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DEVELOPING THE SKILLS OUR CLIENTS NEED

Do you and your partners have the skills to deal with the challenges your clients face? About three years ago, one of the managing partners asked a group of us that question. After some discussion, we concluded that none of us did. As a result, we have subsequently worked on developing skills we believe will help our clients.

What we are having to deal with is a change in perception on the part of our clients. Clients used to believe most value resided in the traditional services we provided them. Now, however, informed clients perceive equal value in advisory services.

Clients don't judge us the way we think they do. What they really want to know is whether we will go the extra mile for them, and whether we are willing to become involved and take risks. Often this means offering advice they may not like. Of course, our traditional services (auditing, accounting, tax, etc.) still have value to clients. But more and more, they are looking for value-added services.

As an example of what I mean by value added, our traditional services now include financial presentations with graphs and ratios. Clients have come to expect this. We will also review clients' retirement plans, hand deliver tax returns to some of them, discuss rents if they have rental property, and even let them know when and how to hire chief financial officers.

What do clients want from their CPA?

Clients need help in making decisions. They need help in understanding the structure of their business organizations, they need to know how to improve results, solve problems, and how to determine what is and what is not working. Increasingly, the role of the CPA as pure technician will be limited. By this I don't mean to downplay the need for good-quality work and technical skills. I believe, however, that in the current environment, we have to be more than a technician to our clients.

Clients often have a problem making decisions, and I think we can help them there. But we, too, are generally more comfortable with the status quo. There are several reasons why we find it difficult to make decisions.

First, there is the fear that we might make a mistake and put the client relationship at risk. An example might be a succession issue in a family business. Perhaps a son or daughter has been identified by the owner—your client—to take over the management of the business. You believe the individual is not up to the task, however. What do you do? Do you tell the client?

Or let's say you have a client who has loaned money to a relative. Do you tell the client that you don't think that is a good idea? Would you advise that it might be better if the client guaranteed a bank loan so the bank could put pressure on the

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PCPS Advocacy Activities

Standard setters ask TIC for help

The private companies practice section technical issues committee (TIC) has been asked to provide assistance to the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) on several separate matters.

On April 11, TIC representatives were among the "outside experts" who met with FASB to discuss requests to reconsider certain provisions of FASB Statement no. 109, *Accounting for Income Taxes*, governing intraperiod tax allocation.

Discussion focused on requests that the tax effects of certain events (such as changes in enacted tax rates) on deferred taxes related to items previously reported in shareholders' equity be reported in the same manner as the related item (commonly referred to as "backwards tracing").

In another cooperative effort, FASB has asked TIC to provide twelve to fifteen local firms as volunteers for extensive field tests on approaches to

- ☐ Accounting for investments by not-for-profits.
- ☐ Disaggregated disclosures being studied by FASB, the Canadian Institute of Chartered Accountants, and the International Accounting Standards Committee.

In addition, FASB is developing an exposure draft of a new standard for consolidation policy and procedures. TIC will provide input on how this new approach might impact situations that may require combined financial statements.

GASB is receiving comments to its exposure draft on *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*. Many are concerned by a provision requiring entities that have already applied SFAS no. 116 and SFAS no. 117 to revert back.

GASB has asked TIC to provide actual examples from practice of the types of entities this will affect, how many affected clients have already converted to SFAS no. 116 and SFAS no. 117, and what types of entities they comprise. ☑

Small Firm Conference Reminder

The AICPA National Small Firm Conference will be held on June 28–30 at the Omni Hotel at Charleston Place, Charleston, South Carolina, and on November 1–3 at Wyndham Paradise Valley Resort, Scottsdale, Arizona.

The program is designed to help you cope with the rapidly changing economics and dynamics of practice, with concurrent and open forum sessions on a broad array of topics in the following areas:

- ☐ **Firm management**. Includes the small firm of the 21st century, practice resources, tips, and techniques, succession planning and partner retirement alternatives, how to create a winning team, partner compensation roundtable, practice profitability, and how to build quality work relationships.
- ☐ **Practice development**. Includes mining gold in your own backyard, providing services to older clients, and an open forum session on marketing.
- ☐ **Technology.** Includes time and billing software shootout, bits and bytes technology forum, new technology alternatives for small firms, Windows, push-button workpapers and financial statements, and new tax practice technology,
- ☐ **Professional issues.** Includes ethical responsibilities in tax practice, sailing through peer review, OCBOA financial statements, and minimizing risk in compilation and review engagements.

To obtain a conference brochure, call (800) CPA-FIRM.

For registration information (discount fee of $495 available until May 31 for Charleston, and until October 3 for Scottsdale, $595 thereafter), call the AICPA meetings and travel department, (201) 938-3232.

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Editor: Graham G. Goddard

Highlights of Recent Pronouncements

FASB Statements of Financial Accounting Standards

No. 121 (March 1995), *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*

☐ Establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of.

☐ Requires that:
1) Long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable;
2) Long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell, except for assets that are covered by APB Opinion no. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*;
3) A rate-regulated enterprise recognize an impairment for the amount of costs excluded when a regulator excludes all or part of a cost from the enterprise's rate base.

☐ Applies to:
1) Long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and to long-lived assets and certain identifiable intangibles to be disposed of;
2) All entities.

☐ Effective for financial statements for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

No. 120 (January 1995), *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*

☐ Amends:
1) FASB Statements no. 60, *Accounting and Reporting by Insurance Enterprises*, no. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and no. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, to extend the requirements of these Statements to mutual life insurance enterprises, assessment enterprises, and fraternal benefit societies;
2) FASB Interpretation no. 40, *Applicability of Generally Accepted Accounting Principles to Mutual Life Insurance and Other Enterprises*, to defer the effective date of the general provisions of that Interpretation to fiscal years beginning after December 15, 1995.

☐ Permits stock life insurance enterprises to apply the provisions of AICPA Statement of Position (SOP) 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*, to participating life insurance contracts that meet the conditions in this Statement.

☐ Effective for financial statements issued for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

GASB Technical Bulletin

No. 94-1 (December 1994), *Disclosures about Derivatives and Similar Debt and Investment Transactions*

☐ Clarifies disclosure requirements for state and local governments' derivatives transactions.

☐ Effective for financial statements for periods ending after December 15, 1994. Earlier application is encouraged.

Statement on Auditing Standards

No. 74 (February 1995), *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*

☐ Supersedes SAS no. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*.

☐ Applies when the auditor is engaged to audit a governmental entity under generally accepted auditing standards, and engaged to test and report on compliance with laws and regulations under *Government Auditing Standards* or in certain other circumstances involving governmental financial assistance.

☐ Provides general guidance to the auditor to:
1) Apply the provisions of SAS no. 54, *Illegal Acts by Clients*, relative to detecting misstatements resulting from illegal acts related to laws and

regulations that have a direct and material effect on the determination of financial statement amounts in audits of the financial statements of governmental entities and other recipients of governmental financial assistance;
2) Perform a financial audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States;
3) Perform a single or organization-wide audit or a program-specific audit in accordance with federal audit requirements;
4) Communicate with management if the auditor becomes aware that the entity is subject to an audit requirement that may not be encompassed in the terms of his or her engagement.

☐ Effective for audits of financial statements and of compliance with laws and regulations for fiscal periods ending after December 31, 1994. Earlier application is encouraged

Statements of Position

No. 95-1 (January 1995), *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*

☐ Provides accounting guidance for certain participating insurance contracts of mutual life insurance enterprises.

☐ Applies to:
1) All mutual life insurance enterprises, assessment enterprises, and fraternal benefit societies;
2) Stock life insurance subsidiaries of mutual life insurance enterprises.

☐ Applies to life insurance contracts that have both of the following characteristics:
1) They are long-duration participating contracts that are expected to pay dividends to policyholders based on actual experience of the insurance enterprise;
2) Annual policyholder dividends are paid in a manner that identifies divisible surplus and distributes that surplus in approximately the same proportion as the contracts are considered to have contributed to divisible surplus.

☐ Effective for financial statements issued for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

No. 94-6 (December 1994), *Disclosure of Certain Significant Risks and Uncertainties*

☐ Requires reporting entities to include in their financial statements disclosures about:
1) The nature of their operations;
2) Use of estimates in the preparation of financial statements.

☐ If specified disclosure criteria are met, requires entities to include in their financial statements disclosures about:
1) Certain significant estimates;
2) Current vulnerability due to certain concentrations.

☐ Applies to:
1) Financial statements prepared in conformity with generally accepted accounting principles applicable to nongovernmental entities;
2) All entities that issue such statements.

☐ Effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which the SOP is first applied. Earlier application is encouraged.

No. 94-5 (December 1994), *Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises*

☐ Requires insurance enterprises to make the following disclosures in their financial statements:
1) The accounting methods used in their statutory financial statements that are permitted by state insurance departments rather than prescribed statutory accounting practices;
2) Information about their liabilities for unpaid claims and claim adjustment expenses.

☐ Effective for annual and complete sets of interim financial statements for periods ending after December 15, 1994.

FASB Interpretation

No. 41 (December 1994), *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*

☐ Interprets Accounting Principles Board Opinion no. 10, *Omnibus Opinion—1966.*

☐ Modifies FASB Interpretation no. 39, *Offsetting of Amounts Related to Certain Contracts*, to permit offsetting in the statement of financial position of payables and receivables that represent repurchase agreements and reverse repurchase agreements and that meet certain specified conditions.

☐ Effective for financial statements issued for periods ending after December 15, 1994. Earlier application is encouraged.

Your Voice in Washington

Flat tax or consumption tax ahead?

Alternative tax systems, such as a flat tax or consumption tax, have caught the imagination of the public, as well as lawmakers and GOP presidential candidates. Simplicity is the appeal. Wholesale reform of the nation's current tax structure would have a major impact on the tax practice of CPAs, and the AICPA's consumption taxation task force is studying consumption and flat taxes and analyzing specific proposals.

A "pure" flat tax imposes a single rate of tax on the tax base, which is stripped of all special interest provisions. That means no deductions for mortgage interest, state and local taxes, IRAs, charitable contributions, health costs, or moving expenses. It treats all taxpayers the same, whether similarly situated or not.

None of the flat-tax alternatives currently being advanced in Congress is a "pure" flat tax. All the proposals offer a flat rate of tax imposed on a tax base that is significantly broadened through offering fewer deductions and exclusions.

Consumption taxes, which are imposed on the consumption of goods and services, rather than on income or savings, come in four basic forms: retail sales tax, credit-invoice value-added tax, sales-subtraction value-added tax, and consumed income tax.

A recent report on flat taxes by the staff of the Joint Committee on Taxation (JCT) points out that large businesses, particularly, would find filing taxes to be complex. Decisions would still have to be made about which assets are depreciable and under what method, which assets qualify for expensing, the basis in assets, the extent to which interest on debt is deductible, and which employee benefits are qualifying tax exempt benefits and which are taxable compensation.

The report concluded that eliminating itemized deductions under a flat tax is not likely to benefit the majority of Americans, since the JCT staff found that out of 107 million individual returns, only 21.1 million taxpayers claimed one or more of the deductions for mortgage interest, state and local taxes, and charitable contributions, and under 8.5 million claimed deductions for medical, investment interest, or moving expenses.

The road to any major overhaul of the tax system is likely to be long and politically tortuous. Congress officially started the journey on April 5, when the Senate Finance Committee held a hearing on the flat tax. More Senate hearings are expected. The chairman of the House Ways and Means Committee, a proponent of adopting a consumption tax, has also promised hearings this summer. ☑

Conference Calendar

MICRO 95: The AICPA Microcomputer Technology Conference and Exhibition
June 4–7—The Pointe Hilton at South Mountain, Phoenix, AZ
Recommended CPE credit: up to 26 hours

Spring Tax Division Meeting*
June 5–7—JW Marriott, Washington, DC
Recommended CPE credit: 8 hours

Investment Planning Conference*
June 12–13—Chicago Sheraton, Chicago, IL
Recommended CPE credit: 16 hours

National Conference on Divorce
June 14–16—Sheraton Desert Inn, Las Vegas, NV
Recommended CPE credit: up to 17 hours

National Accounting and Auditing Advanced Technical Symposium (NAAATS)
June 26–27—Hyatt Regency, Washington, DC
July 17–18—Hyatt Regency Crown Center, Kansas City, MO
Recommended CPE credit: 16 hours

Small Firm Conference*
June 28–30—Omni Hotel at Charleston Place, Charleston, SC
Recommended CPE credit: up to 24 hours

Not-for-Profit Conference
July 10–11—Grand Hyatt, Washington, DC
Recommended CPE credit: 16 hours

National Healthcare Conference
July 24–25—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours

Estate Planning Conference
July 26–28—JW Marriott, Washington, DC
Recommended CPE credit: up to 32 hours

National Practice Management and Marketing Conference*
July 31–August 2—Marriott City Center, Denver, CO
Recommended CPE credit: up to 21 hours

To register or for more information, call the AICPA CPE division, (800) 862-4272.

*For more information, call the AICPA meetings and travel department, (201) 938-3232.

Developing Skills Clients Need

(continued from page 1)

individual if there were delays in repayment? These are just a few of the ways the CPA could help clients make decisions if the CPA were willing to take the risk.

What if all the facts are not known? You know you can't make irrational decisions, but as a good business advisor you need to bring things to a head. Do you take a chance?

On occasion this might result in your making the wrong decision or making one that other people don't like. But sometimes failure to make a decision can limit your ability to succeed. Sometimes it is necessary to make a decision even if all the facts aren't known.

The key to helping clients make decisions that lead to their being more successful is to understand the evolution of organization structure. If you look at the exhibit on this page, you will see how organizations typically go through various phases of growth and crises, and how some may remain small businesses.

To help clients improve results and solve problems, you need to understand each client and each client's business, and you need to know which phase the client's business is in. Perhaps even more important, you need to understand the people in the client's organization.

About 90 percent of the employees in most organizations are technicians—people who learn one or two skills well and take responsibility for doing their own jobs. Technicians need and want clear guidelines.

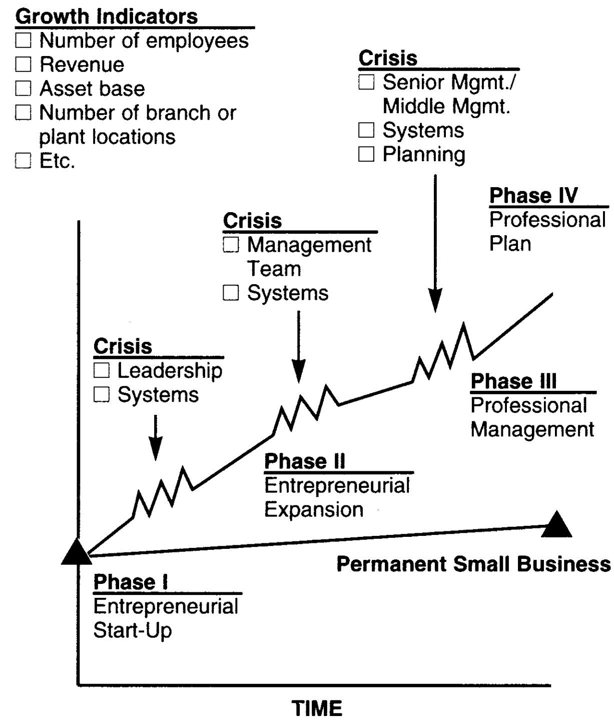
About 9 percent of the people are managers. These are the coach/teachers who get the day-to-day work done. They are typically oriented toward operations and deadlines, and tend to be methodical. They pay attention to detail, yet are able to see how each individual job relates to the others.

Only one percent of the people in an organization are leaders. These are the visionaries who can see the "big picture" relating to the company, its industry, and the general economy.

Leaders empower others. They make their presence felt, have a high level of commitment to service and company, and seem to be risk takers who are willing to both trust and act on intuition. To be an effective adviser, it is essential to become familiar with the owner/leader's vision for the organization. You must be able to determine what is working in clients' organizations and what is not. To do this, you must ask questions and listen carefully to the responses.

EVOLUTION OF A BUSINESS

Management and business practices differ in companies radically different in size and at different maturity levels.



Defining skills for the future

Be willing to do something different. Technical competence will always be expected by clients, but you will also need to have diagnostic skills to determine what is working and what is not. You must be able to sell yourself and your firm, have ample experience and management skills, be able to anticipate clients' needs, and, importantly, be an agent of change.

To be a better business advisor to clients, you need to understand three key elements: 1) business, 2) money, and 3) people. We already understand finance and can readily learn about clients' businesses. When it comes to the leaders, consider these seven characteristics of successful people: They are receptive to ideas, continually identify opportunities, plan, are willing to change, understand their businesses, have leadership qualities, and seek advice from outside their organizations. You should be the one they come to for that advice. ☑

—by **Jerrell A. Atkinson, CPA,** *Atkinson & Co., Ltd., P.O. Box 25246, 707 Broadway NE, Albuquerque, New Mexico 87102-2360, tel.(505) 843-6492, FAX (505) 843-6817*

More MCS Success Stories

An article, "Management Consulting Services Offer Growth Opportunities" in the January 1995 Practicing CPA, *told how some practitioners started management consulting services (MCS) departments and were able to turn initial engagements into ongoing relationships. Here are a few more MCS success stories.*

Specialty Leads to Further Expansion

My first job after graduation was in the niche consulting arena. This particular specialty revolves around the financial needs of local governments and utilities, and includes rate, feasibility, and cost-of-service studies, and assisting with the financing of capital improvement projects.

I established my own firm in 1986 and have used that niche to expand into other areas such as accounting systems and human resource consulting. It has also led to growth in the general accounting segment of my practice to better serve the needs of small business clients. ■

—by **Otto W. Krohn, CPA,** *O.W. Krohn, 11911 Lakeside Drive, Fishers, Indiana 46036-1316, tel. (317) 842-7771, FAX (317) 576-9482*

Every Problem Is an Opportunity in Disguise

Although mine is primarily a consulting practice, I also provide compilation and tax services to small business clients. A while back, I realized that maintaining a traditional write-up practice had become a problem because it cut so severely into the time I had available to review financial information and suggest solutions to problems the small business owners potentially faced.

As I thought about this, it became clear that I must get out of the data-entry business and move to a higher level of service, and that clients must be challenged to move to a higher level of business management. Many of the write-up clients used computers for word processing and/or spreadsheet applications, and I knew software was available to enable the point of data entry to be pushed downstream.

For each client who already used a computer in some phase of business, I installed *One Write Plus* (OWP) accounting software. The software and the installation, which included training, support, and back-up of client personnel, were provided at no cost to the clients.

I then developed computer text file masks using *AutoImport* software to import OWP data directly into the AICPA's *Accountant's Trial Balance Write-Up* program. I also developed a standardized ratio analysis and an operations review checklist which were added to the standard financial reports package delivered to clients.

The solution resulted in many benefits. Clients began to see the advantages of computerized purchases/payables and invoicing/receivables systems and many asked for additional training in order to implement these features. Clients' bookkeepers were able to do their jobs more quickly and accurately, particularly if a large, weekly payroll was involved, and some clients became interested in other possible computer applications in their businesses.

I was able to eliminate two of three support staff positions and attendant supervisory responsibilities, while maintaining the same gross revenue level. The investment in software and training for each client was recovered in three months.

As I had hoped, the solution enabled me to upgrade the quality of service provided to clients. I now have substantially more time in which to analyze data, rather than to just gather it. As a result, client referrals have contributed 75 percent of the growth of the practice.

Sometimes we become so focused on client problems that we fail to realize their impact on related parties. An inventory problem, for example, might be solved by involving both the client and a supplier or, perhaps, the client and a customer. If the problem can be resolved to the benefit of all, you might end up with *two* satisfied clients, instead of one. ■

—by **John A. Jetter, CPA,** *John A. Jetter, P.C., 515 North Fredonia, Longview, Texas 75601-5308, tel. (903) 236-7336, FAX (903) 757-2494*

One Engagement Led To Specialty

Approximately ten years ago, a client who was part owner of a closely held business passed away and I was requested to prepare a valuation of his ownership interest for estate-tax purposes. Not having performed this service before, I consulted the AICPA practice aid on business valuation and successfully completed the engagement.

As a result of that engagement, I received several requests to perform business valuations, and currently spend about 80 percent of my billable time providing these services. ☑

—by **Chris E. Best, CPA,** *Charles Bailly & Company, Norwest Center, 406 Main Avenue, Suite 3000, Fargo, North Dakota 58126-0001, tel. (701) 239-8500, FAX (701) 239-8600*

Editor's note: The AICPA management consulting services division publishes four types of practice aids to help members in the development and expansion of consulting practices. Members may also exchange information through the division data base referral system.

For more information, call Josephine B. Baker at the Institute, (201) 938-3504.

Questions for the Speaker (Staff Motivation and Compensation)

How do you motivate employees? Do overtime pay and bonuses serve as motivators?
W.Thomas Cooper, a Louisville, Kentucky, practitioner, says employee motivation is a constant problem because the need for accuracy often results in staff receiving negative comments about engagement work. Mr. Cooper thinks cash remuneration is somewhat of a motivator, but that "mental wages" are best.

Robert L. Israeloff, a Valley Stream, New York, CPA, thinks employees should be motivated by the thought of proving themselves, so that when salaries are reviewed, they will be in line for a larger-than-average increase, and for a promotion in position at the firm. Mr. Israeloff does not believe bonuses serve as motivators at all. He says that once you give a bonus, you are locked into that amount for future years because anything less will be perceived as a negative appraisal of the employee.

Richard A. Berenson, a New York City practitioner, believes job satisfaction ranks ahead of money on motivation scales for many employees. He says a simple "thank you" for an accomplishment may provide equal or more meaningful recognition than a check, particularly when given publicly by a memorandum to all employees, or by a bulletin board notice or newsletter announcement. Mr. Berenson says congratulations are cost-effective, motivating, and contribute significantly to job satisfaction.

How do you compensate a staff member who is not the greatest technician but is outstanding at marketing?
Wanda Lorenz, a Dallas, Texas, CPA, says, "We compensate members of our staff for their marketing efforts by paying them 10 percent of one year's collections from clients they bring into the firm.

Abram J. Serotta, an Augusta, Georgia, practitioner, says that all skills should be considered when determining staff compensation. To reward the above individual, he suggests the firm compute the staff member's base pay based on technical ability and give an incentive based on marketing ability.

Mr. Serotta says the firm should work with the individual to try to bring his or her technical skills up to par with other members of the staff. That way, the firm would have on its staff someone with good technical skills and outstanding marketing ability. ☑

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