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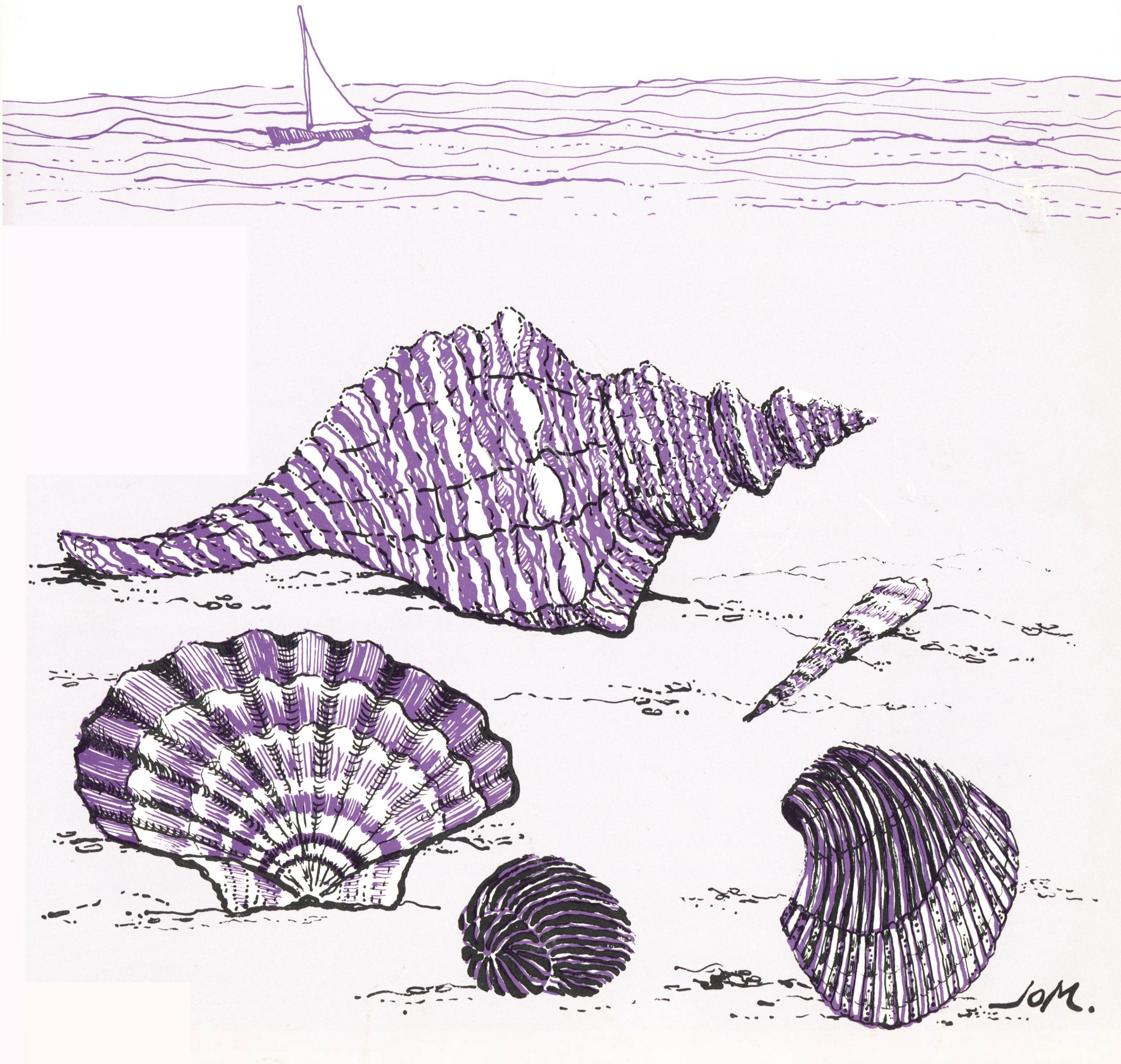

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Management

- how objectives and management interplay to produce desirable results
- how a meeting can be conducted to minimize time and maximize production
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- and more

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- what to do with two concurrent inevitabilities — death and taxes
- what major tax legislation looks like — one year later
- and more

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- why FASB has a future and what it looks like
- why cooperative and accounting work well together down on the farm
- and more

Other

- when computers shrink into microcomputers — the why and how much
- when foreign corrupt practices by U.S. business really are a domestic problem
- when to make that shrewd investment for yourself and your friends
- and more

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Cover illustration by Jo Ellen McElwee

Editor's Note

Dear to the heart of every self-respecting accountant is a pride in meticulous workmanship, the careful attention to detail, and the knowledge that others may meander through life in a haphazard and disorganized manner, albeit very charmingly in some cases, but that the accountant exemplifies self-discipline. Precise, predictable performance is our stock in trade.

Some glory in their birth, some in their skill,
Some in their wealth, some in their body's force,
Some in their garments, though new-fangled ill;
Some in their hawks and hounds, some in their horse:

So run the opening lines of William Shakespeare's Sonnet XCI. If seventeenth century accountants, and accounting standards, had proliferated to their current multitude, the poet might have observed further that some glory in their precision.

Precision is very comforting. Stars in their ordered array, the turn of the tide predictable to the minute of each day (yet neither the same as yesterday, nor like tomorrow) can soothe a mind twisted in chaos, or a heart flayed by tragedy. Spica is brilliantly lighting the evening sky again this summer, and we can anticipate sighting Perseid meteors flashing through the nights around August twelfth, just like last year, whether we turn the handle, wind the clock, or send in our check to renew our subscription to the spectacle.

Schedules firmed by the force of gravity keep the seas from spilling over to drown us, and the stars from falling into the bandstand of a concert in the park on a summer night. Regular meals and ordered living patterns keep our children and our pets from disintegrating at their emotional centers, and they can speed convalescence for adults wounded in body or spirit. True, young people in the throes of broken romances no longer seek the convent or monastery as their only available solace but the cloister temperament is far from obsolete. Litanies of restraint can still attract.

Precision, pattern, order — these are the very essence of security. Grillwork intricately traced over windows, and elegantly carved massive doors keep intruders out of Spanish houses in the most attractive way. They also prevent the inhabitants from flinging open the windows and doors of their homes to the light of day. Home is a beautiful confinement, but a confinement nonetheless.

Conventional wisdom has it that accountants are timid at heart, fluttery souls who feel bolstered by the certainty that two plus two is four, every time. When debits equal the credits a certain serenity pervades the mind. All may not be right with the entire world, but all is right at the desk of the accountant when the balance sheet balances.

Maybe. And maybe not. There is a mounting awareness within the profession that too much precision and regulation inhibit seasoned judgment, and that too many accounting standards spoil the concepts of good sense. Standards overload, as the buzz phrase has it, threatens the usefulness of financial statements to the specific user. Preoccupation with FASB No. 13, *Accounting for Leases,* or APB Opinion No. 11, *Accounting for Income Taxes* and the myriad interpretations and amendments that surround each of them, may be as vainglorious as ownership of all of Shakespeare's hawks, hounds and horses.

Summertime is the season for relaxing, for release from deadlines, for dreaming a bit of the way it might be if we were not so committed to professional prescription. Lance Morrow, in an essay on daydreams in *Time* (June 28, '82) observes that "vacation loosens the knot of one's vocational identity." Alternatives seem perfectly plausible. There need be no more tax season burnouts, year-end closing of the books, or another week of grading exam papers, assuming a few accustomed luxuries are traded off, here and there. If leaving the seacoast, or mountain lodge, or the sound of palms fronds clicking in an island breeze is too wrenching a prospect — why leave? Get a job as a waitress or waiter. Within a year one could work up to assistant manager, probably, and then in another year or so own a share of the local restaurant. (But there we go again with our commitment to a confinement.) As Mr. Morrow notes: "Usually the impulse passes. The car gets packed and pointed back toward the old reality."

We have no real dispute with order and schedules, and in fact are repelled by the "go-with-the-flow" mentality which seems to be flaunting the vernacular as a euphemism for yielding to the course of least resistance. It is a paradox of society, though, that the course of least resistance will tacitly permit an overgrowth of rule and regimen, rather than struggling through the thicket for a fresh look and analysis of the facts, followed by a decision suited to the situation. . . . Such contemplation leans riskily toward the ancient controversy as to the costs and benefits of self-determination, but it does seem that the discipline of accounting conditions its practitioners to abdicate too many freedoms.

It really would be imprudent, though, and probably boring, to chuck it all for a lifetime at some Happy Hacienda. But the turning tide will not delay one minute beyond its gravity-bound schedule, nor the stars fall out of the sky, if one spends an occasional spontaneous day drifting around town with a friend, or reading that good book instead of washing the car, or saying "yes" to an unexpected dinner invitation that impinges on previously planned duties. All the glory in a precise and predictable life can blind the eyes, if one is not wary, to some of the glow along the way.

Explore the meandering path for a few hours, or a few days. Summer is the time for it.

Constance T. Barcelona

A New Era In Foreign Currency Accounting

FASB Statement No. 52

By Gary A. Porter

The FASB has scrapped its most controversial release to date, "Statement No. 8, Accounting For the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements." After numerous public meetings, an exposure draft, more public meetings and finally a revised exposure draft, Statement No. 52 "Foreign Currency Translation" was released in December. Whether or not the successor will be any less controversial remains to be seen. The fact that the Statement passed by a narrow four to three vote, with the Chairman dissenting, may provide a partial answer. The only consolation for those companies unhappy with Statement No. 52 is that it will not be mandatory until years beginning after December 15, 1982 with, of course, earlier application encouraged. The December release is intended to allow companies sufficient time to apply the new rules to 1981 year end reports if they wish to experiment.

Accounting for foreign currency *transactions* (a U. S. company imports from Mexico with settlement to be made in pesos) remains the same under the new Statement. With the exception of certain intercompany transactions and hedging transactions to be discussed later, gains and losses on importing and exporting activities are to be accrued and reported in income currently. The major changes concern the translation of financial statements for foreign affiliates, including branches, subsidiaries and equity method investees. The single unit of measure/temporal method approach of Statement No. 8 is replaced with the functional currency/current rate method. The purpose of this article is to explain and critically evaluate the major changes under Statement No. 52. For convenience, a comparison of the basic features of Statements No. 8 and No. 52 is shown in Exhibit 1.

Translation Objectives

The controversy surrounding foreign currency translation boils down to a consideration of the objectives of the translation process. According to the Board in Statement No. 52, the translation of foreign financial statements should accomplish two interrelated objectives:

a. Provide information that is generally compatible with the expected economic effects of a rate change on an enterprise's cash flows and equity.

b. Reflect in consolidated statements the financial results and relationships of the individual consolidated entities as measured in their functional currencies in conformity with U. S. generally accepted accounting principles.[1]

The compatability objective was rejected in Statement No. 8. The Board felt the effect of rate changes on assets carried at cost should not be recognized until the assets are sold. Statement No. 8 took the basic view that compatability could not be achieved without major changes in the basic historical cost model. Therefore, the U. S. dollar was adopted as the single unit of measure, resulting in consolidated financial statements that would be the same as if all accounting records were kept in dollars. For support, the Board referred to ARB No. 51 "Consolidated Financial Statements," which states:

> "The purpose of consolidated statements is to present, primarily for the benefit of the shareholders and creditors of the parent company, the results of operations and the financial position of a parent company and its subsidiaries essentially as if the group were a single company with one or more branches and divisions."[2]

In line with the single unit of measure approach, Statement No. 8 adopted the temporal method, whereby cash, receivables and payables are translated using the current exchange rate and all assets carried at historical cost are translated using historical exchange rates.[3] Since assets carried at cost are always translated at the same historical rate, the accounting exposure to exchange rate fluctuations is limited to the effects of changes in monetary assets and liabilities. Gains and losses resulting from this exposure were recognized currently income in income under Statement No. 8.

Current Rate Method

Statement No. 52 focuses on two aspects of accounting results and their compatability with the economic effects of rate changes: Changes in equity and cash flow consequences. On the first aspect, the Board states:

> "Compatability in terms of effect on equity is achieved, for example, if an exchange rate change that is favorable to an enterprise's exposed position produces an accounting result that increases equity."[4]

Critics of Statement No. 8 felt that the temporal method resulted in the recognition of accounting gains or losses when exactly the opposite had

The translation controversy boils down to a consideration of the objectives.

occurred from an economic viewpoint. Consider a foreign sub with a large investment in inventory and fixed assets. As mentioned earlier, exposure under Statement No. 8 was limited to monetary items. Since nonmonetary assets are translated at historical rates, the sub would be in a net liability position, or a significantly reduced exposed net asset position, for measuring exposure to exchange rate fluctuations. If the foreign currency strengthens relative to the U. S. dollar, the temporal method will result in a net increase in liabilities and produce a loss. Since the foreign currency is worth more in terms of U. S. dollars, the conclusion from an economic view would be that a gain had occurred.

To achieve this desired compatability between exchange rate fluctuations and the accounting result, Statement No. 52 adopts the current rate method. Rather than measuring exposure to currency fluctuations in terms of individual assets and liabilities, the Statement adopts a "net investment" concept, whereby all assets and liabilities are translated at the current exchange rate. Referring to the sub with a large investment in inventories and property, translation of all items at the current rate will produce an increase in equity when the foreign currency unit is strengthening relative to the dollar.

On the second aspect of compatability, the Board states:

> "Compatability in terms of cash flow consequences is achieved if rate changes that are reasonably expected to impact either functional or reporting currency cash flows are reflected as gains or losses in determining net income for the period, and the effect of rate changes that have only remote and uncertain implications for realization are excluded from determining net income for the period."[5]

The implication is that translation adjustments do not have any immediate impact on cash flows and should not be included in income. Critics maintained that Statement No. 8 not only produced an accounting adjustment totally contrary to the economic result, but that it highlighted this anomaly by including the adjustment in income of the period. Statement No. 52 requires that translation adjustments be accumulated in a separate component of stockholders' equity. In keeping with the cash flow orientation, the separate component is to be realized only upon complete or substantially complete liquidation of the investment in the affiliate.

Income statements accounts will now be translated using a weighted average rate for the period, as an approximation of the rate on the dates the revenues and expenses are actually recognized. The major difference between Statements No. 8 and No. 52 is that cost of sales and depreciation will now be translated at an average rate for the current period rather than an historical rate. A strengthening over time of the foreign currency relative to the dollar will result in higher charges to income under Statement No. 52, as compared to Statement No. 8.

The Statement of Changes in Financial Position is to be prepared using the current rate method also. All components of income, such as income before extraordinary items, depreciation and amortization, are to be translated using the same weighted average rate as used for translating the income statement. Other changes in financial position, such as the acquisition or disposal of property, are translated using the balance sheet date exchange rate. One point on which the Statement is not clear is with regard to changes in non-fund accounts, such as property, caused solely by the change in the exchange rate from the prior period. Since such an adjustment has no real effect on funds flow, the propriety of including it on the translated statement of changes is open to serious question.

Functional Currency

The second objective of translation, according to Statement No. 52, is to reflect the results and relationships of the individual foreign entities as measured in their functional currencies. Statement 8 critics contended that the single unit of measure approach erroneously implied that the dollar was the functional currency. Statement No. 52 leaves the decision to management and defines an entity's functional currency as "the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash."[6]

Although the Board states that the functional currency is basically a matter of fact, it also recognizes that the observable facts may not clearly identify a single functional currency. The guidance provided by the Board consists of a list of prominent economic factors, such as the entity's cash flows, sales prices, markets and financing arrangements. For example, an active local sales market for the foreign entity's products with sales prices determined by local competition, would indicate that the local currency is the functional currency. Alternatively, sales prices that are determined more by worldwide competition or by international prices would point to the dollar as the functional currency. The final determination, based on management judgment, will significantly influence the translated results. A serious question arises as to the advisability of allowing management judgment to control the selection of the functional currency.

Local Currency as the Functional Currency

To illustrate the effects of applying the new Statement, assume a U. S. corporation forms a wholly owned Swiss subsidiary by transferring 250,000 Swiss francs (SF) to the new entity on January 1, 1981. Given a set of assumptions about transactions and exchange rates during 1981, financial statements based on both Statements No. 8 and No. 52 are presented in Exhibit No. 2.[7]

Exhibit No. 2 illustrates the differing results achieved under Statements No. 8 and No. 52 when the foreign currency unit is strengthening relative to the dollar ($.40 per SF or 2.5 SF per dollar at the beginning of the year and $.50 per SF or 2 SF per dollar at the end of the year). Operating income is higher under Statement No. 8, since cost of sales and depreciation are translated at the historical exchange rates. Total assets are slightly higher under Statement No. 52 since the higher

EXHIBIT 1
Comparison of the Basic Features of Statements No. 8 and No. 52

Feature	FASB No. 8	FASB No. 52
Translation Objectives	Change unit of measure without changing accounting principles	Provide information compatible with economic effects without changing accounting principles.
Unit of Measure	Single unit of measure: U.S. dollar	Functional currency: the currency of the primary environment in which entity operates and generates cash flows.
Translation Method	Temporal method: assets and liabilities stated at historical amounts translated at historical exchange rate; other accounts at current rate.	Current method: all assets and liabilities translated at the current exchange rate.
Translation Adjustments	Reported currently in income	Accumulated as a separate component of equity; realized only upon complete or substantially complete liquidation of the investment.
Gains and Losses on Foreign Currency Transactions	Reported currently in income	Reported currently in income.
Exceptions		
Gains and Losses on Intercompany Transactions	Reported currently in income	Accumulated in the separate component of equity account if transaction is of a long-term financing or capital nature; reported currently in income if transaction is of a trade nature.
Gains and Losses on Forward Exchange Contracts	Strict criteria for deferral	Relaxed criteria for deferral as well as recognizing other transactions as effective hedges (see next two exceptions).
Gains and Losses on Transaction Hedging a Net Investment	Reported currently in income unless a forward contract exists.	Accumulated in the separate component of equity account.
Gains and Losses on Transactions Hedging a Foreign Currency Commitment	Reported currently in income unless a forward contract exists.	Deferred and included in the measurement of the related foreign currency transaction.
Effective Date	Available for fiscal years beginning on or after January 1, 1976.	Must be applied for fiscal years beginning on or after December 15, 1982.

current rate is used to translate inventory and plant.

Application of Statement No. 8 results in an exchange loss carried to the income statement while Statement No. 52 results in a positive translation adjustment to equity. Exhibit 3 explains the differing results. The calculation of the exchange loss under Statement No. 8 is based on the exposed net monetary position while Statement No. 52 is based on the overall net asset position — the net investment concept. Comparison of the results indicates that the primary distinction is in the treatment given the acquisition of the plant. The exposure created by incurring the long-term debt to acquire the plant is largely responsible for the exchange loss under Statement No. 8. However, under Statement No. 52, the acquisition has no effect on the net assets and therefore does not create any exposure. The translation adjustment of $30 is treated as an increase in equity. Since the value of the Swiss franc has increased during a year in which the net assets have increased, the accounting increase in equity results in compatability with the economic situation. However, since the rate change has no immediate effect on cash flows, compatability in terms of cash flow consequences is achieved by excluding the translation adjustment from net income.

Statement No. 52 is also concerned with maintaining the financial relationships of the foreign entities as measured in their functional currencies. Selected ratios are shown at the bottom of Exhibit 2 and are states in terms of Swiss francs, Statement No. 8 dollars and Statement No. 52 dollars. While computation of the ratios in terms of Statement No. 8 dollars changes the original relationships as reflected in Swiss

EXHIBIT 2
Comparison of Results for Statements No. 8 and No. 52

Assumptions

The new subsidiary immediately purchases one million Swiss francs (SF) of plant by signing a 5 year, 10% note with a Swiss bank. The plant will be depreciated straight-line over 20 years. Sales, purchases and operating expenses are evenly earned (incurred) throughout the year. The year-end FIFO inventory is made up entirely of purchases made evenly throughout the fourth quarter. The relevant direct exchange rates are $.40 per SF at the beginning of 1981, $.50 at the end of the year, $.45 average for the year and $.48 average for the fourth quarter.

	Swiss	Statement No. 8		Statement No. 52	
Income Statement	**Francs**	**Exchange Rate**	**Dollars**	**Exchange Rate**	**Dollars**
Sales	500	.45	225	.45	225
Cost of sales	(300)	*	(132)	.45	(135)
Depreciation expense	(50)	.40	(20)	.45	(23)**
Interest expense	(40)	.45	(18)	.45	(18)
Other expenses	(20)	.45	(9)	.45	(9)
Operating Income	90		46	.45	40
Foreign exchange loss	—		(73)		—
Net Income (Loss)	90		(27)		40

*Purchases of 400 @ $.45 less ending inventory of 100 at $.48.
**Rounded up

Balance Sheet					
Cash	240	.50	120	.50	120
Receivables, net	200	.50	100	.50	100
Inventory	100	.48	48	.50	50
Plant, net	950	.40	380	.50	475
Total Assets	1490		648		745
Current liabilities	150	.50	75	.50	75
Long-term debt	1000	.50	500	.50	500
Common stock	250	.40	100	.40	100
Retained earnings	90		(27)		40
Translation adjustment	—		—		30
Total Equities	1490		648		745

Selected Ratios			
Gross profit ratio	.40	.41	.40
Current ratio	3.60	3.57	3.60
Debt to equity ratio	3.38	7.88	3.38

francs, the Statement No. 52 ratios are identical to the original ratios. Thus, the objective of maintaining the original relationships as measured in the functional currency is achieved under Statement No. 52.

Other Currency as The Functional Currency

If a foreign operation is merely an extension of the U. S. parent's operations, the dollar will be the functional currency. If the foreign entity's books are not kept in the functional currency, Statement No. 52 requires remeasurement into the functional currency prior to the translation process. Since the functional currency will most likely be the reporting currency — the dollar-remeasurement obviates translation. The Statement explains that the remeasurement process should produce the same result as if the entity's books had been originally kept in the functional currency. The interesting conclusion from this is that the remeasurement process will produce the same result as under Statement No. 8, with any exchange gain or loss included in income.

Recalling the dramatic differences obtained in Exhibit 2, a major weakness in Statement No. 52 is in the flexibility allowed in selecting the functional currency. For example, the foreign exchange loss in the example occurred in a period of a strengthening of the foreign currency. If the opposite were true, a weakening of the foreign currency, a resourceful management might choose the dollar as the functional currency so that a foreign exchange gain could be reported. The freedom given management in selecting the functional currency may provide far more flexibility than the Board really intended.

A final possibility, that the functional currency is a third currency, is less likely to occur. However, assuming that such a situation does arise, two steps would be necessary. For example, assume a U. S. firm's British subsidiary conducts most of its business in France and therefore selects the French franc as its functional currency. The translation process would require: first, the *remeasurement* of the British pound sterling financial statements

EXHIBIT 3
Calculation of Exchange Adjustments

	Swiss Francs	Exchange Rate	Statement 8 (Net Monetary Assets)	Statement 52 (Net Assets)
Exposed position, 1/1/81	250	.40	$100	$100
Increased (decreased) by:				
Sales	500	.45	225	225
Cost of sales	(300)	.45	(135)	(135)
Inventory build up	(100)	.45	(45)	—
Depreciation	(50)	.45	—	(23)*
Interest	(40)	.45	(18)	(18)
Other expenses	(20)	.45	(9)	(9)
Acquisition of plant for 5 year note	(1000)	.40	(400)	—
Exposed position, 12/31/81	(760)		(282)	140
Actual net monetary position, 12/31/81	(710)	.50	(355)	
Exchange Loss - Statement 8			(73)	
Actual net asset position, 12/31/81	340	.50		170
Translation Adjustment - Statement 52				30

*Rounded up

into French francs, with resulting adjustments recognized in income currently and second, the *translation* of the French franc trial balance into U. S. dollars using the current rate method.

Highly Inflationary Economies

The most controversial requirement of the Revised Exposure Draft was dropped from the final Statement. The requirement was for price level adjustments prior to the translation of statements for entities operating in highly inflationary economies. Restatement would have been required for entities operating where the prior three year's inflation rate exceeded one hundred percent, with optional restatement allowed if the rate was less than this cut-off but still higher than that in the U. S.

The rationale for restatement was that use of the current rate method in highly inflationary economies could result in unrealistically low valuations assigned to fixed assets and related expense amounts. The premise is that a high rate of inflation in the foreign country will be an important factor in the weakening of the foreign currency unit relative to the dollar. Thus, the use of a very weak foreign currency unit in the translation process would result in unrealistically low dollar amounts assigned to old assets.

While there is an obvious correlation between inflation rates and exchange rates, the latter are affected by many extraneous factors, such as governmental policies and central bank activities. In addition to theoretical concerns over a price level adjustment, serious implementation questions were raised. For example, the Exposure Draft provided little guidance on the selection of an appropriate inflation index in a foreign country. Also, any purchasing power gain or loss on monetary items was to be included in net income. Many felt that this requirement would be totally inconsistent with Statement No. 33, which specifically excludes purchasing power gains and losses from income.

Statement No. 52 scraps the complex price level adjustments. Instead, for foreign entities experiencing a high rate of inflation, the reporting currency is automatically designated as the functional currency. Thus, the remeasurement process, with its results similar to Statement No. 8, is used whenever the foreign inflation exceeds one hundred percent for three years. The optional approach, for entities in countries with a higher inflation rate than the U. S. rate, but less than one hundred percent, was eliminated entirely.

Foreign Currency Transactions

Foreign currency transactions are transactions whose terms are stated in a currency other than the entity's functional currency. Normal import/export activities will be accounted for using the same approach as Statement No. 8. Changes in exchange rates between an entity's functional currency and the currency in which the transaction is denominated alter the amount of functional currency that will be received or paid upon settlement. Thus, the Statement's cash flow compatability objective is met by including these transaction gains and losses in net income for the period in which the exchange rate changes. There are two exceptions: intercompany transactions and hedging transactions.

Intercompany Transactions

Statement No. 52 views transactions between affiliates that are of a long-term financing or capital nature as part of the net investment. Accordingly, under the new net investment concept, related adjustments are not included in income, but are accumulated in the same component of equity account as are the translation adjustments. However, since adjustments resulting from normal intercompany trading activities will affect cash flows, gains and losses related to these transactions are to be included in income.

Hedging Transactions

A frequent criticism of Statement No. 8 involved accounting for hedges. Only forward exchange contracts which met certain strict criteria could be accounted for as hedges with any subsequent gains or losses deferred. Otherwise, all gains and losses had to be included in income immediately.

Two other forms of economic hedges are recognized in Statement No. 52: hedges of an identifiable commitment and hedges of a net investment. For example, a foreign currency cash balance might be used to hedge a commitment to purchase equipment. Or, a U. S. firm might take out a Swiss loan in order to hedge a net investment in its Swiss subsidiary. In the first case, if the foreign currency commitment is firm and the cash balance is designated as, and is effective as, a hedge of the commitment, any gain or loss will now be deferred and included in the cost of the equipment. The portion of the transaction that can be accounted for as a hedge is limited to the amount of the related commitment. In the case of the Swiss loan intended as a hedge of the investment in the Swiss subsidiary, a company will account for any related exchange adjustment in the same way as they account for the net investment — as an adjustment to the separate component of equity account.

In addition to recognizing these other forms of hedges, the Statement has relaxed the strict criteria for deferral of gains and losses on actual forward exchange contracts. The same criteria as discussed above for hedges of foreign currency commitments and net investments will also apply to forward contracts intended as hedges. As under Statement No. 8, forward contracts entered into for purely speculative purposes, rather than as hedges, will result in the immediate recognition of gains and losses in income.

Disclosures

Statement No. 52 requires two primary disclosures:[8]
(1) The aggregate transaction gain or loss included in determining net income for the period. (2) An analysis of the changes during the period in the separate component of equity for cumulative translation adjustments including,

a. beginning and ending amount of cumulative translation adjustments
b. aggregate adjustment for the period resulting from translation adjustments and gains and losses from certain hedges and intercompany balances
c. amount of taxes for the period allocated to translation adjustments[9]
d. amounts transferred from cumulative translation adjustments and included in determining income as a result of sale or complete or substantially complete liquidation of an investment in a foreign entity.

Effective Date and Transition

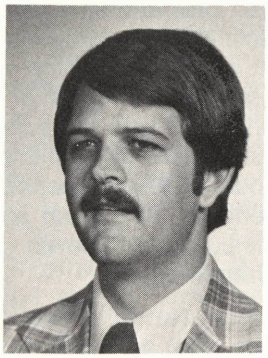
The most positive aspect of Statement No. 52 is the flexibility it gives companies in experimenting with the new rule. The Statement is effective for fiscal years beginning on or after December 15, 1982 with earlier application encouraged. A calendar year company may initially adopt the new provisions in their 1981, 1982, or 1983 annual report.

Although not required, financial statements for periods prior to the effective date may be restated to comply with the Statement. In the first year the Statement is applied, the statements should disclose the nature of any restatement and its effect on income before extraordinary items, net income, and related per-share amounts for each period restated. If prior periods are not restated, disclosure of income before extraordinary items and net income for prior years computed on a pro form basis is permitted, but not required. In the year the Statement is first applied, the aggregate effect on equity of translating all assets and liabilities at the current exchange rate is to be reported as the opening balance of the separate component of stockholder's equity.

Conclusion

The FASB is to be commended for taking action on a Statement that was seriously in need of revision. Statement No. 52 is an attempt to establish a standard more in keeping with the Conceptual Framework project. Specifically, the new Statement is closer aligned to Statement of Financial Accounting Concepts No. 1, "Objectives of Financial Reporting by Business Enterprises," since both emphasize cash flows.

Although the action is commendable, the Statement will certainly not end the controversy in foreign currency accounting. The area is extremely complex and not subject to simple solutions. At the least, Statement No. 52 will usher in a new era of experimentation with the complexities of accounting for international business.



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NOTES

[1]Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" (Stamford, Conn.: FASB, 1981) para. 4.

[2]Accounting Research and Terminology Bulletin, No. 51, "Consolidated Financial Statements" (New York: American Institute of Certified Public Accountants, 1959), para. 1.

[3]While the temporal method is not identical to the monetary/nonmonetary method, the differences are minor. For example, if inventory is stated at net realizable value, the temporal method would require use of a current exchange rate, while the monetary/nonmonetary approach would translate the nonmonetary item at the historical exchange rate.

[4]Statement No. 52, para. 71.

[5]Ibid, para. 71.

[6]Ibid, para. 5.

[7]The actual exchange rate on December 9, 1981 was $.5476 per Swiss franc. The rates used in the example are for illustrative purposes only. If the Swiss franc was weakening relative to the dollar, rather than strengthening as in the example, opposite conclusions could be drawn from the exhibit.

[8]Statement No. 52, paras. 30 and 31.

[9]The Statement requires both interperiod and intraperiod tax allocation in accordance with APB Opinions 11, 23, and 24 whenever appropriate.

SEC Integrated Disclosure

The Pervasive Effect

By Wesley T. Andrews, Jr. and Jane Dodd

Over the past three years, the Securities and Exchange Commission (SEC) has been moving steadily to implement what are commonly called "Integrated Disclosure Rules" for registrants. There seem to be three purposes in this effort: first, to standardize reporting and disclosure requirements across all types of filings with the Commission, second, to require additional desirable disclosure and, third, to secure uniformity of required disclosures between annual reports to stockholders and filings with the Commission.

The impact of this effort is likely to be more pervasive than it's effect on the annual reports of registrants — indeed, the additional disclosure requirements imposed on SEC registrants may be reflected in generally accepted accounting principles and therefore affect reporting requirements for non-registrants as well as registrants. Hence, these developments are of interest to practitioners who serve non-public clients as well as those directly involved in practice before the SEC.

This article summarizes recent changes in SEC regulations regarding financial statement reporting requirements under Regulation S-X, as well as recent changes in disclosure requirements under Regulation S-K.

INTEGRATED DISCLOSURE

Changes in Form and Content of Financial Statements.

Regulation S-X, originally adopted in 1940, is the principal regulation governing reporting for financial statements, footnotes and schedules. It integrates all accounting requirements into a single codification, and the requirements are applicable to filings under all securities acts. The last major revision of Regulation S-X was in 1972—prior to the issuance of several APB Opinions and the establishment of the FASB.

On September 16, 1980, the SEC issued Accounting Series Release (ASR) Nos. 280 and 281, which significantly change the original provisions of Regulation S-X. The majority of the text of ASR No. 280 consists of very specific rule changes and tables of conversion from the old Regulation S-X. Of more general interest is the Commission's view of the role of the Financial Accounting Standards Board (FASB) in which it specifically supports the FASB and states its intention to continue relying on the FASB for leadership in establishing accounting and reporting standards. The SEC denies undermining the authority of the FASB by requirements in Regulation S-X which are not generally accepted accounting principles but rather is providing an "authoritative source" in some areas where GAAP standards are not explicit. Also stated is the intention to eliminate rules in Regulation S-X as the accounting profession and the FASB develop related standards.

ASR No. 281 was intended to simplify registration and reporting requirements by providing uniform instructions, centralized within Regulation S-X, as to the periods to be covered by audited financial statements in most registration statements and in annual reports to stockholders. Also modified were form and content requirements of unaudited interim financial information in registration statements to parallel the requirements of quarterly reporting in the condensed Form 10-Q format. This eliminates the need for filing complete financial statements and schedules for interim periods in registration statements.

Prior to the development of these amendments, each different type of registration and reporting form had its own instructions and, in most cases, the years of financial statements required by each were different. This release provides uniform requirements for all forms—audited statements of income and changes in financial position for the three most recent fiscal years and audited balance sheets as of the end of the two most recent years as well as the five-year summary of selected financial data.

Required Disclosures In Addition To Information Contained in Financial Statements.

The adoption of Regulation S-K, "Integrated Disclosure Rules," effective for fiscal years after March 15, 1978, was the Commission's initial step toward integrated disclosure. Regulation S-K was designed to achieve standard disclosure under both the Securities Act of 1933 and the Securities Exchange Act of 1934 by prescribing requirements of disclosure for financial information not presented in the financial statements. Prior to adoption of the new rules, the Regulation S-K items in effect were disclosures regarding an issuer's business, property, directors and executive officers, their remuneration and security ownership, and legal

Revisions were proposed by the SEC to eliminate duplication, update rulings, and clarify requirements.

proceedings. With Accounting Series Releases Nos. 279 and 280, the Commission adopted six more S-K item requirements, stating:

> These new items will ensure uniform disclosure under both Acts of information regarding market price of the issuer's common stock, selected financial data, management's discussion and analysis of the issuer's financial condition, supplementary financial information, and exhibits. It is anticipated that Regulation S-K will develop in time to encompass further disclosure requirements.

ASR No. 279 consists of amendments to the annual report form, Form 10-K, and to related forms, rules, regulations and guides under the Securities Act of 1933 and the Securities Exchange Act of 1934. These changes, along with the changes brought about by ASR No. 280, result in substantial changes in the basic annual reporting and disclosure requirements of Form 10-K. Form 10-K has been restructured by deletion of some items, simplification, and shifting some disclosures of a technical or supplementary nature to separate schedules or exhibits which could be available to users upon request. The result is a "basic information package" that is presumably useful to investors by providing information concerning the registration and sale of new shares. Generally, this "basic information package" includes audited financial statements, a summary of selected financial data for analysis, and a description of the business. See Appendix.

The January 15, 1980 proposal for these changes proposed mandatory incorporation of portions of the annual report into Form 10-K and optional incorporation of portions into certain registration filings. As mentioned earlier the mandatory feature was eliminated. Instead, the four-part Form 10-K was designed to *encourage* combination of annual reports and Form 10-K's. The Commission indicated that the communicative style of annual reports is excellent and that attention to style should continue whether or not the information is also part of the Form 10-K.

Parallelling these changes in annual reporting requirements, the SEC issued on February 9, 1981 final rules to make disclosure requirements for interim financial information in quarterly reports and in registration statements consistent with those for annual reporting. ASR No. 286 established standard requirements for both interim financial statements and management's discussion and analysis for interim periods. These Form 10-Q, Regulation S-K and Regulation S-X revisions are intended to provide for meaningful disclosure on a continuous basis by making quarterly reporting a mechanism of updating the annual report.

Of particular interest to auditors is the change in reporting under SAS No. 24, Review of Interim Data by an Independent Accountant. Under the new rules, if a review of interim data is made in accordance with SAS No. 24 and the Form 10-Q refers to the review, only the report of the accountant must accompany the interim information, rather than the narrative, letters, and other disclosures previously required.

Reasons for the Changes

Originally, the purposes of these revisions were to 1) eliminate rules which duplicate generally accepted accounting principles, 2) change rules to recognize current practice and changes in circumstance, 3) clarify and modify requirements which are subject to various interpretations, and 4) expand certain disclosure requirements to improve financial reporting. Because of the many objections from the private sector to the related requirement that financial statements in annual reports to shareholders be prepared in accordance with Regulation S-X, this fourth purpose and related requirement were withdrawn.

The FASB objected to the proposals to require financial statements in the annual reports to stockholders to conform to Regulation S-X, to require certain disclosures not required by GAAP to be included in such financial statements, and to require certain other disclosures presently made only in filings with the SEC to be included in the annual report to stockholders but not necessarily in the financial statements (Regulation S-K items). The FASB objected to the proposals for several reasons: annual reports to stockholders and reports to the SEC serve different purpose and different audiences, reduced "readability" of the annual reports, possible de facto extension of SEC requirements to companies out of its jurisdiction but subject to GAAP. The principal objection in general was that of the likelihood of changing the nature of the annual report to stockholders from a communication device to a regulatory device.

Even though the SEC did agree to not formally require that financial statements in annual reports to stockholders be prepared in accordance with Regulation S-X, it did pursue its first three objectives in its quest for uniformity between financial statements for annual reports and those contained in filings with the Commission.

A RELATED ISSUE

Auditors' Opinions on Adequacy of Internal Accounting Control

On June 6, 1980 with Accounting Series Release No. 278, the SEC withdrew its April 30, 1979 rule proposal that would have required a statement by management and an auditor's opinion on internal accounting control in 10-K reports and annual reports to stockholders. The withdrawal of this proposal provides an example of the SEC's willingness to encourage the accounting profession in development of standards rather than to regulate through legislation.

ASR No. 278 stressed the importance of an effective system of internal accounting control to investors and management because it provides the basis for financial statements, unaudited financial information, and assurance to management that it is fulfilling its responsibilities of accountability to investors. In general, ASR No. 278 discusses factors concerning the design, implementation and monitoring of internal accounting control systems, including the need for documentation, the importance of a proper control environment, and the concept of reasonable assurance. The SEC stated its intention to gather more information and monitor voluntarily submitted management reports and auditors' involvement in reporting on systems of internal control through the Spring of 1982.

The AICPA subsequently issued SAS No. 30, "Reports on Internal Control," which provided guidelines for reporting on a client's internal accounting controls if the client so desires. Issuing an opinion on a system of internal control is not required but this encouragement to do so is certainly a departure from years of auditing practice in which auditors' opinions have been publicly issued only on on financial statements. SAS No. 30 indicates that a study made in connection with an engagement to express an opinion on a system of internal accounting control need not be an isolated event, but rather such a study could also form the basis for reliance on internal accounting controls in determining the nature, timing, and extent of audit tests.

The timing of the issuance of SAS No. 30 and ASR No. 278 is such that it could appear as if the AICPA is merely "following suit," responding directly to the SEC's request for auditors' opinions on clients' systems of internal accounting control. Actually, these developments were preceded by several years of concern and activity on the subject of reporting on internal control by both the AICPA and the SEC. SAS No. 20, "Required Communication of Material Weaknesses in Internal Accounting Control," was adopted by the AICPA in 1977. In addition to requiring an auditor's report to management when material weaknesses in internal control were identified in the course of an audit, SAS No. 20 stated that the AICPA was considering the issue of reporting to the public on a system of internal accounting control. The Foreign Corrupt Practices Act (FCPA), a 1977 amendment to the Securities Exchange Act of 1934, required all public companies under SEC jurisdiction, not just those with foreign operations, to maintain an adequate system of internal control, imposing increased responsibility and potential civil liability for auditors.

Uncertainty over implementation of the Act has existed since 1977, with interpretations ranging from the view that no additional audit work is necessary to the recommendation of the Commission on Auditor's Responsibilities (Cohen Commission) in 1978 that an auditor expand his study to be able to judge whether controls over each significant part of the accounting system provide reasonable assurance of no material weakness.

SAS No. 30 does not provide guidance in complying with the internal control portions of the Foreign Corrupt Practices Act. In fact, SAS No. 30 states:

> Whether a company is in compliance with those provisions of the Foreign Corrupt Practices Act is a legal determination. An independent accountant's opinion does not indicate whether the company is in compliance with those provisions but may be helpful to management in evaluating the company's compliance.

Instead, SAS No. 30 may provide auditors with an opportunity to gather experience in reporting on systems of internal accounting control and develop additional guidelines and standards for such reports. This experience may be very helpful, since it seems clear that either the profession will act or the SEC is likely to expand integrated disclosure requirements in the near future.

IMPLICATIONS FOR THE PRACTITIONER

At the beginning of this paper, three goals were identified for the SEC's Integrated Disclosure effort:

1. To standardize reporting and disclosure requirements across all types of filings with the Commission;
2. To require additional desirable disclosure in filings with the Commission, and;
3. To secure uniformity of required disclosure between annual reports to stockholders and filings with the Commission.

The revisions of Regulations S-X and S-K, discussed above, appear to have met the objective of goal No. 1 without much opposition from the accounting profession. Of course, the impact of goal No. 1 is largely confined to registrants and the goal may be described as being essentially "housekeeping." Hence, the achievement of this goal is not likely to have far-reaching implications for the development of future generally accepted accounting principles.

With respect to the second goal, the new rules now require disclosure of substantial information which was not previously required by the old SEC requirements or by generally accepted accounting principles. Of course, in the past, several filings with the SEC (Form 10-K, for example) have required disclosure of information not required by generally accepted accounting principles; the new rules simply expand this additional disclosure. Even so, the private sector accounting standard setters apparently do not disagree with the SEC's requirements for additional disclosure in SEC filings. Consequently, the SEC appears well along towards achievement of goal No. 2.

The FASB maintains that annual reports to stockholders and reports to the SEC serve different purposes.

This poses an interesting dilemma — the SEC's position that more disclosure is necessary to fulfill the needs of investors implies that the amount and types of disclosure now required in annual reports may not adequately meet investors' needs. This observation may account for the profession's (notably, the FASB's) reluctance to accept the SEC's proposals to achieve its goal No. 3 of integrated disclosure requirements between annual reports to stockholders and SEC filings. Thus, it appears that the accounting profession's resistance is not to the existence of a dual disclosure standard for public and non-public companies, but rather to the attempt by the SEC to impose its disclosure standards for public companies upon the entire business community — particularly upon non-public companies.

The SEC, in turn, has indicated a willingness to *defer* seeking achievement of goal No. 3 until late 1982 or 1983; it would be naive, however, to presume that the SEC has abandoned eventual achievement of goal No. 3. Thus, the stage appears set for the exercise of "friendly persuasion" on the accounting profession; indeed, one avenue for future development of generally accepted accounting principles might be to require additional disclosures such as those proposed by the SEC. Hence, it behooves all practitioners, whether or not actively practicing before the SEC, to be aware of the expanded disclosure required by the SEC and to consider the impact of potential increased disclosure requirements on all engagements. Ω

APPENDIX

The following is an outline of the new four-part Form 10-K:

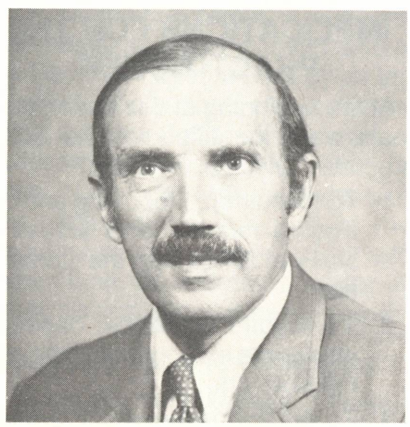
I. Detailed disclosure requirements

Item 1.
Description of business—incorporates existing Regulation S-K Item #1 basically unchanged

Item 2.
Properties (unchanged)

Item 3.
Legal Proceedings (unchanged)

Item 4.
Security Ownership of Certain Beneficial Owners and Management (unchanged)



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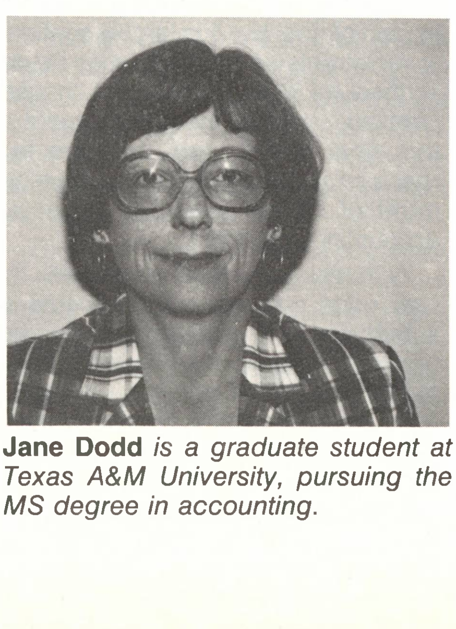


Jane Dodd *is a graduate student at Texas A&M University, pursuing the MS degree in accounting.*

II. Basic disclosure package

—"basic information package" for all SEC filings and annual reports

Item 5.
Market for the Registrant's Common Stock and Related Security Holder Matters (new Regulation S-K item)

—requires information on markets for common stock, range of stock sales prices for past two years, dividends paid over past two years, dividend restrictions, number of holders of common stock;

—encourages statement of intention regarding future dividends

Item 6.
Selected Financial Data (new Regulation S-K item)

—to be presented in columnar form for at least past five years; includes operating revenues, income from continuing operations, total assets, long-term obligations (debt, capital leases, redeemable preferred stock), and cash dividends declared per common share; replaces old "summary of operations"

Item 7.
Management's Discussion and Analysis of Financial Condition and Results of Operations (new S-K item)

—requires coverage of all financial statements and details regarding liquidity, capital resources, and the effects of inflation;

—encourages "forward-looking information" which will be covered by the Commission's "safe harbor rule" for projections

Item 8.
Financial Statements and Supplementary Data

—financial statements must comply with Regulation S-X requirements; requires audited statements of income and changes in financial position for the three most recent years and balance sheets as of the end of two years

—supplementary financial information required: 1) selected quarterly data for registrants meeting certain criteria, 2) disagreements on accounting and financial disclosure matters and/or change of accountants (new S-K item)

III. Proxy disclosure information

Item 9.
Directors and Executive Officers of the Registrant (unchanged)

Item 10.
Management Remuneration and Transactions (unchanged)

IV. Exhibits, Supplemental Information and Signatures

Item 11.
Exhibits, Financial Statement Schedules and Reports on Form 8-K

Signatures
—expanded requirement from one authorized signature to certain officers and at least a majority of the directors

Attitudinal Differences Between Male And Female Auditors

With Special Emphasis On Turnover Trends

By Kenneth R. Earnest and James C. Lampe

Numerous changes in collegiate level accounting programs occurred during the decade of the seventies. One of the most obvious changes was an increase in the number and proportion of female accounting majors. The magnitude of this change is illustrated by graduation statistics from the University of Missouri-Columbia, which are likely to reflect nationwide male/female proportions. In the 1969-70 school year a total of eight females represented six percent of all graduating accountancy majors. In 1979-80 the proportion of graduating females had risen to 35 percent with an even greater percentage of female composition within the top quartile of graduates ranked by cumulative grade point average. In addition to an obvious rise in numbers of highly qualified female accounting graduates, it may be hypothesized that their attitudes toward professional auditing careers have become very similar to those of male accounting graduates.

A second and related hypothesis is that because female accountant attitudes have shifted into a pattern more similar to those of males, the turnover differential between males and females should be narrowing. The number and proportion of females entering large CPA firms has risen steadily along with the rise in female accounting graduates. A comparison of the current 28 percent female composition in entry level auditors with less than a 4 percent female ratio in the audit manager position indicates that the female turnover rate is currently much greater than the male turnover rate. Although some of the composition differential in higher levels is due to a lesser proportion of females entering audit careers five or six years ago, the most dominant reason is clearly that of turnover.

The study reported on here collected attitudinal data from approximately 1000 male and female auditors with special emphasis on the likelihood of turnover. Analysis of these data indicates that there is a strong relationship between worker attitudes and turnover. The data also support the overall hypothesis that female attitudes toward auditing as a professional career are very similar to those of males when the population is restricted to relatively recent (within the last two or three years) hirees. The only significant attitudinal difference between recently hired male and female auditors is that females desire more leisure time. More specific analysis indicates, however, that the large differential in male and female turnover rates does not occur in the early years of audit careers but rather in the more experienced levels of auditors. The enormous shift in the male/female composition of an audit staff occurs when auditors with approximately four to six years experience leave the firm prior to promotion to the management level. Although there is a general similarity between male and female attitudes at this critical level, this study isolates several attitudinal differences not present in the lower levels that may account for some of the turnover differential.

Auditor Survey Basis

In order to obtain relevant empirical data, an "auditor attitude questionnaire" was distributed to all audit staff below partner level in twenty-three midwest offices selected from seven international public accounting firms. All of these auditors classified themselves into one of four commonly defined levels:

1. Entry level (one to two years duration)
2. Intermediate level (one to three years duration)
3. Experienced level (two to four years duration)
4. Management level (until partnership)

Out of the 1,907 non-partner auditors requested to complete the "auditor attitude questionnaire," the number of respondents was more than adequate to provide a reasonable basis for comparing male/female work attitudes. Table 1 illustrates the numbers and percentages of usable auditor responses upon which subsequent analyses are based:

Both quantity and percentage data are presented so that the reader can better evaluate subsequent analyses in this report. For example, the eighty-seven female Level One respondents represent 51 percent of the 176 total Level One females in the aggregation of twenty-three participating firms. Because responses include more than half of the women in a relatively large group, the data collected may be assumed to reasonably represent the real attitudes of females in entry level audit positions. By comparison, although 100 percent of the management (Level Four) females responded to the questionnaire, the reader is alerted that subsequent analyses in this category are based on the attitudes of only twelve persons. It should also be noted that subsequent analyses may be based on slightly differing

TABLE 1
Questionnaire Response Rates

	Level 1	Level 2	Level 3	Level 4	Total
All respondents	271	237	286	202	996
% of all available	42%	48%	65%	61%	52%
Male respondents	184	176	242	190	792
% of males available	39%	46%	62%	60%	51%
Female respondents	87	61	44	12	204
% of females available	51%	58%	83%	100%	59%

numbers of respondents due to a small number of them failing to answer all the questions.

In addition to providing an analytical basis, the preceding table indicates two clear trends. First, the overall response rate obtained from higher levels is greater than that from the lower level auditors. It may be that greater experience and maturity generate increased propensity to answer professional questionnaires. Another alternative is that the higher level auditors are more dissatisfied, more likely to leave the firm for an alternative job and, accordingly, use a form such as this questionnaire to vent some of their job related dissatisfaction. Whether for one of these reasons or some other unstated reason, it is clear that higher level auditors provided significantly greater response rates.

The second noticeable trend is that female response rates are significantly greater at all levels. It is similarly unclear whether this is due to greater maturity levels, greater dissatisfaction, or some other unknown attribute. What is clear is that a significant difference exists. The questions that remain to be answered are these:

1) Is the response rate difference indicative of other work related attitudinal differences?
2) If so, in what areas do male and female attitudes differ?
3) To what extent do attitudinal differences affect turnover?

Attitudes Toward Leaving

One of the direct attitude measures collected in the questionnaire is the auditors' self-perceived probabilities of leaving their firms before being promoted out of their current levels. In addition to the group average probabilities of leaving, Table 2 contains the percentages within each group that are unlikely to leave (less than .4 probability), those undecided (.4 to .6), and those probably leaving (greater than .6).

It can be observed that overall male and female attitudes are identical with regard to the perceived probability of leaving (.34). Furthermore, when looking across the four levels, males and females generate similar trends in terms of consistently decreasing percentages of persons who perceive they probably will stay with their current job. It can also be observed that the percentages of males and females who perceive a high probability of leaving their firms consistently rise as the level increases.

In addition to these similarities in perceived probabilities of leaving, several differences between male and female attitudes can be noted. The female attitude toward leaving changes very little between Level One and Two while the percentage of males who think they will probably leave jumps significantly when moving from Level One to Level Two. The net result is that a greater percentage of Level Two males perceive a high probability of leaving than do Level Two females. In contrast, the data confirm that a significant female turnover problem arises between Levels Two and Three. The percentage of Level Three females who perceive a high probability of leaving nearly triples over the Level Two percentages while the male percent-

TABLE 2
Male/Female Probabilities of Leaving

	Level 1	Level 2	Level 3	Level 4	Total
Number of female respondents	81	55	36	7	179
Average probability of leaving	.25	.30	.53	.59	.34
Likelihood of leaving					
< .4 (unlikely)	77%	73%	36%	29%	65%
.4 – .6 (undecided)	11%	13%	25%	29%	15%
> .6 (likely)	12%	14%	39%	42%	20%
Number of male respondents	168	158	211	158	695
Average probability of leaving	.16	.33	.37	.50	.34
Likelihood of leaving					
< .4 (unlikely)	88%	66%	56%	38%	62%
.4 – .6 (undecided)	10%	17%	27%	34%	22%
> .6 (likely)	2%	17%	17%	28%	16%

age remains constant with the net result of a much higher probability for level three females to leave public accounting.

When all the data concerning perceived probabilities of leaving are viewed as a single set, it is obvious that Level Three and Level Four females perceive the greatest probability of leaving. Because these data are consistent with actual turnover rates, it appears meaningful to further investigate male and female job attitudes in order to discover specific reasons for the differential. The investigation of turnover differentials in this study has been restricted to those auditors who voluntarily leave their current audit position in order to take an alternative income earning professional job. Accordingly, attitudinal data were collected from responding auditors about both their current positions and the alternative job they would likely pursue if they were to leave their current position. As would be expected, most auditors feel they do have a specific job alternative available whether or not they choose to accept it. Table three relates the previously presented probability-of-leaving data with the percentages of auditors with or without a specific job alternative in mind:

TABLE 3
Male/Female Alternative Job Attitudes

	Probability of Leaving							
	<.4		.4 – .6		> .6		Total	
Females:								
With specific alternative	86	74%	23	86%	34	97%	143	80%
Without alternative	31	26%	4	14%	1	3%	36	20%
	117		27		35		179	
Males:								
With specific alternative	318	73%	137	90%	107	96%	562	81%
Without alternative	113	27%	15	10%	5	4%	133	19%
	431		152		112		695	

These differences are sufficiently minor within each of the individual probability groupings and from the combined basis to indicate that there is no significant differential between males and females with respect to whether or not auditors are considering a specific job alternative.

Reasons for Leaving

All of the responding auditors who attached a .5 or greater probability to leaving their firms prior to the next promotion were also requested to provide an open-ended list of the reasons why they thought they were probably going to leave. The numbers and percentages of auditors responding to this question by providing one or more written reasons are illustrated below.

TABLE 4
Numbers of Male/Female Auditors Giving Reasons for Leaving

	Female		Male		Total	
Level 1	11	13%	24	14%	35	13%
Level 2	17	28%	57	32%	74	31%
Level 3	26	59%	103	43%	129	45%
Level 4	5	42%	97	51%	102	51%
Total	59	29%	281	36%	340	34%

The reader will recall that the overall response rate to this questionnaire was fifty-two percent. Of these respondents, only about one third provided written reasons for probably leaving. If there is a response bias that prompted more dissatisfied auditors to respond, the reasons given may be representative of only the one fifth or one sixth most dissatisfied auditors.

In addition to recognizing that a relatively small group of respondents provided reasons for probably leaving, it should be noted that each individual respondent provided relatively few reasons. Out of the 340 auditors who responded to this question, 284 (84 percent) listed three or fewer reasons for probably leaving. Less than one percent gave more than five reasons. Furthermore, there was sufficient similarity between most of the reasons given to permit the classification of over 99 percent of all the reasons into fifteen distinct categories.

In quantifying the relative importance of the reasons given, it is assumed that the responding auditors generally listed their reasons in order of importance—i.e., the first reason given was considered most important. Because virtually all the auditors listed five or fewer reasons for leaving, an inverse five point scale was used to assign the ranks within each individual list. Each first reason was assigned a five, each second reason a four, and so on. When all of these so-ranked reasons are classified into the fifteen categories, the one with the greatest sum of ranks is quantified as the most important reason. If the most important reason is assigned 100 percent status, the relative importance of the other fourteen reasons are easily shown as a percentage of the most important based on each categories sum of ranks as illustrated in Table 5:

TABLE 5
Male/Female Importance of Reasons for Leaving

	Female	Male
Inadequate leisure time	100%	97%
Increased compensation	55%	100%
More satisfying job tasks	42%	58%
Lack of advancement	17%	42%
Lack of recognition	20%	23%
Disrespect of superiors	17%	24%
Too much pressure	18%	20%
Improved location	15%	17%
Lack of stability	17%	16%
Too much travel	17%	13%
Potential entrepreneurship	13%	13%
Something different	10%	14%
Too much political emphasis	9%	10%
Increased individualism	4%	6%
Stepping stone to career goals	10%	4%

These data demonstrate basic similarities in attitudes between male and female auditors, but they also isolate a few key differences. Males ranked compensation as the most important reason for leaving with leisure time as the second, nearly as important, reason. Females reversed this order placing most importance on leisure time with compensation in second place, but with much less relative importance. Both males and females ranked unsatisfying job tasks as the third most important reason, but it can be observed that males considered their job tasks more important (58 percent vs. 42 percent) as a reason for leaving. Males ranked the lack of advancement as the next (fourth) most important reason while females considered both lack of recognition and too much pressure to be of greater importance. This differential with respect to the lack of advancement as a reason for leaving is even more critical when the percentage ratings (17 percent female vs. 42 percent male) are considered. When taken as a group, females appear to have three predominant reasons for leaving. Inadequate leisure time is clearly the most important reason to females with increased compensation and dissatisfaction with job tasks as secondary but significant reasons. Males appear to have four predominant reasons for leaving. Increased compensation and inadequate leisure time are almost equally important as the most dominant reasons with unsatisfying job tasks and lack of advancement in a secondary but highly significant grouping.

Another Approach to Attitudinal Differences

In addition to asking the direct questions — what is your perceived probability of leaving the firm and what are the reasons for which you might leave the firm — attitudinal data were also collected via a behavioral instrument based on expectancy theory. In respect to an individual auditor with a large CPA firm, turnover is thus likely to occur whenever the auditor expects greater total reward value from an alternative job than from his current position. Due to differences in each person's inertia, uncertainty, family ties, and so forth, the amount of perceived value differential required to initiate a career change will vary from person to person. In general, however, as an auditor perceives more and more total reward value coming from an alternative job or less and less value coming from the current position, the greater becomes the probability that the auditor will leave to accept the alternative job. The auditor who places high values on the rewards attainable from his current position, and who also perceives a high probability of attaining those rewards, will work harder and is less likely to leave than another auditor who places low values on those rewards or perceives low probabilities of attaining them.

In this study, the researchers used a small pilot questionnaire to determine the job-related rewards most important to male and female auditors. The ten job-related reward values considered most important in the pilot have been included in the current study questionnaire. For inclusion in the expectancy theory framework, the attitudinal responses have been dichotomized as attitudes toward extrinsic and intrinsic rewards.

Attitudes Toward Extrinsic Rewards

One set of rewards that directly affect individual auditor behavior is extrinsic rewards. These are items upon which an individual places value, but which are controlled or mediated by someone else. For the 996 non-partner auditors participating in this study, attitudinal response data have been collected with respect to seven specific extrinsic rewards:

1) a salary that permits the auditor to achieve his/her reasonably desired standard of living;
2) bonuses, raises, or other specific economic recognition of outstanding performance;
3) verbal recognition from superiors;
4) verbal recognition from peers;
5) adequate leisure time;
6) promotion to the next higher level;
7) and challenging assignments on the type of work desired.

For each of these seven rewards respondents indicated the following:

a) how highly they value the reward (on a one-to-seven scale);
b) given that job tasks are performed well at their current position, the perceived probability of receiving the reward;
c) and their perceived probability of receiving the reward if they were to leave and perform well at their best alternative job.

Summary averages of the extrinsic reward values multiplied by the related average probabilities of attainment at both the current and alternative job positions indicate either a positive or negative differential for each group. A positive differential for a specific reward value indicates that the members of the group, on average, are motivated to stay at their current positions because of that reward. A negative differential indicates that, although some individual auditors may feel positive, the group on average considers that alternative jobs would better provide that reward value. On this group basis, the larger the amount of negative dif-

TABLE 6

Male/Female Extrinsic Reward Differentials

		Females (88) Probability of Attainment				Males (184) Probability of Attainment		
Level 1	Value	Current Job	Alt. Job	Differential	Value	Current Job	Alt. Job	Differential
Leisure time	6.47	.46	.83	−2.39	6.24	.49	.73	−1.50
Bonuses	5.61	.65	.74	− .50	5.62	.61	.76	− .84
Salary	5.88	.73	.80	− .40	5.87	.73	.80	− .41
Superior recognition	6.34	.68	.70	− .12	6.16	.69	.69	−0−
Peer recognition	5.42	.52	.59	− .41	5.76	.53	.62	− .52
Challenging assignments	5.78	.85	.75	+ .58	5.89	.86	.79	+ .41
Promotion	6.07	.92	.78	+ .85	6.32	.93	.77	+1.01
Level 2		Females (62)				Males (176)		
Leisure time	6.29	.42	.82	−2.52	6.43	.39	.72	−2.12
Bonuses	5.82	.61	.81	−1.16	5.73	.57	.76	−1.09
Salary	5.77	.74	.81	− .52	5.72	.68	.81	− .74
Superior recognition	6.21	.65	.70	− .31	6.05	.64	.70	− .36
Peer recognition	5.66	.51	.62	− .62	5.47	.52	.61	− .49
Challenging assignments	5.52	.89	.82	+ .39	5.89	.87	.76	+ .65
Promotion	6.14	.91	.82	+ .55	6.04	.92	.79	+ .79
Level 3		Females (43)				Males (242)		
Leisure time	6.43	.40	.85	−2.89	6.16	.44	.76	−1.97
Bonuses	5.88	.58	.79	−1.23	5.89	.56	.80	−1.41
Salary	5.78	.70	.83	− .75	5.75	.72	.3	− .63
Superior recognition	6.32	.65	.78	− .82	6.15	.65	.70	− .31
Peer recognition	5.77	.49	.64	− .86	5.49	.50	.61	− .60
Challenging assignments	5.78	.84	.78	+ .35	6.04	.85	.79	+ .36
Promotion	5.95	.91	.82	+ .54	6.13	.90	.79	+ .67
Level 4		Females (11)				Males (190)		
Leisure time	5.82	.49	.74	−1.46	6.22	.48	.77	−1.80
Bonuses	5.91	.79	.89	− .59	5.92	.56	.79	−1.36
Salary	5.82	.78	.83	− .29	5.74	.76	.81	− .29
Superior recognition	6.82	.56	.81	−1.71	. 6.03	.57	.68	− .66
Peer recognition	5.36	.57	.62	− .27	5.28	.46	.60	− .74
Challenging assignments	6.27	.90	.80	+ .63	5.79	.82	.78	+ .23
Promotion	6.20	.88	.80	+ .50	5.82	.74	.76	− .12
All Levels		Females (204)				Males (792)		
Leisure time	6.37	.44	.82	−2.42	6.25	.45	.75	−1.88
Bonuses	5.75	.63	.78	− .86	5.80	.57	.78	−1.22
Salary	5.82	.73	.82	−. 52	5.77	.72	.82	− .58
Peer recognition	5.57	.51	.62	− .61	5.49	.50	.61	− .60
Challenging assignments	5.73	.86	.79	+ .40	5.91	.85	.78	+ .41
Promotion	6.07	.91	.81	+ .61	6.09	.87	.78	+ .55

Note: The reward differential is computed by multiplying the reward value times the difference in perceived probability of attainment at the current and alternative job. For example, the level one female leisure time differential is computed as follows:
Differential = 6.47 * (.46 − .83) = −2.39

ferential, the greater is the average motivation for auditors to leave their current positions. Table 6 illustrates the extrinsic value and differential data for comparisons between levels and sexes. The numbers of respondents within the various comparison groups are shown parenthetically as a reminder of the quantitative basis for group averages.

The ten different segments of Table 6 contain a large amount of data and the reader is encouraged to peruse the many comparisons made available. Although some differences can be noted, the researchers first emphasize a surprisingly high degree of similarity between male and female attitudes toward extrinsic values. For example, when the differential values are ranked from high to low on a one to seven basis, identical male/female rankings are obtained for levels one and two as well as the combined overall basis. These identical male/female rankings are surprising because while other group comparisons provided similar rankings, no other group comparisons were identical. In addition to sex classifications, the questionnarie also collected data with respect to age, length of time in the firm, position level, and educational degree (bachelor's vs. master's). Analyses of extrinsic reward values by all of these other classifications indicate more significant attitudinal differences. Accordingly, the identical male/female ranking of extrinsic reward values by both level one and level

TABLE 7
Male/Female Intrinsic Reward Differentials

	Female			Male		
	Current Job	Alternative Job	Differential	Current Job	Alternative Job	Differential
Level 1:						
Job tasks	4.85	5.42	−.57	4.96	5.40	−.44
Coworker association	5.66	5.35	+.29	5.50	5.19	+.31
Professional interaction	5.15	5.41	−.26	5.28	5.11	+.17
Level 2:						
Job tasks	5.27	5.55	−.28	5.04	5.46	−.42
Coworker association	5.43	5.25	+.18	5.33	5.13	+.20
Professional interaction	5.29	5.27	+.02	4.93	4.95	−.02
Level 3:						
Job tasks	5.51	5.73	−.22	5.45	5.56	−.11
Coworker association	5.44	5.46	−.02	5.40	5.10	+.30
Professional interaction	5.30	5.51	−.21	5.15	5.07	+.08
Level 4:						
Job tasks	5.82	5.60	+.22	5.50	5.41	+.11
Coworker association	5.64	4.60	+1.04	5.56	4.87	+.29
Professional interaction	6.27	5.70	+.57	5.28	4.73	+.55
Combined levels:						
Job tasks	5.17	5.55	−.38	5.26	5.47	−.21
Coworker association	5.54	5.30	+.24	5.45	5.07	+.38
Professional interaction	5.29	5.40	−.11	5.16	4.97	+.19

two presents a strong argument for similarity of work attitudes held by auditors hired within the past three or four years. It is expected that turnover rates should be similar as well.

Although the first and most obvious observation of the data in Table 6 is that of similarity between male and female attitudes toward extrinsic rewards, several differences also should be noted. While both males and females perceive leisure time to cause the greatest amount of negative differential, females display consistently more negative differentials than do males. In levels three and four, where the male/female turnover differential is greatest, other attitudinal differences can also be observed. The most significant appears to be related to recognition from superiors. Female auditors in Levels Three and Four place more value on recognition from superiors and generate significantly greater negative differentials, primarily due to higher expectations of recognition from alternative careers. When specific attention is placed on Level Three where female turnover is most critical, it should be noted that the negative differentials are greater for the females and the positive differentials are greater for males. When all seven differentials are combined, the net negative differential for females (-5.66) is much greater than that for males (-3.89). Accordingly, the extrinsic reward value data predict continued greater turnover rates for the Level Three females.

Attitudes Toward Intrinsic Rewards

Another group of rewards affecting auditor motivation is referred to as intrinsic rewards. If a person enjoys various aspects of the audit environment and receives positive feelings from being involved with them, motivation to perform well and stay with the firm is increased. These rewards are not dependent upon someone else providing the rewards and, accordingly, do not have varying probabilities of attainment. The values do, however, vary across individuals. This study concentrates on three auditing related intrinsic rewards:

1) *Job tasks* — An auditor experiences positive feelings from working with numbers, performing audit procedures, and providing the attest function for society;

2) *Coworker association* — An auditor experiences positive feelings from the contact with the set(s) of peers and superiors with whom he/she is often working;

3) *Professional interaction* — An auditor experiences positive feelings from opportunities and responsibilities for professional interaction that will

maintain and expand the quality of professional service locally and to society in general.

Analysis of the intrinsic reward value data collected in this study is similar to that for the extrinsic reward value data. Participating auditors recorded (on a scale of one to seven) values for the intrinsic rewards currently being attained and the perceived reward values that could be attained if they were to accept an alternative job. A negative differential between the current position and the potential alternative job quantifies the average tendency for members in that group to accept alternative jobs. Intrinsic reward values and the related differential values are illustrated in Table 7.

As with extrinsic values, the intrinsic reward value data indicate essentially similar attitudes between male and female auditors. As could be expected, the amount of satisfaction (positive feelings) derived purely from working on the job tasks rises as the position level rises. Another trend common to males and females across all levels is that coworker association provides the greatest amount of current job satisfaction in terms of reward differentials.

The first noticeable difference is that Level One females perceive better opportunities for professional interaction in alternative jobs. In contrast, Level One males demonstrate a positive differential on this reward. More critical contrasts are again evident in the attitudes of Level Three auditors. Third level females yield negative differentials for all three intrinsic reward measures while their male colleagues demonstrate positive satisfaction with coworker association and with professional interaction. When all three values are combined, level three females demonstrate a net negative differential (-.45) while their male counterparts display a positive differential (+.27). Combined with the previously discussed extrinsic differentials, these data further predict continued higher turnover rates for level three females.

Confirmed Attitudinal Differences

The single significant attitudinal difference between males and females across all four below-partner levels of auditors relates to leisure time. Females place more value on leisure time and perceive a greater probability of receiving adequate leisure time if they were to take an alternative job. For Level One and Level Two auditors, the data collected do not confirm any other male/female attitude differentials.

The third level of auditors is most critical to the greater turnover rate of females experienced by large CPA firms. In addition to a large exodus of females at level three, several male/female attitudinal differences have been confirmed.

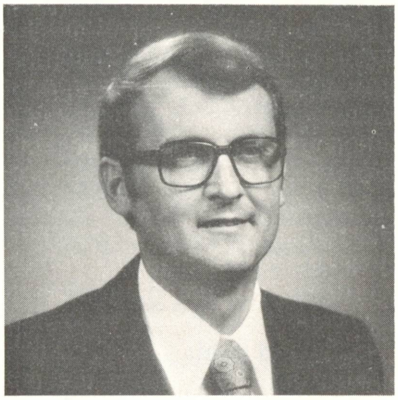
1. The percentage of females who perceive a high probability of leaving is more than double that of males.
2. The percentage of females stating reasons for probably leaving is greater.
3. The relative importance of leisure time is greater for females.
4. The females' perceived probabilities of obtaining adequate leisure time is lower for the current job and greater for the alternative job in mind.
5. The value and negative differential related to recognition from superiors is greater for females.
6. The intrinsic value differentials for both coworker association and professional interaction are negative for females but positive for males.
7. Females attach less significance to several job tasks including locating and developing new clients, expanding client services, developing audit specialty expertise, practice management, and administrative services.

Conclusions

First, the trend toward earlier departure from auditing careers has not been caused by the influx of female auditors. In recent years, the greatest exodus of audit staff from large CPA firms is in the intermediate level identified in this report as Level Two. The increase in the Level Two turnover is the major cause of reduced auditor retention spans and has resulted from almost equal male and female turnover rates. In addition to the actual turnover rates provided by the participating offices, the attitudinal data in this study project that currently similar male/female turnover rates in both Levels One and Two should continue because of amazingly similar work attitudes.

Second, the turnover rate for female Level Three and Four auditors is significantly greater than that for the corresponding males. This differential in Level Three male/female turnover is further confirmed by differences in the attitudinal data collected in this study and presented in the previous sections of this report.

These researchers further conclude that female attitudes toward a professional auditing career have changed during the decade of the seventies to the point that there are now very few attitudinal differences between male/female accounting graduates entering large CPA firms. It is hypothesized that this attitudinal change will reduce the future male/female turnover differential in level three as the current group of level one and two auditors are promoted.



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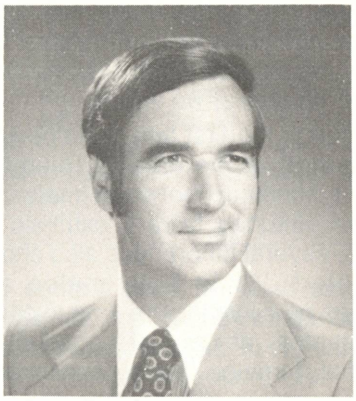

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Education

Tax History: A Brilliance Of Reasoning Behind The Rote

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Educators are constantly looking for ways to improve their teaching methods and bring new life to their classes. For that reason, teachers try to be aware of the latest innovations in education. Perhaps tax educators should look to the past instead of the future for ways to add zest to their classes and to further their students' understanding of income taxes.

Tax history has been a neglected study. According to a list of doctoral dissertations in taxation published in an American Taxation Association publication, there were no dissertations written in tax history from 1969 until 1979, and from 1940-1969, only four were listed. The *Accountants' Index* for 1950 to the present lists only 9 articles under the heading of Tax History. This lack of attention is interesting in light of the fact that two American Accounting Association committees have recommended historical research. The 1961 Committee on Tax Instruction advised the inclusion of the background and historical developments of many of the more important parts of tax law and the evalution of our tax system. The reasoning offered by the Committee was that "It is often easier to understand our present law if one knows something of the background and development of particular provisions of the Internal Revenue Code. A person should be better able to judge the merits of proposed changes if he is aware of what has been tried in the past." The 1972 Committee on Federal Taxation recommended that the first tax course should cover the historical evolution of the more important provisions and sources of tax law as two major areas. Even though the value of tax history has been recognized, the research efforts have not met these needs. The purpose of this article is to illustrate how an historical study of the principles of taxation can be used in the classroom.

Judge Learned Hand provides an excellent example for study because he was a pioneer in the area of taxation. Four years after Learned Hand became a judge, the Sixteenth Amendment ushered in the origin of our federal tax system. Hand wrote his first opinion in a tax case in 1918. During his career, he wrote over 290 opinions in tax cases and sat on hundreds of others in which he did not author the opinions. This period, which extended over forty years, marked the formative years in tax administration. A study of Judge Learned Hand and a view of his cases reveals much about the development of the principles of taxation. An understanding of these principles aid, the student in understanding the reason for our current tax law provisions.

Prior to analyzing the contributions of Judge Learned Hand to the American tax system, a brief look at the man would be enlightening. Billings Learned Hand was born in Albany, New York, in 1872, into a family of judges. Both his father and grandfather were lawyers and judges and as anticipated, Learned went to Harvard to eventually pursue a law career. He was a Phi Beta Kappa and graduated summa cum laude with a degree in philosophy. Hand received a master of arts degree from Harvard in 1894 and then entered Harvard Law School. He was an editor for the *Harvard Law Review* and graduated with honors in 1896. He practiced law until 1909. In 1909, President William Howard Taft appointed Hand to the Federal District Court for Southern New York. He served on that court for fifteen years. His cousin and best friend, Augustus Noble Hand, was appointed to the same Federal District bench in 1914. In 1924, Calvin Coolidge appointed Learned to the Federal District Court of Appeals for New York, Connecticut, and Vermont. Coolidge appointed Augustus Hand to this same court in 1927. Learned became the Chief Judge of the Second Circuit Court of Appeals in 1939. During his career, Learned Hand wrote nearly 3,000 opinions on nearly every conceivable subject. At the time of his death in 1961, he had served on the federal bench longer than any other man.

After a brief look at the individual, it is important to study the environment in which he worked. The Circuit Court of Appeals hears appeals from the district courts. Hand served at both of these levels. The Second Circuit Court was located in New York City and became know as the "Top Commercial Court" during Hand's tenure. The greatness of Hand's court is marked by the influence it had on other courts. Even the Supreme Court respected Hand and his court, and this recognition promp-

AWSCPA Presents Awards

At its annual meeting held recently in Memphis, Tennessee, the American Woman's Society of Certified Public Accountants (AWSCPA) presented a Public Service Award, a Literary Award, a President's Special Award and recognition awards to those women receiving the Sells Gold, Silver and/or Bronze Metals on the November 1980 and the May 1981 Uniform CPA examinations.

The Public Service Award was presented to Carole Ann Gibbs, CPA, Honolulu, for outstanding service outside the accounting profession. Ms. Gibbs has been active in the Small Business Administration, a federally funded project called the Business Assistance Program, Associated Women Entrepreneurs, Honolulu Press Club, Cystic Fibrosis Association, and WEAL.

Recipient of the AWSCPA Literary Award was Dr. Wanda Wallace, CPA, CMA, CIA, for her publication, *The Economic Role of the Audit in Free and Regulated Markets.* Nominations were submitted by the American Accounting Association's committee on Notable Contributions to Accounting Literature to AWSCPA's Literary Award Committee which made the final selection. Dr. Wallace is Assistant Professor of Accounting at The Graduate School of Management, The University of Rochester, and currently serves as a consultant on regression analysis and its application to the audit for the national office of Price Waterhouse & Co.

Myra Swick, CPA, received a President's Special Award for a non-board person who has served above and beyond the call of duty. Ms. Swick is a manager in the CPA firm of Walton, Joplin, Langer & Co., Chicago. She is a past president of AWSCPA.

Special recognition awards were presented to Julie Ann Gannon of Farmington Hills, Michigan, and Nancy Lynn Voien of Irvine, California, for winning the Elijah Watt Sells Gold Medal and Silver Medal, respectively, on the November 1980 CPA examination. The same awards were given to Shirley D. Harris of Jay, Florida, and Jayne C. Thompson of Wyoming, Michigan, winners of the Sells Silver and Bronze Medals, respectively, on the May 1981 CPA examination.

ted the press to call Hand the tenth Supreme Court justice. The fact that Hand was passed over for appointment to the Supreme Court has only served to compound the myth surrounding the man. The Second Circuit Court under the leadership of Hand had a tremendous impact on the federal judicial system and became the most esteemed court in the nation.

> *Were courts ranked like baseball teams, no expert in judging could be found to rank the Supreme Court first, if only because of the number of rookies on its nine. Most expert judges would choose the Court of Appeals for the Second Circuit as the ablest court in the U.S.*[1]

Learned Hand's income tax cases covered the total spectrum of income tax issues. Hand followed a rigorous and logical process in deciding a case. The important step in this process was his analysis of the legislative intent behind the law. Hand was a leader in moving away from a literal interpretation of the law, but he would apply such a reading if he suspected a tax avoidance scheme. However, Hand's views on tax avoidance are among his most quoted, as the following samping indicates.

> *Any one may so arrange his affairs that his taxes shall be as low as possible; he not bound to choose that pattern which will best pay the Treasury; there is not even a patriotic duty to increase one's taxes.*[2]

> *There is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does so, rich and poor; and all do right, for nobody owes any public duty to pay more than the law demands; taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant.*[3]

Hand's struggle with interpretation of the Internal Revenue Code was the hallmark of his tax opinions. He broke away from the practice of two decades of literal interpretation of the statutes. His philosophy on interpretation is best expressed in his own words from his most famous opinion:

> *As the articulation of a statute increases, the room for interpretation must contract; but the meaning of a sentence may be more than that of the separate words, as a melody is more than the notes, and no degree of particularity can ever obviate recourse to the setting in which all appears, and which all collectively create.*[4]

Once Hand had opened the door to liberal interpretation of the statute, he then began the struggle of placing limits on this freedom. Throughout his career he attempted to explain his position and establish guidelines to be used by the courts in the struggle of literalism versus liberalism.

One phase of Hand's efforts in the area of interpretation was the development of the business purpose test. This test, originated by Hand and now widely applied in all areas of taxation, requires that the transaction be a part of the conduct of business. If a transaction fails the business purpose test, it will be viewed as a sham.

Hand attempted to develop a complete structure of income taxation by developing concepts or principles. With regard to income, Hand would recognize income when the taxpayer who possessed control had experienced a change in status due to a certain realization of income. Since deductions were a benefit to be gained by the taxpayer, Hand generally required more proof from the taxpayer. However, the Cohan rule, developed by Hand, has been used as an escape by negligent taxpayers since the formulation of the rule in the case involving the "Yankee Doodle Dandy." In that case, George M. Cohan claimed large deductions for travel and entertainment expenses without any receipts to substantiate his deductions. Hand allowed the deductions since it was reasonable to expect that . A. C. Cohan would have incurred such expenses.[5]

Valuable historical insights can be gained from an analysis of Hand's opinions. First, since Hand was so close to the origins of most of the U.S. tax laws, he was in touch with the original and basic purposes behind the legislation. These basics are much easier to understand and should be used by instructors of taxation to simplify major points of the existing complex system. Secondly, the judicial and administrative struggles over interpretations of points, many of which are now taken for granted, reveal the development of the U.S. tax structure. Many of Hand's innovations have been adopted by Congress and the Internal Revenue Service.

An analysis of Judge Learned Hand's tax opinions reveals much about the developmental process of thought, practices, and institutions in the federal tax system due to the quantity of cases and vast span of time and issues covered. The most valuable application of an analysis of Judge Learned Hand's opinions is in the area of education. The value of the study of tax history is borne out by the example of Learned Hand. The origin of many of our current practices may be traced to an opinion by Hand. A search for the roots of tax law should add to the depth of understanding of these rules. The source of tax disputes lies in the interpretation of statutes. No better guide than Learned Hand can be sought in navigating this complex maze. His continued leadership is evidenced by his many opinions which have remained the ruling authority. Further proof of his continuing significance is reflected by the extensive use of Hand's opinions in textbooks and casebooks adopted in law schools and other tax education courses. His ideas have been dispersed, cultivated, and perpetuated without bounds. This example of tax history should not be viewed as merely a look into the past, but a vista of the future.

Advantages of Using Tax History

The primary purpose of this article is to persuade educators of the value of tax history to tax education. The point is that the study of tax history aids in understanding of the present situation, and should be used to help students understand taxes. A. C. Littleton, in his *Study of Accounting Theory,* said that accounting principles have been developed through experience and then accounting teachers have thought up reasons to explain these rules to students in order to avoid rote learning. Tax rules are developed by Congress and the courts. Now it is time for tax teachers to develop reasons for these rules in order to explain them to students.

Tax has been taught by rote learning for far too long. No wonder that students so often disparage the tax class. Many students rebel at instruction when the instructor refuses to offer explanations and only insists on memorization of rules. Tax educators should study the development of tax laws in order to develop explanations. Many students may be able to understand and even enjoy the study of taxation if they are allowed to approach the study through historical development. In particular, liberal arts students who have switched to accounting may be motivated by a study of taxes through an examination of the political, economic, and historical aspects of the development of our tax laws.

This article was intended to be a forum advocating the use of a "new" approach to teaching taxes. The example of Judge Learned Hand was used to show how a historical study could be used to help students understand basic concepts of taxation such as: liberal vs. literal interpretation of the law; substance vs. form; the business purpose test; and tax avoidance. The hope is that this missionary zeal will have two results: first, to encourage research in the area of tax history, and then to see these results applied in classroom teaching.

NOTES

[1]John P. Frank, "Top U. S. Commercial Court," *Fortune* (January, 1951), p. 92.
[2]*Helvering v. Gregory,* 69 F.2d 810 (2d Cir., 1935), p. 811.
[3]*Commissioner v. Newman,* 159 F. (2d Cir., 1947), p. 850.
[4]*Helvering v. Gregory,* Op. Cit., p. 810.
[5]*Cohan v. Commissioner,* 39 F. 2d 540 (2d Cir., 1930).

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Theory & Practice

Managing In-House CPE

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In today's business environment, continuing professional education (CPE) is no longer a luxury provided by the larger accounting firms. Rather, CPE is vital to compete in the marketplace. How fast the profession is changing! Just in the last year, seven SASs, two SSARSs, fourteen FASBs and numerous FASB interpretations have been issued. And what about tax law changes? The Economic Recovery Tax Act of 1981 dramatically changed the tax environment. Only with adequate training can a CPA in practice keep technically up-to-date and competent.

As business and industry become more and more sophisticated and specialized, the needs of clients change and expand. Smaller companies are now looking to their CPAs for advice on computerizing systems, improving production techniques, securing financing, etc. If the practitioner does not technically keep pace with clients' needs, the clients will gradually be lost to competitors.

With increased competition and a downturn in the economy, there is need to concentrate on increased productivity. Clients are now more conscious of cost controls and want to know why fees have increased. If a firm is not able to increase staff efficiency, it will experience write-offs. Repeated client write-offs may cause clients to question the firm's technical competence and to search for a more qualified CPA firm.

All of the above factors, combined with the increase in the number of states requiring mandatory CPE and the CPE membership requirement for firms in the SEC and Private Companies Practice Sections, has focused increased attention on CPE. At the same time, the cost of training a firm's professional staff has escalated dramatically. Typical CPE seminars sponsored by outside professional associations, like the AICPA or the CPA State Society, have increased 40-50 percent over the last five years. When the cost of travel to the seminar is added, CPE is indeed an expensive investment. As a result of these high costs, many practitioners are now searching for ways to obtain high quality training while keeping the costs down. In-house CPE may be the answer for firms.

Curriculum Planning

As a first step in establishing an in-house training program, it is vital to do curriculum planning. This will avoid haphazard selection of programs that are not really cost effective for your firm. To begin the process, you must first determine your firm's needs. Survey your partners to determine current and long-range needs. What present skills or expertise do you want maintained? If your firm performs a good deal of estate planning, then you certainly want your staff to maintain proficiency in that area. Are there any new skills your firm needs for continued growth? If your clients are now buying micro and mini computer systems, you may want to expand your MAS capabilities and train your staff on computer concepts and applications. Are your clients going public? If so, your firm may need to develop a working knowledge of SEC rules, regulations, and filings. Or, are you suddenly making contacts and getting business in a brand new industry area? Here, too, you may need specialized training to provide you with the skills required to adequately service these clients.

Next, you should determine *staff* needs. Ask your staff what training they believe they need to function effectively in the firm. An easy way to accomplish this is by conducting a survey. This survey should cover the training already taken by the staff, the areas of training they believe they need, and their experience as instructors or course developers. Give them a detailed listing of topics and ask them to indicate the degree of interest they have for each topic.

After you've surveyed the staff, analyze the survey results and determine if there are any training needs common to staff at a particular level. Based on this analysis and your knowledge of the assignments for each level, categorize topics by level. For example, if your first year people only work on review engagements, you need not train them on auditing inventories. Rather, you would want to concentrate on "how to do" skills such as workpaper documentation and basic analytical review procedures. Training for your senior level people may focus on "in-charge" skills such as workpaper review, time budgets, delegation and engagement planning. One word of caution — don't be prejudiced by the level training programs currently available. Regardless of whether the Standard Level I Staff Training Program covers internal control evaluation, you must determine if that topic is indeed necessary for *your* newly hired staff person.

Once you've developed a curriculum for different staff levels, you should prioritize your needs. Determine if the number of professionals having a similar need is sufficient to warrant an in-house program. Generally, technical update programs and "hot topics" appeal to many of your professional staff and should be considered for in-house use. On the other hand, if there is a topic affecting only one or two of your staff, you should consider using a self-study program or sending those people to an outside session.

Course Selection

Now that you've developed a long-range curriculum plan, you must select specific training programs that meet both your firm and staff needs. To maximize cost effectiveness, you should buy existing materials and then tailor them to your own practice. Since it normally takes between twenty and forty hours to develop one hour of CPE, you should consider developing your own original material only if you can't find satisfactory material from other sources. Currently, the AICPA and several state societies have in-house training material. Also, there are CPE consultants who have training programs that can be purchased for in-house use. Additionally, these same consultants can customize material for your firm or can work with your staff in developing your own training programs. You should review course catalogues and identify those programs that appear to fit your curriculum plan. List out all possible programs and compare their descriptions, costs, and prior ratings, if applicable. Then review the materials for those programs you believe best fit your firm needs.

Often, you'll discover that there are gaps between your curriculum plan and the available in-house programs. At this point, you should decide whether it would be more cost effective to send your staff to existing outside seminars or to invest money in developing your own programs. Here, again, weigh the advantages of using an experienced training consultant to develop programs rather than tying up someone on your staff and losing chargeable hours.

Scheduling CPE

Your curriculum plan should be the basis of your annual CPE schedule. Review your plan and determine the training priorities for each staff member for the next year. Identify the sessions you will conduct in-house and pick out dates for the sessions. You may consider selecting a regular specific time period; for example, the third Monday of each month, from 6:00 p.m. to 8:00 p.m., and schedule all of your in-house sessions at that time each month. In this way, all of your staff can block out that time each month for training. This may help reduce scheduling conflicts and absences.

When scheduling specific programs, remember that the timing of a course is important. It certainly makes more sense to schedule a tax update course before tax season starts rather than to hold it after April 15. Also keep in mind client peak demands. If June is a normally heavy and busy month for your firm, consider holding off CPE until client demands have levelled off. If your staff will also be attending outside seminars, make sure you schedule these sessions as early as possible so that there is no conflict with client assignments.

Administration

A training seminar will not be successful unless you have the right topic, the right audience, the right instructor and the right facility. The first two ingredients should be fulfilled by proper curriculum planning. However, very often, little time is devoted to the last two items. And, these two are indeed vital to your session.

When selecting an instructor, keep in mind that everyone should not be an instructor. Some people may be technically competent, but they may not have good presentation skills. Make sure you use only those people that are truly effective instructors, as well as knowledgeable in the subject matter.

If you find you have very few people who have the combined technical expertise and presentation skills, you may consider team teaching. The instructor with the strong presentation skills should be the "lead" instructor and should draw on the technical expertise of the other instructor. However, if you use this approach, it is vital that the two team instructors review the program outline and format and decide how they will present the session. Nothing is more distracting than two instructors who interrupt each other or who are disorganized in their teaching approach.

Another solution to the problem of too few experienced instructors is instructor training. It's a good idea to send all those whom you've identified as instructor candidates to a formal instructor training session. This session should concentrate on improving presentation skills, as well as providing some key teaching tips by videotaping the participant and then critiquing his or her performance. There are several good instructor training sessions around. For example, some of the CPA state societies like New York, Illinois, Texas and California sponsor instructor training sessions ranging from a few hours to a full day. Some of these sessions are free and others charge a slight fee. Also, some CPE consultants are willing to conduct instructor training programs right in your own office.

How can you identify the right instructor candidates? First, your candidate should have the desire to instruct. If someone does not enjoy teaching or speaking before groups, then that person should not be forced to teach. Look for those people who really enjoy getting in front of groups. Next, identify those who have the poise, self-confidence, and the ability to instruct. Very often, those who want to be on the fast track will volunteer to do anything in order to prove their commitment to the firm. Make sure your staff understands that you do not look unfavorably on those who do not participate as instructors. Let them know that you value their other strengths just as much as you value strong presentation skills. And last, choose a person who is knowledgeable about the topic. The person should not only have "book" knowledge, but should also have practical experience in the field.

Facilities, too, play a significant role in the effectiveness of a session. If at all possible, you should hold your in-house programs off premises in order to minimize interruptions. Consider a breakfast meeting at a local hotel or an evening session at your CPA state society office. Regardless of the location, telephone or other interruptions should not be allowed. The room should be set up in such a way as to encourage group discussion. Round table, U-shape or hollow square set ups are the best to facilitate active participation and interaction. Also make sure that the room itself is well lit, well ventilated and large enough. Over crowded and uncomfortable rooms will turn the participants attention away from the program content to their own discomfort.

The administrative duties do not end with the selection of an instructor and a facility. A firm must also maintain adequate CPE records for its staff. The

AICPA has set certain standards for course documentation. Basically, a firm must maintain the following documentation for each program it sponsors:

- A notification to participants in advance of the session of the program content, program objectives, level of knowledge, prerequisites, advance preparation, presentation method and recommended CPE credit.
- A program record with an outline, an attendance record, and a record of the date, location, instructor and recommended CPE credit.
- An instructor biography.
- Program evaluations.
- Program materials.

Each participant of a session should also keep a record of all CPE taken. This record should contain the name of the program sponsor, the title or content of the program, the date, location, instructor and the recommended CPE credit. Also the individual should have evidence of attendance or completion of the program.

If a firm is a member of the SEC or Private Companies Practice Sections, it must file an annual education report indicating compliance with the section's CPE membership requirements. It must also maintain for its five most recent education years, a record of CPE for each professional and a record of all programs it sponsored. The same information discussed above would be required in the firm CPE records. Additionally, either the firm or the professional would maintain evidence of attendance or completion for at least five education years.

Conclusion

Any effective in-house program will require time and effort on the part of any firm, no matter what size. However, you must weigh the benefits against the costs. First, there is a distinct cost savings by doing training in-house. Second, by running your own CPE program, you can customize and tailor programs that are responsive to your own practice needs. And last, your firm's reputation and profitability will be enhanced by helping you develop the expertise needed to attract new clients and better serve existing ones. Surely these benefits outweigh the costs of any in-house program.

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Electronic Data Processing

Perspective On Distributed Data Base Systems

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By Elise G. Jancura and Alfred R. Michenzi

Advanced systems have been characterized as those systems possessing one or more of the following characteristics:[1]

- Data communications
- Data integration
- Automatic transaction initiation
- Unconventional or temporary audit trail

The introduction of these characteristics into the data processing environment is the natural result of the application of computers to a variety of accounting and management information applications and the attempt to provide greater access to computer processing to a variety of potential users in each organization. All of these characteristics are, or can be, present in distributed data base systems.

Integrated Data Files and Data Bases

One of the strong trends in advanced systems has been the integration of data from multiple related applications. Increased data integration can provide both operational and economic advantage. Data integration can minimize the data redundancy which occurs when each application creates and updates individual application-oriented files. Elimination of redundancy or duplication of data elements within application files can promote more efficient use of physical storage facilities, and eliminate some operational procedures such as repetitive file sorting. More importantly, it can promote greater accuracy in the data by eliminating the inconsistencies introduced when lags occur between the updates of redundant data or when all updates of the redundant data do not produce the same results.

Data integration also provides economies in the development and maintenance of application software. File definition functions are removed from the individual application programs. This makes original development and modification of these applications more simple, while at the same time changes to the data base (physical organization or new elements) will not require program changes to all application programs using the integrated base.

Usually data integration is accomplished through a formal definition of individual data elements or items and the relationship of the data elements to each other and the various application programs processing them. When the relationships are formalized, the integrated data is a data base. One definition of a data base is "a collection of stored operational data used by the application systems of some particular enterprise."[2] Another definition is: "A data base is a collection of files which can be accessed via the use of a data base management system and among which relationships are defined which play a role in those applications which use the data contained in the files."[3]

A data base management system (DBMS) can be defined as a software system intended to manage and maintain data in a nonredundant structure for the purpose of being processed by multiple applications. The DBMS organizes data elements in some predefined structure, and retains relationships between different data elements within the data base. Among other characteristics, a DBMS may make it possible for non-programming personnel to utilize the data located in the data base with reduced effort through the use of query languages designed specifically to meet the needs of users of the system. It is the DBMS which translates the data requirements of application programs and relates then to the processing functions of data management such as physical data storage and organization, logical organization, and data retrieval and maintenance.

Implications for Control in Data Base Systems

With data integration, changes occur not only in the physical and logical relationships of the data, but also in the responsibilities and relationship of the users and the data processing personnel. As a data base is developed and a data base management system (DBMS) implemented, the responsibility for the physical storage, the logical organization of data, and the subsequent ability to access and process an organization's data becomes increasingly centralized in the programs of the DBMS. Application programs no longer access data or manipulate the data files directly. The DBMS acts as an interface to all the programs using the data base. It is the DBMS which determines which data is to be accessed, which performs all physical input/output operations, and maintains the organization of the data base. Thus, many controls over access to data shift from the user and/or individual applications. This makes controls over access more critical. The concern encompasses both the question of which users may access individual data elements and which program or processing functions may be applied to individual data elements.

The concentration of control in the DBMS over the data base provides a potential for strengthening the procedures employed to insure completeness and accuracy of data as well as controlled access. At the same time, the increased concentration does pose some difficulties. First, many of the controls are programmed as part of the software. This introduces an increased technical sophistication that must be mastered if the level of control is to be properly evaluated and used. Secondly, there may be some tendency by users to abdicate some responsibilities to the DBMS. Users must continue to share in the process of checking on the accuracy and completeness of individual data elements by retaining their strong responsibilities for input and output controls.

The concentration of the many control functions into the DBMS itself can weaken the separation of responsibilities. Thus, while the data management function must be centralized (usually in the data base administrator function) to achieve the degree of coordination necessary to make the data base function, it is essential that individual user departments be given the authority and responsibility for the definition and content of the individual data elements, the definition of what access may be made of those elements, and the continued verification of the accuracy of "their" data elements. Security and accuracy of the data must be accomplished by a combination of procedures in both the data processing department and the user department. A precise definition of the responsibilities at both levels is essential.

Documentation in a data base becomes a critical need. The integration of data means that the formal definition of logical relationships among the data are essential to maintain proper relationships among data elements and to provide a reliable mechanism to access specified data elements. The documentation must also carefully define the physical layout of the data, and the procedures for user and program identification.

Distributed Data Bases

A distributed data base system (DDBS) exists when the data elements stored at multiple locations are interrelated, or when a process (program execution) at one location requires access to data stored at another location. Thus, a DDBS always exists within an information networking environment.

> The network provides the underlying configuration of computer systems and communication facilities within which data is stored, DBMS's operate, and users access data. A node in the network consists of computer processing facilities (ranging from a large multiprocessor computer to an intelligent terminal) and an associated operating system sufficient for executing user and DBMS processes (programs, queries, etc.). In addition, data and its definition may be stored at a node. The precise structure of a node is an architectural design choice independent of the manner in which the node is connected to other nodes and the extent of geographical separation.
>
> The communications facility is the collection of processes and physical facilities which interconnect the nodes. The communications facility includes knowledge of the physical location of each node, the physical path connections between the nodes, and the protocols to be used in sending messages between nodes. Processes in the communications facility will accept a message from one node and deliver it to another node or broadcast it to some or all other nodes. Two nodes may be connected directly or indirectly through other nodes. A network access process (NAP) exists at every node as the interface between processes at the node and the communications facility. The NAP is that portion of the communications facility which executes on the processing facilities of a node.[4]

A DDBS provides the potential advantage of the efficiencies of data integration, while at the same time providing for greater flexibility in the configuration of the system and optimal distribution of "processing power" through the ability to decentralize processing facilities.

A major concern of the user of data has been a need for easy, fast access to data. At the same time as organizations convert increasing proportions of their financial and operating data to computerized systems, the number, the functional variety, and the geographic dispersion of the "end users" of computer data make the concept of distributed processing more attractive. The options available in distributed data processing allows users to play more active roles in data processing and on occasion to actually control their own computing resource without sacrificing the benefits of integrated data files or other centralized processing activities. Thus in some aspects, distributed processing allows the data processing function to more closely approximate the organization of management.

Distributed systems sometimes make it possible to employ more specialized equipment to specific tasks within the processing spectrum and in some instances are the only logical alternative when a single centralized system doesn't have the capacity for the total job. Also growth can be more easily accommodated with the smaller increments possible in a distributed system.

The addition of the data communications element does introduce additional implications for control. The procedure for identification and authorization of users, maintenance of logical and physical relationships, and all other techniques for controlling access to the system must be expanded to all the locations in the system. Frequently these controls will be programmed producing even greater dependence on the system and system software for adequate control. In addition to checking data accuracy and completeness, controls must be introduced to verify transmission activities and the operations at each node.

Design Alternatives for Distributed Data Bases

There are several alternate approaches to the organization of a DDBS. One method of classifying a system is by the way in which the data is organized and distributed. One approach is centralized data storage with distributed processing facilities. Another approach is that in which the data itself is also distributed.

Partitioned data bases exist when a single copy of the data base is separated into segments and the segments are stored at different nodes or processing facility. These partitions usually form a "logical" database because of the interrelationship between the segments. Usually the segments or partitions are formed or grouped in response to some natural distribution of access requirements. This usually helps minimize transmission costs between the nodes.

Replicated data bases occur when multiple copies of a database or its pieces are stored at multiple nodes. This redundancy may be tolerated because it facilitates increased and more efficient accessibility, provides readily available backup, and provides decreased communication time. However, the redundancy causes some additional cost and complexity in updating the file and requires more storage capacity. A frequent approach of the replicated data base occurs when the central location contains a full master file and the remote nodes each contain a copy of a segment of the master file. Each local data base is created by copying data from one area of the central data base. The local data bases are used for local processing, but local processing does not directly affect the central data base and does not directly update the local node. Instead, the central data base is updated centrallly on a periodic basis from the accumulated transactions of all the locals and then used to make "new" copies of the local data bases.

DDBS may also be categorized by the distribution of the processing functions. Horizontal distribution of processing functions occurs when the components which are interconnected are logically equal although they may be physically diverse with different capacity and power. Frequently the total workload is distributed because the processing components exchange jobs and/or data cooperatively. While each node usually handles "local" jobs or transactions, the goal of "load leveling" may promote exchanges of processing when overloads occur at any given node.

In a hierarchical or vertical distribution, each component or mode is controlled to some degree by the higher-level nodes and the processing load is distributed up and down the hierarchy. Usually "high volume-fast response" items are located as "low" in the hierarchy as possible, while lower volume, "slower-response" functions would be moved "up" the hierarchy.

The variations in data distribution (partition or replication) and in processing distribution (horizontal or hierarchical) can be combined in a variety of ways. Further, the distributed data base may operate in either batch or in real-time mode (sometimes referred to as asynchronous or synchronous mode, respectively).

Audit & Control Concerns in Distributed Data Bases

Distributed data base systems can have a significant impact on internal control features and the question arises whether they may require the development and use of new or additional auditing techniques in the performance of both compliance and substantive testing.

Because control is more heavily invested in the EDP system in a distributed data base, the nature of the system controls become more critical. The AICPA Task Force on Auditing Advanced EDP Systems listed the following internal control requirements in advanced systems:

> Adequate control features and procedures must be developed for communication-based networks and distributed systems in which accounting information can be accessed or changed from remote locations.
>
> Authorization systems are required to control access to and processing of accounting information and to maintain a separation of employee functions.
>
> Programmed system controls must be provided since a manual review of input by employees will no longer be applicable when accounting transactions are generated and processed automatically by the system.
>
> Provisions for tracing the historical flow of accounting transactions should be provided in systems having accounting significance.
>
> Provisions should be made for timely and economical reconstruction of accounting information in the event of its destruction.
>
> Management, auditors, and others should be provided with feedback on the performance and integrity of advanced EDP systems.[5]

The Task Force also suggests that the areas of difference between conventional and advanced systems, from an auditing point of view, include:

- Complexity
- Nature of evidential matter
- Relationship between accounting control and evidential matter
- Need for audit control
- Audit trail considerations
- Techniques required for access to information
- Timing of audit procedures[6]

In a DDBS the auditor will likely find it necessary to use the system itself to generate and/or collect necessary evidential matter. This will require a greater technical familiarity with the system. Further, the auditor will have to be concerned with assuring proper audit control. Where the only audit evidence available is machine-sensible data, the auditor may not have an alternative to reliance on the accounting controls in the system and the corresponding requirement for increased compliance testing.

The timing of audit tests may also change. In batch systems, collection of historical data may be adequate for audit purposes. But data base systems rarely remain static and when the system is operating in an interactive mode, the auditor may be forced to shift the timing of audit tests. Thus, consideration of "concurrent auditing" may be appropriate where the audit tests occur at a point immediately following or concurrent with the occurrence of the transaction. Another alternative is the controlled use by the auditor of the systems log to capture audit data.

The Task Force has suggested a number of audit techniques which might be useful in advanced systems. The techniques are summarized in Table 1.1.

Impact on Audit Techniques

Audit objectives are not changed by the introduction of distributed processing, data communications, or integrated data base systems. The auditor's responsibilities include a proper study and evaluation of the system of internal control, execution of appropriate compliance tests if reliance is to be placed on internal control, and execution of appropriate substantive tests of the financial data.

Whenever possible, the auditor should seek independent evidence of processing controls or data accuracy. Techniques such as confirmations and inventory counts are still most appropriate. However, systems containing the features discussed earlier tend to reduce the amount of independent source data and manual intervention.

Auditors can continue to use computer-assisted techniques that operate on historical data and compliance testing techniques which use simulated or test data. In addition, however, the ability to use live data on a real-time basis in both the compliance and substantive tests is greatly facilitated by the availability of the system characteristics discussed. The ability to use live data on a real-time basis requires that a prewritten audit program be executed as the data is being processed. This audit program may be incorporated into the operating system or the application program. Successful use of such a technique, however, requires that sufficient controls exist to prevent modification or circumvention of the audit programming in place. This approach requires considerable advance planning and usually can be successfully implemented if adequate attention is devoted to control and audit requirements at the systems design stage. Ω

NOTES

[1]American Institute of Certified Public Accountants: Audited Advanced EDP Systems

TABLE 1.1
Techniques Matrix

Technique	Capability Supplied by	Used by	Data Used	Purpose	Advantages	Disadvantages
Transaction tagging	Vendor or application system designer	Auditors and managers	Live accounting	Compliance and substantive test	Full range of selectivity	Adds to overhead of system, special programming
Real time notification	Systems programmer or vendor	Auditors and managers	Live accounting and system	Compliance test and control	Control and timeliness	Cost
Audit log	System designer	Auditors and control personnel	Live accounting and system	Compliance and substantive test	Specified transactions logged for audit review	Cost
Monitoring	Vendor	Auditors and managers	Live system	Review actual system activity	Shows what has happened	Requires technical knowledge to interpret
Audit language and programs	Vendor and system designer, software house, manufacturer or audit firm	Auditors and managers	Historical and live	Compliance and substantive test. Perform wide variety of audit tests	Retrieves data for audit purposes. Relatively easy to use, not expensive	Requires some programming knowledge by auditor. Presently limited to types of files that can be accessed.
Simulation	Auditors, internal and external with program copy	Auditors	Historical	Determine accuracy of data processed	Permits comparison with real processing	Extensive use can be large consumer of machine resources
Extended records	Design of client applications	Auditors and managers	Historical	Provide complete trail for audit and management purposes	Provides complete account history	Very costly use of machine resources at present
Integrated test facility	Auditors, mostly internal	Auditors	Dummy	Compliance test	Relatively inexpensive	Must be "backed out" very carefully
Program analysis techniques	Special software, contractor or vendor	Auditors and program-mers	Usually dummy	Authentication of program operation. Check of key points in program execution	Gives better understanding of application; gives assurance controls are functioning	Needs auditor knowledge of programming, may be expensive; useful only in certain circumstances.

Taken from: American Institute of Certified Public Accountants: Auditing Advanced EDP Systems Task Force, *Management, Control and Audit of Advanced EDP Systems,* (AICPA, 1977)

Task Force, *Management, Control and Audit of Advanced EDP Systems,* (AICPA, 1977), p.5.

[2]R.W. Engles, "A Tutorial on Data Base Organization," *Annual Review in Automatic Programming,* Vol. 7, Part I, Halpern and McGee, Ed., (Pergamon Press, July, 1972), p.32.

[3]J.H. Balvert, K. Gerritse, H. Roos, K. VanTilburg, J. DeVas, P.C. Warners, *Data Base and the Accountant,* (Sampson Uitgenerij Alphen Aan den Rijor, 1977), p. 21.

[4]CODASYL System Committee, "Distributed Data Base Technology-An Interim Report," *Proceedings of the National Computer Conference,* (1978) p.910.

[5]*Management, Control, and Audit of Advanced EDP Systems,* pp.1-2.

[6]*Management, Control, and Audit of Advanced EDP Systems,* p.15.

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Reviews

Reading Notes & Quotes

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Cost Management for Profit Centers, by Carole B. Cheatham, Ph.D., CPA. Institute for Business Planning, Inc., Englewood Cliffs, New Jersey, 1981.

The book deals with a cross-section of those cost accounting applications which are most often used in business. The author explains that the book was not intended as a textbook, but rather as a reference book to help management to determine applications and limitations of cost accounting and to use cost accounting data and techniques more effectively.

The book is organized into ten chapters and an appendix as well as an index. Topics covered include: cost reports, decision making techniques, price setting, cost estimation, standard costs, budgeting, cost minimization, and responsibility accounting. The author is very thorough in the explanations, starting with the basics in each area, and building on them to explain more complex techniques. Numerous examples which the author refers to as "case studies," make the cost accounting applications easy to follow. The examples are clear and concise, ranging from simple to complex. The Appendix broadens the reader's understanding further by including excerpts from actual cost accounting reports from companies in a variety of industries as well as examples of graphical presentation of information (pie graph, bar graph, etc.).

Although the author cautions us that the book is not intended to be a textbook, but rather a reference book, the writing style is very reminiscent of that seen in many textbooks. Explanations are clear and easy to understand, and previous chapters do not particularly build upon each other to reach subsequent chapters. Dr. Cheatham has succeeded in presenting a good, thorough reference book for those with little cost accounting background who have been thrust into a position in which that knowledge is required. The book would be a good investment for new or low-level managers attempting to understand the basics of cost accounting for practical application.

Linda Zucca, Cincinnati, OH

The Big Eight, by Mark Stevens, MacMillan Publishing, New York, 1981, $12.95.

"Their influence is pervasive, touching the lives of every human being and impacting the decisions of governments, corporations, churches, rock stars, armies, hospitals, universities, museums, penitentiaries, poets and police. Even those who know of, or even work for, the Big Eight do not fully recognize the enormity of their presence. To put it simply, the Big Eight are into everything!" Mr. Stevens makes this broad statement in the first chapter of his book, then attempts to prove the validity of this assertion.

Based mainly on conversations with staff accountants, managers and partners of Big Eight firms, the author first looks at the "public images" and the "inner-workings" of the firms. He concludes that public accounting has shed its lackluster image and has emerged as a sexy profession with more than its share of money and power.

The clients of the Big Eight account for 94 percent of all corporate sales. To illustrate the sophisticated size of the firms, one firm's tax department has enough attorneys to make it qualify as one of the largest law firms in the world. Imagine the impact this favorable position of power has on the average person's daily life.

The author briefly discusses recent attempts at government regulation of the accounting profession. The author believes that Big Eighters live with the unsettling knowledge that their privileged way of life is in constant jeopardy.

The book comes across as an expose. The author quotes one ex-Big Eighter as saying that Big Eight accountants are pathetic and driven in their desire to make partner. Many of the quotes used seem more like unfavorable rumors as opposed to factual information that could pin-point real areas of concern.

In contrast, he spends very little time looking at controversial issues prevalent in the accounting profession today. The author never delves into the disputes surrounding a number of widely publicized bankruptcies in the late '60's and '70's, with only a brief discussion on the impact of the Metcalfe Report on "self regulation of the accounting profession." Perhaps a discussion of these topics would have been more relevant in determining truths about the accounting profession. as was the author's stated intention.

To anyone not familiar with the partnership structure and earning capabilities in the upper levels of the Big Eight, the book would be fascinating reading.

Sheila R. Wilmes, Cincinnati, OH