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American Woman's Society of Certified Public Accountants

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The Woman CPA

JANUARY 1974 VOLUME 36, NUMBER 1

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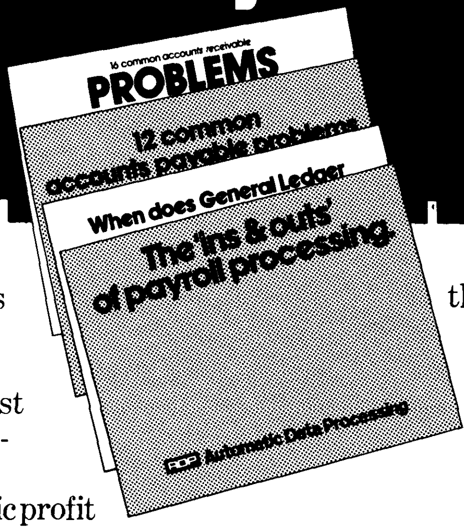

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The Woman CPA

January 1974 Volume 36, Number 1

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MAJOR ARTICLES

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DEPARTMENTS

Reporting Needs of the Investor and the Consuming Public

Dr. Frances Stone, CFA
New York City

The author looks at financial statements from the point of view of the trained financial analyst and makes some pungent remarks about what she sees.

This article is adapted from a speech Dr. Stone gave to a meeting of the Ohio Society of CPAs.

Dr. Stone is a financial analyst in the Security Research Division of Merrill Lynch, Pierce, Fenner & Smith in New York City. She received her Ph.D. in Economics from Columbia University and teaches courses in finance at New York University and the City University of New York.

Dr. Stone is a frequent contributor to the Analysts Journal, Barron's, *and other financial journals. She chairs the Financial Accounting Policy Committee of the Financial Analysts Federation and is a member of the National Association of Business Economists. She also serves as a representative of the financial analysts on the Financial Accounting Standards Advisory Council.*

The consuming public for accounting products is the professional security analyst. The many discussions about providing understandable information for the individual investor are not in accord with reality. Only the rare individual purchaser of stocks reads — and the even more singular person understands — the joint product of accountants and corporate managers. The output should therefore be designed for the "real consumer," the professional analyst who communicates with the 31 million individual investors as well as their representatives: the institutional money managers.

Characteristics of Professional Analysts

To describe the analysts reference is usually made to the 14,000 members of the 43 local societies which combine to form the Financial Analysts Federation (FAF). Some of these societies use the title "security analyst," others use "financial analyst." Obviously there is a schizophrenic attitude among the members of the Financial Analysts Federation.

More information on the jobs of analysts is discernible from the main functions of the employers. Two-thirds of the analysts work for institutions: banks, insurance companies, investment advisors, pension funds, mutual funds. Consequently, the majority of them are employed on the "buy" side of the investment process. The remainder are employed by the brokerage community or the "sell" side. This includes the full-line broker, like Merrill Lynch; the institutional research house, like Donaldson, Lufken, & Jenrette; the regional firm, like Piper, Jaffray; and literally thousands of firms located throughout the U.S. and Canada. The European analysts are loosely affiliated with the FAF and function in a fashion similar to that of their U.S. counterparts.

The analyst in the research department of an institution is responsible for a limited number of companies. These are usually listed on an "approved selection list" or a "watch list." Analysts working for brokers are usually involved with a more diversified as well as a larger list of companies.

Chartered Financial Analysts

The professional analyst carrying the title of Chartered Financial Analyst (CFA) has, like the CPA, met certain qualifications. These include five years of experience as an analyst and passing grades on three examinations. These tests cover accounting, economics, quantitative techniques, financial analysis, evaluation of securities, as well as portfolio management and ethics.

The CFA and the FAF have a written code of ethics. A growing body of rules and regulations circumscribes the analysts' activities in their relationships with corporate management, clients, the public, and their own accounts. Among the topics which are ever more emphasized by the Securities and Exchange Commission (SEC) are standards of professional advisors and analysts' methods of handling insider information. Prospects are for the CFA program to serve as a basis for professional designation.

Accounting on the CFA Examination

Accounting is a main topic in the CFA testing program. The list of readings in this area is indicative of the knowledge required to understand and analyze for future implications the accounting methods used on financial statements.

Naturally, analysts must be able to compute a variety of ratios with items on the balance sheet, the income statement, and the statement of changes in financial position. They must also be able to understand and interpret them. In addition, the successful applicant for the CFA title must be familiar with all APB Opinions. Further expertise is essential for the complex problems of analyzing the effects of inflation on corporate results given the historical cost principle, the designation of unusual charges or gains as ordinary or extraordinary, reserves for losses, inaccuracies or irreconcilabilities in interim financial statements, reporting of affiliate results, and lease accounting for lessee or lessor. In short, the coverage parallels the topics of discussion in *The Journal of Accountancy*, a source of the readings in this area. A recent issue covered goodwill, taxes, leases, and a framework for financial reporting: everyone a prime responsibility of an analyst working to understand the reports of companies in a particular industry.

Why is the analyst's training beyond the formal schooling leading to the bachelor's or master's degree involved with accounting? The reason is obviously that the statements are used as a means of understanding and recognizing past performance. How well do the numbers indicate the past profitability of the operation? What information about future income can be derived from the historical figures? The economy and the investor gain if the statements disclose the past conditions of the company in such a fashion as to be usable for projections: the economy benefits if capital is directed into the areas of most efficient and profitable use, and the investor is helped when his or her funds are placed in the investments with the highest return.

A brief digression may be useful: The market has lately been dubbed a two-tier system. It is in actuality a three-tier market. The favorite 50 or 100 stocks, such as IBM, Avon, Xerox, Schering-Plough, Johnson & Johnson, and J.C. Penney, sell at valuations that are three to four times as high as companies like Borden, Diamond International, Firestone, and Ford, among others. Another group which includes A-T-O and Gulf & Western, sells at even lower levels of valuation. Part of the explanation for this market differentiation is the "quality" of the earnings. "Quality" is an attribute hard to define. If it is measured by the variability of income, the first group has considerably lower rates of fluctuation than the second and is less leveraged than the third. Some other significant differences include above average rates of return on invested capital, disclosure of information that is prompt and realistic, and accounting methods that tend to be clearly explained and not changed capriciously. The earnings of the most depressed companies are not only cyclical, they are also viewed with a lack of confidence by investors due to manipulated accounting methods. The analyst must be capable of judging the quality of earnings, and to do that accounting knowledge is crucial.

Investments and Accounting

Corporate managements and innumerable mergers are relatively ineffectual in cushioning the effect of recessions on operating results. Small changes in sales — either declines or slower increases — result in large effects on profit. But management does have control over the accounting methods employed to compile the statements.

Although cyclicality is a hindrance to a higher market evaluation, suspicious accounting is a more powerful deterrent. Studies have been conducted on investors' perceptions of differences in accounting methods. The results clearly show that manipulating earnings may be fun, but the long-term effects are doubtful.[1] An increase in reported income due to an accounting change has a temporary positive effect. Beyond the immediate period when the surge in profits is reported, the positive effect on the stock price erodes and becomes negative. Two reasons account for the ultimate decline in market price: 1) accounting changes can rarely be duplicated in the following years, and 2) most companies utilizing accounting changes are in poor earnings trends. The change is a temporary palliative, papering over a sick condition.

In effect, the analysis of income statements should permit the analyst to lay bare the base of permanent earning power. The historical numbers alone or even the changes in them have little or no relationship to current changes in stock prices.[2] This does not lead to the conclusion that the numbers are a costly extravagance. Why incur the cost of computing and publishing the data for the financial statements if they may be irrelevant to the investment process? The more logical question to ask is: how can these numbers be improved to serve as a basis for forecasting future profits or losses? It is the expectation of profitability and stability of this earning power that is the significant influence on stock prices. If the behavior of the stock market is considered in this context, then the absence, or the presence, of vitality at various periods becomes more understandable.

Current Analytic Thinking

In the present state of the analytic art, the influence on stock prices is recognized as being divided roughly at 31% from the direction of the market, 12% from the industry, 20% from the company, and the remainder of 37% due to all other factors including random events.[3] The analyst can reduce the risk inherent in a stock and supply meaningful input to the investment decision only to the degree that some of the uncertainties regarding the future for the industry and the company are eliminated or isolated. These two factors account for approximately one-third of the total risk. (Current theory extends the logic further and hypothesizes that a fully diversified portfolio would eliminate all except market influence.)

Corporate Accounting

Historical financial statement numbers must be usable to a degree for extrapolation by a sophisticated analyst. Have the amounts been compiled under the same accounting methods for the past five years? Can the reports be used as a basis for next year's estimate? Is there stability in the company's results?

Experience with a wealth of reports has led analysts to expect a change in accounting methods. Pension plan actuarial assumptions have been the 1972 device for supporting earnings. It has displaced a change in inventory valuation methods and depreciation methods, the overwhelming favorites for previous years. A sale of a portion of the business allows for a variety of treatment. The 1973 contribution to the body of accounting manipulations will be the reporting of foreign currency gains and losses. This will range from treatment as an extraordinary item, to inclusion in income without separate treatment, and to deferral. Two advertising companies with the same auditor are examples of the diversity in reporting profits on dollar devaluation: one shows it as ordinary income, the other as an extraordinary item.

The list of accounting abuses is long. The selection of the most favorable accounting method to enhance income has been spelled out by many. They include Abe Briloff's articles and his book *Unaccountable Accounting,* as well as many articles in the *Financial Analysts Journal.*

A list of some of the notorious practices would include the use of footnotes that are notable for the obscurity of the language, the lack of detail on effects of accounting changes (hopefully this will be cleared up by rigorous application of APB 20), the continuous change in accounting methods, the use of a variety of techniques to report the same item in the same industry, the netting of items to arrive at an "immaterial" amount, the dearth of fourth-quarter reports, the avoidance of compliance with the SEC regulation to report sectors of a diversified company to public stockholders. In summary: there are many reports that are unusable. One might suggest a simple rule for analysts: if the accounting has been changed or if it is very complicated and the notes are obscure, avoid the stock.[4]

There are, however, some positive aspects. Price-level statements are being used in conjunction with historical cost figures.[5] More experimentation with this kind of estimate as well as current values might provide analysts with accounting numbers that are relevant for investment decisions. An estimate of the effect of an alternate accounting treatment on the balance sheet and the income statement will enhance the reader's capability to decide intelligently on the value of the company (FIFO vs. LIFO for instance).[6] A complete explanation of lease agreements with the obligations for the next five years shown is the basis for an informed analysis of the financial condition of a company and its outstanding debt.[7] There are some divisions of sales that have been logically formulated as well as carried through to net income.

Conclusion

The user of financial statements has a need for information disclosed in sufficient detail to provide a basis for calculating trend, stability, financial condition. In order to accomplish this task the analyst needs numbers that are comparable from year to year and from company to company within an industry. All companies in an industry do not at present have to report on the same basis, but an explanation of the differences should be published. Changes in accounting

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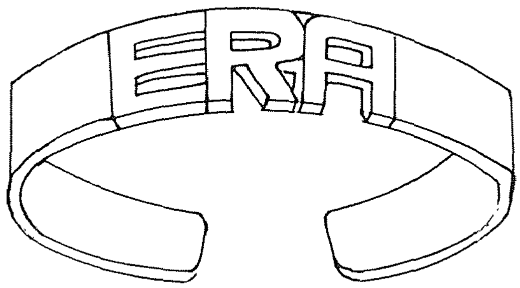

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APB Opinion No. 22: Treating the Symptoms, Not the Cause

Constance T. Barcelona
Cincinnati, Ohio

The author examines some of the pressures that produced the Opinion and some of the problems that may result from it.

In April, 1972, the Accounting Principles Board (APB) of the American Institute of Certified Public Accountants (AICPA) issued an opinion regarding disclosure of accounting policies (APB Opinion No. 22) and thus established a lead time of some nine months over a similar proposal by the Securities and Exchange Commission (SEC). This lead time was sufficient to maintain the prestige of the APB, but close timing of the two mandates for financial reporting reflects the interweave between the AICPA, a highly developed economy, and the SEC.

It is the intent of this article to examine some of the pressures that produced the disclosure opinion, and some of the results that may be anticipated.

An Environment of Pressure

The accounting profession has been under mounting criticism for its equivocal position in reporting matters relating to asset valuation, income determination, and earnings per share. Investors have grown wary of financial statements that, like chameleons, take on the color most becoming to management. In mid-summer, 1971, the APB released Opinion No. 20 regarding accounting changes, but this was only a preliminary to No. 22 requiring full disclosure of the accounting policies followed in preparing financial statements.

Constance T. Barcelona, MBA, is the accountant for the Camargo Club in Cincinnati and a part-time instructor in accounting at the University of Cincinnati. Ms. Barcelona is a graduate of Iowa State University and has recently received her MBA from the University of Cincinnati. She is the author of several articles and book reviews which have previously appeared in this journal.

Ms. Barcelona is a past president of the Cincinnati Chapter of ASWA and the Associate Editor of The Woman CPA.

Both Opinions deal effectively with the symptoms of professional ambivalence. Neither is able to treat the underlying cause.

Increasing litigation against accounting firms, especially those in the prestigious Big Eight, unquestionably hastened the disclosure opinion by the Board. Coupled with pressure from the SEC, the APB was virtually in an emergency position.

To some in the profession, disclosure of the choice of accounting policies for a particular firm is comparable to a physician's recital of the reasons for an individual diagnosis and treatment. Disclosure, they feel, is tacit admission of the insecurity and lack of expertise the practitioner may feel. In the opinion of that segment of the profession, to require disclosure of accounting policies is to imply questionable judgment on the part of either management or the accountant.

Whatever the inference drawn by the individual practitioner, disclosure is now the prescription for fiscal years beginning after December 31, 1971, and is applicable to all audited financial statements, including those of not-for-profit entities. For reports filed with the SEC, the agency has proposed Rule 3-08, a planned amendment to Regulation S-X. This rule would require disclosure and a full explanation of the accounting policies used, including in some cases a restatement of current and prior years to conform with general practice within an industry.

The proposal was "greeted with muted applause by the accounting profession and enthusiasm by the financial analysts," according to John C. Burton, CPA, Chief Accountant of the SEC, in an address given June 25, 1973, before the Ohio Society of Certified Public Accountants. Revision of the original draft will probably contain changes sufficient to require yet another exposure draft.

Scope of the Opinion

The accountant does not, and cannot, deal with absolute truths. In recent years the accounting profession has been referred to by its own as an art, rather than a science, and the changing concept came with the discovery that there is more than one acceptable way to report business activities to the financial world. Unfortunately the art has not always been for art's sake, but sometimes for the sake of management.

APB Opinion No. 22 observes that "the usefulness of financial statements for purposes of making economic decisions about the reporting entity depends significantly upon the user's understanding of the accounting policies followed by the entity." (Paragraph 7) Usefulness, in the sense of the Opinion, is simply another word for truth.

To enhance the usefulness of statements for the investor the Opinion prescribes a description of all significant accounting policies to be included as an integral part of the financial statements. The Board's conclusion applies to not-for-profit entities as well. It does not, however, apply to unaudited interim financial statements if there has been no change in accounting policies since the last year-end.

Impact of the Disclosure Opinion

The primary impact of the Opinion is similar to the effect of the SEC proposal of Rule 3-08. Of the latter, a representative of a Big Eight CPA firm said "It will be a prod to get accounting principles established so you won't need so much disclosure." In his view, the action by the SEC demonstrates that neither the APB nor the new Financial Accounting Standards Board will be allowed to operate without considerable pressure. "And maybe that pressure is good," he added.[1]

The secondary impact is more insidious because it contains the threat of stifling creative, independent judgment. Disclosure may be one step away from full government regulation of the profession.

Accounting is a hybrid discipline resting somewhere between science and art. Dealing as it does with "values" it inherits a mixed bag of measurement techniques, some objective, and some subjective. Further, it is a relatively new discipline still struggling toward the evolvement of standards. Diversity of opinion is an inescapable part of the creative process, although in progressing from disorderly to orderly arrangement of principles the profession must, of course, attempt some control of judgment. The line dividing progressive direction from static control is subtle, but it must be preserved.

Specific Problems of Disclosure

Relaxing of Responsibility: Now that the accountant must present a "Summary of Significant Accounting Policies" as part of every set of financial statements prepared for a client, a new temptation to negligence will rise like a ghost, in the night hours before meeting a deadline. How easy it will be to opt for the accounting principle that represents the least work in application. Adopting the defense of communication, the disclosures may "become alibis for not improving financial statements, thereby creating a vicious circle of ever greater disclosure and more inadequate accounting."[2] The responsibility for meaningful presentation of economic facts leading to decision making cannot be passed on, ethically, to the readers by telling them what methods were employed.

Too Much Information: Disclosure not only provides the accountant with an avenue for abdication from careful judgment, it also may be the means of confusing the reader by an overgrowth of details. Situated between the illustrations and colorful prose of the annual statement, the accountant's report attempts to inform the reader of financial facts with as much clarity and precision as possible. The footnotes themselves present a tiresome maze to all but the professional analyst. Will a recital of the applied principles illuminate, or further obscure the reader's understanding?

It may be assumed that the reader of financial statements has a reasonable degree of sophistication. "He should not be expected to be an expert accountant," says Hendriksen, "yet he should have some knowledge of accounting and business."[3] The same author, in quoting Mautz and Sharaf, points out that "financial market professionals have come to act as intermediaries between accountants and investors."[4] Analysts both use and need sufficient financial information to properly exercise their professional responsibility toward those who rely on their judgment.

Duplication: Of all the possible criticism of the effects of the disclosure opinion, confusion by proliferation of detail seems the least warranted. There is, however, a certain potential redundancy of disclosure apparent from examination of a group of annual statements for 1971 prepared by six of the Big Eight public accounting firms, as shown in Table I. In compliance with earlier APB opinions and in demonstration of their own professionalism these auditors have disclosed in the footnotes information relating to principles of consolidation, translation of foreign currencies, intangibles and amortization, liability under pension plans, and various other pertinent accounting policies. One firm, possibly with prescience of impending regulations, added a "Statement of Accounting Policies."

Management Resistance: Understandably, management doubts that good effects of disclosure will outweigh the bad ones. Its fears that rival businesses may piece together helpful information from fully disclosed accounting policies are valid. On the other hand, it must be remembered that companies in the same industry negotiate with the same or similar labor unions, suppliers, and customers and therefore possess a lot of information about their competitors.

Suggested Content of Disclosure

The wording of Opinion No. 22 is generalized as to the application of disclosure. Beyond the broad accounting

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Table I
DISCLOSURE PATTERNS OBSERVED IN 1971 ANNUAL REPORTS

	Arthur Andersen	Price Waterhouse	Touche Ross	Ernst & Ernst	Haskins & Sells	Peat Marwick
Broad Operating Policies						
Principles of Consolid.	X	X	X		X	X
Translation of Foreign Currencies	X	X				
Changes of Acctg. Prin. (per APBO #20)		X**			X	
Intangibles and Amortiz.		X				
Detailed Principles						
Inventory Valuation	X	X	X	X	X	X
Liability under Pension Plans	X		X	X	X	X
Income Tax Liability	X	X**	X			
Deferred Charges						X
Commitments and Conting. Liabilities	X	X**	X		X	X
Changes in Stockholder Equity Accounts	X	X**	X		X	X
Stock Option Plans	X	X**	X		X	X
Depreciation	X	X	X	X	X	X
Computation of EPS	X	X**	X	X	X	X
Lease Agreements					X	

** Disclosure so marked was presented in a separate "Statement of Accounting Policies"; other information was provided in footnotes or in the body of the financial statements.

Since a limited number of annual reports was examined it must be assumed that absence of a disclosure pattern for a particular policy or principle may be deemed as not applicable to the particular client, rather than a disinclination toward disclosure by the audit firm.

Two Determinants of Argentine Accounting

This article is adapted from a paper Brian Donovan wrote in a Seminar on International Accounting at the University of Massachusetts at Amherst.

Mr. Donovan completed his undergraduate studies in accounting at Boston College and received his MBA from the University of Massachusetts at Amherst. He was in professional accounting for three years and is receiving his CPA certificate in January 1974.

Brian Donovan
Northampton, Massachusetts

The author argues that accounting in Argentina has been shaped by the country's economic development and by foreign accounting theory and practice.

The determinants of a given country's accounting system and profession span a wide range of factors. In the case of Argentina, this general rule is applicable. These forces include such factors as economics, tax policies (which are interrelated with economics), foreign accounting practices, academia, and the cultural biases of the population. This article will examine the economic and foreign accounting influences as they have affected the course and development of Argentine accounting. Initially a brief history of the economy of Argentina will be sketched and an indication of the important countries which have influenced accounting in Argentina will be given. Following this, inferences will be made and conclusions drawn concerning how current accounting in Argentina has been affected by these factors.

Economic Overview

One author has delineated four stages in the economic evolution of Argentina.[1] The first is categorized as "regional subsistence economies," characterized by regional socio-economic units supplying domestic consumption. The second stage is called the "transition stage" during which the livestock industry was introduced and national independence was achieved. The third and fourth stages are the two that concern the modern day course of accounting in Argentina. The third stage, "the primary export economy," which lasted from 1860 to 1930, witnessed the expanding agricultural and livestock industries, the immigration of Europeans, and the inflow of foreign capital which transformed the economy. The final stage, categorized as "a nonintegrated industrial economy," spanning the years 1930 to the present, is characterized by a diversifying economy in many ways similar to more advanced countries except for the lack of basic industry development.

The final stage can be further divided into the periods before, during, and after Peron.[2] Prior to Peron the government followed a course that improved the corporate area but without direct industry intervention. During the middle portion of the final stage, 1945-1955, the course followed by the government of Peron involved more direct and discriminatory policies. Peron's concept of government was that of dictator on behalf of the common people (workers); consequently the consumers and producers developed expectations that the government would protect them from the contrary forces of the free market. The country had amassed considerable excess reserves by the end of the second world war (Argentina was neutral). But the government spent these reserves, not in an attempt to shore up the increasingly inflated peso, nor to aid in basic industry development, but rather to buy the railroad system and partially purchase the telephone and electric utilities companies.These state-owned companies did not then and do not now contribute any return to the state and would appear to be models of inefficiency. For example, the railroad workers per mile of track is ten times that of the inefficient U. S. system, and the establishment of an auto industry set up ten separate units with the attendant capital requirements to produce by 1965 200,000 units.[3] The effects of these policies can perhaps be shown even more explicitly by comparing the annual growth rates before and after government purchase of an oil company, these rates being respectively 8.2% and 3.7%.[4] The final economic sub-division has been categorized by the rather limited duration of the various forms of government and the various governments themselves. The main economic policy of this era has been that of a case-by-case approach to the problems confronting the country rather than the existence of any well-defined overall goals.

The net effect of the final two stages in the economic development of Argentina has been an uncontrollable rate of inflation. The full extent of this inflation can best be perceived by observing that with 1960 as a base (100) the index has risen to 1738.6 in 1972, which translates into an annual rate of 64% in 1972.[5]

Foreign Accounting Influences

The exogenous forces, i.e. foreign accounting methods, that have shaped the course of Argentine accounting are the accounting practices and principles of the United States, France, and England. The remainder of this article will describe how these internal and external forces have combined to produce and influence accounting in Argentina. France will be considered first, followed by England and the United States. The final portion will indicate those areas that have been influenced by the economic conditions in Argentina.

French Accounting

The impact of French accounting on that of Argentina has been felt in both the economic and accounting areas. Perhaps the oldest influence on the country's accounting is that of the French Commercial Code and its legal requirements regarding the form of substance of the books of account and records. These include the daily journal record of all business transactions, the inventory book containing at least annual trial balance listings, which must be rubricated, and the press-copy book. The code also provides for the office of a "Sindico," a position which is analogous to the French office of "Commissaire." The Sindico is the statutory auditor whose office is required as a form of additional security for the shareholders. The office, as in France, provides for no formal requirements. Also, as in France, the position has become one that is ordinarily filled by a Contador Publico Nacional (National Public Accountant) who is similar to a C.P.A.

Another area where French influence might be suspected is in the realm of the required or model form for financial statement presentation. However, this inference is not totally correct. While it is true that the French "Plan Comptable" does prescribe a format for presentation, this was not accomplished until 1957. Argentine Law Number 9.795, passed in 1954, established a required format prior to the French version of 1957. Lending even more credence to the supposition that the Argentine financial statement format developed apart from the French model is the fact that in 1938 a law decreed statements for insurance companies, and even prior to 1938 prescribed forms for banks were in existence.

Within the economic determinants of Argentine accounting the French influence is again noted. As a result of the severe inflation, mentioned previously, the government decreed by law number 15.272 that certain fixed assets could be revalued. The procedure to be followed was stipulated by the government and was set up as a one-time restatement. The government also supplied the coefficients used in arriving at the revalued amount of the assets. This asset revaluation law is very similar to the method used by the French after the Second World War when their inflation rate was also very high.[6] The law in Argentina was reintroduced in 1968 as a result of the continued inflationary spiral with the statutory coefficients ranging from 147 for assets acquired in 1944 and prior up to 1.2 for those assets acquired in 1966.[7] Unlike the process in Brazil where the revaluation is an ongoing procedure, the Argentine method encountered the same problem that was experienced by the French. The problem results from the fact that the government coefficients are on an aggregate basis. As a result the probability of misstatements after the revaluation process is rather high, since the effects of inflation obviously do not affect all sectors of an economy to the same degree over the same period of time. The procedure also does not stipulate separate accounting for the revaluation reserves as do the French and Brazilian models.

English Accounting

The effect of English accounting on that of Argentina has also been significant. The English influence is due to the early influx of capital from England and the presumed desire of the contributors to have an accounting of the capital in a manner with which they were familiar. This influence dates from the late 1800's with the initial capital invested in railroads and breweries. The English "Company Acts" were and are more concerned with disclosure and consistency than with indicating any desired method of accounting for specific transactions. This concept has been carried over into Argentine accounting through both the required financial statement presentation and the literature that has been published by the academic community in Argentina. The law in Argentina also required that these statements be audited by a C.P.N., and that they be made publicly available, which is accomplished through the Official Bulletin (the law previously maintained minimum size requirements for this public disclosure, but the consequences of inflation have made this provision relatively meaningless). The extent to which the concepts of disclosure and consistency outweigh those of particular methods of measurement is indicated by the fact that any method for valuing inventory and depreciation is permissible as long as it is consistent and is disclosed.

The area of taxation also exhibits the influence of the English accountant. The tax authorities require a tax return computation that commences with net income for the period, followed by a series of adjustments to arrive at taxable income for the period under report. The authorities in Argentina, as in England, require that an audited financial statement accompany the tax return. Thereby more reliance is placed upon the net income figure reported with the result that the area of concern lies in the adjustments and reclassifications between net income per books and ultimate taxable income.

Finally, the influence of English accounting can be seen in the accounting profession in Argentina. In 1892 the profession was reorganized with the twofold aim of regaining privileges lost to the legal profession and of upgrading the examination that was being administered to applicants. The basis for the revised examination was the one then used by the English and Scottish Institutes.[8]

American Accounting

United States influence on accounting in Argentina closely approximates that of England, due to their common point of view; however, there are facets where United States influence is inferable.

The Buenos Aires Stock Exchange (El Mercado de Valores de Buenos Aires) makes demands upon its listed companies comparable to those which the New York and American Exchanges make upon their firms. Annual and quarterly audited statements are required of all listed firms.

In addition, the statutory financial statement requirements of certification, disclosure, and public dissemination in the Official Bulletin are comparable to the requirements of the Securities and Exchange Commission.

The format of statement presentation in Argentina is very similar to that of the United States. The assets and liabilities are listed in order of most to least liquid in the case of assets and most to least current in terms of liabilities. Since few other countries adhere to this form of presentation, the inference can be drawn that the Argentine form of presentation has been influenced by that of the United States.

Auditing in Argentina also follows the procedures that are common in the United States and England, at least among the larger firms.[9] Such procedures as inventory observation and confirmation of accounts receivable and payable are standard practice for these firms. However, the extent to which the small firms adhere to generally accepted auditing procedures appears to be a matter of some controversy, with the weight toward the position that they do not utilize these procedures.

Economic Influences

In addition to the inflation caused asset revaluations mentioned above, other economic influences on Argentine accounting are discernible.

Consolidated statements are rare, a fact which becomes understandable when it is remembered that extreme inflation seldom leaves excess funds for investment in other than operating needs for most firms.

Cash and accounts receivable balances tend to be small, and working capital is either a small positive or even a negative figure. It is obvious that in a time of rapid inflation every business strives to be in a net creditor position, so that it can pay off its liabilities with less valuable money in the future.

(Continued on page 17)

Electronic Data Processing

Computers and Auditing

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As data processing operations assume great significance in the overall operation and financial activities of organizations, the exercise of firm control over the data processing function becomes critically important. Similarly, the substantial impact of data processing on the financial records of clients dictates the need for a greater involvement and expertise by the auditor.

The Audit and Control Functions

Auditing is an attest function involving objective review and evaluation of the fairness and authenticity of the records, measurements, and financial reports prepared by the management of an organization. The audit function can be performed by an independent agent whose primary obligation is to the readers of the financial statements and reports on which an opinion is given. These readers may include the management commissioning the audit, but are primarily individuals external to the organization such as investors, creditors, and government agents. The objective of the ordinary review of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles.

The audit function can also be performed primarily for the internal use of management in evaluating either the accuracy or the efficiency of the recordkeeping and other activities of the organization. In this instance the service is performed by employees of the organization and is a form of the audit function referred to as internal auditing.

No less concerned with the accuracy and efficiency of the reporting technique is management which bears the ultimate responsibility for the successful operations of an organization. In discharging its responsibility, management is dependent upon the quality of information available to it. Thus, in addition to supporting an internal audit function to review the adequacy of internal operations, management has the primary responsibility for providing for the existence of control procedures which will insure that all data are properly recorded, that the recording process includes proper verification procedures, that safeguards exist to prevent duplication of proper data or inclusion of extraneous data, that proper security and classification of the data so recorded is maintained. The control function can be characterized as that set of prescribed operations or procedures aimed at insuring the accomplishment of a particular goal — in this instance protection of the integrity of the financial records.

There is a commonality of interest in the accuracy of financial records and, therefore, a potential for common use of many techniques in the data collection, analysis, and reporting process. In its *Statement on Auditing Standards*, the American Institute of Certified Public Accountants has stated its view of the related concerns and responsibilities of auditors and management.[1]

Computer-Introduced Changes in Traditional Accounting and Audit Techniques

Computers and their related support equipment (i.e., keypunches, transmission equipment, etc.) have not in any significant way altered established accounting theory as it relates to the kind of data to be collected or the manner in which such data are to be organized for reporting purposes. But the computer has substantially altered the methods by which that theory is put into practice. As the collection and subsequent uses of data are changed from manual procedures frequently performed by individuals who had some familiarity with both the data and the accounting process to high-volume, automated techniques frequently performed by individuals who are unfamiliar with both the data and accounting practices, the opportunities for personal scrutiny and clerical checking have declined. For example, a keypunch operator handling large volumes of data, switching frequently from one type of information to another, and frequently working with coded data, has neither the time nor information to be concerned with the accuracy of the data being punched. The only reasonable expectation is that the keypunch operator will take steps to control the accuracy of the transcription process itself.

Huge increases in the volume of transactions have mitigated against close scrutiny of individual transactions. Only techniques which emphasize standardized automatic operations are practical in a high volume environment. Mechanized verification and programmed scanning for objectively defined conditions such as absence of specific data items or failure to meet previously defined "reasonableness limits" are useful.

The introduction of data-processing equipment requires a certain concentration of the recording and processing functions in departments which are more separated from the origin of the data than in times past and which also tend to eliminate the separation of responsibilities which previously characterized the record-keeping function. A trend towards integration of operating and financial data in corporate information systems or data bases further eliminates independent records which might have previously provided a source of comparative or contrasting data. At the same time, integrated information system can become the basis for more vital and timely management decisions.

Besides eliminating departmental (and even geographical) separation of the recording units, computerization has also reduced substantially the time involved in the accounting cycle. Data are used much more rapidly than before, and the lag between capture and use of data during which recording errors might have been discovered before they had an impact on operations has been substantially reduced or even eliminated in the case of real-time systems. This has heightened the pressure for increased care in the recording process.

Many records are no longer stored in hard copy which is intelligible to humans. Instead data are stored in machine-readable format and intermediate results are not printed. Changes in the recording media and the elimination of many clerical procedures have been combined to eliminate many of the traditional audit trails by which individual records can be traced to final reports or back to the original transaction. There is also an educational lag which makes it difficult for non-data processing personnel to fully understand the system and critically evaluate its performance.

Professional Standards and Responsibilities

The American Institute of Certified Public Accountants has adopted as part of its Code of Professional Ethics, a statement of generally accepted auditing standards.[2] The standards are divided into three groups: General Standards; Standards of Field Work; and Standards of Reporting. The General Standards and the Standards of Field Work have particular significance when considering the implications of auditing in the computerized environment.

General Standards

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and preparation of the report.

These standards are quite explicit in their requirement that the professional auditor have a functional knowledge of computer systems — including both how to use those systems for the audit function and how to test the systems to evaluate properly their results. The auditor must have sufficient training to enable him/her to read and use documentation commonly used in computer organization.

It is not necessary that auditors be specialists in advanced systems design or programming techniques — but they must have sufficient personal knowledge to form their own judgments independently. It is completely inappropriate to rely upon others to make professional judgments. An acceptable exception occurs when a team of independent auditors contains an EDP specialist.

Standards of Field Work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis of reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

Many computer activities involve cyclical patterns which the auditor should consider. By so doing advantage can frequently be taken of existing control procedures employed by the installation. In other instances proper evaluation may require a series of tests through the time cycle to adequately sample the system. The requirement for proper supervision, as always, implies that the senior in charge be sufficiently knowledgeable to evaluate the work of all assistants.

The increase in file integration and the introduction of new techniques such as those employed in data base systems and real-time systems are quickly making it impractical for an auditor to limit the review of internal control to reviewing manual procedures for capturing and transmitting data. Increasingly, controls are being incorporated into the computer programs themselves. Consequently, the auditor must be able to understand, evaluate, and even use these control techniques.

Evidential matter in a system which is heavily dependent on computerized controls and processing procedures draws heavily from the documentation of the processing procedures and programs of the system. This documentation frequently consists of record layouts, program listings, flowcharts, decision tables, and run manuals. These documents represent the client's formal description of the system and an accurate understanding of these materials can help the auditor design a test program. Also important are the listings and calculations assembled by the auditor when examining and evaluating the client's data itself. Since much client data is in machine readable form, the auditor must devise techniques to interrogate those machine records to verify their accuracy.

Computer systems are becoming all-encompassing and frequently represent the major source of data collection and processing capability in the client's total information system. As a result, computers usually have a material effect on the client's financial statements. Many computer users are searching for ways to reduce printed output as much as possible leading to a potential weakness of traditional audit trails. This is occurring at the same time a trend is taking place toward a greater concentration of processing and internal control in the computer system. The real impact of computers on the financial information system makes an ability to understand and evaluate the EDP system imperative. Further, the nature of existing computer facilities and data files often requires that the auditor actually use the computer to perform many audit procedures. The sheer volume and technical nature of many of the client's records make use of the computer technically and economically necessary to the auditor.

These considerations indicate a minimum knowledge requirement for all persons engaged in public accounting-auditing. The study defining the Common Body of Knowledge makes the following recommendations:

1. The beginning CPA should have basic knowledge of at least one computer system. This implies a knowledge of the functions of the component parts, of the general capabilities of the system, and of the more universal terms associated with the computer.

2. He should be able to chart or diagram an information system of modest complexity. This means that he should be able to comprehend the procedural steps in a system and utilize basic diagram symbols that describe the system clearly and precisely.

3. He should have a working knowledge of at least one computer language. We recommend no specific language, but there are several relatively universal languages that would serve better than those with more limited applicability. With an understanding of a programming language together with his overall knowledge of information systems, the beginning CPA should be in a position to design a simple information system, program it, and proceed to debugging and testing.[3]

A more comprehensive listing was developed in the article, "Technical Proficiency for Auditing Computer Processed Accounting Records" which suggests that the general audit staff member should:

A. Understand basic computer concepts: — not only the functions of the central processing unit itself, but the manner in which data are written on peripheral equipment —

B. Understand and be able to analyze the concentration of controls in an EDP environment.

C. Understand systems flowcharts and descriptions of computerized systems.

D. Have general familiarity with at least one computer programming language.

E. Understand in a general way the use of computer auditing software.

F. Understand concepts of file processing.

G. Know when to call for the assistance of a computer audit specialist.[4]

The preceding qualifications represent a *minimum* level of knowledge for all general audit staff members. In situations involving highly complex and sophisticated systems it may be necessary to develop an audit team which includes a computer specialist who can provide the technical expertise needed. It is impossible for every auditor to be an expert in computer and data processing technology, for computer science is a highly complex and rapidly changing field which is professionally demanding in its own right. But the auditor in charge of an audit must have sufficient technical knowledge of the computer field so that he or she can, in fact, take responsibility for supervising the work done by the computer audit technician and for properly directing and using the work of the computer expert.

Growth in the Use of Computer Systems

The number of computer installations in the United States increased from 5000 installations in 1960 to 107,000 in 1973 and is projected to reach 200,000 by 1975.[5] In addition to the numerical growth there has been an increase in the sophistication of their use. This very substantial growth in computer installations was aided by several technological developments. Hardware has been made faster and at the same time less expensive so that the resulting savings in the cost per unit of information stored is substantial. This lowered cost plus the development of practical large scale storage makes true integrated corporate data systems feasible. At the same time computer manufacturers have introduced small scale equipment (frequently called mini-computers) which have made computer facilities practical for small organizations as well.

Modern computers have provided an environment where it has been possible to service ever larger areas from centralized locations and to generate more detailed, accurate information for management in a shorter period of time. The computer has facilitated the standardization and integration of total company information systems. Increasingly these information systems are expanding beyond the limits of classical financial and accounting data to encompass a broad range of operating information useful for decision-making. Many of these systems are shortening the recording and processing cycle to an environment in which transactions are recorded and processed as they occur and through which management can continuously monitor company performance and make immediate operating decisions in response to any exceptional conditions.

Opportunities Presented by the Computer

While computerization has eliminated some of the traditional audit trails and control techniques, it has opened many new opportunities for improving the audit and the control functions. Computers operate consistently and rapidly — thus they are capable of examining much larger volumes of data with fewer errors than could be done manually. This attribute makes it possible to economically audit large scale firms with their extremely high volume of activity without pricing the audit service beyond the reach of many firms.

When auditors are sufficiently familiar with computers to use them and client files are already conveniently recorded in machine readable form, statistical sampling is easily implemented. The size of sample can now be varied easily to suit the auditor's needs without the practical complications inherent in manual methods. Where warranted, auditors can use one of their own programs to quickly scan every record in a large client file. Further, an auditor can use the computer to analyze account relationships and materiality. Verification of payroll calculations, and extension of price x quantity to calculate inventory values are but two of many ways in which the auditor can substitute computer time for staff time.

Still another use of the computer in the audit function is testing the system itself. Frequently, the auditor must spend substantial time analyzing the effectiveness of the accounting and control system. Through the use of test data the ability of computer programs to properly recognize and handle transactions can be tested. Further, programs can be used to compare actual results with test results, to compare one version of a program to another, or to diagram the logic of a client program.

All of these potential benefits exist for the professional auditor who has a solid working knowledge of computer systems. They can often provide better performance of the attest and evaluation function than many of the traditional techniques when applied to computerized record-keeping procedures.

Footnotes

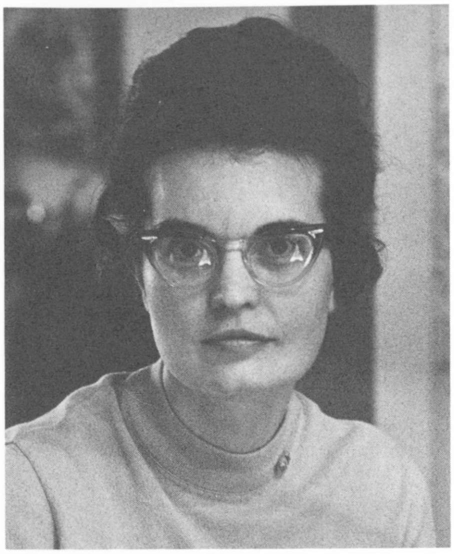
[1]Committee on Auditing Procedures, *Statement on Auditing Standards,* (New York: American Institute of Certified Public Accountants, 1973), paragraphs 110.01 and 110.02, pp. 1-2.

[2]Statement on Auditing Standards, paragraph 150.02, pp. 4-5.

[3]Robert H. Roy and James H. MacNeill, *Horizons for a Profession,* (New York: American Institute of Certified Public Accountants, 1966), p. 213.

[4]Richard W. Cutting, Richard J. Guiltinan, Fred L. Lilly, Jr., "Technical Proficiency for Auditing Computer Processed Accounting Records," *The Journal of Accountancy,* (October 1971), pp. 76-78.

[5]"Computer Industry Profile," compiled by International Data Corporation for *Computerworld,* 1973.



Financial Statements

Two Exceptional Annual Reports

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Two annual reports which are surprisingly different have been issued recently to stockholders. Winnebago Industries, Inc. may be setting a trend toward fuller disclosure by including the 10-K, a form required to be filed with the SEC, in their annual report. Macmillan, Inc. as a public service publishes a "Report on the Year for Young People." It is a special annual report for the child of ten to twelve years of age. The illustrations are pure pleasure to behold and the manner of explaining financial terms to children is superb!

Winnebago Industries, Inc.

Winnebago Industries, based in Forest City, Iowa, is the leading manufacturer of those recreational vehicles which bear the distinctive "flying W." The corporation claims to be the first to combine Form 10-K within its annual report to the stockholders.

Form 10-K

Form 10-K is a document which must be filed annually with the SEC by all large, publicly held firms. It contains essentially the same financial statements and exhibits that are normally reported to stockholders. However, it also contains much more information, financial and non-financial, than is currently reported in the annual reports to shareholders.

From Winnebago's annual report for the year ending February 24, 1973, one can get a great deal of information about the recreational vehicle industry. For example, "Motor homes are designed for maximum mobility and are used primarily as temporary dwellings during vacation and camping trips. . . . A travel trailer is a mobile dwelling mounted on its own chassis and designed to be towed behind an automobile or pick-up truck. . . . A camper coach is a body containing a living area built on a substantial wood underframe, designed to be mounted on a pick-up truck by placing the unit in or sliding it onto the truck bed. . . . Kaps are small pick-up truck bed enclosures, adaptable to all models of pick-up trucks. . . ."

Winnebago, of course, manufactures a broad line in all four of the above-mentioned categories. The Company gives a distribution of net sales by the four major *product areas* for the last five years. Sales in *units* are given for the last two years and by the same product areas (motor homes, travel trailers, camper coaches, and Kaps).

It is fascinating to read the list of other manufacturers in the industry, to know what proportion of the market Winnebago has cornered, and then to be able to estimate the size of the industry, to speculate on the future growth of the industry and further try to predict the threat of the competition. The information is all there.

Product distribution and financing is fully discussed. All major patents are explained. Fuller disclosure than a reader is used to seeing is given on all pending litigation.

Under Parents and Subsidiaries (Item 4 of the 10-K), one can learn that John K. Hanson, Chairman of the Board of Directors, his wife, their three children and son-in-law own almost 60% of the company's common stock. The report further states that President John V. Hanson is his son; Gerald E. Boman is his son-in-law, and G. Wallace Peterson is a brother-in-law of his wife. Each member of the family, including his wife, is either a member of the Board of Directors and/or an officer of the company. Name, office and age of all the executive officers are given. Five of the ten are in their thirties.

The company has never paid a cash dividend; dividends have been in the form of stock distributions. Over the last five-year period, one two-for-one stock split took place and three 100% splits effected as stock dividends occurred.

The certified public accountants rendered two opinion reports — one addressed to the shareholders and one addressed to the Board of Directors. The same opinions were again rendered on supporting schedules detailing marketable securities, property and equipment, and computation of earnings per share.

Photography

In addition to all the above information contained in the 1972 Form 10-K, there are some stunning photographs showing production procedures of the Winnebago vehicles. One picture showed a dump truck backed up to one of the four cells of the Winnebago incinerator plant. The incinerator is a "pollution reducing facility" consuming 20 tons of waste daily. Another picture is of the assembly line showing how the vehicles are built from the inside out. Also shown is a computer panel which programs a giant automatic saw.

Letter to Stockholders

John K. Hanson, Chairman of the Board, writes a very nice letter to the stockholders discussing a variety of topics such as standardized accounting systems for their retail dealers, comprehensive training programs for dealer service, the direct warranty, their 1972 capital improvements which doubled production capacity, and the Rent-A-Way program which enables one to rent a motor home for a vacation trip before making that big decision to buy. Winnebago has three subsidiaries: a finance company to finance dealer inventory and expand the Rent-A-Way program, a realty company created to assist in developing dealership facilities, and an international company (DISC) to channel foreign sales. Mr. Hanson concludes with a statement that vertical integration has been their key to profitability. Vertical integration is producing a high percentage of components or subassemblies from basic materials before they become a part of the final product.

Trend to Fuller Disclosure

Winnebago, indeed, may be setting a trend in the direction of fuller disclosure in annual reports. Usually the investor is able to obtain this kind of information only through a broker or analyst. The SEC, itself, is a powerful force encouraging the movement toward fuller disclosure. Although this movement may be almost unnoticeable at present, the inclusion of the 10-K report may occur more frequently in many annual reports.

Macmillan, Inc.

As a publisher of children's textbooks and related instructional materials, Macmillan, Inc. has certainly rendered a service in the field of education for children by publishing a special "Report on the Year for Young People." This annual report for children is written and beautifully color illustrated in language and pictures that an eleven year old can understand.

Raymond C. Hagel, Chairman of the Board of Directors and President, explains in everyday language that "We add up the money paid our employees, authors, artists, and composers, and the money spent on paper and other supplies. We deduct those amounts from the money earned to see how much we made. We compare the figures with what we did the year before, so our owners can see whether we are making progress".

Condensed comparative statements are described:

"We sold this much to our customers ....
Our net expenses, mainly payroll, royalties, supplies and rent amounted to this much ....
This much is left ....
But then we pay taxes ....
And we end up with this profit." ....

The illustrations are very clever! A boy holding enough balloons to fill an entire page, says "This is what we do" and each balloon bears a label: books, encyclopedias, children's books, caps and gowns, language courses, ant farms, etc. A stork carrying a textbook captions a section on "How is a textbook born?" A picture of books encircling the globe explains "We sell books and magazines all over the world."

Financial terminology is converted into simple language. Depreciation, for example, is defined as the "decrease in value of property because of wear and tear — if you have a bicycle, it depreciates." Consolidated means "combined into and counted as one." Accrued expenses are "the added up costs of things and services which have been bought but not yet paid for. These costs must be paid in the future." A dividend is "something of value, usually cash or stock, distributed to shareholders."

The Consolidated Balance Sheets and Statements of Consolidated Income are in the traditional form with accompanying notes defining assets, current assets, accounts receivable, inventories, current and noncurrent liabilities and shareholders' equity. A series of scales across the bottom of the page show each balance sheet classification added one at a time. The scales at first tipped heavily on the asset side gradually come into balance. The balance sheet is headed "What We Own" and "What We Owe"; the income statement is captioned "How We Spent Money To Make Money."

"Where it Came From and Where it Went" is the heading for the Statement of Consolidated Changes in Financial Position. The illustrations show a full barrel of current assets used to pay a half barrel of current liabilities, leaving what is called working capital. Another full barrel illustrates working capital from operations and sale of property. Beside it an empty barrel reads "Out for Debt Reduction, Investments and Dividends."

The accountant's opinion is omitted; however, an explanation is made that an independent firm of accountants renders a message which accompanies the statements and that this message is to inform the stockholders that the statements were prepared according to accepted accounting principles and present fairly the financial position of the Company.

Macmillan states their corporate goal is to provide the products and services required to fill the broadest possible range of educational needs throughout the world. Congratulations for being the first to publish an annual report that children can understand and for the superb quality of the report.

Two Determinants of Argentine Accounting

(Continued from page 12)

Price level depreciation is used as an alternative to revaluation and attempts to give effect to inflation in the same manner as revaluation. Both of these methods of restatement are deductible for tax purposes.

Surprisingly enough, the one accepted American accounting method which is designed to counter the effects of inflation on financial statements is not found on Argentine statements, and that is LIFO inventory valuation.

Conclusion

This paper has attempted to identify the factors which have had the major impact on Argentine accounting and to indicate how these factors have influenced the country's accounting. It was shown that the economic determinant in the form of inflation has had its main impact on the revaluation of assets. With regard to the influence of foreign accounting, France was identified as having had its major impact on the statutory area of accounting in Argentina. The effects of English accounting on Argentina were seen in the areas of tax return procedures and in the consistency and disclosure requirements of financial reporting. The United States influence on Argentine accounting has also been in the area of reporting with the implementation of disclosure laws comparable to those imposed by the S.E.C. as well as in the area of stock exchange requirements.

Footnotes

[1]Aldo Ferrer, *The Argentina Economy* (University of California Press, 1967), pp. 1-3.

[2]Carlos F. Diaz Alejandro, *Essays on the Economic History of the Argentine Republic* (Yale University Press, 1970), p. 91.

[3]*Ibid.*, p. 236.

[4]*Ibid.*, p. 53.

[5]The First National Bank of Boston, *The Situation in Argentina* (Boston: The First National Bank of Boston, Spring 1973).

[6]Gerhard G. Mueller, *Accounting Practices in Argentina* (Seattle: University of Washington, 1963), p. 6.

[7]Arthur Andersen & Co., *Tax and Trade Guide – Argentina*, supplement #1 (Arthur Andersen & Co., January 1971), p. 14.

[8]Richard Brown, *History of Accounting and Accountants* (London: Frank Cass & Co., Ltd., 1968), p. 303.

[9]Touche Ross & Co., *Executive Digest – Argentina* (Touche Ross & Co., 1968), p. 10.

Legal Developments

The Status of The ERA

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The ratification of the Equal Rights Amendment (ERA) is by no means an assured event. When the ERA was first passed by the Congress many States rushed to ratify the Amendment. Hawaii, by the way, was the first state to do so mainly because of the time zone differential. A total of 38 states is needed; to date, 30 have technically ratified it. Nebraska ratified the amendment and then later rejected it. The whole matter is in the courts now to determine if a state may override its own ratification. Of the 20 states left, four have not yet considered the amendment: Alabama, Arizona, Missouri and South Carolina. Sixteen more have *rejected* the amendment: Arkansas, Florida, Georgia, Illinois, Indiana, Louisiana, Maine, Mississippi, Montana, Nevada, North Carolina, North Dakota, Ohio, Oklahoma, Utah and Virginia.[1] Proponents of the ERA maintain that ten states will reconsider the "no" vote when those legislatures reconvene. Three of the four states that have not considered the amendment are Southern states and are expected to reject the ERA. If the Courts uphold Nebraska's nullification of its ratification and if three of the four states who haven't voted reject it, the ERA would pass *only* if Arizona and eight of the ten states reconsidering do ratify it. It is obvious that the ERA in in serious trouble.

Arguments Against the ERA

The somewhat recent negative status of the ERA can be attributed (at least in part) to an unfortunate backlash of anti-ERA forces. Groups such as the "Stop The ERA" are heavily funded and are very active at state levels. Such groups are quite vocal and rely mostly upon emotional scare tactics. A statement of their claims and an examination of the facts will serve to illustrate the point.

1. "An equal rights amendment is not even necessary since women have equal rights under the 5th and 14th amendments."

The Supreme Court of the United States has *never*, in any decision, declared women as "persons" entitled to equal protection under the 5th and 14th amendments. Even the November, 1971, decision that struck down an Idaho law which required that men be preferred over women in the appointment of estate administrators was not decided upon sex discrimination. The Supreme Court refused to consider that a presumption of illegality attaches to any sex-based classification. Instead, it held that the statute utilized an arbitrary method of achieving its goal of eliminating hearings and thus conserving time for probate courts![2] In March, 1972, the Supreme Court held that an Alabama ruling requiring a woman to take her husband's surname upon marriage was valid.[3] The Court affirmed the lower court in this case without opinion. These are only the recent cases that allow sex discrimination. Earlier cases have held that women cannot practice law,[4] that women can be excluded from jury service[5] and that women can be barred from attending a state-supported university (the latter decision was in 1960 but in 1938 it was held illegal to deny entrance to Negroes).[7] In addition, the 15th Amendment clearly did not apply to women as it took the 19th Amendment to grant the vote to women. Women are not now, nor have they been in the past, protected by the existing Constitution and its Amendments.

2. "The protective state labor laws would be struck down, much to the detriment of women."

This argument is ridiculous for several reasons. First, any laws protecting women from hazardous working conditions will be extended to include men; they will *not* be invalidated. Laws which "*deny* rights or restrict freedom of one sex . . . [will be] unconstitutional. Laws which *confer* rights, benefits and privileges on one sex would have to apply to both sexes equally, but would not be rendered unconstitutional . . ."[8]

Second, the so-called "protective" legislation has hindered, not protected, women. For example, the law which did not allow a woman to be a bartender unless she was the wife or daughter of the owner did not keep other women from scrubbing the barroom floors at night or from working at a very denigrating profession in the back rooms of that bar. The "protective" law of weight-lifting restrictions (at 35 pounds for women) was laughable because no one raised so much as an eyebrow when a mother carried around a 4-year-old child (who, if normal, certainly weighed at least 35 pounds). The "protective" restriction about women not being allowed to work overtime cut them out of lucrative time-and-a-half overtime pay. In addition, it did not prevent many women from working at two jobs at regular pay, so many women were, in effect, working overtime hours at regular time pay.

Finally, Title VII of the Civil Rights Act of 1964 outlawed these sex-defined "protective" laws. Unfortunately, they weren't completely eliminated because each woman had to litigate each law. The ERA would not require individual litigation but would require adherence by all States.

3. "Women will be drafted, thrown into combat and shot."

The United States no longer has a military draft. Women would be permitted to volunteer on the same basis as men. In World War II it was discovered that women effectively performed 75% of the military occupations. Women would be assigned to combat duty on the same basis as men: ability. If a woman was unfit she would no more be assigned to combat duty than would a color-blind, flat-footed man.

It sounds strange for people to be horrified over the thought of a woman soldier being killed in combat. Isn't it just as terrible for a male human being to be killed? Is it worse for a trained, equipped and armed American woman to be shot than for a Vietnamese female civilian who is not armed? Or a civilian baby who cannot even walk?

The major point the opponents overlook is that women are discriminated against in the armed services. Not only must they be high school graduates and subject to closer scrutiny than male volunteers,[9] they are barred from training which would qualify them for high-paying civilian jobs (airline pilot and air traffic controller, to mention only two). Instead, they learn typing, filing, shorthand, telephone operating, cooking, etc. — all low-paying occupations. A male serviceman gets a "dependency" allowance for his wife and children automatically; a women must prove her family's dependency. The wife of a military man automatically is eligible for medical and hospital benefits; a husband of a military woman is not entitled to an aspirin at a base hospital. Why should women be denied valuable training, opportunities and benefits?

4. "Women and children will be left homeless, defenseless, and probably hungry as the ERA will no longer require husbands to be liable for their support."

Again, this statement is invalid for several reasons. First, child support and alimony laws will not be invalidated: they will be extended to both sexes on the basis of ability and circumstances.

Second, the existing support laws do not apply in ongoing marriages:

> "Alarmists claim that the Equal Rights Amendment would change the institution of the family as we know it by weakening the husband's duty or marital support in an ongoing marriage. This concern is based on a misunderstanding of the role laws about support actually play. Many courts flatly refuse to enter a support decree when the husband and wife are living together. In most such cases the husband, as head of the family, is free to determine how much or how little of his property his wife and children will receive."[10]

Third, existing alimony laws are rarely applicable. "In this country permanent alimony is given in *less than 2% of all divorces* and then only where the marriage has been of long duration, and the wife is too old to be employable . . ."[11] In addition many states already have alimony laws that apply to both sexes.

Finally, existing child support laws leave the majority of divorced women with children supporting their children 100% and almost all divorced women supplying over 50% of the children's support.[12] One study[13] showed that only 38% of the fathers who were ordered to pay child support were in full compliance with the court order at the end of one year; 42% had no compliance and 20% had partially complied. At the end of ten years, only 13% were in full compliance, 79% had no compliance and 8% had partially complied. ("partial compliance" was defined as having made at least one support payment.) In effect, then, the vast majority of women who get custody of their children are burdened three ways: they must fulfill both parents' functions; they must provide the greater monetary support; and they must do so on a salary averaging 58% of their male counterparts'!

5. "If the ERA passes, men and women will have to share common bathroom facilities."

As ridiculous as this statement is, it is seriously stated by some. Of course the constitutional right of privacy will insure that men and women have separate bathroom facilities, segregated armed services quarters, that women suspects will be searched by policewomen, that male and female prisoners will have separate quarters, etc.

6. "All sex crime statutes will be invalidated."

Nonsense! Certain arbitrary sex laws will be invalidated (such as making a single man who has sexual intercourse with a married woman an adulterer but not a married man who has intercourse with a single woman). Prostitution statutes could no longer penalize only women, but their male partners as well. But certain crimes that can be committed physically by only one sex (rape, for example) will stay in the law.[14]

Benefits of the ERA

There are many other non-sensical arguments that deserve rebuttal but space does not permit doing so here. Instead, one can look (briefly) at the other side of the coin and see a few of the benefits of the ERA. First, the ERA will not affect private, personal family decisions. A woman can be a housewife if she wants to. The ERA applies only to *legal* restrictions or distinctions. Thus, a woman and her family can arrange their affairs in any way they see fit without the states' interference.

Second, women can no longer be denied equal job opportunities in work they are capable of doing. Third, they will not be denied the chance to become educated or trained for any occupation they wish. Their only restrictions will be self-imposed or physical — just like men are restricted — not legal.

Fourth, a married woman will no longer be classified with "infants and idiots" and will be able to enter business without having to go to court for permission. She will have control over her assets and salary.

Fifth, she will be given credit on exactly the same basis as men without reference to her sex or marital status.

Sixth, the Social Security laws will apply equally to both sexes so that a woman's husband can collect on her account without having to prove dependency. In reality, the present system has penalized married working women.[15] In addition, all governmental pensions would treat both sexes equally. (Women currently pay more than men.) The same is true of insurance.

Finally, women will be "persons" in the eyes of the law. It should be a wonderful feeling to be considered a human being by one's government after 200 years of second-class citizenship. However, the ERA is in desperate need of support in 14 states. It is imperative that women in those states write their legislators urging immediate ratification: who wants to be a "non-person" another couple of centuries?

Author's Note: I am deeply indebted to the Honorable Martha W. Griffiths for two reasons: (1) as a woman, I am grateful Ms. Griffiths wrested the ERA out of Committee (where her less fair-minded colleagues had sat on it for 50 years) and worked so hard for its passage. (2) As a researcher, I am indebted to her for her material on the ERA, Women, Employment and Discrimination and for her referral to several valuable sources for future columns.

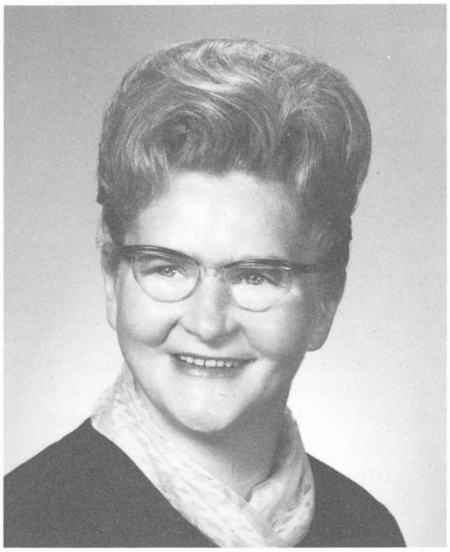
Footnotes

[1]Status as of October 8, 1973, per Senator Henry Jackson's office.

[2]*Reed v. Reed,* 404 U.S. 71 (1971).

[3]*Forbush v. Wallace,* F. Supp. (M.D. Ala., 1971), Aff'd. mem., March 6, 1972).

(Continued on page 21)



Small Business

Subchapter S — Benevolence with Traps

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When Congress enacted legislation to enable small corporations to elect the benefits of taxation similar to a partnership, the intent was clearly benevolent. The extent of this benevolence is probably most strongly underlined by the many attacks the Internal Revenue Service has launched upon electing corporations in an attempt to disallow the single-tax status.

There can be no question about it, if you want to have the benefits of the election, you must cross all your "T's" and dot all your "I's", or you may find out a few years later that the income of the corporation is subject to the usual double taxation of ordinary corporations — retroactively!

Eligibility — The Need for Continuous Review

The whole subject of "Small Business Corporations" is covered by Sections 1371 through 1379 of the Internal Revenue Code of 1954, and space does not permit to go into every technicality. Rather, only the general gist of the regulations and its implications will be discussed. The definition of small business corporations is made by exclusion, except for the first requirement that the entity be a domestic corporation which is not a member of a parent-subsidiary-type affiliated group. The corporation may not have (a) more than 10 shareholders (husband and wife usually counting as one); (b) a shareholder (except for an estate) who is not an individual; (c) a non-resident alien shareholder.

The election must be made within 30 days prior to or 30 days after the beginning of the fiscal year for which it is to be effective. All shareholders must consent to the election — and any new shareholders that acquire stock at any time after the initial election must file their consent within 30 days of the date they become shareholders. This requirement cannot be overemphasized, and tax practitioners who have electing small business corporations among their clients have anxious moments about stock transfers and should keep close touch with the clients to prevent an unintentional revocation of the election.

Several other events cause revocation of the Subchapter S status, such as income from sources outside the United States which make up more than 80% of the corporation's income, or passive investment income (royalties, rents, dividends, interest, annuities, gain from the sale of securities) of more than 20% of the corporation's gross receipts. Passive investment income up to $3,000 will not terminate the election if it is received in either the first or the second year after the corporation starts the active conduct of a trade or business.

These are all unintentional revocations — it goes without saying that the election can be terminated by an intentional act, either a formal revocation which again requires the consent of all shareholders, or by precipitating an event which nullifies eligibility. But, once revoked or lost, Subchapter S status cannot be elected again for five years.

Practical Applications

So, what does it all mean to the shareholders who are faced with the decision to elect or not to elect?

First of all — the electing corporation does not pay Federal income tax (with the exception of certain capital gains). Instead, the shareholders report their prorata share of the corporate income on their individual income tax returns and pay the tax as if they had operated the business as a partnership.

If the corporation sustains an operating loss, the shareholders can use their prorata share of the loss as a deduction from gross income on their individual income tax returns.

Here there is some controversy among practitioners. None of them argue against the benefits of the loss pass-through, but a lot of them will recommend revocation of the election when the corporation becomes profitable and when the shareholders' tax brackets exceed the corporate rate of tax. An additional ingredient in this formula should be the tax the shareholders have to pay when the earnings of the corporation are distributed in the form of dividends. Let's look at the following example:

Let's assume $150,000 in profits and three equal shareholders, A and B filing jointly and C a single taxpayer. Since it would be virtually impossible to pay a $50,000 dividend per shareholder in any one year out of a regular corporation, the tax is based on a 5-year pay-out at the top

	Corporation	A	B	C	Total
Regular Corporation	$65,500	$26,200	$26,200	$31,000	$149,500
Electing Corporation	-0-	28,120	28,120	32,900	89,140

marginal rate, with $50,000 taxable income before dividends or Subchapter S profits.

In addition to the rather substantial overall tax savings under the Subchapter S set-up, the electing shareholders would never have to worry about the penalty tax on unreasonable accumulations of earnings. And — another big plus — the shareholders would have immediate access to the cash.

Obviously, the intended dividend policy of the corporation is an important consideration. There can be no argument that the election is not for those who plan to use the corporation to build up a large estate and bail out the earnings without paying income taxes, which (at least at the present time) is possible under estate tax regulations.

Also, the cash flow position of the corporation should be taken into account, since the shareholders will be taxed on the income whether or not the corporation is in a position to pay out the earnings. Cash distributions are always considered to be from current earnings, except that payouts made within 75 days of the end of the corporation's year are considered to be out of the undistributed earnings and profits of the preceding year. Previously taxed but undistributed earnings can be paid out tax-free to the shareholders as long as the cash payment exceeds the earnings and profits of the year of distribution.

As previously mentioned, the corporation's operating loss is available to the shareholders. However, the deductibility on the shaeholders' returns is limited to their adjusted basis in the stock and their basis in any loans that they have made to the corporation. Therefore, it is important to maintain that investment basis if losses are likely. Once again, continuous review of an electing corporation's financial situation is an absolute "must". But then, which business can afford to go very long without accurate financial information under today's conditions? Not many!

Tax Planning Tool

There are many situations in which the election is useful, but two situations are particularly advantageous. One is income splitting among family members and the other is retirement.

Ownership of the corporation's stock can be shared with minor children who would be in lower tax brackets. Thus, part of the income is taken out of the major stockholder's high tax bracket. However, caution must be exercised in this situation, since the IRS has authority to reallocate the income among family members if compensation for services is unreasonably low to shift income into profits. The other trap — if the parents want to claim the children as dependents, they may have to meet the support test. But within reason, this approach can save quite a bit of tax.

In a retirement situation, Subchapter S can be a real life saver. An example is a situation where a considerable age difference exists between the shareholders, and one of them is ready to retire. Past services and contributions to the success of the enterprise have been pretty much on a par and there is a very definite moral obligation to keep the outgoing shareholder in spending money. Simple — he or she shares in the profits after salaries to the remaining active shareholders under a Subchapter S election.

What about the situation of a single shareholder? A little more complicated, but still a good possibility with the election. First of all, a really good manager must be found who can take over the business and continue to run profitably. The profits after the manager's salary can be a pretty nice retirement income for the retired shareholder. Naturally, the Social Security Administration is going to be a little cautious about this particular situation and will send out a field representative to ascertain that the shareholder has in fact retired from the operation. Some limited involvement will be permitted, such as 45 hours per month, and of course the shareholder can earn $2,400 per year (starting in 1974) without losing the Social Security benefits. The really important question will be the amount of time devoted to the business after retirement. The profits received from the business as an electing shareholder will be passive income and, therefore, they will not cause loss of Social Security benefits.

Where There's Sun, There's Shade

Two other nice aspects of Subchapter S: compensation paid to officers and shareholders will hardly be questioned as unreasonable unless there is a substantial difference in the number of shares held and services rendered.

Also, the Personal Holding Company income trap for corporations which derive their income from their shareholders' personal services is not an issue with the election — there can't be any avoidance of tax at the shareholder level!

The "shade" is in the area of qualified retirement income programs for shareholder-employees. Contributions to the plan are limited to 10% of compensation (rather than 15% as in a regular corporation) or $2,500 annually. However, the limitations are not quite as severe as they are for Keogh-type plans for self-employed people, since contributions made to the plan in excess of the above limits, even though taxable to the shareholders when paid in, are permitted to accumulate tax-free in the retirement fund. Upon distribution at retirement, the previously taxed contributions are, of course, received tax-free. Also, under proposed tax changes, the same limitations would apply to "owner-managers" of regular tax-paying corporations.

Get All the Facts — Know the Whole Story

This is the inevitable conclusion. The tax advisor of an electing corporation cannot afford to miss any actions taken or any events taking place in the business operation and in the stock ownership.

Taken as a whole, the provisions of Subchapter S are definitely an act of benevolence on the part of Congress, and the "traps" are clearly spelled out, in plain view and avoidable. And they should not scare anybody away from incorporation. There does not have to be a double tax!

Legal Developments

(Continued from page 19)

[4]There were several lower court decisions on this matter and two in the Supreme Court, none of which have been reversed.

[5]*Strauder v. West Virginia*, 100 U.S. 303 (1879). This same case held that it was illegal to exclude black men. See also *Hoyt v. Florida*, U.S., 1961.

[6]*Allred V. Heaton*, 364 U.S. 517 (1960).

[7]*ex. rel. Gaines v. Canada*, 305 U.S. 337 (1938)

[8]Citizens' Advisory Council on the Status of Women, *The Proposed Equal Rights Amendment to the United States Constitution – A Memorandum*, U.S.G.P.O., Washington, D. C. (March, 1970).

[9]Testimony of Martha W. Griffiths before Subcommittee #4 of the House Committee on the Judiciary — The Equal Rights Amendment — H. J. Res. 208, March 24, 1971.

[10]*Yale Law Journal* (Vol. 80, No. 5) p. 945.

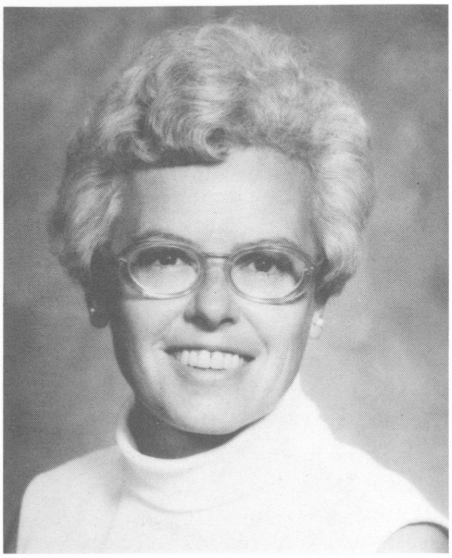
[11]Una Rita Quenstedt & Carl E. Winkler, *Monograph No. 1*, Support Committee of the Family Law Section, American Bar Association, quoting a California Judge, 1965. Emphasis added.

[12]See the excellent study by the Citizen's Advisory Council On the Status of Women (Department of Labor Building, Washington, D.C. 20210) *The Equal Rights Amendment and Alimony and Child Support Laws*, January, 1972.

[13]Nagel & Witzman, "Women as Litigants," *Hastings Law Journal*, November, 1971.

[14]Yale Law Journal, *op.cit.*

[15]Martha W. Griffiths, *The Equal Rights Amendment and Social Security*, undated memo.



Tax Forum

Proposed Pension Reform Considerations

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Guest Writer: *This column is the work of George A. Falcon, CPA, a tax supervisor in the Tampa, Florida, office of Ernst & Ernst. Mr. Falcon is a graduate of the University of Florida and a member of the AICPA, the Florida State Society, and the National Association of Accountants.*

H.R. 4200, Retirement Income Security for Employees Bill (RISE), is the foundation for Congress's hopes of reforming the private pension industry. The bill, after being passed by the Senate Finance Committee on September 19, 1973, has been challenged and consequently modified by the House Ways and Means Committee. The bill has received national publicity through syndicated columnists who have attacked the reform bill as not having enough reform in it. It is no secret that the "promised land" of pension benefits under current law has become a "land of disillusionment" for millions of Americans reaching retirement age each year.

This article will discuss three important facets of the pension reform proposals as they were developed in the Senate Finance Committee and later modified by the House Ways and Means Committee.

I. Participation and Vesting

Without stopping to think carefully, many workers incorrectly assume that a pension plan works roughly like social security; that is, they assume they are accumulating credits toward a pension as soon as they begin working. In reality, they do not usually get a "vested" interest in a pension until they have worked for one company for a number of years.

H.R. 4200 provides a minimum standard for participation in a corporate pension plan. The bill states that a qualified plan cannot require an employee to serve longer than one year or attain an age greater than 30 (whichever occurs later) as a condition of eligibility. This provision would be effective immediately for plans adopted after date of enactment and would be effective January 1, 1976, for plans already in existence.

A tentative change proposed by the House Ways and Means Committee would be an age 25 - one year employment requirement as a participation rule. Also, where the Senate incorporated the definition "year of service" in the text of its bill, the House Committee is considering allowing the Internal Revenue Service to define the term through regulations.

In general, the vesting provisions of H.R. 4200 would be adopted by the House Committee with little change. Thus, the minimum requirements for vesting would be 25 percent after five years of service, an additional five percent each year for the next five years, plus an additional ten percent each year for the succeeding five years. After fifteen years of service, an employee would be 100 percent vested. One to five years of preparticipation service may be counted in satisfying vesting requirements. The minimum requirements apply to *all* accrued benefits, including those benefits accruing under plans in existence before the effective date of the legislation. These vesting provisions would be phased into these plans over a five-year transitional period. In 1976, fifty percent of the amount that would be required under the new law would have to be vested. This would increase ten percent a year until 1981 when the basic vesting schedule would be complied with.

II. Portability

In our highly mobile economy where many workers frequently switch jobs, pension benefits are either forfeited or, if distributed in a lump-sum to an employee, are eroded by taxes. Proposed legislation would create a portability fund to provide for the tax-free transfer of vested pension benefits. The voluntary portability fund (called "Pension Benefit Portability Fund") is to be administered by the Pension Benefit Guaranty Corporation.

Where the transfer would be made through the portability fund, the distributions from the former plan to the fund would not be taxed to the employee. The PBGC would accept deposits in the fund only from registered administrators of qualified pension plans or the employee. A qualified plan would have to register to participate in the fund operation.

Since the portability feature is voluntary for employers, is an employee who is terminated by a nonparticipating employer out of luck? No, if the old employer's plan was not registered, the PBGC would accept payments for deposit from the terminated employee. The employee would have to make the deposit within sixty days after receipt from the old plan. The payment would have to be not less than the portion of the distribution representing the old employer's contribution; therefore, the transfer of an employee's own contributions would be elective. The employee's interest in the portability fund could be transferred to another employer's qualified plan without creating a tax liability for the employee, or the interest could be retained in the fund until retirement age when it would either be paid out or used to purchase an annuity from an insurance company. Income generated by the central fund from investments would be tax-free until distributed to the employee.

It is important to remember that the transfer of amounts representing vested rights to or from the fund would be entirely voluntary. Both the employee and the private pension plans involved with the transfer would have to agree on the transfer.

Tax-free transfers could be accomplished not only through the portability fund, but also directly from employees to new employers. A direct transfer would be necessitated by a change of employment and would have to be accomplished within twelve months after the change. Also, as mentioned above, a sixty-day time limit is established (after receiving a full interest) for transferring to the new trust. These provisions would be effective with date of enactment.

III. Limits on Contributions and Benefits

Under present law, different rules are provided for employer and employee contributions in the case of plans for self-employed individuals (H.R. 10 plans), plans for regular corporations, and plans for electing small business corporations (Subchapter S).

H.R. 10 plans — The amount of deductible contribution to an H.R. 10 plan on behalf of a self-employed person under Section 404(e) of the Internal Revenue Code cannot exceed the lesser of ten percent of earned income or $2,500. H.R. 4200 would change the limits to the lesser of fifteen percent of earned income or $7,500.

Corporate plans — In the case of regular corporate plans, there are no limitations on how much may be contributed by the employer. There are, of course, limitations on the tax deductibility of the contribution based on the type of plan, funding methods, and whether contributions are made to two or more retirement plans. H.R. 4200, as passed by the Senate, provides that contributions on behalf of any corporate employee to a qualified pension plan could not exceed 75 percent of the average of the employee's highest three years' compensation (up to $100,000 per year). This restriction would, in effect, limit an employee's annual pension benefit to a $75,000 maximum. More seriously, it would severely limit long-time employees whose accumulated vested benefits might already provide for a pension benefit greater than 75 percent of the average of the employee's highest three years' of compensation. This could create a situation where a contribution would probably not be made by an employer because it would not be tax deductible.

The House Ways and Means Committee agrees that deductible contributions should not be allowed to exceed the necessary contribution to fund a $75,000 pension benefit. However, the alternative limit of H.R. 4200 (the average of the highest three years' compensation test) would be eliminated. The committee would also add a grandfather clause to exempt those pensions that are already above the $75,000 level.

Subchapter S corporations — The act would repeal the special Subchapter S limitations imposed under Section 1379 of the Internal Revenue Code. Sub-S corporations would no longer be subject to the basic H.R. 10 limitations of the lesser of ten percent of earned income or $2,500.

Section 701 of H.R.4200 creates a new dimension in the area of retirement benefits. The proposed bill provides that an individual not otherwise covered by a pension plan would be entitled to set aside $1,000 per year out of earnings toward a personal retirement plan irrespective of the percentage of total earned income. It is possible for the deduction to be higher than $1,000, since the bill sets a limit of $1,000 or fifteen percent of earned income with a maximum of $1,500 whichever is greater (proposed new section 219(b)(1)). An employer would be permitted to contribute to such a fund *either in the form of additional compensation* or as a salary reduction plan. However, the combined employer-employee contributions could not exceed $1,000 per year (proposed new section 408(b)(3)(B)).

The funds accumulated could be invested in a wide variety of assets, including insurance annuity contracts, common trust funds, etc. These investments are subject to the same restrictions as H.R. 10 plans, i.e., through a bank or other medium approved by the Treasury.

Participation and vesting, portability, and limits on contributions and benefits, including personal retirement plans, are of vital importance to the working American. However, these three areas are only a small part of a very complex and lengthy legislation. Many changes have been proposed, and it is certain that substantial revisions are coming which will necessitate amendments to most existing plans. In a later issue of the Tax Forum, we will discuss some of the revisions that may be required, as a result of changes in the pension laws as finally enacted.

Theory & Practice

The Trueblood Report — The End of the APB
Report of the Study Group on the Objectives of Financial Statements

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In April 1971, the Board of Directors of the American Institute of Certified Public Accountants (AICPA) authorized a study to refine the objectives of financial statements. A study group consisting of Robert M. Trueblood of Touche Ross & Co., as chairman, two other CPA's in public accounting, two corporate executives, three educators and a financial analyst was appointed. The Study Group had the assistance of several others from various public accounting firms and universities. A final report, the results of the Study Group's months of deliberation, was submitted in October 1973. Copies of the report are available from the AICPA.

The members of the Study Group addressed themselves to ends, not means, in developing financial statement objectives and concerned themselves with the nature of the needed information and not with the problems of auditing such information. They concluded that the objectives developed were to be looked upon as attainable in stages within a reasonable time and urged that the conclusions reached would be considered as an initial step in developing objectives important for the ongoing refinement and improvement of accounting standards and practices.

Adopting the conclusion drawn by many others, that the basic objective of financial statements is to provide information useful for making economic decisions, the Study Group determined that financial statements should:

- Serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities.
- Provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing and related uncertainty.
- Provide users with information for predicting, comparing, and evaluating enterprise earning power.
- Supply information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal of returning, over time, the maximum amount of cash to its owners.
- Provide factual and interpretive information about transactions and other events which is useful for predicting, comparing and evaluating enterprise earning power. Basic underlying assumptions with respect to matters subject to interpretation, evaluation, prediction or estimation should be disclosed.
- Provide information useful for the predictive process. Financial forecasts should be provided when they will enhance the reliability of the users' predictions.

Since all economic decisions look to the future, it was felt that forecasts may fit the objectives of financial statements. It is the relative accuracy of the users' predictions with and without forecasts rather than the accuracy of the forecasts that should be considered.

The Study Group recommended three financial statements for predicting, comparing and evaluating enterprise earning power:

- A statement of financial position which provides information concerning enterprise transactions and other events that are part of incomplete earnings cycles. Current values should also be reported when they differ significantly from historical cost. Assets and liabilities should be grouped or segregated by the relative uncertainty of the amount and timing of prospective realization or liquidation.
- A statement of periodic earnings which provides the net result of completed earnings cycles and enterprise activities resulting in recognizable progress toward completion of incomplete cycles. Changes in the values reflected in successive statements of financial position should also be reported, but separately, since they differ in terms of their certainty of realization.
- A statement of financial activities which reports mainly on factual aspects of enterprise transactions having or expected to have significant cash consequences.

Changes in stockholders' equity and changes in values reflected in successive statements of financial position should also be reported, either in that statement or separately. Members of the Study Group did not agree on whether the changes in values should be included in a single earnings figure or reported separately. Some considered it desirable but not practical at this time, while others considered it neither desirable nor practical.

The statement of financial activities would reflect information similar to that in a statement of changes in financial position except that sales backlog, purchase commitments, lines of credit, leases and other activities with likely cash consequences would also be shown. The distinction made between the statement of earnings and the statement of financial activities was allocations. To measure earnings reported for a specific period, allocations must be made between periods. The statement of financial activities would not involve allocation of any kind and, except for estimating highly probable cash effects, no other estimates or interpretations of the significance of events would be included.

The Study Group also considered the relationship between private enterprise and society. It was concluded that a financial statement objective was to report enterprise activities affecting society which could be determined and described or measured.

With regard to governmental and not-for-profit organizations, the objective determined by the Study Group was that their financial statements would provide information to evaluate how well resources were being used to attain specific goals. Performance measures would have to be quantified in terms of identified goals.

Finally, the qualitative characteristics of information included in financial statements were considered by the Study Group separately from the financial statement objectives. These characteristics would be relevance and materiality (as related to the user's decision), reliability, freedom from bias, comparability, consistency, understandability, and the recognition of substance over form.

The objectives developed by the Study Group are not revolutionary. Concepts such as the use of current values rather than historical cost and the furnishing of forecasts might be considered controversial. However, the report is a starting point and implementation is the next step.

Accounting Principles Board Disbanded

The work of the APB was not totally completed at June 30, 1973 when it was disbanded and bequeathed its many problems to the Financial Accounting Standards Board. The last four opinions issued by the APB have been and will be discussed and interpreted in other professional publications. It is our purpose here to simply remind our readers of their effective dates. These are:

No. 28 Interim Financial Reporting

All interim periods relating to fiscal years beginning after December 31, 1973

Data for the comparable interim period of the prior year should be restated to conform the prior period presented with the current period, or the effect on the prior period data should be disclosed.

No. 29 Accounting for Nonmonetary Transactions

Transactions entered into after September 30, 1973, and those recorded during a fiscal year which includes October 1, 1973

Transactions recorded in a fiscal year ended prior to October 31, 1973, should not be adjusted.

No. 30 Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions

Events and transactions occurring after September 30, 1973

Retroactive restatement may be made for previously reported events and transactions occurring during the fiscal year which includes September 30, 1973.

When comparative statements are presented, prior peiod operations of discontinued segments of a business may be reclassified as explained in the opinion.

No restatement should be made for other events and transactions occurring in fiscal years ended prior to October 1, 1973. Appropriate disclosure should be made in notes to the financial statements for differently classified similar items and transactions of prior periods.

No. 31 Disclosure of Lease Commitments by Lessees

Fiscal periods ending on or after December 31, 1973

Required disclosures are to be made for all lease agreements without regard to the date any agreement was entered into.

Publicly held companies must also comply with the expanded disclosure requirements of Accounting Series Release No. 147 issued by the Securities and Exchange Commission in October 1973. These are effective for financial statements filed after November 30, 1973.

Reporting the Needs of the Investor
(Continued from page 6)

methods are not solely for the purpose of a short-term rise in income but for legitimate business objectives. Further, the differential effects of such changes should be described. This list of needs is long, and there are many problems. The Financial Accounting Standards Board has chosen topics from a list of over 30 controversial areas.

Analysts do not merely want more information, they want clear and unmuddied numbers. A little less creation and a little from analytic description from accountants would be most welcome.

Footnotes

[1]Robert S. Kaplan and Richard Roll, "Investor Evaluation of Accounting Information: Some Empirical Evidence," *The Journal of Business,* April 1972.

[2]James Lorie and Richard Brealey, *Modern Developments in Investment Management* (New York: Praeger Publishers, 1972.).

[3]Benjamin F. King, "Market and Industry Factors in Stock Price Behavior," *The Journal of Business,* January 1966, Part II, pp. 139-190; and Stephen J. Meyers, "A Re-Examination of Market and Industry Factors in Stock Price Behavior," *The Journal of Finance,* June 1973, pp. 695-705.

[4]Leasco Corp. publishes a monthly compilation called the *Disclosure Journal.* The information is selected from the SEC reports. The list of accounting citations is long.

[5]Indiana Telephone Corp. Annual Report.

[6]Caterpillar Tractor Co. Annual Report.

[7]J. C. Penney Corp. Annual Report.

APB Opinion Number 22
(Continued from page 9)

principles it particularizes only accounting principles and methods that involve any of the following:

a. A selection from existing acceptable alternatives
b. Specific industry principles and methods
c. Unusual or innovative applications of generally accepted accounting principles.

Conclusion

APB Opinion No. 22 with its disclosure prescriptions must be accepted for what it is — a palliative for poorly defined objectives and standards within the accounting profession. The practitioner may derive some comfort from realization that the profession has yet to mature into an art/science.

The new Financial Accounting Standards Board can, and will, contribute authoritative guidelines that will represent the best interests of the economy. The eventual effect should be a restoration of prestige to the accounting profession so that it will be relieved of the onus of explaining away its confusion.

Footnotes

[1]"The impact of SEC's new disclosure rules, *Business Week.* January 6, 1973, p 58

[2]*Objectives of Financial Statements,* (Arthur Andersen & Co.; Chicago, Ill., 1972), p 86

[3]Eldon S. Hendriksen, *Accounting Theory,* (Homewood, Illinois: Richard D. Irwin, Inc., 1970) p 561

[4]R. K. Mautz and Hussein A. Sharaf, *The Philosophy of Auditing,* (AAA, 1961), p 191, quoted by E. S. Hendriksen, op. cit., p 561

Education

Professional Certificates

Dr. Patricia L. Duckworth, CPA
Metropolitan State College
Denver, Colorado

In addition to the Certified Public Accountant certificate, there are a number of "new" certificates available — the CMA, the CAM and the CIA. The CMA (Certificate of Management Accounting) is sponsored by the Institute of Management Accounting of the National Association of Accountants. The CAM (Certificate of Administrative Management) is sponsored by the Administrative Management Society, and the CIA (Certificate of Internal Auditors) is sponsored by the Institute of Internal Auditors. There are similarities as well as differences in the requirements and in the examinations themselves. Some accountants should seriously consider earning certificates in lieu of or in addition to the Certified Public Accountant Certificate.

Certified Public Accountant Certificate

In June of 1917 the American Institute of Accountants (changed to American Institute of Certified Public Accountants on June 3, 1957) administered its first examination. Eight states gave it as the CPA Examination. The acceptance of the examination has grown until in 1953 every state and territory of the United States used the Uniform CPA Examination prepared by the Board of Examiners of the AICPA, thus the CPA certificate has uniform significance throughout the country.

The Uniform CPA Examination measures technical competence, which includes technical knowledge, skills in the application of such knowledge, and the exercise of good judgment. It is a two-and-one-half day examination given twice a year, in May and November, consisting of the following four subjects:

1. Theory of Accounting
2. Commercial Law
3. Auditing
4. Accounting Practice, Part I
5. Accounting Practice, Part II

The two parts of Accounting Practice are graded as one. The examination attempts to measure the level of competence required for general practice in a medium-sized community and includes the audit of a medium-sized organization.

There is no national CPA certificate, only a Uniform CPA Examination. One who wishes to qualify as a Certified Public Accountant must do so under the laws of one of the states or territories. The requirements for the CPA certificate have much in common, but there are important differences among the states. The certificate is awarded to an applicant who meets the statutory and accounting board requirements of the political jurisdiction to which he/she applies. The District of Columbia, Guam, Puerto Rico, the Virgin Islands and all fifty states use both the examination and grading service offered by the AICPA.

The education requirement varies, but an increasing number of states now require the baccalaureate. Often the increase in education is accompanied by a reduction in the required time of work experience under the supervision of a CPA. There is wide variation among the states in the years of experience required, the kind of experience required, and the time necessary to acquire state residency.

State Boards of Accountancy are beginning to accept conditional credit (passed parts of the examination) from other states. Many states require a candidate to earn a minimum grade in failed subjects in order to receive conditional credit in passed parts of the examination. Ordinarily this requirement is a board regulation instead of a statute. It not only specifies that a candidate will be examined in all subjects, but forces candidates to prepare for all parts. Candidates are required by all jurisdictions to write all parts for which conditional credit has not been awarded. The life of a conditional credit varies from three years to the five next examinations to unlimited in time. After expiration of the conditional credit, the candidate must be re-examined in all four subjects if he/she wishes to continue to work toward a CPA certificate. Most jurisdictions require that applicants be twenty-one and either citizens of the United States or have officially declared their intention of becoming citizens.

Although there is one Uniform CPA Examination, there is considerable variation in the requirements for obtaining the certificate. In addition to the successful completion of the examination, certain essential character attributes and desirable personality traits are required by the various state boards of accountancy.

A booklet of the Questions and Unofficial Answers for specific Uniform CPA Examinations may be ordered for seventy-five cents from:

American Institute of
Certified Public Accountants, Inc.
666 Fifth Avenue
New York, New York 10019

Application for admittance to the CPA Examination should be made to the appropriate State Board of Accountancy (not to be confused with the State Societies of CPAs) in time to meet the application deadline set by the board.

Certificate in Management Accounting

In an effort to professionalize the management accountant and in response to the needs of business, the National Association of Accountants established the Institute of Management Accounting to administer a program to recognize professional competence and educational attainment in this field — a program leading to the Certificate in Management Accounting.

The CMA will be awarded to those candidates who have been admitted to the Institute of Management Accounting, passed all five parts of the certificate examination within three years of acceptance into the program, and have completed, prior to or within seven years of having passed the examination, two years of related professional experience in management accounting. In addition, holders of the Certificate will be required to maintain their proficiency in the field by engaging in regular continuing education.

The examination consists of five parts, each of which takes three and a half hours. It is scheduled consecutively over a two-and-one-half day period in the first week of December. The five parts of the examination are:

1. Economics and Business Finance
2. Organization and Behavior, Including Ethical Considerations
3. Public Reporting Standards, Auditing and Taxes
4. Periodic Reporting for Internal and External Purposes
5. Decision Analysis, Including Model Building and Information Systems.

A high level of skill is required in parts four and five, and a somewhat lower level of specialized knowledge is required in parts one, two and three.

To be admitted to the CMA program, the candidate must satisfy one of the following three requirements:

1. Hold a baccalaureate degree in any area from an accredited college or university, or

2. Have achieved a score satisfactory to the Credentials Committee of the Institute of Management Accounting on either the Graduate Record Examination or the Admission Test for Graduate Studies in Business, or

3. Be a Certified Public Accountant or hold comparable professional qualification outside the United States.

The first CMA examination was given on December 6, 7, and 8, 1972. It was taken by 410 accountants at twenty-two locations in the United States. The examination and unofficial solutions were published in *Management Accounting*. Part I appeared in the February 1973 issue. The entire examination with unofficial solutions are available from the Institute for seventy-five cents per copy. The second CMA examination was given on December 5, 6, and 7, 1973.

The procedure for entrance to the CMA program and the CMA examination is an application to the Institute of Management Accounting, accompanied by a ten dollar application fee, no later than the August 1 preceding the examination. The Institute evaluates the candidate's credentials and upon acceptance to the Institute the candidate is sent an application for the CMA examination. An examination fee of thirty dollars is charged for each part of the examination applied for. In the event of failure the examination fee must be paid again for each part to be retaken. The examination application must be received by September 1. During the first week in November, the candidate receives authorization to take the examination at the site selected by the candidate from among the announced test sites.

For more information regarding the Certificate in Management Accounting or an application form, write to:

Dr. James Bulloch
Institute of Management Accounting
c/o National Association of
Accountants
919 Third Avenue
New York, New York 10022

Certified Administrative Manager

The Certified Administrative Manager (CAM) certificate is sponsored by the Administrative Management Society. The program was three years old in September, 1973. The CAM examination is given twice each year, on the fourth Saturday in April and the third Saturday in November. It is given at test centers established with the cooperation of the Administrative Management Society Chapters where the concentration of candidates reveal a need. The examination consists of five parts, the first four of which are:

1. Personnel Management
2. Financial Management, Control and Economics
3. Administrative Services
4. Systems and Information Management

A maximum of four hours is allowed for completion of each part, and the parts may be taken in any sequence. A maximum of two parts may be taken on a given day. The first four parts basically consist of short problems, multiple choice questions, and situation analyses requiring a brief one- or two-paragraph answer. The fifth part of the CAM examination can be taken only after the candidate has successfully completed Parts 1 through 4. It is an in-depth case-study management problem incorporating the various management skills.

A one time, nonrefundable registration fee is payable at the time the application for CAM candidacy is submitted. Examination fees of thirty dollars are required for each part taken and candidates may re-take any part of the examination previously failed. If all five program standards are not completed within ten years of the date on which the application fee is filed, a second registration fee is required.

The Certified Administrative Manager (CAM) examination is aimed at measuring the candidate's knowledge of the skills, concepts, and fundamentals of administrative management. To achieve the CAM designation, candidates must meet five standards:

1. Pass the five-part CAM examination.

2. Have two years of experience at the administrative management level. This level is defined as a position in which the individual has significant responsibility for one or more of the following management functions: personnel, finance, administrative services, systems, and information management.

3. Have high standards of personal and professional conduct.

4. Provide satisfactory evidence of active participation and leadership, within recent years, in civic, fraternal, management, professional, religious, political, or social organizations.

5. Show evidence of having made a contribution to the furtherance of effective administrative management ideas and principles through oral and/or written communications such as speeches, articles, books, moderating seminars or workshops. Alternatively, the candidate may submit an original research study, management report, or analysis on a subject approved by the Professional Accreditation Commission that contributes to the state of the art of management.

The approved candidates who have successfully completed the examination and met all the standards prescribed by the Professional Accreditation Commission of the Administrative Management Society receive the professional designation "Certified Administrative Manager". The individuals so designated may use the initials "CAM" with personal signatures on professional and business letters, on letterheads and in other appropriate ways. Each individual awarded the CAM designation becomes a member of the Academy of Certified Administrative Managers. This Academy is devoted to the continuing education of CAM's and is governed by the Professional Accreditation Commission.

For more information regarding the Certificate in Administrative Management, or an application form, write to:

Director of Professionalization
American Management Society
Headquarters
Willow Grove, Pennsylvania 19090

Certified Internal Auditor

On December 8, 1972, the Board of Directors of the Institute for Internal Auditors, Inc. gave final approval to the Institute's professional Certified Internal Auditors Program. All internal auditors who meet the established qualifications are eligible for admission into the program. It is not necessary to be a member of the Institute of Internal Auditors. It is not an entry level program, therefore experience levels to qualify under the program are high.

The CIA program is intended to stimulate and encourage the self-development of those engaged in the practice of internal auditing, to define the body of knowledge and work experience which form the basis for professional qualifications, and to establish the qualifications for achieving professional recognition of internal audit practitioners. It also recognizes those candidates who have met the qualifications established by granting the professional designation "Certified Internal Auditor", and attests to their professional competence. It achieves, through maintenance of high professional standards, universal acceptance and recognition of the CIA designation.

The CIA candidate must meet the following five requirements:

1. All candidates shall have a minimum of three full years full-time or equivalent work experience in internal auditing.

2. All candidates shall have attained a baccalaureate degree from an accredited college-level institution. This requirement shall be waived for those persons who qualify in all other respects on May 31, 1973 and submit an application form, and the applicable fees, within five years of that date.

3. All candidates must subscribe to a Code of Ethics and submit a character reference from either a Certified Internal Auditor or a member of their company's management.

4. All qualified candidates must successfully pass a written examination. This examination is based on the "Common Body of Knowledge of Internal Auditors". It consists of four sections as follows:

(1) Principles of Internal Auditing
(2) Internal Audit Techniques
(3) Principles of Management
(4) Disciplines Related to Internal Auditing.

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Reviews

Writings in Accounting

Dr. Marie E. Dubke, CPA Editor
Memphis State University
Memphis, Tennessee

INFORMATION PROCESSING MANAGEMENT, Ralph A. Szweda, CDE, Philadelphia: Auerbach Publishers, Inc., 632 pages, $12.50.

This recently published book on information processing can be a great asset to any accountant working with computerized accounting systems. The book is very clear and direct. It contains a wealth of information on such subjects as controls, performance standards, documentation standards, feasibility studies, requests for vendor proposals, evaluation of vendor proposals, and cost/benefit determinations. To facilitate understanding the author has included many excellent examples and illustrations.

The chapter on controls, for example, provides a complete listing and explanation of the various controls used in computerized listing. It is not limited to computerized accounting controls but includes the various types of input and output controls that may be applicable to both manual and automated systems. In addition, the chapter deals with record retention and auditing policies and practices for the various data processing media.

The subject of feasibility or justification studies also receive in-depth treatment. The author discusses ways of conducting a systematic feasibility study and the need and method of determining current and proposed costs as well as tangible benefits or savings.

The preparation of customer specifications for the rental, lease, or purchase of software, equipment, or services is also given in-depth coverage. The author details the various items to be included in specifications and proceeds to explain how the vendor's responses to the original specifications should be evaluated and validated. The author's approach will help to ensure that the customer, and not the vendor, will control the selection and acquisition process. Again, the author stresses the importance of cost/benefit determinations.

Factors used in determining the success or failure of a project are also covered in this book. In many entities no effort is made to perform such critical evaluations or analyses. Consequently, many accounting systems are implemented which do not prove beneficial and may actually decrease return on investment and profits.

The documentation and performance standards included in this book should prove most beneficial to cost accountants, internal auditors, and consultants. Such standards are essential in every organization.

Information Processing Management is more than a book: it is a manual that will prove beneficial to any accountant involved in the use of computerized accounting.

Frances C. Cardwell
The Wm. Hengerer Co.
Buffalo, New York

"ACCOUNTING RESEARCH, EDUCATION AND PRACTICE," Robert R. Sterling, JOURNAL OF ACCOUNTANCY, Vol. 136, No. 3, September 1973.

Accountancy as taught in our colleges and as practiced as a profession does not conform to precepts derived from accounting research. Dr. Sterling is concerned with the reasons for this divergence and possible ways of resolving it. His arguments may be summarized as follows:

Accounting reform has been hindered by a lack of agreement among public accountants as to what constitutes desirable practice and by the efforts of management to maintain flexibility in financial reporting. This has resulted in the development of a hodge-podge of "generally accepted accounting principles," fathered by expediency and nurtured by rationalization.

While accounting education and practice complement one another, interacting in an environment with parameters set by GAAPs, research exists in a state of isolation. Educators teach what is done, not what should be done, and what is done is determined by what is taught. Such a "closed loop" system is beneficial to the operation of a thermostat, but acts as a deterrent to change and reform in financial accounting and reporting. The additions to the store of accepted practice come from practitioners under the prodding of management, not from the recommendations of researchers. The textbooks in widest use in undergraduate courses mention research finding only in passing, categorizing most as not being acceptable in practice. The "generally accepted accounting principles" are inconsistent, having developed illogically in response to immediate needs. The end product is a body of contradictory theory. Students taught GAAPs as accounting theory are not taught logical thought processes. Consequently as accountants they are susceptible to managerial pressures and not receptive to reform proposals.

Dr. Sterling's suggested remedy is that "educators teach research results as *the desired state* and teach accepted practices as *the current state*. Adoption of this suggestion ought to lessen the resistance to reform within the profession and lessen

(Continued on page 31)

Editor's Notes

Two new Departments appear in this issue. One of them is the *Education* Department under the editorship of Dr. Patricia L. Duckworth, CPA. She is well qualified to handle this department since she is Professor of Accounting and Chairman of the Accounting Department at Metropolitan State College in Denver. She has a B.S. and a D.B.A. from the University of Colorado and an M.S. from Colorado State University. She is the author of several articles and book reviews published in this journal. The *Education* column will not be written for educators but for all our readers who are concerned with increasing their knowledge and their ability to move upward in their careers.

The other new Department was activated by you when you started to write *Letters to the Editor*. In addition to the two letters published in this issue we received many short notes complimenting us on our New Look — but modesty prevents our publishing all of them. The deadline for *Letters to the Editor* for the April issue is February 20, 1974. So do write and tell us how we can improve THE WOMAN CPA.

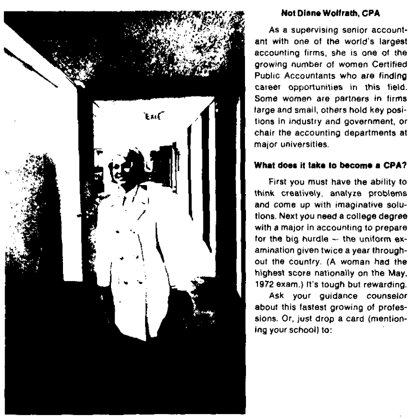
Appointments to the Editorial Board

In addition to the appointment of Dr. Patricia L. Duckworth, CPA, as editor of the *Education Department*, the presidents of ASWA and AWSCPA, Elizabeth A. Reid and Katherine M. West, CPA, made the following appointments:

Marilyn J. Nemec, CPA, is replacing Margaret L. Bailey, CPA, as editor of the *Theory and Practice Department*. Ms. Bailey took over the responsibility for this important column in March 1972 and asked to be replaced when she was appointed to the Colorado State Board of Accountancy — the first woman so appointed since 1923! We were very sorry to lose her because she did such a fine job explaining first the pronouncements and then the expiration of the Accounting Principles Board and introducing us to the Financial Accounting Standards Board.

Ms. Nemec has two "first's" to her credit: in 1970 she was the first woman to be promoted to manager in Alexander Grant & Company, and in 1973 she became the firm's first woman partner. Her responsibilities include coordination and supervision of her firm's relationship with its publicly-held clients and with the Securities and Exchange Commission. Her most recent publication is an article on "Reporting in Consolidated Statements the Sale of a Subsidiary's Stock," which appeared in the *Financial Executive* and *The CPA Journal.*

Who Says Accounting is a Man's World?



The AICPA Is With Us — Or Is It?

The State Society Relations Division of the AICPA has created a poster designed to attract women to the accounting profession (see above). It has also designed seven other posters designed to attract men to the accounting profession. Not only that, these other seven posters could very well undo the work the first one is supposed to do. Judge for yourself:

One of the seven posters shows a rugged he-man in a hard hat with factory scenery in the background and is headed: "The CPA: he's where it's at."

Another shows a bespectacled young man in a business suit striking the famous Napoleon pose, complete with Napoleon hat and cockade, and is entitled: "Two kinds of men make good CPAs. 1. Guys who like to have a boss. 2. Guys who like to be the boss."

Three others avoid sexual references in their headings (Show biz? Ad biz? Aerospace? A CPA can be in all of them;" "The CPA, a quiet revolutionary;" and "Tiger or lamb: who makes the best CPA?"), but they make up for it with pictures of young men.

Instead of a picture poster no. 6 has what looks like a reprint of a newspaper help-wanted column, not a single one of which identifies the advertiser as an Equal Opportunity Employer, M/F. The title of this poster is: "The CPA is a wanted man."

The most neutral one is entitled: "World's shortest CPA aptitude test." In the space usually taken up by the picture it has two boxes to be checked, marked "problems stimulate me" and "problems upset me."

But this one, like the other six, avoids any reference to women (accountants, managers, or clients) in its text. The approximately 150 words of text in each poster abound with male personal pronouns and men in the singular and plural, whereas the word "person" appears just once.

Apparently it is the intention of the AICPA to have these posters displayed in high schools and colleges. Since there are very few all-male high schools and colleges, having seven posters addressed to men and just one addressed to women seems to be a misallocation of resources. And what about the predominantly black educational institutions in this country? What will a black student think who looks at these posters and sees only white CPAs?

There is a good chance that the woman student looking at the one poster addressed to her which asks "Who Says Accounting is a Man's World?" might look at the other seven posters and answer: the AICPA.

Letters

November 26, 1973

Dear Editor:

First, may I congratulate you upon the giant steps forward you have made with THE WOMAN CPA. The new size, layout, columns, advertising — all combined by your obviously superior editorial talent, have produced a truly professional journal that is a definite plus for the accounting profession and especially for the women who labor therein.

The Lelievres' article "A Guide to Continuing Education" was of considerable interest because Ohio has this as an in process item at the present time. I do have one comment in this area that I think deserves consideration.

At the presenth time the entire thrust of continuing education programs for the CP is directed toward the public practitioner. However, since it is the professional function of the public practitioner to exert judgement after the accountant who is not in public practice has acted, don't we need to consider focusing some continuing education requirements upon the latter?

Using as a guideline the subscription list of the *Journal of Accountancy,* we find that only about 60% of its CPA subscribers are in public practice. This leaves 40% of the CPAs with a ticket to work in the public interest as CPAs from the inside with no requirement by their profession to stay current with developing accounting knowledge and expertise.

Maybe public practitioners are out front and the others will follow. Let us hope so.

Sincerely,
Mary F. Hall, CPA
Partner, Hildebrand & Hall
Cincinnati, Ohio

November 30, 1973

Congratulations!

The October issue of *The Woman C.P.A.* is the most readable, best looking professional Journal I've seen. I've already read three times as many articles as I usually do.

I think you've done a *fantastic* overhaul job; the entire format is very appealing. I'm very proud to show off our Journal — and I have to several people already!

Sincerely,
Sandra L. Nelson, CPA
Partner, Wolf and Company
Denver, Colorado

Education
(Continued from page 28)

The examination is developed each year under the supervision of the Board of Regents. It is given annually on the same day in locations throughout the world. A candidate must sit for at least two parts of the examination in the initial sitting, or he/she may elect to take all parts at a single session. Candidates may repeat those parts which they failed by reapplying and submitting the applicable fee. All four parts must be passed within a space of three consecutive examinations. Candidates disqualified for failing to pass three consecutive examinations may reapply for consideration as a candidate at any future date.

At least seven months prior to the examination a completed registration form with a ten dollar registration fee must be filed. All requirements for work experience, character references, and baccalaureate degree must be met before the candidate will receive the approval of the Board of Regents to sit for the examination. An application to sit for the examination must be filed with The Institute of Internal Auditors, Inc., together with a forty dollar examination fee for each part no later than six months prior to the examination. After satisfactorily passing the examination, candidates are entitled to use the designation Certified Internal Auditor as evidence of having met all requirements of the program.

For more information regarding the Certified Internal Auditor certificate, write to:

Director, Certified Internal
Auditors Program
The Institute of
Internal Auditors, Inc.
5500 Diplomat Circle
Orlando, Florida 32810

Summary

Each of the four certificates have high standards for education, experience and ethics. Each has a rigorous examination. The CIA is the only one that requires that all requirements, including experience, be met before one can sit for the examination. All except the CPA certificate have national, rather than state requirements. With the exception of the CPA certificate, they are all relatively new, but they will probably, in time, acquire the same status as the CPA certificate. All accountants seriously interested in furthering their education and establishing their professional credentials should consider obtaining one or more of the above-described certificates.

Review of Accounting Research, Education and Practice
(Continued from page 29)

the tendency to reason by contradiction." As added benefits, the accounting profession would be accorded greater respect from other disciplines and would be better able to counter management pressures.

Patricia S. Fendler
Graduate Student
Memphis State University

The Woman CPA