



Leaders' Edge

The newsletter of The Michigan Association of
Certified Public Accountants



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From the Chair of the Board

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As CPAs, we play a crucial role as business leaders in today's economy – but we can also play a vital role in the financial well being of our friends, neighbors, family and co-workers. April is National Financial Literacy Month, and it couldn't have come at a better time. The MACPA and AICPA provide a wealth of free resources to make it easy for you to promote financial wellness; and the MACPA has added to

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Top Stories

Legislative and Political Update

Kmart Decision, Sales Tax on Services, Licensing Issues at the Forefront

By John Lindley, Senior Director, Government Relations & Regulatory Affairs, MACPA

MACPA's legislative affairs team, including the Legislative Advisory Group, Lansing-based lobbyist and staff, have a full plate of important issues heading into the Spring/Easter recess. A glimpse of these issues follows; for more detailed information and up-to-the-minute status as these issues progress, check MACPA's website, read E-news or contact the [MACPA Government Relations Department](#).

State Tax Issues

Relief from Burdensome Kmart Decision – The MACPA is hard at work leading a coalition of interests to achieve a legislative solution to the implications of the Michigan Court of Appeals case in *Kmart Michigan Property Services LLC vs. Michigan Department of Treasury*. The decision, published in September of 2009, was interpreted by the Michigan Department of Treasury to essentially require that all taxpayers considered disregarded entities for federal purposes file amended SBT returns with no statute of limitations. Working closely with the Department of Treasury, the Michigan Chamber of Commerce, Michigan Manufacturers Association and others, MACPA is leading the charge to legislatively resolve this burdensome requirement by March 31.

New MBT Guidance

For information about the recently released RABs on the Michigan Business Tax, click [here](#).

Sales Tax on Services – Multiple proposals are being discussed – some have even been introduced – to expand the Michigan Sales Tax base to include services. These proposals also repeal the MBT surcharge and reduce the sales tax rate from 6% to either 5.5% or 5% and may also include reductions of the gross receipts rate within the MBT. After initial review, all proposals appear to exempt business-to-business services, educational services, services provided by a physician, and services provided by a nonprofit. These are lengthy and complex legislative packages that require continued analysis. Members of the MACPA State & Local Tax Task Force Subcommittee on Business Tax Restructuring continue to communicate technical observations on these proposals as a means to illustrate the factors that must be considered in such a substantial change in tax structure. It's important to note that while the House Democratic Caucus and the specific sponsors of these proposals understand the obstacles preventing the proposals from moving as is, 95% of all tax reform conversations in Lansing include two common elements – service tax and surcharge repeal. These legislative packages are seen as viable vehicles. Tax reform is on the top of *nearly all* legislative agendas in Lansing for 2010.

CPA Licensing and Other Regulatory Changes

Mobility Impacts Occupational Code and Rules – Following the passage of CPA license mobility legislation in June 2008, work began on a comprehensive review and rewrite of Article 7 of the *Michigan Occupational Code* and the Administrative Rules promulgated thereunder. These two documents are essentially the texts that govern licensing of the CPA profession in Michigan. Some of these updates are necessary given the new mobility provisions, such as altering the rule regarding temporary practice permits. Other items within this initiative are important reforms such as allowing the experience requirement for original licensure to be met in industry and adjusting the references to professional standards. The MACPA is working closely with the State Board of Accountancy and staff from the State of Michigan Licensing Bureau on finalizing language and is optimistic legislation will be introduced by month's end.

Expansion of Professional Liability Concerns – A bill in the State House ([House Bill 4915](#)) would negatively change professional liability exposure for regulated professionals – such as CPAs. Current case law in Michigan provides an exemption from the *Michigan Consumer Protection Act* for regulated occupations (CPAs, funeral directors, realtors, etc.). If one is going to sue a regulated profession, it must be under a "learned body of law." This bill eliminates that exemption. As a result, a litigant could file parallel suits and see which one "sticks." The MACPA is actively opposing this legislation, along with dozens of other organizations. The legislation passed the House Judiciary Committee; however, due in no small part to the effectiveness of the MACPA's opposition, it has stalled on the House floor.

IAR Registration/Examination Requirements – The Michigan Office of Financial & Insurance Regulation (OFIR) has issued transition orders implementing the 2008 changes to the *Michigan Uniform Securities Act*. Among the changes is a new requirement for investment advisory representatives (IAR) to register with OFIR. Among the registration criteria is the requirement of having passed the Series 65 or 66 exams in the last two years. Those that have never taken it must do so. Anyone who has passed the exam more than two years ago must retake it. The deadline for having registration materials submitted to OFIR is currently May 1, 2010 – leaving very little time between the conclusion of tax season and the deadline. MACPA has met with OFIR Commissioner Ken Ross and is requesting an extension in the deadline for compliance as well as the potential for allowing "grandfathering" of those with consistent years in practice as IARs.

Exclusion from Professional Investigators Act – Related to licensing and the regulatory front, but with a twist, the MACPA is currently working on a bill ([Senate Bill 1091](#)) to amend the *Professional Investigators (PI) Act*. During a re-write of their Act last year, the PIs provided an exemption for licensed CPAs from having to be licensed (i.e. for forensic accounting, fraud examination, etc.). This exemption, as it turns out, isn't broad enough. The PI Association is supporting this legislation and the bill has unanimously passed the State Senate and awaiting action in the House of Representatives.

Coming Up – Coming in the next edition of *The Leaders' Edge* – from policy to politics...the coming November election is the most significant in the last several decades. Among important factors, four CPAs and MACPA members are running for state-level public office. Next edition will include information on the political landscape throughout Michigan, and profiles of those CPAs seeking office.

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Treasury Issues Guidance on Unitary Control and Relationship Tests

By Ed Kisscorni, CPA, MBA

In February, the Michigan Department of Treasury issued two revenue administrative Bulletins providing long-awaited guidance for a Michigan Business Tax Unitary Business Group. In order to be an UBG, taxpayers must meet both the control test as well as one of two relationship tests.

Control Test

After several drafts and significant input from the MACPA and other groups, the Department approved their rules to administer the statutorily defined "Control Test" on February 5 through [RAB 2010-1](#), *Michigan Business Tax - Unitary Business Group Control Test*.

Based upon IRS Section 318, though not specifically mentioned, RAB 2010-1 defines indirect ownership. The Department has made some exceptions to a strict following of Section 318. They have also rescinded two FAQs and reversed previous positions. Most notably, there is parental attribution in family member attribution applied on a lineal basis; and there is attribution between brother-sister entities.

The RAB covers the effects of voting agreements on the "ownership or control" statutory requirement. The Department specifies the "more than 50% of the ownership interest" is based on voting rights or comparable rights and links it to the ability to elect management of the entity.

Relationship Tests

In the February 24, 2010 [RAB 2010-2](#) *Michigan Business Tax - Unitary Business Group*

Outline of items covered in RAB 2010-1 Control Test

- Unitary Business Group defined
- Control Test defined
- Controlled Groups of Entities
 - Parent-Subsidiary Controlled Group of Entities
 - Brother-Sister Controlled Group of Entities
- Combined Controlled Group of Entities
- Excluded Ownership Interest
- Controlled Group of Entities Without Common Control
- Voting Agreements
- Nonstock Nonprofit organizations
- Entities in more than one Controlled Group of Entities
- Indirect Ownership
 - Family Member Attribution
 - Attribution from Partnerships, Corporations, and trusts and Estates
 - Attribution to Partnerships, Corporations, and Trusts and Estates
 - Options
 - Operating Principle
 - Re-Attribution
 - Limitations on Re-Attribution
 - Precedence of Option Principle
 - Member of One Controlled group
 - S Corporations Treated as Partnerships

Relationship Tests, the Department cites United States Supreme Court cases that described a unitary business as a functionally integrated enterprise whose parts are mutually interdependent such that there is a flow of value between them. There must exist some sharing or exchange of value not capable of precise identification or measurement beyond the mere flow of funds arising out of a passive investment.

In determining whether a flow of value exists, a relevant question in the inquiry is whether contributions to income resulted from "functional integration," "centralization of management," and "economies of scale." No one fact is determinative of whether functional integration, centralization of management or economies of scale exist. Rather, the statute requires that the totality of facts and circumstances surrounding the business activities and operations be weighed and examined for cumulative effect.

Items covered in RAB 2010-2 Relationship Tests

- Unitary Business Group Defined
- Two Alternative Relationship Tests
 - Flow of Value Test
 - Functional Integration
 - Centralized Management
 - Economies of Scale
 - Contribution/Dependency Test
- Special Application Considerations
 - Links in a Chain
 - Instant Unity
- Factors Demonstrating a Flow of Value or Dependency
- Examples

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Both SEC and FASB Committed **Global Standards Move Forward**

In late February, SEC Chairman Mary Shapiro issued a statement affirming that the U.S. Securities and Exchange Commission (SEC) continues to believe a single set of high-quality globally accepted accounting standards would benefit U.S. investors.

As a step toward achieving global accounting standards, Shapiro noted that the Commission continues to encourage the convergence of U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS) in order to narrow the differences between the two sets of standards.

The SEC also directed its staff to execute a Work Plan, the results of which will aid the Commission in evaluating the impact that the use of IFRS by U.S. companies would have on the U.S. securities market. Included in this Work Plan will be consideration of IFRS, as it exists today and after the completion of various "convergence projects" currently underway between U.S. and international accounting standards-setters.

Aggressively pursuing global accounting standards, the Financial Accounting Standards Board and the International Accounting Standards Board (IASB) have intensified work efforts between the two boards on the convergence projects.

"Whether we get there through convergence of standards, or through an SEC mandate, significant changes are coming – potentially very quickly," said Jeffrey W. Hales, a research fellow with FASB. Hales spoke in January with MACPA Board members; and he will return to Michigan for a presentation at the Spring Members Advisory Symposium in May.

FASB aims to complete important convergence projects in 2011 identified in a Memo of Understanding with the IASB. That means 2010 may be a pivotal year of progress. Hales suggested the FASB could issue significant exposure drafts as soon as June 2010, and ultimately vote on them in 2011.

"We could potentially see major changes in financial reporting within three years," noted Hales.

What can MACPA members do to prepare?



"Whether we get there through convergence of standards, or through an SEC mandate, significant changes are coming – potentially very quickly."

-Jeffrey Hales,
FASB Research Fellow

Among other things, the SEC's Work Plan will address these issues:

- Determining whether IFRS

CPAs should take advantage of opportunities learn about the convergence projects, suggested Hales. "They need to be aware that change is on the horizon, and be prepared to change financial reporting systems and retrain staff members," he added.

"CPAs also can get involved in the process by reading exposure drafts, and writing comment letters," said Hales.

Educators can take advantage of this process as well, suggested Hales. "Educators and students can use this process as a great learning opportunity. They could look at the objectives of financial reporting as laid out within the Boards' conceptual frameworks and discuss whether proposed changes reflect the objectives."

SEC Going Forward

By 2011, assuming completion of FASB/IFRS convergence projects and the SEC staff's Work Plan, the Commission will decide whether to incorporate IFRS into the U.S. financial reporting system, and if so, when and how.

In November 2008, the Commission proposed a series of milestones (also known as the Proposed Roadmap) that would guide the Commission in determining whether to transition U.S. capital markets to IFRS.

After proposing the Roadmap, the Commission received more than 200 comment letters from a wide variety of market participants, including investors, regulators, issuers, accountants, attorneys, academia, standards setters, and international organizations.

Comments indicated widespread support for the goal of having a single set of high quality globally accepted accounting standards, but views differed about the approach in the Proposed Roadmap. Therefore, the Commission's February statement indicates that it is important to carefully consider and deliberate whether such a change is in the best interest of U.S. investors and markets.

The SEC staff will provide public progress reports on the Work Plan, as well as the status of the FASB and IASB convergence projects, beginning no later than October 2010 and frequently thereafter until the work is complete.

Comments on the Proposed Roadmap included the view that U.S. companies would need approximately a four- to five-year timeframe to successfully implement a change in their

is sufficiently developed and consistent in application for use as the single set of accounting standards in the U.S. reporting system.

- Ensuring that accounting standards are set by an independent standard-setter and for the benefit of investors.

- Investor understanding and education regarding IFRS, and how it differs from U.S. GAAP.

- Understanding whether U.S. laws or regulations, outside of the securities laws, for example tax laws and regulatory reporting, would be affected by a change in accounting standards.

- Understanding the impact on companies, both large and small, including changes to accounting systems, changes to contractual arrangements, corporate governance considerations and litigation contingencies.

- Determining whether the people who prepare and audit financial statements are sufficiently prepared, through education and experience, to make the conversion to IFRS.

financial reporting systems to incorporate IFRS. Therefore, if the Commission determines in 2011 to incorporate IFRS into the U.S. financial reporting system, the first time U.S. companies would report under such a system would be no earlier than 2015. The Work Plan would further evaluate this timeline.

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Navigator of the Profession – Rick DiBartolomeo, CPA



*Rick DiBartolomeo, CPA
Principal, Rehmann*

The past four months have been pretty exciting for Rick DiBartolomeo, CPA. In October 2009 he was awarded MACPA's Public Service Award, and in January he was elected to serve as president of the Detroit Athletic Club beginning in 2012. On top of his work as Managing Principal at the Rehmann Group and his new duties at the DAC, Rick actively volunteers for more than 10 community organizations including the Judson Center, March of Dimes, Citizens Research Council and more.

Q. What made you decide to go into the accounting profession?

I'm not going to say I was good at math! I originally went to college thinking that I wanted to be an attorney, but I did really well at my beginning accounting courses and that piqued my interest in the profession.

Q. What makes your job great?

No two days are alike. Whether it be working with clients, developing business, working with young professionals, working in the community or recruiting, there is always something new.

Q. What are your major professional accomplishments?

Passing the CPA exam was a major accomplishment, as well as being promoted to partner at Deloitte. I'm also proud of winning the Public Service Award from MACPA, as well the Distinguished Alumni Award from Walsh College. Winning the DAC election was huge for me, both personally and professionally. I'm proud to serve this group, and look forward to keeping it as one of the finest clubs in the country and a gem of Detroit.

Q. How do you think other CPAs can make a difference in their communities?

People in the community gravitate toward the CPA because of the knowledge base, diversity of knowledge and experiences that they have. My son is studying accounting in college right now, and I always tell him that accounting is the foundation of business. We're living in pretty tough times, people are looking for financial and businesses expertise and CPAs can really make a difference in these organizations.

Q. What advice do you have for other CPAs, and for future practitioners?

Have balance in your life. To the students, have a sense of humor. Be diligent, continue to uphold our values and do your work with a high sense of integrity. To other CPAs, get involved. We're all busy, but we can really add a lot to the equation.

Q. What is your biggest pet peeve?

I hate when people are late for meetings. I start meetings promptly and end meetings promptly.

Q. What are your hobbies?

I love to travel. My wife and I were in the Czech Republic in the fall, and we're taking the kids to Hawaii over Easter. We do a lot of traveling as a family, and are exposing the kids to lots of places.

Q. Any guilty pleasures?

If there is an unopened bag of Better Made chips in our pantry, they will remain there, untouched. But as soon as that bag gets opened, I'm like a tornado!

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Message from the Chair of the Board

April: Tools You Can Use for Financial Literacy Month



*Jonathan D. Anibal,
CPA
2009-2010 MACPA
Chair of the Board*

As CPAs, we play a crucial role as business leaders in today's economy – but we can also play a vital role in the financial well being of our friends, neighbors, family and co-workers. April is National Financial Literacy Month, and it couldn't have come at a better time. The MACPA and AICPA provide a wealth of free resources to make it easy for you to promote financial wellness; and the MACPA has added to our long list of money-saving programs to boost your financial wellness!

Financial Literacy

The 360 Degrees of Financial Literacy [Resource Center for CPAs](#) is a huge Web-based resource available to you. One section, for example, is the Recessionary Survival Mobilization Kit that includes articles you can share on subjects such as coping with job loss, bankruptcy, foreclosure and more. Many more tools at your disposal in the Resource Center include:

- Speeches
- PowerPoints
- Ideas for community presentations
- Customizable print and advertising materials

The AICPA's consumer-oriented financial literacy website – [360 Degrees of Financial Literacy](#) – also offers valuable information you can use and share. The consumer pages focus on what people need at each stage of their lives, including:

- [Childhood](#)
- [College](#)
- [Career](#)
- [Military & Reserves](#)
- [Couples & Marriage](#)
- [Parenthood](#)
- [Home Ownership](#)
- [Entrepreneurs](#)
- [Life Crisis](#)
- [Sandwich Generation](#)
- [Retirement](#)

Additionally, valuable financial literacy resources are available directly from the MACPA. Look

for [speaker resources](#) on our website, or download our latest [taxpayer awareness brochure](#) to help consumers choose a qualified tax preparer.

Another wonderful tool created by MACPA and Hospice of Michigan is "Financial Affairs: At the End of Life," now in its 2nd edition. Full of helpful tools, documents, electronic links and other resources, this incredible guide is now being used as a nationwide model by the AICPA. You can download it and share it with families who have loved ones in the final stages of life and may be overwhelmed by financial and estate planning documents and responsibilities.

Tangible Member Benefits

These are all great resources for you to use in helping others; but, the MACPA also offers some great tools to help you. Always looking for ways to bring more value to your membership, we've added four new programs to our long list of money-saving benefits. Read this [article](#) about special new member offers through Costco, Brooks Brothers, Office Depot and Roger CPA Review. Or, visit this [webpage](#) to review all 20 ways you can take advantage of our significant group buying power.

I encourage you to utilize MACPA's tremendous toolbox of resources and make the most of Financial Literacy Month.

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2010 Hot Topic: Roth IRA Conversions Whitepaper

One of the most important decisions impacting future retirement is whether to convert a traditional IRA to a Roth IRA. Due to recent tax law changes, you can convert an IRA into a Roth in 2010 regardless of your income level. Furthermore, if you make the conversion in 2010, you have the option of reporting half of the converted amount as income in 2011 and the other half in 2012, which means you actually may not need to pay the taxes until April 15, 2012 and April 15, 2013. This election must be made on your 2010 return.

Check out this upcoming MACPA CPE program on Roth IRAs:

Learn more about Roth IRAs and conversion strategies in an extensive whitepaper, offered to MACPA members by Attorney and CPA Leon LeBreque. CEO of financial planning firm LJPR in Troy, LaBrecque is a presenter for MACPA continuing education programs.

[Webinar: Roth Conversion 2010](#)

Download [ROTH IRAs in 2010 – Roth Conversion Strategies: Income and Estate Planning Ramifications](#).

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Of Interest

Pricing for Profitability

Why the Company with the Best Cost Accountant Wins

By John L. Daly and Craig Carrel

One of the great legends of college football was Woody Hayes, coach of the Ohio State Buckeyes from 1951 to 1978. Woody's Buckeye teams were famous for their running game. "Three yards and a cloud of dust" was the style of most Big Ten teams in those days. Hayes might tell you that he did not like to pass because "there are three things that can happen, and two of them are bad."

The same is true of product pricing. Three things can happen in pricing – and two of them are bad. A company's reward for a price set too low is an unprofitable sale. The reward for a price set too high is a lost sale that would have been profitable at a lower price. Only some place between these two numbers does the company have the opportunity to make both a sale and a profit.

While companies rarely price their products below cost intentionally, they often do so due to poor costing information. Traditional costing methods do a good job at telling the average cost of an average product sold to an average customer; but, they do a poor job of identifying the specific costs related to a specific situation.

Cost, of course, is not the only issue in establishing price. The product's value as perceived by the customer is another key factor. In fact, when a company has a superior value proposition or is the only one who does what they do, value is the most important factor in the pricing decision. However, value pricing falls apart in the face of real competition and cost becomes a more significant concern.

Traditional costing methods fail in many pricing situations because they arbitrarily allocate indirect costs. Today, indirect costs such as rent, depreciation, utilities and supervision are often a significant portion of the company's cost structure. While many people think such costs are unrelated to specific products, an analytical mind will quickly see cause and effect connections between products and the activities required to provide them to a customer.

Traditional costing methods fail in predictable ways. They over-allocate costs to high volume or easy-to-make products and under-allocate costs to difficult-to-make or low volume products. Thus, traditional methods bias pricing decisions towards the unprofitable "dog" products that you

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would be perfectly willing to give to a competitor and against the money-making "gravy" jobs products you would prefer to keep for yourselves. When you have superior costing information, you have the ability to give the dogs to your competitors and keep the gravy for yourself.

[Thinking to Financial Management \(4-hour pm session\)](#)

While this is a simplistic view, in the real world, many companies routinely under-price difficult or low volume work to the great satisfaction of their customers and overprice easy or high volume work to the great satisfaction of their competitors. Pricing policies based on "average" cost work well only when a company has nothing but "average" products. Today, because many companies produce a diverse portfolio of products using diverse processes, there may be few, if any, average products.

Activity-based costing (ABC) provides the tools necessary to understand indirect costs. In the early days of ABC, some writers proposed that a company identify the cost of every activity the company performed. Today, ABC practitioners know that it is not necessary to look at hundreds of categories of costs. Where companies once spent months performing an activity-based costing analysis, some companies now are able to produce an adequate analysis in as little as three days.

A company that understands five categories of costs will have a competitive advantage over a company that looks at traditional cost accounting's three categories of cost (material, labor and overhead). A company that looks at 12 categories of cost will have a competitive advantage over one that looks at seven. However, the law of diminishing returns applies. A company that looks at 20 categories of cost will not necessarily have an advantage over one that looks at twelve.

Case Example – Team 1 Plastics, Inc.

Team 1 Plastics, Inc. in Albion, Michigan developed their first activity-based quoting model in 1998. Team 1 is a plastic injection molding company that specializes in lenses, light pipes and other small precision plastic components for mostly automotive applications. Team 1's pricing model has evolved over the last 12 years and now examines 12 categories of cost.

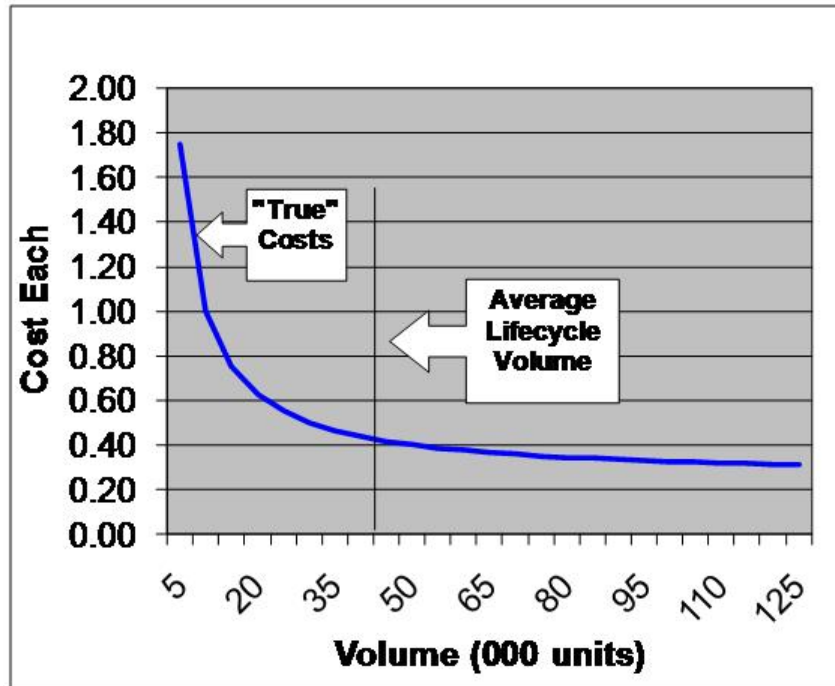
Launch Costs – One part of Team 1's model examines the cost to launch a new product. Team 1's product launch process includes quoting, engineering, layout, PPAP, selling costs and other activities that occur before the company produces the first saleable unit of a product. Launch costs are a fixed cost that is completely independent of the number of units sold. Team 1's launch costs typically range from \$5,000 to \$15,000 depending on the nature of the product. For a high volume product, launch costs per piece may be trivial. However, for a low volume product, launch costs may be the most significant element of cost.

Team 1 knows that complex products are more difficult to launch than simple products. The company's pricing model uses the number of critical product dimensions as a measure of complexity. The critical dimension count causes the company's pricing model to classify products as "easy," "medium" or "hard" with corresponding different costs for each level. Product complexity also influences mold maintenance costs in the company's pricing model.

Set-up Costs – Team 1's pricing model automatically calculates the production batch size of

each product based on the company's production planning policies. This step-variable cost is very volume sensitive and may represent a significant cost element for a low-volume product.

Volume Sensitivity – Team 1 knows that the existence of fixed launch costs and set-up costs causes every product to have a characteristic relationship with volume.



Cost Volume Relationship – All products in all industries have similar cost volume relationships.

Packaging – The number of parts in a box is a key factor not considered in many cost models. Team 1 realizes that handling boxes from the molding machine to the customer dock is significant cost factor. Many of their customers want to use low box quantities to facilitate just in time production. However, it takes 10 times the handling for 10 boxes of 100 parts than a single box of 1,000 parts. Team 1's customers often supply returnable containers for their parts. The customers believe that packaging costs should be zero because they supplied the returnable containers. However, Team 1 knows that returnable containers involve significant handling, upkeep and storage costs. A returnable container is cheaper than a box, but it is not free. Sometimes the cost of shipping a product in a small returnable container can be a significant portion of the product's cost. Since Team 1's activity-based quoting model allows them to quantify these costs, they are often able to offer their customer cost-saving alternatives.

Profit – Team 1's pricing model is unusual in placing more emphasis on obtaining a return on assets rather than a return on sales. This approach implies that a fast paying customer will get a lower price than a slow paying customer will. Because it has accurate costing information, the model does not have to use cost factors to "fudge" its price. Instead, it can quote the part accurately and only adjust the profit based upon customer and competitive factors.

The company believes that its model has been an important factor in the company's profitable operation for the last decade. It allows Team 1 to translate costs to an accurate price, and negotiate with customers so that the parts they win are profitable. The model is accurate regardless of how far from average factors such as volume, complexity, and packaging the product may be.

How Good is Your Pricing Model?

All pricing models should reflect a combination of fixed, variable and step variable costs, which create a volume-dependent price. A good pricing model does not fail at extremely high or low volumes. Test your model by specifying a volume of a single unit. If you would be willing to produce this product, even though you would only sell one, then the model is probably a good one.

Astute customers know that they have smart vendors and dumb vendors when it comes to pricing. Smart vendors may be consistently the low bidder on high volume jobs and very high priced for low volume jobs. Dumb vendors quote similar prices, regardless of volume. If you are a major customer of the dumb vendor, their lack of costing skills can cause them to cease to exist, leaving you with a possible supply interruption. Avoid being a major customer to a dumb vendor!

Lower Your Average Quote While Increasing Your Profit

Surprisingly, pricing experts believe that companies who use activity-based costing are able to lower their average quoted price yet improve their profitability. Because companies with poor cost information tend to win the difficult/low volume quotes by underbidding, they usually conclude that they have to compensate by adding "fudge factors" to obtain their target profit. These fudge factors have the effect of raising the company's average quoted price while making the "dumb" vendor competitive on even fewer bids.

The net result is the company with the best cost accountant wins!

About the Authors

John L. Daly, MBA, CPA, CMA, CPIM is a management consultant specializing in costing and pricing model development and is the author of ***Pricing for Profitability***, published by Wiley & Sons. Mr. Daly is a frequent speaker for Executive Education, Inc. on financial management topics and often speaks at MACPA events.

Craig S. Carrel started Team 1 Plastics with two partners over 20 years ago in Albion, Michigan. His focus at Team 1 has been in the areas of sales and marketing, customer service, human resources, business management and strategic planning. Mr. Carrel received his BS degree in chemical engineering from the University of Utah, where he currently serves on their National Advisory Council.

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Of Interest

Financial Literacy

Five Ideas for Community Outreach

April is Financial Literacy Month. Here are a few ideas for how you might help your neighbors, friends, family members or co-workers increase their financial know-how.

1. Print financial literacy tips (use the 360 Degrees resources) on your website or in your client/employee newsletters.
2. Invite clients to a free reception and provide [financial literacy basics](#).
3. Work with your human resources department to schedule brown bag lunches for co-workers on topics appropriate to employees of your company. Or, for CPA firms, offer to do brown bag lunch sessions for your clients' employees.
4. Hold a financial literacy event at your church, synagogue or community center. Use the [CPA Mobilization Kits](#) to put together your presentations.
5. On your website, include a link to the 360 Degrees of Financial Literacy website. [Banner ads](#) are available for this use.

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Tax Tidbits

2010 MACPA Tax Assistance Program – Members Giving Back to the Community

MACPA members ranging from college students to CPAs with decades of experience generously volunteered their Saturdays to prepare taxes, at no charge, for low-income families and individuals at the [2010 Tax Assistance Program](#).

The annual program is an initiative of the MACPA Communications Task Force in partnership with the Accounting Aid Society (AAS). This year, the program was held on January 30, February 6 and February 13 at Focus: HOPE in Detroit. Thirty-two MACPA volunteers prepared taxes for 169 under-privileged citizens, garnering nearly \$221,000 in returns.



Dates for the 2011 Tax Assistance Program will be available in the fall. If you are interested in volunteering, please click [here](#) or contact the Communications Department at 248.267.3700.

Thank you to our 2010 Tax Assistance Program volunteers:

Aaron Agaronov
Diane Aksten
Trevor Amorose
Lorena Bencsik
Laura Bohr
Carol Boman
Julie Brettschneider
Linda Chu
Julian Cifliku
John Douglas
Jaime Finrock
Paul Gimbutis
Iman Hanna
Dylan Koski-Budabin
Son Le
Stella Moulton
Anne Mount
Julie Oldham
Joe Petrella
Brian Plumb



Gina Plucinski
Leslie Reinhart
Joe Robach
Beverly Roberts
Milbia Rometty
Alison Ross
Mark Rottermond
Stuart Sakwa
Julie Styrna
Kaiya Tsao
Sara Zaccagnini
Steve Zimmer

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Legislative & Regulatory

MACPA Memberships Terminated

At a hearing of the AICPA's Joint Trial Board, conducted in accordance with the AICPA and MACPA Joint Ethics Enforcement Program, in regard to the conduct of **Gary M. Hartenbach**, CPA, the Joint Trial Board found Mr. Hartenbach in violation of *Rule 202 – Compliance with Standards; Rule 501 - Acts Discreditable and Interpretation 501.5 – Failure to follow requirements of governmental bodies, commissions or other regulatory agencies of the AICPA/MACPA Code of Professional Conduct*. As a result, Mr. Hartenbach's membership within the MACPA is immediately terminated.

At a hearing of the AICPA's Joint Trial Board, conducted in accordance with the AICPA and MACPA Joint Ethics Enforcement Program, in regard to the conduct of **Brian D. Postma**, the Joint Trial Board found Mr. Postma in violation of AICPA Bylaw 7.4.6 and MACPA Bylaw Article XI, Sections 1-3. Mr. Postma failed to comply with Required Corrective Action (RCA) assessed by AICPA. As a result, Mr. Postma's membership within the MACPA is immediately terminated.

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Legislative & Regulatory

Ethics Q&A: Addressing Independence Issues Not Covered by the *Code*

This column highlights issues and questions submitted to the MACPA Professional Ethics Task Force. Responses may not consider all of the unique circumstances that are part of an ethical inquiry.

Scenario: James is a CPA who serves on the board of a neighborhood association that hires a management company for administrative tasks and services. The management company (and not the neighborhood association) hires and directly compensates a separate CPA firm (not associated in any way with James) to perform a compilation of the financial statements of the neighborhood association. In fact, the management company routinely engages the same CPA firm to perform similar compilations for a number of neighborhood associations and condominium associations. Typically, the CPA firm addresses its compilation report letter to the board of directors of the neighborhood association or other third-party organization, and the report letter does not state that the CPA firm lacks independence.

Q. In this case, since the client of the CPA firm may appear to be the management company, rather than the neighborhood association, should James be concerned about whether there is a lack of independence?

A. The board of directors of a neighborhood association, condominium association, corporation, or other organization, has a fiduciary duty to ensure that the governance of the organization is ethical and proper. In partial fulfillment of these fiduciary duties, it is not uncommon for the board of directors to require that a CPA firm perform a compilation of the financial statements of the organization. That CPA firm, in turn, is usually selected by the board of directors, hired by the board of directors, paid by the board of directors, and is accountable to the board of directors.

If the board of directors chooses to delegate certain responsibilities for selecting, hiring and compensating the outside CPA firm for this task, the independence of that CPA firm is not necessarily impaired. For larger organizations, an audit committee of the board of directors is often charged with some of these responsibilities. It is also not uncommon for the board of directors, or the audit committee, to elicit assistance from management in the fulfillment of some of these responsibilities. For example, members of management may be asked to assist with obtaining background information and other pertinent data in regard to the process of selecting, from a number of CPA firms, which firm will be engaged by the organization to perform the compilation. There is no rule within the *AICPA Code of Professional Conduct*, or other similar authority, prohibiting the delegation of these types of tasks.

But rules are not everything. Here, even if no rules are technically being broken, there is a risk that the CPA firm may appear to lack independence. The neighborhood association is presumably obtaining a compilation of the organization's financial statements for several

reasons, including accountability to the neighborhood association members and stakeholders, and also including oversight of management. But it is possible to envision a situation where outsiders might perceive that the management company is effectively "purchasing" compilations from the CPA firm. In other words, the very close relationship between the management company and the CPA firm (as compared to the relatively distant connection between the CPA firm and the organization's board) can be seen as a threat to the appearance of independence.

Threats to the fact or appearance of a lack of independence are addressed by the *Conceptual Framework for AICPA Independence Standards*. CPAs, when making decisions on independence matters that are not explicitly addressed by the *Code of Professional Conduct*, use the *Conceptual Framework*.

The risk-based approach of the *Conceptual Framework* entails evaluating the risk that a CPA would not be independent (or would be perceived by a reasonable and informed third party having knowledge of all relevant information as not being independent). That risk must be reduced to an acceptable level, either by removing or reducing the threats themselves, or by ensuring that safeguards are in place to sufficiently mitigate or eliminate the threats.

Here, James has identified a situation that involves a threat to independence. By allowing the management company to select, negotiate with, hire, and compensate the CPA firm, the neighborhood association is assuming the risk that there may develop an appearance of a lack of independence on the part of the CPA firm. It may appear to some that the CPA firm essentially is "working for" and " beholden to" management, rather than the overseers of management, and that the CPA firm is therefore less likely to be as critical of, or discerning toward, management than might otherwise be the case. The appearance of a lack of independence can damage the credibility of the CPA firm as well as of directors of the neighborhood association, including James.

A number of steps could be taken to provide safeguards in this situation including the following:

- The board of directors of the neighborhood association, for example, could take a more proactive role in the selection and engagement of the CPA firm.
- If the management company made available to the board of directors information about several prospective CPA firms, enabling the board of directors to make the final selection, it would appear to all concerned that the CPA firm is effectively working for the board of directors of the neighborhood association rather than for the management company.
- The compensation of the CPA firm could be approved ahead of time, if not directly negotiated, by the board of directors of the neighborhood association.
- The engagement letter, in turn, could be executed on behalf of the neighborhood association by a member of its board of directors rather than by the management company.
- Other direct interaction between the board of directors and the CPA firm would further bolster both the impression and the fact of the board's involvement in the process.

Delegation of tasks by boards of directors is a fact of life. In fact, an important function of

management is to implement the policies and directives of the governing board. But the board cannot avoid its fiduciary responsibilities by attempting to delegate them. The attestation function, which supports the fiduciary duty of accountability of a board of directors as well as its oversight of management, is ultimately the responsibility of the board of directors.

By reducing the threats to independence that can occur in a situation like this case involving a neighborhood association, the credibility of both the board of directors and the CPA firm can be enhanced. Both James (the CPA serving as a director), and the outside CPA firm performing attestation services, would benefit from proper implementation of the *Conceptual Framework for AICPA Independence Standards*.

Questions regarding the circumstance above may be directed to the MACPA Professional Ethics Task Force at ethics@michcpa.org.

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Association Briefs

Save Money with New Member Benefits

The MACPA strives to make your membership as valuable as possible, both professionally and personally. In recent months, we've added several new programs that save you money on a variety of products and services. The latest additions to our benefit lineup include:

Brooks Brothers

Enroll for your Brooks Brothers Corporate Membership Card and save 15% on regular price merchandise at Brooks Brothers U.S. and Canadian stores, by phone or online.

Costco

Join Costco and start saving today, plus receive coupons for free products and other savings valued at more than \$50.

Office Depot

Receive discounts of up to 35% on office products, Design, Print & Ship, Tech Depot and furniture.

Roger CPA Review

Receive a \$400-\$550 discount on online and USB review courses when you purchase all four parts. Or, receive a 20% discount on per-part online and USB review courses.

To learn more about all the benefits available for MACPA members, visit this [webpage](#).

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In Memoriam

Theo C. Carson, CPA
July 22, 2008
Pompano Beach, FL
Joined MACPA: December 31, 1986
Certified: July 23, 1986

Jan E. Fris, CPA
December 30, 2009
Royal Oak, MI
Joined MACPA: January 15, 2002
Certified: September 25, 2007

Charles. F. Hammerslag, CPA
August 18, 2008
Anthem, AZ
Joined MACPA: April 30, 1964
Certified: January 24, 1964

Robert F. Lundeen, CPA
February 2, 2010
Grand Rapids, MI
Joined MACPA: August 17, 1940
Certified: June 30, 1940

Bernard H. Nathanson, CPA
January 1, 2010
West Bloomfield, MI
Joined MACPA: September 30, 1956
Certified: July 23, 1956

Victor D. Nelawake, CPA
February 2010
Livonia, MI
Joined MACPA: November 30, 1980
Certified: August 28, 1980

Eli E. Robinson, CPA
December 30, 2009
West Bloomfield, MI
Joined MACPA: April 30, 1958

Certified: February 1, 1957

Billy J. Walls, CPA
February 10, 2009
Pioneer, TN

Joined MACPA: June 30, 1979

Certified: March 29, 1979

Charles H. Whipple, CPA
November 27, 2009
Port Huron, MI

Joined MACPA: June 30, 1964

Certified: January 24, 1964

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Association Briefs

Don't Miss High-Profile Speakers at Upcoming MACPA Conferences

MACPA has your ticket to hear some of Michigan's all-stars at our upcoming conferences!

April's [Healthcare Conference](#) features a panel discussion on healthcare reform with a speaker lineup that reads like a "Who's Who" of Michigan healthcare. You'll hear from:

- **Chris Allen** - Executive Director & CEO, Detroit Wayne County Health Authority
- **Vernice Anthony Davis, Mph** - President & CEO, Greater Detroit Area Health Council
- **Dottie E. Deremo, FACHE** - President & CEO, Hospice of Michigan
- **Mike Slubowski, FACHE, FACMPE** – President, Health Networks, Trinity Health
- Moderator: **Jeffrey N. Lutz** - Principal, Deloitte Consulting, Detroit

In May, Michigan Supreme Court Justice **Maura Corrigan** and Detroit Public Schools Emergency Financial Manager **Robert Bobb** share their war stories at the [Anti-Fraud Issues Conference](#). If anyone knows fraud, it's these two!

These programs are sure to be some of the most fascinating conferences of the year. Visit www.michcpa.org to register, or to find information on any upcoming MACPA program.