

be reduced quality?

Take Mental Tranquilizers. I have yet to meet the accountant who does not feel completely exasperated at times and want to get away from it all. Well, do it, but do it mentally rather than by physically fleeing to a South Sea island. Put your feet up on your desk, relax in your chair, shut your eyes, and escape.

Set Feasible and Continual Goals. Break up long-range tasks into stages so you can develop success feelings at the stages of completion. Congratulate yourself on your interim achievements.

Achieve Self-Awareness. Occasional introspection is necessary to decide who we are, how we feel, what we want to do. As the acceleration of change continues, it will be paramount to truly know oneself to readily adapt more to the challenges ahead.

Continuing Education in the Largest Accounting Firms

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Professors are fond of telling their students that their education is never completed, that it is an ongoing, life-long experience. In the public accounting profession, this is not just a cliché. Public accounting is a living, changing, dynamic profession, but just how much continuing education is there? And, more specifically, how much is expected (required) in the largest firms? What types of training are given? How is the training accomplished? Does the need for continuing education taper off as a firm member advances?

The Survey. To answer these

questions, I visited education directors of six of the "Big Eight" firms. In several instances, these were extended visits and often involved others on the firms' professional education staff. To insure uniformity in my questions, I used a questionnaire. This questionnaire was mailed to the two other education directors I did not visit. I also visited some of those in charge of education programs at the local level; sat in on some training programs; and served as discussion leader for the AICPA's Level III Staff Training Program in Amherst. Further, I wrote or called on three education directors of substantial firms, not "Big Eight." Finally, I reviewed program materials at the American Institute's EDMAX Continuing Education library. (EDMAX stands for Educational Materials and Exchange.)

Results Obtained. Representa-

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tives of most of the firms felt that continuing education should be mandatory. Some of the divergent views on the extent of annual continuing education programs were:

It is impossible to quantify the hours of annual training needed by professional staff;

More training is needed in earlier years, less training, usually an annual updating is sufficient, for managers and partners; and

Audit, tax, and management advisory services personnel all have differing needs.

Some firms have fairly rigid requirements for new staff assistants; for those after one, two, or three years; and on entrance to new responsibility levels. Some firms specify an exact number of hours of annual formal course work; some conform to the AICPA's continuing education resolution of 120 hours in three years; two require 60 annual hours; one 80 and another 80-120 hours. These requirements do not include preparation outside the classroom, which in some firms is expected to exceed in classroom time.

Most firms keep individual records of the education received. This tends to facilitate assigning personnel to relevant courses, as does one firm's use of an annual diagnostic review that helps personnel spot weaknesses and encourages them to sign up for courses which may help to overcome any deficiencies.

Most firms present basic audit training to all new personnel on their joining the firm. Such programs range from one to four weeks duration. Some firms were quite specific about the number of hours of annual training for personnel in audit, tax, or management services areas. Others were not as definite, stating that it depends on the individual, etc. Yet between formal training hours and at home reading hours preparing for formal classes, at least 120 hours a year is common.

Most firms are cooperating with EDMAX by contributing to the Institute's library of training materials. Participation ranges from nothing so far "because material cannot be kept up-to-date and the effort required to alter a specific course to meet the needs of a firm is greater

than original development cost" to "everything produced goes in." One firm had about 40 days of programs at the AICPA, but "they weren't the very new or innovative ones."

Another firm's representative was quite willing to cooperate in areas other than auditing for which materials were of a proprietary nature. One feeling was that cooperation among the firms and with the Institute was most feasible in developing industry audit guides and materials related to FASB pronouncements. Some felt that much progress in cooperative course development was unlikely, particularly since firms have their own methods that standardized courses could not be expected to serve. Support for the library does, however, appear to be growing, particularly in the depositing materials, as contrasted to using materials from it.

In training locations there appears to be a slight trend away from national course offerings and toward regional or local office meetings. Local office seminars are conducted for updating. Video cassettes make possible the same programs in various offices.

All "Big Eight" firms had professional development offices (under various titles) headed by a partner who gave full-time to this assignment. Organization of the staff typically included several other full-time professionals with appropriate support staff. Course development is generally done by specialists assigned specifically to the education department. Course instructors, though, were often drawn from audit staff, and specially trained for this function by permanent continuing education personnel.

Most of these firms publish catalogs describing course offerings in much the same way as colleges. Firm practice varied in availability of such materials to outsiders. Besides the courses to be expected (auditing and taxes at various levels, EDP, etc.) the firms seem to be moving into human relations, interpersonal development, etc., often in a quite sophisticated manner. Some firms are expanding or improving their industry competence course offerings.

Course presentation techniques included the expected visuals: chalkboards, easels, overhead pro-

jectors, slides, movies, film strips, and audio and video cassettes. The trend seems to be away from movies (seldom used) and slide presentations (although still being used in conjunction with audio cassettes) and toward video cassettes. One firm is extensively involved in color video cassette production, while another is involved to about the same extent with black and white video cassettes. Others have purchased the necessary equipment and are starting to convert from slides with audio cassettes to video cassettes. The great advantage of the video cassette seems to be its versatility and usefulness in a variety of types of presentations ranging from groups down to one person who has drawn a cassette from the library to pursue a particular topic. With a TV set, and video cassette player, any number of staff can watch and listen to a presentation.

Written materials included AICPA pronouncements and extensive firm publications. Textbooks are rarely used in firm continuing education programs; programmed materials seldom. Teaching methods usually emphasize the group discussion method, usually with one leader to about ten students.

Firms' policies with regard to graduate work varied from paying full tuition for courses taken at the firm's request, to partial reimbursement for all tuition, to no tuition or tuition for up to six credits per year with prior firm approval. Most firms encouraged staff to undertake graduate work; none admitted to merely tolerating or even discouraging it. Other things being equal (and they almost never are), most firms would favor hiring MBAs. Firms claim to look at whether the individual has what it takes to make it in public accounting, rather than at whether the person has an MBA or a BS. In recent years firms have actually hired about two persons with bachelors' degrees for every one with an MBA, with both sources rather unlimited.

Firms, as expected, encourage staff to take and pass the CPA examination as soon as possible. The most common encouragement was that only a CPA could be promoted to manager; in other firms

the rank of senior or supervisor required the CPA certificate.

Final Comments. The sizeable staffs working full-time on course development and other education matters are, in many instances, more innovative than their college and university counterparts (and often have more resources). Several have either formal or informal faculty residency programs, during the course of which much in-house material is made available to faculty members. It should be in the best interests of both the firms and educators to have an ongoing exchange and to develop a continuing interest in the problems and concerns of each other.

The Professional Corporation and the Personal Holding Company Problem

Excerpt from the *Notebook of John W. Benesch, June 1975, pp. 4-5.* © 1975 by John W. Benesch Associates.

One problem that has troubled some professional corporations, other than those electing subchapter S status, has been the fear of being considered a personal holding company and, therefore, taxed under Sections 541-7 of the Internal Revenue Code at the rate of 70 percent of the undistributed personal holding company income. A recent revenue ruling is important because it provides some helpful guidelines for the corporate practitioner. But before getting to the ruling, let's review briefly the personal holding company problem itself.

The requirements for a corporation to be classified as a personal holding company are:

1. More than 60 percent of its "adjusted ordinary gross income" must be personal holding company income: income derived from personal service contracts, among other income items, such as dividends, interest, royalties, annuities, and certain rental items.

2. More than 50 percent in value of its outstanding stock must be owned, actually or constructively, by five or fewer individuals.

Section 543 (a) (7) IRC holds that personal holding company income arises under a personal service contract if:

1. Some person other than the corporation has the right to designate the individual who is to perform the services, or the individual who is to perform the services is designated in the contract (oral or written), and

2. The individual who is designated to perform the services owns (directly or indirectly), at some time during the taxable year, 25 percent or more in value of the outstanding stock of the corporation.

While this portion of the code was originally enacted to reach actors, directors, entertainers, and other "incorporated talents," it is equally applicable to professional corporations performing personal services, such as law and medicine, since an individual will customarily solicit and expect to receive the services of a particular physician or lawyer, and will usually be serviced by the individual sought.

Revenue Ruling 75-67 (IRB 1975-9, p. 7), issued in February 1975, provides encouragement to the corporate practitioner in this connection and lays down some helpful rules.

The factual situation in this ruling involves a Doctor Brown who owns 80 percent of the outstanding stock of PC, a domestic professional service corporation, and is the only officer of the corporation

who is active in the production of its income. Dr. Brown is the only medical doctor presently employed by PC and he is a specialist in a certain area of medical services which he performs under an employment contract. The corporation furnishes office quarters and equipment. Mr. Palmer, a patient, solicited the services of Dr. Brown and was treated by him.

In this factual situation, does a relationship arise which constitutes a designation of the individual who is to perform the services under a contract (oral or written) for personal services within the meaning of Section 543(a)(7) IRC? Revenue Ruling 75-67 says, "no," commenting that when an individual solicits and expects the services of a particular physician and that physician accepts the individual as a patient and treats him or her, the relationship so established is not personal holding income within the meaning of §543(a)(7).

However, two exceptions to this conclusion were given in the ruling. They are:

1. If the physician or the professional service corporation contracts with the patient so that the physician personally will perform particular services for the patient, and he has no right to substitute another physician to perform such services, there is a designation of the person to perform the service so as to bring it within the meaning of §543(a)(7).

2. If the type of services to be performed are so unique as to preclude substitution of another physician to perform such services, there is a designation also.

While the new revenue ruling is encouraging, every corporate practitioner should continue to be wary of the pitfalls of being considered a personal holding company and should rely on expert legal guidance to avoid the problem. □

Importance of Innovation

When the great innovation appears, it will almost certainly be in a muddled, incomplete, and confusing form. To the discoverer himself it will be only half-understood; to everybody else it will be a mystery. For any speculation which does not at first glance look crazy, there is no hope.—
F. L. Dyson.