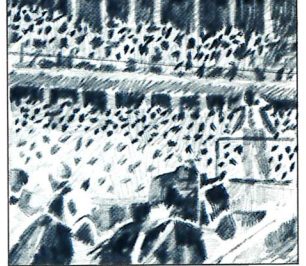
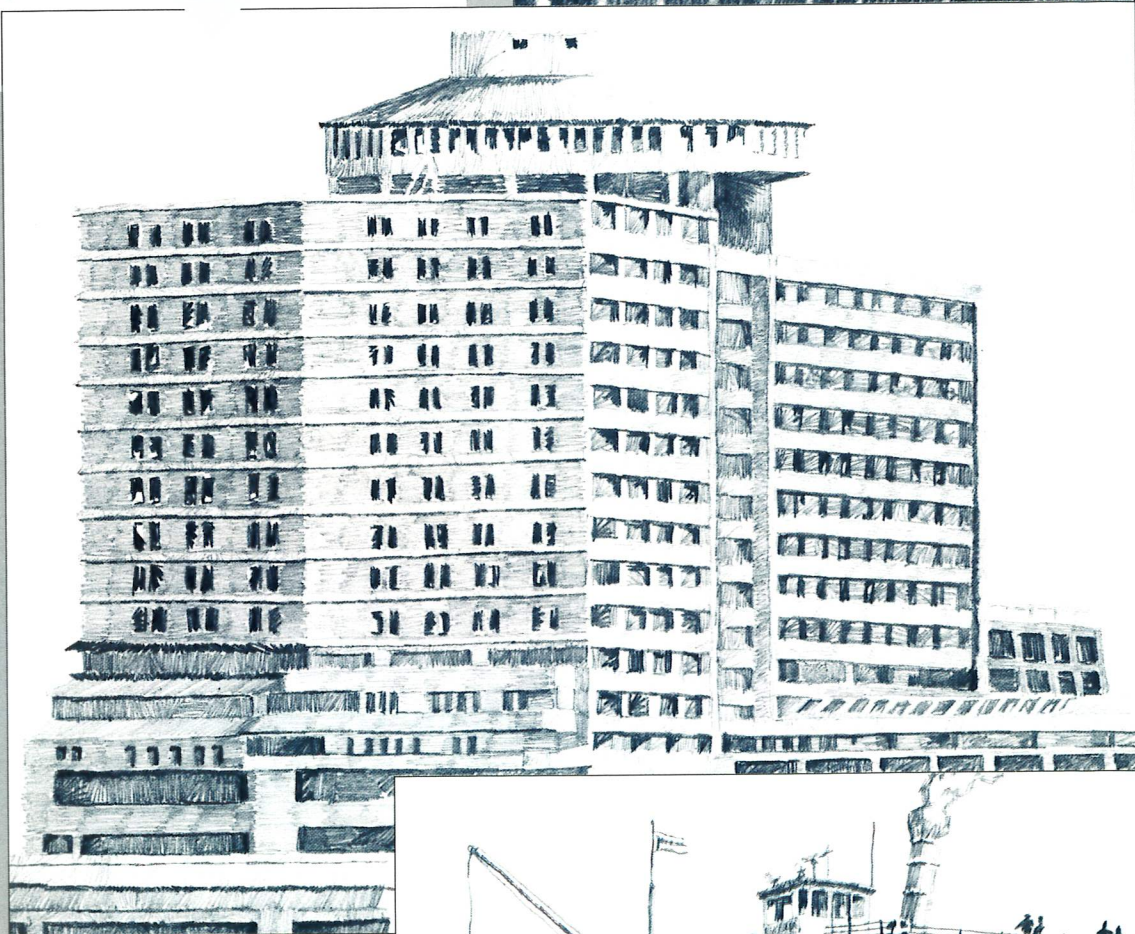
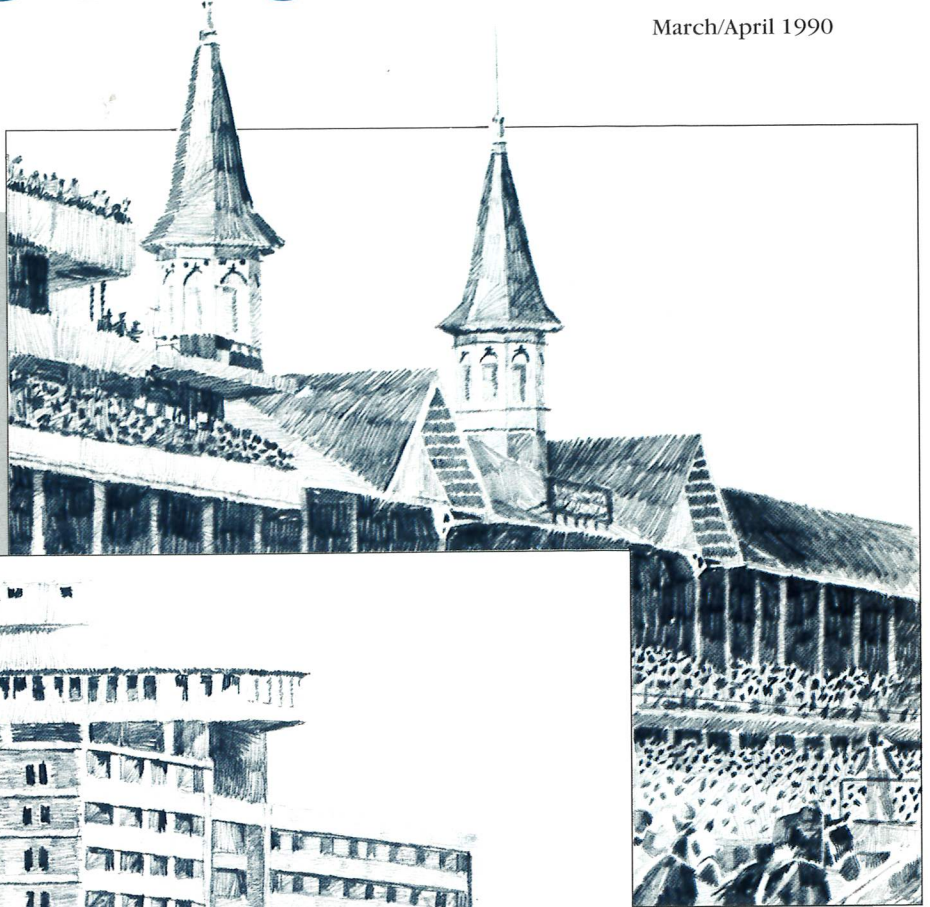


THE BOTTOM LINE

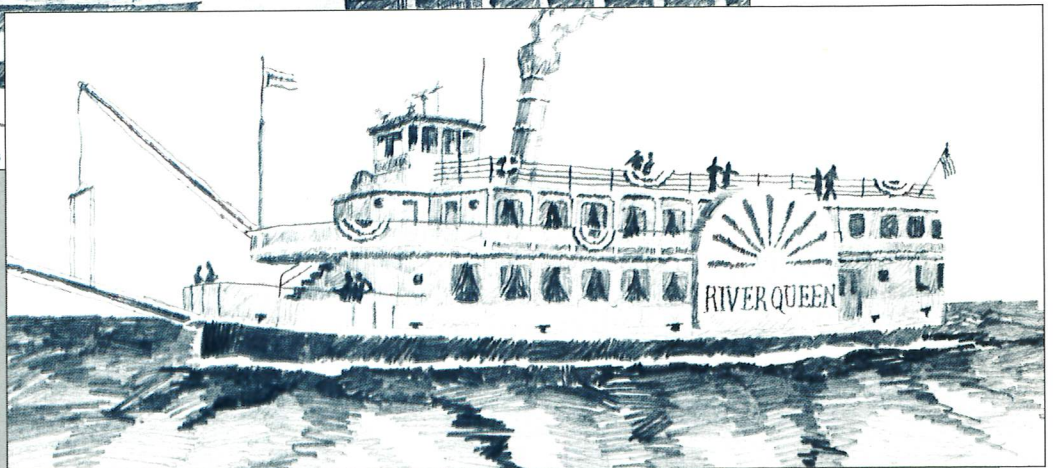
Volume 12, Number 2

March/April 1990

Bringing It
H·O·M·E



Annual Meeting
June 21-23
Louisville



THE BOTTOM LINE

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March/April 1990

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(502) 589-9239 (800) 292-1754
FAX (502) 581-1411

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THE BOTTOM LINE is published bimonthly for members of the Kentucky Society of Certified Public Accountants. Deadline for publication is the first of the month prior to the publication date, for information about advertising, contact Dianna Ott.

President's message

Call your legislator!

by Michael B. Mountjoy

Legislation is the topic of the day, and your State Board is involved. There are a number of issues that are starting to take shape in the 1990 General Assembly which may have a profound effect on the profession. There are three items I want to discuss. First, the State Board of Accountancy's proposed legislation; second, the proposed state tax changes; and third, the Internal Revenue Code Section pertaining to fiscal year end conformity.

State Board's bill

First, let me update you on the State Board's legislation. The Society Board met with the representatives of the State Board to hammer out our final agreement on the legislation. Our negotiations and discussions with the State Board have brought us to an agreement I believe will be beneficial to the profession. The bill will include the requirement for 150 hours of education for certification after the year 2000. This was the Society Board's main legislative issue. The other major items in the bill are the ability of the SBA to require up to 40 hours of CPE for those in public practice and 30 hours for those in industry, and move into statute the ability of the SBA to require a quality enhancement review. We could not reach an agreement with the State Board on commissions and contingent fees. Therefore, the State Board's Code of Professional Conduct will continue to prohibit acceptance of commissions and contingent fees by

regulation. We will keep you informed on the status of this legislation as the session continues.

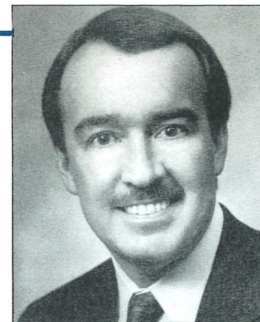
Governor's tax bill

We have reviewed the contents of the Governor's bill, *House Bill 543*, and there are some major concerns. First, the provision requiring sales tax on services. For those of you in public practice, this will require you to charge sales tax on all services you provide. This could be costly to your practice. There are substantial problems with this tax, and we will do what we can to stop it. *You should contact your state legislator now and voice your opinion.*

Another major issue is the so-called conformity to the federal code. Conformity in the Governor's proposal is not conformity. There have been no changes made to the depreciation structure in Kentucky's tax law, therefore we still have substantial differences in calculations for federal and state returns. The Executive Committee and Society Tax Committees are discussing how we can be involved in making a proposal which may be a viable alternative to the Governor's proposal, and hopefully we will come up with something that will assist us in reducing the complexity of the law, avoid the problems of sales tax on services and still provide the revenue needed for education.

Fiscal year ends

The last item of discussion falls on the federal side of our major legislative



concerns, the IRS Code requirements for conformity of fiscal year ends. What if we could change the rules and allow partnerships, S corporations, and PSCs to have year ends during any month of the year? Why not? This provision of the 1986 Internal Revenue Code is possibly the most detrimental piece of legislation ever to be effected on our profession. Why do we stand by and let this happen? I believe we have the ability to change this law. The law is an arbitrary one-time revenue enhancement. The issue is cash flow to the treasury, not year ends. Your Board voted to support the resolution from the Massachusetts Society which asked the AICPA to become involved in attempting to overturn this legislation. This will not be an easy task, but if the CPAs across this country have an interest in changing this arbitrary law, I think we can have some impact. We'll talk more about this later.

KSCPA Annual Meeting

And finally, I encourage all of you to register for the Kentucky Society's Annual Meeting to be held in Louisville June 21-23. This is the first in-state annual meeting we have had in 10 years, and there should be a good turnout.

We will keep you informed of these legislative matters as they continue to unfold, and I look forward to seeing many of you at the Annual Meeting in June.



Governor's Revenue Revitalization Act and amendments to accountancy statutes top Society's legislative 'wish list'

As you read this, the 1990 regular session of Kentucky's legislature is past the halfway mark. The Society is monitoring the progress of several bills, however, most of our attention has by necessity been focused on the two major pieces of legislation mentioned in this article's headline.

Governor Wilkinson's tax bill, known as his Revenue Revitalization Act, was introduced on February 8 as *House Bill 543*. The bill contains these basic revenue producing measures:

- An increase in the tax on cigarettes from 3 to 10 cents per pack.
- Elimination of the federal tax deduction on the state return.
- An extension of our 5 percent sales tax to certain professional services, including

"accounting, auditing, and bookkeeping services," which are defined in the bill as "... a) tax return preparation and tax and estate planning; b) preparation and analysis of business reports and records; and, c) financial planning." Other CPA services to be subject to the sales tax would be "management and consulting services," and "computer services," both of which have very broad and all-encompassing definitions in the bill.

- A 1 percent increase in the corporate tax rates.
- A provision to update Kentucky's tax code to comply with the Internal Revenue Code "in effect on December 31, 1989," but no provision is included to eliminate the dual depreciation schedule problem.

However, the Society has raised this point several times and we have been assured that an amendment is forthcoming that will eliminate the dual depreciation schedules, at least for assets obtained after January 1, 1990.

On February 16, Society President *Mike Mountjoy* testified before the House Appropriations and Revenue Committee on the adverse effects of a sales tax on CPA services. His major point was that a sales tax on "accounting, auditing and bookkeeping" services, including tax services, will impact most heavily on small businesses which must contract for these services. He also mentioned the complexity of implement-

(continued on page 5)

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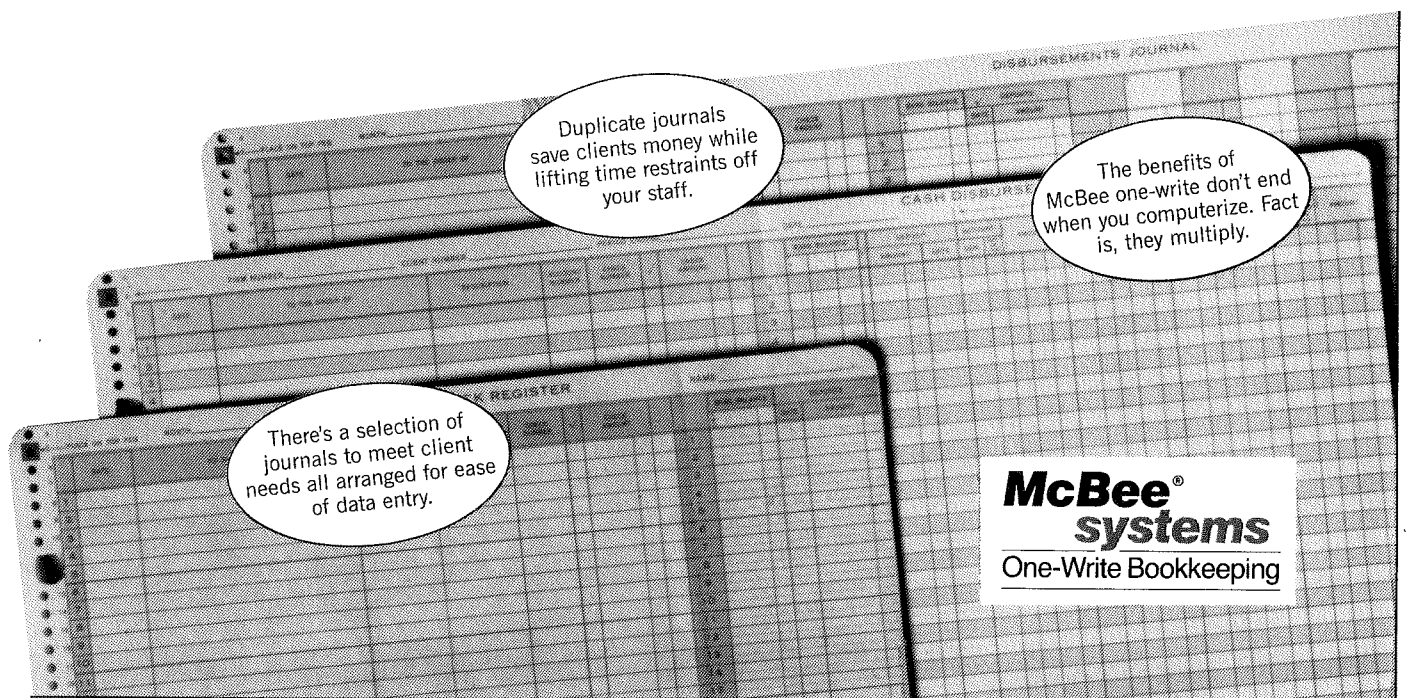
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President-elect Olivia Kirtley (center) met with AICPA President Phil Chenok (left) and Chairman Chuck Kaiser (right) at the 1990 State Society Planning Conference.

Revenue Revitalization Act

(continued from page 3)

ing a new sales tax, supported by facts from Florida when that state implemented a sales tax on services several years ago.

The second major piece of legislation, *Senate Bill 290*, makes several amendments to our accountancy statute. This is the legislation primarily developed by the State Board of Accountancy, and contains many housekeeping measures which the State Board felt were necessary to clarify and streamline certain sections of the accountancy statute.

Two major provisions in SB 290 are:

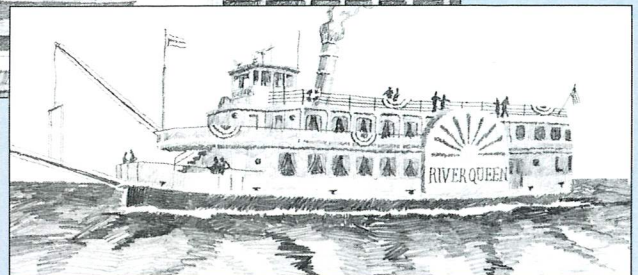
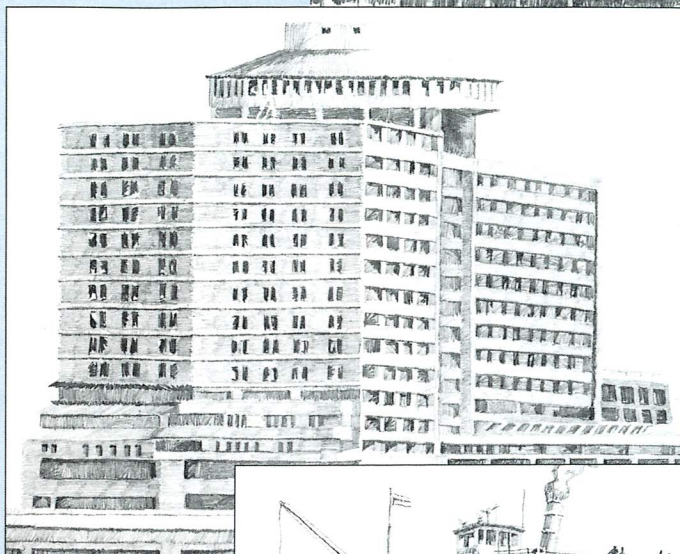
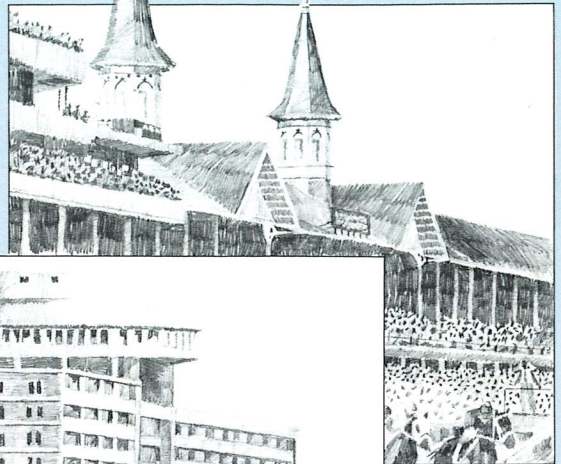
- Beginning with a first-time applicant applying to sit for the CPA examination in May 2000, the candidate must show that he or she has completed 150 semester hours of college-level credits, to include a bachelor's degree.
- The CPE requirement to renew the CPA certificate and license to practice will increase to 80 hours every two years for licensees in practice and 60 hours every two years for licensees not in public practice.

Both of these provisions are in tune with bylaw amendments passed by the AICPA in January of 1988 and by the Society in July 1989, as part of the Plan to Restructure Professional Standards.

The Society is implementing our legislative key-contact program in support of SB 290 and in opposition to the sales tax on professional services.

If you wish to contact your legislator and need assistance, contact the Society office. To leave a message for your legislator in support or opposition to a bill, call (800) 372-7181. ☞

Bringing It H·O·M·E



Annual Meeting
June 21-23
Louisville

The Annual Meeting/Convention of the Kentucky Society of Certified Public Accountants will be held June 21-23, 1990, at the Galt House East, Louisville, Kentucky. The Annual Meeting Committee, with the assistance of representatives from the Industry and Government Committee, is putting the finishing touches on the program for this year's event. *For this year only, there will be no Industry and Government Conference.* The program will provide sessions designed to appeal to all segments of our membership.

Don't miss this opportunity to join your fellow professionals. Bringing the Annual Meeting/Convention back to Kentucky will allow many members to participate who have been unable to

before. Watch for the brochure and mark your calendars.

Highlights include:

Thursday, June 21

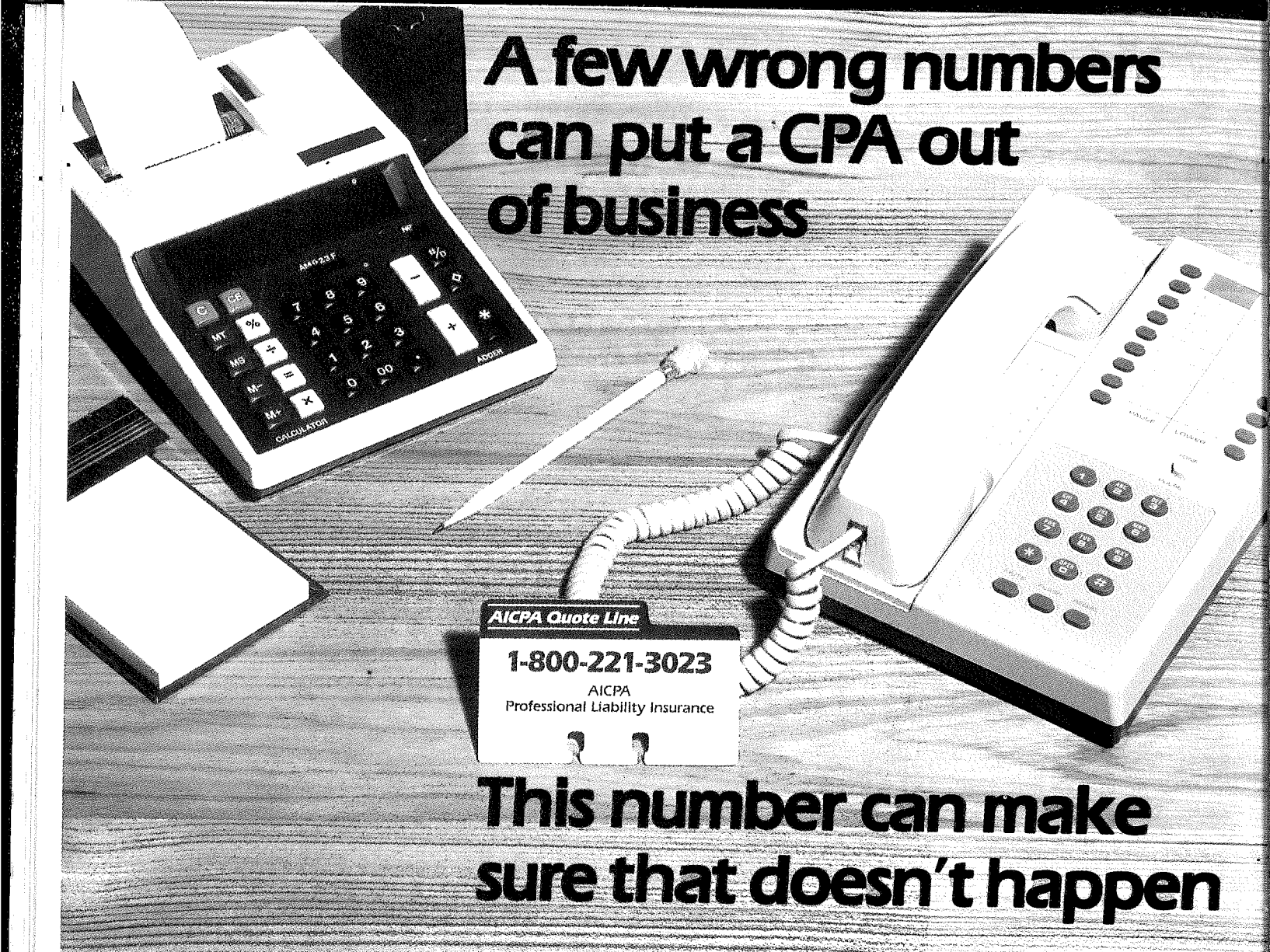
Technical Sessions — 8 hours of CPE
Reception — Museum of History and Science

Friday, June 22

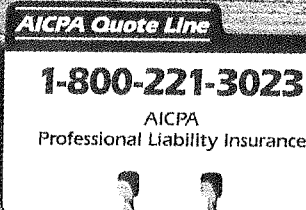
Technical Sessions — 4 hours of CPE
Annual Business Luncheon
Committee Day
Spouses tour — Lunch and Wakefield
Scearce Antique Gallery, Shelbyville
Dinner and Cruise on board the *River Queen*

Saturday, June 23

Technical Sessions — 4 hours of CPE
Afternoon — Churchill Downs

A black and white photograph of a desk with a calculator, a telephone, a pen, and a business card. The calculator is on the left, the telephone is on the right, and the business card is in the center. The background is a wooden desk surface.

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Re-examining the exam: will the 1994 CPA exam be more balanced?

Editor's note: The Accounting Career Opportunities Committee challenged Student Members to enter a manuscript competition again this year. The 1990 winner is a senior at Indiana University Southeast in New Albany, Indiana (just across the river from Louisville).

by John H. Matzat

After years of debate, researching, and restructuring the American Institute of Certified Public Accountants (AICPA) has changed the format for examining potential candidates wishing to join the elite ranks of the CPA. The AICPA's new examination promises to be more balanced in the testing procedures and more representative of the desires of a modern accounting profession.

The composition of the CPA examination is of great concern to accounting students, college educators, private firms, and to the public accounting profession. Students need to know what is expected of them in order to further their careers in accounting. Like graduating with a degree, achieving the CPA certification is a milestone experience. Dedicated educators would like to provide pertinent information in a suitable learning environment to aspiring accounting majors. The educators' goals are the enhancing of a student's potential, maintaining the accounting profession's credibility, and the placing of adequately prepared accountants in the ranks of private businesses. Private firms need to know that their employees' designation of "CPA" is a continuing indication that company's accounting needs, whether in recordkeeping, financial statement preparation, or internal or external auditing procedures, are successfully being met. Public accounting firms need reassurance that the CPA examination is continually evaluating necessary skills of accountants used in dealing with the business demands of contemporary society.

History behind the changes

The revisions, which will begin with the May 1994 examination, are the product of years of forethought and testing. In 1980, the AICPA board of directors authorized a practice analysis study which was completed in 1983 and presented in the *Report of the Practice Analysis Task Force*. The examiners, in their analysis of the present examination for current test and measurement standards, identified two areas. These two areas are:

- 1) Major work segment (WS) areas performed by CPAs in the practice of public accountancy.
- 2) Knowledge, skills, and abilities (KSAs) needed to perform those work segments by a CPA who has just reached the level of responsibility for planning and

executing a public engagement.¹

In 1983, the board of examiners continued the evaluation process by establishing a task force. The KSAs were carefully evaluated in each WS and an outline was developed by the task force for a new examination. The structure and format of the old examination was compared to these new findings of what was considered to be the essential needs of a practicing CPA. The end result was the exposure draft that implemented the changes proposed by the task force in their two reports.

The next stage of development for the examination was to obtain feedback from the accounting profession. The opinions of accountants and accounting associations were solicited in 1987 through public meetings and written evaluations of the AICPA's Board of Examiners exposure draft *Proposed Changes in the Uniform CPA Examination*. Involved in the heated and lively discussions held in August and September were the entire AICPA Board of Examiners, members of the AICPA Examination staff, members of NASBA's CPA Examination Review Board, and members from other accounting associations and firms. In total, 194 written responses were received.²



The examination of 1994 will be a more balanced testing instrument than the previous one."

Changes that will be made in 1994

There are four major areas of change that will occur on the 1994 examination. The first of the changes has to do with the redefining the major areas of examination. The second major change concerns the treatment of essay questions. The third major change allows the use of calculators. This change, along with the redefinition of testing areas, leads to the fourth change, shortening the examination period from two and one-half days to two days.³

Redefinition of testing areas. The basis of the first major change is combining the current Accounting Theory and Accounting Practice sections. The board then allocated the remaining subject matter to two new sections: 1) Accounting and Reporting-A,

which deals with financial accounting for business enterprises and 2) Accounting and Reporting-B, which will cover taxation, managerial, and governmental and not-for-profit organizations.

The reasoning behind this portion of change is that under the old testing format as much as 60 percent of the material was duplicated between the Accounting Theory and the Accounting Practice sections. A very high correlation existed for candidates passing Theory and Practice (.91). The move to restructure the contents into Accounting and Reporting A & B will remove this overlap.⁴

The remaining two sections will stay the same in name but will change in other respects. Section four — Business Law — will be shortened from three and one-half hours to two and one-half hours and will include questions on business ethics and professional liability. The most notable change in the section on auditing is the length of time to complete this section. The time allowed on this section will be increased from three and one-half hours to four hours.⁵

Grading essay questions. The grading of essay questions is the second major change and perhaps the most controversial issue of the new examination. Originally, the AICPA board wanted to do away entirely with all essay questions and go to an all-objective format. However, due to outside pressures, essay questions will be on the test, though perhaps "shortened" in length of answer. The percentage of essay questions will drop from 25 percent of the Auditing section to 20 percent and they will be graded for writing skills as well as technical correctness.⁶

Calculators and shortening of the examination. The last two changes are somewhat related. Calculators will be allowed to be used and with a more objective format and less duplication of material, the examination period will be shortened from two and one-half days to two days.

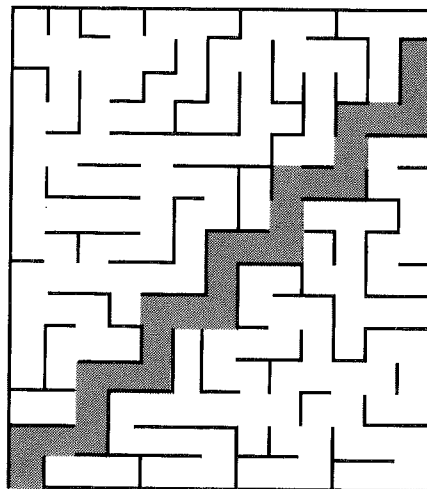
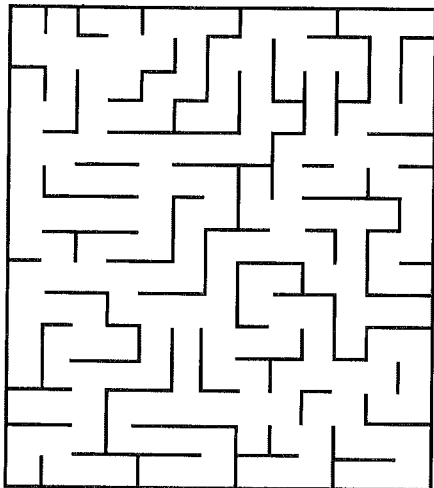
Impact of the changes

The examination of 1994 will be a more balanced testing instrument than the previous one. The redefinition of testing areas, the shortening of the test in some areas and lengthening in others, the special treatment of essay questions, and the use of calculators all indicate this.

Redefining the areas to be tested is the major change of the exam. One of the AICPA's goals of the examination is validity of content of the test. During its task force's

(continued on page 13)

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Providing insights into how firms work

by Carlton D. Stolle, PHD, CPA
Texas A&M University and
Sarah A. Reed, PHD, CPA
Texas A&M University

The Kentucky Society of CPAs in 1989 sponsored participation of Kentucky public accounting firms in a practice management survey (PMS). The survey chosen, the largest of its kind, had more than a decade of use and was one in which Kentucky CPAs participated several years earlier. The Kentucky firms joining in the study completed a questionnaire this past spring. Their input was combined with the input of over three thousand other firms nationwide, filling out a picture of this nation's practice units.

Firms which participated later received a report, giving them a glimpse into the operations of other firms. After studying the results, these owners could "benchmark" their own accounting practices. The PMS captures firms' financial data — not only balance sheet and income data, but a collage of information that is typically not open to public view. Because of the anonymity of the participants and the fact that input is combined for hundreds of firms of similar size, information about staff salaries, policies, owners' earnings, billing rates, etc., are shared willingly.

The PMS helps owners answer common questions like . . .

- Is my firm growing as it should?

- Are my billing rates competitive?
 - Is my fringe benefit package for my employees reasonable for the 1990's?
- We want to share a small part of the PMS picture with readers of *The Bottom Line*.

Profiling the firms

The following tables highlight some of the PMS results. In the tables, firms are divided into two major categories: (1) individual practitioner firms and (2) firms with more than one owner. The latter, multi-owner group is further divided into small and large firms. The dividing line is \$900,000 in revenue; small firms having less than \$900,000 and large firms having more. The firms are all local and regional practices.

Before the readers get too involved with the data in the tables, we should point out that the Kentucky results come from 39 participating firms, 13 in each of the three classifications of firms. Because of this limited number, readers should understand that the results are probably not representative of Kentucky firms in general. For this reason we chose to include in this report data from the nationwide group of respondents. The nationwide results do not change much from one year to the next, but since several thousand firms are included in the survey results, the reader can get some valuable reference points, although regional trends are often lost.

The first part of Table 1 provides highlights of financial information which should

be of general interest. For each category the top row represents Kentucky results from the 1989 PMS (reflecting 1988 operating results) while the bottom row represents nationwide PMS results from more than 3,000 practices. All sections of the country are represented in the nation-wide results.

While there are a number of differences in the financial results of Kentucky firms vis-a-vis all the others, one item deserves mention. If the reader looks at the column for individual practitioners, one notices that the net fees of the Kentucky respondents were a healthy \$237,086 while the net fees of the nationwide group were far lower at \$165,997. However, the firm's and the owner's net income were, respectively, \$45,810 and \$63,960 for Kentucky and the nationwide firms. Higher revenue but lower income? Looking down the column of Table 1 still farther, one notices the percent of owner's income to net fees is 19.3 percent for the Kentucky firms and 38.5 percent for all the others. Why the disparity for the individual practitioners and which percentage is most commonly encountered? The second part of the table, Firm Characteristics, gives us part of the answer and other places in the PMS report gives us the rest of the answer.

The 13 Kentucky sole practitioners had more personnel on the payroll: 6.1 people compared to 3.4. While those staff per-

(continued on page 11)

Table 1
Profile of Kentucky and the Nation's
Public Accounting Firms

	Individual Practitioner n = 1,686 ³			Multi-Owner Small ¹ n = 1,059 ³ Large ² n = 595 ³		
Financial:						
Total Assets ⁴						
Kentucky:	\$109,077	\$282,000	\$757,615			
National:	70,003	189,518	920,439			
Total Liabilities ⁵						
Kentucky:	\$ 37,923	\$127,692	\$351,385			
National:	23,302	67,466	333,487			
Total Net Fees						
Kentucky:	\$237,086	\$589,465	\$1,743,408			
National:	165,997	451,702	2,044,608			
Firm Net Income						
Kentucky:	\$ 45,810	\$234,186	\$586,619			
National:	63,960	174,718	646,847			
Net Income Per Owner						
Kentucky:	\$ 45,810	\$ 74,253	\$105,917			
National:	63,960	68,784	118,605			
Pct Owners' Income to Net Fees						
Kentucky:	19.3%	39.7%	33.6%			
National:	38.5	39.9	31.6			
Firm Characteristics:						
Number of Personnel						
Kentucky:	6.1	10.8	31.8			
National:	3.4	8.3	31.7			
Charged Hours Per Firm:						
Kentucky:	7,983	13,924	39,199			
National:	4,062	10,432	39,384			
Days to Collect Billed Receivables						
Kentucky:	59	65	71			
National:	66	62	78			
Net Fees Realized Per Professional Hour Charged						
Kentucky:	\$ 30	\$ 42	\$ 44			
National:	41	42	52			

¹ Firms with fees up to \$900,000

² Firms with fees over \$900,000

³ National respondents

⁴ Does not include real estate

⁵ Does not include real estate debt

POP QUIZ FOR ACCOUNTANTS...

(Cover the answers . . . Don't cheat!)

- Q.** If you have an investment with a 7% yield, free from Federal and Kentucky Income Taxes, and free from Kentucky Intangibles Tax, how much yield is required to equal this on a fully taxable investment?
- A.** 10.38% (Assumes 28% Federal, 6% Kentucky Income and .25% Intangibles Tax.)
Formula: Yield / (1 - (FIT + (1 - FIT) (SIT) + Intangibles tax)
- Q.** What investments are free from Federal and Kentucky Income Taxes and the Kentucky Intangibles Tax?
- A.** Tax-exempt bonds issued by Kentucky and its political subdivisions and mutual funds holding these bonds exclusively.
- Q.** How much money would be required to diversify my risk over 100 different bonds?
- A.** \$500,000 in individual bonds. Or, about \$2,500 in a mutual fund.
- Q.** What is the sales charge for bonds and funds?
- A.** Usually 2%-4% on individual bonds; 4% and up for mutual funds.
- Q.** What does a 4% sales charge do to a 7% yield if the investment is sold in one year? . . . Two years? . . . Five years?
- A.** It reduces the yield to 3% (one year); 5% (two years); 6.20% (five years).
- Q.** Are there mutual funds investing exclusively in Kentucky bonds?
- A.** There are three. The Churchill Fund, Flagship Fund and Dupree Mutual Funds (two series).
- Q.** Are any of these no-load funds?
- A.** Only the Dupree Funds. The others have a 4% or greater load.
- Q.** What else do I need to know?
- A.** Nothing. Call Bill Griggs at 1-800-432-9518, or in Lexington, 254-7741.

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Practice management survey results *(continued from page 9)*

sons in Kentucky had moderately more charged hours per person, there was not enough worker efficiency to erase the following fact: In the Kentucky firms, payroll costs (i.e., salaries for everyone except owners) were taking almost 40 cents out of every dollar earned, compared to 26 cents nationally. Add to this the fact that billing rates were lower than for the nation in general, it becomes easy to see why the percentage of each dollar earned is lowered for the individual practitioner. This same disparity did not exist in the multi-owner firms, though. We generally expect the percentage of fees left over for the owners to be slightly below 40 percent for firms of all classifications. This is a benchmark the PMS has given us for many years. The reported earnings of the professional staff and others employed by the firms shown in Table 3 gives the annual W-2 compensation reported by the public accounting firms.

Owners' income in a public practice

Owners' incomes always capture the interest of readers. It is perhaps useful for the public to see factual income figures in order to quell the myths surrounding incomes. The public, including our clients, regularly aim too high when estimating the CPA's income. Hourly billing rates are regularly and erroneously considered to go directly into the CPA's pocket, as some forget other salaries to be paid and the

other operating costs to be borne. Knowing the sources of firm revenues can aid in controlling those costs.

Revenue sources of public accounting

Trends become apparent with time and one ongoing change has been the sources of fees. The attest function was originally the purpose for this profession coming into existence. The licensing of the first Certified Public Accountant in New York allowed him and those who followed to attest to the representation made in companies' financial statements. A generation ago auditing services may have been the number one fee producer, but not any more. While the audit still is the sole domain of public accounting, the demands of business changed with time and the services offered by the profession broadened as Table 2 clearly shows. The revenue generated from audits continues to decline, now providing a smaller, yet not insignificant, portion of the firm's fees.


The range of services offered by public accounting firms has expanded greatly through the years. Tax services are now the number one revenue producer in firms of all sizes. Is this the inevitable result of growing complexity and pervasiveness of tax law? Many would say "yes."

And In Conclusion . . .

The information we have presented is a small portion of the information received

by firms participating in the PMS. The reports come with little narrative, but are packed full of facts and figures.

The real value of the survey data comes when the user studies the information carefully, comparing his or her own firm to others. Few people who use the survey can honestly state that they learned nothing from it. In any firm we often find areas of strength and areas of weakness. Oftentimes these weaknesses were not apparent, but once awareness comes, correction can follow.

Like in any other business, the business of public accounting demands a good management team which is sensitive to the pulse of the practice. And like in any other business, if the practice does not thrive, it stagnates. A public accounting practice must evolve just as business evolves. Each practice is a product of information, and depends on information for its vitality. Taking the guesswork out of knowing what is happening in public accounting firms is the purpose of the Practice Management Survey, and making better practice managers is the result. 

Editor's note: If you would like to participate in the next practice management survey, or for more information about the 1989 survey, contact Linda Ritter at the Society office.

Table 2
Percentage of Net Fees
by Source

	Individual Practitioner	Multi-Owner	
		Small	Large
Tax Services			
Kentucky:	50.2%	45.8%	42.1%
National:	45.1	43.0	38.1
Reviews & Compilations			
Kentucky:	11.0	11.4	14.9
National:	17.3	18.3	19.6
Write-Up & Data Processing			
Kentucky:	15.1	15.7	11.3
National:	19.3	15.6	10.8
Audit Services			
Kentucky:	11.9	17.5	19.8
National:	7.2	12.9	19.0
Management Advisory			
Kentucky:	6.5	6.0	10.5
National:	6.5	5.8	8.4
Other Services			
Kentucky:	5.3	3.6	1.4
National:	4.6	4.4	4.1
Totals	100.0%	100.0%	100.0%

Table 3
Annual W-2 Compensation
for Firm Personnel

	Individual Practitioner	Multi-Owner	
		Small	Large
Professionals —			
Supervisors & Managers			
Kentucky:	\$40,570	\$31,702	\$37,495
National:	34,249	34,116	43,351
Seniors (4 to 5 years)			
Kentucky:	\$24,337	\$25,207	\$27,582
National:	26,664	26,950	31,088
Staff (0 to 3 years)			
Kentucky:	\$17,862	\$19,999	\$20,829
National:	20,079	20,278	23,352
Paraprofessionals —			
Kentucky:	\$14,070	\$17,342	\$16,330
National:	17,133	18,116	20,673
Clerical and Non-Professionals —			
Kentucky:	\$14,017	\$15,548	\$16,802
National:	13,827	15,349	18,634

129 pass CPA Examination in Kentucky

The Kentucky State Board of Accountancy has released the names of the following persons who successfully completed the Uniform CPA Examination given in November. The successful candidates will receive their CPA certificates upon completion of the two year experience requirement, and will be recognized at the Society's Spring Awards Banquet on March 23.

Jeffrey L. Able, Louisville; *Michael A. Alvey**, Louisville; *Joan Arlinghaus*, Ft. Mitchell; *Joseph M. Baker**, Louisville; *Sberry Y. Banta*, Louisville; *Bradley A. Beard*, Louisville; *Todd A. Berger*, Louisville; *Roger Bloyd*, Louisville; *Carol S. Bogard*, Murray; *Kyoko Boggs***, Elizabethtown; *Jennifer V. Bowles*, LaGrange; *Brenda S. Bowling*, Louisville; *Elizabeth K. Branham*, Pikeville; *Sbirley M. Buckner*, Glasgow; *Gary D. Burress**, Louisville; *Marcia J. Cammack*, Bardstown; *Edward R. Campbell*, Louisville; *Michael A. Carroll**, Louisville; *Darla F. Carter*, Barbourville; *Brent P. Chaney*, Madisonville; *James E. Clayville*, Frankfort; *Richard J. Collins*, Lexington; *Karen S. Curnutte*, Lexington; *Peggy Curry*, Louisville; *Brian T. Davis*, Louisville; *Della R. Deerfield*, Grayson; *Abbreial P. Dudgeon*, Custer; *Sandra L. Duncan*, Lexington.

Also, *Kim E. Earnhart*, Louisville; *Robert D. Edmonds*, Ashland; *Michael W. Edwards*, Louisville; *Jennifer A. Elder*, Louisville; *Ann D. Fallis*, Lexington; *Franklin Fletcher*, Warfield; *Sheridan B. Forrest**, Louisville; *Debra E. Francis*, Summer Shade; *Jonathan L. Frey*, Lexington; *Kevin L. Fuqua**, Crestwood; *Veronica G.*

Gilbert, Glasgow; *Thomas C. Goins*, Frankfort; *Ruth R. Goode*, Harrodsburg; *Nancy C. Gore*, Murray; *Cynthia L. Greer*, Glasgow; *Rachel P. Gullede*, Wilmore; *Marybeth Guerrero*, Louisville; *Sheri A. Hauser**, Louisville; *Margaret Hawkins*, Paducah; *Angela R. Head*, Louisville; *Darrin L. Hines*, Louisville; *Kenneth K. Hodge Jr.*, Louisville; *William M. Holcomb*, Lexington; *Paula C. Hornback**, Lexington; *Barbara S. Huddleston*, Louisville; *Clayton R. Hume**, Louisville; *Michael J. Hyland*, Louisville; *Stephen E. Hyland*, Louisville; *James G. Ingram*, Cynthiana; *Duane A. James**, Olive Hill; *Judy A. Jansen*, Ft. Wright; *Amy L. Jones*, Lexington; *Gerard P. Kauffmann*, Louisville; *Kimberly H. Kulton*, Louisville; *Krystal D. Larmee*, Louisville; *Wade C. Lawson*, Richmond.

Also, *Kimberly A. Libbert*, Louisville; *Gary C. Lord*, Louisville; *Michael D. Lowery*, Louisville; *Mark A. Loyd Jr.**, Louisville; *Thomas M. Lynch*, Louisville; *Paula W. Lyons*, Glasgow; *Terri K. McCain*, Frankfort; *Heidi S. McCreary*, Louisville; *Sarab J. McCubbin*, Louisville; *Robert T. Mangeot**, Louisville; *M. Sean Martin*, Louisville; *Robin L. Martin*, Harrodsburg; *Guendolyn L. Matthews*, Nicholasville; *Brenda J. Mattingly*, Louisville; *Bryan K. Mattingly*, Lexington; *Rosa Maya*, Louisville; *Gregory W. Meiners*, Louisville; *David W. Miles*, Lexington; *Michael E. Moad*, Louisville; *Yvonne P. Morcz*, Owensboro; *Mary C. Morrow*, Louisville; *Johnny H. Mounts*, Lexington; *Kevin W. Mullikin*, New Castle.

Also, *Anthony W. Murr*, Louisville; *Cheryl A.*

Napier, Chavies; *Kimberly A. Nevels*, Louisville; *Richard L. Oliver**, Winchester; *Katherine L. Parrish*, Ft. Knox; *Robert E. Ratterman*, Louisville; *Glenn A. Record*, High Point, NC; *Matthew M. Rickert*, Louisville; *Gregory M. Riehl*, Louisville; *Alan C. Ross*, Lexington; *Michael J. Scales*, Lexington; *Judy M. Scheetz*, Louisville; *Mark Alan Schmitt*, Burlington; *Jeffrey M. Schoenfeld*, Burlington; *Patrice L. Schroerlucke*, Louisville; *Julie A. Scott**, Bowling Green; *Sbirley F. Seabolt*, Lexington; *Don R. Sever*, Lexington; *Donna Sbanner*, San Francisco, CA; *Leslee A. Shelton*, Hopkinsville; *Fred B. Shockey, II*, Villa Hills; *Gary P. Sipes*, Louisville; *Angela J. Smith*, Prospect; *Patricia K. Tackett*, Louisville; *Cathy Terry*, Versailles; *Beth A. Thomas*, Louisville; *Sharon R. Thomas*, Corydon; *Harvey D. Thompson**, Lexington; *Jeff Tingle*, Lexington; *Martha L. Turner*, Sassafras; *Jennifer C. Turpin*, Lexington; *Linda M. Wentzel*, Louisville; *Brian J. Wessel*, Louisville; *Laura L. Whiteside*, Louisville; *Loretta R. Willits*, Indianapolis, IN; *Jacqueline F. Wilson*, Henderson; *Melissa M. Wilson*, Louisville; *Melissa Wines*, Lexington; *Don K. Winslow*, Nicholasville; *Anna M. Woods**, Mayfield; *Amy S. Wright**, Louisville; and *David R. Wyatt*, Murray. ☞

*Candidates who passed all parts of the exam on their first attempt.

**Received highest grades in Kentucky.



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Re-examining the exam *(continued from page 7)*

evaluation period. The question that was asked practicing CPAs was: "To what extent need this KSA be understood by a CPA who just reaches the level of responsibility for planning and executing a professional agreement?"⁷ All together 229 KSAs in seven major categories were evaluated and the tabulation of the answers have resulted in the changes in the new exam. In other words, what does the accounting profession consider to be important skills for an accountant who is past the initial learning stages and is ready to perform professional level work without extensive supervision is tested. The standards of this test have evolved from the perceptions of competence from those who have already proven themselves competent.



Although the CPA exam is touted to be the best of any professional examination in the United States, there is an on-going effort to maintain that distinction and not rest on past laurels."

One major change is the lengthening of the auditing section. This change is a direct result of the ratings this particular section's KSAs received.⁸ The auditing function of the CPA firm is increasing in importance and the 1994 exam will properly reflect this emphasis by increasing the scope of its testing from three and one-half hours to four hours. Accountants, in order to exercise "due care" in the performance of their independent auditing duties, need to be more aware of proper auditing techniques. Also, auditing will become a specialty for some accounting firms and new CPAs should have increased skills in the auditing function.

Another major change concerns the shortening of the Business Law section. The Business Law section is to be decreased from three and one-half hours to two and one-half hours. The task force of the board of examiners of the AICPA found in their testing of KSAs that 98 percent of all KSAs associated with Business Law were found in the bottom half of the rankings. However, the task force felt that since these skills were needed in at least one work segment (WS) the exam would still cover them.

The most controversial subject for the changes in the 1994 examination concerned treatment of essay questions.⁹ The board of examiners wanted to eliminate essay questions entirely and go to an all-objective format. As early as 1977, The board felt the best interests of the AICPA, who bears the cost and responsibility of administering the exam, best lie in the all-objective type of format. However, this decision was contested on all fronts, most notably by the National State Board of Accountancy and the American Accounting Association. The projected format of the 1994 exam, with the amount of essays being reduced from 25 percent to 20 percent of the exam and being described as "short essay" but being graded for content, reflect a compromise decision by the AICPA.¹⁰

An overwhelming number of professionals that commented on the need of writing skills placed them above the technical skills needed by a CPA. One leading educator addressing the proposals of the AICPA wrote:

*The CPA must be able to grasp the problem at hand, identify relevant data, set aside the extraneous, develop pertinent financial information and clearly communicate the results in writing. The essay questions on the exam successfully simulate this process, which is a way of life in CPA practice.*¹¹

The AICPA, among other goals and purposes for eliminating essay questions, intended to test what they considered skills unique to the accounting profession. Writing skills were felt to be central to all professions and thereby should not be an objective of the CPA examination.¹² However, while the skill of writing itself is a general skill, the answering of essay questions as opposed to objective questions encompasses more than just writing. The complete direction of the question must be ascertained before any answer can be formulated. Then accounting terms must be laced together in rational accounting thought and presented in an understandable fashion

to the reader. This is a more demanding procedure than just giving an objective answer. The inclusion of well thought-out questions that are integrative in nature with multiple aspects of accounting should be part of a well-rounded examination for a CPA.

The use of calculators on the 1994 CPA examination is another change that will lead to a more balanced examination. Calculator proficiency is a skill of accountants: that skill should be included in the testing procedures. Not many professionals take paper and pencil to figure out the average calculations needed to be made by CPAs. Indeed, if anything, the trend leans toward more mechanical emphasis, i.e., computerized computations.

Conclusion

The 1994 CPA examination will be more balanced and thorough and will test skills and attributes that are in demand in the public accounting profession. Extensive research by the AICPA and professional comments on the AICPA's Board of Examiners exposure draft *Proposed Changes in the Uniform CPA Examination* have produced major changes in the examination format to be used in 1994. The changes made will result in less duplicate testing, more critical testing of candidates for level of professional competence, and a shorter examination period.

It is apparent that the AICPA goes to great lengths to insure the validity and integrity of the CPA examination. Although the CPA exam is touted to be the best of any professional examination in the United States, there is an on-going effort to maintain that distinction and not rest on past laurels. In our competitive and evolving business world, the key to success rests in this attitude of flexibility and constant improvement — the trademark of a certified public accountant. ❧

¹ "Proposed Changes in the Uniform Examination," *Journal of Accountancy* (July 1987): 132-38.

² Robert H. Mills, "Proposed Changes in the Uniform Examination," *The CPA Journal* (April 1988): 38-43.

³ Linda Benz, "Changes Coming in the CPA Exam," *The Bottom Line* 11 (August/September 1989): 12.

⁴ "Proposed Changes . . .," *Journal of Accountancy*, 134.

⁵ Mills, 38.

⁶ Benz, 12.

⁷ "Proposed changes . . .," *Journal of Accountancy*, 136.

⁸ "Proposed changes . . .," *Journal of Accountancy*, 136.

⁹ "Proposed changes . . .," *Journal of Accountancy*, 136.

¹⁰ Benz, 12.

¹¹ Virginia L. Flintall, "Should Essay Questions Be Eliminated From the CPA Exam," *The CPA Journal* (June 1987): 18-24.

¹² Quotation by Ray M. Sommerfield, *Accounting Education News* (March 1987) taken from *The CPA Journal* (July 1987): 18.

AICPA disagrees with Florida Bar Advisory Opinion

by Steve Kerrick, CPA,
Carpenter & Mountjoy, Louisville

Recently, through an advisory opinion developed by the Florida Bar's Standing Committee on the Unauthorized Practice of Law, certified public accountants, and other nonlawyers would be prohibited from performing certain types of pension work. The advisory opinion submitted by this committee to the Florida Supreme Court would prohibit CPAs from drafting summary plan descriptions, advising employers as to which options may be most suitable for the employer, drafting plan documents at the request of the employer for review by the employer's legal counsel, and giving advice on the consequences or effects of tax laws on pension plans. In addition, it would prohibit certain procedures CPAs or other nonlawyers perform with respect to termination of the plan. If the Florida Supreme Court agrees with this advisory


opinion, these aspects of employee benefit practices may only be performed by licensed lawyers.

In a brief filed by the American Institute of CPAs, the AICPA argued the position on the side of the CPAs in Florida. The brief indicated the proposed opinion would seek



... the AICPA argued the position on the side of the CPAs in Florida."

to regulate conduct specifically allowable by the federal statute and by federally issued rules of practice before the Internal Revenue Service. This information states the advisory opinion does not fairly describe the bounds of the CPA's authority to practice before the IRS. This brief emphasizes the CPA examination and educational requirements for CPAs. In addition, the advisory opinion would not properly serve the people of Florida as it would fail to recognize the qualifications of independent CPAs.

The Cooperation with Bankers, Lawyers and Other Users of Financial Statements Committee is not aware at this time of any challenges against CPAs in Kentucky for the unauthorized practice of law in the pension area. However, should you become aware of such matters, or should you desire to review the Florida Bar's Advisory Opinion and the AICPA's response, please contact the Society office. 

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State tax note

Federal pension income exempt from Kentucky income tax

by Susan W. Stauffer, CPA
Individual Practitioner, Louisville

On March 28, 1989 the U.S. Supreme Court in *Davis v. Michigan* struck down a Michigan tax law that exempted from state income taxation retirement benefits paid by the state and its political subdivisions while subjecting retirement benefits of former federal employees to the tax.

The Kentucky Revenue Cabinet has agreed that it must treat federal and state retirement income the same, admitting that the tax imposed on the retirement benefits of former federal employees was invalid because the retirement benefits paid by the state were exempt from such taxation. The Revenue Cabinet is telling tax preparers to *exclude from 1989 state income tax* returns any federal pension income received by the taxpayer. Due to the requirement to attach to the Form 740 copies of pages 1 & 2 of the Form 1040 when the Kentucky Adjusted Gross Income differs from the federal Adjusted Gross Income by more than the

amount of the state income tax refund, the Revenue Cabinet will be able to see that federal pensions have been excluded.

On January 30, 1990 the Kentucky Supreme Court upheld an injunction barring the Kentucky Revenue Cabinet from taxing federal pension income received in 1989. The Marshall County Circuit Court imposed the injunction while hearing a class-action lawsuit filed in August of 1989, *Gossum, et al. v. Revenue*, in which federal retirees are seeking compensation from damages by way of refunds of Kentucky income tax paid on retirement income. The question of whether the state will be required to provide refunds retroactively will be decided by the court. If the state must retroactively refund any taxes, the Revenue Cabinet will contend that the two-year statute of limitation applies rather than the four-year statute of limitations.

In light of the current status of this court case, practitioners are advised to file by April 15, 1990 amended returns for 1988,

1987, 1986 and 1985 requesting refunds for any tax imposed due to federal pension income received, and to exclude federal pension income on the 1989 return. ☞

Child abuse — check it!



Dear Kentucky CPA,

Line 51 of the Kentucky individual income tax Form 740 and Line 23b of Form 740-S are the lifeblood of the Child Victims Trust Fund. You, as a CPA, can help to prevent child sexual abuse in Kentucky by directing your clients' attention to the Trust Fund "check-off."

The effects of sexual abuse on a young person are not just physical. Sexual abuse leaves emotional scars that can last a lifetime. Abused children attempt to hide their pain by withdrawing from the world. Unfortunately, their silence only makes their suffering more profound.

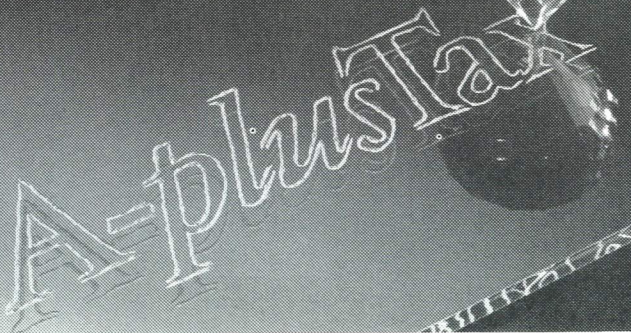
Over 2,000 cases of this horrifying crime were verified in Kentucky last year alone. Thousands more go undetected. Experts estimate the actual rate of abuse at one in every ten children. Even more shocking is the fact that the alleged abuser in more than half of all reported cases is a parent or other family member.

The Child Victims Trust Fund was created legislatively in 1984 to fund local communities which design and implement child sexual abuse prevention programs. The fund has sponsored more than 60 programs throughout the state designed to prevent and expose the sexual abuse of children. As no tax money was appropriated for the Trust Fund, it depends entirely on contributions.

As a CPA you are in a unique position to help these children. The principal method of raising funds is through the tax refund check-off. Yet last year fewer than 3 percent of those persons receiving a refund made a contribution to the Child Victims Trust Fund. Obviously your help is needed. By informing your clients about the Trust Fund and that they may contribute \$2, \$4, or any amount up to the amount of their refund, you will help to make a world of difference. ☞

Attorney General
Frederick J. Cowan

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Firms & firm changes

In accordance with KRS 325.300, partnerships/professional service corporations engaged in the practice of public accounting must register with the Kentucky State Board of Accountancy, and as required by KRS 325.300(3) or KRS 325.320(3), all admissions to or withdrawals from partnerships/professional service corporations must be given to the Board within one month. The following information is provided by the Kentucky State Board of Accountancy.

New partners/shareholders admitted . . .
Karen Westerman Hochgesang at Martha F. Clark and Associates, Owensboro . . . *Teresa C. Terry* at Thomas L. Smith, PSC, Calvert City . . . *Danny Lash Hutcherson* at Whelan, Johnson, Doerr & Pike, Elizabethtown.

Partners/shareholders withdrawn . . .
Charles B. Littrell Jr. from Cox & Oldham to Jagers Equipment Co., Louisville . . . *David W. Fitch* from Blythe, Fitch & Associates, PSC, Paducah.

New firms/firm name registrations . . .
Dennis S. Raisor, Jerilyn P. Zapp and *Jeffery C. Woods* have formed Raisor, Zapp and Woods, PSC, in Carrollton . . . *John J. Plummer* has formed a professional service corporation in Barbourville . . . *William B. Mulligan Jr., Stephen L. Hill, Frank X. Clements, Sally M. Mudd* and *Richard S. Hill* have formed Mulligan, Hill, Clements & Co., PSC, in Louisville . . . *Lars C. Blythe Jr.* and *Molly W. Blythe* have formed Blythe & Associates, PSC, in Paducah . . . Kauffmann-Amshoff-Zoeller, CPAs is the new name of the firm in Louisville listing the partners *Michael H. Kauffmann, Philip J. Amshoff, Mark S. Zoeller* and *Henry M. Kauffmann* . . . *Donald E. Hayden* and *Joseph T. Hayden* have formed Hayden & Co. in Owensboro . . . Deloitte & Touche with an office in Louisville and another in Lexington lists the following partners: *Joseph A. Blitzko, Donald C. Bobzien, James C. Carpenter, John H. Hawkins Jr., Asa L. Hord, John S. Lewis, Donald M. Scheer Jr., David L. Fister, Frank P. Kromer Jr.*, and *J. Noel Pinkley* . . . *Robert F. Linton, George Helton, Calvin D. Cranfill*, and *Robert C. Bass* have formed Helton, Linton & Cranfill, CPAs, PSC, with offices in Pikeville, Lexington and Versailles. ☞

Members in motion

Louis T. Roth & Co. in Louisville announces the following promotions and additions to their staff: *Kim Earnhart* and *April Whitaker* to semi-senior accountants,

Bill Armistead, Barry Christensen and *Stacey Williams* to senior accountants, *Timothy Quinn* and *Jeannine McCubbin* recently joined the accounting staff . . . *N. David Pullem* of Louis T. Roth & Co. was elected to the Board of the Louisville

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Chapter of Construction Financial Management Association . . . *Linda M. Kunkel* joined Von Lehman & Company in Ft. Mitchell as an audit supervisor . . . Carpenter & Mountjoy, PSC, in Louisville announces that *Bonnie K. Lush* formerly of Amick & Helm has joined as senior manager and *Craig Harbsmeier* has joined as a staff accountant . . . McCauley, Nicolas & Company in Indiana announces the following:

Craig N. Dunaway and *J. Michael Grinnan* to manager, *Diane Gettelfinger* to supervisor, *Ann Center*, *Kenny Adams* and *Lois Heidorn* to senior accountant, *Gwen Sample* and *Renee Forseth* to staff level II accountant, *Charles D. Hensley* recently joined the staff as controller and the firm was elected to membership in Associated Regional Accounting Firms (ARAF) . . . *Karen Hornick* and *Dave Smith* joined

Strothman & Company of Louisville as staff accountants . . . *Jill Kurnik* was promoted to senior accountant at Amick & Helm in Louisville . . . Eskew & Gresham announces the following promotions and additions: *Scott Dodson* and *Vickie Stewart* to staff accountants in Lexington, *M. Douglas Eblen* and *Laurie Williams* to staff accountants in Louisville, *Jeffery Owen* joined the Louisville staff as a supervisor, *Mark Spencer* joined the Louisville office as a staff accountant, *Jacqueline B. Zaring* joined as a senior accountant in Louisville, *W. David Sutton* joined as staff assistant in Lexington, *Deborah Clough* and *Mark Green* joined as staff assistants in Louisville . . . *C. David Wilbite* formerly with Spendthrift Farm Inc. has joined Metec in Lexington as assistant controller . . . *Ronald L. Bell* formerly with Commonwealth of Kentucky is manager of Accounting and Computer Services for Fox Creek RECC in Versailles . . . Coopers & Lybrand announces the following promotions: *Steven E. McCulley*, *J. Scott McReynolds*, and *Michael P. Shields* each promoted to manager in Louisville . . . *Joseph A. Hancock*, president of Riney, Hancock & Co., has been appointed to the 1990 Board of Directors of Leadership Kentucky . . . *Steven A. Ballard*, senior vice-president and CFO of Micro Computer Solutions in Louisville was elected to the Board of Directors of the Ohio Valley Chapter March of Dimes. ☘

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From the podium

Larry Vogt, Roller Die & Forming Co., in Louisville gave accounting career presentations to the following high schools: North Bullitt High School's accounting class in Bullitt County on October 13, Central High School's FBLA Club in Louisville on November 9, Butler High School's FBLA Club in Louisville on November 29 and Moore High School's accounting class in Louisville on December 13 . . . *Michael L. Overby*, CPA, Providence spoke to Webster County High School's business management class concerning careers in accounting and record keeping for small businesses on November 14 . . . *Joseph Hayden*, Hayden & Co., Owensboro gave an accounting careers presentation to students at Hancock County High School in Hawesville on December 1, and on December 13, Hayden spoke to students at Brescia College in Owensboro

(continued on page 18)

People *(continued from page 17)*

about communication skills as a CPA . . . The following CPAs from Bruce & Company gave presentations to North Hopkins High School in Madisonville: **Charles A. Kington** spoke to the school's FBLA Club on the topic "Getting Started in your Own Business" on December 4, and on December 13 spoke to the school's Explorer Troop about accounting careers, **Randall L. Franklin** spoke to the school's FBLA Club on the topic "What is a CPA?" on December 12 . . . **Timothy G. Scheer**, controller LWD, Inc. spoke at the meeting of the Paducah-McCracken County Jaycees about personal income taxes on December 12 . . . **David Beck**, Potter & Company, Lexington gave a presentation on January 18 at a meeting of the Lexington Jaycees concerning tips on preparing 1989 tax returns . . . **John N. Craft**, Craft, Long & Company, Richmond spoke at the Kentucky Land Improvement Contractors Association's annual meeting in Lexington on January 20 . . . **Cindy Zipperle**, Weight Watchers of Kentuckiana

spoke to the Waggener High School's accounting class in Louisville about accounting careers on January 30 . . . **Phil Altman**, Alexander & Company, Owensboro gave an accounting careers presentation to the Apollo High School's accounting class in Owensboro on January 30 . . . **Richard M. Webrle**, Vimont & Wills spoke at a meeting

of Lexington Board of Realtors on February 7 about 1989 tax preparation and 1990 tax planning. ☞

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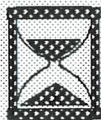
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Guidelines for Classifieds

Advertisements must be submitted prior to the tenth of the month in order to appear in the next month's issue.

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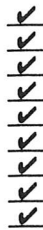
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CHECKLIST for selecting a firm to do our peer review

The review team:

1. Consists of experienced senior partners
2. Is from a firm with problems like ours
3. Offers preliminary consulting reviews
4. Has practice units of a similar size
5. Understands our management problems
6. Has plenty of review experience
7. Is from an established, well - known firm
8. Is ready to start
9. Offers that 'plus' we give our clients



RESULT: Rea & Associates, Inc., CPAs Firm on Firm Reviews

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Watch for . . .

- Results of the Computers and Information Systems Committee survey of practitioners in the next (May) issue of *The Bottom Line*.
- The *CPE Catalog* with a complete listing of course descriptions, price, location, etc., will hit your mailbox in March.
- A committee sign-up brochure will be mailed to you during March. Be sure to complete and return the form by May 1, 1990 to secure your place on a Society committee next year. ☎

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Quality Review: Just a walk in the park

by N. David Pullem, CPA
Partner, Louis T. Roth & Co.

My career in public accounting has been just a little over nine short years, or fifteen years in chargeable time. My first job in a CPA firm had given me a good background in ensuring quality work. However, my current partners at Louis T. Roth & Co. molded my belief in quality professional standards. When I found out I was to be the liaison partner of the firm to handle the mandatory quality review, of course I was thrilled. I thought, "Gee, another great job." But then, I realized I didn't have that much to do. After all, all of the partners are responsible for their own engagements. So, all I had to do was plagiarize a few quality review documents, coordinate an inspection and do a little more professional standards reviewing.

We knew our firm was going to be selected for quality review in 1989 or 1990. However, since our firm was not a member of Private Companies Practice Section, we had never gone through a peer review. Therefore, the partners agreed we should have a consulting review before our mandatory quality review. We reasoned this would be a good way to strengthen any weak areas.

We received a brochure from a CPA firm in Ohio advertising its consulting and peer reviews. We were impressed by this Ohio firm, and set up a consulting review engagement. However, before our consulting review . . . *IT* came. You know, the letter that says, "Have a quality review, so we can close you down, take your license away and send you to truck driver's school." At least, that's how I felt when we received it.

We had our consulting review. The

outcome was good, but they said we could make a few improvements. As far as I was concerned, truck driver's school was looking better. We work hard to ensure quality, and we catch so many changes it makes us wonder what we miss. I mean, after all, our clients want their work yesterday, Congress changes tax laws hourly, FASB and SAS are having a race to see which one gets to 1000 first, and we were just told to "make a few improvements." What's going to happen after quality review gets through with us?


All my partners were confident. They told me, "Don't overreact. After all, the intent of quality review is to help ensure quality for all. All we have to do is stay with our guidelines and we will pass." Famous last words.

It had been almost a year since our consulting review, and it was time for mandatory quality review. We spent a lot of time getting our client list prepared. I even went into the office the weekend before to check through files. After about a half hour, I realized this was a waste of time. The reviewers had to review the files as they were. *The files as they were?* That was a frightening thought. At that time, I knew we were going to fail, so I went home. Whatever is to be, is to be.

On Monday morning two reviewers arrived for three days, and as usual, I was late. When I arrived at the office, the quality review team was already talking to the staff. I was horrified, and didn't know what to do. I tried talking them into playing golf for three days, but it didn't work. They wanted to see everything; workpaper files, CPE

documentation, policies, check lists, personnel files, manuals . . . everything. Of course, the first two files they asked for, we almost couldn't find. By that time, I was convinced that they were thinking we didn't know what we were doing. At noon we went to lunch. I asked them how we were doing, but they wouldn't give me any progress reports. All they would say was, "Everything is fine." I decided I would treat them to dinner to find out how it was really going. No such luck, all they wanted to do was talk about golf and the Monday Night Football game.

On Tuesday, they told me they weren't happy about the hotel room I'd booked them in. "Great," I thought, "That's all I need." Truck driver's school looked better and better. Then, at 10 minutes until noon it happened, the team captain stood at my door with a problem. I thought to myself, "Oh no, a problem. What better way to ruin lunchtime." I figured they'd found a review report that was issued without footnotes and stated that we were not independent. It just had to be something like that. However, when the team captain opened his mouth he said, "We can't find anything wrong and would like to leave today. Is it a problem if we move the exit conference up to this afternoon?" What a stupid question. "Not a problem," I said. The meeting came and they confirmed their findings, "A clean report and no points."

Now I look back and think, "We were the first firm in Kentucky to have a mandatory quality review and pass. Just a walk in the park . . . just like I thought it would be." 

In Memoriam

M. Wayne Hamilton
Louisville
December 1989



The Educational Foundation of
The Kentucky Society of CPAs

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