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Tips for Busy Readers

Mary F. Hall

TIPS FOR BUSY READERS

MARY F. HALL, CPA, Editor

"The Elusive Art of Accounting," Howard Ross, The Ronald Press Company, New York, 1966, 205 pages, $5.00.

Subtitled "A Brash Commentary on Accounting" the 1966 contribution to accounting literature by a grandson of one of the founders of Touche, Ross, Bailey & Smart (Canada) employs such blunt terms as "wrong-headed convictions," "mystic rites," "the Frankenstein of double-entry bookkeeping," "the perils of muddleheadedness" and "lack of clear-headedness" to express his opinion of many of our present day financial reporting practices.

In his first chapter which comments on "the present scene," the author states flatly that the whole discussion of financial reporting is a complete waste of time unless six propositions which he enumerates are fully accepted from the start. The essence of his six propositions is to brand our best statements as unsatisfactory and to demand agreement that the needs of the user are of paramount concern "which can only mean acceptance of the idea that income means basically increase in value." Mr. Ross defines this to mean "that assets must be stated at current values or the closest possible approximation thereto."

The theme of utility to statement users and the corollary of valuation are the dominant ideas of the book.

The first five chapters are a general criticism of present practices and present examples where the author feels the practitioners have not fulfilled the needs of the statement users as defined by the author. Some matters which merit the displeasure of Mr. Ross are the care of the practitioner not to present misleading information rather than to present useful information, the failure to accept income determination as a function of asset valuation rather than as a function of a set of rules for matching costs with related revenues, and the practitioners' confusion over the meaning of "objectivity" while excessively exploiting it as a desirable concept.

In Chapter 6 the author digresses from criticism of conventional commercial statements to point out the errors of financial reporting in the neighboring fields of taxation, management and nonprofit accounting.

Chapters 7 and 8 set forth the views of Mr. Ross on the "how to" for valuing assets with a general preference for "current value." Chapters 9 and 10 return to his viewpoints on income determination, summarized in the statement, "In short, the only acceptable basis for net income determination is the 'better off' view."

In the short final chapter the author sets forth four propositions which he feels must be accepted if we are to tackle seriously the problem of producing better financial statements. These propositions are captioned as follows:

We must really want to produce better statements.

The utilitarian nature of financial statements must be accepted without cavil or quibble.

No satisfactory progress can be expected unless we keep clearly in mind the real nature of the reporting process.

We must not be too tender on our sacred cows.

The reviewer found the book to be highly readable and to contain ideas that practitioners may benefit from by giving them thoughtful consideration whether or not they agree with them.

However, the reviewer feels that the writer, in his efforts to aggressively sell his views, has presented criticisms of present financial reporting practices with a resounding enthusiasm that will give some financial writers, already critical of almost everything accountants say and do, a whole new volume of high velocity ammunition. Coupled with the impressive weight of the author's background, heritage and experience, these picturesquely worded criticisms may well do more to give aid and comfort to the enemy than to improve the quality of financial reporting.

M.F.H.

"Taxation of International Investments," Thomas A. Morrison, *The Accounting Review*, October 1966, Volume XLI, Number 4.

Mr. Morrison, who is an Instructor of Accounting in the College of Business Administration at Pennsylvania State University, points out that two main problems confront the United States investor in companies abroad—how much of a tax burden will be imposed by the foreign country, and what types of United States taxes will be levied.

Usually the foreign country will impose some form of capital taxes, transaction-type taxes, import duties, and income taxes. Tax exemptions are often given to encourage investment in specified new businesses, in depressed areas, and in export business. A major problem is the determination of what the total income tax will be on a world-wide basis since much of the income may be subject to income tax in more than one country. Tax treaties between the United States and twenty-three other countries are currently in effect for the purpose of reducing double taxation.

In the article, Mr. Morrison discusses the tax treatment imposed by the United States, controlled foreign corporations and the 1962 Act, allocations in intercompany transactions, and the foreign tax credit. International investments made by United States investors may take the form of branch operations or of foreign subsidiaries. By prior planning of the type of operation and organization, a company may control to some degree its tax expenditures by taking advantage of treaty provisions.

In discussing allocations in intercompany transactions, Mr. Morrison points out that a fundamental aim of the Internal Revenue Service is to have United States companies treat transactions with their foreign-controlled subsidiaries on an arm's length basis. A company must therefore be ready to justify its pricing policies on goods, financing, technical assistance and managerial services which it provides to its foreign subsidiaries.

In the latter part of this rather long article, Mr. Morrison discusses the use of accounting theory in the transactions and allocations between United States taxpayers and affiliated foreign entities. In dealing with the entity concept, it is pointed out that there is strong theoretical support for consolidation of financial statements of most parents and their foreign subsidiaries, or at least of using the equity method of recording income from unconsolidated subsidiaries. From a tax viewpoint, however, consilidated United States income tax returns cannot now be filed by a parent with its foreign subsidiaries. A better use of consolidation techniques could do away with many allocation problems by elimination of intercompany profits on unsold merchandise as well as inappropriate intercompany charges or cost allocations.

In regard to the matching concept, it is pointed out that there is a divisional as well as a time aspect of matching which means merely that some costs can be associated with specific revenues of a component of a total entity. There is a field of accounting thought based chiefly on marginal analysis that would allocate to periodic or divisional income only those costs which can be directly associated with such income. The marginal approach is even more important in international tax matters since foreign countries hesitate to accept allocations of costs incurred in the United States. There are some objections to direct or to incremental costing, but the author believes that the benefits outweigh the objections.

In discussing the cost concept, Mr. Morrison lists two violations of this concept in the Treasury Department's proposed regulations applying to Section 482. These are the creation of an interest rate on loans to or from a foreign subsidiary when an arm's length interest rate does not appear to exist, and the creation of rent for tangible property when an arm's length rental charge does not appear to exist. This section concludes with the thought that it does not seem equitable to force all such transactions into the same mold, especially ones which use involved and questionable calculations.

Alternative solutions to some of the problems covered in the article are offered. Also Mr. Morrison feels that there is much to be said for a revaluation of the entire tax structure on direct foreign investment income. In conclusion, the author believes that accounting theory should play a more important role in the areas where income determination is important, and he urges accounting theorists to apply their findings concerning income measurement to an area vital to the easing of the flow of capital to needed foreign locations. The tax burden on investors can be made more equitable and this will stimulate capital flow and further the development of all societies.

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Annual Meeting

American Society of Women Accountants

In accordance with ARTICLE X, Section 1, of the National Bylaws of the American Society of Women Accountants, notice is hereby given that the 27th Annual Meeting of the Society will be held in conjunction with that of the American Woman's Society of Certified Public Accountants at the Sheraton Motor Inn, Portland, Oregon, September 20-23, 1967. The Annual Business Meeting of the American Society of Women Accountants has been called for 9:00 a.m. on Friday, September 22, 1967.

Patricia L. Clark
National Secretary, 1966-1967

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"*Accounting Theory: A CPA Review*," Benjamin Newman and Martin Mellman, John Wiley & Sons, Inc., New York, 1967, 176 pages, $6.95.

The basic purpose of this book is to help the CPA candidate to prepare for the theory of accounts section of the uniform CPA examination. However, a candidate will also find it to be a helpful source of information in preparing for the accounting practice, auditing or theory of accounts sections of the examination.

The book consists of five chapters:
- Basic Accounting Concepts
- Revenue Recognition and Measurement
- Cost and Cost Expiration
- Reporting Principles and Standards
- Accounting and Reporting Problems and Applications

Definitions of various accounting terms and concepts and their relationships to accounting are discussed in each chapter. The coverage of these terms and concepts is concise yet complete, giving the CPA candidate good basic knowledge which should be helpful in answering questions or working problems in the three sections of the test pertaining to accounting.

Another helpful feature of this book is that it gives solutions to questions which have appeared on previous examinations. These solutions should be valuable to the CPA candidate because they are presented in good form and they suggest ways to develop essay-type answers for questions.

As I read through the various chapters, I felt that all accountants, not just CPA candidates, would benefit greatly from reading this book. The author covers a lot of territory in 176 pages and yet manages to write prose that is both easy reading and capable of holding the reader's attention.

Although the book will serve as an excellent additional study tool for the CPA candidate, it will, of course, need to be used in conjunction with publications of the AICPA and current accounting textbooks in order for the candidate to review properly.

The authors are both CPAs, professors of accounting and active in the New York State Society of CPAs. Their combined efforts have produced an effective aid to the CPA candidate in his efforts to broaden and deepen his accounting knowledge.

Anne H. Tabar
Cincinnati, Ohio

Editor's Note:

The reviewer for this book, Miss Tabar, is herself a CPA candidate so the editor felt that her reaction to the book might be especially pertinent.

M.F.H.

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finally and emphatically, it was because of the cooperative efforts of AWSCPA, its national officers and committee chairmen. As just a glance at this page will reveal to the most casual reader, it is the initials of two organizations rather than one which continue to appear as the work of the ASWA year is recorded. It has been said before; it merits repetition: "AWSCPA's cooperation has been heartwarming and its sincere concern for the welfare of ASWA is something for which we in ASWA should be particularly thankful."