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Thanksgiving tables sag this month as Americans feast on the products of an abundant society. The symbol of the horn of plenty is apt for this seasonal holiday; it is also appropriate for your association.

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LAFE P. FOX
President, 1975-76
ONE MORE TIME: DIRECT COSTING VERSUS ABSORPTION COSTING
By R. Gregg Schulte
Although direct costing has its uses for internal management, concludes the author, most of its advantages over absorption costing are purely illusory. In the article, he presents a strong case for absorption costing.

COST ACCOUNTING AND CONTROL OF ROUTINE OPERATIONS
By Warren H. Kelly
If a cost accounting system is to be complete, it must control routine operations as well as inventory valuation, pricing, and long-range planning. The author has constructed an example based on a manufacturing operation.

CONDITIONAL PERFORMANCE REVIEW
By Amir Barnea, Simcha Sadan and Michael Schiff
A method for measuring unit or overall performance is presented in this article which explicitly considers the impact of external factors utilized for the performance evaluation.

ACCOUNTING FOR HUMAN ASSETS
By Homer R. Figler
The concept of human resource accounting has too long remained an academic pursuit. It is time for the business community to accept responsibility for its practical application by implementing programs and supporting the research effort.

PAROLEE COUNSELING SERVICE
By Richard C. John
Using the Parolee Counseling Service as an example, the author describes several aspects of management reporting for nonprofit organizations.

SOCIAL RESPONSIBILITY FINANCIAL STATEMENT
By Charles H. Brandon and Joseph P. Matoney, Jr.
The authors believe that one of the deficiencies in current social reporting is the lack of an adequate vehicle for reporting. In this article, they suggest that corporations issue a separate social responsibility financial statement and they describe the format in which it might be presented.

COUNTING CHICKENS BEFORE AND AFTER THEY HATCH
By Otto K. Lange
Chicken farming is a highly sophisticated operation in which strict controls must be maintained in order to produce a profit. How the process is accounted for from egg to dressed weight of killed fowl is described.

DOCTORS INCORPORATED?
By Leo J. Benjamin
There is more to establishing a professional corporation than hanging out a sign—although that's a start. The author here addresses the medical profession, but his advice can have wider application.
CORPORATE ACQUISITIONS: TAXABLE OR TAX-FREE?
By James A. Swigart
Various methods and techniques are available to both buyers and sellers involved in acquisitions and reorganizations; some are taxable, some tax-free. Here both forms are examined and discussed.

TIME-SHARING: A TOOL FOR THE MODERN ACCOUNTANT
By Charles N. Fox
The author's desire to eliminate overtime during fiscal closings, to improve accuracy and efficiency, and to provide timely reports led him to try time-sharing. In the article, he describes some of his goals and accomplishments.

DATA PROCESSING OUTPUT DEVICES
By E. Lee Wilson
Presented in this article is a brief discussion of the various types of output devices that are used in data processing systems.

ARE YOUR CUSTOMERS PAYING ON TIME?
By Tobias C. Carbone
The weighted average of the number of days a customer has taken to pay his account is, according to the author, useful in determining how soon he can be expected to pay up in full.

THE 43 YEARS OF CY MARSHALL
By Robert F. Randall
NAA's own "Believe It or Not" personality has attended every New York Chapter meeting for 43 consecutive years. He talks about that and the early years of the chapter and Association.

SCHMAPP NAMED MANAGER OF FINANCE
Douglas Newlin, new area manager, joins NAA staff.
What We Publish

From time to time the editors of Management Accounting get calls from prospective writers or from Manuscript Directors asking, “What should we write?” Our reply is expressed in this vein: “We can’t tell you—you tell us.” The magazine is, after all, designed to reflect the thinking in the field. It does not, and should not, represent “ivory tower” opinions. It would be presumptuous for anyone at the national office to tell our accountant/authors their business.

To further clarify our policy, perhaps it would be instructive to review briefly the manuscript selection policy. All manuscripts received at the national office are processed as rapidly as possible. Each is given a number in lieu of the author’s name and chapter—which is deleted before reading—and it is then submitted to the Editorial Review Committee, a highly qualified group with various backgrounds in accounting. The reviewers objectively grade and score for two purposes: credit in the chapter competition, and an evaluation/guide to the editor in making a decision whether or not to publish the manuscript.

At this point in the review and evaluation process, two things can happen to a manuscript. If its numerical score is low, it is not likely to be published and the author will be so informed. If, however, the manuscript scores well, it will receive further evaluation by the editorial staff. The manuscript can be rejected or it may be “reserved for publication” or labeled “under consideration for publication.” Those reserved for publication are, in the opinion of editors and reviewers, the ones which will have the greatest immediate appeal to readers. Naturally only a few are placed in this category. A greater number are labeled “under consideration for publication” and are placed in an inventory from which the editor draws in planning future months’ issues. Some which plow old ground or are considered less useful than perhaps another manuscript on the same topic will have less chance of being published.

Potential authors should not despair, however. We haven’t made any surveys but Management Accounting must publish more new authors every year than any other magazine in the field and, perhaps, more than any other professional/technical publication.
Letters TO THE EDITOR

On Feminine Assets

As a young woman preparing to embark upon a career in accounting, I immediately turned to Florence J. Darrah's article, "Intangible Feminine Assets," when my September 1975 issue of MANAGEMENT ACCOUNTING arrived. I was dismayed to find one of the most banal treatments of women in the professional world that I have ever encountered.

Ms. Darrah enumerates eight traits that all women are "known" to possess, evidently as a result of generations of subservience which borders on genetic inheritance. In her article, the author suggests that women throughout history have been the organizers of the home, have been unquestioningly loyal to their parents and husbands, and have been extremely adaptable to new situations. Because she believes these (faulty) premises to be true, Ms. Darrah is able to conclude that all women today are congenitally organized, loyal and adaptable.

Such thinking defies logic and offends all reasonable people, both men and women. The belief Ms. Darrah displays in her article that all women possess these eight characteristics is as narrow-minded and erroneous as the belief that all Frenchmen are great lovers or that all Latins are hot tempered.

All women are not suited to careers in business and accounting, just as all men are not. I have nothing to offer an employer that is a direct result of my womanhood; what I do have to offer is intelligence, a sound education, and a desire to be a first-rate accountant. Women should not be looked to as super-human beings; the female chauvinism that Ms. Darrah displays is as odious as its male counterpart.

Carol Jay
Student Member
Washington Chapter
Arlington, Va.

The Key Is Voluntary Action

After reading I. Wayne Keller's award winning article entitled, "Planning Corporate Social Performance," in the June 1975 issue of MANAGEMENT ACCOUNTING, I was prompted to review the CMA suggested definition of social responsibility as published in the March 1975 issue on page 72.

Mr. Keller's concept of social responsibility apparently differs from the most common definition of the term as indicated by the CMA suggested answer. In Mr. Keller's case Part I, he has Ernie ask, "Do we give ourselves a score on something we had to do?" and the President answers, "Absolutely." The critical part of social responsibility, to quote the CMA suggested answer, "... goes beyond obeying laws and enlightened self-interest to require voluntary response ... to those needs of society which would not normally be met within the framework of the profit motive." In other words, the key to social responsibility is voluntary action. I do not believe Mr. Keller would suggest the legal and financial liabilities of discontinuing compliance with federal and state regulations.

While we may disagree on a definition of social responsibility, Mr. Keller makes an important point in suggesting that "... we plan our social performance; not just let it happen." Regardless of your definition of or extent of involvement in social issues, your company needs to plan its performance in marketing, production, administration, and social responsibility.

Donald L. DeHaven
Greater Ozarks Chapter
Springfield, Mo.

Right on Target

The article, "Designing an Accounting System for a Small Business," by Judy Brown in the June 1975 issue of MANAGEMENT ACCOUNTING is extremely interesting. She was right on target in defining the most persistent mistakes accountants make in the design of accounting systems.

I would like to suggest one addition to Ms. Brown's design of an accounting system that I consider most important whether the system is manual or automated. The "audit file" technique is extremely valuable for isolating problems in a system before the problems are much over 30 days old. This technique, which all small corporations could use, consists of a legal size manila folder and a four-column worksheet for each balance sheet account that does not have sufficient volume to justify a subsidiary ledger. The total balance on the worksheet will tie to the general ledger account and can be posted during the slow time of each month, usually the third week. This procedure will point out problems or errors as the accountant is posting and requires only minimal additional effort each month.

A side advantage of this procedure is that you are auditing yourself on a continuing basis and, if an independent audit is performed, you are almost assured of a clean set of books.

Charles I. Coyle
Florida West Central Chapter
Clearwater, Fla.

Two Timely Articles

It was refreshing to read two articles in the August 1975 issue of MANAGEMENT ACCOUNTING on the subject matter—CASH. The articles, "Cash Conservation" by Hugo Swan, and "On-going Control of Cash and Income" by Charles L. Hubbard were timely. They were reminders to all managers to put into practice all policy changes as the business climate changes.

It is unfortunate that we "educated managers" still need a "kick in the tail" like a recession, before we review possible changes, let alone implement them. We get bogged down in too many details and ignore what our employer is actually paying us to do—to manage and administrate our areas of responsibility.

T. A. Dlugopolski
Waukesha Area Chapter
Hartford, Wis.

There Needs To Be More Study

Mr. Thomas G. Pagano's article, "Measuring Customer Profitability in Commercial Banks," in the May 1975 issue of MANAGEMENT ACCOUNTING, made interesting reading in the context of our current recession and the continuous pressure on bank profits.

His statement "... the 'state of the art' in the commercial banking industry is by no means advanced," was a good

Continued on page 51
MAP Committee States ‘Serious Reservations’ on General Purchasing Power Accounting Proposal

In a letter to the Financial Accounting Standards Board, the Management Accounting Practices Committee said it had “serious reservations” about the FASB exposure draft, “Financial Reporting in Units of General Purchasing Power.” Salient portions of the letter are reprinted below:

Our committee recognizes the disturbing effect on financial reporting caused by changing price levels. The high rates of inflation in recent years have made clear the desirability of employing some form of alternative measure in order to make financial reporting more relevant to concerned parties. We thus agree with the Board on the need to take action in this regard but have serious reservations that the specific FASB proposal is the best way to accomplish it.

Our position as to the exposure draft is supported by the following reasoning:

(1) We do not believe the use of a single broad-based measure, such as the GNP Implicit Price Deflator, can be relevant to many companies. The only time it might be useful is in those instances when the specific prices facing a firm, both in terms of inputs and outputs, are reasonably well correlated with the general price-level index. This is an old argument, but one which we feel is of major significance.

(2) In our opinion, the concept of reporting unrealized gains or losses on holdings of monetary assets and liabilities is improper. First, it is difficult to support a method that allows companies, which normally would be considered of doubtful financial strength and having large amounts of debt to reflect, on their financial reports, gains because of maintaining these inordinate levels of monetary liabilities. Second, it might be assumed that, to an extent, current interest rates reflect expectations about future rates of inflation. We believe this assumption might be reflected by dividing into separate sections that portion of monetary gain or loss seemingly attributable to unexpected shifts in the inflation rate and the part that would be offset by changes in interest rates precipitated by anticipated price-level variances.

(3) There are major technical problems inherent in the use of GPP accounting caused by subjective decisions related to techniques or classifications. For instance, the categorization of an item as monetary or non-monetary can be controversial and can have a significant impact on GPP results; deferred income taxes is a case in point. Also subject to much criticism is the recommended treatment of foreign affiliates; there is logic to support the “restate first-then translate” approach.

(4) We are concerned with the distorting influence of GPP adjustments on such traditional measurement concepts as the debt to equity relationship and the recognition of effective tax rates.

(5) Knowledgeable people realize that general price-level adjusted amounts do not reflect “value” and certainly the FASB has taken pains to emphasize this point. Nevertheless, we are concerned that many users will consider price-level adjusted amounts as substitutes for value, or come to some other erroneous conclusions. If a large-scale educational program will be necessary to inform users what the new material means, this implies a present lack of “demand” for GPP accounting by knowledgeable users.

(6) Given our questioning of the overall merits of the proposed general price-level adjustment technique, we are troubled about the high level of aggregate cost involved in its implementation. Although the incremental cost to each firm may eventually become minimal, the aggregate cost across all firms will be significant. It is becoming evident that a number of companies participating in the FASB experiment have had to employ shortcuts in implementation, indicating the burdensome nature of the technique called for in the exposure draft.

We recognize that other possible accounting concepts are being considered in the FASB’s Conceptual Framework project, but we would feel remiss if we did not recommend a course of action as an alternative to the exposure draft. In our opinion, the irrelevancies of historical-cost accounting created by changing price-levels impact most severely on fixed assets and inventories. Accordingly, we would prefer a ruling that requires supplementary disclosure of information regarding tangible fixed assets and inventories in terms of cost of reproduction. We believe it is important that this information includes disclosure of its impact on conven-
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tionally stated net income. Such data hopefully might be based on generally accepted indices applied to historical cost that are specific to the types of assets or industries involved. We believe this method of adjustment is more feasible at the present time than one which relies on replacement cost estimates based on subjective appraisals. Even if circumstances did not permit the utilization of highly specific indices, we could support the application of broad-based indicators (even the GNP Deflator) to fixed assets and inventories, but without the myriad complications involved in general price-level adjusted financial statements. An added benefit of according greater utility to replacement cost disclosure than GPP accounting would be the closer agreement with the recently proposed Securities and Exchange Commission position.

To summarize, we believe that implementing general purchasing power reporting would be counter-productive in terms of developing a more realistic financial reporting posture and less than meaningful prior to advancing further in the Conceptual Framework project.

FASB Issues Proposed Statement on Accounting for Leases

A draft of a proposed statement which would establish criteria for classifying leases, and would prescribe accounting and reporting requirements for each classification, has been released for comment by the FASB. If approved, the Statement would become effective for leasing transactions entered into on or after January 1, 1976. New accounting rules would have substantial impact on the leasing industry. The Board pointed out that more than $11 billion in new equipment was leased in 1974 and that by the end of 1975 equipment on lease will total $100 billion. Copies of the proposal can be obtained from FASB Publications Division, FASB, High Ridge Park, Stamford, Conn. 06905.

... In another action, the FASB postponed its public hearing on criteria for determining materiality from October 30 to May 20-21. FASB Chairman Marshall S. Armstrong said the Board took this move because some people and organizations expressed the desire for more time to prepare position papers on the issue. The original cut-off date for written comments was Sept. 15; the Board has set a new cut-off date of April 19, 1976.

SEC Adopts Interim Reporting Proposals

Publicly-held companies will be required to provide more detail in their quarterly financial reports under a regulation adopted by the Securities & Exchange Commission. The new rules become effective for fiscal periods beginning after December 25. The SEC regulations are basically the same as the proposals the agency published last December and March. However, the proposal that companies include a footnote in their annual reports, providing data for each quarter of the two most recent fiscal years, was limited to about 3,800 of the larger companies, not the estimated 10,000 publicly held companies. The agency limited the scope of this provision to spare smaller companies the costs of involving outside auditors in quarterly data. Although this note can be labeled unaudited, the SEC said that "independent accountants will be associated with such a note when they report on (annual) financial statements." The SEC proposed changes in the accounting regulations to clarify the auditors' responsibility for reviewing the footnote. At the same time, the SEC said it preferred that The American Institute of CPAs devise satisfactory standards for reviewing the quarterly data. The Commission will act on its own proposals only if the Institutes fails to do this, it said.

British Accountants Propose Current Cost Accounting

A government appointed committee, called the Sandilands Committee, has recommended that British accountants use current cost accounting to replace the historical cost system. The committee's report rejects current-purchasing-power accounting on the ground that its use of a single broad index would give misleading results for individual companies. Two years ago the Institute of Chartered Accountants had recommended that approach in order to improve financial statements during a period of changing price levels.

Roderick M. Hills Named to Succeed Garrett as SEC Chairman

As Management Accounting went to press, President Ford nominated Roderick M. Hills to succeed Ray Garrett, Jr., as chairman of the Securities & Exchange Commission. Mr. Hills is a 44-year-old lawyer who was a partner in Munger, Tolles, Hills and Rickershaus, a Los Angeles law firm, prior to his appointment early this year as counsel to the President.
ONE MORE TIME: DIRECT COSTING VERSUS ABSORPTION COSTING

There is no need for distinguishing between relevant and irrelevant costs because in the long-run all costs are relevant.

By R. Gregg Schulte

Much of the accounting literature published in the last ten years or so has dealt with the merits of current value accounting, variously defined. The demand for its implementation has particularly intensified with the rapid increase in prices of all types of commodities in the last couple of years. But despite all the arguments for current value accounting, and even more so against historical cost accounting, it would appear that the latter system still reigns supreme.

Given then that accountants will continue to use the historical cost model for some time to come, there arise certain questions of valuation within this model. One of these questions is about four decades old now and doubtless will remain unresolved for many more decades. That is: What is the propriety and merit of direct costing as a basis for inventory valuation and income determination?

It was in 1936 when Jonathan Harris first introduced direct costing. Slowly it gained recognition, although not widespread acceptance, by accountants, both internal and external. During the 1950s and early to middle 1960s, there was probably nothing accorded as much attention in accounting as was direct costing. Unfortunately, much of what was written came from the pens of some apparently confused or ill-informed authors. As a consequence, a number of prominent misconceptions became the basis for some of the arguments still being propounded by direct costing advocates.

What Are They Talking About?

The first and foremost misconception of the direct costers concerns the nature of the animal itself. In its Research Series Number 23, the old N.A.C.A. stated that "Direct Costing should be defined as segregation of manufacturing costs between those which are fixed and those which vary directly with volume." Later it was added that "... the point to be emphasized is that direct costing is primarily a segregation of expenses and only secondarily a method of inventory valuation."1 In another article written about the same time, Oswald Nielsen stated that "... direct costing is presumed to be a certain type of emphasis on the elements of costs of operating a business."2

The separating of costs into fixed and variable elements is not direct costing (if direct costing is meant to denote something other than absorption costing). Direct costing can only be defined as an accounting method used for income determination and inventory valuation purposes. In applying the technique, all fixed factory overhead costs are excluded from the inventory and charged against revenue in the period in which they are incurred. In addition, these fixed costs are accounted for separately in the accounts. In contrast, absorption costing excludes only some fixed overhead costs from inventory: those which are considered to be volume or activity variances. Only these are charged to revenue in the period in which they are incurred. Also, the fixed costs are typically not accounted for separately in the accounts.

Separating the Cost Elements

Because direct costing has been misconstrued, some authors have stated that the separation of costs according to their fixity or variability is an advantage of direct over absorption costing. In a relatively recent article, for example, the author wrote: "Separation of direct and period costs in the accounts . . . allows management to have greater control over costs."3 Another advocate of direct costing said that by providing separate treatment of fixed and variable costs, "Direct costing . . . does facilitate and improve both cost planning and control, at the same time it improves profit mea-

"Direct costing is considered to be an attempted shortcut..."

surement." Still another wrote that "The separation of fixed and variable costs on the operating statement and elimination of the influence of over- and under-absorption of fixed overhead simplifies the interpretation of financial results for operating managers."

Granted, the separation of costs into fixed and variable components is a prerequisite of direct costing; but it is by no means any sort of advantage of direct over absorption costing. For is there something about absorption costing which prohibits this cost separation? Surely not. On the contrary, this separation is a crucial step to satisfactory product costing under absorption costing. It is therefore unfair and incorrect to say that absorption costing cannot or does not provide for the separation of costs according to their behavior. It would be equally incorrect to say that variable and fixed costs could not be recorded and reported separately under absorption costing (if this were desirable). Perhaps only as a practical matter this is not usually done.

Useful Cost Information

Another argument propounded by direct costers is that direct costing provides more useful and more easily obtainable cost information. It is considered by some as superior because it supposedly facilitates the analysis of costs according to lines of responsibility. Direct costing has also been credited with providing information more useful for analyzing cost-volume-profit relationships. N.A.C.A. Research Series No. 23 went so far as to say "... the prime objective of the plan ... is provision of information about cost-volume-profit relationships." If this is to imply that these analyses cannot be performed under absorption costing, then the statement is erroneous. The necessary cost data can be compiled just as fast under absorption costing.

Direct costing does not necessarily provide a better or more proper use or accumulation of cost data. On the contrary, it has been argued that when a product goes through more than one manufacturing process, absorption costing provides more reliable information to management than does direct costing because factory cost flows are portrayed more accurately under the absorption system. Direct costing is considered to be an attempted shortcut which results in the averaging of costs over a number of products.

Internal Operating Reports

Another argument supporting direct costing is that it improves internal operating reports by presenting revenues and expenses on a contribution basis. Here again the notion is presented that only in direct costing are fixed and variable costs capable of being separated. But a good absorption cost system can provide the same information as the direct costing system. If it is desirable to provide the data via a direct cost format for internal purposes, however, then this can be done, but apart, of course, from any consideration of what should be done on the external reports.

The Fixed Cost Argument

The only distinction between direct and absorption costing which can give rise to true debate is the treatment of fixed manufacturing costs in the valuation of inventories and the determination of net income. The issue, of course, is whether these fixed costs attach to the product or relate solely to the period in which they are incurred.

Under a good costing system, the effective portion of fixed manufacturing costs should be charged to product. This is what is done under absorption costing. Under any costing system, however, any costs not considered effective should be charged against revenue when incurred. For absorption costing this means that fixed costs of idle facilities are accounted for as period costs (losses).

The absorption costers argue that any fixed costs which benefit future periods should be inventoried (fixed manufacturing costs, that is). The direct costers disagree with this treatment as well as with the absorption costers' notion that in some situations (full production) fixed manufacturing costs can be product costs and in other situations (less than full production) they can be period costs.

Period costs have been defined by direct costers as "committed, programmed or planned costs which are incurred to provide and maintain the capacity to produce." It is then argued that since the opportunity to use this productive capacity expires with time, period costs are matched against revenue as time actually does expire. By definition, fixed costs are said to represent this capacity to produce and therefore should be accorded period cost accounting treatment, that is, immediate expensing. James Fremgen wrote:

"Certain costs by their nature expire with the passage of time, regardless of production activity. They are incurred for the benefit of operations during a given period of time. The benefit is unchanged by the actual level of operations, if any, during that period..."

The logic here is what the absorption costers cannot swallow. They argue it is ridiculous to conclude that a portion of the cost of a machine used in production is any less a product cost than is, say, the wages of the employees operating the machine. Representative of this view is Accounting Research Study No. 13 in which the author wrote:

"I consider it illogical to contend that the cost of the metal being formed in the machine and the labor-hours being expanded by the operator are part of product costs but not the costs incurred in managing the manu-

facturing activities and in providing and maintaining the machine and the lighted and heated facilities in which the operations take place. Industry representatives interviewed for this study were almost unanimous in their agreement with that conclusion."

The treatment accorded fixed production costs under absorption costing is clearly the more logical treatment. After all, as direct costers do admit, when a business acquires the plant and the key officials to administer the plant, they have committed themselves to a certain range of production. These assets are acquired to produce and hence they should be allocated to product to the extent they do produce.

In 1954, Howard C. Greer presented another strong argument in support of absorption costing. His point was that production, not revenue, governs the treatment of fixed manufacturing costs:

"Machine rental may relate to a specific time period, but it is hardly arguable that the company has sustained a loss of the amount of the rental because the product made in that period was not sold in that period. Facilities are used to create values, not to reduce profits."

The Matter of Simplicity

According to some supporters of direct costing, another advantage of their method is its simplicity. For example, one author stated that with absorption costing,

"... the arbitrary and sometimes confusing allocations of manufacturing expense are accomplished with a costly process which ... is subject to human error. It is also a prolonged process which serves as an additional irritant to management ...")

Whether this is true or not, few will admit that expediency and simplicity are the appropriate criteria for acceptance or rejection of an accounting procedure. If this were so, why don't we just dispense with all attempts to determine product costs? This surely would be the simplest way to handle things.

But there is another point to be made here: direct costing is not much simpler than absorption costing. For example, there are always a number of certain semivariable costs, the separation of which into fixed and variable components is sometimes difficult and usually more or less arbitrary. Direct costing ignores this. In addition, in situations where joint products are produced, raw materials and direct labor costs incurred before the split-off point require allocation on some logical basis.

Inventory Valuation

Supporters of direct costing have also tried to argue its merits on the grounds that it provides a better inventory valuation. Robert Seiler writes:

"In evaluating the merits or demerits of direct costing, its effect upon inventory valuation may be classed as a distinct merit, since it would greatly facilitate an analysis of the company's working capital."

And in N.A.C.A. Research Series No. 23 the author stated that direct costing is advantageous because of the "... greater clarity and objectiveness of an inventory cost concept which is the equivalent of short-period cash expenditure for manufacturing the goods."

Besides implying that absorption costing cannot provide information for working capital and cash flow analysis, or that there should be a return to cash basis accounting, these notions make the mistake of eliminating fixed manufacturing costs from inventories. This results in asset values which bear little or no relationship to the cost of the assets even though they may have been purchased rather than manufactured.

Effects on Profits

Still another claim of the direct costers is that absorption costing is defective because under this system profits are affected by the volume or capacity of production used in computing the fixed overhead application rates. Authors have also referred to unrealized profits and losses being created in absorption costing as a result of the deferral of the fixed manufacturing costs. Countless charges of income distortion have been launched against absorption costing. Some have even written that the primary advantage of direct costing is that income is not directly affected by inventory changes.

Unfortunately, again the direct costers have been misled. Profits are indeed very much a function of production levels, as well as of sales. For that matter, profits are a function of all the operations of the business, a fact which has had a lot of support in the literature. In an excellent article written some years back, the author wrote:

"It is difficult for me to believe that most business men cannot understand that a greater utilization of plant potential or the making effective of a greater portion of fixed costs is an appropriate factor to recognize in the determination of net income without regard to periodic sales volume."

Perhaps part of the reason why direct costers have been unable to accept production as a legitimate factor in profit determination can be attributed to their difficulty understanding the so-called
"...for external reporting purposes, direct costing just cannot be accepted..."

"activity variance." This is the overhead variance which results when production is at a level other than that upon which the overhead application is based. The trouble is that this variance has no valid interpretation when "average activity" is used as the basis for the overhead application. The simple solution is to substitute "practical capacity" for "average activity". The variance then takes on a very precise meaning; it represents the fixed cost of idle facilities, which is a loss of the current period.

Yet another reason production is not accepted as a factor in profit determination is that the "value added" concept of earned income has not become generally accepted. Under this concept, income is considered earned whenever "utility" is added to the product. But because this is difficult to make operational, accounting has adopted "point of sale" as the rule of revenue realization for most operations. It follows then that if revenue recognition is deferred so should all the production costs related to that revenue, including the fixed costs. This is the only sensible policy, given that all costs are incurred to provide a bundle of services in the production of income.

The direct costers, though, have taken the difficulty in applying "value added" as the cue to immediate expensing of the fixed manufacturing costs. This amounts to saying that these costs do not represent bundles of services to be used in producing income. As Fess and Ferrara put it, "This would be like saying that the acquisition of fixed-cost factors is an unwise and non-essential spending decision."^17

What Is an Asset?

As their last major line of defense, the direct costing advocates point to a definition of an "asset" and attempt to use this as a basis for demonstrating that fixed manufacturing costs cannot be inventoried. For some, this is their entire defense.

Two prominent accountants, Charles Horngren and George Sorter use the classical definition of assets as aggregates of service-potentials available for or beneficial to expected future operations, to support their own "relevant costing" concept. They also contended that if total future costs will be decreased because of a given cost having been incurred, then that cost is relevant to the future and represents an asset. In^16 Because direct costers claim that only relevant costs are assets and that fixed manufacturing costs are not relevant, they conclude that fixed costs are not assets. The important point, they say, is that production does not avoid any fixed factory costs in future periods; therefore inventory does not include these costs.

This whole line of reasoning is off the mark. In the first place, a much better interpretation of service-potential is found in the capacity to contribute to the production of revenues in the future. Fixed manufacturing costs have this capacity. There is no need for distinguishing between relevant and irrelevant costs because in the long-run all costs are relevant—as management is acutely aware. And second, the true distinction between assets and expenses is a matter of the expiration of the service-potentials, not a matter of cost savings.

Conclusion

It is interesting to see that after nearly 40 years the debate goes on between the direct and the absorption costers. Although direct costing has its uses for internal management, most of its "advantages" over absorption costing are purely illusory. Finally, for external reporting purposes, direct costing just cannot be accepted because as long as the productive fixed factory costs are not capitalized, inventory will be understated and the matching concept will be at least in jeopardy.

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The basic requirement of any cost accounting system is to represent some physical requirement.

By Warren H. Kelly

Cost accounting textbooks frequently relate cost accounting to its basic objectives in the manufacturing operation. Usually these are three, inventory valuation and income determination, nonroutine policy-making decisions such as pricing and long-range planning, and the planning and controlling of routine operations. This last objective may raise questions, since its relation with cost accounting may not be clear, or at least not so clear as the first two objectives must be. In addition, the planning and control of routine operations does not appear to present the necessary challenge or opportunity to the apprentice cost accountant. The very word "routine" implies the repetition and drudgery often irrevocably associated with the words "cost accounting".

System Requirement

The basic requirement of any cost accounting system is to represent some physical environment. That is to say, what is made, how it is made, where activity (and therefore cost) occurs, when the cost occurs, and how the reported activity differs from the planned activity.

The best way to explain the use of a cost accounting system in this manner may be to follow such a system from start to finish, providing such definitions and examples as may be required along the way.

Engineering Drawing

The engineering drawing is the document that describes what is to be made. From this document we find the dimensions and measurements of the part to be made, descriptive information, material from which to make the part, the finish requirements, a drawing number to identify the part and perhaps an identification of the tooling and gauges required for its successful production. A drawing may be that of two or more parts or a subassembly or of several parts and subassemblies, thus providing a bill of material. This drawing generally does not describe how the part or assembly is to be made or in what sequence activities must occur to make a good part.

Manufacturing Operation Record

The task of describing how to make the part and a repeat of what to make it with is left to a manufacturing operation record or product specification (referred to hereinafter as an MOR). The MOR is prepared using the engineering drawing, takes its name and number from the drawing and, in effect, becomes the basic document on which the entire cost accounting system rests, independent of the drawing. The manufacturing operation itself needs both the drawing and the MOR; the cost accounting system does not (except for audit purposes).

The MOR, after all contributing functions have made their entries, will show a great variety of information. To show this information in a form which can be read and understood easily, it is necessary to code and define certain terms.

DEPARTMENT LISTING

We find reference to departments. These codes represent physical locations within the factory which have some significance such as similarity of function or adjacent physical locations. In addition, departments may have subindicators or groups, indicating specific machines or groups of machines having interchangeable capabilities. Examples might be:

<table>
<thead>
<tr>
<th>Dept. no.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Mechanical assembly</td>
</tr>
<tr>
<td>16</td>
<td>Inspection</td>
</tr>
<tr>
<td>17</td>
<td>Punch press</td>
</tr>
<tr>
<td>19</td>
<td>Plating</td>
</tr>
<tr>
<td>20</td>
<td>Heat treat and degreasing</td>
</tr>
<tr>
<td>39</td>
<td>Hobbing</td>
</tr>
<tr>
<td>43</td>
<td>Automatic screw machines</td>
</tr>
<tr>
<td>73</td>
<td>Tumbling and polishing</td>
</tr>
</tbody>
</table>

Each department will probably have a combining...
code which further identifies location or responsibility. Frequently, inspection groups will be the department number within which the inspection operation is located.

INDIRECT LABOR LISTING

All cost systems recognize direct and indirect labor. The basis of this description is a series of statements of what to do to make the part. Each such statement or work description will be located by department and have an operation sequence code (preferably numeric) to show how to arrange the operations. At this point, we can identify those operations which can be assigned a time to perform and those which either cannot or which we choose not to assign a time. If a time is assigned in terms of time per part, we code the operation as direct labor, instantly identifying direct labor with a part number. The other operations are coded as indirect labor such as:

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>121</td>
<td>Repairs</td>
</tr>
<tr>
<td>143</td>
<td>Inspect</td>
</tr>
<tr>
<td>913</td>
<td>Stockkeeping</td>
</tr>
<tr>
<td>917</td>
<td>Finish or tumble</td>
</tr>
</tbody>
</table>

If we are systematic in how we do this, we can identify any reportable activity, and with some modification identify not only direct labor to certain inventory categories (identified by the part number) but indirect labor as well (such as 1XX to inventory A and 9XX to all inventories on some overhead basis). In addition, we can identify the class or pay rate of the described operation and its job classification if such is required by a labor contract.

MATERIALS LISTING

The description of the operations can include tool data, finish information, special notes, and any other information useful to the successful completion of the part.

It will also show the raw material, part or parts required to make the part or assembly described. It shows the amount of each part or material, describes it and if no engineering drawing exists, makes use of a pre-assigned code, such as:

<table>
<thead>
<tr>
<th>Raw material code</th>
<th>Engineering specification</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>106-049</td>
<td>1006</td>
<td>.129 brass wire</td>
</tr>
<tr>
<td>115-707</td>
<td>3055</td>
<td>.016 × 1.438 + .01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>roll stock, brass</td>
</tr>
</tbody>
</table>

where the code calls out the particular item required and the specification describes the kind of material, not the size. The MOR also shows to which department to issue the stock and how much is required for each part. If more convenient, the amount may be stated in amounts per 100 or per 1,000 parts. An ideal MOR will list sequentially the materials and labor operations in the order in which they occur, preceding the labor operation with all of the new parts or materials introduced at that operation. If material quantity cannot be measured or if we choose not to measure it, it can be identified as required but with no quantity. Usually this item is treated in this manner (always measured or never measured).

MATERIAL COST LISTING

Finally, the complete MOR will include delivery data for the completed part or assembly, and a progressive extension of the accumulated labor hours and material costs incurred at each step to completion. This resultant cost will represent the direct labor and material cost of the item represented by the MOR. This may be used as an inventory value, depending upon the system used. It requires the pre-assignment of a material cost to each purchased part or material item in the same unit of measure as used to describe its use in the MOR.

The MOR will include an issue number and date of issue which will not be the same as that on the engineering drawing but will include most if not all of those changes.

Since the use of material and labor designated as direct may not be what we originally planned or, if we pay more or less than originally contemplated, we must devise a way to measure these differences as well as the total of all coded direct and indirect costs.

Material Purchase Variation Report

The material purchase variation report identifies all direct and indirect material, and for any selected period (as a week or month) will disclose the gain or loss from plan by measuring the price paid against the price planned. This is, in the aggregate, a measure of how effectively we purchased against our planned quantities and prices and will immediately show where significant variations occur, thus permitting controlling actions.

A comparison of the amounts of material used for each production run to that called for on the MOR shows us where material wastage occurs. Usually such losses are reported by the preparation of junk tickets and reports. These will show the items being lost, their stage of manufacture (located by the sequence number of the MOR) and the reason for the loss:

<table>
<thead>
<tr>
<th>Code</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>22</td>
<td>Plating error</td>
</tr>
<tr>
<td>24</td>
<td>Set up</td>
</tr>
<tr>
<td>27</td>
<td>Handling and storage</td>
</tr>
</tbody>
</table>

By assigning a code for obsolescence, the same procedure can be used to clean out obsolete inventory. These junk tickets can also show fault or charge back information and can be summarized by these codes to identify troublesome operations or repeated errors from the same department.

1 Usually, raw materials such as wire and roll stock will include a unit of measure code, but parts are frequently assumed to be "each".
**Exhibit 1**

**SUMMARY OF LABOR VARIATION DATA**

<table>
<thead>
<tr>
<th>Dept.</th>
<th>Actual hours worked</th>
<th>MOR Standard hours earned</th>
<th>Paid hours</th>
<th>Inventory Cost hours</th>
<th>Percent efficient</th>
<th>Percent inventory variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8,649.0</td>
<td>9,623.3</td>
<td>9,939.3</td>
<td>8,793.0</td>
<td>113.3</td>
<td>+13.0</td>
</tr>
<tr>
<td>2</td>
<td>217.9</td>
<td>252.3</td>
<td>252.3</td>
<td>254.2</td>
<td>115.8</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

The transfer of parts and materials from store room to work in process is accomplished by summing the costs of the items called for by the bills of material in the MOR which should also become in some manner the quantity extended requisitions. Additional withdrawals can be made on excess materials requisitions and charged directly to excess material usage unless processed later as junk.

**Labor Variation Report**

The use of labor reporting data is somewhat more complex, but is still based upon the data included in the MOR. Additional input from the payroll system identifies each employee with a home department and a rate of pay.

The variations from planned direct labor expenditures are usually measured by hours and dollar rate per hour. The rate variation is unimportant to the control function unless the labor pay grade rate for the job is less than the pay grade rate of the employee performing the job (this is usually the only controllable rate variation).

The time or hours variation is an extremely important element of the control system, and there may be several of these variations. If the labor hours on the MOR are coded to indicate the quality of the rate, i.e., time standard, estimate, day work (no performance rate), or just a valuation rate, the variations should be presented by these groupings. Inventory groupings can provide data for ledger entries of variation by inventory account.

The MOR rates and the cost standard rates may also be different for a variety of reasons. Also pay rules may exist that permit or require approval of higher hour allowances than those earned. All of these data can be gathered by operation combining the payroll information, current MOR (the one in effect on the shop floor), costs standards, and pay actions directed by floor supervisor. One such summary appears in Exhibit 1.

These data can further be summarized by inventory category to look for problems unique to specific product lines. Notice that in Department 1 even though the labor operation was 113.3 percent efficient (bonus earned and paid if such a plan exists), the inventory cost hours show a 13 percent loss. The supervisor has efficient employees measured against current rates, but the inventory variation costs which is a function of standard or inventory value setting by the cost department shows a loss. How difficult would be the explanation to the foreman of Department 1 of 13 percent loss when he knew his people "all made the rate". Obviously the local floor control function is served only by the efficiency calculation, not the cost variation as is so often the case.

This summary shows only where problems may exist. Detailed information is required to make the summary, so it must therefore be available. If the departments have been grouped for a superintendent's use, then individual department summaries must be available. In addition, an operation by operation detail can be prepared showing the part number, employee name, MOR operation number, pieces produced, all of the hours in the summary and the efficiency and variation for each. It can be rearranged to measure employee performance, performance against part number or performance against type of standard.

The data also produces a report of direct labor hours and certain other information needed for evaluation of standards setting departments: for example, day work approval. Exhibit 2 shows such a report.

There is a wealth of information for control purposes in such a report, especially when compared with past periods to note changes.

Since not all labor is direct, the indirect must be controlled. Some of the indirect codes come from the MOR as we have seen. Others are assigned for use by foremen from the approved list such as idle time, manufacturing changes, and housekeeping.

Such a report can be in whatever detail in whatever sequence as seems useful. One such report—frequently made—looks like this:

<table>
<thead>
<tr>
<th>Account no. and name</th>
<th>Dept.</th>
<th>Current Hours</th>
<th>Period to date Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>101 Idle time</td>
<td>11</td>
<td>X X X X X X</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>X X X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>X X X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>T T T T T T</td>
<td></td>
<td></td>
</tr>
<tr>
<td>107 Set-up time</td>
<td>11</td>
<td>X X X X X X</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>X X X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>X X X X X X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>T T T T T T</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand total</td>
<td>GT GT GT GT</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Still other summaries are prepared to show only total hours and dollars by indirect account accumulated into reports by management level, and finally in total by inventory—if so coded—for posting to expense and inventory accounts.

A detailed report by employee and operation is furnished to first line supervisors, although the control system is generally more effective at all levels of supervision above that (usually the first line supervisor knows what's going on in his area).
"Techniques must be designed to satisfy the system's volume..."

### Exhibit 2
REPORT OF DIRECT LABOR HOURS

<table>
<thead>
<tr>
<th>Dept</th>
<th>Total all hours Std.</th>
<th>Percent of all Hours Est.</th>
<th>A.D.W.</th>
<th>Direct D.W.</th>
<th>Change from last period Std.</th>
<th>Percent attained on Ext.</th>
<th>Both Percent change from last period</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>106.3</td>
<td>.0</td>
<td>61.5</td>
<td>9.9</td>
<td>28.6</td>
<td>.0</td>
<td>122.2</td>
</tr>
<tr>
<td>15</td>
<td>306.5</td>
<td>21.0</td>
<td>37.1</td>
<td>19.6</td>
<td>22.3</td>
<td>1.9—</td>
<td>136.2</td>
</tr>
</tbody>
</table>

### Exhibit 3
TOTAL BUDGET SUMMARY

<table>
<thead>
<tr>
<th>Account</th>
<th>Budget Percent</th>
<th>Dollars 223,318</th>
<th>Year to date Percent</th>
<th>Dollars 215,678</th>
<th>Actual Percent</th>
<th>Dollars 215,678</th>
<th>Current period Percent</th>
<th>Dollars 417,453</th>
<th>Actual Percent</th>
<th>Dollars 403,670</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indirect labor</td>
<td>63.0</td>
<td>223,318</td>
<td>60.8</td>
<td>215,678</td>
<td>63.1</td>
<td>417,453</td>
<td>61.0</td>
<td>403,670</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor time var.</td>
<td>9.7</td>
<td>34,563</td>
<td>8.8</td>
<td>31,184</td>
<td>9.7</td>
<td>64,324</td>
<td>9.2</td>
<td>61,113</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor -junk</td>
<td>2.0</td>
<td>6,921</td>
<td>1.7</td>
<td>6,157</td>
<td>2.0</td>
<td>13,025</td>
<td>2.2</td>
<td>14,463</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Material -junk</td>
<td>1.6</td>
<td>5,570</td>
<td>1.0</td>
<td>3,521</td>
<td>1.6</td>
<td>10,534</td>
<td>1.3</td>
<td>8,335</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>8.4</td>
<td>29,796</td>
<td>9.2</td>
<td>32,754</td>
<td>8.5</td>
<td>56,191</td>
<td>9.9</td>
<td>65,843</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

All labor charges can be summarized and presented in a report for general management which takes the following form. (Usually the direct labor for the same reporting group is shown for additional comparative analysis.)

Variable indirect labor—February 1975

Month Year to date

<table>
<thead>
<tr>
<th>Percent</th>
<th>Dollars</th>
<th>Account</th>
<th>Percent</th>
<th>Dollars</th>
<th>of total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Furthermore, a spending rate report can be made for each supervisor. It would probably take the following form:

Supervisor Jones Smith
Departments 11 9
Departments 39 15
Departments 41 44
Actual expenses

| Indirect labor | 196 | 129 |
| Time variation |    (11) | 15 |
| Total          | 185 | 144 |
| Budget         | 207 | 129 |
| (Under) Over   |    (22) | 15 |
| Productive labor per day | 482 | 196 |

A recap by week can be kept, copying the worksheet for distribution as each new week is added. The determination of budget can be made using any number of techniques, the important point being that only the totals of indirect labor and variation are shown for one budget, removing the temptation to shuffle charges among accounts to conform to a more complex budget and possibly hiding the true source of the expenses.

More elaborate schedules including supervision and other departmental costs can be made. All follow the same pattern and all are based on the MOR, indirect labor account list, and the department assignments.

Finally a total budget summary (Exhibit 3) can be made to include all of the items and charts or graphs can be prepared to help top factory supervisors measure the results of their efforts.

**Conclusion**

Since all good cost accounting systems must contain the elements necessary for controlling routine operations, it seems wasteful not to develop procedures which both effectively accomplish this objective, and provide challenge for apprentice cost accountants. It should be clearly understood that the use of computers or other mechanical aids, although useful—and even required—in some cases, does not have any particular bearing on the fundamentals involved. Techniques must be designed to satisfy the system’s volume requirements and to present adequately the information collected. These will frequently call for the use of a computer.

This article demonstrates that if the proper detail coded information is provided and used in the cost accounting system and the collection of data essential to the accounting needs of the organization, it can provide endless opportunities for the development of any control report that is worth preparing. It is based on actual systems in use which have proved effective in controlling cost of large multifaceted operations.
CONDITIONAL PERFORMANCE REVIEW

The method possesses the advantage of allowing for conditional standards which change according to variations between the ex-post (actual) values of the external factors and their expected counterparts.

By Amir Barnea, Simcha Sadan and Michael Schiff

A typical distinction is made in cost accounting literature between profit centers (e.g., divisions) and cost centers (e.g., plants). For profit centers (where managerial responsibility includes the determination of the complete mix of inputs, outputs, and sales), concepts of income, or net contribution, are utilized as performance measures. For cost centers (where management is concerned with physical production only), cost and efficiency statistics are used to construct performance evaluation measures. In both cases acceptable values are established as standards from which deviations of actual performance are measured.

Most evaluation systems are designed to reflect unexpected changes in variables that affect performance. For example, profit centers utilize the "market share" concept as a specific variable which incorporates changes in industry-wide sales or profits. Cost centers, on the other hand, often use "flexible budgets" to isolate the effect of activity variations on the magnitude of fixed costs per unit. In this article we will formulate an evaluation system, called "conditional performance review" (CPR), which explicitly considers the impact of external factors utilized for the performance evaluation. Our CPR is based on a regression equation in which the performance statistic (e.g., income, efficiency) is formulated as a function of a set of variables representing the economic environment of the entity. These environmental variables are beyond the control of the profit center/cost center management for which the performance is to be evaluated.

The relationship between the performance variable which is to be determined and the external variables is derived by utilizing budgetary and historical data. This relationship is then used to evaluate the periodic performance, taking into account the realization (ex-post values) of the external variables. The proposed CPR is thus a generator of a detailed variance statement where the variance attributable to external factors is presented separately from the variance associated with management performance.

Formulating the CPR

The significant role of external factors in the determination of variations in corporate performance is evident in many empirical studies. These studies focused on the equity investor and his decision-making. In this article our attention is directed to internal management. The difference between our approach and the approach of the cited studies is substantial because our choice of the external factors depends on the span of responsibility allocated to each managerial level. In other words, a particular factor would be considered a relevant external factor in our analysis if:

1. It has explanatory power of the performance of the managerial level to be evaluated, and
2. Its values are generated by processes which are independent of the actions of the managerial level which is being evaluated.

It follows that unlike the above-mentioned studies, our external factors would not necessarily be common to all firms in the economy, or the industry, but rather they would vary from one division to another. For example, suppose that salesmen operate in various geographical areas and that population is an important variable that explains the salesmen's performance. The relevant external factor for each salesman is, therefore, the...
census figures for his region. The choice of the external factors is thus governed by the criterion of maximum explanatory power regardless of commonality with other firms. Other considerations are:

1. Quantifiability of the included variables,
2. Understanding on the part of management of what are external variables and how they are related to its performance, and
3. A feasible number of external variables. (Each additional variable should pass the test of marginal explanatory power versus costs of inclusion and possible ambiguity in the analysis resulting from its joint determination with other included variables.)

For the determination of the relationship between the performance variable and the external variables, we formulate the following equation for each managerial level which is to be evaluated:

\[ P = a + c_1X_1 + c_2X_2 + \ldots + c_nX_n \]

where:
- \( P \) = The performance variable
- \( a \) = The value of the contribution to performance of unspecified factors, mainly internal factors
- \( X \) = The value of the external variable \( j \)
- \( c \) = The constant pertaining to external variable \( j \)
- \( j = 1, 2, 3, \ldots, n \)

It should be noted that the external variables \( X_1, X_2, \ldots, X_n \) are not confined to representing factors which are external to all managerial levels of the firm. For example, the periodic income of one department could be one of the explanatory independent variables of another department, thus making it an external factor to be incorporated in the performance analysis of the department under consideration. This will be the case if, for instance, the former is a customer of the latter. Under these circumstances, in the construction of the performance equation describing the selling department, we should explicitly include a variable representing the purchasing department's operations. On the other hand, if the purchasing department is a subordinate of the selling department, the operations of the former are an internal, controllable variable. In this case, external variables describing the performance of the selling department are possibly central management budgets, industrial indices, prices of output, factors of production, and exchange rates.

Once the relationship is established and the constants \( a, c_1, c_2, \ldots, c_n \) are estimated, the standard performance value for the next period can be determined. This is done by assigning values to the external variables according to plans (budgets) or forecasted figures. For example, if the annual investment in a division is a relevant external variable in the determination of the divisional performance, the budgeted investment figure, as it appears in the corporate budget, can be used in the calculation of the standard performance. Or, if GNP is a macro variable pertaining to the description of the economic environment of the division, then the forecasted GNP for the next period, as published by a number of government and private sources, can be inserted in the performance equation as the value of the external variable—GNP.

Thus, the standard is conditional upon the ex-ante values of the external variables.

At the end of the period after the values of the performance measure and the external factors are known, a recalculation of the "standard" performance measure takes place to adjust it to the realized conditions. The actual values of the external factors are then used to compute the "should be" performance standard. In other words, the analysis of performance is "conditional" on the realized values of the relevant external variables. The deviation of the conditional standard from the actual value of the performance measure may then be computed to yield the component of performance which is subject to management control.

An Illustration

The AB Company is a manufacturer in the electronic industry. The company has two operating divisions. Division A manufactures electronic equipment and Division B produces electric appliances. Division A sells in the outside market as well as to Division B. Each division is a profit center making independent production and marketing decisions. The investment funds, however, are allocated to the two divisions on the basis of pro forma divisional budgets. These budgets are prepared by each division under the guidelines issued by the corporate management. The guidelines include economic assumptions at the macro and industry levels as well as initial indications concerning the availability and allocation of the investment budget.

SETTING THE PERFORMANCE EQUATIONS

To find the performance equations for each division and the company as a whole, multiple regression analyses of past divisional contributions were performed for Divisions A and B separately and for corporate profits. For each unit, several alternative specifications of external variables were considered. Every specification was tested to determine how well the external variables under consideration explain the annual performance (contributions for Divisions A and B, and profits for the company) series, and to what extent they account for the variability of these performance variables. For each division and for the company as a whole, the specification with the "most" explanatory power was selected as the specification for the performance equation.

It was found that for Division A a specification consisting of three external variables had the most explanatory power. These were:
1. The electronics production index
2. The sales of Division B
3. The allocated investment budget

For Division B, the specification with the most explanatory power included the following two external variables:
1. The disposable income index, and
2. The allocated investment budget.

For the company, the specification with the most explanatory power was found to have only one external variable—the GNP.

Accordingly, the performance equations, constructed on the basis of these specifications, can now be stated. The performance equation for Division A is:

\[ P_A = a_A + 0.167 X_{A1} + 1.2 X_{A2} + 0.15 X_{A3} \]

where
\( P_A \) = Contribution (performance) of Division A
\( a_A \) = Contribution of all internal factors of Division A
\( X_{A1} \) = The electronics production index
\( X_{A2} \) = The sales of Division B
\( X_{A3} \) = The allocated investment budget to Division A

The constants, 0.167, 1.2, and 0.15, pertaining to the three external factors, were obtained from a regression analysis of the past performance of Division A.

The performance equation for Division B is:

\[ P_B = a_B + 0.06 X_{B1} + 0.18 X_{B2} \]

where
\( P_B \) = Contribution (performance) of Division B
\( a_B \) = Contribution of all internal factors of Division B
\( X_{B1} \) = The disposable income index
\( X_{B2} \) = The allocated investment budget to Division B

The constants, 0.06, 0.18, pertaining to the two external factors, were obtained from a regression analysis of the past performance of Division B.

The performance equation for the company as a whole is:

\[ P_{AB} = a_{AB} + 0.042 X_{AB} \]

where
\( P_{AB} \) = Corporate earnings (performance)
\( a_{AB} \) = Contribution of all corporate internal factors
\( X_{AB} \) = GNP index

The constant, 0.042, pertaining to the external factor, was obtained from a regression analysis of the past performance of the company.

SETTING THE PERFORMANCE STANDARDS

For the coming year the information communicated to the divisions and the appropriate corporate personnel included the following:
1. The expected value of the GNP index is 1,270.
2. The expected value of the electronics production index is 102.
3. The expected value of the disposable income index is 480.

In addition, through negotiation between the divisions and corporate management, Division A has been allocated an investment budget of 26 for the coming year and Division B has been allocated an investment budget of 30. During this process, the expected sales of Division B is determined to be 2, and is, of course, communicated to Division A. Also, Divisions A and B have estimated their internal factors to be 9.9 and 6.3, respectively, and corporate management has estimated the total corporate internal factor to be 10.9.

Accordingly, the expected contributions (performance) of Division A, Division B, and of the company as a whole are very easily determined as follows:

For Division A
\[ P_{Ae} = 9.9 + 0.167(102) + 1.2(2) + 0.15(26) \]
\[ P_{Ae} = 33.2 \]

For Division B
\[ P_{Be} = 6.3 + 0.06(480) + 0.18(30) \]
\[ P_{Be} = 40.5 \]

For the AB Company
\[ P_{ABe} = 10.9 + 0.042(1,270) \]
\[ P_{ABe} = 64.2 \]

MEASURING PERFORMANCE AND VARIANCE ANALYSIS

At the end of the period, the actual contributions from each of the two divisions and from corporate earnings were determined to be: 32.0 for Division A, 43.5 for Division B, and 64.2 for the company as a whole. Thus, the total variances are:

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Expected</th>
<th>Actual</th>
<th>Variances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division A</td>
<td>33.2</td>
<td>32.0</td>
<td>1.2 U</td>
</tr>
<tr>
<td>Division B</td>
<td>40.5</td>
<td>43.5</td>
<td>2.0 F</td>
</tr>
<tr>
<td>Corporate</td>
<td>64.2</td>
<td>64.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

A further analysis was performed utilizing the ex-post (actual) values of the external variables. This analysis then produced the following new specifications:
"The method possesses the advantage of allowing for conditional standards..."

<table>
<thead>
<tr>
<th>EXHIBIT 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>DETAILING OF OVERALL PERFORMANCE VARIANCES</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External variables deviations</th>
<th>Internal variables deviations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Magnitude</strong></td>
<td><strong>Direction</strong></td>
</tr>
<tr>
<td>Division A</td>
<td>33.0 - 33.2</td>
</tr>
<tr>
<td>Division B</td>
<td>39.7 - 40.5</td>
</tr>
<tr>
<td>Corporate</td>
<td>60.9 - 64.2</td>
</tr>
</tbody>
</table>

Electronics production index = 101
Disposable income index = 475
GNP index = 1,190
Sales of Division B = 2.2
Investment capital allocated to Division A = 24
Investment capital allocated to Division B = 27

These specifications were substituted in the performance equations, which yielded the following results:

For Division A

\[ P_{Aa} = 9.9 + 0.167(101) + 1.2(2.2) + 0.15(24) \]
\[ P_{Aa} = 33.0 \]

For Division B

\[ P_{Ba} = 6.3 + 0.06(475) + 0.18(27) \]
\[ P_{Ba} = 39.7 \]

For the AB Company

\[ P_{ABA} = 10.9 + 0.042(1,190) \]
\[ P_{ABA} = 60.9 \]

The overall variances were detailed into variances attributed to changes in the external variables and variances caused by internal factors. These are illustrated in Exhibit 1. The variances attributed to external variables are not relevant to the management level being evaluated provided the atomistic assumption holds. Thus, the separation of the overall variance into components consisting of external and internal factors leads to a more effective internal measure of performance. A more effective internal measure of performance will provide for an improved control and decision system.

**Conclusion**

A conditional performance review method has been presented which accounts explicitly for variations in performance caused by external (uncontrollable) factors. The method possesses the advantage of allowing for conditional standards which change according to variations between the ex-post (actual) values of the external factors and their expected counterparts. Given an appropriate specification of the external factors on performance, the CPR procedure permits a detailed breakdown of the performance variance into a component which relates to management responsibility and a component which relates to externalities. Knowing the "noise" associated with such measurement, we may analyze the deviation of managerial performance utilizing tests from statistical theory. Since performance is measured conditionally (given the ex-post values of the external factors), it is possible to obtain efficient estimates of managerial performance net of environmental distortion.

4 The operations of the company or the division have no significant impact on the magnitude of the external variables.
ACCOUNTING FOR HUMAN ASSETS

When evaluating progress to date in human resource accounting, one must also consider the attitudes of many people toward the measurement of human value.

By Homer R. Figler

In the lifetime of most living accountants, the field of accounting has grown from a trade to a recognized profession.1 It is only during the past few years, however, that interest in human resource accounting (HRA) has grown with considerable research effort being focused on the field, but mainly at the academic level. The major emphasis of this research has been placed on methods of reflecting values of human assets on the balance sheet—an approach that should be applauded and encouraged.

Progress to Date

Everyone agrees that an organization’s employees are its greatest asset, but typical management actions in most businesses today show little understanding of this concept, let alone how to acknowledge and apply it.

For their part, accountants have focused their primary attention on developing a measure of human value that can be listed in a financial statement. This approach has caused the people involved to proceed with extreme caution for fear of creating a monster that might destroy them. Accordingly, with some notable exceptions, most of the work that has been done has concentrated on various simple, usually easily defended measures, such as recruiting costs, hiring costs, training costs, and salary. Other more statistically sophisticated indices have been studied, but with little more success. Moreover, many of the attempts that have been made to account for human assets have been performed within the traditional concepts of cost accounting, where machines constitute the basic model. But men and machines are different, and traditional concepts of cost accounting are not always relevant, or even transferable from the older to the newer concept of accounting.

When evaluating progress to date in HRA, one must also consider the attitudes of many people toward the measurement of human value. Self-confident people tend to hold positive attitudes, but a majority of individuals resist being measured. When first introduced, most performance appraisal programs meet major attitudinal obstacles simply because most people dislike the concept of being measured, and many even fear the results of measurement may produce.

Progress in the field has also been slow because of the necessary caution exercised over including any item in the balance sheet. But it is time to recognize that the value of HRA is not limited to the summary of assets and liabilities describing the fiscal health of an organization. Indeed, at least for the moment, this use of HRA should be set aside. Priority should instead be given to developing the HRA techniques needed to provide information for daily management decision-making. The objective is human assets values.

A vast number of decisions regarding people (hiring, training, transfers, separations, and so on) are made in every organization every year. These decisions are almost always made on the basis of critical, immediate, monetary incidents. Due regard is rarely given to the real value of the person involved or to the true cost of the action that is taken. If a machine breaks down, for example, it is usually repaired, because it is cheaper to replace defective parts than it is buy a new machine. But value and replacement cost are frequently ignored when a person makes a mistake (breaks down), even though an inexpensive repair might be as fully adequate for a man as for a machine.

Extensive research effort has been devoted to the determination of the cause of poor machine performance. Expensive and highly detailed feasibility studies are made to assess the means of obtaining maximum value for capital equipment investment. Extensive research has also been conducted to determine the cause of poor "people performance."

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1 The same can be said of the personnel profession, although the two fields are at different points in their respective developments at this time, largely because of the greater legal regulation of accounting procedure. Accounting for human assets values represents a point at which the two professions are co-extensive.
but the information produced is seldom taken into account in the evaluation of a human error. Human errors (especially at the executive level) can and often do exceed the cost of a few rejected parts manufactured by and used for a machine; the investments are often greater, yet repair costs are frequently cheaper.

That a machine begins depreciating immediately upon purchase and eventually becomes obsolete, is a generally accepted fact. But generally a man increases in value as he gains training and experience; the extent of the improvement varies broadly from one individual to another. Moreover, some people continue to increase their knowledge and skills until the day they retire, while others "peak out" at some point in their career and thereafter either remain static or begin to deteriorate. Hence, we are dealing with a very complex topic.

Why HRA in the First Place?

Here are five of the more obvious uses of human resource accounting. Also noted is whether the primary value of each can be realized on a short or long range basis:

VALUATION OF THE MANPOWER INVENTORY (SHORT RANGE). Management personnel agree that an industrial or business organization consists of three basic elements: men, money, and materials. The accounting profession focuses on the value of the last two, and the final results of that effort are found in the financial statements of the organization. The first element, men (human assets), is missing almost completely even though one measure of an organization’s health and profit-making potential is an accurate evaluation of its manpower inventory.

COST OF TRAINING VERSUS INCREASE IN VALUE OF HUMAN ASSETS (LONG RANGE). The immediate dollar cost of training is often the only criterion used in determining whether or not a personnel project should be undertaken. A different view of training costs would be obtained if it were shown that the value of the manpower inventory could be increased significantly by the expenditure.

WASTE CONTROL (SHORT AND LONG RANGE). A company officer found hitting machinery with a sledge hammer would probably be fired. The same individual, however, may be wasting vast amounts of actual dollars in misusing the manpower inventory. For this action he might receive commendation. Compare the following: A company purchases a machine costing $25,000 and depreciates it over a ten-year span. After five years, the machine breaks down and $3,000 is required to repair it. Few executives would hesitate to spend the $3,000 and add that sum to the existing (depreciated) value of $12,500. In simple terms, the cost of repair is more than offset by the continued production that can be expected from the machine.

On the other hand, a company invests $25,000 in a person (cost of hiring, orientation, training) and after five years the person makes a mistake (breaks down). All too often, no consideration will be given to remedial action (repair). Instead, the man is junked (fired).

In the real world, the two examples are identical. But the action in the second case indicates a failure to recognize the person involved as a human asset with a measurable and repairable value to the organization.

COST OF MEETINGS (SHORT RANGE). In one sense, this item is another example of item 3 above. But it is such a flagrant misuse of company assets that it is listed separately. Everyone in the business world complains constantly about the number of meetings that must be attended and the extent to which these waste time. If a company’s board of directors were faced with a financial statement comparing the cost of such meetings against their accomplishments, a new policy would be quickly written.

EMPLOYEE MOTIVATION (SHORT AND LONG RANGE). Few people can say what their hourly cost is to the company. If an officer, an executive or other salaried employee were to be fully aware of what one hour of his time was worth, the motivational impact might cause him to use his time as productively as possible.

For example: Two executives meet on Monday morning and discuss Sunday’s televised football game for an hour. If they were aware that their conversation cost the company $186, it is possible they would confine such a conversation to lunch or after work.

It is assumed here that any motivational value of such knowledge is directly related to the manner in which management uses and reinforces knowledge of hourly cost for human assets. Hitting people with a club (even if only a verbal club) does not produce motivation, but there are many management techniques that can be used with good effect.

Human resource accounting can find a practical application in an organization only through full cooperation of the accounting and personnel departments with management. To understand such cooperation more fully, each of these three fields of endeavor will be examined from five standpoints: the body of knowledge that each encompasses, the source of practitioners in each field, the categories of practitioners, attitudes toward HRA, and challenges to each field.

Management

THE BODY OF KNOWLEDGE. Most of management’s information relates to the business side of management: a management of money and material assets, investment, financial transactions, and so on. Only a small portion of the available body of knowledge contains reference to the “people management” aspect of the management. Although there are some excellent books—and even an occasional course—available to managers there are as yet few sources
that clearly define the "how to do it" aspect of that knowledge.

SOURCE OF MANAGEMENT PRACTITIONERS. A number of schools are producing people trained in the science of management. Unfortunately, little time or effort is devoted to the management of people, and no time whatever is directed to the student's understanding of the primary material with which he must work: knowledge of human behavior.

Despite the increasing flow of graduates from business schools, a majority of today's managers were promoted into management from other areas, such as finance, engineering, and manufacturing. Many managers therefore must attend college night courses, or participate in management development programs. Such courses add to their effectiveness, yet still too little emphasis is given in these information sources to the people-managing aspect of the manager's responsibility.

CATEGORIES OF PRACTITIONERS. Any attempt to categorize the total group of management people in business and industry must lead only to frustration. But a few general statements can be made that apply to a majority of management people. Almost without exception, managers who have an inadequate understanding of human behavior do not recognize it. The concept, "I understand people because I am one," is prevalent. Moreover, proven management techniques available today are not widely used, and are not even well understood by most managers.

Management behavior in times of crisis frequently exemplifies the worst in bad management practices. All too often during recessions, bad profit years, and other crises, management actions show complete disregard for sound people-management techniques, investment in human assets, and in many cases, even simple common sense.

Managers can therefore be classified as good or bad, but the criteria for such classification differ so broadly from one organization to the next that development of a classification system for general application is impossible.

ATTITUDES TOWARD HRA. So few organizations have initiated programs in human resources accounting that no general statement of attitude can be made. That more than a small percentage of all the managers in the country are even aware that HRA exists is doubtful.

One might conclude therefore that HRA will experience the same difficulties that have beset most new programs involving people. If sufficient conviction in the value of HRA can be generated by accounting and personnel practitioners, however, positive management reaction may well ensue.

CHALLENGES TO THE FIELD REGARDING HRA. As the manager becomes better acquainted with the medium through which he works, his personal effectiveness will grow and his sympathy for advanced management techniques will also increase. In order to implement these techniques though, management must first foster cooperation between the accounting and personnel departments—after, of course, making sure that these organizations possess the appropriate talents necessary to participate in an HRA program.

Finally, management faces a major hurdle in overcoming the negative attitudes most employees have about being "measured." This problem exists in all organizations except those in which performance appraisals (in any of its many forms) is a well-accepted management tool.

Accounting

BODY OF KNOWLEDGE. The field of accounting has a well-organized and well-defined body of knowledge. It has grown to the status of a profession in this country, and its body of knowledge continues to expand on the basis of private research, legal precedent, and government regulation.

SOURCE OF PRACTITIONERS. With rare exception, accounting practitioners in most organizations are graduate accountants who have been broadly exposed to the same basic body of knowledge. Certainly, there are wide variations in the caliber of both the schools teaching accounting, and the accounting graduates themselves, but it is rare to find in all but the smallest organizations an individual who has not graduated from some college with an accounting degree.

CATEGORIES OF PRACTITIONERS. Because of the foregoing, any categorization of accounting practitioners must be based largely upon individual differences in ability. A rough categorization, however, can be made, based upon education and experience:

1. Non-degree holders—There are a few people employed as accountants (not including accounting clerks, and bookkeepers) who do not hold college degrees. Proportionately, this group is diminishing in size, except in the very smallest organizations.

2. Accounting degree holders—The bulk of accounting practitioners today hold a degree with a major in accounting from some college or university.

3. Advanced accounting—Accountants with advanced training constitute a group that is growing rapidly in size. This group includes those with graduate degrees in accounting, CPA certificates, and others who have taken advantage of training without necessarily receiving any special professional recognition.

ATTITUDES TOWARD HRA. Work on human resource accounting has been carried out mostly by accountants who fit into category three above. Viewing the field as a whole, however, it can be said that the majority of practicing accountants have developed little enthusiasm for HRA, at least as indicated by the number of organizations that have adopted such programs.

"Management behavior in times of crisis frequently exemplifies the worst practices."
CHALLENGES TO THE FIELD OF ACCOUNTING. If HRA is to advance at the most desirable rate, strong support must come from accounting. This represents the first of the two major challenges facing the accounting profession in this area. HRA requires a high degree of sophistication of accounting techniques and deserves the best the profession has to offer.

The second challenge is the knowledge of people. The accounting profession is oriented primarily toward measurement in discrete units and deals with events that, given the necessary assumptions, have some degree of predictability. As objects of study, people are far less predictable than are the subject matters with which accountants normally deal, and it would be highly advantageous if the accounting practitioner involved in HRA were knowledgeable about human behavior.

**Personnel**

**BODY OF KNOWLEDGE.** The personnel field only recently began to develop a formal body of knowledge. Many experts would deny that a single body of knowledge exists; there is some evidence to support that there are two. On the one hand, there is the body of knowledge the practitioner uses in his day-by-day handling of personnel matters, such as recruiting, selection, training, and compensation. On the other hand, there is the body of knowledge that includes all the exciting new concepts developed in recent years (organization development, management by objectives, manpower planning). It is safe to say, however, that the average practitioner today operates mostly in the former area and has little or no knowledge of the latter.

The average personnel practitioner’s understanding of people (the primary object of his efforts) constitutes a third body of knowledge; one that is not well-organized. Certainly it is not well-assimilated terms readily assimilated by the practicing personnel specialist, except in the most broadly defined terms.

**SOURCE OF PRACTITIONERS.** Personnel practitioners today come generally from three sources. First, an ever-growing number are graduates of college programs emphasizing personnel administration. These people are exposed to various personnel techniques, such as interviewing, recruiting, forms design (use and retention), performance appraisal, and training. Most of these programs devote little attention to the study of human behavior.

The second source of personnel practitioners is that of people who have had some training (night courses, self-instruction) and some practical experience working in the personnel function of an organization.

A third group—still too large even today—is composed of personnel practitioners who have no training or other qualifications for their jobs, but who hold the responsibility because there is no one else available, or he or she “likes people.” In short, these people are in personnel because of the still prevalent attitude that you don’t have to know anything to be in personnel.

**CATEGORIES OF PRACTITIONERS.** The best personnel practitioners are those who have a broadly gauged and functional knowledge of human behavior and who have, in addition, accumulated a good bit of formal knowledge, either through a degree program, some other form of formal training, or personal study.

A second category consists of the majority of personnel practitioners who have about as much knowledge of people as the average person does, and whose training (either through a degree program or other means) is barely adequate. Finally, there is the category, dwindling in size, composed of practitioners who have limited formal knowledge and even less understanding of people.

**ATTITUDES TOWARD HRA.** Few personnel practitioners have the necessary knowledge to establish a system of values for an organization’s human assets. It could be postulated that many practitioners would view the challenge of measuring human assets as presenting so many difficulties that their attitudes toward it would be essentially negative.

**CHALLENGES TO THE PERSONNEL FIELD.** The challenges the personnel practitioner faces are essentially the same as those listed for both management and accounting. In essence, these center upon learning enough about HRA to assess the feasibility of it being a viable management tool in the organization, establishing a liaison and dialogue with the accounting department to both determine the degree of mutual interest that exists and outline a program to be followed, participating in convincing management of HRA’s feasibility, and finally, acquiring the knowledge and skills that he will need to make a positive contribution.

**Conclusion**

The valuation of an organization’s human assets is a new concept that should lead to human resource accounting. In the process, however, HRA should have practical applications that will pay for the effort expended by the individual organization. It should also make a large contribution to the broader field of study being conducted now mainly on the college campus.

With a minor amount of study and guidance, and full support from top management, an HRA program producing positive results in short order can be started in any organization.

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1 Some time ago, the author spoke to a group of several hundred personnel practitioners on this subject. No one in his audience professed to have sufficient knowledge of the subject to explain it to someone else.
PAROLEE COUNSELING SERVICE

There are a growing number of opportunities for management accountants to help improve, as volunteers, the efficiency and effectiveness of organizations in whose purposes they believe.

By Richard C. John

In most nonprofit organizations, there are two distinct levels of management. General policy direction is usually provided by a volunteer Board of Directors, while day-to-day operations are the responsibility of a professional administrator. Relatively few administrators, however, have adequate training in business or financial administration. Their professional background and training most often is in the organization's major program service area. For example, the administrator of the Parolee Counseling Service is a trained social worker and counselor. Thus, the combination of a part-time, volunteer Board of Directors and a financially unsophisticated administrator is the usual management pattern in most nonprofit organizations. This lack of day-to-day financial expertise makes an adequate reporting and control system essential to efficient and effective operation.

The nonprofit organization operates in the private sector of the economy. Although its continued existence may be dependent to some extent upon government favor (tax exemption and/or deductibility of contributions), it relies upon the contributions of private donors to carry out its program of service. This applies to all nonprofit organizations from the small neighborhood charity to the huge foundation whose "community" may extend to the far corners of the earth. As a private institution, albeit with considerable public responsibility, the nonprofit organization competes for a share of the economic resources of the private sector.

The nonprofit organization's management has three levels of responsibility. It is immediately responsible to the governing Board of the organization, it is responsible to the donors whose contributions make the organization's activities possible, and it is responsible to the general public. This public responsibility is based upon the organization's acceptance of exemptions from taxation and from other governmental restrictions normally applied to businesses. As the recipient of donor contributions and important government favors, the nonprofit organization bears a responsibility to operate with efficiency and effectiveness. Efficiency is a cost-related measure; the quantity of service rendered is related to the cost of rendering that service. Effectiveness is the extent of total organizational service relative to the human need it claims to serve.

Reporting on its efficiency and effectiveness is one of the major functions of a nonprofit organization's accounting system. Until very recently, however, the accounting and information systems of most nonprofit organizations have been incapable of providing usable efficiency or effectiveness information to either management or the public. This deficiency results from the failure of management to recognize the unique kinds of accounting information it needs. In business and government millions of man-hours have been devoted to the development of measurements of costs and profits. Techniques for the determination of returns on business investment and methods for the presentation of business financial status are today the output of highly sophisticated information gathering processes. In government, accounting focuses on legal accountability for tax collections and it has been expanded to encompass cost analyses of services performed. Nonprofit organizations, on the other hand, have been existing in a "third world," in which the accounting practices of business and/or government cannot be readily applied. In fact, because nonprofit organizations bear a surface similarity to some government organizations, nonprofit accounting has

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1 Some nonprofit organizations such as hospitals rely upon donors for only initial capital and, from time to time, for major expansions of physical facilities. Day-to-day operating costs of such organizations are covered by charges for the services they render, although these charges are sometimes paid by the government.

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"Financial management policies must be in tune with complete disclosure."

been relegated to the back pages of governmental accounting textbooks. However, public interest demands that the unique information needs of nonprofit organizations be recognized and that accounting and reporting systems be implemented to provide that information.

Example

As an example, let us assume that a nonprofit organization, the "Parolee Counseling Service," has as its purpose the conduct of an intensive counseling service to aid the adjustment of individuals newly paroled or released from prison. To render these services, the organization incurs costs. The range of these costs includes provisions for physical facilities in which the counseling is to take place, the costs for services of expert counselors (as paid professionals or as volunteers), the costs for clerical and secretarial help to maintain necessary client records, and the other sundry costs of maintaining a counseling program.

EFFICIENCY

The rendering of counseling services by the Parolee Counseling Service must, of course, be performed efficiently. By implication, the Parolee Counseling Service tells its donors that it can provide better services than can be provided by government or by other nonprofit organizations. Therefore, the organization must be judged by how much service it renders for the total cost it incurs.

EFFECTIVENESS

The effectiveness of the counseling program can be weighed in two interrelated ways. In terms of quantity, how may of the total number of newly paroled/released individuals are served by the program? In terms of quality, how well served are those who participate? The answers to these two questions will not have full meaning unless the program results are presented along with a full statement of program costs. The effectiveness of the organization is evaluated in terms of the quantity and quality of its services and the full costs of providing that service. If one believes that rational giving is socially desirable, then donors are entitled to the kinds of information that will help them to make rational decisions.

Basic Standards in Nonprofit Reporting

There are three fundamental standards which must be met in designing systems to serve the information needs of the nonprofit organization management, the donors and the general public. These standards are stated in terms of the necessary outputs of the system, and as a minimum must provide:

1. Comprehensive reports of operations
2. Full reports of financial condition
3. Full disclosure of all resources received and what was done with them

The system must provide comprehensive reports of operations. All accounting transactions must be recorded to reveal the full accounting cost of each of the programs and supporting services. Cost centers must be established as needed for management control and account coding must identify each expenditure by both program and type of expense. In addition to accounting data, the information system must compile accurate data on the quality and quantity of services provided in each of the organization’s program areas.

The system must provide full reports of financial condition. All assets and all liabilities of the organization must be disclosed regularly in reports to donors and the general public. Financial management policies must include complete disclosure of all resources held by the organization.

The system must provide full disclosure of all resources received and what was done with them. Financial management policies must be in tune with complete disclosure. In public reports, the organization must implement this standard in easy to understand report formats. The typical donor cannot be expected to have as much interpretive experience in reading financial reports as an investor in a business. To serve a rational donor properly, the organization’s reports must be both comprehensive and understandable.

The Audit Guide

Reporting practices have been established by the American Institute of Certified Public Accountants for several categories of nonprofit organizations. The most comprehensive of these is the audit guide for voluntary health and welfare organizations. The

### Exhibit 1

**STATEMENT OF SUPPORT, REVENUES, EXPENSES AND CHANGES IN FUND BALANCES**

(Year ended December 31, 1974)

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public support and revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$35,000</td>
<td>$5,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Fees for vocation training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>500</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Total support and revenues</td>
<td>$35,500</td>
<td>$5,500</td>
<td>$41,000</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Counseling</td>
<td>$24,000</td>
<td>$24,000</td>
<td></td>
</tr>
<tr>
<td>Vocational training</td>
<td>7,500</td>
<td>8,000</td>
<td></td>
</tr>
<tr>
<td>Research</td>
<td>2,000</td>
<td>2,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Total program services</td>
<td>$31,500</td>
<td>$2,500</td>
<td>$34,000</td>
</tr>
<tr>
<td>Management and general</td>
<td>$3,000</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>Fund-raising</td>
<td>2,500</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Total support services</td>
<td>$5,500</td>
<td>$5,500</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>$37,000</td>
<td>$2,500</td>
<td>$39,500</td>
</tr>
<tr>
<td>Excess (deficiency) of support and revenues over expenses</td>
<td>($1,500)</td>
<td>$3,000</td>
<td>$1,500</td>
</tr>
<tr>
<td>Fund balances, 1/1/74</td>
<td>6,000</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Fund balances, 12/31/74</td>
<td>$4,500</td>
<td>$18,000</td>
<td></td>
</tr>
</tbody>
</table>

1. Rational donors probably would direct their support to the most efficient among similar organizations seeking donations.
guide prescribes balance sheets that meet each of the standards cited above including full disclosures of all assets and liabilities. It also prescribes for the disclosure of all revenues received and an extensive disclosure of operating costs. The audit guide requires an accounting and information system that had not previously been found in nonprofit organizations. As systems are designed to satisfy external reporting requirements, however, slight modifications may be needed which will furnish very useful management data.

Revenue and Expense Reporting

The audit guide requires that all revenues received during a reporting period be disclosed in one statement. Titled, "The Statement of Support, Revenue and Expense and Changes in Fund Balances," it brings together in one statement all of the reporting period's transactions in all of the funds of the organization. An example of this statement as it applies to the Parolee Counseling Service is shown in Exhibit 1. Note that the costs of supporting services such as general management and fund raising are segregated. In addition, it provides complete disclosure of all revenues received, and it presents the organization's expenses functionally, in terms of how much the organization spends for each service it renders. For instance, it tells the reader that $24,000 was spent for direct counseling services. This is an important piece of information, both internally and externally. The $24,000 figure represents a first step in evaluation of the organization's program. The logical second step is to ask: How much of what kinds of counseling service were provided for the $24,000? Examples of operating statistics and related unit costs could include:

1. Number of hours of counseling and the cost per hour;
2. Number of clients served, the average number of hours per client and average cost per client; and
3. Since the obvious goal of the organization is successful parolee adjustments to "civilian" life, a measure expressing the cost per "successful" adjustment might be developed.

Statement of Functional Expenses

In addition to the statements cited above, the audit guide prescribes a third financial statement. Titled, "The Statement of Functional Expenses," it is intended to set forth the nature of costs in each functional category of program services and supporting services. The Parolee Counseling Service has reported three program services (counseling, vocational training and research) and two supporting services (management/general and fund raising) in its "Statement of Support, Revenues, etc." These five functions are now presented as columnar headings in the "Statement of Functional Expenses." See Exhibit 2. Note that the "Statement of Functional Expenses" includes expenses from both restricted and unrestricted funds. The statement emphasizes what the organization does.

Reports for the Board

The Board has the responsibility for determining the program services of the organization and for establishing priorities. It also allocates resources among program services and supporting services. The Administrator's responsibility is to carry out the Board's wishes. Most Boards will meet only quarterly, or at the most once a month. At these meetings, a mere financial report is not sufficient. The Board members should receive both financial reports and analyses of operations. The analyses should show the degree of compliance with the policies and priorities set by the Board. They should show how actual results have met, exceeded, or fallen short of Board projections, and should be clearly reported. In the case of the Parolee Counseling Service, reports to the Board included data about the extent of counseling services actually rendered. While the Board does have a continuing interest in the unit costs of service, it must also know how the volume of service rendered compared to projected volume. It must know how the services actually performed (and their cost) compare with the Board's financial budget and program budget.

EXHIBIT 2

STATEMENT OF FUNCTIONAL EXPENSES
(Year ended December 31, 1974)

<table>
<thead>
<tr>
<th>Program services</th>
<th>Counseling</th>
<th>Vocational training</th>
<th>Research</th>
<th>Total programs services</th>
<th>Management and general</th>
<th>Fund raising</th>
<th>Total supporting services</th>
<th>Total expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries including fringe benefits</td>
<td>$21,000</td>
<td>$5,500</td>
<td></td>
<td>$26,500</td>
<td>$2,000</td>
<td>$1,000</td>
<td>$3,000</td>
<td>$29,500</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,000</td>
<td>200</td>
<td></td>
<td>1,200</td>
<td>400</td>
<td>600</td>
<td>1,000</td>
<td>2,200</td>
</tr>
<tr>
<td>Telephone</td>
<td>100</td>
<td>200</td>
<td></td>
<td>300</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>400</td>
</tr>
<tr>
<td>Rent and occupancy</td>
<td>1,600</td>
<td>300</td>
<td></td>
<td>1,900</td>
<td>200</td>
<td>300</td>
<td>500</td>
<td>2,400</td>
</tr>
<tr>
<td>Postage</td>
<td>200</td>
<td>100</td>
<td></td>
<td>300</td>
<td>100</td>
<td>200</td>
<td>300</td>
<td>600</td>
</tr>
<tr>
<td>Awards and grants</td>
<td>1,500</td>
<td></td>
<td></td>
<td>3,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>100</td>
<td></td>
<td></td>
<td>400</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenses before depreciation</td>
<td>$23,900</td>
<td>$7,900</td>
<td>$2,000</td>
<td>$33,800</td>
<td>$2,900</td>
<td>$2,400</td>
<td>$5,300</td>
<td>$39,100</td>
</tr>
<tr>
<td>Depreciation of furniture and equipment</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>200</td>
<td>400</td>
<td></td>
</tr>
<tr>
<td>Total expenses</td>
<td>$24,000</td>
<td>$8,000</td>
<td>$2,000</td>
<td>$34,000</td>
<td>$3,000</td>
<td>$2,500</td>
<td>$5,500</td>
<td>$39,500</td>
</tr>
</tbody>
</table>

"... the "Statement of Functional Expenses"... emphasizes what the organization does."
**EXHIBIT 3**

**BALANCE SHEETS**

(Year ended December 31, 1974)

<table>
<thead>
<tr>
<th>Assets</th>
<th>Current funds</th>
<th>Endowment fund</th>
<th>Total all funds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Restricted</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 1,000</td>
<td>$ 4,000</td>
<td>$ 500</td>
</tr>
<tr>
<td>Investments</td>
<td>6,000</td>
<td>10,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Pledges receivable (net of provision for uncollectible)</td>
<td>4,000</td>
<td>2,000</td>
<td>6,000</td>
</tr>
<tr>
<td>Furniture and equipment (net of accumulated depreciation of $2,000)</td>
<td>3,000</td>
<td>400</td>
<td>3,400</td>
</tr>
<tr>
<td>Accrued interest receivable and prepaid expenses</td>
<td>400</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$14,400</strong></td>
<td><strong>$16,000</strong></td>
<td><strong>$2,000</strong></td>
</tr>
<tr>
<td>Equities</td>
<td>$ 9,900</td>
<td></td>
<td>$ 9,900</td>
</tr>
<tr>
<td>Fund balances:</td>
<td></td>
<td></td>
<td>$ 2,000</td>
</tr>
<tr>
<td>Restricted for endowment</td>
<td></td>
<td></td>
<td>$ 2,000</td>
</tr>
<tr>
<td>Restricted for current purposes</td>
<td></td>
<td></td>
<td>16,000</td>
</tr>
<tr>
<td>Invested in furniture and equipment</td>
<td>3,000</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td>Board-designated endowment</td>
<td>5,000</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td>Unrestricted and available for current purposes (deficit)</td>
<td>(3,500)</td>
<td></td>
<td>(3,500)</td>
</tr>
<tr>
<td><strong>Fund balance totals</strong></td>
<td><strong>$ 4,500</strong></td>
<td><strong>$16,000</strong></td>
<td><strong>$2,000</strong></td>
</tr>
<tr>
<td><strong>Total equities</strong></td>
<td><strong>$14,400</strong></td>
<td><strong>$16,000</strong></td>
<td><strong>$2,000</strong></td>
</tr>
</tbody>
</table>

It must know whether general administrative costs and fund-raising costs are in line with Board projections and policy. It must know whether the administrator has carried out program priorities as defined by the Board, or whether he conducted the various programs in terms of his own set of priorities. Finally, it must know whether the administrator regularly receives and reviews management reports relating to his day-to-day responsibilities.

**Reports for the Administrator**

The audit guide prescribes that, when necessary, salaries and the costs are to be allocated among the various programs and supporting services. The administrator can utilize and adapt the basic reporting system to carry out more effectively his supervisory responsibilities. Weekly time reports from professional staff can do more than to identify the proportion of their working time spent in various programs, and/or support functions. The reports can include the number of client contacts and other appropriate quantitative data, which may be of greater potential benefit to the administrator than the accounting uses. They represent opportunities for the administrator to guide the development of his staff to better utilization of its time. Frequent self-analysis of how he uses his own time may also result in a more efficient and effective administrator.

Monthly financial statements comparing actual to budget must also be reviewed by the administrator and he should seek explanations of any significant differences. In this respect, volunteer management accountants can perform a useful public service by helping organization personnel discover the kinds of information most useful in their work.

A "daily report" can be as useful in the management of a nonprofit organization as it is in any business. Daily and year-to-date totals of pledged receivables, receipts, fund-raising expense, and units of service rendered in each program area are among the kinds of information that many administrators will use. Again, the expertise of Board members or other volunteers can be utilized to help determine the nature and format most suitable to the individual administrator.

**Reporting Financial Position**

The audit guide prescribes a balance sheet that presents all of the assets of all the organization's funds in one statement. The guide has tightened up the definitions of "restricted" funds to include only those revenues, the uses of which have been restricted by the organization.

A second aspect meriting Board attention is the endowment. Was the "Board- designated" endowment created to make an abbreviated "current" balance sheet show to donors a greater than actual need? Or, was it created because the organization...

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*Too frequently in the past, nonprofit organizations have presented "current fund" balance sheets that did not give a true picture of the financial health of the organization. In those cases, a true picture was lacking because excess monies had been designated by the Board for specific purposes and were moved out of the current fund to some special fund.*

Continued on page 34
SOCIAL RESPONSIBILITY
FINANCIAL STATEMENT

The programs themselves represent the combination of resources and manpower organized in pursuit of the desired effect on human behavior and/or the environment.

By Charles H. Brandon and Joseph P. Matoney, Jr.

In surveying the 1971 and 1972 annual reports of FORTUNE'S 500 Industrials, Dennis R. Beresford noted a 22 percent increase in the number of firms disclosing social responsibility measures between 1971 and 1972. Despite this rather positive finding, his description of the adequacy of current reporting practices by reporting firms shows they have a number of deficiencies or limitations. In describing the limitations of current reporting policies, Beresford implicitly suggests the need for reporting practices that:

1. Are more quantitative, precise, nonselective, normative and comparative;
2. Show a concern for matching costs and benefits;
3. Present dollar figures subject to the fiscal cycle restraints;
4. Show a consistency in the definition of social costs; and
5. Present a statement of social measurement accounting policies.

Social Disclosure

Any discussion of alternative methods of disclosing corporate social responsibility efforts and accomplishment must begin with the current state of the art. Beresford found that most corporations chose to disclose their social activities information in the president's letter or some other descriptive section of the annual report. An illustration of this approach can be found in the following narrative excerpt from the 1973 annual report of Chrysler Corporation:

"In 1973, minority employees represented 27.6 percent of Chrysler Corporation's U.S. employment."

"Chrysler has also expanded its programs to recruit minority college graduates, to help minority employees in career development within the Corporation, and to offer increased participation in special counseling programs for high school and college students throughout the United States."

Besides its lack of comparability, and the absence of any attempt to match cost and benefits over the operating cycle, there is also a tendency for this type of social disclosure to be buried amid the descriptive pages of the annual report. Thus, report readers in focusing on financial statements may largely ignore social responsibility disclosures in their current narrative form.

A possible solution to this difficulty is to present the disclosures in a separate financial statement. Besides permitting an orderly presentation of a corporation's social activities, this approach lends itself to the matching of costs and benefits over defined operating cycles. It also highlights the social responsibility information and makes it competitive with other financial statement information in attempting to attract the reader's attention and interest.

The financial statement which we favor has a format adapted from the program approach to management employed in the public sector. Since public sector managers have long struggled with the same type of problems now being faced by those engaged in promoting social responsibility, it seems reasonable that the program approach to organizing resources may be successfully transplanted to the corporate context. In fact, the excerpt from the Chrysler Corporation Annual Report discussing various minority recruitment and employee benefit programs suggests that such an approach may be evolving already.

The Program Approach

Since the program approach is goal oriented, the program itself must begin with a statement of "Social Responsibility Goals." See Exhibit 1. A goal is defined as "... a desired state of affairs based on current knowledge and values." The concept of a goal may be illustrated by the following hypothetical corporate goals:

Controlling goal:
To provide those public goods and/or services which will fulfill the corporation's responsibilities to its owners, employees, customers, and the general public

Substantive goals:

Environmental—To provide a means of production whereby resources are used efficiently with minimum disturbance to the ecological balance

Employee and community welfare—To provide the opportunity for employment, promote the individual and group security, and support recreational activities

Having established its value-oriented goals, a corporation can then set its objectives. "An objective... can be described quantitatively in terms of units of desired impact to be achieved within a given time frame and employing available resources." The goals focus on individuals and the environment. The numbers assigned to measure objectives, on the other hand, quantify the impact of the corporation's efforts upon individuals and the environment. Examples of objectives for the second preceding substantive goals would be:

Employee and community welfare objectives:
To provide a minimum of health care and pension programs for employees

To provide job training for a specific percent of those in the community who are unemployed

To contribute a minimum amount of resources to support minority education, housing, health, and business

To establish and/or support a specific number of corporate/community organized athletic teams

Once a corporation establishes its goals and objectives (and its related impact measures), it designs and implements the appropriate programs. The programs themselves represent the combination of resources and manpower organized in pursuit of the desired effect on human behavior and/or the environment. It is through its various programs or designed activities that a corporation succeeds or fails to meet its social responsibilities.

A final note concerning this methodological framework concerns its dynamic nature and the restraints under which it operates. Once they are formulated all of the individual components are subject to change. The framework itself is therefore restrained only by the social consciousness of the corporate hierarchy as translated into goals, and the availability of resources, manpower and time to carry out the designed programs.

The Social Responsibility Program Statement

The Social Responsibility Program Statement, Exhibit 2, is divided into four separate sections covering: I Human resources, II Physical resources, III Product or service contributions, and IV Community involvement. This format is consistent with the taxonomy suggested by the NAA Committee on Accounting for Corporate Social Performance. In addition, it should be noted that the information included in the report could be derived from current narrative disclosures in published reports and discussions with corporate officials of actual companies.

A brief commentary on various components of

---

[Exhibit 1]

SOCIAL RESPONSIBILITY GOALS

I. Human resources

Controlling Goal
To provide for the physical and mental health and well being of employees

Substantive Goal
Employee health—To promote employee health by providing a safe job environment, a system of health care insurance and outlets for physical exercise and recreation
Employee education—To encourage employee education by supporting general educational courses and financing of college and university instruction

II. Physical resources

Controlling Goal
To provide for the efficient use of physical resources in our manufacturing operations through reduction of waste and an awareness of environmental impacts—To promote reclamation of land damaged by past operations

Substantive Goal
Manufacturing Efficiency—To reduce the amount of physical waste generated by operations by recycling wastes encouraging care in production

III. Product or service contributions

Controlling Goal
To provide a product safe and reliable in use, with recycling possibilities where possible and minimal packaging

Substantive Goal
To improve product safety and reliability through research and development

IV. Community involvement

Controlling Goal
To be a responsible participant and supporter of community affairs

Substantive Goal
To provide financial and advisory support to local minority business and training for unskilled workers through direct action and support and through charitable contributions

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[Notes]
4 Ibid., p. 16.
5 NAA Committee on Accounting for Corporate Social Performance, First and Second Progress Reports, Management Accounting, February 1974, and September 1974.
Exhibit 2

SOCIAL RESPONSIBILITY PROGRAM STATEMENT

I  Human resources

<table>
<thead>
<tr>
<th>Program</th>
<th>Committed resources</th>
<th>Effect on human behavior and/or environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company medical plan</td>
<td>$______ Health insurance contribution</td>
<td>___ Number of employees covered</td>
</tr>
<tr>
<td>Job safety program</td>
<td>$______ Expended for non-compulsory safety equipment</td>
<td>$______ Claims paid during year</td>
</tr>
<tr>
<td></td>
<td>__________ Man-hours spent on safety seminars and instruction</td>
<td>___ Injuries/1000 man-hours</td>
</tr>
<tr>
<td></td>
<td>$______ Suggestions adopted</td>
<td>___ Ratio of employee injuries to industry average</td>
</tr>
<tr>
<td>Leisure and recreation</td>
<td>$______ Land value</td>
<td>Employees participants in softball league</td>
</tr>
<tr>
<td>Education</td>
<td>$______ Employees participating in company courses of instruction</td>
<td>$______ Man-hour usage of company athletic facilities</td>
</tr>
<tr>
<td></td>
<td>$______ Tuition paid</td>
<td>Employees successfully completing company courses of instruction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Credit hours financed at colleges or universities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Degrees awarded to employee participants in tuition reimbursement program</td>
</tr>
</tbody>
</table>

II  Physical resources

<table>
<thead>
<tr>
<th>Program</th>
<th>Committed resources</th>
<th>Effect on human behavior and/or environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company recycle program</td>
<td>$______ Man-hours spent on special studies</td>
<td>___ Tonnage recycled</td>
</tr>
<tr>
<td>Land reclamation program</td>
<td>$______</td>
<td>___ Ratio of waste/final output</td>
</tr>
<tr>
<td></td>
<td></td>
<td>___ Energy usage/final output</td>
</tr>
<tr>
<td></td>
<td></td>
<td>___ Ratio of reclaimed/damaged land</td>
</tr>
</tbody>
</table>
| III  Product or service contributions
<table>
<thead>
<tr>
<th>Program</th>
<th>Committed resources</th>
<th>Effect on human behavior and/or environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product safety</td>
<td>$______ Product research man-hours</td>
<td>___ Reduction in tons of non-recyclable packaging</td>
</tr>
<tr>
<td>Packaging reduction</td>
<td>$______ Product research man-hours</td>
<td>___ Tons of product or packaging recycled</td>
</tr>
</tbody>
</table>

IV  Community involvement

<table>
<thead>
<tr>
<th>Programs</th>
<th>Committed resources</th>
<th>Effect on human behavior and/or environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local business development</td>
<td>$______ Funds contributed</td>
<td>___ Businessmen receiving free consulting</td>
</tr>
<tr>
<td>Community fund</td>
<td>$______ Contributions</td>
<td>___ Workers trained and removed from welfare</td>
</tr>
<tr>
<td></td>
<td>___ Man-hours devoted to lecture on United Fund activities</td>
<td>___ Percentage of employees contributing fair share</td>
</tr>
</tbody>
</table>
the Social Responsibility Program Statement follows.

PROGRAMS
The statement is broken down into programs. A suggested approach for listing the programs is by their order of importance as perceived by corporate management. For example, if management perceives a more direct and immediate responsibility to their employees than to the geographic region they may list employee programs first. The presentation of the various programs would be descriptive in nature. Dependent upon their divisibility, programs may also be listed as single or multi-faceted.

COMMITTED RESOURCES
Resources committed to each program are detailed. Resources may be money, manpower, or physical property. When possible these resources should be expressed in dollars. These incurred outlays or costs will probably also appear in the income statement as expenses, although the amount of detail shown may be different.

EFFECT ON HUMAN BEHAVIOR
AND/OR ENVIRONMENT
This column—the key to the statement—discloses the results or efforts of the committed resources of the firm. While current impact measures are at best crude and at worst inadequate, this does not prevent accountants from using those measures that are available and adopting more sophisticated measures as they become available in the future. The measures should be quantitative where possible and supplemented by additional disclosure.

Another purpose of this column is to provide a means of comparing actual results with the objectives set by management. This will probably result in the same problem that occurs anytime a standard is established. Because standards (objectives) may be set optimistically, realistically, or pessimistically, the variance (difference between objective and effect) may not always be a true indicator of relative achievement.

Conclusion
The Social Responsibility Program Statement we propose has a number of favorable characteristics to recommend it. Comparing it to the current reporting deficiencies noted above, the statement is designed to utilize current quantitative measures of social responsibility performance and encourage the development of more quantitative measures in the future. It reports on the results of a single year's operation, thus it permits inter-period comparability. It is suitable for adoption by a wide range of firms, thus it has the potential of permitting inter-firm comparability. It focuses on relating resource outlays to accomplishments, and is therefore also consistent with the matching concept. Finally, it embraces an overall structure for encouraging an organized and directed commitment to social responsibility objectives, thus it promotes meaningful action towards those objectives.

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truly needs an endowment? If the latter, what steps might be taken to obtain endowment contributions? Might an endowment campaign obtain contributions that the organization would otherwise not get? In considering these questions, the Board needs all the input it can get from its financially knowledgeable members.

Conclusion
Too often, the full talents of management accountants have not been used by the nonprofit organizations on whose Boards they served. When attempts were made to use these talents, primitive accounting systems and a reluctance to spend money usually combined to minimize the management accountant's usefulness. However, the financial reporting requirements, prescribed by the AICPA and increasingly being adopted by United Funds, and in required governmental reports, are presenting new service opportunities to the management accountant.

Because of reporting requirements, nonprofit organizations are improving their accounting systems. Boards of Directors are seeking to utilize the expenditures for increased accounting in ways that will improve the efficiency and effectiveness of their organizations. There is a growing need for management accountants to analyze information needs and develop management controls in small and medium-size nonprofit organizations. Some of this work, because of scope, may be performed by public accountants. However, there are a growing number of opportunities for management accountants to help improve, as volunteers, the efficiency and effectiveness of organizations in whose purposes they believe.
COUNTING CHICKENS BEFORE AND AFTER THEY HATCH

The first step in producing broiler chickens is to produce the pullets that lay the eggs.

By Otto K. Lange

Agricultural accounting has come a long way since the time of the family farm. In those days, chickens ran free around the farm and you never really knew how many chickens you had. Today, chicken farming is a highly sophisticated, computerized business. There is a need for accurate accounting of all operations from formulating diets to marketing the chickens. In this article, we will take a look at accounting in a typical broiler chicken producing company.

The first step in producing broiler chickens is to produce the pullets that lay the eggs. A pullet is grown for 24 weeks before it is old enough to lay an egg. Accounting for the pullet is very simple. All costs are accumulated into the flock until the time the bird starts laying eggs. These costs include feed, vaccination, fuel, litter, the cost of the bird, insurance, labor, etc.

When pullets start laying eggs they are transferred to a growing house. They will remain there for their entire 32 week egg-laying period, after which they are sold. At the time the pullets are transferred to the growing house they are capitalized by dividing the total cost to-date by the total number of birds. Each bird is depreciated to its estimated salvage (selling price) value. This fixed cost plus the variable costs which include feed, medication, labor, and miscellaneous items determine the cost-per-egg produced. Unit control is also necessary to keep separate inventory records for hatching eggs and cull eggs.

Accounting for Feed

Raw materials and additives are delivered to the mill's storage area where they are kept until they are drawn for milling and mixing. After the mixing process, the feed is stored, awaiting delivery to the farm. Milling feed requires unit control at the raw materials level, the additives level, and the mixed feed level. This is necessary because the mixed feed cost also includes the milling and mixing costs which must be inventoried and valued separately from the raw materials.

When raw materials and additives are delivered to the mill's storage area, a receiving ticket is prepared by the receiving clerk. The receiving ticket is attached to the trucker's delivery receipt and all copies are sent to the accounting office each day. The individual receiving tickets are posted to the daily receiving report, which is a detailed accumulation record for raw materials and additives received.

A milling report is prepared for each day's feed, milled and mixed. As raw materials are drawn from the storage area, a record of the total amount taken is maintained and recorded on the daily milling report. A copy of this daily report is sent to the office for recording by the accounting department.

A feed delivery record is prepared for all feed leaving the mixed feed storage area. The shipping foreman is responsible for the amount being shipped. He signs all feed delivery tickets and delivers them to the office at the end of each day. The delivery tickets are in triplicate. One copy is for the office, one copy is for customer or grower and one copy with the customer's acknowledgment or receipt is retained by the truck driver for return to the office.

Daily inventory records of raw materials and mixed feed are maintained by the accounting department. The records are used for reordering of raw materials and additives and for the control of feed received, processed, and delivered.

The Hatchery

Broiler chickens are produced from eggs laid by the breeder pullets. Some eggs are purchased from outlying farms that also maintain breeder pullets.

3 A broiler chicken is a young bird fit for broiling or frying, the weight of which runs up to about three and one-half pounds.

4 One rooster is required to service ten laying hens.
We can now create a perpetual record of all dressed poultry in the cooler.

In those cases, pickup and delivery reports are prepared. This information is recorded by the truck driver before he leaves the farm. One copy of the report is left at the farm and the remaining two copies are retained by the driver and are turned in at the processing plant. When the eggs are unloaded at the plant, the receiving clerk signs for the eggs received.

The eggs now go into the incubator. When these eggs hatch in about 21 days, the percent hatched is computed. The cost of the eggs plus hatchery expense divided by the number hatched gives the cost of the chicks.

The new chicks are now placed in broiler houses where they are grown for eight weeks. The accounting department accumulates all costs incurred during this period. The cost of the chick, plus the feed cost accounts for the major part of the cost. However, fuel, vaccination, debeaking, sanitation and labor are also included in the total cost. When the eight weeks are up and the birds are ready for processing, the processing plant is notified to pick up the live birds.

**Meat Processing**

Meat processing requires controls at three levels. The first control is of live head purchased, the second control is of live weight purchased, and the third control is of dressed weight processed.

The first control begins during the pickup and hauling phase of live chickens at the broiler farm. When birds are delivered to the processing plant, the live head are weighed and accounted for. The ideal method for weighing birds is to weigh them right on the truck when delivered to the receiving station. From this report the total delivered weight can be recorded on a “live haul report.” The dead on arrivals are weighed separately and this weight is also recorded on the live haul report. (The DOAs are recorded by head count as well as by total weight.) The receiving foreman reports DOAs to the USDA inspector for his condemnation report and to the plant office.

Where government regulations are in order, the in-plant condemnation report is designed to comply with those regulations. Generally, this includes the date inspected, flock number or lot number, number of dead on arrival, weight of DOAs, number and weight of head condemned. As required by local specifications, the report lists the number of head condemned by the reason for the condemnation such as: leukemia, tumors, cadavers, contamination, over scald, etc.

When the birds are killed, weight shrinkage occurs, due to blood loss, eviscerating, and removal of non-desirable parts. The net weight remaining after the processing of the birds is known as the yield. A columnar worksheet is used to report by flocks which birds were killed for the day. This report contains the following information:

1. Date of kill
2. Grower name
3. Flock number or lot number
4. Number of birds delivered to the plant
5. Number of birds condemned
6. Pounds to the plant
7. Pounds condemned
8. Net pounds processed
9. Average weight per live birds

This report is totaled at the end of each day to determine live weight delivered to the plant and net live weight processed in the plant.

**Dressed Weight Record**

After each lot of poultry is processed, individual boxes are sized and weighed. It is at this point that we begin the third level of control. As each box of poultry is weighed, it is listed on the “dressed weight record” according to size and weight. A separate record is used for each lot of poultry processed. This permits a separate yield report to be prepared for each lot. From the dressed weight report, we get a box count and weight count of poultry processed by lot. We can now create a perpetual record of all dressed poultry in the cooler. The box count is checked to the perpetual records each day, and weights are checked at the end of each week.

**Conclusion**

With accurate inventory counts and controls the operation can determine quite readily its cost per unit. In a sense, it counts the chickens before and after they hatch.
DOCTORS INCORPORATED?

To incorporate is one thing; to act as a corporation quite another.

But if you don’t act like one, you may run afoul of the IRS.

By Leo J. Benjamin

Just because one or more doctors form a professional corporation is by no means any assurance that the IRS or the tax courts are going to recognize the practice as having been incorporated; the mere insertion of the letters "P.C." on the doctor’s stationery means absolutely nothing.

If one or more doctors incorporate and still choose to practice in the same business manner as they have in the past, they leave themselves vulnerable to attack. To be a corporation then, the professional practice must function as a corporation. If the practice does not have a predominance of corporate characteristics, the tax courts could disallow all the tax shelter benefits for which the P.C. was incorporated—including disallowance of the retirement trust. In short, to be a corporation in name only is not enough.

Three Questions Commonly Asked About the Professional Corporation

What are the primary characteristics which distinguish an incorporated practice from a partnership?

An incorporated practice will usually have a predominance of the following:

1. Associates
2. Profit motive
3. Centralization of management which exercises supervision over the acts of others
4. Limited liability
5. Free transferability of shares
6. Continuity of life
7. Corporate attributes
8. Recognized legal rights of corporations

Is there any set formula for determining the price at which stock may be sold back to or purchased from the professional corporation?

There are two generally accepted formulas. One formula makes use of a low book value and the other follows a high book value. Many professional corporations make provisions in the certificate of incorporation for realistic low book-value formulas which exclude good will, accounts receivables, and work in process but which include current appraisals of securities and real estate owned by the P.C. This formula provides a practical method to follow in attracting younger professionals with little cash to invest. The high book-value formula favors the departing stockholder. It does, however, become a problem when a stockholder departs as a result of being discharged as opposed to being retired.

If all officers, shareholders, and directors are required by law to be licensed professionals, how can a one-man P.C. comply with the corporate characteristics test?

Check the business code law of your state. You may find an exception which permits the one-man P.C. to have anyone act as secretary or as assistant secretary. But concern about the one-man P.C. is justified because he must make every effort to maintain his practice in a business manner which most closely resembles that of a corporation, right down to the smallest detail.

Shareholders—A Corporate Characteristic

All corporations have shareholders. But in the normal course of business, how many times do shareholders take an active part in management? It would be more normal to say that shareholders, as individuals, do not usually take on the day-to-day responsibilities of corporate affairs. Nevertheless, if you expect the shareholders to manage your corporation, such authority and responsibility must be substantiated within the articles of incorporation or within the corporate by-laws.

In the event of challenge, the tax courts will only consider what your shareholders do and do not do. Since shareholders do elect boards of directors, do hold regular meetings and do keep minutes of such meetings, the shareholders of your professional corporation might well do the same. If your shareholders act in a manner not consistent with the normal activities of shareholders, however, your corporation better be endowed with other essential features in order to pass the “predominance of corporate characteristics” test.

L. J. BENJAMIN

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Shareholders must also act in a legal manner. This means compliance with your state business law codes. For example, most states require all officers and directors to be licensed professionals. Therefore, before you consider inviting a member of your family to be a shareholder, check applicable state laws. One may find that ownership of shares in a professional corporation is legally limited only to those licensed to practice the profession in which the organization is engaged.

But Are They Really Partners?

What shareholders do not usually do is earn income for a corporation. The IRS and the tax courts have repeatedly held that professional income be taxed directly to the persons who earn it. The questions then are these: In your practice who is actually earning the income, the shareholders or the corporation? Who is doing the business, the incorporated practice or the professional working on his own outside that organization? Where do you spend most of your time? Are you really employed by the hospital where you are associated rather than by your professional corporation? In the true sense of the word, who is your employer? Who is responsible for supervising the quality of your work?

If shareholder professionals conduct their practices individually and separately on the outside, rather than together and jointly through the corporate structure on a continuing basis, the IRS may reasonably assume that the corporation is not the primary source of income. It could, with justice, conclude that the individual doctor—not the corporation—is earning the income. At best, the IRS may conclude that the professionals are in “deed” operating a partnership.

Shareholders, however, are certainly employed by corporations, and in the case of a professional corporation, essential corporate characteristics must exist to validate the employment of doctors. Evidence may have to be provided. Professional shareholders should be employed by a P.C. under an employment agreement and with a reasonable compensation formula for the professional services they render to the corporation. For this, they should receive a salary check drawn against the bank account of the corporation.

If the corporation is presumed to be earning the income, does the board of directors allow it reasonable compensation as a return on invested capital, or at least a yield based upon its good will? After all, it may be said that over and above the services of the individual doctors, a portion of the corporation’s income is due to its reputation, good name, or good will. In other words, an incorporated practice may be said to be greater than the sum of its individual doctors.

Issuing New Stock

For tax purposes, care should be exercised over the manner in which stock is issued. Shares issued to a new stockholder should be fully paid for, but if the stock is to be acquired in return for services to be rendered, the receipt of stock will result in taxable income to the new shareholder. Any form of bargain sale constitutes a taxable event to the new shareholder and a deduction to the corporation. It is possible, however, to incorporate without a taxable event taking place.

A tax-free exchange occurs when stock is fully paid for at the time it is received. A tax-free incorporation may result when one or more doctors transfer property to a corporation solely in exchange for stock of the corporation and where they, immediately after the exchange, wind up in control of the professional corporation.

Redeeming Old Shares

Characteristically, shareholders also enter into stock redemption contracts and do arrange buy and sell agreements. Such legal arrangements, however, must be spelled out in advance within the certificate of incorporation. Buy and sell agreements are especially necessary for P.C.s with two or more shareholders and special provisions should be made for professionals who become incapacitated before retirement age.

Maintaining Control

In some states a minority shareholder of a woman P.C. can enjoy equal authority with the majority shareholder when acting in the capacity of a director. Conceivably, a junior professional with a 10 percent stock interest in a P.C. can have the same voting power as a senior doctor with a 90 percent stock interest, unless of course your state permits the by-laws to call for a vote by the number of shares held.

How are your voting rights distributed? Consideration should be given to employment contract terms or to corporate by-laws which set forth and clearly define voting rights. Such voting rights should be structured so as to prevent two stockholders from arbitrarily discharging a third stockholder. While reviewing these provisions, also include in your consideration the conditions under which the board of directors may be legally empowered to discharge a corporate officer. Attention to such details could prevent an ironic situation whereby a senior founding stockholder of the corporation were to be discharged without due cause by a vote of his fellow and junior professional stockholders.

Little Things Mean a Lot

In the course of business routine, seemingly inconsequential matters can hold telling evidence of how well you do or do not adhere to corporate characteristics. To illustrate, take a typical day at your office. When the telephone rings, does your receptionist answer “doctor’s office” or does she reply giving the name of the incorporated practice?

Take a closer look at your “place of business.” If an IRS agent were to visit your office would he find clearly visible a sign proclaiming your incorporated practice? In the waiting room, for example, would he find your business cards with the name of your corporation as well as the names of your professional associates? Behind your receptionist’s
desk would it be possible to show him stationery
and billing statements under the letterhead of your
corporation? Could you supply an IRS auditor with
corporate records such as accounts receivable, ac-
counts payable, corporate balance sheets, profit and
loss statements, checkbooks and bank accounts?

If you rent rather than own the premises where
you practice, could you show an IRS agent a lease
made out in the name of the corporation? To whom
are your utility bills addressed: The corporation or
to a doctor? Does your corporation issue an annual
report?

If these “little things” are absent you may be
failing to comply with the characteristic methods
by which corporations usually conduct their busi-
ness.

Fringe Benefits Versus Corporate Purpose

Last and perhaps most important to professionals
are the tax shelter benefits permissible under the
corporate mantle. Retirement benefits qualify as
corporate characteristics, but do you realize they
may take on a different meaning as far as the IRS
is concerned? Pension and profit-sharing plans—as
well as other tax benefits—are closely considered
by the IRS mainly to establish what your corpora-
tion’s intent might be.

Why did you form a professional corporation in
the first place? What is the true purpose of your
incorporated practice? If ever challenged by the
IRS it would be most imprudent for you to answer
that you incorporated for the exclusive purpose of
obtaining those tax shelter benefits which otherwise
are not available to professionals as individuals or
as partners. Remember, it is more characteristic of
corporations to have as their primary reason for
existence, the facility to carry on a profitable, effi-
cient, and more successful business through the
creation of satisfied clients. Tax shelter benefits, on
the other hand, normally are considered secondary
(though desirable) by-products of being employed
by a corporation. In no way should they be iden-
tified as the corporation’s primary purpose, even
though they may be, in fact, corporate character-
istics.

In any case, it is wise to consider the installation
of all beneficial plans, Pension and profit-sharing
plans, group term life insurance, health insurance,
major medical insurance, disability insurance, medi-
cal expense reimbursement plans, wage continua-
tion plans are appropriate parcels to be wrapped in
your package of tax-free fringe benefits. One item
of particular importance to the one-man P.C.: Do
not overlook making a corporate resolution author-
izing payment of a $5,000 death benefit per em-
ployee to a designated beneficiary.

Conclusion

To incorporate is one thing; to act as a corpora-
tion quite another. But if you don’t act like one,
you may run afoul of the IRS. The certificate of
incorporation, the articles of incorporation, the cor-
porate by-laws, and corporate resolutions which
follow must, from the very beginning, anticipate any
major contingencies. Do not wait for the problem
to arise before looking for solutions to such ques-
tions as:

1. How do you prove to the IRS that your P.C.
really is a corporation?
2. How would you go about issuing stock to a new
doctor/shareholder?
3. How do you redeem the stock of a doctor who
has decided to move halfway across the country?
4. What are the standards to be used in determin-
ing the reasonableness of salaries paid to profes-
sionals?

If answers to these questions are not known at
the time you are forming the professional corpora-
tion, do not take another step until you do know
them. Otherwise you may wind up having to sus-
tain your position against the IRS in court.

If you are now incorporated, by all means, do not
take your P.C. for granted. A simple check list of
corporate characteristics is all you may require to
avoid a future workload of headaches. Seek profes-
sional advice if necessary. If you’ll forgive the al-
lusion: “An ounce of prevention is worth a pound
of cure.”
CORPORATE ACQUISITIONS: TAXABLE OR TAX-FREE?

If the buyer's stock is still in the seller's portfolio when the seller dies, then his heirs will avoid any capital gains tax on the built-in tax liability.

By James A. Swigart

In some cases the methods used to acquire property will result in taxable acquisitions. In other cases the acquisitions are tax-free. In the latter case, the transactions are such that neither the seller nor the buyer pays federal income taxes at the time of acquisition. However, there are certain disadvantages with tax-free acquisitions which must be considered together with the obvious advantages.¹

Typically, in acquisitions of closely-held corporations, the transaction will be controlled by the motivations of the seller. Since income taxes are a significant part of the seller's concern, one should determine at the outset what the needs of the seller are and whether his needs can be accommodated.

Taxable Acquisitions

In general, there are three forms of taxable acquisitions involving corporations. The first is a purchase of all or part of the acquired corporation's assets. The second is a purchase of the acquired corporation's stock with the intention of operating the corporation as a subsidiary. The third involves a purchase of the acquired corporation's stock followed by a liquidation of the corporation into the purchasing corporation. In this last form of acquisition, the buyer is in reality purchasing assets whereas the seller is selling stock.

These three forms can be used in connection with a variety of techniques. Generally, the acquiring corporation will pay cash for the assets or stock it is purchasing. The cash can be paid in a lump sum at the time of acquisition or in installment payments over a period of years. The installment method is commonly used to spread out the tax liability of the seller, and requires, among other things, that no more than 30 percent of the sales price be paid during the first year.

Another technique requires the acquired corporation to first adopt a plan of liquidation (under Internal Revenue Code Section 337), then sell its assets and liquidate within a twelve-month period. Under this approach, no gain or loss is recognized by the corporation, but gain is recognized by the shareholders when the corporation is liquidated. This approach avoids a double tax, i.e., one at the corporate level and a second at the shareholder level. Further, it usually allows capital gain treatment to the shareholders. However, unlike the installment method, all of the gain must be reported at the time of liquidation.

In taxable acquisitions, the buyer's tax basis in the assets or stock acquired equals the price paid. If stock is purchased, the buyer must liquidate the acquired corporation within two years or a potential write-off (through depreciation, amortization, etc.) of any premium paid will be lost.

Tax-Free Acquisitions

There are three principal forms of tax-free acquisitions, also called "reorganizations." For ease of identification, these forms are known as (A), (B), and (C) reorganizations, labeled after the subparagraph numbers of Internal Revenue Code Section 368(a)(1), which defines tax-free reorganizations.

An (A) reorganization is a merger of the corporation to be acquired into the acquiring corporation pursuant to the laws of one of the states. The (A) reorganization is the most flexible of the reorganizations. The acquiring corporation can pay a considerable amount of cash or other property in addition to stock. In return, it obtains the assets and assumes the liabilities of the acquired corporation which then ceases to exist.

A (B) reorganization is an acquisition by one

¹The term "buyer," as used in this article, means the acquiring corporation; the term "seller" means the shareholders of the corporation to be acquired. Also, the corporation to be acquired is presumed to be a closely-held corporation, i.e., one controlled by a small number of shareholders.
corporation of the stock of another corporation in exchange solely for its voting stock (or voting stock of its parent). A (B) reorganization involves a contractual arrangement between the acquiring corporation and the shareholders of the acquired corporation. Note that in a (B) reorganization only voting stock can be used. In the other types of reorganizations, the purchaser can give a certain amount of cash or other property to the sellers.

A (C) reorganization is the acquisition of substantially all of the properties of a corporation in exchange for the acquiring corporation’s voting stock (or voting stock of its parent). The (C) reorganization is somewhat more flexible than the (B) reorganization, in that a limited amount of cash or other property can be given to acquire the remainder of the properties. Generally, the term “substantially all” has been defined to mean 80 percent of the fair market value of all the properties. Liabilities of the acquired corporation may be assumed in this reorganization, but if property other than voting stock is used, the assumed liabilities will be treated as cash for purposes of satisfying the 80 percent test.

**Taxable Versus Tax-Free**

The tax requirements of the seller will be of prime importance in determining the form of the transaction. It must be recognized, however, that a discount of the selling price will generally be necessary under a tax-free acquisition. This discount is required because the buyer will be assuming the acquired corporation’s tax basis in the assets received. Since tax basis is usually lower than fair market value, there will be a “built-in” tax liability in these assets. Therefore, in future years, the buyer will pay higher taxes because of lower depreciation deductions and higher taxable gains upon disposal.

The buyer’s stock which is transferred to the seller will also have a “built-in” tax liability. The basis of the buyer’s stock will not be its current fair market value, but will be identical to the basis in the assets or shares the seller surrenders. If the seller intends to dispose of the stock in the near future, he will incur a capital gains tax at the date of the sale. Combining this adverse result with the built-in liability that the buyer must assume can result in a double tax. To avoid this, the seller should plan to retain a large portion of the buyer’s stock (if a tax-free deal is contemplated).

In some cases, the individual who owns a controlling interest in the selling corporation may be in poor health or advanced in age. Either of these facts will contribute to a tax-free deal if he is willing to hold the buyer’s stock until his death. If the buyer’s stock is still in the seller’s portfolio when the seller dies, then his heirs will avoid any capital gains tax on the built-in tax liability. Moreover, the heirs will receive an increase in basis to current fair market value.

If the buyer uses “purchase” accounting to record a tax-free acquisition on his books, the basis of the assets acquired will normally be higher for book purposes than for tax purposes. Purchase ac-

**Questions and Answers**

*Will the buyer guarantee the tax liability of the seller, i.e., either the amount of tax or the tax-free status of the acquisition?*

It would be a rare instance where the buyer would want to guarantee or warrant the tax liability of the seller. The tax impact of acquisitions can be quite severe and there may be a time lapse of several years before the actual tax liability is certain. The seller, however, should be asked to warrant the tax liability of his corporation for all pre-acquisition years, and, if necessary, should provide adequate protection to the buyer through an escrow arrangement.

*What is a “Subchapter-S” corporation, and does it matter if the corporation to be acquired has elected Subchapter-S status?*

A Subchapter-S corporation is sometimes referred to as half corporation, half partnership. Although it is treated as a corporation for most purposes, its profits are not taxed at the corporate level; rather, they are divided among the shareholders and taxed at the shareholder level. However, when a corporate buyer becomes a shareholder in a Subchapter-S corporation, the Subchapter-S status automatically terminates, retroactive to the first day of its fiscal year. This result can trigger substantial tax liabilities. Therefore, it is very important that one determine at the outset whether or not the acquired corporation is a Subchapter-S corporation.

*What about the liabilities of the acquired corporation? Can the buyer assume these?*

Under each of the tax-free methods, liabilities of the acquired corporation can be taken over by the buyer. The presence of liabilities will require different planning depending upon the form of acquisition used. For example, in a (B) reorganization, the liabilities remain in the acquired corporation, which becomes a subsidiary of the buyer. Therefore, the liabilities are not those of the buyer, but of the acquired subsidiary. In a (C) reorganization, the liabilities may (and usually do) become those of the buyer. In addition, they are deemed to be a cash equivalent to determine the 20 percent limitation discussed above.
What about the acquired corporation's contingent liabilities, such as potential law suits?

If these contingencies are significant, one might prefer not buying the stock of the seller's corporation. By acquiring assets instead of stock, these contingent liabilities remain with the seller's corporation, whether the acquisition is taxable or tax-free. This result assumes that a transferee liability will not be a problem under state law.

What happens if the seller's corporation wants to retain part of its assets?

In a (C) reorganization, it is not required that the buyer acquire all of the assets of the seller's corporation. If the retained assets constitute only a small portion of the total assets, a tax-free reorganization can still be used. However, if these assets are a large portion of the total, one will have difficulty in arranging a tax-free deal.

Can a tax-free reorganization occur between a corporate buyer and an individual?

No, the tax-free provisions are operative only between two corporations. Individual taxpayers sometimes attempt to incorporate their business and shortly thereafter enter into a tax-free reorganization. However, the Internal Revenue Service may view this as a sham, and declare that the transaction is taxable.

If one decides upon an installment sale, does interest have to be provided in the contract?

No, but if four percent or more is not included, the Internal Revenue Service may impute interest on the unpaid balance at a rate of five percent. (Note that proposed regulations may increase these percentages.)

Will state and local taxes affect the transaction?

Yes. State income taxes are becoming increasingly more important. Many states now charge between six to eight percent of taxable gains, and the rate can go as high as twelve percent. Real estate transfer taxes can also be an important factor.

Is the term "tax-free" somewhat of a misnomer?

Yes. More accurately, the reorganizations provide a deferral or a postponement of taxes. The transaction is "free of taxes" only at the time of acquisition.

What about depreciation recapture and investment credit recapture?

Under all three forms of reorganization, depreciation and investment credit will not be recaptured unless a Subchapter-S corporation is involved. Generally, full recapture will result from a taxable transaction.

Will the seller always get capital gain treatment?

No. If the seller receives cash or other property (besides stock) in a tax-free deal, he will have to pay tax on that portion of his gain represented by the cash or other property. All or part of this gain may be taxed at the higher ordinary income rates, rather than at capital gain rates.

Will the seller be able to immediately sell the buyer's stock which he receives in a tax-free reorganization?

Normally not. Under the rules of the Securities and Exchange Commission and the New York Stock Exchange, the stock must be held for at least two years. In addition, the tax laws impose restrictions on immediate disposition.

Conclusion

This article is not intended to make the reader a tax expert in reorganizations and acquisitions. Rather, we hope to acquaint the reader with some of the various alternatives that might be used. As with any acquisition, however, it is extremely important that both the sellers and the buyers retain competent tax and legal advisors throughout the period of negotiations.
TIME-SHARING: A TOOL FOR THE MODERN ACCOUNTANT

The most significant aspect of time-sharing is that the accountant can serve as the architect of his own system; he can build that system and change it if need be.

By Charles N. Fox

My introduction to time-sharing was the result of a desire to eliminate overtime during fiscal closings, to improve accuracy and efficiency, and to provide more timely reports. At the time, all plant ledgers and cost reports were prepared manually, and budget reports were lacking. Each month, some 2,000 account postings, performed manually, provided exposure to human error. Each account ledger card had to be manually footed and each ledger had to be added. If all went well, the trial balance balanced. If not, the addition or posting errors took a great deal of time to locate and correct.

I had read Mr. Spicer V. Conant’s article, “Fifteen Words or Less,” in the June 1974 issue of MANAGEMENT ACCOUNTING. He stated that: “Time-sharing is an emerging computer technique which makes full-size computers available to even the smallest accounting office.” He further emphasized the uniqueness of the technique which is that the accountant himself (or herself) can provide the necessary programming. I was happy to read the experiences of another accountant who had also come to know time-sharing and the BASIC program language. However, my view of time-sharing was not in complete agreement with that of Mr. Conant. My terminal is not noisy and does not clatter. It is not considered a thing to play with nor is it considered a status symbol. It is an escape from “the green eye-shade and arm-garter” methods of accounting. Mr. Conant says his “… programs are not efficient—they use brute force. They are not sophisticated—they just duplicate a simple manual operation.” That is not true. Programs written in BASIC by the accountant can be just as efficient and sophisticated as programs written by a professional programmer.

Getting Started

Terminals are available in a wide range of rental rates, processing speeds and capabilities and accessories. Your time-sharing company representative can assist you in determining the type of terminal that is best suited to your needs, although he may refuse to recommend a brand or trade name. That choice will be yours. The terminal supplier will guide you in ordering the proper equipment and connections from your local telephone utility.

Learning the BASIC program language is neither difficult nor costly. However, playing games on the computer is not necessary (especially at $15 an hour) to achieve proficiency as a BASIC programmer. Nor is it necessary to seek out a data processing professional to answer your questions. National time-sharing companies provide educational programs, texts, and technical support, free of charge to their subscribers. After a two-day session, a participant in the educational program can be oriented in the system and be writing his or her own programs.

Establish Your Objectives

Now that you have a terminal and have learned to program in BASIC, it is time to put your skills to work. Establish your objectives and arrange them in a logical order of progression. In our case, the goals were established as follows:

1. To duplicate hand posted ledgers
2. To provide posting ability with edit routines and controls, such as
   a. Zero balancing of each entry
   b. Flagging of invalid account numbers
   c. Control totals to verify postings of quantities
3. To provide the ability to monitor selected accounts during the period
4. To generate certain journal entries from entered data
5. To prepare existing month-end reports

This article was submitted through the Raritan Valley Chapter.

1 To permit access to the Divisional computer to each of the several plan accounting offices was not considered to be feasible.
6. To institute budget/spending reports by department
7. To prepare actual cost reports
8. To revise budgets and standard costs

**Where We Were**

Having determined our needs, we set out to design a general ledger system which would not only duplicate the existing manual system but which would provide enhancements desirable but not present in the manual system. The manual general ledger system consisted of three ledgers—expense, inventory, and control. Sales and other income accounts were maintained on a centralized basis on the divisional books.

Under the manual system a single journal entry, or other source document, could be posted to all three ledgers. Frequently, the bookkeeper would forget to change the color of the pen while posting from one ledger to the next. Result—postings did not balance. Out of balance ledgers due to incorrect postings were not discovered until it was time to prepare the trial balance. Then the job of locating the incorrect entry among some 2,000 postings, was quite time-consuming. Even the time required to foot the ledgers prior to discovering an error was in itself quite long.

**Where We Are**

The keystone of the time-sharing general ledger system is a master file. The master file is, first of all, a valid chart of accounts. It contains account and sub-account numbers and descriptions. Classification information is included (for report generation purposes) and prior month year-to-date balances are also included. Current month transactions are compared with the master file and, if found valid, a new master file is created at month-end. Invalid transactions flow through an edit routine for identification and corrective action. The system permits non-money changes to the data in the master file, but requires transactions (journal entries) for amount changes. Hence, all dollar and quantity changes are reflected in the trial balance.

What does all this give us? First of all we have a system which accepts only valid data. Each source document is checked for valid input and is verified for zero balancing. Errors are listed and identified so that corrective action may be taken. Additionally, we now have the ability to monitor, during the month, spending activity, not only by account, but for entire process centers or departments. Control is maintained for postings to both inventory and expense ledgers.

By zero balancing each source document posting, we have the assurance that we are in balance at all times. One ledger now takes the place of three. Approximately 40 man-hours have been eliminated from fiscal closings. Our Division's required month-end reports are prepared much earlier than on the manual basis—some are even prepared during the trial balance routine utilizing data contained in the updated master file.

We have developed a simple spending variance report by department by line item. This report, reflecting both month and year-to-date spending in comparison with budget, is prepared for 19 service and production departments. Simple as it is, it has proven a valuable tool in controlling spending.

**Where We Are Going**

Currently under development is the automation of several heretofore manual cost accounting functions. Such functions include actual cost reports, purchase variance reporting, production digiting and recording, standard cost revisions, comparisons of material, labor and overhead costs both at actual and standard, and inventory control.

Sister plants are also beginning to use the system we developed. We have hired a systems analyst to coordinate the activities at each location so that our systems will remain uniform with the ultimate goal of consolidation via time-sharing. The analyst offers technical support for new applications undertaken by local offices and serves as the liaison between the divisional accounting office, the time-sharing companies, and the systematized locations.

**Conclusion**

The most significant aspect of time-sharing is that the accountant can serve as the architect of his own system; he can build that system and change it if need be. I knew what I wanted and designed my system to my own specifications. Certain sections were rewritten several times until the specs were met. In all honesty, I did not do all of the programming, but I did a good deal of it—and after only two days of programming instruction. BASIC is just that—BASIC. I'm an accountant, not a programmer. But the tool of time-sharing and the BASIC language have enabled me to combine both fields, at low cost, to serve my needs.
DATA PROCESSING OUTPUT DEVICES

An almost endless variety of display layout forms can be developed depending upon the user's needs.

By E. Lee Wilson

For many years financial reports have been enhanced by the use of graphs and charts. These were usually produced manually by draftsmen who sometimes did not comprehend (through no fault of their own) the data they worked with. It was always a tedious task of correlating the data, deciding on the mode of presentation, and of revising the final product so that it would produce the most favorable impact. With the coming of the computer, the data was more easily organized, but there still remained the task of arranging the data graphically. It was not until third generation data processing equipment was developed that businesses acquired the capability of producing some displays directly as machine outputs. With the development of the third generation equipment, complete machine reporting systems became possible.

Plotting Devices

A simple graph produced by an electromechanical plotter can more easily be understood than a thousand line report. The graph can be produced much faster and at much lower cost than can be done manually. The more general types of computer-controlled plotting devices available are: line printers, analog plotters, and digital plotters. The line printer uses the standard computer output printer as a plotting device. However, the number of data points which can be plotted per inch, format design, as well as the esthetic qualities of the graph are severely limited. For most line printer systems, the bar chart is perhaps the most easily produced and is generally the most popular form of pictorial report. Often, the numerals from 0 through 9 can be used to provide different degrees of shading within the bar chart itself.

The analog and digital plotters, on the other hand, are designed specifically for the production of graphs, charts, etc. The difference between the two types is one of data handling. In an analog system, data are fed to the plotting device as a smooth continuous function. In a digital system, data are fed to the plotting device in discrete bits or as pulses.

The three basic types of plotting devices for use with analog and digital systems are the drum, the flatbed and the electronic/microfilm system. The drum system can produce a chart up to about 120 feet in length while the flatbed can produce a chart with a smaller predetermined length and width. The third type of plotting device, the electronic/microfilm system, produces a graphic output which is projected upon a screen. In some models, the image is traced on the screen of a cathode ray tube (CRT) and is automatically recorded on microfilm in a 35mm or 16mm camera. With more sophisticated models it is possible to monitor the plots on the CRT before the hard-copy printout is produced. Finally, a remote control system may be used with any one of these systems. A special interface unit that connects to a telephone line through a coupling device can be used, and various forms of time-sharing or remote terminal operations can, of course, devised to suit the requirement of an individual firm.

Display Devices

In the past several years, the greatest advances in data processing hardware have come through display devices. Display devices can be classified into two general groupings:

1. General purpose
2. Special purpose

The general purpose types accommodate various languages, applications, file organizations, and problem-solving aids. They can perform tasks of programming, program debugging, problem solving, data input, data retrieval, game simulation, and operations control. The special purpose types are Continued on page 48
ARE YOUR CUSTOMERS PAYING ON TIME?

It is one thing for a customer to pay 10 percent of his total account of $40,000 in 39 days and an entirely different matter when 85 percent of the $40,000 account is paid in 39 days.

By Tobias C. Carbone

Our company is a leading manufacturer and distributor of juvenile “prebound” books. These are books with a special super durable binding and are used as supplementary reading materials by schools and public libraries. A prebound book is one which is purchased by the binder directly from the publisher (often in the form of folio pages) and it is then bound according to the standards approved by the Library Binding Institute. In essence, the book is rebound before it goes on the shelf and will never need to be removed from circulation due to wear through normal usage.

Prebound books are sold directly to schools and libraries at the wholesale price plus the price of binding. The base selling price is the publisher’s list price less 30 percent discount, plus a $1.57 pre-binding charge. A book with a list price of $4.00 would thus sell for $4.37.

Due to the competitive nature of the book industry, additional discounts are given to volume customers. A reduction in binding charge is granted on the basis of payment record and volume as follows:

<table>
<thead>
<tr>
<th>Total yearly purchases</th>
<th>Percent discount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,500</td>
<td>2.0</td>
</tr>
<tr>
<td>$5,000</td>
<td>3.4</td>
</tr>
<tr>
<td>$10,000</td>
<td>6.1</td>
</tr>
<tr>
<td>$20,000</td>
<td>11.6</td>
</tr>
<tr>
<td>$30,000</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Although our invoice terms are 30 days from invoice date, experience has shown that our customers (tax supported institutions) cannot always meet the payment date. Consequently, we have been using an overall average collection period as the criterion for payment. The average age of the accounts for 1974 was 64 days. A customer whose average is higher than 64 days is given the next lowest level discount for his volume (i.e., a $5,000 customer whose outstanding account averages 72 days is granted a discount of two percent instead of 3.4 percent).

The Computer System

The maintaining of our accounts on standard ledger cards did not lend itself to quick and objective analyses in evaluating the pay records. The computer system we designed helped solve this problem and proved to be both viable and economically feasible. The basic objective was to provide the analytical information we lacked. Exhibit 1 is a flow chart that shows how we use the information that is initiated at time of invoicing.

Since the basic inputs to the computer are punched cards, our system was designed to maintain the cards in a tub file. This file was set up on an “open item” basis and at all times represents all unpaid charges. A card is added to the file for...
each new invoice and removed when payment is received. The cards are produced by the computer as a by-product of the invoice run. In essence, it is an "open invoice" method of maintaining customer accounts which was in use before the days of posting machines. Maintenance of the file is reduced to a clerical job, and no longer requires a skilled posting machine operator.

The clerical steps we use to record customer payments provide for incorrect payments, unidentified payments, and over and under remittances. Our internal control procedures provide for complete segregation of the bank deposit function from file maintenance. The Assistant Treasurer receives all remittances, prepares deposit slips and makes bank deposits on a daily basis. Remittance information (in the form of check stubs, etc.), are routed to the accounts receivable clerk for file updating. Total payments (cards pulled from file) must agree with the daily bank deposit. Form letters are used for customer contact concerning incorrect and unidentified payments. At month end the unpaid file is used to prepare customer open item statements and an aged trial balance.

Credit History Report

The credit history report shown in Exhibit 2 is the analysis that answers objectively the question posed at the outset of this article: "Are your customers paying on time?" It is basically an exception report; only situations that deviate from a predetermined standard are shown. At each month's end we pass the unpaid accounts receivable file, together with the paid file for the past six months, through the computer and list only those accounts with pay records that are not up to our standard (i.e., 64 days, the average collection rate of all our accounts). In addition, we estimate when the account should be fully paid, based on past payment record. This estimate is most significant, since it relates amount paid to total indebtedness. It is one thing for a customer to pay 10 percent of his total account of $40,000 in 39 days and an entirely different matter when 85 percent of the $40,000 account is paid in 39 days. The calculations are based on a weighted average as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount invoiced</th>
<th>Amount paid</th>
<th>Date from inv.</th>
<th>Dollar days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/9</td>
<td>$1,000</td>
<td>$1,000</td>
<td>40</td>
<td>40,000</td>
</tr>
<tr>
<td>2/15</td>
<td>20,000</td>
<td>20,000</td>
<td>80</td>
<td>1,600,000</td>
</tr>
<tr>
<td>2/20</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/12</td>
<td>12,000</td>
<td>12,000</td>
<td>65</td>
<td>780,000</td>
</tr>
<tr>
<td>$38,000</td>
<td>$33,000</td>
<td>185</td>
<td>2,420,000</td>
<td></td>
</tr>
</tbody>
</table>

Weighted average = \( \frac{2,420,000}{33,000} = 73.6 \text{ days} \)

The estimated time period to full payment is:

\( \frac{38,000 \times 73.6 \text{ days}}{33,000} = 84 \text{ days} \)

Based on the pay record to date, the account should be paid in full in 84 days; that is, the unpaid $5,000 should be paid within the next 11 days.

Conclusion

The calculations do not require complex com-
"The credit history report we prepare is in summary form."

### Exhibit 2

**CREDIT HISTORY FOR TARDY CUSTOMERS**

<table>
<thead>
<tr>
<th>Customer no</th>
<th>Amount invoiced</th>
<th>Amount paid</th>
<th>Percent paid</th>
<th>Weighted average</th>
<th>Unpaid balance in A/C in full</th>
<th>Customer will pay A/C in full within</th>
</tr>
</thead>
<tbody>
<tr>
<td>01164</td>
<td>$1,364.76</td>
<td>$1,118.84</td>
<td>82.0</td>
<td>66 days</td>
<td>$307.07</td>
<td>80 days</td>
</tr>
<tr>
<td>01225</td>
<td>$680.32</td>
<td>$680.32</td>
<td>100.0</td>
<td>91 days</td>
<td>...</td>
<td>91 days</td>
</tr>
<tr>
<td>01247</td>
<td>$595.73</td>
<td>$169.08</td>
<td>28.4</td>
<td>30 days</td>
<td>$492.94</td>
<td>106 days</td>
</tr>
<tr>
<td>01269</td>
<td>$715.98</td>
<td>$622.04</td>
<td>86.9</td>
<td>65 days</td>
<td>$93.94</td>
<td>75 days</td>
</tr>
</tbody>
</table>

The techniques we are using have made it possible to objectively evaluate our customers' paying performance. In addition, it provides an effective and economical tool for increasing cash flow. We have found that the credit history report is a viable means of answering the question that is the very heart of all solvent ongoing organizations: "Are your customers paying on time?"

### DATA PROCESSING OUTPUT DEVICES

*Continued from page 45*

Designed to serve a specific task, usually in a special language. Usually, a display device indicates an ability to handle both inputs and outputs in the overall EDP system. Some of the more general characteristics of display devices are as follows:

1. Alphanumeric keyboard—an input/output device
2. Variable function keyboard (VFK)—variable functional keys which are a function of the mode of operation in use
3. Control function keyboard (CFT)—special keys which generate particular bit patterns
4. Cursor—usually an optional feature used to define the next character to be keyed—especially useful for display graphics by setting ranges and scales
5. Light gun—usually an option, used to alter output display—especially useful in graphic work
6. Rear projection—used to merge computer produced information with slide projectors—especially useful in calculating finite distances

A variety of basic data entry techniques are available with display devices, and an almost endless variety of specialized data entry techniques can be developed depending upon user needs. Also, an almost endless variety of display layout forms can be developed depending upon the user's needs. The keyboard can be used to enter data into display memory or to move a cursor or other marker. It can also be used to replace data or to delete data. The CRT can be used to display temporary data or information and hard-copy devices can be added to provide for either microfilmed or picture copies or, if desired, paper printed copies. Finally, a variety of communication devices and communication networks can be used with the display devices.

#### Voice Response Devices

The voice response system is currently taking its place as a working tool in business, especially in banking where speed is required. Perhaps in the next few years the voice response system will emerge as a useful management tool. Applications are limited only to the imagination of systems users. No special training is needed by managers since it is similar to using a telephone.

#### Conclusion

Based upon the characteristics of the various output devices discussed, it would seem safe to conclude that their primary users at the present time are operating personnel and line or operating managers. One common characteristic of most of these devices involves operating control features rather than management decision-making applications. However, with the flexibility that is (or soon will be) available, it is possible that some decision-making functions may be carried out with the help of these devices.

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Books FOR THE MANAGEMENT ACCOUNTANT

HOW TO ANALYZE A BANK STATEMENT
Fifth Edition
F. L. Garcia
This book is designed both as a tool for analyzing bank stocks and as a guide to the preparation of financial data. The author presents in detail the financial statements that banks are required to file with the SEC and other regulatory agencies.
Circle 1 on Inquiry Card

HOW TO USE MANAGEMENT RATIOS
C. A. Westwick
This book is a guide to the use of business ratios for financial analysis and control. It is based on the author's nine years' experience at the Centre for Interfirm Comparison and the British Institute of Management.
Circle 2 on Inquiry Card

HOW TO USE RETURN ON INVESTMENT CONCEPTS AND TECHNIQUES FOR PROFIT IMPROVEMENT
Robert Rachlin
The author outlines a systematized method to provide management with a tool for performance measurement. He reduces the factors of intuition and judgment to an easy and understandable mathematical calculation.
Circle 3 on Inquiry Card

FINANCIAL CONTROL: A SYSTEMS APPROACH
R. M. S. Wilson
This book is concerned with financial control as distinct from accounting, and aims to fill a gap in management literature. It is not, therefore, a text on accounting for the non-financial manager, but a text on managing with finance-based information systems.
Circle 4 on Inquiry Card

MEASURING CORPORATE STRATEGY
Charles R. Ferguson
The process of examining and evaluating design concepts of the corporation is called a concept audit. In the concept audit, management takes an objective look at the company in order to gain new and valuable insights into its operation.
Circle 5 on Inquiry Card

ASSETS-ACCOUNTING AND ADMINISTRATION
This is the first extensive revision since 1952. Business assets run the gamut from the standard monetary resources through inventories, land, all kinds of structures, equipment, and general intangibles. All are affected by the impact of inflation.
Circle 6 on Inquiry Card

CAPITAL INVESTMENT APPRAISAL
Ian W. Harrison
This book provides the nonspecialist manager with a basic understanding of capital investment appraisal and the techniques that are used to resolve problems. The emphasis is on concepts rather than on technical details.
Circle 7 on Inquiry Card

PORTFOLIO ASPECTS OF CORPORATE CAPITAL BUDGETING
E. Eugene Carter
Mr. Carter surveys the goals corporation executives set in developing portfolios of projects for investment. He illustrates with a number of proposed models selection of the portfolio. Special attention is given to risk analysis simulation and other models currently used by corporations.
Circle 8 on Inquiry Card

PROFITS, GROWTH AND PLANNING TECHNIQUES OF MODERN FINANCIAL MANAGEMENT
Edward L. Summers
This book helps the reader identify the information needed for planning and measuring profitable growth as provided by accounting systems in the areas of marketing, allocation of resources, forecasts, public interest, and other decision-making areas.
Circle 9 on Inquiry Card
HANDBOOK OF SAMPLING FOR AUDITING AND ACCOUNTING
Second Edition
Herbert Arkin
This handbook examines the basic concepts of the theory of sampling. It is a working manual growing out of materials developed for Price Waterhouse and the Army Audit Agency.
Circle 10 on Inquiry Card

MODERN PRODUCTION MANAGEMENT
Fourth Edition
Elwood S. Buffa
This edition includes a general update but retains the basic format of the third. An entirely new chapter has been added on the systems concept. Three chapters deal with three types of systems: high volume, intermittent, and large project.
Circle 11 on Inquiry Card

PRACTICAL PROJECT MANAGEMENT
W. J. Taylor
This work reviews the background and development of Project Management including current organizational aspects, evaluation of benefits, and a determination of when to use the technique.
Circle 12 on Inquiry Card

PRODUCTION AND INVENTORY MANAGEMENT IN THE COMPUTER AGE
Oliver W. Wright
This book is written for managers in manufacturing who need to know what computer-based production and management systems can do for them. It does not deal with computers or computer programs per se.
Circle 13 on Inquiry Card

FRINGE BENEFITS—THE DEPRECIATION, OBSOLESCE...
LETTERS
Continued from page 7

summation of the situation. The larger banks in the country have started implementing customer profitability systems of one variety or another, but the vast majority of the banks have still not even begun. This problem is particularly acute in medium-sized banks with assets of under $250,000,000.

Part of the problem is the cost of implementing the system, particularly if the bank wants to use internal studies and surveys. The other problem is the fact that there are still widespread disagreements on the formulation of the profitability systems. Such basics as what is a meaningful “earnings credit” have still not been defined.

There needs to be more study given to this area by bankers since we no longer have the margin for error that we once had when purchased money was not such a big factor in the balance sheets of commercial banks. How about some more articles in this area?

R. Alan Lichly
Assistant Vice President
The First National Bank
Rochester, Minn.

Fixed Fee for Use of Company Car

Mr. William F. Clingman, III’s article, in the May 1975 issue of MANAGEMENT ACCOUNTING titled “The Company Car: A Management Decision,” contains a section (Personal Use of Company Cars) which summarizes a problem faced by all fleet administrators—to charge or not to charge?

The comments by Mr. Clingman clearly spell out the fact that a company car is a fringe benefit whether the individual is an outside salesman or an executive. The determination of how much, if any, is to be charged for personal use, must take into consideration all of the operating expenses of the vehicle, including depreciation or lease costs, fuel, oil, maintenance, insurance, etc. These costs can generally be obtained from normal accounting records. The factor that cannot be obtained is of even greater importance. That is, the number of miles actually traveled on personal business. Most drivers do not maintain detailed records of auto mileage and, consequently, “guess” at the personal miles traveled.

To offset the inaccuracy of these estimates, a fixed fee of $15 to $100 per month could be charged in lieu of detailed reporting. The use of this fixed fee would eliminate the time and effort involved in record keeping by the driver and computations by those processing the expense reports. To further save on time and effort, the deduction could be standardized as a payroll deduction, thus providing a uniform, consistent, and time-saving procedure for all concerned.

Paul K. Przewo
Corporate Controller
McJunkin Corporation
Charleston, W. Va.

Financing REITs

The article, “Financing Real Estate Investment Trusts,” by L. Curtis Westbrook, Jr., in the May 1975 issue of MANAGEMENT ACCOUNTING, suggests that poor financing practices have contributed to the problems of some REIT’s. Ironically, it appears that the tax laws that were designed to aid REIT’s have complicated their financing problems. The exemption of REIT’s from corporate income tax is contingent on the distribution of all earnings to shareholders, that is, on the retention of no earnings.

If a company is expanding, it must keep adding to its equity in order to maintain the desired ratio of equity to total assets. Retention of earnings is ideal for this purpose, particularly if the expansion is relatively steady and not rapid. The alternative would be to make frequent trips to the capital market to sell additional shares. Since flotation costs as a percentage of proceeds are higher for relatively small issues, the small and frequent sales of shares that would be required of a small and expanding company would be prohibitively expensive.

Another adverse effect of non-retention of earnings is possible. The payout of any constant percentage (whether 100 percent or some lesser figure) will cause dividends to fluctuate as violently as do earnings. Many investors are said to dislike such dividend fluctuations and to avoid investing in companies which have them. As a result, there is difficulty in selling additional shares.

Raymond C. Helwig
Southern West Virginia Chapter
Charleston, W. Va.
THE 43 YEARS OF CY MARSHALL

Believe it or not, this retired NAA member—who joined the Association in 1923—has attended every chapter meeting for 43 consecutive years. He recalls early years of New York Chapter, including pint-sized boxing matches, a New York vs. Chicago radio quiz program, and “pie plate” attendance badges.

By Robert F. Randall

When tall, 81-year-old Cecil D. Marshall walks into the New York Chapter’s meeting this month, there will be the usual grins and handshakes. And then, amid all the pleasantries, someone will get around to asking, “How many years is it now, Cy?”

And when Mr. Marshall answers with a figure, his interlocuter has to believe it because Ripley’s “Believe It or Not” has made it part of the official record. What record?

Simply this: Cecil D. Marshall has not missed a monthly general meeting of the New York Chapter of NAA in 43 years. Spanning a period of more than four decades, a depression, a world war, personal sickness, inclement weather and power failures, Cy Marshall single-mindedly has wended his way from his Kew Gardens home via the 6th Avenue subway to the meeting location in Manhattan.

Cecil D. Marshall is proud of his record, as well he might be, and most older members are aware of his continuing achievement. Indeed, he suggests that some members attend the chapter meeting partly just to see if he is there and if his record is still running.

Mr. Marshall, known as “Cy,” didn’t start his marathon attendance record the day he joined the Association. “When the Cleveland Chapter was in the making,” he says, “I attended the organizational meeting in 1920 and after the chapter charter was granted, I attended the monthly chapter meetings, as a guest with my boss, Mr. J. B. Martin, of Elyria Iron and Steel Co., until 1923 when I was admitted to membership in the chapter.”

In 1927 he was transferred to Brooklyn and managed to attend a few New York Chapter meetings from September 1927 to September 1932. “In 1932,” he continues, “I was assigned to a committee and went to work for the New York Chapter and have not missed a monthly general meeting in the past 43 years.” King Features’ syndicated “Believe It or Not” feature published his record in 1974 when it was at the 42-year mark.

To Attend or Not To Attend

Maintaining this outstanding record has entailed some hardships on the part of Mr. Marshall. (See box on page 54.) For example, after more than 15 years of perfect attendance, his friends began to prevail on him to miss a meeting to relieve the strain. At this turning point, Mr. Marshall says, “I decided to miss the September meeting. However, when the yearly program came out, the subject and speaker were interesting to me so when the night came for the meeting I was present as usual. Reasoning with myself, I said I have no strain about attending the meetings and if there is a meeting of interest to me why should I arbitrarily miss a meeting?” So blessed with “good health, understanding employers and luck,” he has been attending chapter meetings ever since.

Now retired after a varied career which centered primarily around the developing discipline of cost accounting, Mr. Marshall can draw on a rich store of memories of cost accounting’s pioneers and the early years of the Association, New York Chapter in...
particular. He met J. Lee Nicholson, the founder of the Association at an early Annual Conference; indeed he received a certificate from the short-lived J. Lee Nicholson School of Cost Accounting in Chicago. To his regret, the certificate was lost during a move of his household. In an article written years ago, Mr. Marshall notes that Mr. Nicholson is credited with installing the first cost system in the country, in a Danbury, Conn. hat manufacturing firm, in 1899.

Recently, Mr. Marshall wrote a letter to MANAGEMENT ACCOUNTING in which he defended the role of the accountant in the development of cost accounting. His evidence, much of it firsthand knowledge, was highly persuasive. World War I, he pointed out in the letter, gave great impetus to cost accounting because in order to administer cost-plus war contracts, the Army required contractors to keep detailed cost records. Mr. Marshall was one of the civilians hired to help out in organizing and administering the Cost Accounting Section of the Army Ordnance Division.

Coincidentally, after several years of employment with management consultants and industrial companies, he ended his career with a return to the U.S. Army Transportation Terminal Command, Atlantic, in Brooklyn, N.Y. In 1958, while serving as deputy comptroller of the Terminal, he was presented an official commendation for Meritorious Civilian Service for his work in developing a cost system which was adopted by all Army Transportation Corps terminals. This system continues in use today, having survived the onslaught of the tremendous increased workload occasioned by the Vietnam War.

"Doc" McLeod, the colorful secretary of the Association for the first 25 years, is also well remembered by Mr. Marshall. He was an entertaining speaker full of anecdotes and jokes, Mr. Marshall recalls, and he habitually sent Christmas cards every year with a picture of his dogs on them.
IN A HOLDING PATTERN OVER NEWARK

Keeping his 43-year attendance record intact hasn't been easy for Cecil D. Marshall. Here, in his own words, is an account of some instances when he almost didn't make it.

In November 1968, my brother-in-law passed away in Ohio. Burial was at 1 p.m. on Monday. At 7:00 p.m. that evening the New York Chapter meeting was being held. The problem was obvious. On arrival at Pittsburgh Airport, I immediately confirmed a return flight reservation on a 5:15 p.m. flight that would get my wife and me to Kennedy Airport at 6:15 p.m. and, via the Carey Limousine Service, to the Statler-Hilton Hotel at 7:15 p.m., where the meeting was to be held.

Our return trip started about 2 p.m. with friends driving Mrs. Marshall and me from Carrollton, Ohio, my hometown, to Steubenville, a distance of 35 miles over a two-lane highway with many hills and sharp curves, rendered even more perilous that afternoon by heavy rain and thick fog. In Steubenville, we transferred to the Pittsburgh Airport limousine for the 40-mile trip on a wide highway enveloped in heavy rain and fog. At the Pittsburgh Airport our flight time was changed to 5:15 p.m. to 5:25 p.m. due to bad weather. Flight-time was again postponed from 5:25 p.m. to 5:35 p.m., increasing the suspense and uncertainty. When flight time was changed to 5:45 p.m., my tension and concern increased as I saw the chances of making the meeting slipping away. When the flight time went to 6:15 p.m., my heart sank but "I thought we will give our best effort anyhow and we might make the meeting."

Suddenly, at 5:55 p.m., I noticed the gate across the hallway from us marked "Newark" was closing. I rushed over to the attendant and asked if our New York tickets would be good on that flight to Newark and he said, yes. So I got Mrs. Marshall and out we ran and luckily made that flight, thereby saving 20 minutes. What a precious 20 minutes that turned out to be!

Once on the plane we relaxed as it appeared everything was going well and the possibility of making the meeting was fair. Then, circling over Newark Airport, we were greeted with the shocking announcement that fog over the airport was preventing the landing. Time passed and at each report of the fog conditions, my concern about making the meeting became greater and I grew more nervous by the minute. Finally, the suspense was ended and we deplaned at 7:55 p.m. We had no luggage, as it was on the J.F.K. Airport plane, so we rushed out of the airport, hopped into a cab and told the driver to get us to the Statler Hilton Hotel in New York as fast as possible. Thanks to this taxi driver, we had 10 minutes to get from the sidewalk in front of the hotel to the meeting room.

The trip from the front entrance to the elevator bank seemed endless. When the elevator finally sluggishly ascended to the meeting room floor, we made the meeting at 8:25 p.m., during the last part of the question period.

102 Degrees and Walking. Only once, in 1947, did sickness threaten my attending a meeting. With a temperature of 102 degrees I got up and attended the meeting with no bad aftereffects.

After the Storm. Some years ago a terrible rain and snowstorm hit the city, knocking out most methods of transportation but several members, including myself, made it before finding out the meeting had been cancelled.

The New Orleans Caper. As Deputy Comptroller, Brooklyn Army Terminal in 1957, I was assigned to an accounting committee to recommend a cost accounting system for the Transportation Corps. The committee was scheduled to convene at the New Orleans Army Terminal. Fortunately, my travel orders called for only one week so I returned to New York and attended the chapter meeting Monday night and arrived in New Orleans for work Tuesday morning. The committee completed its work in four more weeks and I returned to New York in time for the Monday night April meeting.

members and those of Newark chapter and Mr. Marshall was one of the members of the debating team. Another unusual activity, he recalls, was a New York vs. Chicago radio program.

During the decades of the Thirties, Forties and Fifties when the site of the Annual Conference was alternated between Chicago and New York—with a few exceptions—New York Chapter had the responsibility of playing host. Mr. Marshall participated in the planning and organization of many of these conferences, particularly the one in 1950, which was held in New York during his term as president.

The Association was still building a capital base so funds to help support chapters and the Annual Conference were scarce. Members sold advertisements and sponsored exhibit shows in order to raise money to support Association activities.

There were light moments, too: group sing-alongs, dances and golf parties to balance the educational program. At one time, Mr. Marshall reminisced, the chapter sponsored boxing matches put on by the Boys' Club of the Navy Yard District in Brooklyn at its May meeting. One memorable evening, amused members applauded the efforts of a plucky pint-sized boxer who lost his trunks during the heat of the match.

Auxiliary organizations sprang up to help in the chapter efforts to support the national conference and to keep friendships intact. The WANACAS,

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comprised of wives of New York Chapter members, was formed to organize the activities scheduled for the ladies' program every other year. Mrs. Marshall served as president of the club and chairman of the Ladies Activities Committee one year. The X-Officers Club, similar to the Spot Club organization, was comprised of chapter members who had served as an officer or director for at least two years.

Cy Marshall, a CPA in New York State, regards his long affiliation with the chapter and Association as more than worthwhile. Born in Carrollton, Ohio, he attended Bethany College in West Virginia. After a stint with Ernst & Ernst and the Army, he was employed by Eagle Pencil Co., for ten years. During the Depression, out of a job and looking for work, his membership paid off when a fellow NAA'er helped him to find a position. In fact, he worked for three NAA members for a total of eleven years of his career. He also found the NAA library to be extremely valuable, particularly when he helped to set up a cost system for a clothing manufacturer during the Depression.

From September 1932 to 1950, when he was chapter president, he served the chapter continuously. Subsequently, he was elected to the NAA Board of Directors.

He has contributed manuscripts to NAA and spoken before a number of chapters of the Association, and before a local chapter of Beta Alpha Psi, national accounting fraternity. Although he is more than qualified to become an Emeritus Life Associate member, he continues to be active. This year he is serving as an associate director.

About his 52 years with the Association, Cecil D. Marshall says: "It has been my good fortune to have been associated with men and women whose accomplishments and exemplary character reflect great credit to the accounting profession," and a final summation, "My experience illustrates what has been said for years—if you want to get the most out of an organization become active in its activities."

Schempp Named Manager of Finance

Paul E. Schempp has been promoted to Manager of Finance, succeeding James A. Higgins who has resigned, Executive Director W. M. Young, Jr., has announced.

Mr. Schempp joined the national staff in 1971, was named an area manager in 1972 and has served in this capacity until his present assignment. He has approximately 20 years of experience in the accounting field including costing, and auditing experience and about ten years as a budget manager. Prior to joining the staff, he was a divisional controller.

He is a member of the Association, having served as president of the Morristown Chapter during 1968-69, when the chapter won a Stevenson Trophy banner as well as a Membership Achievement Award.

A graduate of the Fairleigh Dickinson University with a B.S. degree in Business Management, Mr. Schempp has co-authored papers on budgeting and forecasting which were presented at an accounting conference and subsequently published.

He lives in Parsippany, N.J., with his wife, Dorothy. They have three sons.

Paul regards his new position as a challenge but says he regrets leaving chapter operations and the enjoyable working relationship he had with chapter officers and directors.

Newlin Is Area Manager

Douglas A. Newlin has joined the NAA staff as Area Manager, Executive Director W. M. Young, Jr., announced.

Prior to joining the staff, Mr. Newlin was a sales representative with SCM Copier Products. He was graduated from Monmouth College, West Long Branch, N.J., with a degree in speech and dramatics.

He lives in Milltown, N.J., with his wife, JoAnn, and daughter, Bonnie.
Emeritus Life Associates

CLARENCE F. BANDELIER, Fort Wayne.
WALTER F. BRUNN, Pittsburgh, past president. Stuart Cameron McLeod Society.
MARION B. CAZALAS, Mobile, past president. SCMS.
ROBERT N. EDEGTT, San Diego.
JAMES E. GELBERT, Philadelphia.
R. J. HARRIGAN, Minneapolis-Viking, past president.
FRED J. HARTMAN, Hartford.
WARREN H. HENDERSON, Knoxville.
HAROLD R. HIBBS, Tucson.
JOHN A. JORDAN, Southeast Los Angeles.
JOSEPH KAPLAN, Atlanta North.
CLARENCE P. LUQUET, New Orleans.
G. RAYMOND MILLER, Butler Area.
OSCAR C. SHAIRER, Rochester.
MISS CATHERINE SPIRITO, Providence.
CHARLES H. WALLIS, Dallas.
EUGENE S. ZIMMERMAN, Cincinnati.

Promotions and New Positions

HAROLD C. MOORE, Baltimore, has been named advisory director to the Maryland National Bank.
JOSEPH L. FLYNN, Boston, has been named vice president for fiscal affairs at the Braintree Hospital.
MYRON R. SLAIN, Chicago, has been elected treasurer and director of administration of Energy Absorption Systems, Inc.
CARL A. HUNT, Central Arkansas, has been elected to the board of directors and chairman of the executive committee for First Paramount Equity Corp., Paramount Life Insurance Co., and Paramount's StandCard, Inc. He will continue as president of Paramount Life Insurance Co. and controller of First Paramount Equity Corp. . . . LUTHER HUNTER has been appointed assistant vice president, budgets and cash flow, Fairfield Communities Land Co.

Three Chattanooga members have been named at Arthur Andersen & Co. JOHN A. HAUETER and MAX D. HAUGHT were named partners, and BRUCE NEAL, a manager.

FRED A. ESTEP, Colorado Springs-Pueblo, recently was elected vice president of Pueblo Diversified Industries.

MELVIN N. DOERING, Columbus, has been named data processing manager for Electric Power Equipment Co. . . .

RAYMOND J. KRASNEWSKI has been promoted to associate professor at the Ohio State University.

DONALD J. CUFF, Connecticut Gateway, has been promoted to corporate controller, Polysar, Ltd., Canada.

RICHARD E. BELL, Dayton, was elected treasurer of the Advance Foundry Co. of Dayton. . . . ROBERT F. CHELLE has been promoted to vice president—finance and treasurer, High Voltage Maintenance Corp. . . . RICHARD L. LOADER has joined Industry Products Co., as controller. . . . ERNEST L. VAGEDES was promoted to manager, management information systems auditing, Hobart Corp.

JOHN J. GIBSONs, Delaware County past president, has joined Industrial Valley Bank and Trust Co., as vice president for corporate financial services.

JOHN A. VALENTINI, Delmarva, has been appointed secretary-treasurer of Crist Stuart Associates, Inc.

R. ROBERT BARNa, Detroit, has been appointed treasurer and controller of Omni Spectra, Inc. . . . STEVE A. BLAZE is now assistant controller of Elro Corp. . . . JAMES P. DANE was appointed director of finance, Oakland County Road Commissioners . . . CLIFFORD B. FRANZEL is president of Tape Recorder Specialist.

RONALD J. KOZICH, East Bergen-Rockland president, has been named a partner, Ernst & Ernst.

GARY L. GROOM, Elkhart Area, has been named controller at Coachman Industries.

JOHN R. GODA, Erie, is now with Tanner Mfg. as controller. . . . JAMES M. HARRIS has been appointed vice president of finance at Specialty Valve and Controls. . . . TOM J. LAMENDOLA was elected to vice president—treasurer and to the board of directors, Erie County Plastics. . . . ROBERT C. SNYDERWINE has been elected treasurer of Erie Malleable Iron Co.

RICHARD L. FARRELL, Gaston Carolinas Area, has been appointed controller, Powerton Corp.

PAULA J. YUENGER, Indiana East, is now the secretary-treasurer of McGaw Construction.

STEVE L. WILKENING, Indianapolis, has joined Regency Electronics, Inc., as general manager of corporate accounting.

GEORGE R. MUNTON, Jackson, has been promoted to vice president and controller of Unifirst Federal Savings & Loan Assn.

JAY P. LOCKARD, Lancaster, has been appointed controller of Herr & Co.

ROBERT F. CUMMINGS, Los Angeles, is now finance officer, Orion Industries, Inc. . . . GEORGE R. CLOWARD was named vice president—finance at Triangle Steel & Supply Co. . . . MICHAEL J. CURRAN is now vice president—finance at R & G Sloane Mfg. Co. . . . DAVID M. OYAMA was named manager—cost accounting, Wango Co.

NEIL MALMQVIST, Massachusetts North Shore, has been promoted to controller of Teradyne Components.

JAMES T. FOWLER, Mid-Hudson, has been elected a board member and treasurer of Fargo Mfg. Co.

JOSEPH E. HOULE, Merrimack Valley, was named chief accountant at Wheelabrator-Frye, Inc.

DENNIS T. RAKOWSKI, Milwaukee, has been named chief financial officer of Mount Sinai Medical Center.

JOHN B. McCAIN, Minneapolis Viking, was promoted to vice president, finance, Peavey Co.

WALTER D. SMITH, Mohawk Valley, recently organized Smith Management Consulting Associates.

MURRAY PITKOWSKY, Morristown, has been elected a vice president of Crompton & Knowles Corp.

WILLIAM H. MCKINNEY, Nashville, is now general accounting manager, Worldparts, Inc., Division of Maremont.

MURL A. PREBLE, North Central Ohio, has been promoted to assistant administrator to the president, Borg-Warner Corp.

HENRY S. ELY, North Penn, has been appointed controller of the Bucks County Water and Sewer Authority.

ROBERT L. PORTER, Ohio-Western Re.
Accounting for Shakespeare

Accounting is primarily a business tool somewhat removed from the esthetic arts. It is a necessary tool, however, in the promulgation or publication of literature, music and theater. The arts, in effect, stand on an infrastructure of accounting, a fact for which researchers are grateful.

For example, Dr. Paul Garner in an article in the July 1975 issue of The Woman CPA describes how an accounting record was used to prove that a play by Shakespeare called "Love's Labor's Won" actually existed. Almost every English student has heard of Love's Labor's Lost but only a few scholars know that William Shakespeare was reputed to have written another play with the antithetical title.

It seems a Shakespearean scholar was rummaging around the British Museum when he came across a book of sermons published in 1637. The sermons were not remarkable but the binding was. It consisted, in part, of a portion of an inventory accounting record of a London stationer. All the plays in stock of the bookseller are listed and one of them is "Love's Labor's Won," showing that a play with that title existed. Much ado about nothing? Hardly. Accounting records play a vital role in modern scholarship and historical research.

The Costly Regulators

Businessmen are viewing with alarm the proliferation of government regulatory bodies and the resulting costs imposed on business. In Tax Foundation's Tax Review, August 1975, Murray L. Weidenbaum gives chapter and verse, itemizing direct and indirect costs, i.e.: approximately $2 billion a year to support a regulatory workforce of more than 63,000; 130 million business man-hours a year to fill out 5,146 different types of approved government forms; a general dampening effect in the rate of technological innovation.

He cites numerous costly examples of bureaucratic bungling including that involving a toy manufacturer. One Agency, the Food and Drug Administration, placed two of its toys on its "banned" list because of unsafe materials. Subsequently, the manufacturer redesigned the toys to remove the safety hazard. The newly-formed Consumer Product Safety Commission assumed responsibility in this area in 1973 and continued to put the company on its ban list even though there was no longer any reason to do so. The error was called to the Commission's attention but it refused to recall its list just to take a couple of the toys off. The company was forced out of the toy business and had to lay off 75 percent of its employees.

serve, has been appointed executive vice president and secretary of American Fund for Dental Health.

GARY A. McCONNELL, Omaha, has been promoted to partner, Arthur Andersen & Co., and DAN R. FRIEDLUND, to manager.

KENT G. DOCTOR, Peninsula-Palo Alto, was promoted to partner, Price Waterhouse & Co., . . . NICHOLAS P. JONES, chapter president, was named controller, Larse Corp., . . . JOHN H. KLEIN has been promoted to a partner, Haskins & Sells.

J. RICHARD KATTAN, Pittsburgh, was promoted to assistant controller, Kelly & Cohen.

EDWARD R. HEFFY, Portland-Columbia, is the new controller at Fought & Co.

GREGORY F. PARKER, Portland-Williamette, is now controller for the American Red Cross.

JOHN J. FITZGERALD, Providence, has been appointed director of corporate auditing, Industrial National Corp.

WILLIAM A. COLLINS, JR., and LEWIS S. JACKSON, III, Richmond, have been elected accounting officers at The Bank of Virginia Co. . . . RICHARD H. SEWARD, III, was named a partner at Peat, Marwick.

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John H. Weatherford, San Antonio, is now the general manager, Ralph Gray Construction.

Oris C. Beulcker, Sioux Falls, has been named vice president for administration.

Three South Central Indianamembers have been named at Bio-Dynamics. Michael G. Malandrakis is assistant division controller, William W. Miller is director—corporate planning, and Richard L. Musser, division controller. Clifford D. Noreen, Springfield, has been named vice president for finance, Food Mart Division of Waldbam, Inc.

R. A. Seymour, Jr., Toledo, was named controller, Bostlemon Corp.

James F. Greaney, Jr., Waterbury, has been named assistant vice president, financial services group, the Banking Center. . . Aldo P. Zefferi has been promoted to director of finance, Aerospace Division of Universal Oil Products.

Ted N. Allen, Wheeling, now is data processing manager and accountant for Gaudio’s Wholesale Co. . . John A. Hannig was named a partner with the firm of Jack J. Ferlie, CPA.

Organization Service

Two Boston past presidents, Charles W. Tucker and Howard F. Greene, have been elected president and treasurer, respectively, of Massachusetts Accountants for Public Issues. The objective of the nonprofit organization is "to help solve some of our pressing social and economic problems by establishing a structure within the accounting profession to provide investigative, non-advoicating accounting counsel and other accounting services without fee to non-profit organizations serving the public interest engaged in cases or projects with accounting or financial implications and unable to pay for professional accounting services."

Kenneth S. Axelson, New York, has been named Mayor Abraham Beame’s deputy for fiscal affairs as part of the city’s effort to bring its budget in line and avoid default. Mr. Axelson, who is chairman of the J. C. Penney Financial Group, a subsidiary of J. C. Penney Co., and senior vice president for finance and administration of the parent firm, will serve for a $1 a year in the new post.

In Memoriam


W. A. Barclay, 73, Memphis, past president, 1943. Emeritus Life Associate.


Marvin O. Carter, 85, Memphis, 1930. ELA.

Lawrence F. Coddell, Sr., 34, Piedmont Greensboro, 1974.

Jacobs E. Frey, 66, Syracuse, 1944.

Arthur F. Happ, 80, Long Beach, 1928. Stuart Cameron McLeod Society. ELA.

Stanley G. Heath, 73, San Antonio, 1948. ELA.


Karl G. King, 60, Michiana, past president, 1939.

F. C. Laird, 78, Fox River Valley, 1949. SCMS. ELA.

William A. Kirkland, 66, Houston, 1936.


Roy E. McNann, 67, San Gabriel Valley, past president, 1948. ELA.


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