

1982

Carman G. Blough's contributions to accounting: An overview

William D. Cooper

Follow this and additional works at: https://egrove.olemiss.edu/aah_journal



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Cooper, William D. (1982) "Carman G. Blough's contributions to accounting: An overview," *Accounting Historians Journal*: Vol. 9 : Iss. 2 , Article 5.

Available at: https://egrove.olemiss.edu/aah_journal/vol9/iss2/5

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Accounting Historians Journal by an authorized editor of eGrove. For more information, please contact egrove@olemiss.edu.

The Accounting Historians Journal
Vol. 9, No. 2
Fall 1982

William D. Cooper
UNIVERSITY OF NORTH CAROLINA
AT GREENSBORO

CARMAN G. BLOUGH'S CONTRIBUTIONS TO ACCOUNTING: AN OVERVIEW

Abstract: A focus on the years of Carman G. Blough's life in which he made significant contributions to the accounting profession.

Carman G. Blough came on the national scene (1935) at a point in time when accountants were held in low regard by the public. Accountants were forced by environmental factors to accept a greater responsibility for the financial statements and to clarify accounting and auditing practices and procedures. As Chief Accountant for the Securities and Exchange Commission (SEC) and later as Director of Research for the American Institute of Certified Public Accountants (AICPA), Blough became a stabilizing influence that helped the profession develop greater consistency and uniformity.

The Years with the SEC

Blough joined the staff of the SEC in 1934 as a financial analyst and was appointed the Chief Accountant of the Commission one year later.¹ As the first Chief Accountant of the Commission, Blough had the task of establishing the duties and responsibilities of that position. Blough felt that the office of Chief Accountant should not have administrative responsibility over public accountants but the profession might look to the Chief Accountant for assistance in policy and principle decisions. Moreover, questions concerning accounting methods followed by registrants should be forwarded to the Chief Accountant for final decision.² The Commission agreed with Blough's concepts and took steps to clarify the duties and functions of the new position. Under the direction of SEC Commissioners, Blough was able to gain control over accounting problems facing the Commission.³ A measure of the soundness of Blough's organizational concept is to note that the office of Chief Accountant is today still organized along the functional system advanced by him.

Blough also had a responsibility to effectively administer the accounting policies of the Commission, especially in the area of accounting principles. The task was particularly difficult because there was no clear interpretation of the term "accounting principles." To overcome the problem, Blough developed a series of well-conceived steps, each leading the profession toward a more uniform application of accounting principles.

Blough began by consulting noted accountants for their thoughts and ideas on accounting principles. While few, if any, immediate benefits resulted from the correspondence concerning the definition of accounting principles, there were several by-products that would later be used by Blough to influence accounting practice. For example, due to Blough's position he was able to establish a dialogue not only between government representatives and accountants but also between public accountants themselves. He recognized that accountants of that period frequently labored under mistaken concepts because the principles underlying accounting practice were rarely discussed.⁴ The transmission of preferable accounting methods became an important part of Blough's life and can be traced throughout his monthly column in the *Journal of Accountancy*. Moreover, the diversity of opinions expressed in the letters he received led Blough to conclude that no government agency could develop a set of accounting principles to please everyone, and, more importantly, fulfill all the needs of financial statement users. This last concept led Blough to believe that government should not formulate accounting principles, but rather lend some form of guidance to the accountants involved in the development of uniform standards of practice, which inspired the issuance of *SEC Accounting Series Release (ASR) No. 1*.

The need for uniformity is again brought out in a speech Blough made in the fall of 1937 to the New York Society of CPAs. The final paragraph of his speech summarizes Blough's thoughts:

This discussion has been mainly devoted to the recital of the variations in accounting practices followed by members of the profession because I saw no better way in which to bring home to you the extensiveness of the need for greater uniformity as we see it in our day-to-day work. What the future policy of the Commission will have to be I am not prepared to say but we are reluctant to undertake the prescription of principles to be followed except as a last resort. It is hoped the profession will itself develop greater consistency in the many places where uniformity

appears essential to avoid confusion in the presentation of financial data and you may be assured the Commission stands ready, in whatever way it can, to assist the profession in accomplishing this purpose.⁵

In a forceful and direct manner, Blough made the accounting profession aware of the need to develop uniform accounting practices or face further intervention by the SEC.

The final step taken by Blough to promote development of uniform accounting practices was in *ASR No. 4*. In this Release, the SEC stated that financial statements should be based on accounting principles that have "substantial authoritative support." The term "substantial authoritative support" was not defined in the Release, which led to many problems in interpretations. William W. Werntz, who was appointed Chief Accountant after Blough left in May 1938, wrote Blough for his definition, to which Blough responded:

In my mind it has meant authority of substantial weight rather than the predominance of authority. Thus, two contrary procedures might each have "substantial authoritative support" so that no matter which the registrant followed, adequate disclosure in footnotes, in the accountant's certificate or on the face of the statement, as appropriate, would be accepted without any change being required in the body of the statements. You will remember in this connection that we thought because two particular, well-known, national accounting firms other than the certifying firm had supported the procedure followed by a certain investment company, we could not say that it lacked "substantial authoritative support." That did not mean that those same two firms would always constitute "substantial authoritative support" when they were in agreement, although undoubtedly they would bear considerable weight. They were considered to be "substantial authoritative support" in that particular case because of the large proportion of the investment trusts audited by one or the other. It should also be assumed that appropriate disclosure would be sufficient without "substantial authoritative support" for a particular procedure if the question involved was a new and quite unsettled one.⁶

Ironically, the analogy used by Blough of the "two well-known national accounting firms" was to almost parallel the circumstances

surrounding *Accounting Principle Board (APB) Opinions No. 2 and No. 4* on the investment tax credit. In that instance, Blough felt that opinions from the newly created APB should be considered "substantial authoritative support." The SEC, however, did not concur with Blough's belief that the APB should be the sole governing authority.

The American Institute of Accountants (now the American Institute of Certified Public Accountants), aware of the actions taken by Blough, voted in 1938 to reorganize the then existing Committee on Accounting Procedure. The result was to expand membership of the Committee, to include academicians, and to create the position of Director of Research. Thus, the challenge placed by Blough before the accounting profession in his New York speech altered the method of formulating principles and procedures. This action taken by the Institute could not have been more timely, for Blough had received a letter from the Commission authorizing him to establish accounting principles as he saw fit.⁷

The Years in Practice and Government

After issuing *ASR No. 4* and receiving positive responses from the Institute that action would be taken to establish uniform accounting practices, Blough left the office of Chief Accountant. In 1938, Blough accepted a position offered him by Arthur Andersen & Co. on the recommendation of Paul Grady.

Interestingly, not long after Blough left the SEC, the accounting profession again became the target of intense criticism that threatened further government intervention. The McKesson-Robbins Case had a profound impact on the profession by placing many accountants on the defensive. In an article written in 1940, Blough displayed not only a continuing faith in the profession but also a belief that accountants could benefit from this difficult experience. In part he stated:

Mere repetitious mention of our limitations not only tends to destroy public confidence in us, but to weaken our confidence in ourselves. We would do much better to analyze our situation constructively, to look at the basic reasons for the importance of the position we hold in modern industrial and financial life, to stress the valuable part we can and do play, and to seek methods of increasing our usefulness.⁸

Actively pursuing this idea of positive involvement in the development of accounting principles, Blough helped establish for Arthur Andersen & Co., an internal program of accounting research, a program that still exists in the firm today. Blough was made a partner in Arthur Andersen & Co. in 1940.

With the outbreak of World War II, Blough saw a need to again offer his services to the government. Starting in 1942, Blough was either chief or director of a series of bureaus and departments in Washington, D. C. During this period, Blough was also elected president of the American Accounting Association (1944). Blough's contribution to the war effort was particularly sacrificing, for not only did he leave the financial security commensurate with a partnership in a large CPA firm, an employment contract with Arthur Andersen restricted him from accepting a position with a competing CPA firm for four years.

The Years with the AICPA

Toward the end of the war, Blough's duties with the government began to diminish, at which time he began seeking a new position. Feeling honor bound, even though not legally restricted, to uphold his contract with Arthur Andersen, Blough refused to work as a CPA but accepted the position as the first full-time Director of Research for the AICPA. With the appointment of Blough, the pace of research activity quickened. Prior to Blough's appointment, the Institute's response to accounting problems had been slow and frequently failed to answer problems in a direct and clear manner.

Blough was tireless in his efforts to improve the research area. Although forceful, he also was fair and democratic. He began to establish communications with various professional organizations through responses to inquiries. In addition to conferring with these organizations, he forwarded copies of subcommittee reports, discussion papers, and interim drafts to both state and chapter committees on accounting procedures.⁹

Moreover, in order to establish a dialogue between accountants and the Institute, Blough began in February 1947, to write a column for the *Journal of Accountancy* entitled "Accounting and Auditing Problems." His monthly article ran until 1963 and not only concerned practical problems facing accountants but became an unofficial organ for the Institute to present problems that the private rule-making body believed did not require an official pronouncement but did necessitate clarification. While he wrote with meticulous care and in a manner that was understandable, he was less

concerned with appearing scholarly than he was with helping his colleagues and the accounting profession. In 1957, the Institute compiled a number of his articles into a book entitled *Practical Applications of Accounting Standards*.

Under Blough's guidance, the Research Department began in 1946 compiling an annual survey of accounting practices that were reflected in the annual reports of major American corporations. The report was published in 1948 and entitled *Accounting Survey of 525 Corporate Reports* (title later changed to *Accounting Trends and Techniques*). The objective of the survey was to present a "statistical analysis of corporate accounting as it is actually practiced."¹⁰

The Later Years

When Blough retired from the Institute as Director of Research in 1961, he also retired as Adjunct Professor of Accounting at Columbia University where he had taught since 1947. Blough was, however, able to continue publishing his monthly column in the *Journal of Accountancy* until 1963 while living on his farm near Bridgewater, Virginia. In addition to his monthly contribution to the *Journal*, Blough served as an active member of the Accounting Principles Board (1959-1964), was a consultant to Arthur Young & Co. (1961-1963), Educational Director of the International Accountants Society (1964-1971), a professor or Distinguished Visiting Professor at five state universities, and served as an expert witness in many court cases.

During his professional career, Blough received many awards and acclaims, including the honorary Doctor of Laws degree from Manchester College (1944), the AICPA's Gold Medal Award (1953), the Alpha Kappa Psi Foundation Accounting Award (1955), and the honorary Doctor of Business Administration degree from Bridgewater College (1972). Two professorial chairs (1969 and 1981) have been established in his name at the University of Virginia's McIntire School of Commerce.

On an individual basis, Blough probably helped more accountants than any other person in the profession. Future generations will continue to benefit from the analytical excellence that he brought to the accounting profession. In Blough's final years, he wrote few articles and rarely made speeches, but he warmly greeted visitors to his farm or apartment in Virginia until his death on March 9, 1981.

FOOTNOTES

¹Burns and Coffman, pp. 8-9, 73.

²Cooper.

³Barr, p. 2.

⁴Cooper.

⁵Blough, "Some Problems of the SEC," p. 14.

⁶Blough, Letter to William W. Werntz.

⁷Cooper.

⁸Blough, "The Auditor's Responsibility to the Investor," p. 1.

⁹Blough, *History and Operations of Committee on Accounting Procedure*, pp. 6-7.

¹⁰American Institute of Accountants, p. IV.

BIBLIOGRAPHY

American Institute of Accountants. *Accounting Survey of 525 Corporate Reports*. New York: American Institute of Accountants, 1948.

Barr, Andrew. "Accounting Research." Paper presented at Annual Meeting of the American Accounting Association. Columbus, Ohio: The Ohio State University, 1960. A copy may be obtained from the Security and Exchange Commission Library, Washington, D. C., pp. 1-18.

Blough, Carman G. *History and Operations of Committee on Accounting Procedure*: New York: American Institute of Accountants, 1958.

_____. Letter to William W. Werntz, August 24, 1938. Received under the Freedom of Information Act (5 U.S.C. 552) from the Securities and Exchange Commission, Washington, D. C., June 4, 1979.

_____. "Some Problems of the SEC." Paper presented at the New York State Society of Certified Public Accountants. New York, New York, 1937. Paper was reprinted in *The New York Certified Public Accountant*, Vol. 7, No. 3. (April 1937), pp. 3-14.

_____. "The Auditor's Responsibility to the Investor." Paper presented at the Fifteenth Annual Michigan Accounting Conference, Ann Arbor, Michigan, 1940. Paper was reprinted in Carman G. Blough: *His Professional Career and Accounting Thought*, ed., William G. Shenkir. New York: Arno Press, 1978, pp. 39-42.

Burns, Thomas J. and Coffman, Edward N. *The Accounting Hall of Fame: Profiles of Thirty-Six Members*. Columbus, Ohio: College of Administrative Science, The Ohio State University, 1976.

Cooper, William D. Personal interview with Carman G. Blough at Bridgewater, Virginia, March 29, 1979.