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Ann Holt Moffatt

Report On Fall 1977 AICPA Council Meeting

By W. Thomas Cooper, Jr.
Member, AICPA Council

On September 17, 1977 the Council of the AICPA approved the establishment of the AICPA "Division of CPA Firms." Other actions included the establishment of two new senior committees, adoption of "sunshine" policy for Board of Directors and senior committee meetings, permit associations of CPA firms to conduct quality control reviews, and recommended to membership vote bylaw changes in structure and the Code of Ethics.

The new Division is divided into the SEC Practice Section and the Private Companies Practice Section. The objectives of each section are similar as to improvement of quality of services through establishment of practice

requirements and establishment of an effective system of self-regulation. Further objectives of the SEC Practice Section are to enhance effectiveness by monitoring by an independent public oversight board and to provide a forum for development of technical information relating to SEC practice. An additional objective of the Private Companies Practice Section is to provide a better forum for member firms to make known their views on professional matters, including establishment of technical standards.

Both Sections have the following membership requirements: all partners members of AICPA; adhere to quality
(Continued, page 4, columns 1 & 2)

Our institutional advertising program began October 3, 1977 when the first ads appeared in the daily newspapers throughout the state. Ten different displays will be presented at two-week intervals. Those of us serving on the Board and the Public Relations Committee are enthusiastic about the caliber of the ads and are very grateful for the tremendous amount of work done by John Craft, Susan Ware and the other members of the Public Relations Committee. Please ask your clients and acquaintances to watch for the ads and let us know their reaction and yours.

In this time of "consumer awareness" the public is searching for an independent source of information as to what is really happening in government and business. There is an increased knowledge of the importance of accounting, but we still have an identity crisis. As a profession, we are being measured by standards which were never valid. We, as CPAs, are becoming increasingly aware that our ultimate responsibility is to the public. We have reached the conclusion that it is our responsibility to help the public better understand the accounting profession.

We realize that our advertising program alone will not bridge the "expectation-performance" gap between the public and our profession. We will also provide speakers, films and pamphlets for civic clubs and student groups. However, our best public relations will be done by our members who will take the time to demonstrate that we are concerned with the public's confidence in independent financial information and that, within the profession, we are trying to improve the quality of the financial information.

While on the subject of quality, your attention is directed to the article in this issue by Jim Koch, Chairman of the Society's Practice Review Board. You are urged to give serious consideration to utilizing the Practice Review Board, either by submitting some of your own reports for their review, or a report of another practitioner which you feel warrants their attention.

IN MEMORIAM
CHARLES E. CAMM
Retired, Stratton & Terstegge
Louisville
Deceased, September 12, 1977

IN MEMORIAM
A. DAVIS RUFER
Retired, Christen, Brown & Rufer
Louisville
Deceased, September 12, 1977

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THE KENTUCKY SOCIETY
OF CERTIFIED
PUBLIC ACCOUNTANTS

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Are Your Children Shoeless?

Remember the old adage, "The shoemaker's children go shoeless"?

Has your firm properly planned its structure to obtain the maximum tax benefits? Should you be incorporated?

The Management of an Accounting Practice Handbook, available from the AICPA, gives you the advantages and disadvantages in Section 109.01.

FOR SALE: Two (2) Stimpson Eyelet Punches with foot pedal operation. One manual, one electric. Call 502 / 589-4020.

Accounting Principles And Auditing Procedures

SAS No. 19 "Client Representations"

Terry Sapp, Committee Member

The AICPA Auditing Standards Executive Committee has issued SAS No. 19, "Client Representations." This SAS requires that the independent auditor obtain certain written representations from management as a part of an examination made in accordance with generally accepted auditing standards. SAS No. 19 provides guidance and specific types of representations which should ordinarily be obtained by the auditor, if applicable. The representations necessary will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. An illustrative representation letter from management is contained in the Appendix to the Statement.

This SAS indicates that representations made by management, both oral and written, are part of the evidential matter the auditor obtains during an examination, but that they are not to be considered a substitute for the application of those auditing procedures necessary to afford a reasonable basis for his opinion on the financial statements. The purpose of the written representations is to confirm oral representations from management, indicate and document the continuing appropriateness of such representations, to reduce the possibility of misunderstanding concerning the matters that are the subject of the representation, and to complement auditing procedures applied.

In some cases involving written representations, the necessary information, to corroborate the representation, that can be obtained by the application of auditing procedures other than inquiry is limited. In this instance, unless the auditor's examination reveals evidential matter to the contrary, his reliance on the truthfulness of management's representations is reasonable.

The written representations should be addressed to the auditor and should be dated as of the date of the auditor's report. They should be signed by members of management whom the auditor believes are responsible for and knowledgeable, directly or through others in the organization, about the matters covered by the representations. The chief executive officer and chief financial officer should normally sign the representations.

Management's refusal to furnish a written representation that the auditor believes is essential constitutes a limitation on the scope of the auditor's examination sufficient to preclude an unqualified opinion. The auditor should also consider the effects of management's refusal on his ability to rely on other of their representations.

If the auditor is precluded from performing procedures he considers necessary in the circumstances with respect to a matter that is material to the financial statements, even though he has been given representations from management concerning the matters, there is still a limitation on the scope of his examination, and he should qualify his opinion or disclaim an opinion.

Statements on Auditing Standards generally are effective at the time of their issuance which for SAS No. 19 was June of 1977. However, since SAS No. 19 provides for practices that may differ in certain respects from practices heretofore considered acceptable, it will be effective for examinations made in accordance with generally accepted auditing standards for periods ending on or after September 30, 1977.

Sixty-Eight Certified At September Awards Night

The 1977 Awards Night Dinner Meeting was held on September 30 at the Executive West in Louisville. The President of the State Board of Accountancy, *William E. Tuttle*, introduced those individuals receiving certificates as well as those being recognized for having passed the May 1977 CPA examination. Society President *Ann Holt Moffatt* presided over the meeting at which approximately 450 members and their guests attended.

Michael P. Tinker, chairman of the Trustees for the Society's Education and Memorial Foundation, announced the names of the five scholarship winners and welcomed the winners who attended the dinner meeting.

Assistant Attorney General *Martin Glazer* administered the oath of a Kentucky CPA to the successful candidates who had completed their experience requirement and to eight CPAs receiving a Kentucky certificate by waiver of examination.

The new CPAs are:

By Examination:

James R. Ackinson Louisville
Alan C. Akin Central City
David E. Alexander Lexington
Richard D. Anderson Lexington
Samuel D. Arvin Lexington
John J. Balbach Louisville
James F. Ball, III Louisville
Pamela J. Beisler Louisville
Donald Bowling Pikeville
Joseph L. Brown Louisville
Cindra M. Burchett Lexington
Jane W. Burris Covington
Timothy P. Cherry Prestonsburg
Gary A. Coffey Louisville
Ronald C. Colson Murray
Roger D. Conley Louisa
William E. Creamer, III Louisville
Lester E. Downing, Jr. Lexington
James R. Duncan Louisville
Gwendolyn C. Eddleman Louisville
John C. Elliott Louisville
Neil C. Ezell Elizabethtown
Joseph K. Ford Lexington
Patricia A. Fouts Louisville
James S. Freeman Owensboro
Janice C. Goves Franklin
Michael S. Hamilton Louisville

CURRENT DEVELOPMENTS (SEPTEMBER 1977) AFFECTING THE PROFESSIONAL ACCOUNTANT

Prepared by Joseph A. Blitzko

Chairman, Accounting Principles and Auditing Procedures Committee

Financial Accounting Standards Board

The Standards Board has issued an exposure draft of a proposed amendment of its Statement No. 14, "Financial Reporting for Segments of a Business Enterprise." The proposed amendment would eliminate the requirement to disclose segment information in interim period financial statements.

A final statement on accounting for defined benefit pension plans will not be issued in 1977. The delay is due to time needed to analyze the almost 700 letters of comment received on the exposure draft and the complexity of the issues involved in accounting for defined benefit pension plans.

Interpretation No. 14 has been issued and concludes that the requirement for estimate of a contingency loss is met if the estimate is a range of amounts. The accrual should be the best estimate within the range, but in no event less than the minimum.

AICPA

AcSEC has proposed an amendment to the State and Local Governmental Unit Audit Guide that would require government-operated hospitals to be accounted for as enterprise funds and to follow the Hospital Audit Guide.

The AICPA's Committee on Real Estate Accounting has issued an exposure draft of a Statement of Position that attempts to narrow current diverse practices in accounting for costs to sell and to rent, and for initial operations of, real estate projects. The committee is also seeking views on methods of accounting for depreciation and carrying costs.

Karen A. Hayes Louisville
James D. Hinton Louisville
C. Joe Hutchison Frankfort
Roger D. Johnson Bowling Green
Ronald E. Ketterer Louisville
Joseph C. King Lexington
Michael E. Kraus Cincinnati, Ohio
David M. Krebs Louisville
Phillip M. Layne Louisville
David W. Lester Louisville
Larry A. McCarty Louisville
Allen W. McDavitt Louisville
Sam M. McElroy, Jr. Henderson
David M. McMurtry Lexington
Rick A. Meeks Louisville
Dennis V. Monroe Louisville
Earl M. Moore Hindman
Gregory L. Moore Owensboro
Frederick T. Newman Louisville
Richard J. Olson Mt. Sterling
Donna M. Parker Louisville
Robert E. Patterson Louisville
John D. Price Elizabethtown
James D. Resler, Jr. Louisville
Donald M. Scheer, Jr. Louisville

S. Allen Schuler Louisville
Randall L. Scott Harrodsburg
Steven A. Small Louisville
William A. Thompson Louisville
Margaret B. Walz Louisville
Garry D. Watkins Leitchfield
Larry T. Williams Richmond
Richard K. Williams Cincinnati, Ohio
William A. Woods, Jr. Louisville

By Waiver:

Douglas W. Barker Lexington
Janet R. Berry Madisonville
Elizabeth J. Bogard Louisville
James B. Burchett Prestonsburg
James F. Gallaher Manchester
Johnny Harris Prestonsburg
Phyllis A. Hynes Louisville
Richard C. Krueger Louisville

Following the ceremonies, Mr. Cavett Robert, a noted speaker in the field of human engineering and motivation, gave a highly entertaining program that was enjoyed by those present.

THE CPA
Advisor to Business,
Government,
Individuals

In 1913 the Federal income tax was a 16 page pamphlet. Today it has more than 1,000 pages of fine print. Federal, state and local tax laws are becoming more complex and are constantly changing.

A Certified Public Accountant—CPA—provides professional up-to-date tax service.

CPAs are one of the best sources of help available to you when you are preparing your income tax return. Large and small businesses and individuals call on CPAs to provide this service in addition to other accounting services.

CPAs are authorized to represent you before the Internal Revenue Service should your return be examined.

For quality tax service, consult a professional—your CPA.

One in a Series
to help you get to know the CPA
Kentucky Society of
Certified Public Accountants

Society Launches Advertising Program

On Monday, October 3, 1977, the first institutional advertisement, prepared by the Public Relations Committee, appeared in 28 newspapers throughout the state. This represented the start of the institutional advertising program approved and funded by the membership in balloting held last winter.

The ad appearing at left is the third in the series, which is designed to run every other Monday over a total of 20 weeks.

Public Relations Committee Chairman *Susan D. Ware* has notified the Society office that Society members may purchase a complete set of the 10 advertisements for \$3.00. The set of advertisements will be bound in booklet form and might be a nice item for your reception area or possible framing. If you wish to order a set of the 10 advertisements, please write the Society office and enclose a check for \$3.00.

As the advertisements appear in the newspapers throughout the state, the Public Relations Committee will be gathering information from the members and other interested parties as to their value and effectiveness. The idea is to recommend improvements, if needed, for the development of next year's program. If you have any comments, criticisms or suggestions for improvement that you wish to make, please send them to the Society office in care of the Public Relations Committee.

REMINDER

Twentieth Annual Kentucky Institute on Federal Taxation
December 15-16, 1977

Galt House Hotel, Louisville
Programs with registration information are being printed now for mailing early next month. Room reservations may be made at the Galt House now by identifying yourself as a registrant for the Tax Institute.

JAMES A. MOAK RECEIVES TOP SOCIETY AWARD

Society President-Elect *W. Thomas Cooper, Jr.* presented awards to those persons having passed the May 1977 CPA examination on the first attempt, at the Awards Night Dinner Meeting held in Louisville on September 30, 1977.

Those receiving honorable mention awards, consisting of a marble paper-weight suitably inscribed, were: *W. Ronald Boughey*, Cotton and Allen, Louisville; *J. Peter Johnson*, currently working for the government in Tennessee; *Sheila A. Johnston*, Miles, Gould & Loehr, Evansville, Indiana and *Eva Jo LaRue*, Internal Revenue Service in Lexington.

The Society's top award, given for passing all four parts of the May 1977 CPA examination on the first attempt and receiving the highest grades, was presented to *James A. Moak*. Mr. Moak is currently with Coopers & Lybrand in Louisville. This award consisted of an engraved plaque.

Federal Tax Note

The Committee on Federal Taxation is providing each issue of *The Kentucky Accountant* a brief comment on a tax subject believed to be of interest to members. Because this material is intended for accomplished professionals, little in the way of background material is provided. For this reason, and because the tax laws are subject to change, the Committee recommends that these comments be used with care.

Stock Redemption with Appreciated Property

In general, the use of appreciated property to purchase any other property or to satisfy a debt or expense will generate income by the amount that the fair market value exceeds the basis of the appreciated property. This general rule also applies when a corporation uses appreciated property to redeem stock; but there are at least

(Continued, page 6, column 2)

Practice Review Program

by James F. Koch
Chairman, Practice Review Board

The purpose of the practice review program of the Kentucky Society of CPAs is to improve the quality of reporting, the presentation of financial statements, and auditing and accounting practice by its members. The program's basic aim is to eliminate deviations from accepted standards through education of members of our professional organization.

The program is in no way disciplinary, and its sole interest is to assist practicing CPAs to meet the quality demanded by our profession. The Practice Review Board consists of nine members who review and evaluate individual reports that are generally submitted either by a third party or by the reporting accountant voluntarily. The reports are submitted initially to the Kentucky Society office on a completely anonymous basis. The Executive Director assigns an identifying number to the report before forwarding it to the Review Board. Only the Executive Director knows the identity of the CPA having prepared the report. Members submitting reports prepared by them may delete the company name before the Executive Director receives it; however, if not, he will do so prior to sending the report to the Board. Reports submitted that were prepared by others should have the client's name on the report so the Executive Director may correctly identify the report to the accountant who prepared it. This information is kept completely confidential.

The Board reviews and evaluates the report, identifying areas of questionable practices or obvious omissions. The Board, on "third party" reports, requests the firm or accountant, via the Executive Director, to furnish the Board with reasons for questionable practices or omissions. Non-replies may be considered a violation of professional ethics and the Board can request assistance from the Ethics Committee of the Kentucky Society of CPAs in obtaining a reply.

On all voluntary reports and final replies on "third party" reports, the Board explains its interpretations of the pronouncements it believes are applicable, encourages study of the pronouncements, recommends other sources of information, suggests continuing education courses, or may describe preferable practices that have become generally accepted.

Upon conclusion of the review, all documents, both in the hands of the Executive Director and members of the Board, are destroyed. No record of the review is maintained.

Please take advantage of this service and either submit a report of your own, or, if you become aware of a questionable report, do the profession a favor and send it to Ben Gratzer as follows: *Confidential*, Executive Director, Kentucky Society of CPAs, 310 West Liberty, Louisville, KY 40202.

How To Collect What You Bill

Ever had a complaint about a bill? Ever wait longer than you should to be paid for your services? *The Management of an Accounting Practice Handbook*, available from the AICPA, devotes an entire chapter to billing policies and procedures which have been tried and proven in other firms and will surely work for your firm.

Report On Fall 1977 AICPA Council Meeting

(Continued from page 1)

control standards; submit to peer review every three years; all professionals, including non-CPAs, participate in at least 40 hours of continuing professional education annually; maintain minimum accountant's liability insurance; and dues structure.

The SEC Section has the following additional membership requirements: rotation of audit partner-in-charge on SEC engagements every five years; pre-issuance review by partner other than audit partner-in-charge on SEC engagements; file with AICPA certain financial, statistical and organizational information; some limitation on performance of management advisory services for SEC clients; report to audit committee or board of directors of SEC client annual MAS fees collected and services rendered; and report to audit committee or board of directors of SEC client disagreements with management on financial accounting and reporting matters.

Both Sections are to be governed by a 21-member executive committee, with the SEC Section committee having at least one representative from each firm who has 30 or more registrants under Section 12 of the 1934 SEC Act. The Private Companies Section shall have at least 14 members from firms with no SEC clients.

Sanctions that may be imposed against member firms are the same for both Sections. Those sanctions are: corrective measures; additional CPE requirements; accelerated or special peer reviews; admonishment, censure or reprimands; monetary fines; suspension and expulsion.

Implementation of the new Division is to be as soon as possible. Applications for membership will include the filing of the firm's quality control document outlining its policies and procedures.

The proposed Code of Ethics changes to be submitted to membership vote in December are as follows: disclosure of member's name found guilty following a disciplinary hearing; substantial modification of rule on advertising and solicitation; prohibit recruitment of directors for audit clients; repeal rule on incompatible occupations; and repeal rule on offers of employment to employees of other CPA firms.

Firms and Firm Changes

Isaac G. Manis, Jr. has withdrawn from the partnership of Potter & Company in Lexington and accepted a position with the University of Kentucky in Lexington.

The partnership of Lusk and Kapp in Louisville has dissolved. Joseph F. Lusk is now practicing on his own at 1014 E. Broadway, the old firm address. G. Kenneth Kapp and P. Michael Zeller have formed a partnership for the practice of public accounting under the name of Kapp & Zeller, located at 10101 Linn Station Road, Louisville.

Calvin D. Cranfill has been admitted as a partner in the firm of Hisle & Company in Lexington.

Douglas L. McCord formerly an individual practitioner, and John K. Bondurant, Jr. formerly with state government in Frankfort have formed a partnership for the practice of public accounting located at 359 Waller Avenue in Lexington and styled as McCord and Bondurant.

J. Mitchell Szorcik, formerly with the Haskins & Sells office in Cincinnati, Ohio, has been promoted to manager in the research department and transferred to the New York office.

Richard L. Ray and David L. Conway have formed a partnership for the practice of public accounting under the name of Ray, Conway & Co. The new firm will be located in Central City.

William L. Marshall has withdrawn from the firm of Summers, Marshall & Co., PSC, Lexington.

David A. York, formerly with Coopers & Lybrand in Louisville, and J. Alan Braden, formerly an individual practitioner in Owensboro, have formed a partnership to be known as York, Braden & Co. The new firm will be located at 700 Frederica Street in Owensboro.

CPA with IRS and public accounting background and currently in responsible industrial position is seeking association with Central Kentucky sole practitioner with immediate partnership, or in industry as a controller. Reply to Box 77-20, *The Kentucky Accountant*.

Federal Tax Note

(Continued from page 3)

two important exceptions provided in Section 311 of the Code.

One such exception is in Section 311(d)(2)(A). This provision applies only to those who have continuously held at least a 10% interest in the stock of the corporation, for the last twelve months, and only where this is a complete termination of the shareholder's interests (determined without the application of Section 302(c)(2)(A)(ii)). Reg. Sec. Subsection 1.311-2(b)(2) provides that neither the attribution rules of Section 318 nor the grantor trust rules may be used in computing the 10%.

It should be further noted that the statutory standard is 10% in value of the outstanding stock. Where the 10% shareholder's voting control is inconsequential (e.g. the other 90% is controlled by one person), the percentage value of the stock may be reduced below its nominal percentage voting rights, and thus not meet the statutory standard.

In computing the twelve-month time period, the stockholder may "tack" on the holding period of his transferee, if par. 1223 would apply; however, he may not "tack" on the holding period of stock in a grantor's trust.

One other important exception is for a distribution under Section 303(a) which relates to distribution in redemption of stock to pay death taxes. See Subsection 311(d)(2)(D).

ATTENTION MAY CPA APPLICANTS

Classes for the MAY CPA EXAMINATION will begin February 17, 1978. Enroll now—Be a member of the Head Start Program. A program conducted by the *Largest, Oldest and Most successful CPA REVIEW SCHOOL* in the State of Kentucky.

For further information contact:

PROFESSIONAL LECTURING SERVICES, INC.

Suite 202, 310 W. Liberty Street
Louisville, Kentucky 40202
(502) 584-6915

Around The State

Thomas R. Hester, Jr. has been named by the Blue Grass Chapter of the National Association of Accountants as "Member of the Year" for 1976-77. Earlier this year, he was promoted from controller to treasurer of Jerrico, Inc. in Lexington.

Ellen T. Tatem has been promoted to controller of Jerrico, Inc. from her previous position as assistant controller.

Thomas A. Christopher presented a program, "Auditing for Community Development Programs," to the Annual Kentucky Housing and Redevelopment Association meeting held in Lexington on September 22, 1977.

Jimmy W. Monroe has been named vice president and controller of Louisville-based Carolina International, Inc. He was formerly manager of the internal auditing department of National Industries, Inc., Louisville.

George Pierce, formerly on the staff of Peat, Marwick, Mitchell & Co. in Louisville, is now President and Chairman of the Board of the Union Bank of Berry.

B.J. Hall has recently written a book entitled *Auditing the Modern Hospital*. The book was released on September 26, 1977 by Prentice-Hall Publishing Company.

Gary G. Kendrick, formerly associated with Arthur Andersen & Co., Cincinnati, Ohio, has accepted a position as assistant controller to the Island Creek Coal Co. in Lexington.

DUNGAN'S CPA REVIEW
NEXT CLASSES IN LOUISVILLE
BEGIN FEBRUARY 11, 1978
(502) 896-2002

Opportunity for CPA with 3 to 5 years public experience in both audit and tax. Send resume to Fowler & Lowe, 343 Waller Avenue - Suite 208, Lexington, Ky. 40504.

Established CPA firm wishes to purchase small PA or CPA practice in Lexington, Kentucky area. Terms: Cash or deferred. Write in confidence to Box 76-17, *The Kentucky Accountant*.