



Leaders' Edge

The newsletter of The Michigan Association of Certified Public Accountants

January/February 2005



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Top Stories

Swapping Pencils for a Mouse: Signature Still Required

Article prepared by Echelbarger, Himebaugh, Tamm & Co., PC, Grand Rapids

The IRS projects the number of individual taxpayers filing their taxes electronically will surpass 50 percent for the first time.

As the number of e-filers has grown, a frequent question raised by MACPA members is how to best handle obtaining the client's signature. Even in a paperless environment, tax preparers must obtain a client's signature on the proper paper form before the return is transmitted.

Let's review a typical situation. You met with the client and gathered all the necessary information to prepare an accurate return. The prepared return has made it through the quality review process, and it's time to review the return (a jointly filed Form 1040) with the clients. The meeting is scheduled not only to review the tax return, but also to obtain signatures on Form 8879 to e-file the tax return.

Your client shows up, but one of the parties has opted out of the meeting, now what? What about the 8879? Situations like this early in the filing season are easily handled, but what of the same situation two days or even the day before the filing deadline? What requirements for e-filing are imposed on you, the Electronic Return Originator (ERO)?

This information can be found in a variety of sources, but two resources that may be most helpful are Publication 1345 (Revised 11-2004) and Revenue Procedure 2000-31. Both are available at www.irs.gov.

First, a brief review of Taxpayer Responsibilities:

- Verify the accuracy of the prepared return, including direct deposit information.
- Check the appropriate box in Part II to authorize the ERO to enter their PIN or do it themselves.
- Indicate or verify their PIN when authorizing the ERO to enter it.
- Sign and date Form 8879.
- Return the completed Form 8879 to the ERO.

Some of the more common questions addressed by the IRS related to the ERO include the following:

Can the taxpayer give you their PIN (Personal Identification Number) verbally to enter in their electronic record?

Yes. A taxpayer may give you their PIN verbally; however, you **must receive** a completed Form 8879, *IRS e-file Signature Authorization*, from the taxpayer before you transmit the return or release it for transmission to the IRS. **If it's a joint return, both the taxpayer and spouse must sign a completed form.**

When does the taxpayer complete Form 8879?

If you prepared the return, the taxpayer must complete Form 8879 after they have reviewed the prepared return. If the taxpayer provided a completed return for transmission, the Form 8879 and PIN selection can be completed without reviewing the electronic return. You must receive the completed Form 8879 from the taxpayer before you transmit the return or release it for transmission to the IRS. Tax return line items in Part I must be entered on Form 8878 before the taxpayer signs.

Can a taxpayer complete Form 8879 and fax it to the ERO?

Yes. Form 8879 can be signed and returned to the ERO via fax transmission. However, the ERO must retain Form 8879 in their file for three years from the Return Due Date or IRS Received Date, whichever is later.

Is it acceptable for an ERO and/or software program to generate or assign the five-digit PIN the taxpayer will use to sign his e-file return?

Yes, an ERO may determine the taxpayer's PIN if certain conditions are met. In all instances, the taxpayer shall retain the right to select his or her own PIN. If the taxpayer agrees to allow the ERO to determine the taxpayer PIN, the taxpayer will consent to the ERO's choice by completing and signing a Form 8879, which contains the taxpayer PIN used as the return signature. The taxpayer PIN can be systemically generated or manually assigned by the ERO.

Is it acceptable for the ERO to choose the same PIN for multiple clients?

Yes, it is acceptable to assign the same PIN for multiple clients.

What is my responsibility as a return preparer using Form 8879?

As a return preparer, your responsibility is to provide the taxpayer with Form 8879 along with their return for review. You are required to generate or enter the header information, all five tax return line items in Part I, and the ERO firm name in Part II. You may also systemically generate or manually assign the taxpayer's PIN in Part II.

Do I provide a copy of the completed Form 8879 to the taxpayer for their records?

Provide a copy of the completed Form 8879 for those taxpayers requesting one. You may provide a copy to other taxpayers, but you are not required to do so.

Is it acceptable to electronically image and store Form 8879 and Form 8878 (IRS e-file Signature Authorization for Extension of Time to File) and meet the document retention requirement?

Yes. An ERO may electronically image and store Forms 8879 and 8878 if the ERO's storage system satisfies the requirements of Rev. Proc. 97-22, Retention of Books and Records. In brief, the electronic storage system must ensure an accurate and complete transfer of the hard copy or computerized records to an electronic storage media. In addition, all records reproduced by the electronic storage system must exhibit a high degree of legibility and readability (including the taxpayer's signature) when displayed on a video display terminal and when reproduced in hard copy.

Why is a Form 8878 needed for Form 4868 (Application for Automatic Extension of Time to File U.S. Individual Income Tax Return) filers if there is no signature requirement on Form 4868?

A Form 8878 is required by Form 4868 filers when they will make an electronic funds withdrawal and they want to authorize the ERO to enter the taxpayer's PIN. Form 8878 is not required for Form 4868 when there is no electronic funds withdrawal.

Must I print a new Form 8879 and ask for new signatures if tax or AGI changes after the taxpayers sign the Declaration of Taxpayer (Form 8879)?

Taxpayers must sign a new declaration if the electronic return data on individual income tax returns changed after taxpayers signed the Declaration of Taxpayer and the amounts differ by more than \$50 to "total

income" or "AGI," or \$14 to "total tax," "Federal income tax withheld," "Refund," or "Amount you owe."

Top Stories

Peer Review in an Era of Transparency

Should peer review results be made public? A future AICPA referendum will give members an opportunity to vote on changes to the peer review program.

At its spring 2004 meeting the AICPA's governing Council approved a resolution supporting increased transparency in the peer review process. It also authorized a member awareness program to inform members about the issues surrounding peer review transparency and to assess how they feel about two possible ways to make peer review results more widely available:

1. Creating a public file that would be open to inspection by the general public; or
2. Creating a state regulatory file open to inspection only by state boards of accountancy.

Greater Transparency as a Badge of Honor

Today, almost 35,000 U.S. accounting firms rely on peer review to demonstrate that their accounting and auditing practices meet the highest standards. About 6,400 firms voluntarily place their peer review results in a public file accessible to anyone with Internet access. Another 15,000 or so provide peer review results to regulatory bodies or to clients as part of regulatory requirements (e.g., GAO Yellow Book).

In addition, many firms communicate their peer review results in their marketing literature, and some suggest that prospective clients request peer review reports from all firms they are considering.

Confidentiality or Transparency

Probably the most common argument against making all peer review results public is that any such change would rescind a commitment the AICPA made to its members in 1988. When members agreed to mandatory peer review, it was designed as an educational and remedial program that would strengthen quality control. Its role was corrective, not punitive, and confidentiality was a critical component of passage.

Opponents of greater transparency argue that asking firms to make their peer review results public would violate these promises.

Others, however, counter that in today's environment of heightened accountability, this kind of confidentiality is becoming increasingly difficult to support. This view holds that the primary user of peer review has expanded from AICPA members alone to now include regulators, clients and credit grantors. These constituents expect greater transparency, but have no way of evaluating peer review results as long as they remain confidential.

Another concern of some members is that by making peer review results public the AICPA would be taking on a responsibility that should be left to regulators. Some CPAs are also worried that making peer review results public will make reviewers less candid, rendering the recommendations less helpful to the reviewed firm.

Members of the AICPA's Center for Public Company Audit Firms (CPCAF) and the Alliance for CPA firms (PCPS), who already make their peer review results public, counter that full transparency actually improves the quality of peer review by ensuring that reviewers write thoughtful, helpful recommendations.

They also believe that the quality of their firms' work improves when people know a reviewer is going to come in every three years and that the information is going to be made public. Many members want the

profession to increase transparency before the government steps in and does it for them.

Another concern is whether this move would require structural changes, with a resulting increase in peer review fees. However, since an apparatus already exists to post peer review results for those firms that have agreed to PCPS and CPCAF public files on the AICPA website, broader public disclosure should not appreciably add to the cost of peer review.

We Need to Hear from You

Because any change requiring greater transparency of peer review results only could occur after a membership referendum, members in Michigan and throughout the United States need to begin a dialogue on the ramifications of any such change.

As part of the AICPA's awareness program, [more information](#) on the subject is available online. An FAQ is available for [download](#).

Members are also invited to submit their comments and views to the MACPA at peerreview@michcpa.org and to the AICPA at peerreviewtransparency@aicpa.org.

Top Stories

Help Tsunami Survivors and Their Families by Making A Donation

Our hearts reach out to those hurt by the tsunamis. The MACPA has partnered with the AICPA and other state societies to identify a coordinated response in which CPAs can help the disaster-recovery efforts for victims of the recent tsunami. In the meantime, the MACPA has identified a number of organizations that have put together relief funds for the victims. We encourage you to contribute to the relief efforts, either by contributing to one of the organizations listed [here](#) or in other ways you see fit.

Message from the Chair of the Board

CPAs Bringing Major Issues To Forefront in 2005



John H. Higgins
2004-2005 MACPA
Chair of the Board

As we start the New Year, I'd like to call your attention to several vital issues that should be on your radar screen. Social Security Reform, peer review transparency, state tax reform, e-file and financial literacy are areas that will impact not only CPAs, but clients and employers and the taxpaying public as well.

MACPA constantly monitors legislation and regulatory activity to ensure input into these critical matters. Through programs such as our Political Action Committee and Legislative Advisory Group (who will be visiting legislators in Washington D.C. in March), CPA volunteers act on behalf of the profession in all areas of governmental affairs.

Social Security – The Challenge

While Social Security is sound for today's seniors, it needs to be fixed for younger workers. In 1950, 16 workers supported every one beneficiary of Social Security. By the time those entering the workforce today turn 65, there will only be two workers supporting each beneficiary.

Through a resolution at the Fall AICPA Council meeting, the Executive Board of the Texas Society of CPAs called on the AICPA, other state CPA societies and all CPAs individually to encourage their elected officials in the U.S. Congress to take action to implement reforms of these government support programs; to assure their continued fiscal health; and to avoid passing a massive financial problem and burden on to future generations.

The MACPA Board of Directors is reviewing the resolution to determine what part Michigan can play.

Peer Review Transparency

Should peer review results be available to state regulators? Should the public be able to see them? That's the heart of the peer review transparency issue now being openly discussed by the AICPA.

Last spring, AICPA Council directed staff to initiate a member education program and solicit feedback. There are two primary approaches under consideration by the AICPA: providing online access of peer review results to the public, or facilitating access to the reports by state boards of accountancy. Ultimately, AICPA members will make the decision as disclosure of peer review information can only pass with a two-thirds membership vote.

Become informed on this crucial issue: read this month's [peer review article](#), and visit the [AICPA's Peer Review Transparency web site](#).

State Tax Reform

State budget problems are widely publicized, as are the spending cuts and many "quick fixes" put in place over recent years. As Governor Granholm and legislators look for long-term solutions to the state's financial woes, the MACPA is working hard to position CPAs – including a sub-task force on business tax of our State and Local Tax Task Force – as a resource to help evaluate the ramifications of various options.

E-file Update

As we approached our second tax season with mandated e-file for preparers who submit 200+ returns, both

the IRS and Michigan Treasury sought input from the MACPA and its members. Giving our members an opportunity to sound-off about the pros and cons of e-filing, results of our recent online e-file survey were recently shared with both. (If you'd like to review the results, [download the PDF.](#))

This valuable dialogue works both ways. The IRS and Treasury indicate that practitioners' e-file questions often focus on issues related to garnering client signatures. To help clarify the requirements, [one of our top stories](#) addresses the signature form (Form 8879).

Financial Literacy

As CPAs step forward to educate Americans on financial topics that apply to different life stages, the MACPA continues its important initiatives. Read [this story](#) on our financial literacy efforts to see the difference Michigan CPAs are making in our own communities.

MACPA volunteers and staff are very active on the state and national level in these important initiatives and we know how important it is to keep you informed. It is equally important for us to hear from you. If you have questions, concerns or ideas to share, please feel free to contact [me](#) or MACPA President [Peggy Dzierzawski](#).

Financial Literacy

Financial Literacy Top Priority for Association

The MACPA Board of Directors has prioritized the Association's commitment to financial literacy. Through task force involvement and volunteerism, MACPA members are tackling education and support initiatives to help Americans manage their money.

While there are already a variety of resources consumers can tap to improve their financial situation, the recently launched [360 Degrees of Financial Literacy](#) web site has all the tools consumers need in one place, separated into easily identifiable categories. It focuses on common life stages that trigger financial issues: childhood, college, career, military and reserves, couples and marriage, parenthood, home ownership, entrepreneurs, life crisis, sandwich generation and retirement.

[Helpful
Financial
Literacy
Resources](#)

Creating a place for interested community residents to visit is not enough for us. Our role is to go to our communities and find the groups that need support and can benefit from our experience. Who better than CPAs to help Americans understand their options and the opportunities to be derived from informed decision making?

*Judith Trepeck,
MACPA Financial
Literacy-Hospice
Task Force chair*

To supplement this comprehensive tool, the MACPA and its members have been reaching out to help consumers secure their solid financial footing. MACPA provides a comprehensive approach to financial education, focusing on the information that people need at each life stage.

"Creating a place for interested community residents to visit is not enough for us," said CPA Judith Trepeck, chair of the MACPA Financial Literacy Task Force. Our role, said Trepeck, is to go to our communities and find the groups that need support and can benefit from our experience. "Who better than CPAs to help Americans understand their options and the opportunities to be derived from informed decision making?"

Currently, Michigan CPAs are educating K-8 students through a partnership with Junior Achievement; reaching high school and college students through a Speaker's Bureau program; educating and assisting low-income families with their taxes through an alliance with the Volunteer Accounting Service Team (VASTMI); and most recently assisting Hospice of Michigan (HOM) patients and their families, including seniors, minorities and children with varying financial situations, through the MACPA Financial Literacy Task Force - Hospice. [Additional member involvement](#) is needed to continue the success of these far-reaching initiatives.

Hospice Families to Benefit from Support and Education

The MACPA Financial Literacy Task Force- Hospice has taken on a massive charge that targets terminally-ill patients and their loved ones through a ground-breaking partnership with Hospice of Michigan (HOM), the largest provider of hospice care in the state. HOM provides specialized health care services for dying patients and support for their loved ones. Representing a diverse demographic of populations, including seniors, minorities, children and families with varying financial situations, HOM impacts more than 16,000 lives annually.

Because the financial impact of the loss of a loved one can be devastating, the Task Force is stepping in to provide support and education on financial matters.

CPAs serving on the Task Force have expertise in estate and financial planning and are collaborating to

develop flow charts and checklists that HOM social workers and grief counselors will utilize in counseling patients and their families. This resource, combined with the tools on the [*360 Degrees of Financial Literacy*](#) web site, will reach limitless Americans.

Financial Literacy Links

[MACPA Financial Literacy Initiatives](#)

This MACPA webpage provides an overview and links for a variety of MACPA efforts, including the MACPA Accounting Blitz, VASTMI and Hospice of Michigan programs and CPA Ambassadors.

[360 Degrees of Financial Literacy – CPA Website](#)

To make sure CPAs are prepared to be successful volunteers in their communities, this website features a host of resources for CPAs including PowerPoint presentations, financial planning information, downloadable brochures, a marketing toolkit and more.

[360 Degrees of Financial Literacy – Consumer Website](#)

AICPA consumer website allows visitors to immediately pinpoint the financial information they need because it is organized by common life stages that trigger financial issues: childhood, college, career, military and reserves, couples and marriage, parenthood, home ownership, entrepreneurs, life crisis, sandwich generation and retirement.

Sign Up

Register on this [**financial literacy volunteer database**](#) of CPA volunteers.

Financial Literacy

Michigan CPA Ambassadors Sweeping the State

Designed to engage and mobilize CPAs as highly trained and influential spokespeople for the profession, Michigan's CPA ambassadors are sweeping the state to highlight the contributions, expertise and integrity of the CPA within local communities.

In June 2004, 18 [Michigan ambassadors](#) were trained to promote the profession's depth of financial knowledge, underscore the AICPA's and MACPA's effectiveness as advocates for the public interest and refocus the spotlight on the profession. Following the training, the ambassadors put learning into practice by taking on spokesperson opportunities or media interviews.

Armed with support tools, Michigan's ambassadors are conveying messages centered on financial literacy, student recruitment, corporate governance and small business.

They are speaking in classrooms at the high school and college level, appearing on television interviews, such as Chuck Stokes' Spotlight on the News on WXYZ Detroit and Comcast Newsmakers segments airing on CNN Headline News, and participating on radio programming throughout the state.

Since the program launch in June, nine Michigan ambassadors have completed two speaking or media engagements on behalf of the profession.



MACPA's Ambassadors:

Jonathon D. Anibal
Edward J. Dupke
Dennis M. Echelbarger
Stephen H. Epstein
Richard B. Hanna
John H. Higgins
Raymond E. Howard
Peggy Haw Jury
Kathie L. Kinske
Mary Kline-Cueter
Walter S. Koziol
Leslie A. Murphy
Doug P. Roosa
Stuart M. Sakwa
Wayne B. Titus III
Judith R. Trepeck
Kristine S. Volk
Karen L. Witsie

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Financial Literacy

Creating a Financial Legacy: A Series of Lifelong Decisions

By Daniel Yuhn and William Jeffrey, Legatia Wealth Advisors, LLC

There are many ways to be remembered. The landmarks of a particular career, the impact a person makes on others or the achievements that come from a full life are all ways to exist in the world beyond your time. And while these things may be memorable and noteworthy in the eyes of others, for the ones close to you, few things will help you affect their lives after your own as much as the creation of a financial legacy.

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Sign Up

Register on this [financial literacy](#)

What does it mean to create a financial legacy?

Creating a financial legacy involves the conscious process of making the right choice, time after time, to ensure the creation and protection of a financial future. To create a financial legacy is to correctly choose, over a lifetime, the investment vehicles and risk management tools to ensure the continuation of wealth for generations.

Why would I want to create this kind of legacy?

The most common reason for wanting to begin the process stems from a desire to safeguard one's own financial future.

For most clients, the concern of being able to provide for their family is motivation enough to seek out advice. As one of your clients' most trusted advisors, you are in the position of helping them build a sound financial future that will serve them well for generations to come. You can begin by addressing some of the basic questions your clients may have.

Does this apply to me?

Whether you consider yourself wealthy or not, the idea of creating a financial legacy applies to you.

No matter how much or how little income you have to work with, there are options available for you. Whether you choose a basic life insurance policy or an elaborate estate plan, few things are as reassuring as the power to design your own financial future.

How do I begin?

The three steps to creating a financial legacy are: 1) earn/buy it, 2) save/invest it, and 3) protect it.

Earn it/Buy it

If your job provides you with enough money to begin putting something aside for your family, you are in a good position to begin creating something to leave behind.

However, many people believe this is out of their reach because they cannot afford it. In truth, a simple life insurance policy for a working parent with a moderate income can cost-effectively leverage the value of your

estate for pennies on the dollar. This can be a great way to begin.

Save it/Invest it

If your company provides you with a retirement plan, such as a 401(k) plan or a savings/pension plan, begin putting money away as soon as you can. The earlier you begin putting money away, the easier it will be to create wealth. Today's investor has many options, and there are many low-volatility or even non-traded investment choices that can help your money work for you.

Protect it

When it comes to protecting your dollars, everyone is at risk. Even if you think you have enough to carry you through retirement, be careful: a catastrophic illness or the rising costs of nursing home care can take a toll on your account and leave you and your family with little or nothing. Be sure to find an investment manager who uses proven risk management techniques to help you navigate market risks, and carefully examine all of the options available to you.

A legacy takes years to create, and can be passed on by instilling basic values about financial responsibility early on. You can start an educational IRA or other fund for your children to help them learn how to manage money, or, if you own your own company, consider putting them to work for you and funding their Roth IRA. Options such as these can impress the importance of planning ahead, and do much for your children later on. For the health of your family's financial future, this may be worth as much as the money you put away.

About the Authors

Daniel Yuhn and William Jeffrey are partners at Legatia Wealth Advisors, LLC, Troy. Yuhn serves on the MACPA's Personal Financial Planning and Financial Literacy-Hospice task forces. Be sure to look for their upcoming articles on specific issues addressed here, as well as practical advice for incorporating these solutions into your practice.

Financial Literacy

MACPA Receives Top Honors from VASTMI

At its annual meeting in November, the Volunteer Accounting Service Team of Michigan (VASTMI) honored MACPA with its Commitment to Community Award.

[Helpful Financial
Literacy
Resources](#)

MACPA was recognized for its longstanding and extraordinary efforts in working with VAST to improve community life in southeastern Michigan.

In its longstanding relationship with VASTMI, MACPA has:

- Helped to fund VASTMI's Tax Assistance Program (TAP)
- Provided resources to expand TAP, allowing VASTMI to offer the benefits of electronic filing to our low-income clients
- Encouraged CPAs to participate in the free tax assistance program through presentations at CPA meetings and newsletter articles
- Provided CPA volunteers with opportunities to volunteer for tax assistance throughout Michigan
- Provided exhibit space for VASTMI to promote TAP
- Adopted the TAP Focus:HOPE site during tax season, which enabled VASTMI to open the Focus:HOPE site ahead of the arrival of the AmeriCorps team that usually staffs that site
- Provided computers and volunteers for the Focus:HOPE site
- Provided expertise and record-keeping to allow VASTMI to certify CPE credits for CPA and Enrolled Agent volunteers attending their tax training.



MACPA President and CEO Peggy Dzierzawski and Cynthia Kopczynski, MACPA executive vice president of operations, accept the 2004 Commitment to Community Award from Marshall J. Hunt, CPA, director of VASTMI's Tax Assistance Program.

Last year TAP served 6,805 low-income families in the tri-county area, returning more than \$5.8 million in tax returns and tax credits.

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Corporate Finance

Construction and Design Firms Help Provide Tax Benefits to Project Owners

By Andy Zaleski, senior tax manager, and Daniel McGrath, senior tax manager, Capital Cost Benefits Group, Grant Thornton LLP

Utilizing a cost segregation study saves money for a building owner by accelerating a building's tax depreciation and reducing the owner's taxable income.

For the last several years, a quiet revolution in construction has helped many smart building owners create hundreds of thousands of dollars in tax benefits by properly accelerating tax depreciation – smart building owners' executives who are aware of it, that is.

Construction and design firms are partnering with accounting firms in order to provide cost segregation studies to project owners. Such a study is used to save money by accelerating a building's tax depreciation and reducing the owner's taxable income.

The potential benefits of this kind of study are enormous. Instead of writing off all constructed assets over the standard 39-year federal tax life for buildings, properly categorizing real and personal property assets in 15-, seven-, or five-year tax depreciation lives can lead to significant federal and state income tax savings. In addition, state and local property taxes, and real estate taxes, may also be reduced. Each \$1 million in assets reclassified from a 39-year to a five-year depreciable life results in more than \$200,000 in net present value savings.

Many expenditures in a building's construction are eligible for reclassification – from certain heating, ventilation and air conditioning modifications to carpeting and the type of drywall partition used. Appropriate decisions made prior to a building's construction can save money.

Who determines these tax structures and whether something is personal or real property? Rulings and approved legislation have been established by tax court cases, revenue rulings and passed tax legislation. Thus, it is critical that a cost segregation expert familiar with these rulings is involved early in the life of every construction project including both new construction and renovations.

While it's true a cost segregation study can be conducted at any point in the construction cycle, the earlier the study is started, the more opportunities there are to find federal, state and local tax benefits in all areas.

How Does a Cost Segregation Study Work?

A building owner hires an accounting firm to work with the designer and the construction company. (A good relationship between the designer/construction company and the owner's tax department is essential.) This firm is hired to help the owner save tax dollars, which could include making suggestions about the type of building materials and methods of construction that are more tax-advantageous.

Let's use the aforementioned drywall as an example of how cost segregation can save money for a building owner. Office partitions – regular drywall partitions – are usually classified as a 39-year tax life. However, if the partition is removable and re-usable within the building's space at a nominal expense and without causing structural damage, that same drywall can be depreciated over five or seven years because it is classified as personal property.

Other examples include carpeting and floor tile. Previously, glued-down carpeting was classified as real

property at 39 years. However, due to recent tax court cases, it can now be treated as personal property with a seven-year tax life.

However, grouted hard tile remains classified at 39 years. The accounting firm would suggest that since carpeting is better for tax purposes, it should be the preferred floor finish specified on a project.

Resistance from Architects, Construction Firms

Understandably, the accounting firm performing the study occasionally encounters some resistance from architects who are proud of what they do and resent having a group of “tax guys” make recommendations for different kinds of building materials. It’s a delicate process.

The consultant doesn’t suggest mass changes, and prefers to sit down with the designer before the initial plans are drawn. Special attention is also paid to how each suggestion would impact the project budget and schedule.

Generally the designer and the construction company are willing to incorporate these types of suggestions into the project if they will create savings for the owner. Many times they will even form an alliance with an accounting firm and include this “value-added” idea as a differentiator in their proposal when bidding on the project.

Additional Benefits

Besides tax savings, there are additional benefits of beginning a cost segregation study during the project’s design stage.

Correctly and specifically labeling construction blueprints achieves the result of easily supporting the proper classification of costs in case of an IRS audit. For example, accurately describing which circuit breakers in an electrical panel control which building equipment easily supports an accelerated tax depreciation schedule for portions of the electrical system. Showing that Circuit Breaker A serves microwave ovens and vending machines in a kitchen indicates that power related to those items is personal property and the related electrical cost can be depreciated more quickly. Consequently, showing that Circuit Breaker B controls general building power and lighting results in that portion of the electrical cost being classified with a 39-year tax life.

Starting this process before construction begins and maintaining accurate records creates very defensible studies the IRS will have trouble disproving during a tax investigation.

The accounting firm will also suggest that contractors break out construction cost codes before groundbreaking commences. Most contractors are willing to provide additional cost breakdowns if they know early enough in the process those costs need to be tracked. However, if it is too difficult for the contractor to track certain costs, the cost segregation consultant will estimate the cost of those items from the blueprints.

It should be stressed that while it is best to begin such studies as early in the development process as possible, cost segregation studies can be used to realize tax savings for past building construction, purchases, expansions, renovations and leasehold improvements whose cost recovery deductions have been understated. By using a simple change in accounting method, building owners who understated their depreciation in prior years can retroactively claim the deductions they failed to claim in prior years.

About the Authors

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Corporate Finance

FEI Outlines Top Ten Financial Reporting Challenges for 2005

Financial Executives International has identified the top 10 financial reporting challenges for 2005. These challenges will impact the way companies manage their businesses, report their financial results and compensate their employees.

The challenges include:

- 1. Stock option expensing.** FASB has mandated that all stock compensation be expensed beginning June 30, 2005 for most public companies. Smaller public companies and private firms have until the first annual reporting period after Dec. 15, 2005.
- 2. Complying with *Sarbanes Oxley Section 404*.** The requirement for reporting on internal controls is already in place for accelerated SEC filers with years ending after November 15, 2004, but during 2005 all companies have to comply. Increasingly, lenders and state regulators are asking private companies about the status of their internal controls environment. Private companies may also see audit procedures used by their external auditor become more "integrated" with internal controls as the audit firms change their procedures.
- 3. Revenue recognition.** FASB is deliberating over a new approach that would recognize revenue in terms of changes in assets and liabilities, rather than an earnings process. Although it may take years to effect such a major change, it is vital that stakeholders join the debate now, in response to the FASB's Preliminary Views being developed for issue in the fourth quarter of 2005.
- 4. Assessing sustainability of tax benefits.** FASB seeks to clarify that the tax benefits recorded in an entity's tax returns must be "probable of being sustained" before they get recorded in the financial statements. A final statement is expected in the third quarter of 2005 following an Exposure Draft to be issued in first quarter of 2005.
- 5. Recording taxes on repatriated earnings.** Thanks to the *American Jobs Creation Act*, companies can repatriate earnings from foreign subsidiaries into the United States at an 85 percent deduction through the end of 2005. Companies who elect this option will be busy calculating their tax liability.
- 6. Accounting for Business Combinations.** FASB and the International Accounting Standards Board (IASB) are expected to require major changes to Business Combination accounting, moving towards a "fair value" model. Among other changes, contingent assets and liabilities associated with an acquisition would have to be recognized at fair value at the date of the acquisition with any changes reflected in earnings, and all acquisition-related costs paid to third parties would have to be expensed as incurred. An Exposure Draft is expected in the first half of 2005, with a final statement scheduled for the fourth quarter.
- 7. Expensing Inventory Costs.** FASB Statement 151 was issued in November 2004 and is effective for fiscal year-ends after June 15, 2005. It defines the term "so abnormal" with respect to amounts of idle freight, handling costs and spoilage required to be expensed currently. The clarification makes FASB's language more consistent with the IASB's inventory standards.
- 8. Disclosing off-balance sheet items.** CFOs will need to comply with the SEC's suggestions in its report due out in early 2005. It is expected to address items such as pensions and leases among others.

9. **Translating reports to XBRL.** The SEC has asked companies to voluntarily use Extensible Business Reporting Language (XBRL), a new code designed to increase efficiency and reduce error in the electronic communication of business and financial data, for their 2004 reporting. Expect to see more companies following the trend in 2005.

10. **MD&A Guidance.** The SEC periodically provides filing companies with guidance on making their Management Discussion and Analysis (MD&A) as informative and transparent as possible. This year's SEC reviews also indicate the commission's belief that the Critical Accounting Policy notes need further clarification. Companies will have to ensure that their disclosures of Critical Accounting Policies adequately and clearly explain the business model.

"The continuing and collective effort to improve the clarity, consistency and transparency of financial reporting as well as the continuing effort towards convergence with international standards promises to keep the CFO's job interesting and challenging in 2005," says Colleen Cunningham, president and CEO of FEI.

Corporate Finance

A Conversation with the Chief Accountant of the SEC: In the Public Interest

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As Chief Accountant of the SEC, Donald T. Nicolaisen, CPA, is charged with overseeing the commission's accounting and auditing policies and standard-setting initiatives at the national and international levels. He and his staff spent a November morning chatting with the *Journal of Accountancy*. In this first of a two-part interview, Nicolaisen talks about issues ranging from *Sarbanes-Oxley* Section 404 to fair value, from fraud to the future of AICPA-PCAOB relations. (Part two of the interview will appear in the February issue.) This article is for any CPA, student or educator whose work comes into contact with the SEC.

JofA: You've been on the job a little over a year now. Where have you devoted most of your time and attention?

Nicolaisen: When I joined the SEC over a year ago, I knew that dealing with complex accounting issues and registrant matters would consume a significant amount of my time. These activities have historically been within the purview of the Chief Accountant. What's new is the *Sarbanes-Oxley Act*, which established an appropriate foundation to improve financial reporting. With key provisions of the *Act* taking hold, I have spent time working with the PCAOB as it established itself as a regulator and further defined its role. In addition, I have spent considerable time on the *Sarbanes-Oxley* internal control requirements. I also believe that there has been a renewed focus on strengthening corporate governance and restoring investor confidence. These are all positive developments, and it is very rewarding for me personally to have a role in helping to shape these changes.

Speaking about change, I should also mention the FASB and the IASB, who are very enthusiastic about the convergence of accounting standards. This is an enormous undertaking, and one that I fully support.

Finally, since I joined the Commission, my office has doubled in size. We are now at our full complement with over 60 highly skilled and dedicated professionals. Restructuring and expanding the Office of the Chief Accountant (OCA) has been one of the most rewarding aspects of my job, and I am very proud of my staff.

These are just a few of the issues that I have been working on. As you can imagine, the last year and a half have been very busy, and I expect that will continue.

JofA: When you arrived at the OCA, you were very keen on the need for change at the top. Have you made progress?

Nicolaisen: This is a time of immense change; that's one of the reasons I chose to join the SEC. *Sarbanes-Oxley* has given us an opportunity to restructure all aspects of the financial reporting process—governance, audit committees, standard setting and peer review, compliance reporting, evaluation of and reporting publicly on internal controls, management reporting on the accuracy of its financial statements—and, of course, the establishment of the PCAOB. Those are very significant changes.

These pieces are in place, and I believe they will improve the financial reporting process as well as help to restore investor confidence. But doing the right thing and instilling strong moral and ethical standards cannot be done through legislation or regulation alone. This has to come from the private sector. I think it's important that we recognize the many market participants who have worked tirelessly and diligently over the past few years to improve our systems and to regain investor confidence. There's been a real dedication on

the part of many people to change. For example, there's been a focus on substantively improving corporate governance and the role of audit committees. And my sense is that preparers and auditors are focusing intently on the importance of financial reporting and of the audit process. Across corporate America significant additional resources have been added, training and continuing education have increasingly focused on ethical and technical matters, and there is a real push—starting at the top of business organizations—to make the tough calls and to get the numbers right. These are all positive developments.

That being said, I also recognize that we continue to discover both industry-wide and company-specific failures of business ethics and of disclosures to shareholders. These failures are unacceptable and highlight the need for continuing vigilant oversight and enforcement.

The internal control requirements are another area of major change. Of all the reforms contained in *Sarbanes-Oxley*, I believe that the internal control requirements may have the greatest effect on improving the accuracy and reliability of financial reporting. It is also what I consider to be the most urgent financial reporting challenge facing a large share of corporate America and the audit profession certainly through the first quarter of 2005.

JofA: Can you give us a little detail?

Nicolaisen: We've talked about management and auditors reporting on internal controls over financial reporting for as long as I've been in the profession. Now it's a reality. The amount of effort required to implement this change has been daunting for both auditors and preparers. Coupled with that is a renewed recognition of the importance of auditing. Auditors are working hard, training their people, and spending significant resources and energy to implement the internal control requirements. It's important that with all the focus on internal controls, we don't lose sight of the importance of doing a high quality audit. And, from everything that I hear, people believe that the audit function matters and that the contributions that CPAs make do matter. So there's been a tremendous strengthening of the quality of the audit.

Likewise the preparer community has been working overtime implementing and enhancing their processes. When you look at all the things they've addressed in the past couple of years, especially the internal control requirements, it's a tremendous amount of change. I sincerely appreciate these efforts by both the preparer and auditor communities. The academic community also has focused on areas that can improve financial reporting. So the whole system seems to be working and moving in a positive direction. And I would say that's also true of standard setting and regulatory bodies, such as the FASB, the PCAOB and the SEC.

JofA: Some say that practitioners and academics don't always communicate about the changes in the profession. What's your reaction to that?

Nicolaisen: I think the academic community has a lot to offer. One of my first staff hires was Andy Bailey. His academic background has been invaluable to the work of the Commission. So I'm a strong advocate of increasing the level of communication among practitioners, regulators, standard setters and academics.

For example, at the American Accounting Association session in Orlando last year, I had an opportunity to talk to a number of academics and get a good sense of what they think are the important issues. The conference included very relevant presentations, research papers and discussions. And I believe we can all benefit from this.

JofA: Would it be fair to say the profession has turned the corner?

Nicolaisen: Yes, I believe so, with the caveat that we still have much to do before the profession has fully implemented all the recent change needed to regain the trust of the investing public. As a result of *Sarbanes-Oxley*, accounting firms that audit public companies now are regulated entities. They're subject to inspection,

and reports on their audit practice are made public. The responsibilities they have, the relationships they've built, the accountability to audit committees, the recognition that what they do is on behalf of investors and not management are dramatic changes that have taken place in a very short period of time.

That's not to say that we are yet where we want to be. We are in a period of transition. For example, I'm a strong proponent of principles-based or objectives-based accounting, and also a believer in "keep it simple." Unfortunately some accounting standards are simply too rules-based and overly complex. The leasing literature and pension accounting come to mind as areas that are ripe for review.

The FASB has a challenging agenda. The "low hanging fruit" has been picked; now the FASB is dealing with the remaining issues which are difficult, complex and have long been on the agenda, some for a decade or more—including consolidation matters and when to use fair value. The FASB is doing this in an orderly manner, subject to an extensive notice and comment process, and I expect that there will be much dialogue along the way. For example, if a decision is made to use fair value in new areas, that will have a dramatic impact on the financial reporting process. Preparers will have to be conversant with valuation terms. Auditors will have to learn a new language and work in areas where they have a lower comfort level. So, while the FASB is working diligently, we do need to be patient and realize that some of their projects are long-term.

JofA: What areas still need attention?

Nicolaisen: We need to simplify the financial reporting model—not dumb it down, but simplify it. For the most part, that means fewer exceptions to the basic rules, less boilerplate disclosures and fewer redundancies. And our use of technology has to keep up with the tremendous progress that has been made in the past decade. I also think there's an expectation gap around the auditor's responsibility for detecting fraud.

JofA: On the subject of technology, you recently put out a press release about using XBRL for your voluntary program for reporting financial information and hired Jeff Naumann of the AICPA to spearhead that effort. What's your view on XBRL?

Nicolaisen: This is a project that is near and dear to me, and something I'm very enthusiastic about. Jeff is an outstanding individual, and I am very pleased that he has joined the Commission. Neither the concept of tagging data nor the use of XBRL is new. Better use of technology offers the potential for registrants to provide accurate data faster and at a lower cost. For investors, analysts, auditors, and those who extend credit or are otherwise involved in the capital markets, data tagging ought to be a positive development. For the preparer community, over time, it will be an enabler of better communication with investors and a more cost-effective manner of filing with us.

But XBRL is just a part of what I mean by making better use of technology. Some in the profession are looking at alternative measures of performance and enhanced financial reporting in general. These efforts are contributing significantly to the financial reporting process. Throughout this process, we need to think outside of the box and consider broader use of, for example, Web-based solutions. We currently place too much emphasis on earnings per share, and we should look for alternative measures to help investors better understand the company's operating performance.

JofA: Do you see XBRL as a global phenomenon?

Nicolaisen: Yes. It's being talked about in other parts of the world, and other regulators have either adopted it as their standard or are in the process of doing so.

JofA: Do you have a timetable for achieving some of your more challenging objectives?

Nicolaisen: I came to the SEC with an aggressive agenda. I had my 100-day plan and my first-year plan. I hesitate to put out a timetable because we're dealing with matters that are broad in scope and may involve changes in how people think about the financial reporting process and the profession. That takes time, training and support. There's a learning curve that comes with change, and it's important that we allow that process to take place. We want a real improvement in financial reporting. Some improvements will originate with those in standard setting and other leadership positions, while other improvements will be driven by investor demand. What is important is that we have to embrace change. And we need to build a process that challenges the status quo, where students entering the profession retain a desire to improve the profession throughout their careers.

JofA: What do you see as the role for the AICPA against this backdrop?

Nicolaisen: The AICPA has been a leader in training, in educating and in raising the bar of the profession. It's where auditors, preparers and others have historically come together, identified issues and contributed to their resolution. It has a tremendous role to play with respect to companies that are not public, as well as in helping identify ways to do things better, faster and cheaper.

We need to make reporting more timely and cost effective. The members of the AICPA are dealing with new issues and transactions every day and are well-equipped to communicate their needs in areas where they think practices can be improved.

So the AICPA has a tremendous role to play in making the profession stronger and more relevant. Whether CPAs practice publicly or privately, it's their reputation that really matters, and we all recognize that it has suffered through a tough period.

JofA: What's your view on the relationship between the SEC and the PCAOB?

Nicolaisen: The SEC has oversight responsibilities for both the PCAOB and the FASB. I support their efforts. The creation of the PCAOB as an independent body that oversees the accounting profession, writes auditing and professional standards, and inspects the firms is a major change for all involved. The inspection process allows the PCAOB to look at a cross-section of firms of all sizes—and at the registrant community as well—to see how the registrant prepares financial statements and how auditors deal with emerging issues faced by registrants. With that knowledge base, the PCAOB will hopefully be able to identify best practices at the firms and develop more cost-effective rules, accounting principles and standards.

JofA: There were some challenging discussions in recent months between the AICPA and the PCAOB over copyright issues for standards. Are you satisfied with how it was resolved?

Nicolaisen: I am. The issues were understandable; the debate was wholesome; it's been settled. I take my hat off to the PCAOB and AICPA in being open to working out the issues. It's very positive for the profession, and it puts auditing standards in the public domain, where they belong. The AICPA and PCAOB are working closely together. There's much for all of us to do.

JofA: How is *Sarbanes-Oxley* Section 404 going to affect small publicly traded companies and small private companies?

Nicolaisen: During the SEC's *Sarbanes-Oxley* rulemaking initiatives, we received many comments focusing on the increased burden that the proposed rules would place on smaller-sized public companies. I have heard similar concerns expressed about the impact of some of the FASB's proposed standards, such as its exposure draft on accounting for stock options.

The cost of compliance for our smaller registrants is of concern to me, and it is something upon which we will

have to stay focused in the future, not just in the area of internal controls but in other areas as well.

With respect to the internal control requirements, we have deferred the requirements for smaller businesses to give them and their auditors the opportunity to learn from the experiences of the larger companies. Also I've encouraged the private sector, COSO in particular, to develop a framework by the spring of 2005 that would be applicable to smaller and less sophisticated businesses. I believe such a framework will be very helpful as the preparer community tries to satisfy itself, its auditors and the investing public that its controls are appropriate and adequate and functional.

I also supported the Commission's deferral of the final phase of our accelerated reporting deadlines to provide registrants and auditors with extra time and a small margin of breathing room.

JofA: You mentioned COSO. What's your take on its Enterprise Risk Management Integrated Framework?

Nicolaisen: It enhances the basic COSO framework for internal controls over financial reporting by addressing risks more broadly within an enterprise. At the outset, I think it likely will be embraced by larger or more sophisticated companies, such as those in the financial services industry, but that may evolve over time. The bottom line is that I think it has real potential.

JofA: The AICPA is looking at the impact of GAAP on stakeholders in private businesses. What's your view?

Nicolaisen: As a general matter, I believe that small business should be expected to adhere to the same general standards and principles to the extent that they have like transactions. For example, it's hard to imagine that recognition of a transaction as revenue or expense would differ simply because a company is private rather than public. However, as I mentioned before, the burden to smaller companies is disproportionate and needs to be appropriately weighed against the protection of investors. This balancing act is something that I will continue to closely monitor, and it is also an important consideration for the FASB, the PCAOB and the AICPA. Clearly, we all need to strike the right balance.

JofA: How do you see the relationship of the AICPA and the PCAOB today and in the future?

Nicolaisen: Their relationship is beginning to form. The PCAOB is responsible for overseeing auditors of public companies so that's changed the dynamics considerably. Also the PCAOB is responsible for setting auditing standards for public companies. I think the AICPA has been supportive of those efforts. And I hope it will continue to be so. The AICPA membership has valuable input to provide, and it would be a shame not to take advantage of that input.

JofA: Can you address the role of state CPA societies?

Nicolaisen: The time is ripe for a serious dialogue to occur about whether more consistent regulation of CPAs is needed at the state level. This is an area where I readily admit I don't have all the answers, but I do think this issue deserves an open and candid debate. And I would very much appreciate hearing the views of your readers on this topic. I suspect that whether a CPA's license is in New York or California or Texas or Vermont makes very little difference to the investing public. What the public is looking for is the assurance of a CPA's report on an audit of financial statements. While all states have the goal of licensing only accountants who can meet the public's expectations, the difference in licensing requirements across the states does add complications. The Uniform Accountancy Act hasn't worked well enough to encourage licensing authorities to pursue a consistent approach. On one hand, it's in the best interest of the investing public to have uniform, national qualifications for CPA licensure; on the other hand, the states clearly have an interest in licensing professionals who practice within their borders.

We're at a unique juncture in the history of the CPA profession, and uniform licensing is a legitimate issue to

consider. That being said, a debate on this issue should be structured around the need to preserve the states' legitimate interest in licensure while serving the national interest as it relates to CPAs' importance to the investing public.

JofA: Can you talk a little about fraud detection?

Nicolaisen: Fraud detection has been a major challenge for the profession for as long as I have been a CPA, and probably long before. I fully support the PCAOB's consideration of this issue. Over the years, an expectation gap has been created between the investing public's perception of what the auditor's responsibility is for fraud detection and what the auditor is in fact required to do. This gap needs to be addressed.

JofA: Are the crooks getting smarter?

Nicolaisen: Some percentage of them have always been smart. But now they have access to better technology and there are more ways for them to perpetrate and hide fraudulent activities. That makes the auditor's job even more difficult. Management has to be involved as well as the auditor to make sure the right processes are in place and there's appropriate governance oversight. For example, I think the internal control requirements will help in terms of ensuring the right processes are in place, but it certainly will not stop fraud from occurring.

JofA: Let's talk a little bit about the evolution of the audit. What do you see in that area?

Nicolaisen: The audit has always been important, and I am pleased to see that the audit firms recognize that the audit is their most important service. Their brand and their reputation are based on the quality of their audit practice, and they have a unique responsibility to the investing public. I believe that audit firms have gone back to the basics. By that I mean that the audit is their most important and core service—and they're putting more time, talent and money into the audit process. There is better use of technology and smart systems. They're pulling together more data points—from analysts' reports to their own research to other risk factors—to make the audit process even more effective. The tough questions are when and how much judgment to use; the audit firms are wrestling with that. They want to get it right. But there is a tension here. They support the general notion of principles- or objectives-based standards, but in practice they often ask for more detailed rules. Given the current environment, I have some sympathy and understand their concern about being second-guessed. But I do hope that this will be temporary.

JofA: What's your view on enhanced business reporting? Is progress being made to your satisfaction?

Nicolaisen: As you know, the project is under way. The AICPA is taking a leadership position and a major investment is being made. We've had periodic updates from the enhanced business reporting committee. Now is the right time to look for better ways to present financial and other information to investors. So I think they have an important role to play, but I'm also realistic and know that it's a tough challenge.

JofA: Do you have a timetable for that scenario?

Nicolaisen: No. These things tend to have their own right time. But I'm hopeful that in the next several years we'll see a framework emerge from the project that is really useful for the preparer and investor communities.

JofA: You recently spoke with the world standard setters at the IASB meeting in London. What did you tell them?

Nicolaisen: I wanted to make a couple of very clear points: I support convergence between U.S. and international accounting standards. Having a common accounting language that's usable around the globe would be a dream come true. For U.S. investors to be able to understand one set of international standards rather than those of 50 different countries will be a tremendous improvement. I also wanted to be clear that we're looking for the best accounting standards globally, not the lowest common denominator. I'm very supportive of the way in which the IASB has conducted its affairs, and the European community ought to be commended for moving in the direction of international accounting standards in such a short period of time. It's a tremendous change.

JofA: Can the AICPA help in this evolution?

Nicolaisen: The AICPA should be involved in the international arena. Every community comprises people who invest abroad and companies who have made investments here in the United States, and being able to communicate across geographic borders is very useful. So I encourage the AICPA's involvement.

JofA: The AICPA recently made a presentation to the SEC on the Center for Public Company Audit Firms. What was your reaction?

Nicolaisen: The AICPA is starting to carve out a role for itself in the new regulatory environment. It can play a role in improving the quality of the audit process and of accounting. You can identify issues that need to be dealt with. You can educate your members. You can bring best practices and technologies to the forefront, and invest in research that will be helpful for investors.

JofA: The AICPA's five-year Internet student recruitment program has made contact with more than 500,000 students interested in accounting and helped drive substantial increases in accounting programs nationwide. What else should the profession do to ensure the adequate supply of CPAs?

Nicolaisen: I understand that there's increased interest among students in the accounting profession. Some are driven by a view that this is a noble and important profession, and some by the view that it's a profession that needs help. In any event, such idealism is positive. When I spoke in May to University of Southern California accounting graduates, I was impressed by the quality of students and their interest in what's happening in the world of accounting and auditing. If that caliber of student gets involved, supports the profession and believes what they do is important, the profession will have a bright future.

JofA: What final messages would you like to send the accounting profession through the pages of the JofA?

Nicolaisen: I'd start by saying that the accounting profession does matter. It matters immensely to the investor community and to society—and that puts a tremendous responsibility on its members.

Second, the profession needs to continue to right itself in the eyes of investors and address not just the issues of yesterday or today, but those of tomorrow. I think that journey has begun, but we still have much to do.

Third, I'd say focus on quality. Understand what you're doing, why you're doing it and to whom it's important. Be relentless in paying attention to your piece of the responsibility. Recognize that it is yours, and no one else's.

And finally, cash flows do matter. I strongly encourage the preparer community to use the preferred method of reporting cash flows—the direct method of reporting the statement of cash flows, not just the indirect method that's used by so many companies. I think that will increase the level of communication dramatically.

Practice Management

Attract and Retain Quality People by Developing Talent Now

By Eric Hunt, marketing and sales representative, Boomer Consulting, Inc.

A major challenge in the accounting industry today is attracting and retaining quality talent. This issue seems to be discussed everywhere: industry conferences, partner meetings, media outlets and college campuses.

In the October issue of *Inside Public Accounting*, the Annual Analysis of Firms revealed how this is the number one challenge faced by firms today. The IPA article stated, "Nearly one-third (31.3 percent) of all respondents cited recruiting and retention as a major challenge." The number two challenge was "Enhancing/Managing Growth and Profit" at a distant 10.6 percent.

Clearly this strikes a chord with many firms and it is not going away anytime soon. With the Baby Boomers getting ready to retire in the next few years, the shortage of talent will be more evident.

What can firms do now that will help ease the strain?

Firms need to begin to develop talent at all levels by:

- Creating a Training and Learning Culture
- Hiring a Learning Coordinator or outsourcing those duties
- Providing life balance to all team members
- Efficiency through technology

The best people want to be challenged and feel they are important enough to be given continual training.

Management must meet these desires by creating a culture of learning and training within their firms. All employees must understand the importance of their growth through new learning experiences.

In great firms, management leads by example. This includes areas of training such as new software, new tax laws, soft skills, sales and much more. Firms need to dig deep to determine which areas of training are most important and then allocate necessary resources.

Once team members start to buy-in to the idea that growth through learning is valued, they will seek out new challenges and learning opportunities within the firm. It is win-win for the firm and the team members.

Who will ensure that all team members are getting the right training and are growing professionally? Many firms designate a partner or a human resources staff member.

Boomer Consulting recommends hiring an adult learning professional for your firm. This person will be responsible for the acquisition, organization, follow through and development all aspects of the firm's training and learning program. This person should not be a CPA, and should be experienced in teaching adults.

Many small firms combine the HR and training responsibilities. However, firms who employ a person dedicated to learning and training usually attain the biggest positive impact on overall team performance. The smallest firms might consider outsourcing this function to a larger firm that provides training services, for cost justification purposes.

Taking this function out of partners' hands allows them to grow the firm through their strengths. Plus, as team members see the firm focuses on their improvement, they realize their value to the firm.

It is necessary in today's competitive environment to be able to provide team members with life balance and to support it from the top down. Allow your team members to work realistic schedules with support and you will see happier more productive teams. It is one more piece of the overall puzzle that keeps teams strong and together.

"Young people don't have the work ethic I did when I was coming up." This is a common statement by many Baby Boomers in today's accounting firms. This may be true in some instances, but it actually reflects the difference in thinking from one generation to the next. Today's young employees desire to have more quality time with their families than they had with their parents. Seventy-hour-work weeks actually become counter-productive; and work performance and morale both suffer greatly.

Firms must be willing to keep up with the trends in technology. Great firms attract and retain quality talent by doing all the right training; however they separate themselves even more by being leaders in technology. Technology efficiencies allow teams to use their time better, leading to more productivity and improved performance. With the dearth of talent right now, firms need to become as efficient as possible to relieve the strains of the workload on their current teams.

The best people gravitate to firms that understand the importance of technology and will more likely stay with these firms. Going paperless, for example, is just one of the many trends firms are moving toward to be more efficient through technology.

In summary, the industry is facing a major shortage of quality talent. Training and technology should be the building blocks in any plan to develop the new crop of great people. Start immediately to develop talent in all areas of your firm and allow team members to grow into the assets your firm desires and needs. Great people will attract great people.

The firms that offer the best training and development programs and use technology to maximize efficiencies will find the shortage of talent a less critical issue.

About the Author

Eric Hunt is a marketing and sales representative for the consulting firm of Boomer Consulting, Inc. located in Manhattan, Kansas. A graduate of Kansas State University, Eric holds a bachelor's degree in Business Administration with the emphasis in Marketing and International Business. At Boomer, his areas of focus are Boomer Technology Circles™, client services and marketing.

Tax Tidbits

Substantial Physical Presence Not Required for SBT

By Jim Manley, senior manager, Sarah Massimino, senior associate, and Molly Anderson, senior associate, PricewaterhouseCoopers LLP

The Michigan Court of Appeals recently ruled that in-state presence of sales staff need not be substantial to create sufficient nexus between a taxpayer and Michigan for purposes of the Single Business Tax (SBT).

Rayovac Corporation, a Wisconsin seller of batteries in Michigan, had three salespersons and one mid-western manager with a presence in Michigan. These employees solicited, but did not accept or approve orders. Both parties agreed that the taxpayer had a minimum connection with Michigan, therefore satisfying the requirements of Due Process.

The remaining issue was whether the taxpayer was protected from the imposition of the SBT under the Commerce Clause. The trial court ruled the Commerce Clause prohibited the Department from collecting SBT from the taxpayer because the Michigan sales staff was too small to create "substantial nexus" with Michigan. The Department argued the sales staff of the taxpayer does not need to be substantial to create sufficient nexus with Michigan. In *Rayovac Corporation v. Department of Treasury*, Nov. 23, 2004, the Court of Appeals found in favor of the Department.

The Court of Appeals referred to a *Quill Corp v North Dakota* for guidance. *Quill* provided that substantial nexus under the Commerce Clause does not exist when an out-of-state sellers' only contacts within a taxing state are via mail or other common carrier.

Although *Quill* established a "bright-line rule" to determine when substantial nexus does not exist, it did not address the size of the physical presence necessary to satisfy the Commerce Clause.

For further guidance, the Court looked to its analysis in *MagneTek Controls, Inc. v Department of Treasury*, where the Court determined that *Quill* should be interpreted to preserve the "bright-line rule" it intended to create by not giving consideration to the size of the sales force present and instead finding that the presence of any sales force at all creates more than a slightest presence in a state, and thus creates substantial nexus.

The taxpayer argued that *MagneTek* was irrelevant as it addressed whether a company is immune from SBT on its sales outside the state. The Court ruled that *MagneTek* addressed the same constitutional question as this case, that being whether an out-of-state seller has a physical presence in another state that is sufficient to satisfy the "substantial nexus" requirement of the Commerce Clause, permitting the other state to tax the out-of-state seller.

Furthermore, the Court of Appeals rejected the taxpayer's argument that the statutory definition of "business activity" created an additional jurisdictional limit to imposing the SBT. The taxpayer reasoned that since the SBT is imposed on the tax base of every person with business activity in the state, and the definition of business activity excludes the services rendered by an employee to his employer, it did not have business activity in the state since its only in-state presence was its employees.

The Court disagreed, ruling that the taxpayer's Michigan sales representatives were engaged in the transfer of legal or equitable title of property "with the object of gain, benefit, or advantage" to the taxpayer. Pursuant to MCL 208.3(2), the taxpayer conducted "business activity" in Michigan, and therefore created

substantial nexus for the imposition of the SBT.

Tax Tidbits

What's on TAP?

CPAs can offer input or suggest an issue to be addressed by the volunteer-based Taxpayer Advocacy Panel.

In late 2002, the IRS appointed 101 members to a volunteer organization called the Taxpayer Advocacy Panel (TAP). The TAP listens to taxpayers, identifies taxpayers' issues and makes suggestions for improving IRS service and customer satisfaction.

Volunteers were selected through a highly competitive process after submitting an application and agreeing to provide 300 hours of their time each year. The TAP concentrates on recommending improvements to procedures, forms and processes used by the IRS. TAP does not evaluate situations that are legislative in nature and are not able to solve individual tax problems.

[Taxpayer Advocacy Panel](#) 888.912.1227

TAP members hail from every state and the District of Columbia, with the more populated states having several members. The members are organized into seven geographical groups (Area Committees), which meet monthly to discuss issues submitted by the public or by members of TAP. Sub-committees research issues, work with IRS process owners and determine whether or not there is a systemic problem that could be corrected by changing operating procedures, forms, etc. TAP Committees then submit recommended solutions to the IRS.

In addition to members being assigned to an Area Committee, they also must pick an area of expertise or interest and serve on an Issue Committee. Issue Committees also meet monthly, and have the responsibility to act on or consider issues delegated by the IRS. Issue Committees include:

- Wage and Investment – Earned Income Tax Credit
- Wage and Investment – Multilingual Initiative
- Wage and Investment – Reducing Taxpayer Burden for Individual Return Filers
- Small Business/Self Employed – E-Filing
- Small Business/Self Employed – Reducing Taxpayer Burden for Small Business Return Filers
- Ad Hoc (addresses issues with nationwide scope).

You can provide an issue or input to TAP in one of two ways – [online](#) or by phone at 888.912.1227.

Accounting & Auditing

Lessen The Load of Ri\$ing Inflation: How to Help Your Client Actually Take Advantage of Inflationary Times

By Stanton Williams, President, SOURCECORP Tax Benefits Group

Follow the advice of the Boy Scouts and "be prepared." Now is the time to help clients prepare to take advantage of rising inflation. While most view inflation by its clear downsides, LIFO accounting is a tool that CPAs can use to turn this negative into a positive.

Why should businesses already on LIFO take another look at this accounting method? In addition to relieving pressure in inflationary times, IRS LIFO regulations issued in 2002 enable both LIFO and non-LIFO taxpayers to significantly reduce federal income taxes.

Prior to tax returns being filed for 2004 (as well as before 2004 annual financial statements are due), more and more CPAs are turning to LIFO specialists to identify clients who might benefit from a LIFO implementation for 2004. An expert team of inventory categorization specialists can quickly and accurately determine the potential LIFO benefit for any business type.

Who can benefit from LIFO?

Good candidates for LIFO include manufacturers, wholesalers and retailers that are experiencing inflation and carry a minimum year-end inventory of \$500,000 or more. Those who fit the criteria may use potentially substantial 2004 inflation to significantly reduce federal income taxes with LIFO.

What is LIFO?

LIFO enables a business, on a once-a-year basis, to defer income based on inventory inflation. There are many different LIFO methods, but in January of 2002 the IRS issued updated regulations for a method that has been available for more than twenty years. Inventory Price Index Computation (IPIC) LIFO is a specific method using government-published (Bureau of Labor Statistics) indexes to measure domestic inflation.

The new regulations issued in 2002 made the IPIC method much more taxpayer-favorable by allowing businesses to use 100 percent of the inflation measured by the government published indexes. Prior to these new regulations, taxpayers could only use 80 percent of the inflation, which was known as the "20 percent haircut."

What kind of tax benefit is available?

If a company has a scrap metal inventory of only \$3.5 million at year-end 2004, the first-year LIFO reserve could be \$1.75 million (based on the August, 2004 PPI index for "iron and steel scrap"). At a 40 percent tax rate, this could reduce this company's 2004 federal tax obligation by approximately \$700,000. (This is just one example, and there are many variables that would impact the actual benefit.)

The bottom line about LIFO: Even when annual indexes are volatile, the LIFO inventory method can still yield significant tax benefits over time. During inflationary periods, the immediate tax benefits could be substantial.

What other considerations are important with LIFO?

For clients with a December year-end, **NOW** is the time to explore the potential benefits specific to the company. Time is of the essence because a client using LIFO for tax purposes must also have a LIFO provision on its financial statements. This "conformity requirement" is strictly enforced by the IRS.

The LIFO impact on financial statements must be discussed with any company shareholders and/or debt holders. To the extent that LIFO reduces taxes, it also reduces book income. But financial stakeholders normally approve the LIFO election when they understand the tremendous cash flow benefits.

It's not too late to explore the potential tax benefits of implementing the IPIC LIFO method for your clients. This article used an iron and steel scrap business example; however, the variety of inventory types potentially exposed to inflation in 2004 is vast. Inventory categorization specialists can assist a firm by quickly and accurately estimating the potential benefit available for any current or prospective clients.

About the Author

Stanton Williams is president of SOURCECORP Tax Benefits Group. [SOURCECORP Tax Benefits Group](#) makes otherwise time consuming, complicated and highly specialized tax benefit opportunities readily available to businesses and CPAs across the nation.

Legislative & Regulatory

Ethics Q & A

By MACPA Professional Ethics Task Force

Following is a question and answer transcript highlighting some of the frequent inquiries sent to the MACPA Professional Ethics Task Force. Responses to the inquiries have been tailored to specific questions presented and may not consider all of the unique circumstances that are part of an ethical inquiry. Attempt your own answers before reading the "unofficial" opinion of the Task Force.

Q. I am the CPA for individuals A and B and for their partnership P. The partnership owns a building leased to A's company. The partners are contemplating the sale of the building and liquidation of the partnership. A's company is \$6,000 delinquent in rent to P. All entities, A, B and P are clients. Since A is the tax matters person for P and I am precluded from discussing confidential information under *Code of Conduct Rule 301* with anyone else, and treatment of the debt as an uncollectible is probably a violation of my integrity under *Rule 102*, how and what should I do to protect B from loss of the rental income?

A. There are two essential problems here, Conflicts of interest and Confidentiality.

You are correct that you cannot disclose confidential information under Rule 301 without the client's consent (must be in writing). But, if B is a full partner you may be able to disclose the information at a meeting with both partners or in a letter to the **Partnership** in connection with finalization of the activity by asking the question, "How shall I resolve....?"

You are also correct that any bias on your part in resolution of the issue could be construed as lack of independence and integrity under Rule 102.

This situation and dilemma points out the need to address this type of issue in a comprehensive engagement agreement. If either the engagement agreement or partnership agreement speak to this situation, that document could provide a way around the problem.

A course of action would be to withdraw from all three of the engagements. Upon inquiry from B as to the reason for your withdrawal, you could advise B that there are accounting differences that are not resolved and that they should be reviewed with A.

Interpretation 101-3 Resources

As members continue to implement Interpretation 101-3 *Performance of Nonattest Services*, including the documentation requirements, a number of helpful resources are available on the [AICPA web site](#).

Legislative & Regulatory

Increase Your Voice in Lansing

Support the MACPA PAC

Is your name on this [list](#)? If you're serious about the integrity of the CPA profession, it should be. The "list" contains the names of contributors to the MACPA Political Action Committee, including MACPA PAC Capitol Club members who have contributed \$100 or more.

Expect your 2005 Donor Renewal Form in late January – and make your contribution right away. Your continued support ensures the unified CPA voice is heard loudly in Lansing. Note – members can [contribute online](#) at any time.

The MACPA PAC Board of Directors thanks the 2004 contributors. Their commitment to the advancement and protection of the CPA profession is appreciated and noted.

Those who did not contribute in 2004 will be receiving information on the MACPA PAC in late January. Take the time to review the brochure and consider a contribution.

Questions regarding the goals and objectives of the MACPA PAC can be directed to the MACPA Government Relations Department at 248.267.3700 or legislation@michcpa.org.

Legislative & Regulatory

MACPA Member Terminated

On October 23, 2004, MACPA member Richard Valade of Austin, Texas, agreed to the terms of an AICPA/MACPA Settlement Agreement neither admitting nor denying any charges and terminating his AICPA and MACPA membership effective November 26, 2004.

FASB/GASB

FASB: Companies Must Expense Stock Options

After two years of deliberation, FASB ruled in mid-December that companies must begin [expensing for stock options](#) given to employees as part of compensation packages.

FASB Statement No. 123(R), *Share-Based Payment*, will provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued.

This Statement is the result of a two-year effort to respond to requests from investors and many others that the FASB improve the accounting for share-based payment arrangements with employees.

Said Michael Crooch, FASB Board member and Board collaborator on the project, "Recognizing the cost of share-based payments in the financial statements improves the relevance, reliability, and comparability of that financial information and helps users of financial information to understand better the economic transactions affecting an enterprise and supports resource allocation decisions."

Public entities (other than those filing as small business issuers) will be required to apply Statement 123(R) as of the first interim or annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply Statement 123(R) in the first interim or annual reporting period that begins after December 15, 2005. The FASB decided to provide nonpublic entities additional time to prepare for the implementation of Statement 123(R). Those entities will not be required to apply Statement 123(R) until the beginning of the first annual reporting period after December 15, 2005.

Statement 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

In addition to the accounting standard that sets forth the financial reporting objectives and related accounting principles, Statement 123(R) includes an appendix of implementation guidance that provides expanded guidance on measuring the fair value of share-based payment awards. In developing that guidance, the FASB included several special measurement provisions for private companies designed to ease implementation. The implementation guidance also includes numerous examples illustrating the accounting for common types of share-based payment arrangements.

Currently, approximately 750 public companies in the U.S. are voluntarily applying Statement 123's fair-value-based method of accounting for share-based payments or have announced plans to do so. The International Accounting Standards Board, whose standards are followed by companies in many countries around the world, and the Canadian Accounting Standards Board have previously issued accounting standards requiring entities in their respective jurisdictions to recognize the cost of employee services received in share-based payment transactions in financial statements.

[FASB Statement 123\(R\)](#) and related appendices are available on FASB's web site.

In a printed [statement](#), SEC Chief Accountant Donald Nicolaisen encouraged early adoption and said the SEC staff will evaluate implementation of the new standard and is preparing to provide appropriate guidance to

assist preparers of financial statements.

FASB/GASB**New FASB Inventory Standard Converges with International Standard**

New [FASB Statement No. 151](#), Inventory Costs, an amendment of ARB No. 43, Chapter 4 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities.

The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005.

FASB concluded that clarifying the existing requirements in ARB 43 by adopting language similar to that used in International Accounting Standard 2 is consistent with its goals of improving financial reporting in the U.S. and promoting convergence of accounting standards internationally.

FASB/GASB

GASB Issues Exposure Draft on Accounting for Termination Benefits

A new GASB exposure draft, *Accounting for Termination Benefits*, would establish accounting guidance for state and local governmental employers regarding benefits provided to employees who terminate employment. It would establish guidance for benefits, such as early-retirement incentives and severance benefits that are provided as the result of voluntary or involuntary terminations and is intended to enhance comparability of financial statements by requiring governments to account for similar termination benefits in the same manner.

The proposed Statement would require employers to recognize, in financial statements prepared on the accrual basis of accounting, the cost of voluntary termination benefits when the offer is accepted and the cost of involuntary termination benefits when a plan of termination has been approved and communicated to the employees.

In addition, the proposal would establish measurement and disclosure requirements for termination benefits.

If enacted, the proposed standards would become effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of the proposed Statement would be required to be implemented simultaneously with the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For all other termination benefits, the proposed Statement would be effective for financial statements for periods beginning after June 15, 2005.

Submit comments on the exposure draft by March 11, 2005.

Continuing Education

Industry Members Receive Focused February-April Programming

MACPA members in industry: Check out the [2005-2006 CPE schedule](#) to review newly developed courses designed especially for you.

The courses cover topics in varying areas of expertise, including Schedule M-3, Section 404, pricing for profitability, mergers and acquisitions, dealership issues and many other relevant programs.

Earn your required CPE hours before the State Board of Accountancy's June 30, 2005 reporting deadline. Register online or by calling the MACPA [CPE Department](#) at 888.877.4CPE.

2005-2006

CPE Schedule now available [online!](#)

Watch your mailboxes in late March for the printed version.

Continuing Education

Mega Conferences Cover Variety of Important Topics

From accounting and auditing and ethics to practice management and technology, the MACPA Mega Conferences have something for you. Plus, you can earn eight hours of CPE, including A&A and ethics.

The Mega Conferences are scheduled for [May 5 in Frankenmuth](#), [June 23 in Lansing](#) and [October 21 in Mount Pleasant](#).

Continuing Education

Ethics Online – Four NEW Courses Available

Need a more convenient way to earn your ethics credits? Well, now you've got it. The MACPA has partnered with CEprofessionals, which provides interactive, online courses qualified for CPE credit.

Three lessons and a case study help reinforce the learning experience. Choose from the following [courses](#):

- *The AICPA Code of Ethics: Principles to Guide the Professional CPA*
- *The AICPA Code of Ethics: Balancing Professional Responsibilities*
- *Professional Ethics: The Organization – A Workplace Assessment*
- *Professional Ethics: The Individual – What's in it for Me?*

Members pay \$39 for the first hour and only \$29 for each additional course; register for all four at the same time for just \$126. Nonmember single course fee is \$69 and \$59 for each additional hour.

Remember, four ethics credits (two per year) are required for the State Board of Accountancy's June 30, 2005, reporting deadline.

Continuing Education

MACPA Management Information Shows Are Fun, Educational for Attendees

You have three chances to attend the largest Michigan trade shows for accounting professionals – the [Spring Management Information Show](#) on June 9 in Grand Rapids and the Summer Management Information Shows on [June 29](#) and [June 30](#) in Livonia.

These events offer valuable, hard-hitting sessions that feature the hottest and most timely topics for accounting professionals. They also provide attendees with the unique opportunity to examine business solutions offered by exhibitors.

Breakout sessions in accounting and auditing, ethics, tax and practice management are offered at these events. Each day provides eight hours of CPE credit. Plus, hundreds of prizes will be given away. You don't want to miss it!

Interested in Exhibiting?

If you're interested in [exhibiting](#) at these events, or other MACPA conferences, please contact the MACPA [CPE Department](#) at 248.267.3700 for more information. Or find out about corporate sponsorship with the MACPA to see how you can maximize marketing opportunities for your company!

Marketing

Pay Attention to Marketing Needs in 2005

By Don Tanner, Marx Layne & Company

If your marketing strategy isn't working, or if it's non-existent, it may be time to go back to the basics.

More than likely as you counsel clients in financial matters, you preach the importance of fiscal responsibility, planning ahead to avoid future downturns and staying one step (or two) ahead of the competition. But do you practice what you preach where your firm and your practice are concerned?

If you are like others in the professional services industry, you likely are more attentive to your clients' needs and, overall, your billable hours, than you are to making sure you are out in front of competing firms and economic downturns.

"Things have a way of working themselves out," you might tell yourself. Or, "I'm too busy to worry about what the accounting firm across the street is doing to attract and retain clients."

When things are going well, it is incredibly easy to maintain the status quo or stick your head in the sand and carry on. In today's ultra-competitive marketplace, however, this is a good recipe for future disaster.

Making matters even more tenuous are corporate accounting scandals that have seen former heavyweights such as Andersen Consulting rendered obsolete, leaving in its wake an ocean of consumer skepticism for the industry and its practitioners. Today, more than ever, an effective communications plan can help to lessen overall negative perception while generating positive, 'top of mind' awareness over your accounting peers.

Developing a Marketing Strategy

A good place to start in developing a marketing plan is to take a 'general accounting' or 'audit' of your practice. Start by identifying your particular niche or specialty area. Is it defined or vague? Work to define what it is you do best and whether that fits with future plans, aspirations and, importantly, opportunities for future growth.

From there, examine past marketing programs you have embarked on or been involved with. What worked? What didn't? Why? What would you like to do that you don't have the time or expertise to try? This is often where a CPA might consult with a communications professional; someone who can bring a new perspective and ideas to the table as well as implement them, allowing you to concentrate on your day-to-day work.

Ultimately, in this strategy development phase, identify particular groups you want your marketing plan to target. If you typically are referred business by attorneys, for example, place the legal community high on your list. On the other hand, if a business owner or corporate CFO approaches you routinely, you'll want that group in the middle of your radar screen. If there are certain industries or individuals you would like to reach but have not been able to, add them to the list to approach via targeted marketing initiatives.

If I Had a Hammer

In the world of public relations we often talk about possessing a communications 'tool box'—literally, tools to reach particular audiences. These are many and varied and can include:

Direct Mail: Never underestimate the power of the 37-cent stamp. Be sure to announce new firm members, awards or new designations and articles you might have written.

Direct E-mail: The speed and ease of use of the Internet can keep you directly in touch – efficiently and unobtrusively – with clients and referral sources; providing an ideal avenue for sharing firm news.

Media Relations: This category is multi-faceted and can be complicated to navigate. At the very least, however, you should be announcing firm news (as mentioned above) where appropriate, via press releases. Remember that such releases should contain tangible news without being too ‘commercial’ in content or tone.

No matter the avenue or tool, you will want the ‘news’ and communiqués to ‘hammer home’ positive, key messages about you and your firm.

Don’t Shoot The Messenger

Most companies strive to portray a certain ‘corporate brand’ – a way of doing business or particular traits or ‘know how’ with which they want to be associated. It is along the same lines as a corporate culture, albeit an external rather than internal dynamic.

Once this ‘brand’ is determined, communicate it consistently and from all angles – collateral materials, brochures, web site, advertisements and the like.

The current business environment makes it imperative that, beyond industry *knowledge* and *expertise*, your brand message stresses *honesty*, *integrity* and *accountability*. That also applies to the clients you work with.

In this sometimes fragile, yet competitive, business environment, a well-thought out marketing and communications strategy will serve to increase ‘credits’ related to your practice, while at the same time, sharply decrease ‘debits.’

About the Author

Don Tanner is a partner with Marx Layne & Company, a Southfield-Michigan based public relations and marketing firm. The firm provides PR counsel to the MACPA. Don can be reached at dtanner@marxlayne.com.

Technovision

Information Security Top Tech Issue for 2005, According To Annual Survey

For the third consecutive year, Information Security is the country's number one technology concern, according to the results of the AICPA's 2005 Top Technologies survey.

The survey, conducted annually since 1990, seeks to determine the 10 most important technology issues for the coming year. There were more than 300 participants in the 2005 survey, a 30 percent increase over the previous year.

Interestingly, Spam Technology – an issue closely associated with Information Security – apparently has lost some currency. It made its debut on the 2004 list at number two. On the new list, it falls to number four.

"Because our work and personal lives are now inextricably linked to information systems, security will always be top of mind," said Roman Kepczyk, CPA/CITP, chair of the AICPA Information Technology Executive Committee. Commenting on Spam Technology's lower placement on the list, he said, "We've seen major improvements to filtering systems, which have allowed us to bring Spam under greater control. This most likely is the reason that Spam Technology doesn't command the importance it did in the previous survey."

A different issue closely allied with Information Security – Electronic Data Management, or the Paperless Office – moved up to second place. It was number three last year.

There are two debuts on the Top Technologies list: Authentication Technologies and Storage Technologies. Another issue, Learning and Training Competency, reappears at number 10 after an absence of three years.

The following are the 2005 Top 10 Technologies (new issues are indicated):

1. **Information Security:** The hardware, software, processes and procedures in place to protect an organization's information systems from internal and external threats.
2. **Electronic Document Management** (paperless or less-paper office): The process of capturing, indexing, storing, retrieving, searching and managing documents electronically. Formats include PDF, digital and image store database technologies.
3. **Data Integration:** The ability to update one field and have it automatically synchronize between multiple databases, such as the automatic/seamless transfer of client information between all systems. In this instance, only the data flows across systems from platform to platform or application to application. Data integration also involves the application neutral exchange of information. For example, the increased use of XBRL (extensible Business Reporting Language) by companies worldwide provides for the seamless exchange and aggregation of financial data to meet the needs of different user groups using different applications to read, present and analyze data.
4. **Spam Technology:** The use of technology to reduce or eliminate unwanted e-mail commonly known as Spam.
5. **Disaster Recovery:** The development, monitoring and updating of the process by which organizations plan for continuity of their business in the event of a loss of business information resources through theft,

virus/malware (malware is short for *malicious software*, software designed specifically to damage or disrupt a system) infestation, weather damage, accidents or other malicious destruction. Disaster recovery includes business continuation, contingency planning and disk recovery technologies and processes.

6. **Collaboration and Messaging Applications:** Applications that allow users to communicate electronically, including e-mail, voicemail, universal messaging, instant messaging, e-mailed voice messages and digital faxing. Examples include a computer conference using the keyboard (a keyboard chat) over the Internet between two or more people.

7. **Wireless Technologies:** The transfer of voice or data from one machine to another via the airwaves and without physical connectivity. Examples include cellular, satellite, infrared, Bluetooth, WiFi, 3G, 2-way paging, CDMA, Wireless/WiMax and others.

8. **Authentication Technologies (new):** The hardware, software, processes and procedures to protect a person's privacy and identity from internal and external threats, including digital identity, privacy and biometric authentication.

9. **Storage Technologies (new):** Storage area networks (SAN) include mass storage, CD recordable, DVD, data compression, near field recording, electronic document storage and network attached storage (NAS), as well as small personal storage devices like USB drives.

10. **Learning and Training Competency (End Users):** The methodology and curriculum by which personnel learn to understand and use technology. This includes measuring competency, learning plans to increase the knowledge of individuals, and hiring and retaining qualified personnel with career opportunities that retain the stars.

2005 Emerging Technologies

Each year, the AICPA Top Technologies Task Force prepares a "watch list" of five emerging technologies that may not have viable commercial acceptance currently, but show promise in the next 24-36 months as having a potential impact on businesses and individuals.

1. **RFID (Radio Frequency Identification):** Silicon chips and an antenna that transmits data to a wireless receiver could one day be used to track everything from soda cans to cereal boxes. Unlike bar codes that need to be scanned manually and read individually (you have to actually see a bar code in order to read it), RFID tags do not require line-of-sight for reading. Within the field of a wireless reading device, it is possible to automatically read hundreds of tags a second.

2. **Search:** Companies like Google, Apple Computer and Microsoft are putting research and development resources into new ways of pinpointing digital files that do not require wading through directories of folders.

3. **Fuel Cells:** Methanol-powered fuel cells represent an exciting alternative to aging battery technology that will help users complete the "everything wireless" puzzle. These electromechanical devices represent both an environmentally friendly solution (they give off carbon dioxide and water as their by-product), as well as provide unlimited life for mobile devices (just fill the tank when they run low on fuel).

4. **Digital Home:** The line between "digital home" and the office workday continues to blur. For example, "non-desktop PC" technology is making a difference in how we work at the office and live at home: 802.11 cameras monitor the office after hours or home during the day (security system), while a 42" plasma screen resides in the office conference room, as well as the living room.

5. **Display Technology:** The continued evolution of various display technologies allow for higher resolutions and smaller devices with lower power consumptions. Display technology is also merging, so that instead of

having dedicated functions, such as a television receiver and a computer monitor, one display device is serving multiple functions.

For further information, visit the [AICPA Top 10 Technologies web site](#).

Technovision

Integration, Process Key to CRM Success

Successful customer relationship management (CRM) deployments involve strong business processes, the support of upper management and application integration according to experts at recent conferences held by Oracle and Siebel Systems.

Companies that fail to formulate a business strategy upfront usually do not see a return on investment. To read this article in its entirety and much more about developments in technology, access [Technology and Productivity Weekly](#), the MACPA's electronic technology newsletter for industry professionals, sponsored by Information, Inc.

Technovision

Internet Resources for CPAs

Finding Internet sites that are useful to CPAs can be a daunting task, so let your colleagues and the MACPA do it for you.

If you have a favorite web site that you visit daily, let us know! E-mail [Kristen Benvenuti](#) with your top web picks, along with a brief description of the site. We'll include them in an upcoming issue of Leaders' Edge.

<http://bvfls.aicpa.org>: Would you like to add a new credential to your title? If you're looking for a new challenge, visit this site to learn how you can get the Business Valuation Accreditation.

www.strategyletter.com: Visit the Center for Simplified Strategic Planning web site to view an article titled "The Strategy of Succession Planning." You'll learn advantages and difficulties of succession planning.

www.401kday.org: Find numerous practical resources regarding 401k plans at this site. This is a perfect site to share with clients!

www.jobtelecommuting.com/telecom: If you're interested in working from home, or if you have employees who do, this site will help determine if it's the right choice for you. This site also provides telecommuting tips and other resources.

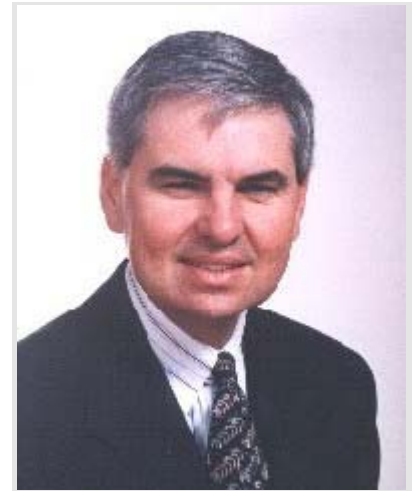
Association Briefs

Hear from Leaders in the Profession at Spring Members Advisory Forum

Mark your calendar today for the [MACPA's Members Advisory Forum](#). This semi-annual meeting will be held on May 11, 2005, from 8:30 a.m. to 2:30 p.m., at The Lansing Center in Lansing. You can register [online](#) or by calling the MACPA CPE Department at 248.267.3700.

At this year's event, national and local speakers will address topics such as state tax reform, the latest peer review requirements, Social Security reform, legislative updates and more. In addition to providing firsthand information on professional issues, top-notch speakers and updates on state-level activities, Members Advisory Forum allows members to share ideas through table discussions and focus groups.

Be sure to [register](#) for the Forum, and watch upcoming issues of Leaders' Edge and E-News for more information on the event.



[AICPA President Barry Melancon](#) will be a featured speaker.

Association Briefs

New Professionals Task Force: Spreading Joy with Toys!

The MACPA New Professionals Task Force headed up their first Toys for Tots drive to put games, dolls, bikes and balls into the hands of needy children. With help and numerous donations from employees of the [firms listed below](#), along with families and friends, the MACPA was proud to deliver nearly 500 toys to Oakland Mall during the Magic 105.1 FM Toys for Tots live broadcast.



From left: MACPA staff member Nicole Shepard, Cpl. Duane Muterspaugh, Sgt. Daryl Johnson, New Professionals Task Force Chair Dana DePalma, MACPA member April Colvin, Sgt. Dewayne Sankey and Sgt. Mike Montuzak.

As MACPA members arrived with their large collection of toys in November, the Magic 105.1 FM broadcasters announced the generous donation and recognized the efforts of the Task Force and MACPA's members. In addition to the toys, a \$700 donation was also contributed by MACPA members.

View [more pictures](#) of the toy drop-off.



A truckload of toys!

The following companies/firms participated in the toy collection for the 2004 Toys for Tots program:

KPMG
 Boyes Wright Pittman & Co.
 MACPA
 Jenkins Magnus Volk & Carroll PC
 Plante & Moran PLLC
 Scollin & Colvin PC
 Deloitte
 MSW Group
 O'Keefe & Associates Consulting
 Zack & Miller
 MRPR Group, CPAs & Advisors
 Woronoff Hyman Levenson & Sweet PC

Association Briefs

Reach the CPA/Accounting Market by Exhibiting at MACPA Conferences

The MACPA provides a unique opportunity for your company to market itself to a key target audience – CPAs and accounting professionals – by [exhibiting](#) at select conferences throughout the year.

Sign up and pay in full **before February 11, 2005**, to receive the **early-bird discount**. If you sign up to exhibit at more than one event, you'll also receive a multi-show discount.

Exhibit at the following events: Spring Management Information Show (June 9), Summer Management Information Show (June 29-30), Small Practitioners Conference (August 17-18) and the Personal Financial Planning Conference (October 27).

Plus, we can help you stretch your marketing dollars even further with our [corporate sponsorship program](#). Pair your exhibit booth with advertising in our electronic publications, print ads in the CPE catalogue and numerous other unique marketing opportunities to get the most for your money.

Contact the [CPE Department](#) at 248.267.3700 for more information about exhibiting; contact [Renee Shimmel](#) at 248.267.3700 for more information about corporate sponsorships.

Association Briefs

Find Your Next Star Employee or Your Dream Job with CareerBank.com

The MACPA has partnered with [CareerBank.com](#) to enable you with access to resumes or job postings via a nationwide network of more than 650,000 accounting, finance and banking professionals. [Post a resume](#) today to get your name out to thousands of firms that may be looking for an employee with your qualifications. For employers, be sure to [post your open position](#) for thousands of potential candidates to view.



Also take advantage of CareerBank.com's free resources for job seekers available on the MACPA web site:

- [Salary Survey](#): View the CareerBank.com 2004 Salary Survey Results.
- [Salary Wizard](#): Access free salary data on thousands of job titles and locations.
- [CareerBank.com Report](#): Weekly e-newsletter providing valuable news updates, hot job openings and more.
- [Resume Help - Free Resume Critique/Price Quote](#): Get a free resume critique – e-mail your resume to careerbank@career-resumes.com or call Career Resumes at 1-800-800-1220.
- [Career Perspectives](#): Valuable columns on the ins and outs of careers.
- [CareerBank Toolbar](#): Block popups, search the Internet, and get advanced information on pages you are browsing.
- [Book Store](#): Find great books targeted to accounting, finance and banking professionals at a low price.
- [Links](#): Utilize these links to get help writing a resume, or if you'd like to visit other helpful accounting, finance and banking web sites.
- [Strategic Partners](#): View and use the products and services of our strategic partners.
- [Career Center Network Partners](#): Over 700 career center partners with a reach of more than 800,000 accounting, finance and banking professionals.
- [Relocation Tools](#): Browse city, crime and school reports for hundreds of cities around the country. A Salary Calculator compares the cost of living in hundreds of cities. Get a better idea of your moving and mortgage costs by using the Moving and Financial Calculators.
- [TradePub](#): Sign-up for finance-related magazines.

Association Briefs

In Memoriam

We sincerely regret the loss of our fellow members and extend deepest sympathies to their families and friends.

H. James Gram
Grosse Pointe

Arthur J. Helganz
Indian Wells, CA

Edwin A. Hibbard
Grand Rapids

Julie F. Koivisto
Escanaba

Regina E. Love
Fraser

Raymond A. Maycock
Irons

John F. McGraw
Grand Rapids

Luciano J. Miserendino
Saint Clair Shores

Walter A. Payne III
Dearborn

R. T. Rollis Jr.
Dewitt

James H. Schaap
Kalamazoo

John R. Selecky
Sterling Heights

Wilson B. Ward
Essexville

Robert J. Zolad
Bloomfield Hills