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# Members in Medium Public Accounting Firms, September 2002

American Institute of Certified Public Accountants (AICPA)

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## ARTICLES



# Practitioners Score High on *Worth* Magazine List of Top Advisers

More than a quarter of the country’s top financial advisers are CPAs, according to *Worth* magazine, and 20% are CPAs with the Personal Financial Specialist (PFS) credential awarded by the AICPA. Of the 250 advisers deemed the nation's best in the July/August issue of *Worth*, 75 are CPAs and 50 are CPA/PFS practitioners. *Worth* compiles its list annually.

"In these unpredictable times," the magazine reports, "*Worth's* list of the nation's most elite financial advisers serves as a guidepost for superior financial wisdom."

"The CPA and CPA/PFS consistently make an excellent showing on the *Worth* list year after year," said Anat Kendal, AICPA Director–Financial Planning.

Nancy Cohen, AICPA Director–Accreditations, who administers the PFS credential, added, "It demonstrates that the CPA/PFS, in particular, has gained deserved recognition as an ideal financial adviser."

The AICPA awards the PFS credential to CPAs who are committed to personal financial planning as a practice discipline. To obtain the designation, a CPA must be a member in good standing of the Institute, have experience in six areas of personal financial planning and pass an exam. The CPA/PFS must reapply for certification every three years. Further information on the PFS designation can be obtained online or via e-mail:

http://pfs.aicpa.org

PFS@aicpa.org

## Trust Services Principles and Criteria Unveiled

The AICPA and the Canadian Institute of Chartered Accountants have released for public comment the exposure draft of the Trust Services Principles and Criteria. The SysTrust and WebTrust Principles and Criteria have been merged to create a common set of Principles and Criteria, now labeled as the Trust Services Principles and Criteria. The principles included in the exposure draft are Security, Availability, Processing Integrity, Online Privacy and Confidentiality. Each principle is complemented by an enhanced framework of criteria to be used by CPAs in their examination of businesses against the various subject areas.

The public comment period ended on Aug 15. The ED is available for download and review at:

www.aicpa.org

Those with comments or questions on the ED can contact Karyn Waller, Senior Technical Manager, Trust Service Line, at:

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FASB Amendment to Transition and Disclosure Provisions of Statement 123

At its Aug. 7 and 14 board meetings, the Financial Accounting Standards Board addressed issues related to the transition and disclosure provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and made the following decisions:

- In response to constituent requests, the board decided to undertake a limited scope project to reconsider the transition and disclosure provisions of Statement No. 123.
- The board tentatively decided to permit enterprises that voluntarily adopt the fair value recognition provisions of Statement No. 123 to choose from one of the following three transition methods:

0. Recognize stock compensation cost pursuant to Statement No. 123 for the year of change only for awards granted after the beginning of that fiscal year (prospective application only to new awards).
1. Recognize stock compensation cost for the year of change equal to that which would have been recognized had Statement No. 123 been adopted as of its effective date (prospective application to new awards and unvested portions of awards granted since the effective date of Statement No. 123).
2. Recognize stock compensation cost for the year of change and restate prior years' financial statements presented as though Statement No.

123 had been adopted as of its effective date. Under this approach, the cumulative effect of retroactively applying Statement No. 123 for financial statements not presented would not be reflected as of the beginning of the earliest year presented. Restatement of years prior to the earliest period presented would not be required, but would be permitted.

- The board decided to amend the disclosure requirements in paragraph 45 of Statement No. 123 to require that **all companies** disclose the following in the accounting policy note to the financial statements *for each period for which an income statement is presented:*

0. The method of accounting for stock options.
1. Total stock compensation cost recognized in the income statement.
2. Total stock compensation cost that would have been recorded had Statement No. 123 been adopted as of its effective date.
3. Pro forma net income and earnings per share that would have been reported had Statement No. 123 recognition provisions been adopted as of its effective date.

- The board decided to require disclosure of the information described in Item 3 in quarterly information provided to shareholders.
- The provisions of the statement related to transition and disclosure in annual financial statements would be effective upon issuance of a final statement. The provisions of the statement related to the quarterly disclosure requirement would be effective in the first interim period of fiscal years beginning after Dec. 15, 2002, with earlier application encouraged.
- The board decided to issue an exposure draft of a proposed statement for a 30-day comment period. The board expects to issue that ED in late Sept.

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www.fasb.org

FASB Proposes Consolidation Principles for SPEs

The Financial Accounting Standards Board has issued an exposure draft of a proposed interpretation that establishes accounting guidance for consolidation of special-purpose entities (SPEs). The proposed interpretation, *Consolidation of*

*Certain Special-Purpose Entities*, will apply to any business enterprise—both public and private companies—that has an ownership interest, contractual relationship or other business relationship with an SPE. The proposed guidance would not apply to not-for-profit organizations. The comment period ended Aug. 30.

The FASB said that the objective of the proposed interpretation is to improve financial reporting by enterprises involved with SPEs—not to restrict the use of SPEs. However, the FASB said it is expected that when this proposal is implemented, more SPEs will be consolidated than in the past. Most SPEs serve valid business purposes, for example, by isolating assets or activities to protect the interests of creditors or other investors, or to allocate risks among participants. Many SPEs that were unconsolidated before the issuance of this proposed interpretation were reported according to the guidance and accepted practice that existed at that time.

Current accounting standards require an enterprise to include subsidiaries in which it has a controlling financial interest in its consolidated financial statements. That requirement usually has been applied to subsidiaries in which an enterprise has a majority voting interest but, in many circumstances, the enterprise's consolidated financial statements do not include SPEs with which it has fundamentally similar relationships. The reason is that existing consolidation guidance focuses primarily on parent-subsidiary relationships established through voting ownership interests, and the relationship between a business enterprise and an SPE is established through other means.

The FASB believes that if a business enterprise has a controlling financial interest in an SPE, the assets, liabilities and results of the activities of the SPE should be included in consolidated financial statements with those of the business enterprise, which is referred to as the primary beneficiary of the SPE.

The FASB expects to issue an interpretation in the fourth quarter of this year. The accounting guidance would be effective immediately upon issuance. Companies with existing SPEs would be required to apply the guidance to the existing SPEs at the beginning of the first fiscal period after Mar. 15, 2003. Calendar year-end companies would need to apply the guidance on Apr. 1, 2003.

The FASB will hold a roundtable discussion on Sept. 30 to obtain information from and views of interested individuals and organizations about this ED. Individuals or organizations who wanted to participate were required to notify the FASB by sending an e-mail to director@fasb.org by Aug. 15, and submit a position paper or a comment letter addressing the provisions of the proposed Interpretation by Aug. 30. While the FASB said it might not be able to accommodate all requests to participate in the roundtable discussion, it said that all submissions by those requesting to participate would be available at the roundtable discussion for review. Minutes of the roundtable discussion and copies of all written submissions on this project will be made available for review in the FASB's Public Reference Room and copies are available for a duplication fee.

FASB Issues Exposure Draft That Expands Disclosure Requirements for Guarantees

In an effort to improve disclosures about loan guarantees, the Financial Accounting Standards Board has issued an exposure draft of a proposed interpretation, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* The proposed interpretation would clarify and expand on existing disclosure requirements for guarantees, including loan guarantees. It also would require that at the time a company issues a guarantee, the company must recognize a liability for the fair value, or market value, of its obligations under that guarantee. By improving its disclosures and accounting, the FASB says, a company provides a more representationally faithful picture of its financial position and the risk it has assumed.

The interpretation does not address the subsequent measurement of the guarantor's recognized liability over the term of the guarantee. It also would incorporate, without change, the guidance in FASB Interpretation No. 34, *Disclosure of Indirect Guarantees of Indebtedness of Others*, which is being superseded.

This guidance would not apply to guarantee contracts issued by insurance companies, a lessee's residual value guarantee embedded in a capital lease, contingent rents and price rebates. The provisions related to recognizing a liability at inception for the fair value of the guarantor's obligations would not apply to product warranties or to guarantees accounted for as derivatives.

## Order Information

The FASB exposure drafts are available on the FASB's Web site or by telephoning the FASB Order Department:

www.fasb.org

800/748–0659

CPE Courses

- ***New—Super Tax Planning Strategies for Retirement Wealth*** (No. 731291CPA09). Prepare a coordinated plan to achieve your clients' financial goals while saving them thousands of dollars with this new AICPA CPE self-study course by William R. Bischoff, CPA. Prerequisite: *Retirement Planning That Works for Your Client* or equivalent knowledge and experience. Recommended CPE credit: 6. Level: intermediate. Format: text. Price: $109.60 member/$137 non-member.

- ***New—Dealerships: Accounting, Auditing & Tax*** (No. 731200CPA09). Develop an expertise in the unique accounting, auditing and tax considerations of dealerships. Prerequisite: None. Recommended CPE credit: 6. Level: basic. Format: text. Price: $109.60 member/$137 non-member.

- ***The AICPA's Guide to Consolidations and Business Combinations*** (No. 735125CPA09). SFAS 141 and 142 changed the rules for business combinations and goodwill accounting. Earn CPE credit while getting guidance on how the new requirements affect your work. Prerequisite: Basic understanding of the principles of consolidation. Recommended CPE credit: 5. Level: intermediate. Format: text. Price: $99.20 member/$124 non-member. Value Aid—*Consolidated Financial Statements Purpose and Policy*.

## New Products

- ***AICPA Audit and Accounting Manual*** (No. 005132CPA09). Developed exclusively for small- and medium-size CPA practices, this unique one-volume manual explains and demonstrates useful techniques and procedures for conducting audit, review and compilation engagements from planning to internal control to accountants' reports. The manual has been revised as of July 1, 2002. Price: $88 member, $110 non-member.

- ***New—Understanding and Implementing SSARS No. 8*** (No. 006612CPA09). By Russell Madray, CPA. This new publication is designed to help CPAs understand and implement SSARS No. 8, "Amendment to Statement on Standards for Accounting and Review Services No. 1, Compilation and Review of Financial Statements" (effective for financial statements submitted after Dec. 31, 2000). The practice aid includes clarification of certain existing SSARS, suggestions about ways of implementing the existing and new standards in special circumstances, pitfalls that frequently occur in compilation engagements and practical guidance to help implement changes in SSARS No. 1. This publication features exhibits and tables, illustrative engagement letters, practice pointers and more.

The easy-to-read style and skillful guidance, coupled with information about the practical application of SSARS No. 8, based on the experiences of practitioners who have implemented the standard, make this handy reference a must for practitioners of compilation engagements. Price: $46.40 member, $58 non-member.

To order, see the Order Information box in the main *CPA Letter.*

GASB Issues ED on Deposit and Investment Risk Disclosures

The Governmental Accounting Standards Board has published an exposure draft, *Deposit and Investment Risk Disclosures*, that is intended to provide the public with better information about the risks that could potentially affect a government's ability to provide services and pay its debts. The ED would amend GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. The comment period ends Sept. 27.

In reflecting on the impact of the proposed accounting statement, GASB Project Manager Randal J. Finden said, "All investments carry some form of risk and those risks must be communicated to the public in financial statements. Deposit and investment resources often represent the largest assets of governmental and fiduciary funds. Proprietary funds also report significant deposit and investment balances. These resources are critical to delivering governmental services and programs."

Financial statement disclosures would cover deposit and investment risks. Credit risk disclosures would include credit quality information issued by rating agencies. Interest rate disclosures would include investment maturity information, such as weighted average maturities or specification identification of the securities. For investments that are highly sensitive to changes in interest rates—for example, inverse floaters, enhanced variable-rate investments and certain asset-backed securities—disclosures would indicate the basis for their sensitivity. Foreign investment disclosures would indicate the foreign investment's denomination. Deposit and investment policies related to disclosed risks also would be disclosed.

## Part of a Larger Review

The GASB has begun a comprehensive review of existing accounting standards. Its first project in this effort is the reconsideration of the existing requirements in Statement No. 3, evaluating the ongoing usefulness of current requirements by taking into consideration recent federal banking reforms. The custodial credit risk disclosures of Statement No. 3 are being modified to limit required disclosures to deposits and investments exposed to significant custodial credit risk. For example, this includes deposits that are uninsured and uncollateralized and investments that are held by the counterparty—or holder of a deposit or seller of an investment—such as a bank in which the deposit is made.

The effective date of the standard would be for fiscal years beginning after June 15, 2004.

GASB Expands on Financial Reporting Guidance for Fundraising Foundations and Similar Organizations

The Governmental Accounting Standards Board has issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to a primary government. The standard provides criteria for determining whether certain organizations, such as not-for-profit foundations related to public universities and school districts, should be reported as component units based on the nature and significance of their relationship with a state or local government.

Under the standard, state and local governments that have qualifying fundraising foundations would be required to include, through discrete presentations, the financial activities of those foundations in their financial statements. Previously, many governments did not report the financial activities of those foundations in their financial statements.

Statement No. 39 amends Statement No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government.

The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003.

## Order Information

The GASB ED may be found online or ordered by telephoning the GASB Order Department:

www.gasb.org

800/748–0659

GAO Independence Standard Q&A

The U.S. General Accounting Office has released an extensive list of questions and answers about its new independence standard under *Government Auditing Standards*, commonly referred to as the "Yellow Book." The new standards apply to federal entities that receive federal funds.

In Jan., the GAO issued significant changes to the Yellow Book standards related to auditor independence that substantially changed existing standards, especially regarding non-audit or consulting services. The new guidance, *Government Auditing Standards—Answers to Independence Standard Questions*, covers questions on the independence standards' effective date, implementation time frame, underlying concepts and application in specific non-audit situations.

According to Comptroller General David M. Walker, before taking on non-audit services, the auditor should carefully consider the need to avoid situations that could lead reasonable third parties with knowledge of the relevant facts and circumstances to conclude that the auditor cannot maintain independence in conducting an audit. Although the original intended implementation date of the independence standards was for periods beginning on or after Oct. 1, 2002, GAO has extended the effective date to apply to all audits beginning on or after Jan. 1, 2003, due to the breadth of the changes.

The Qs&As are available on the GAO Web site at:

www.gao.gov/govaud/d02870g.pdf