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Abstracts: Papers presented at the fourth Charles Waldo Haskins Accounting History Seminar; Papers presented at the fourth Charles Waldo Haskins Accounting History Seminar

Elliott L. Slocum

Alfred Robert Roberts

PAPERS PRESENTED AT THE FOURTH CHARLES WALDO HASKINS ACCOUNTING HISTORY SEMINAR

The Accounting History Research Center (AHRC) hosted the fourth in the series of the Charles Waldo Haskins Accounting History Seminars at the Hilton Hotel in Atlanta, Georgia on December 1 and 2, 1989. Thirteen papers were presented at the seminar. In addition, presentations were made by Eugene H. Flegm at the seminar luncheon and Wil Schwotzer at the seminar dinner. Comments by Messrs. Flegm and Schwotzer are summarized earlier in this issue of *The Notebook*.

Support for the seminar from those persons submitting papers, presenting papers, and attending the seminar was very gratifying. More papers were received than could be accepted due to the presentation time available. Those papers selected were of outstanding quality and included a variety of subjects and issues in accounting history relevant to our understanding of the present. Authors represented thirteen universities; one public accounting firm; and ten states, Australia, and England.

Abstracts were submitted by the authors and are presented herein. Length and detail of the abstracts vary at the authors' discretion. Undoubtedly, the authors would gladly provide a copy of the complete paper upon request or provide information on where the paper was subsequently published.

The directors of the AHRC and the trustees and officers of the Academy of Accounting Historians sincerely appreciate the contributions of the authors, moderators, and attendees which made the Fourth Charles Waldo Haskins Accounting History Seminar a success.

Elliott L. Slocum
Alfred R. Roberts

Dr. Gene Berry, Director of the School of Accountancy, extended a warm welcome to the participants in the Fourth Charles Waldo Haskins Accounting History Seminar on behalf of Georgia State University.

SESSION I:
Moderator: Ashton C. Bishop, Jr.
James Madison University

THE INFLUENCE OF FIRM SIZE, STRATEGY, AND STRUCTURE ON THE DEVELOPMENT OF ACCOUNTING, 1776-1989

by
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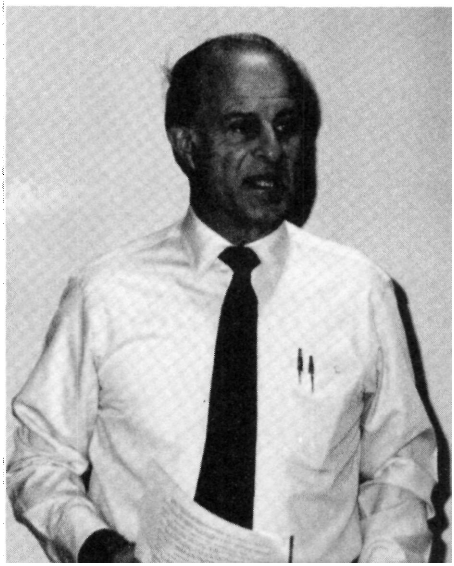
This paper is a portion of a line of research based on the premise that one's ability to understand and explain the existence of a particular firm's accounting practices, or of typical firm accounting practices, is enhanced by an understanding of the economics of the firm. Both firms and accounting have existed for a long time, having developed together over many centuries. The focus in this paper is on developments in firm size, in firm strategy regarding vertical integration and diversification, and in form of organization as influences on the development of accounting.

A brief summary of an earlier paper can provide useful background. The firm is viewed as an economic unit directed by one manager or management team that acquires, divides, and combines resource inputs to produce one or more product outputs in order to create wealth. This view of the firm was found to have important implications for accounting, as firm accounting practices are shaped by the fundamental characteristics of firms.

Six psychological and economic considerations were identified as influencing the development of firms, and through firms, accounting. They were: bounded rationality, the prevalance of self-interested (opportunistic) behavior, firm



uniqueness, externalities and dilution of cost/benefit consequences, cost of information, and information losses in communication processes. These basic (Tier I) influences support seven Tier II influences (but not via one-to-one connections): separation of ownership and management, income taxation, regulation of financial reporting and auditing, control loss in large organizations, performance evaluation and incentives, asset specificity and redeployability, and indivisibilities and economies of scale. A number of developments in the historical evolution of accounting were identified as emanating from those thirteen influences.

In this paper, the influence of firm size, strategy, and structure on accounting are investigated. Those influences are indeed substantial. They are summarized in this abstract in the form of a series of propositions (hypotheses with varying probabilities of acceptance, with or without further research) regarding developments in accounting.

Size of Firm

The tendency of increasing size of firm to challenge the bounds of human rationality (including memory) has stimulated the development of accounting for thousands of years.

The communication problems, coordination difficulties, and bureaucratic tendencies plaguing the managements of large firms have stimulated the evolution of control-oriented accounting procedures such as budgeting, standard costing, segment performance reporting, and variance analysis.

Both motivation to work toward firm objectives and direct observability of individual performance are impaired as size of firm increases. Therefore, accounting-based performance reports are more fully developed in large firms than in small ones.

As size of firm increases, opportunistic behavior and incentive dilution encourage managements to make greater use of internal control devices such as separation of duties and internal auditing.

Increasing specialization of labor in growing firms stimulates an interest in financial information about specialized activities and makes the gathering of cost and revenue data about those activities easier, thus leading to the development of finer classifications of data on specific functions.

Developments of more economical, high volume data processing equipment and techniques are largely attributable to large firms.

Growth Strategy

In the absence of market prices for activity inputs and outputs that are observable by the management of a single-activity firm, managers in the integrated firm with several sequential activities seek substitutes for use in measuring activity inputs and outputs. Accounting has developed such substitutes. For performance evaluation, accounting has developed the concept of responsibility accounting and performance reports that show actual results alongside budgets or standards. For technology decisions, accounting has developed the cost-tracing form of product costing and a variety of ad hoc analytical techniques. Limited development of transfer pricing schemes not based entirely on cost tracing is observed, but they rarely are applied to transfers among activities in the same product division. In sum, accounting measurements play the same role in guiding decisions made in the management of a set of activities making up an integrated firm that market prices play in guiding such decisions when a set of activities is distributed among several unintegrated firms.

One is inclined to speculate that the influence of regulation on external financial reporting, the importance of verifiability to transferrers and transferees with conflicting interests, uniqueness of the intermediates being transferred, and cost of information have tended to inhibit further development of market-related transfer pricing.

The production of multiple products in one plant obscures product cost data and contributes to the development of complex product cost accounting systems. Other things remaining equal, multiproduct plants develop more refined systems for measuring product costs than do single-product plants.

Organizational Structure

The multidivisional form of organization has replaced the functional form in many large firms, accompanied by development of profit center reporting, transfer pricing techniques, and emphasis on return on investment and, to a limited extent, residual income.

Certain problems plaguing managements of large firms — especially losses in transmissions and coordination difficulties — suggest that the more complicated and varied the business (e.g., number of products, location, technology, marketing channels, government relations) the smaller (in revenues) the size limit for a firm organized functionally and the more likely the firm is to adopt the profit center form of organization and accounting. The product division form of organization dominates the functional form in diversified firms.

A firm is not likely to adopt profit center accounting if interactivity transfers are not measurable by close surrogates for observable market prices; cost center accounting will prevail. For example, a proprietary product is likely to be transferred from manufacturing to sales at cost rather than a transfer price that yields a profit or loss to manufacturing. Thus, the form of organization is partly determined by information availability.

This series of propositions regarding the influence of firm size, strategy and structure on the development of accounting is presented for examination by others interested in the general area of the development of accounting in firms.

THE EVOLUTION OF THE 'UNIFORM' CPA EXAMINATION

by
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Motivated by curiosity and by concern with the recently adopted changes to the format of the CPA Exam and also by a desire to understand better what possessing a CPA certificate really means, this paper analyzes the evolution of the CPA Exam from its beginning through the adoption of a uniform content and format. This paper also compares the exams taken by our professional forebears to the modern examination. One motivation for the paper is a curiosity concerning the level of truth associated with a common perception of many CPAs that the exam is getting progressively more difficult. If this perception is true, then the earliest examinations, when contrasted with current exams, must have been comparatively easy. This look back at the past also is motivated by recently adopted proposals to change the format and structure of the CPA examination for the first time in many years. Finally, a review of the past century of exams provides perspective to the profession's most treasured ritual: that of examining candidates' knowledge and competence to be admitted to the guild of Accountancy.

In this paper there are four research issues. First, the developments that led to the institution of the first CPA Exam are identified. Second, the evolution of the earliest state CPA Examinations into the "uniform" CPA Examination is investigated. Third, the early CPA Exams are compared to the current exams as a way of illustrating the impact that these first exams have had, and continue to have, on modern exams. Last, in a very subjective way, the rigor of the early examinations is compared to "modern" examinations in an attempt to draw conclusions about the relative difficulty of the old examinations compared to the modern ones. This level of rigor will be assessed by (1) comparing and contrasting questions and (2) comparing pass rates. The issues which are discussed include:

> Has the level of difficulty of examinations changed appreciably from early exams to more modern ones?
>
> Have the pass rates changed appreciably over the years?
>
> Is the coverage of the exam more (or less) comprehensive now than in the past?

The primary research method employed in this paper is to investigate the old examinations by reviewing *The Journal of Accountancy* issues from the turn of the century. CPA exam information printed in *The Journal of Accountancy* includes reprints of the actual CPA Examinations, articles discussing various aspects of the examination procedure and facts about the pass/failure rates on various exams.

BRITISH ENTREPRENEURS AND INDUSTRIAL REVOLUTION COST MANAGEMENT: A STUDY OF INNOVATION

by
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Lee D. Parker
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Traditional accounting histories date the advent of sophisticated cost accounting from the mid-1880's and credit American innovators of Frederick Taylor's scientific management movement with conceiving the new practices. However, it is counterintuitive to think the entrepreneurs of the British Industrial Revolution would not have developed costing techniques, given their significant methodological advances in other economic areas, such as technology, capital accumulation, and marketing structure development. This paper reports the findings from a survey of surviving business records from twenty-five large industrial firms during the 1760-1850 period, concentrated in the dominant textile and iron industries. Substantial evidence of mature cost management has been found in eight major areas of activity:

Expense Control: Concern over expenditure must be considered a most fundamental aspect for even a nascent cost management system. However, Industrial Revolution firms tracked costs to a degree unanticipated in terms of frequency, specificity, and detail. For many companies raw materials and productive processes were costed to a fraction of a pence on a weekly or even daily basis. This evidence sheds new light on the frequently heard contention that entrepreneurs were unconcerned about costs since profit margins were so enormous.

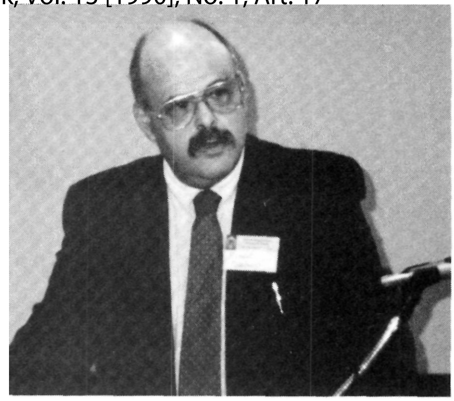
Responsibility Cost Management: A number of the firms surveyed made regular comparisons of individual factories and shops of the same function. Managers were evaluated on the basis of these comparisons.

Product Costing: Great care was taken to price products based on lengthy and intricate cost calculations which included, not only the more obvious prime costs, but selling expenses and factory overhead allocations as well. Product costing efforts of Boulton & Watt and Wedgwood were particularly impressive.

Accounting for Overhead: The realization that productive departments and products should bear overhead allocations was prevalent. On several occasions allotment was based on predetermined application formulae.

Cost Comparisons: Sophisticated cost comparisons were made on a wide variety of subjects, including mineral field yields, waste associated with various raw material mixtures, and individual blast furnaces. The efficiency of steam engines was particularly scrutinized, including horsepower generated, coal consumed, and machine downtime.

Costs for Special Decisions: Cost analyses were both frequent and



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sophisticated to support decision-making in areas such as lease or buy, introduction of technology, subcontracting, expansion of operations, product line abandonment or deemphasis, and marketing/transportation.

Budgets, Forecasts, and Standards: Nearly all major Industrial Revolution firms employed standard cost techniques for valuing inventory, transferring costs for raw materials between departments, product costing, and departmental evaluations. Budgeting and profit forecasting was done more rarely, though several sophisticated examples do exist.

Inventory Control: References are frequent to the concern of managers about inventory problems such as carrying charges, stockout dislocations, and risks of obsolescence.

Tables have been presented demonstrating on an individual firm basis either a substantial volume of activity or an excellence/sophistication of technique in each of the eight cost management categories. The evidence supports the contention that British Industrial Revolution entrepreneurs had good costing instincts appropriate for their environment. Comparisons to the literature of the later "costing renaissance" era suggest that much greater credit should be accorded their activities as a formative stage in the evolution of cost accounting.

A ROUNDTABLE OF HISTORICAL TOPICS:
Discussion Leader: Edward N. Coffman
Virginia Commonwealth University

A PRIMER ON ORAL HISTORY

by

Marilynn Collins
John Carroll University

Robert Bloom
John Carroll University

The purpose of this paper is to present "oral history" as a means of doing research on accounting history. As a research tool, oral history can be used to supplement and clarify the written record. It has scarcely been used in accounting history despite its great potential for illuminating past events and circumstances. We take the position that interviews of the principal participants in professional accounting standard-setting and practice by academic accountants can serve a valuable objective, for example, in terms of explaining how a particular accounting standard was developed. Additionally, such interviews can have the effect of alleviating the long-standing schism between accounting practitioners and academics.

Donald A. Ritchie, past president of the Oral History Association, observes [1988, p. A44] that oral history is "not a new pursuit," citing as examples oral histories collected by military historians during World War II and surreptitious tape recordings used as supplements to written records by Presidents Nixon, Roosevelt, Kennedy, and Johnson [1988, p. A44].

Advantages of oral histories according to Ritchie are that they [1988, A44]:

> ...provide oral road maps through the documentary thicket and also offer some clues to missing material. ...[T]he "author" of an oral history works with an interviewer who has done the homework necessary to raise questions about policies that did not work and decisions that went wrong.
>
> Admittedly, each oral history deals with only one perspective, and few people have been in a position to see all sides of an entire issue or judge all of its implications. But good oral-history programs seek to interview a wide enough selection of the people involved to build a balanced image of events. The spoken word can offer the additional advantage of being more colloquial and intimate than formal memoranda writing....

The process of gathering oral history is simple to implement. As an example, the typical steps to be taken are as follows:

1. Identification of sources available in the same geographical area as the researchers. This facilitates the "collection" of oral history because the parties can meet at mutually convenient times and places.

2. Selection of an individual based on research interest and then arranging a suitable time and place for the interview. In making the initial contact, the interviewee should be apprised of the purposes of the interview and the anticipated use of the information gathered.

3. Preliminary research of literature to determine the direction and questions to be asked in the interview.

4. Interviewing with flexibility—i.e., having some notion beforehand of the direction the interview will probably take—without taking preconceived, biased positions on any issues—and having "neutral, unbiased" questions available should not prevent the interview from taking a different path from the one expected. Notes can be taken, but a tape recorder cannot be used unless the interviewee is comfortable with one. After the interview is finished, it is imperative to request the interviewee to sign a release form indicating that the interviewee consents to have the information which he/she furnished for the express purpose indicated in writing. (Stave, 1987) Furthermore, a copy of the draft of the paper should be forwarded to the interviewee for his/her perusal and suggested modification. (Stave, 1987, 16) Oral history can be an effective research tool only if the researcher is thoroughly prepared.

Oral history can be both a tool for shedding light on written record or raising questions about that record. (Shopes and Frisch, 1988) We believe that much potential oral accounting history is available, and ought to be gathered. It is regrettable that oral history has been used so seldom in accounting to substantiate or complement written history.

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THE SAGA OF A FREEDOM OF INFORMATION ACT SEARCH

by
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Locating and gathering research materials may be the most difficult aspect of conducting historical accounting research studies. One must dig for archival materials in any fertile ground. An important source of data may often be overlooked by historical researchers due to the perceived difficulties of dealing with the bureaucracy of the federal government. The Freedom of Information Act (FOIA) provides a vital source of inquiry on many subject areas once the tricks of dealing with government agencies can be mastered.

The Freedom of Information Act, first passed in 1966, is intended to provide any person access to the records of agencies of the executive branch of the federal government. The Act does not apply to the records of Congress or the judicial branch of the government.

The procedure to follow in making a request for information under the Freedom of Information Act is simply to write a letter. Probably the most important part of the letter is the request for records. The letter should include an adequate description of the records being requested. The letter may also contain a request for a waiver or reduction of the search fees. If possible delays are to be avoided when a waiver is requested, the requester should offer to pay the search fee up to a stated limit upon denial of the waiver.

The FOIA appears to be a most valuable source of data for accounting history projects, in particular biographies. To illustrate, the FOIA had great potential as a source of information in researching the life of T. Coleman Andrews, a former president of the American Institute of Accountants and a member of the Accounting Hall of Fame. For much of his career T. Coleman Andrews was a public servant and during most of that time was the center of attention or controversy so that government records on him should abound. Andrews moved to Washington, D.C. in 1941 where he worked in the office of the Under Secretary of War and the Under Secretary of the Navy and served on the staff of General Eisenhower. He also worked as an accountant for the Department of State. After the war, Andrews became the first director of the Corporation Audits Division of the General Accounting Office. Andrews next served on the Hoover Commission. He became Commissioner of Internal Revenue in 1953, the first CPA to hold that position. Following 33 controversial months as Commissioner, he resigned to become a presidential candidate. In 1956, Andrews ran on an independent ticket with his platform being the abolition of the federal income tax system and a general limitation of federal government powers. With the support of a large number of conservative splinter groups, Andrews was moderately successful in the election. He never again ran for office although he was later nominated for governor of Virginia, but declined to accept the nomination. In 1958, he was one of the twelve founders of the conservative John Birch Society. All of this government activity should have generated many government files.

Requests for FOIA information were directed to the Internal Revenue Service, the State Department, the Defense Department and the Federal Bureau of Investigation (FBI). Following minor delays, the first three agencies above provided several pages of information each. However, the FBI was less cooperative. After 29 months of delays and excuses from the FBI, the assistance of Senator Trent Lott of Mississippi was requested. Senator Lott contacted the FBI on behalf of the researchers, and within two months the FBI responded with 120 pages of information. This was 31 months after the original request had been filed. Unfortunately, much of the information from the FBI had been censored. All names of individuals were removed as was anything that would prove embarrassing to anyone. However, there was still a great deal of worthwhile information that survived the work of the censors. Apparently one reason for the delay from the FBI was that every page of the files was read and evaluated by someone at the agency. The other agencies simply sent copies of their files without reading every word.

In summary, several lessons can be learned from this particular experience of gathering data through the FOIA. In particular, it can be noted that much reliable information can be obtained. However, researchers must allow plenty of time for the completion of the project. This means that a doctoral student should be advised to identify the topic of a dissertation near the beginning of coursework and begin to make FOIA requests at that time in order to complete the dissertation research in a reasonable amount of time. Untenured faculty members should be aware of the hazards that might arise as the result of such a lengthy delay. Finally, the researcher should remember how help from a Congressman can accelerate the process. If these lessons are heeded, the Freedom of Information Act may prove to be a valuable source of material for accounting researchers.

HISTORICAL EVOLUTION OF THE EXTRAORDINARY ITEM CONCEPT

by
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The notion of extraordinary items has been clearly defined since the Accounting Principles Board issued "Reporting the Results of Operations," *Opinions of the Accounting Principles Board No. 30* in 1973. The opinion established the criteria of infrequency and unusualness for extraordinary item treatment. In addition, the opinion discussed the proper presentation of extraordinary items in an income statement format. Although extraordinary item treatment is a well-understood concept, little has been written about the forces and developments that led to the issuance of *Opinion No. 30.* The purpose of this paper is to review the historical developments that led to the evolution of the extraordinary item concept.

The problems involved with accounting for extraordinary items came to the fore as the emphasis in financial reporting shifted from the balance sheet to the income statement. Prior to the shift in emphasis to the income statement, there was little concern with income determination or the elements to be included or excluded in the income calculation.

As environmental conditions changed, new demands were made on accounting to provide relevant information about the operations of business entities. Earning capacity, as measured by the computation of periodic net income, became a major factor in valuation of industrial enterprises. Income statements provided the necessary information for evaluating earning capacity.

By the early 1930's, the shift in emphasis to income statement data was substantially underway. Concern began to be expressed over what constituted net income for the period. One of the primary questions to be answered involved the proper treatment of extraordinary items in financial reports.

The American Institute of Certified Public Accountants recognized the problem of extraordinary items in its early pronouncements, but did little in the way of providing a solution. Not until the issuance of ARB No. 32, in 1947, did the AICPA take any definite stand on the matter. In essence, ARB No. 32 advocated a current operating performance concept of net income.

In 1953, ARB No. 32, with minor modifications, was reissued as Chapter 8 of ARB No. 43. The provisions of this pronouncement constituted the AICPA's official position on the matter until the issuance, in 1966, of Opinion No. 9 of the Accounting Principles Board, entitled *Reporting the Results of Operations.*

Despite the weaknesses inherent in the provisions of Opinion No. 9, it has generally been considered a significant improvement over the practices existing prior to its issuance. The primary advantage claimed for Opinion No. 9 is the uniformity of presentation achieved by its application.

The Securities and Exchange Commission has consistently advocated an all-inclusive concept of income. With the revision of its *Regulation S-X* in 1950, the SEC still expressed its preference for including all items of gain and loss in determining net income for the period. However, due to a compromise with the American Institute of Certified Public Accountants, *Regulation S-X* provided a means of presenting special items on the face of the income statement without having to include the effects of these items in the calculation of net income for the period.

The American Accounting Association's first official position on the treatment of extraordinary items was essentially one reflecting an all-inclusive concept. In its subsequent pronouncements, the AAA seems to have modified its position regarding income statement presentation.

In reviewing the historical evolution of the extraordinary concept, one weakness seems to permeate all of the various authoritative positions. This weakness is the failure to clearly define criteria for determining which transactions and events give rise to extraordinary items. At best, the American Institute of Certified Public Accountants, the Securities and Exchange Commission and the American Accounting Association have attempted to list specific items which would qualify for extraordinary treatment. The main thrust of the early work on extraordinary items was directed at the debate concerning the inclusion or exclusion of extraordinary items from the figure designated as net income.

ACCOUNTING FOR LABOR IN THE EARLY 19TH CENTURY: THE U.S. ARMS MAKING EXPERIENCE

by
Thomas Tyson
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The Springfield armory was the largest and among the most important prototypes of the modern factory establishment, and its accounting controls were the most sophisticated in use before the 1840's (Chandler, 1977). Until that time, the armory's accounting system did not integrate piece-rate accounting and a clock-regulated workday into prespecified norms of output. Hoskin & Macve (1988) have argued that accounting was unable to establish norms, increase labor productivity, and thus attain its full disciplinary power until a West Point managerial component was established in the 1840's. They then called for further discourse to verify or refute this contention.

The current study pursued this charge and concludes that West Point management training was a relatively minor determinant in the evolving nature of accounting. In the U.S. arms-making experience, at least, a more proactive accounting system emerged in response to social and economic forces that included the disintegration of the craft production tradition, an economic depression, and the termination of cost sharing and cooperative knowledge among producers.

SESSION II

Moderator: Hans Johnson
University of North Dakota

WHEN WOULD THE INTELLECTUAL BACKGROUND MAKE A DIFFERENCE? OR PROFESSORS HAVE BEEN IMPORTANT FOR A LONG TIME, BUT WHAT KIND OF PROFESSORS?

by
John W. Durham
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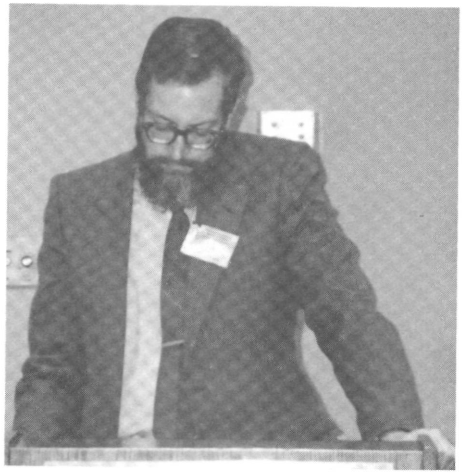
Medieval accounting history affords a fertile ground for studying the impact of the intellectual background on the development of accounting itself. In such a study, four hypotheses can be proposed: that the intellectual background affects accounting only when it reaches out towards accounting practice; that this outreach occurs only when intellectuals have direct, personal contact with accounting practice; that developments in law, philosophy, and related humanities are important; and that developments in mathematics are not important.



AN EXPLORATORY STORY OF EARLY EMPIRICISM IN U.S. ACCOUNTING LITERATURE

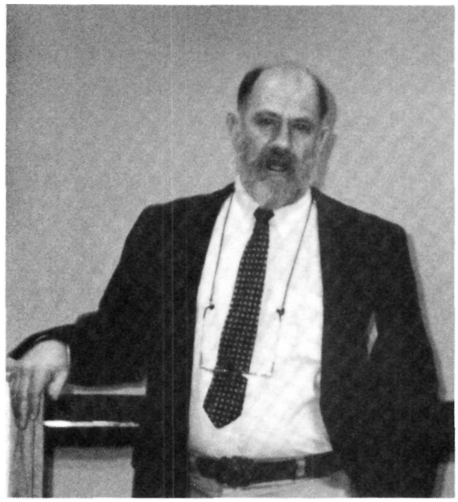
by
Dale Buckmaster
University of Delaware

Kok-Foo Theang
Ernst and Young

Little or nothing is said of empiricism in U.S. accounting literature during the first half of the twentieth century in accounting history literature. We cannot make generalizations about the extent or role of empirics in the development of accounting thought. This lack of knowledge may be imposing unnecessary bounds on our understanding of how accounting literature has developed. This study has the very modest primary goal of determining if an empirical literature existed prior to 1950 that was extensive enough and substantive enough to have influenced the development of accounting thought. A secondary goal is to make some general comparisons with contemporary academic empiricism.

The study is based on a sample of thirty-eight works published from 1906 through 1949. The twelve entries in Ball's [1971] bibliography of empirical studies were all included in the sample and a cluster-sampling plan was used to select the remaining twenty-six works. The clusters were randomly selected volumes of *The Accounting Review*, *N.A.C.A. Bulletin*, *Journal of Accountancy*, *The American Accountant*, and *Michigan Business Studies*. One hundred thirteen articles and eleven books were identified from the clusters. The remaining twenty-six works in the sample were randomly selected from this group.

The sample included works in several



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accounting specializations and were found in all of the journals. The empirics in most of the studies were essential to the study and not peripheral. The data were used in conjunction with normative theory in the financial accounting studies, but theory was not important in studies in other specializations. Two studies reflect embryonic efforts at "positive" theory. Both academic and non-academics were authors in academic journals. Very little use was made of inferential statistics and design of the studies was generally unnecessarily primitive. The studies were primarily concerned with implementation in contrast with contemporary concern with explanation. Similarly, most theoretical concern was normative rather than positive.

Empiricism was extensive enough and substantive enough to have had considerable influence on normative theorists and the subsequent development of accounting literature. Given the surprising frequency of empiricism, more specialized exploratory studies are desirable for the formation of hypotheses. For example, samples might be identified and drawn by specialization and/or temporally stratified samples examined.

'PLUS CE CHANGE, PLUS C'EST LA MEME CHOSE': A STUDY IN ACCOUNTING FOR CHANGING PRICE LEVELS IN GERMANY AND THE USA

by
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The University of Hull

N.M.A. Hussaen
The University of Hull

Prior to World War I, accountants and academics generally advocated the preparation of accounting statements based on an assumption of a stable monetary unit. During the war, the industrialised countries experienced moderate inflation but this was reasonably quickly controlled in the USA and the UK. However, post war inflation in Germany was not so rapidly controlled and revealed the shortcomings of accounts prepared under traditional assumptions. This stimulated several academics to consider ways in which this problem might be overcome, and their studies were to provide the foundations for later work on inflation accounting in the USA and the UK.

MOYRA KEDSLIE

German accounting practice up to the 1920's was influenced by several factors. The most important of these were the Commercial Codes of 1861, 1884 and 1897, but tax legislation, trade associations, the accountancy profession and academics also helped to shape accounting reports. Among the German academics, the most notable were Schmalenbach, Mahlbert and Schmidt, and it is their work which provides the first focus for this paper. The paper will then examine the impact of their research on Sweeney's "Stabilized Accounting" and, finally, will consider the influence of Sweeney's work on subsequent attempts to provide a solution to the problems of inflation accounting in the USA and the UK.

SESSION III:
Moderator: Henry F. Stabler
Georgia State University

WOMEN IN ACCOUNTING IN GREAT BRITAIN AND IN THE UNITED STATES —SOME HISTORICAL PARALLELS

by
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The public accounting profession in the United States has its roots in Great Britain. Chartered accountants from England and Scotland came to this country to account for the capital coming into the States from the Old World [Stevens, 1981, p. 3]. Hence, a history of women in accounting in the United States would be expected to have many parallels with a history of women in accounting in Great Britain.

This was found to be the case. Women in both countries faced obstacles when they wanted to enter the public accounting profession. In the early years of the profession, women in both countries were more often directed toward positions as bookkeepers or clerks than accountants or auditors. The suitability of women entering the accounting profession in both countries became the subject of debate within the existing membership of the profession. Both British and American women moved into the accounting profession in large numbers primarily as a result of national manpower shortages encountered during wartime.

Additionally, women in both countries encountered resistance when they entered the male-dominated public accounting profession and related professional organizations. Membership in professional organizations was often denied to them. However, women persisted in their efforts to join the ranks of accountants. In the 1970's an unprecedented number of women moved into the accounting profession in both countries. Currently, the national accounting firms report that approximately half of their new accounting recruits are female, and colleges and universities are reporting the same ratio of students majoring in accounting [Berg, 1988, p. D7]. Fairly recently, economic opportunity legislation and court decisions have aided women in all career paths. Finally, although the status of women in public accounting in these two countries has improved greatly during the last 20 years, there are still few women partners in the national accounting firms in either country.

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THE NATURAL BUSINESS YEAR: A REVIEW OF ACCOUNTING LITERATURE FROM 1915 THROUGH 1988 SHOWS A SHIFT OF PROACTIVE TO REACTIVE BEHAVIOR BY ACCOUNTANTS

by
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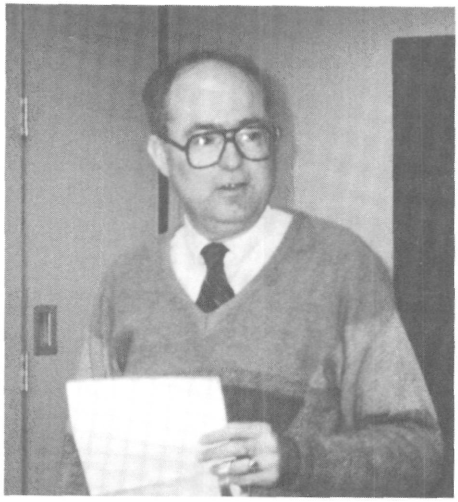
The Tax Reform Act of 1986 brought back the topic of the Natural Business Year in a shocking manner to accountants. The hard work of over seventy years was lost, as individuals and partnerships effectively lost the Natural Business Year alternative. This paper traces the proactive accounting development of the Natural Business Year concept to the reactive mode of the last three decades.

Fifty articles on the Natural Business Year were chosen for review from the literature from 1915 through 1988. The beginning of this literature was impressive, both in the quality and quantity aspects. Robert H. Montgomery chaired the Special Committee on Distribution of Work of the American Association of Public Accountants [AAPA, 1915]. Elijah Watt Sells published perhaps the major piece of literature on the Natural Business Year concept in 1926. A.C. Littleton's effort with the Bureau of Business Research of the University of Illinois in 1926 is a close second. The late 1920's and the 1930's marked the start of a very aggressive campaign by the A.I.A. to increase business adoption of the Natural Business Year concept.

Montgomery rejoined the fray in 1936. However, it was the Natural Business Year Council that provided the strongest focal



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point for this quest. While the membership was inclusive of the financial community, the chief impetus was the American Institute of Accountants. Much success was achieved in the late 1930's and early 1940's.

There was a noticeable switch in the accounting literature from financial accounting to tax accounting starting in the 1940's. There were only two academic-type articles of a financial accounting nature reviewed in this later period. Chatfield in 1964 published an article which should become the basis for a more scholarly relook at the topic. Fogg and

Ovadia's 1982 effort is a start of that relooking. The tax accounting literature tended to be fragmented and very tax avoidance oriented.

The cataclysmic Tax Reform Act of 1986 brought the Natural Business Year concept back to more than seventy years ago for individuals and partnerships. While the Tax Reform Act of 1987 contained minor modifications, the Natural Business Year concept is in a severely weakened position. Was the Tax Reform act of 1986, at least in the instance of the Natural Business Year, a child of neglect by the AICPA? Was the Natural Business Year change caused by tax avoidance advocacy in the accounting literature? Should accountants become proactive again on this topic?

In conclusion, the writers had an overwhelming feeling of sadness at the end of the research process. There was a failure to maintain a truly marvelous literature. There was an almost complete absence of "theoretical" articles in the Natural Business Year literature of the last 50 years. There was a relatively complete switch from a proactive to a reactive stance taken by the AICPA, by accountants, and by accounting academics. The writers realize that there is much research to be done on the Natural Business Year Council and on the AICPA's Natural Business Year Committee. If these two institutions are needed to get us back to where we were, they need to be studied in great detail.

PICTURES AND PUBLIC RELATIONS IN CORPORATE ANNUAL REPORTS

by

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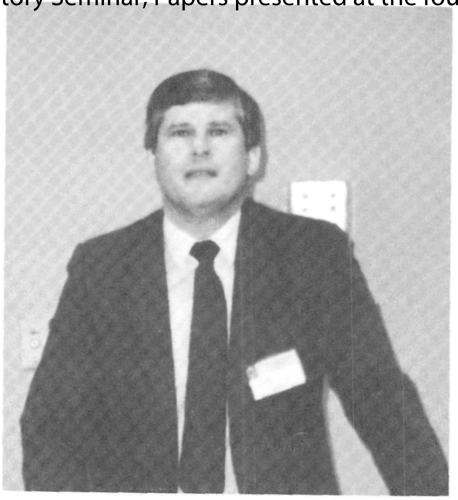
A corporate annual report has a wider purpose than the mere communication of financial information. The report is a public relations tool to "sell" the firm to interested readers. The firm's story is told using the traditional methods—financial statements, notes, management letter, and auditor's report. But sooner or later, the firm adopts the use of pictures and narrative captions to aid in the telling of its story. This study examined the first use of photos by 14 large corporations. The average year of first usage was 1947. In most cases, companies evolved slowly into the use of pictures, but a few companies jumped into the activity with a vengeance.

The magazine, *Financial World,* played an important role in this transition. *Financial World* did not specifically call for using pictures in annual reports, but its annual survey and awards brought an awareness to the business community of the public relations potential for annual reports. Since most companies whose reports won awards had photos, it was quickly recognized that pictures are an important public relations tool in the promotion of a company's image.

The use of pictures often brings with it several other changes. The report size changes—usually larger, but sometimes smaller. Southern Railway Company used a picture in its 1954 annual report. The text size of that report was 3.75 inches by 7 inches. Neither the 1955 or 1956 report contained pictures. The text size of both years was 6 inches by 9 inches. The company returned to pictures and reduced the text size back to 3.75 inches by 7 inches. Most companies that changed their report size, however, increased the size.

The use of pictures brought additional changes. The paper used in the report often shifted to high gloss stock. The length of the written text grew at a faster rate than the growth prior to pictures. At the point when pictures are first used, the report seems to adopt an expanded purpose. This expanded purpose does not, however, affect the readability of the written text. One change that did not occur was with respect to reading levels. In general, reading levels did not change over the years.



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It would be a rare annual report that did not use pictures today. Pictures communicate well. However, more than 40 years was necessary to make annual reports with pictures the normal practice. The use of pictures required management to change its concept of the annual report. All change is difficult, but to change one's convictions is the most difficult change of all.