

February 5, 1937

Gentlemen:

Following are excerpts from Mr. Carman G. Blough's paper, which was presented at a meeting of the American Accounting Association, held in Chicago on December 29, 1936. These quotations appear to be the only deviations from his recent address given before the New York State Society.

"It was with a great deal of satisfaction that I read the 'Tentative Statement of Accounting Principles'. The material it contains is a real contribution to the accounting profession. As was to be expected, there has been criticism of some of the proposed principles. The provision that 'the income statement for any given period should reflect all revenues properly given accounting recognition and all costs written off during the period regardless of whether or not they are the results of operations in that period' goes one step further than is generally practiced. The treatment of the unamortized portion of discount on bonds as a reduction of the face value of the indebtedness is another deviation from general practice which is hard for some to accept.

"It is not my purpose, however, to enter into any extensive discussion with respect to the 'Tentative Statement'. In general, I subscribe to it. Its importance to me is in the fact that it is an expression of opinion on significant accounting principles from a body of men whose word may be taken authoritatively by practicing accountants seeking guidance in the many problems that face them.

"College professors have been accused of being theoretical at the expense of practicality. Such accusations will undoubtedly be made by practicing accountants who differ with the 'Tentative Statement' and who may differ with expressions that I hope will be forthcoming from this organization from time to time. Because of this, it is important that the Association judiciously consider its pronouncements and consult widely with practical accountants before recommending principles for adoption by the profession. I believe such a procedure was followed in preparing the 'Tentative Statement' published in the June issue of the Accounting Review.

"In the Securities and Exchange Commission, we feel a great need for a more generally recognized body of accounting principles. In the course of our day to day work, it is necessary for us to decide whether accounting procedures followed by registrants are in accordance with principles that are accepted. It is almost unbelievable how many times

questions are presented upon which it is impossible to find uniformity of opinion among text-book writers or among practicing accountants.

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“The pronouncement of this Association on the treatment of treasury stock should give an impetus toward uniform treatment of this item. Similarly, pronouncements with respect to other items should be of material assistance.

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“The membership of this Association is comprised of individuals who, while having had some practical experience which gives them a basis for sound judgments, have devoted the greater part of their professional life to the educational field in which they have become accustomed to view problems from their social aspects rather than from their effects, in dollars and cents, upon clients or themselves. Accordingly, we look to this Association to lead the way in expressing sound principles of accounting that will recognize the interests of all parties for whom financial statements are prepared, yet will be tempered by reasonableness and practicality essential to the adoption of such principles in public practice.

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“As a university student, I had a rather firm belief that principles of accounting were for the most part pretty well established. Our textbooks often expressed the views of the author without a great deal of discussion of conflicting opinions. Possibly this is necessary in a college textbook where it is the desire to teach the best methods and where the presentation of a variety of conflicting methods might well lead to confusion or even to the inculcation of improper methods. Some of us, as teachers, may have been inclined to be somewhat dogmatic with regard to what we considered proper accounting procedures.

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“This paper has been mainly devoted to the recital of the variations in accounting practices followed by members of the profession because I saw no better way in which to bring home to you the extensiveness of the need for greater uniformity as we see it in our day to day work. What the future policy of the Commission will have to be, I am not prepared to say but we are reluctant to undertake the prescription of principles to be followed except as a last resort. It is hoped the profession will itself develop greater consistency in the many places where uniformity appears essential to avoid confusion in the presentation of financial data. I feel this Association can do much to improve the general tone of accounting and you may be assured the Commission stands ready in whatever way it can to assist the profession in accomplishing this purpose.”

Yours very truly,

AMERICAN INSTITUTE OF ACCOUNTANTS