Woman C.P.A.

Volume 47 | Issue 1 Article 11

1-1985

# Woman CPA Volume 47, Number 1, January 1985

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

# The Woman CPA

JANUARY, 1985 VOLUME 47, NUMBER 1

## Current Problems in Governmental Revenue and Expenditure Recognition

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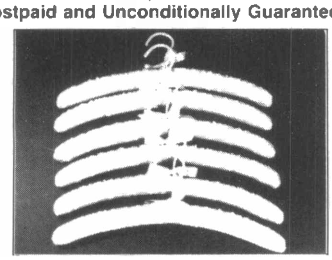

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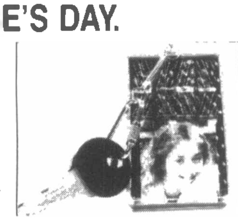

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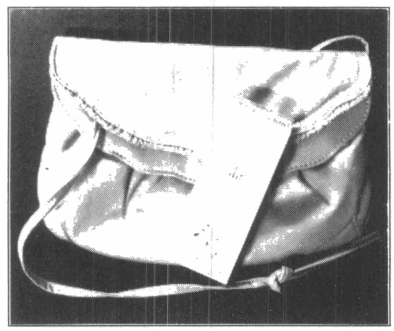

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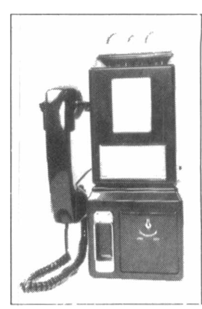

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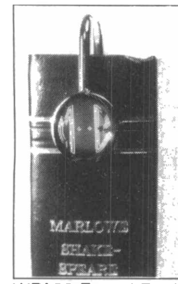

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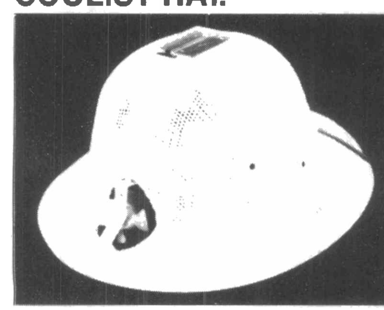

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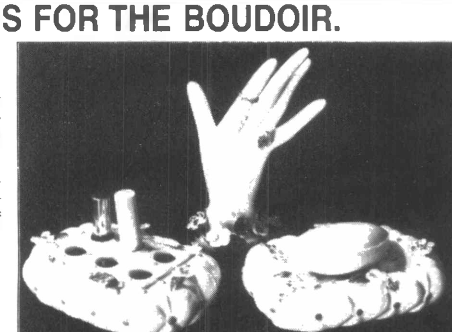

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# The Woman CPA

ISSN 0043-7271

JANUARY, 1985 VOLUME 47, NUMBER 1

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Cover Illustration by Donna Overberg



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POSTMASTER Send address changes to THE WOMAN CPA, 6600 Clough Pike, Cincinnati, OH 45244

Change of address notices must be sent to Circulation Department giving both old and new addresses and zip code numbers. Please allow four weeks notice

Manuscripts should be addressed to the Associate Editor Manuscripts Letters to the Editor news items and other materials should be sent directly to the business office Manuscript guidelines available upon request All manuscripts are reviewed

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# Editor's Notes

## Annual Report

Each fall at the joint annual meeting (JAM) of AWSCPA and ASWA the editor of *The Woman CPA* gives an annual report. For those readers who were unable to attend that meeting and who might be interested in the highlights of that report, I am presenting excerpts from my annual report given this past October at the Atlanta JAM.

Four quarterly issues of *The Woman CPA* were published in 1984. The average printing run was 13,850 issues. Deadlines have been moved up so that the issues are in the mail the last week of the month prior to the issue date.

During 1984 the journal included 19 major articles and 6 articles contributed for the departmental columns for a total of 25 articles. Ten of these articles were written or co-authored by members of ASWA and AWSCPA. Twenty-four male authors made contributions as compared with 14 female authors. Many articles are co-authored; hence the number of authors exceeds the number of articles. Of those 38 authors, 34 were from academia, 2 were from public accounting and 2 were from industry.

Broken down by subject the articles fell into the following categories:

- 12 on accounting principles, theory and practice,
- 5 on accounting education and the profession,
- 3 on taxation,
- 1 on auditing,
- 1 on electronic data processing, and
- 1 on governmental accounting, and
- 2 book reviews.

Twelve letters to the editor were received of which ten were published. I would have liked to publish the other two but was unable to contact their writers to obtain their permission to publish. One letter was highly complimentary regarding a feature article and I did send a copy of it to the authors of that article. The other writer stated that he thought we had a nice balance between technical and nontechnical articles.

New advertisements during 1984 included Rossford Shirt, Executive Woman Catalog and Marcoin Business Services. For the first time, the October issue contained a classified ad section.

And for puzzle fans, the October issue contained an accounting word search puzzle.

The covers are designed by Donna Overberg, a commercial artist. She has designed us some very attractive covers illustrating the featured articles.

Seven requests for reprints were received during the past year. Three reprint requests were for use of the articles in another journal and or newsletter. A consulting firm requested one article for use in a management training program for an accounting firm. Two requests were for the use of material and tables in textbooks to be published.

At the time I gave my report, early October, all manuscripts for the January 1985 issue had been sent in for typesetting. In addition we had a backlog of eleven acceptable manuscripts plus two in the review process. The staff had worked exceptionally hard during 1984 because we were deluged with manuscripts.

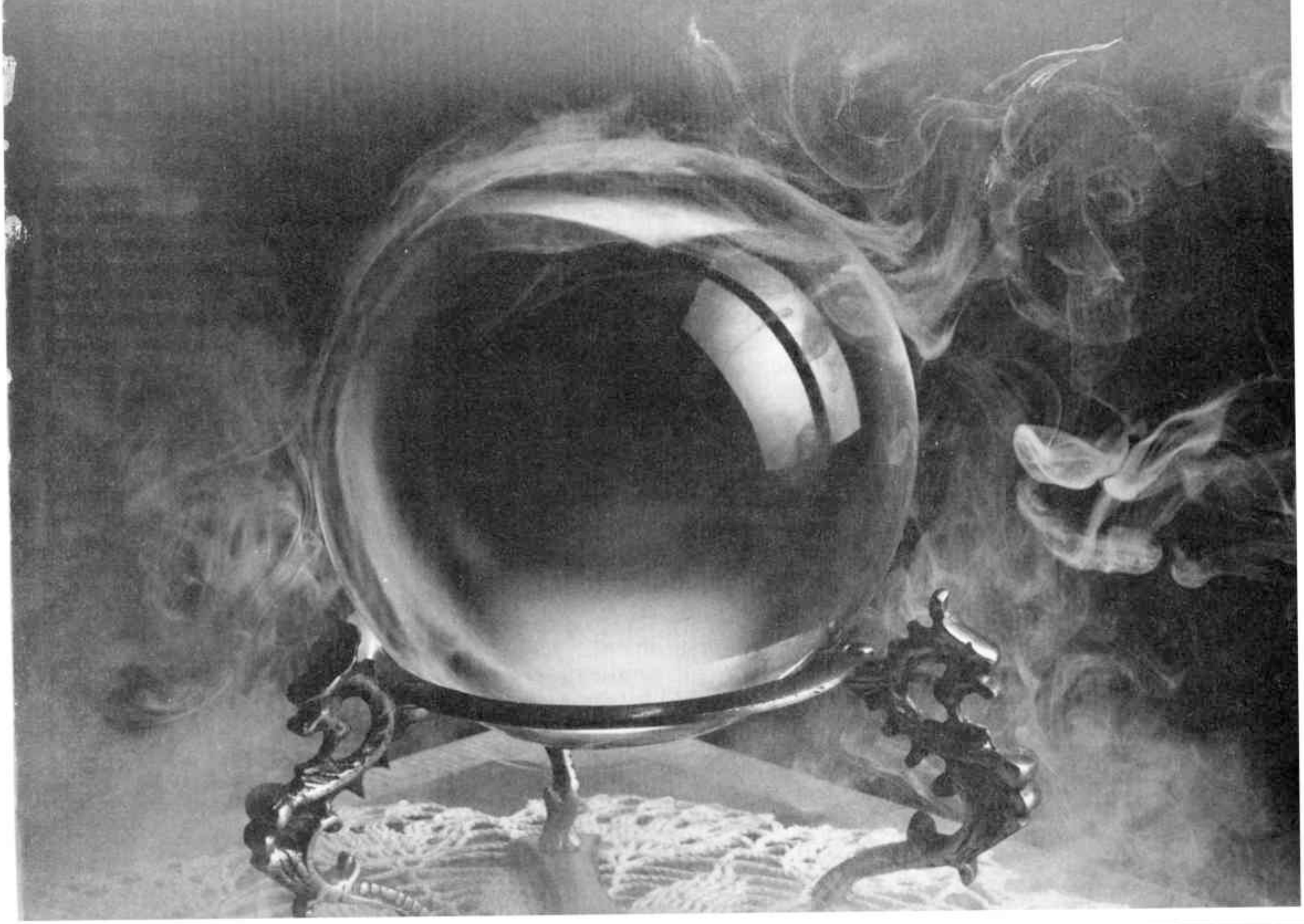
*The Woman CPA* is indexed in *The Accountants Index* and *Management Contents*. It also is available in microfiche from University Microfilms International and in printed form from UMI Article Clearinghouse, each in Ann Arbor, Michigan.

New appointments made to the staff during 1984 were Jo Ann Dooley as treasurer to replace Mary Hall who retired. Karen Hooks replaced Florence Haggis who resigned as editor of the accounting theory and practice column. Cathi Cusack was added to the editorial board as a reviewer.

Changes are coming in 1985. With this January issue we are proud to announce the addition of four more pages to the journal. A newly-designed cover will appear on the April issue. And we wish to achieve a better balance between technical and nontechnical articles. It is our desire that approximately 50 percent of the content be of a technical nature and that the other half be on topics such as professional development, management and marketing skills, practice development, and the like.

I thank Don DeHaven, associate editor; Lynette Sarther, business manager; and the entire staff for their time, energy, dedication and assistance in putting together the 1984 issues of *The Woman CPA*. Also, thank you goes to Jennifer Meinhardt and Feicke Publishing Company for being extremely helpful to your editor and in assuring that TWCPA is published and mailed on a timely basis. Our appreciation also goes to the national boards and members of AWSCPA and ASWA for their cooperation. Ω

Glenda E. Reed



# Remarks By The Honorable Katherine D. Ortega Treasurer of the United States

## before the 1984 AWSCPA-ASWA Joint Annual Meeting October 10, 1984

It was only a short time ago — some fourteen years — that I was in public accounting with Peat, Marwick, Mitchell and Company and a member of your organization's Los Angeles chapter (ASWA). I have watched with pride over the years the progress of my colleagues, some of whom have achieved partnership status in big eight firms. I never cease to encourage young women to enter the profession — for it was an excellent training ground for me.

I am so often asked what exactly does the job of Treasurer of the United States involve. Well, to be perfectly honest about it, there is a lot of confusion as to the difference between my role and that of The Secretary of The Treasury, Donald T. Regan. Some people have suggested that I print the money and The Secretary spends it! Another question I am often asked is whether I spend the entire day sitting behind my desk personally signing dollar bills. Of course, I do sign U.S. currency; during my first year as Treasurer my name appeared on nearly 60 billions dollar worth.

If I might get a little personal, it is another signature with which I have been most intimately concerned, one that was written across my life and outlook from the first days I can recall. It was a highly distinctive signature — and yet I have no doubt that there are many women in this room who can boast of similar handwriting on the wall. For me, it is the signature of family values, strong parents and eight brothers and sisters that shaped my views and guided my ambitions.

I was raised the youngest member of my family, in the great depression that swept over New Mexico like the rest of America, washing away fortunes and strangling millions of hardworking men and women on the rock of their own fortitudes. In the Ortega family, that meant a set of parents who encouraged work and ruled out accepting any assistance from a generous government. So my brothers sold soap door to door, clothing was patched and repatched, and we all drew a little closer in huddling against the economic ill winds blowing at the time.

From my father I learned in words that he often repeated that I was as good as anyone, and that if I ever undertook to do a job, I was obliged to demonstrate that fact by putting in a full day's work and striving to achieve a fair portion of excellence. Don't let anyone suggest otherwise, he told us. Don't wear a chip on your shoulder. And don't put your faith anywhere but in your God, your community, your family and, ultimately, yourself.

To help make ends meet, he nailed together coffins and worked in a Bent, New Mexico copper mine. The one thing he never buried was his conviction that individuals are the testing ground for abstract ideals — determination, imagination, enterprise and compassion. For him, climbing up the ladder did not justify pulling it up after a successful ascent. On the contrary — it meant extending a helping hand to others, seeing that they got a step up on to the first rung, a boost out of hardship and a strong dose of what I like to call compassionate capitalism.

Thanks to his example, I have been able to make my own way up that same ladder — to help run a family business, to become the first woman to serve as president of a California bank, to serve at President Reagan's invitation as Treasurer of the United States.

I have been fortunate, out of it all, I have become more than ever convinced of the importance of women everywhere coming together to share their experiences and pool their collective skills. That is one reason I was so pleased to accept your invitation.

Behind the booming headlines announcing our current economic expansion — the dramatic cuts in inflation and unemployement, the recent decline in interest rates, the hefty sales of new cars and new houses — there is another story being played out, one with historic implications and yet one which doesn't always make the front page or evening newscast.

Women are on the front line of an advancing army. As we advance, however, we need to continue to lend a helping hand to other women. I have always been a firm believer that you don't achieve anything in this life without help and support from others.

Women mentors have played an important role in my own career. One of my role models is my older sister, Ethel, who also happens to be a Certified Public Accountant. Her guidance and business sense through these years have been invaluable. In 1974 she sold her accounting practice and organized a savings and loan in New Mexico. She became the CEO and Chairman of the Board and is presently serving as state president of the New

Mexico League of Financial Institutions. You might find it interesting that when Ethel applied for her savings and loan charter she was projecting a profit from year one. However, she was told by the State Banking Department and the FHLB this would be impossible and she should expect to lose money for the first five years. She was thus "persuaded" to change the figures to show a loss in order to obtain her savings and loan charter. I am pleased to report that Ethel proved them wrong and has shown a profit from year one.

Another woman who has helped me professionally is Romana Acosta Banuelos, a successful business woman who started her own Mexican Food Products business with only $400. Mrs. Banuelos served as the 34th Treasurer of the United States and was the first Hispanic to hold the position. Today she serves as president of a commercial bank in Los Angeles. She was of assistance to me in making the transition from private business to public office.

I would encourage all of you to seek out women you admire. Talk with them, and ask their opinions. And I urge those of you who have established yourselves in the business world to seek out young women and support them with your own knowledge and experience.

As you and I witness an expanding role for women throughout our society, I only hope that we can expand our own efforts to encourage cooperation among ourselves. For example, the Olympic Coin Marketing Program was a campaign of teamwork — not unlike the athletic teamwork and individual excellence displayed to such heart-warming effect on the playing grounds and running tracks of Los Angeles this past summer. And to each of you, engaged in a kind of personal competition — a race against yourself, a vaulting over standards of yesterday, and a marathon of personal application — I emphasize that we are all part of a team. A team that is 53 percent of the American people, 51 percent of the American workforce, a team whose ranks are constantly being replenished with brave and brainy newcomers.

Our team takes its inspiration from another woman, one who lived a historic double-life more than a century ago. On the surface, there was little to distinguish her from others who walked the streets of Amherst, Massachusetts. She never worked in an office, never appeared in a headline, never raised a family. The only power she wielded lay in her poetry. And yet her artistry and her vision have inspired millions ever since. In a single memorable phrase, Emily Dickinson distilled the essence of her craft and the heart of America's distinguishing creed... "I dwell in possibility," she wrote.

Like the belle of Amherst, we too dwell in possibility. We take our stand in the newest American revolution, one overcoming barriers of law or custom that until now have kept millions of women from realizing their ambitions. It is a cause to which I have dedicated much of my life. I know many of you feel the same. Together, it is a cause we are winning — not just for ourselves, nor for our daughters, but for the country which mothers us all. For your efforts, I salute you — and from them I take heart for whatever battles lie ahead. I wish each of you good luck and God's blessings. Thank you very much. Ω

*Hans Fräbel presenting his artwork to Katherine D. Ortega.*
*Photo courtesy of Nelda Mays/Photography*

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# Current Problems in Governmental Revenue and Expenditure Recognition

By K. K. Raman and R. Michael Moore

The objective of this article is to discuss some conceptual and practical issues in current generally accepted accounting principles (GAAP) for governments. The article is restricted to a discussion of the Governmental Funds, which are unique in that the measurement focus is not net income but rather the sources and uses of financial resources.[1]

The rules for recognizing revenue and expenditure[2] (the inflow and outflow of financial resources) in the governmental context are just as important as the rules for recognizing revenue and expense in the corporate context. Just as the "bottom-line" of a corporate income statement is a significant measure of business performance, and as such may prompt so-called "management" of the income statement,[3] the bottom-line of a municipality's statement of revenues and expenditures signals the presence of an excess or deficit of revenues over expenditures. Municipal officials may be motivated to show an excess of revenues in order to demonstrate that the city is not in financial difficulty. However, a large excess of revenues over expenditures may invite criticism that the level of taxes is needlessly high, or it may encourage excessive demands from employee unions. Governmental organizations appear to be motivated to show that revenues at least equal expenditures (to satisfy creditors and rating agencies), as well as to demonstrate future need so that contributions and grants will continue to be forthcoming and to stem the tide of tax and expenditure limitation activities.

## Revenue Recognition

It should be understood first that revenue in governmental accounting is not the same concept as revenue in corporate accounting. In the corporate context, a revenue is an increase in owners' equity resulting from the operations of the entity. Revenue is recognized upon the occurrence of a critical event, such as a sale, in the earnings cycle. If the receivable is a long-term receivable, revenue is recognized for the amount of its present value.

In governmental accounting, the measurement focus is *not* on the determination of net income, and most increases in financial resources resulting from the operations of the governmental unit are considered revenue. Prior to the National Council on Governmental Accounting (NCGA) Statement No. 1, all inflows of financial resources were labeled as revenues; Statement No. 1 now requires that the proceeds from borrowing and operating transfers between funds be reported separately as "other financing sources."

If governmental revenues were recognized on a cash basis, then the meaning of "financial resources" would be clear-cut and unambiguous, i.e., financial resources would mean cash. However, current technical literature requires that revenues be recognized on a modified accrual basis. Practical application of this principle means that some revenue items are recognized on a cash basis and others on an accrual basis. Thus, for example, miscellaneous revenues such as parking meter collections and fines are recognized only when cash is received. Other revenues, e.g., sales tax and revenue sharing, may be recorded when information (about the amount) is received from the higher governmental unit, even though actual receipt of the monies may be delayed for some months. This discussion suggests that financial resources may be the same thing as cash and receivables. In corporate accounting, as guided by Accounting Research Bulletin (ARB) 43, all receivables collectible within 12-months of the end of the fiscal period are classified as current. As we shall see, this 12-month concept does not always apply in governmental accounting.

**NCGA Interpretation No. 3:** Property taxes are an important revenue item and property tax receivables are to be recognized on an accrual basis. Interpretation No. 3 requires that property tax revenue for taxes due and uncollected at year end be recognized only to the extent that the receivables are collectible generally within 60 days of the end of the fiscal period. Thus in this case only 60-day (rather than 12-month) receivables qualify as financial resources.

**Lease Purchase Agreements Where Government is the Lessor:** Guidance on accounting for leases was provided recently in NCGA Statement No. 5. For situations where a government is the lessor and has financial resources in the form of lease payments *coming in*, the NCGA requires that on the signing of the lease a receivable be recorded in the general fund for the gross amount (not present value) of the lease payments. The receivable being long-term is therefore not recognizable as revenue and is offset by a liability (deferred revenue). Lease payments are not to be accrued but recorded as revenue only when received in cash. Clearly, in this instance only cash and no portion of the receivables qualifies as a financial resource for revenue recognition purposes.

**Joint Ventures:** A governmental unit may enter into a joint venture with other governments or private parties. The discussion here is restricted to joint ventures where the investment is/was made from the Governmental Funds.

Use of the equity method (APB Opinion No. 18) by the participating government would not be consistent with the established financial resources concept of revenue recognition, since the joint venture may not necessarily distribute all of its earnings. On what basis, then, should the governmental unit recognize from joint ventures? In other words, should revenue be recognized when earned or only if the amount is expected to be collected either 1) within 12-months of the end of the fiscal period, or 2) within 60-days of the end of the fiscal period, or 3) only when received in cash?

NCGA rules to date do not provide explicit guidance on how revenues from governmental fund joint ventures are to be accounted for. Wide diversity is therefore to be found in current practice, reducing the comparability of the financial reports of different governmental units.

**Safe Harbor Leases:** The Economic Recovery Tax Act of 1981 (ERTA) introduced the safe harbor lease concept, under which an entity (such as a firm incurring a loss or a governmental unit) unable to take advantage of accelerated depreciation deductions and the investment tax credit may sell those benefits to another firm. In such a lease, the governmental unit (the lessee) enters into a sale-leaseback transaction with a firm with taxable income (the lessor-buyer). The sale of the property is recognized as sale for federal income tax purposes only.

While the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) curtailed safe harbor leasing in the private sector, governmental units may continue to use safe harbor leasing for mass transit vehicles until at least 1987. To take an example,[4] assume that a city sells and leases back buses worth $2 million to a private firm. The firm pays the city $300,000 (which is less than the present value of the ACRS depreciation benefits that the firm obtains on the buses). The firm (lessor-buyer) borrows the remaining money ($1.7 million) required to buy the buses from the city (lessee-seller) by giving the city a note for $1.7 million. "The note is actually a "phantom debt," for the lessor-buyer's debt service obligations under the note are set exactly equal to the lessee-seller's lease payment obligations under the lease. These two sets of obligations cancel each other out and, except for the down payment, no money or payments change hands between the lessor-buyer and the lessee-seller.[5]

Ambiguities appear to be pervasive in the current authoritative literature.

The $300,000 payment in the above example can be made at the inception of the lease or at a mutually-agreed upon later point in time (in which case the amount would presumably be larger to compensate for the time value of money). The inflow of $300,000 is clearly an increase in financial resources, and revenue could be recognized if the amount were expected to be collected either 1) within 12-months of the end of the fiscal period, or 2) within 60-days of the end period of the fiscal period, or 3) only when received in cash. To date NCGA has not provided definitive guidelines on safe harbor leasing and the related revenue recognition issues.

**An Ambiguous Situation:** The primary problem facing governmental units and CPAs is deciding what "financial resources" means. As discussed above, financial resources can mean 12-month receivables, 60-day receivables, or cash, *depending on the source of revenue*. This problem is compounded by the fact that the recognition of *expenditure*, which is discussed in the next section, is sometimes contingent on the availability of financial resources. Accordingly, governmental units and CPAs can find themselves in an untenable position where existing revenue recognition ambiguities directly impact the accounting for certain significant expenditures.

## Expenditure Recognition

An expenditure is an outflow of financial resources. The general rule is that expenditures should be recognized in the fiscal period in which the liability is incurred. NCGA Statement No. 1 does not place an explicit limit on the liability in terms of the number of days beyond the end of the fiscal period by which the liability must be paid-off, i.e., the NCGA has not defined a current liability in governmental accounting. In contrast, as discussed earlier, uncollected property tax revenues may generally be recognized only if cash is expected to be collected within 60 days of the end of the fiscal period.

**Lease Purchase Agreements Where Government is the Lessee:** In a lease purchase agreement, the lessee has a long term obligation which will be liquidated by periodic lease payments. NCGA Statement No. 5 requires the present value of the payments to be recognized as an expenditure when the lease is entered into, with the long term portion recorded as an "other financing source". (This is the only such NCGA requirement, and differs from other expenditure recognition criteria discussed later). In subsequent periods, Statement No. 5 requires that expenditure for lease payments (which represent both principal and appropriate interest) be recognized only in the period payment is actually made, i.e., that interest on lease obligation is *not* to be accrued. In this case, "financial resources" is clearly defined to mean cash — i.e., recognize the expenditure only when cash is actually paid out.

**NCGA Statement No. 4:** This Statement seeks to provide guidance on accounting for loss contingencies and compensated absences. With regard to contingencies, FASB Statement No. 5 criteria apply, i.e., a liability should be recognized when liability has been incurred and the amount of the loss can be estimated. However, at least a portion of this liability is likely to be of a long-term nature, since there is usually a significant time lag between the occurrence of the loss contingency, its adjudication, and finally its payment. For this reason, NCGA Statement No. 4 requires the expenditures from loss contingencies and compensated absences to be recorded in the current period only for the amount to be liquidated with "expendable available financial resources".

The phrase "expendable available financial resources" remains undefined by the NCGA. As we have seen, financial resources can mean either cash or varying portions of receivables, depending on the source of revenue. A second and more important concern in applying NCGA Statement No. 4 arises when a governmental unit has insufficient "expendable available financial resources," i.e., its cash and qualifying receivables are more than offset by short-term liabilities. In such an event, apparently no portion of the anticipated payment for loss contingencies and compensated absences should be recorded as expenditures. This appears to be a clear departure from the general rule that expenditures be recorded when incurred rather than be subject to the availability of financial resources. Statement No. 4 appears to reflect a reluctance on the part of the NCGA to compel cities to record an expenditure when the result might be a negative fund balance.

The ambiguity in NCGA Statement No. 4 has led one Big-8 firm to develop its own definition for expendable available financial resources to be "cash or near-cash assets adjusted for the amount of property taxes to be received within 60 days of year end to the extent that such amount does not exceed the total of the designated and undesignated fund balances." The point is that governmental units and CPAs are being compelled to develop their own understanding of an important concept. Without clear guidance on this issue, the present situation may result in considerable variation in practice — to the detriment of the comparability of financial reports of different governmental units.

**NCGA Statement No. 6:** This is the most recent Statement issued by the NCGA and relates to pension accounting. It requires governmental employers to record an expenditure only for the amount of the actuarially determined contribution requiring use of "expendable available financial resources." It appears, therefore, to be substantively similar to NCGA Statement No. 4.

> The rules for recognizing revenue and expenditure in the governmental context are just as important as the rules for recognizing revenue and expense in corporate accounting.

**NCGA Exposure Draft:** Recently, the NCGA has issued an exposure draft[6] (ED) which recommends that all expenditures be recorded when incurred. However, the NCGA is still faced with the problem that certain expenditures (e.g., loss contingencies and pensions) result in long-term liabilities, and therefore do not require "current resources." "Current resources" is a new undefined phrase used in the ED and presumably means the same thing as expendable available financial resources. The ED recommends that while an expenditure should be recorded for the full amount incurred, any portion of that expenditure not requiring "current resources" should be shown as an "other financing source." This is the NCGA Statement No. 5 approach discussed above under "Lease Purchase Agreements Where Government is the Lessee" (pp. 7-8). This treatment is confusing if not strange; however, the net effect will be to reduce the Governmental Fund balance only for the amount requiring use of "current resources."

## Conclusions and Suggestions

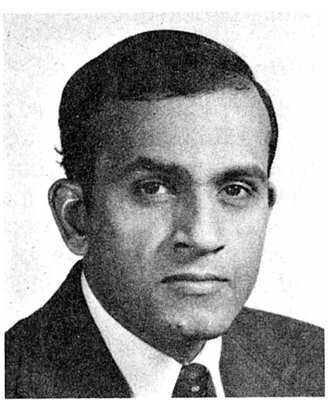
The "revenue-expenditure" statement in governmental accounting shares significant common elements with the *corporate* "Statement of Changes in Financial Position." Under APB Opinion No. 19, corporations may use one of the three alternative concepts of "financial resources" in their statement of changes in financial position — cash, working capital, or "all financial resources." What is problematical in governmental accounting is that different concepts of financial resources (either cash or varying portions of receivables) are being applied simultaneously. The NCGA (or the GASB) needs to adopt a single concept of financial resources based on the perceived needs of the users of governmental financial statements. A uniform GAAP definition of financial resources will serve to enhance the comparability of the financial statements of different governmental units. In this section, some tentative suggestions are offered.

In evaluating the information needs of financial statement users in the *corporate* context, the Financial Accounting Standards Board[7] (FASB) has expressed a preference for the use of the cash concept in the statement of changes in financial position. The cash concept is objective since it is free from the influence of accounting allocations and accruals, and may provide a good basis for comparing the activities of different enterprises. The FASB believes that a statement of cash inflows and outflows will be useful for the assessment of the amount, timing and uncertainty of future cash flows. However, in governmental accounting the "revenue-expenditure" statement is the *only* operating statement, i.e., the burden of adequate disclosure is not shared by an income statement and a statement of changes in financial position. Since cash flows are influenced by variations in the timing of receipts and payments, the use of the cash concept in governmental accounting may not provide an overall fair representation of the activities of the period.

The NCGA appears to prefer a concept of revenue recognition in governmental accounting which is tied to the receipt or anticipated availability of cash soon enough after year-end to pay the current year's bills. If the definition of "soon enough after year-end" in terms of a short arbitrary cutoff related to the normal bill-paying cycle (as does NCGA Interpretation No. 3), is acceptable, then similar specific guidance should be provided for all major revenue sources.

On the expenditure side, it may be possible for some governmental units to delay their creditors beyond the normal-bill paying cycle. In the interest of conservatism,[8] a longer cutoff for expenditure recognition is favored. Recommended is a consistent and well defined cutoff which follows the corporate concept of recognizing as current liabilities those amounts expected to be paid during the 12 months of the ensuing fiscal year, without making the recognition of expenditures contingent on the availability of financial resources. Thus, all expenditures would be recorded as incurred if it is expected that the related liability will be paid off within 12 months of the end of the fiscal period. Liabilities expected to be liquidated beyond the end of the next fiscal year should be considered to be long-term and reported in the "General Long-Term Debt Account Group."

The efforts in recent years by the NCGA to provide guidance for governmental accounting and financial reporting should be applauded. The NCGA's pronouncements go a long way toward meeting the needs of government finance officials and their auditors for clearly defined accounting principles. However, the concerns discussed in the preceding pages indicate a need for more explicit and consistent guidance in accounting for governmental revenues and expenditures. The NCGA and the GASB are encouraged to address these concerns in order to provide governmental accountants and auditors with a body of literature that sets a clear and uniform standard in both theory and practice. Ω



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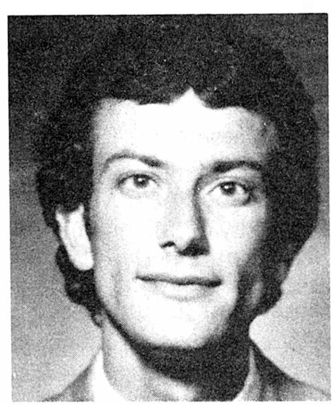

**R. Michael Moore** *is with an electric utility holding company based in Dallas. Prior to that he was a senior manager in the Dallas office of Peat, Marwick, Mitchell & Co. Mr. Moore specialized in serving governmental units including the cities of Austin and Dallas, Texas, as well as over a dozen other cities, counties, and agencies in Texas.*

## NOTES

1"Financial resources" is a phrase used in NCGA Statement No. 1. The phrase itself is undefined.

2An "expenditure" is an asset outflow (reduction in financial resources occasioned by the payment or incurrence of a liability for goods acquired), to be contrasted with an "expense" which is a measure of asset expiration (the amount of goods and services consumed during a period).

3D. Graber and J. Jarnagin, "The FASB — Eliminator of 'Managed Earnings' "? *Financial Analysts Journal* March-April 1979), pp. 72-76. *Wall Street Journal* "Slick Accounting Ploys Help Companies Improve Their Income," June 20, 1980, p. 1.

4This example is adapted from: *A Guide to Municipal Leasing* (MFOA, 1983).

5*A Guide to Municipal Leasing*, p. 24.

6"Basis of Expenditure Accounting and Financial Reporting," (Exposure Draft, 1983).

7FASB, "Reporting Funds Flows, Liquidity, and Financial Flexibility," (Discussion Memorandum, 1980); "Reporting Income, Cash Flows, and Financial Position of Business Enterprises," (Exposure Draft, 1981).

8In *corporate* accounting, conservatism is portrayed by the expression "anticipate no profit and provide for all possible losses." In governmental accounting we suggest conservatism to mean "do not recognize revenue if it is not expected to be collected within a short interval beyond the end of the fiscal period, but do recognize expenditure when incurred even if the liability will not be paid off within that same short interval."

# Consolidation of Foreign and Finance Subsidiaries

## A Survey of Opinion

By Deborah W. Tanju and Murat N. Tanju

In January, 1982, the FASB added to its agenda a project on consolidations and the equity method. In its *Status Reports,* the FASB has emphasized that the project will involve two stages: (1) a conceptual stage which will entail development of the accounting or reporting entity concept and (2) an application stage which will involve application of the concept to practice problems. Two of the problems the FASB must consider relate to foreign subsidiaries and finance subsidiaries. Specifically, the FASB must address the following questions:

(1) Under what circumstances, if any, should foreign subsidiaries be consolidated?

(2) Under what circumstances, if any, should finance subsidiaries be consolidated?

Existing authoritative literature related to the consolidation of foreign and finance subsidiaries consists of *Accounting Research Bulletin No. 43,* Chapter 12, paragraphs 8 and 9, "Consolidation of Foreign Subsidiaries," and *Accounting Research Bulletin No. 51,* "Consolidated Financial Statements." These pronouncements allow a great deal of flexibility and are considered to be obsolete in the current business environment. *ARB No. 43* actually provides no guidance in determining whether or not to consolidate foreign subsidiaries. The bulletin merely states that the decision should be carefully considered and that, in either case, foreign operations should be adequately disclosed.

Since the Committee on Accounting Procedure issued *ARB No. 51* in 1959, the complexity of business operations and transactions has increased dramatically. Twenty-five years ago, most companies were engaged in only one or two lines of business and were not required to disclose segmental information. Logic dictated that these companies present separate financial statements for a subsidiary in a line of business such as finance or insurance that was totally unrelated to the parent company's major business activities. However, today, many companies are engaged in five, ten, fifteen, twenty, or more different lines of business. These conglomerate or diversified companies are required by *FASB Statement No. 14,* "Financial Reporting for Segments of a Business Enterprise," to disclose segmental information for signficant industry segments. Given current conditions, does it still seem logical to consolidate fourteen or nineteen subsidiaries but not to consolidate a fifteenth or twentieth subsidiary which happens to be a finance or insurance company? In reality, *ARB No. 51* is so flexible that different companies can use the same accounting principle to justify both consolidation and nonconsolidation of captive bank, insurance, and finance subsidiaries. The exact wording of *ARB No. 51* follows:

> *For example, separate statements* may be required *for a subsidiary which is a bank or an insurance company and* may be preferable *for a finance company where the parent and the other subsidiaries are engaged in manufacturing operations.*

Note that the sentence includes two hedges — "may be required" and "may be preferable." Indecision by the Committee on Accounting Procedure has permitted different companies to use different accounting methods for situations that involve similar circumstances. Since 1959, the number and size of unconsolidated finance subsidiaries has increased substantially. Nonconsolidation provides off-balance-sheet-financing which improves a parent's balance sheet relationships by excluding large amounts of debt related to the receivables serviced by the finance subsidiaries.

### A Survey of Opinions

One of the precepts followed by the FASB in the development of accounting concepts and standards is to determine and carefully weigh the view of its various constituents. Therefore, the opinions of preparers of consolidated financial statements who have experience with foreign and finance subsidiaries should be of value to the FASB in resolving consolidation issues.

To determine the opinions of financial statement preparers on the issue of consolidation of foreign and finance subsidiaries, we sent a questionnaire to the controller or financial vice-president of five-hundred large corporations. Of ninety-six questionnaires returned, ten were not completed. In addition, two questionnaires did not contain answers to the questions related to foreign and finance subsidiaries. Thus, only 84 responses were usable. The respondents had an average of twenty years experience in accounting although the range of experience varied from four years to fifty years. Likewide, the average total asset size of the companies surveyed was four billion dollars but the range varied from 2.4 million to 62.3 billion, with 75 percent of the companies having more than one billion dollars in total assets.

**Foreign subsidiaries.** As shown in Table 1, 62 percent of the respondents favored consolidation of foreign subsidiaries, and an additional 33 percent believed that foreign subsidiaries should be consolidated if certain circumstances exist. The comments made by both groups of respondents lead us to the conclusion that roughly 95 percent of our respondents actually favor consolidation if the foreign subsidiaries are reasonably free of governmental restrictions and controls on the use and transfer of funds. As long as a foreign subsidiary is able to conduct commerce freely and remit dividends without restriction that subsidiary should be consolidated. Otherwise, the investment in the foreign subsidiary should be accounted for using the cost method.

Besides the issue of governmental restrictions on the repatriation of earnings, the only other reservation expressed by the respondents was that the criterion of logically integrated subsidiary is to be consolidated. Of course, this issue relates to the overall question of consolidation and is an independent consideration since logical integration of operations can apply to both domestic and foreign subsidiaries. With the diversification that has occurred since 1959 and the fact that segment reporting is now required for companies in different lines of business, a question arises as to whether logical integration of operations is still a valid consideration.

The four respondents (5 percent) who stated that foreign subsidiaries should not be consolidated under any circumstances believe that exchange rate fluctuations distort operating results and that consolidation tends to hide more than it reveals. The following statement made by one of the respondents summarizes the view of those who oppose consolidation of foreign subsidiaries:

*In view of the uncertain values and availability of the assets and net income of foreign subsidiaries subject to controls and exchange restrictions and the consequent unrealistic statements of income that may result from the translation of many foreign currencies into dollars, it does not seem proper to consolidate the statements of foreign subsidiaries with the statements of U.S. companies.*

In a floating exchange system, exchange rate fluctuations are a fact of life with which accountants must learn to live. Translating foreign currencies into dollars makes as much sense as adding dollars of different purchasing power.

In spite of the minority's concern about distortions caused by exchange rate fluctuations, our survey indicates that an overwhelming majority of financial statement preparers at large corporations support the consolidation of foreign subsidiaries as long as the subsidiary is operating in a stable political environment without government interference or control and is able to remit funds freely to the parent. However, our survey did not attempt to solicit views on the definition of political stability or governmental control of the flow of funds. The restrictions imposed by governments on the flow of funds vary widely from country to country. Nevertheless, should this be the only impediment to consolidation of foreign subsidiaries, the FASB should be able to establish some arbitrary but practical guidelines.

**Finance subsidiaries.** Based on the evidence gathered in our survey, the question of consolidation of finance subsidiaries is much more controversial than that of foreign subsidiaries. As shown in Table 1, 42 percent of the respondents favored consolidation while 30 percent were against consolidation. The remaining 28 percent said that finance subsidiaries should be consolidated under certain circumstances. Therefore, a total of 70 percent of our respondents believe that at least some finance subsidiaries should be consolidated.

Proponents of consolidation argue that there is no justification for not consolidating captive finance subsidiaries. In some cases, finance subsidiaries start as small operations that are not considered an integral part of the business, but eventually they become more important than some of the original business segements. Nonconsolidation of material finance subsidiaries provides a mass of off-balance-sheet-financing which effectively distorts the parent's financial statements. Although the parent may actually control the receivables of the finance subsidiary through control of the subsidiary itself and although the parent may guarantee the debt of the

## TABLE 1
### Summary of Responses to Opinion Survey

Question:
Do you believe that foreign subsidiaries should be consolidated?

| | Number of Responses | (Percentages): |
|---|---|---|
| Yes | 52 | 62 |
| No | 4 | 5 |
| Depends on the circumstances | 28 | 33 |

Question:
Do you believe that finance subsidiaries should be consolidated?

| | Number of Responses | (Percentages): |
|---|---|---|
| Yes | 35 | 42 |
| No | 25 | 30 |
| Depends on the circumstances | 24 | 28 |

## ASWA SCHOLARSHIPS AWARDED

**Jacqueline M. McGarry** is the recipient of a $2,000 scholarship which will be used to complete her degree at Drexel University, Philadelphia. Ms. McGarry has maintained a 3.9 GPA while working for Touche Ross and Co. as a tax accountant. She is a member of Phi Eta Sigma, Beta Alpha Psi and Beta Gamma Sigma.

**Karen S. Fain** was awarded a $1,000 scholarship to further her education at Bellarmine College, Louisville. She carries a 3.96 GPA and has received several scholarships and awards. Ms. Fain is employed as a para-professional with Henderman and Co., PSC. She is a member of the ASWA Louisville chapter.

A $750 scholarship was awarded to **Donna Ames** who has a 3.67 GPA at Pittsburg State University, Pittsburg, Kansas. She is secretary/receptionist for the University Housing Office.

These scholarships are funded by the Educational Foundation of AWSCPA-ASWA. Ω

subsidiary, both the assets and the liabilities are omitted from the parent's balance sheet, thereby obscuring the actual economic resources and obligations of the parent and misleading the users of the parent's financial statements.

The respondents who supported consolidation under certain circumstances generally argued that consolidation is appropriate for captive finance subsidiaries. However, many of them believe that logical integration of business activities is a precondition for meaningful consolidation.

Opponents of consolidation of finance subsidiaries appear to be satisfied with the *status quo, ARB No. 51*. They consistently use the logical integration argument to support their opinion that consolidation would distort the parent's balance sheet to such an extent that it would become meaningless. Therefore, they prefer the presentation of condensed financial information or separate financial statements for finance subsidiaries, which is essentially current practice. However, a question arises concerning the usefulness of such disaggregated information. That is, does the user understand the information well enough to consolidate it for himself and reach logical or meaningful conclusions? Why not consolidate the finance subsidiary and also present condensed financial information similar to that which is required for other segments per *FASB Statement No. 14?* Then the user would have both aggregated as well as disaggregated information to help him in his decision making process.

To summarize these different viewpoints, the consensus of opinion is that a strong case can be made for consolidation if a subsidiary is used to finance only the receivables and products of the parent and its affiliated companies. Otherwise, consolidation is not considered meaningful because of the subsidiary's different line of business, and, therefore, lack of logical integration between the subsidiary's operations and those of the parent.

## Conclusions and Recommendations

Because of the tremendous environmental and financial reporting changes that have occurred since 1959, the issue of consolidation of foreign and finance subsidiaries needs to be reexamined in the context of the FASB's conceptual framework — particularly, *Statements of Financial Accounting Concepts Nos. 1, 2, and 3* on "objectives," "qualitative characteristics," and "elements," respectively, all of which are intended ultimately to help accountants provide information useful for decision-making. In view of the theoretical literature available and the results of our survey, we believe that the FASB should provide explicit criteria for determining when foreign and finance subsidiaries should be consolidated.

Although the criterion of effective operating control is difficult to challenge, we do question whether the criterion of logical integration of operations is still relevant. Opponents of consolidation argue that the activities of finance companies are totally

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| 1A. TITLE OF PUBLICATION | 1B. PUBLICATION NO. | 2. DATE OF FILING |
|---|---|---|
| THE WOMAN CPA | 0 0 4 3 7 2 7 1 | October 1, 1984 |

| 3. FREQUENCY OF ISSUE | 3A. NO. OF ISSUES PUBLISHED ANNUALLY | 3B. ANNUAL SUBSCRIPTION PRICE |
|---|---|---|
| Quarterly January, April, July & October | Four | Foreign $15.00<br>Members $3.00<br>Others $8.00 |

4. COMPLETE MAILING ADDRESS OF KNOWN OFFICE OF PUBLICATION *(Street, City, County, State and ZIP+4 Code) (Not printers)*

3998 Ridgedale Drive, Cincinnati, Hamilton, Ohio 45247

5. COMPLETE MAILING ADDRESS OF THE HEADQUARTERS OF GENERAL BUSINESS OFFICES OF THE PUBLISHER *(Not printer)*

3998 Ridgedale Drive, Cincinnati, Ohio 45247 (Business Office)

6. FULL NAMES AND COMPLETE MAILING ADDRESS OF PUBLISHER, EDITOR, AND MANAGING EDITOR *(This item MUST NOT be blank)*

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American Society of Women Accountants, 35 East Wacker Dr., Ste. 1036, Chicago, Illinois 60601

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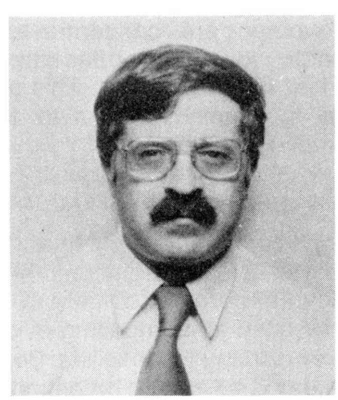
PS Form 3526, July 1984 *(See instruction on reverse)* unrelated to the activities of the parent and its affiliated companies. In the case of captive finance companies and other finance companies that do a majority of their business with the parent and affiliated companies, we consider the finance subsidiary to be an integral part of the parent's business operations just as leasing subsidiaries of manufacturing companies are considered integral parts of their parents' operations. Once effective operating control exists without significant restrictions, the finance subsidiary should be consolidated to provide information useful for assessing the overall financial position and results of operations (economic resources, obligations, and changes in them) of the parent and all of its affiliated companies as one economic financial reporting entity. Nonconsolidation of finance subsidiaries is simply a means of off-balance-sheet-financing which needs to be eliminated. If separate financial information of finance subsidiaries is also considered useful to financial statement users, such information can be disclosed as segment information under *FASB Statement No. 14*, or companies can continue to present summarized financial information or separate financial statements along with the consolidated statements.

The alternative to consolidation or nonconsolidation is to consolidate some finance subsidiaries, but not all finance subsidiaries. If companies are required to consolidate only captive finance subsidiaries or finance subsidiaries that primarily do business with the parent and affiliated companies, we fear that such subsidiaries would soon become extinct. This line of reasoning, of course, is based on a similar situation that occurred when companies were required to capitalize leases. Thus, to avoid the possibility of loopholes, to enhance comparability across companies, and to properly apply the entity concept, all finance subsidiaries should be consolidated.

For foreign subsidiaries, effective operating control continues to be the determining criterion for consolidation. Inability to repatriate earnings effectively negates the existence of economic resources controlled by the parent company which in turn prohibits recognition of the foreign subsidiaries' net assets in the consolidated financial statements. Only when the parent company has effective operating control over the foreign subsidiary, which includes the ability to freely transfer funds from the subsidiary to the parent, should the foreign subsidiary be consolidated. Ω

**Deborah Wheless Tanju, CPA, Ph.D.,** *is assistant professor of accounting at the University of Alabama in Birmingham. She earned her Ph.D. from the University of Georgia and received the CPA examination gold medal from the state of Georgia. She is a member of AAA, NAA, and the Institute of Internal Auditors.*



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## AWSCPA SCHOLARSHIPS AWARDED

**Elizabeth Ann Hulme** is the recipient of a $3,000 scholarship which will be used to complete her degree at Portland State University. Ms. Hulme has maintained a 4.0 GPA while working part-time for Arthur Anderson & Co. in the audit division. Her other awards include the Oregon Society of CPAs Outstanding Senior in Accounting — 1984, PSU Alumni Scholarship, and the Peat, Marwick & Mitchell — Beta Alpha Psi Scholarship.

A $1,000 scholarship was awarded to **Barbara Turner** who is currently enrolled in the Masters of Accounting program at Depaul University. Barbara received her B.S. in Commerce and Accounting from Depaul University and is currently carrying an outstanding 4.0 average. She is a CPA in the State of Illinois and President of the Master of Accounting Student Association.

**Kathleen Corey** was awarded a $1,000 scholarship. She recently participated in the pre-professional program at IBM in Burlington, Vermont. Kathleen is attending the University of Illinois at Urbana-Champaign and is carrying a 4.885/5.0 overall grade point average. She will be receiving a B.S. in Accountancy and in Management Science in 1985.

Each year, 15 different AACSB colleges and universities are invited to nominate applicants for the AWSCPA scholarships which are funded by the Educational Foundation of AWSCPA-ASWA. Ω

## BRONZE MEDALIST HONORED

AWSCPA honored **Judy Barnett** at their annual meeting as the winner of the Bronze Medal, Elija Watt Sells Award for the November 1983 November CPA exam.

Ms. Barnett is a graduate of The University of Oklahoma. She is a member of the Oklahoma Society of CPAs and the AICPA.

# The Earnings Gap in the 1980's: Its Causes, Consequences and Prospects for Elimination

**By Daniel E. Maahs, Paula C. Morrow and James C. McElroy**

A desire for equity in the business world requires the elimination of sex discrimination. Although some notable advances have been made, there is still evidence that men and women in the labor force are not treated equally. Employers, unions, and society in general somehow cooperate in channeling women into low status and low-paying jobs. The Equal Pay and Civil Rights Acts are examples of federal statutes that, while having good intentions, tend to focus on the symptoms and not the causes of sex discrimination in employment.

Sex discrimination is a product of direct and indirect discrimination. Direct discrimination is an action taken by some employer or union that results in a negative consequence for someone or some group. Indirect discrimination is an unconscious or unintentional behavior by a person or group that results in a negative consequence toward someone or some group. This "negative consequence" is sometimes termed adverse impact. Indirect discrimination also occurs in the socialization and education process which affects the kinds of career choices men and women make.

Women have historically been conditioned from childhood to accept a secondary status in the labor force. Until recently, women have accepted their secondary status; but now their attitudes are changing and they are no longer content to earn less. This paper focuses on the various arguments which have been offered to explain why women are concentrated into secondary jobs which offer little more than half the pay of men. This pay inequity is usually referred to as the earnings gap.

## The Earnings Gap

When someone claims that women are a victim of sex discrimination in employment, the earnings gap is frequently cited as compelling evidence that sex discrimination exists. But what is the earnings gap? The definition of earnings gap varies considerably across studies making direct comparisons difficult. The usual earnings gap cited compares the median weekly income of the aggregate full-time wage and salary for women and men. The earnings gap for 1979 indicates that women's earnings were roughly 62 percent of men's.[1] Does this figure prove that women are being unfairly discriminated against because they are underpaid 38 percent? Not precisely, but it does give us a good estimate of the potential magnitude of sex discrimination in employment.

Many studies have been done on the earnings gap. Most contend that some percent of the gap can be explained by the lower levels of education and training of women. However, a study by Fuch using 1970 U.S. Census Report Data could only explain 9 percent of the gap by taking factors like age and education into account.[2] This residual gap of approximately 29 percent probably quantifies sex discrimination more accurately. There is a great deal of controversy over the origin of the earnings gap and why it persists. Social-psychological, economic, and judicial-political explanations have been offered.

## The Earnings Gap: Alternative Viewpoints

*Social-Psychological Viewpoints*

**Occupational segregation.** In our society, there is an occupational distribution based on sex. This distribution is a result of the indirect discrimination. In 1978, only 9.9 percent of women held predominately male jobs, 21.6 percent held jobs that were not sex stereotyped, and 68.5 percent held traditionally female jobs.[3] A predominately male job is one in which 25 percent or fewer employed in that job are women. Recent statistics suggest that this distribution has not changed very much. More importantly, traditionally female jobs are found at the lower end of the pay scale and women working in predominately female fields earn even less. For example, clerical work is a typically female job. In 1979, the median weekly income for a female clerical worker was $180; 63 percent of her male clerical counterpart's $287 earnings.[4] Hence, occupational segregation is frequently cited as the cause of the earnings gap.

The earnings gap represents not just an abstract injustice, rather, it represents a cause of economic hardship for many women and their families.

The primary factors that appear to affect sex roles are parental attitudes, school environment, peer group effects, and the media.

Certain social changes in our society are creating a greater need for narrowing the earnings gap. Because women have chosen to remain single longer there has been a dramatic increase in the labor force participation ratio of women in the age group of 20-24; it is projected to rise to 75 percent in the 1980's.[5] The increase in the divorce rate is also causing the labor force participation rate of women to increase. Divorced women with families are often among the least prepared to deal with the harsh economic realities of the earnings gap. Forty-two percent of the women maintaining one-parent families had incomes below the poverty level in 1978.[6] Finally, the labor force participation rate for adult women over 40 has increased to 53.2 percent in 1979.[7] Unfortunately, this increase is primarily attributable to financial need and women from this category are most often employed in low-paying occupations. Thus, the earnings gap represents not just an abstract injustice, rather, it represents a cause of economic hardship for many women and their families. The increasing labor force participation of women in all dimensions is causing a greater need for employers to fully utilize the potential of qualified females and provide them an opportunity to participate in less traditional jobs. But, the problem is that stereotype thinking about "men's jobs" and "women's jobs" continues to exist in our society.

It affects the attitudes of employers, employment agencies, and the entire educational and job training system. The sex-linked stereotype of occupations is based on social and cultural forces that are present in society. Our society defines certain expectations for each sex. These expectations are usually referred to as sex roles.

**Sex roles.** Sex roles are the result of many interacting factors. However, the primary factors that appear to affect sex roles are parental attitudes, school environment, peer group effects, and the media.

Role modeling is one of the underlying determinants of sex roles. Children usually identify with an adult model of the same sex. This identification process is facilitated by the sexually differentiated treatment they receive and observe others to receive. The identification process is solidified as children begin to imitate the behaviors of their same sex models. Adolescence brings a narrowing of goals and a focusing of future life plans. During adolescence, the peer group and school play become a more important part in determining the career choice for men and women.

During adolescence men's peer values emphasize athletic and sexual success, along with scholastic achievement. According to a study summarized by Weitz, the seriousness of a commitment to work soon overtakes the young man's old peer values of athletic and sexual success as a man's sex role also embraces that of economic provider for the family.[8]

For women, the choice of any particular career is often confused with the choice of having a career at all.

There is a cultural push toward male achievement that motivates men into a career field. However, the influence of the early peer values continues into adulthood. Men develop same-sex support groups which are usually referred to as the "old boy network."

During adolescence, women's peer values are much different than men's, according to Weitz. She reports that during adolescence, physical attractiveness, popularity, clothes, and dating are usually valued for girls while scholastic success is devalued. For some women who do attend college, peer group pressures for popularity with men often continues. In addition, Weitz notes that research has observed women to downplay their scholastic ability because of a fear they will be perceived as unfeminine; this phenomenon has been called "fear of success." Vocation plans are assigned a lower priority leading to more short term "job" aspirations rather than a concern for a life-long career.

The media tends to reinforce these "traditional" sex roles. Throughout a person's life, the family, the peer group, and the media present an overwhelming sex role message which serves to maintain the status quo. Both males and females are considered social deviates if they choose a vocation that is stereotyped for the opposite sex. These socal pressures make it extremely difficult for a woman to choose a nontraditional occupation in an effort to increase her earnings.

A woman has a unique set of issues to consider in making a vocational choice. For women, the choice of any particular career is often confused with the choice of having a career at all. For most women, they must first decide how much time they want to devote to their work and family, and this decision has, historically, overshadowed the commitment to any particular career at all. In addition, because society places the social responsibility of rearing the children upon women, women find traditional working hours and career patterns difficult to follow. There should be some flexibility built into all careers, not just the "traditional female careers," so that women are not penalized for wanting to combine family life with their careers.

In summary, because historically women have perceived work as a secondary option and have not been prepared for a lifetime career, they are concentrated in "secondary" jobs. Today, as the single income family disappears out of economic reality, women are beginning to pursue careers. Higher educational attainment and the women's movement have also elevated career aspirations. Women are finding sex discrimination based on the traditional sex stereotyped attitudes a barrier to their advancement.

**Employer attitudes.** Sex stereotyping is present throughout our society; the business community is not immune to this phenomenon. This bias is usually in conflict with the stated company policy of equal employment opportunity. The sex stereotyping bias manifests itself in the grouping of women into traditionally "female jobs."

The traditional "female job" exhibits characteristics promoting society's image of the female sex role. The "female" professions of nursing, teaching, and social work involve tasks that would be labeled nurturing or caring. The clerical jobs also require characteristics typical of "female work," namely a service orientation, manual dexterity, and a tolerance of monotonous and routine tasks (i.e., patience).

The traditional "female job" exhibits characteristics promoting society's image of the female sex role.

Interestingly, these "female" occupations all require fairly well-educated labor. In most, advanced education or technical training is required before employment. These occupations also show that long-range commitments and extensive sacrifices of time are not necessary for successful job performance. So why are these jobs so lowly paid?

One reason is that these "female" jobs are fairly standardized throughout the country and no significant on-the-job training is required. The employer does not need to invest very much in training. Therefore, the retention of any given female is not essential so long as a labor pool exists. Moreover, frequent turnover keeps wages low as new hires start at entry level pay. The female sex role stereotype in our society facilitates the continued entrapment of women in this "vicious circle."

The "vicious circle" is in part a reflection of employers' attitudes toward the female labor force. This circle is analogous to the young workers problem. Young people first entering the labor market can't get jobs because they have no experience and can't get the experience because they can't get jobs. Women are collectively trapped in "secondary jobs" because they too have high turnover and no continuous job experience. One reason women have these deficiencies is because these "secondary jobs" are usually low-paying, have short career ladders, and thus provide little incentive for long term service. The inherent nature of the secondary or female jobs perpetuates the cycle and women are trapped because of the lack of opportunities.

The employer's attitude toward the "traditional female" job prevents women from getting the nontraditional job. During World War II, women demonstrated they were capable of performing the "traditional male" job. A study done by Moore and Rickel shows that when women are given the opportunity to perform in a nontraditional occupation, they assume characteristics of the occupational role that were once perceived to be male traits.[9] Specifically, these women demonstrated a higher achievement and production orientation than females in traditional jobs. These findings show that the sex-linked attributes which supposedly define good performance are actually a result of the occupational role a person assumes in the organization.

*Economic Viewpoints*

There are a number of economic models used to explain sex discrimination and the subsequent earnings gap. Most are hybrid offshoots of economic theories of racial discrimination. One of the most useful theories is the monopsonist theory of imperfect competition.[10] In this model, male and female labor force participants are assumed to be perfect substitutes for each other. The monopsonist model predicts that the employer can gain from discrimination if he can segment the labor market when the segments of the labor market have different labor supply elasticities. If the female labor supply has a lower labor supply elasticity than the male labor supply, the employer can pay the female lower wages. As female wages are lower, discrimination becomes profitable.

When given the opportunity to perform in a nontraditional occupation, women assume characteristics of the occupational role that were once perceived to be male traits.

The monopsonist model does show that sex discrimination is not good for our economy.

The monopsonist model has also spawned a variant known as the "overcrowding" hypothesis. The hypothesis states that societal attitudes, monopsony (employer) power, and prejudice act to limit women to select occupations. Because women are "crowded" into certain occupations, it increases the marginal productivity and wages for men in those occupations (see clerical data cited previously) and decreases the marginal productivity and wages for women. The actual decrease or increase from overcrowding depends upon the cross-elasticity of substitution between the male and female labor. Economists then state that the overcrowding probably results in lower income and output for the economy as a whole because labor is not allowed to seek its most productive employment.

In summary, the monopsonist model shows that discrimination can lower the individual firm's labor cost, but the overcrowding due to the dual labor market causes a poor allocation of resources for the economy in general. The overcrowding variant does a good job of describing the current earnings gap situation faced by women. Societal attitudes, monopsonist power, and prejudice do act to limit women into certain occupations. While the monopsonist model is not an exact duplicaton of the real economic environment, it does show that sex discrimination is not good for our economy. If sex discrimination is not good for the economy, its existence must be stopped to fully utilize the labor force and to instill justice in employment. But historically speaking, the courts have not tried to stop sex discrimination in the labor force, the courts have reinforced the traditional sex roles that allow the segregation of females into the "secondary jobs."

*Judicial-Political Viewpoints*

The courts have historically reinforced the traditional sex roles when the legality of a denied job opportunity was questioned. The foundations of our legal system are heavily influenced by moral and social traditions, including the concept of male dominance.[10]. Not surprisingly, reliance on common law tradition has resulted in court decisions that have reinforced commonly held sexual stereotypes. For example, in the Supreme Court decision of 1872, the case of *Bradwell vs. Illinois;* a woman fought a state law that denied women licenses to practice law. The action was sought under the "equal protection clause" of the Fourteenth Amendment. In the opinion of the court, Justic Bradley felt, "the natural and proper timidity and delicacy which belongs to the female sex evidently unfits it for many of the occupations of civil life ... The paramount destiny and mission of women are to fulfill the noble and benign offices of wife and mother. This is the law of the Creator. And the rules of society must be adopted to the general consititution of things..."[11]

Other cases have also reflected the sex stereotyped thinking of the courts in regard to women and work. In the 1948 case of *Goesart vs. Cleary,* a woman was denied employment as a bartender on the basis of her sex. The Supreme Court recognized that women did have certain rights, but the state still could draw the line when it came to liquor handling.[12] In the 1971 case of *Williams vs. McNair,* the continuation of sex segregated education in two South Carolina universities was challenged by a group of males. The District court found there was reasonable justification for this and the case was appealed to the Supreme Court. The Supreme Court affirmed the lower court's decision without even giving a hearing.[13]

Court decisions have reinforced commonly held sexual stereotypes.

The Equal Pay Act and Title VII of the 1964 Civil Rights Act (and its amendments) have been useful in eliminating the use of common law in sex discrimination cases. These laws have resulted in several significant court rulings which favor women and should eventually serve to lessen the earnings gap.

In 1973, a class action suit was filed against A.T.&T. by a group of minorities and women. Twelve million dollars in back pay and incentives were awarded to those who were denied pay and promotion opportunities. A consent decree with nine major steel companies and unions resulted in $30.9 million back pay for minorities and female steel workers on the same grounds.[14] In 1978, General Electric entered into a conciliation agreement with minorities and women, estimated to have cost them $32 million.[15] Cases such as these have made a dramatic impact on employers for a need to examine their company policies regarding women. But enforcement of these laws in smaller firms is much less common and is unlikely to end the earnings differential. Some have expressed the view that affirmative action programs are more likely to lessen the earnings gap.

**Affirmative Action.** Two presidential executive orders exist which required all federal contractors to sign an agreement not to discriminate and to file an affirmative action program. The executive orders are a better tool than the Civil Rights Act for eliminating discrimination. The weakness of Title VII is that while it forbids discrimination in principle, it does not actually prevent discrimination; it merely provides a legal means to punish the offender. The executive orders require employers to demonstrate that discrimination is not present in their companies; it is a form of prevention for the disease of discrimination. These programs, which facilitate women's access to nontraditional (i.e., male) occupations in the labor force, should result in narrowing the earnings gap. The major weakness of the executive order is that many private employers are not required to engage in affirmative action. Whether affirmative action will eventually lessen the earnings gap will largely be dependent on the vigor with which its tenets are willingly followed and/or routinely enforced.

A system based on comparable worth will require new methods of job evaluation yet to be devised.

A number of other issues have a bearing on the future size of the earnings gap. Two of these are comparable worth and sexual harrassment.

## Related Earnings Gap Issues

*Comparable Worth*

Because the earnings gap is related to the occupational segregation of women, the implementation of a comparable worth compensation system could narrow the earnings gap. Comparable worth is the establishment of salaries for "women's jobs" which equal the salaries of jobs which require similar skill levels but are typically held by men. Comparable worth is intended to reduce the inequities left unresolved by the Equal Pay Act. However, no workable job evaluation method has yet been designed to handle the comparison of widely divergent jobs. Most compensation systems are tied to the external labor market, which reflects all the sex role biases we have discussed, and thus serves to benefit men.

An excellent example of latent sex discrimination in job evaluation is contained in the 1965 Dictionary of Occupational Titles (DOT) produced by the Department of Labor. The DOT was formulated to aid public and private agencies in evaluating, classifying, and compensating jobs with different skills. The DOT uses a six-digit code to classify 36,000 job titles by the occupational skill and complexity needed to perform the job. The last three digits of the code rates each job for complexity in relation to data (information), to people, and to things (mechanical ability). A descending order rating is used such that a rating of 878 signifies the lowest level of complexity possible for *any* job. A childcare attendant, nursery school teacher, homemaker, parking lot attendant, and rest room attendant were all given a rating of 878, implying that these jobs can be successfully performed by virtually anyone and that they involve little responsibility. Some comparisons of job ratings suggest additional flaws in the system. A practical nurse (878) is rated similar to a strip-tease artist (848), while a general duty nurse (378) is judged to be less skillful than a dog trainer (228.)[16] According to the DOT, a stripper and a dog trainer require more skill in working with people than either kind of nurse, respectively.

Although the DOT's example is obviously outdated, it shows the stereotypical attitude that is embedded in compensation and evaluation systems. It is probable that many firms', compensation systems still contain vestiges of sex discrimination and thus require modification. The installation of a system based on comparable worth will require new methods of job evaluation yet to be devised. Complete closure of the earnings gap is dependent on these new, yet to be designed compensation plans.

*Sexual Harassment*

The traditional sex roles have fostered the attitude that women are secondary contributors to the work force. This attitude is perpetuated by the assignment of men to positions of power in organizations which simultaneously provide opportunities to sexually harass women. In March of 1980, the EEOC published guidelines reaffirming its postion that sexual harassment is unlawful. The guidelines say that the employer is accountable for the acts of harassing employees in supervisory positions. The EEOC suggest that employers take preventive steps to insure that sexual harassment will not be tolerated and state appropriate sanctions. It is contended that if sexual harassment were reduced, one more non-job related factor would be removed from the compensation process and the earnings gap would be diminished.

## Conclusion

Our analysis suggests that the essence of the earnings gap lies in the expression of contradictory values within a partially government regulated economic system. More specifically, the problem we face is a contradiction between societal values and individual values. Society desires equal employment opportunities for all accompanied by fair compensation; in short, the elimination of the earnings gap. We tend to agree that majority interests (e.g., the greatest good for the greatest number, maximum aggregate productivity) and minority interests (e.g., protection of subgroup rights, fewer non-job related pay inequities) could best be served in the long run if the earnings gap were eliminated. Individually, however, our predispositions to act are the by-product of a rather lengthy socialization process. This socialization not only embraces attitudes toward sex differences but a proclivity to be egocentric and short term oriented in market place dealings. These latter values may manifest themselves in perpetuation of male superiority in the work force or, more probably, a willingness to perpetuate the earnings gap in order to lessen labor costs and remain competitive and profitable. That is, as long as there is an economic advantage which accrues to those who pay women less, the earnings gap will not be abated. Society, if it is to eliminate earnings gap discrimination, has two choices: (1) make it less profitable to discriminate through post-hoc legal-judicial sanctions or (2) attempt to alter the socialization process that lies at the basis of discrimination. Although choice (1) attacks the symptoms rather than the problem itself, one would expect it to be the choice of record given its prospects for immediate success in reducing earnings gap inequities. Altering the socialization process requires a much longer time frame with indefinite prospects for success. Some may regard the first alternative as another government imposed solution to a problem which should be resolved at the grass roots level. Instead, society is likely to endorse this strategy as a structural solution to an exceedingly complex problem that individuals find difficult to grasp and even more difficult to solve. Stated differently, this strategy is aimed at altering *behaviors* rather than trying to change *attitudes*. Ω

### NOTES

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[3]U.S. Department of Labor, *op. cit.*, p. 9.

[4]U.S. Department of Labor, *op. cit.*, p. 68.

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[6]U.S. Department of Labor, *op. cit.*, p. 5.

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[8]Shirley Weitz, *Sex Roles.* (New York: Oxford, 1977). pp. 89-90.

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[10]Cynthia B. Lloyd and Beth T. Niemi, *The Economics of Sex Differentials* (New York: Columbia University Press, 1979), pp. 160-162.

[11]Jerolyn R. Lyle, *Affirmative Action Programs for Women: A Survey of Innovative Programs* (Washington: Equal Employment Opportunity Commission, 1973), p. 37.

[12]*Ibid.*, p. 39.

[13]*Ibid.*, pp. 40-41.

[14]*Ibid.*, pp. 42-49

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[16]Blanche E. Fitzpatrick, *Women's Inferior Education: An Economic Analysis.* (New York: Praeger, 1976), pp. 173-176.

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# The "New Wave" of Decision Support Software: Is It For You?

## A Complement of the Information Center Concept

**By Bernard C. Reimann**

Do names like Express, IFPS, EIS, System W, Cuffs, Stratagem, or Xsim mean anything to you? If not, you may be missing out on an important, recent development in computerized decision support systems. If so, you may be among the growing number of executives who have had experiences similar to the following.

*A division controller in a large, decentralized financial institution has just completed next year's budget and is about to give the final copy to his division general manager, when he is interrupted by a phone call from corporate headquarters. There has been a last minute change in employee fringe benefits, which will have a significant impact on labor costs.*

*The year before a similar event might have come as a major shock and meant hours and hours of work to correct the many line items, consolidations, and allocations affected by the change. This time, however, it will be a matter of only an hour or so to change an entry in the new corporate model, rerun it, and print the revised departmental and consolidated divisional budgets. The controller will still be able to beat the deadline with time to spare.*

*A division general manager for a diversified manufacturer of capital goods is working on her five year strategic planning projections. While this is still not her favorite activity, she feels much better about it than she did a few years ago. She has a financial model of her division, driven by the unit sales volume of seven product lines. She starts by projecting these sales volumes, based on her understanding of industry and competitive trends, as well as other inputs, such as bottom-up forecasts from her sales force. Then the model turns the sales projections into five year forecasts of selected financial information including such items as profitability, net assets, and cash flow. Prespecified reports can also be generated quite readily.*

*Not long ago, it was a major effort to turn out just one five year plan and often there was considerable doubt about the validity of some of the resulting numbers. Now, thanks to the new computer model, she can easily develop alternative "scenario" plans, each based on a different set of assumptions. Typically she produces three alternative five year plans — pessimistic, optimistic, and normal. This makes the division manager less uneasy than she had been when she could develop only one set of numbers. Top management is happier because they get a more reliable set of planning projections, as well as a clearer idea of the degree of uncertainty implicit in the plans. What's more, headquarters also has a corporate model, including all of the twelve individual divisions plus corporate staff functions. The CEO, or the strategic planning staff, can use this model to play "what if" games to examine the impact of different strategies, and/or assumptions, on the bottom line. With careful research, plus some additional assumptions, it is also possible to analyze the financial impact of various combinations of acquisitions and divestitures.*

### Decision Support Systems

These two case studies illustrate some of the substantial benefits to be derived from a corporate decision support system (DSS). These DSS are not the same thing as MIS (management information systems). Where the major purpose of MIS is to give managers access to relevant information, the DSS is designed to select *and* manipulate information in ways which will help them make more informed decisions [Keen and Morton, 1978]. Such a DSS should permit the user to (1) Access relevant databases both internal and external to the firm, (2) Develop simulation models with which to manipulate and analyze large volumes of data, and (3) Display data and results in a variety of report or graphics formats.

### The Role of the Personal Computer

The newest generation of software for personal computers (PC's) offers some of these DSS features (e.g. Lotus 1.2.3, Multiplan). However, even the most advanced PC's fall considerably short on memory storage and computational power to provide a true, freestanding DSS.

A good PC's internal memory is more than adequate for relatively small databases with a limited number of variables and/or columns. However, it cannot handle the size and complexity of a large corporate database with multiple dimensions (e.g. line items and time periods classified by product, customer, territory, divisions, etc.) Even if a large amount of data could be downloaded to the PC, the process would be very time-consuming and risky from the standpoint of transmission accuracy.

Another problem with a DSS based on freestanding PC's is that of data security. With a mainframe system, experienced data processing professionals administer the process of managing and maintaining datafiles. With PC's this unfamiliar and tedious chore falls on the user who often does not do it very well.

Essentially the PC can manage a DSS, as long as it is fairly limited in scope, such as within a small firm or division. In a corporation with a large amount of data to be shared among many users, only a mainframe based DSS will be cost effective.

That is not to say that the PC cannot play an important role in a true corporate DSS. So far, however, its most effective role is as part of a network, rather than as an independent workstation. In such a DSS network, the PC can act as an interactive device for communicating with either the corporate mainframe, or with other mainframes, and/or PC's. It can also be used for limited local modeling, analyis, or display.

## "Fourth Generation" DSS Languages

A number of organizations have been using sophisticated DSS for quite a few years now. [Keen and Morton, 1978] Typically these systems were developed over a period of several years, at considerable expense, and with extensive involvement of the Data Processing function. The situations dramatized in the two case studies above are quite different in that the involvement of Data Processing personnel was limited to a relatively minor supporting role, and the time to develop the DSS was less than a year. This seeming miracle was made possible by the use of one of the new "fourth generation" financial modeling DSS languages.

These DSS software products are considered "fourth generation" languages because they are far easier to use than any of their predecessors (i.e. second or third generation languages such as COBOL, FORTRAN, or PASCAL). The developers of the new computer languages all had as their major goal to enable end users to build their own, custom-made DSS with little or no help from data processing. While not all seem to have been equally successful in this quest, several had managed to bring the enormous power of mainframe computing within easy reach of a rapidly increasing population of users. What's more, many of these new users are executives and professionals who either don't know, or don't want anything to do with, computer programming.

## Major Features of DSS Languages

Currently well over fifty vendors claim to provide mainframe DSS software (not including well over a hundred software products for PC's, such as Visicalc or Lotus 1.2.3, which are not in the same league as mainframe products with respect to power, flexibility, multidimensionality, etc.). So far only a dozen or so of these DSS languages appear to have had significant acceptance by industry, government, or educational institutions. All of these software products share a set of basic features (although to varying degrees) which make them particularly useful for do-it-yourself developers of DSS.

The Appendix gives a representative but by no means comprehensive selection of the DSS software products with which the author has some familiarity.

## Ease of Use

The bellweather of DSS languages is ease of use or "user friendliness" — especially for non-programmer users. This means that DSS builders can develop models, reports, or graphics with a relatively few, everyday English commands as opposed to the arcane hieroglyphics often needed by regular programming languages. Moreover, they don't have to concern themselves with the exact order, or "procedurality," of statements when building a model. Some languages even have extensive menus or prompting sequences to guide inexperienced users. On-line computer assisted tutorials are also available in a few cases. All vendors offer some sort of basic training for new users.

## Modeling and Interrogation

The real "guts" of a DSS language is its ability to model a variety of decision situations. All of the software products in the Appendix allow the user to create a set of complex equations to describe a given situation. However, the different languages vary greatly in their power and flexibility for representing complex situations. Some are limited in the number of dimensions they can handle beyond the basic two spreadsheet dimensions of time and line items or accounts. There are differences also in the ability to handle time as a special dimension, or in handling such added "complexities" as probabilistic or stochastic variables.

Perhaps the most dramatic and useful feature of these DSS languages is their highly flexible model interrogation capability. This feature allows the user to get virtually instantaneous answers to any number of "What If" or sensitivity interrogations. Users can substitute various different assumptions for one or more input variables (e.g. sales volume, price, or costs) and see the impact on the bottom line. Another useful feature is "goal seeking." Here users can specify a given end result value (e.g. profitability) and determine the input value(s) required to be able to attain the desired end result. This, of course, would be a particularly valuable feature when an executive is trying to come up with some idea of the alternatives available to achieve a particular objective. Similarly, the "what if" capability allows the user to test the effects of different events (such as new governmental legislation, changes in consumer sentiments, etc.) on the performance of the organization.

## Forecasting and Statistics

All of the better languages have some built in basic statistical and time series analysis functions. Only a few are able to handle sophisticated econometric forecasting models, including such functions as ridge regression and SABL seasonal adjustment. Generally speaking, those languages which excel in econometric forecasting are somewhat weaker in financial modeling.

## Reporting and Graphics

Many of the new languages really shine when it comes to effective display of information. Typically they make it very easy to develop customized reports or graphs. Not unexpectedly it is in this graphics capability where some of the key differences between competing products can most easily be seen. A few offer almost an unlimited number of options with respect to such things as individual labels for each of several different curves or bars, "exploding" pie charts, or highly customized legends. Others

are much more restrictive, allowing only a limited number of standard plot options. (An example of a convenient, easy to use, but highly limited graphics package is the one provided in Lotus 1.2.3.)

## Communications

A strong and significant recent trend is that of decentralized, or distributed computing, using a combination of a main frame computer and a large number of PC's throughout the organization. A critical consideration in this kind of system is the degree to which the DSS software facilitates or hinders communications between mainframes (both internal and external to the organization) and PC's. Several of the DSS languages listed in the appendix have developed effective and relatively easy to use linkages between mainframes and PC's.

## Data Management

Most of the DSS languages in the Appendix do not offer any built-in data management capabilities. This generally does not present a major problem until the DSS applications get fairly large and complex, with many different users. Then problems such as data file proliferation, data security, and ready access to "foreign" databases (either internal or external) start to surface. This is when users begin to appreciate the value of a data management feature. For most of the languages in the Appendix, users either have to manage their own datafiles or enlist the help of data processing and one of the commercially available data management software products, such as Info, Focus, or Adabase. Unfortunately, most data base management systems are not particularly user friendly. But even if they were, the process of linking the DSS' language with one of these data managers is very complicated and not at all "friendly," so that the user would require considerable help from data processing.

## Command Language

These fourth generation languages typically have another important feature which lets more advanced users expand and modify the language to suit their changing requirements. With this command language facility, the experienced develop a DSS for particular applications which can then be used by relatively inexperienced people. This can be done by building a "command file" which includes a set of predetermined prompts and/or menus to guide the user. For example, a staff member familiar with the DSS language can easily design a customized DSS for his boss (say the CEO) to make certain predetermined inquiries such as "How would a 10 percent drop in sales of hard core widgets for the Eastern division affect our corporate net earnings next year?" Or "What would our labor costs have to be in our Cleveland plant to give us a corporate return on sales of 5 percent?"

## Additional Considerations

The above seven features have been fundamental to the promise of these new DSS software products to "finally let management get its hands on the data." [Wolf and Treleaven, 1983]. It is these features which have made it possible for practicing line and staff executives with little or no prior familiarity with computers to tap into the virtually unlimited power of mainframe computers. In addition, there are three other factors to consider when comparing or evaluating the various competitive products in this area — cost, vendor support and hardware considerations.

## Cost Considerations

While the potential benefits of these fourth generation DSS languages appear undeniable, they naturally do come at a price, and a rather substantial one too. Two important cost components must be considered: (1) the initial cost of obtaining the use of the software and (2) the cost of installing the software and then getting it up and running on the in-house computer system.

*Initial Cost.* Most of the fourth generation languages in the Appendix are available for use either on a timesharing basis or on an in-house licensing arrangement. Timesharing has advantages and disadvantages similar to leasing equipment or hiring temporary personnel. Often it is a good way to get started with minimum risk, since most vendors have arrangements where a new customer can try out software on a timesharing basis for a period of a few months.

The current trend is clearly toward in-house computing. This arrangement typically includes an initial licensing fee to purchase a computer type containing the source code for the language. Then there is an annual maintenance fee of about 12-15% of the initial license fee to cover periodic "updates" or product improvements, as well as training, consulting, and other maintenance services.

Licensing fees vary a great deal, especially now that competition appears to be heating up. Some vendors offer a "complete" system or package for anywhere from $50,000 to $300,000. Like the automakers, many have "unbundled" their prices and offer a basic "no frills" system (say modeling only) for as little as $5-10,000, but if users want other options (e.g. forecasting, reporting, graphics, or communication) they still may wind up paying $100,000 or more.

*Installation and Running Cost.* A major cost for any new system is the time and effort required to get it to the point where it can be used for its intended purpose. For DSS software this cost typically outweighs the initial license fee by a substantial amount. Therefore, it pays to make sure the "right" software is installed in the first place [Reimann and Waren, 1984]. If the language has the key features needed by the prospective users, and is "truly user friendly" then the path toward effective use should be relatively free of major obstacles. A strong, supportive vendor organization is also a big help in implementing an in-house DSS. (Hardware compatibility issues are also important, but are not considered here due to the highly technical and complex nature of this issue).

## Vendor Support

Another factor which should not be overlooked when considering the acquisition of a DSS language is the quality of the vendor support organization. Some characteristics to look for include: quality and availability of documentation, training, consulting and frequency of major product enhancements, or "updates."

Since these software products are extremely complex and constantly being enhanced, it is also important to have a vendor organization which is able to support the product in all of these areas and will continue to be able to do so over the long term. Many of the firms offering DSS software have been in existence for only a few years

## APPENDIX

### Selected DSS Software Products and Vendors

| Product | Description | Vendor |
|---|---|---|
| CUFFS 88 | A non-procedural/procedural financial modeling language for IBM and DEC mainframes. | Cuffs Planning & Modeling Ltd.<br>201 East 87th Street, Suite 26C<br>New York, New York 10028<br>(212) 534-6404 |
| EIS | A comprehensive, integrated software package available through time-sharing or in-house on IBM mainframes. | Boeing Computer Services, Inc.<br>Division of The Boeing Company<br>P.O. Box 3707<br>Seattle, Washington 98184<br>(206) 251-3190 |
| EMPIRE | Comprehensive financial modeling package for DEC or IBM mainframes. | Applied Data Research, Inc.<br>Route 206 and Orchard Road<br>Princeton, NJ 08540<br>(201) 874-9000 |
| EXPRESS | A powerful, multidimensional modeling package for IBM or Prime computers. Time-sharing is available as well as a link to LOTUS 1.2.3. on PC's. | Management Decision Systems, Inc.<br>20 Fifth Avenue<br>Waltham, MA 02254<br>(617) 890-1100 |
| FAME | A procedural language for forecasting and financial modeling on DEC and IBM mainframes. | Gem Net Software Corporation<br>2175 W. Stadium Blvd.<br>Ann Arbor, Michigan 48103<br>(313) 663-4333 |
| FCS-EPS | Financial modeling software package available via timesharing or for in-house use on a wide variety of hardware. | EPS, Inc.<br>One Industrial Drive<br>Windham, NH 03087<br>(603) 898-1800 |
| IFPS | Non-procedural, English-like modeling language for use on wide variety of mainframes. Micro verson available also. | Execucom Systems Corp.<br>3410 Far West Blvd.<br>Austin, Texas 78731<br>(512) 346-4980 |
| MODEL | Comprehensive, modular, and procedural financial modeling language. Available for a variety of mainframe, mini, or micro computers. | Lloyd Bush & Associates<br>14679 Midway Road<br>Dallas, TX 57234<br>(214) 233-4549 |
| STRATAGEM | Versatile, multidimensional modeling package available for DEC and IBM mainframes. | Integrated Planning, Inc.<br>338 Newbury Street<br>Boston, MA 02115<br>(617) 267-5914 |
| SYSTEM W | Powerful multidimensional financial modeling language available through time-sharing or for in-house IBM mainframes. "Micro W" version for PC with linkage to mainframe. | Comshare, Inc.<br>P.O. Box 1588<br>Ann Arbor, Michigan 48106<br>(313) 994-4800 |
| XSIM | Comprehensive forecasting and financial modeling language for IBM mainframes. Can access vendor's own databases, and link to PC's. | Chase Econometrics/IDC<br>486 Totten Pond Road<br>Waltham, MA 02154<br>(617) 890-1234 |

and are quite small and financially weak (several have fewer than 20 full-time employees, for example). On the other hand, at least two of these firms have been acquired by large corporations recently. This would at least give them the financial backing to stay in business over the long term.

The various vendor organizations also differ considerably in their mix of support for training new users, and providing on-going client consulting services. These services can make all the difference between a smooth and relatively trouble-free software installation and an expensive exercise in frustration. References from other firms using the DSS software can be particulary useful in getting some idea of the vendor's level of support here. A visit to the vendor's headquarters prior to purchase is also suggested. If the vendor has a local support office, so much the better. This local office and its personnel should be checked out especially carefully, since this is where the bulk of the ongoing support will come from.

## Picking the "best" DSS Language

Finding the best DSS software product for a given user can be an exceedingly difficult and time-consuming process. The applications for which these products were designed are extremely varied and complex, and the software products naturally reflect this complexity. Due to the newness and rapid change of this field, there is little guidance available in the literature with the exception of a few articles which have appeared very recently [Bergstrom, 1982; Wolf and Treleaven, 1983; Meador and Mazger, 1984; Reimann and Waren, 1984]. The latter two articles provide particularly extensive lists of the key features of different DSS languages, as well as guidelines for their comparative evaluation.

Essentially this evaluation process boils down to the following:

1. Determine which features the prospective users (a) absolutely have to have, and (b) would just like to have.
2. Use this list of features to screen out those products which do not have one or more of the "must have" features.
3. Rank the survivors on the degree to which they incorporate both essential and "nice" features.
4. Arrange vendor visits and comparative "benchmark" tests for the four to six top ranked products.
5. Pick the one or two "best" of the remaining products and bring them in house for a "pilot test" of three to six months duration. The survivor of this last trial should stand an excellent chance of truly being the "best" product for the prospective users' application(s).

One final bit of advice on this selection process. Since this is a highly complex and specialized area for which few corporations have the expertise, the use of a reputable, experienced consultant who specializes in DSS software applications is strong-ly recommended. The cost will be minimal when compared to that of making the wrong choice.

However, if you prefer to make your own evaluation, here are a few suggestions which might make the task easier and more likely to yield satisfactory results. If you know of any organizations similar to yours which have recently purchased one of these DSS software products, the people involved in its selection may give you some valuable guidance. The vendors themselves can provide useful (though obviously biased) information on how their products stack up against the competition. Your local university is likely to have some experience with one or more of these software products, and may be able to provide some valuable (and relatively impartial) information.

A particularly useful device for comparing the performance of a limited number of different DSS products is a set of "benchmark" tests. An example of such a benchmark is some part of a potential application for the DSS, such as a financial model for a division or department. The test should involve as many of the critical DSS features as possible (e.g. data transfer, sensitivity testing, statistical analysis, report writing, graphics). Each vendor would be asked to complete the same benchmark test and provide documentation of all steps required. If possible, some rundown of resource usage should also be requested. This may not be as meaningful, since resource usage is a function of the particular hardware and operating system configuration used, and this typically differs considerably from vendors to vendor.

Finally, a consulting firm, Real Decisions, Inc., has put together a very useful handbook, *Financial Modeling Decisions,* which gives a summary of the capabilities of twenty or more DSS software products, including their performance on a set of benchmarks. This handbook, or information about specific products and vendors, is available for a fee.

## The "Information Center"

The DSS software products described in this article have a great deal to offer to executives in a variety of functions requiring the management of large quantities of information. Organizations which acquired these products for in-house use have typically experienced significant improvements in timely access to information in a form that management needs and can use.

This new type of software is rapidly becoming an effective complement of the "Information Center" concept being promulgated by IBM. Essentially this concept involves a transformation of the traditional data processing function from active involvement to merely providing technical and hardware support to users of information. The objective is to put total control of computing and information processing in the hands of the end-user. If your managers have problems getting their hands on the data they need, when they need it, perhaps it's time to look into what this "new wave" of end user computing software can do. Ω



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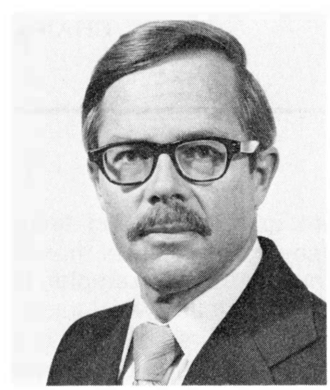


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# Work as a Central Life Interest in Male and Female Senior and Staff Accountants in Large CPA Firms

**By Marc Levine**

The field of accounting is gaining popularity among all students, both male and female. In 1972, 23,800 individuals graduated with a bachelor's or master's degree in accounting. Twelve years later, in 1984, it is projected that 61,910 persons will graduate with comparable accounting degrees (American Institute of Certified Public Accountants, 1983). This represents a projected increase of 260 percent. Women are currently graduating with accounting degrees and are entering the accounting profession in ever-increasing numbers.[1] In 1972, the percentage of females graduating with an accounting degree was approximately 10 percent (U.S. Department of Education, 1980).[2] In 1984, it is projected that 46 percent of all accounting degrees will be awarded to females (American Institute of Certified Public Accountants, 1983). In addition, large accounting firms have indicated that females represent from 30 percent to one third of their entry level professionals.[3] The American Institute of Certified Public Accountants (1983) projects that the demand for female accountants with bachelor's or master's degrees will increase to 39 percent of all recruits in 1984.

These data suggest that things have been improving; however, women are still struggling for advancement in the accounting profession. For example, the largest national public accounting firms, known as the "Big Eight" have hundreds of male partners each, but women partners are virtually nonexistent in these organizations. In December, 1977, the "Big Eight" had a total of 4,918 partners. Of this number only 18 were females, constituting approximately .4 percent of the total.[4] Although there are no published data on the number of women actually working for the "Big Eight" then, the .4 percent representing 18 partners is conspicuously low.

A recent article in *Forbes* Magazine, "Ms. CPA," indicated that in 1981 things had only slightly improved. In that year, Peat, Marwick, Mitchel and Company elected 125 new partners, of whom one was a woman. Arthur Andersen picked 168 partners of whom all but three were men. Arthur Young elected 57 partners including three women. Price Waterhouse's 36 partners had none. Deloitte Haskins & Sells included three women among its 64 new partners. Coopers & Lybrand had one out of 70 new partners. Touche Ross added two women out of 58 new partners, and Ernst & Whinney elected one woman out of 75 new partners. In summary, of the 653 new partners chosen by the "Big Eight" in 1981 only 14, or approximately 2 percent were female. Public accounting seems to be communicating to women a message that was initially expressed by Richardson in a 1923 article in the *Journal of Accountancy* which read: "The prospects for women in the field of accounting are not brilliant... In public accounting it must be admitted with regret that the woman who succeeds is the rare exception."[5]

What perception on the part of the management of these large public accounting firms has contributed to the obvious discrimination against women? A part of this discrimination may be based on the belief that female accountants place less of an emphasis on their work and careers than their male counterparts. For example, do female accountants who are currently in the process of advancing up the public accounting hierarchy have a significantly different attitude toward their work than their male counterparts? It is important that objective, empirical data be derived to either support or refute this belief.

The purpose of this study is to make such an empirical determination using a social psychological construct known as "work as a central life interest." Specifically the study will seek to ascertain whether female senior and staff accountants working in large CPA firms are as likely to indicate a central life interest in their work as comparable male accountants of the same rank.

Work as a central life interest is defined as the importance individuals place on their jobs; i.e., it is a mental association that one develops toward work. Dubin (1956) further defines this concept as the focal arena of individual preferences for behaving when given a choice of behavioral settings.[6] An individual may be said to have a central life interest in work when he chooses the work setting as the preferred locale for behaviors that might otherwise be carried out in nonwork settings.[7] Hence, work occupies a focal part in the person's life such that he prefers participation in work and work-related activities over participation in nonwork activities. Central life interest in work is also significant for work institutions because the strongest effective self-

**TABLE I**
**Gender of the Senior and Staff Accountants Responding to the Study Questionnaire**

| Gender | Absolute Frequency Senior | Absolute Frequency Staff | Relative Frequency (%) Senior | Relative Frequency (%) Staff |
|---|---|---|---|---|
| Male | 254 | 369 | 72 | 61 |
| Female | 101 | 240 | 28 | 39 |
| Totals | 355 | 609 | 100 | 100 |

**TABLE 2**
**Comparison of Gender with Central Life Interest Classification for The Senior Accountants Responding to the Study Questionnaire**

| | Absolute Frequency Male | Absolute Frequency Female | Relative Frequency (%) Male | Relative Frequency (%) Female |
|---|---|---|---|---|
| Indicating a Central Life Interest in Work | 74 | 24 | 29 | 24 |
| Not Indicating A Central Life Interest in Work | 180 | 77 | 71 | 76 |
| Totals | 254 | 101 | 100 | 100 |

**TABLE 3**
**Comparison of Gender with Central Life Interest Classification for The Staff Accountants Responding to the Study Questionnaire**

| | Absolute Frequency Male | Absolute Frequency Female | Relative Frequency (%) Male | Relative Frequency (%) Female |
|---|---|---|---|---|
| Indicating a Central Life Interest in Work | 91 | 49 | 25 | 20 |
| Not Indicating A Central Life Interest in Work | 278 | 191 | 75 | 80 |
| Totals | 369 | 240 | 100 | 100 |

investment of an individual is made in the institutional setting that is his or her central life interest.[8] Individuals who indicate a work orientation (a central life interest in work) have been evaluted independently as being upwardly striving,[9] more committed to their organization,[10] less alienated and indifferent[11] and more satisfied with their jobs[12] than the nonjob oriented.

If male senior and staff public accountants are more likely to indicate a central life interest in their work than their female counterparts, then this study might help explain why women are not reaching the upper echelons of the public accounting profession. However, if a difference is not found, then an important reason which may be used to explain what is blocking women from these positions would be eliminated.

## The Study

Data on senior and staff accountants of large CPA firms were accumulated to derive support for the conjecture that female senior and staff accountants are as likely to be classified work-oriented as measured by their responses on the Central Life Interest Inventory (CLI) as their male counterparts.

The target population of the study included the audit senior and staff accountants of the New York City offices of large CPA firms. These firms consisted of "Big Eight" and other national CPA firms whose gross revenues for 1980 were in excess of $20 million each. Eleven firms agreed to participate in the study. About 2100 questionnaires were sent to 100 percent of the senior and staff accountants of these firms. Of the potential respondents, about 32 percent were females.

To insure representativeness, a second request follow-up mailing was also generated. Since all initially returned questionnaires were anonymous, second requests were mailed to all of the individuals of the firms in the target population that agreed to participate in a second request mailing.

*Instrumentation*

Dubin's (1956) "Central Life Interest Inventory" (CLI), a highly reliable, validated instrument, was used to measure the expressed work orientation of senior and staff accountants working in large CPA firms.[13]

The Central Life Interest Inventory comprises 32 items[14] dealing with membership in formal organizations, technological aspects of the environment, informal personal relations, and general everyday experiences. These categories were selected by Dubin and his colleagues because the questionnaire was designed to determine whether the workplace is the central life interest of individuals or whether other areas of their social experience are important to them. Using the questionnaire individuals of the study were classified as either having or not having a central life interest in their work.

## Findings

Questionnaires were received from a total of 965 senior and staff accountants. This represents a return rate of 46 percent of the 2100 questionnaires that were mailed out by the participating CPA firms. Thirty-seven percent of the total respondents represented senior accountants and 63 percent represented staff accountants.

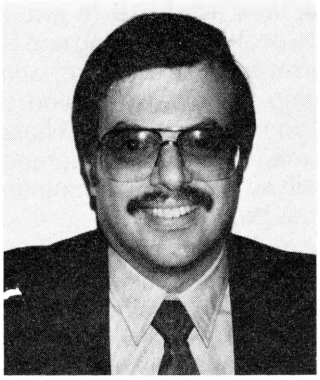
Of the 355 senior accountants that responded, 254 (72 percent) were male and 101 (28 percent) were female. Of the 609 staff accountants that responded, 369 (61 percent) represented males and 240 (39 percent) represented females. These data are summarized in Table 1.

The results of the questionnaires were analyzed separately for senior and staff categories. The results are shown in Tables 2 and 3 which compare gender with central life interest classification. Table 2 analyzes the outcome of responses of the senior accountants of the study. As shown, 29 percent of all male senior accountants were classified as having a central life interest in work while 24 percent of female senior accountants were so classified. Statistically this gender difference was found to be insignificant.[15] Table 3 analyzes the outcome of responses of the staff accountants of the study. As shown, 25 percent of all male staff accountants were classified as having a central life interest in work while 20 percent of the female staff accountants were so classified. This gender difference was also found to be insignificant.

A separate analysis of individuals who responded only after a follow-up letter was also performed. The result indicated the same non-significant outcome regarding gender differences.

## Conclusion

As was indicated, there has been a conspicuously low number of women in the upper echelons of the hierarchy of large public accounting firms. If, for example, male accountants were more likely to indicate a central life interest in work than women, then this study might have helped explain why women have not been reaching the upper levels of large public accounting firms. However, the results of the tests performed indicated that there was no significant difference between males and females regarding the likelihood of being classified work oriented. Therefore, this finding lends no support to a conventional explanation of why women have been blocked from upper levels of the public accounting hierarchy. It does provide a further argument for the elimination of barriers against women. Ω



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### NOTES

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## Electronic Data Processing

# Choosing Computerized Tax Preparation Aids

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The computer, with its speed and reliability, is an ideal tool for use in the preparation of tax returns. Its speed makes it possible to handle many calculations quickly and, in most cases, the results can be provided directly on tax forms ready for filing.

The continuing technical and economic developments in the field have lowered the effective cost of computerized tax preparation. Tax practitioners considering the use of computerized procedures have two basic choices: use of a computer service bureau or use of an in-house facility. The widespread availability of microcomputers and the accompanying increase in marketed software systems for both large and small scale equipment makes the choice of an in-house facility a viable alternative for even the smallest practice units. The choice between a service bureau or an in-house facility will depend upon a number of factors: relative cost, the profile of the practice (kinds and complexities of returns), and staff resources of the practice unit.

### Use of Service Bureaus to Prepare Tax Reports

When a service bureau is used, the returns are prepared at the service bureau based on data provided by the tax accountant and results (tax returns or schedules) are provided back to the tax accountant. This approach is popular with accountants who aren't ready to deal with selecting and acquiring hardware and software, and with managing the installation and operation of an in-house facility. These problems are lessened considerably with the availability of microcomputers, but still must be addressed.

Input (the client data) can be provided to the service bureau in either batch mode or on-line (an option which is becoming increasingly popular). With the batch system, input forms are filled out for each client. These are then sent (by mail or through a pick-up service) to the service bureau which processes the input and sends the completed returns to the accountant. In most cases collating has been done and an instruction letter for the client and a bill is included. The accountant must, of course, check the return in some way to detect any errors in input.

The on-line systems utilize computer terminals located in the practitioner's office which transmit the information directly to the computer center. Data can be inputted directly from the information at the accountant's office. This eliminates the need for input forms and reduces the possibility of errors since the information need only be handled once. The resulting return may be printed out on this terminal or the service bureau may print the return on its high-speed printer and also collate it. There are various options in the method of printing, paper used, etc.

The initial review of service bureaus must establish whether their services are appropriate. Not all tax service bureaus handle corporate returns. In preparation of individual returns, some will handle more schedules than others. If the client base has a high incidence of certain types of tax schedules, the ability of a given service bureau to handle those schedules is a critical selection factor. In other cases, the relative cost of manually completing those schedules the service cannot handle may be more than the savings obtained from selecting a bureau with a less complete service, but a lower price schedule.

When evaluating service bureaus, price is, of course, important. Charges are usually quoted on the basic return, plus fees for individual schedules. However, price alone is not the only important consideration. Stability and reliability of the vendor should be assessed (how long has the service been in business, is it growing, etc.?).

A fully computerized system has a higher cost but saves by requiring less staff time. Client instruction letters, labels, tax estimate vouchers, client invoices, envelopes and other items may be charged for separately. Some companies have free pick up and delivery service. Mail service will add to the turn-around time. The complexity of the input forms has a bearing on how easy it will be to do them correctly. Can they be easily understood and filled out?

Other special services may be available that may influence your choice of company. An important item to consider is how late and amended returns are to be handled. Collation, reruns and handling of errors are some other considerations. Turn-around time is an important item; some companies offer faster service (costs more). Pro formas (partially filled out input sheets) are another time-saver to consider. What type of training is available? Are there minimum fees, registration fees? What about supplies? These are all items to consider when evaluating a tax service.

## Installation of In-House Tax Preparation Facilities

For most tax practitioners the decision to provide "in-house" computerized tax preparation facilities will mean purchase of pre-written tax software. For all but the largest organizations, the cost of purchased software will be less than the cost of in-house development (design, programming, testing, etc.) This is especially the case for the microcomputer (and even some minicomputer) environments.

There are relatively few sources of concise and comparative listings of available software. The DATAPRO and Auerbach services are useful but not completely helpful to the tax practitioner whose knowledge of computers is somewhat limited.

Among the tax accounting systems described in DATAPRO are:

- ALLTAX TAXING SYSTEM (Management Science America, Inc.)
- CORPTAX (Financial Decision Systems, Inc.)
- FEDERAL INCOME TAX RETURN SYSTEM (General Computer Systems Corp.)
- FORETAX (Information Systems of America, Inc.)
- SOFTWARE 1040 (1040 Software, Inc.)
- TAX PAX: THE 1040 PACKAGE (Program Systems, Inc.)
- TAX 1040 (Management Control Systems)
- TAX LINE (P.B.S. Computing)
- PLAN 1040 (1040 Software, Inc.)

Other useful sources of information are publications of the professional societies and various other accounting publications. Many software packages are designed for specific hardware and do not have any applicability elsewhere. In the small practice environment the selection of the software will probably determine the choice of the hardware. In other cases, hardware availability will determine (or restrict) the choice of software.

In selecting software, numerous factors should be considered. A clear and accurate understanding of the accountant's practice needs is important because the first step is to seek out software which performs the specific functions needed. Processing needs are affected by the choice of schedules to be computerized, the volume to be processed, and the type of returns (federal/state/local; income tax/personal property/sales tax) to be processed. Then factors can be considered such as the reliability and reputation of the vendor; the popularity (universality) of the software package (frequently an indicator of its acceptability); vendor support for training, maintenance and updating of the software.

Another complication in the purchase of any software package can be problems with warranties and copyright issues; because the packages are usually sold with a license to use "as is", the user assumes all risks for the way the package operates and is limited in modifying the program. A critically important factor in evaluating software is the vendor's procedures for timely updating and maintenance of package programs and for distribution of these program updates/changes to purchasers of the software.

For offices with substantial tax practices, in-house computerized tax preparation can provide savings in time and money. These savings usually are not realized in the first year of use (when procedures are being developed and learned), but do occur in subsequent years of use.

The choice between use of a service bureau or an "in-house" facility has to be made by each individual practice unit based on the needs by that unit. An in-house facility can provide greater flexibility and control for those tax practitioners who have a sufficiently large volume of tax work or who are willing (or find it feasible) to allocate the time and effort to acquire and manage such a facility. For practice units whose volume does not justify such expenditure or whose staffing patterns do not support such an effort, the service bureau is an excellent resource. In either case, the efficiencies, and thus the cost reductions, provided by computerizing the preparation of tax returns are critically important in maintaining a viable professional service. Ω

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# Reviews

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## Megatrends: Ten New Directions Transforming Our Lives

by John Naisbitt, Warner Books, Inc., New York, 1982, 290 pp. Hardback, $17.50; Paperback, $3.95.

Is America, indeed the world, in a process of transformation economically? politically? socially? If a major restructuring is taking place, what is the direction of life? of business? John Naisbitt answers these questions with ten trends identified through content analysis of local newspapers. A newspaper is a closed system; when a new preoccupation gains prominence an old one is dropped to make room for the new. Two million local articles across the U.S. were analyzed over a 12 year period yielding Naisbitt's framework for the new society.

**From an Industrial Society to an Information Society.** The agricultural society was man against nature; the industrial society was man against fabricated material; the information society is people interacting with other people. Beginning in 1956 with the transatlantic telephone we begin an era of the globalization of information and a shifting of our economic base. In an industrial society, capital is the scarce resource. In an information society, knowledge is the critical ingredient and knowledge is adequated with power.

Documenting the information economy is difficult, but in 1967 an information specialist found that the information economy (buying and selling of information) accounted for 46 percent of GNP and more than 53 percent of earned income, and the information economy was in its early stage. Now, more than 60 percent of the labor force works with information, 13 percent are engaged in manufacturing, 12 percent provide services and 3 percent are farmers. The information occupation is the only sector that is growing. We may have information overload but we are still starved for knowledge.

Technology proceeds in three stages; (1) a line of least resistance; (2) improvement of previous technology; and (3) new directions. Calculators, push button telephones, and computer games were readily accepted as they did not threaten anyone. Microprocessors in typewriters and cars just improved mechanical things we already had, but introducing technology such as robots, to perform industrial tasks faces resistance. "Technology is seen by labor as management's latest tool for harnessing workers." In an inmation society two languages will be required as computers penetrate the work place! English and computers.

An information society is literacy intensive. However, Americans are moving toward virtual scientific and technological illiteracy due to a shortage of high school science and math teachers and college-level computer science and engineering teachers. Corporations have had to enter the education business to rectify the inferior products emerging from high schools and colleges.

**From Forced Technology to High Tech/High Touch** "We must learn to balance the material wonders of technology with the spiritual demands of our human nature." A highly personal value system evolves from the impersonal nature of technology. Naisbitt reasons that without a high touch component, high tech is rejected, i.e., metrics, electronic funds transfers, teleconferencing and shopping. The high touch dissonance of polygraph tests, concern about privacy and telephone answering machines infuriates people. "Perhaps it is the high touch need to be together that enables us to tolerate the high levels of density we experience in many crowded cities."

**From a National Economy to a World Economy.** The U.S. no longer dominates the world's economy nor has an economy that is self sufficient. An increasingly interdependent global economy is emerging as we experience a global redistribution of labor and production. The twenty fastest growing economies for the period 1970-1977 were all third world countries (not all oil-producing) who are taking up the world's industrial tasks. Naisbitt reports that Spain and Brazil are replacing Japan and Sweden as shipbuilders and the mammoth work forces of the Third World are replacing the U.S. as providers of apparel, steel and automobiles. The automobile industry has become globalized with production sharing by many countries.

The U.S. has two separate economies: the sunset economy of the industrial age and the sunrise economy of the information age. Examples of sunrise industries are electronics, biotechnology, alternative energy sources, mining of seabeds and robotics. Naisbitt does not believe the U.S. has been in recession recently, but rather a structural adjustment toward the sunrise industries.

**From Short Term to Long Term.** American business management is criticized throughout the world for its short term orientation: the numbers. Naisbitt puts the responsibility primarily on financially oriented business schools and businesses that reward and promote on a quarterly profit basis. Long term strategies of technological innovation that create wealth are not emphasized in professional management education.

Businesses need to develop a broad based concept of what business they are in. The great lesson for business was the railroad's failure to conceptualize their business as transportation. The conceptualization process is a constant ongoing process converging on the business' strategic purpose or vision. The corporate vision must acknowledge economic power changes as the components of the economy change.

**From Centralization to Decentralization.** Information societies are decentralized societies. Politics, geography, social relationships and social institutions in America are in the process of being decentralized. Special interest magazines, special interest cable stations, local initiatives, regional cohesiveness found in energy rich Western states, regional airlines, and labor union problems are all evidence of the decentralization trend. State and local governments emerge as the most important political entities in America as people rebuild America from the bottom up. Economically we no longer have the industrial society centralized needs of materials, labor and capital. The results of decentralization will be more "centers" that in turn yield more opportunities and choices.

**From Institutional Help to Self Help.** Naisbitt purports that it is the failure of the institutions we depended on for four decades (medicine, corporations, government and schools) that has caused a reclaiming of self reliance. In medicine, three major trends have emerged: (1) a newfound responsibility for health; (2) self-care; and (3) a pattern of wellness, preventive medicine and wholistic care. An increase in available venture-capital has stimulated the movement of individuals away from large corporations to entrepreneurial activities and small businesses. With a declining quality of education, many are supplementing their education at home. Self-help and mutual aid programs are found in every conceivable area from food to crime.

**From Representative Democracy to Participatory Democracy.** We lack genuine leaders because followers create leaders and a well educated American electorate likes to make their own decisions. People want to be a part of the decisions that affect their lives. The representative system continues only because we have always had it and we don't want to vote on every issue. But political power is being pulled away from elected representatives by direct ballot vote on initiative/referenda and through grassroots political activity. Naisbitt reports that we are also reforming corporate structures to permit workers, shareholders, consumers, and community leaders a voice in corporate decisions, a change from top down to bottom up.

**From Hierarchies to Networking.** Networks are people talking to people in either an informal or an organized transfer of data or exchange of knowledge. The traditional organizational heirarchy that slows down the flow of information is being replaced by networks. The individual is at the center of a network with values placed on equal communication with flows in any direction, up, down, diagonally, or laterally. A network style will be the new management style as American corporations blend their short-term orientation with Japanese-type long-term programs in employment, responsibility, evaluation, control and decision-making. There will be many, small participatory units. Naisbitt feels that a network management style will give Americans the sense of belonging that is needed.

**From North to South.** Naisbitt chronicles the political, demographic and economic shift from the North to the South with five key points. First, the shift is more accurately one to the West, Southwest and Florida. Income, locations of sunrise industries, and homes of presidents have moved westward. Second, the sunbelt boom is not at the expense of the North. There are two different trends. The Northeast is experiencing the decline and stagnation of mature industries while the South and the West conduct a national search for energy and provide a location for sunrise industries. Additionally, an overpopulated Northeast is decentralizing to the West and South. Third, the shift is gaining momentum and is irreversible in our lifetime. Fourth, the states that have experienced growth in absolute population and income numbers, as well as an increase in growth rates, are Texas, California, and Florida. All three states have an international orientation as gateways to other parts of the world. Last, all of the physical and social infrastructures in the North are losing their tax base for support while the South is forced to duplicate the infrastructures of schools, sewers, transportation, hospitals, protection, etc. Naisbitt identifies ten cities of great opportunity, all in the Southwest and West: Albuquerque, Austin, Denver, Phoenix, Salt Lake City, San Antonio, San Diego, San Jose, Tampa and Tucson.

Megatrends is recommended reading for all as a changing society affects everyone.

**From Either/Or to Multiple Option.** There is something for everyone. Today's family no longer has a typical profile. There are no dominant schools in the arts. Individuals have more career options. Religion is experiencing a revival similar to the one in the mid-1700s as we transformed from an agricultural society to an industrial society. Specialty foods, cable TV, and cultural diversity are other evidence of multiple options in this time of greater opportunity in education, the arts, religion, work and the market place.

We are in a time between eras as we cling to the past and fear the uncertainty of the future. The U.S. must take the lead as we change from physical power to brainpower, as the place of government is being redefined, as management structures are changing and our population is relocating. Opportunity abounds if we have a clear vision of the road ahead.

There is an excitement in *Megatrends.* It stirs the intellect and makes you want to share it with others. The trends Naisbitt outlines are visible in our society today. He does a commendable job in refraining from attempting to be a prophet. *Megatrends* simply attempts to array what has already happened in America into ten major trends. Since we live in a global society, however, the question that now needs to be addressed is whether these trends can be confirmed beyond an American perspective. Ω

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# Developing an Effective Advertising Campaign

## Helps Create an Effective Professional Image

**By Terri L. Hollingsworth and Clifford E. Hutton**

Six years have passed since Rule 502 of the American Institute of Certified Public Accountants was amended to permit CPA firms to advertise. Many firms have not taken advantage of this privilege. The story is told that after telegraph wires were strung across Asia and western Europe, Disraeli, conscious of the communications triumph, asked Queen Victoria what she had to say to her subjects in Calcutta, thousands of miles away. "I have nothing to tell them," she sadly replied. Similarly, with the opening of new frontiers for reaching the public, members of the accounting profession must first decide whether they wish to speak out and exactly what they have to communicate in advertising media.

Traditionally, members of the accounting profession have not advertised. They have sought new business aggressively through referrals, Rotary Club memberships, public speaking engagements, country club memberships, and other indirect and subtle methods. The environment changed with a Supreme Court ruling in June of 1977. The particular case involved advertising by two Arizona attorneys, and the court ruled that the Arizona Bar Association's restrictions on advertising were unconstitutional in that they violated the right of free speech guaranteed by the First Amendment to the U.S. Constitution.[1]

In keeping with the court's decision, the American Institute of Certified Public Accountants amended Rule 502 of their code of ethics to read, "A member shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive. The direct uninvited solicitation of a specific potential client is prohibited."[2] The essence of Rule 502 is that advertising and promotion is permissible and should be informative, objective, tasteful, and professionally dignified. According to Susan R. Whisnant, contributing editor of *The CPA Journal*, false, misleading, and deceptive methods are those that:

- Create non-realistic expectation of favorable results.
- Imply that the CPA has a persuasive influence on courts and regulatory agencies.
- Consist of self-laudatory remarks that are not based on verifiable facts.
- Make unfavorable comparisons with other CPA firms.
- Contain testimonials or endorsements from clients or others.[3]

Interpretation of 502-4 of the code of ethics originally prohibited AICPA members from claiming to be experts or specialists, but that restriction has since been lifted.

Many accountants believe that advertising, when done responsibly, can be beneficial to both the members of the profession and the general public. Advertising is a tool that can enhance the image of a particular firm, and the profession in general, and can educate the public to realize the value of accounting services.

### The Effective Campaign

C.H. Sandage, Vernon Fryburger, and Kim Rotzoll presented a useful model for building a media plan in their book *Advertising Theory and Practice.* Their "four W's" in media planning are:

1. Who do we want to reach?
2. Where are they located?
3. What is the message?
4. When do we advertise?[4]

In any advertising, the aim is to reach a target market. For accounting firms, this market includes all the enterprises, profit and non-profit, in the American economy. Many accounting firms have chosen to focus on small and medium-sized businesses who are not presently availing themselves of the services of an accountant. Other firms, particularly those in large metropolitan areas, have attempted to reach customers that have recently moved to their area. Implied in the "targeting" process is an internal assessment by the firm of their differential advantages. The company's strengths, as well as their resources and personality should provide the proper guidance to selection of the target market or markets.

How does an accounting firm reach their targeted market? Many choose to place advertisements in such publications as *Business Week, Forbes, The Wall Street Journal,* and *Dun's Review,* as well as local newspapers. Correctly designed print ads are not only effective, but are considered to be more tasteful than direct mail or telephone solicitation. Radio and television have also been used, although with less frequency.

Two types of advertising are often cited by authors: institutional advertising and product advertising.[5] Institutional advertising generally does not relate directly to specific areas of business and is useful in creating an overall firm or professional image. Product advertising, on the other hand, involves informing the public about the scope of the firm's overall or specialized services. Such advertising may also include information on pricing, location of the business, and number of years in operation.

Thomas D. Wood and Donald A. Ball have conducted a series of interviews to determine the criteria by which businesses choose their particular accounting firm. The results, in order of importance are:

1. Technical expertise in the client's field.
2. General technical competence, as evidenced by being a CPA.
3. Sufficient size to provide backup, when necessary, and specialists, if needed.
4. Reputation based on recommendations of business associates, attorneys and bankers.
5. Ability to get along with the client.
6. Price.

To aid the accountant who prepares individual tax returns, Wood and Ball conducted another survey to determine what criteria was used to choose a tax accountant. Wood and Ball theorized that price would be the most important consideration, but the results of the survey indicated otherwise. The criteria, ranked in order of importance, are:

1. General technical competence as evidenced by the CPA certificate.
2. Technical experience in a specific field.
3. Recommendation of bankers and attorneys.
4. Price charged.
5. Availability of accountant.
6. Length of time in practice.
7. Recommendations of friends, civic clubs, churches.
8. Location of office.
9. Size of accounting firm.[6]

Although price was ranked high by this target market, it was not the most important consideration. The survey results indicate that the accountant should emphasize technical competence when attempting to reach either market.

The timing of an advertising campaign can be critical. For example, timing of an advertisement to coincide with a tax season may result in new business. The regular issue dates of printed media and specific time units on television and radio let advertisers select the best month, week, day, minute and second when their messages will be seen, read, and heard by the target market.

Advertising should emphasize technical competence.

In an initial campaign, most accounting firms probably should use a professional public relations firm. Such an outside consultant can be utilized to design brochures, to introduce the company to business editors of various publications, to prepare news releases for these publications and to perform public opinion surveys which give the accounting firm an indication of its current public image. Gerald A. Hanggi, Jr., has developed guidelines to aid companies in selecting the proper media consultant. An accounting firm should ask:

1. Is the consulting agency involved in any way with my competitors so as to create a conflict of interest?
2. What is the agency's history and growth record?
3. How many accounts are handled by the agency and does it have time to service my account?
4. What percentage of the agency's clients are service oriented?
5. What is the agency's record for retaining accounts?
6. How do media representatives and other clients feel about the agency?
7. Who will be assigned to my account and can I feel comfortable with this individual?
8. What is the consultant's fee?

## Mistakes To Avoid

Undoubtedly many accounting firms have wasted a lot of money on campaigns that produced few results. Irwin Braun, author of *Building A Successful Professional Practice With Advertising*, commented that most ads he observed were poorly conceived. According to Mr. Braun, seven of the most common mistakes that accountants make in advertising are:

1. Failure to target the proper market segment.
2. Using an all-purpose ad; one that is so general that it fails to distinguish your firm from the competition.
3. Running a one-shot ad. To be successful, advertising should be continuous.
4. Saying too much. The effective ad should be simple, concise, and easy to read. Too often an excessive amount of text is squeezed into a tiny space, forcing the type to be too small to be clearly read.
5. Using a "bland" ad; one that fails to capture the eye.
6. Placing what is referred to as a "business card" ad. The headline of an ad is critical in attracting attention and nothing can bore a reader more than seeing a mere name in bold type.
7. Using the wrong medium. Many firms use only print ads, when they could use a media mix to reach all of the target audience, rather than a small segment.[8]

## Experiences in Advertising

CPA firms have traditionally been indistinguishable from one another to the general public and even to many users. Effective advertising should set a firm apart from the rest. Deloitte Haskins & Sells built a successful campaign around the theme "Beyond the Bottom Line." Arthur Young's "Speaking Out" series was dropped because management had difficulty in determining measurable benefits.

The San Francisco firm of Siegel, Sugarman & Seput was one of the first small CPA partnerships in the country to advertise. Their seven week experimental campaign appeared primarily in city publications and trade journals in the fall of 1978. SS&S carefully tailored the ads to their target market — small, growing companies — and established a series of controls and measurements. They set three goals: attract new business; preserve the firm's reputation; and obtain supportive feedback from other members of the accounting profession. That "unprofessional" advertising could damage the firm's image was a concern. An advertising agency was hired and to avoid the pitfalls of committee decision-making, one partner, Arnold Siegel, assumed full creative responsibility.

The budget was set at $25,000 ($16,000 for media and $9,000 for creative and production costs). The partners agreed that the campaign would be considered a success if it attracted clients with gross annual billings of at least twice this expenditure. The ads worked: SS&S estimated new clients engaged as a result generated at least $50,000 annually. The company received compliments from CPA's across the country, professionals in other fields, such as law and medicine.[9]

One small Montana firm developed an indirect approach to advertising that not only fulfilled the objectives of advertising, but also provided a public service. The company publishes a weekly column in three area newspapers that provides useful information in areas of interest to most readers. Topics have included "The High Cost of Dying," "Mistakes Made in Buying or Selling a Business," "Safe-Deposit Box Contents," and "Should I Incorporate?" The articles have succeeded in keeping the firm's name in the public eye and many new clients have come to the firm with specific problems identified in the column. Others were impressed by the column and for the first time recognized the need for a CPA.[10]

## Conclusion

Although some accounting firms have considered the cost of advertising to exceed the revenue generated by new business, many firms have engaged in some form of advertising during the past six years. As competition increases, advertising by accountants will increase. These advertising programs should be in good taste and preserve the dignity of the profession. Ω

### NOTES


[1]Thomas D. Wood and Donald A. Ball, "New Rule 502 and Effective Advertising by CPA's," *The Journal of Accountancy*, June 1978, p. 65.
[2]Thomas D. Wood and Donald A. Ball, p. 65.
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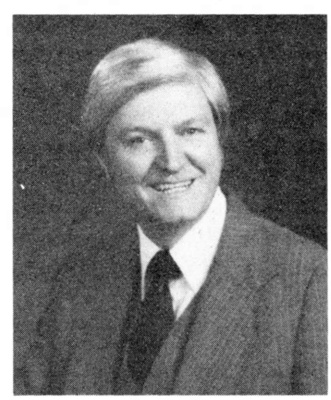


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