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## CPA Management Advisor, Volume 2, Number 1, Winter 1988

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# The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

## BULLETIN BOARD

### COMMITTEE APPOINTMENTS

Members interested in serving on an AICPA MAS committee should contact Torny Berntsen at the Institute offices (212-575-6499) to request an information booklet and application (biography) form. The appointment process starts in January each year and ends when new members attend their first meeting of the new committee year in October. There are a limited number of appointments each year. If you are not appointed and want to be reconsidered, submit a new form the subsequent January.

### CONFERENCE AND DIVISION MEETING

The MAS Executive Committee has voted to hold a back-to-back MAS conference and annual division meeting again in 1988. The Las Vegas, Nev. meeting will be October 26-28.

For next year, the MAS Executive Committee has changed its annual conference policy. Instead of concurrent sessions on various MAS subjects, there will be two parallel programs, each a full day long. One program will focus on practice development and should be of special interest to those who wish to formalize and expand their MAS to clients. The second program will interest members in practice, industry and government by addressing operational auditing from the perspectives of both independent practitioners and

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## DIVISION SURVEY RESULTS

The recent survey of members of the Division for Management Advisory Services produced over 2,000 responses. The information will help in planning and conducting future division activities. For example, the division is working toward establishing a member data base and member inquiry system.

As soon as the inquiry system is operational, a program to facilitate an exchange of information or services between division members will be initiated. Members seeking an exchange will choose from criteria such as specific technical area experience, industry experience, state, and size of firm (all based on the survey categories). The division staff will use the data base to identify a limited number of members whose survey responses match the inquirer's criteria, and will forward those names and addresses to the inquiring member.

Making contact and exchanging information or services will be the responsibility of those members involved. Members who indicated on the survey an interest in exchanging information or services but who later decide they do not wish to be contacted should advise the division office to change the data base record.

Here are some key statistics gleaned from the survey, beginning with those of particular interest to members who plan to exchange MAS information or services with other members.

- About 80 percent of respondents indicated an interest in a direct exchange of MAS information and services.
- Every one of the survey's 37 areas of technical expertise drew responses from members with significant experience in those areas. The lowest response was 4 percent for franchising, and the highest was 62 percent for accounting systems-manual.

- Every one of the 22 industries listed in the survey also drew responses from members with significant experience in those industries. The lowest response was 5 percent for import/export, and the highest was 45 percent for service firms.
- Responding members' years in MAS ranged from 22 percent with over 15 years to 6 percent with less than 1 year. The median was 9 years. The largest percentage—27—was in the 6-to-10-year category.
- The median age of respondents is 41. None are under 26.
- Seventy-nine percent of responding members are in public practice. Sixty-nine percent are in firms with 20 or fewer professionals.
- Less than 10 percent of members are full-time MAS consultants. Seventy-five percent spend less than 50 percent of their time on MAS.
- Of those who spend more than half their time on MAS, two-thirds of those in public practice have not yet attained the partnership level.
- Sixty percent do very few, if any, MAS engagements. Only 20 percent spend at least half of their MAS time on engagements (as opposed to consultations).
- Sixty-four percent of responding practitioners are designated MAS staff members in their firms.
- Ninety percent of members in practice use computers regularly.

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## RESTRUCTURING DEBT

Reviewing the current debt of a client or employer for possible restructuring can be as important as providing assistance in obtaining additional funds. The need for new funding is generally evident, but the advantages of debt restructuring are often overlooked.

Over time, companies can become entangled in a web of loans from different sources with different maturities and coinciding payment dates that may hinder debt management. Debt restructuring can help relieve cash flow problems by consolidating existing debt to provide a payout schedule suitable for the borrower as well as the lender. Proposing a new loan will provide an opportunity to accomplish this.

MAS practitioners can provide needed assistance by evaluating present debt and determining what type of loan and what terms would be most advantageous in place of existing debt. Next, the practitioner can help prepare a loan proposal that better reflects current requirements. The proposal is then submitted to various lenders.

A loan proposal to restructure debt includes data needed by the lenders, such as a history of the business, company goals, historic and projected financial statements, and information about the management team and insurance coverage. It may disclose certain financial ratios. It also describes the present debt that the new loan will replace.

The proposal's purpose is to convince a lender that the terms sought by the company will provide an acceptable and worthwhile risk. Negotiations with interested lenders may result in some modification of the terms, but the loan must meet the company's needs or the restructuring will not be done.

In developing the proposal, the practitioner considers working capital needs as well as the restructuring of existing term debt. A description of the method used to forecast the company's funding requirements is appropriate, and both loan amount and repayment schedule need to be addressed. The proposed schedule could, for example, eliminate payments during monthly or quarterly periods when cash is tight, but call for larger payments in periods of higher cash flow. Calculating earnings on an earnings-before-interest-

and-tax (EBIT) basis provides lenders with sufficient information to determine the company's ability to repay debt according to the proposed schedule.

A proposal may include a detailed description of the collateral available and its value. Recent appraisals of machinery, equipment, furniture, fixtures, real estate, and so forth submitted with the proposal serve to substantiate the collateral's value. The practitioner can help evaluate the available collateral.

Debt can often be restructured by negotiating the proposal with one of the company's current lenders, but dealing with a new lender might prove advantageous. Identifying interested lenders who can meet the company's needs generally takes about six weeks. Working with management to put together the debt restructuring plan and proposal and to select the lenders who will receive the proposal might require 20 to 30 hours of the practitioner's time, with another 10 to 15 hours to respond to the interested lenders. After the company selects a lender, the negotiations, drafting of documents and additional data gathering may entail another 25 to 50 hours and extend over 45 to 60 days.

When the new loan is in place and the previous debts have been paid off, the benefits of restructuring will become evident. The new debt will reflect a term and payment schedule that more closely suits the company's needs. It may also carry a lower interest rate if the original loans were made when interest rates were higher or the company's credit rating was lower. The availability of a lower interest rate alone may warrant restructuring current debt.

Of course, restructuring is not always appropriate. However, by recognizing when it is advisable, the practitioner can provide a valuable service and help achieve the company's debt management objectives.

Gene L. Temkin, CPA  
Chicago, Illinois

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## SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

Are your MAS activities based solely on the squeaky wheel principle? In other words, do you perform MAS work only when a problem surfaces and someone asks if you can help solve it? Many practitioners work this way. They claim they can't spot or predict problem areas because their "regular" work, which is not MAS, keeps them too busy.

While the squeaky wheel approach may have worked in the past, today's competitive environment makes it risky. The CPA who seems interested in only yesterday's financial figures and tax data may be replaced by the CPA who alerts management to profitability and operations problems.

Make management aware of your interest by reviewing operational as well as financial data. Observe operations and become acquainted with executives and managers in the organization's key units. One way to accomplish these objectives is by using MAS questionnaires to gather information.

The Washington State Society of CPAs recently published a 14-page MAS checklist that can be used for this purpose. Call (206) 644-4800 for more information. Other lists of questions appear in MAS Small Business Consulting practice aids 2 and 3, and in the books in their bibliographies.

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employees concerned with improving the organization.

The October 1987 joint division meeting and annual conference in New Orleans were given high marks by those attending. All sessions were rated 4.0 or better out of a possible 5.0. This was an excellent result for such a diverse program, with attendees who have different levels of MAS expertise in various technical areas. Attendance, however, was lower than expected.

A special session for MAS representatives of state societies and firm associations was held in conjunction with the 1987 conference, and will be repeated next year. The objective of the session is to stimulate an exchange of MAS committee activity information as well as cooperation on MAS projects and programs.

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## CHAIRMAN'S MESSAGE

Today we are challenged—challenged to maintain the rate of growth we have experienced in MAS during the last several years. We need to anticipate and deflect the pressures being placed on our ability to deliver our services. This division can be *the* focal point for the profession in reference to the MAS area of practice. The challenge is to make this “can be” a reality.

In recent years we have seen a lot of changes and have heard a lot of talk about these changes. A major concern focuses on questions about the ability of accounting firms to maintain their independence while engaging in consulting work for the companies they audit. The questions arise from perceived problems that we do not believe have a basis in fact. Many studies have been conducted, but they have been unable to cite actual cases in which independence has been compromised.

Another concern relates to the reaction within the profession to the growth in MAS. We are only now beginning to recognize the need for change in the traditional roles and relationships within firms. As MAS income approaches 30 percent of total revenue in several large firms, the structures of these firms need to be adjusted to accommodate the rapid growth in MAS.

The challenge is even greater for the practitioners in small firms. In many cases, small firms have no segregation of service among distinct staffs. The same group of individuals offers accounting, audit, tax and consulting services. Yet the growth of MAS raises questions about traditional roles in small firms just as it does in large firms. We need to recognize this challenge to both large and small firms. Restructuring promises to give consulting much more flexibility and opportunity. More important, it will help the firm secure an even greater percentage of new business by providing MAS in response to expanding client needs.

We need to focus the activities of the division to counteract these pressures effectively. To this end we have developed a mission statement for the division, which outlines our goals and ideals. An important aspect of the division's mission is to become *the* primary information source about MAS for the profession, the government and other standard-setting bodies.

In drafting the mission statement,

we viewed the division as having authority primarily in certain aspects of CPA services involving a two-party relationship. In doing this we recognize that the division must support the Institute's activities in monitoring and enforcing the professional standards governing MAS practice.

Another division objective is to instruct professionals on the value of MAS. As the scope of MAS activities increases, it is necessary—indeed it is our responsibility—to increase the awareness of all practitioners so that they know not only what MAS services CPAs can perform, but also when the service is pertinent to a particular client.

Once we have educated practitioners, we can move on to educate the public about the value of using accounting-based consultants. We can assure the client that the consultant is abiding by high standards set forth by the AICPA. Furthermore, using a public accounting firm for consulting services will more than likely save clients money.

We believe the consulting relationship between the firm and the client is beneficial. In fact, we hope to reach the point where the practitioner can not only respond to clients' needs, but also inform them of services that they might find applicable. This is more effective than waiting until the client approaches the firm. If we wait, we are relying on the clients to know about the scope of MAS. By informing them, we are helping them fulfill a need. What we must do is identify the problems that clients are completely unaware of. With all practitioners looking at MAS in this active manner, we can then begin to identify new service opportunities in response to changing client needs and the evolving business environment. In doing this, we must at least recognize the role of MAS in relation to tax and audit services.

Although we have identified our objectives for the long term, we also have immediate challenges facing us. One

such challenge concerns MAS specialization. As the scope of advisory services expands and the complexity of these services increases, a generalist must become more focused to ensure that the quality of work remains high.

As it is the division's goal to ensure quality service and uphold AICPA standards, we must ask ourselves whether it is necessary to accredit specialists within MAS. Do we simply rely on the practitioner to remain or become knowledgeable on a subject and not accredit specialization at all? Or should the division recommend that practitioners become accredited specialists in specific areas of MAS and outline recommended practice standards to ensure quality? The question then goes one step further—should we recommend accreditation of specialists in a broad sense, relating to the delivery, qualifications and methods of client service, or should we recommend accreditation of specialists in a narrow sense, such as by industry or skill category?

If the division takes the latter course of action, will public confidence be enhanced? In doing this, do we limit our growth potential to only those MAS areas in which we have established accreditation and standards? How do we expand to new areas of MAS as the business environment evolves? All these questions must be answered. To answer them properly, the division needs input from you, its members.

Joseph P. Conlon, Jr., Chairman  
MAS Executive Committee

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### NEW STANDARD ISSUED

The MAS Executive Committee has issued a Statement on Standards for Attestation Engagements, *Attest Services Related to MAS Engagements*, which will become effective May 1. The Institute will mail copies to all members. There are no significant changes from the exposure draft that division members received in 1987. In the coming months the division plans to issue an MAS Special Report comparing attest services and MAS.

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## PUBLICATIONS REVIEW

**Handbook of Management Control Systems** by Ahmed Belkaoui, Quorum Books, 88 Post Road W., Box 5007, Westport, Connecticut 06881, 1986, \$49.95, 355 pages.

Developing effective management control systems or identifying their absence in a particular organization has always been a staple of MAS by CPAs. Practitioners naturally extend the CPA's concern with accounting controls to management controls as well.

In *Handbook of Management Control Systems*, one definition of the goal of management control is effective operations and finances to maximize profit. Author Ahmed Belkaoui, an accounting professor at the University of Illinois at Chicago, specifies that a management control system includes all the tools and techniques that motivate people to achieve this goal, and it affects all of an organization's functions and personnel. Belkaoui describes, for example, return-on-investment analysis, transfer pricing and variance analysis as elements of management control systems.

Such information makes this book useful for MAS practitioners. However, its limited range of coverage and its organization are negative factors.

The first two chapters deal with the basics of management control systems—what they are, how they are designed and how they can be applied. For example, Belkaoui quotes William Travers Jerome III on establishing eight

categories of management controls based on the following objectives: (1) standardizing performance, (2) safeguarding company assets, (3) standardizing quality, (4) setting limits on authority, (5) measuring performance, (6) planning and programming operations, (7) balancing plans and programs and (8) motivating individuals. Identifying these objectives helps the practitioner focus on what management controls can do.

Belkaoui reviews management controls in relation to two specific factors: organizational structure and profit versus nonprofit status. This is not the most effective way to organize a handbook, which, by definition, is a manual that provides a ready reference on a particular subject. Belkaoui has produced something more like a compilation of others' work than a how-to handbook. It contains lengthy source notes and bibliographies for each chapter. The numerous exhibits are mostly reprinted from other works.

The book's organization also makes it hard to find discussions of control techniques when they are presented. For example, Belkaoui devotes six pages to zero-base budgeting in a chapter on control in nonprofit organizations. But zero-base budgeting is not in the table of contents, which provides only chapter titles. Nor can readers jog their memories about specific techniques by scanning a list. Nevertheless, a compendium

## COURSES & CONFERENCES

Members interested in the programs listed below should contact the New York University School of Continuing Education at (212) 580-5200. NYU will offer each course numerous times in 1988, mostly in New York and Washington, D.C., but Chicago, Boston and Los Angeles seminars are often scheduled as well. All are two days long. The courses have not been evaluated to determine their quality or whether they qualify for continuing professional education credit.

- Managing Systems Projects
- Strategic Planning for Information Systems
- Business Planning and Control Using Your Microcomputer
- Management Succession Planning
- Networking Personal Computers
- Local Area Networks
- Computer-based Human Resources Systems
- Disaster Recovery and Planning
- Telephone Alternatives and Decisions
- Fundamentals of Data Communications and Telephony
- The Management of Technical Personnel

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of material on management control systems is useful, because establishing such controls plays an important role in providing effective management advisory services.

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