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Correspondence: A Statement of Accounting Principles; Government Reorganization

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"A STATEMENT OF ACCOUNTING PRINCIPLES"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: In my "Comments on *A Statement of Accounting Principles*" appearing in your March issue, I have erred in indicating that the authors entirely neglect the question of the significance of interest on investment. The question is very briefly referred to on page 27 of the "Statement" and a sound general position is taken.

Also my reference to Mr. May's comment on "cost or market, whichever is lower" in his paper in the December, 1937, issue of THE JOURNAL is very unfortunate in that it implies a complete and devoted support by Mr. May of the "conservative" rule of inventory valuation. As a matter of fact, Mr. May makes it entirely clear in the paper in question that he recognizes the possibility that for some purposes the application of this inventory policy "might be harmful," and in other connections he has repeatedly called attention to the fact that rigid adherence to "cost or market" in the preparation of the income account may be highly undesirable.

Yours truly,

W. A. PATON

Berkeley, Calif.

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: *A Statement of Accounting Principles*, by Professors Sanders, Hatfield and Moore, seems to me a notable effort to collate and present in one small volume a summary of the principles which have been stated in various books on accounting and auditing and which have been developed in practice in recent years and partially stated in articles, letters and pamphlets. To my mind it is a notable achievement and the result of a great deal of research, as the notes and references at the end of the book will substantiate. It should prove a valuable handbook, and the references to statutes will be useful in many cases.

That three professors (including Professor Hatfield) should agree on a statement is in itself notable and does not seem quite human! That all other professors and accounting practitioners should agree with every statement would be inhuman and preposterous. However, a principle

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may be "generally accepted" without universal or one hundred per cent. agreement.

I hope that a revised edition may be sponsored, if not annually, at least once in two years, in order that revisions or developments may be incorporated. In the meantime, suggestions or criticisms could be accumulated, and I shall be pleased to send mine to an appropriate committee. In any instance, however, where there is radical disagreement with a plain statement, such as I think there should be with the dictum on page 65 as to the method of charging depreciation on the added amount in the case of written-up fixed assets, it might be well to determine, in advance of the publication of a new edition, which principle should be considered as generally accepted.

Although making reference to a specific instance of disagreement, I wish again to pay tribute to a work which, in my opinion, is remarkably well done and a genuine contribution to accounting literature.

Yours truly,

A. S. FEDDE

New York, N.Y.

GOVERNMENT REORGANIZATION

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: I have read with interest in *THE JOURNAL OF ACCOUNTANCY* for March the statements by George P. Auld and M. L. Seidman on the proposed reorganization of the executive branch of the Federal Government, and should like to offer the following comment of my own:

The present law providing for the office of comptroller general was intended, I believe, to provide for the following: (a) an adequate accounting system for the Government, (b) an independent check of financial transactions. In my judgment, there is a third important function which is not, I believe, specifically provided for in the present law, namely, the preparation of financial reports and the dissemination of the information provided by such reports, both internally and externally.

As I have observed the operations of the comptroller general's office, it appears to me that inadequate attention has been given to the question of a suitable accounting system for the Government. As I understand it, it has been necessary for the President to install accounting systems in his own departments which would provide the necessary information. It appears that meticulous attention has been given to the continuous audit of financial transactions, particularly those relating to expenditures. Little or no attention appears to have been given by the office to preparation and distribution of reports showing the financial condition and operation of the Government. While this ap-

parently has not been specifically provided for by the law, it certainly would be looked upon as a function of such an office.

It is obvious that the President and those responsible to him for governmental activities must have current information concerning the status of appropriations and other financial matters. To this end, there must be an adequate accounting system which is responsive to the needs of the executive branch of the Government. On the other hand, it is equally obvious that there must be an adequate independent examination of financial transactions to assure that the acts of Congress have been complied with. This examination should be made by an officer independent of the executive branch of the Government and reporting directly to Congress. There also should be a means of verifying the financial statements prepared for the information of Congress and for public consumption, so that there can be assurance that these statements correctly set forth the facts.

In my judgment, instances in which the office of the comptroller general has failed to accomplish what may be expected of it are due not so much to the present law as to the way in which the office has been administered. Some of the functions of the office have been neglected and others have been exaggerated. In an effort to carry on the office in a strictly independent manner, the possibilities of coöperation and service to the different agencies of Government also have been overlooked. These conditions, however, are somewhat inherent in the plan of organization in which the accounting records are divorced from the executive branch of the Government which is responsible for most of the activities of the Government.

Industry avoids this difficulty by making the accounting department a part of the managerial organization responsible to a board of directors, the board of directors being responsible to the stockholders. An independent audit by outside public accountants is then provided for. To apply this plan of procedure to the Government would mean:

- (a) An accounting division in the executive branch of the Government.
- (b) An auditing division, independent of the executive branch and reporting directly to Congress.

Protection against abuse would be provided by suitable divisional organization in the accounting office, through which an adequate system of internal check would be maintained. Since audits by outside public accountants would be impracticable in so large an enterprise as the United States Government, a permanent auditing staff should be provided for. For these reasons, I believe:

1. That the duties of the present comptroller general's office should be modified.

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2. That an accounting office, probably headed by a comptroller, should be established under the direction of the President, its function being—

- (a) To keep the general accounts of the Government.
- (b) To see that suitable subsidiary accounts needed by the various agencies are maintained.
- (c) To examine currently all financial transactions.
- (d) To prepare all financial reports.

3. That an independent auditing office should be established which would be responsible for the following functions:

- (a) To determine that the accounting system of the Government is adequate and is carried out in accordance with accepted principles of governmental accounting.
- (b) To make certain that the accounts of subsidiary agencies are kept reconciled with the control accounts of the general accounting office.
- (c) To make certain that an adequate system of internal check is maintained.
- (d) To verify by continuous post audit the accuracy, honesty, and legality of all financial transactions of the Government.
- (e) To verify the correctness of all financial reports issued by the accounting office.

4. That there should be a standing committee of Congress to receive and consider reports from the auditing office.

Yours truly,

LLOYD MOREY

Urbana, Ill.