for the first time. A potentially serious drawback of chapter 1 is that it relies, in part, on journal articles that are not reproduced in the book. The reader must obtain copies of the articles to understand some chapter 1 material.

Chapter 2 gives survey results of audit partners' knowledge of agency theory and PAT. The study indicates that the partners did not have explicit knowledge of these theories. However, they had learned from audit experiences that management might introduce bias into financial statements to suit personal objectives. There was consensus among practitioners that PAT was useful in assessing risk and that an undergraduate introduction to PAT would reduce the risk that future auditors would learn about PAT phenomena the "hard way."

Chapter 3 consists of five cases illustrating PAT phenomena. The cases were taken from the public domain and were classroom tested. They present cases at several difficulty levels and have reader appeal.

Chapter 4, which presents the results of PAT research, demonstrates the role of PAT in fraud detection. For a nonresearcher, this is a very readable chapter. The author utilizes tables and lists to summarize research results. These pedagogical aids should also be of interest to those developing audit decision aids. The practical implications for the accountant and the auditor are made obvious in chapters 4 and 5. Chapter 4 summarizes PAT research that has identified "red flags" that are highly correlated with management fraud.

The link between the results of PAT research and civil law is then explored in chapter 5. Chapter 5 explains the relationship between the legal and the financial/accounting concepts of agency. The author examines the ways PAT may influence the court's definition of "due professional care." Failure to use PAT as an analytical and planning tool might be argued by a lawyer as evidence of an auditor's failure to act in a prudent manner.

Finally, chapter 6 presents an argument that, in many cases, personal ethics mitigate the self-serving tendencies of management as predicted by agency theory and PAT. The authors examine the relationship between economic self-interest and ethical norms. Parts of this presentation rely on game theory, which is not explained in the book. It is probable that the intended readers of this book are not intimately familiar with game theory. Given the book's title, this 11-page chapter is disappointing.

The information in chapters 1 through 5 is persuasively presented going from explanation of the basic theory (agency) to its subset (PAT), to a demonstration of the importance of PAT (partner survey) because of its implications for fraud detection and due professional care. The final chapter, while not as strong, extends the boundary of explanations of economic behavior by including a discussion of personal ethics. This book would be an excellent component of an advanced auditing course or as material for CPA firm in-house training.

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GERALD I. WHITE, ASHWINPAUL C. SONDHI AND DOV FRIED, *The Analysis and Use of Financial Statements*, Second Edition (New York, NY: John Wiley & Sons, Inc., 1997, pp. *xv*, 1224).

The second edition of this financial statement analysis text was written from the perspective that "good financial analysis requires the analyst to understand how financial statements are generated in order to *separate the economic process that generates the numbers from the accounting process that (sometimes) obscures it*" (*iii*).

This edition integrates accounting, economic theory, empirical research, and foreign and international accounting standards into the analysis of real company financial statements. The book is very well written, providing an excellent resource for users of financial statements including equity and credit analysts, investors, managers, auditors, educators, students and regulators.

This book is an appropriate text for M.B.A. and advanced undergraduate courses in financial statement analysis. It also provides a comprehensive reference for individuals engaged in financial statement analysis, whether they are novices or experts. The second edition of this text better differentiates introductory and advanced material. To provide flexibility for intended users, advanced material has been either boxed into chapter sections that may be omitted without impairing the usefulness of the remainder of the chapter coverage, or moved to chapter appendices.

Other improvements to the second edition include expanded coverage of foreign companies in text examples, end-of-chapter cases, and homework problems. Most chapters include either integrated coverage or a separate section on international accounting and reporting practices, and at least one example or case from a multinational or non-U.S. corporation. Financial statements of three companies are presented as text appendices and are used for analyses throughout the text. One of the three companies is a non-U.S. corporation. References to both FASB and IASC standards and exposure drafts are current as of February 1997.

The book can be broken into three sections. The first five chapters introduce the fundamentals of financial statements and their analysis, accrual accounting and empirical research that relates to financial analysis. The second section, chapters 6 through 15, focuses on specific topics of financial analysis and can be studied either out of sequence or selectively. Topics include inventories, long-lived assets, income taxes, financing liabilities, leases and off-balance-sheet debt, pensions and other employee benefits, intercorporate investments, business combinations, and multinational operations. The final section, chapters 16 through 19, provides excellent coverage of derivatives and hedging activities, and synthesizes previous material within the framework of risk.

The individual chapters are well organized and clearly presented. Each begins with a fairly detailed chapter outline, then lists the chapter objectives. The chapter sections, although not specifically tied back to an objective, follow the objectives sequentially. Topic discussions are thorough. Exhibits typically provide supporting calculations, additional company examples, and general models. The end-of-chapter case utilizes real companies and allows students to apply the analytic techniques presented in the chapter to work with sometimes incomplete data, enabling students to learn to formulate appropriate assumptions and approximations when faced with imperfect information. End-of-chapter problems, written by the authors or modified from the Chartered Financial Analyst Examination, are linked to chapter objectives and provide opportunities for students to practice critical thinking skills. Few chapters contain glossaries of terminology introduced. The addition of a glossary as an appendix to the text would help readers.

This book enables the reader to distinguish economic processes from accounting processes within the context of performing financial statement analyses. It should be given serious consideration either as an advanced undergraduate or graduate course text, or as an addition to the reference library of persons who analyze financial data. Its integration of both empirical research, and international accounting and reporting issues, into the practice of financial analysis makes it an invaluable resource.

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JOSEPH W. WILKINSON AND MICHAEL J. CERULLO, *Accounting Information Systems: Essential Concepts and Applications*, Third Edition (New York, NY: John Wiley & Sons, Inc., 1997, pp. *vi*, 984).

Accounting information systems (AIS) topics range from computer programming languages to computerized accounting controls and basic computer software applications. The Wilkinson and Cerullo AIS textbook takes a middle-of-the-road approach which focuses on accounting cycles, control procedures, and systems analysis and design.

The textbook is divided into five parts. Part I, "Systems Concepts and Technologies" (chaps. 1–6), focuses on business information needs, transaction processing, and AIS design and documentation techniques. Part II, "Control Concepts and Procedures" (chaps. 7–10), presents AIS controls, risk exposures, security measures, and basic audit considerations. Part III, "Transaction Processing Cycles" (chaps. 11–14), discusses the design of a cycles approach and presents the revenue, expenditure and conversion cycles. Part IV, "Processing Information for Management's Needs" (chaps. 15–17), focuses on management information requirements, decision support and expert systems, and networks. Finally, Part V, "Information Systems Development" (chaps. 18–20), presents systems organization, development, management, analysis, design, selection and implementation.

Interspersed throughout the chapters are what the authors refer to as "Spotlighting" vignettes. These illustrations provide students with real-world applications of the chapter material. Attractive and informative graphics that contain flowcharts, document examples, concise tables, and summary lists, are included throughout the textbook.

Following each chapter are key terms, review questions, thought-provoking discussion questions, and problems. The questions and problems provide instructors with a wide variety of assignments in both content and length. For those wanting to incorporate the use of microcomputers, the authors have identified certain assignments that are conducive to completion using a microcomputer. However, instructors may find that selecting homework assignments requires additional time and effort because (1) none of the textbook assignments are linked with the