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Members in Medium Public Accounting Firms, September 2000

American Institute of Certified Public Accountants (AICPA)

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AICPA

American Institute of Certified Public Accountants

cpa2biz: What Does It Mean for Your Firm and Your Clients?

Highlights

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Are your small and midsize business clients anxious to take advantage of Internet technologies and opportunities? Have some already tried to make inroads on the Web, only to find it too costly or confusing?

Many CPA firms would like to seize the chance to help smaller or emerging businesses break into e-commerce, but often local and midsize firms don't have the in-house resources needed to move into this practice area. To resolve this issue, now is the time to learn about the many opportunities that cpa2biz offers to practitioners with small and entrepreneurial clients. As a Web-based portal designed to benefit the profession and those it serves, cpa2biz will be an independent, for-profit, Internet company over which the AICPA and the state societies will maintain significant ownership interest and influence. cpa2biz will deliver services, information and resources to CPAs, their clients and employers faster and at less cost than any other available delivery channel.

technology

Here are some of the benefits that cpa2biz will provide:

- *Enhanced relationships with clients.* cpa2biz will brand the CPA as the premier e-commerce resource for small business.
- *New revenue opportunities.* cpa2biz will host practice enhancement opportunities, including e-enablement services and the chance to offer traditional accounting services to small businesses that are not currently using a CPA but that learn about your firm through your e-commerce services.
- *Significant cost savings.* cpa2biz's online service offerings will lower the cost of day-to-day business operations and transactions.

In addition, an online resource center will provide CPAs with the following practice-enhancement features:

- Community areas where CPAs may interact with each other.
- A technical research center, which will encompass many of the content needs of CPAs.
- Practice management tools, including hosted application service provider-based applications.
- A CPA toolbox, which will contain online enablement and Web site building tools, financial calculators and other valuable features.
- Practice enhancement tools, including marketing resources for the CPA firm.
- Online CPE, including self-paced courses, personalized course tracking tools, competency assessment tools, and seminar and conference registration.
- A career center for everything from help in finding qualified job candidates to résumé-building and competency assessment tools to help plan your own career.

The AICPA and the state CPA societies are working with a number of prestigious business partners on this project. At this time, investors that have committed to be strategic partners in the portal include: Thomson Corporation, AON, Intelysis and ADP. Additional investors will be brought together in the future in what ultimately will likely be a public company whose owners would also include AICPA and state society members, the AICPA and the state societies.

cpa2biz is expected to launch this fall. For inquiries:

portal@aicpa.org

Change to OMB Data Collection Form; Comments Requested

Practitioners with government clients should be aware of proposed changes in the Office of Management and Budget Data Collection Form. In compliance with the Paperwork Reduction Act of 1995, the OMB invites the general public and federal agencies to comment on renewal and changes to two information collection requests from two types of entities:

- Reports from auditors to auditees concerning audit results, audit findings and questioned costs.
- Reports from auditees to the federal government providing information about the auditees, the awards they administer and the audit results.

These collection efforts are required by the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

The proposed changes are to modify the data elements collected on the Data Collection Form (SF-SAC). The current SF-SAC will be used for audit periods ending on or before Dec. 31, 2000. A revised SF-SAC will be used for audit periods ending on or after Jan. 1, 2001.

Comments are due on or before Sept. 11, but late comments will be considered to the extent practicable. They should be mailed to Terrill W. Ramsey, Office of Federal Financial Management, Office of Management and Budget, 725 17th Street, NW, Room 6025, Washington, D.C. 20503, or e-mailed to tramsey@omb.eop.gov. Include the full body of the comments in the text of the message and not as an attachment. Also include the name, title, organization, postal address and e-mail address in the text of the message, as well as the name and phone number of a contact person.

All responses will be summarized and included in the request for OMB approval. All comments will also be a matter of public record.

For further information, contact Terrill W. Ramsey at 202/395–3993. The Information Collection Form can be obtained by contacting the Office of Federal Financial Management as indicated above or by download from the OMB Grants Management home page on the Internet at

www.whitehouse.gov/OMB/grants/

accounting & auditing news

AICPA Issues 2000 Audit Risk Alert for State and Local Governments

The AICPA has issued the audit risk alert, *State and Local Governmental Developments—2000.* Audit Risk Alerts are published annually to provide auditors of financial statements with an overview of recent economic, industry, regulatory and professional developments that may affect the audits they perform.

Among the topics addressed in this year's alert are:

- What are some of the significant economic events of the past year that are relevant to state and local governments?
- What updates to single audit guidance have been issued in the last year?
- Have there been any final or proposed changes to the OMB's grants management and cost circulars recently?
- What are the electronic submission requirements for public housing authorities, and the related auditors' responsibilities?
- Have there been any IRS developments that state and local governments should be aware of?
- What new accounting, auditing and attestation issues and developments should auditors of state and local governments know about?

The risk alert (No. 022251CPA09) costs $14.95 for members and $20.95 for non-members. To order:

888/777–7077

memsat@aicpa.org

An Update on Revision of the AICPA State and Local Governmental Units Audit and Accounting Guide

An AICPA task force has been working for nearly a year on a comprehensive revision of the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units,* to address the audits of basic financial statements and required supplementary information prepared in conformity with the new governmental financial reporting model required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and associated standards.

Significant issues facing the task force include the level at which to set materiality for audit planning and reporting purposes, audit procedures relating to infrastructure assets accounted for using the modified approach, and illustrative auditors' reports.

The task force does not intend to establish new "category B" GAAP relating to GASB Statement No. 34; consequently, the revised guide may not need to be exposed for public comment. The task force hopes to issue the revised guide, either as an exposure draft, if necessary, or as a final conforming change, sometime early in 2001.

The task force has tentatively decided that the revised guide should be effective for audits of financial statements no later than the fiscal period in which a government is first required to apply the provisions of GASB Statements No. 34 or No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities.* Earlier application would be required if a government early implements either statement after issuance of the revised guide. The 1994 guide (updated for conforming changes) would remain effective for audits of governments that have not yet and that are yet required to implement Statements No. 34 or No. 35.

Published for AICPA members in medium firms. Opinions expressed in this supplement do not necessarily reflect policy of the AICPA.
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EFTPS Penalty Abatements

In late May, representatives of the AICPA Tax Division's Relations with the IRS Committee met with members of the IRS Office of Penalty Administration to discuss EFTPS penalty abatements. (EFTPS is the system that allows taxpayers to pay taxes electronically.) At that meeting, the AICPA representatives expressed their concern that, according to practitioners around the country, the service centers were refusing to abate failure-to-deposit penalties based on reasonable-cause arguments when taxpayers had made timely deposits of tax liabilities but had not used EFTPS to make the payments.

The IRS acknowledged that a directive to their service centers had been misinterpreted as saying there were to be no reasonable-cause abatements for penalties resulting from failure to use EFTPS. The IRS said that a follow-up notice was sent to the service centers to clarify that reasonable-cause abatements of the penalty are permissible. The IRS noted that, as of the date of the meeting (the third week in May), 64% of the total requests for abatement had been granted.

If you have questions or need more information, call Jean Trompeter:

202/434–9279 jtrompeter@aicpa.org

Viewpoint: Why Such a Fuss Over Goodwill?

By Ole-Kristian Hope, CPA

The Financial Accounting Standard Board's proposed elimination of the pooling-of-interests method, which would leave the purchase method the only accounting choice in business combinations, has been met by vehement opposition from investment advisers and CEOs, as has the proposal to shorten the maximum amortization period for purchased goodwill from 40 years to 20. Opponents argue that changing current accounting methods for business combinations will have dire consequences for the economy. Following intense lobbying, the board decided in May to reconsider the proposed rules. Why has there been such heated debate over the choice of two accounting methods and a non-cash goodwill amortization expense?

A History of Controversy

Accounting for business combinations has long been one of the most controversial financial reporting issues, both in the United States and internationally. It has generated 41 AICPA interpretations, 3 FASB interpretations, 50 Emerging Issues Task Force Issues, 4 SEC Accounting Series Releases and 8 SEC Staff Accounting Bulletins. The primary distinction between purchase and pooling accounting is the treatment on the consolidated financial statements of the difference between the purchase consideration for the shares of the acquired company and the book value of its net assets. While pooling ignores this difference, the purchase method explicitly revalues the acquired assets and liabilities to their fair values. The difference between the purchase price and the fair market value of the net assets acquired, if any, is allocated to goodwill. FASB and its supporters argue that the purchase method best portrays the underlying economics of the transaction, that a single method would be desirable in business combinations to ease comparisons and that doing away with pooling would be a step towards harmonizing accounting standards internationally. In addition, under purchase accounting it is easier for investors to tell what price was actually paid for the companies to merge and to track the acquisition's subsequent performance. Finally, purchase accounting eliminates some obvious earnings management vehicles.

FASB has received over 400 comment letters from a broad range of companies, investors and other groups on its exposure draft. The majority were opposed. Merrill Lynch, for example, has argued that many recent mergers, and the efficiencies they produce, would not have occurred had companies not been allowed to use pooling-of-interests accounting. They assert that the new accounting rules might create a "static environment more reminiscent of the slow-growing 1970s than the rapidly moving 1990s." Wall Street seems especially concerned about the effects on knowledge-intensive industries, whose values are often derived largely from intangible assets. Investment bankers and accountants are frequently quoted saying that companies walk away from deals if they cannot pool.

What Is the Problem?

The proposed elimination of pooling and shortening of the amortization period for purchased goodwill would not have any cash flow effects for firms. As all companies would have to use the purchase method, purchase method companies should not be at a "competitive disadvantage" compared with pooling firms (especially since pooling is also going out of fashion in other countries). Nevertheless, there is strong opposition from a number of groups. It is likely that much of the concern is over the effect on reported earnings. Even some well-known financial analysts appear to believe that reporting lower earnings, even with no concurrent cash flow effect, would have a negative effect on share prices. This could be the case if investors and financial analysts focus on (unadjusted) earnings per share and price-to-earnings rather than discounted cash flow models in valuing companies. However, academic studies have shown that investors, at least on average, are able to see through the effects of using various accounting methods. In particular, there are studies that suggest that the concern about the negative valuation implications of purchase accounting

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Continue the Discussion

Do you agree or disagree with the opinion in this article? Readers are encouraged to submit opposing viewpoints or added insights on this or other timely topics for consideration. Submit articles of roughly 750 words to Anita Dennis, the supplement editor, at:

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are not justified. It may of course be that managers and their advisers are not aware of such research evidence or choose not to believe it. But even if the financial markets are efficient and managers believe that investors are rational, managers (and their advisers) may still have incentives to lobby against accounting standards that could adversely affect their personal wealth. If, for example, a manager's bonus is based in part on attaining a certain ROA, the purchase method would both depress the earnings number in the numerator through amortization charges and increase total assets through the revaluation of acquired assets. Both effects would decrease the reported ROA, which could have an adverse effect on the bonus unless the compensation committee adjusts for effects of using the purchase method. Other contracts that are based on accounting numbers, such as debt covenants, may also be affected by the choice of accounting method. Other than such contract-based explanations, it is somewhat difficult to understand why so many people get so upset about the proposed elimination of the pooling-of-interests method and the shortened amortization period for goodwill.

At this writing, it is unclear what the eventual outcome will be. If FASB's exposure draft is adopted, I believe that analysts, executives and other users of financial statements will realize that mergers can still occur when accounted for under the purchase method. A continuing challenge for analysts will be how to treat the goodwill amortization expense in valuing companies. Under the proposed rules, these charges will be more transparent and not hidden among other operating expenses.

In the United Kingdom, companies have recently been required to put purchased goodwill on the balance sheet (rather than writing it off against equity), and it is interesting to observe that many companies voluntarily amortize goodwill, although they have the option of leaving it on the balance sheet unamortized. A potential explanation is that companies are allowed to separately disclose the amortization charge on the face of the income statement, and they are also allowed to present goodwill-adjusted earnings per share figures. The FASB ED resembles these U.K. disclosure rules. Based on the U.K. experience, it is not unrealistic to expect that companies will actually allocate *more* rather than less to goodwill in future acquisitions if they can highlight the non-cash nature of the subsequent amortization charges. In the meantime, it will be interesting to follow the comments FASB receives and also see whether corporations will accelerate deals to qualify for pooling before it is too late.

Ole-Kristian Hope, CPA, is a PhD candidate and lecturer in the Department of Accounting Information and Management, Kellogg Graduate School of Management, Northwestern University. *He acknowledges helpful comments from Tom Fields of Harvard Business School and financial support from the Arthur Andersen LLP Foundation.* *Interested readers can obtain an unabridged version of this article by contacting the author at okhope@nwu.edu.*

Poll Offers Insight into Small Business Expectations

The number of small and midsize business owners who expect the economy to do well over the next 12 months dropped from 53% in the first quarter to 43% in a more recent poll. According to the latest Heller Financial Main Street Business Pulse, expectations for negative economic performance have nearly doubled, from 12% during the first quarter of this year to 23%.

Business owners are much more optimistic about their own companies' prospects, the poll found. More than three-quarters expect their businesses to do well in the third quarter, as opposed to 6% who do not.

Other findings include:

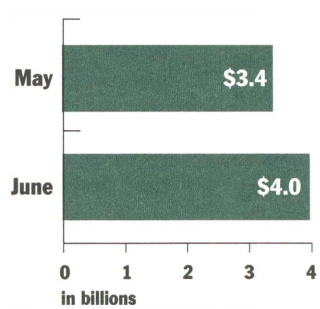
- Staffing is a continuing problem. Fully 28% of participants have lost between 11% and 30% of their employee base in the last 12 months.
- 45% said that it was more difficult to attract and retain employees today than it was a year ago.
- The new economy is no particular threat to recruiting for more traditional small businesses, however. Nearly 60% of the respondents have not lost a single employee to a dot com in the last 12 months. Further, they are not particularly worried about the prospect—85% expressed little or no concern about the issue and only 1% were extremely concerned.
- Small and middle-market executives between 18 and 34 are significantly more likely to anticipate positive economic performance than executives over 35—50% vs.36%.

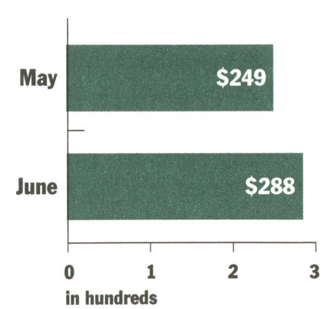
The survey, which was conducted online, included 827 owners and high-level executives of small and middle-market companies across the United States.

Online Spending

Spurred by Father's day and graduations, consumer online purchases spiked in June, according to the most recent numbers available at presstime from the NRF/Forrester Online Retail Index. Of the strong online buying impulse, Scott Silverman, NRF's vice president, internet retailing, said. "It's important that retailers take these trends into consideration as they develop their Internet retail strategies for the upcoming back-to-school and holiday seasons."

Total spent per consumer jumped from $3.4 billion in May to $4 billion in June. The average spent per consumer increased from $249 to $288.





Source: NRF/Forrester Online Retail Index