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FASB Requests TIC to Make Presentation at Public Hearing

Members of the Financial Accounting Standards Board were impressed with the Technical Issues Committee's letter of comment on the August 21, 1990 Discussion Memorandum, "An Analysis of Issues Related to Distinguishing Between Liability and Equity Instruments and Accounting for Instruments with Characteristics of Both." As a result, TIC was invited to testify at the public hearing on the discussion memorandum to expand upon their points and be available for questions. TIC Chair Judith O'Dell and TIC member William Hancock represented the Committee. This marked a first for TIC: it has not previously made a presentation at an FASB hearing. Highlights from the TIC presentation follow.

O'Dell provided background information on PCPS and the goals and objectives of TIC. Hancock presented TIC's comments addressing the two aspects of the DM that TIC felt would most affect closely-held, non-public companies: stock repurchase agreements and the need to value these agreements at market. He outlined why stock repurchase agreements are created in closely-held companies, the types of agreements used and the current accounting treatment followed by practitioners. He highlighted a number of issues requiring FASB consideration if such agreements were required to be recorded as liabilities, including the effect on equity of closely-held companies, the cost/benefit considerations of computing market value, the accounting treatment for agreements funded by life insurance proceeds and the need for an extended transition period to deal with existing loan covenant debt-to-equity ratios. He also raised the point that in most closely-held companies, repurchase agreements are usually just the starting point for negotiation in arriving at an actual selling price. Hancock further emphasized the difficulties in determining comparable and consistent market values.

The questions presented by FASB members primarily focused on the users of private company financial statements and the nature of stock repurchase agreements used by private companies. The FASB asked how often lenders use GAAP financial statements of non-public companies in their lending decisions. O'Dell stated that lenders who request GAAP financial statements place a great deal of emphasis on those financial statements when evaluating private companies. Recording stock repurchase agreements as liabilities would significantly impact equity and would affect how lenders evaluate private company financial statements. Other FASB questions focused on the nature and types of stock repurchase agreements issued by private companies as well as current accounting practice. O'Dell commented on the difficulty in determining the liability to be recorded under the DM in instances where a corporation with only two shareholders has repurchase agreements with both shareholders.

PCPS "Chairman's Corner"

How Peer Reviews Are Changing—for the Better

Chas McElroy
Chairman, PCPS Peer Review Committee

What a difference a year makes. In 1991, the peer review committee plans to pay more attention to our most important function—improving the review process and keeping it flexible to members' needs.

That wasn't the case in 1990. After membership had more than doubled in the PCPS, our immediate concern had to be whether PCPS and the AICPA could keep up with the demands of scheduling and considering thousands of new peer reviews. Thankfully, that's no longer a problem. Working with the AICPA staff, we have improved our efficiency in the acceptance process, and the scheduling process is functioning more smoothly. Even with the increased volume, the committee is reviewing and accepting reports at a steady clip.

In the past six months, we have received excellent feedback and suggestions from reviewers and firms. One message we've heard is to make fewer changes to submitted documents. For example, some members have questioned the amount of time that the peer review committee sometimes spends suggesting changes to the wording of reports and letters of comment. This attention to wording stems from our early years, when we thought that anything in a public file had to be written in a very formal and consistent manner.

We now recognize that wording is not the crucial issue. If the reviewer recognizes a problem during a review, brings it to the firm's attention and the firm responds positively that they are taking appropriate steps to fix it—then the system is working. So, we've renewed our focus on content, not style.

Common Sense

Practitioners we talk to have three fundamentally similar needs: (1) how to implement standards efficiently; (2) how to perform quality work; and (3) how to increase profitability. Any way that PCPS can help in these areas through the peer review is important to our members.

The objective of peer review is not to identify whether an auditor missed a disclosure here or there. Peer review is an incredible learning tool. Peer reviews and inspections are used by many firms to improve their practice each year in the three areas noted above. Peer review should be like hiring a consultant to help a firm answer questions about quality, efficiency and profitability. Firms get 99.9% of the benefit of the review through interacting with the review team and learning from the comments made in the exit interview.

As a result, our committee is now making a determined effort to focus more on improving what happens *during* the review. The post-review administrative aspects are a lesser concern. We need feedback—we want reviewers to tell us their frustrations and hassles so that we can eliminate them.

Best of All Worlds

Of all the practice monitoring programs, PCPS is in the best position to respond to change. The state-administered quality review program must operate "in the sunshine" across 54 jurisdictions so that any changes in standards must go through an exposure process. Similarly, the SECPS must work with the Public Oversight Board and the SEC, who monitor the process to protect the interests of the general public.

At PCPS, we answer to ourselves. That means when we see a way to improve the process, we can implement it quickly.

It also means that we learn a lot from each other—and that we can be more informal and responsive in our communications. That's why we've made an extra effort to communicate with Team Captains: they are the key to the success of any review. We've begun the "Team Captain News" to give reviewers a summary of recent updates and guidance. We've also started a program to provide Team Captains with positive and constructive feedback on their work through written comments and phone calls.

Again, the more we do to improve the actual review process, the less time we need to spend on the acceptance process, rewriting reports or challenging decisions that are made in the field. In that spirit, look for us in the coming year to:

- Identify how the review process can be modified to better serve the needs of firms with under 10 professionals. We're looking for practical solutions to small firms' problems in meeting inspection requirements, addressing all of the nine elements of quality control, preparing for review and keeping their accounting and auditing practice profitable.
- Provide more feedback to standard-setters. An important by-product of peer review is the information we get on how practitioners are implementing standards—valuable knowledge that can't be drawn simply from the exposure draft process. In the past, peer review results highlighted the need for additional guidance on audit sampling, "Yellow Book" and Single Audit Act engagements. In fact, the committee has on its May agenda time to brainstorm on feedback to the Auditing Standards Board in preparation for a meeting with them in June.
- Further sharpen the skills of PCPS Team Captains. When reviewers find problem areas at firms, they sometimes automatically recommend that the firm adopt a checklist to "solve" the problem. In fact, Checklists aren't the only answer—adding a new checklist may even mask the real problem, like putting a Band-Aid on a serious wound. The committee wants reviewers to consider other actions—such as better supervision and additional CPE and training—that can be more effective in getting to the root of the problem.
- Encourage firm-on-firm reviews rather than CARTs (Committee-Appointed Review Teams). CART reviews are often easier for firms undergoing an initial review because the AICPA takes charge of hiring the team and administering the review. For firms having subsequent reviews, however, the committee recommends the firm-on-firm approach. Thousands of talented reviewers from successful firms are available, often at a lower price than the CART. Firms that choose their own reviewers can be more selective about specifying reviewers who have experience with certain purchased audit manuals, industries and practice management problems. As a result, they get more benefit from the review process.

We actively encourage any firm who would like to have input on our committee's deliberations to write us: PCPS Peer Review Committee, in care of the Quality Review Division, AICPA, 1211 Avenue of the Americas, New York, NY 10036-8775. We welcome your thoughts.

Know a Member of Congress?

PCPS members who know members of Congress are encouraged to participate in the AICPA's Federal Key Person Program. The program is the Institute's most effective means of establishing regular personal contact with each member of the Congress and ensuring that the profession's views are heard. Any interested PCPS member should write to John Sharbaugh, Vice-President—State Legislation and Legislative Relations, AICPA, 1455 Pennsylvania Av., NW, Suite 400, Washington, DC 20004-1007, or call 202/737-6600.

Paving the Way for the Future:

Retirement and Succession Planning for Smaller Firms

A shoemaker's children walking barefoot. It's a common metaphor for someone who provides a vital service to clients, yet fails to pay the same attention to himself. Another example? Accountants and retirement planning.

Practitioners spend a good deal of time advising clients how to plan for a more secure future. But how many neglect to think about what they'll do when they hit age 65—when they've grown tired of the daily grind and want to relax and smell the roses?

A Rocky Road

In the past, a comfortable retirement cushion was practically a sure thing for senior partners. Acording to Joseph R. Call, partner in the Idaho Falls, Idaho-based firm, Rudd & Company: "You usually could count on selling the practice based on one year's gross receipts. Your client base was virtually intact, and you'd have a thriving practice to put on the block." Today, that option isn't always open. "If you want money when you retire, you'd better start saving it yourself," Call warns.

"The days of zero competition and loyal clients are over," says Stephen R. Kaufman of Bethesda, Maryland-based firm WS&B/Kaufman. "The current competitive climate means that if you leave the firm, in all likelihood, so will your clients.That makes selling the firm close to impossible in many cases."

In addition, the barriers to starting a firm are slowly crumbling. "Entry into the profession isn't as difficult as it once was," says Call. "It's gotten to the point where it may be cheaper to start your own firm than to buy an old one. That means your upcoming associates open a new firm across the street rather than pay your asking price—especially if that price includes a lot of 'goodwill.'"

Paths to Consider

Given market realities, some kind of retirement planning is a must for smaller firms. According to Douglas McLain, President of Columbia, Maryland-based Coordinated Benefit Plans, firms usually offer two types of plans. First, for all employees, they establish a qualified plan—such as a pension, profit sharing or 401(k) plan that complies with the administratively stringent Employee Retirement Income Security Act of 1974 (ERISA). To supplement that benefit for partners, most firms opt for a nonqualified plan that offers the advantages of income-tax-free accumulations and retirement benefits.

"I usually recommend a blend of programs," says McLain. "That way, your whole firm enjoys the deductibility of the 401(k), but the partners can also count on high future income from the nonqualified plan."

An example of such a nonqualified plan might be designed to allow partners to make large payments for several years during the apex of their careers. Those contributions would then earn interest until they retire. Another benefit of such a program could be the combination of a retirement plan and life and disability insurance into one package.

"The greatest advantage, of course, is for the younger partners," says McLain. "They wind up making 10 or fewer deposits and they get the greatest overall return because their interest is compounded."

Taking the First Step

Like most everything, getting started is the most difficult part—and the most important. "The earlier you begin, the better," says Kaufman. "If you start 20 years prior to retirement, you make your payments during your most productive years, when your salary is probably the highest."

According to Call, it's not as important *where* you invest the money—in an annuity, a money market or even a savings account—but that you start putting it away. "The hardest thing is making the commitment. Once you've done that, the rest is easy."

Call advises that firms take the following three steps when discussing retirement issues:

1. Review the partnership agreement provision for buying people out and selling the firm, and decide if it's realistic.
2. Establish a policy about the firm's obligation to provide for its partners' retirement.
3. Investigate investment options.

"Most practitioners can probably figure out some kind of retirement program themselves," says Call. "It just takes calculating how much they'll need at retirement and then deciding how much to put away to reach that goal."

For practitioners who want advice, McLain recommends talking to investment specialists, pension administrators and insurance/annuity experts. "Find a person you can trust, whom you're comfortable with, whom you feel is best trained to judge your options on their merits," he says. Given these criteria, you may want to consult another CPA.

Ensuring a comfortable retirement requires proactive measures these days. As Kaufman says, "We haven't given up on selling the firm. We're just not relying on the firm to support us through retirement."

Start Making Plans

TEAM and SET Meetings

The events calendar in this issue of the Advocate includes early information on dates and cities for TEAM (TEn At Most) and SET (Size Eleven to Twenty) meetings. Watch your mail for further information on topics, moderators, and registration—and register early. Session size is limited.

Voluntary Tax Practice Review

Guidelines for Voluntary Tax practice Review (VTPR), developed by the AICPA Tax Practice Guidelines Task Force, has been issued by the AICPA as a practice management tool. VTPR guidelines can be used both in self-assessments and in firm-on-firm reviews conducted by another practitioner. The VTPR is not in any sense a mandatory practice review program: review results are completely confidential and are not reported to anyone outside the reviewed firm.

Guidelines for Voluntary Tax Practice Review is endorsed by the PCPS Executive Committee, which urges member firms to consider use of this voluntary program. For a copy of the **Guidelines,** contact the AICPA Order Department for Product Number 024010, list price $50 (AICPA members receive discount).

AICPA Co-Sponsors 1991 National MAS Training Programs

Two national MAS training programs will be held in June at the Ohio State University in Columbus. *Development of MAS Skills* (June 17-21) is an intensive introduction designed to enable an accounting firm partner or professional staff member to develop MAS skills. *Advanced MAS Skills* (June 24-28) provides an advanced curriculum covering several important practice areas and skills including strategic business planning, financial planning consulting, litigation services, MAS practice development and marketing, and effective communications. For information, call the program administrator at 614/292-2328, or write: The Ohio State University, College of Business, 1775 College Rd., Columbus, OH 43210.

Last Reminder

PCPS Conference

13th Annual Private Companies Practice Section Conference. Stouffer Esmerelda Resort, Indian Wells, California. May 6 through 8, 1991. Technical Sessions and Networking Events. For information, Call PCPS: 212/575-6446 or 800/CPA-FIRM (outside NY state)

Coming Events of Interest to PCPS Members

May 3-4	PCPS Technical Issues Committee, Palm Springs, CA
May 3-4	PCPS Peer Review Committee, Palm Springs, CA
May 6	PCPS Executive Committee, Palm Springs, CA
May 6-8	PCPS Conference, Palm Springs, CA
July 16-17	PCPS Peer Review Committee, Seattle, WA
July 16-17	PCPS Technical Issues Committee, Seattle, WA
July 17-l8	PCPS Executive Committee, Seattle, WA
July 22-24	Practice Management Conference, Boston, MA
August 19	TEAM Meeting, Chicago, IL
August 19	TEAM Meeting, Orlando, FL
August 28-30	Small Firm Conference, Orlando, FL
Sept. 16	TEAM Meeting, Dallas, TX
Sept. 16	SET Meeting, Dallas, TX
Sept. 16-17	PCPS Technical Issues Committee Meeting with FASB, Norwalk, CT and New York, NY
Sept. 23	TEAM Meeting, Atlanta, GA
Sept. 23	TEAM Meeting, Seattle, WA
Sept. 23	TEAM Meeting, Boston, MA
Sept.30-Oct.2	Practice Management Conference, Dallas, TX
Oct. 7	TEAM Meeting, St. Louis, MO
Oct. 7	TEAM Meeting, Los Angeles, CA
Oct. 7	SET Meeting, Los Angeles, CA
Oct. 14-15	PCPS Technical Issues Committee, New Orleans, LA
Oct. 14-15	PCPS Executive Committee, New Orleans, LA
Oct. 27-30	AICPA Annual Members Meeting, San Francisco, CA
Nov. 13-15	Small Firm Conference, Las Vegas, NV
Nov. 18	TEAM Meeting, Denver, CO
Nov. 18	TEAM Meeting, Washington, DC
Nov. 18	SET Meeting, Washington, DC

MARKETING MATTERS: Client Surveys

By Warren E. Garling

On average, 50% of new business comes from referrals by present clients. Given that, why run the risk of losing that sales power because you don't quite know what your clients want or need? You wouldn't ignore a staff member who brings in 50% of your business. In fact, you'd probably give that person *more* attention. Perhaps it's time to give your good clients the same kind of treatment.

That's the idea behind client satisfaction surveys. Surveys can produce valuable information to help you address the concerns of a particular client and the quality of service to all clients. And there's an added benefit: clients appreciate your taking the time to ask questions about satisfaction. Just showing the extra attention and giving them the chance to mention problems, large or small, builds goodwill. That often translates into more business and more referrals.

Preplanning Makes the Difference

Before you begin testing client waters, make sure you've identified what you want to accomplish. Ask questions such as: What do I hope to achieve with a survey? Am I trying to identify problems within my varied service areas? Am I looking to determine other service areas individual clients might be interested in? Am I simply trying to improve relations with key clients?

Whatever the goal, though, you should be prepared to fix—or at least attempt to fix—the problems perceived by your clients. Simply performing the survey for its informational value isn't enough. You can actually lose ground with your clients if you don't follow-up with solutions.

Once you've determined the *why's,* spend time discussing the *how's*. For a firm beginning to monitor client satisfaction, a mailed survey can be an inexpensive and manageable first step. Then it's easy to follow-up with a letter, phone call or visit to those clients concerned about key service areas—and clients will be impressed.

To whom should you send the survey? In a perfect world, mailing the survey to all your clients would give you the most comprehensive data. That's not always economically feasible, though, so consider these suggestions:

- Separate your clients into categories—business clients, individual clients, etc.—and send the survey to representatives of the category you deem most important to your practice. You may be able to survey other categories later.
- Seek a representative mix within the category you've chosen. If you're surveying business clients, select companies of all sizes and from various industries.
- Survey businesses or individuals who are no longer current clients. The most valuable information you may receive is why clients have left.

Mailing Tips

The number of responses you receive will largely depend on the effort you put into preparing your cover letters and envelopes. The following steps should increase your response rate:

- Prepare a personal cover letter from the managing partner on the firm's letterhead. Explain the survey's objective and the importance you attach to the client's opinion.
- Have your managing partner personally sign each letter.
- Prepare individually typed envelopes to each recipient.
- Mail your surveys first class.

The appearance of the survey package shows your clients how highly you value their input. As much as possible, spare no expense.

This is just the start of a process to make all your clients more satisfied with your work. Once you've identified problem areas, you need to move to correct them. With any luck, most of your clients will thank you for even asking.

Warren Garling, Director of CPA Services at Newkirk Products, is past President and co-founder of the Association of Accounting Marketing Executives (AAME).

Newkirk's Survey Program

Newkirk Products makes certain of their publications available only to PCPS members. Through arrangement with PCPS, Newkirk now offers a client survey program including:

- Explanation of how to proceed with the survey.
- Sample letter to be sent by the firm.
- Surveys imprinted with the firm's name.
- Business reply envelopes. Surveys are returned to "PCPS Surveys" at Newkirk's post office box—and at Newkirk's expense.
- Report of survey results after responses are tabulated.
- "How to Analyze Your Results"—a booklet describing the meaning of certain responses and response levels. Actual analysis of the results is up to you.

For PCPS member firms, the cost is just $249 for 100 surveys. You prepare the cover letters and envelopes, and pay postage. For more information on the client survey program, call Newkirk at 1-800-525-4237.

PCPS Staff Changes

It's a time of transition for PCPS as we charge ahead into the 1990's and continue expanding our membership and services.

John R. (Jack) Mitchell, who has recently retired, was Director of PCPS and Editor of the *Advocate* since 1978. Known for his enthusiasm, warmth and dedication to the Section, Jack was with the AICPA for 18 years—first as a Director of the Management Advisory Services Division, then for the past 13 years as Director of the PCPS. As a token of their thanks, every chairman of the PCPS Executive Committee since its founding contributed to giving Jack a silver tray, engraved with their signatures, at the January PCPS Executive Committee meeting. At that meeting, the following resolution was adopted:

> Resolved: That the Private Companies Practice Section's Executive Committee hereby records its appreciation to Jack Mitchell for his dedicated service, thoughtful counsel, and effective advocacy on behalf of the PCPS, its member firms and their clients in connection with the broad range of issues involving those groups. His broad knowledge, extensive experience, and energetic effort have been invaluable during the section's infancy and formative periods. We mark his retirement with this expression of thanks for his many and constructive contributions and wish him well in his future endeavors.

Jack will continue residing in Bronxville, New York with his wife, Mary Ann. They expect to travel extensively, particularly in Italy and Greece.

Joining PCPS as Technical Manager is David J. Handrich. Dave comes from the Wisconsin Institute of CPAs, where he served most recently as Director of Education. During his five years at the WICPA, Dave administered seminars, conferences and other educational programs, as well as overseeing the quality review program. Dave will work closely with the PCPS Executive Committee, particularly in its efforts to provide member services to PCPS firms.

George E. Hoffman, PCPS Technical Manager, will continue to work closely with the PCPS Technical Issues Committee. George has also been instrumental in the continuing growth and success of the annual PCPS Conference.

Arthur J. Renner has been appointed Vice President of the Division for CPA Firms, with overall staff responsibility for both PCPS and SECPS. Previously, he was Director of the SEC Practice Section. Before joining the AICPA, Art had been associated with a local firm in Elkhart, Indiana.

New "Basic" Accountants' Professional Liability Policy

By Leonard A. Dopkins

The AICPA—working together with Rollins Burdick Hunter and Crum & Forster Managers Corporation—has created the new "Basic" Accountants' Professional Liability Policy to offer protection to firms of the size that historically may have gone without insurance. This new policy will be available only to firms that have annual billings of less than $250,000 and a staff size of 5 or less.

The Basic Policy will cover losses for tax, write-ups, bookkeeping, compilation, and MAS, and will only be available to firms that limit their engagements to these five areas of practice exclusively. The policy will be offered with a $100,000 limit of liability and a $500 deductible. As it is narrower in scope than the "standard" AICPA endorsed professional liability insurance plan, it is priced accordingly.

For further information, please contact Rollins Burdick Hunter toll-free at 800/221-3023, or your State CPA Society.

Len Dopkins is a member of the AICPA Board of Directors and of the PCPS Executive Committee.

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