility. Also, implementing several small changes in

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Highlights of Recent Pronouncements

FASB Statement of Financial Accounting Standards (SFASs)

No. 88 (December 1985), *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*

- Establishes standards for an employer's accounting for settlement of defined benefit pension obligations, for curtailment of a defined benefit pension plan, and for termination benefits.
- Specifies use in conjunction with FASB Statement no. 87, *Employers' Accounting for Pensions*.
- Requires that previously deferred gains and losses be recognized and prescribes the method for determining the amount to be recognized in earnings when a pension obligation is settled, a plan is curtailed, or when termination benefits can be reasonably estimated.
- Supersedes FASB Statement no. 74, *Accounting for Special Termination Benefits Paid to Employees*.
- Effective for events occurring in fiscal years beginning with the fiscal year in which Statement no. 87 is effective.

No. 87 (December 1985), *Employers' Accounting for Pensions*

- Establishes standards of financial reporting and accounting for an employer that offers pension benefits to its employees.
- Objectives of this statement: to provide a measure of net periodic pension cost that better approximates the recognition of cost over the employee's service period; to provide more meaningful disclosures; and to improve reporting of financial position.
- Requires a standardized method for measuring net periodic pension cost.
- Requires immediate recognition of a liability when the accumulated benefit obligation exceeds the fair value of the plan assets.
- Requires expanded disclosures in the financial statements, including the components of net pension cost and the plan's funded status.
- Supersedes APB Opinion no. 8, *Accounting for the Cost of Pension Plans*, as amended.
- Supersedes FASB Statement no. 36, *Disclosure of Pension Information*.
- Supersedes FASB Interpretation no. 3, *Accounting for the Cost of Pension Plans Subject to the Employee Retirement Income Security Act of 1974*.

- Amends FASB Statement no. 5, *Accounting for Contingencies*, paragraph 7, to delete references to accounting for pension cost and APB Opinion no. 8.
- Amends APB Opinion no. 16, *Business Combinations*, paragraph 88(h) and footnote 13 to delete references to accruals for pension cost.
- Effective, generally, for fiscal years beginning after December 15, 1986. The effective date for plans outside the U.S. and for defined benefit plans of employers that are nonpublic enterprises with no defined benefit plan with over 100 participants is December 15, 1988.

Statement of the Governmental Accounting Standards Board

No. 3 (April 1986), *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*

- Requires certain note disclosures about governmental entities' deposits with financial institutions, investments (including repurchase agreements), and reverse-repurchase agreements, generally for the entity taken as a whole.
- Provides guidance on accounting for repurchase and reverse-repurchase agreements.
- Requires disclosure of the types of investments authorized by legal or contractual provisions, and of significant violations during the period of the provisions related to deposits and investments.
- Requires disclosures for the deposit and investment portfolio as of the balance sheet date, which will provide users with information about credit and market risks.
- Requires for reverse-repurchase agreements disclosure of the source of authorization, significant violations during the period of legal or contractual provisions related to the agreements, and summary information about the credit risk associated with the agreements as of the balance sheet date.
- Effective for financial statements issued for periods ending after December 15, 1986. Earlier application is encouraged.

Statement on Standards for Attestation Engagements

Attestation Standards (March 1986)

- Provides that an accountant who is engaged to

issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party should either examine, review, or apply agreed-upon procedures to the assertion in accordance with this statement.

- Defines an attest engagement.
- Provides standards for all attest engagements, which are a natural extension of (but do not supersede) the ten generally accepted auditing standards.
- Specifies five preconditions for attest services to be performed:
 - 1) The practitioner has adequate training and proficiency in the attest function.
 - 2) The practitioner has adequate knowledge of the subject matter.
 - 3) There are reasonable measurement and disclosure criteria concerning the subject matter.
 - 4) The assertions are capable of reasonably consistent estimation or measurement using such criteria.
 - 5) The practitioner is independent.
- Provides for two levels of attest assurance that can be reported for general distribution. They are: positive assurance, in reports that express conclusions on the basis of an examination, and negative assurance, in reports that express conclusions on the basis of a review.
- Provides for attest services based on agreed-upon procedures or agreed-upon criteria as long as the report is restricted to the parties who agreed upon the procedures or criteria.
- Effective for attest reports issued on or after September 30, 1986. Earlier application is encouraged.

**Statement on Standards for
Accounting Services on
Prospective Financial Information**

Financial Forecasts and Projections (October 1985)

- Provides that the accountant who either submits to his clients or to others prospective financial statements that he has assembled, assisted in assembling, or reports on, should either compile, examine, or apply agreed-upon procedures to the prospective financial statements, in accordance with this statement, if they are expected to be used by a third party.
- Defines a financial forecast and a financial projection.

- Prohibits an accountant from compiling, examining, or applying agreed-upon procedures to prospective financial statements that omit a summary of significant assumptions. It also prohibits an accountant from consenting to the use of his name in conjunction with a financial projection if the projection is to be used by persons not negotiating directly with the responsible party unless the projection is used to supplement a forecast.
- Effective for engagements in which the date of completion of the accountant's services on prospective financial statements is September 30, 1986, or later.

Information for Members

Technical information

The primary responsibility of the twelve people who staff the Institute's technical information service is to answer members' questions on technical matters. They receive some 20,000 inquiries per year on accounting principles, financial statement presentation, auditing and reporting standards, and certain aspects of professional practice, excluding tax and legal matters. If you would like some assistance, we encourage you to call toll-free: United States, (800) 223-4158; New York State, (800) 522-5430.

Library services

The AICPA library's staff can also offer assistance on accounting and related subjects as well as on a broad range of business topics. AICPA members anywhere in the U.S. may borrow from the library's extensive collection. For assistance, just call these toll-free numbers: United States, (800) 223-4155; New York State, (800) 522-5434.

NAARS accounting and financial data library

Subscribers have access to different types of files in the Institute's NAARS library. These are annual reports, including financial statements, footnotes, auditors' opinions, and selected areas of proxy statements; and all current and superseded authoritative and semi-authoritative literature from the AICPA, FASB, and SEC. For further information, just call this number: (212) 575-6393.

Common Operational Audit Findings

Don't be deceived by client personnel who insist that everything they do is not only necessary, but cannot be altered in any way. I am always amazed at the number of unnecessary tasks that can simply be eliminated. The following are common circumstances revealed by an operational audit.

Several people maintain the same records.

It might be for different reasons, they might be in different departments, and they are often unaware of the duplication but, in any case, the record keeping can usually be streamlined. If several people need access to identical information, it should be compiled once and made available to others.

Manual checks and balances are needlessly maintained after a process is computerized.

This verification is prudent for a while after automation, but should be discontinued after a successful test period. This practice is not usually per management's instruction; rather, it occurs because a conscientious employee lacks confidence in the computer.

Long after an application is automated, manual records are often still being maintained.

Management should not assume that old systems vanish when new systems are installed. This requirement must be communicated to employees.

Manual records are maintained by employees who do not know that the information can be retrieved from the computer.

This duplication of effort is merely a training problem. Staff members are unaware that they can access information in an on-line inquiry mode. Or, they maintain a manual log by, say, vendor number because the report they receive is alphabetical and they are unaware that the system can also sort by vendor number.

In short, if a task is not necessary, simply eliminate it. If, however, the task is necessary, move on to the next step: Can it be improved? Generally, improvements result by performing a task (or, producing a product/service) easier, faster, better and/or cheaper with equal or better value. Activities can often be simplified, modified, or combined in some way. (See the flowchart on page 6.)

If elements cannot be combined, scrutinize the sequence of events. Sometimes improvements can be realized by changing the order of the tasks. Also, take a look at the layout of the workplace. Does it facilitate work flow or hinder production? An awkward layout invites many inefficiencies. Search for repetitive tasks that should be mechanized. Keep in mind that the possibility for the human element of error should be avoided wherever practicable.

White-Collar Productivity

(Continued from page 2)

procedures will boost employees' morale and create a progressive atmosphere.

Establish a timetable for completion with the employees concerned. Their input can avoid the possible setting of unrealistic goals which would only frustrate staff. Hold weekly meetings to review progress.

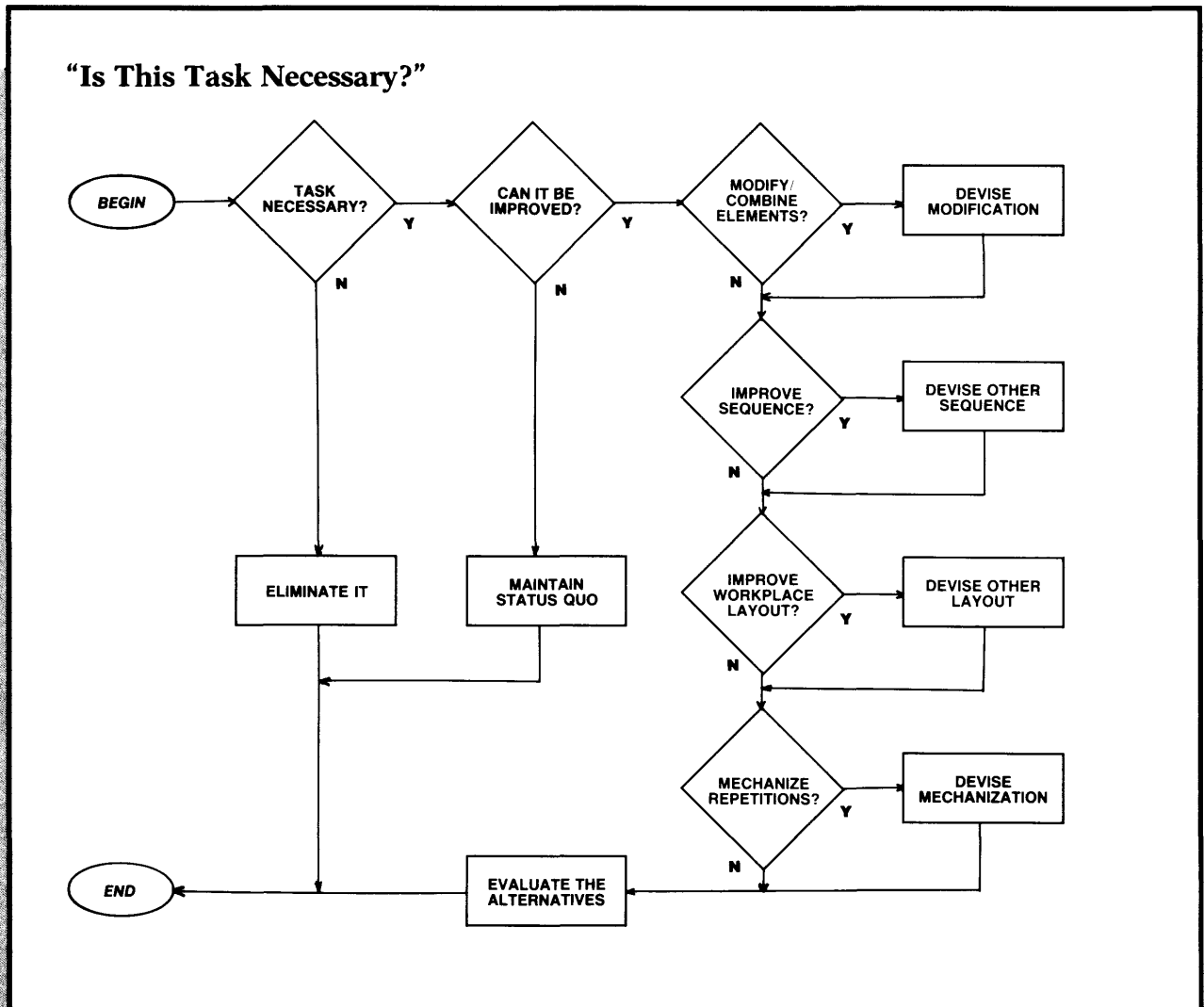
Upon completion, credit should be directed to the employees rather than to the consultants. Also, it is helpful if the impact of the changes can be measured and communicated. People like to see results that can be quantified because this promotes a positive image of them and the company with which they work. I think that consultants should be involved in

the implementation process, if only to oversee and review its progress. Recommendations mean changes, which people often resist. Consultants should therefore be sensitive to this tendency and attempt to minimize its impact by keeping people involved. Above all, it helps to have a personal interest in the welfare of the people directly affected by the changes.

Follow-up

The final step in the scientific method of problem solving is follow-up. Unless the new system is monitored with documented results, there will be no way to measure or judge its effectiveness. Follow-up also provides an opportunity for the consultant to review any problems that may have arisen.

In summary, productivity is determined by the



pace of the worker, which is clearly limited by the human element, and by the methods, procedures, and systems used, which are, at the least, subject to fewer limitations.

Therefore, it obviously makes good business sense to direct efforts toward improvements in methods, procedures, and systems. The approaches suggested in this article can be used to accomplish such improvements, particularly for clients' white-collar tasks.

As companies grow and technology changes, the methods and procedures used in performing tasks—even the way firms are organized—are likely to change. This can cause inefficiencies, bottlenecks and even impair management's control over operations. Many clients, therefore, can profit from an operational audit of their office operations to help

them reduce costs, tighten management control, and improve productivity, competitiveness and the quality of their customer services.

In the period from 1977 to 1982, the U.S. work force payroll shrank by 600,000 blue-collar jobs but added 8,300,000 white-collar ones. This trend is continuing, but little is being done to improve white-collar productivity. It is estimated that during this same period, blue-collar productivity increased 10 percent, whereas white-collar productivity declined 9 percent. Our clients need our help.

—by Doris Magliola-Zoch, CMC
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QUESTIONS FOR THE SPEAKER

“Our people are our most important asset.” This is a typical comment at AICPA practice management conferences because practitioners know that the quality of service rendered is determined by the abilities of administrative and professional staff as well as by a firm’s partners. It is a rare conference, too, where the participants don’t have several questions for the speakers concerning the management of this asset.

Q Many questions ask how to provide an environment that encourages staff. One example of this is “Do you see bonuses as a staff motivator?”

A When asked this question, Robert L. Israeloff, a Valley Stream, New York, practitioner, says, “Absolutely not.” Once you give a bonus, Mr. Israeloff believes, you must give at least the same amount the next year; otherwise staff members will feel rejected, their performances will suffer, and they may be tempted to look for other jobs.

Q Uneven performance can be a problem, and a participant at one conference asked, “How do you manage an employee who has brilliant streaks and flat periods?”

A H. W. Martin, a retired Rome, Georgia, practitioner suggests first discussing the problem with other partners and with managers in an effort to find a solution before mentioning it to the employee. “Perhaps,” he says, “some aspect of an engagement is distasteful to the employee and the problem could be alleviated by assigning other work.”

Mr. Martin believes that the partner conducting the interview should have a good relationship with the employee because there may be a personal matter at the root of the problem. He thinks that the interview should be conducted in a friendly, low-key manner with the emphasis on how fine the brilliant periods are and how uncharacteristic the flat ones. If firms show confidence in employees, Mr. Martin believes, not only are the flat periods likely to be eliminated but the brilliant streaks may be enhanced.

Q What do you do about a productive junior staff accountant who you know will never make partner or manager but who is happy in such a position?

A Many practitioners can’t imagine the position of professional junior. Keeping a junior in his present position on the professional staff just won’t work, according to Jerry W. Jackson, a Bluefield, West Virginia, CPA. He believes that the competitiveness normally found among professional staff prohibits having a junior hold a position that a newer staff member is seeking, and that anyone content to stay in his current position won’t be capable of filling a position on the professional staff the following year without demonstrating a desire to learn new accounting and auditing pronouncements and their application in practice.

Mr. Jackson thinks that if the individual is *not* classified as a professional staff member and can be effectively utilized elsewhere in the firm, such as in client accounting services, then perhaps a mutually satisfying relationship could be reached.

Q Another conference question concerns hiring staff from other local firms of approximately the same size as one’s own practice.

A Apparently, some firms do occasionally obtain staff from similar-size local firms, but this tends to be in unusual situations. For example, Daniel S. Goldberg, a Livingston, New Jersey, CPA, says, “Generally, that type of hiring takes place when a specific need exists within our firm resulting from unanticipated growth or staff turnover, or perhaps because of the need for a specialist in a particular area. Otherwise,” Mr. Goldberg adds, “the vast majority of our hiring is at the entry level.”

Robert L. Carr, who practices in Canton, Ohio, says, “Our firm does not hire staff from other local firms regardless of size. For some years now, we’ve followed a practice of recruiting only entry-level people off campus. We don’t think that any other firm has a better system for training new accountants for work in our firm than we do.” Mr. Carr adds that in addition to other positive aspects, this policy avoids any problems of appearing to pirate accountants from other local practitioners.

Carol S. Dehaven, a Springfield, Missouri, practitioner, expresses similar sentiments. She says, “We prefer not to jeopardize the good relationships we have with other local firms of our size by raiding their staffs. We prefer to hire graduates just out of college and train them to fit into our firm.” ☑

AICPA Division for Management Advisory Services Established

The division for management advisory services of the AICPA—authorized by Council in May 1986—has been established for those CPAs who have an interest in the application of management-related knowledge, skills, and techniques to the problems and plans of business, not-for-profit, and governmental organizations. The division will help meet its members' needs to expand their competence, exchange experiences and ideas, share special knowledge, and discuss technical and professional problems.

The AICPA division for management advisory services is part of the Institute's structure, and its establishment underscores the important role CPAs play as advisers to top management in business and governmental organizations. Membership is voluntary and is open only to Institute members. Annual dues for 1986-87 (August 1 to July 31) are \$70.

Small Business MAS Conference Reminder

In today's complex business environment, many clients look to their CPAs for general business advice and assistance. Practitioners who do not provide this service are missing an opportunity to satisfy important client needs and increase billable hours. The Twelfth Annual AICPA Small Business Management Advisory Services Conference, to be held on September 8-10 at INFOMART, Dallas Market Center/Wyndham Hotel, Dallas, Texas, keeps these points in mind.

The program will deal with various aspects of MAS practice administration and marketing, and several sessions will focus on the knowledge and skills needed to provide specific services.

In addition, over forty major hardware and software vendors have permanent showrooms at INFOMART, which participants can visit.

For registration information, contact the AICPA meetings department: (212) 575-6451.

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