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REVIEWS—Writings in Accounting



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"THE EFFECTIVENESS OF ACCOUNTING COMMUNICATION," Abraham J. Briloff, Frederick A. Praeger, Inc., New York, 1967, 400 pages, \$17.50.

Surely and skillfully, a myth is exposed and revealed for what it is. The myth? It is this: the accountant, by means of the statements he prepares and to which he attests, effectively communicates financial information to statement users.

Mr. Briloff's book, *The Effectiveness of Accounting Communication*, will cause the reader to think at least twice about many of the more "generally accepted" ideas which accountants, as well as nonaccountants, have of the profession, its objectives, and its accomplishments. For instance, some of the conclusions at which he arrives are these:

There is serious doubt as to just what is *really* meant by the opinion clause, "present fairly. . . in conformity with generally accepted accounting principles," in the auditor's certificate.

The accounting profession has not yet satisfactorily defined "generally accepted accounting principles"; in fact, major divergencies exist regarding both the accounting principles which now prevail as well as those which should prevail in such areas as: reporting of extraordinary gains or losses, long-term leases, business combinations and consolidations, accounting for pension costs and research and development costs.

There is, in the profession, nothing approaching a consensus regarding the meaning of very basic terms: consistency, disclosure, conservatism.

Financial statements are not responsive to the needs of the users of those statements—such as investment advisers, economists, and government personnel—who must use accounting statements as an important aspect of their decision-making.

There is confusion as to whether corporate management or the independent auditor should determine the applicable accounting principles in a situation where alternatives are possible.

The rendering of management services

by accounting firms who concurrently are performing the attest function contributes to the communications gap in financial reporting. Leaders of the profession have failed to recognize that the financial community would be adverse to the extension of such services by these firms.

Equally interesting are his recommendations; among them: that accounting research be centered in the universities rather than in the AICPA and that a foundation be created to support this research; that the profession determine for itself and then make known whether it envisages the objects of its communication to be the public at large or some special segment of it; that the AICPA and the SEC ascertain the kinds of ancillary services now being performed by accounting firms, the circumstances under which they are performed and that the Institute and the SEC define those services deemed to be out-of-bounds for the firm performing the attest function; that a major reappraisal be made of the education of those aspiring to the accounting profession and of the continuing education necessary for practitioners.

Based on Mr. Briloff's doctoral dissertation, the book is well documented and contains substantial evidence in support of the author's contentions. Often a book with an academic origin has limited readership among practitioners. That should definitely not be the case with this book. Overall, it is enjoyable and easy reading, highly interesting, and extremely thought provoking.

Dr. Bernadine Meyer
Duquesne University

"Bringing Accounting into Economic Measurements," Herbert C. Knortz, *FINANCIAL EXECUTIVE*, November 1967, Volume XXXV, Number 11.

Mr. Knortz begins by pointing out that economic progress at the national and business levels has become increasingly complex and interdependent. Because of this increasing complexity and with the expanding op-

portunities for international activity, all of the professions must join in identifying anew the resources and the goals which will characterize their mutual future.

Beginning with the political economists of Adam Smith's era, governments have been continuously moving toward state-wide planning, but as yet it has been activated in the United States in only a fragmentary way.

Mr. Knortz quotes Adolf Enthoven of the International Finance Corporation who asserts that, "Whether for an individual organization or for a nation, accounting is the coherent assembly of economic data so as to understand the past and plan for the future." The American Institute of Certified Public Accountants has stated in *The Accounting Profession—Where Is It Headed?* that "before economic data can be communicated, it must be measured. The whole process of measurement and communication constitutes the accounting function."

If the accounting profession truly implements its own definition, it will have to take on added responsibility, and Mr. Enthoven believes that the accountant must become more aware of the economic meaning and uses of accountancy than before and must assist in economic analysis and programming. Mr. Enthoven also states that accountancy in the future will extend to the whole economic sphere. Proper accounting information may greatly shape our economic thinking and policies.

The article discusses the data-oriented professions—the economist, the investment analyst, and finally the accountant. The author believes that the accountant must learn to take a more positive approach to basic economic data if he is going to meet the challenge of the future years. Limitations of the current accounting approach are listed and briefly discussed. Also given are a few of the things that can be done in meeting the new challenge. Among the latter are identification of items such as working hours paid for by each corporation and government unit, validation of reported quantities, expanded reporting of economic data, and periodic interpretation of accumulated data.

Mr. Knortz concludes with a brief discussion of the province for accounting progress. The accounting and economic professions must extend their present programs to encompass economic data in a more formal way. Economic information has international significance; it is real; it is comparable. Its accumulation, validation, and reporting are properly the province of the accounting profession. Success in a program of presenting

quantitative economic information will constitute a new facet of accounting progress.

Mr. Knortz has stated the challenge to the accounting profession well. It has long been this reviewer's contention that accounting and economics cannot be separated. This article points out ways in which accountants can work more competently for economic development.

Mary E. Burnet, C.P.A.
Rochester Institute of Technology

"Accounting for Extraordinary Gains and Losses"; Leopold A. Bernstein, CPA; The Ronald Press Company; 1967, 331 pp; \$10.

Perhaps the most interesting aspect of "Accounting for Extraordinary Gains and Losses" is the timing. The book was obviously finished and at the printers in late 1966 when the Accounting Principles Board of the American Institute of Certified Public Accountants issued Opinion 9, entitled "Reporting the Results of Operations", which significantly changed the ground rules for treatment of extraordinary gains and losses.

Fortunately, the author was able to delay final printing long enough to include a short appendix discussing APB 9. Obviously, however, the book suffers from its many references to the prior official pronouncement of AICPA, Accounting Research Bulletin 43.

The book is divided into four sections, plus two appendices. The first section deals with the theory behind the income statement and the various treatments of extraordinary items. The second section discusses what has actually been happening in practice, while the third section suggests means of improvements—the most interesting being the author's suggestion that each year's annual report show a five-year summary of earnings.

The fourth section of the report is a lengthy (almost 90 pages) tabulation of various treatments afforded extraordinary items in the annual reports of 274 companies. These were primarily 1964 annual reports and were selected from approximately 1200 reports reviewed by Mr. Bernstein.

The two appendices deal with a summarization of the historical position of the AICPA regarding the question and the author's analysis of APB 9, particularly as it relates to his study.

Throughout the book, the position of the Securities and Exchange Commission has been included so that the reader is aware of the influence of that regulatory body on report presentation.

P.E.P.