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The Accounting Historians Notebook

Vol. 19, No. 2

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Fall, 1996

LESSONS OF AUDITORS' RESPONSIBILITIES

by

Roy A. Chandler

University of Wales-Cardiff

Introduction

Just over a century ago, in 1892, L. R. Dicksee in the first edition of his book, *Auditing*, indicated the lack of agreement among accountants as to the precise nature of their responsibilities for auditing company accounts due in part to the paucity of legal decisions in cases involving auditors. Within a short space of time, the question of auditors' responsibilities appeared to have been answered in two decisions handed down by the Court of Appeal: *In re The London and General Bank* (Acct. L. R. 1895, 173; henceforth L&G) and *In re The Kingston Cotton Mill Co.* (Acct. L. R. 1896, 77; henceforth KCM). These two cases were quickly established in the professional literature and case law and today are frequently cited in arguments before the courts, e.g. in *Galoo v. Bright Grahame Murray*, (WLR 1994, 1360). Although the two Victorian cases share many similarities, they have opposite outcomes: in L&G the auditors were held liable for dividends improperly paid, whereas in KCM, the auditors escaped liability.

The similarities of the cases are:

- The actions were brought by the Official Receiver alleging misfeasance under the Companies (Winding Up) Act 1890.
- Both began with a substantial claim

against the auditors—£400,000 in L&G and £80,000 in KCM, though these were reduced during the course of the litigation.

- The auditors were Chartered Accountants, professional men, not as in the earlier case of *Leads Estate, Building and Investment Co.* (1887 Ch. D., 36, 787) which involved an unskilled amateur.
- Both were heard in the first instance before Mr. Justice Vaughan Williams.
- Two of the appellate judges were the same in each case, Lindley, L. J. and Lopes, L. J., (with Rigby L. in L&G, and Kay, L. in KCM).
- Both auditors appeared to have placed too much reliance on management's judgement regarding the values of assets, customer accounts in the case of L&G and stock and fixed assets in the case of KCM.

Brief reviews

L&G was closely connected with the Balfour group of companies—in fact it was established that the sole purpose of the bank was to support other group companies. The bank's profits were inflated over the course of several years by the inclusion as income of interest on loans which was never received.

KCM was a cotton spinning company whose profits had been overstated through

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MESSAGE FROM THE PRESIDENT

It has been a pleasure to serve as the President of the Academy for 1996. As we review the year, several highlights stand out and many members deserve thanks for their work.

7th World Congress

The 7th World Congress of Accounting Historians at Queen's University in Kingston, Ontario, Canada, on August 11-13 was a definite highlight. Dr. Alan Richardson and his assistant Laura McDonald did a superb job in planning and executing this meeting. The Academy was a co-host of the opening reception which featured gourmet delights from all countries represented at the meeting.

Several members of the Academy were on the program and many others attended the meeting. Special thanks should go to Jeanette Sanfilippo and Richard Vangermeersch for providing a display table overloaded with Academy brochures, back issues of the *Journal* and *Notebook* to give to those at the conference.

Home Page and the Web

This year might be noted for the additions made to the Academy's Home Page and the World Wide Web. Dean Paul Garner's classic book, *The Evolution of Cost Accounting to 1925*, is now on the World Wide Web, the first full length accounting book on the Web. An announcement of this event was distributed at the World Congress and at the AAA meeting in Chicago and is also included in this issue of the *Notebook*. Special thanks should go to Dean Garner and to Gary Previts for making this possible. The Academy's Home Page now includes names and addresses of all members, all committees, officers and trustees, and by-laws of the Academy. Special thanks should go to Bill Samson and Gary Previts (again).

Key Members Meetings

The meetings of officers, trustees and committee chairs have been well attended and productive. The Spring meeting was held in conjunction with the Northeast

AAA regional meeting in New York City, April 20. The theme of the Northeast meeting was the 100th anniversary of the first CPA law passed in 1896



Doris M. Cook

in New York. Special thanks should go to Richard Vangermeersch for helping coordinate the Academy's business meeting with the Northeast meeting. The Summer meeting was held in conjunction with the AAA meeting in Chicago, August 14. Minutes of this meeting are included in this issue of the *Notebook*. Special thanks should go to Bill Samson for arranging the reception for all members which had an overflow crowd, and to Jeanette Sanfilippo for her excellent work with the Academy's booth in the exhibit area.

Research Conference

Another highlight of the year was the annual research conference held in Cleveland, Ohio, December 5-7. The theme of the conference was the 100th anniversary of the first CPA examination given in 1897. Cleveland was celebrating its 200th anniversary, so it seemed appropriate to have the conference there.

Three outstanding plenary sessions, an excellent luncheon speaker, and eight concurrent sessions were well attended. Video tapes of the conference will be available at the video library at The University of Mississippi. Special thanks should go to Marilynn Collins for making hotel arrangements and to Kathleen Sinning for coordinating the concurrent sessions.

There are many others who deserve special thanks: all of the committee chairs, other officers, trustees, editors, directors of centers, and all of the members who attended meetings, presented papers, research and taught accounting history.

HAPPY HOLIDAYS AND MAY GOD BLESS!

THE 1996 VANGERMEERSCH MANUSCRIPT AWARD

The 1996 Richard G. Vangermeersch Manuscript Award is to be presented to Dr. Rachel Baskerville. The award is in recognition of her manuscript "The Telling Power of CCA—a New Zealand Oral History."

Dr. Rachel Baskerville is a lecturer at Victoria University in Wellington, New Zealand. Previously she worked as a Project Manager in the Department of Accounting and Professional Standards at the Institute of Chartered Accountants of New Zealand office in Wellington, New Zealand. She is a member of the College of Chartered Accountants and the treasurer of the National Oral History Association of

New Zealand.

Dr. Baskerville had completed doctoral studies, and taught anthropology in New Zealand before switching in 1990 to Accountancy. Her original specialization had been in the history of physical anthropology, human evolution and primate studies. Dr. Baskerville plans to continue studies focusing on the recent processes and events in accounting standard setting, such as the energetic debate in New Zealand on disclosure of director's remuneration, comparing this with similar requirements elsewhere. She is also studying the history and evolution of one large charity through its accounting processes.



SCHEDULE OF ACADEMY FUNCTIONS

Academy activities planned for next year are briefly listed below, and you are encouraged to plan to attend and participate.

Officers and Trustees Meeting

April 26, 1997

Nashville, Tennessee

In conjunction with the AAA
Southeast Regional Meeting

Officers and Trustees Meeting

Past Presidents' Dinner

Membership Reception

August 17, 1997

Dallas, Texas

In conjunction with the AAA
National Meeting

1997 Annual Research Conference

Annual Business Meeting

December 4-6, 1997

Richmond, Virginia

THE ACCOUNTING HISTORIANS NOTEBOOK

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Tuscaloosa, Alabama 35487-0220

HOME PAGE

<http://weatherhead.cwru.edu/Accounting>
Webmaster: Gary J. Previts
Case Western Reserve University

CALL FOR PAPERS
THE ACADEMY OF ACCOUNTING HISTORIANS
1997 RESEARCH CONFERENCE

DECEMBER 4-6 1997
RICHMOND, VIRGINIA USA

THE PAST, PRESENT, AND FUTURE OF ACCOUNTING HISTORY
AS IT RELATES TO METHODOLOGY, EDUCATION, TECHNOLOGY,
AND INTERNATIONAL ORGANIZATIONS

The Academy of Accounting Historians will hold its 1997 Research Conference at the Omni Hotel in Richmond, Virginia on December 4-6, 1997. The objectives of the conference are to cover several traditional areas of accounting history (e.g., research methods, integrating accounting history into the curriculum, and formation of international accounting organizations) and to cover futuristic areas of accounting history (e.g., the impact of technology on accounting history, and relevance of accounting history to contemporary and future accounting issues).

Following are several possible topical areas that seem to fit the above objectives of the conference. However, papers dealing with other areas of accounting history, particularly those concerning the future of accounting history (e.g., Does accounting history have a future?) are welcome.

1. **Research methodology**
 - A. Writing business organizational histories
 - B. Oral history research
 - C. Historiography of accounting
 - D. Research and writing biographies
2. **Accounting history and education**
 - A. Value of accounting history to accounting education
 - B. Role of history in doctoral dissertations
 - C. Integrating accounting history into the curriculum
3. **Role of technology in communicating accounting history and accounting information**
 - A. The Internet and its impact on accounting history
 - B. Annual reports from early days to CD ROM
 - C. Data collection from archival research to data bases and tapes
4. **Historical significance of selected international events and development of international organizations**
 - A. Significance of the Tenth (1972) Meeting of International Congress of Accountants in Sydney and events leading to the establishment of the International Accounting Standards Committee (IASC), and the International Federation of Accountants (IFAC)
 - B. European Union--from Treaty of Rome to EU--40 years of existence

The deadline for submitting completed papers is June 15, 1997. Four copies of the double spaced completed paper and an abstract of approximately 500 words should be sent to:

Professor Edward N. Coffman
Chair, Program Committee
School of Business
Virginia Commonwealth University
Richmond, Virginia 23284-4000 [USA](#)
Ph: (804) 828-7193
Fax: (804) 828-8884
E.Mail: ecoffman@busnet.bus.vcu.edu

All papers will be double blind reviewed. Authors will be notified of the status of their papers by September 1, 1997. Papers accepted for the conference are not precluded from submission for publication to refereed journals at a later date; however, the abstracts of accepted papers will be published in the *Proceedings* of the conference and on the Academy's Home Page. General inquiries should be sent to:

Professor Rasoul H. Tondkar
President-AAH
School of Business
Virginia Commonwealth University
Richmond, Virginia 23284-4000 [USA](#)
Ph: (804) 828-7156
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E.Mail: rtondkar@busnet.bus.vcu.edu

TALK ABOUT MEMBERS

Previts Honored by AICPA



Dr. Gary John Previts (left) and Ronald S. Cohen.

Dr. Gary John Previts received the 1996 Lifetime Achievement in Accounting Education Award from the American Institute of Certified Public Accountants (AICPA). This annual award recognizes accounting educators for excellence in classroom teaching and for active involvement in the accounting profession. Ronald S. Cohen, AICPA Chair, presented the award to Gary at the Spring meeting of the AICPA Council in Carlsbad, California. Gary is a Professor of Accountancy at the Weatherhead School of Management at Case Western Reserve University in Cleveland, Ohio.

Gary is a charter member and a former president of the Academy of Accounting Historians, who has served as president of the Ohio Society of CPAs, director of education of the American Accounting Association, and served on many AICPA committees, as a member of the AICPA Governing Council, and is currently a member of the AICPA board of directors. His innovative teaching and scholarly publications are well known and recognized by his academic peers as represented by his receiving of the Outstanding Ohio Region of American Accounting Association and the Federation of Schools of Accountancy's Outstanding Educator Awards.

Sheldahl Appointed

Terry Sheldahl recently received appointment as Visiting Professor, Accounting and Philosophy, at Saint Leo College, Fort Stewart and Hunter Resident Centers, Hinesville and Savannah, Georgia. Terry is a long-time member of the Academy with numerous contributions. Recently, Terry served as Archivist for the Academy.

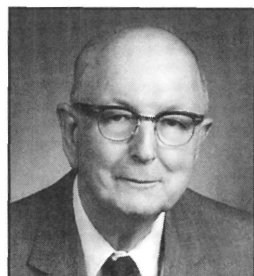
S. Paul Garner

With heavy hearts, we note the passing of S. Paul Garner, a dear friend to all who knew him.

Paul passed away unexpectedly on October 16, 1996, in Northport, AL, near Tuscaloosa, after a short stay in the hospital. Paul had remained active throughout his retirement attending conferences around the world and continuing to be involved in scholarly activities. In August, he attended the 7th World Congress of Accounting Historians, an organization he had helped found, in Kingston, Ontario, where we toasted his 86th birthday.

Paul Garner, or Dean Garner as many of us have known him over the years, began his career with appointment to the faculty at the University of Alabama in 1939 and completed his doctorate at the University of Texas in 1940. He has been a member of the American Institute of CPAs since 1939, and he served as president of the American Accounting Association in 1951. During 1964-65, he served as president of the American Assembly of Collegiate Schools of Business. Paul was a pioneer of the post World War II international movement, serving as the founding president of the International Association of Accounting Education and Research in 1984. He

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CALL FOR MANUSCRIPTS

1997 VANGERMEERSCH MANUSCRIPT AWARD THE ACADEMY OF ACCOUNTING HISTORIANS

The Academy of Accounting Historians invites accounting faculty, who hold full-time appointment and received his or her masters/doctorate within seven years previous to date of submission, to submit a historical manuscript on any aspect of accounting for consideration of its 1997 Vangermeersch Manuscript Award. The Academy established this award in 1988 to encourage young academic scholars to pursue historical research.

Manuscripts must conform to the style and length requirements of the *Accounting Historians Journal*, be the work of one author, and not have been previously published or under review. Six copies of each manuscript should be submitted by June 15, 1997, to:

Professor Donna L. Street
School of Accountancy

College of Business
James Madison University
Harrisburg, VA 22807

Phone: (540) 568-3089
email: streetdl@jmu.edu

A cover letter which identifies the author's mailing address, date of receiving masters/doctoral degree, and a statement that the manuscript has not been published and is not currently being considered for publication should be included in the submission. Manuscripts are evaluated by the committee using a blind review process. A \$500 stipend and a certificate of recognition of achievement in historical research is awarded. The manuscript will be published in the *Accounting Historians Journal* after an appropriate review.



A SILENT AUCTION

The Academy sponsored a "Silent Auction" of books at the December conference in Cleveland. The purpose of the auction is to provide members and registrants at the conference the opportunity to obtain classic or out-of-print books and publications at a price likely to be below used book dealer prices. Jeanette Sanfilippo has announced that donated materials such as trade books, business, or economics were greatly appreciated.

As it is possible that such events will be continued in the future, she would like to hear from you (314-529-9571) if you are interested or have items which may be donated for such purposes. The Accounting History Research Center has provided a tentative list of available items to be included in the 1997 silent auction. This list, provided

below for your information, is expected to be placed on Academy's web site (<http://weatherhead.cwru.edu/Accounting>)

List of Available Publications Accounting History Research Center

- (1) Bell, William H. *Accountants' Reports*. Fourth Edition. New York: The Ronald Press Company (1949).
- (2) Bennett, R. J. *Corporation Accounting*. Tenth Printing, 1920. New York: The Ronald Press Company (1916).
- (3) Byrnes, Thomas W., K. Lanneau Baker, and C. Aubrey Smith. *Auditing: With Practice Problems*. New York: The Ronald Press Company (1948).

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THE (ALTERNATIVE) MINIMUM TAX: PRECURSOR TO A FLAT-RATE INCOME TAX?

by

William D. Samson
University of Alabama

The alternative minimum tax is a complete tax calculation that haunts a relative small, but growing, percentage of individual taxpayers. It has evolved since 1969 from a conceptual nuisance which bothered almost no one to a tax which can be a nightmare for the unsuspecting. The alternative minimum tax with its almost uniform rate structure, applied to a broader base of taxable income, computed after a large exemption, seems to be a mirror of the "flat" rate income tax proposals that have recently been described in the press. The 25 year history and evolution of the minimum tax seems relevant in the debate regarding proposals of change in the current graduated income tax to a broader-based, flat rate structure.

The Evolution of the Minimum Tax

In the mid-1960s, a study reported that 154 taxpayers with incomes in excess of \$200,000 (more than \$600,000 in 1996 dollars) escaped from paying U.S. income tax. This study became widely publicized, and Congress became concerned about erosion of the average taxpayer's confidence in the fairness of the income tax, especially when 154 wealthy taxpayers were paying no income tax through maximizing excluded income and tax deductions. Mrs. Dodge, heir to the Chrysler fortune who lived in Palm Beach on more than \$1,000,000 of municipal bond interest and paid no income tax, was cited in Congress as an example of the unfairness of the income tax structure.

Congress could have solved the problem of wealthy taxpayers owing no federal income tax by "plugging the loopholes" via taxing municipal bond interest, fully taxing capital

gain, and repealing or limiting various itemized deductions. However, this approach was believed to have large negative economic and social consequences. Instead, Congress adopted Joseph Pechman's idea of imposing a tax on the use of loopholes. This tax (ironically known as the "minimum" tax, while the tax rate on earned income was capped at 50% was called the "maximum tax") would be in addition to the regular income tax. Simply put, the taxpayers would add up the amount of loopholes (called "tax preferences"), subtract a generous exemption amount and multiply the amount of preference in excess of the exemption by the 10% "minimum" tax rate.

Implementation of the Add-On Minimum Tax

Ironies abound. First, the Mrs. Dodges of the world still were not subject to tax because Congress decided not to include municipal bond interest as a preference item. Second, the 1969 version of the tax was very ineffective at imposing tax on the wealthy because of the large exemption. Third, as an equity mechanism, the tax failed because a 10% tax rate was too low when wealthy taxpayers otherwise saved tax via preferences at rates up to 70 percent.

Perhaps the greatest irony in this add-on minimum tax scheme was that in 1970, President Richard Nixon became one of the first "victims" of this tax. President Nixon, as it was revealed at the same time as the Watergate controversy, paid only \$792 in federal income tax in 1970 and \$878 in federal income tax in 1971. 1972's federal income tax soared by comparison to \$4,298. Thus, less than \$6,000 of income was paid during this three year period when Nixon's

income exceeded \$780,000. The income tax paid during this period was not the "regular" income tax, but the minimum tax. By contrast, his 1969 income was \$328,000, and he had paid more than \$72,600 of federal income tax.

What had changed on Nixon's tax return after 1969 was a charitable contribution deduction for the "donation" of his collection of Vice Presidential papers to the federal government. These papers were stored by the General Service Administration until the Nixon Library, which he hoped would be constructed at his alma mater, Duke University, could be built. Nixon's appraiser generously valued this charitable contribution of Vice Presidential Papers at \$576,000, so that Nixon reduced his taxable income to zero in both 1970 and 1971 and was finally able to exhaust this deduction in 1972.¹ Because the charitable contribution deduction for appreciated property was a tax preference, the meager tax that Nixon did pay in 1970 and 1971 was the minimum tax, not the regular income tax.

The Alternative Minimum Tax

In 1976, Congress replaced the ineffective 10% add-on minimum tax with the alternative minimum tax. Conceptually, this tax was different. Instead of adding the minimum tax (imposed on preferences only) to the regular income tax, the alternative minimum tax meant that the taxpayer recalculated taxable income base by adding back the preferences to the regular taxable income amount, to which was applied the 15% minimum tax rate. Finally, the taxpayer compared the minimum tax result to his regular income tax amount and paid the larger of the regular income tax or alternative minimum tax. Noteworthy is the fact that the alterna-

tive minimum tax of the late 1970s had several elements of current flat rate income tax proposals. Certainly, the tax rate of 15% is close to the proposed 17% figure. Also, the notion that the flat-rate be applied to a broad base with few, if any, itemized deductions is found in the alternative minimum tax which adjusts or adds back to taxable income much of these deductions. The alternative minimum tax allowed a relatively large exemption which was \$40,000 (now \$45,000) for married taxpayers. This too seems reminiscent of the proposed \$35,000 - "family of four exemption" that is being discussed with the flat-rate income tax.²

Simultaneously with the reduction of the regular income tax rate for 1982 and after, the 1981 Economic Recovery Tax Act raised the minimum tax rate to 20%. Over the decade of the 1980s (See Figure) this pattern of lowering the regular income tax rates while increasing the alternative minimum tax rate continued. By 1988, the rate differential between the highest regular income tax rate of 28% and the alternative minimum tax rate of 21% was only seven percentage points. This small rate differential has only increased slightly as both tax rates have been increased during the 1990s. Today the differential stands at 11.6 percentage points as the top regular income tax rate is 39.6% and the alternative minimum tax rate is 28%.

Not seen in the Figure is the relative frequency of changes that has redefined the tax base for the minimum tax. Since 1969, Congress has periodically changed the definition of what is a preference as well as the adjustments that are made to the amount of regular taxable income. These changes then impact the base to which the minimum tax rate is applied.

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¹ During subsequent revelations, it appears that the \$576,000 value for these papers was very excessive. Also, the issue of when the donation of papers actually occurred was raised. While the papers were physically transferred to the GSA before the July 25 cut-off, the agreements were not drafted and title was not conveyed until more than a year later. Indeed, one of Nixon's tax advisers went to jail because documents were backdated to make it appear that the transfer was within the period that entitled the President to this huge tax deduction.

² However, if the alternative minimum tax is the forerunner of the flat rate income tax, the fact that the 15% minimum tax rate is now 28%, is significant of the problem that a 17% flat rate income tax is likely to have. Also, the one rate (flat) minimum tax has since 1993 become a two-tiered structure of 26% and 28%.

Academy of Accounting Historians Minutes— Meeting of Trustees, Officers, and Key Members Hyatt Regency Hotel—Chicago, Illinois Wednesday, August 14, 1996

Present: Maureen Berry, Ashton Bishop, Garry Carnegie, Anthony J. Cataldo, Gyan Chandra, Edward Coffman, Doris Cook, Gene Flegm, Dale Flesher, Finley Graves, Sarah Holmes, Barbara Merino, Paul Miranti, Lee Parker, Gary Previts, Bill Samson, Jeanette Sanfilippo, Kathy Sinning, Paul Shoemaker, Elliott Slocum, Donna Street, Ross Tondkar, Dick Vangermeersch

meeting in New York were distributed by Bill Samson. These minutes were approved. Samson also distributed the current membership report.

1. The meeting was called to order at 1 p.m. by Doris Cook.
2. Jeanette Sanfilippo reported on public relations activities. T-Shirt sales and Academy information brochures are available at the Convention Exhibit. Free T-Shirts are given to new members who join during the Convention. A silent auction of books is planned for the Academy research conference in Cleveland, December 5-7.
3. Finley Graves gave the Communications Task Force Committee Report. He also gave an update on the Monograph Series in which several were in various stages of planning and development.
4. In the reports from the Centers, Dale Flesher reported that the Ole Miss Tax Center had received recently four large donations of tax history materials. He also stated that the video library loan activity is currently slow, but expected to pick up in the Fall. Elliott Slocum reported that Georgia State will receive the Jones Collection in September.
5. Gyan Chandra reported that his committee had received commitments from three AAA regions to hold sessions on accounting history in the Spring regional meetings. Others are being contacted.
6. The minutes from the May 1996 meeting in New York were distributed by Bill Samson. These minutes were approved. Samson also distributed the current membership report.
7. Sarah Holmes presented the financial statements. She submitted a tentative 1997 budget for the Academy. This will be proposed for approval at the December meeting. Progress is being made in getting the Treasurer and the Secretary bonded.
8. Gary Previts gave the Centers Coordinating Task Force Report. Gary Previts described his findings from a recent trip to the University of Alabama Business Library. The annual report collection would rank this library in the top five. Previts opined that UA could become an Academy Research Center with Academy holdings turned over to the library with no concern that these collections would not be maintained. Further discussion on UA's potential as an Academy Research Center will occur at the December meeting after a proposal is formalized.
9. Also Previts reported that the Academy's Website on the Internet now has Paul Garner's book in its entirety and also the Academy's membership Directory is now on line. It is hoped that the Directory will be updated frequently. Plans are being considered about reducing the number of directory copies mailed, as the Internet becomes a more widely adopted tool of Academy members.
10. The proposal of the Research Committee was distributed by Paul Shoemaker. He and Paul Miranti discussed the proposal. A motion was made, seconded and approved that the proposal is a good working outline. The research committee now plans to move

forward to the next phase which is to secure authors and a publisher.

11. Next, the reports on the 1996 Research Conference were given. First, Doris Cook discussed the December Conference in Cleveland and distributed the tentative program. She gave Marilynn Collins' report on hotel arrangements. Kathy Sinning reported on the papers received. Plans are being made to video tape the plenary sessions at this meeting.
12. Gene Flegm outlined the research conference funding commitments that had been made by donors.
13. Ross Tondkar gave his report on the 1997 conference in Richmond, Virginia. Hotel arrangements have been made. Announcements about the meeting and call for papers are being distributed at this AAA Convention.
14. Barbara Merino gave the *AHJ* editors' report. The June 1996 issue has been printed and is in the mail. A proposal was made, seconded and passed that starting after 1997, the *AHJ* editorship would be a fixed three year term. A motion was made and passed to authorize the editor to appoint an associate editor to help with the publication process.
15. Elliott Slocum reported on the *Notebook*.

The Spring issue has been in the members hands for several weeks and the Fall issue is proceeding. Associate directors for the Georgia State Center and *Notebook* associate editors are being planned for.

16. Ashton Bishop gave the report of the Strategic Action Committee. At the December meeting, the Overseas Outreach Report will be described in detail.
17. Doris Cook gave Jean Harris' Membership Committee Report. To encourage practitioner interest in history, it was proposed that abstracts of selected *AHJ* papers be distributed to CPA societies and other practitioner groups such as the IMA for possible inclusion in their publications. The motion was made and passed that Jean Harris select the abstracts of appropriate papers and distribute these to practitioner outlets.
18. Brief reports from the Vangermeersch Manuscript Committee, the Education Committee, the Financial Advisory Committee, and the Nominations Committee were received. Complete reports will be presented in the December meeting in Cleveland.
19. The meeting was adjourned at 4:42 p.m.



GARNER.....continued from page 5
authored numerous texts and treatises. His 1954 book, "A History of Cost Accounting to 1925," has been reprinted on two occasions and continues to be cited in contemporary work in the history of accounting thought. One of the last projects in which Paul was involved was the placing of this classic publication on the Academy's Website where it is available to scholars at no charge. The book is the first in accounting to be on the Internet.

Paul is survived by his wife Ruth and three children, Thad, Walter, and Sarah. As a memorial to Paul, the Garner family has

requested that friends wishing to make donations in Paul's memory consider contributing to the Garner Endowment Scholarship Fund at the Culverhouse School of Accountancy, University of Alabama. A more in depth memorial will be published in a future issue of *The Notebook*.

ENCOURAGE DOCTORAL STUDENTS TO JOIN THE ACADEMY AT THE SPECIAL RATE OF \$7.50 PER YEAR
--

COMMITTEES FOR 1997

THE ACADEMY OF ACCOUNTING HISTORIANS

President (1997), Rasoul (Ross) H. Tondkar, Virginia Commonwealth University, has established the following committees and chairs for 1997. If you have an interest in participating in any of the committees below, please contact Dr. Tondkar. All members are encouraged to be involved in the operations of the Academy.

Education Committee

Charge: Assemble and disseminate materials that foster the integration of history into accounting curricula.

Professor Gloria Vollmers, Chair
University of Maine

Endowment Committee

Charge: Assist the Academy in raising funds for its scholarly and research activities, as well as special projects.

Mr. Eugene Flegm, Chair
General Motors Corporation (Retired)

Financial Advisory Committee

Charge: Provide counsel and advice to the Academy's Treasurer and to the Board concerning the Academy's financial management.

Professor Kathleen E. Sinning, Chair
Western Michigan University

Membership Committee

Charge: Enlist new individuals and institutional members for the Academy by contacting academics and practitioners.

Professor Jean E. Harris, Chair
Penn State University-Harrisburg

Nominations Committee

Charge: Identify and nominate potential candidates for key positions.

Professor Doris M. Cook, Chair
University of Arkansas

Overseas Relations Committee

Charge: Research ways in which the Academy could expand its services to overseas members and increase their involvement in Academy activities.

Professor Thomas A. Lee, Co-Chair
University of Alabama
Professor Lee D. Parker, Co-Chair
Flinders University of S. Australia

Program Committee, 1997 Conference

Charge: Prepare call for papers, read and evaluate papers, and arrange paper sessions for conference.

Professor Edward N. Coffman, Chair
Virginia Commonwealth University

Public Relations Committee

Charge: Enhance awareness of the Academy and its activities and enlist the assistance of key persons at AAA national and regional meetings in distributing information and other projects.

Professor Jeanette Sanfilippo, Chair
Maryville University-St. Louis

Regional Programs and Continuing Education Committee

Charge: Serve as liaison with other organizations with an interest in accounting history, such as regional AAA meetings; also, develop and coordinate continuing education programs in conjunction with other meetings.

Professor O. Finley Graves, Chair
University of Mississippi

Research Committee

Charge: Encourage accounting history research, identify possible topics, identify sources of funding, and evaluate proposed research projects.

Professor Paul J. Miranti, Co-Chair
Rutgers University-New Brunswick
Professor Paul A. Shoemaker, Co-Chair
University of Nebraska

Strategic Action Committee

Charge: Consider the Academy's strategies concerning the long-term physical locations of its administrative and research facilities, study and evaluate alternatives.

Professor Ashton C. Bishop, Chair
James Madison University

Richard G. Vangermeersch Manuscript Award Committee

Charge: Prepare announcement for the award, encourage submissions of manuscripts and select the outstanding manuscript for 1997 using established guidelines.

Professor Donna L. Street, Chair
James Madison University

EIGHTH WORLD CONGRESS OF ACCOUNTING HISTORIANS AN ADVANCED NOTICE

The Eighth World Congress of Accounting Historians will be held at the Universidad Carlos III de Madrid in the year 2000, tentatively on the dates of July 19-21. The Congress is being organized by the Asociacion Espanola de Contabilidad y Administracion de Empresas (AECA) (Spanish Association of Accounting and Business Administration) through its Comision de Historia de la Contabilidad (Commission of Accounting History). The Consejo Superior de Colegios Oficiales de Titulados Mercantiles y Empresariales de Espana (High Council of Spanish Official Institutes of Graduates in Commerce and Business Administration) and the Colegio Oficial de Titulados Mercantiles y Empresariales de Madrid (Official Institute of Graduates in Commerce and Business Administration of Madrid) is participating as co-organizers with the AECA.

The AECA, Consejo Superior, and the Colegio of Madrid will receive the support and cooperation of the five state universities in the Madrid area. In addition to Universidad Carlos III de Madrid, Universidad de Alcala de Henares, Universidad Autonoma de Madrid, Universidad Complutense, and Universidad Nacional de Educacion a Distancia (UNED) will participate in the Congress.

The Universidad Carlos III de Madrid is a state university founded in 1989 and is the youngest University in Madrid. In its short history, the University has achieved reputation as a center of research excellence while providing a comprehensive education to its students. The University consists of two campuses: Social Sciences and Polytechnic Studies. The Congress venue will be on the Social Science campus which is located in Getafe, a satellite village located 11 kms (7 miles) from downtown Madrid. The University residence will be

available to Congress participants. Good connections by train and bus are available from Madrid to Getafe, and a special shuttle bus service will be provided for Congress attendees who prefer accommodation in downtown hotels.

An academic event will be held in combination with a plenary session of the Congress at the Universidad de Alcala de Henares. After the session, the formal banquet will be held at the former Hosteria del Estudiante, the old students' tavern. The Universidad de Alcala de Henares was established at the end of the 13th Century by Sancho IV and is the oldest University in Madrid and one of the oldest in Spain. Cardinal Cisneros reorganized the University in 1499 at the time of the Catholic Monarchs, Ferdinand and Isabella, and it assumed the leadership of the Spanish nominalism movements.

Esteban Hernandez-Esteve, Comision de Historia de la Contabilidad de AECA (Comision de Historia), is serving as the Convenor of the Congress. Other members of the Organizing Committee are: Salvador Carmona Moreno, Universidad Carlos III de Madrid; Rafael Donoso Anes, Comision de Historia; Jose Maria Gonzalez Ferrando, Comision de Historia; Jose Antonio Gonzalo Angulo, Universidad de Alcala de Henares; Francisco Ibisate Garcia, Comision de Historia and Consejo Superior de Colegios Oficiales de Titulado Mercantiles y Empresariales de Espana; Jose Luis Lizcano Alvarez, Managing Director of AECA; Fernando Martin Lamouroux, Comision de Historia; Jose Manuel Pereda Siguenza, Univeridad Complutense; Jorge Tua Pereda, Comision de Historia and Universidad Autonoma de Madrid; and Jesus Urias Valiente, Universidad Nacional de Educacion a Distancia (UNED).

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THE POSSIBILITY OF AND POTENTIAL FOR THE MISCLASSIFICATION OF PROFESSIONAL ACCOUNTANTS IN ANTIQUITY

by

Stanley C. W. Salvary
Canisius College

The title of this brief note lends itself to a very parochial interpretation; however, the implications of this note are much broader than its title intimates. This paper could very well have been entitled: "An Appreciation of Some Research Related Problems in Classifying Professionals in Antiquity: A Research Agenda." This alternate title aptly limits the parochial overtone. However, this note revolves around accounting history and focuses on three pervasive points.

The first pervasive point is related to the classification of individuals as accountants by statisticians and historians, or rather the inconsistencies prevalent in source data from period to period or the failure to properly distinguish and to explain the basis of the distinction among or within groups engaged in the accounting function. The classification problem is of paramount importance, as some research on accounting during the medieval period (Britain 1100-1450) clearly reveals. One account is quite explicit on this critical concern as follows:

Any careful study of manorial documents will show that the contemporary scribes who compiled the accounts and the Court Rolls could not differentiate clearly between the various manorial officers. The truth is that the documents and treatises are complementary, but, even so, they require to be used with the greatest caution before any valid generalizations can be made. Two considerations at least must always be borne in mind: first, that the

widest variations of procedures and customary use were possible on manors only a few miles apart, and therefore we cannot accept any clear-cut system...and secondly, that the lax use of terms by the medieval scribes...makes it necessary for us to examine what the various manorial officers are actually found to do before we can accept the title indiscriminately conferred on them by the writers of the documents (H. S. Bennett, *Life on the English Manor*, 1938, pp. 156-157).

The sentiments as expressed in the foregoing statement in essence are a caution which should be taken seriously. Since the potential for misclassification does exist, it is quite possible that such a misclassification may be found in some research papers. This is a study worth pursuing in itself.

The second pervasive issue is related to the source documents needed for the identification of individuals in particular places at particular times. Organizational functioning and financial dealing at their earliest inception necessitated the development of accounting (William H. McNeill, *The Rise of the West: A History of Human Community*, 1963, pp. 32-58; Edward Chiera, *They Wrote on Clay: The Babylonian Tablets Speak Today*, 1938, pp. 80-87; James Ole Winjum, *The Role of Accounting in the Economic Development 1500-1750*, 1972). The intricate and extensive financial dealings of many city states and cities in antiquity imply a strong accounting presence, and the available evidence on the

past reveals that economic development is inextricably linked to accounting.

The problem encountered in historical research is the possibility that the number of professional accountants functioning in those places at those times may very well not be identified in source documents. Thus, any enumeration of accounting professionals in those particular places and times may be underestimated due to the paltry number of accountants ascribed by source documents.

The third pervasive issue raised is what is the basis that would be the appropriate determinant as to the proper professional classification of an individual for the sake of posterity. Titular designations in the absence of specific information can be misleading; therefore, it would seem that the classification process must be guided by functions. However, this functional approach to classification may in itself prove to be unsatisfactory. The division among bookkeeper, accountant, and auditor at times is very blurred, and at other times quite distinct, simply because of the prevailing circumstances. Today, one can find an individual CPA who, for some small clients, performs only *write-up* work (bookkeeping), for other clients only financial statement preparation (accounting), and yet for others only the attestation of financial statements (auditing). Despite changes in the level of accounting practice, the classification of that individual is accountant/CPA. In the absence of the licensing of the practicing professional in earlier times, this blurred distinction did exist and classification was not by qualification but simply by the functional occupation at the particular time as the following statement reveals:

The daily record keeping or bookkeeping, which was in a crude form, was handled by the reeve. The annual closing and formalizing of the account was the work of trained scribes who made

a round of the manors after Michaelmas for this purpose...(While,) "the steward" was constantly engaged "making a round of the manors and auditing the accounts" (Bennett, pp. 187, 189).

Despite such a clear distinction among functions and personnel revealed by the foregoing, the point of concern is: Is it simply the occupational form that determines how some persons are recognized as accountants, some as bookkeepers, and others as auditors? The logical extension or conclusion of that position is that classification merely in accordance with a specific function is deficient.

The literature reveals that the manors in the thirteenth century were centers of rural employment. According to some accounts, some of these manors were well managed estates characterized by (1) a careful system of administration, and (2) the rendering of written accounts. Three different forms of records were kept on the well managed estates: (1) the *extent or rental*, which was essentially "a statement of resources of the estate and the legitimate expectations of its owner." (2) The *accounts*, which were made up annually, showed the produce of the estate and the purposes to which it was applied, enumerated the live stock on the estate, and disclosed the discharge of the tenants' obligation, to the extent that such occurred, as recorded in the *extent or rental*. (3) the *Court Rolls* which were records stating the changes in the personnel of the tenants and any modification of tenants' obligations. The major handbook on estate management in use at that time was published in 1293 by Walter of Henley—a Dominican friar. (W. Cunningham & Ellan A. McArthur, *Outlines of English Industrial History*, 1896, p. 37).

The medieval outline as presented serves as an adequate illustration of the
continued on page 21

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Additional information on the Congress will be released in the future, but requests can be addressed to:

Esteban Hernandez-Esteve, Convenor
8th World Congress of Accounting Historians
Asociacion Espanola de Contabilidad y
Administracion de Empresas (AECA)
Alberto Aguilera, 31, 5
28015 Madrid, Spain
Tels.: 34-1-547 44 65 — 559 12 27 — 547 37 56
Fax: 34-1-541 34 84
Email: info@aeca.es



AUCTION.....continued from page 6

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CALL FOR MANUSCRIPTS THE ACCOUNTING HISTORIANS JOURNAL

The Accounting Historians Journal encourages you to submit papers on subject matter related to the development of accounting thought and practice. Papers on biographical subjects and on historical method are also acceptable. Guidelines on research and a guide for submitting manuscripts may be found in *The Journal* or may be obtained from the Editors.

Manuscripts must be in English and of acceptable style and organization for clar-

ity of presentation. The manuscript should not exceed 7,000 words. An abstract of not more than 200 words should separately accompany the manuscript. A submission fee of \$25 (U.S.) is required of non-Academy members. More detailed information concerning additional requirements regarding style, content, and the submission requirements is included in the guidelines mentioned in the previous paragraph.

Submit Manuscripts to:

Barbara D. Merino
The Accounting Historians Journal
Department of Accounting
College of Business Administration
University of North Texas
Denton, Texas 76203-3677
(817) 565-3094

For information and other matters, contact:

Patti A. Mills
The Accounting Historians Journal
Department of Accounting
College of Business
Indiana State University
Terre Haute, Indiana 47809
(812) 237-2008



TAX HISTORY RESEARCH CENTER FELLOWSHIPS

The Tax History Research Center (THRC), which is sponsored by the Academy of Accounting Historians and housed at The University of Mississippi, is offering research fellowships of up to \$1,000 for individuals wishing to conduct research at the THRC. The grant can be used only for lodging at the Alumni House Morel at The University of Mississippi during the time the researcher is working at the THRC. Based on current room rates the grant would pay for about four weeks of lodging at Ole Miss. Applications should be submitted at least two months in advance of the projected visit. Applications should include a cover letter and an approximately one page proposal explaining how the resources of the THRC would be useful in the applicant's research.

Both predoctoral and postdoctoral fel-

lowships will be considered. Fellowships would be particularly suitable for those on sabbatical or Summer leave.

The THRC has an extensive collection of tax services, congressional committee reports, books, journals, and other publications dating back to 1909, dealing with the federal income tax. Some state materials, primarily theoretical or policy oriented, are also available.

Fellowship applications should be sent to:

Dr. Tonya K. Flesher, Director
Tax History Research Center
School of Accountancy
The University of Mississippi
University, MS 38677

For more information call Dr. Flesher at (601) 232-5731 or (601) 234-3969.

AN ANCIENT ARAB TALE

submitted by
Kenneth S. Most

*This ancient Arab tale has obvious relevance to management accountants.
It has been translated from the French.*

THE MARGINAL MULE

In those days there lived in Jerusalem a muleteer named Ali, who owned four splendid mules. Each week he set forth along the banks of the Jordan river and across the desert. His mules heavily laden with goods belonging to local merchants.

One day, at the very moment he was about to signal his departure by a vigorous blow with his stick to the rump of the lead animal, he saw his wife Fatimah approaching with a donkey which, she told him, she had found in front of their tent. It was a gift from heaven! Ali, full of joy, momentarily thought of transferring to the newcomer a part of the load borne by each of his four mules. But the sun had already appeared above the dunes, and he did not wish to delay. Thus, one could see that day a convoy of four heavily-laden mules and a fifth animal, carrying only its ration of fodder and tripping along the path, always in the margin of the river's bank.

Ali named it his "marginal mule." He was particularly pleased by its felicitous appearance because whenever he felt tired he could take a ride. The animal was strong and did not complain.

"Why," said he (Ali, not the donkey) "should I not keep this gift from Allah for my personal use?"

And so it was. And when Ali arrived at the market he was warmly greeted as the Prince of the Muleteers.

Alas, one day the donkey vanished as mysteriously as it had appeared. The countryside was searched in vain, and Ali was in despair. He had grown accustomed to his free ride and unwilling to walk. Suddenly he had an inspiration. Choosing the finest of his four animals he named it

"the marginal mule," and distributed the load to be carried, as heavy as before, equally on the backs of the other three. The pace of the convoy was slower, but Ali was a proud and happy as before.

Sometime later, Ali had to take a cargo to the town where lived his wife Fatimah's mother, and she insisted on being taken along. Gentleman as he was, he could not bring himself to make her walk, and he was unwilling to lose face by walking himself. But he was a resourceful man. He selected a second marginal mule and placed his wife upon it. Alas, he had a great deal of difficulty in arranging his load on the two remaining mules, but at last, the task complete, they set off along the river's bank. Or at least the two marginal mules did, for the two overloaded beasts could hardly take the first step. They were still in sight of the tent when the two mules lay down, fully resigned to die under the rain of blows which fell upon them.

At that moment Ali heard a voice from heaven, which cried out to him: "Kalpas, Kreba, Laseh" signifying "Look out, your mules are about to die!" Ali understood and hastened to relieve the beasts of their burdens, giving them water to drink and speaking gentle words of encouragement. He then distributed the load over the four mules, and gave Fatimah the choice of walking or staying home. Then he set off on foot at the head of the convoy, singing—to give himself courage.

And from that day forth, no marginal mule has ever been seen on the routes of Judea.

THE END

HISTORY IN PRINT

A considerable amount of research in accounting history is published in various books and periodicals other than those published by The Academy. We hope that identification of some of this research will be of interest and of help in your own research efforts. We encourage readers of *The Notebook* to advise the editor of the many publications involving accounting history which should be listed in this section. Your help is greatly appreciated.

Accounting History, Journal of the Accounting History Special Interest Group of the Accounting Association of Australia and New Zealand, NS Vol 1, No 1, May 1996, (Selected Items):

Boyns, Trevor and Edwards, John Richard, "Change Agents and the Dissemination of Accounting Technology: Wales' Basic Industries, c.1750-c.1870."

Fleischman, Richard K., Mills, Parti A. and Tyson, Thomas N., "A Theoretical Primer for Evaluating and Conducting Historical Research In Accounting."

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**WANTED
MANUSCRIPTS AND ITEMS OF
INTEREST**

Anyone wishing to submit short article manuscripts, notes, cartoons, shaggy dog stories, letters to the editor, or other items to THE ACCOUNTING HISTORIANS NOTEBOOK should send the material for consideration to the editor, Elliott L. Slocum, School of Accountancy, Georgia State University, University Plaza, Atlanta, GA 30303.

CALL FOR PAPERS
ACCOUNTING, REGULATION AND LAW
IN HISTORICAL PERSPECTIVE

1998 marks the fiftieth anniversary of the *Companies Act 1948*, which revolutionized the regulation of financial reporting in the United Kingdom, as well as having a major influence on the shape of corporate accounts throughout the Commonwealth. To mark this anniversary, *Accounting History* will be publishing a special issue, edited by Christopher Napier. The study of how accounting law and regulation have emerged and developed has long been a significant aspect of historical research in accounting, and provides an opportunity for extensive critical and interpretive studies. Some possible research areas are set out below:

- The processes underlying the formulation of laws and other regulations relating to accounting, including case studies of the development of specific regulatory provisions.
- The impact of accounting regulation on specific individuals, organizations, and industries.
- The formation, development and impact of professional accountancy bodies.
- The audit process and its legal and professional regulation.
- The use of accounting information in the government regulatory process (for example, monopoly and merger control, price control, utility regulation).
- Accounts and financial statements in legal contexts such as the process of contracting.
- Fraudulent and criminal use of accounts.

Papers submitted for the special issue of *Accounting History* should study these and other relevant topics from a historical perspective. Studies tracing the development and evolution of specific regulatory provisions are as welcome as those examining the impact of regulation. Submissions are encouraged from the widest range of methodological approaches, from statistically-based studies written from a historical point of view to detailed case studies to reviews of significant debates over the regulation of accounting.

Informal inquiries and indications of interest are welcome, and may be made by E-mail to: cjn@socsci.soton.ac.uk

Please forward submissions (three copies) by **30 September 1997** to:

Christopher Napier
School of Management
University of Southampton
Highfield Southampton S017 1BJ
UNITED KINGDOM

ANTIQUITY.....continued from page 14
problem of the potential for misclassification. This condition is so simply because, in spite of the clear differentiation along functions in the manorial period, the source for the education of all (bookkeepers, accountants, and auditors) presumably was the same; that is, the manorial officers (reeve and bailiff), the scribes and the stewards all presumably used the work of Walter of Henley in preparing themselves for their respective undertakings. One may argue that the reeve and bailiff may not have had the exposure to the literature, and that they merely were instructed by the scribes.

It is therefore possible that an investigation of completed research in this area may discover that the deficiency in classification according to function is quite pronounced. Prior to modern times with the introduction of proficiency examinations and official designations (CA, CPA, etc.), it must be understood that change in classification for some individuals in source documents may very well reflect the changing nature of the individuals' occupation. In modern terms, a downward reclassification from accountant to bookkeeper may be interpreted as a change in the preponderance of an individual's practice (service to clients) from financial statement prepara-

tion to write-up work, and not a diminution of that individual's competence. Thus in pre-modern times, a reclassification upward—from bookkeeper to accountant—may be interpreted in one of two ways. In one situation, the upward reclassification can result from an increase in an individual's competence, but this is highly unlikely, because of the absence of any mechanism for assessing competence in earlier time. Therefore, the only likely interpretation, is that an upward reclassification would be the result of change in the individual's practice—a change from write-ups as being the preponderance of the individual's practice to that of financial statement preparation. Today, the problem of classification is mitigated because titular designation is based upon professional licensing. However, with regard to persons in antiquity, the potential for misclassification is quite real.

In conclusion, being that research is a continuing phenomenon, the overall importance of this note is that: (1) it provides an awareness of one research problem in accounting history that must be avoided, and (2) it accentuates the need for accounting historians to ensure a proper reflection of the various roles of the accounting functionary in recorded history.



A CLASSIC PUBLICATION AVAILABLE ON THE WEB

The Evolution of Cost Accounting to 1925 by S. Paul Garner is now on the World Wide Web. This classic historical study is the first book which addresses the discipline of accounting and its history to be published and available in full length on the Web. Providing free of charge such an important work on the Web is a pioneering step. This is another

first for S. Paul Garner, Dean Emeritus, University of Alabama, in his long tradition of being a pioneer of global accounting matters.

Accounting students and historians can access and download this famous classic at:

<http://weatherhead.cwru.edu/Accounting/pub/garner>

LESSONS.....continued from page 1

the deliberate manipulations of the stock figure by the Managing Director. The value of fixed assets had also been overstated since no allowance had been made for depreciation.

The reliance on management is evident in both cases. In the L&G case, the auditors including Theobald, a chartered accountant, had been alarmed at the condition of some of the bank's debtors' accounts. They had made a special report to the directors recommending that given the conditions no dividend should be paid. They also proposed to warn the shareholders of this report. They were persuaded mainly by Balfour to change this report on his assurance that he would report to the shareholders at the general meeting. They sought to cover themselves by inserting in their report to shareholders a rather cryptic comment that the "value of the assets was dependent on realisation." Balfour did not honour his alleged promise to inform the shareholders during the general meeting, at which the auditors were present but did nothing.

The position of the KCM auditors, Peasegood and Pickering, is quite different. They knew nothing. They were not even remotely suspicious of the stock manipulations although the stock figure had increased substantially and the gross profit percentage had increased dramatically in a short space of time. The auditors simply accepted the values of stock as computed by the managing director. Although they claimed to have tested the "casts" of the stock sheets and summaries, they could provide no proof of this. In their defense, they argued that stock was a technical area beyond the expertise which could reasonably be expected of auditors, and therefore, they were entitled to rely on management's certificate of the stock figure.

How then is one to reconcile these contradictory decisions? From a legal point of view, the only apparent explanation lies in the degree of honesty in reporting the audit findings. In L&G the auditors had

performed what appears to be an adequate audit, at least in terms of discovering the true state of the bank's customers' accounts. But they failed to make a full report to the shareholders. In KCM, the auditors appeared to have performed a perfunctory audit, at least in regard to stock, but they reported honestly. Herein lies the anomaly of the two decisions: a thorough audit may produce results which should be communicated to shareholders, and the auditor will be liable if he does not give an honest report; an auditor who performs a mechanical audit is less likely to unearth conditions of which shareholders deserve to be made aware, and therefore, there is less chance of being subjected to management pressure. An auditor in these circumstances will find it easier to produce an "honest" report.

The nature of the accounting errors provides no plausible reason for the different judgements. The arguments before the court concerning the technical nature of stock in a manufacturing company could have been made in the context of the banking case where it is undoubtedly a skilled job to assess the credit risk of different types of business, the solvency of customers, and the value of securities provided (as acknowledged by a contemporary writer in *The Juridical Review*, 1901, p. 104). The auditors of L&G tackled these technicalities and ascertained the true position, whereas the auditors of KCM simply relied on management. Although other sources of evidence were available, for example, a Stock Journal which if analyzed would have shown the discrepancy in the physical volumes of book stock and reported stock. In addition it is clear from contributions to *The Accountant* that some of its readers thought that there were other warning signs which should have put the auditor upon enquiry. The significant change in gross profit percentage and the stock turnover ratio seemed to be matters which the auditor should have investigated.

Although valid reasons for these observed changes could have been advanced, there is no indication that the auditor called for any explanations.

An alternative explanation may be the question of public policy. Did the Balfour connection condemn the auditor in L&G? The collapse of the Balfour group sent ripples through the city and concern among investing classes. KCM was not nearly so large an enterprise, and there may have been less pressure on the judiciary to pander to public sentiment. However, it is difficult to prove or disprove this possibility.

Conclusion

These two cases did not really help the profession in its attempts to clarify its responsibilities. However, some of the dicta have withstood the test of time. The lesson from L&G is that auditors should report honestly—a point which was readily taken on board in the literature although doubt exists even now as to whether auditors have sufficient independence to go against management and to make an honest report.

In terms of the extent of audit fieldwork, the signals from the cases are less clear. In

L&G it was said that the auditors should go beyond the books of account, which they did; they examined securities for the bank's loans. But in KCM it seemed sufficient to rely on a certificate from management; no further checks were performed and no analytical procedures were employed in order to get audit evidence. It is hard to rationalize the different stances of the same court. Was it that the court sought to punish the auditor who knew more than he reported and to be lenient to the auditor who reported honestly albeit on an inadequate job or were there policy factors involved?

The reaction of practitioners to the cases, so far as may be judged from correspondence reproduced in *The Accountant*, was that the KCM auditor was deserving of less sympathy from his peers, though this was mingled with some relief for the protection which the decision appeared to give auditors. On the other hand the L&G decision was viewed by some as harsh. The uncertain outcome of litigation was to continue throughout the present century and is one factor in the reluctance of auditors and their insurers to pursue legal action preferring instead to settle out-of-court.

MONOGRAPHS AVAILABLE

The Academy of Accounting Historians announces the publication of Monograph No. 7 of its Monograph Series, Wolodymyr Motyka's *Bibliography of Russian Language Publications on Accounting 1736-1917, Vol. 1 (1736-1900) and Vol. 2 (1901-1917)*. There is a critical introduction contained in each volume which indexes works on accounting published in Tsarist Russia chronologically, thematically, and by author. The set also contains a glossary and list of sources of main listings. The monograph is published by Garland Publishing and priced at \$132.00.

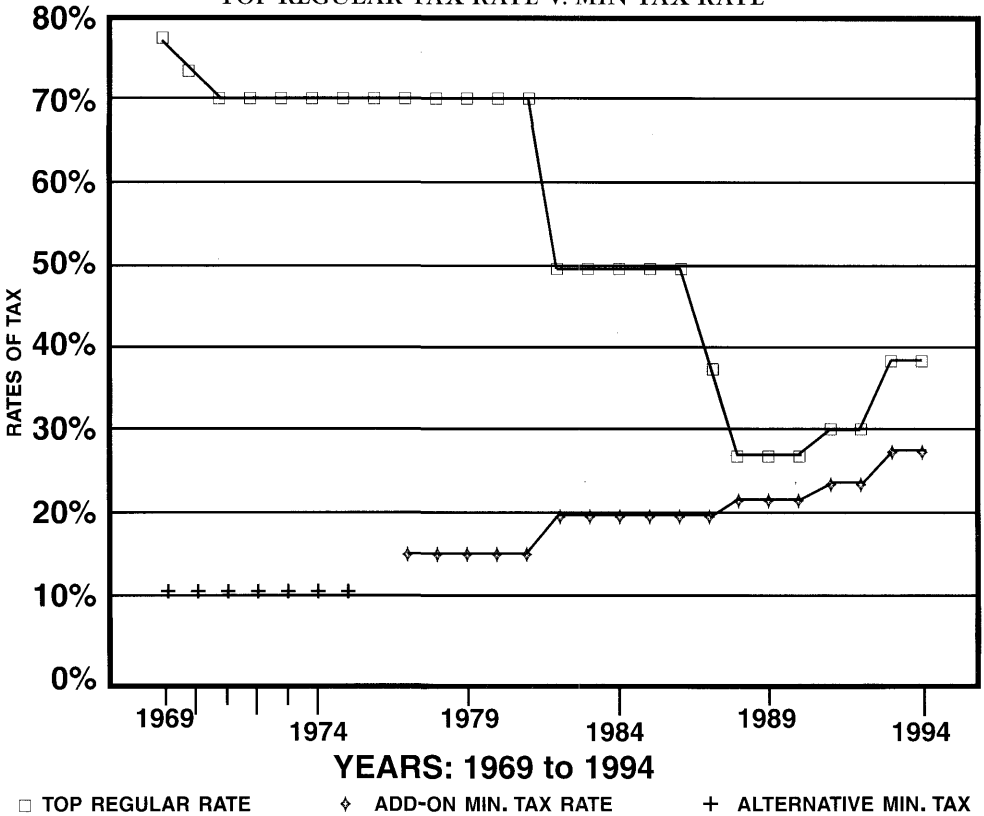
The Academy also has copies of Monograph No. 6, published in 1991 to honor Dr. Paul Garner. The monograph, entitled, *The Costing Heritage: Studies in Honor of S. Paul Garner*, is edited by O. Finley Graves of The University of Mississippi. The monograph is priced at \$15 for individual members and \$20 for institutional affiliates. Orders and inquiries for Monograph No. 6 should be made to: Doris M. Cook, The Academy of Accounting Historians, Department of Accounting, University of Arkansas, Fayetteville, Arkansas, 72701, USA.

TAX.....continued from page 8

One final irony is that the current alternative minimum tax is really an "add on" tax to the regular income tax. This is because the taxpayer in the alternative minimum tax calculation subtracts the regular income tax

from the gross alternative minimum tax (as if the regular income tax is a credit). The net alternative minimum tax (the excess of the gross AMT over the regular income tax) is then added on the back page of Form 1040 to the regular income tax.

REGULAR INCOME TAX VERSUS MINIMUM TAX:
TOP REGULAR TAX RATE V. MIN TAX RATE



TAKE A MONK HOME

The Academy again is selling T-shirts bearing, on the back of the shirt, a print of the famous *Summa* pose of Luca Pacioli. The shirts are ivory with rust-colored print and made of Fruit of the Loom 50/50 cotton polyester material. Shirts can be ordered for \$10 each (plus \$3 shipping charge *per shirt*). Sizes XX-Large and up are \$12. To get your T-shirt(s), please contact Jeanette Sanfilippo. She has several monks who need a home with warmth and love.

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