

January 2009

Industry Focus: Accounting

Recently, ten executives, representing some of Nevada's top CPA firms, gathered at the office of Holland & Hart, LLP to discuss the challenges of implementing a number of new accounting standards, the evolution of the industry and how the demographics of the industry are changing and presenting their own challenges. Connie Brennan, publisher of Nevada Business, served as moderator for this monthly event that brings leaders together to discuss issues pertinent to their professions. Following is a condensed version of the roundtable discussion.



Regulatory Challenges

The roundtable participants talked at length about the current regulatory climate. Recently, an increasing number of new accounting standards have been passed. Timely implementation and rising costs have caused acute challenges for the industry. The executives also discussed what has changed about the standards they must adhere to, specifically how the industry has shifted and who is crafting and enforcing the new standards.

Tami Miramontes: The standards effective this year that everybody keeps talking about are the conservative risk assessment standards. The AICPA (American Institute of Certified Public Accountants) issues all of our standards. When they come out with new standards, we have to implement them. There are 114 currently, several years ago we were at 99, and they just dumped a whole bunch of standards on us in a short period of time.

Bill Wells: Our firm is trying to keep up with all the regulatory changes and maintain the ability to implement those changes and then communicate them to our clients in an understandable fashion.

L. Ralph Piercy: It's regulatory and pronouncement overload right now. How do we implement all of it and still service clients in a way that they find value?

Michelle Chen: The cost added onto the audit, due to the new regulations, means that some of the smaller clients might not be able to see the benefits associated with the constantly changing rules and accounting policies.

Curt Anderson: Our biggest challenge right now too, is the implementation of standards and trying to keep our fees reasonable for clients and at the same time adhere to the implementation of these standards.

Mark Bailey: The changes and the implementations are virtually overwhelming. Not just for the accounting firms, but especially for our clients who have comptrollers and CFOs who have been out of school for a few years now and are trying to stay current. It's very, very difficult.

Chen: With the new regulations, we will be able to bring more value to our clients in helping them understand and implement these regulations. This will enhance our relationship with our clients. Happier clients typically mean more business referrals and more profitability.

A Drastically Different Industry

Much of the current economic turmoil is the cause for many of the major shifts occurring in the accounting industry. In addition to the increasing amount of regulations the industry is being handed by the AICPA, the field has evolved in a different way over the years. Historically, the industry was principles-based, currently however, accounting professionals have had to adjust to an almost entirely rules-based accounting system. The executives discussed the impact this evolution has had on their industry.

Bailey: In deference to our host today, I think our tort system has a lot to do with the increasing number of regulations. We in the United States have developed what we all consider a rules-based system with rules-based principles. Our rules-based principles are specifically designed to give us specific answers in specific situations. There are so many specific situations that there is going to be many specific answers. We have gotten away from being principles-based, where subjective judgment, professionalism and professional judgment is critical in the process, and become much more rules-based. It is evidenced by the number of checklists we have and certainly by

the number of standards that we have. I think that international accounting standards, which are principles-based, are going to be heavily challenged in the United States.

Mike Patchett: The industry is changing so much because of what has happened outside of the accounting industry. We are required to do a lot more work with our auditing engagements because of the complexity in the market. Before 1929, financial statements were done on the fair value of assets. They thought that type of accounting caused a substantial part of the crash, so they changed to cost basis. Well, now we are changing to what is internationally a fair value method. We are changing the way accounting is done, meaning the way the industry is auditing those financial statements. Some of the fees and the costs that we have to put into engagements is 30 to 50 percent more than it has been in the past, and anytime you go to a client and say their fees went up by 50 percent, it is a hard pill to swallow without explaining why.

Piercy: We've developed from a profession that was primarily a cost-based accounting machine. Now, if you look at what we do, most of the big numbers on the financial statement have something to do with fair value. Unfortunately, most of the profession has not been trained to be valuation specialists or appraisers, and so as a profession, we are stumbling through that whole process. The way the standards are being developed today, accountants are thrown into an environment where they really have not been educated to perform. If you just go down the balance sheet, there are a lot of value estimates which have not been there to this extent historically.

Thomas Roach: I think all of the profession is somewhat whetted to a less rule-based approach and a more principles-based approach. But again, in terms of fair market accounting, I think it is what is going to happen in the future; it is just something we all are going to have to live with. Any time somebody dreams up some new, esoteric instrument, everybody is going to struggle with how to value it.

Profitability

As with most industries, accountants are grappling with diminished profit margins. Rate increases were discussed as a necessity due to the new standards they must implement to be in compliance with the AICPA.

Miramontes: We are noticing there is a lot more resistance to fees. Long term clients are now shopping, going out and looking to see if they can get the audits done less expensively. Even though you are providing them a great service, they just cannot afford it, or they say they cannot afford it.

John Amundson: At our firm, the receivables got pushed farther and farther out. We hope that they're still collectible, but that is one of the issues that we are starting to address now.

Wells: Our margins are being cut because we are not able to bill for the full value of all the time we are putting in to cover some of these new pronouncements. Plus, with the economic conditions, many clients are negotiating everything.

Calming the Fears

All agreed that they spend the majority of their time trying to calm down their clients and educate them about the fundamentals of economic cycles. There was consensus that giving sound advice to clients right now is near impossible without a crystal ball.

Wells: The problem is, we're trying to educate people in such an uncertain time that you have to go back to the fundamentals and understand that we're changing the wheel on the car and the car is moving. Look at the stock market, if that is not indicative of uncertainty in the world and in the United States, then nothing is.

Swan: The majority of the phone calls are, should I sell now? What's going to happen with capital gains? Should I just unload now, get everything done and pay my taxes and then wait it out? Those are the questions that I'm getting asked as a tax person. There is no way that taxes were not going to change, no matter who got elected, because of the economic situation. Now it is more, how do we plan? Because we don't really know what is coming down the pipeline.

Anderson: The fundamental issue is you don't worry about taxes if you don't have profits. I think a lot of stress is on the profits more so than the taxes.

Piercy: My advice to a client is, don't let taxes control your business judgment in terms of what makes sense from a business standpoint.

Amundson: To advise a client to sell, to take the losses, you are sort of promoting something that basically locks in the loss. Whereas, if they hold onto it, maybe it will come back; it's like getting the crystal ball out to try and make the right decision here. I find myself just saying over and over again, the fundamental issue is that it's never as good as it seems and it's never as bad as it seems. People get fixated on the extremes. The reality is, you must

keep yourself centered and not overreact one way or the other, you have to persevere. That is really what we're talking about, so you don't rush off and start selling things precipitously just because.

Patchett: I talk to my clients about watching Congress. Find out what is going on in the committees, read the reports and different things so at least you are aware before they happen. There is no law today that's going to happen tomorrow. It takes time for Congress to go through these things and as we get closer to the laws being enacted, then you can make better plans.

Finding the Right Talent

A few years ago, the accounting industry experienced a workforce shortage. At the roundtable, it was discussed how this has changed and the new challenges they face regarding employment. This included a general lack of funds available for hiring and Generation Y employees' demands for a work life balance.

Miramontes: It's definitely not as hard as it was a few years ago [to find qualified people]. I'm getting resumes, at least a couple a week, from experienced people. We're in a position now where we've got enough resumes, but we don't need to hire, whereas, in the past, we were desperately looking for people.

Amundson: An evolving concern of ours is not so much acquiring good people, it is how are we going to be able to retain the people we have. If they are used to big raises in the past, and all of a sudden everything tightens up, will we be able to keep them happy?

Bailey: A lot of the workforce shortage a few years ago had to do with the fact that we went to the five year rule in Nevada, where you have to have 150 units for the CPA exam, and so we missed out on a group of managers for a while because we didn't have a lot of accounting graduates for a three or four year period.

Miramontes: There is a big difference between those of us in the industry and those coming into the industry, Generation Y. They want flexibility, they don't want to work as many hours and they want things to come easier to them than generations passed. They are also a lot more questioning when it comes to tasks; it is just such a departure from the Baby Boomer and Gen X perspective of 'just do what your told.'

Chen: In a professional environment, I believe the firm's culture and the individual's personality will inevitably influence each other. On one hand, Gen Y will make the firm think more about work-life balance and on the other

hand, the firm, if it mostly consists of previous generations, would impose the firm's values on to Gen Y. At the end, the 'survival of the fittest' model would still apply.

Anderson: I think there's actually an identity of goals now between the Boomers and Gen Y. I would suspect everybody in this room that's over the age of 45 or 50, which is a fair number of us, wants to have more time, wants to be able to have a quality of life balance and be able to do things personally and pursue other things besides sit behind a desk and a computer. So I think to some degree, we're struggling with the same work life balances that these younger people coming in are struggling with. Generation Y employees negotiate expectations up front and to some degree we, as Baby Boomers, start looking down the aisle and going well now, wait a minute, what's wrong with this picture? Maybe I should be doing some more of this myself and structuring things to get there.

Swan: The younger generation we are trying to hire asks more, 'What's in it for me?' When I was being hired, it was more, 'What can I do for you to secure a job?' There has been a total shift in thinking.

Bailey: A few years ago, we hired people, they would stay for a few years and then they would leave. Turnover is incredibly expensive, even in a small firm. Big firms probably have a certain obsolescence that they look for because there's not a career path for everybody that comes in. But it got old, so retention became a big issue with us and we changed a lot of things. We got rid of time sheets and annual performance evaluations in favor of a mentoring program. One of the things that this generation wants is immediate feedback. They don't want to hear in December that they screwed up in September. We went to a flex work schedule which is essentially, the employees know their tasks and their deadlines. They are granted complete freedom in completing their tasks, meaning they are allowed to work from home or at untraditional business hours, but the job must be done on time, there is no flexibility regarding this last part. It has worked out very well for us, as we have had no voluntary turnover in the last four years.

Piercy: We've always tried to be flexible where it made sense, but there are practical constraints that you can't get around. If your being someplace affects the productivity of the people that you're working with, whether it's people on our staff or the client's staff, obviously you don't have the flexibility to say, 'I think I'll work tonight.' So within these realistic parameters is where the flexibility comes in. We have some people that work 40 hours a week during crunch time, never worked a Saturday or a Sunday, it just depends upon the deal you have with that individual. If you have atypical deals, you have to make sure they're communicated within the organization so that the other employees realize that compensation is different.

Where is the Crystal Ball?

Participants speculated on the future of accounting in the near term, but all believed that presently, it is too uncertain to make sound predictions about the long term. Most believed 2009 would be a maintenance year with the turnaround beginning in 2010.

Piercy: How long the downturn is going to last, I don't know. That's a crap shoot right now. But I can tell you that we have a lot of good things going for us here in Las Vegas that some other places don't have. We will be stronger for it. Part of the run is part of the problem. The valuations got out of line, they were too high, and a lot of the companies cashed out. They refinanced at valuations that were so much higher than historical valuation parameters would have been. Now, they find themselves strapped with a lot of debt and they're the victim of their own policies, for lack of a better word.

Roach: If you want to put a silver lining on what's happening, there had not been a lot of focus on cost containment inside gaming companies in the recent past. They became very bloated organizations across a wide variety of functions and this has really been a wakeup call for them to look very seriously at what they really need to do in terms of right-sizing their businesses to accommodate the revenue levels.

Wells: What started as a credit crisis has now cascaded into an economic crisis. We've got the perfect storm here to do some strategic planning going forward to get the state back on its feet.