

# **Effective Writing**

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## **A Handbook for Accountants**

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**Claire B. Arevalo**

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# **EFFECTIVE WRITING: A Handbook for Accountants**

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# PREFACE

*Effective Writing: A Handbook for Accountants* is designed to help accounting students and practitioners improve their writing skills. It can be used as a supplementary text for regular accounting courses, or as a text in a business communications or technical writing course when these courses include accounting students. The handbook is also a useful desk reference or self-study manual for accounting professionals.

*Effective Writing* guides the writer through all the stages of the writing process: initial planning, including analysis of audience and purpose; organizing the material; writing the rough draft; and revising for effective style and correct grammar. In addition to these basic writing principles, the book includes chapters on letters, memorandums, reports, and other formats used by accountants in actual practice.

Most chapters include exercises and writing topics for self-testing and practice. These assignments, like the illustrations in the text, deal with accounting concepts and situations, and thus will seem more relevant and interesting to men and women involved in the study and practice of accounting.

One way to use *Effective Writing* is in conjunction with regular accounting courses. Instructors can assign cases and topics for research based on the accounting concepts actually being studied in class, or use the assignments provided by this handbook. Students then analyze the accounting problem, research the literature if necessary, and prepare their answers according to an assigned format such as a

technical memorandum or a formal report for a hypothetical client. The handbook will guide the students toward effective organization, style, format, grammar, and other elements of the writing process. Instructors can then evaluate the papers on the basis of accounting content and effective communication.

As a self-study manual, *Effective Writing* will help accounting professionals master the techniques of successful writing in the business world. The book contains numerous examples and practical applications of the techniques discussed. In addition, many chapters have exercises, with answers, which will enable the reader to practice the principles. A thoughtful review of *Effective Writing*, then, will give practicing accountants greater confidence in the writing situations that they encounter as part of their professional responsibilities.

Most of the material in *Effective Writing* has been used successfully for over five years at the J. M. Tull School of Accounting at the University of Georgia, which has pioneered in its writing program for accounting students.

The handbook covers the writing problems most frequently encountered by accounting students and practitioners, as demonstrated by extensive classroom testing and research into the communication needs of the profession. It is not intended to answer *all* questions of organization, style, or grammar, but it addresses the ones asked most frequently.

I wish to thank all the people who have helped me prepare this book:

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## Chapter 1

# WHY EFFECTIVE WRITING IS IMPORTANT

Many accountants have recently become concerned about the need for effective writing skills. Multinational accounting firms now offer special courses to help their accountants write better. Various accounting organizations—the AICPA and state societies, for example—offer continuing professional education courses in writing. Many schools and departments of accounting now stress effective writing in accounting coursework.

Why all this interest in writing? To be truly competent, accountants must be able to use words effectively. In a study published by the AICPA, Robert H. Roy and James H. MacNeill stressed dramatically the importance of effective accounting communication:

To the CPA the ability to express himself well is more than the hallmark of an educated man, it is a professional necessity. Inability to express his findings in understandable, explicit, unambiguous, intelligible English can be self-defeating, potentially misleading, and possibly disastrous to clients, creditors, and investors. . . . We feel justified, therefore . . . in being unequivocal about this requirement of the common body of knowledge for beginning CPAs: *candidates who cannot write the English language at least as well as a minimum-threshold should be denied admission to the profession, if need be on this account alone.*<sup>1</sup>

The American Accounting Association's Committee to Prepare a Statement of Basic Accounting Theory also identified the importance of communication in the



practice of accounting: “Communication is a vital link in accounting activity. It is of no less importance than that of developing the information itself.”<sup>2</sup>

So the ability to communicate effectively—whether in speaking or writing—is essential to success in the accounting profession. Unfortunately, many students and accountants lack the basic skills they need to be effective communicators.

## THE PROBLEM

In a recent study sponsored by the American Accounting Association, Robert W. Ingram and Charles R. Frazier identified twenty communication skills important to the successful practice of accounting. A disturbing finding of the study was that *entry-level staff and accounting students are woefully deficient in most of these skills*.<sup>3</sup>

Of the skills identified by Ingram and Frazier, the following relate directly or indirectly to effective writing:<sup>4</sup>

- correspondence writing
- memorandums and informal report writing
- formal report writing
- correct grammar
- correct punctuation
- correct spelling
- outline development
- inductive reasoning
- deductive reasoning
- coherence
- clarity
- conciseness
- paragraph development
- use of visual aids

Accountants need these skills almost daily to communicate important information—through letters and reports, memorandums, and narrative sections of financial statements.

## FINANCIAL STATEMENTS

Some portions of financial statements are written in narrative, rather than numerical, form. For instance, footnote disclosures communicate information that users may need to interpret the statements accurately. Here is an example of a footnote disclosure on a financial statement:<sup>5\*</sup>

\*Copyright © 1980 by the American Institute of Certified Public Accountants.

*Summary of Principal Accounting Policies—  
Principles Applied in Consolidation*

The consolidated financial statements include the accounts of U.S. Steel and its majority-owned subsidiaries except for those engaged in leasing and finance activities, which are carried at U.S. Steel's equity in their net assets plus advances.

Investments in other affiliated companies in which U.S. Steel has significant influence in the management and control are accounted for using the equity method of accounting. They are carried in the investment account at the Corporation's share of the unit's net worth. The proportionate share of income from equity investments is included in Other income.

Investments in marketable equity securities are carried at the lower of cost or market and other investments in companies owned are carried at cost with income recognized when dividends are received.

This footnote is fairly easy to understand. Unfortunately, the meaning of some footnote disclosures is not always clear to the average financial statement reader. Arthur Adelberg and Richard Lewis, in a recent article in the *Journal of Accountancy*, note the need for more clearly written footnotes. They suggest, for instance, that accountants use shorter sentences, active verbs, and definitions of technical terms when writing footnotes and other narrative portions of financial statements.<sup>6</sup>

## **LETTERS AND REPORTS**

Many times accountants communicate information to clients through letters or reports. For example, engagement letters put into writing the arrangements made between an accounting firm and a client. Tax accountants in public practice often write letters to advise clients about the proper treatment of a tax problem. And an auditor, following an auditing engagement, often writes letters to the client suggesting ways to improve the client's business.

Reports, both formal and informal, are also important ways to communicate accounting information. For instance, an accountant working for a corporation may write a report for management on alternative accounting treatments for a particular kind of business transaction.

To be effective, letters and reports must be well written. How will clients react if, after reading a letter from their CPA, they are still confused about their income tax problem? How will management feel about a report that is poorly organized and hard to follow?

## **MEMORANDUMS**

Sometimes accountants working within a firm, particularly a large firm, need to communicate with one another. For example, one member of a firm may interview

a client about an accounting problem that will later be researched by other members of the staff. The interviewer will record the pertinent information on a memo for the client's file. Other individuals will later consult the memo to find the information needed to complete the research.

Effective memos are also an essential part of the working papers that accompany an audit. The auditor must be able to describe with clarity and precision the procedures he or she followed in the audit, the client's accounting policies and procedures, and the specific conclusions reached as a result of the auditing investigations. Thus accurate, complete, and understandable written documentation is part of the auditor's responsibility.

Memos also relate administrative information about the accounting firm itself—announcements of upcoming meetings, for example, or changes in firm policy.

\* \* \* \* \*

In conclusion, accountants need writing skills for many of their routine, professional tasks, whether communicating with investors, management, clients, or fellow professionals. They need to use words effectively and to combine these words into good sentences and paragraphs. It is important to remember that accounting is a process of measuring and *communicating* information.

Writing skills pay off in professional advancement. Zane Robbins, of Arthur Andersen Co., notes:<sup>7</sup>

All other things being equal, the professional accountant who can communicate best is likely to progress fastest. Those who are unable to write and communicate effectively often find themselves consigned to the purgatory of technician with little hope for long-term growth.

To succeed professionally, accountants must master many skills. They must understand and be able to apply accounting principles, of course, but they must also be able to communicate effectively. A competent accountant who is also an effective writer will usually be rewarded with professional success.

## NOTES

1. Robert H. Roy and James H. MacNeill, *Horizons for a Profession: The Common Body of Knowledge for Certified Public Accountants* (New York: American Institute of Certified Public Accountants, 1967), pp. 218–19.
2. Committee to Prepare a Statement of Basic Accounting Theory, *A Statement of Basic Accounting Theory* (Evanston, Ill.: American Accounting Association, 1966), p. 13.
3. Robert W. Ingram and Charles R. Frazier, *Developing Communications Skills for the Accounting Profession* (Evanston, Ill.: American Accounting Association, 1980).
4. Ingram and Frazier, *Developing Communications Skills*, pp. 15–18.
5. *United States Steel Corporation 1980 Annual Report* (Pittsburgh, Pa.: United States Steel Corporation, 1980), p. 24.

## 5 *Why Effective Writing Is Important*

6. Arthur Harris Adelberg and Richard A. Lewis, "Financial Reports Can Be Made More Understandable," *Journal of Accountancy*, 149 (June 1980): 44–50.
7. H. Zane Robbins, "How to Develop Basic Writing Skills," *The Chronicle*, 40, no. 1 (1981), 9.

## EXERCISES

### Exercise 1-1

Look for examples of effective and ineffective writing in the material you read regularly. Consider letters and memos you receive, as well as published professional material such as textbooks, professional articles, and FASB pronouncements. Then think about the following questions.

1. What kind of material do you find easiest to read? What are some of the qualities that make this writing readable?
2. Examine closely the writing you find difficult to read. How do you think the writing could be improved?
3. Make two lists of the specific qualities that make writing effective or ineffective. You might begin something like this:

#### EFFECTIVE WRITING

- shorter sentences
- shorter paragraphs
- conversational vocabulary
- correct grammar
- etc.

#### INEFFECTIVE WRITING

- long sentences
- long paragraphs
- too much jargon and "big words"
- obvious grammatical mistakes
- etc.

### Exercise 1-2

Collect samples of your own writing, both professional and personal. Analyze your writing, considering the following questions.

1. What kind of response do you usually get to your writing from supervisors, peers, clients, and subordinates? Are readers sometimes uncertain of your meaning?
2. From the lists you made for Exercise 1-1, question 3, identify some of the strengths and weaknesses of your writing.
3. As you read this handbook and study the examples and exercises, look for ways you can improve your writing.

## *Chapter 2*

# **THE WRITING PROCESS: AN OVERVIEW**

Effective writing, like the accounting system, is a process. The first step in the accounting process is to analyze the transactions to determine how they should be treated. For example, the accountant decides where to record the transactions—what journals, ledgers, and accounts to use—and how detailed the entry descriptions must be in order to be useful.

Several questions basic to the accounting system underlie an accountant's analysis of financial transactions and their treatment. What is the purpose of the information recorded and ultimately reported? Who are the users of this information and what are their needs? How can this information be most fairly and effectively presented?

These questions are as important to good writing as they are to good accounting. Initial planning, emphasizing both the purpose of the writing and the needs of the readers, is the first step in the writing process.

### **INITIAL PLANNING: ANALYZING THE PURPOSE OF THE WRITING**

A report on inventory flow assumptions could have numerous purposes. If you were writing such a report, you would first decide on its primary purpose. Should the

report simply describe the various flow assumptions—LIFO, FIFO, average cost, etc.? Is the purpose of the report to recommend an inventory accounting treatment for a certain company in a given situation? Should the report analyze the potential problems arising from a change in flow assumptions—from FIFO to LIFO, perhaps?

There are many possible purposes for such a report, but the important idea is to analyze the purpose (or purposes) carefully *before* you begin to write. It might be helpful to think of purpose in terms of three basic categories: to give information about something, to propose a course of action, or to solve a problem. The purpose of most writing tasks will fall into one of these categories, or perhaps a combination of two or three.

Here's another example. Assume you are the controller for Eldorado Manufacturing. Eldorado is considering a purchase of stock from Western Materials, one of Eldorado's major suppliers of raw materials. A report on this possible purchase could have any of the following purposes:

- To inform management of the advantages (or disadvantages) of such a purchase
- To recommend that Eldorado purchase (or not purchase) the stock
- To suggest a way to finance the purchase

The purpose of the report, or of any writing, will determine what material it should contain. Consider another example. Your client is faced with a lawsuit that could result in a large loss. You might write a report for the client about the disclosure requirements for contingent loss liabilities due to pending litigation. In such a report you would not include a discussion of gain contingencies, nor a discussion of loss contingencies from bad debts. You would analyze the specific purpose of the report to decide what information was relevant for this situation.

It is a good idea to write down the purpose of your writing task before you begin further work on it. Be as specific and concrete as possible, and try to define your purpose within one sentence. This sentence will later become your thesis statement or statement of purpose. (These statements are discussed more fully in later chapters.)

## **INITIAL PLANNING: ANALYZING THE READER**

Another important consideration in the initial planning of a writing task is who the reader will be. A report dealing with a highly technical accounting topic would be written one way for a fellow accountant, but another way for a client with only a limited knowledge of accounting procedures and terminology.

Accountants are familiar with the concept of user needs in preparing financial statements. Likewise, effective writers analyze the needs of their readers. Of course, an accountant prepares financial statements for many users with a variety of needs and backgrounds. The writer of a report, letter, or memo usually writes for a

limited number of people, or perhaps for only one person. Furthermore, a writer usually knows, or can find out, important information about the readers. Again, you must ask certain basic questions. How much knowledge do the readers have of the subject being discussed? The answer to this question will determine the terms that need defining or the procedures that need explaining.

Accountants dealing with the public should be particularly careful in analyzing the needs of their readers. For example, a tax specialist might have clients with widely varying experience and knowledge of taxation terminology. A corporation executive would probably understand such concepts as deferrals and loss carry-forwards. But a small shopkeeper might not be familiar with these technical accounting terms and procedures. Business letters to these two clients, even on the same topic, would need to be written differently.

You may also need to consider the readers' attitudes and biases. Are they likely to be neutral to your recommendations, or will they need to be convinced? If you need to persuade your readers, remember to write with the readers' interests and needs in mind. How will the readers benefit, directly or indirectly, from what you propose? How can you present your arguments so that readers' objections and biases will be overcome? For this last question you will need to anticipate readers' questions, research the basic issues, and then organize your arguments into a convincing arrangement (see the following section).

Other important considerations when analyzing readers' needs are tone and style. Again, what are their attitudes and biases? Some readers react well to an informal, friendly style of writing, but other readers believe that professional writing should be more formal.

Consider also your word choices. If your reader is a woman, will she resent the following sentence?

An efficient accountant dictates letters to his secretary; she then types the letters for his signature.

Some readers might argue that the choice of pronouns (accountant/he, secretary/she) implies a sexist bias. More traditional readers might not object to the sentence at all. (Note: this sentence can be revised to avoid the issue of sexism by using plural nouns: Efficient accountants dictate letters to their secretaries, who then type the letters for their supervisors' signature.)

But whoever your reader is, remember always to be courteous. Whether you write in a technical or simplified style, all readers appreciate (and deserve!) consideration, tact, and respect.

Analyzing reader needs is an important part of the preparation for writing. Initial planning, which considers both your audience and your purpose, is the first rule of effective writing:

1. **Analyze the purpose of the writing and the needs of the readers.**

## GETTING STARTED: THE OUTLINE

Once you have evaluated the purpose of the writing and the needs of the readers, you are ready for the second stage in the writing process: organizing the ideas you want to present. This step may be quick and simple. For a short letter you can list the three or four ideas you wish to include in the letter, perhaps one idea for each paragraph. On the other hand, a long letter or a report will require a more detailed outline.

In some situations, you may need to do some initial background reading before you can make your outline. If you are writing a research report on a technical topic, for example, you will need to survey the literature to identify the important aspects of the subject; these aspects will then become the major divisions of the outline. Chapter 11 discusses background reading, as well as other phases of the research process, in more detail.

Most outlines are organized in a complex-deductive structure: a main idea (the thesis statement or statement of purpose), major supports, and minor supports. See Chapter 4 and Chapter 7 for a further discussion of complex-deductive patterns of organization.

After you have made a list or outline of your important ideas, you can consider several questions. Does the outline cover the subject completely, or should you expand it to include other ideas? Does it include an idea that is not relevant to the purpose of the writing? Have you presented the ideas in the most effective order?

The order in which you present your ideas is an important consideration. To some extent the order will depend on the particular report, letter, etc., you are writing. However, several principles of good organization apply to all writing tasks.

First, nearly all writing has the same basic structure:

*Introduction of the subject:* provides background information, stresses the importance of the topic.

*Concise statement of the main ideas,* usually in one sentence: thesis statement, statement of purpose, topic sentence, etc. (See Chapter 3.)

*Development of the main ideas:* includes explanations, examples, analyses, steps, reasons, proofs. This part of an outline or paper is often called the body.

*Conclusion:* repeats the main idea and brings the paper to an effective close.

Later chapters of this handbook will discuss more fully this basic structure as it is used for particular kinds of writing.

Second, you can usually arrange the ideas in a logical order. For instance, if you were describing the process of reconciling bank statements, you would discuss each step of the procedure in the order in which it is performed.

Finally, you can often organize the ideas according to their importance. One approach is to progress from the most important to the least important points so that



the report, letter, or other writing immediately catches and holds the reader's attention, and convinces the reader of the soundness of your arguments.

As an example, suppose you are writing a report to recommend that your firm purchase a new computer system for its accounting records. Naturally, you will want to emphasize the advantages of this purchase—describing them in the order that is likely to be most convincing to *the readers* of the report. However, an investment in a computerized accounting system might also have drawbacks—for example, the cost to purchase and install the equipment and the problems involved in converting to the new system. For your report to appear well researched and unbiased, you will need to include these disadvantages in your discussion—and, of course, in the outline as you are preparing the report. To organize your report, you might use the following basic structure:

- I. Introduction, including your recommendation
- II. Body
  - A. Advantages, beginning with those most appealing to the readers
  - B. Disadvantages, including, when possible, ways to minimize or overcome any drawbacks
- III. Conclusion

If you analyze your outline or list of ideas before you begin to write, you will be able to decide in advance how your thoughts can be presented most effectively. You will also know that you have covered the subject thoroughly, but eliminated unnecessary digressions. This time spent initially in organizing the writing task will save time and effort when you actually begin to write. By following the outline, you will always know what to say next.

The list of rules for effective writing can now be expanded:

- 1. **Analyze the purpose of the writing and the needs of the readers.**
- 2. **Use an outline to organize the ideas you want to present.**

## **WRITING THE ROUGH DRAFT**

The third step in the writing process is the rough draft. The purpose of this step is to get the ideas down on paper in whatever form they come most easily. Spelling, punctuation, and style are not important in the rough draft. What is important is that you write the ideas down so that later you can polish and correct them.

When you work on your rough draft, follow the outline you have already prepared. However, you may decide to change the outline as you go, omitting some parts that no longer seem to fit, or adding other ideas that now seem necessary. Changing the outline is fine, because when you revise the rough draft later you can make sure your thoughts are still well organized.