# Woman CPA Volume 37, Number 1, January 1975

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

# The Woman CPA

JANUARY 1975 VOLUME 37, NUMBER 1

The Singer Client Accounting System.

Created by professional accountants for professional accountants.

You get a system that does everything you want a client accounting system to do—without having to hire data processing people to do it.

You get a system that displays all entries on a TV-like screen at your desk, so you can make all journal entries, and totally control all client procedures from original input through trial balance, general ledgers, financial statements, supporting schedules, and payroll reporting.

You get a system that does more than maintain general ledgers. It also includes a comprehensive depreciation system, an amortization schedule ability, and a professional time-reporting program library.

You get a system that uses no cumbersome paper tape, punch cards, or cassettes. All programs and client files are on-line all the time.

You get a system that maintains confidentiality. All the data remains in your office, all the time.

You get a system that puts the lid on soaring clerical and bookkeeping costs. Because it eliminates endless handling and clerical routines.

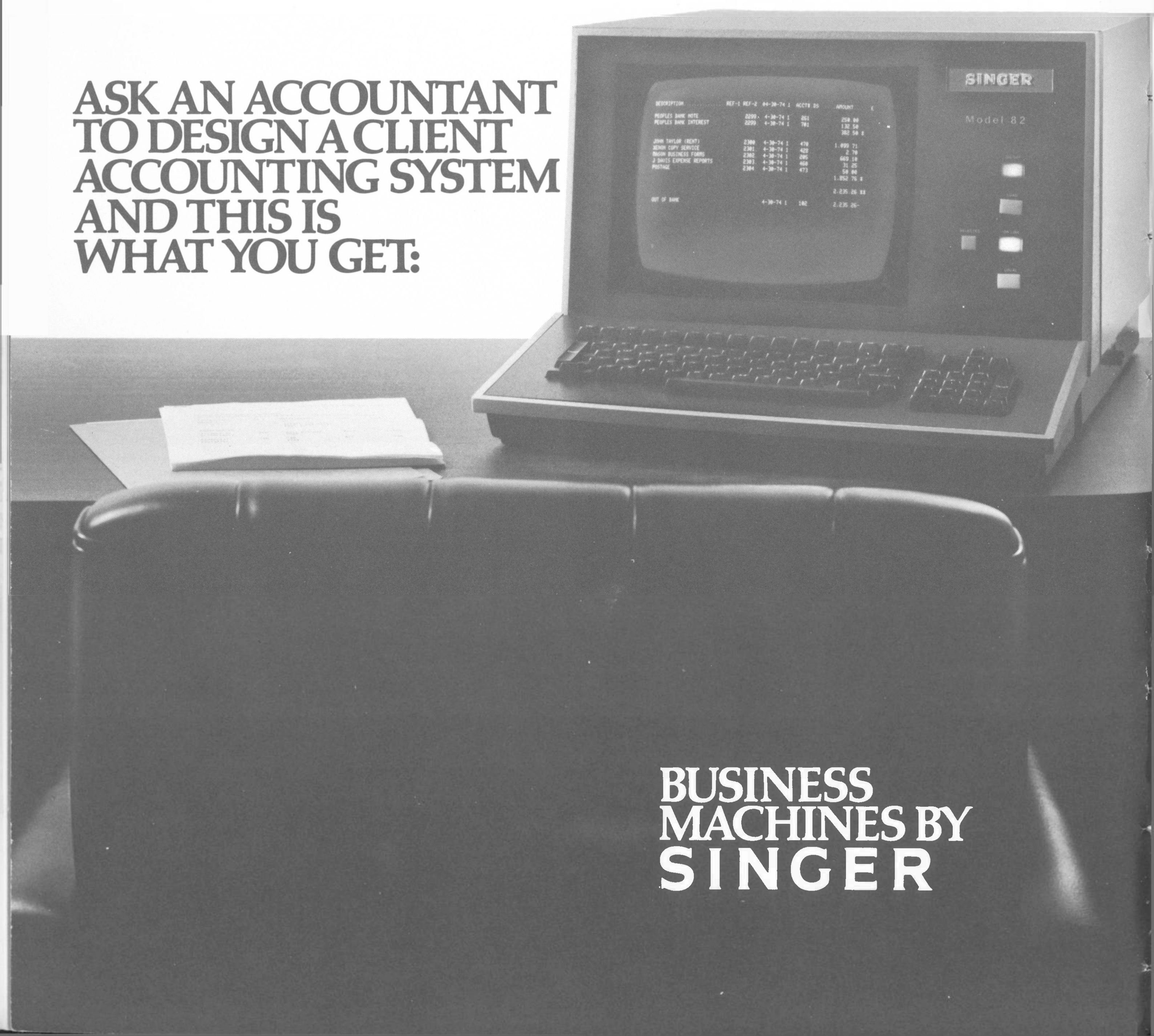
Best of all, you get a system that is ready for immediate delivery: up and running in 30 days.

You get this and a lot, lot more.

But isn't that always the case when you call in a professional accountant?

For the complete story on the Singer Client Accounting data processing system—and reports on how accounting firms across the country are now profiting from it—call your local Singer Business Machines representative. Or write: The Singer Company, Business Machines Division, 30 Rockefeller Plaza, N.Y., N.Y. 10020.

# ASK AN ACCOUNTANT TO DESIGN A CLIENT ACCOUNTING SYSTEM AND THIS IS WHAT YOU GET:



**Editor**
Dr. Ula K. Motekat, CPA
School of Business Administration
University of Massachusetts
Amherst, Massachusetts 01002

**Associate Editor**
Constance T. Barcelona
5677 Whetsel Road
Cincinnati, Ohio 45227

**Business Manager**
Beatrice C. Langley
327 South LaSalle Street
Chicago, Illinois 60604

**Advertising Sales Manager**
Lansing T. Dupree
37 W. 38th St.
New York, New York 10018
Tel: (212) 239-8083

THE WOMAN CPA, published quarterly and copyrighted, 1975, by the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants, 327 South LaSalle St., Chicago, Ill. 60604. Subscription rates per year — members $1.50; students and libraries, $2.25; all others, $3.00; outside the United States, 50c higher; single copies, $1.00. *Second-class postage paid at Chicago.* Change of address notices must be sent to Business Manager giving four weeks' notice and both old and new addresses, including zip code numbers.



Articles of general accounting interest, not exceeding 5,000 words, should be addressed to the Associate Editor. Manuscripts related to areas defined by special columns, containing from 600 to 1,800 words, should be sent to the appropriate department editor. Letters to the Editor should be sent directly to the Editor. Requests for information regarding advertisements should be addressed to the Advertising Sales Manager.

All manuscripts must include a word count and the author's permission to publish. Material should be based on fact, rather than on opinion, and presented in technical writing style. Submission of material in duplicate will facilitate editorial board action.

NATIONAL HEADQUARTERS
**Beatrice C. Langley, Executive Secretary**
**327 South LaSalle Street,**
**Chicago, Illinois 60604**

# The Woman CPA

**January 1975** **Volume 37, No. 1**

CONTENTS

## MAJOR ARTICLES Page



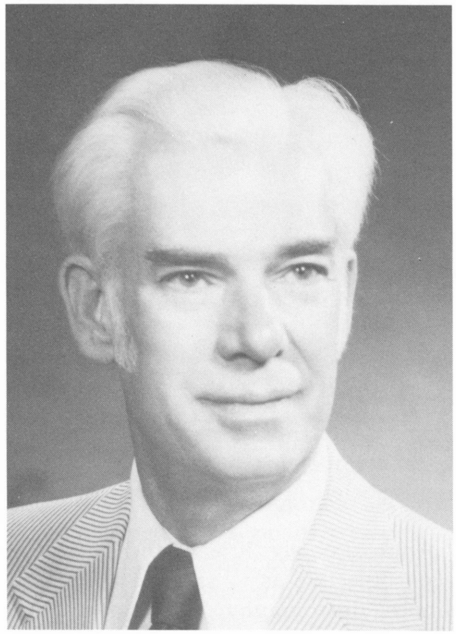
## DEPARTMENTS



*Cover photo courtesy of Department of Public Utilities, Tacoma, Washington*

# WOMEN IN ACCOUNTING: Eddies and Midstream Currents

Constance T. Barcelona, MBA



Dr. Thomas W. Lelievre, CPA

Dr. Clara C. Lelievre, CPA

*Constance T. Barcelona, MBA, is Adjunct Instructor in Accounting at the University of Cincinnati and is also engaged in private accounting. She is the author of several articles and book reviews previously published in The Woman CPA.*

*Ms. Barcelona is a member of the National Association of Accountants, a past president of the Cincinnati Chapter of the American Society of Women Accountants, and the Associate Editor of The Woman CPA.*

*Dr. Clara C. Lelievre, CPA, and Dr. Thomas W. Lelievre, CPA, are both Associate Professors of Accounting at the University of Cincinnati. Both of them received their Ph.D. degrees in accounting from the University of Alabama at Tuscaloosa and were in public accounting for several years before entering the teaching profession. They are the authors of an article on Continuing Education published in a previous issue of The Woman CPA.*

*The Lelievres are members of numerous accounting societies. In addition Dr. Clara Lelievre is a member of ASWA and AWSCPA and the new Editor of the Financial Statements Department of The Woman CPA.*

**The authors report on the results of a survey, taken in the spring of 1974, of members of the American Society of Women Accountants.**

Water surely is the sign for most women regardless of their personal birth dates. Not earth, or sky, or fire, but water. Water flows around obstacles; water finds its way where any crevice is available. Water adapts, changes form, becomes glacial ice when the climate inhibits movement and escapes into steam when unbearable heat is applied, only to come back another day as rain falling on a more pliant landscape. Water prevails.

A look at women from the beginning of time reveals their insistent force, however devious in expression. Women have been locked in, suppressed, contained, but like a great reservoir have waited through time for the chance to pour out with strength. That time, apparently, has begun.

Persistence has been richly rewarding for some women in the world of business, and even those who have had disappointments can feel that their thrust has helped clear the channel for younger women who will follow.

Any woman worthy of the name would look at positive results first. They include, for women in accounting, job satisfactions that range from a tremendous sense of fulfillment in service to clients and community, to the more worldly pleasure at all of the luxuries a good income makes possible.

"The feeling that I am needed," reiterates throughout survey answers as being a day-to-day motivation, and a feeling of great satisfaction over the years. One woman wrote that her psychological reward is in knowing:

> that I am helping clients on a person-to-person basis, and that clients can talk to me confidentially about their financial condition, their tax situation, their investment problems, and similar matters

Another noted that her goal was to help small businesses "so that if they fail it isn't for lack of accounting knowledge like understanding cash flows." Students of

psychology, even arm-chair authorities as most accountants are, recognize that being needed is a prime motivator, whether for the maternal instinct or for the male-attributed protective instinct.

Practicing accountants will recognize that quotations like those above are particularly relevant to small local offices where the relationships with the clientele are close. However, other rewards are attainable even when the professional situation is more impersonal. Mental challenge ranks high with women accountants, and a good income is generally appreciated. One respondent listed her professional satisfactions as including a sense of service as well as mental stimulation, and then added in unabashed candor, "I also enjoy having a large home, an expensive car, and a nice diamond ring." Few can fail to understand her pleasure.

All three of the preceding quotations are from a 1974 survey of women accountants conducted at the University of Cincinnati. Not all are as happy, of course, but each has a story to tell.

### Definition of Survey

The study was designed to: (1) reveal the satisfactions, hopes and attitudes of today's women accountants, (2) investigate the effects of the Fair Employment Practices Act (FEPA) of 1964 on opportunities for women accountants, and (3) test the in-the-field experience of women in accounting positions. Results reflect 411 responses from a questionnaire mailed to a statistically sound sample of the national membership of the American Society of Women Accountants, and to all of the national membership of the American Woman's Society of Certified Public Accountants.

Approximately 30% of the questions were objective as to salary, experience, tenure, demography, educational data, and specific placement in the accounting field. The remaining 70% of the questions tested job satisfactions and self-fulfillment, as well as exposure to discriminatory employment experience. Supportive queries utilized both multiple choice and open-ended questions to effect highly comprehensive testing.

## EMPLOYMENT STATISTICS

### Current employment

Salary ranges for present employment of women in accounting showed the following distribution pattern:

| | | |
|---|---|---|
| Less than | $ 5,000 | 2.2% |
| $ 5,000 to | 10,000 | 7.7% |
| 10,000 to | 15,000 | 31.2% |
| 15,000 to | 20,000 | 32.3% |
| 20,000 to | 25,000 | 16.7% |
| Over | 25,000 | 9.9% |

Recent years have brought about a significant movement of women into the public accounting field. Migration has been particularly noticeable from government employment which was considered less discriminatory toward women in the years prior to 1964 and the passage of the FEPA. Survey responses, however, indicate that the governmental policy of non-discrimination (then and now) is illusory, and the observations by governmental employees are apparently substantiated in the current shift of women into public accounting.

Current placement of women in accounting shows the following pattern:

| | |
|---|---|
| Public accounting | 58.0% |
| Teaching | 10.7% |
| Industry | 14.7% |
| Government | 9.7% |
| Other | 4.0% |
| No answer | 2.9% |

For a more detailed professional profile of women in accounting the reader is referred to the article by Dr. Elise G. Jancura, CPA, in the July, 1974, issue of *The Woman CPA*.

There is a decided preference for public accounting as offering the best opportunity; 47% of the total respondents accorded it the leading position in ranking opportunities and the choice was especially favored by the younger age brackets. Opportunities currently available, and available before the passage of FEPA, were ranked by respondents in the following descending order:

| *Now* | *Prior to FEPA* |
|---|---|
| Public accounting | Government |
| Government | Teaching |
| Teaching | Public accounting |
| Industry | Industry |
| Non-profit | Non-profit |

Instability of women employees, and their transient employment patterns, are part of the mythology of business. Like most mythology, it tends to dissipate when the evidence is gathered and the current survey responses add to the widespread refutation of the instability myth. Women accountants who have remained in their present position from two to five years account for 48%, or nearly one-half, of the total response. Over one-quarter of the group, 26% in fact, have remained in their present position from six to ten years, 10% have remained from eleven to fifteen years, and the balancing 9% and 7% have remained in their positions from sixteen to twenty years, and over twenty years, respectively.

It must be noted, however, that the population who received the questionnaire did not include women who at one time or another were in the field of accounting, but then left for other fields of endeavor.

Although women are finding more opportunities in accounting today, they are still making slow inroads into the supervisory level. Only 7% of the survey responses indicated supervision of over twenty people; 30% supervised a staff of from six to twenty persons, and 63% supervised less than five employees. In

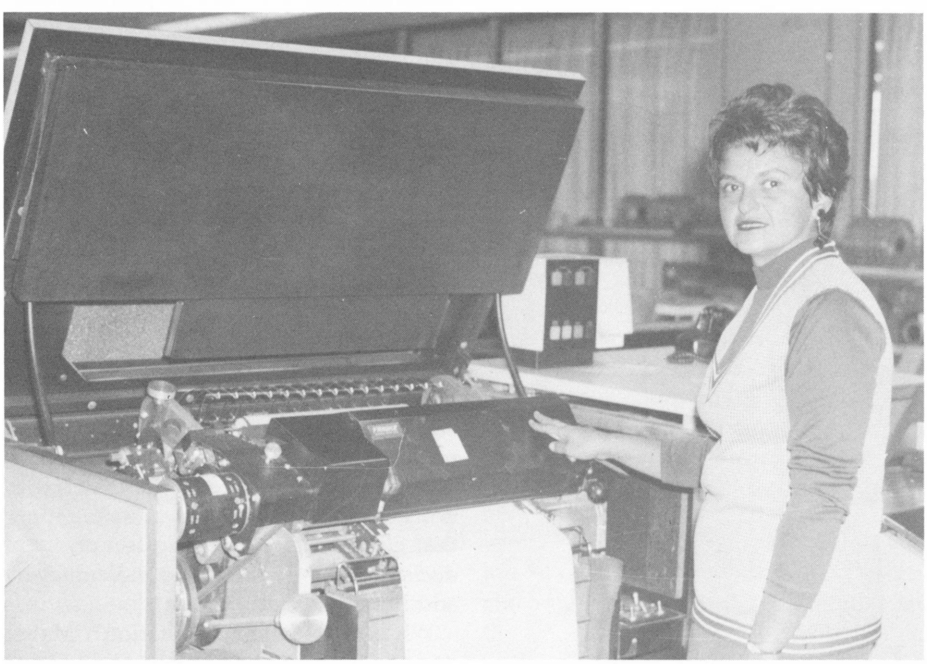
part this must be attributed to the relatively recent influx of women into the accounting field. Supervision traditionally accompanies seniority on the job.

Women accountants tend to be absorbed into relatively small firms, according to survey results, since 66% are working with organizations of less than fifty people. Any inferences drawn from the statistic would be purely subjective, but the survey facts do support a preference for self-employment, or partnership employment, in local firms. This apparent preference may reflect the hiring policies of the national accounting firms until recent years. One of the primary satisfactions expressed by survey respondents is the free-lance quality of public accounting, and the variability of time commitment that is available, which is particularly important to women in the family-raising-age group.

**Discrimination**

Whatever the area of placement it is apparent that professional accounting has at last recognized women. The reservoir is being tapped; one might even observe that the first trickle has become a steady flow but the potential gush of power has been dammed back in too many places. The great barrier has been discrimination against women.

The questionnaire was designed to preserve anonymity so it must be assumed that replies were given freely with no fear of reprisals. Within this atmosphere of confidentiality 46% of the responses affirmed that sexist discrimination existed within their firms regarding initial hiring salaries. The question regarding discrimination as to job assignment between sexes reflected a 45% positive response. Answers related to seniority salaries and promotional opportunities were even more significant, with 49% affirming discrimination in salaries after five years with a firm. Promotional opportunities displayed the most prevalent area of discrimination. Fifty-six percent denoted that their firms discriminated in favor of men when it was time for promotions. Age of the respondents was not a relevant factor in ranking discrimination, which added credence to the overall response.



A recurrent theme in the expressed dissatisfactions of women in accounting is the need to prove superior ability, day after day. "Men are still completely accepted even if average," reports a woman from a governmental accounting office, "but a female in the accounting field must always maintain an above-average rating in order to make it."

"I cannot be average but always must be outstanding to stay level with the fellow-men workers. This is particularly true in public accounting," echoes another.

Women cannot mourn the passing of chivalry with all its demeaning undertones but it is surprising to note that chivalry is indeed dead, even in the southland, where a Dixie daughter says ". . . there is no place in public accounting for the average woman accountant. A woman has many obstacles to overcome in order to reach the same level (which she should have had in the first place) as the average male accountant."

Since women continue to enjoy a welcome at the entry level in public accounting there is some wry pleasure in predicting for staff quality a gradual upgrading inherent in the process of feminine survival by excellence.

Discriminatory attitudes are also found among women themselves, and the overt chauvinism on the part of both men and women toward women in the profession is remarked upon by many respondents. An individual practitioner, under forty, who reports great satisfactions from the interchange of ideas with "intelligent creative people from all fields" also protests "being the local 'side-show freak', sex object, and everybody's idea of a cheap CPA."

Intermingled with such colorful protests are others, more conservative but nonetheless unsettling. There is, for instance, the matter of referrals. Consider the following comments from a mature and seasoned woman accountant:

> The main drawback to the woman heading up a public accounting firm is NOT her lack of professional ability, nor her lack of acceptance as a capable professional by the business community, but the lack of opportunities to meet businessmen on a business level; to become acquainted with them as a professional and to demonstrate her professional status and ability in the kind of give-and-take that occurs in men's (and women's) clubs, foursomes, etc. Most men seem to assume that a woman's presence means the

conversation must be 'social'. Hence, referrals, which are the life-blood of any accounting practice, come only from current or former clients for a woman, and make expansion into new fields very difficult, if not impossible.

I think more efforts should be spent in trying to inculcate the business community (including chambers of commerce and the male fraternity in accounting) that we are primarily interested in business discussions at these meetings, and prefer to make our own social arrangements separately and apart.

An insidious and unexpected form of discrimination surfaced during tabulation of survey results, and its correlation with sex is subtle. Many women who work with small, local public accounting firms feel that accounting literature, APB Opinions, FASB pronouncements and interpretations, and seminars and discussions under the aegis of state societies are not pertinent to the problems of the small practitioner. The situation is seen as a trend in public accounting toward domination by national firms. It may well be. It is a trend of the times, as profit maximization supplants service at the personal caring level, like the independent neighborhood grocer who is so much missed. The tendency of women accountants to gravitate toward the smaller public accounting firms makes them vulnerable to such secondary-level, indirect, sex discrimination.

The lament of the small practitioner was nearly obscured, though, by the decisive 56% of total response who report promotional discrimination against women accountants once the first levels of accounting expertise are learned. Women resent it, quite understandably, when a man of inferior skill is advanced ahead of them. It happens in government, it happens in colleges, it happens in industry, and it happens in the "Big 8" accounting firms.

### Civil Rights and FEPA

How much have the Civil Rights Act and the Fair Employment Practices Act of 1964 helped employed women? They have been helpful in the *much* to *maximum* range, according to 46% of the survey respondents. The endorsement rises to 57% when the age group is 40-50, which primarily consists of those women with long memories for the short end of professional recognition.

Younger women do not share the bitterness of their older colleagues but do object to the extraordinary demands on time that accompany public accounting. Teachers are in dismay at the bureaucracy of their institutional setting, and women in industry feel it unfair that they must repeatedly prove their competence, day after day, like their sisters in public accounting, while male counterparts are assumed to have superior abilities.

Various factors have influenced adoption of fair employment practices. Respondents were asked to rate the effectiveness of the factors listed below. On a scale from *none* to *maximum* the questionnaire response indicated a more than average effectiveness in the following distribution:

| | |
|---|---|
| Legislation | 45% |
| Affirmative action plans | 35% |
| Court cases related to discriminatory practices | 43% |
| Publicity about achievements of employed women | 51% |

Other influential factors were specified as (1) the experience of the company or firm with female employees, and (2) individual efforts and personal accomplishments of women employees.

Discrimination notwithstanding, women in accounting show a midstream current like a mighty river pushing toward its goal.

## WOMEN ARE TRUE PROFESSIONALS

The survey results gave abundant evidence that women have pride in their professional role as accountants. They consider education a life-long commitment, they affiliate with professional societies, and most of all, they positively revel in exercising their finely honed minds.

### Continuing education

One-quarter of the survey response was from women who are currently pursuing further formal study in the field of accounting. Continued study is part of the future plans of no less than 62% of the group.

It would be logical to assume that increasing enforcement of FEPA and the resulting improvement of professional opportunities would influence interest in continuing, or new, education. Such was not the case, however, and 81% report that FEPA had little of no effect on their decision to invest their time and money in additional education.

What, then, is their motivation? "Main-

*(Continued on page 30)*

# Women Accountants

Anna B.G. Dunlop, M.A., Dip.Ed.
Edinburgh, Scotland

**The author reports on the proportion of women in the accounting professions of other countries. The article is adapted from an article with the same title in the April 1974 issue of** *The Accountant's Magazine* **and from a note updating this article in the July 1974 issue of the same journal. Both are reprinted with the permission of the author and of** *The Accountant's Magazine*, **the journal of The Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh, Scotland.**

*Anna B.G. Dunlop, M.A., Dip.Ed., has been Editor of* The Accountant's Magazine, *the official monthly journal of The Institute of Chartered Accountants of Scotland, since 1968 after serving as Assistant Editor since 1958. She is an Arts graduate of Edinburgh University and is a member of the Editorial Board of the University of Edinburgh Journal.*

*In addition to her editorial duties at the Scottish Institute, Ms. Dunlop is the Keeper of the Institute's Antiquarian Collection of books on accounting dating from 1494 to 1930. The Collection consists of some 700 books.*

There were so many of them that we thought we'd investigate. Photographs of women accountant authors, we mean, in the journal of the Philippine Institute of Certified Public Accountants. So we wrote to Manila to ask how many women members there were in the Philippine Institute (which last year celebrated its golden jubilee). There are 674, we heard, 22% of a total membership of 3,059. The Philippine ladies, to go by those illustrated, seem mostly young and dowered with graceful names like Carmelita, Divina or Gloria.

Nearer home, we met Hilary, who also comes from the Pacific. Hilary Millen is a 23-year-old New Zealand woman accountancy post-graduate student in Edinburgh studying the impact of computers on management accounting. Through a research scholarship she is spending two years at Heriot-Watt University. She has also won an Alfred George East scholarship from Wellington Polytechnic. Further financial support has come to her from the New Zealand Women Accountants' Group, although Hilary is not yet actually a member of the New Zealand Society of Accountants (having still to fulfill the practical experience requirements, though she has passed all the necessary examinations). Had she any brothers or sisters, we unsuspectingly asked. "Eleven," she replied, claiming with conviction that, as the eldest, she had had the best possible experience of dealing with all kinds of people.

The New Zealand Society of Accountants has 9,446 members, which is of much the same size as The Institute of Chartered Accountants of Scotland. There are 250 women members in New Zealand (2.6%). A spot check round some other overseas accountancy bodies, starting nearer home, produced figures of 25 women out of 2,697 members of The Institute of Chartered Accountants in Ireland, and only 14 out of about 3,200 members in the Netherlands Institute. The Australian Society of Accountants has 3% of women

*June Brown is an audit partner in a Glasgow firm of Chartered Accountants.*

members among its total of 38,000 (itself an interesting statistic, showing, along with the more than 6,000 members of the Australian Institute, a higher population density of accountants than in the United Kingdom).

*Kathleen Smith works in the education field.*

The UK Chartered Institutes of accountants have far fewer women members than one might expect: in the Scottish Institute 278 (just over 3% of 8,978 members) and in the English Institute 990 (just under 2% of 55,000 members). (In the Institute of Bankers also only 2% of the members are women: the figure for the Institute of Bankers in Scotland is 2% as well. Contrast 18% for the British Medical Association—and 33⅓% for UK undergraduates in general.)

And yet, the President of the English Institute, Mr. E. Kenneth Wright, F.C.A., believes that women have a particular aptitude for accountancy. Speaking some time ago at a dinner held by the Women Chartered Accountants' Dining Club, he said that the numbers of women accountancy students were steadily rising and in 1972 formed 11% of the entry into articles.* "It is noteworthy," he mentioned, "that in the last three years 14 women have obtained honours, five have been placed third or higher in the order of merit." (Shortly after his speech, the first and fourth places in the English Institute's Intermediate examination went to women students.) He wondered if the still comparatively small number of women students was due to faulty presentation by careers mistresses of the attractions of the accountancy profession for girls and encouraged his audience of women chartered accountants to help in recruiting more girls to the profession.

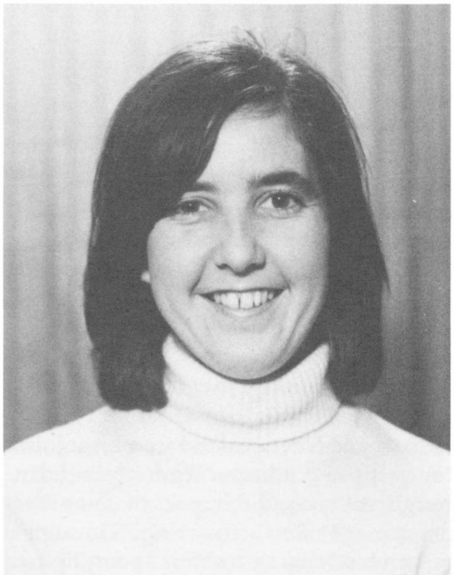
Award-winning women CA students occasion no surprise in Scotland: indeed the Institute's Gold Medal has been won three times by a woman in the last five years. A Lady Members' Group exists to give women members of the Scottish Institute a chance to meet among each other, and each year the Group holds a luncheon to which newly-admitted women CAs are invited. Other annual functions are a dinner, to which the President and Secretary of the Institute are invited, and a theatre outing to Pitlochry. As well as meeting together socially, the members of the Group arrange to meet women CA students at gatherings where professional problems can be discussed. The Secretary of the Group, Miss June Brown, C.A., tells us that applications from new students from Scottish universities to train as CAs have included a higher than usual number of women this year.

*Margaret Smart, 1969 Gold Medallist of the Scottish Institute, trained with Arthur Young McClelland Moores & Co., Glasgow, and now works for The Distillers Co. Ltd.*

Recruitment in the UK of more women accountancy students would seem an obvious and prudent move, to say the least, and the advice and experience of women who are already chartered accountants should be drawn on. After much pondering we have come up with the theory that one of the original reasons why so few girls in earlier years started to train as accountants may have been that parents provided job training for boys and dowries for girls, and you just couldn't have both: finances didn't stretch to it. If this is true, or even partly true, it merely underlines the absurdity of a tradition persisting far beyond its *raison d'être.*

Far from being at a disadvantage (except perhaps temporarily because of family reasons) women accountants could well turn out to have particular bents for some aspects of accountancy and be correspondingly sought after by training firms. Indeed, Miss Kathleen Smith, C.A., Assistant Secretary (Finance) at Paisley College of Technology, says that, during her apprenticeship days, she was paid more than the male apprentices! Her firm encouraged girls to train. As for natural aptitudes, we give the last word (of course) to a woman, who practices as a CPA in the US and who claims that women accountants are more analytical in problem-solving: women "are more nosey than men, and will dig deeper," she says.

*Mary Hyland, 1971 Gold Medallist of the Scottish Institute, works for a Glasgow firm and specializes in taxation.*



*Hilary Millen is from New Zealand where she worked for British Petroleum.*

*(Continued on page 31)*

# Education

## Generating Interest in the Accounting Profession Early in the Educational Process

Dr. Loudell O. Ellis, CPA, CMA
University of Alabama in Birmingham
Birmingham, Alabama

Many high school students at the junior and senior levels have little knowledge of career opportunities in the business community. Even those students aware of the existence of an accounting profession tend to associate it in some remote way with mathematics rather than business. For these and other reasons, the Alabama Society of Certified Public Accountants, in cooperation with the Birmingham office of the Internal Revenue Service,[1] conducts an annual educational program for outstanding high school seniors — presenting an overview of the broad area of business and the specific fields of accounting and data processing.

The primary purpose of the program is to encourage and stimulate outstanding students to investigate the possibility of accounting careers at a relatively early period in the educational process. Hopefully, such students are challenged to undertake additional study of accounting topics. But, if selected students find they have no aptitude for, and interest in, accounting or business-related subjects, the program is still considered successful in that such students will not elect an accounting major upon entering college.

The balance of this column explains the Society's program and the procedures found useful in conducting the annual sessions. Members of other accounting groups (including ASWA chapters) may be interested in adopting or adapting the program for local use.

### Synopsis of Program

An accumation (accounting/automation) program consists of all-day, two week sessions of instruction in basic accounting and data processing concepts. Such sessions are held in August of each year, two weeks prior to the beginning of fall classes. The Irwin Plaid Series, *Elementary Accounting, Volumes I and II,* by William W. Pyle, are used for accounting instruction. In the Birmingham area, International Business Machines Corporation provides computer time, manuals, and instructors for computer programming labs.

Before summer recess each year, representatives of the Alabama Society contact counselors and math teachers at cooperating area high schools for appointments to interview a limited number of outstanding juniors, particularly those with above average grades in mathematics. During interviews, recruiters stress the honor of participation in the program, yet advise students of the effort required on their parts for successful completion of the program. (Students of the prior year's program often attend interviews and describe personal experiences.) After selection, follow-up letters are mailed periodically to retain the student's initial level of interest.

Successful programs depend on highly qualified students, among other things. Since participants desire an in-depth study of introductory accounting and data processing principles, they must grasp relatively large amounts of the subject matter within a compressed period of time. Accordingly, scholarship is the primary selection basis for participation in the program. Other considerations include interest in attending college, interest in the program, personality, and availability.

A problem may exist initially in acquainting high school counselors and math teachers with "what is accounting" and in familiarizing such personnel with the career opportunities in the business community. However, the results are worth the effort, since it is not then necessary to enter the classroom to "sell" the program, and the better students are interested in participating. According to John Taylor, Birmingham area coordinator, the program begins with a "selling" job to counselors and math teachers; they must be contacted personally. Furthermore, generating enthusiasm for the program and holding students' interest over the summer months are difficult assignments oftentimes.

Costs are incurred for instructional literature (a relatively large amount for the initial supply), honoraria for instructors, and a "graduation" luncheon. Nearby universities provide classroom facilities; students are responsible for transportation and lunches. Normally, students provide transportation for field trips to observe computer installations or to visit public accounting firms and accounting departments of commercial enterprises.

### Suggested Organizational Steps

Adequate advanced planning obviously is necessary for a successful seminar. The checklist below is used to prepare work assignments and deadlines.

1. Schedule a local meeting to determine interest and resources for conducting the seminar. Select a seminar coordinator, instructors, and seminar

dates; secure classroom facilities; determine available computer time. Arrange funding for instructional honoraria, literature, "graduation" luncheon, and miscellaneous costs.

2. Select high schools to be contacted and enlist a work force for interviewing students on campuses.

3. Secure approval of recruitment plans from Boards of Education and principals involved.

4. Request math teachers and counselors to recommend students meeting desired criteria, i.e., high academic achievement, interest in attending college, interest in the program, pleasing personality, availability, and so forth.

5. Complete the interviewing process, prepare interview sheets from information provided by students and counselors, and select the participants. (Often, 50 to 60 selections are needed to assure participation of at least 30. Also, not more than five students are selected from any one school.)

6. Notify and congratulate participants upon their selection.

7. Develop a final agenda with teaching assignments completed. (It is sometimes preferable to use only one instructor for the accounting portion of the seminar — to assure continuity and to avoid duplication and/or omission of desired coverage.)

8. Remind students of the seminar by letter(s) during the summer.

9. Arrange newspaper and T.V. coverage prior to, during, and at the conclusion of the seminar.

10. Review all preparations at least one week prior to the beginning of instruction.

## Outline of Suggested Topics

SESSION I

| | |
|---|---|
| Morning | Welcome and Introduction; Distribution of Course Literature; Overview of the Accounting Profession; The Accounting Equation |
| Afternoon | Introduction to Data Processing; Field Trip to Computer Installation |

SESSION II

| | |
|---|---|
| Morning | The Recording of Transactions; Adjusting Entries and Statement Preparation |
| Afternoon | Computer Programming Lab |

SESSION III

| | |
|---|---|
| Morning | The Work Sheet and Closing Process; Merchandising Transactions; Procedures for Controlling Purchase and Sales Transactions |
| Afternoon | Computer Programming Lab |

SESSION IV

| | |
|---|---|
| Morning | Use of Special Journals and Subsidiary Ledgers; The Matching Concept; Internal Control and the Control of Cash |
| Afternoon | Computer Programming Lab |

SESSION V

| | |
|---|---|
| Morning | Transactions Involving Notes and Interest; Accounting for Inventories and Cost of Goods Sold; Fixed Assets and Depreciation; Transactions of a Manufacturing Concern |
| Afternoon | Computer Programming Lab |

SESSION VI

| | |
|---|---|
| Morning | Types of Accounting Systems; Partnerships |
| Afternoon | Computer Programming Lab |

SESSION VII

| | |
|---|---|
| Morning | Corporations: Characteristics and Transactions; Premiums and Discounts; Treasury Stock; Stock Dividends and Splits; Retained Earnings and Consolidated Financial Statements |
| Afternoon | Computer Programming Lab |

SESSION VIII

| | |
|---|---|
| Morning | Mortgages and Bonds Payable; Financial Statement Analysis; Funds Flow |
| Afternoon | Computer Programming Lab |

SESSION IX

| | |
|---|---|
| Morning | Accumulation of Income Tax Data from Accounting Systems; Individual Income Taxation (Federal) |
| Afternoon | Computer Programming Lab |

SESSION X

| | |
|---|---|
| Morning | Accounting Careers in Public Accounting, Industry, and Government; Financing College; Choosing the College; Field Trip to Office of Public Accounting Firm or Accounting Department of Large Commercial Enterprise |
| "Graduation" Luncheon | |
| Afternoon | Summary and Closing; Evaluations, Short Exam (if desired); Collection of Course Literature |

### Students' Evaluations

Students are requested to complete evaluation questionnaires at the conclusion of the seminar. Answers to the following questions provide useful feedback for designing future programs:

1. How did you first become interested in this course?
2. What other method(s) could have been used to gain or increase your interest?
3. Was the course length appropriate?
4. Were the subjects discussed of interest to you?
5. What subjects, if any, should be eliminated from this course?
6. What subjects, if any, should be added to improve your understanding of accounting and data processing concepts?
7. Were instructors prepared?
8. Were instructors knowledgeable in their subject areas?
9. What method(s), if any, could have been used to present the material more effectively?
10. Was the classroom environment (lighting, temperature, etc.) acceptable?
11. Do you have other suggestions to help improve future programs?

### Conclusion

An accumation program as described above appears to be a tremendous undertaking. However, the Alabama business community recognizes the benefits of the program and provides support and encouragement as needed. The program produces immeasurable satisfaction and rewards for those accepting the challenge.

### Footnote

[1]Appreciation is expressed to Mr. Ken Fike, Alabama Area Training Director, Internal Revenue Service, for providing selected information used in this column.

# Electronic Data Processing

## Implications of Real-Time Systems for Accounting Records

### Part I

Dr. Elise G. Jancura, CPA
The Cleveland State University
Cleveland, Ohio

The technological and economic improvements already available and those projected for the future make it quite likely that (1) the number of firms computerizing their records will continue to increase, and (2) the trend toward integrated, real-time management information systems will grow. The potential for the use of management information systems for planning, scheduling, and control functions makes proper development and use of an information system vital to an organization's well-being.

Today's EDP equipment is being applied to the development of total business systems where most or all of the activities within a business enterprise interact in some way with computerized systems. The prospect exists that a logical extension of the total business system will be interaction with similar systems from other organizations. Advances in hardware technology, including communications and on-line storage facilities as well as a growing skill in data management and application development, is leading to the availability and introduction of increasingly sophisticated and interactive computing capabilities, and to a general awareness that the computer can be used as an integral part of the daily business cycle.

This awareness has led to the development of transaction or event-oriented systems. There is a strong trend towards the use of "intelligent" terminals and remote data transmissions. The greater variety of both communications facilities and the computing equipment capable of using and/or controlling these facilities will extend to small businesses many of the capabilities previously enjoyed only by large companies. Thus, the prospect of interactive or real-time processing systems is no longer limited to the few giants, but is a real possibility for all users, both large and small.

**The Nature of Real-Time Processing**

In order effectively to control the activities of a real-time system and to discharge the responsibilities involved in auditing such a system, it is essential to have a clear understanding of the nature of that system and the potential control problems associated with it. A real-time computer system may be defined as "one which controls an environment by receiving data, processing them, and returning the results sufficiently quickly to affect the functioning of the environment at that time."[1]

Another definition of real-time data-processing systems is "one or more digital computers and other devices used to participate in, control, or monitor a business, industrial, or scientific process while this process is actually taking place."[2] Both of the definitions given for real-time systems stress the characteristic of immediate response, and it is this characteristic and this characteristic alone that distinguishes a real-time system from a batch-processing system. In effect, a real-time system views each transaction as a batch of one and must be prepared with all of the necessary equipment, processing programs, and data files necessary to recognize, record, process, and respond to that transaction as it occurs.

The time requirements of a real-time system generally result in a system that is much more complex than that of the batch-processing approach. In a true real-time environment the system must be organized so that it can accept input at any time, execute any program appropriate to the needs of the data just received, access master files involved with that transactional data, update those files if appropriate, and respond back to the user with accurate information. This must all be done without any presequencing of that data, which means that the real-time system must have all possible master files and all possible processing programs available at any time. To accomplish this, most real-time systems have complicated supervisory programs that can themselves occasionally be a source of error.

If an organization experiences many different kinds of transactions and decides to handle all of them on a real-time computer basis, this means that the computer system must be prepared to respond to each of a number of different kinds of transactions immediately. It must have available all of the equipment, programming facilities, and data file resources for all of the different kinds of transactions that could occur. It is this characteristic that leads in large part to the great complexity and timing problems that exist in real-time systems. The cost in terms of increased complexity as well as increased expenditure for the data processing system itself comes largely from the need to be prepared to handle any one of a number of different kinds of transactions. In some organizations an attempt is made to reduce this cost by handling only those particular types of transactions in which the immediacy of the response is essential on a real-time basis and in batching all other transactions. By so doing, the scope of preparedness can be reduced.

A real-time environment is geared to a short reaction time. The goal is to provide a response from the initial recording and processing of a transaction in time actually to affect the operations of the business or the subsequent activities in a process control or scientific environment. The most important implication this has for control considerations is the elimination of the time interval that usually exists in a batch-processing system between the point at which a transaction takes place and the point at which it is entered into the processing cycle. In a batch-processing system that time delay provides opportunities to examine each individual transaction in detail, to develop certain balancing control totals for a group of such transactions, and to edit data not only for internal consistency within a transaction but also for consistency between groups of transactions. The real-time approach, in which a transaction enters the processing system and begins to affect master records immediately as it occurs, imposes increased requirements for editing and validation techniques as part of the initial recording process.

### Control Considerations in Real-Time Systems

The inherent immediacy of both the input function and the response of real-time systems eliminates many of the safeguards and checking activities that are possible in a batch-oriented system as the individual transactions are being collected for the batch prior to processing. Second, it is possible that the audit trail will be less complete than under a traditional batch-processing system. This is a particular problem if there is insufficient concern for or understanding of the importance of an audit trail (which is frequently more useful as a management and reconstruction tool) during the design and initial implementation of phases. Because the principal advantage of a real-time system lies in its ability to process data immediately, the temptation can be quite strong to eliminate all functions that can be mistakenly viewed as nonprocessing, such as proper documentation of a transaction as it is being entered into the system.

In a real-time environment many of the transactions occur and are initially recorded in machine-readable form at sites remote from the central computer and its traditional control staff. Occasionally these transactions do not produce any hard copy evidence apart from that initial recording. The greater technical complexity and the potential for loss of control and documentation on the transactions creates a challenge to those responsible for the control and audit functions in an installation in which a real-time system is operational. This challenge comes partly in the form of a need for greater technical expertise and understanding of computer techniques and capabilities and in part from the need to develop new control techniques appropriate to the real-time environment.

The attempt to provide short reaction time usually results in the use of other advanced techniques that introduce other control problems in addition to the need for concurrent validation with initial recording. Most real-time systems involve the use of individual terminals at locations remote from the central processing unit. These remote locations make it more difficult to control access to the system than in an installation where all input devices to the computer exist within the controlled environment of the physical installation itself. Thus techniques have to be introduced to identify the users of the terminals and to control their access to the central processing system and its information files.

This problem of control is a different one and requires different techniques than the problem of validation of data. The need for control of access exists in any environment in which input-output devices that have entree to the processing system are at a physically remote location from that of the central processing unit. There are, in fact, many batch-processing applications that accept data from remote locations, and the needs for access controls for remote locations are the same for batch-oriented systems with remote terminals as they are for the remote terminals of real-time systems. Many installations with remote offices find it more economical to transmit data via telecommunication lines from a remote terminal to the central processing unit. The use of remote input-output devices and telecommunication lines does not make a system a real-time system. If a group of transactions are collected at the remote location and transmitted at one time to a central location, this is a batch-processing system. The characteristic that makes the use of these telecommunication lines part of a real-time system is recording, transmitting, and processing of the transaction immediately as it occurs.

The use of remotely located input-output devices does not necessarily involve direct connection or communication to the computer. Some installations use telecommunication lines to communicate with remote locations in an off-line environment. In off-line activities data is not transmitted directly to the computer but is transmitted to another device located at the installation such as magnetic tape, a paper tape punch, or a card punch, and the machine records thus received are held for later batch processing. There are a great variety of devices available for use as remote terminals. Some of these are manually-operated terminals in which the operator uses a keyboard or some other device, such as a light pencil, actually to record the data for transmission. In other cases the operator can insert a prepared document such as a magnetically encoded document or a batch into a batch reader. When the telecommunication lines connect a remote input-output device directly to the computer and the computer controls the transmission, such a system can be referred to as an on-line system. An on-line system may be defined as one in which "peripheral equipment or devices . . . are in direct communication with the central processor of a computer system . . . (and) are usually under direct control of the computer with which they are in communication".[3]

There is a technical distinction between an on-line system and a real-time system in the sense that the term real-time applies only in those instances where the computer reacts to the input data immediately, processes that data as it is received, and takes the action appropriate to the particular transaction. It is possible to have on-line computer systems that are not real-time, in which the auditors would have to concern themselves with the problems of appropriate control of the remote devices and control of the transmission process, but in which some of the traditional batch controls would be appropriate. On the other hand, a real-time system must also be an on-line system, and added to the control problems mentioned for remote locations and transmission is the additional need for complete validation of the data as it is in fact entered into the system and used.

Some real-time systems do not update or change data files but are merely inquiry systems. In this kind of real-time environment the primary control emphasis is upon identification of the users and their authorized access to certain parts of the information system. The validation procedures of the input data itself are much less critical than they would be in a real-time application in which the processing involved actual results in changing or updating the data files. In such a real-time environment the need for control procedures is extended beyond simple identification of the users and their right to certain data to a more stringent verification and editing of the data itself. Updating in a real-time environment invariably involves the use of direct-access devices to store the master files and the use of a destructive updating technique. As discussed earlier, destructive updating is a technique in which the updated or changed version of a record is written back in the same physical space previously occupied by the original master record, thereby destroying the original record. This is to be contrasted to the nondestructive updating environment, in which the updating process produces a whole new copy of the master file and leaves the old generation intact.

In a real-time environment one transaction is processed at a time, and only one master record out of the entire master file is updated at a time. Thus it would be impractical to employ nondestructive updating. The use of destructive updating adds to the control requirements of a real-time system all of those concerns that were discussed earlier for destructive updating. Put in its simplest terms, destructive updating usually calls for some variation of a process in which periodic copies of the master file are made and all transactions occurring since a copy was made are stored so that reconstruction of the file can take place in the event of any unexpected loss of the current master file.

### Audit Trails and Real-Time Systems

One of the problem areas frequently identified with real-time systems is the potential loss of the traditional audit trail. This is usually translated to mean the absence of a hard copy source document. However, the question of available hard copy source documents is really not a matter of real-time versus batch processing systems or even of remote input-output stations but rather a matter of the data-recording technique chosen. Thus many transactions initiated at remote locations (whether they are going to be batched or to be processed in a real-time environment) are recorded on a traditional source document before transmission to the computer. In these instances the auditor must work out new logistics for relating transactions as they appear in the processing activities to the source document, but he or she does have the traditional source document for reference. In other environments, however, much effort has been expended by the installation to eliminate the relatively time-consuming and error-prone process of manual recording and subsequent transcription of the data into machine-readable form.

In many real-time applications the initial recording of the transaction is done directly on the terminal transmitting to the central processing unit. In these circumstances the principal protection against destruction of the audit trail is intentionally to cause the recording process itself to produce some hard copy. This can be done by attaching a printer typewriter capability to the terminal or by requiring some other manual logging procedure at the terminal. In addition, many installations record a transaction log at the central location as individual transactions are received from the remote terminals.

There is a distinction between the techniques that can be instituted to provide a historical audit trail and those techniques that are instituted to detect and prevent errors from entering the system. The use of a transaction log at the installation to record all transactions transmitted to the central location can be used subsequently to validate transactions that were entered into the system and to provide a historical after-the-fact batch control for all transactions to particular classes of master records. This transaction log, however, may not be a useful tool for preventing errors from entering the system, although it may help subsequently to identify those errors that have occurred. Techniques such as immediate feedback to the operator of a terminal have much more value as error prevention techniques. This does not mean that one technique should be used to the exclusion of the other but does indicate the difference in orientation or purpose.

### Footnotes

[1]James Martin, *Design of Real-Time Computer Systems* (Englewood Cliffs, New Jersey: Prentice-Hall, 1967), p. 5.

[2]Franz E. Ross, "Internal Control and the Audit of Real-Time Digital Systems," *The Journal of Accountancy* (April 1965), p. 46.

[3]Gordon Davis, *Auditing and EDP* (New York: American Institute of Accountants, 1968), p. 315.

**PART II in next issue**

# Financial Statements

## Auditor's Opinion Reports

Dr. Clara C. Lelievre, CPA
University of Cincinnati
Cincinnati, Ohio

**Introduction**

The auditor's responsibilities for the contents of financial statements are undergoing substantial change: current responsibilities exceed those undreamed of two decades ago. The small and medium-sized accounting firms face the greatest practice adjustments as a result of new legal and professional interpretations. Small and medium-sized businesses have to bear increased accounting and auditing fees and accountants must educate their clients as to why financial statements may be marked unaudited, have a qualified opinion, or have a disclaimer opinion.

Prior to SAP #38 few statements carried anything other than an unqualified opinion. Professional developments, one of the most obvious being increasing legal involvements, have made the auditor wary of expressing an opinion on statements where any uncertainties exist. APB Opinion #29 on interim financial statements may cause the auditors additional grief through a further expansion of their responsibilities. Items previously reserved for the management letter are finding their way into footnotes and opinions. Auditors are more aware of their responsibilities than at any other time in the history of the profession.

**Audited Financial Statements**
**Types of opinions**

Financial statements prepared by auditors may be accompanied by the following types of opinions: unqualified, qualified, adverse, or a disclaimer of opinion.

The *unqualified opinion* is the most prevalent in published financial statements, but their numbers are declining. Among 600 companies (see Table 1) over 549 reported an unqualified opinion in 1965, 485 in 1970, and 507 in 1972. The increase in qualified opinions may reflect the concern over the increase in litigation against accounting firms during the last eight years. SAS #1, paragraph 511.01, states that:

> an unqualified opinion may be expressed only when the independent auditor has formed the opinion on the basis of an examination made in accordance with generally accepted auditing standards (GAAS), that the presentation conforms with generally accepted accounting principles (GAAP) applied on a consistent basis and includes all informative disclosures necessary to make the statements not misleading.

The *size* of the company, *amount* of assets, of *amount* of *profit* or *loss*, has no effect on the auditor's ability to render an opinion. The criteria are, (1) whether the statements were prepared in accordance with GAAP and on a basis consistent with the prior year, (2) whether the auditor has followed GAAS, (3) whether, in the opinion of the auditor, the statements *fairly* present the condition of the company, and (4) whether the results of operations are presented fairly. If the auditor has found nothing to negate any of these, the statements may be accompanied by an unqualified opinion.

A *qualified opinion* must be rendered if the auditor has discovered sufficient "unusual uncertainties" or if the statements do not conform with GAAP. These opinions generally contain a "subject to" clause. Occasionally, a qualified opinion will be given due to a limit on the scope of the audit. Table 1 shows that the most prevalent reason for qualification used to be the inconsistent application of GAAP. In recent years the principal reason for qualification has become *fair presentation* due to uncertainties. The uncertainties concerning litigation have become the leading reasons for qualification.

Since *Accounting Trends and Techniques for 1973* is not yet available, *Accounting Practices 1974* published by Haskins and Sells was examined for trends in changes of reasons for qualifications. *Accounting Practices 1974* does not tabulate numbers of items but lists illustrative items of current interest from published annual reports. In addition to the reasons presented in Table 1, fair presentation of deferred costs, subsidiary operations, and negotiations with governmental agencies appear with increasing frequency. A good example of a qualified opinion appeared in the 1973 auditor's report for Mattel, Inc. (the conglomerate that began as a toy manufacturer). The opinion was qualified subject to the realization of deferred costs related to the development of Circus World, a discontinued operation. The opinion referred to Note 2(b) which read:

> The investment in Circus World consisted of costs incurred by Ringling Bros. in connection with the construction of a family entertainment park located near Orlando, Florida. These

costs include approximately $7,300,000 for land, $6,200,000 for construction, $1,500,000 for memorabilia, $2,500,000 for administration, salaries, consulting fees and interest, and $1,500,000 for other costs. These costs are being deferred by Ringling Bros. and will be amortized against future revenues, if any. The ultimate realization of the investment in Circus World is dependent upon obtaining financing to complete the project (currently estimated to approximate $66,000,000) and the success of the project after completion, or the sale of Ringling Bros. for not less than its net book value.

An *adverse opinion* is an opinion that the financial statements *do not* fairly present the financial position, results of operations, or changes in financial position in conformity with GAAP. An adverse opinion is required when the exceptions are so material that in the auditor's judgment the statement lacks creditability. In such cases a disclaimer opinion is not appropriate since the auditor has sufficient information to form an opinion that the statements are not fairly presented. The issuance of an adverse opinion rarely occurs. As a practical matter the auditor would probably be dismissed before such an adverse report was issued. Neither *Accounting Trends and Techniques* nor *Accounting Practices 1974* presents any instances of adverse opinions being rendered.

If a case should arise where a disagreement occurs between a company and its auditor that results in the dismissal of the auditor the SEC must be notified. New rules are being proposed that will tighten the ruling related to a change in the auditor. The old rules were so loosely written that companies have not been providing the disclosure anticipated by the SEC. It was intended that companies not only file with the agency a report on a change of auditors but also that letters from the dismissed auditors be attached explaining the disagreement.

Many companies thought that the new rule applied only when new auditors were hired, thus reports of disagreements were not reported. *Business Week* in its Oct. 19, 1974, issue states that the enforcement of this rule would have disclosed to the stockholders of Mattel and Cerro the developing disputes between management and the accountants. Formerly this information was only required on the 10-K form and not reported to the stockholders.

A *disclaimer of opinion* is necessary when the examination has not produced sufficient evidential matter to form an opinion on the financial statements. Table 1 indicates that disclaimers are seldom used. When a disclaimer is used the auditor must give *all* substantive reasons for doing so. In most instances the client would prefer a disclaimer to an adverse opinion.

**Table 1**

Auditors' Opinion Qualified

| | *1972* | *1971* | *1970* | *1969* | *1965* |
|---|---|---|---|---|---|
| REASON FOR QUALIFICATION | | | | | |
| Fair Presentation: | | | | | |
| Litigation | 32 | 20 | 16 | 16 | 5 |
| Valuation or realization of assets | 18 | 23 | 20 | 16 | — |
| Uncertainties concerning discontinued operations | 14 | 7 | 6 | — | — |
| Tax or renegotiation liability | 8 | 15 | 14 | 9 | 6 |
| Claims in connection with sales contracts | 2 | 6 | 2 | 4 | — |
| Availability of adequate financing | 2 | 2 | 5 | 1 | — |
| Other | 4 | 2 | 5 | 10 | 2 |
| Subtotal | 80 | 75 | 68 | 55 | 13 |
| Change in Application of Accounting Principles | 36 | 43 | 35 | 59 | 43 |
| Total Reasons | 116 | 118 | 103 | 114 | 56 |
| NUMBER OF COMPANIES | | | | | |
| Opinion not qualified as to presentation or consistency | 507 | 510 | 515 | 510 | 549 |
| Opinion qualified as to presentation or consistency | 93 | 88 | 83 | 90 | 50 |
| Disclaimer of opinion | — | 2 | 2 | — | 1 |
| Total companies | 600 | 600 | 600 | 600 | 600 |

**Source:** AICPA, *Accounting Trends and Techniques*, 1973 & 1968.

*Revised reports and/or opinions* may be necessary. The necessity for these became evident with the Yale Express Case. In June, 1974, Peat, Marwick & Mitchell (PM&M), the auditors of the Yale Express Company, discovered that the statements for December 31, 1973, were incorrect. PM&M had audited these statements and issued a non-qualified opinion. Yale was advised by PM&M to withdraw the statements but refused. PM&M did nothing to inform the public. No reporting standards existing at that time were violated. SAS #1 changed the reporting standards by requiring that, if newly discovered information would have affected the auditors' opinion had they known it at the time of the issuance of the report and if they believe people are still relying on the report, then they must take action to prevent further reliance. Auditors should advise the client to make such disclosure and should satisfy themselves that the client has made such disclosure. If the client refuses to do so, then the auditors must do so themselves by, among other things, notifying members of the board of directors of the client, the SEC, and the stock exchanges. When the auditors are aware of the recipients of the prior report, such as banks, creditors, etc., then they should notify these receivers. An auditor serving a small business is usually aware of such distribution.

### Recommendations

All persons preparing reports are urged to familiarize themselves with SAS #1 (which combines all SAP's) and APB #28. A future column will cover unaudited financial statements.

# Legal Developments

## Business Combinations and Treasury Stock Acquisitions: The Current Position of the SEC

Dr. Patrica C. Elliott, CPA
University of Washington
Seattle, Washington

The various aspects of accounting for business combinations as either purchases or poolings-of-interests have been discussed and debated for quite some time. One interesting area which has recently been resolved after almost four years of new rulings, opinions and hearings involves treasury stock acquisitions and their effect on the pooling-of-interests method of accounting.

### The Problem

The Accounting Principles Board (APB) of the American Institute of Certified Public Accountants (AICPA) issued its Opinion No. 16 on Business Combinations[1] setting up the criteria for treating a business combination as a purchase or pooling-of-interests in 1970. A general provision was that if cash or other assets were given or liabilities incurred to obtain another business, such a combination must be treated as a purchase. A pooling-of-interests could occur if stock was exchanged. The APB realized that this rule had an obvious loophole: to circumvent the use-of-cash provisions, an acquiring company could simply use its cash (or other assets or incur liabilities) to buy shares of its own stock and then use this treasury stock to effect the business combination. Technically, the combination could be treated as a pooling-of-interests because only stock was used. (A pooling-of-interests might be desired because of the existence of non-depreciable goodwill, because the pooled earnings would increase the earnings-per-share, because a smaller asset basis would give a higher rate of return on assets, etc.)

### APB Opinion No. 16 and Accounting Interpretation No. 20

To avoid this obvious problem, the APB Opinion required that "none of the combining companies changes the equity interest of the voting common stock in contemplation of effecting the combination either within two years before the plan of combination is initiated or between the dates the combination is initiated and consummated . . ."[2] However, companies could buy treasury stock of voting common stock if it was for "purposes other than business combinations."[3] Examples of other purposes would be new pension and profit sharing plans and "systematic reacquisitions" such as under existing pension plans, stock dividends (provided stock dividends have been given in the past in a systematic manner), etc.

In addition to a "systematic pattern," stock reacquisitions must be examined as to both the purpose for which shares were acquired and subject to the "reasonable expectation" rule. In other words, purchases of treasury stock must be for a specific purpose other than a combination and there must be a reasonable expectation that the reacquired shares will be used for the purpose designated. If these tests were not met, the resulting treasury stock was "tainted" and any business combination within two years of the reacquisition had to be treated as a purchase, unless the "tainted" shares were not material (defined as equal to or less than 10% of the total shares used to effect the combination).

An Accounting Interpretation was later issued by the AICPA which attempted to clarify the "other business purpose" test. After giving rather vague guidelines the Interpretation concludes that:

> In the absence of persuasive evidence to the contrary, however, it should be presumed that all acquisitions of treasury stock during the two years preceding the date a plan of combination is initiated (or from October 31, 1970 to the date of initiation if that period is less than two years) and between initiation and consummation were made in contemplation of effecting business combinations to be accounted for as a pooling of interests. Thus, lacking such evidence, this combination would be accounted for by the purchase method regardless of whether treasury stock or unissued shares or both are issued in the combination.[4]

The Interpretation also examined the methods by which "tainted" shares could be "cured." Any treasury shares held two years or more prior to a business combination were automatically "cured" — i.e., no longer "tainted," meaning the pooling-of-interest method could be used. Another "cure" was to sell a number of shares (either treasury shares or new issues) equal to the "tainted" shares prior to the consummation of the business combination. The Interpretation did not mention the "systematic pattern" test nor was the reacquisition of treasury shares subsequent to the combination discussed.

### ASR No. 146.

In response to APB No. 16 and Accounting Interpretation No. 20, the Securities and Exchange Commission (SEC) issued Accounting Series Release (ASR) No. 146 on August 24, 1973. ASR No. 146 established guidelines and rules which were much more strict than those of the

AICPA. The SEC examined the criteria for avoiding "tainted" stock: Purpose, Systematic Pattern, and Reasonable Expectation.

Under the Purpose test, the SEC upheld the AICPA's Accounting Interpretation of Opinion No. 16 in its presumption of stock reacquisitions being for the purpose of effecting a business combination unless persuasive evidence to the contrary existed. The SEC went further to say that the "intended subsequent distribution of common shares rather than . . . the business reasons for acquiring treasury shares"[5] would be an appropriate approach for determining the purpose of the reacquisition. For example, a firm might buy treasury shares because the market price is low but that reason does not overcome the presumption that the purchase was made to effect a business combination and such shares would therefore be "tainted." However, shares reacquired to fulfill a contractual obligation, declare stock dividends, meet stock option requirements, etc. *unrelated to the business combination* would overcome the presumption of "tainted" stock.

The Systematic Pattern test could be met by the reacquisition of shares based on a specified number of shares or on such criteria as market price, cash availability, etc. However, these reacquisitions must be pursuant to a formal reacquisition plan unrelated to a business combination. Unanticipated interruptions in the carrying out of a reacquisition plan caused by legal constraints would not invalidate an otherwise systematic pattern.

The SEC's rules on the Reasonable Expectation test caused the most furor:

> The determination of whether there is reasonable expectation that shares will be issued for the stated purposes of acquiring the shares is a matter of judgment. Generally, there would appear to be such reasonable expectation where the following circumstances exist at the time a reacquisition plan is adopted or shares are reacquired:
>
> 1. As to stock option plans, warrants or convertible securities, the quoted price of the common shares is not less than 75 percent of the exercise or conversion price.
>
> 2. As to stock purchase or bonus plans or stock dividends, either (a) shares are reacquired to fulfill existing commitments or dividends declared or (b) based on a pattern of issuing shares for such purposes in the prior two years, the shares are reacquired to fulfill anticipated requirements in the succeeding year.

Since the market prices of stocks are currently so very low, the "75% of exercise price" rule applied to an increasing number of businesses. Due to the number of objections from registrants and accountants, the SEC agreed to suspend the effective date (on October 5, 1973) of ASR 146 and consider comments on the release.

Two other sections of ASR 146 deserve comment. The SEC noted that Accounting Interpretation No. 20 made no reference to the Systematic Pattern test and that many accountants assumed that this was no longer a test (as it had been under APB Opinion No. 16). ASR No. 146 reiterated that the Systematic Pattern test is certainly a criteria and had not been superceded.

Secondly, the SEC noted that APB Opinion No. 16 did not address itself to the question of treasury stock reacquisitions subsequent to the consummation of a business combination. The SEC ruled that "in specific fact situations, subsequent reacquisitions may be so closely related to the prior combination plan that they should be considered part of the combination plan"[6] meaning that the subsequent reacquisition could result in "tainted" shares and invalidate a pooling-of-interests treatment.

The ASR concluded by stating that the accounting for business combinations prior to the release would not have to be revised.

## ASR No. 146A

After the SEC agreed to suspend ASR No. 146, it issued ASR No. 146A on April 11, 1974.[7] In essence, ASR No. 146A reaffirmed the SEC's position taken in ASR 146 with five modifications:

(1) The requirements of ASR No. 146 apply only to business combinations after April 11, 1974;

(2) The SEC recognized that for the purpose test, unusual circumstances may arise where reacquisition of shares can occur without "tainting" the stock. Examples were acquiring treasury stock to buy stock of a deceased shareholder pursuant to a legal agreement; settling claims relating to the original issuance of the stock; repossessing stock pledged as collateral on loans; and repurchasing stock from employees under a prior contractual agreement;

(3) The 75 percent reasonable expectation test is to be taken as a guideline, not as a rule. For example, if the market price represented volatility of the market price (rather than a trend) and if the remaining conversion period was long, the 75 percent rule would not apply;

(4) The 10 percent limitation of "tainted" shares, expressed in APB Opinion No. 16 as the materiality factor, would still apply; and

(5) No hard and fast rules for reacquisitions subsequent to the consummation of a business combination would be set, but each case would be considered individually.

## Conclusion

Subsequent to the issuance of ASR No. 146A, members of the SEC staff and AICPA representatives met to discuss implementation and interpretation matters relating to the two SEC releases.[8] More than half the questions involved the Systematic Pattern Test and the rest of the questions were rather equally distributed among effective dates (only reacquisitions of business combinations after April 11, 1974, are subject to the rules of ASR Nos. 146 and 146A. Prior to that date, reacquisitions and combinations are subject to the rules of APB Opinion No. 16 and Accounting Interpretation No. 20.), issuance of shares after April 11, 1974, and the Purpose and Reasonable Expectation tests. The entire memorandum (although not an official position of the Commission) will be published in the *Journal of Accountancy*.[9]

In conclusion, if a client is contemplating a business combination and prefers the pooling-of-interests method of accounting, the CPA must establish whether, under ASR Nos. 146 and 146A, "tainted" treasury stock exists and determine how the "tainted" shares can be cured. This can be done several ways, including the Purpose, Systematic Pattern, and Reasonable Expectation tests. If this fails, a cure can be effected through time (two years) or by the reissuance of stock prior to the consummation of the business combination. In any case, the accountant must study the applicable rules very carefully.

### Footnotes

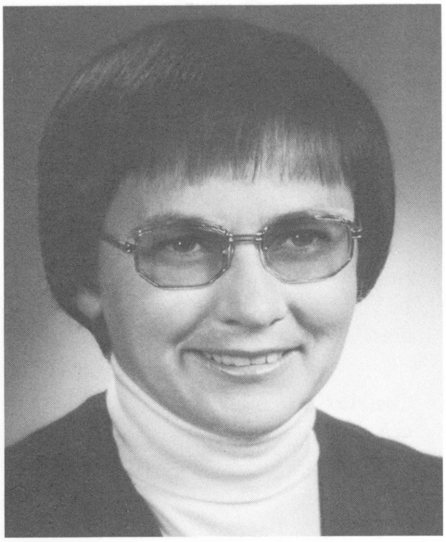
[1]*Accounting Principles Board Opinion No. 16 - Business Combinations* (American Institute of Certified Public Accountants, New York, N.Y., August 1970).

[2]*op. cit.*, paragraph 47-C.

[3]*op. cit.*, paragraph 47-D.

[4]AICPA Accounting Interpretation No. 20 (September, 1971).

*(Continued on page 25)*



# Personal Management

## Personal Tax Management

Jean E. Krieger, CPA
Haskins & Sells
Columbus, Ohio

*There are numerous situations where a little planning can reduce your Federal income taxes. This column is devoted to some tax planning ideas which you may want to consider.*

### Group Itemized Deductions

By grouping itemized deductions in alternate years and taking the standard deduction in the other years, you may be able to achieve a net reduction in taxes.

The table below illustrates the tax effect of accelerating $1,000 of itemized deductions into an earlier year.

As you can see from the table, the savings over the two year period is $130. In addition to the permanent savings, $155 is deferred for one year which is like an interest-free loan from the government.

Some of the ways you can accelerate itemized deductions would be to prepay interest, pay state and local taxes before year-end instead of after year-end and make contributions in December that you would normally make the following year. Prepaid interest is deductible when paid by a cash basis taxpayer if it is prepaid for not more than one year and does not materially distort income.

| | *Before Planning* | | *After Planning* | |
|---|---|---|---|---|
| Adjusted gross income | $16,000 | $18,000 | $16,000 | $18,000 |
| Less: | | | | |
| Itemized deduction | 2,500 | 2,500 | 3,500 | |
| or | | | | |
| Standard deduction | | | | 2,000 |
| Exemption | 750 | 750 | 750 | 750 |
| Total deductions | 3,250 | 3,250 | 4,250 | 2,750 |
| Taxable income | $12,750 | $14,750 | $11,750 | $15,250 |
| Tax on income (assumes single individual) | $ 2,848 | $ 3,443 | $ 2,563 | $ 3,598 |
| Total tax for two years | $6,291 | | $6,161 | |

### Donations of Appreciated Property

The fair market value of certain charitable contributions is deductible for Federal income tax purposes. Following is an analysis of the after tax cost of a $500 charitable contribution for an individual in the 40% tax bracket:

| | |
|---|---|
| Fair market value of stock contribution (cost $100) | $500 |
| Tax reduction due to contribution deduction | (200) |
| After tax cost of contribution | $300 |

| | |
|---|---|
| Assuming same stock is sold and a cash contribution is made of | $500 |
| Tax reduction due to contribution deduction | (200) |
| Tax on capital gain from stock sale ($400 gain) | 80 |
| After tax cost of contribution | $380 |

To qualify for the deduction of the fair market value, the contribution must be to a charity qualifying for the 50% limitation; it must also be property on which a long term capital gain would have been realized if the taxpayer had sold the asset for its fair market value on the date of contribution. In addition, if the property is tangible personal property it must be property used by the charity in its exempt functions. Contributions of this type are subject to a deduction ceiling of 30% of adjusted gross income.

### Office in Home

Under certain conditions, an employee may take an itemized deduction for the cost of an office at home. Since all business deductions must be "ordinary and necessary", the office must be required by the employer or essential to the performance of the employee's duties for the cost to be deductible. If you maintain an office in your home which is *helpful in your job*, it probably qualifies for deduction.

After qualifying for the deduction, what can you deduct? Assuming your office is a separate room, you can allocate expenses based on square feet or number of rooms; if one room out of five total rooms is used as an office, then 20% of the applicable expenses may be deducted. If your office is used for both business and non-business purposes, then the 20% must be reduced to reflect only the business use. An example is the room is used 6 hours a week for business and 9 hours a

*(Continued on page 21)*

# Small Business

Barbara I. Rausch, CPA
Marysville, Ohio

**It Only Happens To "The Other Person" . . .**

. . . that break-in, burglary, pilferage, robbery, flood, windstorm or fire. But then, everybody is somebody else's "other person". So, it pays to be prepared. There are many important aspects to such a preparation for an event everybody hopes will never happen.

**Insurance Coverage**

First thought . . . the loss is going to be covered by insurance! But is it? Today's comprehensive coverages, with property floaters and general contents provisions are certainly a step in the right direction, but filing a proof of loss statement can be a dismal and harrowing experience. It certainly could be the time when many a management team wished they had insured for replacement cost! However, oftentimes that would be prohibitively expensive, while in other instances it may be wise. Also, many people find that — until they are gone — nobody realizes how many things there were around, being used and being taken for granted.

**Pictures May Be The Answer**

Every office, every storeroom and every shop is chuck-full of items that may strike a burglar's fancy. They may all be small items which have been expensed at the time of purchase and nobody has a good record of them. Presumably, larger items are neatly listed on a depreciation schedule, complete with cost, accumulated depreciation allowance, etc. On the other hand, depreciation schedules may be set up in lump-sum additions by year of purchase and even large or expensive items may be hard to pinpoint. But if pictures are taken periodically, they show all the little and all the big items that are on hand. If a robbery should happen, pictures taken immediately after discovery of the break-in will show, by comparison, which items were taken. It then becomes simply a matter of digging up cost records or establishing replacement costs, if that's what is insured.

That could be the end of it, but in all too many cases it is not. Quite often at least part of the loot is recovered by the police. It is impounded for evidence — and the insurance company won't pay off. And before the police can release the property back to the owner, identification is required. That's where a lot of problems arise. For instance, with the possible exception of color, all typewriters, adding machines, calculators, machine tools, generators and the like made by the same manufacturer in the same year look alike. The property rooms of the police departments in most of the larger and some of the not-so-large cities are loaded with stolen property which has been recovered but which cannot be returned to the lawful owners for lack of positive identification. The lesson to be learned, obviously, is to make a complete list of all items — including serial numbers.

Since not all items come equipped with a serial number, some other form of marking the property is advisable. Police Departments have marking devices available that are almost tamper-proof. The identifying marks are invisible under normal conditions but when exposed to ultra-violet rays they show up very clearly. Engraving the company name or symbol is a simple and very effective procedure. Although engravings can usually be removed by filing over the area, that would certainly make the item look suspect.

So far, only tangible assets have been considered — but how much money, time and effort would be required to reconstruct accounts receivable records, inventory records and other accounting data, such as payroll, if they should be lost or severely mutilated in a fire, flood or through vandalism in connection with a break-in?

**The Day In Court**

Pictures and some reasonable proof of ownership are also extremely important if it should become necessary to appear in court if the burglar or robber has been caught. The difference between conviction and acquittal may well hang on the identification of property found in the possession of the suspect or accused.

Yet another area where "before-and-after" pictures come in very handy is in connection with claiming losses by reason of vandalism which often accompanies break-ins. Many a frustrated burglar has caused more damage by destruction than actual theft. And of course in case of fire, pictures are invaluable in establishing losses.

**What's A Good "Target"?**

No question about it — it would take a different type of person to steal a 20-ton lathe than to swipe the petty cash box. Obviously, the most "liquid" and most portable assets of a business are prime targets. The petty cash box may not be loaded but it's the most liquid and most portable and hardest to trace if only the cash is taken. Again the question comes up: How much was taken? Ordinarily the record of petty cash transactions is kept right inside the petty cash box, so that may not be such a great idea after all.

Many types of inventory are very attractive to burglars. In the absence of a perpetual inventory record, this type of loss could be extremely hard to ascertain and even harder to prove. Also, many businesses suffer heavy, and often undiscovered, losses through employee theft in the inventory area as well as in small hand tools and office supplies. There is a lot of money tied up in "expense" items that could be lost through burglary, pilferage or fire.

### More Records!

This sounds just like what every business needs — more records! With all the record-keeping that is imposed on business today by all types of taxing authorities, here is one type of record that is not required by anybody but which could become absolutely crucial if the business becomes "the other person". And then there is one more step that is very important: The best property records are of no use if they are destroyed, stolen or mutilated in the event which gives rise to the casualty loss. Therefore, off-location storage is a must, preferably a safe deposit box at the bank or other place off the business premises. Computerized accounting records, especially where at least the most recent data is stored away from the premises, could help prevent the need for costly reconstruction of records.

### Mobile Service Units

Today, even traditionally "stationary" service businesses have gone mobile, and more often than not a great deal of investment is riding on the wheels of the mobile service unit. A complete list of equipment and tools carried on the truck, signed by the driver, serves several purposes. It establishes responsibility for the physical presence and maintenance of the equipment (assuming that the unit is the primary responsibility of one person), it provides a check list for periodic inspections and it serves as proof of loss in the event of a casualty. If parts are carried on the unit, as is usually the case, it is good practice to make it a "standard" stock, to be replenished from the stockroom based on the lists of parts used as recorded on the daily job tickets or work orders. This not only safeguards against theft losses and employee pilferage, but it also helps to assure that parts used on a job are actually charged to the customer. Nobody would get too excited if a couple of screws, nuts or washers are used without being charged on the job ticket, but if the service operator would start forgetting to charge out parts that cost several dollars, the door would be wide open to a substantial "profit leak".

### Surprise Inventories

Since theft losses do not occur only in connection with break-ins or robberies, unannounced counts of the more valuable and more portable segments of the inventory are an excellent safeguard against pilferage. American business is losing millions of dollars every year through employee theft, but a good system of perpetual inventory records coupled with surprise counts can go a long way to prevent such losses. And if an insurance claim is indicated, evidence of the type and extent of the loss is again required.

### Safeguarding Blank Checks

One of the first steps after discovery of a break-in should be to verify the numerical sequence of blank checks. This is particularly important where voucher checks are used, but it would also be easy to remove blank checks from a three-up checkbook a few pages down in the book. It may be a very dumb way of exposing themselves, but a surprising number of thieves attempt to cash a few forged checks early in the morning, presumably before the disappearance of the blank checks has been discovered. Criminologists maintain that most criminals are not overly smart, and some burglars have been caught in the process of attempting to cash forged checks.

Naturally, check protectors on the premises must be locked to prevent unauthorized use, and cancelled checks should not be stored in the same file cabinet with the checkbook or the blank voucher checks. These cancelled checks may be the only way the burglar has to come up with a reasonable facsimile of the legitimate authorized signatures.

If it is discovered that blank checks are missing, the bank should be notified immediately. Banks have a fairly good idea of where most checks are presented for payment, such as grocery stores, carry-outs, etc., and will pass the word around.

### Preservation Of The Scene

Generally speaking, nothing should be touched or moved until after the police have arrived. Pictures could be taken but extreme care must be used not to disturb finger prints, foot prints or any other evidence. This is also true in case of a fire, since the cause of the fire may have to be established.

### Ancillary Damage

As vandalism often accompanies break-ins, fires, floods and windstorms often result in secondary damages, and these may not be immediately discernible. Most insurance underwriters will be quite helpful in establishing the presence, or absence, of structural or other damage due to heat, smoke, water or other chemicals used in fire-fighting, or by flooding and high winds.

### Summary

While every precaution should be taken to prevent the occurrence of a casualty loss, it is equally important to the business to prepare for the proof of loss in the event that it does happen. Good records of business assets subject to loss, even if they are not considered assets in the general accounting sense, should be created and maintained on a current basis, and these records must be safeguarded by off-premise storage.

---

### Personal Management

*(Continued from page 18)*

week for non-business; since the business portion is 40% of the total use, then only 40% of the room or 8% of the appropriate expenses of the total home is considered in computing the deduction. The expenses to be considered are depreciation, rent, utilities, telephone and general maintenance.

### Advantage of Joint Rates

If you are single and wish to retain that status, you are missing the advantage of lower joint rates. There is a way to take advantage of the lower joint rates and still retain your basic way of life. First, select someone with very low income and get married. Then, you need to see your spouse once a year to combine your tax information into a joint return and sign it; you probably have to agree to split the tax savings with your spouse. Before such a marriage (or joint venture) takes place, the two of you should agree that you have no future claims (such as support or alimony) against each other.

A single person with taxable income of $100,000 pays $53,090 Federal income tax and a single person with taxable income of $5,000 pays $900. If these same individuals were permitted to file a joint return, their tax on the combined $105,000 taxable income is $48,280 or $5,710 less per year. As the difference in incomes increase, the savings will also increase.

There is some risk involved in that the Internal Revenue Service may attempt to disallow the (marriage) joint filing status.

# Tax Forum

## The New Pension Legislation and You, the Employee

Mable W. Kitchen, CPA
Price Waterhouse & Company
Cincinnati, Ohio

What effect will the new pension legislation, which has been hailed as the most detailed piece of legislation in years, have upon you? The legislation covers you as a participant in your employer's retirement plan, in your self-employed plan, or as an employee who is not covered in any plan. Since, as you can see, it affects all employees, have you assessed its effects upon you? This article is designed to help you do just that.

**I. Effects of the pension legislation on employees covered by a pension plan**

There are principally 7 benefits to be derived by the employee-participant in a pension or profit-sharing plan and these benefits are discussed below. If your plan does not presently provide them, revisions will have to be made within two years so that these benefits are available.

A. Earlier participation

Any full-time employee who is 25 years old and who has been with the company for at least one year must be covered under the retirement plan. (One year of service is defined as 1,000 hours.) However, there are two exceptions to this rule. One exception is that, if the company has a defined benefit plan (e.g., a plan providing a specified monthly benefit of $100 per month retirement income) and you were within five years of normal retirement when you were employed, you can be excluded. The reason for this rule is that the cost of funding such benefits over such a short period of time would be prohibitive if not impossible. The second exception applies to plans which provide full vesting immediately; these plans may require three years of service before participation.

B. Faster vesting

Employers are required to give employees a non-forfeitable right to the plan benefits before retirement. Once the benefits are vested, either partially or fully, the employee is entitled to receive the vested benefits at a stipulated time if he or she terminates. The right to the benefits provided by employer contributions must meet any one of three minimum standards, which are:

1. Gradual vesting

The employee must be 25% vested at the end of five years of credited service. Thereafter the benefits must vest at the rate of 5% per year for the first five years and 10% annually for each of the next five years.

2. Rule of 45

The employee with at least five years of service must be 50% vested when the sum of his or her age and service equals 45. Thereafter, vesting must be at the rate of 10% per year. In any event the employee must be 50% vested after 10 years of service.

3. Full vesting

The employee must be 100% vested after 10 years of service.

Benefits attributable to the employee's contribution must be immediately and fully vested.

Once an employee becomes eligible to participate in a retirement plan, all his or her years of service with the employer must be counted. This is true even though the employee has quit work and then returned. A one-year waiting period can, however, be required after return before pre and post break service are aggregated. This provision will be particularly beneficial for those employees who take maternity leaves, child-rearing leaves or sabbaticals. However, those non-vested employees who were away from the employer longer than they previously worked will not get credit for the previous service.

There are two primary exceptions to the service credit rule. Employers need not count:

1. Service rendered before an employee is 22 years of age,
2. Service rendered before the employer had a plan, and
3. Service rendered which totaled less than 1,000 hours in any one year.

Vested benefits cannot be forfeited for any reason other than death by an employee who has not elected a joint and survivor annuity.

C. Guaranteed benefits through mandatory insurance

If your plan provides defined benefits at retirement, these benefits must be insured through government insurance. This enables you to receive vested benefits even if the plan is terminated for one reason or another. This insurance is provided through the Pension Benefit Guaranty Corporation established within the Labor Department and guarantees benefits up to a limit of $750 per month for any participant. For this coverage the plan must pay premiums initially assessed at the rate of $1 per plan participant if it is a single employer plan and 50 cents for each participant if it is a multi-employer plan. Previously your benefits were limited to the assets of the plan. This often resulted in significant benefits being lost by employees through plan terminations. The funding of these benefits must also be expedited in order to cover not only current costs but also a portion (1/30 or 1/40 depending upon whether it's an existing or a new plan) of the past service liability.

D. Increase in benefit limits

For plans providing specified benefits, the benefits may not exceed the lesser of $75,000 or 100% of the employee's average pay for the three highest consecutive years. This limit does not apply when the annual benefit is $10,000 or less.

The Treasury is now directed to issue rules to facilitate the adoption of defined benefit plans for self-employed individuals. These plans covering self-employed individuals will also be subject to the overall limits mentioned above.

E. Increase in contribution limits

For plans providing specified contributions (e.g., money purchase plans) the limit is the lesser of $25,000 or 25% of the individual's compensation in the year of contribution. This specified dollar amount as well as other specified dollar amounts throughout the legislation will be adjusted annually for cost of living increases.

If an individual is a participant in more than one plan, the Act provides rules for determining the limits in this instance.

The limitation on contributions on behalf of a self-employed person is increased to the lesser of 15% of earned income or $7,500 with a $750 minimum. This is a significant increase over the previous limitation of 10% or $2,500. As in the past the self-employed limitations also apply to shareholder-employees of Subchapter S (small business) corporations.

F. Simplification of taxation of plan benefits

The rules for determining the long-term capital gain and ordinary income elements of a lump-sum distribution of plan benefits have been simplified. The division is now a simple matter of prorating the benefits based upon the number of years of participation in the plan before and after Dec. 31, 1973. The portion allocated to the years before 1974 is long-term capital gain, whereas the portion allocated to the period subsequent to 1973 is ordinary income. This method of division applies not only to regular employees but also to self-employed individuals; this provision eliminates the discrimination between the two. This special treatment is available to those who have attained age 59½; there is no requirement that you have terminated employment.

G. Earlier access to plan benefits

The elimination of the requirement that you must terminate your employment before the special benefits applicable to lump-sum distributions become operative, results in earlier accessibility to plan benefits.

The plan administrator is required to commence the payment of plan benefits no later than 60 days after the plan year in which your retirement or in which your termination of service occurs, whichever is later. If you terminate before retirement, the payment of your vested benefits will generally be deferred until you reach retirement. Your plan may, however, provide a *de minimus* rule whereby, if the current value of your benefits is less than $1,750, the benefits may be distributed in a lump-sum at the earlier termination date.

**II. Effects of the pension legislation on employees not covered by any retirement plan**

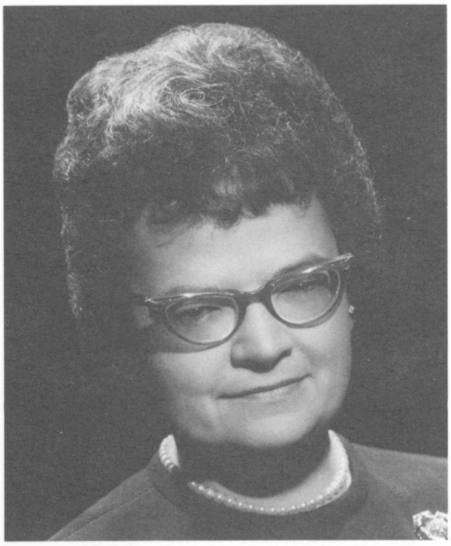
Employees who are not now covered under a qualified retirement plan will be able to establish an individual retirement account (IRA) for themselves beginning in 1975. You will be permitted to contribute to your individual plan annually the lesser of 15% of earned income of $1,500. This contribution is tax deductible regardless of whether you itemize deductions or not. These contributions must be held in a trusteed or custodial account with a bank, savings and loan or credit union; in an annuity contract; in a life insurance endowment contract; or in a qualified retirement bond. The earnings of this IRA will accumulate tax-free. You will, however, recall that this contribution ceiling is much lower than the $7,500 maximum permitted self-employed individuals.

At retirement the tax treatment of the benefits are likewise not as generous for the IRA as for the corporate or self-employed plan. Although lump-sum withdrawals may be made at age 59½, these are eligible only for the five year averaging procedure — no capital gains treatment. If the amounts are taken out in advance of age 59½ and you are not disabled at that time, you will incur a 10% penalty tax.

The IRA is particularly advantageous in any event since it offers you pension benefit portability between companies. If by reason of termination, you receive a lump-sum payment from the qualified plan of your former employer, this distribution, if reinvested within 60 days in a qualifying IRA, will be tax-free. When you get a new job, these funds may be transferred from the IRA to the new employer's account.

Even though your employer does have a retirement plan, you may establish your own IRA for receipt of contributions covering the period prior to becoming eligible to participate in the company plan. Although eligible you may choose not to join the company plan; in this event you may continue to contribute to your own IRA.

*(Continued on page 31)*



# Theory & Practice

## Recent SEC Pronouncements

Marilyn J. Nemec, CPA
Partner, Alexander Grant & Company
Chicago, Illinois

**Amendment of Proxy Rules**

A well-known objective of the Securities and Exchange Commission is to obtain for investors, and the financial community in general, improved disclosure by issuers of securities. Toward this end several amendments to various registration and reporting forms have been adopted in recent years. However, these amendments did not significantly affect disclosure in the Annual Report to Shareholders, the most circulated and understandable form of disclosure made by issuers. In January 1974, the SEC issued proposals designed to increase meaningful disclosure in Annual Reports. These proposals were in the form of amendments to certain of that group of 1934 Act rules which are generally referred to as the "Proxy Rules". Many of the proposals had been recommended by the SEC's Industrial Issuers Advisory Committee and by the New York Stock Exchange in its White Paper entitled *Recommendations and Comments on Financial Reporting to Shareholders and Related Matters.*

On October 31, 1974, the SEC announced adoption of many of the proposed amendments in Release No. 11079 under the Securities Exchange Act of 1934. One proposal, which was not adopted, would have required textual information on matters such as the issuer's liquidity, availability and cost of credit, purchase commitments and future financing requirements and plans. Due to a lack of objective standards for these types of disclosure, the SEC decided not to adopt such a requirement at this time.

The Proxy Rules, among other things, require an Annual Report to precede or accompany proxy solicitations and information statements relating to the annual meeting of security holders. The Annual Report may be in any form deemed suitable by management except that certain material which is set forth in the Proxy Rules must be included. Issuers whose securities (other than an exempted security) are registered under Section 12 of the 1934 Act are required to comply with the Proxy Rules. Generally, this would include issuers whose securities are listed on a stock exchange, those whose assets exceed one million dollars and whose shareholders number 500 or more, and those who have voluntarily registered under Section 12(g). The SEC has stated that, as in the past, its staff will not review Annual Reports prior to their being furnished to security holders.

These amendments are effective December 20, 1974, with respect to issuers who have fiscal years ending on or after that date and who solicit proxies or furnish information statements on or after that date.

The additional information required by the amendments to the Proxy Rules which is to be included in Annual Reports to Shareholders or presented in a separate section or appendix which is referred to in the Annual Report consists of:

- Five-year summary of operations — prepared in accordance with the instructions to Item 2 of Form 10-K. Reconciliations, exhibits and supplemental information required by the instructions to Item 2 are to be omitted.
- Management discussion and analysis of the summary of operations — prepared in accordance with Guide 1 of Guides for the Preparation and Filing of Reports and Registration Statements Under the 1934 Act, if changes in revenue and expense as contemplated by the Guide have occurred.
- Brief description of the business done by the company and its subsidiaries during the latest fiscal year.
- Sales and earnings by line of business or sales by class of similar products or services — in accordance with Item 1(c)(1) and (c)(2) of Form 10-K.
- Names of directors and executive offices indicating the principal occupations of each and the name and principal business of any organization by which each such person is so employed.
- Principal trading market of the issuer's voting securities.
- Price range of the securities and dividends paid on the securities for each quarterly period during the last two years.

Also, the issuer's financial statements for the last two years, rather than only the last year, must be reported upon by the issuer's independent auditors.

The proxy statement (or information statement) or annual report must contain in bold face or prominent type a statement to the effect that a copy of the Form 10-K (or in the case of certain companies regulated by other Federal commissions, the Form 12-K), including financial statements and schedules, may be obtained without charge if requested in writing by the security holder. A reasonable fee may be charged for copies of the Exhibits requested.

The issuer is required to take certain steps to supply beneficial owners of its securities with proxies, proxy statements (information statements), and annual reports through the holder of record, such as a stockbroker or bank.

**1933 Act Guide 22 and 1934 Act Guide 1**

Guides for Preparation and Filing of Registration Statements (Release No. 33-4936) issued in December 1968 contained 53 guides. These guides represented practices and policies followed by the SEC's Division of Corporation Finance in administering the registration and disclosure requirements of the Securities Act of 1933. The guides are not rules of the SEC and they do not comprise complete criteria for the preparation of registration statements. Since 1968, some of the original 53 guides have been amended and Guides 54 through 59 have been added.

Several of the items of information required in 1933 Act registration statements, such as the Summary of Operations, are similar to those required in 1934 Act Forms 10 and 10-K. Form 10 is used for registration under Section 12(g) of the Securities Exchange Act of 1934 of securities which are publicly held after the registrant's assets exceed one million dollars and its shareholders number 500 or more. Form 10-K is the annual report filed by almost all companies who have securities registered under either the 1933 or 1934 Acts. In order to relate the requirements of amended Guide 22 to the Summary of Operations in Forms 10 and 10-K, Guide 1 of *Guides for Preparation and Filing of Reports and Registration Statements under the Securities Exchange Act of 1934* has been adopted.

To enable investors to appraise the "quality of earnings," Guides 22 and 1 were proposed in December 1972. Each contained substantially identical requirements for an explanation of the Summary of Operations or Statement of Earnings in registration and reporting forms. According to the SEC, investors should be in a position to assess the source and probable recurrence of net earnings or losses and to understand the extent to which accounting changes and changes in business activity affect the year-to-year comparability of a company's operations.

Guide 22 applies to the Summary of Operations or Statement of Earnings in Forms S-1, S-7, S-8, S-9, S-11 and S-14 while Guide 1 applies to the Summary of Operations in Forms 10 and 10-K. The provisions of both guides apply to registration statements and reports filed with the SEC after September 30, 1974.

The Guides provide that a separate section entitled "Management's Discussion and Analysis of the Summary of Operations" immediately following the five-year Summary of Operations should include explanations of:

- Material changes from period to period in the amounts of items or revenues and expenses.
- Changes in accounting principles or practices, or changes in the method of their application, that have a material effect on net earnings as reported.
- Favorable or unfavorable material facts which, in the opinion of management, may make historical operations or earnings as reported not indicative of current or future operations or earnings.

Certain definitions and percentage tests limit the changes which must be discussed:

- The discussion of periodic changes usually should be limited to changes between year 5 (the latest fiscal year) and year 4, between year 4 andyear 3, and between the interim ("stub") periods if any are presented. However, when necessary for an understanding of the summary, explanations of changes between earlier years should also be included.
- A material change in any of the items of revenue or expense required to be presented by the instructions to the Summary of Operations in the form being filed or in any of the items of expense required to be disclosed by Rule 12-16 of Regulation S-X (Schedule XVI, Supplementary Income Statement Information) is to be explained by management. If an audited statement of earnings or of operations is presented in lieu of the summary of operations, material changes in items of revenue and expense set forth in Rule 5-03 of Regulation S-X, rather than those shown in the instructions to the Summary of Operations, would be discussed.
- The change is material if the item increased or decreased by more than 10% as compared to the prior period and increased or decreased by more than 2% of the average net income or loss for the most recent three years presented in the summary. A loss in one or two of the three years is excluded in computing average net earnings. If losses were incurred in all three years, the average net loss is used for the test. However, an item not meeting the materiality test should be discussed if management believes an explanation of the change is necessary to an understanding of the summary.
- If management is of the opinion that an item meeting the materiality test does not need to be discussed, a separate statement of the reasons for the omission must be submitted to the SEC as supplementary information with the form being filed.
- Material facts to be discussed when historical operations and earnings are not indicative of current and future operations and earnings are limited to those facts which are disclosed and those facts which are required to be disclosed in the related prospectus, registration statement or report. The discussion would be in broad terms only and no specific quantitative estimates or projections would be required. Under certain circumstances, discussion of material facts indicating changes in either absolute amounts or in trends would also be required.

When the text of the prospectus, registration statement, or report contains a discussion of factors indicating a material change in operating results, whether favorable or unfavorable, subsequent to the latest period included in the summary of operations, management's discussion should call attention to the change and refer to the place in the text where it is discussed.

Management's discussion may be presented in any manner which management deems will best communicate the significant elements necessary for a clear understanding by the investor of the financial results. Favorable as well as unfavorable trends and changes should be discussed. Tables and charts may be used where appropriate. Use of "boiler plate" or "compliance jargon" should be avoided.

---

**Legal Developments**
*(Continued from page 17)*

[5]Accounting Series Release No. 146, "Effect of Treasury Stock Transactions on Accounting for Business Combinations," Washington D.C., August 24, 1973.

[6]*op. cit.*, p. 4.

[7]Accounting Series Release No. 146A, "Statement of Policy and Interpretations in Regard to Accounting Series Release No. 146," Washington D.C., April 11, 1974.

[8]SEC, "Implementing SEC Rules on 'Effect of Treasury Stock Transactions On Accounting for Business Combinations' — ASR No. 146 and 146A," Committee Memorandum, 1974.

[9]For a more complete discussion of APB Opinion No. 16, Accounting Interpretation No. 20, ASR No.'s 146 and 146A and the memorandum, see Ernst & Ernst, *Financial Reporting Developments*, Oct., 1974, Retrieval No. 38174.

# Reviews

## Writings in Accounting

Dr. Marie E. Dubke, CPA, Editor
Memphis State University
Memphis, Tennessee

**DIRECT COST & CONTRIBUTION ACCOUNTING, Germain B. Böer; John Wiley & Sons, Inc., New York, 1974; 246 pages, $13.95 (cloth cover).**

Dr. Böer states that his book should show "the management accountant and controller how to develop an accounting system that will provide managers with decision making information."

In carrying out this intent, the material is implicitly divided into two sections. The first section, after briefly discussing decision making within a firm in general and in relation to direct costing, introduces some of the basic concepts of cost behavior and flexible overhead budgets. These discussions are in terms of 1) definitions and techniques and 2) the relationship of costs and flexible budgets to decision making at various levels of responsibility. The area of responsibility accounting also is summarized in terms of what it is, how it relates to organizational structure, and the types of reporting systems necessary to carry out its control aspects. Emphasis is then shifted back to product costing and its use in profit planning. The discussion covers the development of product costs for discrete products and joint products, especially where a standard cost system is used.

Section one ends with two chapters dealing with direct cost reporting systems for two major areas of a firm: production and marketing. The reports discussed in the area of production are those typically associated with the concept of management by exception, thereby emphasizing cost control. The chapter on market reporting systems gets into the area of contribution reporting since the decision makers in the marketing area are most interested in the profit contributions of products, sales force, and territories.

The second section goes into various topics in an attempt to show how direct costing 1) provides relevant data for various decision making techniques; 2) is useful in service industries; 3) may be installed as an accounting system in a firm; and 4) has some limitations.

The bulk of this section deals with the usefulness of direct costing for cost-volume-profit analysis, contribution analysis, and pricing decisions. Its use in make-or-buy decisions, sell-or-process-further decisions, product mix decisions, segment profitability, and sales staff compensation plans is illustrated. The chapters on pricing also deal with a number of topics including the use of contribution targets for sales territories, pricing of special offers, standard products and custom products, and intracompany pricing.

The twelfth chapter shows how direct costing concepts may be applied to service industries. This chapter is an attempt to fill a void in the literature which typically deals with manufacturing firms. After a brief discussion of the characteristics that differentiate a service business from a manufacturing firm, two examples are presented; one deals with a nursing station in a hospital, the other looks at the loan department of a bank.

A short, rather general, discussion of the behavioral implications of the accounting process is included. This material appears to be included more as an attempt to make the reader aware of the existence of behavioral aspects than to specifically relate them to direct cost and contribution accounting.

The final chapters present a discussion of the issues to be considered when installing a direct cost system and two limitations of direct cost: curvilinear costs and semifixed costs. These chapters unfortunately are quite brief although they are important to the general intent of the author, as stated above.

The book presents much material which can be found in the typical managerial accounting text. However, it does so in a way that is appealing to someone desiring a review, or overview, of the concepts without the detailed accounting entries and techniques. The emphasis is on the reports generated for various responsibility levels or for specific decisions. The book contains several thorough illustrations relating to both of these areas. A few chapters have footnotes and lists of additional references which should provide the interested reader with additional views on, and amplification of, the chapter material. In some chapters these references could have been expanded, especially to include some of the more recent literature; other chapters should have had reference lists. Some areas are covered somewhat superficially but this does not diminish the usefulness of the book as a review of, or introduction to, the areas of direct costing and contribution accounting. The reader, however, should not expect to find any discussions beyond the very basic, traditional views in these areas.

Dr. Rosalie C. Hallbauer, CPA
Florida International University

**"ACCOUNTING PRINCIPLES - CONCERN OR CRISIS?" Harvey Kapnick, *Financial Executive,* Vol. XLII, No. 10, October 1974.**

In his opening statement the author praises the spirit of cooperation which has existed between the Securities and Exchange Commission (SEC) and the accounting profession over the past four decades and decries the deterioration of this relationship in recent years. He cites the failure of the profession to establish accounting principles and the failure of the SEC to understand the true role of the independent auditor as the primary causes of this deterioration. Kapnick fears that current one-sided efforts by the SEC to expand and control the duties and responsibilities of the independent auditor will prove to be contrary to the public interest. He feels that the SEC is taking a position which will force independent auditors into the role of guarantors of financial success, a position which is neither realistic nor desirable. Ultimate failure in this function, due to inherent difficulties, will only lead to further erosion of public confidence in the reliability of financial data.

While acknowledging the current confusion surrounding the accounting profession and the decline of public confidence in the reliability of financial data, Kapnick does not feel that an expansion of the accountant's role, as dictated by the SEC, is the answer. He thinks instead that continued cooperation between the two bodies is necessary to improve accounting standards in an expeditious manner. The author sets forth several ideas which, if implemented, would in his opinion go far towards improving public understanding and confidence. In addition, he proposes the formation of an advisory council, composed of the top leaders of the accounting profession, to work closely with the SEC in dealing with current accounting problems. Of paramount importance to the author is the fair and responsible treatment of the accounting profession by the SEC and continued cooperation between these two bodies for the benefit of the public interest.

While acknowledging a degree of failure on the part of the accounting profession in addressing itself to and solving current accounting problems in a professional and expeditious manner, one must at the same time recognize the immense complexity and scope of the problems involved. Assuming, however, that only the manner of solving the problems is in question and not the ability to do so, one must wonder why the accounting profession has waited for the federal government to once again assume an imposing posture before taking necessary steps to improve standards and performance. The answer obviously lies with the many varied and diverse special interest groups which have plagued past and present attempts to improve accounting standards. The profession has recognized this problem and is taking steps to overcome it. But it is unfortunate that it has taken these steps only after government intervention threatened and not simply for the good of the public interest as it should have.

John L. Carlson
Graduate Student
Memphis State University

**OBTAINING AGREEMENT ON STANDARDS IN THE ACCOUNTING PROFESSION, by Maurice Moonitz. Studies in Accounting Research, Volume No. 8, American Accounting Association, Sarasota, Florida, 1974, 93 pages. AAA Members $3, nonmembers $6.**

In all probability this Study will be of keen interest to everyone in the accounting field. It is a clarification of the background behind the failure of the Accounting Principles Board. But it is also more than that. The reasons for the variations in generally accepted accounting principles, (GAAP), the relationship of the AICPA's Audit Guides to the GAAP's, the unresolved controversies are all pulled together into a clarified whole.

Dr. Moonitz first reviews the organized accounting profession's success with auditing standards and contrasts this with the irreconcilable differences in establishing accounting principles. The historical development of accounting principles is detailed in two parts: prior to 1959 and from 1959 to date. Some examples are given of how principles came about, of the various influences outside of the organized profession, and of the need for allies. A summary follows of the record to date and the necessary conditions for success in obtaining agreement. The Study concludes with a prediction of the fate of the Financial Accounting Standards Board.

An interesting presentation is a table which shows the relationship between the Accounting Research Studies and the APB's Opinions and Statements. The Study indicates that the organized profession has been successful with the form of financial statements. However, similar success has not been attained with principles affecting the measurement of net income. The reasons for this comparative failure are fully developed.

It is sad to contemplate that the 30-year search for generally accepted accounting principles has not produced binding statements or definitions. Although the auditor's opinion makes reference to these principles, they have not been reduced to writing. Audit Guides are used in areas where the APB did not take any action. But if the financial statements are basically the responsibility of management and it is management that selects, in Moonitz' words, "the criteria by which it will be judged," certain conditions must exist for the continued search to be successful. This Study develops and discusses these conditions.

Wilhelmina H. Zukowska, CPA
University of Miami

**"CONTROLLERS AND CPAs: TWO VIEWS OF PUBLISHED FORECASTS," Charles G. Carpenter and R. Austin Daily,** *Business Horizons,* **Vol. XVII, No. 4, August 1974.**

In 1973 the Securities and Exchange Commission (SEC) revised its long-standing policy prohibiting disclosure of forecasts in financial statements filed with the Commission. The new policy now allows companies, on a voluntary basis, to disclose their forecasts if certain requirements are met.

This change in policy will affect two groups: the controllers of the companies who prepare forecasts and the CPAs who may be called on to certify them. This article contains the results of a survey questionnaire mailed to 221 members of the AICPA and 320 controllers of *Fortune* 500 corporations; 28% of the CPAs and 52% of the controllers responded. The purpose of the survey was to obtain views on the format of forecasts, the impact on management, the reliability of forecasts, and the CPA's role in forecast preparation and publication.

The questions concerning reporting format reveal sharp differences of opinion. The CPAs favor a standardized statement for reporting forecasts. This view is consistent with the attempts of the accounting profession to increase comparability of financial information among companies. The CPAs also express a possible need for presenting two or more years of annual forecasts with actual results and a statement from management explaining the differences.

The controllers, on the other hand, favor flexibility of reporting. Many controllers are concerned with practical problems in report preparation and generally favor flexibility in financial reporting practices. They believe that past forecasts, along with differences from actual results, should not be an integral part of the reporting format. In their opinion differences could arise from diverse causes ranging from forecasting techniques and management performance to such external factors as international political conditions or labor demands.

The views concerning the impact on management found CPAs and controllers in agreement on most issues. Both groups agree that publication of forecasts would affect management decision-making. They think management might tend to make short-range decisions to minimize differences between actual and forecasted results. Both groups also believe that disclosed forecasts would tend to be more conservative and could thus lose their usefulness.

As far as the reliability of forecasts is concerned, 62% of the controllers and 60% of the CPAs agree that accuracy in forecasting depends greatly on the experience and knowledge of the forecaster. In most cases large corporations with a history of success in forecasting have well-developed forecasting procedures and experienced forecasters. If forecast information is to be relevant to investors, a reasonable degree of accuracy must be attained.

At present the SEC does not require a formal review by a third party of the forecast submitted. If this policy is changed, any requirements for third party verification will significantly affect the role of the CPA. Generally, the views of the CPAs are consistent with those of the controllers concerning the role of the CPA. A majority of both CPAs and controllers think that, at the present time, CPAs do not possess the competence and technical proficiency necessary to evaluate forecasts. Non-financial matters peculiar to one company that would greatly affect its forecast are outside the CPA's general expertise. Controllers also agree that the turnover of personnel assigned by the CPA firm to a client would be a substantial factor in the CPA's ability to evaluate a client's forecasting procedures.

The information from this survey suggests that the external users of forecast data are entitled to reasonable accuracy, but that they should also be familiar with external factors which can affect and influence the actual outcome. The controllers must explore new reporting formats and procedures in obtaining the most accurate data to be presented to the users. This period of permissive presentation gives the accounting profession time to develop expertise in forecasting and the reporting format most useful for financial comparisons.

John G. Gravatt
Graduate Student
Memphis State University

**"AUDITING THE INTERNAL AUDIT FUNCTION," E. L. McKinley,** *The Internal Auditor,* **Vol. 31, No. 5, September/October 1974.**

Should the internal audit department be audited and, if so, by whom? These are important questions answered in this article by a Certified Internal Auditor.

Although auditing is an important management tool and an independent and objective reviewing activity, the internal audit department does not usually receive the benefits of the same type of review. McKinley presents several possible sources of personnel to conduct a review of the internal audit function: a recently hired experienced auditor, someone outside the department with some auditing experience, and the independent public accountant.

According to McKinley this kind of audit should include a review of such areas as organization, policies and procedures, and relationships with various departments. The objective should be to evaluate each audit area performance as related to a company's goals. In the course of the article McKinley presents a general outline of the areas to be reviewed. He concludes that the internal audit department will benefit from an independent review and that more such reviews should be performed.

The auditing of the internal audit function is a logical management tool although it has not been widely used, according to McKinley. This article informs the profession of an important need and how that need can be filled. The general outline of the areas that should be reviewed can probably be used by most enterprises with only minor variations.

Raybon C. Chambers
Graduate Student
Memphis State University

**"REFLECTIONS ON PRICE-LEVEL ACCOUNTING," Walter T. Marek,** *Financial Executive,* **Vol. XLII, No. 10, October 1974.**

An unstable monetary unit is a measurement constraint in the formulation of accounting theory when measurements are based on historical prices or when comparisons of price aggregations among different years are made. The growing interest in this area of accounting results from the present high inflation rates. The number of advocates on both sides of the price-level accounting issue seems to be growing, and points are continuously followed by counterpoints.

Marek notes that there has been no great push for general price-level (GPL) adjustments from either the accounting profession or the readers of financial statements.

In June 1969 the Accounting Principles Board (APB) concluded that financial statements adjusted for price-level changes present useful information not available from historical dollar financial statements. The APB did not state, however, how the information was to be used. It recommended that GPL financial statements be presented along with historical dollar statements, but very few companies followed this recommendation.

*(Continued on page 31)*

# Editor's Notes

## In This Issue

Our feature article this time is a companion piece to a related article in the July 1974 issue. For some time the Boards of Directors of our two sponsoring organizations felt the need for statistical data on the membership in order to answer inquiries from young women considering a career in accounting, from executive search and other employment agencies, and from other women's organizations. The two Boards of Directors therefore authorized surveys of the membership of the two organizations to be conducted during the 1973-74 administrative year.

Dr. Elise G. Jancura, CPA, was responsible for the survey of the membership of the American Woman's Society of Certified Public Accountants and reported the results of her survey in the article "The Woman CPA: A Professional Profile" in the July 1974 issue of THE WOMAN CPA.

The survey of the members of the American Society of Women Accountants was conducted by Constance T. Barcelona, Dr. Clara C. Lelievre, CPA, and Dr. Thomas W. Lelievre, CPA. Because the cost of a survey of the total ASWA membership would have been prohibitive, they surveyed only a statistically sound sample of the ASWA membership in addition to the AWSCPA membership. This second survey included some of the aspects of the first survey, but it also contained many questions designed to find out the job satisfactions and experiences with sex discrimination of the members. In order not to duplicate information already contained in Dr. Jancura's article on AWSCPA members, their article concentrates on the responses to the attitudinal questions. We think you will find it very interesting reading.

Our second major article is adapted (and translated into American English!) from an article by Anna B. G. Dunlop who edits *The Accountant's Magazine,* the official monthly journal of The Institute of Chartered Accountants of Scotland. Ms. Dunlop conducted a very informal survey to find out how many women are members of institutes of professional accountants like the AICPA. Her results confirm what we have suspected all along: we are a tiny minority in public accounting all over the world. Because there are several thousand women CPAs in the United States, including partners in the prestigious international public accounting firms, we tend to think that women do better here than they do in other countries. Ms. Dunlop, however, found out that, although the United States leads in absolute numbers of women in public accounting, in relative terms we are only average and far behind the leader: the Philippines.

But it is encouraging to know that there are women in public accounting in every country Ms. Dunlop heard from. Maybe we should think about organizing a special session at the next International Congress of Accountants where the women accountants from all over the world can get together and meet one another.

## Appointments to the Editorial Staff

Sally J. Self, President of AWSCPA, and Pearl J. Mullvain, President of ASWA, have made the following appointments to the Editorial Staff of THE WOMAN CPA, effective with this issue:

Dr. Loudell O. Ellis, CPA, CMA, has been appointed Editor of the Education Department to succeed Dr. Patricia L. Duckworth, CPA, who was elected Treasurer of AWSCPA.

Dr. Ellis is Associate Professor of Accounting at the University of Alabama in Birmingham and chairs the Education Committee of the Alabama Society of CPAs. She received her Ph.D. degree in accounting from the University of Alabama in Tuscaloosa and her CPA certificate from the state of Alabama. She is also one of the first women to obtain a Certificate in Management Accounting. Dr. Ellis has had articles published in the *CPA Journal* and in *Church Administration.* Her first publication in THE WOMAN CPA was an article about the Financial Accounting Standards Board in the July 1974 issue.

Dr. Clara C. Lelievre, CPA, has been appointed Editor of the Financial Statements Department to succeed Glenda E. Ried, CPA, who asked to be replaced due to her many other commitments.

Dr. Lelievre is Associate Professor of Accounting at the University of Cincinnati. She also received her PH.D. degree in accounting from the University of Alabama in Tuscaloosa and was the first woman to receive a CPA certificate in Alabama. She is well known to the members of our two organizations and to our readers through her contributions to THE WOMAN CPA, such as the featurearticle in this issue.

Mable W. Kitchen, CPA, has been appointed Editor of the Tax Forum to succeed Barbara M. Wright, CPA, who edited the Tax Forum for several years and unfortunately had to resign from that position for reasons of health.

Ms. Kitchen is a senior tax accountant

with Price Waterhouse & Company and teaches accounting courses in the evening at the University of Cincinnati. She is a graduate of Berea College and earned her MBA at Indiana University. She holds CPA certificates from Indiana and Ohio and previously served on the Editorial Board of THE WOMAN CPA.

**Appointments to the Editorial Board**

The presidents also made the following appointments to the Editorial Board of THE WOMAN CPA:

Carolyn M. Berger, CPA, is a supervisor in the tax department of Ernst & Ernst in Denver. She is a graduate of the University of Colorado and very active in the Denver chapter of ASWA where she is a member of the Board of Directors and chairs the publicity committee. She is also the treasurer and a member of the State Board of the Virginia Neal Blue Resource Centers for Colorado Women.

Ruth S. Jones is a Revenue Auditor in the Revenue Division of the Michigan Department of Treasury. Her work consists of auditing businesses — everything from large manufacturing firms to small gasoline stations — for a variety of Michigan state taxes. She learned accounting from her father, a CPA, and at Wayne State University. She is a past president of the Detroit Chapter of ASWA and a member of the Board of Trustees of the AWSCPA Education Foundation.

Marion J. B. Porter, CPA, has her own CPA practice in Anchorage, Alaska. She passed the CPA Examination in California with only nine units of college credit and is the first woman board member of the Anchorage Estate Planning Council. She is the immediate past president of the Anchorage Chapter of ASWA and is proud of the fact that the Anchorage Chapter won first place in Class A of the ASWA award program during her presidency.

Jean L. Souther, RPA, is Assistant Professor of Accounting and Management at Cape Cod Community College. She is a graduate of Bentley College and earned her MBA degree at Northeastern University. She is a Massachusetts Registered Public Accountant and on the Board of Directors of the Boston Chapter of ASWA. She worked for many years for the Howard Johnson Company, reaching the position of Assistant to the Controller, and then resigned to achieve a life-long goal: to teach accounting. She not only achieved that goal but was able to combine it with year-round living at the tip of beautiful Cape Cod.

**Women in Accounting**

*(Continued from page 6)*

taining professional competence" won 84.5% of the survey vote as having much effect or even decisive effect in sending women back to formal education of some type. The next most influential factor is "personal enrichment" which was selected by 76% of the respondents, obviously in combination with professional competence needs in some cases. "Professional advancement" motivated 58% of the women. State regulations, or a potential salary increase ranked very low as motivation and only 12% accord a strong choice to "change in professional career." By inference, the respondents like what they are doing and intend to stay in accounting.

**Professional memberships**

Tabulation of the 411 surveys returned shows the numbers of respondents affiliated with various accounting or business related societies as follows:

| | |
|---|---|
| A.S.W.A. | 248 |
| A.W.S.C.P.A. | 361 |
| N.A.A. | 61 |
| A.I.C.P.A. | 308 |
| A.A.A. | 47 |
| State Societies | 315 |
| Other (includes B.P.W., Bar Assn., etc. | 42 |

**Mental challenge**

The greatest satisfaction for the largest number of survey respondents is a sense of optimal use of their mental faculties. Service concepts, discussed earlier, are often concomitant and so are various interpretations of peer esteem, but the satisfaction of meeting the mental challenge is paramount. Nuances shade from self-pride to pure intellectual pleasure. When constructive use of talent is combined with personal interrelationship with the clientele, (the human animal is a gregarious creature), then the woman accountant has achieved fulfillment, and is happy to talk about it.

A recent graduate expresses it very clearly when she writes: "I am doing a job I enjoy doing with people I enjoy working with at a salary I never dreamed of commanding in my entire life before graduation from college."

Others are specific about the fun of the game: "public accounting holds my interest as no other job possibly could. The variety and intellectual challenge make each day a rewarding experience to which I look forward." The diversity of assignments is appealing to many, and a teacher writes, "the subject matter still evolves, so it doesn't become boring."

Variations of "I really enjoy doing a difficult job well" run through the survey. "I love the way figures fall into place and tell a story of financial progress. When doing tax research it's great to find cases that back up my theories."

**Future Plans**

While notably stable in job loyalty, the woman accountant will make a change if advancement is not open to her. The data on past progression showed a large degree of job changing, but plans for the future do not, with the exception of women in the youngest age brackets who exhibit a greater tendency toward mobility. Only 5% of the women under-thirty expect to remain at the same firm in the same position whereas 28% expect to be with the same firm in a better position. An expectation of progress, or an alternative to move toward a progressive situation is entirely reasonable.

Future plans are shown in the following tabulation:

| *2 Yrs.* | *5 Yrs.* | |
|---|---|---|
| 44% | 21% | Same firm, same position |
| 28% | 28% | Same firm, better position |
| 10% | 15% | Working in another firm, accounting related |
| 11% | 17% | Self-employed |
| 1% | 4% | Non-accounting related |
| 3% | 9% | Retired and other |
| 3% | 6% | Not specified |

Non-accounting related plans for the future are limited primarily to women in younger age brackets and it may be surmised that marriage and family considerations are part of their thinking.

Perhaps the most significant answer in the whole questionnaire is the response to "Would you choose accounting again?" An enthusiastic 93% say "yes", and when correlated with the under-thirty-age group the affirmative answer is 100%.

**CONCLUSION**

Woman accountants have outlasted the freezing disdain of men in their profession. They have not evaporated in the fires of criticism, and they have shown the absolute resistance of water to pressure and confinement. No longer must they seep into small fractures, remain in the pool of a stagnant business, or depend on slow erosion to find even a fragmentary channel. For women in accounting the full, free flow of professionalism has begun. *Pictures courtesy of De Soto, Inc.*

## Reviews
*(Continued from page 28)*

The author views GPL statements as being somewhere between historical cost and current value statements. He believes that users will be confused because GPL statements reflect the general purchasing power of the assets and liabilities.

Marek thinks that the statements should reflect actual transactions, leaving judgments regarding the purchasing power of the dollar and actual current values of assets to the individual reader. To assist the reader in interpreting the statements he suggests that the GNP Implicit Price Deflator for all years concerned be included.

According to Marek GPL accounting advocates claim that GPL statements are needed to measure the amount of current dollars necessary for capital replacement. He notes that capital replacement decisions are better based on anticipated cash flows, corporate objectives, etc., rather than a factoring up of depreciation allowances. In the author's opinion the statement of sources and applications of funds can be used for this purpose.

The author claims that confusion is the result when the "equating syndrome" (equating companies' operations through restating financial statements) is employed and offers two examples in support of his view.

He believes that much is to be gained from English accounting practices and offers two proposals to price-level advocates. He suggests that most buildings not be depreciated because inflation in the value of the assets offsets any arbitrary depreciation that might be taken. This practice would also enhance comparisons among companies which is difficult at present due to the use of various depreciation methods. Marek further suggests that companies should be given the option of revaluing their assets periodically on the basis of expert appraisals when substantial increases occur in the value of these assets. In all other areas he advocates the continued use of historical cost accounting.

In his conclusion Marek decries the apparent inability of the accounting profession in finding relatively simple, practical solutions to the problems facing it. The value of this article lies in its amplification of some of the problems encountered in constructing sound accounting principles for price-level adjusted statements.

James E. Armstrong
Graduate Student
Memphis State University

## Women Accountants
*(Continued from page 8)*

### More on Women Accountants

In the interval since our short article on women accountants more statistics have come in from the feelers we put out to accountancy bodies round the world.

For example, taking as a touchstone the Scottish Institute's 3% plus of membership being women (actually it is above average, always omitting the Philippine Institute's 22%), we now compare The

*Margaret Downes is the first woman Chartered Accountant in the UK to serve on the Council of her Institute.*

Association of Certified Accountants with 2.8%, but 9.6%, of students (Scottish Institute 6%); and The Institute of Cost and Management Accountants with 0.5% of members women.

Further afield, we were somewhat surprised to find that the percentage of women among CPAs of the American Institute was only about 2.5% (2,500 out of 100,000 members), although there are 5,000 women CPAs in the US (the remainder being members of their state organization only). They have their own journal, THE WOMAN CPA. The number of women CPAs is, however, growing rapidly, we are told. In the Canadian Institute the percentage of women members is 1.4%.

The last time we wrote on this subject we recorded 3% of women in the membership of The Australian Society of Accountants; The Institute of Chartered Accountants in Australia has only 1% but points out that, of new members registered in 1972, 4% were women, and the figure rose to 5% in 1973-74. The total membership of the Australian Institute is now just under 7,000. South Africa reports 66 women CA(SA)s, of whom half are in South Africa itself, out of a total of 6,000 members.

*Pauline Weetman, 1973 Gold Medallist of the Scottish Institute, is a Lecturer in Accountancy at Heriot-Watt University.*

*In the United Kingdom a young person can enter the public accounting profession either through studying at a university before going to work for a Chartered Accountants' firm or by being apprenticed to such a firm. The apprentice signs a set of "Articles," i.e., the agreement governing the apprenticeship, and thus becomes "articled" or an "articled clerk."

## Tax Forum
*(Continued from page 23)*

### III. Summary and conclusions

For existing plans it will be approximately 1976 before the benefits noted under I above, will be available to you as a matter of right. Employers were given transition periods within which to conform to the new rules. Because these changes are going to automatically make retirement plans more costly, this fact will tend to discourage the adoption of new plans. It has also been predicted that many plans currently in effect will be terminated to avoid the added cost of administration and benefits. At least one company has done just that. Also, the fact that an employee can establish an individual plan is going to be just another good reason for failing to adopt or for terminating an existing plan. I, therefore, suggest that you keep abreast of changes in your present plan, or if not presently covered, consider establishing your own plan; in the latter case the actual cost to you is not $1,500 but is rather $1,500 minus the taxes you save from claiming the deduction (e.g., if you are in a 30% tax bracket, the net out-of-pocket cost is only $1,050).