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# Reviews - Writings in Accounting

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## Writings in Accounting

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**Books**

*Social Responsibility Disclosure: 1977 Survey of Fortune 500 Annual Reports,* Ernst & Ernst, Cleveland, Ohio, 1977, 55 pp.

Ernst & Ernst conducts an annual survey of the annual reports to shareholders of the *Fortune* 500 industrials for disclosures on social responsibility. A trend is continuing to develop whereby increasing numbers of companies are making social responsibility disclosures. During 1977 the survey identified 456 companies — 91.2 percent of the lastest *Fortune* 500 — as having made some form of social responsibility disclosure in their annual reports.

The survey identifies the location and amount of the disclosures. In this latest survey, the average space devoted to social responsibility disclosure declined to .41 page from .52 page the previous year, but remained significantly above the .27 page reported in the 1975 survey. Locations include the letter to shareholders; a separate minor section of the annual report; a separate booklet distributed to the shareholders with the annual report; or other sections such as financial highlights, new product development, captions of photographs, and financial statements. The survey indicated increased consistency in disclosing socially responsible activities. For example, over the five most recent years, 211 companies have consistently provided some social responsibility disclosure in their annual reports; this statistic is comparable with 160 companies identified in the 1976 survey (a 32 percent increase).

The survey classifies and summarizes information into a format that allows the reader to compare the nature of a company's social responsibility disclosure with that of other *Fortune* 500 companies. Ernst & Ernst feels there are no standards and guidelines for reporting socially responsible activities. However, quantification improves the disclosure by specifying the effort of a company in a particular area of social responsibility. The 1977 survey revealed that 55.2 percent of the *Fortune* 500 companies provide either monetary or non-monetary quantification in their social responsibility disclosure.

Topics of the social responsibility disclosure cover a wide range — from support for community activities and the hiring of women and minorities to the promotion of environmental protection and energy conservation. Social responsibility is classified according to the following seven general categories with detailed subdivisions:

A. Environment
B. Energy
C. Fair Business Practices
D. Human Resources
E. Community Involvement
F. Products
G. Other Disclosures

The survey also indicated the number of companies using each of the twenty-seven detailed categories, with examples of the disclosure.

In summary, this booklet contains a synopsis of the results of the 1977 survey with illustrative examples. A separate Ernst & Ernst publication, the *Compilating of Social Responsibility Disclosure,* which is available on request, contains the details of the survey for each of the *Fortune* 500 companies.

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*Accounting Goes Public,* Morton Levy; University of Pennsylvania Press, Philadelphia, Pa., 1977; 169 pages (cloth cover), $10.95.

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The author is the founder of Accountants for the Public Interest (API) and while the author discusses the reasons for and recounts the problems in the formation of API, the book is much more than just a history of this organization. The growth in "consumerism" and similar public interest movements had been rapid in the 1960's and 70's, and Levy, along with others, thought it remarkable that, while accountability for public officials and public projects was constantly discussed, "accountants themselves had rarely been called upon to help implement it." When important decisions concerning environmental matters, education needs, public financing, etc., had to be made, there was little understanding of the financial implication by the public.

In 1972, Levy and some associates established API of San Francisco. They accepted as clients groups meeting the requirements that an organization (1) must be invoved in a charitable or educational endeavor, (2) must be unable to pay for accounting services, and (3) must accept the fact that objectivity and independence is crucial to the members of API in providing their services as accountants.

Over one-half of the book is devoted to a discussion of cases that have been accepted by API. These include health care hospitals, the equity of tax rates, and equitable allocation of bond issue proceeds. Two cases that merit special mention are a discussion of the proposed airport expansion for San Francisco and the development of a model accounting and reporting system for political candidates. These cases are unusual and very interesting.

Levy concludes with a discussion of the future for public interest accounting groups. He sees a real need for concerned professional accountants in providing the necessary information for the decision makers in the public sector — whether elected officials or the voters.

The book is well-written and should be of interest to a wide range of persons. All of these cases are well-documented and complete, yet are not tedious to follow. Levy's discussion of the cases is technical enough to satisfy those who want many details of the studies, but light enough to be of interest to those with less accounting background.

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*American Geographical Society's Symposium on Geographical Aspects of Inflationary Processes*, Peter B. Corbin and Murray Sabrin, editors; Redgrave Publishing Company, Pleasantville, NY; Vol. 1, 64 pages, Vol. 2, 65 pages, $11.90.

These two rather thin paperback books include the thirteen papers presented at the American Geographical Society's first symposium on the Geographical Aspects of the Inflationary Process, along with a foreword by Paul A. Samuelson, an introduction by the editors and opening remarks by Robert McNee, the director of the American Geographical Society. The director feels that the conference represents another step in the cooperation at the interface of geography and economics and that the topic is of great social importance as well as an intriguing intellectual subject. Henry Hazlitt in "Why Inflation Is Worldwide" concludes that the impact of inflation is influenced more by where one is politically and the currency used than the geographic location. Extensive trading and other relations between nations make geography itself less important than the currency and political considerations.

This reviewer particularly enjoyed a paper by Henry Fishkind on "The Regional Impact of Monetary Policy; An Econometric Simulation Study of the Indiana Economy (1958-1973)." The author points out that while states are affected quite unequally by monetary policy, the Federal Reserve conducts the policy as if no regional differences exist. As a result, he concludes citizens of some states have to bear more of the brunt of an economic slow-down than others.

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**Articles of Interest**

"Common-sense Accounting for Inflation," John C. Biegler, *Financial Executive*, Vol. 45, No. 12, December 1977, pp. 32-37.

Another plea for a solution by accountants to the problem of reporting financial data, particularly the income statement and the balance sheet, in periods of intolerable inflation is made by John Biegler, senior partner of Price Waterhouse & Co. The writer makes a strong defense of the traditional reporting in historical dollars as objective, understandable to statement users, and interwoven into U.S. legal and tax structures. He feels that the Lifo method will generally take care of reporting of cost of sales in current dollars, and that supplementary statements adjusted for the general purchasing power (GPP) of the dollar as determined by the GNP Price Deflator are the best solution to the reporting problem created by price inflation.

Biegler feels that current value accounting should be rejected because this method uses imaginary costs of inventories, depreciation based on hypothetical future costs for replacement, and creates valuation reserves that look like entity capital. He feels that the struggle to comply with the SEC's Accounting Series Release No. 190 has provided evidence of the impracticality of the current value methods.

Biegler feels that supplementary GPP statements are the practical approach to the problem of inflation accounting and could fulfill the object of useful statements if the presentation were kept simple, with the emphasis placed on the overall impact of inflation instead of precision of calculation, and segregation of price level gains and losses is made, particularly the price level gains on long term obligations. He advocates simplification of preparation of the statements wherever possible.

This reviewer feels that this is a well written plea for a simpler, less expensive solution to inflation accounting than the replacement cost accounting that is currently receiving more attention. The reviewer also feels that the financial community has not heard the last of the argument concerning the best solution to accounting for inflation.

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"Those Pension Plans Are Even Weaker Than You Think," A. F. Ehrbar, *Fortune*, Vol. 96, No. 5, November 1977, pp. 104-114.

The alarming size of the unfunded vested benefits of the pension plans of ten extreme corporate examples is contrasted with pension fund assets, net worth of the corporation, and recent market value of the common stock in this very timely article. The variability of actuarial methods used to calculate the amount of benefits and the assumptions concerning growth of wages and earnings on pension fund assets used with those methods are criticized as further underestimating the unfunded vested benefits. Particularly, the low wage increases often assumed is contrasted with the interest rate assumption which usually exceeds the "riskless" interest rate. The author points out that the real risk is not to the employees covered by the pension plan, since the advent of ERISA and the insurance provided by the Pension Benefit Guaranty Corporation (PBGC), but to the stockholders of the firm granting the pension. Since PBGC required that other members provide pensions for the retired employees of bankrupt firms, the cost may be spread to other firms.

This reviewer views this article as sobering for two reasons: 1) it highlights one of the areas of accounting where alternatives need to be reduced and 2) unfunded pension benefits could become a potential drag on reported net income and consequently stock prices.

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