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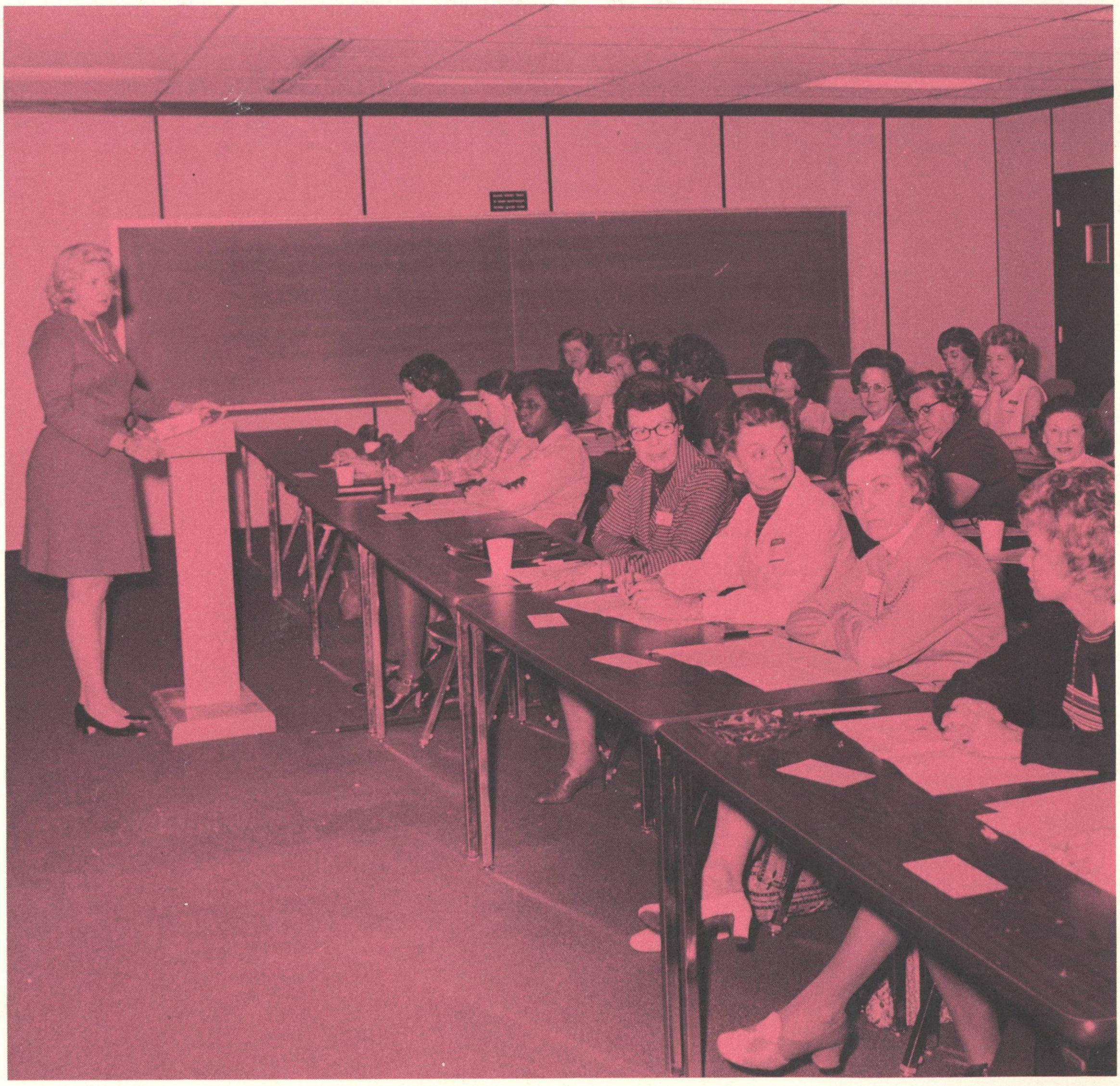

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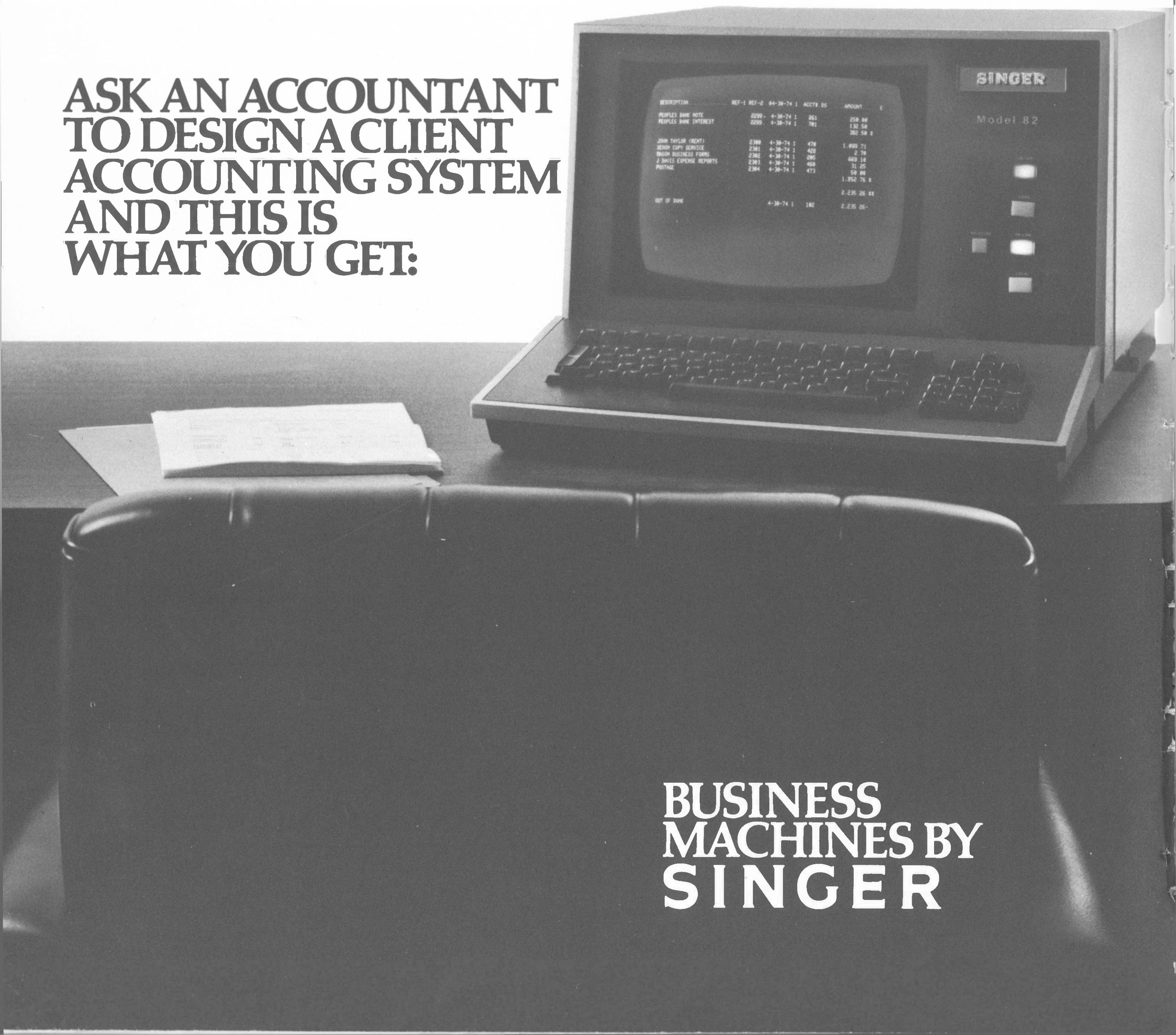

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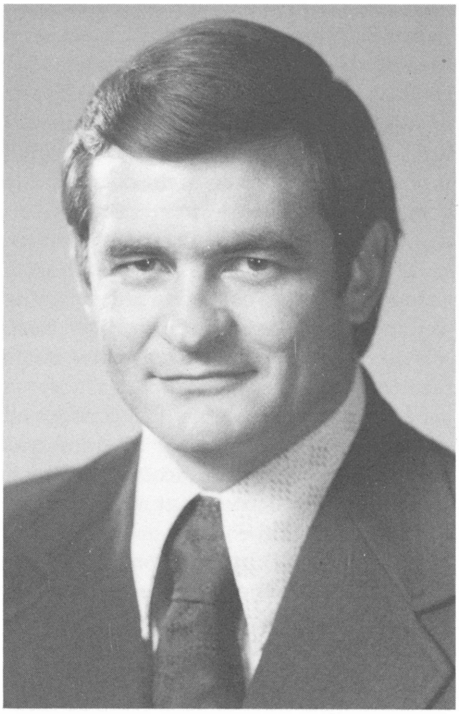
MAJOR ARTICLES

Academic Institutions and the Education Needs of the Accounting Profession



Dr. J. Marion Posey, CPA
Birmingham, Alabama

The author examines the needs of the accounting profession for more continuing education and the difficulties encountered by schools of business in responding to these needs.

Dr. J. Marion Posey is Associate Professor of Accounting at the University of Alabama in Birmingham. His prior experience includes teaching at the University of Arkansas, the University of Arizona, and the University of Alabama in Tuscaloosa.

Dr. Posey earned his B.S.B.A., his M.B.A., and his Ph.D. at the University of Arkansas and is active in various professional organizations.

With all the expectations for higher technical demands on practitioners of accountancy, the question arises as to what direction the profession of accountancy will take to meet these demands. There is the dual problem of: (1) preparation for entry into the profession, and (2) the renewal and buttressing of current practitioners. It has been suggested that academic institutions, already oriented to the educational process, form the logical base for confronting these problems. The purpose of this article is to review the prospects of whether academic institutions will meet the educational challenge of the accounting profession.

The academic institutional structure, as it exists today, has a strong bearing on the future of accounting and accounting education. To the extent that the academic sphere is unable to provide what is needed for the accounting profession, the deficiency will have to be overcome within the profession itself. Essentially this is what has occurred in the continuing education area. Professional societies and associations are carrying the brunt of continuing education. From an educator's point of view, they have an almost complete monopoly. While charges of empire building may have some validity, the fact remains that academic leadership in the area of professional development is in short supply.

Accountability and the Growth of the Profession

Greater professional responsibility. The accounting profession faces an enlargement of its realm of responsibility far beyond any previous experience. The needs for highly specialized knowledge and skills overshadow the tradition of resistance to specialization by accountants. For decades, enterprises have been run by broadly oriented businesspeople, and accountants have sought the mantle of being the "businessman's businessman."

Increased reporting needs. Probably the evolution within accountancy is similar to the experience of other professions. There is a growing requirement of accountability for specific disclosures brought on by greater involvement of governmental entities as well as demands from users of services provided by accountants in both the public and managerial arenas. A pressing need exists for more information better suited to the economic allocations and business commitments that must be made.

Broader scope of services required. What is happening in accounting is really no different from what is happening, has happened, or will happen in any of the other professions. That is, as our society becomes more dynamic, increasingly complex, and broadly involved, the service provided by accountants will be both broadened and narrowed — broadened in range of clients and services rendered and narrowed in terms of the service performed by individual practitioners. The training and preparation of entry-level accountants must therefore adjust to meet the new environment. The adjustment or innovation can occur in the academic instruction phase of an accountant's career or by some means after employment. The alternative to academic preparation is greater involvement in on-the-job training and other professionally oriented study. While the demands thrust on the profession certainly have influenced academic training for entry into the profession, probably of greater significance is the reorientation and education of those individuals already practicing for the public.

Professional specializations. There is a current move to recognize specializations and technical subareas and toward admission into the profession within its ethical standards.[1] Some of the technical areas under consideration include non-accounting fields now excluded from professional membership. Examinations in these specialty areas are planned as a means of identifying competent practitioners before they are admitted to the American Institute of Certified Public Accountants.

In many cases, technical reorientation will restrict the scope of services performed by individual professionals to the end that a greater reliance on specialists, either from the accounting profession or other fields, will be required to fill gaps left by a practitioner's own narrowing specialty.

A new breed of general practitioner. In order to handle the broad span of business and accounting activity, a new breed of general practitioner will emerge — one with much greater skill and adaptability than we attribute to those who now handle the wide range of accounting services. The generalist will acquire new stature because of the need to be better versed in a greater number of topic areas.

Individual CPAs can avoid some of the problems associated with the broad scope of technical demands simply by limiting clientele to those with service needs in more narrowly defined areas. Another approach would be to augment the professional staff with other specialties as client needs expand.

Extending the Scope of Technical Accounting Skills

There are three basic reasons for greater emphasis on higher technical accounting knowledge and skill:

(1) the growing complexity and dynamics of our society,
(2) the increasing involvement of governments at all levels, and
(3) the needs associated with capital formation.

New parties of interest in accountability. The intricate web of our society is so involved that neither government nor business can make decisions on the basis of traditional cost-benefit analysis. Too often material factors influencing the final result extend far beyond the primary parties to the transaction. A familiar scene in the minds of both business people and bureaucrats is the involvement of all sorts of interests from ecology to technology. Importantly, these interests have learned to bring their views to bear on many economic and social issues directly affecting business and government. The ultimate result is a new era of accountability as more segments of society are enforcing demands for "an accounting" of both prospects and results from a wider range of activities.

The measurement maze. The broadened concept of accountability alone seems staggering, but, when accountability is immersed in the attendant measurement difficulties, all the rules are subject to seemingly arbitrary realignment. Even when limited to the relationships already acknowledged in the decision-making process, the conflicting goals of so many elements in society create measurement and reporting dilemmas of irreconcilable magnitudes. The concerns of groups with interests in certain environmental objectives, for example, may conflict with economic motives of political leaders, while the rights of property owners diverge from either of the other parties. Even an agreement as to common measurement units and time frames may not occur.

To whom is an accounting due. Complexity has always been a part of our environment. The only difference now is the relative change in power to influence the direction of economic events and to pass judgment on the result. For instance, ecology on our continent was a consideration even before Pilgrims landed at Plymouth Rock. The forces that shaped the environment operated from a different power structure. Basically, what we have is a realignment of power in a dynamic situation where the power source, the level of power, and the definition of power are not clear. Consequently, the accountability associated with economic activity operates within equally undefined dimensions.

New activism by the SEC. In the past several years the Securities and Exchange Commission has taken a much more active role in business. In certain key areas the business community failed to respond adequately to the accountability requirements as determined by powers that influence SEC policy. Few of the SEC moves reflect as abrupt a change as the new posture on disclosure of financial forecasts. The switch from almost absolute prohibition of forecast reporting to a permissive, if not encouraging, posture was indicative of the active mode of the SEC in accounting matters after many years of a rather passive, yet prodding, force in the shaping of financial disclosure. Just in the past few months new policies have been published regarding capitalization of interest expense and increased disclosure requirements of publicly-held corporations. Such items as product-line information, multiperiod summaries, and share-price history are decidedly more extensive than prior requirements. Since a vacuum was created by inadequate response to shareholder and other public needs, strong leadership in the SEC brought its power to bear to fill this void. The SEC by inaction in other areas may, in its own right, create deficiencies. However, the SEC generates more pervasive questions about the direction and goals of accounting in the face of its obvious power and its newly found propensity to exercise that power.

Capital needs of governmental units. Capital formation by political subdivisions receives more intense scrutiny as citizens become aware of the cost incidence of financing. As smaller political subdivisions provide more services for constituents, they necessarily are going to be more involved in economic activity. Whether translated into bricks and mortar for education, fire protection, transportation systems, or recreation facilities, the raising of capital and its employment by smaller political entities brings a whole sphere of government into broader play in our economic life. At the same time new elements of accountability are added. Political managers find themselves restricted by fiduciary responsibility to higher levels of government as well as to bond holder trustees. In addition to greater involvement in capital formation and other economic activities, governments are actively expanding their influence through various forms of regulation — all requiring some measure of accountability.

A new capital market. The needs of an increasingly capital-intensive society means that any new economic activity, as well as maintenance and continuing sup-

[1] "Report of the Committee on Scope and Structure," discussion draft, *Journal of Accountancy*, January, 1975.

port of existing activity in the area of new technology, will require a capital market somewhat different from the present state of the art. Consequently, as new sources and new means of capital formation are employed, a new era of disclosure and accountability arises. The effect of inflation, the broad field of forecasting, and other managerial disclosures will be required by new suppliers of capital seeking better information before surrendering resources. We can no longer afford slack in capital formation either in government or in the private sector. Few would argue with the notion that too much capital flows to inefficient activities. A better means of assessing the productivity of a particular economic endeavor is needed before we can properly channel available resources. Quite likely this need will add strength to earlier demands for disclosure of the kind of information sought by proponents of forecast publication.

Accountability for resource use. Another area of concern is the accountability for human resources. The topic is rather overworked in the literature and underdeveloped in terms of practice — partly because the measurement and reporting requirements for that particular resource are not adequately understood. By the same token, the measurement and reporting needs for other economic resources likewise give evidence of deficiencies.

Accounting Competency Takes On A New Meaning

Continuing education needed. The need for continuing professional training seems so obvious as to preclude serious debate. In many states various professional accounting organizations require their members to become directly involved with continuing education. Given a static state, with no new knowledge and no new service demands with which to contend, it seems logical to assume that periodic refresher courses would be required even if the practitioner were actively engaged in that area. To assume otherwise implies near perfect prior training and a superhuman proficiency at recall and utilization of learning inputs. The need for a review of basic fundamentals and a revaluation of their applications would exist even if there were no new demands on our profession.

When we add the demands of society on the profession and the evolution of ideas within the profession, new stress is added for continuing professional education and training. Consequently, the requirement for continuing education is widely accepted. The president of one state professional association remarked to this writer that, "In order to perform the professional services clients expect and pay for, it is *necessary* that we continue to learn and improve... Even the state legislature felt so strongly about the issue that they have made law (continuing education requirement) what common sense, economics, and professional pride should have dictated."

How to meet the professional education needs. The most prominent concern of continuing education centers on the means of fulfilling the demand. It seems only natural that a great deal of attention has been directed to academic institutions. When professional education is the subject, colleges and universities occupy our first thoughts. Some advocate establishing academic institutions as centers for continuing education as well as entry-level training. However, the current record shows very little in the way of continuing professional education for accountants under the auspices of the academic community. This observation leads us to explore the reasons for the seemingly illogical exclusion of academic institutions from professional development programs in accounting. Concern extends beyond continuing education to the implications for all accountancy because of the situation evident in many of the prominent institutions hosting academic accounting programs. The system which declines to pursue the challenges and responsibilities of the continuing education process has serious implications for the future training of entry-level accountants as well as those already practicing in the profession.

Academic Institutions And Educating The Professional

As established earlier, the demands on the accounting profession are going to require substantial renewal of technical knowledge in addition to adapting new areas of study.

Resistance by academic institutions to professional accounting training hinges on four major issues:

(1) The supply of professionally competent faculty with the appropriate experience to handle continuing education assignments of a very practical nature.

(2) The lack of transferability between academic course preparations and some continuing education counterparts.

(3) The increasing orientation of business school curricula to an "academic" as compared to a "professional" emphasis.

(4) The commitment of resources necessary to produce and maintain a professional program for accountants.

The supply of professionally qualified faculty. Of particular significance to academic participation in continuing education is the supply of faculty professionally qualified to teach in these programs. Professional qualification refers not only to the conceptual and theoretical background but also to the level of experience necessary to orient the subject matter to the practitioner. In the first place, most accounting faculty work loads will not permit substantial commitments without reduction in the basic degree programs. In addition, the pedagogical approach of some continuing education programs may even be foreign relative to some more basic academic studies. For instance, academic study might emphasize the conceptual framework, whereas the practitioner-oriented program would be geared more to case applications. This is not a criticism of either approach. Most degree program students would not have had sufficient experience to relate to the more practical applications. On the other hand, often much of the college and university curriculum for accountants has been "academic" to the point of ignoring the professional aspects.

The transition to continuing education programs. Since the academic programs are not normally adaptable to continuing accounting education, a substantial commitment of faculty and other resources would be required. Academic administrators, under current arrangements, are not inclined to obligate available funds in the magnitude required to develop highly technical and specialized courses geared to such a relatively small group. In contrast, many executive development programs are sponsored by business schools on a basis which supports the resources employed. The basic difference is that executive development programs would be more broadly based covering new developments in organization, motivation, or perhaps even new applications of business and economics fundamentals. In most situations there is a greater transfer of course preparation from the academic to the professional because the subject usually receives a very basic treatment. People in business need a broad understanding of the many facets of management brought to bear on their specific enterprise. Accountants, on the other hand, must be technical experts on the highly specialized details of their practice. Because business managers and others rely on services performed by accountants, the level of preparation and knowledge for technical accounting studies requires the faculty to develop a high degree of skill and professional competence in any specialty course presented.

The resource commitment required. In more direct terms, it is not economically or politically feasible within the broader objectives of a school of business to reduce faculty and other resources available to degree programs for the highly specialized benefit of a group of professionals. Development for such courses must generally come from faculty initiative with little support in terms of time off and research assistance. Accounting faculty members, generally speaking, recognize that personal commitments for such special courses often do not provide the return that alternative activities, such as publications, would yield given the reward structure of most schools of business today. Since development costs of continuing education courses are relatively high and, since the material due to its technical nature often has a high obsolence factor, the only practical approach is to prepare the course for national distribution while the presentation is still relevant. Furthermore, some topics require dissemination for broad professional benefit even if the return does not cover costs. Few state legislatures and fewer private college boards are inclined to commit the resources to so directly benefit the accounting profession.

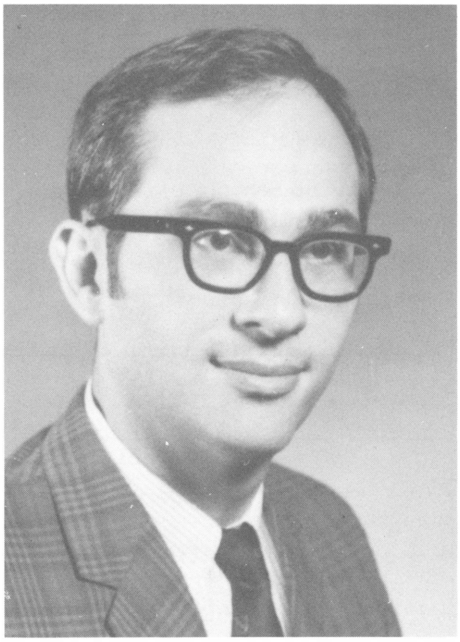
Quality control of CEP. In addition to the speculative nature of faculty development of continuing education programs (CEP), the lack of research support and other assistance may undermine the quality of the program. To offset the lack of academic research commitment, the national professional organizations typically provide the development support by contracting with various faculty members and by providing broader support. The ultimate format of the course is determined within the professional organization's continuing education group. Finally, the marketing and presentation of the material is arranged by the professional organization.

Professional and institutional motivation. While the profit motive may be conspicuously absent in the application of financial accounting for educational institutions, the acquisitiveness attributed to free enterprise entities is also prevalent in eleemosynary institutions. As with any other economic activity, academic institutions use scarce resources to develop more valuable economic goods or products. A professional school of accounting, for instance, is very analogous to a factory when you think in terms of the quality of inputs, efficiencies of production, and the demand and prestige of the output. Several observers have noted that professional identity is a key element in the motivation of the student, and, consequently, the value of the product. If the academic program fails to attract the practicing professional, an element of credibility is missing, and the professional identity will be more difficult to achieve. On the other hand, academic programs which enjoy favorable recognition and support from practitioners typically will generate entry-level accountants with a higher sense of professional identity and motivation. Exceptions are always to be found. Some students will succeed in spite of, rather than because of, the academic environment to which they are exposed. A larger group of students, however, require motivation beyond that provided by their pre-academic experience, and many of these have the capacity to develop and to contribute significantly to the accounting profession. The profession cannot survive with an input limited to the very strong students who come to accounting by happenstance to the exclusion of all the other educational opportunities available. The reputation of academic preparation for accounting has a great deal to do with whether or not the best students will gravitate to an accounting program. In any case, academic programs geared to serve only the "best" students may be self-defeating because the motivation of a broader-based group of students will attract more of the better students. The only way the profession can grow in quality and stature is to provide professionally motivated and technically competent inputs so the marginal practitioner cannot compete in the more complex technical service areas.

Conclusion

As long as accounting professionals receive academic preparation in an environment geared to broad management education, the higher levels of technical proficiencies will be developed outside of the academic arena. Furthermore, the subordination of technical education, at a time when accountants are experiencing the stress of professional demands, will serve to broaden the gap between academic preparation and professional practice. The current state of continuing professional education is but a symptom of the relative decline in the academic contribution to the profession of accountancy.

The Importance of Not-For-Profit Accounting in the Curriculum



Meyer Drucker is Associate Professor of Accounting at the University of North Carolina at Charlotte. He previously taught at the University of South Carolina and served as Chairman of the Accounting Department at Midlands Technical College. Prior to his teaching career he worked in industry and for the U.S. General Accounting Office.

Mr. Drucker holds a B.S. in Accounting and a J.D. from the University of South Carolina and an M.A. in Public Administration from American University. He is a licensed CPA in Virginia and North Carolina.

Mr. Drucker's research interests are in the public sector of the accounting profession and have resulted in articles published in Governmental Finance *and* The Internal Auditor. *He serves on the International Government and Public Affairs Committee of the Institute of Internal Auditors.*

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Charlotte, North Carolina

The author reports on the results of a survey he conducted of courses in not-for-profit accounting offered in colleges and universities and makes a plea for more such courses in the accounting curriculum.

Governments of all types and other not-for-profit (NFP) institutions, such as hospitals, schools and universities, are having serious funding problems. At present, the public's attitude toward many of these activities may be at an all-time low. These groups often lack the ability to properly explain to their constituencies the effectiveness of their programs. Oftentimes their goals are really unclear to themselves or their constituencies and their accomplishments leave much to be desired. In the past, funds were requested and, generally, were given as long as there was someone to receive and spend the money. Now the emphasis is shifting toward accountability and program accomplishments.

While accountability of NFP organizations is similar to profit-seeking enterprises, important differences do exist. NFP organizations are generally not concerned about increasing or having capital balances. Their primary objective is to expend resources for rigidly prescribed purposes or within the limits of prescribed budgeted amounts. Statutory and budgetary controls should exist even though there is no need for making a profit. The major consideration is therefore with compliance. If the legislative authority is foresighted, meaningful goals can be set and essential controls can be required for monitoring progress toward these goals.

The primary emphasis of most accountants' education and experience has oriented them to think in terms of profit as a measure of operating efficiency. However, NFP, institutions have an added dimension: the need to justify their existence on the basis of efficiency of operations as well as upon the needs of the society they are intended to serve. Any meaningful measurements of progress towards such goals can come about only through good accounting and budgeting practices plus effective internal and external audit reviews.

Little research has been done on university offerings in NFP accounting courses. In the April 1967 issue of *The Accounting Review* (pp. 366-69), Neeley and Robason reported on their findings of governmental course offerings in an article entitled, "Governmental Accounting: A Critical Evaluation". Their study was limited to member schools of the then American Association of Collegiate Schools of Business (AACSB). The purposes of that study and the survey which follows were similar, i.e.:

(1) to determine the current status of the NFP course in the accounting curriculum and

(2) to ascertain opinions held by accounting professors on the value of a course in NFP accounting.

Current Practices

This report is based on a questionnaire sent to accounting departmental chairpersons in March 1974 for both AACSB and the larger non-member AACSB schools. The inclusion of the non-member schools was deemed essential because these schools produce such a large number of accounting graduates. Another reason was to determine whether there is a significant difference in emphasis between the two types of schools.

Students from the responding schools represent a substantial number of the accounting graduates in the United States during the past year. See Table I for the response to the 1974 questionnaire.

In the 1967 report, 66% of the responding schools indicated an offering in governmental accounting. NFP accounting offerings for AACSB schools are now only 44% (Table II).

The NFP course is generally considered an undergraduate course, but many schools allow graduate credit (Table III). In a few instances only graduate credit is given.

Most schools offer the course once a year, but many of the AACSB schools offer it twice a year (Table IV).

Many students get some exposure to governmental accounting in other courses, but the time devoted is usually two weeks or less (Table V).

According to the respondents, only 23% of the accounting graduates in the schools surveyed took a complete course in NFP accounting (Table VI).

Nature of Course

Outside forces are having an effect on the nature of the NFP course. It is encouraging that the AICPA has indicated a greater interest in the NFP sector by developing audit guides for state and local governments, colleges and universities, hospitals and voluntary health and welfare organizations. Several AAA committees have been concerned with the NFP sector. GAO has been the leader in widening the scope of governmental auditing from financial operations to determining whether programs are achieving the purposes for which funds are made available and whether the funds are spent economically and efficiently.

Governmental Accounting by Hay and Mikesell is by far the most popular text with 64 schools using it. A number of schools did indicate they would switch to a new book, *Fund Accounting,* by Lynn and Freeman. Both of these texts cover topics other than municipal accounting. By perusing some earlier texts in the area of governmental accounting, it quickly becomes obvious that in past years the course was a municipal accounting procedures course. The percentage of time devoted to the various topics is summarized in Table VII. One of the criti-

Table I
RESPONSE TO QUESTIONNAIRE

	Questionnaires Sent	Responses Received	Percentage Received
AACSB Schools	162	95	59%
Non-AACSB Schools	104	83	80%
Totals	266	178	67%

Table II
OFFERINGS IN NOT-FOR-PROFIT ACCOUNTING

	Responses	NFP Course Offered	Percentage Offering
AACSB Schools	95	42	44%
Non-AACSB Schools	83	47	57%
Totals	178	89	50%

Table III
LEVEL CREDIT ALLOWED — 1974
FOR NFP COURSES

	Graduate	Undergraduate
AACSB Schools	15	38
Non-AACSB Schools	13	43

Table IV
NFP COURSES — 1974
FREQUENCY OFFERED

	Once A Year	Twice A Year	Other
AACSB Schools	23	14	4
Non-AACSB Schools	27	6	5

Table V
TIME DEVOTED TO GOVERNMENTAL ACCOUNTING
AS PART OF ANOTHER COURSE

	AACSB Schools	Non-AACSB Schools
Less than one week	30	21
One - two weeks	26	25
Three - four weeks	9	5
More than four weeks	2	1

Table VI
STUDENTS TAKING A COMPLETE COURSE IN NOT-FOR-PROFIT ACCOUNTING

	Number of Graduates	Separate Course Taken	Percentage Graduates
AACSB Schools	10,818	2,111	20%
Non-AACSB Schools	4,871	1,438	30%
Totals	15,689	3,549	23%

Table VII
1974 NFP COURSE CONTENT

	AACSB Schools	Non-AACSB Schools
Municipal	52%	60%
Federal	18	10
State	9	12
Hospital	8	6
University	6	6
Other	7	6

Table VIII
DOES ACCOUNTING DEPARTMENT CONSIDER GOVERNMENTAL ACCOUNTING IMPORTANT FOR BACKGROUND PREPARATION FOR PUBLIC ACCOUNTING?

	AACSB Schools	Non-AACSB Schools	Total
Yes	52	55	107
No	33	21	54
No Response	10	7	17
Totals	95	83	178

cisms in the 1967 report was that little effort was devoted to Federal Government problems. Apparently this has been alleviated in the courses now offered in most schools.

Chairperson's Views of Not-For-Profit Course Content

One-third of the responding accounting departmental chairpersons do not seem to consider the NFP accounting course important for background preparation for public accounting (Table VIII). This seems to ignore the fact that most major CPA firms have some, if not many, hospitals, colleges and governmental units as clients. This response is also puzzling in view of the growth of the NFP sector and its resultant need of accountants, many being recruited from public accounting.

An attempt was made to determine if chairpersons thought students should consider NFP accounting as a potential job opportunity. Over 1 out of 5 of the chairpersons (28 of 132 responding) do not think students should.

Internal Auditing

Internal auditing is a rapidly growing specialization both in government and the private sector. Operational auditing, as opposed to financial auditing, is much further developed in government, especially at the federal level, than in the private sector. In fact, this is the reason this section was included in the questionnaire. However, only 12 schools offer a separate course in internal auditing with seven other schools planning to do so in the next year.

Many of the techniques covered in the regular (independent) auditing course would also apply to internal auditing, especially for financial auditing. The survey also indicated that about 9% of the auditing course is specifically devoted to internal auditing matters.

Conclusion

Many college accounting departments do not have chairpersons or professors familiar with NFP accounting problems and hence have no one to stimulate the interest of students in this area. With a little enthusiasm from the faculty this interest could easily be kindled. The survival of our public institutions is essential. This can be assured only if our governments health and welfare agencies and educational, religious, and charitable institutions operate efficiently and effectively. The accounting teaching profession has responded to the needs of the private sector; surely more of its efforts could be devoted to NFP activities.

In the past, the course has stressed municipal accounting procedures and meeting statutory requirements for recording income and expenses. A positive sign has been the movement towards including other non-profit organizations in the course. However, more emphasis needs to be placed on setting institutional objectives through budgeting, the theory of accountability for these organizations, the importance of using cost accounting in such institutions, and the utilization of performance auditing.

The accounting profession has always indicated a commitment to public service. There is no better time than now, when public institutions are under attack, for the profession to show its commitment to the accountability of its public institutions. There would be no better way than to encourage the development of a meaningful course in not-for-profit accounting in every accounting program. The NFP institutions would benefit as there would be a greater understanding of its problems. The public accounting profession would also profit because its newly employed graduates would be more effective in working with NFP clients.

Accounting to the Rescue:

Concerning the Authenticity of Shakspere's *Love's Labor's Won*

Dr. Paul Garner, CPA
Tuscaloosa, Alabama

The author tells about the part played by an old accounting record.

To introduce Dr. Paul Garner, CPA, is a most difficult task: for people who know him, no introduction is necessary; for people who do not know him, no introduction can do justice to his many accomplishments and his long distinguished career as an accounting educator.

For over 40 years Dr. Garner has taught accounting at universities all over the country, but his closest and longest association has been with the University of Alabama where he also served as Head of the Accounting Department and Dean of the School of Business Administration. He is presently a Distinguished Faculty Lecturer at the University of South Carolina.

Dr. Garner has been an active member of many accounting organizations serving, for instance, as President of the American Accounting Association in 1951, on the Editorial Board of The Accounting Review *from 1966 to 1968, and as a U.S. Delegate to many international conferences for almost 20 years. His long list of publications includes several books and numerous contributions to professional journals all over the world.*

Over the past few decades a handful[1] of accounting-minded scholars, who happen also to be English literature buffs, have had a curiosity interest in whether William Shakspere[2] had much talent and proficiency in accounting matters. These rare speculations have led accounting and literary-minded researchers to some late evening easy-to-read commentaries on their findings. There is still some additional work that could be done by curious accounting historians, but the purpose of this brief article is not to analyze or appraise Shakspere's accounting prowess. Rather, it is to indicate how an accounting record was used by a noted Shakspere scholar, T.W. Baldwin, a few years ago to bring to light and perhaps even to determine once and for all that Shakspere wrote and published a play, *Love's Labor's Won*, even though no known copy of the play has been found in the more than three hundred years of search.

A contemporary observer of Shakspere (1564-1616) wrote in 1598 a brief item on the important contributions that Shakspere had already made to the stage and this same observer listed both *Love's Labor's Won* as well as *Love's Labor's Lost*, along with ten other plays; all of the latter are well-known to admirers of the playwright. The reference by this early Shakspere observer, Francis Meres,[3] has been a topic of intriguing interest to several prominent Shakspere scholars over the centuries. Of course, most every high school literature student knows about *Love's Labor's Lost*, but the missing manuscript of *Love's Labor's Won*[4] has generally been treated in fine print footnotes, if at all.

The relationship of accounting to the authenticity of *Love's Labor's Won* occurred about twenty years ago, when Mr. Baldwin was doing some extended work in the British Museum and the circumstances are almost bizarre.

It seems that a London book dealer had acquired a copy of a very old book published in 1637, entitled *Certaine Sermons*, by a Thomas Gataker. The *Certaine Sermons* referred to those which had been delivered from the English pulpits in thankful recognition of the defeat in 1588 of the Spanish Armada. While the sermons are meritorious, they are not related

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Education

Accounting Education Today

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The following article, consisting of two parts, deals with the university's role in accounting education today. The first part, written by J. Marion Posey and Loudell O. Ellis, accounting professors at the University of Alabama in Birmingham, describes the challenge facing those responsible for the education of accounting graduates. The second part, written by Herbert E. Miller, partner, Arthur Andersen & Co., and chairman, AICPA Committee to Establish Standards for Schools of Professional Accounting, considers the possible relationship of the School of Accounting to the School of Business.

PART I: A CHALLENGE FACING ACCOUNTING EDUCATORS

Accountants in all fields continue to be challenged by the complex and ever-changing needs of business and society. Similarly, accounting educators face the challenge of preparing beginning accountants to assume their roles in such a dynamic profession. To meet this challenge, educators must continually adapt programs of study to provide even the fundamental educational requirements for accountants. Furthermore, accounting educators must prepare students for careers in management and government, as well as in public accounting.

Changing Course Coverage

The content and coverage of most education has evolved rather drastically over the past 20 years. Certainly, accounting education has not been static, and today's coverage reflects extensive revisions. As an example, auditing courses are more concerned now than before with computer applications and statistical sampling. Terms such as "performance audits" and "program evaluation" are relative newcomers to auditing texts. In the area of cost accounting increasing attention is being given to the decision process and other management concepts. Cost accounting courses formerly were involved primarily with inventory costing procedures and journal entries reflecting the flow of costs from raw materials, labor, and overhead inputs to the inventory and sale of finished goods. Although the Securities and Exchange Commission has been a powerful force in our society for many years, until recently little attention was given, in the accounting or business curriculum, to SEC filing and reporting requirements.

Accounting literature reveals agreement among writers that both conceptual and technical accounting training is desirable at the university level. Writers do not agree, however, on the relative weights to be given to each. Arguments for the conceptual approach emphasize the need for a broad educational background with an interdisciplinary focus. According to some writers, the accountant should be trained to "think"—i.e., to judge merits or faults of alternative solutions to problems now facing the profession—and to judge "what should be," rather than merely to accept "what is." "Adequate" technical training is encouraged, but it is felt (by some) that employers should be responsible for the accounting graduate's procedural skill development.

Conversely, many employers have a preference for accounting graduates with technical competence as well as conceptual training. The accounting graduate is expected to exhibit professional competence and skill almost immediately. Employers ordinarily would not expect new graduates to involve themselves, as initial assignments, in a critical evaluation of the firm's present accounting methods and procedures. By the same token, most employers would be less than enthusiastic about a treatise on the shortcomings of the accounting profession. Such theoretical considerations become more appropriate as the employee gains experience and responsibility in dealing with day-to-day problems.

On-the-Job Training

Large public accounting firms normally provide on-the-job training to further the staff's technical development. However, such training is costly, and small firms and industrial enterprises are reluctant (or lack the facility) to undertake training of this nature. Therefore, the university remains the logical medium for technical training geared to job-related responsibilities for entry-level accountants. At the same time, however, accounting students must continue to receive exposure to the conceptual framework and theoretical construct of accounting so they will be equipped to adapt and grow with the profession.

The Common Body of Knowledge

In 1967 the *Horizons*[1] study was completed in an effort to delineate the common body of knowledge needed by beginning accountants. Such accountants are not limited to public practice, but include those engaged in management accounting, government accounting, and other such occupations. Recommendations (in *Horizons*) for the common body of knowledge include the following major categories: accounting, humanities, economics, behavioral science, law, mathematics, statistics, probability and the functional fields of business.

According to *Horizons*, accounting study should result in the acquisition of both technical competence and conceptual understanding. Specific areas of accounting study would include: functions of accounting, nature of various taxes, accounting theory and concepts, information systems (including communication theory), employment of statistical inference, auditing theory (including internal control, independence, personal standards, and the code of professional ethics), types of formal organizations, application of accounting concepts to production (including cost allocations, cost centers, burden distribution, and standard costs), data processing (including the computer), and quantitative techniques.

Humanities would include history, logic, ethics, languages, arts, and both written and spoken English. The *Horizons* study concludes that knowledge of micro- and macro-economics is necessary for the beginning accountant. Also, knowledge of psychology, sociology, and individual and group behavior is useful for applying research findings in the behavioral science area to accounting problems.

According to *Horizons*, the beginning accountant should be trained to think in mathematical symbols. Since the impact of mathematics, statistics, and probability is expected to affect the practices of current and future accountants, basic (general) understanding of sampling theory, mathematically derived decision rules, quantitative methodologies, and information and control systems is desirable.

This article does not discuss specific recommendations for knowledge in the functional fields of business. Nevertheless, the following general fields are cited in *Horizons*: finance, production, marketing, personnel relations, and business management.

The *Horizons* study purposely avoids listing hours and explicit courses needed to obtain the recommended knowledge. Such determinations are to be entrusted to the academic community. However, the *Horizons* study concludes that preparation for public accounting eventually will require graduate study and some type of school of accounting comparable to those of other learned professions.

In an attempt to provide general curriculum guidance to educators, the 1969 report of the Committee on Education and Experience Requirements for CPAs (CEER) recommended that a five year program of study be required for students preparing for professional accounting careers. Four year programs would be acceptable during a transition period. Specifically, the Committee suggested:

ALTERNATIVE PROGRAMS IN ACCOUNTING[2]

General Education	**Semester Hours**	
Communication	6-9	
Behavioral sciences	6	
Economics	6	
Elementary accounting	3-6	
Introduction to the computer	2-3	
Mathematics (modern algebra, calculus, statistics, and probability	12	
Other general education	25-18	
	60	
General Business	**Five Year**	**Four Year**
Economics (intermediate theory and the monetary system)	6	6
The social environment of business	6	3
Business law	6	4
Production or operational systems	3	2
Marketing	3	2
Finance	6	4
Organization, group and individual behavior	9	6
Quantitative applications in business (optimization models, statistics, sampling, Markov chains, statistical decision theory, queueing, PERT, simulation)	9	6
Written communication	3	2
Business policy	3	3
	54	38
Accounting		
Financial reporting theory; Applied financial accounting problems; Contemporary financial issues	9	6
Cost determination and analysis; Cost control; Cost-based decision making	6	3
Tax theory and considerations; Tax problems	3	3
Audit theory and philosophy; Audit problems	6	3
Computers and information systems in business	6	4
	30	19
Electives	6	3
	150	120

The Committee recognized the challenge of its recommendations to university educators. Trade-offs would be necessary in certain areas and traditional course coverages might require adaptation. However, the CEER set a target date of 1975 for implementing their recommendation for five year educational programs to obtain the common body of knowledge. (No consideration will be given here as to whether the fifth year should be for graduate or undergraduate credit.) It is now 1975, but there has been no widespread adoption of five year programs. The Master's program in accounting exists for those who desire advanced study in accounting, but such programs do not appear to have been initiated as the result of recommendations of the CEER.

Conclusion

The question arises as to why there have been no widespread adoptions of five-year programs. The AICPA Committee on Education and Experience Requirements for CPAs certainly provided an authoritative study and adequate rationale for at least some move in the direction of a five-year study plan. Actually, while few formal programs have surfaced, the undercurrent reflects many changes in accounting course formats as an attempt to meet the spirit of the *Horizons* study and the CEER report recommendations. The shortfall exists primarily because accounting educators lack the broad academic support necessary to implement the more revolutionary arrangements.

The ability of accounting educators to design and execute the best academic package for preparing future accountants is severely restricted by the interdisciplinary governance of most business schools. Simply stated, accounting educators need more direct control or autonomy over the structure and content of curriculum matters affecting accounting students. Perhaps it is time for the broad profession of accountancy to lend its prestige and support to the goal of upgrading professional accounting programs.

PART II. SOME THOUGHTS ABOUT SEPARATE SCHOOLS OF ACCOUNTING

There are interesting stirrings in accounting education these days because of the attention accounting professors are giving to the issue of more "separateness" for accounting curriculum. The American Institute of CPAs, speaking for the profession, has also demonstrated some interest in this question.

On July 19, 1973 the AICPA's Board of Directors issued the following policy statement:

> From time to time the American Institute of Certified Public Accountants receives inquiries from educators concerning the profession's official position regarding a variety of educational matters. A recent instance was whether the Institute would endorse schools of professional accounting.
>
> The Institute recognizes that during the last several years the professional dimension of accounting as an academic discipline has suffered a decline in many schools — a decline which is of great concern to accountants. The institute views this as contrary to the public interest which requires that strong professional programs be generally available at universities throughout the United States.
>
> The Institute strongly endorses any action which provides such strong professional programs. As one way, and perhaps the preferable way, of achieving an increased emphasis on the professional dimension of the discipline, the Institute endorses and encourages the establishment of schools of professional accounting at qualified and receptive colleges and universities.

This was followed several months later by the appointment of a Board on Standards for Programs and Schools of Professional Accounting, whose charge is to:

> . . . identify those standards that, when satisfied by a school, would justify its recognition by the accounting profession. Particularly, attention should be given to the criteria for the school's curriculum which would be appropriate for a professional program in accounting.

The issue of separate schools for the preparation of prospective career accountants is not new. The fact that so many other professions rely successfully on the separate professional school arrangement is not something that is easily ignored. In general, professional schools have achieved academic respectability, have developed relevant and rigorous curriculums, have attracted, and continue to attract, capable, highly motivated students, and have succeeded in creating a meaningful and continuing interaction with the practicing arm of their related profession. Career accountants, whether academicians or practitioners, might well ask why accounting education should not be similarly organized.

If accounting education moved to emulate the arrangements of other widely recognized professions, the following substantive consequence might be expected: Accounting educators would find themselves with greater control over, (1) curriculum matters; (2) standards for student admissions, retention, and graduation; (3) faculty qualifications for selection and criteria for promotion; and (4) the resources available for accounting education. It is difficult for many among those interested in accounting to argue against such a prospective development that could give accounting educators so much additional control "over their destiny."

How much "separation?"

It is apparent that a wide variety of administrative arrangements are possible and are now in use in connection with educational programs. Most professions have opted for completely "free standing" schools having their own budget, faculty, dean, building, library, etc. Because accounting has been a part of schools (or colleges) of business administration for so long, and because many of the accounting courses are also relevant for those preparing for careers in business — as opposed to careers in accounting — a very important issue arises as to whether it is desirable to be "completely separate" in the case of accounting. Might it not be better, and more sensible as well, to explore ways for accounting to remain within the business school and yet achieve — to the extent practicable — the kind of autonomy and control that other professions have found to be desirable?

Even if it were conceded that the ideal, ultimate goal should be "free standing" separate schools, might not a wiser course by which to reach the goal be to experiment with separate schools within existing business schools? This is a question of such great importance to both educators and practitioners that it deserves high priority.

In the case of some professions, practitioners have demonstrated such great interest in preparatory education that they have earned a fairly prominent role in connection with what might be described as the pre-threshold education for professional careers. For instance, it is not uncommon for the practicing profession to figure prominently in accreditation activities. Given such conditions in some of the other professions, it seems reasonable to expect that the accounting profession would at some point undertake to explore

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Electronic Data Processing

Evidential Matter in the Audits of Computerized Rec

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The following article, consisting of two parts, deals with evidential matter in the audits of computerized records. The first part was written by the Editor of the EDP Department, Dr. Elise G. Jancura, CPA. The second part was written by Rebecca M. Lee, a graduate of Jacksonville State University and a Staff Accountant with the CPA firm of Weinberg, Ward and Beam in Birmingham, Alabama.

PART I: THE NATURE AND USE OF EVIDENTIAL MATTER IN AUDITS OF COMPUTERIZED RECORDS

The collection and subseqent use of competent evidential matter is vital to the proper execution of an audit. The introduction of computerized records does not change the need to collect and assess the reliability of that evidence, but it does often change the nature of the evidence.

In deciding which procedures should be executed for each of the steps in the audit process and the extent to which those procedures should be executed, the auditor must make judgments regarding the materiality of individual items under examination. This requires an assessment of the risk of misstatement for those items that may not necessarily be material but that require special attention because of other factors, such as their possible vulnerability to manipulation. Further, the auditor must assess the reliability of the evidence that is collected during the examination. The AICPA has analyzed the reliability of evidence as follows:

> To be competent, evidence must be both valid and relevant. The validity of evidential matter is so dependent upon the circumstances under which it is obtained that generalizations about the reliability of various types of evidence are subject to important exceptions. If the possibility of important exceptions is recognized, however, the following presumptions, which are not mutually exclusive about the validity of evidential matter in auditing have some usefulness:
>
> a. When evidential matter can be obtained from independent sources outside an enterprise it provides greater assurance of reliability for the purposes of an independent audit than that secured solely within the enterprise.
>
> b. When accounting data and financial statements are developed under satisfactory conditions of internal control, there is more assurance as to the reliability than when they are developed under unsatisfactory conditions of internal control.
>
> c. Direct personal knowledge of the independent auditor obtained through physical examination, observation, computation, and inspection is more persuasive than information obtained indirectly.[1]

In determining the procedures to be performed, the extent of examinations (a sample versus a 100 percent examination), and the timing of the execution of the audit procedures chosen, the auditor must exercise professional judgment. The exercise of that judgment will be greatly influenced by the knowledge gained of the business and its processes through the preliminary investigation and through the evaluation of the internal control. The primary function of the evaluation of internal control is to provide the auditor with evidence of the reliability of the financial statements in those instances where the auditor cannot directly verify the facts and information shown on the statement. This indirect evidence takes the form of evaluating the process by which the information of the financial statements is developed from the initial recognition of transactions through the normal processing procedures.

Where it is not possible to examine every transaction for the period under consideration — a procedure that is not feasible in most instances — the auditor must rely on a generalized test of the reliability of the records. The more effective the system, the greater the implied accuracy of the records and the less the expectation of material irregularities. The relationship between the evaluation of internal control (required by the second standard of field work) and the need for substantive tests of the data (required in the third standard of field work) is expressed in the following statement:

> . . . (T)he ultimate risk against which the auditor and those who rely on his (sic.) opinion require reasonable protection is a combination of two separate risks. The first of these is that material errors will occur in the accounting process by which the financial statements are developed. The second is that any material errors that occur will not be detected in the auditor's examination.

The auditor relies on internal control to reduce the first risk, and on his (sic.) tests of details and his (sic.) other auditing procedures to reduce the second. The relative weight to be given to the respective sources of reliance . . . are matters for the auditor's judgment in the circumstances.

The second standard of field work recognizes that the extent of tests required to constitute sufficient evidential matter under the third standard should vary inversely with the auditor's reliance on internal control. These standards taken together imply that the combination of the auditor's reliance on internal control and on his (sic.) auditing procedures should provide a reasonable basis for his (sic.) opinion in all cases, although the portion of reliance derived from the respective sources may properly vary between cases.[2]

An auditor who finds a strong system of internal control can place a greater degree of confidence in the records and other internal material examined. Thus, the basic audit plan can be modified as to the extent of other verification procedures depending on the evaluation of the reliability of the record-keeping process.

The evaluation of the system of internal control can help to spot weaknesses in the accounting process and help the auditor to formulate specific procedures for testing those areas where it is felt that a probability of errors exists. In performing the additional tests of transactions and balances in the client's records, it is important that the auditor keep in mind that, while the audit trail has changed substantially in form, it does continue to exist. Legally, installations are required to provide (at least for the Internal Revenue Service) the opportunity to trace any transaction back to the original source or forward to a final total. As part of the original diagnostic investigation of the business and the evaluation of the internal control, the auditor should become familiar with the specific form of audit trail to be found in the particular organization being audited, and should take advantage of that audit trail in formulating the procedures to test the transactions and balances of the client's records.

Notes

[1]*Statement on Auditing Standards,* paragraph 330.08, pp. 56-57. Copyright ©1973 by the American Institute of Certified Public Accountants, Inc.

[2]*Statement on Auditing Standards,* paragraphs 320A.14-15, 320A.19, pp. 39-40.

PART II: THE EDP EFFECT ON EVIDENTIAL MATTER

The Committee on Auditing Procedures of the American Institute of Certified Public Accountants describes the third auditing Standard of Field Work as "Sufficient competent evidential matter must be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination."[1] Evidence obtained from EDP equipment for an audit is vital, and the importance cannot be over-emphasized since the opinion of the auditor is based upon the validity, relevance and competence of the evidence.

In the future, the auditor will be required to go to the computer system for evidence. Accounting data will be integrated with non-accounting data, and the books, ledgers, and computer printouts familiar to the auditor will no longer exist. Traditional support documents will not be as accessible to the auditor. In some cases, they may not exist at all. Where they do exist, they may not be stored in a manner permitting easy retrieval. Procedures will be specified and implemented by the system, and authority may be partially or entirely contained within the system. The system will authorize and prepare the output document normally associated with an accounting system and used by the auditor.

The primary difference in using EDP for audits as compared to conventional audit procedures is the manner in which the records are kept. For that reason, those audit techniques which do not directly relate to the records will be unchanged. Thus, the auditor can still confirm receivables, payables, bank balances, et cetera, and make other third party checks on the system. The existence of inventory and other assets can be physically observed.

Those audit techniques relating to the records will be unchanged, but new techniques will very likely resemble present techniques. "As Gordon B. Davis pointed out, 'an audit trail will continue to exist because management will require one for its own purposes. The form of the trail may not be familiar, but, where a trail exists, the auditor can use it for his (sic.) own purposes.' "[2]

It is evident that natural evidence is not challenged even with an unfamiliar audit trail; therefore, created and rational argumentation evidence produced by the computer must be carefully analyzed to give proper weight to the evidence produced by the computer. New techniques will become available to the auditor where all data is stored within the system in a common data bank. The all-important problem is internal control. The auditor must assure himself/herself that the system is sufficiently strong to provide reliable output from the system.

Control procedures are concerned with the integrity of the data, data files and program integrity. Integrity of data and data files relate to control over the input and output functions to insure that data is correctly introduced into the system and to insure control over tapes and files so that they are not destroyed or tampered with. Program integrity includes the separation of the duties of preparing and running programs from the physical control over the program tapes and backup records so that programs are not altered, accidently or purposely.

The four standards set forth in *A Statement of Basic Accounting Theory* by the American Accounting Association provide the criteria to be used in evaluating evidential matter. As always, the major criteria in evaluating evidence is the source from whence it originated. These are:

1. Relevance
2. Verifiability
3. Independence
4. Quantifiability[3]

Relevance is the primary standard and requires that the information must bear upon or be usefully associated with actions it is designed to facilitate or results desired to be produced. Known or assumed informational needs of potential users are of paramount importance in applying this standard.

Verifiability requires that essentially similar measures or conclusions would be reached if two or more qualified persons examined the same data. It is important because accounting information is commonly used by persons who have limited access to the data. The less the proximity to the data, the greater the desirable degree of verifiability becomes. Verifiability is imporant because users of accounting information sometimes have opposing interests.

Freedom from bias (independence) means that facts have been impartially determined and reported. It also means that techniques used in developing data should be free of built-in bias. Biased information may be quite useful and tolerable internally, but it is rarely acceptable for external reporting.

Quantifiability relates to the assignment of numbers of the information being reported. Money is the most common but not the only quantitative measure used by

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Financial Statements

The "New Look" in Financial Statements

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New Look

Annual reports are acquiring a new look faster than are men and women's fashions. The reports now flowing through the mails contain few of the elaborate productions of the past years and have acquired a niggardly approach. The information contained in these reports is also changing in form and content. Some of the new data appear as a result of new SEC requirements. Other data appear because stockholder groups are demanding more information on financial and social issues. Annual meetings face challenges by organized stockholder groups and public interest law firms seeking to force more disclosure of corporate policies. Auditor's opinions often contain three paragraphs: Lewis Gilbert, New York stockholder advocate, warns, "If the certifying statement is longer than the normal two paragraphs, watch out. The third paragraph is likely to be telling you something is wrong."

Fewer Frills

The recession and the SEC have brought a new look to corporate annual reports. 1974 reports contain fewer pages, fewer pictures, are smaller in size, and are no longer the handsome productions of the past years. The covers of the annual reports and the tone of the shareholder's letter often reflect social issues and business moods. For several years prior to 1974 the cover of the Procter and Gamble Company annual report had a colored picture with a dozen or more colored pictures inside. Those reports stressed the environment and consumerism. For example, one of the reports devoted four pages to "Toward a Better Environment" and another contained a five-page section titled "P&G Manages Forests for the Future." In contrast, the 1974 report is an austere document; the black and white cover contains only the P&G trademark. The state of the economy is the central topic of discussion inside.

Economy appears to be the watchword for 1974 reports. Litton Industries, for years the pacesetter of unusual annual reports, may have started the trend with its report for the fiscal year ended July 31, 1974. Remember its "masterpiece" that was more than 200 pages long and contained full color reprints of many great art treasures? Its latest report is a 64 page black and white booklet without a single picture. The financial statements show a $40 million loss and contain a crisply worded review of operations.

General Motors with its 1974 profits down by 61% trimmed its annual report by 46%, from 52 pages to 28, and cut its color pages by 64%, from 31 to 11. First Pennsylvania Corp., a financial holding company that recorded a 19% drop in per-share earnings, packages its annual report in a brown-paper-bag cover imprinted with the shrinking 1974 dollar bill — one quarter the size and value of its 1950 counterpart. Electric company reports are especially spartan. Cincinnati Gas and Electric Co. has only a few black-and-white photos and sketches of its operations. Some utilities have cut out all art work in their reports.

The record for the year's smallest annual report goes to GAF Corp., which has reduced its 36-page booklet to a 4 x 6-inch microfiche card. That's not the way shareholders will receive the report, however. GAF is using the card to demonstrate filmmaker GAF's belief that most newspapers, books and reports will arrive like this someday. (A microfiche that size can hold 98 letter-size pages; an ultrafiche can hold up to 8,000 pages.)

Economy and declining fortunes may not be the only reason for the low-key look. The president of one of major corporate report publishing concerns believes that the companies want to be blue-chip again. He explains that in the go-go years of the stock market, chief executives wanted readers of their annual reports to think that their companies were among the glamorous growth companies. But, in today's uncertain times, "sound and stable are now adjectives that company officers want financial audiences to tack onto their companies."

More Data

Corporations this year are publishing more statistics and more financial details than ever before. The main impetus for this is that the SEC made sweeping changes for annual reports. The SEC now requires:

1. Financial statements certified for two fiscal years instead of one.
2. A five-year summary of financial results, where none was required before.
3. Management assessment of its financial information.
4. A brief description of the company's operations and those of its subsidiaries.
5. Breakdowns of results by lines of business or classes of product.
6. Identification of each high execu-

tive officer and director and their principal occupations.

7. Name of the market where the stock is traded, high and low sales prices quarterly for the last two years and dividend data for two years.

In addition, each report must state that the 10K report is available from the company to any stockholder on request and without charge. *What is the 10K?* The SEC Act of 1934 requires most publicly held companies to file an annual report with the SEC on Form 10K. This report includes financial statements, schedules, and other data which involve activities of the company for the period covered by the report, the due date is 90 days after the close of the period. Incidentally, 8 copies must be filed and there is a filing fee of $250.

What is found in the all-important 10K? Detailed balance sheet and operating data are included. The business "done or intended to be done" must be described each year, not just when there has been a change. If the company engages in several lines of business, each line is broken down by sales and earnings. This allows shareholders to see if any of the lines of the business are losing money, and to determine the most profitable divisions. The annual report of the Cincinnati Equitable Insurance Company discloses that 56% of the reported earnings resulted from its ownership of a subsidiary. The investment in the subsidiary, reported on the equity basis, accounted for only 10% of total assets. The president's letter explained that the tornados that swept through Cincinnati on April 3, 1974, resulted in unusual losses incurred by the casualty insurance division. Thus, he attempted to explain the rate of return on total assets of the parent as compared to the rate of return on its investment in the subsidiary.

The 10K also provides data about the purchase or sale of plant and equipment and the method of depreciation used. In it one can find the state of incorporation and the address and telephone number of the principal executive offices; this information is not always found in annual reports. It also reports the amount of research and development and tooling costs. Detail is provided on any litigation in which the company is engaged. It will tell much about the competitive position of the concern and something of its problems, matters that are sometimes played down in annual reports. For example, the Consolidated Edison Company discusses the deteriorating customer payment patterns in its 10K in explaining why accounts receivable from customers increased by 271% in a four and one-half year period. The report states "the company estimates that a substantial portion of this increase is due to deteriorating customer payment patterns. A measure of this deterioration is the age of the accounts receivable."

Some enterprising managements anticipated the SEC requirement that the 10K must be made available to stockholders and are sending out the 10K in lieu of the annual report. However, this practice is rare and for large companies probably will never become the accepted practice. Many 10Ks are more than 100 pages in length; the printing and mailing expense could be substantial. It is also doubted by many that the average stockholder would read beyond the opening pages. The requests for 10Ks by stockholder's have been negligible. Some companies, such as Weyerhaeuser, the lumber giant, and Browning-Ferris Industries, a Houston-based waste collection firm, included the full 10K with their reports.

If the annual report incorporates the 10K, it may tend to become dull and drab. The Outboard Marine report shows that this can be avoided, since it is both aesthetically pleasing and informative. The report has the usual attractive picture on the cover. Four pages in the front of the statement are devoted to financial highlights and the usual messages from the chief executives. The next 22 pages consist of the 10K and the last four pages cover "The Year in Review," a list of officers, and other statistical data. Naturally, this method of combining the 10K and annual report results in some economies. However, managements must weigh these savings against postage costs and additional printing expenses; most 10Ks are much larger than the 22-page 10K section for Outboard Marine.

More Disclosure

For the first time a more meaningful breakdown of sales figures by classes of products and a discussion of subsidiary operations will be found. Many of the companies acquired in the "merger fever" of the late 60's and early 70's have not met earnings expectations. A major weakness of some annual reports of the past (and of some present reports) has been the absence of information on how former independent companies are doing after the merger. Eli Lilly & Co. doesn't say a word in its letter to stockholders about Elizabeth Arden Co., which it fought to acquire four years ago. Not until 30 pages into the report does one find that Arden's operations "reduced" Lilly's net income in 1974 by $3.9 million. The report says nothing about Arden's losses.

Campbell Soup sets the pace for the right kind of disclosure in its annual report. It states, "Approximately one-third of the total increase in the company's sales for fiscal 1974 represented an increase in volume, with price increases accounting for the remaining two-thirds." However, it says nothing of how well formerly independent companies are now doing under the Campbell banner. These include Pepperidge Farms and Swanson.

Warning: Read between the lines and look hard

Even with the new era of more information, there are guidelines for reading annual reports that may prove useful. Look carefully at the footnotes. Bad news is very often hidden or explained there. Explanations and footnotes may not be written in readable English. Remember that when companies have had a good year they will tell you straight out. When they haven't the language of reporting may become contrived. The key in the letters to shareholders is the phase: "Year of transition." When you see that you can expect lower earnings. If the transition is upward, the reports speak of continued growth instead of "transition." Since the annual reports are intended for the lay person, corporations should seek to eliminate vague and confusing language. The following quotations originated with Alfred Eris, of Alfred Eris Associates, Inc., a New York public relations firm. For example, Topps Chewing Gum finds it hard to say "Our products are selling well." Instead, it declares "Our established products continue to exhibit strong consumer acceptance." Chief executive officers are reluctant to admit that they are bewildered by international developments. Instead they "consider" and "evaluate;" the Masoneilan International report reads "High rates of inflation . . . balance of payment problems . . . shortages of material are being considered and evaluated." Why can't reports be written in simple terms? Why does "We are going to do our best" come out as "We intend to continue to merit the faith our customers have placed in us?"

Beware — A three Paragraph Auditors' certificate

The auditor's report usually consists of two highly stylized paragraphs summarizing what the auditor checked and what was found. But the 1974 annual reports are often going beyond the tradi-

(Continued on page 31)

Personal Management

Planning A Career In Public Accounting

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The successful Certified Public Accountant or Public Accountant must be technically competent, but to maximize success the practitioner must also possess the ability to obtain new and retain present clients. Public accounting is a very competitive profession and the successful individuals in the profession strive for an image which will aid in practice furtherance.

Where physical assets are important to the growth of a business, we encourage our clients to increase the investment to accomplish growth. Since our major asset is ourselves, we should in turn invest in ourselves.

The first investment should be in appearance. Many clients are not in a position to thoroughly evaluate technical competence and probably take appearance into consideration in the evaluation of the practitioner. The time and money necessary to achieve the neat, businesslike appearance of a professional will pay dividends through a better rapport with clients.

The next investment should be in making business and social contacts. These contacts can strenghten your relationship with present clients and offer opportunities for obtaining new clients. You can make these contacts by establishing yourself in various activities and organizations around your community. Your selection should be based on what you enjoy and also those which allow you to meet business and community leaders. Some examples of these activities and organizations are charitable organizations, professional organizations and social clubs.

Charitable organizations need the assistance of qualified business people and they provide a means of becoming established in the community. Professional women are especially in demand for positions on boards of directors and in other leadership roles. Many women boards of directors, such as the YWCA boards, are looking for business women to serve on their boards. Other organizations such as United Way, colleges and universities generally want women represented on their boards. There are many other volunteer jobs available with charitable organizations ranging from working with juveniles to handicapped to elderly people. Any of these volunteer jobs will aid in the development of your image in the community and should give you the opportunity to meet community leaders.

Local chapters of professional organizations such as the American Society of Women Accountants, State Societies of Certified Public Accountants and the National Association of Accountants are excellent ways to establish yourself in the community. These organizations give you the opportunity to develop leadership potential and provide many opportunities for exposure in the community in addition to their primary purpose of furthering the accounting profession. Estate planning groups normally consist of accountants, attorneys, bankers and insurance specialists; these groups provide excellent contact opportunities with other professions.

Social club memberships include country clubs, tennis and other sports-oriented membership and private clubs with dining and meeting facilities. The time you spend at such a club should depend on how much time you want to spend with the other members and how involved you want to be in the activities. It need not be a major commitment.

Many businesses seeking the services of Certified Public Accountants and Public Accountants select accountants they know or those recommended by attorneys, bankers, and other members of the business community.

In conclusion, our product is our service which cannot easily be separated from the individual performing the services. To increase the marketability of a product, it should be tastefully packaged and an investment must be made to familiarize the buying public with the product. The practitioners who follow this concept have a definite advantage in maintaining and/or expanding their practices.

Reviews

Writings in Accounting

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"AND NOW: THE 'GUTSY' ANNUAL REPORT," Arlene Hershman, DUN'S REVIEW, Vol. 105, No. 3, March 1975.

This article by Arlene Hershman deals predominantly with recent reporting requirements enacted by the Securities & Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB), and the effects of these requirements on both annual reports and investor confidence. Under guidelines issued by the SEC in December of 1974, financial reports of publicly held companies are required to include a "management analysis" of company operations. Companies are also required to include additional information pertaining to such things as stock prices, operational highlights, and contract revenue disputes with the government. These new requirements, coupled with recent FASB rulings on research and development expenditures, are calculated to provide the investing public with more information than ever before. It is pointed out, however, that despite the additional availability of information, the investor must still calculate risks and forecast results of future operations. The usefulness of such information is therefore still dependent upon the capabilities of the individual investor or investing entity.

In addition to requirements set forth by the SEC and the FASB, the author draws attention to the problems of reporting on investment portfolios which have been depressed far below cost, and the current liquidity difficulties which are being experienced by many firms. The author points out that Arthur Andersen announced in January of this year that it would give only "qualified" opinions to companies that reported their investments above market value. Additionally, auditors are apparently less willing to give clean opinions to companies that are experiencing extreme liquidity crises which could eventually threaten their very existence. Both situations are viewed as additional indications of the independent public accountants' reluctance to further strain their already weakened credibility.

In closing, the author questions two aspects of the new trends in financial disclosure. She notes that despite the new requirements there is no way to insure that management's disclosures will be straightforward and candid. Additionally, there is some question as to whether or not investors will make use of the newly required information. One must concede the validity of both points. It is important for one to remember, however, that while these changes are not perfect or all encompassing, they are steps in the right direction and, regardless of whether investors use all, part, or none of the new information, it is important that they at least have such information available.

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"ADJUST YOUR ACCOUNTING FOR INFLATION," Frank T. Weston, HARVARD BUSINESS REVIEW, Vol. 53, No. 1, January-February 1975.

"The urgent need to measure and disclose the impact of inflation or deflation on individual business entities should take priority over all other accounting changes." Such is the contention of Frank T. Weston, partner of Arthur Young and Company, visiting professor at the Harvard Business School and former Accounting Principles Board member. Weston notes that the accounting profession has been slow to respond to continuing complaints from users of financial statements that, because of the effects of inflation, historical costs do not give a true picture of present economic reality. It is his belief, however, that financial accounting and reporting methods can be modified to give both managers and investors the information they need about the impact of inflation. Looking into the immediate future, he foresees at least some limited progress in meeting this challenge.

Weston concentrates in his discussion upon the two modifications of accounting methods presently receiving the most attention as possible solutions to the problem of reporting the effects of inflation: price-level adjusted financial statements and current value statements. He predicts a continuing growth of interest in and use of both. Careful to emphasize the basic differences between the two, Weston reviews the concepts underlying each approach and the benefits to be derived from each by users of financial statements.

Although he agrees that price-level adjusted statements which restate assets on the balance sheet in current dollars are useful, Weston recommends restatement of the beginning-of-the-year balance sheet in end-of-the-year dollars with resulting adjustments of the income statement including a general price-level gain (or loss). He finds the information produced by this approach more useful to both managers and investors. The manager can look to this kind of statement for aid in making lease-buy decisions or in determining the most advantageous time for selling-price increases. The investor can look at price-level adjusted statements and better judge how well the company is minimizing the effects of inflation. Observing that the AICPA has looked with some favor on price-level adjusted statements for several decades, Weston advocates requiring supplementary price-level adjusted data in financial statements beginning January 1, 1975.

He is more reluctant, however, to advocate current value statements which, he explains, present current values of all assets and liabilities, abandoning the cost principle entirely. Noting the growing interest in and experimentation with current value statements, he concentrates in his discussion on some of the unanswered questions which hamper implementation of this modification: how should current values be determined? how much reeducation of users will be required if current value statements are to come into widespread use? Despite this contrast in attitude toward two potential solutions to the problem of reporting the effects of inflation Weston concludes that both approaches are "steps in the right direction."

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Memphis State University

"THE COMPANY SOCIAL AUDIT," David F. Fetyko, MANAGEMENT ACCOUNTING, April 1975.

The growing awareness in the past decade of what has come to be called "the social responsibility of business" has led to the development of a new phenomenon presently receiving considerable attention in business and industry — the company social audit. Pressure groups in the 1960's (environmentalists and consumer advocates among others) demanded that business recognize and accept this social responsibility. The response of business has evolved from early reports which often simply advertised the company's good deeds (in hopes of staving off outside interference with management policies) to the present interest in the issuance of an actual social audit report. Such a report can, the author contends, provide information useful to both the public and management. The public, including the various pressure groups, can look to the social audit report for information needed to judge a company's "social performance." Management can make use of the audit results to evaluate past performance and set future goals and objectives.

Despite the present interest in the company social audit, the idea is still in the developmental stage. Some experimentation has been done and some social audits have been conducted, but many questions remain unanswered. The term social audit is as yet only vaguely defined, and much refinement of techniques and methods will be required. Among the basic questions still to be decided is who would bear the cost of the audit. At this time the government, public interest groups, and research organizations as well as the company itself have been suggested as possible sources of funding. Who should make up the audit team? It has been suggested that accountants might be joined by lawyers, economists, sociologists, business executives, and psychologists in conducting the audit. How can social responsibility be measured? This question appears to. be the most difficult to answer.

There does seem to be some agreement, however, that one of the first audit steps should be the preparation of an inventory of socially relevant activities. This in itself will be a difficult task. Disagreement is likely among the various members of the audit team with their varying viewpoints as well as among the audit team, top management, the government, and the public interest groups. Once the inventory is complete, the team will probably find information difficult to capture. When such obstacles have been overcome, what form will the report take? Several alternatives have been suggested, each with some inherent weaknesses or stumbling blocks. The author recognizes that little precedent has yet been set on how to conduct a social audit and report its results; however, he believes that experience, experimentation, and trial and error will eventually provide the answers.

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"TOWARDS GREATER COMPARABILITY IN ACCOUNTING REPORTS," Lawrence Revsine, FINANCIAL ANALYSTS JOURNAL, Vol. 31, No. 1, January-February 1975.

Certified public accountants have had a dilemma for several years: they have persistently permitted different corporations to choose among various alternative accounting methods in presenting their financial statements. However, one of the major objectives of financial reporting is to provide financial data for meaningful inter-firm comparisons.

Dr. Revsine believes that two factors contribute most to the problem of non-comparability between financial reports of different companies. First, historical cost figures for assets differ because of the timing differences in the original purchases. Secondly, discretionary allocations of costs and revenues must be made when preparing income statements and balance sheets. These two factors create artificial differences in the financial position and operating performance of different firms.

Dr. Revsine believes that although perfect comparability between firms is not possible, attempts to improve comparability are well worth the effort. Accounting can provide information users with sufficient comparable data to form their own estimates of enterprise value. This enterprise value is composed of (1) the value of a firm's tangible assets and (2) the discounted present value of the firm's expected future extraordinary profitability. In order to arrive at meaningful assessments of these two values, the underlying data for the determination of each value must be comparable across firms.

Whenever a firm makes discretionary choices among competing acceptable accounting alternatives, APB Opinion No. 20 requires that the alternative chosen must be disclosed. However, that same Opinion does not require firms to isolate the differences in dollar amounts of profit or financial position arising from the choice of the one over other alternative accounting methods.

Dr. Revsine believes that this situation is very unfortunate since evidence indicates that the market and financial analysts will use such information, if available, in determining security prices. Users of accounting information can and will overcome the non-comparability resulting from discretionary allocations if they are provided with the necessary data to effect a reconciliation.

In a similar manner, the author believes that information users would be receptive to market values for tangible assets if this information is provided to them. He contends that market values should be provided to information users, as such values have the potential to eliminate artificial disparities caused by timing differences of asset purchases. Market values would also eliminate the need for artificial differences in the determination of profit caused by discretionary cost allocations.

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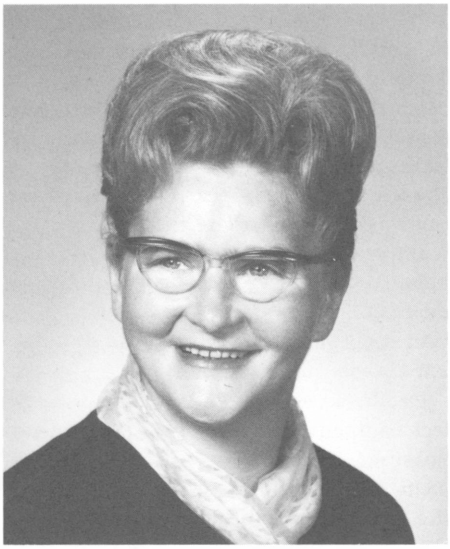

Small Business

S-T-R-E-T-C-H-I-N-G The Accounting Dollar

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This column is based on a manuscript submitted by Norma Yoder of the Los Angeles Chapter of the American Society of Women Accountants, entitled, "How a CPA Firm Can Hold Small Accounts – and Make Money With Them."

THE MONEY SQUEEZE

With the cost of living — and the cost of doing business — going up steadily, small businesses are feeling the bite and cinching in their expenses. High on the list of expenses viewed with an eye toward economizing are accounting services. Still small businesses generally feel that they need the expertise of a CPA to handle the consulting and tax work.

Accounting firms realize that something must be done to strike a good balance between quality accounting services and economy. It is a well-known fact that small business clients require a good bit more service than the large well-staffed businesses, and some of the time charges that an accounting firm may incur — and has to charge for — are for services that do not necessarily require the skill of a trained accountant.

Bookkeeping services may well be the answer in cases where the small business does not have the staff to prepare the journals of original entry, such as Cash Receipts, Cash Disbursements, Sales Journal and Purchase Journal, and to post these to the General Ledger. Oftentimes, the charge per hour made by bookkeeping services is quite reasonable, and since their personnel is usually well trained in basic bookkeeping, they are efficient and accurate.

Firms of individuals offering bookkeeping services are very much interested in write-up work and accounting firms are relieved of time-consuming detail and can concentrate on the type of work which is commensurate with their special training and skills — and their fees.

Bookkeeping services are available in many different ways. There are firms who employ a number of full-charge bookkeepers, and they often have a large clientele of small business firms. In some areas, bookkeeping firms are now hiring salespeople and solicit business very actively. Then, there are individuals who like to work out of their homes, rather than be tied down to a full-time job, or who want to do extra work at home or "moonlight".

Ordinarily, the firm or individual rendering the bookkeeping service bills the small business client directly, but the arrangements could be made through the accounting firm so long as the client understands that there are two different and distinct services involved.

The small business benefits by obtaining the needed services at rates that vary with the degree of technical knowledge required.

GOOD RECORDS.......A MUST

No question about it . . . record keeping is with us to stay . . . and growing. Many bookkeeping services and accounting practices are going to small computers, timesharing or working with service bureaus to cope with the ever-increasing volume of records. They can handle not only the general ledger, receivables and payables, but they do billing, create subsidiary ledgers, write the payroll and prepare payroll tax records, as well as produce sophisticated finished financial statements for presentation to the client.

Computers also can replace costly bookkeeping departments in small businesses that need to cut expenses. An appalling 80% of new businesses go bankrupt in their first year and the failures are usually attributable to several factors, with the following ranking high on the list:

1. Poor record keeping;
2. Excessive expenses;
3. Locked-in income, with no way of increasing sales.

Causes #1 and #2 seem to go hand-in-hand, since small businesses often feel that they cannot afford to get professional help and their own personnel — in many instances — is inadequate in number of inadequately trained to keep records that accurately reflect the transactions and the financial position of the operation. The expense of utilizing outside services can be kept down by splitting the bookkeeping and the accounting and tax-related functions. If the bookkeeping service is made aware of the fact that it is working under close supervision of an accounting firm, the concept will work very well.

Cause #3 is not accounting-related, but, drawing on their special training and experience with many other clients, the accountants may be in a position to advise the client and suggest changes in marketing techniques and approaches, diversification or economies in production.

A WORKABLE SYSTEM

Here is a concept developed by a CPA firm which utilized both handwritten bookkeeping and two types of computer systems. It is easily adaptable to a bookkeeping service or for use by the personnel of a small business.

The system consists of a three-ring binder which is divided into 9 sections, as follows:

SECTION 1: Chart of accounts.
While this appears self-explanatory on the surface, the development of a good and flexible chart of accounts should be given time and thought. The chart should provide for additions in logical sequence and a numbering system that can easily be converted to computer use, if and when desired.

SECTION 2: Financial statements.
This section can be very "busy", especially where comparisons between periods are helpful. Periodic financial statements show up trends, peaks and slacks, times to expand and times to contract, as well as providing a good basis for cash flow statements and forecasts. Statements may be called for only on an annual basis, they may be prepared on a quarterly interim basis plus an annual certified statement, or they may be unaudited statements prepared monthly, quarterly or less often.

SECTION 3: Journal entries.
Oftentimes these are pencil copies of journal entries that are made at year-end, or they may be "standard" journal entries that are required each time financial statements are prepared, such as accruals of payroll, payroll taxes, general taxes, depreciation and insurance write-offs, and cost of sales based on a percentage of sales. Where computers are used, these would be the input sheets for processing.

SECTION 4: Assets
This section will contain periodic bank reconciliations, schedules of prepaid insurance, records of physical inventory counts, aged accounts receivable schedules and depreciation schedules. These supporting workpapers are very helpful in checking financial statements, whether they originate as a trial balance in a hand-posted system or are run off by computers. They have to be kept neatly and brought up-to-date at regular intervals.

SECTION 5: Liabilities and equity.
This section is very similar to section 4 since it contains the detail behind the figures on the balance sheet, this time on the liability side. Among the more important schedules are records of notes payable, accounts payable, mortgages, accruals of interest, taxes and those operating expenses that have not been recorded as accounts payable.

Records reflecting the equity or the net worth of the business vary with the type or form in which the business is conducted. Obviously, corporations require different equity records than partnerships and sole proprietorships. A schedule of the changes in the retained earnings of a corporation is not only a necessary, but also a very interesting document. In the case of partnerships or sole proprietorships, a record of draws against the earnings of the business must be kept.

SECTION 6: Income.
In addition to schedules showing sales by line, this section would contain such related papers as sales tax returns.

SECTION 7: Expenses.
Naturally, not every category of expense "deserves" a schedule to be placed in this section. However, very important schedules are payroll, payroll taxes, general taxes, professional fees, advertising and business promotion, etc. Each business has a different list of expense accounts that require analysis at the end of the year, and it is a great deal easier to maintain schedules on a month-to-month or quarter-to-quarter basis. Usually, the accounting firm will designate the expense account schedules to be maintained — mostly those that are required to be listed in detail on the Federal and State tax returns.

SECTION 8: Working trial balance.
In a hand-posted bookkeeping system, this section would contain the trial balances taken off the general ledger to prove that it is in balance. If computers are used, this section would contain the input sheets prepared from the various journals, with "proof" tapes attached to prevent out-of-balance down-time when they are processed.

SECTION 9: Audit notes.
This could easily be the most important section of all since it should contain notes on any out-of-the ordinary transactions. Also, this would be the "Permanent File" containing the history of the company, such as date of inception of the business, officers' or partners' names and Social Security numbers, percentages of ownership and percentages for distribution of profits (in a partnership), a checklist of services to be performed and a record of time spent on the work for the client — which becomes the basis for billing.

Of course, there is room for variety in the use of these binders. Different people have different concepts of priorities, but it appears that the information accumulated in these sections is basic and necessary. This system can work very well especially where the bookkeeping service takes care of most of the work throughout the year and the accounting firm is utilized primarily at year-end for the preparation of financial statements and the required tax returns.

When this three-ring binder or a similar record is kept conscientiously and up-to-date at all times, there should be significant savings in the time that the accountants have to spend in their year-end audit and tax preparation. Thus, they can concentrate on the type of services for which they are best qualified and which should benefit the small business beyond the mere requirements of record-keeping.

Small businesses do need a good system of record keeping and a good tax advisor. And they do need to cut costs wherever possible. The bookkeeping service and the accounting firm can be a most helpful team.

Tax Forum

Highlights of the Tax Reduction Act of 1975

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GUEST WRITERS: This column is the work of Peter W. Minges, CPA, and Charles R. Scheper of Price Waterhouse & Company in Cincinnati.

Mr. Minges is a graduate of Ohio State University and manager in charge of tax practice. In addition to being a frequent speaker before professional and business organizations, Mr. Minges has lectured on accounting and taxation at several colleges and universities in the Cincinnati area.

Mr. Scheper graduated from Thomas More College in Northern Kentucky with a BA in Accounting and an Associate Degree in Computer Science. He is currently a member of the audit staff.

After weeks of deliberation in both the Senate and House of Representatives, a Congressional Conference Committee, in a compromise measure, drafted an historic $24.8 billion tax bill bearing tax cuts and rebates. The basic provisions of the new bill, signed into law by President Ford on March 29, are listed and summarized below. If the reader requires a detailed analysis of the Act, a recognized tax reference service or a competent tax advisor should be consulted.

I. INDIVIDUAL

A. Income Tax Cuts and Rebates:

1) Generally, taxpayers will receive a 10% rebate of their 1974 income taxes, subject to certain minimum and maximum limits. The minimum rebate amount would be the lesser of $100 or the taxpayer's 1974 tax liability. The maximum would be $200 (including married couples), but this amount would be reduced by $1 for every $100 of adjusted gross income between $20,000 and $30,000. For example, an average couple with two children will receive rebates as illustrated below, depending on their income level.

Adjusted Gross Income	Average Tax Rebate
$10,000	$100
15,000	170
20,000	200
25,000	150
30,000 and above	100

In the case of married persons filing separate returns, the rebate limits would be cut in half for each spouse. This provision applies only to taxpayers' 1974 tax liability. According to IRS sources, the first rebate checks will be mailed in May with the bulk of them mailed by late June.

2) A one-time tax credit of $30 for the taxpayer, his/her spouse, and each dependent will be subtracted directly from the 1975 tax liability.

3) A 10% rebatable tax credit will be given on earned income in 1975 up to $4,000 a year for families with children. The credit is phased out at a rate of 10% for adjusted gross income above $4,000, so that it is completely eliminated at $8,000.

4) The current $1,300 low-income allowance or minimum standard deduction for those persons not itemizing their deductions is increased to $1,600 ($1,900 for married couples filing joint returns) with a maximum percentage standard deduction of $2,300 for single persons and $2,600 for married couples. The 15% standard deduction is increased to 16%, which, together with the increase in the low-income allowance, will result in lower withholdings beginning May 1. The increases in the low-income allowance and standard deduction apply to 1975 only.

5) Child care deductions remain as an itemized deduction instead of a business expense which would be available to persons not itemizing. The maximum deduction remains unchanged at $4,800 for work-related child care expenses; however, the limitations have been liberalized. According to the new legislation, expenses can be deducted up to the maximum for a family earning $35,000 or less (up from $18,000). The limit is phased down so that taxpayers with ad-

justed gross income over $44,600 (up from $27,600) will not benefit from the deduction. This provision is effective for taxable years beginning after March 29, 1975.

B. Social Security:

Every recipient of Social Security, supplemental security income, and railroad retirement benefits will receive a $50 payment on a one time basis.

C. Housing:

After much debate, the conferees adopted a Senate provision to allow a 5% tax credit, up to $2,000, on the purchase price of a new home (including mobile homes) bought between March 12 and December 31, 1975. The house, however, must have been built or under construction as of March 25, 1975. Taxpayers claiming the credit must attach to their returns a certification by the seller that the purchase price paid by the buyer is the lowest price at which the new residence was ever offered for sale.

Also, the length of time in which proceeds from the sale of a taxpayer's residence must be reinvested to defer recognition of gain on the sale has been lengthened to 18 months (from 12) and to 24 months (from 18) for taxpayers constructing a new residence.

II. BUSINESS

A. Business Taxes — General:

1) The investment tax credit for business equipment purchased between 1/22/75 and 12/31/76 is increased to 10% up from 7% (4% for utilities). The ceiling for used equipment eligible for the credit is doubled from $50,000 to $100,000. Corporations have the option of taking an 11% investment tax credit instead of 10%, as long as the tax benefit from the extra percentage point is contributed to an employee stock ownership plan in the form of the corporation's common stock or securities convertible into common stock. Cash may also be used.

2) The corporate tax burden is reduced for calendar year 1975 only, by increasing the corporate surtax exemption from $25,000 to $50,000 and reducing the rates on the first $25,000 from 22% to 20%. The next $25,000 would be taxed at 22% instead of 48% with the excess over $50,000 taxed at 48%. For example, a corporation would pay reduced taxes, as illustrated below depending on its level of taxable income.

Taxable income	Old tax rates	New tax rates	Tax savings
$10,000	$ 2,200	$ 2,000	$ 200
20,000	4,400	4,000	400
30,000	7,900	6,100	1,800
40,000	12,700	8,300	4,400
50,000	17,500	10,500	7,000
75,000	29,500	22,500	7,000

Fiscal year corporations will follow a pro ration formula to apply these provisions to their two taxable years having months within calendar 1975. In addition to this measure, designed to help small businesses, the basic exemption from accumulated earnings tax is increased from $100,000 to $150,000.

3) Companies are eligible for the work incentive (WIN) credit of 20% of an employee's salary, who is a welfare recipient, after only one month of employment, reduced from one year, subject to certain other special rules.

B. Oil and Gas Depletion:

The 22% percentage depletion allowance is eliminated for the major oil companies, but is retained in limited form for certain small producers. The 22% allowance for the first 2,000 barrels per day (BPD) of oil or 12 million cubic feet per day of gas is available for the small producers. This deduction, however, will decrease in each future year beginning in 1976 by 200 BPD for oil and 1.2 million cubic feet of gas per day.

The phase-down will end in 1980, when the 22% depletion allowance will be permitted on the first 1,000 BPD of oil and 6 million cubic feet of gas produced daily. The 22% rate will then gradually be decreased until it reaches 15% in 1984, a level at which it is to remain indefinitely.

C. Foreign Source Income:

The new tax law places more stringent taxing requirements on multinational companies regarding "tax-haven" income (i.e. holding company earnings, reinsurance of credit life insurance, and income earned in one foreign country where the title is passed in another). Also, the Act eliminates the minimum distribution exception for taxation of subpart F income with the effect being to tax currently all income considered to be tax haven income under the subpart F rules. Previously, tax-haven income wasn't taxed unless it exceeded 30% of a company's foreign gross income. This limit has been reduced to 10%. Furthermore, the new law eliminates the exclusion of dividends, interest and capital gains from foreign base company income if received from, and reinvested in, less-developed countries. Finally, the law stipulates that shipping and aircraft income will be taxed by the U.S. as earned unless reinvested in shipping operations. These provisions will be effective for taxable years beginning after December 31, 1975.

D. Foreign Source Income for Oil and Gas:

Petroleum companies whose tax years end after December 31, 1974, will have to compute their foreign tax credit on an overall basis, in lieu of the alternative per-country basis. Also the company cannot take a tax credit in a country in which it has no economic interest in an oil field. The credit, however, would be allowed for companies providing lifting or other service operations.

For foreign tax credit purposes, foreign income taxes paid with respect to foreign oil and gas extraction income are limited to a percentage of such income. The percentage is based on the U.S. corporate tax rate and will be 52.8% in 1975, 50.4% in 1976 and 50% in 1977.

An investment tax credit will no longer be allowed for the purchase of drilling rigs designed for use outside of North America.

III. SUMMARY

The new tax legislation represents a concerted effort on behalf of the Congress to soften the current effects of the recession by boosting the buying power of nearly every American. This discussion, in addition to aiding you in your interpretation of this new tax law, hopefully will assist you in your tax planning for the future.

Theory & Practice

Pronouncements and Other Developments

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FINANCIAL ACCOUNTING STANDARDS BOARD

The FASB issued two more Statements of Financial Accounting Standards and three interpretations of its statement on Accounting for Research and Development Costs. These are, of course, in addition to several exposure drafts of proposed statements and a discussion memorandum on Criteria for Determining Materiality which will be summarized in the future as these projects are finalized.

Statement No. 4

Statement No. 4, entitled Reporting Gains and Losses from Extinguishment of Debt (an amendment of APB Opinion No. 30), provides that if such gains and losses in the aggregate are material, they shall be classified as an extraordinary item, net of related income tax effect.

This treatment shall be accorded debt extinguishment whether it is early, at the scheduled maturity date, or after the scheduled due date. However, gains or losses from cash purchases of debt instruments made to satisfy current or future sinking fund requirements are not to be treated as extraordinary items. Some obligations to acquire debt have the characterisitics of sinking fund requirements. For example, if an enterprise is required to purchase each year a certain percentage of its outstanding bonds before their scheduled maturity, the gain or loss from such purchase is not required to be classified as an extraordinary item. On the other hand, debt maturing serially does not have the characteristics of sinking fund requirements, and gain or losses from extinguishment shall be classified as an extraordinary item.

Adequate description of the transactions resulting in the gains or losses from extinguishment of debt shall be shown on the face of the earnings statement or in a note to the financial statements to enable users of the financial statements to evaluate the significance of the gains or losses. The sources of any funds used to extinguish debt if identifiable, the income tax effect in the period of extinguishment, and the per share amount of the aggregate gain or loss net of related income tax effect shall be disclosed.

Retroactive application of the provisions of this Statement are not required. It is effective for extinguishments occurring after March 31, 1975; however, the following should be noted:

- It need *not* be applied to extinguishments occurring on or after April 1, 1975 pursuant to the terms of an offer or other commitment made prior to that date.
- Application to *all* extinguishments occurring during a fiscal year in which April 1, 1975 falls is encouraged.
- Retroactive application to extinguishments occurring in prior fiscal years is encouraged but not required.

Further, retroactive application is not intended to change the accounting for amounts deferred on refundings of debt that occurred prior to the effective date of APB Opinion No. 26 (January 1, 1973) or the classification of the amortization of these amounts in the statement of earnings.

Accounting for Contingencies, FASB Statement No. 5, defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur. All uncertainties in the accounting process do not give rise to contingencies as the term is used in this Statement. For example, estimating the life of a depreciable fixed asset or the liability for services rendered but not billed involves a degree of uncertainty, but no uncertainty exists as to the fact that the asset's life (usefulness to the business) will end or that a liability has been incurred.

Criteria for accruing an estimated loss by a charge to earnings are two, both of which must be met:

- Information available prior to issuance of the financial statements indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statement (the end of the most recent accounting period for which financial statements are being presented). It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

- The amount of loss can be reasonably estimated.

Disclosure requirements are given for losses accrued, contingencies not accruable because both criteria are not met, and events giving rise to losses occurring after the date of the financial statements but before the date of the auditors' report.

Catastrophe and self-insurance reserves, as well as reserves for general contingencies, are eliminated, since under the criteria losses are accruable only after the event giving rise to the loss has taken place.

An appropriation of retained earnings is not prohibited providing it is shown within the stockholders' equity section of the balance sheet and is clearly identified as an appropriation of retained earnings. Losses shall not be charged to an appropriation of retained earnings, and no part of the appropriation shall be transferred to earnings.

This Statement is effective for fiscal years beginning on or after July 1, 1975. Earlier application is encouraged. Any changes in accounting principle resulting from its application are to be made by a cumulative effect adjustment in accordance with APB Opinion No. 20 and not by restatement and prior period adjustment, as proposed in the exposure draft of this Statement. Reclassification of an appropriation of retained earnings to comply with the requirement that such appropriation must be within the equity section of the balance sheet shall be made in any financial statements for periods before the effective date of this Statement that are presented after the effective date of this Statement.

Although possible gain was included in the FASB definition of contingency, the provisions of paragraphs 3 and 5 of Accounting Research Bulletin No. 50 were not reconsidered by the FASB. Those paragraphs of ARB No. 50 which, therefore, continue in effect provide generally that contingencies that might result in gains usually are not reflected in the financial statements and, while disclosure of such contingencies may be made, care is required to avoid misleading implications as to the likelihood of realization.

Insurance companies strongly opposed elimination of the castastrophe reserve. The "income smoothing" effect of such a reserve had been discussed previously by the AICPA and the Accounting Principles Board. In January, 1973, the SEC issued ASR No. 134 which, while not taking a position opposing such a reserve, required specific disclosure of the impact of following this accounting practice on the balance sheet and statement of earnings.

Statement No. 2

FASB Statement No. 2, Accounting for Research and Development Costs, concluded that all research and development costs encompassed by the Statement shall be charged to expense when incurred. Costs of research and development conducted for others under contractual arrangements and those specifically reimbursable under the terms of a contract, as well as costs related to exploration and mineral development in the extractive industries are excluded.

The Statement is effective for fiscal years beginning on or after January 1, 1975.

The required expensing of Research and Development Costs is to be applied retroactively by prior period adjustment. This also means that when a statement of earnings includes one or more prior periods in addition to the current period:

- Companies changing to a policy of expensing Research and Development Costs as incurred in accordance with the Statement are to restate all prior periods presented to reflect as expense the Research and Development Costs incurred in each of these prior periods.
- Companies who during any of the prior periods presented changed from a policy of deferring and amortizing Research and Development Costs to one of expensing as incurred in accordance with APB Opinion No. 20 are to eliminate the cumulative effect amount and restate the periods prior to the change to reflect Research and Development Costs as incurred in each prior period.
- Companies who during one or more of the prior periods presented completed the amortization of previously deferred Research and Development Costs are to restate these prior periods to reflect Research and Development Costs incurred in each period.

Of course, in all of these restatements elimination of the amortization previously taken and adjustment of the provision for income tax are also required.

The Statement also requires that disclosure be made in the financial statements of the total Research and Development Costs charged to expense in each period for which an income statement is presented. Companies who have not previously capitalized Research and Development Costs, as well as those who have, should revise their accounting systems to the extent necessary to accumulate their Research and Development Costs as defined in the Statement to comply with this disclosure requirement.

Three interpretations of the Statement have been issued. They are generally effective on or after March 31, 1975. As usual earlier application is encouraged; however, none of these interpretations are to be applied prior to initial application of the provisions of FASB Statement No. 2.

Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method (FASB interpretation No. 4) applies the "alternative future use" tests to assets that are acquired in a purchase business combination for use in the Research and Development activities of the combined enterprise. Accordingly, amounts assigned to purchased tangible or intangible assets would be charged to expense when the combination is consummated unless the asset has an alternative future use. Application of this Interpretation to Business Combinations accounted for by the purchase method (a) is required for business combinations initiated after March 31, 1975, (b) is encouraged for combinations initiated prior to April 1, 1975 and consummated after March 31, 1975 (application may be applied selectively to those combinations) and (c) may be applied to combinations initiated and consummated prior to April 1, 1975; however, if a company chooses to apply this Interpretation to those combinations it must be applied retroactively to all business combinations accounted for by the purchase method that were consummated prior to April 1, 1975.

Applicability of FASB Statement No. 2 to Development Stage Enterprises (FASB Interpretation No. 5) requires that Research and Development Costs be charged to expense as incurred if a development stage enterprise prepares conventional financial statements (as opposed to those special financial statements commonly referred to as Article 5A statements) or if its financial statements are included, either by consolidation or by the equity method, in conventional financial statements. Further, when a development stage enterprise commences operations and begins issuing financial statements in the conventional format, the provisions of FASB Statement No. 2 shall be applied retroactively by prior period adjustment. It should be noted that FASB Statement No. 2 is applicable to Research and Development Costs but not to other similar costs such as preoperating and start-up. This Interpretation is effective on March 31, 1975, for fiscal years beginning on or after January 1, 1975.

Applicability of FASB Statement No. 2 to Computer Software (FASB Interpretation No. 6) provides that:

- Costs incurred to acquire or develop computer software that is to be used in an enterprise's selling and administrative activities are not Research and Development Costs.
- Costs incurred to purchase or lease computer software developed by others are not Research and Development Costs unless the software is for use in research and development activities, in which case such costs are to be charged to expense as incurred subject to the "alternative future use" tests.
- All costs incurred for the internal development of software for use in research and development activities are to be charged to expense as incurred.
- If computer software is developed internally as part of a new process (for example, software to accompany a computerized typesetting machine), or if software developed internally is itself a marketable product or process (for example, software to be used by a service bureau), costs incurred for conceptual formulation or the translation of knowledge into a design are Research and Development Costs. Programming and testing costs in connection with these purposes are also Research and Development Costs when incurred in the search for or evaluation of product or process alternatives or in the design of pre-production models.
- Costs incurred for programming and testing are not Research and Development Costs when they are incurred for routine or other ongoing efforts to improve or adopt an existing product to a particular need.
- Costs of developing software for others under a contractual arrangement is beyond the scope of FASB Statement No. 2.

This interpretation is effective for fiscal years beginning on or after April 1, 1975. Retroactive application of this Interpretation, and therefore, restatement of prior fiscal years, is encouraged but not required.

Accounting and Reporting by Development Stage Companies, the second exposure draft of a proposed Statement resulting from the discussion memorandum and subsequent public hearings on research and development and similar costs, is presently being accorded "second level" priority by the FASB.

FORECASTS AND PROJECTIONS

The AICPA has been dealing with the problems of financial forecasts in three parts. Guidelines for preparing financial forecasts and developing forecasting systems have been published by the Management Advisory Services Division. The Accounting Standards Division has distributed an exposure draft of a statement of position containing guidelines for presentation and disclosure of financial forecasts. Comments on this exposure draft are currently being considered. Guidelines for reviewing and reporting upon financial forecasts are being drafted by the Auditing Standards Executive Committee.

The Securities and Exchange Commission has now issued its proposed economic projection rules. These proposed rules generally follow the conclusions set forth in a release issued by the SEC after its public hearings to gather information for a reassessment of its policy of prohibiting projections, except that the proposed rules include disclosure and reporting standards for a "reviewer's report". The SEC had previously concluded that a statement of verification of a projection by a third party should not be permitted.

Differences between the AICPA's approach and that of the SEC will have to be resolved, but it is possible that forecasts or projections will be seen in annual reports and in SEC registration and reporting forms in the not too distant future.

ACCOUNTING STANDARDS DIVISION

From time to time the AICPA's Accounting Standards Division issues Statements of Position relating to accounting for specific items or to accounting in certain industries. The portions of these statements which relate to auditing procedures and the auditors' report are "authoritative;" however, the portions which relate to accounting principles and financial reporting are considered recommendations to the FASB.

The latest of these statements were Accounting Practices in the Mortgage Banking Industry and Revenue Recognition When Right of Return Exists. In addition to the guidelines for presentation and disclosure of financial forecasts, a proposed statement on accounting practices of real estate investment trusts is being prepared.

Editor's Notes

Once a year the Editor devotes her column to an introduction of the two women who will serve as presidents of our two sponsoring organizations. For the 1975-1976 administrative year Lois C. Mottonen, CPA, will serve as President of AWSCPA and B. Jean Hunt, CPA, will serve as President of ASWA.

Ms. Mottonen is a native of Wyoming and graduated with honors from the University of Wyoming. She has served in various positions in the Audit Division of the Internal Revenue Service and is now Chief of the Collection and Taxpayer Service Division for the State of Wyoming.

She is a member of the AICPA, the Wyoming Society of CPAs, AWSCPA and ASWA. She was instrumental in organizing the Cheyenne Chapter of ASWA and served as its first president.

Because of the personal benefits Ms. Mottonen has gained through her affiliation with AWSCPA she believes that the organization can be a vital force in the personal and professional lives of all its members. She thinks that the tremendous increase in AWSCPA membership during the past two years and the rapidly changing conditions in the business world and in the accounting profession call for a reappraisal of the activities of AWSCPA to determine whether they meet today's needs.

Ms. Mottonen therefore plans to foster closer associations among AWSCPA members, both through organized programs and projects and through informal meetings of members throughout the country. She also wants to encourage greater involvement of members in society activities through committee work and contributions to the AWSCPA Newsletter and *The Woman CPA*. And, to make sure the society functions for the benefit of its members, she will actively solicit comments and suggestions from the members for the guidance of the officers.

Ms. Mottonen also hopes that AWSCPA can make meaningful contributions towards the goals of International Women's Year. In her opinion much needs to be done yet: the Equal Rights Amendment is not yet passed, equal pay is not yet a reality, a women's influence in politics is still negligible and behind that of many civilized countries. She thinks that AWSCPA can add meaning to the objectives of the International Women's Year: security, development, and peace.

Ms. Hunt, the incoming president of ASWA, is a native of Alabama and a graduate of the University of Alabama. She holds a CPA certificate from the State of Alabama and is the only woman partner among the nine partners of Dudley, Hopton-Jones, Sims & Freeman, a CPA firm in Birmingham.

She is a member of the AICPA, the Alabama Society of CPAs, AWSCPA, and ASWA. She is a charter member of the Birmingham Chapter of ASWA and served as its first vice president and its second president.

The emphasis of Ms. Hunt's year as president of ASWA will be on growth: growth in numbers and unity, growth in knowledge, and growth in integrity.

For Ms. Hunt growth in numbers and in unity means more members in more chapters working in unison towards common goals. She thinks that ASWA chapters have proven to be very valuable in the cities where they are located in improving the image of women in accounting. But more chapters are needed, and stronger chapters are needed. "The young women who are just beginning their careers in accounting," says Ms. Hunt, "must be made aware of the advantages of a national organization which can exert much more influence than a single individual can."

Growth in knowledge, in Ms. Hunt's opinion, is necessary for every accountant; for a woman accountant it is crucial since women are not allowed to be average but must still prove their superior ability. She therefore thinks that it is essential for women accountants to be proficient and up-to-date on technical accounting matters and that association with ASWA can help members to grow in knowledge.

Growth in integrity means to Ms. Hunt the realization that accountants are professional and must adhere to the Code of Professional Ethics. She thinks that women accountants must take their ethical responsibilities seriously in order to make sure that they will continue to be given equal consideration for jobs, not only in accounting but also in management.

Education
(Continued from page 14)

whether it should become similarly involved with the accreditation of accounting curriculums and/or separate schools of professional accounting. Concerning this matter, the following position taken by Robert G. Allyn, prominent in the accreditation activities of the New York State Board for Public Accounting, should not be overlooked: "Too long has the profession of public accountancy referred to itself as the youngest of the professions. The profession is old enough to assume the responsibility faced by all learned professions to establish standards by which schools turning out candidates for the profession are accredited."[3]

Conclusion

Because the existing professional schools, such as law, dentistry, and medicine, are apparently performing so satisfactorily, (there being no move underway to return or relocate their educational programs to some other school or division of the university) it would seem sensible for all practitioners to show their interest in the question of separate schools. Such interest should not be thought of as a challenge to the prominent role so rightly held by the accounting educator, but as an indication of the practitioner's continuing obligation to help his or her profession better meet its responsibilities to society.

Therefore, the current stirrings that are perceptible these days, relating to the issue of separate schools of accounting, are welcome. Hopefully, both educators and practitioners will perceive this to be a substantive issue worthy of their joint consideration.

Notes

[1]Robert H. Roy and James H. MacNeill, *Horizons for a Profession* (New York: AICPA, 1967.)

[2]*Report of the Committee on Education and Experience Requirements for CPAs* (New York: AICPA, 1969), p. 58.

[3]Robert G. Allyn, "Accreditation of Accounting Curriculum," *The Accounting Review* (April, 1966).

EDP
(Continued from page 16)

accountants. When accountants present non-quantitative information in compliance with the other standards they should not imply its measurability. Conversely, when quantative information is reported without a caveat the accountant must assume responsibility for its measurability.

Of the four, the audit function is most concerned with freedom from bias. The auditor must obtain evidence to determine the existence and effectiveness of the processing procedures and controls of the client. This is done by making tests of the performance of specific control procedures. The nature and availability of evidence and the types of tests to be performed depend upon the complexity of the system design and upon the audit trail found in the electronic data processing system being audited. The auditor must evaluate the reasonableness of those records produced by the system which relate to the existence and proper valuation of assets, liabilities, equities, and transactions. Historically, the records evaluated have consisted of printed reports, listings, documents, and business papers, all of which were readable by the auditor. To the extent that such records are available in EDP systems, the auditor may use conventional methods. Much of the output of the computer is in machine-readable form, discs, and drums. Even though this can be converted to readable printout, the auditor is presented with an opportunity to use the computer to analyze records.

Computer audit programs can assist in the performance of auditing procedures such as selection of exceptional transactions and accounts for examination; comparison of data for correctness and consistency; checking of information obtained directly by the auditor with company records; performance of arithmetic and clerical functions; and preparation of confirmations.

The audit program is an important development in recent years. It is a prewritten audit program. Of these, AUDITAPE is best known by virtue of its being the first to be made publicly available. Later arrivals have been AUDITPACK, AUDASSIST, AUDITHRU, AUDITRONIC-16, and AUDEX. All are similar in objectives and scope, though diverse with regard to the methodology.

Prior to introducing the new EDP audit techniques, several audit policy decisions were made. Objectives were primarily aimed toward broadening the scope of audit activities, particularly in the area of testing management information. Rather than transferring existing clerical audit procedures to the computer, it was decided to use the power of the computer to identify and report exception situations. The auditor will review exceptions to determine whether deviations from management policy exist. These basic policies provide the justification for adoption of the EDP audit methods. It was further decided that testing EDP controls, such as crossfooting and balancing, could be best accomplished by the computer itself — under the control of audit software. Members of the audit staff rather than programmers from the EDP department would develop, test, and operate audit applications. This maintains auditing independence.

It can reasonably be concluded that, with the exception of the audit trail, EDP auditing has more advantages than disadvantages. The ideal situation may have emerged from EDP — maximum services with a minimum of expense.

Notes

[1]Felix Kaufman, "The Computer, The Accountant, and the Next Decade," *The Journal of Accountancy*, Vol. 132 (August 1971), p. 34.

[2]"Auditing On-Line Computer Systems," *The Journal of Accountancy*, Vol. 132, (October 1971), p. 76.

[3]American Accounting Association, "Report on the Committee on Basic Auditing Concepts," *Accounting Review*, Vol. 47, (Supplement, 1972), p. 19.

Accounting to the Rescue

(Continued from page 10)

to *Love's Labor's Won*; however, the binding of the book by hand had required the use of some high quality material which turned out to be a portion of an inventory accounting record of a stationer, Christopher Hunt, "who in August, 1603, was doing business in Exeter and subsequently by 1607 had moved to Paternoster Row in London."

In the inventory, consisting of several manuscript leaves, Mr. Hunt (or his scribe) had a good deal of data relating to other matters, and there are even some pencil notations of a later generation; but the important point is that the inventory clearly reveals that there was in print in 1603 a Shakspere play called *Love's Labor's Won.* Actually, *Love's Labor's Lost* is an older play from the standpoint of proof. All of the plays in the stock of the book seller are listed in Elizabethan English and the quality and price of most of the items are presented. Thus, an accounting document has assisted importantly in quieting much of the speculation on this subject.

The most important historical gap still remaining is whether *Love's Labor's Won*, after being published under that title, was later used by Shakspere in plays after 1603. Mr. Baldwin describes vividly his detective work in trying to settle for all time this remaining questionable point by exercising his large understanding of Shakspere; and by logical analysis, Mr. Baldwin comes to the end of his detective story with the following conclusion: "We have left, therefore, as suspicious characters *Measure for Measure,* and *All's Well that Ends Well.* In character, pattern, etc., *All's Well* is closest of all the plays to *Love's Labor's Lost,* so that I have long considered it to be the most likely candidate. But this mention in 1603, while it eliminates some plays entirely and others probably, yet it does not indicate directly whether *Love's Labor's Won* survives at all, nor if so under what title. Consequently, there would be no point to reviewing here all the suggested identifications of *Love's Labor's Won* with various plays of Shakspere. Simply, we are now assured that in August, 1603, there was in print a play called *Love's Labor's Won,* which Meres attributes directly to Shakspere, as does our stationer by indirection. If a copy of *Love's Labor's Won* is ever discovered, it is not likely to be exactly the folio version of *All's Well.*"[5]

Perhaps the moral of all this is that computer tapes of today's inventories of *Oklahoma* and *South Pacific* should be preserved for curious scholars of the Twenty-fifth Century!

Notes

[1]See especially: Johnston, D.L., "Was Shakespeare an Accountant?" *Canadian Chartered Accountant,* Nov., 1954, pp. 276-8. Also printed in *New York Certified Public Accountant,* July, 1956, p. 432-5. Also, see "Shakespeare Was an Accountant." *Accountancy,* May, 1964, pp. 395-6, reprinted in the *Woman CPA,* September 1969, pp. 4 & 10. And, Pritchard, R. T., "Shakespeare and Accounting." *The Accounting Review,* January, 1946, pp. 67-70.

[2]This is the spelling preferred by T.W. Baldwin, a noted scholar, in his attractively decorated thin (42 pages) volume published in 1957 by the Southern Illinois University Press, Carbondale, Illinois. Mr. Baldwin has published at least four other works on Shakspere.

[3]Francis Meres was a divine and minor writer of the period, who wrote in 1598 his *Palladis Tamia*. The reference to *Love's Labor's Won* may refer to *T'e Taming of the Shrew,* per Craig & Bevington, Editors, *The Complete Works of Shakespeare,* revised edition, Glenview, Illinois: Scott Foresman & Company, 1973, p. 1305. See also reference to the "mysterious" *Love's Labor's Won* on page 1307. Another reference on p. 1312 indicates that it is unlikely that *Much Ado About Nothing* is the same play as *Love's Labor's Won*. On page 1316, there is a reference to the "intriguing" *Love's Labor's Won* and they reject the possibility that it is the same as *All's Well that Ends Well* because of the dating and first registration of the latter play.

[4]Meres spells it *Love labours Wonne*.

[5]Quoted by permission from page 15 of Mr. Baldwin's book.

Financial Statements

(Continued from page 18)

tional two paragraphs and are presenting "qualified" opinions, signifying serious reservations about the companies' financial statements. No one is keeping a count of this years' qualified opinions, but the increase is widely acknowledged. The management partner of one of the big eight accounting firms is quoted in a recent *Wall Street Journal* article: "Qualified opinions are three times as numerous as they were a year ago. We're writing qualifications on companies that have never had them in their entire existence." Typically, the auditors are using the middle paragraph to highlight uncertainties. Previously these might have been buried in a footnote. The accountants are hesitant to venture hard-and-fast judgments about many of the imperceptibles that companies face. Accountants have always acknowledged that annual reports are filled with uncertainties and rely on estimates and judgment. Accountants are now attempting to impress this practice on the public. They are giving qualified opinions for a whole range of reasons, but the majority deal with uncertainties as to asset realizations. Leading business publications are warning the shareholders to beware of a "Subject to" clause in the auditor's report. When such a phrase appears one should read the report carefully and especially the footnote to which it refers.

Social Reporting

More reports are devoting space to explaining company policies for civic and social betterment. This aspect of annual reports will be covered in a later issue.

Conclusion

Annual reports are changing. The process is more evolutionary than revolutionary. In many cases the changes are being dictated by the SEC. Few accountants or shareholders question whether the additional disclosure is *good;* the real concerns rest on the additional costs necessary to effect the new disclosures.