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Uniform Accounting for Industry *

BY CHARLES B. COUCHMAN

By uniform accounting some who have discussed this subject conceive apparently the adoption of a complete code of principles for all industry, which will answer fully the vexing problems of proper analysis of all financial transactions. Few could object to the uniform adoption of such a code of principles provided there were any wise enough today to devise such a perfect code. A further interpretation of the phraseology goes beyond the code of principles and indicates the establishing of procedures for recording the effects of transactions so that all transactions of similar nature throughout the industry may result in identical accounts in every business in which such transactions occurred. This implies a preliminary determination of all possible results of transactions and a system of accounts sufficiently comprehensive to designate an account for each possible effect. A third conception of the term embodies not only the first and second, but, in addition, includes a uniform set of rules for the proper combining of these accounts into uniform financial statements. In the application of this conception, all balance-sheets and other statements presented to management, to stockholders and to the public would be identical in layout for all business organizations coming under its control.

These various interpretations seem to differ only in degree, but a further concept applies to all, in the minds of many who discuss this subject. This concept includes the legal authorization and enforcement of all the points involved, usually involving a preclusion of all variations therefrom, such enactment to be final, unless amended.

While the subject seems to involve tremendous complexities, my opinion with regard to its essentials may be expressed in a brief and simple creed, consisting of only three tenets:

1. I believe in uniformity of presentation for those elements which are completely uniform.
2. I believe that it would be misleading to express, as though they were uniform, elements which essentially are not uniform.

* An address delivered at the Annual Meeting of the American Institute of Accountants, Chicago, Illinois, October 16, 1934.

3. I believe that it is unwise to attempt to compel uniformity of characteristics in elements for the mere sake of uniformity in presentation.

As an illustration of the first tenet, I believe that the amount of cash in any organization may properly be reported uniformly under the heading "cash," provided such cash is, in its essentials, uniform in all cases, that it is all expressed in the currency of the same nation and that there are no restrictions upon its present availability at full face value for the liquidation of the liabilities of the organization or for the carrying on of its activities. However, if a portion of this cash is in closed banks, or if a portion is represented by funds in other countries which have restrictions regarding its withdrawal, or if, in any way, any portion of this cash is subject to limitations as to its free and available use or may be affected by fluctuation in exchange, the element of complete uniformity is lacking, and it can not rightly be expressed under a simple and unqualified heading. Such restrictions would bring the presentation of this element under my second tenet. I do not approve of misleading presentation of financial facts.

If an authority which should prescribe uniformity of presentation of financial facts should approve the first two tenets but, in order that it may establish a uniformity of presentation, should attempt to limit the characteristics of elements so as to bring the number of possible elements within the scope of a limited scheme of uniform presentation, the attempt would be most unwise and would be impossible of enforcement. To prohibit transactions producing financial elements other than those provided by the uniform system applicable to a specific industry, would result in much bootlegging of transactions, some of which, if we may judge from experience, may be better than those permitted by law.

Let me summarize these points by stating that I am not theoretically opposed to any properly devised scheme of uniform accounting for industry that will be in keeping with the three tenets I have stated. Such a scheme would be in harmony with the ideals of the accounting profession. We have endeavored to present in financial statements a reasonably uniform expression for elements that are uniform in character; and we have endeavored to avoid grouping together elements that are essentially different in their financial significance. There are, however, definite practical limitations to the extent to which such segregation can be carried into brief financial statements. In this re-

spect, accountants have had to exercise their individual judgment as to the extent of classification advisable in the presentation of the financial affairs of a particular corporation, in order that the information presented may be as complete and as useful as possible and may avoid misleading groupings. The accountant's judgment must be exercised in each case, depending upon circumstances and conditions.

The advocacy of uniform accounting for industry is based upon the expectation of certain accruing advantages, the more important of which are (1) simplicity of operation, (2) the securing of accurate information in a form most readily usable, particularly for purposes of comparison and (3) the aiding of individual industrial companies by giving to them comprehensive and definite instructions as to their financial records, thus relieving them of any uncertainties in this respect. From the standpoint of regulation by authority, an additional advantage appears in that, having laid down very definite rules regarding the presentation of each financial fact, any violation of the rules is more readily detectable.

Before we accept any assumption that these advantages would result from the adoption of uniform accounting by all industry, it is well to give some consideration to each one.

Anyone who has given intensive study to the recording of financial transactions is aware of the fact that the simplicity or complexity of the records is to some extent governed by the simplicity or complexity of the transactions to be recorded. In other words, it is not possible to provide a simple method of accurately and efficiently recording the results of complicated transactions. The minimum, therefore, of simplicity of records and procedures is set by the minimum of complexity in the characteristics of the transactions to be recorded. When one recognizes that, in the majority of lines of industry, there are organizations which vary greatly in the type of transactions which they make—some being concerned with fairly simple operations, others which run the gamut to a very high form of complexity—an immediate doubt is aroused as to whether the adoption of a uniform system for all the organizations in a class of industry would result in a marked gain of simplicity, either of recorded result or of the procedures necessary for the recording.

In order that we may form some judgment as to the accuracy of the financial statements presented as a result of uniform ac-

counting, it is necessary to give thought to the effect of such a system upon the various factors that must become its subject matter. The usefulness of information must depend upon its accuracy. Therefore, any consideration of its utility, whether for comparison or for other purposes, must be postponed until it is made clear that the information presented as the result of uniform accounting is sufficiently accurate to accomplish that for which it is intended.

The adoption by individual industrial companies of complete uniform instructions concerning each item of procedure in the analysis and recording of their transactions and in the display of the accumulated results may be disadvantageous to some and advantageous to others, depending in a large measure upon the extent to which such uniform system differs from the system previously used and upon the extent to which such a system meets definitely the individual needs of each company. It is conceivable that there might be cases in which the time and effort expended in attempting to fit the transactions of a particular company into the definite pigeonholes provided by the system might more than offset any advantages that the system might provide. To render any judgment as to the extent of such advantages again requires consideration of the various factors which constitute the subject matter of the system's operations.

Factors concerned:

These factors include the following matters with which accounting systems are definitely concerned:

- (1) Accounting principles and their application.
- (2) Procedures involved in analysis of financial transactions and synthesis of results.
- (3) Financial accounts wherein similar effects are accumulated and certain opposing effects are offset.
- (4) Financial statements in which the accounts are summarized and arranged for display according to certain recognized principles and conventions.

Complete uniformity of accounting for industry implies the adoption of uniform principles governing the recording of financial transactions, a uniform classification or chart of accounts in which similar results may be accumulated and a uniform set of financial reports or statements for the purpose of displaying the

periodic balances in these accounts. Such a trilogy would seem to mark the ultimate in the unification of accounting for industry. To the casual observer unfamiliar with the intricacies of transactions, such a planned uniformity is appealing.

A detailed study, however, of accounting principles, of accounting procedures and of financial statements may disclose difficulties in applying uniformity and unexpected dangers resulting from such application, together with some view of the problems involved in devising such a system with advantages outweighing its disadvantages.

Accounting principles:

The various principles governing the determination, the analysis and the presentation of financial facts may be divided, at the present time, into three groups:

- (1) Those principles which have been evolved as the result of thought, skill and experience and are quite generally accepted as being true.
- (2) Those principles which, at the present time, are debatable or with regard to which there are optional treatments, the predominance of trained opinion not having as yet come to a decision that would justify transference to the first group.
- (3) Those principles as yet hidden, unknown or unstated which our thought and our experience have not as yet enabled us to discover or to recognize or enunciate.

In the adoption of a uniform set of principles at the present time, the first group indicated above might properly find a place. They already are being applied to American industry, not only by the public accounting profession but by the trained accounting staffs of industries. With regard to the second group, there would be danger that the authorities might adopt as final a principle which has not been proven to be sound or they might arbitrarily decide upon one or another of present optional treatments without definite knowledge that they have chosen the proper option.

Another danger would lie in the fact that the third group—those at present unknown principles—might never be discovered. Accountancy still consists, to a large extent, in exploration work. The adoption of a rigid set of principles might debar continued exploration so that principles or procedures which might be of

infinite help to economic progress might continue to remain beyond the horizon of our thought and experimentation. Such an unfortunate condition is certainly not within the desire of any proponents of uniform accounting, but it is a possibility that must be given consideration and should delay any act that might result in producing such a condition.

Accounts:

Before passing to consideration of uniform financial statements, let me mention briefly a few of the problems that must be faced in financial accounts in which must be accumulated the effects of detail transactions, and those which provide material for financial statements. Uniformity of financial statements presupposes uniformity in underlying accounts. Practically all attempts at uniform accounting have involved the devising of a uniform chart of accounts for all groups of organizations concerned.

A chart that would provide all accounts that would be necessary or desirable for all industrial organizations would reach a size far beyond the possibilities of efficient use. No one business could utilize more than a small percentage of such accounts. If the use of such a chart of accounts were made compulsory, the ledgers of all business enterprises would be of the same size and their use would be expensive, confusing and highly inefficient. On the other hand, if each business were allowed to select from the chart of accounts only such accounts as would seem to meet its needs, a question would arise as to the authority that would pass upon the omitted accounts for each such business. The solution first appearing for this problem would be to classify industries into groups, designating to each group a list of the accounts which the members of that group would be required to keep.

Consideration was recently given to this problem by an organization which found that at least 1,400 such groups would have to be segregated. To provide a proper chart of accounts for each of these 1,400 groups would be an herculean task. In each chart each account would have to be defined, stating specifically what should be included in it. Assuming, however, that that task were performed and that 1,400 charts of accounts were properly devised, the problem would not by any means be fully solved. No man has yet been wise enough to forecast the transactions of tomorrow. Undoubtedly, if one may make any prophecy as

the result of past experience, the chart would no sooner be fully completed and installed than a business would discover that in its particular enterprise some new account or accounts would be needed. By the time these were duly approved by whatever authorities were constituted to pass upon such matters, then other demands for additional accounts would have to be considered, and this procedure would be repeated ad infinitum.

For each of the 1,400 charts of accounts, forms of financial statements would have to be devised so as to group the contents of the accounts into a condensed presentation that would show the proper essentials of balance-sheet, income and expense account and surplus analysis. Many businesses, however, are not confined to any one of the 1,400 classifications but might embrace a number of them. There are commercial organizations today which operate factories, mines, transportation systems, construction, stores, hotels, restaurants, real-estate development and operation and numerous other operations. Adjusting to the needs of such an organization the various charts of accounts devised for its differing activities, so as to present the proper periodic financial reports, involves difficulties that may not have been given due consideration by those who advocate the adoption of uniform accounting procedures for industry. This is not to say that the thing can not be done. My only point is to call attention to the fact that the benefits that might be derived from such uniformity must be offset by the expense and the disadvantages and may perhaps be outweighed by them.

Practical accountancy has as one of its goals the obtaining for each business organization that financial information which is essential for its welfare and for the interests of its investors and its creditors and to obtain such information by the most direct and inexpensive methods conducive to accuracy. This can be accomplished only after a study in each business of the types of its most frequent transactions and the procedures most readily adaptable to reach the goal, giving consideration to the number and the skill of the organization's internal staff. Such studies can not be performed wholesale. To be most effective, they must be individual studies of the business. To demand complete uniformity of accounting procedures by all the members of a group following the same class of commercial activity would unquestionably work a hardship and put an unnecessary expense upon some members of the group.

Financial statements:

It may well be that the establishing of uniform accounting for industry, if undertaken, should begin with the financial statements: namely, the balance-sheet, the operating statement (however named) and the analysis of surplus. Since the primary purpose of uniform accounting is presumed to be the giving of information to those who read the financial statements of organizations and to give the information in such a form that comparisons may readily be made between one organization and another, it seems logical to believe that any movement of this character must center in those statements which are put forth by organizations to their stockholders and to the public. With a uniform set of such financial statements, I think that public accountants would have no quarrel, provided the statements were so perfect that in each instance they would give a proper presentation of facts that would not be misleading. I admit, however, that such a set of statements is beyond my power to conceive. I fear that, if the preparing of such a set of statements were presented to the American Institute of Accountants as an undertaking which it was its duty to perform, dismay would enter into the heart of even the ablest and the most experienced member of the organization. Such a member would realize the immensity of the task and, looking back through his experience at the numberless cases where specific treatment and presentation of facts had to be devised in particular instances in order that the resulting statement should, as truly as possible, present the proper facts, he would wonder how these numerous cases could be properly developed by a statement, uniform, rigid and inflexible. To him it would appear that under such a system justice could no more be given to the innocent reader of the financial statements than could justice be obtained by the devising and establishing of a uniform code for determination of cases brought before a court, thus eliminating in specific cases the opinion of juries and the discretion of the judge.

Upon a balance-sheet the classification of current assets on the one side and of current liabilities on the other has been deemed of considerable value, and accountants have given much thought, in individual cases, to the question exactly what items should be included and what excluded from the classifications. These items are not the same in every company nor are they

always the same in different companies in the same industry. An item that should be included in the current assets of one organization may properly be excluded from the current assets of another organization.

A uniform balance-sheet designed for all industry, or even a uniform balance-sheet designed for a specific industry, could scarcely be made sufficiently flexible to permit a proper display of current assets and of current liabilities in every organization which would be compelled to use the form. Discretion and judgment are necessary in each case, but results depending upon specific judgment and discretion are not compatible with the term "uniform." In other words, a uniform accounting system, if I understand the term correctly, involves a predetermination of the method of treatment of each item involved so that there will be no necessity and, unfortunately, no opportunity for the exercise of discretion.

An interesting problem in the development of a uniform balance-sheet for industry would be the making of proper provision for the recording of the asset represented by "investments." Some organizations, having surplus funds, invest them temporarily in securities with the expectation of converting them into cash as the need arises for more liquid current funds. In such a company these investments belong fundamentally in the current-asset group, being even more liquid than the majority of the assets in that group. Another corporation, building up or acquiring funds for the specific purpose of financing an additional plant, may in the interim invest such funds in securities. In this case, the investment partakes more of the nature of a fixed asset, even though the intention is to convert the securities into cash at an early date. The deciding factor is the purpose for which the cash is to be used.

Another corporation, instead of acquiring actual ownership of plants directly associated with its own operations, such as plants supplying it with raw materials or organizations distributing its product or plants manufacturing an integral part of its product, may instead obtain a similar result by acquiring sufficiently large blocks of the capital stock of other corporations performing the required functions. Its investment in such capital stocks is akin to its own investment in fixed assets, and a proper picture of the financial status of such a company would show the close relationship between such investments and the company's own fixed assets. In some corporations, such as holding

companies and certain types of trusts, the entire capital assets or earning assets consist of investments. In still other companies, investments may represent compliance with the sinking fund provision of some trust agreement with provisions for the liquidation of certain long-term liabilities.

Any uniform balance-sheet for industry which provided a certain space on the asset side definitely fixed as the place for recording "investments in securities" would present anything but uniform results in the cases of the various companies just mentioned. Comparisons of balance-sheets of these various companies would result in highly misleading conclusions. This disadvantage would be increased if no provision were made for description of the use or the purpose of such an item. On the other hand, if, in such a balance-sheet, provision were made that the item of investment in securities could be displayed in its proper place in each instance, with opportunity for clear explanation of any specific information regarding the item that might be necessary for a clear understanding of its purpose, there might be some doubt as to whether or not the resulting balance-sheets would come under the term "uniform," as understood in its more rigid sense.

In the forms of balance-sheets intended to be strictly uniform for an industry, provision would have to be made for all of the possible assets, liabilities and capital accounts that might be deemed desirable for any member of that industry. Strict adherence to the form would require many such balance-sheets to contain items of such minor nature that they do not deserve a place in a display properly prepared for the individual companies. Such a result would be confusing rather than illuminating. Readers of balance-sheets are justified in assuming that any classification expressed thereon is of sufficient importance to justify attention. As a result, such readers would be misled in many cases. Undue emphasis would frequently be placed upon items of minor import. It is conceivable also that in a particular organization there might be facts that should be brought to light, for which no provision was made, with the result that a strict compliance with the required form might prevent the disclosure of information of real importance.

Statements of profit and loss:

The financial statements other than the balance-sheet present many perplexities to one planning to evolve uniform displays

that will be more informative and more useful than those now in use and that will be less liable to misinterpretation.

In a uniform financial statement presenting operating results, an important item would unquestionably be "cost of goods sold," in the determination of which, for a manufacturing concern, cost of goods produced would be an essential factor. This is a phase of accounting to which a great deal of thought has been given both by accountants and by industrial staffs, and noteworthy progress has been made in developing within industries a certain amount of uniformity in the methods of determining cost of manufactured product. The primary purpose is to give information to the management itself, so that it may not be deceived as to the true cost of its product, and further to attempt to equalize to a reasonable degree the variations due to fluctuations in volume of production. Any benefits that have resulted from the adoption of such methods within an industry have been advantageous both in the prevention of unfair trade practices and in preventing organizations from losing money on their product without being aware how the loss occurred. Here, the uniformity, however, has been primarily limited to uniformity of principles of cost determination rather than to uniformity of result or uniformity of display. These systems, also, where they are most successful, have allowed a flexibility sufficient to care for the various elements and circumstances affecting specific organizations.

If cost of goods produced is to be determined by a uniform formula for all industry, a number of problems will have to be solved. Or, if a separate formula is to be established for each industry, many perplexities will remain to be faced. Let us, for a moment, consider just a few. Let us assume that the formula decrees that the cost of manufactured articles shall consist of the total cost of material actually used, plus the cost of direct labor, plus an amount to be determined for overhead. Each of these three elements allows a wide range of interpretation, and, unless each is determined with particularity by the authority, there would not be uniformity of result in the industry. In regard to each of these, there are, at the present time, numerous methods, all reasonable and all found acceptable by able cost accountants. However, if uniformity of result were to be obtained, uniform procedures would have to be established for each organization to follow.

To illustrate a few of the points: How shall the amount of material consumed in production be measured? How shall scrap, spoils, shrinkage, waste and similar items be spread over the good material used? Or shall they be treated otherwise? Which particular "cost" of material shall be used? Shall cost be on the basis of "first in, first out" or shall it be on "average cost" of raw material in stock, or shall it be by "specific determination" or on market value at the date used? What dividing line shall be decreed as separating direct labor from indirect labor? Shall labor cost be apportioned through machine units? If so, what other elements will be included in machine-unit cost? Will machine-unit cost be spread on a time basis or unit-of-production basis? In either case how shall idle machine cost be apportioned? As to overhead, the problems are multitudinous. Which elements shall be included in overhead? Shall it include interest on investment? Shall it include depreciation, taxes, insurance? Shall an effective rent be determined as a portion of it? Shall a portion of managerial expense be included in factory overhead? A portion of executive-office expense? What proportion? How shall overhead be spread? On the prime-cost basis? On a material basis? On a direct cost basis? On a specific allocation basis? Or shall it be on some combination of these? If by specific allocation, who will determine that allocation? Will that also be set as standard for all members of an industry or will it be worked out specifically for each factory? If so, by whom?

I am not attempting in this discussion merely to oppose uniform cost finding by pointing out some of the problems it must solve. Rather, I want to indicate that there are innumerable methods that would have to be decided on and established arbitrarily. I have mentioned only a few. Any cost accountant can supply the remainder of the thousand. The chief point I wish to emphasize here is that some authority would have to determine a rigid set of rules and procedures for ascertaining cost in an industry. Any such set of rules and procedures would unquestionably favor some factories and penalize others within the same industry. To attempt to provide a fixed formula for cost determination, to apply alike to numerous industries, would be verging on the bizarre, however skilfully done, and might develop into the ridiculous.

Cost accounting on any scientific basis is of fairly recent origin. Tremendous advance has been made in it, but a belief that it has

now reached a point where all its problems are so well catalogued and solved that a uniform set of equitable rules could be devised, even by the ablest group of cost accountants, would be disproved on the instant. To select for each step of cost finding one of the various optional methods now applied, and to embody these selected ones into a complete system to be followed uniformly by all the members of even one industry would be to place a bar upon further experiment and improvement. The bar might be hurdled, but why place it in the present stage of cost-finding development? The possible advantages should be carefully weighed against the possible disadvantages of such a step.

Space permits this one illustration of an item on the statement of profit and loss. In regard to numerous items of income and expense, any attempt to lay down absolute rules of determination and of presentation would produce, in many cases, results far from satisfactory. Either the results would not be wholly uniform or, in many instances, would be misleading. The single item of depreciation would present many difficulties if absolute rates were insisted upon for every classification of depreciable assets. Such rates would inevitably prove to be unfair to certain organizations, too high for some and too low for others. Unless provision were made for periodic adjustments to ascertained conditions, recognizing differences in maintenance, care and the relative engineering skill applied to the use of the assets, such arbitrary rates would diverge materially from the actual depreciation suffered.

The progress that has been made in recent years in the development of financial statements by industrial staffs and by public accountants, supported by outside organizations definitely interested in these statements, such as the New York stock exchange, the Robert Morris Associates and the various organizations of credit men, is worthy of emphasis. It is further to be noted that this progress is continuing and should be aided and encouraged by all parties interested in developing financial statements to the point of highest usefulness. To set the present accomplishments as a fixed standard would be highly detrimental to further improvement.

History of uniform accounting:

In considering the advantages and the disadvantages of uniform accounting, one must study the results of experience in

those cases where uniform accounting has been in use for a number of years. Perhaps the most complete establishment of uniform accounting has been that laid down by the interstate commerce commission in its control of common carriers. All who are familiar with this system in its application to the financial statements of railroads recognize certain facts. The first is that years have been spent in the development of this uniform system and this development has been expensive. The second is that, from an accounting standpoint, the financial statements resulting from its use have not appeared wholly satisfactory. Many illustrations might be given of the failure of such financial statements to present facts as truly or as clearly as they have been presented by the financial statements of organizations not subject to such uniform control. Recently, it was found that, in the case of one railroad, the annual statement of net income over a period of ten years was, apparently, ten to fifteen per cent. greater than the true net income for that period, even though each annual statement was doubtless correctly prepared in accordance with the interstate commerce commission's requirements.

In a recent work entitled *Security Analysis*, by Benjamin Graham and David L. Dodd, the comment is made, on a case in which railroad earnings are said to have been distorted, that "These instances are the more impressive because the stringent accounting regulations of the interstate commerce commission might be expected to prevent any misrepresentation of earnings."

In many states, uniform accounting for public utilities has been prescribed by public-service commissions, yet there are instances where reputable firms of public accountants have been compelled to state the financial results of public utilities in a form different from that prescribed by the public-service commissions before they would certify to such statements, or else they have felt it necessary to qualify their reports by stating that the accounts had been set up in the form required by the public-service commissions. It is doubtful if the statement could be truly made that investors in public utilities have been better protected, because of the uniform accounting requirements obligatory upon such companies, than have the investors in enterprises not subject to such uniform accounting.

In certain states, the commissions responsible for the granting of permission to sell capital stock within those states under the so-called "blue sky laws" have, at times, provided forms for

balance-sheets and for income statements which, if fully complied with, would not give a proper presentation of the financial facts of the corporations required to use them. In some cases public accountants have felt compelled to refuse to sign their names to statements presented in this manner but have insisted upon signing separate financial statements so set up as to give what they considered to be a more accurate and informative presentation of the financial facts.

Under the national recovery administration, certain industries with accepted codes have devised or have attempted to devise uniform accounting for the industries coming under such codes. Recently, an executive of a large, efficient and trustworthy organization made the statement that, if he were compelled to use the cost system records and other forms designed for his industry, he would have to keep a complete additional set of records for his own use for managerial purposes, as the following of the required forms would result in statements that were inaccurate and misleading and would be useless for purposes of internal control over his departments and over his costs. The public accountant in this case agreed with the executive on each point.

It is doubtful if the various attempts to prescribe uniform accounting or uniform financial statements, made not only in the United States but also in other countries, have resulted in more accurate and more useful statements than have been obtained where uniform accounting restrictions do not control. There is a strong opinion, expressed by many who have given intelligent thought to the subject, that the greatest progress in the improvement of accounting methods and statements has been accomplished where no such restrictions prevailed. It must not be overlooked that minimum requirements almost always become maximum accomplishments.

Continuing development:

During the last thirty years great progress has been made by the profession of accountancy in the study of transactions and of financial operations with a view to analyzing effects. From this study certain principles have emerged with sufficient clarity to enable us to state them in more or less definite terms. Many of these principles have been stated in technical books and articles. The profession, however, lays no claim to having completed this work. Accountants of vision recognize that they have entered

into a field of investigation so broad that their work in the devising of principles is yet in its infancy. That accountant is rash indeed who would state that he had so mastered the subject that he knew and could state in definite terms all principles needed properly to interpret every accounting problem. The profession of accountancy contains some able men, analytic by nature and training, clear in thought and definite in expression. If this body of men, devoting their whole lives and energies to this subject has not been able in the generations that have passed to complete the great work of determining results that will approach perfection, dare any other body of men claim the ability to devise such a code of principles and to say that their work is final?

A thing may appear excellent from the standpoint of theory but may prove to be unsatisfactory when faced with the limitations of practical application. One of the great handicaps to progress in all sorts of human activity lies in the difficulty of keeping theory and practice properly equalized. A theory that is not practical is of small value. Practice that is not in accordance with sound theory does not produce the best results. If theory were not subject to practical application, the world long ago would have reached Utopia. Perhaps in no fields are there greater difficulties in adapting theory to practice than in fields in which human characteristics play a vital part. Theories of reform, however beautiful, stub their toes upon the obstacles of human frailties and human characteristics. Idealistic theories of government and enticing theories of economics stumble over the same obstreperous obstacles.

It may be considered that the theories promulgated relative to financial accounts are not subject to such handicaps. Accounts are inanimate things. In practice, however, we find that the items represented by accounts, for which accounts are merely symbols, are not entirely free from human entanglements. Receivables must be collected from persons. Payables are to be paid to persons. Fixed assets are to be used by people. All assets are under the custody of people. They can not, therefore, be entirely removed from the uncertainties that attach to human behavior. Their value, to some extent, may be affected by human characteristics. Financial statements, therefore, are impregnated to a large extent with human elements and, to that extent, the difficulties of applying uniformity are increased. This is not to say that uniformity of classification, of treatment, of

display can not be applied to them advantageously. It does imply, however, that too much credence must not be placed upon the exact similarity of elements similarly displayed.

In the present trend toward uniformity of accounts, as principles are developed to a point where their true significance is recognized by the accounting profession, they are given effect in the great majority of financial statements of importance that are presented to the proper authorities, to the creditors, to the stockholders and to the public. As each new method of presentation is found to be more valuable in aiding a proper understanding of the financial affairs of an organization, it is given effect voluntarily in the leading financial statements put forth to interested parties. It is a continuous growth, a gradual development tending steadily toward the goal of perfection. Until that goal is reached, the development will be hampered by any authoritative rule that would set as a standard this partial realization of the ambition of the profession. Any strait-jacket applied to this growing art would stunt future development and improvement.

If despite the innumerable difficulties, some of which I have referred to briefly, any governmental body should proceed to devise some system of uniform accounting, it appears to me essential that, in order to avoid distressing and disastrous effects, that governmental body must be one that would have a keen appreciation of the progress thus far made and a proper realization of the possibilities of future improvement. To my mind, no congress or legislature would be suitable for such a purpose. Such bodies consist of a diversified group of persons, differing materially in their experience with financial matters, in their viewpoint with respect to economic development and in their ability to attain that full realization of what has been accomplished and that alert recognition of what may yet be developed in the way of accounting principles and procedures that would enable them to establish a control over financial statements and records and would allow proper freedom for the exercise of judgment and opinion and would be sufficiently flexible to take advantage of every improvement that might be proved to be of worth. It seems to me, instead, that the only governmental body that could undertake such control, without seriously jeopardizing the advantages already gained and those to be attained, must be a small body or commission whose members are carefully chosen because of their possession of the very qualities I have indicated as being essential

to the proper development of the advantages and to a restriction or elimination of the disadvantages so apparent in any establishment of an involuntary system of uniformity for the financial accounts of industry. Such a commission, to be an asset to industry and to those affected thereby, must be willing and able to utilize every principle and procedure that has been found to be for the greatest advantage of the greatest number. With regard to those principles and procedures which are optional, it must allow sufficient leeway so that no organization shall be forced to follow arbitrarily one principle or one procedure when an alternate principle or an alternate procedure might be more beneficial. Such a commission must follow closely the development of new principles and new procedures so that, when any one of these has proved that it produces a more beneficial result than has been attained previously, it shall be added to the roll of requirements, always weighing, in each instance, the offsetting advantages and disadvantages of such addition to the list.

Uniformity:

To give intelligent consideration to the matter of uniformity, one can not overlook the definitions of the essential words in the subject. So far as this discussion is concerned, the emphasis must of necessity be upon the limiting word "uniform." One finds, among other meanings given by the dictionary, two that are pertinent: "to make uniform or conformable; to clothe with some specific livery." This definition is worthy of some analysis.

The first section of it implies an enforced uniformity which apparently implies uniformity of characteristics and of usefulness. Applied to many mechanical devices uniformity has proved its value. This is the type of uniformity that is developed by the bureau of standards of the United States government in the case of certain mechanical products. Uniformity has been decreed for many things—such as the spacing of threads on nuts and bolts, the size and threading of electric light bulbs and sockets, the minimum dimensions of garments that are designated by size numbers. A uniform gauge for railroad tracks has enabled the cars of one road to move over the tracks of another road. In these developments of uniformity great inconvenience to the public has been eliminated and costs of manufacturers have been reduced. The advantages of these various rules have far outweighed their disadvantages. The American people have

accepted gladly many of these rules of uniformity despite the fact that they prize highly the liberties of individuality and of initiative. It is possible that they would resent the indefinite carrying of the principle of uniformity into all activities, even those of a material nature.

In moving from objects of a purely mechanical and utilitarian purpose to items in which professional knowledge, judgment, skill and art play a part, the advantages of uniformity become less apparent and the disadvantages become more formidable. In the various professions, or those arts in which the constant search for knowledge and for improvement plays an active and important part, the thought of uniformity may reach the characteristics of a menace. If uniformity were applied to medicine and rules made rigidly applicable as to the specific treatment for each symptom or combinations of symptoms, the profession of medicine would probably reach the end of its growth and the death rate would rise instead of decrease. If uniformity were applied to literature and music, or to the expression of art through form or color, all of these essential adjuncts of civilization would become drab and uninteresting. There is, therefore, a limit to the successful application of uniformity without its resulting in stagnation or retrogression.

If we were to consider this section of the definition as being the one applicable to any proposed action with respect to specific accounting for industry it would imply an attempt to compel uniformity of characteristics of items to be grouped under each heading. Any one familiar with the elements comprising the financial affairs of business organization realizes that this uniformity of characteristics could only result from a uniformity of transactions and procedures. In other words, having decided upon the proper classifications of the results of transactions, prohibitions would have to be inaugurated with reference to any transaction that would produce results different from those for which provision was made. Such a procedure for an American people is almost inconceivable and it is doubtful if it has even been given any consideration by the advocates of uniform accounting.

At the risk of repetition, I want again to emphasize the fact that in dealing with problems of this character both theory and practice must be considered and I believe reconciliation of the two constitutes an achievement. Theory is principle; practice is

experience. Theory thinks; practice acts. Theory says; practice does. Theory idealizes; practice penalizes. Theory plans; practice proves. Theory says all men are uniformly entitled to their right to life, liberty and the pursuit of happiness; practice proves that not all men are equally efficient in exercising these rights. Theory says that all shall be equal, all shall be good, all shall serve alike, all shall receive alike. Practice proves that each man still possesses some will towards self-determination and insists upon exercising it. Practice demonstrates that some debar themselves from life, some debar themselves from liberty, some debar themselves from service; some debar themselves from reward. As there is diversity of interest, so shall there be diversity of effort. As there is diversity of ambition, so shall there be diversity of result. To decree uniformity of reward regardless of accomplishment would merely magnify the abortion of justice.

Let me pass to the other phase of the definition of "uniform" as quoted above, namely "to clothe with some specific livery." This implies a superficial uniformity—a uniformity of those elements that meet the eye without necessitating uniformity of characteristics other than those of appearance. This is the common use of the word "uniform." If we consider that this effect is the one underlying consideration of uniformity in the accounts of industry we immediately recognize that the results might be highly misleading and even dangerous. People who are fundamentally interested in the financial accounts of industry are concerned not with the superficial appearance but with the vital forces for profit or for loss that underlie the accounts. Uniformity in outward appearance gives no assurance of uniformity in the vital essentials beneath the livery.

While this may possibly appear to be a wide departure from the proper subject matter of this discussion I am nevertheless convinced that it must at least be given some consideration. Students of life and of the reactions of humanity are well aware of the fact that to many the fixed idea of uniformity as a goal within itself has become more or less a fetish. This peculiar mental trait is all too prevalent and invades many realms of thought including the fields of economics and of politics. There are schools of thought and political parties which are endeavoring to produce as nearly as may be uniformity of the most essential phases of life. They recommend enforced uniformity of performance and of reward. Absurd as such a view may be considered, there are

nevertheless indications that even in the United States such theories are gaining new converts and new advocates. It seems unnecessary to spend much time in pointing out the fallacies of such a so-called philosophy, for these fallacies must be evident in every-day life. One who believes in uniformity of human characteristics has only to deal with many people to be undeceived. One who believes that uniformity of label is assurance of uniformity of quality has only to experiment with some of the liquors bearing labels of high renown. If one believes that uniformity of appearance or classification guarantees uniformity of value, let him survey the engraved certificates of guaranteed mortgages, bonds or capital stock that repose in his safety deposit box.

A study of history discloses a continuing cycle of opinions regarding regimentation. There is nothing new in the word or in its meaning. At root it always indicates certain persons who desire to make rules which all other persons will have to follow. It is a manifestation of a human characteristic common to most of humanity. Each of us frequently wishes that others would think just as we think, would like what we like or would be wise enough to make all their actions conform to what we consider best for them. The word "uniform" suggests armies where dictation of superior rank is absolute. It suggests the elimination of individuality, of initiative and of progress. Uniformity of presentation may be highly misleading unless uniformity of essential characteristics be made the basis of classification.

If we apply this to accounting systems we return to the major consideration of present-day public accounting, which has for its goal the grouping together for display of those items which are sufficiently similar to justify such grouping but to allow sufficient range of expression so that unusual conditions or characteristics in a particular organization may be set forth clearly, so that there shall be no omission to state material facts and so far as possible shall so state them as to prevent a misleading presentation.

One of the greatest purposes of mankind lies in the creation and distribution of wealth (in other words, the operation of "business"), with the constant purpose of increasing the average standard of living. Toward this goal, the United States has advanced farther than has any other nation in modern history. In this accomplishment individuality and initiative have played an important part in the developing of things undreamed of in preceding decades. Even initiative and individuality of expression

have their disadvantages as well as their advantages. Just now the disadvantages are in the limelight, and we are in danger of overlooking the advantages which for the time being are somewhat in eclipse. When a star is in eclipse, people of short sight may believe that it has vanished from the heavens, but the wise know that, after a brief passage of time, it will re-appear undiminished and untarnished. During periods of economic disturbance there will always be those whose faith is brief and who will point toward eclipsed systems and say, "Look! they are gone forever!"

Arguments may always be offered for and against everything in this complicated world. There is little that is wholly good or wholly bad. It is the part of wisdom to study the relative effect of advantages and disadvantages and to determine in which case one outweighs the other.

In a wise weighing of the advantages and disadvantages of our modern economic system we can not overlook the disadvantages which have been brought so forcibly to our attention, and we must strive to find right methods for eliminating or at least for minimizing such disadvantages. This must be done, however, with careful consideration of possible effects upon the advantages, so that we may be sure that what we do will not ultimately result in greater loss than gain. During this process it is well also to study advantages in the hopes of devising means for encouraging them and increasing their effectiveness. In any endeavor the goal must be the constant increase of the predominance of advantages over disadvantages, measuring each of these in its effect not upon the few but upon the many.

In the development of commerce in the United States, complexities of organization and of transactions have reached an unprecedented amount. To what extent this has been good and to what extent it has been bad I am not prepared to say. I think we may state, however, that in this development much has been accomplished that is of value, despite the fact that many procedures, good in themselves, have possibly passed the point where the law of diminishing returns in the form of value to the nation has affected the results. The recording of the financial effects of the results of operations has passed beyond the mechanical and the arithmetical stage into the realm of skilled opinion and judgment. Facts that may be recorded with mathematical accuracy are readily subject to uniform rules. When the

determination of effects lies more within the realm of judgment and of skilled opinion than it does in the realm of exact science, any attempt at uniform, predetermined rules tends to hamper rather than to aid. Judgment and opinion are not subject to codification, without jeopardy to the continued development of human welfare.

Summary:

I have tried to make clear my personal opinion of the possibility of uniform accounting for industry and to indicate that advantages must be put in the scale with possible resultant disadvantages, for I take it as being beyond question that the establishing of a uniform system of accounting is only an attractive proposition if the advantages that result are greater to industry and to all those interested in or affected by industry than are its costs and its disadvantages. I say I take this for granted because I can not believe that any great number of people interested in the welfare of this country would wish to establish such a system merely for the sake of adding one more to the list of things being put into "uniform." In other words, uniformity for the mere sake of uniformity is absurd; and yet I know that there is a growing tendency at present to consider that uniformity as applicable to everything is itself a goal.

It has been difficult in the space allowed for this talk to consider fully all the phases presented by the subject. Nevertheless it is evident that in the consideration of accounting for industry as a whole, or for individual industries, we face a definite fact. Certain financial elements are sufficiently alike in their characteristics to justify uniform presentation. Other financial elements are not. For the first, a uniformity of display for facts essentially uniform is desirable. In the second group, if uniform accounting be adopted, we would face the necessity of giving a similar display to items that were essentially dissimilar or of attempting to force a change of characteristics—a limitation of characteristics—for the sake of uniformity. In the creed expressed earlier in this paper I stated that I considered it misleading to clothe with a semblance of uniformity elements that were essentially different in their characteristics, values and effects; and, further, that I considered it unwise to attempt to enforce uniformity of characteristics through a limitation of the type of transaction which produces the elements.

Uniform accounting is apt to be static and limited as to its classifications. On the other hand, the development of business activity is more or less unlimited and the combinations and permutations that are within the range of honest and efficient business activity frequently produce results not anticipated by any preconceived schedules of classifications, however elaborate. I do not say that a scheme of uniform accounting for business is impossible, but I am convinced that such a scheme, that would not be misleading or cramping in its effects, can only be evolved over a long period of time and even then should be sufficiently flexible to allow for changes to meet changing conditions. Human evolution in the great undertaking of making a living is not static nor has it reached, nor will it ever reach, its ultimate.

Progress in the future may be as great as progress in the past. Imagine a uniform system inaugurated fifty years ago and based upon a complete comprehension of the business activity of that time. Further imagine attempting to fit into such a system the ramification of elements and of results that exist in the industry of America today. May it not be similarly true that a rigid system devised and enforced today would be equally unsuited for the industry of tomorrow?

So far as the aims of the advocates of uniform accounting for industry are to produce more useful statements approaching more nearly the goal of accuracy in their results and reducing to the minimum any misleading elements, these aims are also the aims of the public accounting profession, ably supported by the efficient leaders of industry. In the accomplishment of these aims, however, it is essential that full recognition be given to the fact that financial displays, either as expressed by balance-sheets or by statements of income and expense, are not merely mechanical results in which nothing is involved save labeling, adding and subtracting. On the contrary, skilled experience and an understanding of practical economics play their vital part in the selection of the label and in the determination of the amounts to be added and subtracted. Figures in themselves are rigid and inflexible, but the part they play in the final result is akin to the part played by the letters of the alphabet in the presentation of opinions and philosophies. It is difficult to reduce such use of figures to rigid rules without affecting the value of the results.

So far as the aims of the proponents of uniform accounting center upon the word "uniform," in an endeavor either to reduce

all elements to a limited number or to limit all legitimate option to certain chosen procedures, or to give an appearance of uniformity unsupported by substance, the aims are contrary to the spirit actuating the accounting profession; for such aims could only result, on the one hand in setting a barrier to development and to progress toward more idealistic reports and on the other hand in distortion of the truth.

Since all the worthy aims of the friends of uniform accounting are also the aims of the accounting profession, and since the latter has been instrumental in attaining a degree of uniformity justified by experience and is constantly striving toward further attainment, it would appear to be wise to support the profession in this continuing work and to leave the matter in its hands, with such coöperation as can be given by business organizations and by government.