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Tips for Busy Readers

S. MADONNA KABBES, C.P.A.

THE USES OF RESERVES ON THE RIGHT-HAND SIDE OF THE BALANCE SHEET, by Helen M. Smith, *The Accounting Review*, Vol. XXXV, No. 1, January, 1960, pp. 100-103.

Based on a study of 466 published financial statements of 75 companies covering the years 1949 through 1958, the writer gives various tabulations to show how the term "reserve" is still being used to denote a variety of meanings.

Following the 1953 recommendation of the Committee on Accounting Procedure of the AICPA that reserves be created only by segregations of earned surplus, it was hoped much of the confusion which had surrounded the various uses of the term would be cleared up. However, the writer found 19 of the 25 companies which carried contingency reserves showed them under a separate caption above the equity section; others recognized the liability for contingencies only through footnotes to the statements. Most of the statements which carried reserves for possible inventory losses showed them in a section separate from the equity section.

After citing the above, along with other examples, of the confusion which still surrounds the use of the term "reserve," the writer is inclined to agree with the 1951 recommendation of the Committee on Concepts and Standards of the American Accounting Association. They recommended the term "reserve" be eliminated entirely from balance sheet classifications and that new definitions be used which would be truly representative of the items described.

MANAGERIAL ACCOUNTING (AN INTRODUCTION) by Harold Bierman, Jr. The Macmillan Company, New York, 1959, pp. 470.

Feeling that beginning students are most interested in principles of accounting and the managerial uses of accounting, the author has divided his text into two sections.

Section one, consisting of twenty chapters, is devoted to financial accounting. No previous training in the subject is assumed and the first chapters are devoted to the basic principles and terminology necessary to an understanding of the accounting cycle.

Manufacturing accounts are introduced

and, among others, discussions are included on depreciation, inventories, stockholders' equity and annuities. The chapters on analysis and preparation of statements include the position and income statements, as well as the funds statement.

A review of the chapter contents in this first section discloses that topics covered include those commonly included in both the principles and intermediate courses in accounting. All chapters are quite short; questions and problems are given following each chapter. While the student is introduced to many topics I feel he would have to be a mature student, with business experience in related fields, in order to secure a working knowledge of the material included.

The second section devoted to managerial accounting is, in my opinion, a much stronger and better organized presentation. The flow charts and diagrams presented in connection with the discussions on cost control, analysis of cost variances, and budget preparation and analysis are well chosen and explained in a practical and understandable manner. Case studies are developed to illustrate the application of recording procedures for the material, labor and overhead elements of cost.

The last two chapters discuss some of the problems and advantages connected with adjusting statements to reflect changing price levels. Simple examples are given to illustrate the application of such procedures.

READINGS IN AUDITING, by J. T. Johnson and J. H. Brasseur—Southwestern Publishing Co., Cincinnati, Ohio, 1960. 643 pages.

In choosing the articles included under the ten sectional headings which comprise this volume, the authors have presented somewhat of an historical approach to the development of the standards, procedures, responsibilities and professional ethics which guide the profession today.

The readings are largely reprints from various publications and present the thinking of many well-known writers in the field. Many quotations are also included from the statements of the Committee on Auditing Procedure of the American Institute of Certified Public Accountants. While the basic data in

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to this temptation, and this is one of the reasons why accounting research is best pursued in universities, for then it is away from the claims of current practices.”

But now the practitioners also seem to recognize the vital need for basic, constructive research as a means for the progress of the profession and feel that there is a moral responsibility for every member concerned to participate in this vital task. Colin Park,¹⁰ partner of Haskins and Sells, expresses his belief: “The notion that basic research can be productive without the present of predetermined technical objectives is just as applicable in accountancy as in any other art or science. Purposeful theorizing or abstract analysis is part of the intellectual responsibilities of the professional man. Our profession is privileged with freedom of thought and action and this independence is something earned, not obtained by grant. It is a burden of intellectual responsibility that grows as the whole art of accountancy grows, and it is greater now than ever before.”

Park sees the key to creative research in accounting in the recognition of the need for deliberately nurturing open-minded attitudes. In his every day work, the accountant has many opportunities for new ideas and he has a moral obligation to his client and his profession to develop them, by applying scientific methods as practical tools for the future, expanding the perimeter of the accounting theory.

This viewpoint is fairly new since, in the past, the practicing accountants had never admitted an intellectual responsibility for the progress of their profession. They had left the constructive research task to committees created for this task by their professional organizations and had devoted their time fully to the affairs of their own practices.

A broader recognition of this intellectual responsibility of each member of the profes-

¹⁰ *Thought Processes in Creative Accounting, Accounting Review, July, 1958.*

sion, whether educator or practitioner, for the progress and refinement of accounting theory, could result in a combined effort in achieving the vital constructive research task with which the profession is faced at present. On the outcome will depend whether accounting will be able to stay what it was in the past, a dynamic art.

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many selections is similar to that found in a standard textbook, the authors in developing this subject matter have given it a much broader interpretation, and the reader stands to benefit from the practical experience viewpoints presented.

The last four sections are devoted to current problems which face the profession. The selections covering “The Application of Statistical Techniques to Auditing” include case studies on such methods applied to confirmation of accounts receivable and the testing of perpetual inventory records.

Another section presents some of the problems the auditor faces in auditing the records of a client using electronic data processing. The section devoted to the management services being provided by CPAs points out the additional responsibilities that must be assumed when such services are offered. The professional accountant is advised by the Committee on Management Services of CPAs that his relations to management in this area must be kept on an advisory level, so that his independent status to render an opinion on his client’s financial statements will not be questioned.

The selections in the last section on “The Profession and the Future” presents the “forward look.” One article is devoted to a discussion of the significant changes which are taking place and their effects on the profession; another suggests some of the problems which must be faced, if the profession is to meet the challenge of the future.

