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Remarks on the AICPA Accounting Standards Division, Plenary Session I - AICPA Meeting, Atlanta, Georgia, Given November 1973

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REMARKS ON THE AICPA ACCOUNTING STANDARDS DIVISION

PLENARY SESSION I - AICPA MEETING - ATLANTA, GEORGIA

given Nov, 1973

I. INTRODUCTORY REMARKS

I know each of you will join with me in expressing our sincere thanks to ^{*Orin Gallen*} ~~Bob Trueblood~~, Marshall Armstrong, and Bob Mautz for their most informative remarks concerning financial reporting and accounting standards. In view of what has been said by these three gentlemen, I think it is timely for me to discuss the current role of the AICPA in determination of accounting standards. As the Financial Accounting Standards Board is now a reality and with the phasing out of the Accounting Principles Board as of June 30th this year, that role has changed significantly. The responsibilities of the Institute have decreased. Those responsibilities are now shared with many others, and this is as it should be. That does not mean, however, that the profession, and specifically the Institute, should not or will not make its influence felt in an appropriate manner on a continuing basis in the development of accounting standards. I am pleased to have the opportunity of discussing this subject with you this afternoon. I know from experiences in visiting with members of the profession in various parts of the country that there is an interest in what part the Institute will now play in this entire matter.

II. RESPONSIBILITY, AUTHORITY AND STATUS

The Board of Directors of the Institute wisely foresaw the need for some means by which the voice of the profession might be made known to interested parties in the determination of accounting standards in light of the Institute's agreement to dissolve the APB. As a result,

the Board ~~of Directors~~ at its meeting preceding last year's annual meeting in Denver authorized the formation of a new division within the Institute called the Accounting Standards Division with an Executive Committee made up of practicing CPA's to work with the Division and to be the spokesman for the Institute. The charter of the Accounting Standards Executive Committee and the Accounting Division as adopted by the Board of Directors provides that this division, and I quote:

"Shall have the authority to speak for the Institute in areas of financial accounting and reporting and cost accounting, which shall include matters relating to generally accepted accounting principles, accounting procedures, practices and methods, form and content of financial statements and reports, and disclosure in such financial statements and reports."

The Accounting Standards Executive Committee is made up of partners from 15 CPA firms, 12 of which probably represent the largest firms in the country. The committee was appointed during November and December of last year to provide ample time for organizing to carry out its assigned tasks as the APB concluded its work. Several of the committee members have had prior APB service, either as Board members or as technical advisors to Board members, and all are highly qualified senior technical people within their respective firms.

The organizational status of the Division and the Accounting Standards Executive Committee within the Institute was formally set out by a resolution of the Institute Council passed on May 7, 1973 in Colorado Springs. Among other things, this statement provided -

"That the Accounting Standards Executive Committee is hereby designated as the senior technical committee of the Institute with respect to financial accounting and reporting and cost accounting as defined in the statement of its responsibilities, authority, and structure approved by the Board of Directors."

In designating the ASEC as the senior technical committee of the Institute with regard to accounting standards, the Council resolution further designated this committee as the profession's primary contact with and having responsibility for maintaining liaison with the Financial Accounting Standards Board, the Cost Accounting Standards Board, the Securities and Exchange Commission, and the various stock exchanges in all matters coming under its jurisdiction.

III. LIAISON WITH FASB

Time will not permit a complete discussion as to just how this liaison function will be carried out with all of these bodies, but I do want to mention, specifically, liaison with the FASB and the CASB. In maintaining liaison with the Board, the committee has the responsibility on behalf of the profession to comment on proposed pronouncements and interpretations to be issued by the FASB. We anticipate being responsive to all matters that come before the Board for its consideration. These responses normally will take the form of what we now will call position papers. Additionally, our committee will be prepared to appear at public hearings of the Board on such pronouncements to present the views of the profession as determined by this senior technical committee.

Also, when, as and if the occasion in our judgement calls for it, we do have the authority to initiate proposals to the Board or other bodies for possible pronouncements and interpretations which the committee feels the Board should consider. These proposals from the Committee will likewise take the form of position papers. The charter of the ASEC specifically provides that such position papers should have language contained therein indicating clearly that such position papers are for general information purposes and that thereby they are not establishing enforceable standards to be adhered to by AICPA members.

Our committee is currently in close consultation with the Board, Robert Sprouse, one of the Board members, has been designated by the Board to maintain specific contact with the accounting profession and Dick Lytle from the Institute staff, who is the director of the A.S. Division, and I, as chairman of the ASEC, have been designated by the president of the Institute to work directly with Bob Sprouse in this matter of coordination. To that end, we have had three visits with Bob, and another visit is scheduled for next Monday afternoon. Presently we are contemplating the possibility of monthly meetings with Bob to be sure that the Accounting Standards Executive Committee is being as supportive to the Board as all of us feel it should be. Additionally, because of a long period of close association between Marshall Armstrong and me resulting from our activities on the Board of Governors of the American Group of CPA Firms, there exists an excellent opportunity for the chairmen of those two bodies to effectively communicate on a very frank and timely basis about matters of mutual concern and interest. This I have every reason to believe will contribute toward good relationships between the Board and the profession.

Presently there are three of the committee members, including the Chairman, who serve on the Advisory Council of the FASB. Through that activity the Committee is kept up to date on what is going on and also has further opportunity for direct input to the Board. Lastly, and what is probably even more important, as the Board appoints task forces to assist it in carrying out its projects, there is every reason to believe that members of the ASEC will have opportunities to serve on such task forces. By taking advantage of the various means of communication available I feel entirely confident that the Board and our committee will be able to keep in close contact.

Further liaison with the FASB will be carried out in connection with research. The AICPA division of technical research is available for either the Board or the ASEC to use. The committee is prepared to make available to the Board, directly and speedily, the results of surveys of current practice. In all of this activity by the Accounting Standards Executive Committee, I would hasten to point out to you members of the profession that we are very aware of a responsibility not to duplicate the efforts of the Board. We have no intention of reinventing the wheel, so to speak. I am sure through the efforts toward coordination that both groups have pledged to exercise, we will be able to avoid such unnecessary and obviously costly duplication of efforts. I would observe that our committee's primary activity for the Institute is probably viewed as that of making available to the Financial Accounting Standards Board from accounting practices information that is pertinent to the Board's consideration of specific subjects in its process of determining accounting standards, and we have sincerely pledged our efforts in that direction.

IV. LIAISON WITH CASB

Our committee's role of liaison with the Cost Accounting Standards Board has taken a somewhat different approach. I think the Institute was extremely fortunate in having set in motion, prior to the establishment of the Accounting Standards Division, a Cost Accounting Standards Committee which has been hard at work in providing input to the CASB from the profession on various matters. Organizationally this committee is now part of the Accounting Standards Division of the Institute and is working quite closely with the CASB on a very active basis.

A recent report to me from the chairman of that committee with regard to his group's activities reflects that 19 different projects are underway for which various members of the CASB committee have been assigned responsibility to work closely with the staff of the Cost Accounting Standards Board. It appears that the responses which the profession has provided the CASB have been both timely and informative and of benefit to this Board in its deliberations. This committee of the Division has had at least one informal dinner meeting with the Cost Accounting Standards Board members and certain of the staff as well as a number of committee meetings. I feel that lines of communication are open between the two groups and that the desirable feedback from the profession to the CASB is taking place on a timely basis. Furthermore, I would contemplate a continuation of this type of liaison between the two bodies during the life of the CASB.

V. OTHER QUESTIONS RAISED

In our committee's role (and that of the Institute's) in cooperating with the FASB, the CASB and others, someone might rightly inquire - "Has your committee a program of study or research coordinated with or independent of the enlarging program of the FASB?"

Answer - "In addition to the remarks which I previously made, I might add that the Institute's technical research division is available to the committee and this gives us a research capability independent of the FASB if needed. However, to answer more directly, we are still exploring just what we should do in the area of research. We are anxious to avoid any undue duplication of time or expense. We expect to consult with the FASB and perhaps others to see how research may be carried out most effectively. In other words, we do hope to develop a coordinated program in cooperation with the FASB, but there has not been the time or perhaps opportunity to get that fully worked out as of the moment. Conceivably, the FASB could do practically all of the research necessary for our purposes. However, the Standards Board has indicated that if it is faced with making a choice between two subjects to place on its agenda, it probably would lean favorably toward placing on the agenda the one where some advance spade work or research had been done on the subject, which could possibly ease or expedite its reaching a decision on that particular matter. As a result, I do contemplate that perhaps the Accounting Standards Executive Committee, as well as the research arm of the Institute, could be of benefit to the Board by entering into some areas in advance of the Board's consideration, at least from the standpoint of doing some research or advance spade work to have such material available to the Board for its use on a more expeditious basis.

Another question that has been raised - "Do you share the apprehensions of some in industry regarding the apparent overlap in authority between the several public and private institutions, each of which have a part of the total responsibility for the total development and promulgation of accounting and reporting rules?"

Answer - "We certainly agree that there is potential for overlap and that interested parties such as the practicing accounting profession could be caught in the middle. However, we believe that all of the authoritative groups, and including FASB, CASB, SEC, etc, recognize there is a problem and that they must act in good faith to avoid encroaching upon each other's areas of principle concern if we are all to avoid a shambles. By the same token, however, each authoritative group must at all times act promptly and responsibly in its areas of concern to do its part and to avoid leaving a "vacuum" so to speak, in dealing with problems that are important in practice as well as conceptually."

VI. STATUS OF INDUSTRY AUDIT GUIDES

Since the profession is no longer determining accounting standards, I have been asked by a number of people what is the current and future status of industry audit guides. The guides that have been issued in the past, of course, have been extremely helpful to members of the profession, and it is felt that this program should be continued in the future as the need arises. It must now be carried out on a somewhat different basis, however. In many instances, industry audit guides were plowing new ground in the accounting principles area and as a result had to be cleared by the chairman of the APB prior to publication. All such guides in process on June 30th that had been cleared for publication by the APB chairman as of that date have already been issued or will be shortly. Those that were pending, but had not been

cleared for publication, are now in the process of being reviewed by the responsible committees to segregate the accounting and auditing matters into two separate documents. Those matters involving auditing will be turned over to the Auditing Standards Executive Committee for further clearance. Those involving accounting will be redrafted as position papers and submitted to the chairman of the Accounting Standards Executive Committee for clearance prior to publication in the committee's name if such is accomplished in the near future. Any such guides developed in the future will be issued as position papers of the Accounting Standards Committee. Future guides may make recommendations for changes in accounting standards, but the "Boiler Plate" previously mentioned stating that such pronouncements do not constitute matters enforceable under rules of ethics would be clearly set out. As a practical matter, however, if the ASEC knew that the FASB was considering that subject, and our coordination is such that I am sure we would know that, then it is highly doubtful the Executive Committee would issued a position paper except in response to a pronouncement that was being publicized by the Board.

VII. REPORT OF CURRENT COMMITTEE ACTIVITY

Up to this point, we have been discussing philosophy and organizational structure and general principles of liaison of the Accounting Standards Executive Committee with other bodies. Specifically, let me give you a brief overview of what the committee has been doing. The committee came into its authorized status on July 1, 1973, and has held three meetings so far. A two-day meeting is scheduled next week in New York. Additionally, the committee members have blocked out

their schedules for two-day meetings in each month through December 1974. Hopefully, this schedule of meetings should enable the committee to accomplish what will be needed during these formative months.

At the July meeting of the committee, we adopted a technical agenda made up of 20 items, including all of the items which the FASB has under current consideration. We would also contemplate adding to our technical agenda any items which the board in the future adds to its agenda so that we can be prepared to be responsive as a voice from the profession on a timely basis to the Board.

In addition to the formal meetings just outlined, much of the work of the ASEC will be carried on through task forces made up of from 3 to 5 men. Thirteen such task forces have been appointed and have been in operation with two having already completed their assignments. Primarily, this period of time subsequent to the appointment of the committee has been taken up with organizational matters, feeling our way, and determining the best courses of action to pursue. As it looks at present, I have no doubt that the next twelve months will be even more challenging.

VIII. CONCLUDING REMARKS

In concluding, I would like to stress the realization which I as chairman of the committee, and I think all of our committee, have for the necessity of success of the FASB in its mission. I can think of many reasons why that success must be achieved, not the least of which, of course, is the significant commitment of financial resources to this project from the profession. But more importantly, I think all of us realize the need for accounting standards to be determined

in the private sector without government control in order to assure appropriate reporting of economic results uninfluenced by political considerations. I have every confidence that the FASB will succeed in its assigned tasks and certainly the Accounting Standards Division of the Institute is dedicated to doing its part in furthering that success. Speaking of tasks to be done reminds me of a story about Sir Winston Churchill, whose fondness for alcoholic beverages was well known. He was to speak before a small gathering one evening. The chairman introduced him by saying: "If all the spirits consumed by Sir Winston were poured into this room, it would reach up to here on the wall." He drew a line with his finger about level with his eyes. Churchill got up to speak. He glanced at the imaginary line on the wall. He looked up at the ceiling, and made a mathematical calculation with his fingers. Then he sighed and said, "Ah, so much to be done and so little time in which to do it." I don't know whether the FASB, the CASB or the ASEC can contemplate with quite the same degree of anticipation the magnitude of their tasks as Sir Winston could, but I am sure they will give it their best.

Once again, I am appreciative of the opportunity of discussing the role of the Institute in accounting standards. In bringing the formal presentation to a close, I would like to point out again that the panel has agreed to be responsive to specific questions from the audience, and so now, if any of you have some questions, they will be entertained as long as time permits.