

5-1968

## Reviews - Writings in Accounting

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### Network Recommended Citation

Peters, Phyllis E. (1968) "Reviews - Writings in Accounting," *Woman C.P.A.*: Vol. 31 : Iss. 3 , Article 8.  
Available at: <https://egrove.olemiss.edu/wcpa/vol31/iss3/8>

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# REVIEWS

## *Writings in Accounting*



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**"TAX FACTORS IN BUSINESS DECISIONS,"** Dan Throop Smith; Prentice-Hall, Inc., Englewood Cliffs, N.J., 1968; 301 pages; \$10.50.

The person with only a modest background in taxation who is mystified by the complex and seemingly illogical provisions of the Internal Revenue Code can gain considerable understanding of United States tax laws from this book. The reader gradually realizes that those responsible for tax policy face a difficult task in attempting to achieve simplicity and at the same time an equitable distribution of the tax burden. Many of the complex provisions seem to be the result of plugging loopholes which reluctant taxpayers have discovered and used.

Any person that hopes to build his assets so that later years may be spent in a degree of comfort needs to know the effect his decisions will have on his income taxes; and if he has a further desire to pass along some assets to his descendants, he will also benefit by an understanding of estate and gift taxes.

**While the average individual may feel that those in higher income brackets give too much emphasis to tax matters, the author has noted that "Whenever an income tax rate exceeds 50 per cent, it becomes more important to save a dollar of taxes than to earn a dollar of income, a fact which cannot be expected to go unnoticed by those affected."**

The author explains the factors which affect executive salaries, personal investments, estate planning, choosing the form of business organization, and many other situations which confront the modern business. The author is adept at showing the development of the Revenue Code as a means of extracting revenue; as a method of encouraging the new business, the smaller company, the farmer, and the extractive industries; and also as another measure to control the economy of the nation.

**The book is not suitable as a current reference work for the tax specialist, and all readers should be aware that rates and various specific provisions of the Code will undoubt-**

**edly change within a very short time. But the book does provide an easy means of developing an understanding of the constantly changing income tax laws and the pressures which cause it to change.**

Margaret L. Bailey, CPA  
Bailey & Wylie

**"FINANCIAL STATEMENTS: FORM, ANALYSIS, AND INTERPRETATION,"** Ralph Dale Kennedy and Stewart Yarwood McMullen; Richard D. Irwin, Inc., Homewood, Illinois, 1968; 728 pages.

This fifth edition of a book first published in 1946 outlines techniques for the analysis and interpretation of financial statements of manufacturing and commercial enterprises. According to the authors, the objectives of the text are: "(1) To explain the form, content, and general principles governing the construction of financial statements. (2) To discuss valuation, amortization, and income-determination problems. (3) To explain the methods of analyzing and interpreting financial and operating data. In brief, it is the objective of this book to present a study of the significance and limitations of financial statements and to show how to analyze them." (pp. 31, 32.)

The volume consists of four sections. Part I (Chapters 1 through 7) reviews general principles of financial accounting and statement construction, and also includes a chapter on consolidated statements. Data in this section would be familiar to practicing accountants. Therefore, Part I can be by-passed by those with a working knowledge of statement preparation.

Part II (Chapters 8 through 17) develops basic techniques of financial statement analysis. Included in this section are chapters on trend percentages, standard ratios, ratio analysis of working capital, analysis of long-term financial condition, and analysis of income.

Comparative financial statements and common-size statements also are discussed together

with working capital, the cash-flow statement, and the statement of sources and uses of working capital. Much valuable information is presented in this section; and the reviewer was impressed with the comprehensive coverage of topics and with the detailed illustrations included by the authors.

The third part (Chapters 18 through 22) considers the problem of price level changes, a topic of continuing importance in today's economic climate. These chapters contain a very lucid discussion of price level changes and the effects of inflation upon assets, revenues, costs and expenses. Adjustments for price level changes form the basic material of several chapters; and in general, the presentation is well executed.

The authors refuse to take a position on the accounting controversy concerning the extent to which price level changes should be reflected in the accounts. They do insist, however, that an analyst cannot overlook the implications of price level changes in the evaluation of statements. They also note that the extent of distortion of company statements is directly proportional to the inflationary or deflationary levels during the periods in which the statement figures arose.

The final section of the book (Chapters 23 through 31) illustrates analytical techniques for typical businesses, including a grocery store, a department store, and an industrial manufacturer. The discussion concludes with an analysis of the statements of air carriers, railroads, public utilities, and commercial banks.

No attempt is made to standardize analytical procedures. Indeed, the authors emphasize that differing conditions require a flexible approach to statement analysis. For the first time, the authors have made extensive use of the AICPA publication, "ACCOUNTING TRENDS AND TECHNIQUES" and have noted the recent activities and influence of the Accounting Principles Board.

**In general, this reviewer believes the book would be a valuable addition to professional libraries. The section on price level changes is especially useful, and the chapters on basic techniques of statement analysis are well written and relevant for managers, accountants, and bankers as well as for investors.**

The volume is designed more as a reference work than as a basic text for college courses, although discussion questions and problems are available in a supplementary paperbound book. The text is a valuable source of information for those interested in statement analysis and interpretation.

Linda H. Kistler, CPA  
Lowell Technological Institute

"ACCOUNTING FUNCTION AND MOTIVATION," Herbert J. Wieser, CPA, MSU BUSINESS TOPICS, Volume 16, No. 1, Winter 1968.

The author's thesis is that the accounting function has a great and often unrecognized effect upon the motivation and morale of employees—frequently a negative and discouraging effect! For instance, he reports that in the eyes of some employees the accountant's role is a "policing" one; he discusses the lowering of morale and the discouragement resulting when an accounting system attributes costs over which an individual has no control to the department for which that individual is responsible; he states that budgetary practices may have the effect of uniting employees *against* management.

Mr. Wieser offers some concrete suggestions for improving the situation; these include responsibility accounting, the contribution approach to cost allocation, participation of employees in budget preparation, etc.

**The article is well worth reading, for it emphasizes a fact which is so very easy for the accountant to overlook—that reactions of other employees to the accounting function are often far from what the accountant would like them to be, and that the accountant must not only be aware of this but must take positive steps to guard against it.**

"DISCUSSION, CONFERENCE, AND GROUP PROCESS," Halbert E. Gullett, Henry Holt and Company, New York, 1960, 378 pages.

Participation in group discussions, in conferences, and in meetings is not only an occupational requirement for the accountant but also a vital aspect of membership in professional societies such as ASWA and AWS CPA. Here is a book with a practical, helpful, down-to-earth approach to the subject—one that emphasizes the "how to" rather than just pure theory.

The author treats such subjects as characteristics of groups—interpersonal relations within a group—problem-solving sessions as well as information-giving sessions—group leadership and leadership problems—participation in large as well as in small groups—language and speech skills—use of reasoning in discussion—resolving conflicts within a group—ethical and parliamentary considerations—and methods of evaluating group effectiveness.

**Easy to read and easy to understand, the book has excellent suggestions and recommendations for those interested in improving their effectiveness in groups.**

Dr. Bernadine Meyer, Duquesne University