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1987 Accounting Hall of Fame Induction

Philip Leroy Defliese

CITATION

Presented by: Robert M. Trueblood Professor Yuji Ijiri
Carnegie-Mellon University

Written by: Professor Thomas J. Burns
The Ohio State University

In fiction, he would be a detective in a Dashiell Hammett Novel. In real life, he has described himself as “a New Yorker” with the subtlety of an “elephant.” When he was told of his election to the hall, he retorted why had it taken so long. Maybe this forceful yet genial accountant is a bit hard-boiled, but he is also widely regarded for both his wit and his ability.

A child of the long depression, he talks and acts in the straightest way possible, perhaps he took his first full-time job at the age of 16, spent five nights a week, for seven years, to earn his first college degree, and has never stopped working since. How could he not be a realist when having started as a mailboy? He took a pay cut of \$2.50 per week to become an accountant — (and replaced an older man making twice as much). How could he not be a pragmatist when he could do better financially as a teacher — of high school or at Adelphi University — than he could in public accounting? For four years, he was a “permanent substitute” high school teacher of accounting under Mayor LaGuardia before passing the CPA exams and becoming a “permanent temporary” junior accountant at Coopers and Lybrand. Earning his master’s degree in business education in evening classes at City College of New York, he completed all but his dissertation for his Ph.D. at New York University.

In World War II, he was a lieutenant in the Pacific who specialized in anti-submarine warfare; afterwards he married Pauline who had lived only a block away but who met him on a blind date. When he came back to the firm in 1948, he requested a three-part assignment: auditing in the field, teaching in the officer training school, and assisting the firm’s SEC specialist. During the twenty years until he became the firm’s managing partner and the dozen years afterwards, his leader-

ship emphasized the technical skills and the educational aspects of the firm such as, for example, centralizing and developing firm-wide training. Simultaneously, an activist in many other organizations such as the New York Society and the National Association of Accountants, he was also a vice president for the American Accounting Association, and a chairman (and a gold medal winner) for the American Institute of Certified Public Accountants.

His most challenging opportunity was to serve nine years on the Accounting Principles Board (APB) including three years as the last APB Chairman; during which he helped write 26 often controversial opinions but ones mostly still in use; and now with the Governmental Accounting Standards Board, he has helped it issue its first seven standards. He is a director of several corporations, a consultant to the U.S. Defense Department, and former eagle scout, an award-winning scout master, the first chairman of the audit committee for New York City, a long time hiker, with a son and daughter-in-law who are both accountants, and a daughter and a second son who are not (but the latter son has almost completed his Ph.D.), the co-author of four editions, including the first college edition, of the classic *Montgomery's Auditing*, first authored by the hall member from his firm, Colonel Robert Montgomery, and for ten years now, he has been an accounting professor at Columbia University. Similar to the last member of the hall from Coopers & Lybrand, Lord Benson, he is an ardent sailor, especially at Lake George, and the most enthusiastic of water skiers, especially with his children, as recent as this summer. But as a golfer, he plans to break 100 more often. A distinguished American accountant who has found time for everything, this renaissance accountant is elected as the 47th member of The Accounting Hall of Fame: PHILIP LEROY DEFLIESE.

RESPONSE

by

Philip Leroy Defliese

I am truly honored to be admitted into the Accounting Hall of Fame, particularly because of the company I join — some of the finest accountants the profession has had. Of the 46 preceding me, I have personally known 30 and have worked directly with 20, as I know whereof I speak (three are former partners).

When one is honored by such an award — especially at the sunset of a career — it becomes an occasion to revisit, not the accomplishments upon which the award is supposedly based, but the personal satisfactions obtained as one pursued them. As chairman of a major firm, I have seen the firm multiply and prosper before, during and after my tenure. As staff trainer, I have seen my trainees achieve partnerships and beyond, and my programs, peer reviews and other innovations progress. As professor, I have had a student receive a medal for highest grades on the CPA exam. As a public-company director, I have helped management and auditor understand each other better.

However, I believe my greatest satisfactions have come from my involvement in standard setting. In the auditing area, my clarification of fraud detection responsibility and qualified opinion criteria remain — despite subsequent semantical changes — essentially the same. (Incidentally, although I do not oppose the recent proposals in this area, I do not believe they will alter the public's perception of the auditor's responsibility.) As for the Opinions of the Accounting Principles Board (APB) with which I have been associated, many still remain as effective as ever — notably APB 15 "Earnings per Share" (where I was committee chairman and held the first public hearing) and APBs 16 and 17 "Business Combinations" and "Intangibles" (in which I had a heavy hand in the compromising.) I was also deeply involved in the APB 11 compromise on deferred income taxes; and while the Financial Accounting Standards Board (FASB) is now busy revising it, it appears that the net result will be refinement rather than change. As for my work with the Governmental Accounting Standards Board (GASB), the jury is still out.

Those who observed me as a standard setter must have viewed me as a sort of hybrid. As a practitioner, I approached it from the practical side and from knowing where the problems were. As an in-out-in-again academic, I felt the need to strive for the purest theory possible. Perhaps that accounts for some of the inconsistencies the APB has been accused of. (In this respect, it is not alone.) I was never a full-time standard setter, although it often felt that way.

Today we find ourselves in an era of standard setting on a grand scale. Everyone seems to want to get into the act. It is only natural that there will be conflicting pronouncements and inconsistencies. It is easy to criticize this until one attempts to reconcile or do something about it. We seem to forget that accounting — or more properly, financial reporting — is a

man-made form of communication that cannot be based on absolute natural laws. We must expect that individual viewpoints will differ, and a standard becomes only what a 4-3 majority of standard setters says it will be.

Consequently, we must also expect that compromises will be made, and positions once taken in good faith will be reversed. The fact that I dissented only once (APB 26) from the 26 APB Opinions with which I was associated does not mean that I was in full agreement. I assented because I felt that progress was being made or abuses were being cured. Improvement in our art comes slowly, and often for every two steps forward we take one step backward.

Standard setters must remember that there is no Mt. Sinai or Mt. Olympus from which the tablets are handed down, and that their work is never set in stone. They must constantly seek the Holy Grail of economic reality, but recognize that they will never find it. They must avoid the tendency to argue over how many angels can dance on the head of a pin, but strive to set standards that are simple, straightforward and workable — standards that communicate rather than confuse. (I have in mind the current attempt to determine the compensatory aspect of a market-value stock option grant — something the APB settled by making stock options common stock equivalents in the computation of earnings per share.)

The use of the balance sheet as the prime criterion in the determination of income seems logical until we remember that the auditor's opinion that the balance sheet presents fairly financial position would be an unmitigated lie if it did not contain the qualifying phrase, "in conformity with generally accepted accounting principles," i.e., as pronounced by the standard setters. We still do not have the answer to current value, opportunity cost, interest on capital, discounting, not to mention such mundane issues as inventory cost valuation and depreciation methods. I can assure you that I do not have the answers.

We must remember that the objective is to communicate; Beaver has concluded that disclosure is more important than the form of the disclosure. In this respect, the tendency to aggregate defeats the disclosure objective when fully-disclosed disaggregation is otherwise available. We have a tendency to deify our concepts and build houses of cards. Realism, someone has said, is needed. Our only problem is that realism, pragmatism, and economic reality are only in the eyes of the beholder. If we locked twelve accountants in a room to solve a

problem, we would get four different answers; twelve economists would come up with twelve answers. My comments in this area are intended to be as much self-deprecating as they are critical; a perspective is certainly needed.

One further word — about auditing. Ever since the McKesson case (when standard setting began in earnest), the profession has been in turmoil. I cannot seem to remember a tranquil period. This is because we have moved away from a stewardship mode (as it was since Biblical days) to a predictive mode. The alleged current problems are not all audit failures. At best they are perception failures; at worst, people failures. Instead of watch dogs, we are expected to be guardian angels. No amount of revamping of standards currently underway will change this now. Our only solution is to work hard at exercising the best judgments and to do high quality work — with a minimum of competitive predatory thrust.

One satisfaction I must remember — through it all I have had a long happy family life with an understanding (albeit vocal) wife and three respectful and successful children. Thank you for this honor.