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# An Analysis and Comparison of Conflicting Theories of Modern Accounting

Josefina Abeyta Velasquez

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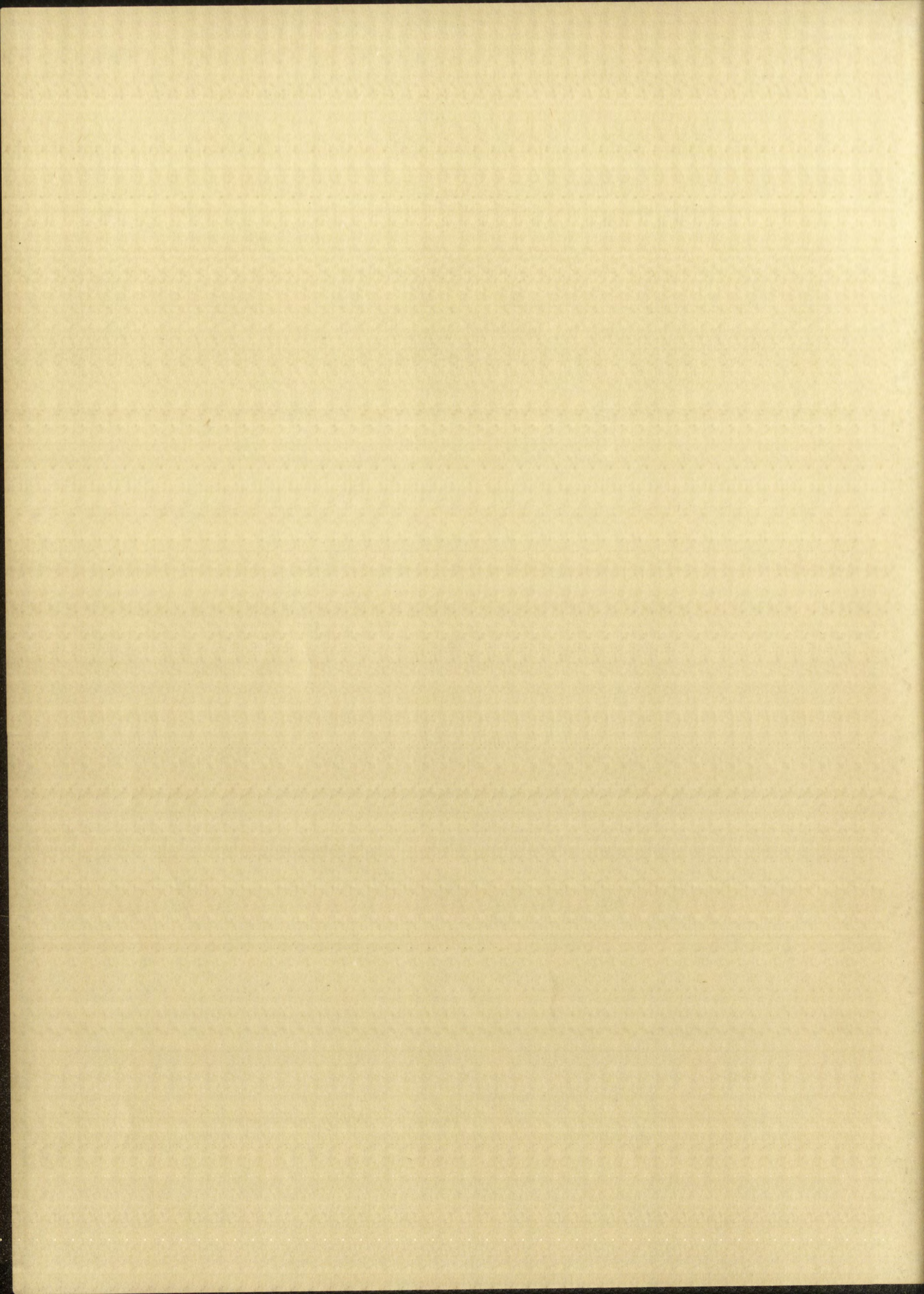
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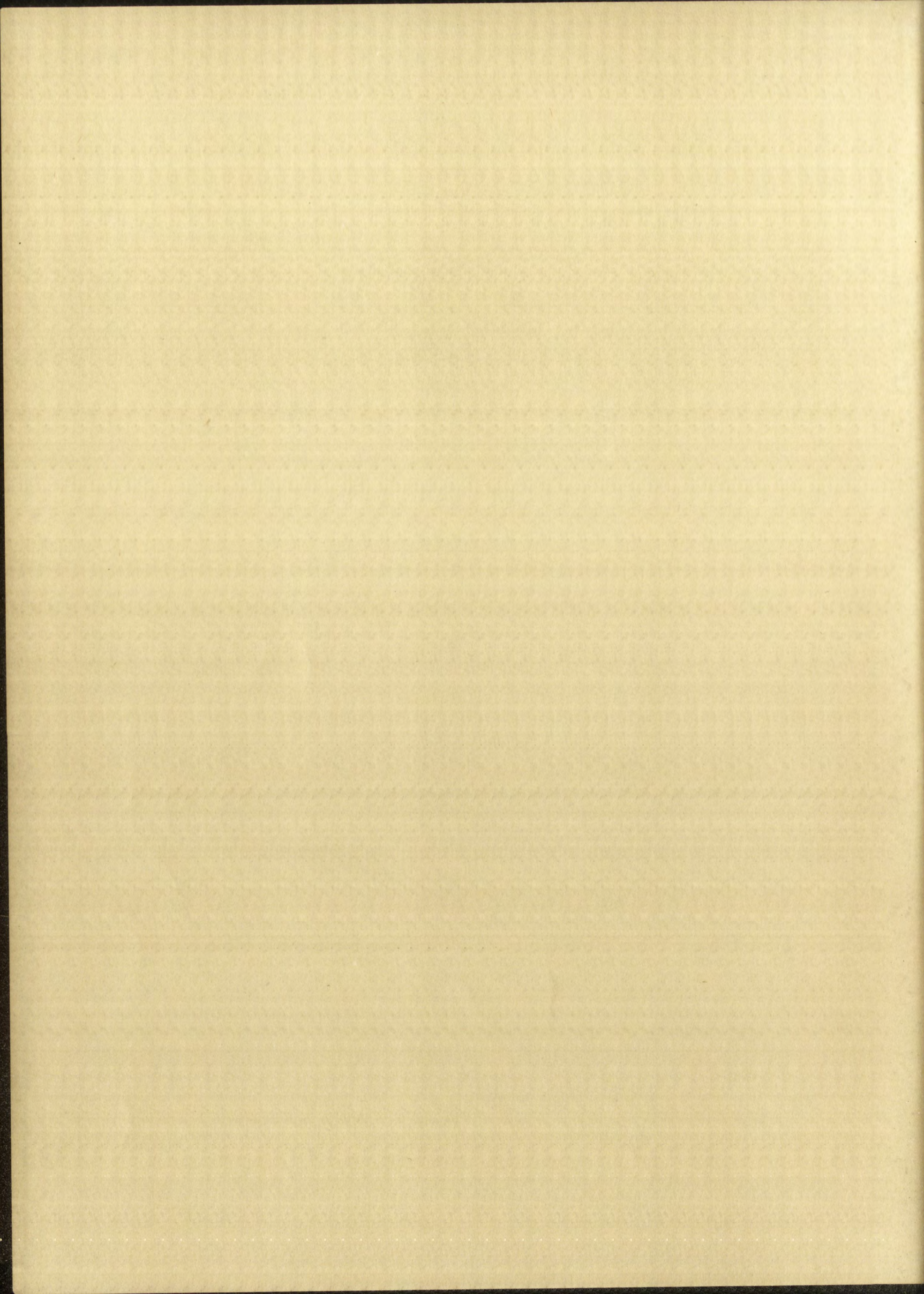


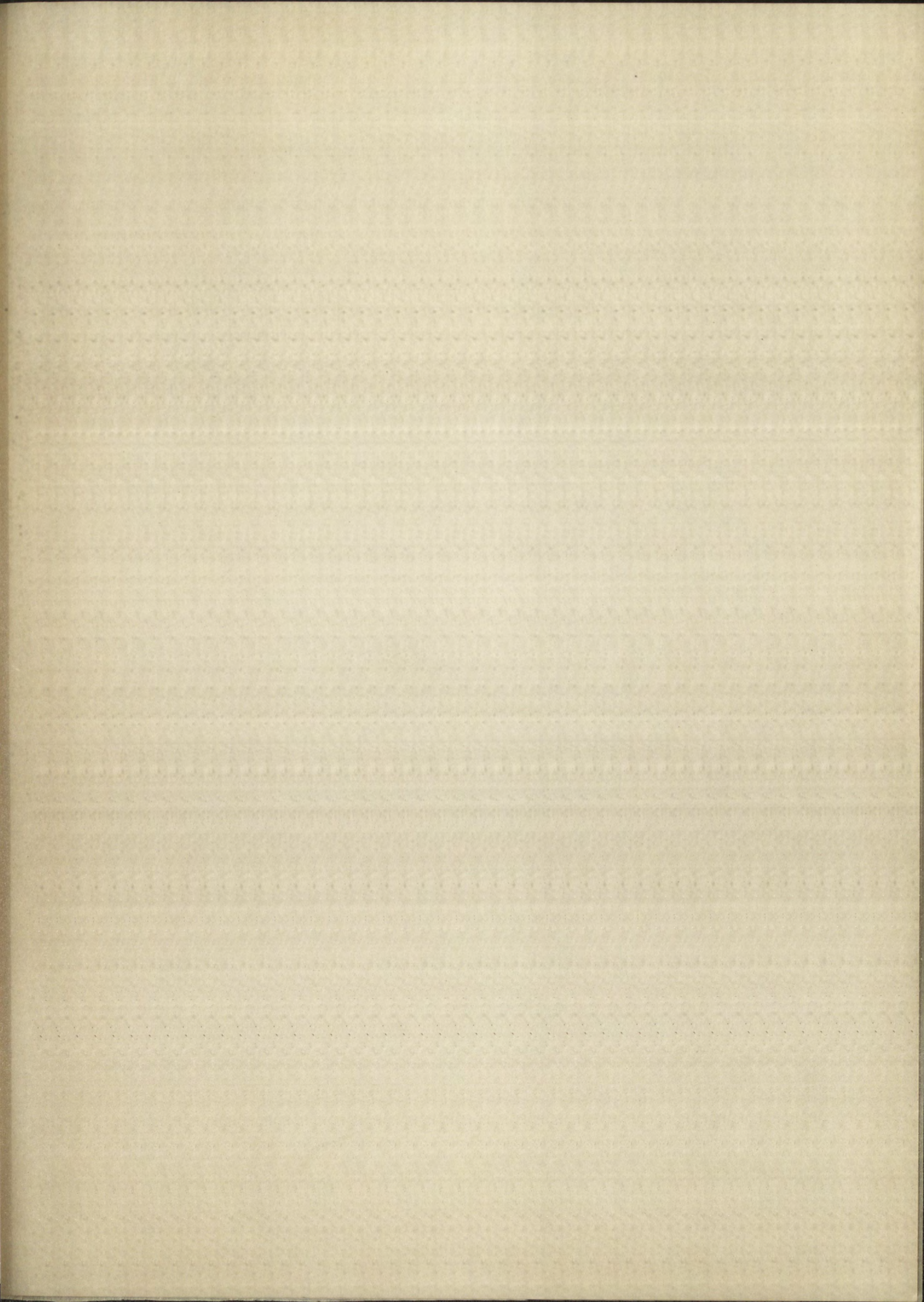
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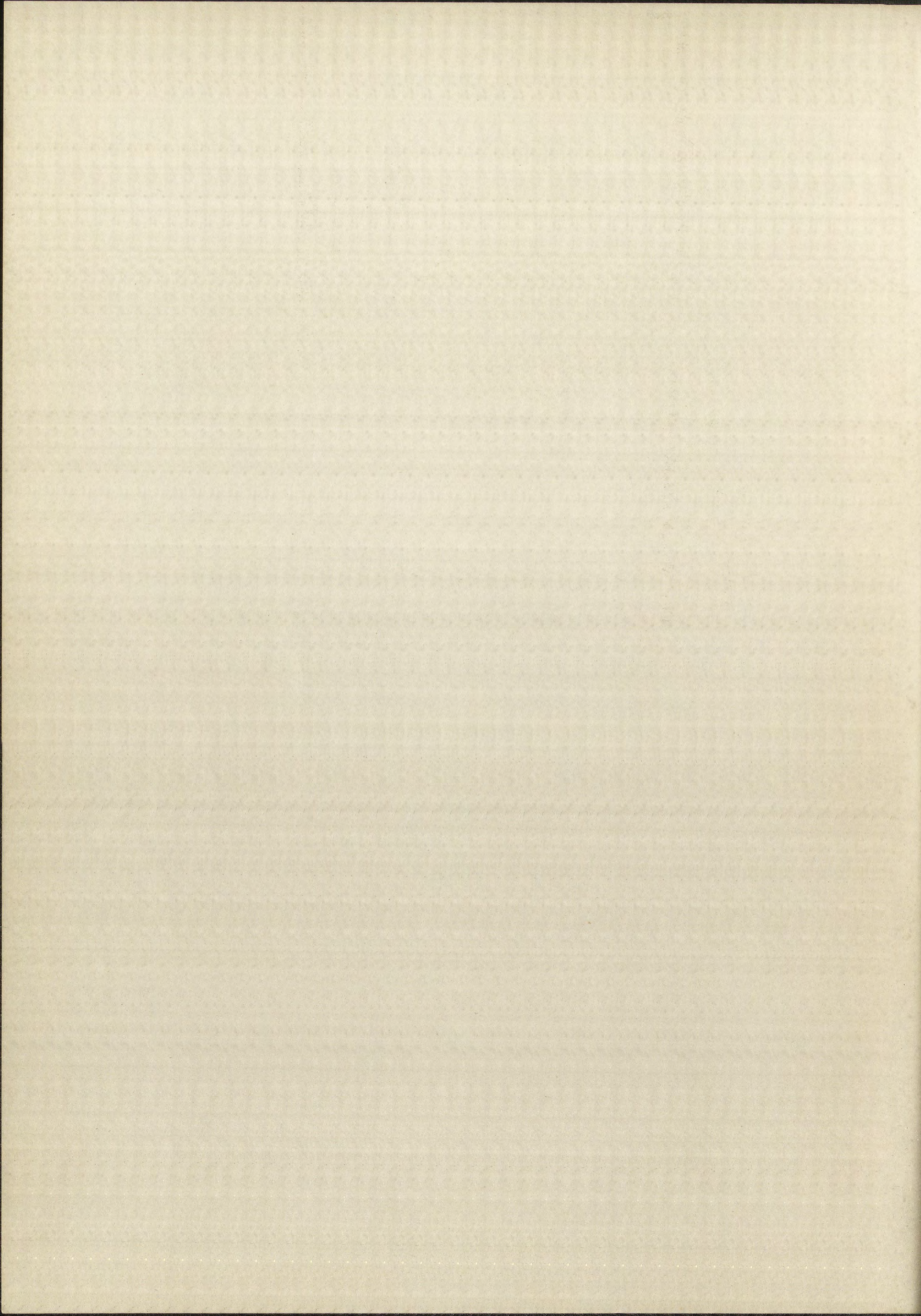
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AN ANALYSIS AND COMPARISON  
OF CONFLICTING THEORIES  
OF MODERN ACCOUNTING



By

Josefina Abeyta Velasquez

A Thesis

Presented in Partial Fulfillment of the  
Requirements for the Degree of  
Master of Arts in Business Administration

University of New Mexico

1950



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This thesis, directed and approved by the candidate's committee, has been accepted by the Graduate Committee of the University of New Mexico in partial fulfillment of the requirements for the degree of

MASTER OF ARTS

*E. Castetter*

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May 27, 1950

DATE

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OF MODERN ACCOUNTING

By

Josefina Abeyta Velasquez

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THE BOARD



## CHAPTER I

### INTRODUCTION

Accounting, as we know it today, has evolved from double entry bookkeeping as it was developed in Italy sometime during the thirteenth or fourteenth century.<sup>1</sup> Since its origin to about 1930, accounting had been undergoing a gradual change. The recent widespread use of the corporate type of business has caused the development of accounting to accelerate. This rapid change that accounting has undergone has caused it to be considered a new science. It is new in that it has many new problems to embrace and many new vistas to portray. The many rules that have developed since the origin of accounting are now tearing at the seams with the burden placed on them by the many changes that have occurred in business activity. At present, not just a small number of people are interested in the picture of a business organization as shown by the records of the organization's activities, but literally thousands are vitally interested. The owners of a business organization are often miles and miles from the center of

---

<sup>1</sup> Edward Peragallo, Origin and Evolution of Double Entry Bookkeeping (New York: American Institute Publishing Company, 1938), Preface.

CHAPTER I

INTRODUCTION

Accounting, as we know it, is a product of the modern era. It is a science that has developed in Italy sometime during the thirteenth or fourteenth century. Since its origin to the present day, it has had been undergoing a gradual growth. The widespread use of the separate type of business has caused the development of accounting to a rapid rate. This rapid growth has been the result of the fact that the rapid changes that are taking place in the world have caused it to be considered a necessary part of business. It is now in fact the most important part of business and every new state is required to have it. The rapid changes that have developed since the origin of accounting are now being at the same time the rapid changes that are being made by the man in these days have caused the business activity. At present, not only a full number of people are interested in the progress of a business organization as shown by the records of the financial activities, but also the management are vitally interested. The success of a business organization are often times and when from the records of

Edward P. ...  
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operations. They know no more about the business than what is shown in records mailed to them at regular intervals. These records must, therefore, be very comprehensive, very accurate, very revealing, and easy to understand. Many of these owners have not had enough experience with business records to understand or analyze short composite reports. Such reports must of necessity be detailed enough to be self explanatory.

Management needs reports that will help it to make intelligent decisions for the business. It is upon the facts revealed by these reports that management bases long-range planning or minute decisions. These reports are the most important tool that management has at its disposal. In fact, reporting to management is the primary function of accounting. Reports to management must have a true story to tell. It must not be a colored story, but it must be an illustrative and revealing story. It should stand comparing and analysing. It should be a simple yet complete story. It must not have any hidden nooks and corners that might cause management to get lost or confused. When management finishes reading this story, it should have a complete

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understand or analyze such reports properly.  
Such reports must, of necessity, be carefully checked  
to be self-explanatory.  
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story. It should stand squarely on its own feet.  
It should be a simple yet complete story. It must not  
have any hidden hooks and corners that might cause  
management to get lost or confused. When management  
finishes reading the story, it should have a complete

understanding of every phase of the business as it was when the reports were made. Worthwhile planning and sound decisions can then be made.

Reports must also be made to governmental agencies. Often records made to such agencies must differ radically from those made to stockholders and other interested persons, for governmental agencies are seeking different information from that needed by others. Accounting rules and theories must be stretched in such a way that the records made by following them reveal the truth to all interested persons no matter how many different views of the multiple business activities these people may require.

Accounting has grown academically too. It is now an important subject in the curriculum of most colleges. Many students are not satisfied with a course in bookkeeping or in elementary accounting. They want to study all phases of the subject. As a result, much literature is now being published which deals with the concepts, theories, or principles of accounting.

This rapid growth of accounting from both the academic and practical point of view has resulted in much conflict as to the interpretation of the theories

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or principles of accounting as they apply to current business problems. For example, some authorities believe that the theories or principles of accounting should be flexible. Others believe that such theories or principles should be standardized and stated very precisely. Exact quotations from some authorities are hereby given. They clearly illustrate how keenly these authorities feel toward these conflicts.

Robert H. Montgomery states in the forward to Edward Peragallo's book:

The principal value of the study which Mr. Peragallo has made is that it establishes beyond dispute two things: first, that by its very nature accounting adapts itself to business procedure, not business to accounting procedure;

.....  
 Accounting methods which have endured are those which have met the test of the pragmatists----how well do they serve the given purpose? Accounting has but one purpose, to set forth the results of business operations accurately and truthfully. It draws upon the resources of many sciences, but remains an art, varying in effectiveness with the knowledge and skill of the practitioner----this is the lesson of history.<sup>2</sup>

In general, practitioners are against standardization. Laurence L. Vance quotes Colonel Robert H. Montgomery as stating,

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<sup>2</sup> Ibid., Forward.

or principles of accounting as they apply to business  
business problems. For example, the author believes  
believe that the method of valuation of property  
should be flexible. Other points that should be  
or principles should be determined and stated  
precisely. Exact definitions from your text  
are hereby given. They are as follows:  
these authorities have found these results.

Robert E. Montgomery states in his book

Edward Petzel's book

The principal value of the study of  
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beyond doubt and it is true that  
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to business practice, but it is  
accounting practice.

Accounting practice is a study of  
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I do not ask for standardization of accounting practice or procedure. That would mean the substitution of fixed rules for opinion and discretion. In fifty years we have learned much. If we had been standardized or unionized at any time during those fifty years, I am sure we would have lost one of our choicest possessions--independence to express our convictions in each particular case submitted to us, and most cases differ from every other case.<sup>3</sup>

The following quotation is still another statement against standardization.

The nature of accounting--the meaning and significance of many accounting reports--is fashioned by the demands of businessmen. A proprietor may wish to determine his liability for income tax. He will demand records and summaries that will conform to the requirements of statutes and regulations. At the same time he may wish to ascertain that his expectations of an enterprise income were or were not fulfilled. The records, summaries, and interpretations necessary to satisfy the later demand may or may not correspond with good tax accounting. What is more, the procedures of good managerial accounting frequently depart from the conventions of proprietorship accounting.

Methods and procedures are flexible, and can be bent to a variety of uses. They are not fixed and rigid--a straight and narrow path to an immutable goal. The form and content of accounting statements will vary according to the purposes for which they are prepared, and in relation to considerations of speed, accuracy, and expense. Standardization and rigidity are greatly to be

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<sup>3</sup> Robert H. Montgomery, "What Have We Done and How", Fiftieth Anniversary Celebration (New York: American Institute of Accountants, 1937), p. 89, cited by Laurence L. Vance, "Current Problems and Accounting Theory," The Accounting Review, 19:231, July 1944.

I do not see how the... practice of... situation of... in fifty years... been attributed... those fifty years... one of our... to express an... case admitted... from every other case.

The following... against...

The nature of... significance of... shown by the... prior may... income tax... that will... and regulations... ascertain that... income were... summary, and... tally the... with good... orders of... depart from... accounting.

Methods and... be held to... and... statements... for which... considerations... Standardization...

Robert H. ... How, ... American Institute of Accountants, ... by Laurence A. ... Theory, The Accounting...

desired, if for no other reason than to facilitate understanding; yet accounting reports are narratives and, like the story-teller, the accountant must frequently adapt his presentation to his audience and adjust the content of his tale to emphasize his point.

.....  
 Judgement rather than custom must play the major roll for a number of reasons. In the first place, business practices change in time, and satisfactory experience for one generation may be outmoded in another.<sup>4</sup>

There are arguments in favor of standardization too. Their attitudes can best be expressed by the following quotations:

A consistent framework of standards is needed to serve as a basis for judgement in construction and interpreting financial statements.

Accounting standards should be systematic and coherent, impartial and impersonal, and in harmony with observable objective conditions.<sup>5</sup>

Howard S. Greer states in his forward to the above cited book:

..... Accountants have been coming gradually to a recognition of the need for more precise and more widely accepted standards to guide them in the performance of their duties. They have been faced with difficult problems--that of reconciling the diverse treatments of business facts which have been customary in past periods,

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<sup>4</sup> Edward G. Nelson, "A Brief Study of Balance Sheets," The Accounting Review, 22:342, October, 1947.

<sup>5</sup> W. A. Paton and A. C. Littleton, An Introduction to Corporate Accounting Standards (Chicago: American Accounting Association, 1940) p. 1.

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Howard E. Green, in his book, *Accounting Ethics*

above cited books:

... Accountants have been coming  
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 and more widely accepted  
 in the performance of their duties.  
 been faced with ethical  
 conflicting the diverse  
 facts which have been  
 in their field.

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† Edward G. Wilson, "A Study of Accounting  
 Ethics," *The Accounting Review*, Vol. 35, No. 4,  
 1960.

‡ W. A. Patten and A. W. Latta, *Accounting  
 to Corporate Accounting Practices*, 1951.

and that of influencing the managers of business enterprise toward the adoption of more uniform and consistent accounting procedures.

.....  
 Diverse methods of treatment of like situations in the accounts of business enterprises had given rise to serious misconceptions, not only in the mind of the public, but also in the attitudes of business and financial leaders themselves. If accountants could not agree on the principles according to which the amount of a profit or the extent of an equity were to be measured, what purpose was served by impressively certified statements of corporation finances? It seemed plain that the time had come for those interested in theories and principles to cease raising questions and to begin furnishing answers.<sup>6</sup>

Both sides of the problem are ably and amply defended in current accounting literature. It is the belief of the author that some standardization is necessary. Reports and statements would be more easily understood. Much of the current criticisms concerning vague statements and vague reports would be eliminated. Of course, careful study of the more common problems should be made and recommendations suggested. THE AMERICAN INSTITUTE OF ACCOUNTANTS have been taking a step in the right direction. Problems are carefully studied by able men and recommendations are made by means of the Accounting Research Bulletins. It is very apparent that these recommendations do not satisfy all accountants.

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<sup>6</sup> Ibid., Forword.

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There are many articles in current accounting journals frankly discussing these recommendations. These articles serve as incentives for further study so they are of great value.

Standardization should be flexible enough to make room for new or unusual problems that may arise. Standardization may not even prove practical for the profession as a whole but there should at least be standardization within like industries.

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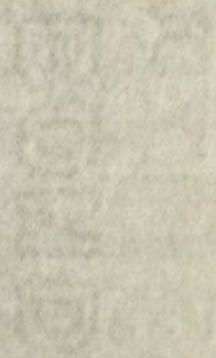
Standardization should be applied

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Standardization may not even prove practical for the

profession as a whole but there are many

standardization in the laboratory





## I. THE PROBLEM

Statement of the problem. It is the purpose of this study to present the point of view of different accounting authorities on theories of accounting upon which these authorities are not fully agreed, with the purpose of giving those interested in current accounting trends a chance to view these theories from different angles. It is hoped that such a presentation will be an incentive that will lead to more extensive reading of current accounting literature for only through such reading can any one person reach more intelligent interpretation of present conflicting theories of accounting.

Delimitation of the problem. Since the scope of current accounting literature dealing with conflicting theories of accounting is so extensive and varied, it has been necessary to limit this study to those theories of accounting concerning currently widely discussed balance sheet and profit and loss presentation. Such topics as fixed asset valuations, inventory pricing, reserves, and terminology are considered in this study but only as they affect balance sheet and profit and loss presentation.

Statement of the problem

of this study to present the current theories of accounting and to examine the extent to which these theories are being applied in practice. The purpose of giving those interested in accounting a chance to see these theories from different angles. It is hoped that such a presentation will be an incentive that will lead to more extensive reading of current accounting literature for only through such reading can any one expect a more intelligent interpretation of present accounting theories of accounting.

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Importance of the problem. The statements quoted in the introduction illustrate that the rapid development of accounting has caused authorities on the subject to have conflicting opinions as to what is the best procedure to follow in any one case. An understanding of these conflicts is necessary in order to best evaluate any or all accounting literature that is being published today. It will also cause an accountant to use better judgment in solving present business problems for he will be able to view the problem from many more angles.

Students of modern accounting are often confused to find that accounting authorities do not agree on vitally important topics of accounting. They do not know who to believe. It would be best to introduce them to the different conflicting views, to help them to compare and analyze these views, and to help them to make up their mind as to what view is best to follow in any one situation. Unless this is done, present accounting students would be traveling along a very narrow road into the world of accounting knowledge. Any little turning away from this narrow road that they may attempt would lead them into a forest of utter confusion. It would be best to let them realize that there is no complete agreement among



well known accounting authorities, that there usually is good ground for such disagreement, and that a study of the disagreements would lead to a broader view into the world of accounting knowledge. It is with this in mind that an analysis and comparison of the conflicting theories of accounting is presented.

## II. SOURCES OF DATA

Current literature on accounting and current accounting texts have been carefully studied with the intention of presenting the different points of view pertaining to concepts of accounting which are not fully agreed upon. Much has been said on the different topics and many authors have discussed the same topics. Though each had something very significant to say, it would be impossible to quote them all. It is hoped that the readers of this thesis are induced to delve into all the interesting and important accounting literature that is being published currently.

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of the disagreement would lead to a broader view into  
the world of accounting knowledge. It is with this  
mind that an analysis and comparison of the accounting  
theories of accounting is presented.

### III. SCOPE OF DATA

Current literature on accounting and current  
accounting texts have been carefully studied with  
the intention of presenting the different points of  
view pertaining to theories of accounting. This is  
not fully agreed upon. Much has been said on the  
different topics and many authors have discussed the  
same topics. Though each has something very different  
to say, it would be impossible to quote them  
all. It is hoped that the readers of this thesis  
are induced to delve into all the literature and  
important accounting literature that is being published  
currently.

## CHAPTER II

### DEFINITION OF ACCOUNTING

Accounting is such a broad subject and it can be made to serve so many purposes that a definition is almost impossible. Many authorities shied from committing themselves to such a definition. In this connection, Paton makes the following statement, "It is doubtless often better to permit the entire exposition to build what definition it may in the reader's mind than to attempt to formulate the essence of the matter in a few words."<sup>1</sup> In place of a definition he gives a detailed discussion of the different phases of accounting. He makes it clear that the functions of accounting are different when considered from the point of view of the business enterprise, the owners or proprietors, the student or teacher, the managerial, and the industrial community as a whole.<sup>2</sup>

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<sup>1</sup> William Andrew Paton, Accounting Theory (New York: The Ronald Press Company, 1922), p. 3.

<sup>2</sup> William Andrew Paton, Accounting (New York: The Macmillan Company, 1926), pp. 18-19.

DEFINITION OF ACCOUNTING

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<sup>1</sup> William Andrew Paton, Accounting Theory  
 (New York: The Ronald Press Company, 1922), p. 21.

<sup>2</sup> William Andrew Paton, Accounting (New York:  
 The Macmillan Company, 1926), pp. 10-12.



In one of his early works Finney defines accounting thus:

Accounting comprises a body of legal, industrial, commercial, and financial principles which must be taken into consideration in determining how, and to what extent, the transactions of a business affect the value of its assets and the amount of its liabilities, profits, and capital.<sup>3</sup>

In one of his later works Finney gives the following description of accounting: "Accounting is the language of commerce--the language in which the history of a business is recorded, its operations are summarized, its financial condition is stated, and its budget forecasts are expressed."<sup>4</sup>

After careful and detailed explanation of each different phase of accounting, Johnson makes this statement:

In summary, accounting may be defined as the collection, compilation, and systematic recording of business transactions; the preparation of financial reports; the analysis and interpretation of these reports; and the use of these reports as tools of management.<sup>5</sup>

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<sup>3</sup> H. A. Finney, Principles of Accounting (New York: Prentice-Hall, Inc., 1933), v. 1, p. 1.

<sup>4</sup> H. A. Finney, General Accounting (New York: Prentice-Hall, Inc., 1941), Preface.

<sup>5</sup> Arnold W. Johnson, Principles of Accounting (New York: Farrar & Rinehart, Inc., 1937), p. 1.

In one of his early works, *Business Accounting*

accounting thus:

Accounting comprises a body of legal, financial, commercial, and financial principles which must be taken into consideration in determining the value of the assets of a business and the value of its liabilities, and the value of its liabilities, assets, and equities.

In one of his later works, *Business Accounting*

following description of accounting is given:

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After certain and detailed registration of each

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In summary, accounting may be defined as the collection, compilation, and presentation of financial reports, the analysis and interpretation of these reports, and the use of these reports as tools of management.

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3 R. A. Finney, *Business Accounting* (New York: Prentice-Hall, Inc., 1933), p. 2.

4 M. A. Finney, *Business Accounting* (New York: Prentice-Hall, Inc., 1933), p. 2.

5 Arnold W. Johnson, *Business Accounting* (New York: Prentice-Hall, Inc., 1933), p. 2.

Foster states:

Accounting is a scheme for recording the financial facts of business transactions and a method for assembling and presenting these data in the forms best adapted to the needs of those having financial or managerial interests in administering the available forces of an enterprise. It may be thought of as performing three functions: supplying a record of financial events, protecting the interests of those furnishing the enterprise capital, and providing a tool to assist the management in operating the enterprise with the greatest possible efficiency. These three functions are not mutually exclusive; as a matter of fact, they are interdependent; a decision affecting one of the functions has an influence on the others.<sup>6</sup>

The definition given by the American Institute of Accountants in their Research Bulletin Number 9 is as follows:

Accounting is the art of recording, classifying and summarizing in significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof.<sup>7</sup>

Kennedy, Esterly and von Minden effectively state, "Accounting can be called the eyes of business." People often say, "Nothing could be worse than losing your eyesight." Managers of business enterprises, large or small, would be just as badly handicapped without accounting, for accounting enables them to

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<sup>6</sup> Louis O. Foster, Introduction to Accounting (Chicago: Richard D. Erwin, Inc.), p. 12.

<sup>7</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure. American Institute of Accountants (New York: May, 1941, No. 9), p. 67.

Accounting is a systematic method for recording financial facts of business transactions in the form of numbers. It is a process of classifying, summarizing, and summarizing in significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof.

The definition given by the Institute of Accountants in their Research Bulletin Number 1 is as follows:

Accounting is the art of recording, classifying, and summarizing in significant manner and in terms of money, transactions and events which are in part at least, of a financial character, and interpreting the results thereof.

Kennedy, Faculty and Vice-Chancellor, University of Illinois, states, "Accounting can be called the eye of business." People often say, "My job could be done just as well by your eyesight." Managers of business enterprises, large or small, would be just as badly handicapped without accounting. For accounting means that the

Louis G. Peter, Chairman, Institute of Accountants (Chicago: Richard D. Lusk, Inc., 1934, p. 12)

Accounting Research Institute  
Committee on Accounting Procedure  
Institute of Accountants, New York, N.Y., 1936  
p. 67

see the progress or failure of the business enterprise and to analyze the causes involved.<sup>8</sup>

It is for this reason that the author believes that accounting is a revealing picture of the financial condition of a business concern. Anything that magnifies or crystallizes this picture so that it is more clearly viewed, more easily understood, better analyzed, and more readily compared is an important part of accounting. Records and statements are means by which the picture is presented to management or other interested parties.

A significant point revealed by a study of the different definitions of accounting is that the definitions are not conflicting. They are merely an attempt to describe in a few words a field that is very far-reaching. Accounting is too broad and it serves too many purposes. A definition is almost impossible. To say it all in a few words is truly a tremendous task.

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<sup>8</sup> Donald D. Kennedy, George R. Esterly, William J. von Minden, Introductory Accounting (New York: The Ronald Press Company), p. 3.

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Donald O. Kennedy, George A. Farley, William  
J. von Minden, Introduction to Accounting, New York,  
The Ronald Press Company, p. 3.

## CHAPTER III

### SUMMARY REPORTS

Most parties interested in the affairs of a business get their information from the summary reports; namely, the balance sheet and the income statement. (Another name for the income statement is the profit and loss statement. However, "income statement" is much more commonly used in current accounting literature.). These two reports are of great significance and importance as they are the media by which the accountant presents valuable information concerning the business to management, investors, stockholders, and the public.

In recent years these statements have received a great deal of criticism. Some of the reasons for this criticism are:

1. The form and terminology are confusing to those trying to interpret them.
2. Methods of valuing assets, such as inventory, are not clearly stated nor are they comparable, as different methods are used in different years within the same company or in the same year between different companies in any one industry.
3. The excessive use of reserves leads to confusion and mistrust.

SUMMARY REPORT

Most parties interested in the affairs of a business get their information from the financial reports; namely, the balance sheet and the income statement. (Another name for the income statement is the profit and loss statement.) These reports are "statements" in such more commonly used terms as "accounting literature". These reports are of great significance and importance to the media by which the accounting information is disseminated concerning the business to the public, investors, stockholders, and the public.

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3. The excessive use of reserves leads to confusion and misstatement.



4. It is not clear whether present costs are being matched against current revenues.
5. Attempts to equalize income between years is viewed with mistrust.
6. Footnotes and other explanatory remarks concerning statement items are often poorly stated so that they become confusing rather than explanatory. An excessive use of such remarks is to be discouraged.

As a result, the public and especially members of labor unions misinterpret and mistrust statements.

An exhaustive survey made by the Controllership Foundation reveals wide mistrust of financial statements, erroneous ideas of profits, and confusion over the language in which business reports facts to the public.<sup>1</sup>

It may seem as though it does not matter whether labor and the public understand business reports. Some claim that so long as management and the more important stockholders can interpret and make use of these statements, labor and the public can be forgotten. However, accounting has a social obligation to perform. Information revealed in the summary reports can be used to tell what the economic standing of the nation is. Important nation-wide planning can be the result of the interpretation of many business reports.

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<sup>1</sup> Staff of The Journal of Accountancy "What the Public Thinks About Financial Statements" Journal of Accountancy, 83:487, June, 1947.

4. It is not clear whether present reports being matched against current revenues.
5. Attempts to reconcile figures between 1941-42 and 1942-43.
6. Footnotes and other explanatory remarks concerning statements made in other reports stated so that they become self-explanatory. An explanatory note of such remarks is to be discussed.

As a result, the published financial statements of labor unions maintained and various statements.

An extensive survey made by the Comptroller General's Office reveals a number of financial statements, errors, omissions and confusion over the language in which such reports are made.

It may seem as though it does not matter whether labor and the public understand financial reports. Some claim that so long as management and the important stockholders can interpret and understand these statements, labor and the public can be left out. However, accounting has a social obligation to present information revealed in the annual reports can be used to tell what the economic standing of the nation is. Important nation-wide planning can be the result of the interpretation of many business reports.

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I Staff of the Journal of Accountancy  
 the Public Think About Financial Statements  
 of Accountancy, 83:487, June, 1957

Also, business men are trying to show the public and labor why they can not pay higher wages or why they can not produce more. Large business organizations suffer when their laborers strike and when the public misinterpret their motives. Labor and the public think business is making large profits which are not being divided equitably with the men who help realize them. If the public and labor could be made to understand the problems of business, there would be greater cooperation between the two. All would profit. Business men understand this; therefore, they are trying to communicate with labor and the public but they are trying to communicate at their own language level. About half of the American adults have had less than eight and one-half years of schooling. If the public is to understand financial statements, these statements must be written in the language of the people not in the language of the professional student. There is an understandable word that can be used to mean the same as any difficult word.<sup>2</sup>

This is some of the information labor leaders would like to have in order to be fair in their demands.

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<sup>2</sup> James M. Lambie, Jr. "Financial Reports Can Be Written So People Can Understand Them" Journal of Accountancy, 84:41, July, 1947.

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James M. ...  
Be written to ...  
Accountancy, ...

In a general sense, we are interested in the same facts regarding the operations of a business as are stockholders and others, with a few more breakdowns needed to give more detail on certain items more closely related to the workers part in the business. For instance, we need a breakdown of the item "cost of goods sold" in the income statement, which is not usually given. Such a breakdown should show direct labor costs, material and other costs. A further breakdown of "labor costs" is necessary to separate the compensation of wage earners from that of the supervisory force.

Compensation of wage earners will then be available for comparison with other items in the report, such as total net income from sales, and profits before and after taxes. This would also enable us to determine fairly accurately what the total cost to the company of a proposed wage increase would be. It would also then be possible to estimate the productivity of labor in terms of value created in the particular industry per dollar expended for labor--an estimate fully as important as productivity in terms of volume, as a determining factor as regards wages.

Dividend payments, total compensation of management, and income transferred to surplus are also important items in giving workers' representatives a balanced view of the distribution of the company's income.

In the balance-sheet, we are naturally interested in finding out the working capital position of the company, and the net worth, in order to estimate the rate of return on investment. These facts can, of course, be readily determined from most reports as they are now prepared.

The presentation of explanatory data on the company's various reserves, and their purpose, would help clear up any possible misunderstanding that might arise on that account--as would an explanatory statement regarding the procedure followed in inventory valuation.

Information which can be obtained from financial reports is not the only type of data that union representatives need, in order to eliminate guesswork in contract negotiations. Actual rates being paid for various classifi-

In a general way, the... some factors... as are... products... items... in the... down of the... income... Such a... material... of "labor... comparison... supervisory...

Comparison... available... report... and profits... also enable... what the... were... possible... in terms... busy per... climate... of volume... wages.

Dividend... management... also... factors... the company's... In the... rested in... position of... order to... man. These... determined... prepared.

The presentation... company's... would help... that might... explanatory... followed in... Information... nancial... that... eliminate... actual rates...

cations of work, variations of rates within job classifications, actual annual earnings, and the cost of such items as paid sick leave, and overtime work, would be extremely useful in both developing a spirit of mutual confidence and in ascertaining where particular adjustments are needed."<sup>3</sup>

As has already been mentioned in Chapter I, financial reports are indispensable to management. Without them, management would not be able to do any planning as it is through them that management gets all of its inside views of the business. These reports portray the results of all business activities.

Government, too, is greatly interested in the income made by business. It, too, is seeking information so as to know what share of the income should be taken up as taxes. Income tax laws and tax experts make it easy for government people to find out what they wish to know about a business.

The stockholders want to know why more income is not being divided among them. These people are greatly interested in the surplus statement. This statement may be a separate report or it may be combined with the income statement. Some authors

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<sup>3</sup> Lane Kirkland, "Preparation of Financial Information Should Be Influenced By Labors' Needs", Quotations from an address before an accounting conference at the University of Georgia, Journal of Accountancy, 87:272-73, May, 1949.

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of work, which is a...  
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Financial reports are...

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recommend that this statement should include a summary of nonrecurring items. Others advocate that nonrecurring items may be a part of the income statement.

When nonrecurring items are so reported, the statement of profit and loss offers information concerning normal as well as extraordinary items that are of significance for a full evaluation of the events of the past fiscal period as these affected proprietorship.<sup>4</sup>

Nonrecurring items are defined as follows:

Nonrecurring items include gains and losses from sale of investments and property and equipment; losses from fire, inventory price declines, retirement of bonded debt, and war reconversions; income tax adjustments; and corrections in profits of prior periods."<sup>5</sup>

Some accountants who are in favor of showing nonrecurring items in the income statement and who are against showing such items in a separate surplus statement are advocates of the "clean surplus" theory. They believe that "all elements of income, profits, expenses, and losses (except profits and losses on transactions in the company's own capital stock) should be absorbed against the income of the same period." Other accountants who are against a separate surplus statement wish to protect readers by combining the income and surplus statement. They fear that

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<sup>4</sup> W. E. Karrenbrock and Harry Simons, Intermediate Accounting (Cincinnati: South-Western Publishing Company, 1949), p. 15.

<sup>5</sup> Ibid., p. 15.

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W. E. Karpentrock and Harry Blanton, *Accounting*  
(Cincinnati: South-Western Publishing Co., 1929), p. 15.

*Ibid.*, p. 15.

some readers "are not aware of the significance of matters disclosed in the surplus statement."<sup>6</sup>

The present trend is to consider the income statement of greater importance than the balance sheet. As has been stated previously, it is even recommended that the surplus statement be combined with the income statement for greater convenience to readers. Another important reason for the significance given to the income statement is the great importance being given to accounting for income. The tendency is to use self-explanatory terminology for divisions of the income statement. There are objections to the use of expressions such as "net profit on sales" or "net profits on operations." The contention is that there is no "net profit" until all costs have been deducted from revenues.<sup>7</sup>

There has been much said as to what costs should be used. "But the basic, the significant income amount is that based on current costs."<sup>8</sup>

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<sup>6</sup> H. A. Finney, Principles of Accounting (Intermediate; New York: Prentice-Hall, Inc., 1946) pp. 46-7.

<sup>7</sup> Ibid., p. 44.

<sup>8</sup> Willard J. Graham, "The Effect of Changing Price Levels Upon the Determination, Reporting, and Interpretation of Income," The Accounting Review, 24:26, January, 1949.

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6 H. A. Finney, *Accounting for Income*, p. 112.  
New York: Prentice-Hall, Inc., 1934.

7 *Ibid.*, p. 114.

8 Willard J. Graham, "The Effect of  
Levels upon the Determination  
of Income," *The Accounting Review*,  
Vol. 10, No. 1, p. 15.

The proper matching of costs with revenues is imperative.<sup>9</sup> Improper matching causes confusion and make income statements of different years of the same company or of the same year but of different companies within the same industry impossible to compare and analyse. In order to be of real value, financial statements must be prepared in such a way as to be easily compared and analysed.

The use of current costs in the income statement does not necessitate the showing of fixed asset costs in the balance sheet as current costs too. This would mean that book values would be constantly changed. This would not be advisable. As Graham says,

I would recommend, therefore, that the fixed assets and the regular reserves for depreciation be shown at their original costs, with parenthetical statements of current cost for detailed analysis.<sup>10</sup>

Also, footnotes that explain items in the body of statements are recommended, but these footnotes and parenthetical statements must be well worded and they must be used sparingly. Excessive use of them may result in greater confusion.

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<sup>9</sup> John G. Blocker, "Mismatching of Costs and Revenues," The Accounting Review, 24:33, January, 1949.

<sup>10</sup> Graham, op. cit., p. 26.

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John E. Blocker, "The Accounting Balance Sheet and Revenues," *The Accountants Balance Sheet*, p. 10  
to Graham, et al., in

It must be remembered that no statements can be made to fit all purposes or to serve all needs. Nevertheless, an effort should be made to prepare statements that reveal all of the facts, that are easy to understand, compare, and analyse. The remainder of this thesis will discuss those items that seem to cause the most confusion in a study of financial statements. They are:

1. Fixed asset valuations and depreciation,
2. Inventory pricings,
3. Reserves,
4. Terminology.

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2. Inventory pricing
3. Reserves
4. Terminology



## CHAPTER IV

### FIXED ASSETS AND DEPRECIATION

How to carry fixed assets on the books and how to report their value on statements is a subject frequently discussed in current accounting literature. The problem arises because of the effect that rising prices and reduced purchasing power have on replacement costs and on net income. Current expenses are stated in present dollar values while depreciation is stated in past dollar values. If depreciation is a major expense and if fixed assets were bought far enough in the past so that their cost value is out of line with current prices, the understatement of depreciation calculated on cost would overstate net income.<sup>1</sup> Some authorities believe that fixed assets should be reported at cost, others believe replacement cost should be the figure used. Still others believe that current prices should be used. The problem is further complicated by the inability to predict how long price levels will be high or how suddenly they may decline.<sup>2</sup> Also, replacement

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<sup>1</sup> W. A. Paton, "Depreciation and the Price Level," The Accounting Review, 23:119, April, 1948.

<sup>2</sup> Maurice Moonitz, "Adaptations to Price Level Changes," The Accounting Review, 23:137, April, 1948.

FIXED ASSETS AND DEPRECIATION

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how to report their value as assets is a matter frequently discussed in current accounting literature. The problem arises because of the effect that rising prices and reduced purchasing power have on valuation costs and on net income. Current practice is stated in present dollar value while depreciation is stated in past dollar value. If depreciation is a major expense and if fixed assets were sufficient enough in the past so that their past value is one of line with current prices, the understatement of depreciation calculated on cost would operate as income.<sup>1</sup> Some authorities believe that fixed assets should be reported at cost, others believe that present cost should be the figure used. Still others believe that current prices should be used. The problem is further complicated by the inability to predict how long price levels will be high or low and suddenly they may decline.<sup>2</sup> Also, replacement

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<sup>1</sup> W. A. Paton, "Depreciation and the Income Level," The Accounting Review, 23:119, April, 1948.

<sup>2</sup> Maurice J. Walker, "Adjustments to Depreciation Changes," The Accounting Review, 23:137, April, 1948.

costs are hard to state because fixed assets are usually not replaced in exact kind. Some improvements have been made in the newer asset that makes it substantially different from the asset it is replacing.<sup>3</sup>

Furthermore, replacement cost does not distinguish between those higher replacement costs due to price changes and those due to other causes.<sup>4</sup> Another suggestion (made by Dohr) is "that fixed assets be restated periodically in terms of current prices and that depreciation be calculated on the new or restated basis." Such a practice is practical only if appropriate safeguards are used, if it is used as a "fresh start" in a quasi-reorganization, it is used at "relatively wide intervals of time."<sup>5</sup>

Dohr further states:

The best chance of a workable solution of the problem seems to be in a process of adjustments for changes in price level by means of carefully constructed indices of price changes in the areas in which an economic position, in terms of things, is to be maintained. By the application of these indices the cost of utilization of long-term

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<sup>3</sup> Ibid., p. 143.

<sup>4</sup> James L. Dohr, "Depreciation and the Price Level" The Accounting Review, 23:118, April, 1948.

<sup>5</sup> Ibid., p. 118.

costs are hard to place because fixed costs are usually not replaced in exact dollar amounts. Some fixed costs have been made in the form of depreciation, but it is substantially different from the cost of replacement. <sup>3</sup> placing.

Furthermore, replacement costs are not the same as the original costs. The difference between these two replacement costs is due to price changes and these are to be taken into account. Another suggestion (made by Dorn) is that fixed costs be restated periodically in terms of current prices and that depreciation be calculated on the basis of restated costs. Such a procedure is practical only if appropriate safeguards are taken. It is used as a "fresh start" in a quasi-accounting sense. It is used at "relatively wide intervals of time." Dorn further states:

The best chance of a worthwhile solution of the problem seems to be the introduction of a "fresh start" for changes in price level by restating periodically constructed indices of prices of fixed costs in the years in which an economic recession is being experienced. It is to be maintained. In the construction of indices the cost of replacement of long-term

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<sup>3</sup> Ibid., p. 103.

<sup>4</sup> James L. Dorn, "Depreciation and the 'Level' The Accounting System," *Journal of Accounting and Finance*, p. 103.

<sup>5</sup> Ibid., p. 103.

facilities can be placed on a current basis and can be made reasonably comparable to the remaining charges in the income statement. Presumably the method will be applied both ways--to eliminate illusionary losses as well as illusionary gains although the latter, in an economy in which the long-term trend of prices is upward, are the more important consideration. It goes without saying that the success of the method will depend upon its general application throughout the business world.<sup>6</sup>

The argument most frequently used in favor of replacement costs is that depreciation based on cost, if the cost occurred in the nineteen thirties or even in the early nineteen forties, will not provide for the replacement of such assets. Paton believes this argument is an erroneous statement of the function of depreciation. Depreciation does not provide a fund. Depreciation systematically charges the cost of such assets to revenues in an attempt to measure income more accurately.<sup>7</sup>

To arrive at replacement costs in the asset accounts would mean to recognize appreciated asset values. A. B. Carson is against appreciation. His reasons are expertly stated in the following quotation.

Recording appreciation violates the principle of conservatism (in the balance sheet, at least)

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<sup>6</sup> Ibid., p. 118.

<sup>7</sup> Paton, op. cit., p. 120.

facilities can be shared and can be made available to the remaining owners. Presumably the method will be used in ways--to eliminate the industry's autonomy and to bring it under an economy in which the industry is forced, and the way to the industry is forced without any of the method will depend upon the industry throughout the industry.

The argument that the cost of replacement costs is that the cost of the cost occurred in the early stages of the replacement of such assets. This argument is an erroneous statement of the cost of depreciation. Depreciation is a systematic method of allocating the cost of assets to revenues in an attempt to measure more accurately.

To arrive at a replacement cost in the accounts would mean to measure the value of assets. A. E. Casson is a great proponent of this reason and he states in the following manner: Records are not made in the industry of conservation in the industry.

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6 ibid., p. 118.  
7 ibid., p. 119.

as well as the doctrine of realization. Accountants are loath to inject any more subjectivity into their record keeping than was absolutely required by the necessity of trying to match cost and revenue. There is a widespread feeling that financial records would become a mere collection of various opinions if the door were fully opened to subjective considerations.<sup>8</sup>

Maurice E. Peloubet believes that calculation of depreciation on replacement values is possible as the information can be found in the books of the company, except the information required to convert cost to a present value. This could be either an appraisal figure arrived at by appraisal methods or an index number for the class or group of assets being valued.<sup>9</sup>

Other solutions to the problem of reflecting higher prices on the accounts or on statements are suggested by W. A. Paton:

1. To state in periodic reports statements showing the limitation of net income in view of present conditions and the need for retaining earnings in order to maintain financial strength.
2. To introduce supplementary accounts into the regular system of accounts which show plant accounting and depreciation on an-overall replacement-cost basis. The recorded cost dollars are retained. The difference between

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<sup>8</sup> A. B. Carson, "A Source and Application of Funds--Philosophy of Financial Accounting." The Accounting Review, 24:163, April, 1949.

<sup>9</sup> Maurice E. Peloubet, "Depreciation and the Price Level," The Accounting Review, 23:126, April, 1948.

as well as the doctrine of...  
safe are...  
into...  
difficult by the...  
and revenue...  
financial...  
of various...  
to subjective...

Maurice K. Peacock...  
of depreciation...  
the information...  
company, except...  
cost to a present...  
appraisal figure...  
an index number...  
being valued.

Other solutions...  
higher prices...  
suggested by W. A. ...

1. To state in...  
the limitation...  
conditions and...  
in order to...
2. To introduce...  
revised system...  
accounting and...  
replacement-cost...  
dollars are...

8 A. E. Carson...  
Funds--Philosophy...  
Accounting Review...

9 Maurice K. Peacock...  
Price Level...  
The Accounting Review...



the two accounts is shown "as a final adjustment of net earnings in the income statement."

3. Another plan is to "resort to quasi-reorganization."
4. There could be no objection to presenting different costs to management which would help them in the administration of the business.<sup>10</sup>

One of the important objectives of accounting recording or reporting is to help management in the solution of its problems. "The historic cost figure of an asset often bears little relation to its current value and hence is of limited use to management."<sup>11</sup>

The executive committee of the American Accounting Association made this statement:

There should be no departure from the cost basis to reflect the assets of an enterprise at amounts higher than unassigned costs. Continuous replacements of assets, frequently of a type different from those replaced, and the practical difficulty of measuring replacement values emphasize the need for a historical record in terms of the consistent, objective basis of cost.<sup>12</sup>

Paul J. Graber in a report he made for the Committee on Revision of the Statement of Principles

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<sup>10</sup> Paton, op. cit., pp. 122-123.

<sup>11</sup> R. W. Coleman, "The Role of Accounting in Management," The Accounting Review, 24:182, April, 1949.

<sup>12</sup> Executive Committee, "Concepts and Standards Underlying Corporate Statements," The Accounting Review, 23:340, October, 1948.



of the American Accounting Association gave this summary:

The establishment of an accounting cost at acquisition measured by a cash outlay or by a fair market value depending upon the nature of the transaction:

The periodic assignment of accounting cost to expense to reflect asset expirations. The unassigned amounts applicable to future periods will be reported in the balance sheet.

Suppression of accounting costs or upward revaluations of assets are departures from the recognized basis of asset accounting.<sup>13</sup>

The American Institute of Accountants have considered the question of the proper accounting for depreciation on appreciation. The committee has made a definite recommendation with respect to the charge to be made against income in such a case.

The recommendation is as follows:

This bulletin is concerned with appreciation primarily due to (1) increases in the relevant price levels, or (2) demonstration that the property has greater usefulness than is reflected in the amount at which it is carried in the books, . . .

4. The committee is of the opinion that when such appreciation has been entered in the books, income should be charged with depreciation computed on the new and higher values. This proposition is the most important part of the present statement and for it there seems to be general support. A corporation should not at the same time claim larger property values in its statement of assets, and provide for the amortization of only smaller property sums in its statement of income.
5. It is recognized that in the past the contrary view has been held in the pro-

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<sup>13</sup> Paul J. Graber, "Assets" The Accounting Review, 23:14, January, 1948.

of the American Association of Accountants were this subject

The establishment of an accounting code of  
regulation was made by a committee on the  
fair value of property depending upon the nature of  
the transaction.  
The periodic adjustment of the value of  
to expenses for the period involved. This  
unadjusted amount is multiplied by the ratio  
will be reported in the annual report.  
Supervision of accounting books is necessary  
valuation of assets and liabilities and the  
corrected basis of each account.

The American Institute of Accountants has  
considered the question of the proper adjustment  
for depreciation on investments. The committee has  
made a definite recommendation with regard to the  
charge to be made against income in the case.  
The recommendation is as follows:

This bulletin is concerned with depreciation  
primarily and to (1) increase in the value  
price levels, or (2) depreciation that the property  
has greater usefulness than is reflected in the  
amount at which it is carried in the books.

4. The committee is of the opinion that when  
even depreciation has been made in the  
books, income should be charged for the  
depreciation computed on the net and higher  
values. This recommendation is the most im-  
portant part of the general statement  
and for it there seems to be general support.  
A separate committee has been set up to  
study the various points in this state-  
ment of assets and liabilities for the  
statement of net worth or property value  
in the statement of income.

5. It is recommended that in the case of  
contracts that have been held in the pro-

fession and in other authoritative quarters, and in some cases it may be unreasonable to require a corporation to change a treatment adopted in good faith in the past. The committee believes, however, that a change to conform to the views now expressed is very desirable, and that members of the Institute should exercise their influence to the utmost to bring about such changes.<sup>14</sup>

It is evident that the conflict as expressed by accounting authorities on the question of fixed asset and depreciation accounting procedure is whether assets should be recorded on the original cost basis or on some appraised method and whether depreciation should be computed on the original cost of the asset or on the appraised value. Those that advocate the use of cost as the best method for recording asset valuation have good reasons to support their belief. Those who believe that some appraised method such as replacement values should be used have equally convincing reasons for their belief.

It seems proper that at this point, the stand taken by the American Institute of Accountants should be carefully considered. The recommendation previously quoted in this chapter (footnote 14) gives the impression that the Institute favors appreciation or the use of some appraised method. That recom-

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<sup>14</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure, American Institute of Accountants, (New York: April, 1940, No. 5), pp. 37-38.

session and in other authoritative reports and in some cases it may be recommended to require a corporation to change a method of depreciation, but faith in the past. The committee believes, however, that a change to another method is not warranted, expressed in very definite and that the Institute should exercise their influence to the utmost to bring about such a change.

It is evident that the committee so expressed

by accounting authorities on the question of fixed asset and depreciation accounting procedure as to whether assets should be recorded at the original cost basis or on some appraised method and whether depreciation should be computed on the original cost of the asset or on the appraised value. Those that advocate the use of cost as the best method for recording asset valuation have good reasons to support their belief. Those who believe that some appraised method such as replacement value should be used have equally convincing reasons for their belief. It seems probable that in this regard the views taken by the American Institute of Accountants should be carefully considered. The recommendation previously quoted in this chapter (footnote 1) gives the impression that the Institute favors appreciation or the use of some appraised method. That recommendation

mentation is for cases where appreciation has already been entered in the books. This statement is found in the same bulletin:

2. Accounting for fixed assets should normally be based on cost, and any attempt to make property accounts in general reflect current values is both impracticable and inexpedient. Appreciation normally should not be reflected on the books of account of corporations . . .<sup>15</sup>

It seems to the author that the Institute's stand that accounting for fixed assets should be based on cost is very sensible. All the complications encountered with the attempt to compute a fair and just appraised value are eliminated. The problems that arise when appreciation is recorded in the books are also eliminated. Since an appraised value is just an estimate, any computation based on such an estimate is at best a good guess. Therefore, asset accounts, depreciation accounts, and even surplus account have an element of guesswork in them when computations are based on some appraised method. No matter how scientific may be the method of appraisal, it is not as true a figure as the true cost figure. Another matter to consider is the matter of price changes. Unless appraisals are made often, the recorded value need not be the present value.

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<sup>15</sup> Ibid., p. 37.

mentation is for cases where depreciation has already  
been entered in the books. This statement is found  
in the same bulletin:

2. Accounting for fixed assets should normally  
be based on cost, and not on appraised value.  
Property accounts in general reflect original  
values as both acquisition and depreciation.  
Appreciation normally should not be recorded  
on the books of account of corporations.

It seems to the author that the Institute  
stand that accounting for fixed assets should be  
based on cost is very sensible. All the cases  
encountered with the present accounting system  
just appraised value are eliminated. The problem  
that arises when appreciation is recorded in the books  
are also eliminated. Since an appraised value is  
an estimate, any computation based on such an estimate  
is at best a good guess. Therefore, asset accounts,  
depreciation accounts, and even surplus account are  
an element of guesswork in their own right. It is  
based on some appraised value. In order to be scientific  
may be the method of appraisal, it is not as true  
figure as the true cost figure. Another method to  
consider is the matter of price changes. In case  
appraisals are made often, the recorded value need  
not be the present value.



## CHAPTER V

### INVENTORY PRICING

In a thorough study of financial statements, much thought and attention should be given to inventory pricing. It is through the sale of inventory that most business concerns acquire their income. In order to compare or analyse business reports, it is necessary to know what method was used in pricing inventory. Was the same method used in all reports under analysis? What costs were matched against what revenues? If a change is made, full disclosure of the change and the effect the change had on income should be made.<sup>1</sup>

### DEFINITIONS OF INVENTORY

The term "inventory" embraces goods awaiting sale (the merchandise of a trading concern and the finished goods of a manufacturer), goods in the course of production (work in process) and goods to be consumed directly or indirectly in the production (raw materials and supplies).<sup>2</sup>

The term inventories is used to designate the stock on hand that is held for sale in the normal course of business, as well as those goods that

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<sup>1</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure, American Institute of Accountants, (New York: July, 1947, No. 29), p. 241.

<sup>2</sup> Ibid., p. 235.

CHAPTER IV

THE INVENTORY

In a thorough study of financial statements, much thought and attention should be given to the inventory picture. It is among the items of inventory that most business concerns commit their errors. In order to compare or analyze business records, it is necessary to know what method was used in valuing inventory. Was the cost method used in all instances under analysis? What costs were included? What adjustments? If a change is made, full disclosure of the change and why it is made is necessary and should be made.

VALUATION OF INVENTORY

The term "inventory" embraces goods available for sale (the merchandise of a trading concern) and finished goods of a manufacturer. It is the course of production (work in process) that goods to be consumed directly or indirectly in the production of raw materials and supplies.

The term "inventory" is used to designate the stock on hand and is held for sale in the normal course of business as well as for other purposes.

Accounting Board on Accounting Principles, Joint Committee on Accounting, New York, N. Y., 1936.

are being used or will be used in producing goods to be made available for sale.<sup>3</sup>

The significant point is that the controversies arising out of inventory pricing is not in the definition of inventory. Most authors seem to agree on that. They agree as to what should be included and what should be excluded. Finney says, "The general rule is that inventory should include all goods for which the company holds title, whether the goods are in its possession or elsewhere."<sup>4</sup> The controversies arise in defense of the different methods of pricing inventories.

#### COST OR MARKET, WHICHEVER IS LOWER

Before beginning the discussion of Cost or Market, Whichever is Lower, definitions of "cost" and "market" will be given.

Newlove, Smith, and White describe "cost" thus:

What is cost? Cost is the entire outlay made in order to secure the asset and place it ready for use. Thus it means something more

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<sup>3</sup> Wilbert E. Karrenbrock and Harry Simons, Intermediate Accounting (New York: South-Western Publishing Co., 1949), p. 141.

<sup>4</sup> H. A. Finney, Principles of Accounting--Intermediate (New York: Prentice-Hall, Inc., 1946), p. 250.

are being used or will be used in connection with  
to be made available for sale.

The significant elements of the...  
existing out of inventory...  
of inventory...  
that they agree as to what should be...  
what should be excluded...  
rule is that inventory...  
which the company holds...  
in its possession or...  
arise in defense of the...  
inventories.

COST OF INVENTORY

Before beginning the discussion of...  
Market, whichever is lower...  
and "market" will be given...  
Newlove, Smith, and White...  
What is meant by...  
made in order to...  
ready for use...

3 Wilson E. Larver...  
Intermediate Accounting...  
Publishing Co., Inc., N.Y.  
4 H. A. Lippert, Editor of...  
Intermediate Accounting...  
p. 280.

than the purchase price; it includes all supplementary and incidental costs necessary for the particular concern to obtain the services of the asset. There is no such thing as absolute cost; cost is an individual matter. Identical assets will have different costs to different concerns. The cost of merchandise may vary with the quantity purchased.<sup>5</sup>

Many factors determine what market value is.

The Treasury Department defines "market" thus:

Under ordinary circumstances and for normal goods in an inventory, "market" means the current bid price prevailing at the date of the inventory for the particular merchandise in the volume in which usually purchased by the taxpayer . . . .<sup>6</sup>

The Committee On Accounting Procedure defines "market" thus:

As used in the phrase "lower of cost or market" the term "market" means current replacement cost (by purchase or by reproduction, as the case may be) except that:

- (1) Market should not exceed the net realizable value (i.e., estimated selling price in the ordinary course of business less reasonable predictable costs of completion and disposal) and
- (2) Market should not be less than net realizable value reduced by an allowance for an approximately normal profit margin.<sup>7</sup>

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<sup>5</sup> George Hillis Newlove, C. Aubrey Smith, and John Arch White, Intermediate Accounting, (New York: D. C. Heath and Company, 1939), p. 118.

<sup>6</sup> Federal Regulations on Income Tax and Withholding on Wages, (New York: Prentice-Hall Inc., 1948), p. 8044, Sec. 29.22(c)-4.

<sup>7</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure, American Institute of Accountants, (New York: July, 1947, No. 29), p. 239.

then the business will be liquidated...  
necessary and...  
particular...  
asset...  
cost...  
will have...  
the cost of...  
presented.

has factors... and...

The Treasury Department...

Under...  
books in...  
his price...  
for the...  
which usually...

The Committee...

"market" time...

As used in the...  
the term "market" means...  
(by purchase or by...  
(b) except that...

(1) Market...  
this value...  
price in the...  
less...  
computation and...

(2) Market...  
this value...  
approximately...

George...  
and John...  
(New York...)

Federal...  
Responsible...  
1948, p. 80...

7 Assistant...  
Committee on...  
of Accountants, (New York...)

When the balance sheet was considered of greater value than the income statement, cost or market, whichever is lower, was used generally. It was considered conservative to provide for all losses but to anticipate no profits. The use of this method provided a conservative method for pricing inventory in the balance sheet. With the emphasis being placed on the income statement, it is the current belief that the use of this method distorts the profits of successive periods. This tends to make a series of income statements misleading. So there is a tendency to believe that inventory cost should not be decreased unless selling prices are decreased before the inventory is sold.<sup>8</sup> The use of cost or market, whichever is lower "results in the reduction of profits of one period but the inflation of the profits of the next period in a corresponding amount. Mismatching of cost and revenues cannot be avoided and the profit or loss of each accounting period is incorrectly stated!"<sup>9</sup>

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<sup>8</sup> Finney, Op. Cit., pp. 253-257.

<sup>9</sup> John G. Blocker, "Mismatching of Costs and Revenues", The Accounting Review, 24:35, January, 1949.

When the balance sheet is prepared, the value of the assets is compared with the value of the liabilities and the difference is the net worth. If the net worth is positive, the company is solvent. If it is negative, the company is insolvent. The balance sheet is a statement of the company's financial position at a particular date. It is prepared from the accounting records and is used by management and outside parties to assess the company's financial health. The balance sheet is one of the three main financial statements, along with the income statement and the cash flow statement. The balance sheet is prepared at the end of each accounting period and is used to determine the company's net worth. The net worth is calculated by subtracting the total liabilities from the total assets. If the net worth is positive, the company is solvent. If it is negative, the company is insolvent. The balance sheet is a key indicator of a company's financial stability and is used by investors, creditors, and other stakeholders to make informed decisions about the company. The balance sheet is also used by management to monitor the company's financial performance and to identify areas for improvement. The balance sheet is a complex document that requires a thorough understanding of accounting principles and practices. It is essential for any company to maintain accurate and up-to-date balance sheet records to ensure the reliability of its financial statements.

<sup>8</sup> Pinney, Op. Cit., p. 100.  
<sup>9</sup> John D. Pinney, "The Accounting Balance Sheet and Revenue", *The Accounting Balance Sheet and Revenue*, 1914.



Paton makes these remarks concerning cost or market, whichever is lower:

This plan of valuation, it must be insisted, is at best nothing more than a counsel of conservatism and is not to be recommended. It is unreasonable in that it may mean the use of two bases of valuation in the determination of a single inventory figure, and in view of the fact that price movements are commonly quite general in their effect it virtually brings about, from period to period, a shifting from one basis of valuation to another--the acme of bad practice. Further, the work of pricing, under this scheme, is very much extended.<sup>10</sup>

#### COST

It seems as though stating that inventories should be priced at cost would not arouse so much controversy, yet there is not a single article on inventories that does not air different views as to what constitutes cost or how to determine cost. Identical articles are bought at different prices at different times. These articles lose their identity as far as original cost is concerned as different ones are taken out of inventory and sold or used in the manufacturing process. Also, other costs alter the original invoice price. For example, Blocker states:

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<sup>10</sup> W. A. Paton, Accounting (New York: The Macmillan Company, 1926), pp. 374-375.

Factor makes these...

market, whichever is lower...

This history of inflation... is at best... serves as a... basis of... inventory... price movements... their effect... risk to control... valuation... Further, the work... is very much expanded...

Vertical stamp or text on the left side of the page.

It seems as though... should be priced at... controversy, yet... inventories that... what constitutes... identical articles... different times... as far as original... ones are taken... the manufacturing... the original invoice...

states:

W. A. ...  
McMillan Company, ...

It is generally agreed that inventory costs should include all costs up to the point where goods are placed in the storeroom or are in a salable state. The invoice price at the vendor's shipping point, less all trade and cash discounts offered, plus transportation costs, cartage costs, insurance, receiving, testing, temporary storage, and purchasing costs, represent a correct cost of inventories which should remain in asset status until matched against the revenues identified with their sale.<sup>11</sup>

There is a tendency now to consider cost as "net cost." This means that discounts are not considered in the nature of a profit in the income statement. Instead, they are deducted from the invoice price thereby considering "cost" as the actual amount of money paid.<sup>12</sup> Now comes the question as to how to determine cost when numerous purchases have been made at different prices. The most exact method would be to identify each article with its own cost. This method is not often used because it may be impossible, or too expensive to use. So substitute methods are used.

#### SIMPLE AVERAGE METHOD

When this method is used all purchases large or small are added together and divided by the number of purchases.

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<sup>11</sup> Blocker, op. cit., p. 35.

<sup>12</sup> Henry Rand Hatfield, Accounting (New York: D. Appleton and Company, 1931), pp. 104-105.

It is generally agreed that inventories should include all costs up to the point where goods are placed in the warehouse or are in a sales state. The invoice price at the shipping point, less all trade and cash discounts offered, plus transportation, cartage, and insurance, receiving, testing, reworking charges, and purchasing costs, represent a correct cost of inventories which should remain in that status until matched against the revenues realized with their sale.

There is a tendency now to consider the "net cost." This means that discounts are not considered in the nature of a credit in the inventory account. Instead, they are deducted from the invoice price thereby constituting "cost" as the invoice amount of money paid. It is not correct to determine cost when numerous purchases are made at different prices. The most exact method is to identify each article with its own cost. This method is not often used because it is very tedious, or too expensive to use. An estimate of the cost is used.

### SIMPLE AVERAGE METHOD

When this method is used, all purchases are added or subtracted together and divided by the number of purchases.

11. Blocker, on Oct. 1, 1911.

12. Henry Rand Hobbins, on Oct. 1, 1911.  
D. Appleton and Company, 521 N. 3rd St., Philadelphia, Pa.

## WEIGHTED AVERAGE METHOD

The beginning inventory and all the purchases are added together and divided by the total number of units. It is assumed that "all sales are made proportionately from all acquisitions, and that inventories will forever contain some goods of the earliest acquisitions."

Finney also states that on "a rising market, the weighted average costs will be less than current costs, and, on a falling market, the weighted average costs will be in excess of the current costs."

When perpetual inventories are kept it is possible to compute a new unit average after each acquisition. This method is known as the moving average method.<sup>13</sup>

## FIRST IN, FIRST OUT AND LAST IN, FIRST OUT

The methods that have caused the most discussion in current accounting literature are the first in, first out method and the last in, first out method.

When the first in, first out method is used, the assumption is made that the older goods are used first and that the goods most recently purchased make up the inventory. It seems logical for most goods to

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<sup>13</sup> Finney, *op. cit.*, p. 263.

The beginning inventory and all purchases are added together and divided by the number of units. It is assumed that all units are identical. It is assumed that all units are identical and that the units will forever contain some seeds of the original units.

Finney also states that on a falling market, the weighted average cost will be less than the first-in, first-out method. In an excess of the current cost, the weighted average cost will be in excess of the current cost.

When perpetual inventories are used it is possible to compute a new unit average after each purchase. This method is known as the moving average method.

FIRST IN, FIRST OUT AND LAST IN, FIRST OUT

The methods that have caused the most discussion in current accounting literature are the first in, first out method and the last in, first out method. When the first in, first out method is used the assumption is made that the older goods are sold first and that the goods are essentially homogeneous with the inventory. It seems logical for most goods to

move in this order. Also, the inventory valuations follow the most recent market trends as the inventory is priced at the most recent costs.

When the last in, first out method is used, it is assumed that the most recent purchases are used first and that the older purchases are still in stock. Since this is such a controversial issue, significant statements made by different authors will, therefore, be quoted.

Inventory valuations on the last-in first-out basis thus tends to smooth off the peaks and fill in the troughs of the business cycle. This has been a major factor in its wide acceptance in recent years.<sup>14</sup>

Paton has this to say concerning the first-in, first-out method:

For most situations the first-in, first-out procedure is to be preferred to all other methods of estimating invoice cost of inventory. The main advantages are:

1. The inventory is drawn from the actual records in a systematic manner.
2. The result is clearly a cost value, with no recognition of unrealized profit or loss, but is nevertheless a reasonable measure, in most cases, of the current market valuation.

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<sup>14</sup> Wilbert E. Karrenbrock and Harry Simons, Intermediate Accounting (New York: South-Western Publishing Company, 1949), p. 152.

move in this order. Also, the inventory statements  
follow the most recent market prices of the inventory  
is priced at the most recent market.  
When the last is, that the reason is that it  
is assumed that the most recent prices are used  
first and that the older prices are still in use.  
Since this is such a controversial issue, a number of  
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been a major factor in the widespread use of this  
method in recent years.

Paton has this to say regarding the first-in,  
first-out method:

For most situations the first-in, first-out  
procedure is to be preferred to the other methods  
of estimating inventory cost. The main  
advantages are:

1. The inventory is shown at its actual  
cost in a systematic manner.
2. The result is always a true value, with  
no recognition of unrealized profit or  
loss, but it never shows a fictitious  
measure, in most cases, of the true  
market value.

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Dr. Wilbert E. Larverbrook and Harry E. Egan,  
Intermediate Accounting (New York: McGraw-Hill  
Publishing Company, 1939), p. 12.



3. The assumed movement of goods--a continuous, orderly stream--represents a condition to which the management should adhere as closely as possible, particularly in the case of goods subject to deterioration and style changes.<sup>15</sup>

The first-in, first-out method shows market fluctuations while the last-in, first-out method levels off or stabilizes profits. Paton states concerning this characteristic of the last-in, first-out method:

The peculiar merit of this scheme, it is contended, is the resulting stabilization of operating net--the minimizing of the effect of price movements in the periodic reports. . . . .

This statement of the so-called advantage of the method reveals its essential weakness: it tends to bring about, artificially, an appearance of stability in a fluctuating business. This is the very antithesis of sound accounting. The purpose of the particular income report, is to show the results of business operations as brought about by the impinging conditions of the particular period--and not the results of an average or "normal" year.<sup>16</sup>

Finney states:

The argument between lifo and fifo seems to boil down to a question of whether current costs should be shown in the balance sheet as an asset (fifo method) or be matched against current revenue in the income statement (lifo method). The lifo method places the emphasis on the income statement, but its effect on the balance sheet (and particularly on the elements of working capital shown therein) should not be overlooked. In a rising

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<sup>15</sup> W. A. Paton, Essentials of Accounting (New York: The MacMillan Company, 1938), p. 484.

<sup>16</sup> Ibid., p. 484.

3. The second experiment...  
The first is...  
fluctuations...  
off or stabilizes...  
this characteristic...  
The position...  
method...  
stability...  
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The Hamilton Company  
15 W. A. B...  
18 1111

market, the inventory of a company using the lifo method would be given a lower valuation than that given to an identical inventory of another company using the fifo method, and the lifo company's working capital would be unfavorably stated in comparison with that of the fifo company. In a falling market, the lifo company would obtain an advantage.<sup>17</sup>

For Federal Income Tax purposes, consistency is recommended. If the inventory contains non-identifiable goods purchased at different prices, the "first-in-first-out" method is recommended.<sup>18</sup> However, any taxpayer who is required to take inventory can use the elective method which enables him to use the "last-in-first-out" method.<sup>19</sup>

Much has been said concerning these two methods in current accounting literature but the above quoted statements bring out the major points discussed. The main idea is that financial reports or statements that are to be compared should be carefully studied before a definite conclusion is reached. The method used for inventory pricing should be known by the person or persons studying the reports. Changes in the method of inventory pricing or valuation should be made known before analytical studies are made.

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<sup>17</sup> Finney, op. cit., p. 268.

<sup>18</sup> Federal Regulations on Income Tax and Withholding on Wages, (New York: Prentice-Hall Inc., 1948) p. 8042, Sec. 29.22(c)-2.

<sup>19</sup> Ibid., pp. 8046-8048B Sic. 22(d); 29.22(d)-1; 29.22(d)-3.

market, the inventory of a company using the LIFO method would be given a lower value than that given to an identical inventory of a company using the FIFO method. This is because the working capital would be lower in the LIFO method. In comparison with that of the FIFO method, a falling market, the LIFO method would be an advantage.

For Federal Income Tax purposes, companies

is recommended. If the inventory change is identifiable goods purchased at different times, the "first-in-first-out" method is recommended.

However, any taxpayer who in reporting working inventory can use the effective retail method should

him to use the "last-in-first-out" method.

Much has been said concerning the use of LIFO in current accounting literature and the above statements bring out the major points discussed. The main idea is that financial reports or statements are to be compared with the generally accepted practice a definite conclusion is reached. The method used for inventory pricing should be chosen by the person or persons studying the reports. Changes in the method of inventory pricing or valuation should be made when better analytical studies are made.

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17 Finney, op. cit., p. 204.

18 Federal Regulations on Income Tax and Accounting on Wages, (New York: Warren-Gorham-Lamont, 1934), p. 204, Sec. 29.22(c)-2.

19 Id., pp. 204-205, Sec. 29.22(d)-3.

## CHAPTER VI

### RESERVES

The use of reserves has increased in the last few years. They have been used as cushions for the uncertainties that have arisen after the war.<sup>1</sup> The use of so many reserves confuses those who try to interpret financial statements for the meaning of the word "reserve" as used by accountants usually does not mean the actual setting aside of an asset or cash as the word seems to denote. When the inexperienced person sees the word "reserve" used in a statement he visualizes a pile of cash that equals the amount of the reserve. The more times he sees the word "reserve" the more piles of cash he pictures in his mind. He feels that some of that cash should come to him either as an increase in wages, as larger dividends, or as lower prices for the goods he buys in the market. To the accountant, such reserves are merely entries subdividing valuation accounts, liability accounts, or surplus accounts.

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<sup>1</sup> Maurice H. Stans, "Modernizing the Income Statement," The Accounting Review, 24:8-9, January, 1949.

The use of the word "reserves" in the last few years. They have been used in a number of uncertainties that have characterized the use of so many reserves. It is clear that the interpreted financial statements for the meaning of the word "reserves" as used in accounting should not mean the actual reserves retained in the cash as the word seems to imply. When the period period uses the word "reserves" and in a statement he visualizes a part of cash that equals the amount of the reserves. The word "reserves" the word "reserves" the word "reserves" in his mind. He feels that some of that cash should come to him either as a dividend or as a share of the profits, or as a dividend, or as a share of the profits. He feels that some of that cash should come to him either as a dividend or as a share of the profits, or as a dividend, or as a share of the profits. He feels that some of that cash should come to him either as a dividend or as a share of the profits, or as a dividend, or as a share of the profits.

I hereby certify that the above is a true and correct statement of the reserves of the company as of the date hereof.

## VALUATION ACCOUNTS

It is desirable to show the original cost of fixed assets and the amount of the cost that has already been charged to operations. The amount that has been charged to operations is called "Reserve for Depreciation". Another valuation reserve is called "Reserve for Bad Debts". Operations are charged with an estimated loss and accounts receivable are reduced by the same amount. When the amount of receivables lost becomes known the reserve account is charged with that amount.<sup>2</sup> Another valuation reserve is "Reserve for Depletion".

The above valuation reserves represent an estimated deduction in the value of the related asset. Some reserves represent deductions which can be measured. Finney states: "The cost of the leasehold improvements should be written off in equal periodical installments between the date of the expenditure and the date of expiration of the lease." Another "exactly measurable decrease in the value of an asset" is a "reserve for the decrease in the

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<sup>2</sup> W. E. Karrenbrock and Harry Simons, Intermediate Accounting (Cincinnati, Ohio: South-Western Publishing Company, 1949), p. 31.

VALUATION ACCOUNTS

It is desirable to show that the value of fixed assets and liabilities of the company has already been changed by the valuation. The amount has been charged to "Reserve for Depreciation" and "Reserve for Bad Debts". Another valuation reserve is called "Reserve for Loss and Accruals" which is charged by the same amount. When the amount of reserve lost becomes known the reserve account is charged with that amount. Another valuation reserve is called "Reserve for Depreciation".

The above valuation reserve reserves are estimated deduction in the value of the related asset. Some reserves represent deductions which can be measured. Finney states: "The value of the bank hold improvements should be written off in equal periodical installments between the date of the purchase and the date of expiration of the lease." Another "exactly measurable" reserve is the value of an asset is a "reserve for the cost of the

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S. W. E. Karpavicz and Henry Henry  
Practice Accounting (University of Chicago Press)  
Publishing Company, 1921, p. 11.



market value of securities owned".<sup>3</sup>

The use of the word "reserve" in connection with "an exhaustion of cost to be recognized as an expense" rather than as "withholding of profits" is the wrong use of the word. "Allowance for Depreciation" or "Provision for Depreciation" are suggested by some authors instead of "Reserve for Depreciation".<sup>4</sup>

Paton states:

The most appropriate use of the term "reserve" in accounting, and the use to which the term might well be restricted, is to indicate a subdivision of the earned surplus account.<sup>5</sup>

These valuation reserves should never be set apart in a separate section of the balance sheet. They should be shown as a deduction from the related asset. Seeing them apart would cause confusion.<sup>6</sup>

The following statements give the stand the Committee on Accounting Procedure has taken on the matter of "reserves".

5. The committee is therefore of the opinion that inventory reserves, such as those created:

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<sup>3</sup> H. A. Finney, Principles of Accounting--Intermediate (New York: Prentice-Hall, Inc., 1946), p. 473.

<sup>4</sup> Ibid., p. 474.

<sup>5</sup> W. A. Paton, Accountants Handbook (New York: The Ronald Press Company, 1947), p. 1033.

<sup>6</sup> Finney, op. cit., p. 474.

market value of securities...  
The use of the word "reserve" is...  
with "an exhaustion of assets" is...  
expense" rather than as "withholding of profits" is...  
the wrong use of the word. The Commission...  
or "provision for depreciation" are...  
authors instead of "reserve for depreciation".  
Paton states:

The most appropriate use of the word "reserve" is...  
in accounting, and the use to which the term...  
will be restricted, is to indicate a...  
of the earned surplus account.

These valuation reserves should never be...  
part in a separate section of the balance sheet...  
They should be shown as a deduction from the...  
ted asset. Getting them out would cause...  
The following statements are...  
Committee on Accounting Reserves...  
matter of "reserves".

5. The committee is...  
inventory reserves, such as...

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3 H. A. Paton, Principles of Accounting,  
Intermediate (New York: Macmillan, 1921), p. 47.  
\* Ibid., p. 47.  
5 H. A. Paton, Accounting, Principles,  
The Ronald Press Company, 1921, p. 11.  
6 Paton, op. cit., p. 47.

- (a) for possible future inventory losses on inventories not on hand or contracted for, or
- (b) without regard to any specific loss reasonably related to the operations of the current period, or
- (c) for the purpose of reducing inventories other than to a basis which is in accordance with generally accepted accounting principles.

are of such a nature that charges or credits relating to such reserves should not enter into the determination of net income and that they should not be used to relieve the income account of any year.

6. The committee is also of the opinion that if a reserve of the type described in paragraph 5 is set up: (1) it should be created preferably by a segregation or appropriation of surplus, (2) no costs or losses should be charged to it and no part of it should be transferred to income or in any way used to affect the determination of net income for any year, and (3) the reserve should be restored to surplus when it is no longer considered necessary. The committee recognizes as proper, though less desirable, the alternative procedure of (a) setting up such a reserve by an appropriation of net income so reported in the income statement that the final figure would clearly indicate that it is not the entire net income, and (b) of showing the subsequent return of such a reserve at the foot of the income statement after the determination of net income for the period in such a way as to clearly indicate that it is not income.<sup>7</sup>

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<sup>7</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure, American Institute of Accountants, (New York: October, 1947, No. 31), pp. 256-257.

- (a) for the purpose of determining the amount of the reserve...
- (b) for the purpose of determining the amount of the reserve...
- (c) for the purpose of determining the amount of the reserve...

are by such a nature that changes in value relating to such reserves should be taken into the determination of net assets and they should not be used to value the account of any party.

d. The committee is also of the opinion that the reserve of the type described in this report is set out in (1) of article 10 of the regulations by a separate account of the reserve. (2) no costs or losses should be charged to it and no part of it should be transferred to any other or in any way used to offset the balance of any other account for the purpose of the reserve should be retained as a reserve when it is not in fact a reserve. The committee recommends as a procedure that, desirable, the alternative procedure of setting up such a reserve by an appropriation of net income to be reported in the next statement that the final figure is a reserve and that it is not to be used to offset any other account. (b) of showing the amount of such a reserve at the end of the period and after the determination of net assets for the period in each way as to clearly indicate that it is not income.

## LIABILITY ACCOUNTS

Finney states that liabilities which can be exactly measured such as interest and wages should be called "Accrued Interest" and "Accrued Wages" rather than "Reserve for Interest" or "Reserve for Wages." Estimated liabilities such as taxes are properly called "Reserve for Taxes." These accounts should be shown in the balance sheet "under a liability caption" and not under a separate "reserve" section.<sup>8</sup>

## RESERVES FOR CONTINGENCIES

Usually reserves for contingencies are a surplus reserve. Sometimes, such reserves may be "part surplus and part liability", or "part surplus and part valuation." A contingency reserve that is hard to interpret may be shown in the balance sheet under a section for reserves between the liabilities and the new worth sections.<sup>9</sup>

Most of the current criticisms on the use of reserves arises from the improper use of contingency

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<sup>8</sup> Finney, op. cit., p. 474.

<sup>9</sup> Arnold W. Johnson, Intermediate Accounting (New York: Rinehart and Company, 1947), pp. 448.

LIABILITY ACCOUNTS

They state that liabilities should be exactly measured such as interest and wages should be called "Accrued Interest" and "Accrued Wages" rather than "Reserve for Interest" or "Reserve for Wages." Estimated liabilities should also be properly called "Reserve for Interest" and "Reserve for Wages" and should be shown in the balance sheet under a liability caption and not under a separate "Reserve" caption.

RESERVE FOR CONTINGENCIES

Usually reserves for contingencies are surplus reserve. Sometimes, such reserves are "part surplus and part liability," or "part surplus and part valuation." A contingency reserve that is hard to interpret may be shown in the balance sheet under a section for reserves between liabilities and the new worth section. Most of the current criticisms on the part of reserves arise from the improper use of contingencies.

8 Kinney, op. cit., p. 100.

9 Arnold W. Johnson, *International Accounting* (New York: Rinehart and Company, 1937), p. 100.

reserves. They are sometimes used to equalize income in different years. This practice makes the use of financial statements misleading and their value becomes doubtful.

The following quotation signifies the stand the Committee On Accounting Procedure has taken concerning "General Purpose Contingency Reserves."

. . . The Committee is therefore of the opinion that general contingency reserves, such as those created:

- (a) for general undetermined contingencies, or
- (b) for a wide variety of indefinite possible future losses, or
- (c) without any specific purpose reasonably related to the operations for the current period, or
- (d) in amounts not determined on the basis of any reasonable estimates of costs or losses,

are of such a nature that charges or credits relating to such reserves should not enter into the determination of net income.

#### RECOMMENDED PROCEDURES

Accordingly it is the recommendation of the committee that, as to general contingency reserves described in paragraph 3:

- (a) Provisions for such reserves should not be included as charges in determining net income.
- (b) When such a reserve is set up it should be created preferably by a segregation or appropriation of surplus; it may be created by an appropriation of net income but this is less desirable.

reserves. They are sometimes used to provide for contingencies in different years. This practice is not in accordance with the financial statements and is not in accordance with the law.

The following provisions of the Internal Revenue Code are the Committee on Accounting Principles' recommendations concerning "General Purpose Accounting Reserves". . . . The Committee is of the opinion that general purpose reserves should be as those created:

- (a) for general and undistributed earnings, or
  - (b) for a wide variety of anticipated future losses, or
  - (c) without any specific purpose or relation to the operations of the company for a period, or
  - (d) in amounts not determined on the basis of any reasonable estimate of costs or losses.
- are of such a nature that they are not related to such reserves and the determination of net income.

### RECOMMENDED PROVISIONS

Accordingly it is the recommendation of the Committee that, as to general purpose reserves described in paragraph 3:

- (a) Provisions for such reserves should be included as part of the company's net income.
- (b) When such a reserve is set up it should be created primarily by a corporation or an individual of which any person is a partner, or by an individual of net income, and it is less desirable.



- (c) If such a reserve is created by an appropriation of net income, the net income should first be determined and so designated, after which the reserve provision should be deducted and clearly captioned as an appropriation of net income and the final figure should be so captioned as to clearly indicate that it is not the entire net income.
- (d) Costs or losses should not be treated as charges to such reserves and no part of such a reserve should be transferred to income or in any way used to affect the determination of net income for any year.
- (e) When such a reserve or any part thereof is no longer considered necessary it should be restored to surplus, either directly (the preferable treatment) or after the determination of net income, in the income statement, in such a way as to indicate clearly that it is not income.

The following notation is given in the bulletin concerning paragraphs (d) and (e): "This paragraph also applies to general contingency reserves set up in prior years".<sup>10</sup>

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<sup>10</sup> Accounting Research Bulletins Issued by Committee on Accounting Procedure, American Institute of Accountants (New York: July, 1947, No. 28), pp. 232-33.

(c) If such a reserve is created by an appropriation of net income, the net income should first be determined and then the reserve created. After that the reserve should be determined and then the appropriation of net income and the final figure should be reported as clearly indicated in the following net income.

(d) Costs or losses should not be charged as charges to such reserves and no part of such a reserve should be transferred to income or in any way used to affect the determination of net income for any year.

(e) When such a reserve is any part thereof is no longer considered necessary it should be restored to surplus, either directly (the preferred treatment) or after the determination of net income, in the income statement, in such a way as to clearly state that it is a reserve.

The following notation is given in the outline concerning paragraphs (d) and (e) in this paragraph also applies to general conditions referred to in prior years. 10

10 Accounting Research Institute  
Committee on Accounting Principles  
of Accountants (New York City, N.Y.)

## SURPLUS ACCOUNTS

Surplus reserves are withheld profits. The title of such reserves should be descriptive enough so that the reason for the withholding of such profits is clearly understood by any interested person.<sup>11</sup> The proper use of the term "reserve" is for the withholding of profits. Therefore, subdivisions of the surplus account for withholding purposes are properly called reserves. The danger here is that too many reserves may be created, thereby, causing an improper amount of the profits to be divided among stockholders as dividends. Most of the literature on "reserves" emphasizes the conservative use of reserves.

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<sup>11</sup> Paton, op. cit., p. 1034.

SURPLUS ACCOUNTS

Surplus reserves are withheld... title of such reserves should be... so that the reason for the... is clearly understood by any... The proper use of the term "reserves" is for... holding of profits. Therefore,... surplus account for withholding... called reserves. The danger here... reserves may be created, there... amount of the profits to be... as dividends. Most of the literature... emphasizes the conservative use of...

17 Patton, op. cit., p. 103.

MEMORANDUM  
FOR THE BOARD  
RE: SURPLUS ACCOUNTS

## CHAPTER VII

## TERMINOLOGY

In recent years, accountants have been forced to use words carefully. Much has been written on words that may have one meaning when used by the layman and another when used in a technical sense by the accountant. It is this change in meaning that causes so much confusion. The meaning that accountants give these words is not explained in dictionaries. Anyone, except the professional student of accounting, would be unable to tell what the word, as used in an accounting sense, means. Therefore, the conflict in the meaning of these words does not exist within the accounting profession as much as it exists in the use to which the general public gives to these common words and the technical meaning that accountants give to them.

Accountants are conscious of the misunderstanding that may be caused by the use of such words. As a result, the American Institute of Accountants has a committee working on the problem. Several Accounting Research Bulletins (Numbers 7, 9, 12, 16, 20, and 22) have been issued in which the problem is discussed.

In recent years, accountants have been urged to use words carefully. It has been pointed out that words that may have one meaning to the layman and another when used in a technical sense by the accountant, or vice versa, are those that cause so much confusion. The accountant who gives words as not explained in dictionaries, except the professional dictionary of accounting, would be liable to tell that the word as used in an accounting sense, means, therefore, the conflict in the meaning of these words does not exist within the accounting profession as such as it exists in the use of words in general. Public gives to these common words the accounting meaning that accountants give to them. Accountants' language is the language standing that may be caused by the use of such words. As a result, the American Institute of Accountants has a committee working on the subject. Several Accounting Research Bulletin Numbers 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, and 21 have been issued in relation to this subject, as discussed.

In Bulletin Number 7, the committee defined its task as follows:

The first task of the committee might therefore well be to prepare a discussion of the specialized usage in accounting of common terms, that would be more extensive than mere definitions, and might perhaps include suggestions for modifications of present practice, with the object of minimizing misunderstandings. Such a discussion might not only be circulated in the profession, but brought to the attention of publishers of general dictionaries with a view to recognition of the special usages in the new editions of such works.<sup>1</sup>

It is of extreme importance that the public should understand the meaning of these words as they are used by accountants as the public is very much interested in the affairs of business organizations.

The public forms opinions and makes decisions on the basis of their understanding of business statements and reports. In order to insure that just opinions are formed and just decisions made, a clear understanding of all terminology used in such reports is essential.

Some of the words discussed in the Accounting Research Bulletins and other current literature as

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<sup>1</sup> Accounting Research Bulletins Issued by Committee On Accounting Procedure, American Institute of Accountants (New York: November, 1940, No. 3) p. 52.

its task as follows:

The first task of the committee is to determine the scope of the work which it will be required to perform. It is suggested that the committee should be organized in such a way that it will be able to handle the work which is assigned to it. The committee should be organized in such a way that it will be able to handle the work which is assigned to it. The committee should be organized in such a way that it will be able to handle the work which is assigned to it.

It is of extreme importance that the committee

should understand the meaning of these words as

they are used by accountants as the public is very

much interested in the affairs of business organiza-

tions.

The public forms opinions and makes decisions

on the basis of their understanding of business

statements and reports. In order to insure that

just opinions are formed and that business men

have a clear understanding of all pertinent facts

such reports is essential.

Some of the words discussed in the following

Research Bulletin and other reports are:

Accounting Research Bulletin  
Committee on Accounting Research  
of Accountants (New York)



being words frequently misunderstood are assets, liabilities, depreciation, value, income, surplus, and reserve. The rest of this chapter is devoted to a discussion of these terms.

Noble defines assets and liabilities as follows:

The property owned by a business and used in the operation of that business is called assets . . . . .  
The rights of the creditors in the assets of a business are known as the liabilities of the business.<sup>2</sup>

The American Institute of Accountants has the following to say concerning assets and liabilities:

. . . in a realistic view one must recognize that the words "assets" and "liabilities" are in accounting usage often no more than substitutes for Dr. and Cr. as the headings for the two sides of a balance sheet, and further that not all the items carried under those heads are assets or liabilities in the ordinary sense of those words, and not all the items that are assets or liabilities in the ordinary sense are commonly included under these heads. Thus in one case goodwill, which may be the most valuable of assets, may not appear, but in another discount on common stock may appear under the head of assets.<sup>3</sup>

The reasons why the word "depreciation" can be misunderstood are ably stated by the Committee on Accounting Procedure of the American Institute of

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<sup>2</sup> Howard S. Noble, Accounting Principles--- Fourth Edition (New York: The South-Western Publishing Company, 1945), p. 2.

<sup>3</sup> Accounting Research Bulletin No. 7, op. cit., p. 53.

being words frequently misunderstood and misapplied.  
Liabilities, depreciation, value, and so on, are  
and reserve. The rest of this chapter is devoted to  
a discussion of these terms.

### Mobile business assets and liabilities as follows

The property owned by a business and used  
in the operation of that business is called  
assets. . . . .  
The rights of the creditors in the assets of  
a business are known as the liabilities of  
the business.

### The American Institute of Accountants has

the following to say concerning assets and liabilities:

. . . . . in a realistic view of the world economy  
that the words "assets" and "liabilities" are  
in accounting usage terms and not legal terms.  
It is for Dr. and Co. and the balance sheet for the  
two sides of a balance sheet, and further that  
not all the items entered under these heads are  
assets or liabilities in the ordinary sense of  
these words, and not all the items entered  
assets or liabilities in the ordinary sense  
are commonly included under these terms.  
Thus in one case "goodwill" might be an asset,  
most valuable of assets. In another case,  
in another class of assets, or a stock exchange  
under the head of assets.

### The reasons why the word "intangible" can

can be misunderstood are fully stated by the Committee  
on Accounting Procedure of the American Institute of

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S. Howard E. Kellie, *Accounting Principles*,  
Fourth Edition (New York: The McGraw-Hill  
Book Company, 1942), p. 21.

Accountants in the following statement:

It must be admitted that the use of the term in accounting is unsatisfactory, since it is applied in its normal sense to some assets, such as marketable securities, and in a specialized sense to others, such as fixed-capital assets. Moreover, the specialized sense differs not only from the colloquial sense but also from the sense in which the term is used in engineering, and is far removed from the root-meaning of the word itself. Therefore, if reluctance to accept temporary inconvenience in order to achieve permanent clarification stands in the way of the substitution of a more descriptive term, it may be said that the profession at least owes it to the public to define with reasonable precision and clarity the meaning of the word, when used as a term of art in accounting.<sup>4</sup>

The committee defines the word in a later bulletin thus:

Depreciation accounting is a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation.<sup>5</sup>

The word "value" in accounting means the figure at which an asset or liability is stated.

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<sup>4</sup> Accounting Research Bulletins Issued by Committee On Accounting Procedure, American Institute of Accountants (New York: October, 1942, No. 16) p. 135.

<sup>5</sup> Accounting Research Bulletins Issued by Committee On Accounting Procedure, American Institute of Accountants (New York: May, 1944, No. 22) p. 179.

It must be stated that the term "asset" is applied in the same sense as marketable securities, and is not to be confused with the term "asset" as used in the accounting sense. The term "asset" is used in the accounting sense to denote a resource which is expected to provide a benefit to the entity in the future. The term "asset" is used in the legal sense to denote a resource which is owned by an individual or a corporation. The term "asset" is used in the economic sense to denote a resource which is scarce and valuable. The term "asset" is used in the financial sense to denote a resource which is convertible into cash or cash equivalents. The term "asset" is used in the legal sense to denote a resource which is owned by an individual or a corporation. The term "asset" is used in the economic sense to denote a resource which is scarce and valuable. The term "asset" is used in the financial sense to denote a resource which is convertible into cash or cash equivalents.

The committee believes the word "asset"

bulletin times.

Definition of accounting as a system of accounting which also includes the study of other basic values of assets (real assets, less liabilities (liabilities)) over the useful life of the asset. The study of assets is a process of allocation, not of valuation.

The word "value" in accounting means the figure at which an asset or liability is stated.

4 Accounting Research Bulletin issued by Committee on Accounting Research, American Institute of Accountants (New York: Accountants, 1932, p. 137.)

5 Accounting Research Bulletin issued by Committee on Accounting Research, American Institute of Accountants (New York: Accountants, 1932, p. 137.)

To the average person the word means "worth." In accounting, the word should not be used without a qualifying adjective. Some terms used are "replacement value", "book value", and "market value".<sup>6</sup>

"Income" is another frequently discussed word. Johnson defines "income" thus:

In free and independent transactions, the considerations received for the sale or use of assets and services constitute gross income. From the accounting point of view, the considerations received must be in terms of money. Often, the word "revenue" is used synonymously with gross income.<sup>7</sup>

There is a trend toward the emphasis of income in modern accounting. "Accounting for Income" and "Income Statement" are phrases commonly used. The emphasis is on the earning power of a business. As a result, the word "income" may be over-taxed. It may be used to embrace too much and its use may become confusing.

The word "surplus" has received its share of criticism especially if called "earned surplus". The word means "undistributed income" or "undistributed profits". The word "earned surplus" should not

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<sup>6</sup> Accounting Research Bulletin No. 7, op. cit.,  
p. 53.

<sup>7</sup> Arnold W. Johnson, Intermediate Accounting  
(New York: Rinehart & Company, Inc., 1947), p. 487.

to the extent that the word "income" is  
accounting, the word should not be used without  
qualifying adjectives. Some writers have used "income"  
without value, "stock value", and "market value".  
"Income" is a general term, and should be used  
word. Johnson defines "income" thus:

In fact, and in the general sense, the  
consideration is applied to the entire year's  
assets and liabilities, and not to the  
From the accounting point of view, the  
definition is not meant to be taken literally,  
often, the word "income" is used synonymously  
with gross income.

There is a broad view of the word "income"  
in modern accounting. "Accounting" is the  
"Income Statement" and "Income Statement" used. The  
emphasis is on the entire year of a business.  
As a result, the word "income" may be used  
may be used to embrace the word and the word  
come confusion.

The word "income" has received the same  
criticism especially in the "Income Statement".  
The word "income" is used in "Income Statement" or "Income Statement".  
based prefix. The word "income" is used in "Income Statement" or "Income Statement".

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Accounting Research Bulletin No. 1, 1937.  
p. 33.  
Johnson, M. Johnson, International Accounting  
(New York: McGraw-Hill, 1937), p. 33.

be used to distinguish undistributed profits from capital surplus.<sup>8</sup>

The most misleading word as used in accounting is the word "reserve". Reserves have been discussed in Chapter VI of this thesis; therefore, the word will not be discussed here.

The amount of literature being written about terminology seems to denote that an attempt is being made to prepare statements that are easy to understand. At present, there is a consciousness among men for better wording of such statements. No final decision has been reached as to what is the best word to use in a given situation, but the meaning of simple yet confusing words is being crystallized through discussion. Most writers are finding it difficult to say in so many words what each of these common words means when used in a technical accounting sense, but clearer and better definitions will be the result of the present discussions. Undoubtedly, this word consciousness will result in better, more understandable reports.

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<sup>8</sup> Committee on Accounting Procedure, American Institute of Accountants, "Report of Committee on Terminology" (New York: May, 1941, No. 9), pp. 74-75.

be used to distinguish...  
capital surplus.  
The most...  
ing to the word "reserve".  
in Chapter VI of this report. The word will  
not be discussed here.  
The amount of...  
terminology seems to have...  
made to prepare statements...  
At present, there is a...  
better wording of such...  
has been reached as to...  
in a given situation, but...  
confusing words is being...  
Most writers are finding...  
so many words that each...  
when used in a technical...  
and better definitions...  
sent discussions. Undoubtedly,  
ness will result in better...

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8 Committee on Accounting Procedures, American  
Institute of Accountants, "Report on Accounting  
Terminology" (New York, N.Y., 1937), p. 10.



## CHAPTER VIII

## SUMMARY

The brief summary of the historical background of modern accounting shows that accounting underwent a gradual change which accelerated with the widespread use of the corporate type of business. This acceleration in its growth has brought many new functions for accounting to perform. Accounting records and reports must summarize the financial standing of a large and complicated business concern in such a way that management can get a clear picture of the business. These reports must help management to reach decisions that will carry the business to greater success.

Many others are interested in the affairs of a business concern. The government wants to get its due share of the profits in the form of taxes, stockholders want to get their share of the profits, labor wants to get a just wage rate, and the public wants greater production and lower prices on commodities. Each wants to be fair in its demands. An understanding of the affairs of the business is essential to form a just decision by these interested parties. They must depend on the financial statements of the business

SUMMARY

The brief summary of the history of accounting  
of modern accounting shows that it has  
went a gradual change which accelerated with the  
widespread use of the various types of business  
This acceleration in the growth has brought about  
new functions for accounting, such as  
records and reports and administrative  
standing of a large and complicated business concerns  
in such a way that management can get a clear picture  
of the business. These reports and help management  
to reach decisions that will contribute to  
greater success.

Many others are interested in the affairs of  
business concerns. The government wants to get the  
due share of the profits and the tax payers  
holders want to get their share of the dividends. Labor  
wants to get a just share of the total product  
greater production and lower prices of commodities.  
Each wants to be fair to the business and its  
ing of the affairs of the business is essential to  
form a just decision. These interests are not  
must depend on the financial statements of the business

concern to get the information they need. It is very easy to see what an important purpose these statements serve. They must be easy to understand, easy to analyse, and easy to compare. They must portray a true picture of the financial standing of the business.

This thesis endeavors to portray the importance of financial statements by placing emphasis on the conflicting views of the different authors of accounting literature. The science of accounting is in the prime of its growth. As a result, many problems that have arisen are in the process of being solved by eminent accountants. It is through a study of their points of view that one can get a better perspective of these problems. Of necessity, these views are still on a conflicting stage, but are gradually being pulled towards a solution. The fact that they are conflicting does not detract from their importance. In fact, it is the many conflicting ideas that make one realize how broad these problems are and how one-sided a dogmatic decision can be. This also makes one realize how important it is for any one accountant to be well versed in modern accounting literature. A broad knowledge of modern accounting literature is necessary

concern to get the information that is  
easy to see what in fact is the  
moral sense. This must be done  
to analyze, and easy to understand  
a true picture of the financial condition of the  
ness.

This classic analysis of the  
of financial and economic  
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accountants. It is through a study of their  
of view that one can get a better perspective  
these problems. Of necessity, they  
on a conflicting stage, but are generally being  
towards a solution. The fact that the  
it does not detract from their importance. In fact,  
it is the many conflicting cases that have one  
the few broad lines of the financial condition  
domestic decision can be. This also means that  
how important it is for the financial condition  
versed in modern accounting literature. A  
ledge of modern accounting literature is necessary

to form intelligent decisions.

Therefore, this thesis presents the different views concerning some of the more controversial parts of financial statements. Fixed asset valuation and depreciation, inventory pricings, reserves, and terminology are discussed as these topics are prominent in modern accounting literature.

Two main views have been presented concerning fixed asset valuations. There are those who believe that fixed assets should be shown in the books at their cost value and that depreciation should be based on this value. The American Institute of Accountants upholds this view. Others believe that replacement value or some appraised value should be used. This valuation would conform with rising prices and with the high price at which the assets would be replaced.

Inventory pricings have also been discussed. Various methods of pricing inventory have been discussed. The controversial issues, however, center on the last in, first out method and on the first in, first out method. It is brought out that the last in, first out method tends to smooth out the business cycle by smoothing off the high spots and filling

to form different systems.

Therefore, this factor presents the different

views concerning some of the fundamental

of financial and economic conditions and

speculation, investment, and other

policy are discussed in this paper and

in modern economic literature.

Two main ideas have been presented concerning

fixed asset valuation. One is based on the

that fixed assets should be valued in terms of

their cost value and the other is based on

on this value. The former method is based on

upholds this view. It was believed that

value or some adjusted value should be used. This

valuation would conform with rising prices and in

the high price period the asset would be

Inventory valuation also has been discussed.

Various methods of pricing inventory have been

discussed. The comprehensive method, however,

in the last part of the paper and in the

first part of the paper. It is thought that

in the first part of the paper to discuss the

cycle by smoothing all the price spots and

in the low spots. This factor has caused its wide usage. The first in, first out method is a cost value method since it does not recognize unrealized profits or losses. The inventory is drawn from the records in a systematic manner.

The danger in the use of too many reserves under non-descriptive titles is emphasized. Such a use of reserves may be confusing to those attempting to study financial statements as the word "reserve" does not mean the same to the layman and to the accountant. Those attempting to study statements wonder if the extensive use of reserves is warranted. When a reserve is used, its title should be explicit enough so that no confusion and doubt arises.

Accounting terminology is frequently discussed in current accounting literature. Common words used in a technical sense by the accountant causes confusion to those not acquainted with the technical meaning of the word. In order to avoid such confusion, Accountants have been trying to define such words more clearly and to bring the problem before authors of dictionaries so that the technical meaning shall be included in future revisions of such works.

in the few spots. This latter was covered by the  
usage. The first in this list of methods is a  
value method since it does not require the  
profits or losses. The advantage is that it  
records in a systematic manner.

The danger in the use of non-legal reserves  
under non-descriptive titles is explained. Such  
use of reserves may be compared to those appearing  
to study financial statements as the word "reserves"  
does not mean the same to the preparer as to the  
accountant. Those appearing to study statements  
under the extensive use of reserves as written  
When a reserve is used, the title itself is not  
enough so that no confusion and doubt arises.

Accounting terminology is frequently discussed  
in current accounting literature. Common words used  
in a technical sense are the accountant's concern  
ation to those not acquainted with the technical mean-  
ing of the word. In order to avoid such confusion  
Accountants have been trying to define and explain  
more clearly and to bring the problem before students  
of dictionaries so that the technical meaning shall  
be included in future editions of such works.



Accountants have become word conscious because they realize that reports made by them are studied by many interested persons. They want for these persons to clearly understand what these reports or statements are trying to portray.

Accountants have become...  
realize that reports made by...  
interested persons...  
clearly understand what...  
are trying to portray.

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## RECOMMENDATIONS

When students of accounting are limited in any one course to the works of one author, they are, of necessity, being presented with limited and even biased knowledge of the subject. It would be impractical to cover the works of several authors when the student is mastering the fundamentals of the subject, but an attempt should be made, in a separate course, to introduce those students that will pursue the subject further, to an analysis and comparison of current accounting literature. A course called "A Survey of Current Accounting Literature" would not only introduce the student to the wealth of valuable material being written on the subject, but would also help the student to form more intelligent decisions in the use of accounting theory. It must not be forgotten that accounting is undergoing an accelerated form of growth and that brilliant minds are constantly working to crystalize this growth into words that the rest of us less brilliant can put into practice by bettering the forms of accounting, recording and reporting.

Today's students of accounting will be doing



outmoded work unless they keep their minds up to date by constantly reading and studying current accounting literature. A survey of such literature would give the students an appreciation of the work being done by authorities in the accounting field. Such a course would also serve as an incentive for further reading. A realization of the constant changes that are going on in the accounting field would cause the student to study such literature long after he is out of school. The open mindedness with which these students would use in their accounting work would go a long way in a better solution of today's conflicting theories of accounting.

No texts on the subject are at present on the market. If such texts were written, they would soon have to be revised. Probably a better plan would be to study the current issues of the Journal of Accountancy and The Accounting Review plus new texts that may come into the market. Libraries should have all of this material at hand so that it would be available to students who are taking such a course.

This material should also be made available

attached work makes it clear that the students are not  
by constantly reading and writing. The students are  
literate. A survey of such literature is  
the students an opportunity to read and write  
by authorities in the accounting field. This  
would also serve as an excellent reference  
A realization of the importance of the  
on in the accounting field is a must for  
study such literature for a better understanding  
The open-mindedness with which the students  
use in their accounting work will be a  
a better solution of today's accounting  
of accounting.

No facts in the subject are at present  
market. If such facts were available, they would  
have to be revised. Perhaps a better plan would  
be to study the current trends of the  
Accountancy and the Accounting Industry for new  
that may come into the market. This material  
All of this material at hand so that it would be  
available to students who are taking such a course.  
This material would also be available

by practicing accountants, for year by year the new changes being made as a result of conflicting theories being molded into satisfactory solutions causes the accountant who goes on practicing the theories he learned when he was a student to become hopelessly outmoded. It might even seem logical that a refresher course be offered to all practicing accountants at regular intervals and that practicing accountants should be required to take such a course. Such a procedure is at present being followed successfully in other professions. It keeps those in the profession from getting in a rut. It helps their minds to grow with the times, as accounting is certainly growing. Those practicing it and those studying it should certainly not be allowed to fall behind. They must be helped to keep time with this accelerated accounting growth.

It is certainly hoped that this presentation of the conflicting theories of accounting did not leave the reader with the idea that accountants are divided in their accounting believes. Conflicting theories appear merely because accountants have recognized problems that the profession must solve.

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changes being made...  
being worked into...  
accountant who...  
learned when he...  
omitted. It...  
fresh course be...  
ants at regular...  
countants should...  
Such a procedure...  
essentially in...  
profession from...  
to grow with the...  
those practicing...  
tally not be allowed...  
helped to keep...  
growth.

It is certainly...  
of the conflicting...  
leave the reader...  
are divided in...  
the theories...  
reconciled problems...



In order to come to a just and sane solution, all views of the problems must be considered. This is all conflicting theories of accounting are: different views of problems the profession is working hard to solve.

In order to come to a just and reasonable  
views of the problems which are  
all conflicting theories of human nature  
and views of practice the present work  
to solve.

PHILOSOPHY  
AND  
SCIENCE

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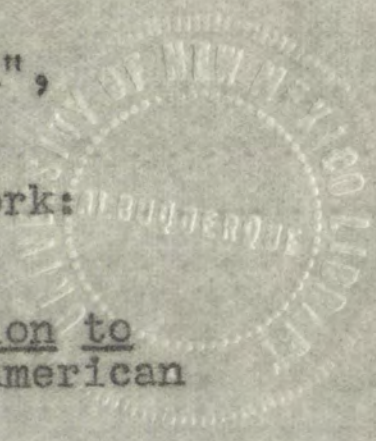
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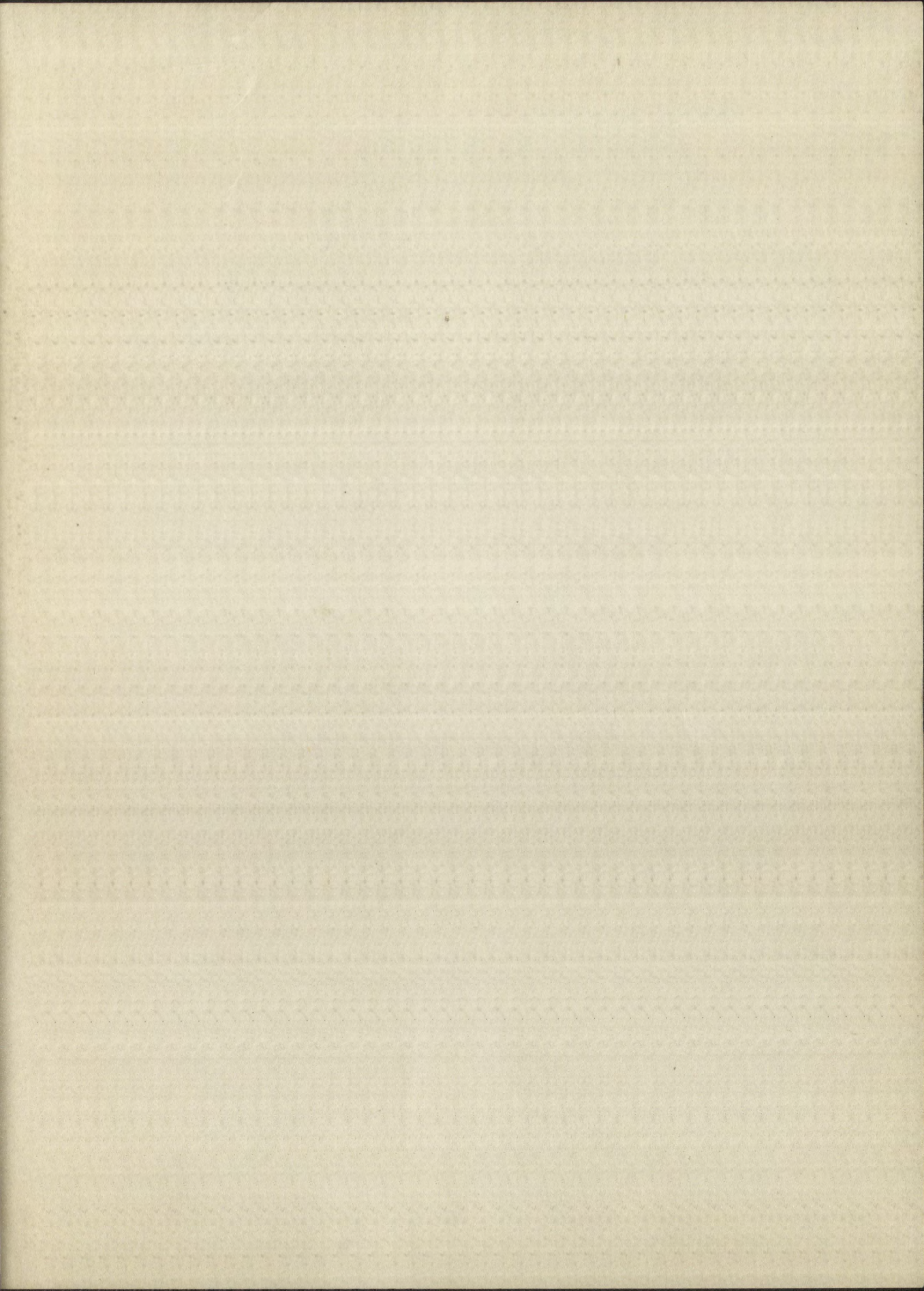
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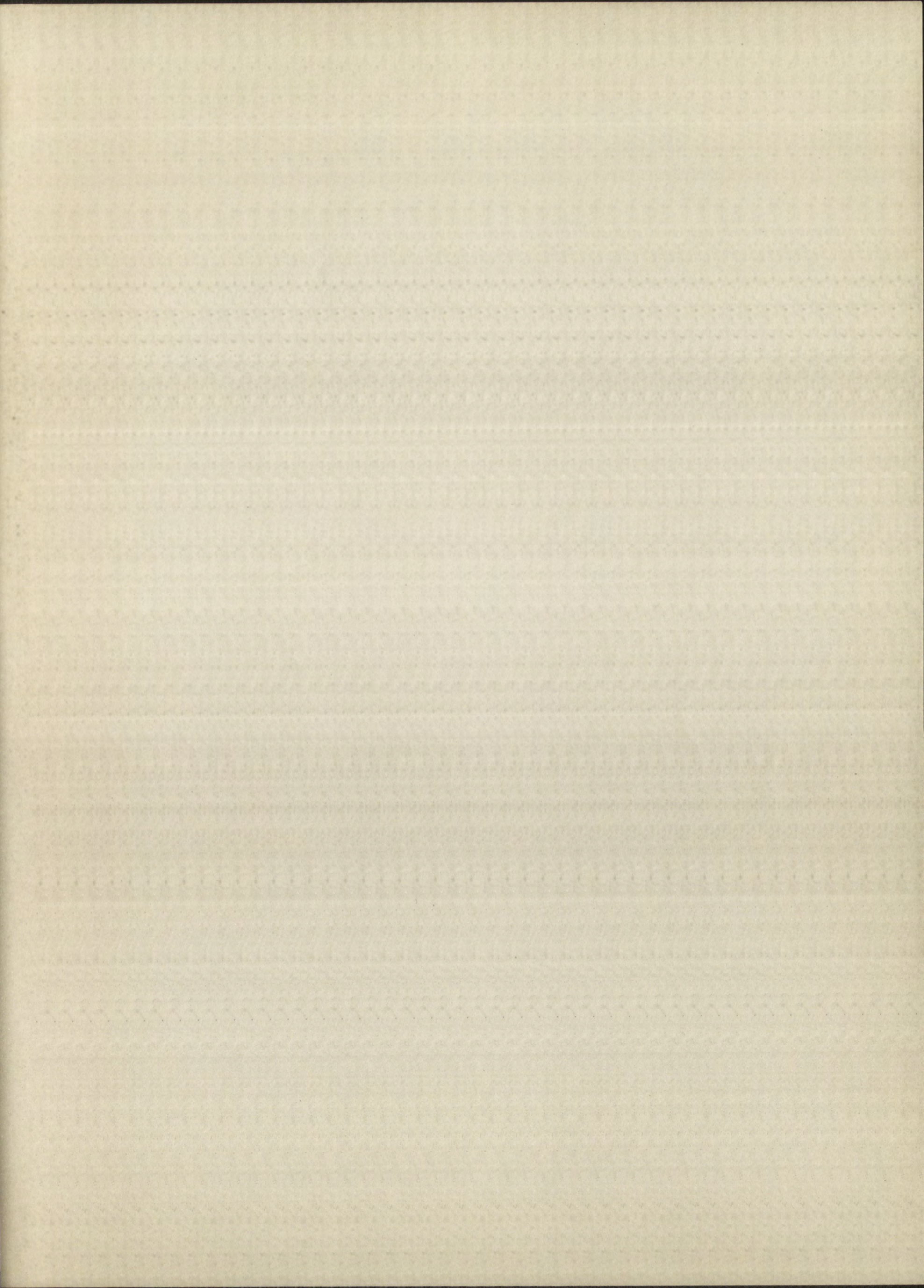
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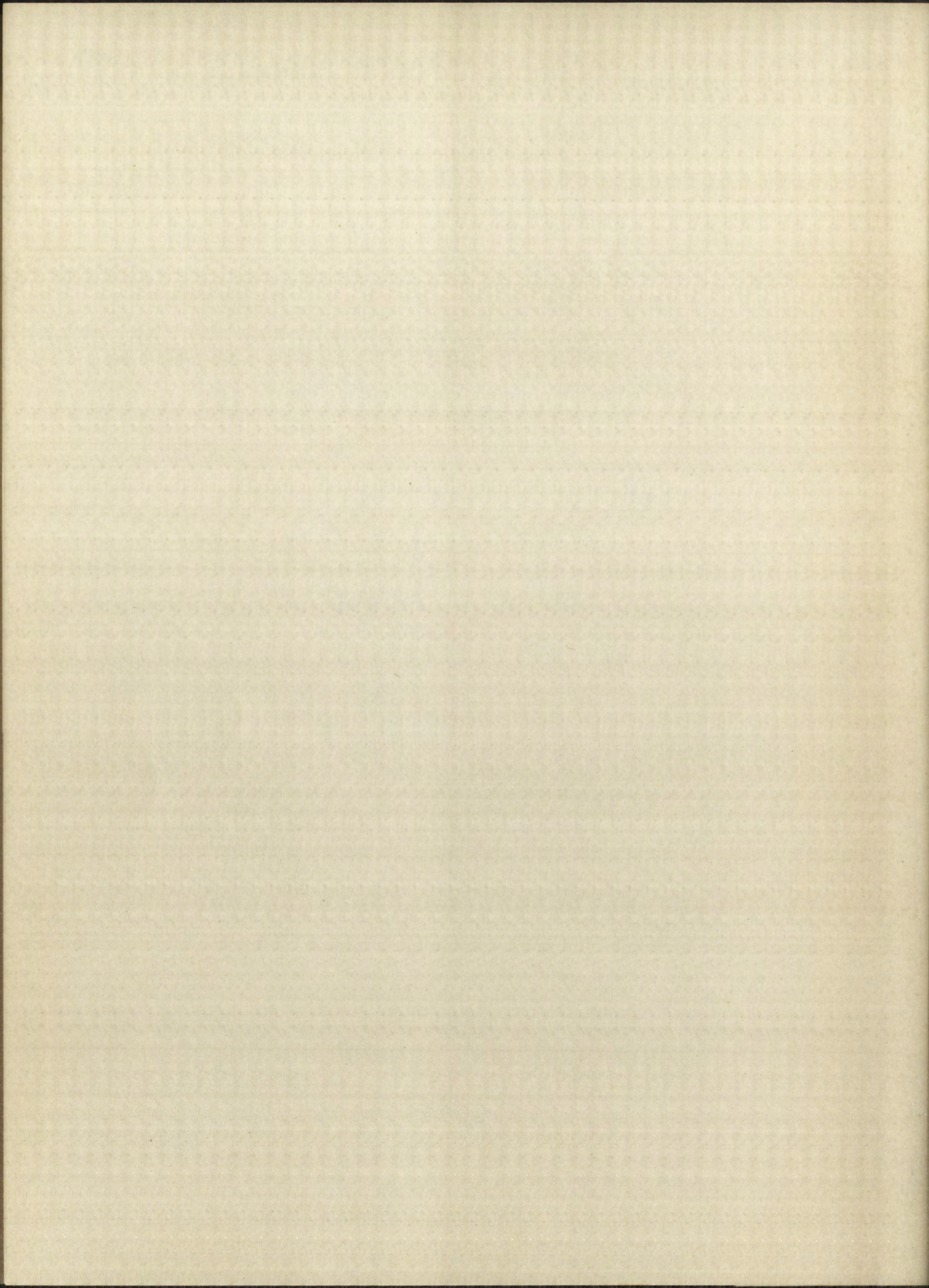


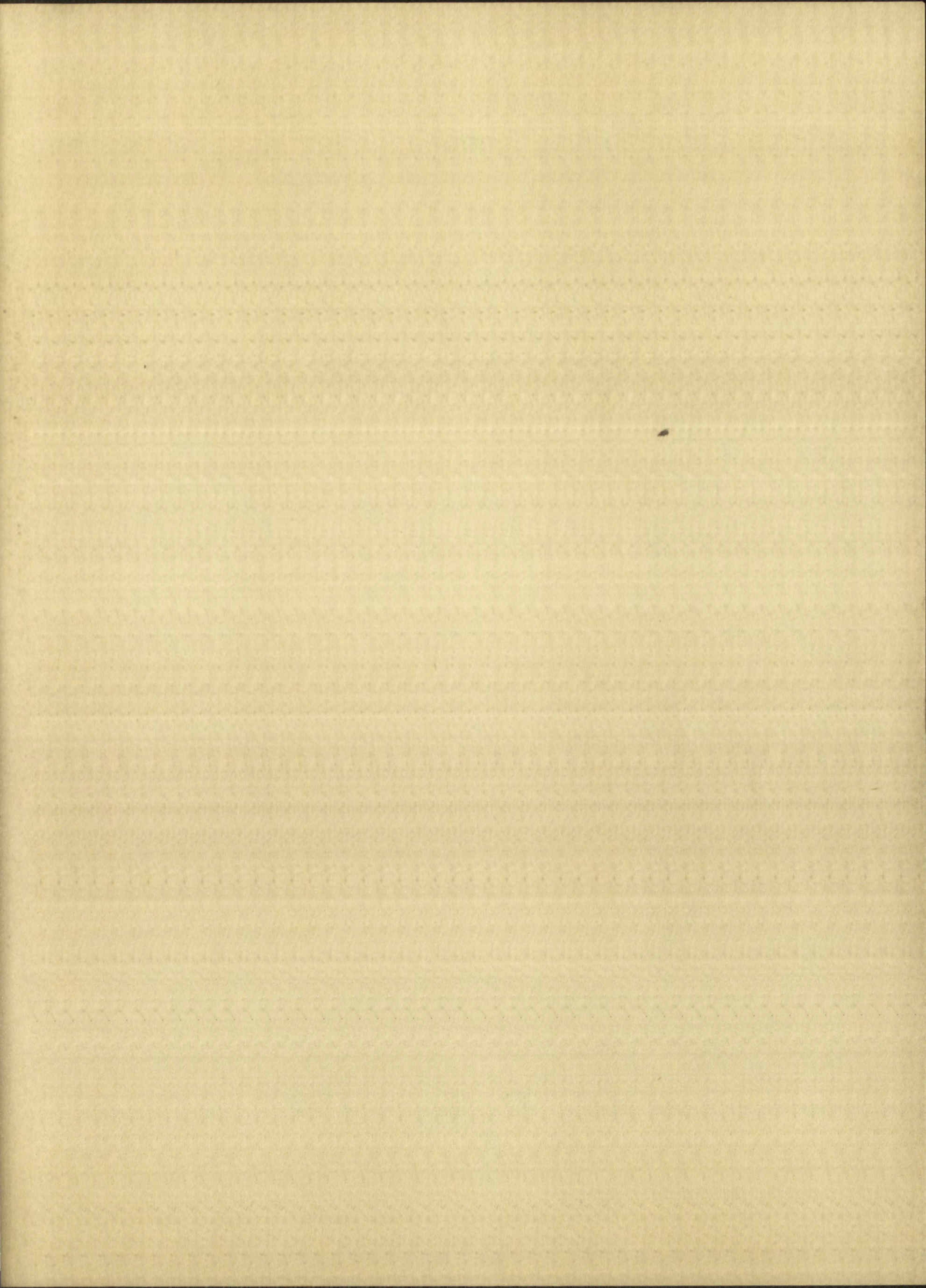




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