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REVIEWS—Writings in Accounting

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"A PROPOSAL FOR CONGLOMERATE DISCLOSURE," Joe J. Cramer, Jr., and Thomas Iwand, Business Horizons, Volume XI, No. 2, April 1968.

The author examines the problems of reporting operating results for a multi-industry firm—a problem of increasing importance today as a result of the growth of conglomerates. He reports the dissatisfaction of many with the consolidated financial statements of conglomerates—dissatisfaction because the statements do not contain the type of information required for rational investment decisions since they may obscure operational inefficiency in one or more divisions.

He also reports indications that the SEC appears eager to prescribe divisional reporting and the use of product line methods of disclosure. Actual statements for fiscal 1966 for one firm are given as examples of net income disclosure by product lines.

In the authors' words the article attempts to demonstrate that "reasonably accurate product line or divisional income statements in contribution form can be prepared." A noteworthy article in a day of conglomerates—one that is well worth the reading time.

Dr. Bernadine Meyer
Duquesne University

"THE INCOME TAX: IS THERE AN ALTERNATIVE?" Gerald R. Rosen, DUN'S REVIEW, New York, Volume 91, No. 3, March 1968.

"SOME ECONOMIC EFFECTS OF ADDED VALUE TAX," Jack Moore and Jean-Claude Samaran, JOURNAL UEC, Verlagsbuchhandlung des Instituts der Wirtschaftsprufer GMBH 4 Dusseldorf, Germany, January 1968.

The need for new types of taxation in many parts of the world has led to consideration of a relatively new form of taxation, namely, the value added tax, which has been discussed recently in two different publications-one in the United States and the other in Europe.

Mr. Rosen's artical in DUN'S REVIEW points out that traditionally Americans have been concerned primarily with the increasing size of their tax load and how they themselves are hit; but now, more and more executives, economists, and even government personnel are beginning to question the type of taxes we pay. Income taxes today are levied not only by the federal government, but also by many states and even cities and counties; the result is an urgency to find other forms of taxation.

Mr. Rosen mentions briefly the possibility of a federal sales tax, questions whether excise taxes would be an ideal place to shift some of the income tax burden, and then devotes the rest of the article to a discussion of the value added tax. Essentially, a value added tax is levied on the selling price of a firm's products less the cost of goods purchased from other firms that went into the production process. There can be many variations depending on whether the company is permitted to include such things as capital expenditures and depreciation.

In 1949 an advisory group headed by Professor Carl Shoup of Columbia University recommended that the Japanese government adopt VAT. The Japanese did not accept the recommendation, but in 1954 the French began using a value added tax with the Germans following suit in early 1968.

The state of Michigan in 1953 adopted a business activities tax, a form of VAT. (Editor's note-Michigan's business activity tax was dropped at the end of 1967 when a state income tax was adopted.)

Economic experts are split over VAT on ideological grounds and Mr. Rosen gives the views of some of the country's foremost economists. It is admitted that the tax is not easy to administer; but Mr. Rosen says that in the view of those who know, there are strong chances that the United States will be turning to some form of VAT in the future.

Turning to Europe, the article by Moore and Samaran is published in French in JOURNAL UEC (The European Journal of Accountancy); there is a complete German translation, and the item referred to at the beginning of this review is the English summary of the

French "De Quelques Effects Economiques de la Taxe sur la Valeur Ajoutee."

Moore and Samaran define TVA, or tax value added, as "a general consumption tax which is in exact proportion to the price of goods and services, regardless of the number of transactions that have taken place in the production and distribution process preceding the stage at which the tax is applied." On January 1, 1968, a revised TVA law took effect in France, and in Germany TVA will be introduced to replace the long-established turnover tax. Belgium, Luxembourg, Italy, and The Netherlands must follow suit by January 1, 1970. Considering the high proportion of turnover taxes to the gross national revenue, the change to TVA represents a profound fiscal reform with considerable economic repercussions. Elsewhere, only Denmark has a full-scale TVA system which may fairly soon be adopted by Sweden. Despite some opposition in the United Kingdom to TVA, it is certain that any new members of the European Economic Community will have to adopt the TVA directives already in force.

The article explains the turnover taxes and compares them with TVA. It also discusses the advantages and disadvantages of TVA from the standpoint of business administration and costing, the accounting changes to be made on conversion to TVA, and the auditing procedures.

Among the conclusions given at the end of the article, one is that the accounting and administration of TVA is more costly than that for cumulative turnover taxation but, in the French experience, this additional burden is not excessive. Another conclusion is that the adoption of TVA does not greatly add to the auditor's tasks.

With the increasing growth and importance of international businesses and with the increasing use of a value added tax in Western Europe, it appears that a knowledge of this form of taxation is important for those business personnel engaged in international operations. Should the tax be adopted in the United States, it will, of course, be important to all business personnel in the United States.

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"IS GENERALLY ACCEPTED ACCOUNTING FOR INCOME TAXES POSSIBLY MISLEADING INVESTORS?—A Statement of Position on Income Tax Allocation," Price Waterhouse & Co., New York, New York, 1967.

This little 27-page booklet was published by Price Waterhouse & Co. to support its views on income tax allocation just prior to the time that the AICPA Accounting Principles Board published its exposure draft on the subject. (Editor's Note: The AICPA Accounting Principles Board issued an authoritative pronouncement on the subject in December 1967. That pronouncement, Opinion No. 11, "Accounting For Income Taxes," has been reviewed in the April 1968 issue of this magazine.) In the recent past, there has been a great deal written concerning income tax allocation. This small pamphlet is, in this reviewer's opinion, one of the clearest, most concise, and best written articles supporting the "against" position of income tax allocation.

The firm studied the effect of accelerated depreciation and installment sales on tax accounting as it applies to 100 companies during 1954-1965. Of these, 90 were among the 500 largest industrial corporations listed by *Fortune*, and 10 were large corporations engaged in retail trade. As a group, the 100 corporations deferred almost $1 billion of taxes during the years 1954-1965. They had to pay only about $20 million (2%) of these deferred taxes in the 12-year period. Therefore, Price Waterhouse asks, is this really a deferred item or is it realistically a remote contingency?

Taxes have long been a controversial subject in accounting theory. There are those who feel they are an expense like any other expense. If this philosophy is followed, they ought certainly to be matched against revenue. This is the philosophy which seems to be the prevailing argument in favor of income tax allocation. However, other theoreticians have held that income taxes are forced distribution of income to the government, and therefore are unike the ordinary or even extraordinary expenses of the firm. The firm ought to try to minimize the distribution, but to relate these to the revenue flow is unnecessary or even impossible.

It would appear to this reviewer that Price Waterhouse is taking a position somewhere between these two extremes. The firm excludes from its discussion of income tax allocation the tax differences which result from handling specific items differently in the short term for taxable and financial income. An example of this type of transaction would be expensing on the tax return the amount paid in one year for advertising catalogs which will be amortized over several years on the financial statements. The taxable income would be smaller than book income in the year of the purchase of the catalogs; this difference would

be exactly offset by the increased taxable income (over book income) in the years during which the catalogs were amortized. For these specific, directly offsetting type transactions, which will definitely affect tax payments in the immediate future, Price Waterhouse would agree to income tax allocation.

However, we have at present two other types of income tax complications. The first type is that discussed in this pamphlet. So long as the company is a going concern (and isn't this one of our basic accounting principles or underlying assumptions?) accelerated depreciation and installment sales will continue. It is true that these may continue at an increasing or decreasing rate. However, they will hardly stop unless the firm ceases to exist. Therefore, the problem is not one of shifting an expense from one year to another in the forseeable future. It is a problem of permanent or nearly-permanent deferral until the company ceases. As Price Waterhouse's study indicates, a 2% payment over a 12-year period does indicate that this item is more nearly a remote contingency than a definite liability.

The second type of income tax complication, and this is not discussed in this pamphlet, is the special reduction in taxes granted by the government to spur investment—the so-called investment credit. Efforts have also been made to relate these credits to the asset accounts and the expense accounts which relate to the assets, under the theory of matching revenue and expense. A strong argument used is that one cannot have *income* from a purchase. Once again, to this reviewer, it would seem logical to recognize the tax reduction as the economic incentive which it was intended to be, rather than call it special revenue or relate it to an expense reduction.

As accountants we can become very wrapped up in the allocation of everything. **We should not fail to realize that the government is interested in three things only; 1) raising a certain number of dollars of tax revenue; 2) redistributing income via the income tax route to produce the desired social benefits; and 3) maintaining a relatively stable economy with the smallest amount of unemployment.** Since the government never did purport to define income, or to relate taxes to income (except in its listings of taxable income or deductible expense), perhaps we ought to cease to be overly concerned with relating income taxes to specific revenues or expenses.

Price Waterhouse would like to show the amount which appears on the tax return as income tax expense for the year. Granted, a few exceptions would be necessary. Most rules are proved by their exceptions. But the pamphlet does challenge the reader to ask "Are all the exceptions which we presently take necessary? Are all the deferrals of taxes really realistic? Are we informing or misleading investors?"

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"SELF-TEACHING INTERMEDIATE ALGEBRA," Vernon E. Howes and Roy Dubisch; John Wiley & Sons, New York, 1965; 446 pages (spiral bound); about $4.

Here is a book for the accountant who wishes to teach himself the mathematics which probably is not a part of his background but which has become so necessary in today's business world.

The text follows the new approach in mathematics: it begins by developing the associative, distributive, and commutative laws and then follows from there through polynomials, functions, exponents, logarithms, linear equations, the binomial theorem, and quadratic equations.

A self-teaching workbook, it applies the principles of programmed learning. (There is a companion textbook for those desiring a more theoretical approach in accompaniment with the more pragmatic one to be found in the workbook.) Each new mathematical concept is taught by having the reader work problems which are broken down into very small steps. He does not go on to the second step until he understands the first one. If he makes an error, he must correct it before going on so that he does not repeat mistakes.

Some familiarity with algebra is an aid to the person who undertakes this without outside assistance. But, for the accountant whose mathematics background consists of not much more than a year of high school algebra some fifteen or twenty years ago, it's a distinct possibility to work one's way through the book alone—provided, of course, one has the necessary persistence.

Dr. Bernadine Meyer
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