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Any consideration of the word "realism" must of necessity, suggest the counter term "idealism," for there is both a conflict and an affinity between the two. Realism, without imagination, sticks to a dead level. Imagination, which is an essential element of idealism, tends to float away from truth. To determine the proper admixture or relationship of realism and idealism so that the result may be most advantageous to humanity and to human progress may lie within the realm of philosophy. I must leave that, therefore, in abler hands. I think, however, that we may impinge upon that territory sufficiently to admit that, so far as they relate to accountancy and to managerial responsibility therefor, a realist with no idealism may dig for himself a groove which will never lead to progress. On the other hand, an idealist, with insufficient recognition of realities, may build an imaginary structure, unsubstantial, unprovable, and readily collapsible.

Accountancy, because of the very nature of its subject matter, must be practical if it justifies its existence. It, therefore, must be deeply imbedded in realism, but its practitioners must also be endowed with sufficient idealism to be able to picture a constant progress and improvement. The accomplishment of such improvement, however, requires such a careful balancing of the elements that advances may be made, with no departure from true facts.

It has been said many times that accountancy involves both a theory and a practice. The theory must be sound and the practice must be realistic. A theory that is not practical, however beautiful it may appear to be, will fail in the accomplishment of real progress. A practice that is not in accordance with sound theory will produce inaccuracies and injustices.

It is fairly easy to conceive ideals. To bring realities to such ideals is far more difficult. The idealist frequently becomes impatient and criticizes the realist for lagging behind. On the other hand, the realist is prone to be contemptuous of the idealist for his failure to appreciate the practical difficulties in the way. Advances, however, may be made if the two will be mutually coöperative and mutually appreciative of the problems to be overcome. It is from this angle only I desire to speak today. I do not want to be unduly critical nor unduly partisan to either side.

Writers and speakers in recent months have been most prolific in their application of the term "realism" to various elements of accountancy. Constantly we hear the phrase that the accountant should be more realistic in the valuations of the assets as reflected in the balance-sheets upon which he reports or that he should be more realistic in his determination of what does or does not constitute income in a particular instance. The majority of those who thus use the term appear to have in their own minds a rather definite concept of what to them constitutes realism. Unfortunately not all of them, however, have the same concept; furthermore, unless one has unjustly misconstrued the concept of many of these writers and speakers a careful student is apt to question the realism of such a concept.

It is well recognized that managements of corporations are primarily responsible for the character and content of the financial statements put forth by each corporation. The prob-

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lem, therefore, before a management today is: In what respect can it make its financial statements more realistic? The independent public accountant desires wholeheartedly to aid in any practical improvement. I want to give some consideration to the various suggestions that have been offered in this respect.

Realism in the Balance-sheet

Regarding the balance-sheet, it has been proposed by critics that it would be more realistic if the assets shown thereon should be stated at what they are worth today, rather than at the book values resulting from present-day accepted accounting practice.

All right, what are the assets worth? Worth for what purpose? Value is a flexible term, and its technical use is usually left to economists. I am not qualified to discuss learnedly the words "value" or "worth," but we may give consideration to the practical application of these words to assets on balance-sheets.

It appears to me that the purpose of the corporation with regard to a specific asset must have some realistic bearing upon the dollar amount that is shown for it on the records.

If we consider first the assets usually referred to as fixed or capital assets the determination of realism in connection with amounts displayed therefor would depend largely upon the controlling viewpoint. Fixed assets presumably include only that class that is used in carrying out the primary operation objects of the company. The operations therefore are contingent upon the continued existence of such assets. It may be that the market value or the present appraised value is more than or less than cost, but can it be stated with positive assurance that the display of such an appraised value is more realistic than the display of cost as a part of the financial statements of the company? Which amount is more "real"?

If the corporation is not holding such assets for purpose of sale, why should the tabulation of them at selling price be considered realistic? If the corporation should sell them, how could the corporation continue to function along the lines of activity for which it was intended?

If the corporation is not planning to reproduce its fixed assets, is it realistic to substitute for cost in its accounting records the appraised reproduction value for such assets? If the corporation *is* intending to reproduce them, does it plan the reproduced assets to be identical with those it now has? If not, such a reproductive value would seem to be misleading. If it does intend to reproduce them in identical form, what will it do with the assets it already has?

Managements and accountants must at least try to be realistic in their application of so-called realism. It appears to me that realism in the expression of amounts in connection with particular assets in accounting records, must give some recognition to the part those assets are to play in the destiny of that corporation. If the fixed assets are to be used to enable the corporation to produce a certain product and to continue to be so used during their useful life, there is good argument in favor of the theory that the cost of those assets, less the ultimate salvage value, is a form of prepaid expense applicable to the product over the years the assets render service. Under this theory, the assets are shown at cost, and the amount of such cost that has been applied to the product of the past, is also displayed, usually by an account called "reserve for depreciation," the remaining balance being the amount yet to be charged to the product in the future or recovered through salvage.

Is "cost" realistic as an accounting basis? The amount of cost may usually be determined from actual transactions resulting from contractual agreements in each of which a given and definite monetary amount is expressed and agreed to by both buyer and seller. This characteristic must give to this amount some approvable element of reality. On the other hand, an appraisal is a measure of the amount which a corporation would have to expend under present-day market conditions to acquire a similar plant similarly located. The latter is an imaginary transaction and the amount is subject more or less to estimate.

Cost can usually be supported by vouchers, records of purchase and sale, checks representing payments, and other tangible evidence of contracts or transactions to each of which this corporation has been a party. Do not these elements justify the use of the word "realism"? Compare it with market values or appraisal values. Can these be supported as definitely and as accurately by records of real transactions? Is it more realistic to substitute transactions of which the corporation has not been a party, for those to which it has been a party? Is it realistic to substitute an estimate for a fact, if the fact is ascertainable and provable?

It has been my experience that the managements of successful corporations have been quite definitely realistic. I believe that such managements in reporting upon their custodianship prefer to report upon the effects of contracts which they have approved and transactions which they have authorized, rather than to cumber their record of custodianship with theoretical matters that have not actually happened to the particular corporation, or transactions of some outside parties of which they have heard but with regard to which they have not taken a legal action authoritatively binding the corporation.

Similar arguments may readily be offered with regard to the other assets of the corporation, aside from the group known as current.

Let us take one such asset, namely, investments in subsidiary or affiliated companies. Consider whether it is realistic to substitute market value as indicated by current quotations for such securities in lieu of the amounts the corporation has actually expended in acquiring these securities. We may find some cases in which this would unquestionably be true, but we may more readily find others in which a grave element of doubt would arise. Corporations do not usually acquire the securities of subsidiaries or affiliates for the purpose of resale. They may have acquired them for purpose of control to assure a dependable source of raw material or a dependable outlet for products. The purpose may have been to enable them to operate certain types of industry in certain geographical areas, to accomplish which, separate corporations are necessitated by law or for purposes of protection. More generally, the securities represent an investment for the purpose of securing a continuous income thereon. If any of these purposes or purposes of like nature prevail, there is a doubt as to whether realism would be furthered by substituting for investment cost the current market quotations upon such securities.

The application of realism cannot be accomplished by simple rule. Circumstances must dictate in all cases the method which best serves the attainment of true realism.

Perhaps we may take one other item frequently appearing upon the asset side of corporate balance-sheets, namely, bond discount and expense. Current accounting practice dictates that this shall be set up as a deferred charge at the time of the issuance of the securities to which it applies and amortized thereafter equitably over the period the securities are outstanding. If this is an expense which actually has been incurred at the time the securities are issued, and since it apparently has no currently realizable market price, why should it not be charged off immediately as an expense? On the other hand, if it be, as some hold, an expense that is not paid or incurred until the redemption of the securities to which it applies, why should not the charge to expense be delayed until such redemption time? Many persons might be inclined to say "yes" to one or the other of these suggestions. A more extensive study of the subject will probably cause many of these persons to change their answer to "no."

Viewpoint of the Investor

It has been said that in the preparation of financial statements of corporations more thought should be given to the presentation of information useful to investors and it has further been said, from the standpoint of the Securities and Exchange Commission, an investor is one who is faced with a decision whether to buy, to hold, or to sell securities. If such an investor is considering a corporation as a going concern, that is, as one which will continue at least for a time to operate along the same general lines in the future as in the past, such investor is unquestionably concerned with earnings, rather than with book values, for if he continues to hold the stock the earnings are significant to him, and if he proposes to hold it merely for the purpose of selling for a higher price the earnings may again be significant to him so far as they may affect the determination of future market prices of the stock. I think one would not seriously depart from realism in stating that the earning power of a corporation and the market value of its shares are reflected more by earnings than by fluctuations of the appraised value of its assets. So long as the corporation continues to use the assets for the purpose of securing income, the amount of money that would be required to replace them in their given condition is quite academic.

On the other hand, if the investor is interested in the corporation not as an operating concern but as one subject to immediate or early liquidation, the appraised value of the properties becomes much more vital than the price that may have been paid for the properties in some past day. In such a case it may be held that the market values give him more realistic information than is given by the cost. However, it is seldom that the appraised reproductive value of the fixed assets of a corporation is the primary factor in determining the amount that may be realized in the liquidation of the corporation. The normal financial statements set forth from year to year for American corporations are seldom if ever intended to measure, or even to approximate, the liquidating value of the corporations. If such a liquidating value is of interest a statement entirely different from a balance-sheet is prepared. Usually such a statement is called "a statement of realization and liquidation" or some similar term. It is a special form of a financial statement prepared to meet a special and nonrecurring need, and the valuations set forth therein may well be determined upon bases differing materially from those used in preparing a balance-sheet. Realism in such a statement is attained or approached only to the extent that the estimated amounts set forth therein may later be supported by the accomplished fact.

Going-Concern Basis

Annual accounting reports are based primarily upon the going-concern theory. This means merely that items are stated on the assumption that the organization will continue to operate along the same general line in the future as it has in the past. A balance-sheet looks upon the enterprise as a whole and makes no attempt to display the realizable value of its several component elements. So long as a business is continuing to operate, its real value as a going enterprise cannot be determined on a market-value basis or a reproductive-cost basis of the various elements that compose it.

If a person needs an automobile, he does not attempt to measure its value to him by having all of the elements in it analyzed, weighed, measured, and appraised. Suppose he resorted to this method and found so many pounds of steel and so many pounds of rubber and so many pounds or ounces of this and that, and determined the market price per pound or ounce of each, would the result give him a measure of the value to him of the automobile as a going concern or going vehicle? Of course, if it won't go, that is another matter, and the junkman may determine the value of its constituent elements, or he may find some purchaser who is willing to pay a lump sum for it in the hope that he can make it go. In this world, the value of many moving elements is not determined by the market value of the various items in their composition.

Suppose one of the critics of accountancy should have himself analyzed on the market-value basis of component elements and should determine that there was so much lime and so much phosphate and so much water and certain other elements to which his body might be reduced, he might find that the total value thereof on such a market basis was approximately 98 cents, or perhaps he might go as high as a dollar and a quarter depending upon his avoirdupois. I doubt if he would consider that a proper measure of his going-concern value to the community or to himself or those dependent on him.

Commercial enterprises are usually undertaken for the purpose of producing earnings. Managements are given the responsibility of carrying out this purpose. Funds are put into their custody by the stockholders to make the operation possible. Portions of these funds must be expended in the acquirement of assets to aid in the creation of the product or of the service on which profit is expected to be made. Other portions must be expended in the acquiring or the creation of the product or service which is intended to be the direct subject matter of the earnings. The income or revenue produced by the organization within a given period must be reduced by the cost of producing such revenue. This cost includes those expenditures which have produced no benefit to the company beyond the current period. Other expenditures, however, may have a usefulness over many accounting periods. Included in this group is the cost of assets known as "fixed assets" or the cost of acquiring other values whose benefits carry on beyond the current period. Such prepaid costs are apportionable as expense against the income of the various periods which they serve.

Management, then, in rendering its report to stockholders is primarily concerned with displaying two things: first, the revenue for each period and the deductions of the expenses applicable to such periods. This is the foundation of the income statement. Second, to report the expenditures that have been made for assets having longer useful value and in connection with each the amount of the cost that has been apportioned to the past periods of operation, the remaining balance of each representing the prepayment of cost to future periods. These facts find their proper place for display in the balance-sheet, which statement also includes other values that may have been advanced by creditors together with the resulting obligations and the nature of the assets that have been acquired as the result of operation.

Realism in the Income Account

There was a time when the balance-sheet was considered the most important of the several financial statements customarily put forth annually by corporations. In recent years the emphasis of importance has been more and more applied to the income statement. This is based upon the belief that investors in securities are generally more interested in the periodic results of operations than in the static position as shown by the balance-sheet. This belief is well supported, and I think we may accept it as a definite guide in the presentation of financial statements by managements. It implies that the major or more important investments in securities are made for the purpose of realizing a continuous income rather than for the purpose of resale of the securities purchased. The long-time investor has been of infinitely more value to industry than has the daily in-and-outer.

The acceptance of that fact automatically diminishes the validity of arguments sometimes offered that the realizable value of assets is more important in a balance-sheet than the basis of valuation determined on what is known as a going-concern assumption. It also emphasizes the fact that the income statement that best provides the investor with a clue to the amount of income that can be considered as being of a continuous or repetitive nature is the one that is best adapted to his needs. A further implication is that elements of income or of expense or loss, which by their nature are unique or unusual in the history of the company and not subject to expected repetition in subsequent periods, should be either set forth separately on the income statement or treated in some other manner so that the reader of the income statement may not be misled. This sets forth a goal of presentation which cannot be fully reached, but the best efforts of management toward approaching as near this goal as possible are fully justified.

In connection with the income statement, management must give some thought to the various suggestions that have been made regarding the application of realism thereto. One such suggestion deserving of managerial consideration is that the rise or fall marketwise of assets, with regard to which market quotations are available, should be reflected in the income account.

Assume a corporation has among its assets securities costing $100,000. At the close of the accounting period, the market price as indicated by quotations is, say, $120,000. The suggestion has been offered that the income account of that corporation should include the unrealized gain of $20,000 on these securities, along with other revenues or profits actually earned and realized. Consider this suggestion from the standpoint of what we have been calling realism. It is unquestionably true that the corporation seems to be in a better position, so far as these securities are concerned, at the close of the year than it was when the securities were acquired. This fact can be set forth by showing the quoted price as supplemental information on the balance-sheet.

Shall the management in its report of custodianship say to its stockholders that it has made this profit of $20,000? Suppose that in the ensuing period the quotations indicate a drop in value to $90,000. Shall the management now report that it has lost $30,000? The answer may depend, to some extent, upon the purpose of the corporation in holding these securities. If this purpose is to secure a periodic income upon the securities owned, there is reasonable doubt as to whether it can be considered that either the assumed gain of $20,000 or the resultant assumed loss of $30,000 are either of them realistic.

Realists must also recognize the fact that a current quotation for a security is no guaranty that all such securities listed on balance-sheets could be sold for that price if they were offered on the market. We are all familiar with balance-sheets showing large blocks of securities which if thrown upon the market would not bring the prices currently quoted.

I believe I am safe in asserting that,

generally speaking, more harmful results have come from financial statements which overstate net income than from those which understate it. Stockholders, like individual owners of businesses, are prone to be optimistic. Incidentally, who ever heard of a person with aggravated pessimism developing successful business? Since they are prone to optimism, it is a human characteristic for them to feel that their business is really better than its financial statements indicate. Throughout the years in which accountancy in its present form has gradually developed, level-headed, common-sense, business judgment has dictated that it is far wiser to recognize a possibility that a loss has taken place through shrinkage in values, even though such loss has not yet been realized, than it is to go on record that you have made a profit because of an increase in the market value of some asset which you own, but which profit has not yet been converted into cash nor into any legal claim upon anyone for that amount of cash.

In an attempt to follow this philosophy of thinking, accountancy has accepted as a part of its duty the recognizing in the financial accounts of certain cases of unrealized losses, while at the same time refusing to boost the income by recording a gain or profit until such gain has been realized through the receipt of cash or equivalent assets or through a contract, giving legal right to the collection of cash or equivalent.

Perhaps the point may be emphasized by referring to certain booms that stand out in the past history of this country. There was a time when Florida land in certain sections became the subject matter of an enormous speculative movement. Prices jumped over-night from one figure to another and again to another, and another, higher and higher in amount. Holders of equivalent land felt they were rapidly increasing in riches, and many of them in their own estimation became millionaires in a remarkably short space of time, overlooking the fact that such jumps in price were based, not upon the earning power of the land or its realizable usefulness, but because of the hope that someone else the next day would pay still more for it.

Eventually the bubble burst, and prices dropped accordingly. Those who had sold for prices in excess of cost made profits (provided they were able to collect them). Those who considered that they had made profits merely because of the rising prices, but who did not convert those prices into tangible realities, merely deluded themselves. Under the theory that unrealized profits based upon market quotations should justify the recording of a profit, the accounting records of this latter class of land-owners would have shown figures purporting to be profits equal to the dream of the owners. On the basis of generally accepted accounting principles, however, such a recording would have been unjustified, and I believe that in this case the accounting principles are in strict accordance with the good old-fashioned garden variety of common sense.

An important point for management to consider is this: Has the management a right to inform stockholders that they have made a profit of this nature unless the management took advantage of the market situation and disposed of these securities for the increased price, thus turning the profit into realized form? Has the management a right to take credit for a profit it might perhaps have made if it had taken certain steps when in reality it did not take such steps?

Viewpoint of Management

The management of a corporation tends to think of the organization as a unit, separate and apart from everything outside it—a sphere, if you will. Within that sphere are the assets belonging to that organization. Its relations to the outside world so far as accountancy is concerned must be represented by some tangible line of connection attached to or entering this sphere. Receivables measuring amounts due from outside are tied to the corporation by contractual obligations. Similarly, its obligations to the outside world, such as payables to creditors and responsibilities to stockholders are the definite result of transactions or contracts, one end of which definitely ties into this sphere. The accounting of the corporation is therefore related to those properties which are within the sphere or those relationships established by definite contractual obligations attaching to or entering this unit.

All kinds of transactions or changes in values may take place in the universe outside this corporate sphere but they do not affect its accounting unless there is some definite line of connection attaching them to the corporation through a transaction or some contractual obligation. I think that may be said to be the fundamental viewpoint of successful management.

However, there are certain modifications necessary in its practical application. As an illustration—the corporation has to deal with elements outside its sphere, for only through such dealings can it accumulate a profit. Assume the corporation possesses an inventory, upon which it hopes to realize a profit by future sales to the outside world. It becomes aware of the fact that changing conditions outside itself have brought about a reduction in the value to the outside world of the products or commodities in its inventory thereby reducing the profit which it might otherwise have made. It gives effect in its accounts to this reduced value, as applicable to the period when the change in value took place. Otherwise a succeeding period may be burdened with the decrease in profit due to conditions of a preceding period. This has become generally accepted managerial practice.

In this respect, accountancy has been criticized as being inconsistent. It follows one procedure with regard to advances in outside prices and another procedure for decreases in outside prices. Perhaps this criticism is justified. The determination of whether it is or is not requires careful analysis. I do not attempt to prophesy what the outcome of further study of this problem may be. There is a possibility that this alleged inconsistency may be adjusted, particularly for income statements. It may be that future developments will be such that adjustment for decrease in market value of inventory may be reflected in the balance-sheet only, without affecting periodic income statements, allowing these statements to reflect the profit or loss on inventory sales based exclusively on cost.

Conservatism

The present accounting principles, in the application of which known losses even though unrealized are to be included whereas unrealized gains must be excluded from the accounting records, were devised in the interests of what is briefly stated as "conservatism." It is not my intention to put forth today any thesis upon conservatism. It is based, however, upon certain peculiar and perhaps inconsistent habits of life itself. Anticipated profits are coy and elusive, whereas losses, whether anticipated or not, have a tendency to dog one's footsteps. The history of anticipated profits that were never actually obtained is a much more extensive volume than the history of anticipated losses that never materialized. If the percentage of hopes realized were equal to the percentage of fears that were justified, the business world would be much more prosperous and life itself a much happier existence. From a realization of this inconsistency of life and of human undertakings, there developed the viewpoint known as conservatism.

Conservatism, however, is relative. If a reasonable conservatism is good, it does not follow that ultra-conservatism is better. The degree of conservatism that may produce the best results has not as yet been defined or measured. To the extent that present-day accounting practices are overconservative, to that extent they may need to be modified; but it is doubtful if there ever will be universal acceptance of any measurement as being the ideal degree of conservatism. In the absence of any such measurement, perhaps it is conservative to exceed such theoretical degree rather than be content with a degree which may fall below the ideal. How conservative one should be in measuring conservatism, I will leave to philosophers or economists.

The history of business has proved the wisdom of a reasonable degree of conservatism. Conservatism may be called a margin of safety. Engineers well know the term. In the building of bridges when the exact amount of stress and strain is determined to as fine a degree as is practical, the wise engineer always provides a structure somewhat stronger than this expected strain. Were this not true, many a structure that has well served its purpose might long ago have failed. The need for a margin of safety is just as strong in business as in physical construction. It is a question of degree. How much is "reasonable" is not subject to exact definition or determination. Managements may merely point out that when business has been subject to unusual strain those business structures which have been reasonably conservative have endured longer than those which have not made any provision for a margin of safety. I believe that reasonable conservatism is an element of realism.

Other Angles of Realism

Realism in accounting enters into this picture from a different angle, namely, in the realism of new demands being made upon management. It is now being said that the most important purpose of the financial statements it puts forth is to give information suitable to the needs of the current purchaser or seller of securities, including the shares of the company's outstanding capital stock.

Management is inclined to regard the entire group of stockholders owning one class of security as a whole rather than as individuals. Once the capital stock is issued the financial records no longer reflect changes in the personnel of the stockholders. Corporate records other than financial do show the personnel for purposes of voting, or dividend distribution and like purposes. Even these records, however, frequently fail to record the in-and-out stockholder who is not sufficiently interested to submit his certificate for registration on the company records.

The financial records with regard to each class of stock are concerned with the amount received from the original issue of such shares by the corporation. The market price paid by secondary stockholders and the gains or losses to stockholders that may result therefrom find no place in corporate accounting records. So far as the financial records are concerned, the issued stock is recorded as though there were but a single owner. What this owner personnel may do regarding later shifts of ownership, back and forth, has not been regarded as a primary concern of management.

There is much to be said for the management which considers its fundamental job to be the making of continuous earnings as large in amount as possible consistent with the preservation of the corpus of capital entrusted to it. Most successful managements have followed this idea. Is it any wonder then that some of these managements are now surprised and somewhat dismayed upon being told that from now on a primary function they must perform is to facilitate changes in the personnel of this stockholder group? They must now give chief emphasis to information enabling a stockholder to know that he should *sell* (the same information evidently convincing another investor that he should *buy*—otherwise there would be no sale) or enabling an outsider to know that he should become a stockholder, thereby relieving a previous stockholder of all or a part of his holdings. This is also true regarding issues of bonds.

If the same information induces one to buy and another to sell it is apparent that the determining factor in such a shift of ownership must be the market price.

Of course, Mr. Management must now undertake this additional responsibility just as wholeheartedly as though it meant something to him, but I admit that I, for one, can grant a smile of sympathy for the perplexity that may be in the mind of an old-fashioned corporate official who is skilled in the requirements for operating a factory profitably, but who has not given much thought to the (to him) unrelated subject of influencing, or rather of aiding in the determination of a proper market price for securities. Perhaps if he knew how many factors, other than the information that may be presented through financial statements of the issuer, go into the determination of the market price for a stock he would be even more disconcerted. Nevertheless he must now endeavor to comply with his obligations in this respect.

A greater recognition of realism in accountancy may be made effective without any change in what are today considered generally accepted accounting principles with regard to the recording and display of financial facts. To illustrate, even though it may be considered fundamentally desirable to display fixed assets at cost, together with a statement of the amount of such cost which has been amortized against profits in the past, rather than to substitute appraised values for cost and even though it may be considered more desirable to deny the admission of unrealized gains into the income account, nevertheless the essential information regarding appraised values, if known, and of market values, if they are ascertainable, may readily be displayed, and should be displayed, as valuable supplemental information in connection with financial statements determined according to present-day standards. If the appraised value of fixed assets has been determined by reputable independent appraisers, the amount of such valuation and the methods of its determination may be and should be set forth in the balance-sheet in connection with the assets or may be displayed in footnotes. Similarly, if assets carried in the current group have a readily realizable determined value in excess of book value, such information may be set forth in connection with such assets, or even a footnote may be placed upon the income statement indicating such appreciation in the value of current assets, but excluded from the net income figures as shown because it has not been realized. All similar information if proven to have a basis in fact may be so indicated that the reader of the financial statements may be able to use his own judgment as to the weight of such supplementary information in determining his opinion as to the financial position and the financial progress of the enterprise.

Yet another application of realism may be made effective by the management in its financial reports by giving consideration to the type of additional information that may be of real value to interested parties. Time does not permit even a tabulation of such information. As a single illustration: Management must recognize that there are three groups directly interested in commercial enterprises, namely (1) capital, (2) labor, and (3) government. The amounts that each of these three groups has received during the accounting period if set forth separately and clearly may be of very practical value to all concerned. If this can be so displayed, supplemental to other financial statements so that a better understanding of what each of these three elements has contributed to the business and what each receives therefrom, and if this were done by all business enterprises, it might result in a more intelligent approach toward some of the problems affecting business in this country today.

It may be that little by little methods may be found for an approach toward greater realism by procedures which will minimize or eliminate unsatisfactory or undesirable elements. Unquestionably such a goal is worthy of serious consideration by all those concerned with the development of accounting and the utilization of financial statements. The chief problem to be decided in such a movement, however, is the determination of which of two or more procedures is the more realistic as well as the more valuable.

Moreover, do not accept as "realism" everything that bears that name upon the label. The laws controlling the labels upon the products intended for our bodies unfortunately do not apply to the labels placed upon theories and "isms" to be fed into our minds. The label may be "panacea" but the contents may be poison. The label may be "realism" but the contents should be subjected to careful analysis before acceptance for use.