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Salmagundi*

The editor invites you to submit items of an interesting nature, including reviews, discussions about accounting theory or practice, responses to past articles in the journal. We encourage debate and thoughtful pieces that are brief but compelling. These will not be subject to a double blind review.

In this volume we've included a tribute to and a review of the works of our late colleague, Richard Brief, written by Robert Bloom, former student and friend of the Academy.

*A mixture or assortment; a potpourri.

Robert Bloom
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Richard Brief's Contributions to Accounting Thought: Enlivening Accounting History

Abstract: This is a personal appreciation of Richard Brief, the accounting historian and professor, who died in 2013. Dick served as a member of my doctoral dissertation committee in 1975-1976. The author of a number of provocative articles on the evolution of accounting practice in the United States and abroad, he published in The Journal of Accounting Research, The Accounting Review, and Business History Review. Brief was well-known for editing numerous books on accounting history in the United States and abroad. Additionally, his papers on the application of statistics to accounting issues and financial statement ratios were forerunners in the mathematical modeling of accounting research.

INTRODUCTION

Brief was a dynamic mentor who made historical accounting research fun. A unique academic accountant who primarily taught statistics, including regression and quality control, he held a joint appointment in the Quantitative Analysis and Accounting Departments at the Stern School. This unusual arrangement suited him well as his teaching interests pertained only to accounting history and theory, two courses that were seldom offered since the 1980s.

Brief received a bachelor's degree and MBA from Dartmouth and, after serving in the military, a Ph.D. in economics from Columbia. He joined the NYU faculty in 1961 and remained there for 45 years, which included a seven-year stint as associate dean for academic affairs and visiting professorships at Dartmouth and Catholic University in Rio de Janeiro.

He edited a staggering 383 reprint volumes published by Arno Press and Garland Publishing, covering a wide range

of topics: the history of accounting, the development of contemporary accounting thought, the dimensions of accounting theory and practice, accounting in transition, accounting history and the development of a profession, accounting thought and practice through the years, foundations of accounting, accounting history and thought, and new works in accounting history. Eleven books that he edited or authored himself focus on the following themes: nineteenth century capital accounting and business investment, Dicksee's contributions to accounting thought, classics on double-entry bookkeeping, depreciation and capital maintenance, corporate financial reporting in the 19th and early 20th centuries, estimating the economic rate of return from accounting data, and Preinreich's contributions to accounting thought. In 1983, he received the Hourglass Award from the Academy of Accounting Historians.

This paper reviews Brief's articles. The conclusion offers an assessment of Brief's legacy, providing comments from colleagues and students alike.

HIS RESEARCH

The general themes that run through many of Brief's articles follow. Accounting data is inherently uncertain but conveys the opposite impression, especially in financial statements, which are often viewed erroneously as factual. To the contrary, most accounting numbers are estimates, if not guesstimates. Put another way, the figures reported on the financial statements are point estimates of statistical ranges, ranges which are not disclosed in the notes to the statements. Accounting as a statistical discipline fails to reflect the underlying uncertainty of the data it provides in financial statements.

Brief addressed the subject of income reporting in a number of his works. He argued that income measurement was indeterminable, given that the revenues and expenses comprising income cannot be known with certainty. Further, since there is no logical solution to the problem of allocating joint costs, there is no single way to measure periodic performance in their presence [Brief and Owen, 1970, p. 167]. Nevertheless, interim reporting can offer a test reading like a statistical sample of the future performance of the firm [Brief and Owen, 1975, p. 54]. He pointed out that income reporting following the Hicksian concept of earnings—the maximum amount that could be disposed of without impairing capital—was never envisioned to be applied to anything but historical cost [1982, p. 96-97]. Put

another way, he argued against applying other concepts of earnings to the Hicksian concept. In his publications on 19th and early 20th century financial reporting, Brief characterized the preparation of the financial statements essentially as a free-for-all, with companies having enormous latitude to reflect what they deemed appropriate in the absence of any standards [1975, p.295-296; 1987, p.144, 155]. In the course of his research, Brief found considerable variation among companies including innovation and experimentation in financial reporting methods, disclosures, and audit reports [1987, p. 148-151, 154-155]. Accounting errors during this time typically consisted of failing to distinguish between capital and revenue expenditures and failing to allocate the cost of fixed assets to expense over appropriate periods [1965, p. 14-31]. From his examination of the accounting literature, Brief found that cumulative or long run income (e.g., over a three year period) was often overstated to allow for dividend distributions, contrary to the doctrine of "conservatism" by which some prominent authors, including Yamey, characterized 19th century accounting [1965, p.29]. Brief observed a persistent upward bias in income that undoubtedly affected investment, output, and pricing decisions during that time [1965, p. 29-31; 1966, p. 20, 22].

In his research, he found that railroads and other industries, especially in the 19th century, reported no depreciation or used replacement cost depreciation, or used various forms of historical cost depreciation in their financial reports – there was no standard practice. In some cases, the cost of replacements was expensed and the cost of actual additions capitalized. In other cases, both replacements and additions were capitalized. In any case, Brief argues that in the long run replacement accounting serves to lower capital consumption [1965, p. 21] and to overstate assets and income [1965, p.29] which may have been a significant factor in business failure [1966, p. 22].

Brief often uncovered neglected articles and books from which he would quote and discuss in his manuscripts. An example of one such work pertains to the foundation of accounting depreciation by Ladelle (1890). Here is Brief's analysis of Ladelle's work [1967, p. 37]:

> Ladelle saw the question of depreciation as an allocation problem, and he may have been the first to associate the problem of depreciation with the more general problem of allocating joint costs. ...[T]he cost of an asset is joint to the periods during which it is in use, and the allocation of depreciation to each period must be

> based on the expected net enjoyment to be derived during the period, after adjusting for the … interest on the unallocated portion of cost. The interest that is earned during the period is equivalent to the 'normal' rate of profit.[1]

Brief further concludes from Ladelle's piece that: "Gains or losses arising from unexpected changes in market values, interest rates… cannot be allocated to the period in which the unanticipated event occurs…"[1967,p.37]. This idea can be related to the accounting practice today. Companies decide when to sell fixed assets, and hence manage their income by showing a gain or loss on the sale only in that period instead of reflecting the unrealized holding gains and losses as they occur.

On the subject of cumulative financial statements [Brief et al., 1980], Brief and his coauthors emphasize the long run nature of firms even though accounting adopts a short-term perspective [p.483]:

> "…[U]nless a firm has an infinite life, either cumulative cash flows eventually must rise to the level of cumulative income or cumulative income eventually must fall to the level of cumulative cash flows."

In the long run, income and cash flows will equate. Accordingly, if an income statement were prepared for the entire life of the firm, this statement would be on a cash basis since there would be no need for accruals, deferrals, and cost allocations.

With respect to audits, one of his favorite subjects, Brief observed that in the 19th century, the overriding emphasis was on finding fraud and detecting numerical errors, less so on capturing misapplications of principle, though the latter could well be due to errors or fraud. In contrast, the purpose of a contemporary audit is primarily to detect errors in principle, secondarily to detect errors in numbers, and, lastly, if possible, to detect fraud [1965, p. 23, footnote 55].

Brief noted that in the late 19th and early 20th centuries there was no U.S. guidance in preparing audit or financial reports due to a lack of literature on these subjects. Laissez-faire governed the scope of the audit and the nature of the audit

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[1] Interest is used here in the present value sense, meaning that the value and therefore the purchase price of a fixed asset, which is viewed as an investment activity, reflects the present value of the cash flows from enjoying its use [1967, p. 28, 37]. Ladelle's concept of depreciation as Brief observes is broad, including not just wear and tear and obsolescence, but also price changes and investment credits. [1968, p. 151].

report. The content and length of the audit reports varied considerably [1987, p. 150]. He observed that the audit certificates "ranged from sketchy to detailed. Yet, in spite of this diversity, there is clear evidence of an awareness of accounting and reporting problems…" [1987, p. 149]. The independence of the auditor and the conflict between management and the auditor were issues since the 1800s [1975, p. 291]. Additionally, Brief contended that British 19th century audit reports, based on statutes enacted in that country, influenced U.S. audit reports in terms of calling for a balance sheet to be provided to stockholders and an opinion on whether this financial statement is "full and fair," conveying a "true and correct" view of the affairs of the company [1987, p. 149].

The criticisms of contemporary audit reports clearly have a deja-vu flavor in light of Brief's research. There is still a lack of transparency in these reports in terms of disclosing the specific work done by the auditors, the risks the company faces, and the risks of auditors' missing significant errors, if not fraud. Moreover, U.S. audit reports today fail to disclose the name of the partner-in-charge of the audit, not to mention which particular offices of the audit firm conducted the audit tests.

A significant number of Brief's published papers were cast in a mathematical framework. In fact, he was one of the earliest of academic accountants to couch his research in terms of statistics and calculus. In his judgment [1965, p. 14]:

> "…[T]he components of error – sampling, procedural, and conceptual – enter into any discussion of statistical data. To classify accounting error into these components is a formidable task; for example, to determine conceptual error one must first determine an 'ideal' set of accounting procedures."

Brief's quantitative writings, particularly those coauthored with fellow NYU statistician Joel Owen in the 1960s, did not represent mainstream accounting research, and were not appreciated by academic accountants in general as I recall, despite publishing in the leading academic accounting journals in the 1960s and 1970s. In due course, however, this approach became an acceptable practice and eventually the norm in both theoretical and empirical accounting studies. Thus he was a forerunner in the application of mathematical modeling to theoretical and empirical research in accounting.

CONCLUSION

Dick Brief was fascinated with accounting history, and his enthusiasm was contagious. An independent thinker, he loved to dig into historical writings and evaluate their observations. In the process, he authored provocative pieces on corporate financial reporting and auditing from the past that are relevant to this day, encompassing such perennial issues as: (1) fair valuation, capital maintenance, and depreciation, as well as the conflict between management and the auditors, (2) the extent of disclosures in financial statements, and (3) the contents of the audit report. Additionally, Brief preserved many international classics on accounting history as the editor of many historic volumes. University libraries throughout the world include his numerous books in their accounting collections.

In Brief's judgment, accounting issues are never new, but rather, are recycled periodically after being previously resolved. He argued that standard setting fails to come to grips with the paradoxical objective of accounting – providing information to users to reduce their uncertainty in decision making even though this information is inherently uncertain. As a discipline, Brief maintains that accounting does not adequately disclose the many uncertainties underlying the information it conveys—in particular, that income measurement involves uncertainty about the past and future because it is apprehensive about lawsuits from doing so. Accounting has long had a competitive attitude toward the legal profession and in the U.S., during the latter part of the 20th century, it sought to develop numerous rules in financial reporting, often emphasizing form rather than substance, to deter legal actions. That was not successful as the accounting fraud at Enron and WorldCom illustrate.

Raef Lawson, vice president of the Institute of Management Accountants, was one of his closest doctoral students [email, August 12, 2013]:

> "…Going through my PhD program was challenging – academically… and personally… Dick was the one faculty member who was always there for me, helping me through the program, helping me get started in publishing my research, and helping me begin my academic career. I owe so much to him…"

Kenneth Peasnell of the University of Lancaster observed [email, June 10, 2013]:

> "He had a very unusual mix of quantitative and quali-

> tative skills--a profile that seemed very much like a European generalist rather than the highly focused one needed to thrive in the US…In a time when academics became increasingly focused on getting 'hits' in the most prestigious journals, Dick stood out as a real intellectual, interested, first and foremost, in ideas."

Thankful to Brief for introducing him to classic "gems" in the Stern doctoral program, Suresh Radhakrishnan, now an accounting professor at the University of Texas at Dallas, misses his "sharp insight" from a seminar covering books by Paton, Littleton, and Hatfield [email, June 20, 2013].

As Joshua Livnat, Brief's accounting colleague at NYU, recalled [email, June 20, 2013]: "After he was diagnosed with lung cancer and went through treatment …, I asked him how he was coping with the uncertainty. He turned to me in amazement and asked: 'What do you mean? Do you know when you will die?'"

MY PERSONAL RECOLLECTIONS

I was privileged to audit a seminar on accounting theory that George Sorter, NYU's chair of accounting at that time, and Brief taught jointly. Throughout the semester, this class was punctuated with provocative discussion and debate between those two eminent scholars. A beacon of ideas, Brief relished brainstorming and pursuing hypotheses with students and faculty alike. He took a special interest in the historical aspect of my dissertation, assisting me in developing this chapter, evaluating the information that I researched, and editing the entire manuscript.

I am particularly indebted to Dick for introducing me to Dicksee's single-ship venture model, a one-period framework that I apply in teaching basic accounting concepts, including application of the cash basis, differentiation between historical cost and exit value depreciation, comparison of revenue and capital expenditures, and demonstration of the relevance of interim reporting.

Brief loved to start his courses with Dicksee's simple framework, in which a ship is acquired for one voyage to transport goods and individuals and is sold at the end of the journey. Investors would participate in this venture, but once they make their investment they cannot later sell it in a secondary market [1975, p. 52-53]. At the termination of the venture, the proceeds from the sale of the ship go to the investors. In this scenario, there would be no accruals, deferrals, or cost allocations since

all the activity occurs within one period. The cash basis would be used. While historical-cost-based depreciation has no place in this framework, exit value depreciation –the decline in value of the ship from purchase to sale—is relevant. Furthermore, there would be no distinction between capital and revenue expenditures to consider. Forecasts of the expected cash inflows and outflows from this venture prior to sailing would be relevant to prospective investors in terms of deciding whether to invest. However, interim forecasts of the future cash flows once the ship launches would have no relevance because the price paid for the investment is sunk. Once students have achieved an understanding of accounting in this restrictive framework they can proceed to analyze more complex, multi-period models.

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