Review of Katz, "Introduction to Accounting"

The following review is reprinted from the *Journal of Legal Education,* Volume 8, Number 2, with the permission of the author and of the Editors of the *Journal.* Mr. Katz is James Parker Hall Professor of Law at the University of Chicago Law School and was a pioneer in the introduction of accounting to the law-school curriculum.

Introduction to Accounting. By Wilber G. Katz. Chicago: Callaghan & Company, 1954.

Courses in accounting have become as much a part of the permanent law school curriculum as those familiar stalwarts: contracts, torts, property, and criminal law. They were once timidly inserted by reluctant curriculum committees into the course schedule as one-hour electives, usually taught by an instructor borrowed from the business school or from among local practitioners. Now, however, accounting has become a fixture in the law school curriculum, usually required of the degree candidate who has little or no accounting in his undergraduate work. Most faculties feel that accounting problems are so inextricably intertwined in many matters encountered in present-day law practice that a study of the subject is as necessary an ingredient in the training of the practical lawyer as courses in trial tactics, brief writing, legal drafting, and others.

In presenting accounting to the student who has had no training or experience in the field, the instructor has the problem of how much time to spend on the fundamentals of bookkeeping as contrasted with the more important problems of financial statement analysis, presentation of data concerning corporate net worth, and other matters which concern management and counsel for management. As a matter of pedagogy, some are disposed to teach accounting by the case method, using judicial interpretations of corporation and tax statutes as they pertain to accounting with supplementary explanatory matter. Others prefer to present the subject as it is taught in business schools: text reading, illustrative materials, and problems. Professor Katz's approach is the latter method, and it is done effectively in this latest text on a subject with which he has had considerable teaching experience. The student who has had no exposure to accounting must start with fundamentals. Deferred charges, depreciation reserves, and capital and earned surplus are all meaningless terms on financial statements unless the student understands the basic accounting process by which debits and credits to these accounts are journalized, posted, recorded in ledger accounts, and finally are reflected in summary form at the end of the accounting period in financial statements.

The first four chapters concern the fundamentals of the accounting process. Chapter 1 is a brief introduction to financial statements, the end product of the accounting process. Chapters 2, 3, and 4 illustrate the rudiments of bookkeeping and the accounts used in the double entry system. In Chapters 5 and 6, the author inserts materials on accumulation and discount computations and bond premium and discount tables. These chapters, which concern materials of a special nature that are encountered relatively infrequently in the average practice, could be omitted by the instructor without losing the continuity of the presentation of subject matter. Chapters 7 and 8 take up in detail two bugbears for the beginner—inventories and depreciation—with a discussion of different theories with respect to these matters. In Chapters 9 through 12, the author discusses corporate proprietorship: issuance of shares, dividends, capital readjustments, treasury stock, and earned and capital surplus. These are the chapters that are so necessary to the student in the corporation law course, and the author suggests that they may be omitted, as they are at the University of Chicago Law School, and taken up in the corporation law course itself. Chapter 13, on partnership accounting, is of particular significance with the extensive codification of the treatment of partnerships for federal income tax purposes under the Internal Revenue Code of 1954. Chapter 14 takes up the problems of normal versus unusual items of operating income and their presentation in accounting statements. Chapter 15, on intangibles, and Chapter 16, on intercorporate stock holding and consolidated statements, concern special problems of importance with which the student should be familiar. Finally, in Chapter 17, the author comes full circle to financial statements, the subject with which he started in Chapter 1. Here the technique of comparative analysis and ratios is presented. This is important for the student since he must realize how masses of data are collected and presented on financial statements which are not only a formal summation of historical events, but tools which management can use to project more efficient and effective operations into the future.

The text quotes from materials of the American Institute of Accountants, the American Accounting Association, and S.E.C. releases. References are also made to corporation and tax cases and standard accounting texts. A minimum of problems is inserted throughout the book to enable the student, by these exercises, to understand in a practical way the principles discussed. The text is suitable for a one-hour course; or if additional materials such as prospectuses, corporate annual reports, and assigned reading in footnote and reference materials are used, the text is appropriate for a two-hour course.

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