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Reviews - Writings in Accounting

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REVIEWS—Writings in Accounting

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"DISTORTIONS ARISING FROM POOLING-OF-INTERESTS ACCOUNTING," Abraham J. Briloff, CPA, FINANCIAL ANALYSTS JOURNAL, Volume 24, No. 2, March-April 1968.

This very interesting and humorously written article discusses the "credibility gap" which the author finds in annual reports of firms which have acquired interests in other entities during the fiscal year. Some of the "dirty pooling" to which he refers consists of the "instant earnings growth" which appears when the income statement for the year prior to pooling is compared with that for the year in which pooling occurred, resulting in comparison of data which are not really comparable when there is no adjustment for the acquisitions made during the year. *(Editor's Note: APB Opinion 10, effective for periods beginning after December 31, 1966, directs itself to this problem in paragraph 5. It states "...historical financial data of the continuing business for periods (including interim periods) prior to that in which the combination was effected, when presented for comparative purposes, should be restated on a combined basis.")*

He uses examples to prove his point—the annual reports of several well-known enterprises. He cites the 1967 annual report of one entity where the increases in sales and earnings are shown as 33% and 26%. According to the author's calculations, these percentages would be only 15% and 16% if comparison is between the previous year's data and current data which did not include the acquisitions made during the year. He uses other annual reports to point up cases of cost and value suppression.

The author suggests abandoning pooling-of-interests accounting except where shareholders of the acquired corporation receive common stock interest of at least 30% in the combined complex. He also advocates continuance of separate accounting for each entity, and he is very definite in recommending that no comparative data be released where items are differently determined.

This is an important article for both the investor and the accountant; no punches are pulled in a very provocative essay.

Dr. Bernadine Meyer
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"ORGANIZATIONAL PSYCHOLOGY," Bernard M. Bass; Allyn and Bacon, Inc., Boston, 1965; 408 pages; about $7.

"People cause most of my problems." The accountant who has never made that statement aloud has surely reflected silently, at one time or another, upon its veracity. For the accountant who is interested in delving deeper into the behavior of human beings in the setting of an industrial organization, *Organizational Psychology* will prove interesting, rewarding, and worth every minute of the time spent reading and "pursuing" it. (Pursuing, yes, in the sense that one mentally follows up on what he has read and considers its application to his own situation.)

The book treats such topics as employee attitudes toward the job, job satisfaction, the rewards of work, motivation of the individual to work, behavior of supervisors, working in groups, communications in the organization (formal as well as the grapevine), and conflict within the organization.

The mature and experienced accountant should have no difficulty with the vocabulary. It is not difficult reading and is definitely NOT a book for those interested only in esoteric excursions in the rarefied atmosphere of pure psychological theory. Instead, it is practical, understandable, and the kind of book that will undoubtedly cause the reader to say, as different concepts are developed, "Now, that's almost exactly the situation we had with the budget last week," or, "No wonder our committee doesn't get much done," or, "Perhaps I should do thus and so," etc., etc., etc.

For anyone who works with people, it's a valuable book. And the hermit just might discover how much he's missing!

Dr. Bernadine Meyer
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"ACCOUNTING AND AUDITING APPROACHES TO INVENTORIES IN THREE NATIONS," International Study Group; American Institute of Certified Public Accountants, New York, 1968; 48 pages; $1.50.

The aim of the paper is to restate present recognized accounting and auditing practice as it relates to inventories in Canada, Great Britain and Ireland, and the United States from a common standpoint, to show up major areas of similarity and difference, to indicate areas requiring further study, and, if possible, to point the way to a consolidation of best international practice.

The first thing that strikes anyone comparing inventory accounting and auditing practices in Canada, the United Kingdom, and the United States is differences in terminology among the three countries. British accountants generally speak of "stock in trade and work in progress" which they usually shorten to "stock." North American accountants usually speak of "inventories." The pamphlet points out, however, that the differences, at least so far as the subject of the paper is concerned, are seen to be largely superficial.

The pamphlet discusses various topics in connection with inventories, including the meaning and significance of inventory, internal control, physical inspection of inventory for control purposes, auditing aspects of physical inspection, and valuation of inventory. Five main conclusions from the comparison of principles and practices are drawn.

First, the amount to be attributed to inventories is of fundamental importance in the preparation of the financial accounts of most businesses.

Second, it is a primary responsibility of management to ensure that adequate inventory records are maintained and that inventories are managed and safeguarded under a properly planned and operated system of internal control.

Third, inventories should be subjected to physical inspection, under proper managerial supervision, at intervals appropriate to the nature and circumstances of the business.

Fourth, attendance to observe physical inspection of inventories is a most significant verification procedure for audit purposes. This practice has received more forceful emphasis in North America than in the United Kingdom.

Fifth, inventories should be valued, in general, on a consistent basis from year to year, at the lower of cost (including an appropriate amount for overhead expenditure) or market (as in the United States) or at the lower of cost or net realizable value (as in Britain and Canada).

This paper, dated January 1968, is the first of a series prepared by the International Study Group. The study group was set up at the end of 1966 jointly by the three Institutes of Chartered Accountants in Great Britain and Ireland, the Canadian Institute of Chartered Accountants, and the American Institute of Certified Public Accountants for the purpose of making "comparative studies as to accounting thought and practice in participating countries, to make reports from time to time, which, subject to the prior approval of the sponsoring Institutes, would be issued to members of those Institutes."

This paper should be, as the authors hope, a landmark in the field of international cooperation by the accounting profession.

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"COMPUTERIZED COST SYSTEM IN A SMALL PLANT," John P. Malloy, HARVARD BUSINESS REVIEW, Volume 46, No. 3, May-June 1968.

This article reports the actual experience at a machine works in the Mid-west employing about 135 persons. The seventh consecutive year in which losses were reported was 1964, when the company lost $58,000 on sales of $1,220,000 and had a stockholders' equity of $116,000. A new management was brought in, with the author as president, and a five-year profit improvement plan inaugurated. In 1967 the firm earned $52,000 on sales of $1,955,000; stockholders' equity had increased to $254,000.

The vital factor in this improvement was a computerized information system, with a control center established on the factory floor, resulting in better quality control, lower costs, a new timekeeping system, and a new chart of accountability. To do this the firm did not have to purchase a computer nor did it find that data processing costs were exorbitant. The company's budget for data processing is $850 a month, and the firm requires only four hours of rented time a week on an IBM 1401.

The article is extremely helpful, since it relates the true experience of a small manufacturer who was able to make a computer and its related systems a productive tool. This is recommended reading for anyone interested in the small firm.

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