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# TEN YEARS OF THE APB

## *One Practitioner's Appraisal*

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An address by  
Robert M. Trueblood,  
at the American Accounting Association  
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In the fine arts, a critic would not attempt an appraisal of a painter's work on the basis of a productive period of only five or ten years. And a painter or sculptor would not himself contemplate a retrospective show without 20 or 30 years of production behind him.

I have been asked, in effect, to do a retrospective evaluation of the Accounting Principles Board's ten-year history. Such an appraisal, I think, cannot be done with fairness unless one extends the range of his view to the profession's performance in accounting practice and theory over a larger period—starting, say, with the years 1932 to 1934.

As it happens, I made my choice of accounting as a career around that time—during the mid-30's. So I have had the privilege of being involved in the profession during a period of exceptionally significant development. It was in the early 30's that the American

Institute, the New York Stock Exchange, and the Government exchanged ideas about enlargement of the profession's role. And the ensuing span of three-and-a-half decades has witnessed, among other important things, the work of the Committee on Terminology, the Committee on Accounting Procedure, and the Accounting Principles Board.

In my judgment, the most important single event affecting the profession during my professional career has been the SEC's decision that the profession should assume primary responsibility for establishing accounting principles. With few exceptions, the SEC has adhered to that policy. In consequence, the organized, practicing profession has had immense opportunity—and concomitant responsibility. However, the profession has not, I believe, recognized the scope of its opportunity; therefore it has not fully realized its

potential. Too seldom does the profession assert its wisdom and its prestige. Too often the practitioner's concept of accounting as a personal service, while correct, diverts his attention from his responsibility as a public influence.

Measured against potential, the past 30 to 35 years of professional activity—insofar as theory, practice, and procedure are concerned—add up to a rather desultory record. Let me comment on what I regard as some of the milestones:

- . . . The Securities Acts of 1933 and 1934 established the accounting profession in this country in the sense of giving it authoritative recognition. But necessary to this result was the profession's acceptance of the challenge put to it. The practicing profession might have precipitated the assumption of that responsibility by Government, had it not recognized its opportunity and met its responsibility.
- . . . A few years later came the SEC's acceptance of the profession's dominant role in rule-making, the immense significance of which I have already mentioned.
- . . . The accomplishments of the Committee on Terminology, though small in quantity, were important in content.
- . . . Establishment of the Committee on Accounting Procedure in 1938 was an outward and visible sign of the Institute's recognition of its public responsibility.
- . . . During World War II the Institute, naturally enough in such a period, did little beyond coping with some of the more obvious technical difficulties brought about by the conditions of the time.
- . . . With the war over and inflation rampant, the profession rejected more than once an accommodation to price-level depreciation. The rationalization for this rejection was nothing more solid, in my view, than infatuation with the sacred cow of original cost.
- . . . The 50's were a relatively placid period despite Korea and the Cold War which, to most Americans, were remote disturbances which they wished would just go away. The Institute, partaking of the

same general spirit of sanguinity, did not push ahead in accounting or auditing, save for some codification efforts which tended to create a sense of accomplishment.

- . . . Later in the 50's, however, recognition of the dearth of accomplishment spurred the profession into forming the Accounting Principles Board.
- . . . In the beginning, the Board put so much emphasis on trying to construct a logical set of postulates and theorems that no opinion was produced for three years. During this period, however, the Board did sponsor the Moonitz and Sprouse research studies which, in my opinion, rank with the most important literature of the profession.
- . . . For another two or more years, the Board was engaged mostly with the affair of the investment credit. It must be admitted that the investment credit fiasco, in which the SEC participated, contributed to the lowering of public confidence in the profession.
- . . . The years 1966 and 1967 were a truly productive time during which the Board issued opinions on pensions, income taxes, and income definition. This was the time, as well, of an important reorganization of the Board and its operating procedures.
- . . . In the past 18 months to two years, the Board has worked assiduously, but the opinions it has produced have been largely revisionary or rescissory in nature.

Now, let us consider for a moment the resources that have been devoted to the Board's accomplishments during the past decade. The cost of the Accounting Principles Board to the Institute in the early years ran about \$125,000 annually. Current expenditures approximate \$350,000 per year. Based on attested public reports, the accumulated dollar cost of the Board since its formation in 1959 approximates \$1,500,000.

But money cost is, as usual, only a small part of the true cost. Over ten years, 54 individuals have contributed 199 "Board-years" of their time, gratis and without reimbursement of expenses. Firms have lent men for long periods—a contribution of staggering

proportions over and beyond monetary assessments. Large staff effort at the Institute has probably not been costed into the record. Presently, the 18 members of the Board continue to donate almost their full time to its work. Most of them also contribute substantial time of an advisor, as well as other firm resources.

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Each of us has his biases, and this appraisal inevitably involves some of mine. However, I must declare my conviction that, while the Board has made an undeniable contribution to the profession in the second five years of its history, the value of the contribution has not been proportionate to the human and monetary resources that have been expended.

One reason for the paucity of the Board's output in a decade was its effort in the early years to establish an encompassing philosophy into which all its forthcoming opinions would fit. This effort was surely unrealistic. If five centuries of professional evolution had not produced an over-all philosophy, it was unlikely the goal would be reached in three or five years—no matter how concentrated the effort.

Accounting is an art of a sort and, as such, it is not susceptible to the orderliness of a physical science. Furthermore, the affairs of the market place would not wait ten years ago, nor will they now, upon the formulation of theorems and postulates and neatly interlocking, intellectual structures. Experience proved this to be the case, and the journey into philosophy turned out to be a trip to a morass in which the Board got bogged down for some time.

When the Board gave up its attempt to define basic philosophy, it retreated to a position of dealing with practices in specific areas of accounting—areas selected more or less arbitrarily, but particularly those where there were practices that seemed open to abuse. This was going from one extreme to the other—from an almost exclusive preoccupation with the theoretical to a fixation on details of practice. In so doing, the Board became more a continuation of its predecessor committee than the sharp new instrument it had been planned to be.

Apart from the volume of the Board's output, and granting that the state of accounting today is better than it would have been without the Board's activity, I submit that the quality of the opinions has not been all it should. Many of the opinions have been codifying in

nature. In my view, most of them are too detailed and concern themselves unnecessarily with procedural matters. I am told that, henceforth, attempts will be made to hold opinions to the enunciation of principle, with procedural details to follow in staff papers. This approach I commend, and I strongly hope that the Board and its staff are prompt in putting the new policy into operation.

The efforts of the Board to find an all-embracing philosophy, which I referred to a minute ago, naturally entailed research. And in saying that I thought the Board had wasted precious time in its early endeavors, I by no means was suggesting that the Board ought to abandon its research activities. Quite the contrary, I believe that research encouraged or sponsored by the Board during the ten years of its existence may be one of its most significant accomplishments. I have my own opinions—as I'm sure you do—about which of the research studies have made contributions, which have been merely so-so, and which worthless. But a start has been made.

In particular, I would distinguish between attempting to develop a comprehensive system of accounting philosophy, and the development of a statement of accounting objectives. The lack of a set of consistent objectives—and the absence of a statement of the basic purposes of financial reporting—are, in my view, a main reason for the present piecemeal approach to the Board's task. Without a clear definition of purpose, there is not solid ground for dealing with individual problems. To formulate acceptable practices on a piecemeal basis without an over-all framework of objectives into which they fit is, in my judgment, putting the cart before the horse.

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In common with all responsible certified public accountants, I desire the advancement of our profession. Many in our ranks feel a high commitment to this objective. Some are no doubt more anxious or worried than others. I count myself among those who can be regarded as professional men patiently impatient for a way to hasten progress. I strongly believe there can be such a way, and I should like to suggest here, for your consideration, some proposals to that end.

**Reconstitution of the Board.** My first recommendation is that the present 18-man volunteer Board be

replaced by a 5- or 7-man full-time and fully compensated group of the best available professional accountants in the country. Membership would be without consideration of firm affiliation or other background, so long as each member had the needed ability in, or appreciation of, considerations of practice. Every member would dissociate himself from his prior affiliation—be it a firm, a university, or a business enterprise.

**Structure.** The Board's structure should consist of a strong group at the top supported by a heavy underlay of competent staff, academic support, cooperation from the financial community, and purchased research. The staff available to the Board should be substantially increased.

**Allocation of Resources.** The profession should multiply its cash outlays by ten or more for the accomplishment of Board objectives; it should stop relying primarily on voluntary efforts and contributions. Assuming that each of 15 or 20 firms in the country now spends as much as \$1 million or more a year in practice research and guidance, a pooling of resources and efforts could easily make available \$10 to \$15 million annually to conduct the kind of Board activity the public needs. This approach would require that all firms willingly look towards the Institute and its newly constituted Board for guidance, information, research, and leadership. It also assumes that the Board would issue frequent and full reports on its research, deliberations, and activities.

**The Sharp Edge of Leadership.** The Institute should accept full responsibility for leadership in financial reporting and accounting at all levels—early warning systems, fundamental research, applied research, evolution of objectives and principles, and practice pronouncements. To those of you who would argue that diversity of thought is essential to progress, I would reply that there will be no progress unless the profession sponsors a major forward thrust—an effort involving the cooperation of all its members and its constituent firms.

**As for Research.** If a realistic APB budget is \$10 million or more a year, I would recommend that at least \$5 million go for research. Clearly, academic

institutions should assume the dominant role in research efforts. I suppose we would all agree that—whether done by practitioners or academics—conversational research is not worth a very large fee. Further, I assume we all agree that the probabilities of basic research resulting in an immediate practice opinion are about one in 100. Accordingly, the APB must spend money freely, but not indiscriminately, in a large research effort with little prospect of immediate payoff.

**Management's Stake in Accounting.** To the extent that the current practice of involving the business community in early discussions of projected APB opinions is helpful, well and good. But the circumstances and uses of accounting in business are so multifarious that to look to the business community for significant leadership in solution of the profession's larger technical problems is probably a mistake. To the extent other accounting organizations choose to conduct activities related to the formulation of accounting principles, again well and good. But this does not mean that the practicing profession can either share or delegate its own main responsibility.

**Auditing.** The historic separation of accounting and auditing within Institute activity has been convenient but illogical. Auditing standards include reporting standards; reporting standards involve accounting principles and practice. Accordingly, the reconstituted Board should have surveillance over research, objectives, principles, and procedures in auditing as well as in accounting.

**Levels of APB Performance.** The boundaries between research, specification of over-all objectives and purposes, formulation of principles, and applications in practice should be well defined and carefully observed. In the pyramidal structure of a revised Board operation such as I have described, the broad base would be staff and research. The full-time Board would itself undertake the design or approval of a coherent framework of objectives and purposes. The Board would formulate statements of compatible principles—and I mean exactly that: statements confined to principle. The staff of the APB and practicing firms throughout the country

would develop the details of application. Over all, the SEC would continue to exercise its monitoring, its back-up authority, and its catalytic role.

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The assignment you gave me for today was to appraise the work of the Accounting Principles Board during its life to date. I extended the time span so that we could also look at the larger performance of the profession in the areas of theory and practice since the years of the initial correspondence with the New York Stock Exchange on financial reporting and the creation of the SEC. I have given my opinion as to what have been accomplishments and what have been lapses. You may now ask, "How do they net out?"

I think the profession has been slow to face the problems of setting accounting objectives and principles, and has been somewhat tentative in the instruments devised to solve its problems. While saying this, I ask you to recognize that setting principles is but one of many tasks performed by the Institute, as the coordinating central force of practicing professionals. Giving the profession only a middling grade on the formulation of accounting principles is not to forget other accomplishments that merit high marks indeed. Over the past 30 to 35 years the profession has grown greatly—not only in numbers but, more significantly, in prestige and influence. It stands today in a position of high public respect. Even the slings and arrows of recent malpractice suits demonstrate inversely people's confidence in, and expectations of, the certified public accountant. To a very large degree, this high professional standing is a result of the work of the American Institute.

As for the part that the APB has played in the larger history of setting principles, it would be impossible to overstate the diligence, the energy, and the competence of the men who have served on the Board and of their firms. The forward agenda of the Board is brimful and challenging. If achievements match intentions, the next few years could be the Board's most fruitful period. Time will tell, and—as you may have gathered—I feel that time is short.

The suggestions I have advanced here for restructuring the Board should not divert attention from its immediate and urgent missions. The suggestions have been presented in the thought that the proposed changes would relieve the back-breaking burdens now laid on devoted men. At the same time, and more importantly, I feel that these adjustments would expedite the profession's discharge of its duties to the business community and the general public.

Our professional alternatives, as I see them, are these:

- . . . Accounting practices can revert to the confusion and disorder of the days when every company went pretty much its own merry way, as is the case today in some nations.
- . . . Or the Government, through the SEC and other regulatory agencies, can take over accounting rule-making in an authoritarian way.
- . . . Or the profession can improve its present rule-making procedures and thus keep that function in the private sector.

What is to be our choice?