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Letters to the Editor

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Bryan Carsberg

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Letters to the Editor

Carsberg's 1994

It was very interesting to read "Bryan Carsberg's 1994" in the October issue of the magazine "The Woman CPA."

As a former colleague of mine at the Financial Accounting Standards Board, Professor Carsberg will not be surprised to learn that I do not agree totally with his view of what may happen to our profession in the next decade.

A letter such as this is not the proper medium in which to debate each of the "predictions" attributed to Mr. Carsberg. You certainly must be aware that each of the views he sees in his crystal ball is a view of a controversial topic which the profession in general and the FASB in particular have debated for many years and the resolution of them does not seem at all imminent.

What interests me most is Mr. Carsberg's continuing belief that "current cost financial statements" are preferable to "full cost" statements. He believes, or so I infer from the October article, that current costs are more relevant than historic costs. This view, of course, is shared by many academicians. To the contrary most financial statement preparers dislike the notion that they may have to estimate most of the amounts in their financial statements.

In a yet unpublished book entitled "Bottom Line" I commented on the need to retain objectivity in financial statements as follows:

"...Whenever something other than historical costs are used in financial reporting, objectivity of reporting must give way to some degree of subjectivity and it follows that as subjectivity is increased more opportunity for manipulation arises.

"Lest the author be misunderstood, this book is not an attempt to advocate complete freedom for preparers to choose accounting principles. Such a form of anarchism is completely opposite to the result which should occur.

Many commentators believe that the *laissez faire* approach to financial reporting which existed in the 1920's was a significant factor which contributed to the stock market crash of 1929 and the depression which followed. Whether the allegation about accounting's part in causing these events is true, neither government nor the accounting profession should take the risk that accounting is incapable of such results. Financial accounting and reporting for entities which are underwritten by the public as a result of representations which include accounting information needs to be confined narrowly. Rather than to allow financial reports to be artistic representations of the preparers view of the entity and its position in its environment, those who are designated to regulate such matters should insist on the highest possible degree of objectivity as the goal of primary general purpose financial statements. Special purpose statements for special groups of users can be whatever preparers and users agree they should be.

"No one has ever claimed that financial accounting is a science. In every generation there are advocates of "making accounting more scientific" which is a desirable objective. Unfortunately there is wide disagreement as to how to move in the direction of being more scientific. Those who favor "current value" accounting or "fair value" accounting argue that those approaches bring accounting closer to the science (?) of economics. Detractors of historical value accounting argue that until accounting for depreciation is changed, it cannot qualify as scientific.

"If accounting is to be highly objective and minimally subjective, it must perpetually strive to improve; i.e. to become more scientific. This, it seems, is an appropriate role for the FASB to assume."

Robert A. Morgan
Member, Financial Accounting Standards Board, Retired

I must congratulate you for a most accurate report. Only in one respect did you go materially wrong. I predicted that FASB would drop the constant dollar requirements in Statement 33 and not the whole Standard. I expected that the current cost requirements would be continued with little change.

Bryan Carsberg
Director of Research
The Institute of Chartered Accountants in England and Wales

The editor deeply regrets making the above error. The FASB has issued SFAS No. 82 which eliminated the historical cost/constant dollar requirements of its 1979 standard for companies reporting current cost information. The FASB's recent exposure draft would continue the current cost disclosures.

Current Problems in Governmental Revenue and Expenditure Recognition

I recently read the article on "Current Problems in Governmental Revenue and Expenditure Recognition" in the January 1985 issue of *The Woman CPA*. I am happy to see that your publication demonstrates an interest in Governmental Accounting. This article, written by K.K. Raman and R. Michael Moore, is a good summary article of some of the problems in governmental accounting. I would like to update your readers concerning what has occurred in governmental accounting since the time that article was written.

In June 1984, the NCGA (National Council on Governmental Accounting) was officially dissolved and was replaced by the Governmental Accounting Standards Board (GASB). The GASB is a five-member board supported by a full-time staff located in Stamford, Connecticut. The GASB is a sister organization to the Financial Accounting Standards Board (FASB). It is the mission of the GASB to issue accounting and financial reporting standards

for state and local governmental entities.

The Measurement Focus/Basis of Accounting project for governmental funds is on the GASB's agenda. This project will consider the revenue and expenditure recognition problems that currently exist in governmental fund accounting. In February 1985, the GASB issued a Discussion Memorandum on this subject and readers are requested to respond to a number of questions dealing with the issues. The GASB expects to issue a new standard on the subject in mid-1986.

The subject article in your January 1985 issue also stated that the NCGA "most recent statement" was Statement No. 6 on Pension Accounting and Financial Reporting. That statement was issued in June 1983 and subsequently its effective date was extended indefinitely by NCGA Interpretation No. 8 issued in November 1983. The GASB has placed pension accounting on its agenda and expects to issue a standard on pension disclosures later this year.

Other pronouncements issued subsequent to NCGA Statement No. 6 are:

- NCGA Interpretation No. 7 — "Clarification as to the Application of Criteria in NCGA Statement 3 — Defining the Governmental Reporting Entity," September 1983;
- NCGA Interpretation No. 8 — "Certain Pension Matters," November 1983;
- NCGA Statement No. 7 — "Financial Reporting for Component Units within the Governmental Reporting Entity," January 1984;
- NCGA Interpretation No. 9 — "Certain Fund Classification in Balance Sheet Accounts," March 1984;
- NCGA Interpretation No. 10 — "State and Local Government Budgetary Reporting," March 1984;
- NCGA Interpretation No. 11 — "Claim and Judgment Transactions of Governmental Funds," March 1984;
- GASB Statement No. 1, "Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide," July 1984;
- GASB Technical Bulletin No. 84-1, "Purpose and Scope of GASB Technical Bulletins and Procedures for Issuance," October, 1984; and

- GASB Interpretation No. 1, "Demand Bonds Issued by State and Local Governmental Entities," December 1984.

I hope this brief update will help your readers increase their knowledge of governmental accounting and the Governmental Accounting Standards Board. I encourage you to continue to feature articles on governmental accounting and the progress being made at the GASB in future issues of *The Woman CPA*.

Daniel L. Kovlak
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Governmental Accounting Standards Board

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