Shugerman: Accounting for Lawyers

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In many areas of law practice, a knowledge of accounting is helpful and frequently necessary. Lawyers are increasingly confronted by statutory formulae, with their judicial and administrative gloss, geared to economic concepts: the Internal Revenue Code, the Securities Act of 1933, the Public Utilities Holding Company Act, the Chandler Act, the Robinson-Patman Act, and the various renegotiation and price control acts are but examples. Moreover, business relationships which do not directly involve the government are also being voluntarily tied to economic facts, and rigidity of fixed payments is being replaced by a somewhat different distribution of business risk in profit-sharing employment and sales contracts, and in percentage leases. State dividend statutes which furnish insufficient protection to creditors are being supplemented by detailed contractual provisions in loan indentures which restrict distribution of corporate funds to owners or managers. Even the family relationship, when broken, often results in alimony and support payments which are determined in part as a percentage of income. In an increasing area of the law, then, substantive rights change with a change in economic or financial facts. Since accounting is concerned with the recording and reporting of economic and financial facts, lawyers must face up to learning something about it. Concepts such as “net income” and “gross receipts,” for example, are not to be found in their pure form in nature, and the lawyer must be alert to the problems they are likely to cause.

Law schools are now including accounting in their curricula, and professional institutes, such as the Practicing Law Institute and the American Law Institute, have published monographs on accounting in cooperation with the American Bar Association. Two general types of materials have been developed for teaching accounting to law students. One type is modeled after the traditional case book; the other type is a modified accounting text which emphasizes the interrelationship of law and accounting. Professor Shugerman’s work is in the textbook class. Although the philosophy and approach of these two types of materials are different, they are frequently used to advantage together in a single course. It is against this background that Shugerman’s book must be judged.

1. Oehler, Accounting for Lawyers (1946).
2. First, Basic Accounting for Lawyers (1950).
3. Amory, Materials on Accounting (1949); Schapiro & Wienshienk, Cases, Materials and Problems on Law and Accounting (1949). Professors Warren and Thompson are now publishing materials developed at Columbia Law School.
4. E.g., Graham & Katz, Accounting in Law Practice (1938); First, Basic Accounting for Lawyers (1950); Oehler, Accounting for Lawyers (1946).
5. Amory suggests the use of elementary accounting texts as a companion to his casebook. Amory, Materials on Accounting vii, xi (1949). At Yale we have used Graham & Katz, Accounting in Law Practice (1938) in conjunction with Schapiro & Wienshienk, Cases, Materials and Problems on Law and Accounting (1949).
The book, intended for persons with no previous accounting experience, contains 550 pages divided into three major parts. Part I, occupying roughly one-third of the volume, is devoted to basic accounting concepts and procedures. These chapters are, in the author's words, "the gateway chapters." Part II, about 230 pages, discusses various financial statements in detail, and Part III touches on partnerships, corporations, consignor-consignee, branch office accounting, installment sales, and estates and trusts. Short extracts from opinions, statutes, and administrative materials are interspersed in the text, giving the student a feel for the purpose of his study. Examination of books of account and underlying records for evidentiary purposes is stressed. For this, the author is to be commended.

On the whole, however, I question whether Professor Shugerman has made a significant contribution to the legal accounting literature. In the foreword, the author states: "Brevity has been stressed. And at all times, simplicity has been a foremost consideration." Unfortunately, the book is brief primarily where difficult concepts worthy of elaboration are discussed, and simple at the expense of being inadequate. For example, basic ledger accounts and journal entries are introduced and employed in half a page without a word of previous explanation. It has been my experience that on introducing the uninitiated to the journal and ledger accounts it is well to stress the theory of double entry bookkeeping, which requires full and careful explanation. I have no doubt that Professor Shugerman supplies the necessary background to his accounting classes, but for his written work he asks only that his reader have an "inquisitiveness to examine accounting principles and procedures." His most summary development would not, in the case of the typical student, bridge the gap between inquisitiveness and understanding.

In its treatment of relatively difficult accounting areas, the book either dismisses or ignores a good many problems. Bond premium is discussed, but the compound interest theory underlying its computation, described as the "precise niceties of financial mathematics," is omitted. Premium on redemption of preferred stock is charged to capital surplus without any discussion of the problems which this may create. The difficulty or desirability of computing book value of certain preferred stocks is barely mentioned. The discussion of the declining balance method of depreciation is novel.

6. P. v.
7. P. v.
10. On the other hand, his explanation of relatively simple matters is at times almost irritatingly verbose. In Chapter 15, for example, he reprints (pp. 210-13) an identical 35-line portion of a balance sheet four times, changing only the type cast to emphasize different parts of the statement.
11. P. 316.
12. P. 462.
Readjustment of depreciation schedules is treated so as to give the reader the impression that only the rate applied to the undepreciated cost can be varied; that is, there is no discussion of possible charges of credits to surplus. Shugerman gives the following example: to a building having a depreciable cost (after salvage) of $40,000 has been depreciated over a ten-year period on the assumption that it would have a useful service life of 40 years, and $10,000 depreciation (at $1,000 a year) accrued. After ten years it is decided to revise upward the building's estimated life so that 50 (rather than 30) years of additional service is contemplated. The book states that the remaining undepreciated balance of $30,000 should be charged over the next 50 years at an annual rate of $600 a year. A far from frivolous question may be raised as to the theoretical accuracy of such a procedure. It could be argued with equal plausibility that income for the past ten years has been charged an excessive amount of depreciation and that an adjustment to earned surplus would be in order to allow each succeeding year to be charged with annual depreciation of $666.67 ($40,000 depreciable cost ÷ 60 years life). As a practical matter, of course, with the figures assumed any error introduced is too small to warrant concern, but the important and interesting theoretical problem should be discussed. This is particularly true when a book is aimed at lawyers, who are likely to be concerned with contentious areas of accounting.

Even leaving aside omissions which could be justified on the grounds of textual simplicity, the book has a more serious fault: except in the inventory section, the relationship of the balance sheet to the income statement is not sufficiently stressed. A "conservative" balance sheet value for a depreciable asset may grossly inflate net income because of unrealistic depreciation charges. The discussion of "nominal values" omits this thought entirely. An example of this general failing appears in sentences such as: "For example, one interested in only a business' past profitability and not concerned with its present debts and liabilities would look only to the P & L statement." Only the most naive of analysts would not look closely into such factors as depreciation and amortization, and relevant information might be found only on the balance sheet or related schedules.

A law school course in accounting should, of course, first acquaint the student with the outlines of bookkeeping procedures and concepts so that he can read financial statements and understand the process by which they are constructed. But for the lawyer who is likely to be concerned primarily with controversial areas of accounting, this is only a first step towards the necessary accounting sophistication. The rules and principles of accounting with which the lawyer is most likely to deal are often as flexible as their legal counterparts and, for

15. Pp. 272 et seq.
18. P. 393.
the lawyer, understanding the purpose and rationale behind accounting doctrine is as important as understanding the policy behind rules of law. Professor Shugerman's book does not itself provide this necessary background. Furthermore, it does not even adequately open for the reader the gateway to accounting treatises and periodicals.

In fairness to Professor Shugerman it should be recognized that he has attempted a difficult job. It is not easy to be brief yet comprehensive and simple yet analytic. Furthermore, it is by no means certain that the often difficult field of accounting can be effortlessly opened to lawyers who, after all, are not a breed apart. Perhaps subsequent editions of this work can remedy its defects while continuing to provide the desired simplicity.

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Mr. Friedmann, the well-known author of Legal Theory, has worked his recent articles into a panorama of the rapidly changing legal scene. Against the background of the British and to some extent of the Commonwealth law, he presents a lucid description of the present status and function of property and contract, the relations between social insurance and tort, and a sketch of judicial withdrawal and neutrality in freedom of trade cases. To these chapters has been added a completely new section, scrutinizing the changed functions of Anglo-American trusts. On the basis of this analysis the author enters a plea for a more vigorous assertion of judicial authority in cases concerning professional bodies and private associations. The second and a good part of the third book provide some systematization of British public law, concentrating on extension of legal remedies, the relationship between contract and administrative law, the limits of administrative discretion, and conflicting methods of statutory interpretation.

In his last and somewhat controversial chapter, the author inquires into the place of the rule of law in a democratic planned society. The central thesis of the book is built around the demonstration that the rule of law is perfectly compatible with the major tenets and operations of such a society. This rule of law (construed without reference to Dicey's vindictiveness against administrative law and its exclusive enforcement through the law courts) possesses a dual function: judicial authority continues to safeguard individual rights; yet there is equal emphasis on its ability to assure equality of the law for those engaging in comparable legal transactions. To be sure, the effective extension of safeguards of individual rights through the abolition of civil and criminal immunities of the Crown and the current narrowing down of the Acts of

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