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Correspondence: Accounting for Industry

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Correspondence

UNIFORM ACCOUNTING FOR INDUSTRY

SIR: One must be bold to venture to add to the masterly treatment of the problem of uniform accounting for industry presented so eloquently by Mr. Couchman in the address published in the November, 1934, issue of *THE JOURNAL OF ACCOUNTANCY*. This problem of the accountancy profession finds its prototype in that of the legal profession in its attempted restatement of the law. An analogy between the two may prove of interest to your readers.

The American Law Institute was organized in February, 1923, and set before itself the task of preparing a restatement of the principles of the common law. Significant is it to note that the movement originated with and is being executed by the legal profession itself. It has not come as a mandate from government. It is no attempt to compile an official code to be imposed upon the public and the profession. Voluntarily, the nation's ablest legal minds have been dedicated to these labors.

What progress has this great enterprise achieved? The principles of the common law have been in process of formulation for centuries. The average lay mind would imagine that those principles have become thoroughly crystallized and fully developed and that a restatement of them would be a task simply and expeditiously accomplished. Yet today, after more than eleven years of unremitting labor, only two subjects (contracts and agency) and a portion of a third (torts) have been published; many others, however, are well in progress.

The difficulties encountered have been manifold. Addressing the American Law Institute at its third annual meeting, May 1, 1925, Justice Cardozo (now of the United States supreme court, then chief judge of the court of appeals of New York and actively identified with the work of the restatement) said:

"The existence of this institute is a declaration to the world that 'laissez faire' in law is going or has gone the way of 'laissez faire' in economics. . . .

"One finds it hard to exaggerate the difficulties that have been met and overcome. . . . At the beginning there has been need to gather from the pronouncements of the courts the principle or the rule implicit in their judgments. . . . This in itself is a wearisome and poignant task. . . . You choose after long debate the principle or the rule that you are ready to espouse, and you think you understand it. There lies before you still the task of expressing it in words. At once new vistas of uncertainty are opened to your gaze."

The judge then proceeded to elaborate on the many difficulties of the task, presenting specific illustrations. To select one, speaking on the subject of torts, he said:

"When I heard that the subjects to be covered at the beginning were battery, assault and false imprisonment, I thought there would be easy travel. I ask you to take my word for it—we have met with hard roads, and worse passes are ahead. A blow in the face seems a fairly palpable fact, but all sorts of mental reservations and concomitants have to be known and estimated before you can determine whether it is to be reckoned as an actionable wrong."

Finally, when a particular subject of the restatement is completed, what authority does it have? And, more especially, what finality does it have? In publishing each volume, the institute makes clear that the restatement has only the authority of the institute; that it represents the best legal thought as to what is the present state of the law on the subject; that it provides merely a new starting-point for future development. As to finality, Justice Cardozo phrases it thus:

"I am speaking of the magisterial pronouncements of the restatements themselves. In these, let us give definiteness and fixity of outline where there is definiteness and fixity in the law as it exists or where argument so preponderates that a choice is fairly safe. Let us not hesitate, however, in other situations to say in all frankness that the problem is yet unsolved, and while indicating competing considerations either way, leave the answer to the years."
". . . definiteness and assurance and finality must be left to the agency of time . . . that in determining the tendencies and directions of legal development in the future, something will have to be left, even when the restatement is completed, to those tentative gropings, those cautious experiments, those provisional hypotheses, that are part of the judicial process."

Thus, when this great restatement of the principles of the law is ultimately completed, it will be only a beginning. Change will set in before the ink is dry. It will constitute a consolidation and condensation of the learning of yesterday, preparing the legal profession for the developments of tomorrow.

Mr. Couchman's discussion of the principles of accountancy singularly parallels Justice Cardozo's analysis of the legal principles. Accounting principles are grouped by Mr. Couchman in three classes: those that are now generally accepted, those that are at present debatable, and those as yet hidden, unknown or unstated. "Any strait-jacket applied to this growing art would stunt future development and improvement." "May it not be similarly true that a rigid system devised and enforced today would be equally unsuited for the industry of tomorrow?" Cardozo, in another treatise, has said the like of law. Common to the two professions, law and accountancy, has been the struggle between stability and progress, between flexibility and certainty.

But the proponents of uniform accounting for industry propose to go much farther in accountancy than the restatement has in law. As Mr. Couchman points out (page 336), there are four factors concerned: principles, procedure, accounts and presentation. The restatement of the law is limited to the principles of the common law. Points of procedure and presentation are not at all attempted. And if the difficulties are so great in arriving at a common agreement as to principles, how infinite would be the obstacles to uniformity of procedure and of presentation?

Unhappily, recognition of the analogy between the legal and accountancy professions is not as general as it should be. Too many still believe (and this number includes many judges, lawyers, legislators and administrative officers) that accountancy is an exact science—that an accounting principle is comparable to a mathematical formula. Too few recognize the truth that Mr. Couchman stresses, that the practice of accountancy involves the exercise of experienced judgment and skilled opinion, and that that is its major characteristic, not a purely incidental one.

The obstacles to uniform accounting for industry (embracing principles, procedure, and presentation) are more insuperable than those encountered by

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the American Law Institute in its restatement of the law. To seek to attain uniformity of accounting by mandate of government (either legislative or administrative) would be a fatal blunder, disastrous alike both to the public and to the profession. As Mr. Couchman suggests, and as is pointed out by the precedent of the legal profession, the solution rests rather with gradual evolution within the accountancy profession itself.

Yours truly,

LOUIS S. GOLDBERG

Sioux City, Iowa, November 10, 1934.