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BOOK REVIEWS

VICTORIA BEARD
University of North Dakota

REVIEWS OF BOOKS AND OTHER PUBLICATIONS

David Grayson Allen and Kathleen McDermott, *Accounting for Success: A History of Price Waterhouse in America 1890-1990* (Boston: Harvard Business School Press, 1993, 373 pp., $35).

Reviewed by
Paul J. Miranti, Jr.
Rutgers University

This outstanding work written to commemorate Price Waterhouse's (PW) first century in America is an important addition to the accounting historical literature. The cogent analysis rendered by David Grayson Allen and Kathleen McDermott, a gifted team of professional business historians, glides smoothly on a plane far above the amateur chronicles that have thus far characterized this genre and also evidences the rich potential for first-rate scholarship that is inherent in practice histories.

A major strength is the delineation of the study into three epochs based on a changing mix of socioeconomic circumstances which shaped the course of professional development. The first, which spans the years 1850 to 1926, describes the firm's British origins and explains how a small representative office in New York soon became transformed into an autonomous practice with a clientele national in scope. The take-off in America began during the early years of the current century. It was fueled by investor needs for new types of professional knowledge that were effective in resolving the agency problems associated with the separation of ownership and control in emergent giant business enterprises. In this transition British professional firms had special significance because of the position of London as the leading international center for raising business capital.

The later integration of public accountancy into the complex federal structure for regulating American financial markets is the central theme of the second epoch which spanned the years 1926 to 1961. The reforms of the 1930s guaranteed a permanent place for audit services in corporate governance, provided a framework of legal sanctions which strengthened the role of public accountants as monitors of financial reporting and won broad public acceptance for a substantial degree of professional self-regulation. These developments contributed to the strong growth experienced by PW and other national firms after World War II.

Although the profession has continued to prosper since 1961, the most recent epoch is marked by considerable turbulence and a fundamental change in the tone of practice. Public accountancy became burdened with mounting overheads that resulted from adverse malpractice litigation, the extension of professional standards intended to strengthen practice quality, and increased competition in the market for professional services. The domestic economic environment in which accountants operated also experienced severe shocks from rising inflation, a decline in industrial competitiveness, a growing dependency on foreign energy sources, deregulation and financial market instability. Moreover, larger practices units were also drawn overseas as the barriers to international trade continued to crumble. This flux compelled leading firms to reassess the fundamental strategies and structures they employed in managing their practices.

Against this general backdrop, Allen and McDermott skillfully embellish their rich narrative by analyzing the firm-specific qualities that contributed to PW's long-term success. Foremost was the firm's leaders who from earliest days recognized that success was not solely dependent on technical practice competency; it was also contingent on the ability both to contribute to the advancement of accounting professionalism and to persuade government and business leaders of the relevancy of public accountants' specialized skills. Second, the pressing demands of practice were found to be better served through decentralized administration which allowed local office partners a high degree of discretion in decision-making. Third, PW established a strong economic base by emphasizing in its practice development the quality rather than the quantity of its clients. Such a strategy had positive implications both for its fee structure and for limiting its exposure to litigation. Fourth, the firm was sensitive to the need to redefine its target clientele in response to major patterns of economic change: thus, an initial strong commitment to heavy basic industries was gradually challenged by the rise of a vibrant service sector. In these and other ways, this unique entity assure its professional leadership.

This book should be read by all serious students of accounting history. Its achievement is not limited to providing an understanding of the factors contributing to the successful rise of one of America's leading public accounting firms. It also serves as an excellent example for the professional scholar of what may be achieved in institutional history.

Richard P. Brief, *The Continuing Debate Over Depreciation, Capital and Income* (New York: Garland Publishing, Inc., 1993, 287 pp., $54).

Reviewed by
Paul Shoemaker
University of Nebraska-Lincoln

This book is a 30-year anthology of selected writings by the author delineated into six sections, or themes. The common threads tying the themes together are the concepts of estimation and measurement in accounting and the impact of their errors. Much of the debate contained in this book is documented to date back at least 100 years.

The first theme highlights the theoretical foundation of measurement and uncertainty which has plagued the profession since its founding over a century ago. This foundation, called "first principles," sets the rhetorical stage for the remaining sections of the book. Beginning with Dicksee's pedagogical trademark, the agency of a ship in which the life of the entity is one shipping venture, the concepts of depreciation and profit determination are explained with emphasis on the inaccuracy (error) of interim reporting (i.e., any reporting period less than the life of the enterprise).

Brief refers to the old adage "history repeats itself" when discussing controversies surrounding full disclosure, alternative accounting choices, and auditor responsibility. These unresolved controversies were as relevant a century ago as they are today. According to Brief, these controversies persist "because profit calculations involve uncertainty about the future" [p. 25]. Moreover, he posits that uncertainties cannot be mitigated through regulation.

The second theme deals directly with the book's title: *The Continuing Debate Over Depreciation, Capital and Income*. A discussion of depreciation theory of 100 years ago is presented as well as evidence of internal economic and external institutional forces affecting depreciation methods. Brief shows that the argument of valuing assets at cost, replacement value, market value, etc., were alive 100 years ago and remain unresolved today. The choice of depreciation methods is analytically shown to affect the growth in financial capital and ultimately to impact capital and income measurement. A corollary issue is that depreciation is an allocation problem, not a valuation problem.

Given that depreciation is an allocation problem, the third theme addresses the theory of cost allocation under uncertainty. Each succeeding article in this section builds on the former. Using statistical properties, Brief begins with a simple least squares model to estimate proper cost allocations by minimizing squared measurement errors. The two succeeding articles build on this concept to develop more sophisticated models. An applied concept of measurement error is first introduced in this section.

The fourth theme, interest rate approximations, at first seems incongruent with the flow of the book. However, interest rate approximations appear to be the first formal attempts at estimations for business purposes; and the Rule of 69 [p. 182], an actuarial approximation of the number of periods in which a sum will double at a given interest rate, was first articulated using a depreciation problem.

The fifth theme is comprised of financial reporting practices, past and present, and the intentional and unintentional errors contained in them. First, financial reporting practices at the turn of the century are chronicled. These included diverse practices and inadequate disclosures. This time period was also characterized by an increased awareness of fraud and increased distrust for business. The heightened public concern mandated the need for uniformity and adequate disclosure in financial reporting.

The remainder of this section deals with normative theory regarding measurement and valuation in financial reporting. A graphical alternative for cumulative reporting is presented which, in the author's view, shows more accurate reflections of rates of returns as income and cash flows change over time. In another article, a valuation model is developed using *pseudo IRR* which is a long-term (i.e., constant) IRR estimate. The *pseudo IRR* proxies economic IRR using accounting data under a comprehensive income concept.

The final theme focuses on accounting error with a review of the nature and behavioral consequences of accounting error in the nineteenth century. Accounting error is defined as "the failure to systematically distinguish between capital and revenue expenditures and the failure to periodically allocate the original cost of fixed assets to expense" [p. 254]. The lack of a regulatory environment in the nineteenth century allowed unscrupulous businessmen to present financial positions favorable towards shareholders to attract investment capital. Much of the financial reporting deception of this era revolved around asset accounting. Businessmen appeared only to be concerned with showing the highest possible rate of return per annum available on invested capital. "The rate of profit became the dominant concept" [p. 271].

Accounting error has been described as intentional — serving self-interests and therefore having economic consequences, and as unintentional — by "disinterested, independent scorekeepers" [p. 284]. Cause and effect relationships are difficult to identify in accounting and accounting error is difficult to identify because one first must know what is "correct" accounting. Brief considers the "true" ("correct") value of accounting as that method which produces the lowest reported profit among alternatives. Using the conservative method as the "correct" method, Brief discusses the historical nature of accounting errors and their potential behavioral consequences for product-costing and fixed asset accounting.

In summary, Brief historically documents the economic and institutional forces surrounding measurement and reporting and reminds readers that the accounting controversies of today are not new but were relevant 100 years ago. As long as uncertainty exists, interim reporting will contain errors. The best we can do is develop and rely on artificial measures of correct accounting measurement and allocation (perhaps based on conservatism) and statistically minimize their errors. This is a prerequisite for uniform reporting and adequate disclosure. We would be remiss as accounting practitioners and researchers if we did not learn from past errors so as not to repeat them.

Roy A. Chandler and John Richard Edwards, Eds., *Recurring Issues in Auditing: Professional Debate 1875-1900* (New York: Garland Publishing, Inc., 1994, 357 pp., $83).

Roy A. Chandler and John Richard Edwards, Eds., *British Audit Practice 1884-1900: A Case Law Perspective* (New York: Garland Publishing, Inc., 1994, 211 pp., $57).

Reviewed by
Howard F. Stettler
University of Kansas (Emeritus)

These companion volumes offer an interesting insight into the early development of auditing in the cradle of professional auditing — the United Kingdom. The period 1875-1900 was chosen for the more extensive volume, the earlier date marking the approximate commencement of publication of the weekly journal *The Accountant,* from which all 104 articles selected for *Recurring Issues* have been drawn. That journal provided a forum for discussion among practitioners of current accounting and auditing issues, often prompted by reprinting of critical articles, editorials, or correspondence from other periodicals, as for example, five from *Vanity Fair,* four from *The Pall Mall Gazette,* and eleven others from such notable publications as *The Economist* and *Financial Times.* The close of the period is marked by the adoption of the Companies Act of 1900. A key provision of that law required every registered company to have an auditor who is not a director or officer, the auditor to be appointed by the shareholders in general meeting with remuneration to be determined at that time. No qualifications were set for the appointed auditor, and it was not until later that the auditors of public companies were required to be members of the Institute of Chartered Accountants in England and Wales.

The importance of case law in establishing auditors' liability and setting minimum audit requirements is evident in the various cases such as the landmark Kingston Cotton Mills and London and General Bank cases analyzed in articles in *The Accountant.* Reports on these two cases and twenty-five other leading cases form the content of the companion *A Case Law Perspective.* The reports are reproduced from either *The Accountant* or from *The Accounting Law Reports,* which is a supplement to the journal.

The selected articles from *The Accountant* are reproduced in chronological order with a few exceptions. The reduction of certain articles to permit direct reproduction for the 17 x 25 cm (6¾" x 10") page size of the book results in some instances in exceedingly small type that is difficult to read. The editors selected articles that dealt with major issues and concerns of the day that have maintained a continuing prominence as auditing has evolved. The nine issues are stated in the Introduction, and under each issue the editors refer to pertinent articles with comments, observations, or brief quotations on some key aspect. The topics are Independence, Audit Fees, Auditors' Responsibilities, The Impact of Case Law, Extent of Audit Work, Manner of Audit Reporting, Code of Audit, Criticism of Auditing (prompted by public concern, often as a result of the failure of a well-known company), and Government Auditors (dealing with proposals for direct assumption of the audit function by the government, or regulation or supervision of practicing auditors). This material in the Introduction is helpful to the reader in selecting articles of interest to be read, but of greater helpfulness would have been a comprehensive index of the subject matter found in the articles selected for the book.

Especially evident in the articles is the often perfunctory mechanical checking of figures and the preoccupation with the balance sheet. The detection of fraud in the accounts was of major importance, but all too frequently the effort was unsuccessful, leading to the all too familiar cry, "Where were the auditors?" That auditors were expected to be "flexible" can be noted in a lecture by Mr. O. Holt Caldicott, F.C.A. to the Birmingham Chartered Accountant Students' Society where he states "... when profits are scanty, you will find a tendency to review the rates of depreciation, and to claim that certain assets have been written down quite enough for a time. Of course this is not a scientific treatment, but I think an auditor would be scarcely wise who refused to sanction a liberal writing off in good times, or to be a little tender in his dealings with assets during a temporary depression of trade" [p. 239]. Also noteworthy is the reticence of the auditing profession and its Institute of Chartered Accountants to prescribe auditing standards or audit procedures. Such matters and the attendant liability of auditors to injured parties were left almost entirely for the judicial system to decide.

Although a knowledge of present-day auditing demonstrates vividly how far the auditing profession has progressed since these articles from the last quarter of the nineteenth century, *Recurring Issues* also includes some visionary proposals, as for example a Communicated Article by "Z" that suggests " . . . what are the auditor's duties? I think they ought to begin by the system on which the accounts are to be kept being submitted to and approved by him before opening the books, and if he be not satisfied that the system is one which will enable him to ascertain clearly the result of transactions at the end of the period, he should, in the event of opposition to his views for that purpose, at once resign" [pp. 10-11].

In *A Case Law Perspective,* the editors' Introduction points to the importance of case law in the development of audit practices, noting that the first edition of Dicksee's *Auditing* contains an Appendix of thirty-two pages that extracts from six cases decided between 1886 and 1891. A major purpose of the editors for this volume was to make more easily accessible to researchers the full report of important early cases, thereby conveying the flavor of the impact of the twenty-seven reported case decisions on the development of the audit process. In addition to these reports, Appendix A lists twenty-two additional cases along with references to the publications in which the cases were reported.

The core reports are reproduced without comment, although the editors do provide in their Introduction a helpful explanation of the structure of the courts and the appeal system in England and Wales. They also indicate the general content of the reproduced case reports: bankruptcy, negligence against the auditor, or cases in which the auditor came under fire but was not the subject of legal attack. It would have been more helpful, however, if the Contents Table had included a brief statement of the subject matter involved in each of the cases.

Edward N. Coffman, Rasoul H. Tondkar, and Gary John Previts, Eds., *Historical Perspectives of Selected Financial Accounting Topics* (Burr Ridge, IL: Richard D. Irwin, 1993, 390 pp., $28.95).

Reviewed by
Paul Solomon
San Jose State University

In "Objectives of Education for Accountants," the Accounting Education Change Commission encouraged accounting educators to integrate the history of the accounting profession and accounting thought into their classes. This book of readings satisfies this objective well by providing accounting instructors eighteen diverse readings on the history of such financial accounting topics as the development of financial reporting standards, income measurement and reporting, asset valuation, stockholders' equity, capital maintenance and changing prices, pensions, and ratio analysis. In addition, this book contains two readings that are designed to provide guidance to scholars who are interested in conducting research in accounting history.

Although this book reports events that occurred in the eighteenth and nineteenth centuries, its primary focus is on events of the twentieth century. The readings themselves were written over the period between 1956 and 1993, with 60% being published during the last decade. Although this book is appropriate as a supplement to students in several financial accounting courses, its readings seem especially suited to the intermediate accounting sequence. They are organized in roughly the same order as the standard table of contents found in intermediate textbooks, they expose students to historical aspects of traditional intermediate topics not found in intermediate textbooks, and they help to offset the increasingly encyclopedic coverage of intermediate textbooks with a more in-depth and enriched coverage. This book of readings also provides instructors another means of developing the communication skills of accounting students. For example, the readings could be the basis of written assignments, oral presentations, and classroom discussions.

Clearly, some readings are more appropriate for assignment to students than are other readings. Examples include: "The Development of Accounting and Auditing Standards" in which Davidson and Anderson describe the important influence of British accountants, including Price Waterhouse & Company, on the economic development of the American West; Brown's clearly written "The Emergence of Income Reporting"; Davis's "History of LIFO" which features an excellent discussion of the base stock method; and Woodward's brief but insightful "Depreciation — The Development of an Accounting Concept." These and several other readings could easily be assigned to all accounting students who are beyond an introductory level. Other readings, however, presume more background than possessed by non-doctoral students; thus, their information would more efficiently be communicated to students through their instructor. Examples include Sprouse's unique perspective expressed in "Developing a Conceptual Framework for Financial Reporting;" "The Legal Significance of the Par Value of Common Stock: What Accounting Educators Should Know," in which McGough, among other deficiencies in textbook coverage, pointed out that no texts explained that originally the par value of common stock was equal at issuance to its market value; and "A Short History of Financial Ratio Analysis," in which Horrigan described how the current ratio has had more of a significant impact on financial statement analysis than any other ratio.

One minor inconvenience is the fact that some readings include an abstract while others do not. Although this inconsistency is not surprising given the fact that the readings are drawn from journals with different stylistic conventions, the editors could easily have developed a standard abstract for all readings in the interest of conveniencing their readers.

Overall, this book provides a rich source of insights about the history of financial accounting for both accounting students and their instructors.

J. R. Edwards, *A History of Financial Accounting* (London: Routledge, Chapman, and Hall, 1992, 26 pp., $69.95).

Reviewed by
William J. Schrader
Pennsylvania State University

Edwards' book is much less and much more than its title suggests. It is not a global work on financial accounting, but a more manageable survey of British practice. Nor is it only financial accounting; it deals with industrial development in Britain, legal responses to growing capital needs of professionally managed companies, notable frauds and consequent collapses of leading British companies and their effects on public policy, and the siblings of financial accounting — auditing and investigations, taxation, and management accounting.

The expected deferences to earlier civilizations are covered early in the book, including Babylonia, China, Egypt, Greece, Rome, and even Crete, India, Peru, and Hawaii (!). But these earlier contributions seem lost on Britain. The book depicts a nineteenth century "accounting" in Britain which is predominantly single-entry (even in government), not yet affected by an accounting "profession" except a few strident voices of individuals now legendary, not yet cognizant of management accounting or auditing (except for investigations of fraud) and resistance to disclosure.

Edwards makes his major contribution in Part III, Corporate Financial Reporting Practices, and Part IV, Rules and Regulations, which together occupy half of the book. In these pages he recounts the interaction between statute, company managements, the Stock Exchange, investors, and the accounting "bodies" by which reporting standards and "financial accounting" standards evolved.

He makes this political process fascinating reading. His is the British equivalent to George O. May's *Financial Accounting: A Distillation of Experience* [1959], which traces the negotiations between Federal Reserve System, Securities and Exchange Commission, New York Stock Exchange, the American Institute of CPA's and other bodies of accountants in industry and education that lead to GAAP in the United States.

Unintentionally, perhaps, he raises American accounting to parity with British. This will be a surprise to many Americans in teaching and in practice who suppose that America is as much indebted to Britain for accounting and auditing as for language, law and constitutional government.

On the contrary, Edwards shows that British auditing was little advanced beyond checking balance sheets to "the books" by 1900, and that accounting requirements for "regulated industries" evolved almost simultaneously in the two countries. Disclosure of income statement details, elimination of "secret reserves," requirements for depreciation accounting, consolidated statements, requirement for audits of listed companies and accounting for pensions, leases, business combinations, all developed concurrently in both countries or trailed in Britain.

By his own choice, Edwards mentions concepts and theory only as they are consequences of "accounting practice." One should not expect, therefore, analyses and critiques of the sort that distinguish the "financial accounting" books of Gilman in the USA or Baxter in the UK.

As Edwards expected, his book should be of interest to students taking formal courses in "History of Accounting." More importantly, his book should be read by all the international firm partners under fifty years old whose schooling neglected the social and political processes of the past century from which emerged the public accounting profession as it exists in the 1990s. How incredibly fast it has been thrust onto the stage and how equally fast it could be swept aside!

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George J. Murphy, Ed., *A History of Canadian Accounting Thought and Practice* (New York: Garland Publishing, Inc., 1993, 652 pp., $97).

Reviewed by
Cheryl S. McWatters
McGill University

This volume is a collection of papers dealing with the history of Canadian accounting institutions, standard setting and practice. The title is misleading in that the volume does not examine in depth "Canadian accounting thought." The latter is dismissed in the introduction [p. 1] by stating that neither the academic literature not its setting are included. The anthology is divided into five groupings: Early Records; The Profession; Standard Setting; Inquiries and Regulation; and Chronologies. The introduction provides a brief overview of the articles and the rationale for their inclusion.

The "Early Records" section contains four articles dealing with early-Canadian accounting practice. One article is a reprint of an early bookkeeping primer. The introduction states that it "is quite likely the earliest extant version of its kind in Canada" [p. 2]. Apart from antiquarian interest, this appears to be the primary justification for its inclusion, as there is no analysis of the document. The remaining three articles, all of which are written or coauthored by the same individual, are descriptive in nature. The articles have a notable tendency to compare past and present-day practice in terms of their relative sophistication and merit. The archival study by Felton and Mann does provide some limited comparison of the source records to textbooks and other documents from the period under review.

Section II examines "The Profession" with emphasis upon the development of chartered accountancy and auditing. A striking contrast is the tone of the articles written by practitioners and of those by Richardson. The former clearly state the professional responsibility of accountants in terms of (a) the financial well-being of clients, and (b) ethical obligation. Richardson is more critical, presenting professionalization in terms of intra-professional competition, professional identity and segmentation. Increased educational standards are viewed as a means of closing the profession, rather than as the profession's aim to better serve the client and the public interest. Three articles by Richardson are included here. They are somewhat repetitive, and their emphasis upon sociological theory diminishes their readability for those less than well-versed in the theoretical constructs and vocabulary. Murphy's article on financial statement disclosure is out of place here, and overlaps to some degree with other articles in the anthology.

Section III reviews "Standard Setting" with articles which are more complementary. Gray's article provides insight into prevalent financial-statement presentation of the early-twentieth century. Quite simply, practice went beyond the legislative requirements of the period. Zeff's article contributes a comparative analysis of international developments which have influenced Canadian standard setting. Other articles examine the continued debate over a conceptual framework, including the efforts to develop a home-grown Canadian version. The resulting CICA Handbook "Financial Statements Concepts" (included in the volume) reflect parallel FASB concepts, but with the caveat that these concepts do not establish standards nor overrule any specific Handbook recommendation or any other generally accepted accounting principle.

"Legislation, Inquiries and Regulation," the topic of Section IV, broadly reviews these issues in terms of the gap between the expectations of the profession and those of the public. An article from the 1930s reinforces the long-standing nature of the issue, while the remaining articles are more contemporary in nature. One paper does compare two events separated chronologically by several decades. Overall, the emphasis is upon the required adaptation of the auditing profession and the standard-setting process in light of demands for greater quantity and quality of financial analysis and disclosure. The role of professional judgment must be soundly exercised and self-discipline strengthened in order to preserve the profession's credibility and to reduce the threat of increased regulation. In a number of articles, interesting parallels are drawn between the Canadian and U.S. experience, chiefly the greater tendency for litigation in the United States and the recent trend of the Ontario Securities Commission to use its powers (similar to those of the U.S. Securities and Exchange Commission) to influence the standard-setting process and disclosure requirements.

The final section contains two chronologies: the first of corporate financial reporting; the second of the development of accounting associations. The chronologies and their respective bibliographies are a useful starting point for future research.

Overall, the anthology suffers some limitations. The intended audience is not self-evident. Repetition and overlap, especially the reliance upon three authors, have contributed to a lengthy and expensive tome. The quality of the typesetting and the reproduction of the articles make for difficult reading. The volume does not meet the title's claim to be a history of Canadian thought and practice. However, the selected material does serve to provoke interest in certain elements in need of further research.

Marilyn Kleinberg Neimark, *The Hidden Dimensions of Annual Reports: Sixty Years of Social Conflict at General Motors* (New York: Markus Wiener Publishers, 1992, 207 pp., cloth $39.95, paper $24.95).

Reviewed by
R. H. Parker
University of Exeter

"The time is out of joint" but, unlike Hamlet, one critical accounting historian believes she was born to set it right — and through the medium of company annual reports. There are two themes running through this entertaining, thought-provoking, well-written book. One is that General Motors, and hence the America of which it is a symbol, is in crisis; the second is that the pictures and words in annual reports (not just the financial statements) provide useful information. Neither of these themes is new. The author herself has written previously on gender and class in GM's annual reports in *Accounting, Organizations and Society*, vol. 12, no. 1, 1987. What the author does is to link them together, showing that one could write a history of General Motors from its annual reports. Not that she really attempts to do this. Her history is based mainly on secondary sources (fully acknowledged) with quotations (but, alas, no pictures) from annual reports used as supplementary evidence.

From the point of view of a non-American, non-critical accounting historian who used to drive French cars and now drives Japanese cars, the book has a number of weaknesses. First, it is very much aimed at an American audience and what is good for America is not necessarily good for the rest of the world. But maybe what is good for the rest of the world is good for America. More reference to other countries would have been useful, especially to continental Europe and Japan where both corporate governance and the accountancy profession differ significantly from the American model.

Secondly, the author is much better in seeing the limitations of theories she disapproves of (the transaction cost approach to organizational change expounded in Chapter 2) than she is of theories she approves of (the dialectical approach to organizational change expounded in Chapter 3). Do they not both give partial but useful insights?

Thirdly, there is a surprising lack of empirical evidence. We are told that there are two commonly-held views of annual reports: that they are neutral reflections of reality; that they are outright fabrications. How does she know that these views are commonly held? It seems just as likely that GM shareholders and employees and other users believed that management was telling the truth but a partial truth that reflected its own interests. This is an area in which research would be worthwhile. The author's own view is that annual reports form part of "the symbolic universe of language, signs, meanings, norms, beliefs, perception, and values, through which individuals and institutions define themselves and are defined by others" [p. 100]. Put more simply, we give ourselves away every time we open our mouths or put pen to paper (as evidenced by both the author's book and this review).

The above arguments assume that annual reports are actually both read and understood. Here there is a literature but it is not referred to by the author. Curiously, she tells us nothing about how the annual reports were compiled, to whom they were distributed, and by whom they were read.

Dr. Neimark blames America's ills on corporate America, on its governments, and on free-wheeling global capital. Her answer is a call for greater corporate accountability and one does not have to share her political views to agree with her that this is desirable. Disappointingly, however, her recommendations for reform are packed into the last few pages of the book, with no adequate discussion and no reference to an existing literature. She merely asserts that auditors should be assigned to clients by an independent body (what independent body?) and rotated periodically; auditing should be severed from consulting (how would this work in practice? is there any evidence from other countries?); the non-financial statement portion of the annual report should be taken out of the hands of management (but who then would be reporting to whom?).

In the last few paragraphs of the book, Dr. Neimark starts to develop interestingly radical ideas about a "truly 'public' accounting profession" [p. 168] financed by taxes levied on corporate income. No doubt she will tell us more about these ideas elsewhere. Dr. Neimark will probably enjoy trying to change the world and this reviewer will enjoy reading what she writes, especially if her next book, unlike this one, has an index.

Peter Temin, Ed., *Inside the Business Enterprise: Historical Perspectives on the Use of Information* (Chicago: The University of Chicago Press, 1991, 260 pp., cloth $43, paper $14.95).

Reviewed by
Richard K. Fleischman
John Carroll University

This volume is a collection of six essays and accompanying critiques initially presented at a Conference on Microeconomic History at the National Bureau of Economic Research in October, 1990. As the editor notes in his introduction, the papers are linked by two unifying themes: (1) the pieces are all historical, concentrated on U.S. industry at the turn of the 20th century; and (2) the papers focus on the complexity, scarcity, and mutability of information as the "key element to the functioning of an enterprise."

The list of 13 contributors strongly represents Ivy League universities (6) and M.I.T. Professor Temin's home institution (4). Most are members of either an economics or a history faculty. Though accounting is a frequent theme as might be expected in a volume dedicated to the use of information in business enterprises, the only accounting academic featured is H. Thomas Johnson as author of one of the six essays, "Managing by Remote Control: Recent Management Accounting Practice in Historical Perspective." Notwithstanding, the substantial contribution made by several of these articles to our knowledge of U.S. accounting history during this period reflects the cross-fertilization potential with history (non-accounting) and economics literature.

Three of the papers are not specifically focused on accounting's role in American information systems within the historical perspective. Raff and Temin, in making a cogent case for the synergies between business history and economics, considered a number of firm histories (GM, DuPont, Campeau Corporation, Swift, AT&T) in advancing the point that information systems vary only incidentally to support managerial decision making in such seemingly diverse areas as organizing the work of individuals, production, and financing. Lamoreaux studied 19th century New England banking to chronicle the changing informational requirements as the industry made the transition from heavy "inside" lending early on to a vastly higher incidence of borrowing by externalities at the century' end. DeLong addressed the issue of whether the Money Trust, as typified by J. P. Morgan and Company, added value to the substantial number of firms they controlled through interlocking directorates or whether self-enrichment was the bottom line as so frequently charged by Progressive reformers.

Johnson's article was a synopsis of the development of managerial accounting information systems at the Lyman textile mills, DuPont, and General Motors, and the way in which these systems lose relevance in the 1950s as they became increasingly subordinated to financial accounting requirements. I do confess to a measure of disappointment that the paper added little to what we as accounting historians have already been told in *Relevance Lost.* However, this venue might be the more appropriate for conveying the message to business historians and economists.

The articles by Levenstein on the maturation of cost measures that accompanied the growth of the Dow Chemical Company, 1890-1914, and by Yates on the Scovill Manufacturing Company as a case study illustrating the developing technology in information systems, 1850-1920, are both excellent examples of combining effective archival research with broader contextual analysis.

This work contains much good accounting history, as well as thoughtful contributions in kindred fields. The volume is nicely packaged and immaculately edited. The critiques on the various articles are conscientiously done, and raise issues for further consideration. My only criticism lies in the fact that the articles are homogeneous in terms of theoretical foundation. They are all Neoclassical in their orientation, very much in the tradition of Chandler, Williamson, and Johnson/Kaplan. Certain critical scholars may be offended by the omission of conflicting viewpoints.

Gary L. Tidwell, *Anatomy of a Fraud: Inside the Finances of the PTL Ministries* (New York: John Wiley & Sons, Inc., 1993, 357 pp., $24.95).

Reviewed by
Joni J. Young
University of New Mexico

Based upon court documents and testimony and other evidence, *Anatomy of a Fraud* by Gary Tidwell provides a thorough description of the $150,000,000 fraud perpetrated by Jim Bakker and Richard Dortch of the PTL Club. These individuals "sold" lifetime partnerships that promised partners would receive free lodging each year for life at various PTL facilities. The sales of such partnerships were to be limited in number. Despite these promises, the actual number of partnerships sold far exceeded the promised limits and little of the money raised was used to construct the lodging facilities. Instead, the funds were used to pay PTL operating expenses including enormous bonuses to Jim and Tammy Bakker and other members of the executive staff.

The book also describes the subsequent litigation arising from the fraud as well as the role of various corporate officers in perpetrating the fraud. In subsequent chapters, Tidwell considers the effectiveness of the PTL board of directors, auditors, and the Evangelical Council for Financial Accountability.[1] If boards of directors, audits and memberships in the ECFA increase the accountability of organizations, then "how could the fraud that occurred at PTL ever have happened? More importantly, how could it have gone undetected, given its magnitude?' [p. 112].

The author devotes a separate chapter to examining the roles of the board of directors, the auditors and the ECFA outlining first the legal and/or reported responsibilities of each and then discussing the ways in which each functioned at PTL. For example, the PTL board was not independent but controlled by insiders including Bakker and Dortch. Its outside directors were not especially knowledgeable of financial matters and remained apparently unaware of the cash flow difficulties confronting PTL even as they continued to approve significant bonuses for Dortch and the Bakkers. These directors did not interact with

[1]The ECFA is "an accrediting agency for Christian Ministries . . . [with] a set of standards concerning governance of the organization, Board of Directors, composition function(s), audits and disclosure of financial reports, fundraising practice(s) [and] conflict of interests" [p. 249].

outside legal counsel nor the PTL financial officer who write numerous internal memos emphasizing PTL's financial difficulties and internal control problems. They also remained unaware of oversell of lifetime partnerships and the tax difficulties facing PTL. As a consequence, the Board was ineffective in preventing the irregularities that routinely occurred with PTL.

The discussion of the work of the auditors is particularly interesting for accounting students, academics and practitioners. In this chapter, the author focuses much of his attention in considering whether the auditors at PTL should have detected and reported the oversell of the partnerships. In particular, he asks whether the auditors exhibited an appropriate level of professional skepticism given the control environment at PTL [pp. 211-212] and its serious cash flow problems. Deloitte, Haskins and Sells, auditors until 1985, claimed to be unaware of the oversell of partnerships which began after year end but prior to their last audit sign off. Despite the GAAS requirement to consider subsequent events, the auditors testified that "we were auditing balance sheets as of May 31, and there was no reason in my judgment to look at this number [the sale of lifetime partnerships] after May 31" [p. 215]. The audit partner further indicated: "I don't think that their system provided adequate information that would give you a reliable number" [p. 211]. A statement that leaves one wondering how an audit could have been conducted. Although Deloitte did not consider whether PTL had exceeded the promised limit on partnerships, the firm did consider the sales of these partnerships in deciding not to issue a qualified audit opinion for PTL. Tidwell comments: "It is difficult to understand how Deloitte could understand PTL's future financial plans but yet not evaluate the current sales status of the Grand Hotel lifetime partnerships" [p. 218]. Laventhal and Horwath, who became the PTL auditors in 1985, argued that they were unaware of any promised limitations on the sale of lifetime partnerships. They did not examine any sales brochures for these partnerships as these documents were not financial documents [p. 221]. However, these auditors were aware of the number of partnerships sold and some simple mathematics would have suggested the near impossibility of keeping the promises made to the purchasers of these partnerships [p. 224].

The chapter on the role of the auditors raises several interesting issues regarding independence, responsibility for subsequent events and fraud detection. However, I wish that the author had also raised questions about the responsibility of auditors (if any) in monitoring the activities of an organization. In broadcasts soliciting lifetime partnerships, Bakker indicated that the funds received would be used to complete production of certain lodging facilities and also for operations. However, much of the monies raised were used to pay for operating expenses rather than to build these promised facilities. Does an auditor have a responsibility to highlight the ways in which monies raised for certain purposes are subsequently expended? Further, does the auditor have a responsibility to prevent "misuse" of the audit report? Although auditors do not tout their work as equivalent to a Good Housekeeping seal of approval, in his broadcasts Jim Bakker discussed the existence of outside auditors and their reports in ways that suggested their work provided proof of the propriety and integrity of PTL operations [pp. 243-245].

Throughout the fraud, PTL remained a member of the ECFA even though the ECFA was aware that PTL was purchasing expensive homes and cars for the Bakkers. Membership continued despite ECFA questions regarding the financial accountability of PTL and concerns about the percentages of donated income allocated to fundraising and management costs and that allocated to ministry and program services. What then is the significance of ECFA membership?

Tidwell's book documents very well the ways in which supposed "watchdog" institutions such as the board of directors, auditors and ECFA may be seen to have failed in their expected functions. This book could be usefully employed in auditing classes to raise questions about the role and purposes of auditors or in a more general discussion of business ethics and the role of institutions in "ensuring" accountability.

Ulrich Wengenroth, *Enterprise and Technology: The German and British Steel Industries, 1865-1895* (Cambridge: Cambridge University Press, 1994, 293 pp., $69.95).

Reviewed by
J. R. Edwards
Cardiff Business School

The German version of this book was published in 1986. It was well received by the critical academic press and the English version has been translated by Sarah Hanbury Tenison. The purpose of the book is to add to the debate surrounding

Britain's relative economic decline during the latter part of the nineteenth century.

The period covered by Wengenroth's text, 1865-95, saw Britain lose its position as the "workshop of the world" and most powerful industrial nation, being overtaken by the USA and then Germany. Performance in relation to steel production — an area of rapid technological advance and one which has captured the imagination of historians — is seen as symptomatic of Britain's failure, with British levels of steel production overtaken by the USA in the late 1880s and Germany in the early 1890s.

This turn-around was for many years explained in terms of British entrepreneurial failure, with its management characterised as essentially pragmatic, technically ill-educated and no match for its efficient, university-trained, German counterparts. The accusation against management is seen to gain strength from the fact that all the major innovations in new steel technology, the Bessemer, Thomas and Siemens-Martin processes, were substantially developed in Britain in the 1860s and 1870s. Wengenroth utilises the records of numerous companies, governmental archives and the trade literature to build-up a picture of how British and German steel managers tackled the strategic problems and business opportunities implicit in rapid technological change.

Following a brief introduction, chapter one provides a detailed account of late nineteenth-century steel-making methods, with its purpose being to provide a technical perspective for the arguments developed in the later chapters. Chapter two deals with the early expansion of steel-making, resulting in over-capacity which was exacerbated by a decline in the level of railway construction. Chapters three and four examine respectively the individual and collective strategies used by firms to "surmount the slump." Chapter five contains an in-depth examination of the new steel-making processes and new markets, as a further preliminary step before moving on to reach a judgment concerning relative entrepreneurial efficiency in Britain and Germany.

The last chapter is divided into two parts. The first part reexamines the British debate concerning entrepreneurial decline and, specifically, the steel question. Wengenroth rehearses the respective stances of the two main British protagonists, Duncan Burn and Donald McCloskey. Burn believes that late-nineteenth-century British entrepreneurs missed opportunities for the development of Bessemer steel based on the use of iron ores available in Lincolnshire and Northamptonshire (these were not exploited until Stewarts & Lloyds built the Corby works in the 1930s). McCloskey's reinterpretation of the evidence leads him to conclude that British entrepreneurs did as well as could be expected given the prevailing economic conditions and resource constraints. Indeed "by any cogent measure of performance, in fact, they did very well indeed" [McCloskey quoted in Wengenroth, p. 251].

Wengenroth sees strengths and weaknesses in both their cases. His overall conclusion is that late-nineteenth-century British managers were substantially innocent of the accusation of entrepreneurial failure. It was not the way steel-making processes developed technically which created Germany's growing strength on the world markets, but the industry's tight organisation, formed in the 1870s with the support of the banks and the state (by way of protection), which enabled it to suspend the market as a regulatory mechanism, in the majority of cases indeed forcing them to do so given that they were otherwise threatened with bankruptcy [p. 272]. British firms, doing reasonably well up to the early twentieth century, may be seen as complacent, although this is not a point pressed by Wengenroth. He is rather more critical of their inability to lobby the state for support and combine together to exert collective market power. Though the reader is left with the impression that Wengenroth regards this as the (reasonable?) price paid for entrepreneurial autonomy.

What opportunities does this kind of work open up for the accounting historian? Wengenroth himself makes use of costing data but comments on the lack of surviving material, relying for Britain mainly on that available for the Consett Iron Company Ltd and the Dowlais Iron Company. Wengenroth uses cost per ton data for these companies without giving any attention to their construction and comparability. Of particular importance are the fact that Dowlais almost never capitalised fixed assets so a depreciation charge does not enter into the cost per ton while Consett experimented with a number of methods of computing total cost in the 1860s and 1870s.

The accountant might also be able to help answer the question of how profits on steel-making were computed, and how useful they were as a measure of performance and a basis for resource allocation decisions. Towards the end of the text, Wengenroth refers to the profits and dividends of "iron companies" as if they were the profits on steel. However, most of the companies discussed by Wengenroth were producers of coal, iron and steel, with varying proportions of the former two items used for internal consumption and, sometimes, sale. Management made calculations of profits from different sources, and the method of *transfer pricing* employed was naturally of crucial importance in deciding how much profit or loss was associated with each activity. This is, potentially, an exciting topic for research.

The one area where Wengenroth makes more than a passing reference to cost accounting is on pages 129-34 under the heading "Dumping and cost accounting." Wengenroth appears to doubt whether management scientifically applied marginal costing criteria for the purpose of pricing overseas sales. However, there does seem to be evidence that German industrialists realised that profits would be lower if dumping was discontinued and levels of production reduced accordingly, and a careful re-examination of the costing data may well reveal a clearer understanding of the costs which needed to be covered by marginal revenue than is indicated in this text.