

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Address of

Earle C. King, Chief Accountant

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## GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following will be recognized as the final or opinion paragraph of the standard short form of accountant's certificate recommended by the Committee on Auditing Procedure of the American Institute of Accountants in the first of its Statements on Auditing Procedure, entitled "Extensions of Auditing Procedure," issued in October 1939:

"In our opinion the accompanying balance-sheet and related statements of income and surplus present fairly the position of the XYZ Company at \_\_\_\_\_, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

This paragraph, which now appears, where applicable, in practically all accountants' certificates, meets the requirement of the Securities and Exchange Commission contained in Rule 2-02(c) of Regulation S-X that "the accountant's certificate shall state clearly: (i) the opinion of the accountant in respect of the financial statements covered by the certificate and the accounting principles and practices reflected therein."

It will be seen that tremendous importance attaches to the phrase "generally accepted accounting principles." It is the criterion for judging the dependability of the financial statements to which the certificate is applicable. We find the term referred to again and again in accounting literature. It would seem, therefore, that there MUST be a body of principles familiar to every accountant who uses the term "generally accepted accounting principles" in connection with the expression of his expert opinion.

But where do we find a comprehensive and authoritative statement of these generally accepted principles? Is there an accountant's Bible which establishes unequivocally those accounting procedures and practices which are right and those which are wrong? I'm afraid not.

While many books have been written which have sought to recite in one place a body of accounting principles, and many more articles have been written setting down certain specific principles, vast areas of disagreement exist between these publications concerning many practices and procedures vital to the production of understandable and unequivocal financial statements. Furthermore many of the authors of our ever-increasing stock of accounting literature purposely have avoided -- and quite properly, I think -- the designation of certain practices or procedures as definite principles. Instead they have discussed the pros and cons of various situations and have left to the reader the determination of what is to be considered the generally accepted accounting principle under a given set of circumstances.

As a result it seems to me that the following statement made by F. R. Byerly in 1937 was then, and still is, quite appropriate:

"First, what has frequently been spoken of as accounting principles includes a conglomeration of accounting practices, procedures, policies, methods and conventions relating both to the construction of accounts and their presentation; and second, there seems to be a general agreement among the commentators that the difficulty of any attempt to formulate so-called principles or prescribed rules and regulations on accounting matters is that the field is so large and the conditions encountered so diverse that few, if any, sweeping generalizations can safely be adopted." 1/

Likewise, the American Accounting Association had previously expressed the opinion in 1936 that:

"After a quarter-century and more of active discussion and experimentation in this country, many of the simplest and most fundamental problems of accounting remain without an accepted solution. There is still no authoritative statement of essential principles available on which accounting records and statements may be based. Public accountants ... have been asked to certify to the correctness and adequacy of accounting statements, when no satisfactory criteria of correctness and adequacy have been agreed to." 2/

I do not wish to imply that no organized serious effort has been made to establish and publicize a workable body of accounting principles. Nor is it my belief that nothing has been accomplished in this respect.

I am sure that none of you is unfamiliar with the bulletin "Examination of Financial Statements by Independent Public Accountants" published by the American Institute of Accountants in January 1936. This bulletin represented the last of a series the first of which was prepared by a committee of the Institute in cooperation with the Federal Trade Commission in 1917. It was entitled "Uniform Accounting." Upon

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1/ "Formulation of Accounting Principles or Conventions," The Journal of Accountancy, August 1937.

2/ "A Statement of Objectives of the American Accounting Association," The Accounting Review, March 1936.

the first reprinting of the original bulletin in 1918 the title was changed to "Approved Methods for the Preparation of Balance-sheet Statements." A revised bulletin (the revision was begun in 1925) was prepared by a committee of the Institute and published by the Federal Reserve Board in 1929 under the title "Verification of Financial Statements." This was superseded by the present bulletin in 1936. A discussion of the reasons for and purpose of the bulletin is contained in the May 1929 Journal of Accountancy, wherein are recounted the painstaking efforts of many eminent accountants to produce what was described editorially in the same issue of the Journal as "the most representative pronouncement upon the vital question of accounting procedure which has been made in this country."

And this statement seems to have been justified; for no other group which could be said to be representative of the accounting profession had, so far as I am aware, previously collaborated upon a project similar to that involved in the preparation of the 1929 bulletin and those which it superseded.

The 1929 bulletin, like the 1917 and 1918 versions, dealt principally with examination procedures and financial statement presentation. However, it contained several pronouncements, some of which were so definite as to establish them as statements of principle, and others which indicated a preference for, or recommended against, a specific practice or procedure. For example, it was stated that:

- 1) Reserves should be provided for bad and doubtful accounts and notes receivable, for diminution in value of securities and for depreciation of plant, property and equipment;
- 2) Inventories should be valued at the lower of cost or market; should not contain unsalable or obsolete items; should not include selling expenses, interest charges or administrative expenses; and should not anticipate profits;
- 3) Items of unusual profit or loss which are not the result of ordinary transactions of the concern and items which are due to operations of prior periods should be shown as special credits or special charges to profit and loss;
- 4) If the property valuation is stated on the basis of an appraisal at a given date that fact should be mentioned in the balance-sheet;
- 5) Any credit reflecting appreciation based on an appraisal of assets should be shown, where possible, on the balance-sheet above capital and surplus as

"Unrealized appreciation resulting from revaluation of capital assets";

- 6) When corporations have temporarily invested funds in the purchase of their own stocks and bonds, these securities technically should be deducted from the corporation's outstanding securities. Custom, however, has sanctioned the inclusion of such temporary holdings as investments, but where they are so held the fact should be clearly indicated on the balance-sheet. Investments of this kind are not usually regarded as current assets.

Nowhere in the bulletin was it stated, except by inference, that assets were to be recorded and accounted for at cost; the use of appraisals was neither recommended nor condemned (although, as indicated by items 4 and 5 above, apparently they were not considered out of place); no method was prescribed for accounting for the difference between par or stated value and cost of reacquired capital stock; no mention was made of contingency or inventory reserves; and many other matters some of which were then and still are the subject of discussion and debate were not referred to in the bulletin.

The revised bulletin, issued in 1936, like its predecessors was, as indicated by its title, "Examination of Financial Statements," concerned principally with audit procedures. It did contain, however, substantially all of the pronouncements -- although in some instances worded differently and, on the whole, more definitely stated -- that were in the 1929 bulletin and to which I referred previously except that it veered away from the "all inclusive" type of income determination; instead of stating, as did the 1929 bulletin, that "Items of unusual profit or loss which are not the result of ordinary transactions of the concern and items which are due to operations of prior periods should be shown as special credits or special charges to profit and loss," it stated that "Minor surplus adjustments affecting prior periods are preferably included under this caption [Other income or other charges] since it is impossible to close the accounts of any one period without continual overlapping of miscellaneous income and expense items."

With respect to the basis for recording assets it was stated that "Plant assets, permanent investments and intangibles are usually stated at cost or on some other historical basis without regard to present realizable or replacement value," and "It is a generally accepted principle .... that the investment in an industrial plant should be charged against operations over the useful life of the plant."

Like the 1929 bulletin the 1936 bulletin neither recommended nor objected to restatements of assets based upon appraisals but

contained the statement "The balance sheet should show as 'surplus arising from revaluation,' or some similar title, any credit resulting from increasing the book value of capital or other assets by revaluation, whether on the basis of independent appraisal or otherwise." And no method was prescribed for accounting for "losses" and "gains" on treasury stock transactions, or the treatment of contingency and inventory reserves.

The bulletin, however, contained the following new pronouncements:

- 1.. "Unrealized profits should not be credited to income account either directly or indirectly, by charging against such unrealized profits amounts which would ordinarily be chargeable against income account. Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. An exception to the general rule may be made in the case of inventories in industries (such as the packing-house industry) in which it is a trade custom to take inventories at net selling prices which may exceed cost."
2. "Capital surplus, however created, should not be used to relieve the income account of the current or future years of charges which would otherwise require to be made against income. This rule might be subject to the exception that where, upon reorganization, a reorganized company would be relieved of charges which would require to be made against income if the existing corporation were continued, it might be regarded as permissible to accomplish the same result without reorganization provided the facts were as fully revealed to and the action as formally approved by the stockholders as in reorganization."
3. "Earned surplus of a subsidiary company created prior to acquisition does not form a part of the consolidated earned surplus of the parent company and subsidiaries; nor can any dividend declared out of such surplus properly be credited to the income account of the parent company."
4. "Each class of stock should be stated separately on the balance sheet, with the amount authorized, issued and outstanding and the par value per share. If the stock is of no par value the stated or assigned value per share, if any, should be shown and the redemption price or the amount of preference upon liquidation. If any stock of the company is held in the treasury it should preferably be shown as a deduction from capital stock or from surplus or from the total of the two, at either par or cost, as the laws of the state of incorporation and other relevant circumstances require. If it is included on the asset side of the balance sheet the circumstances justifying such treatment should be indicated in the caption or in a footnote to the balance sheet."

5. "'Notes' [and] accounts receivable from stockholders, directors, officers and employees and . . . from affiliated concerns . . . should be shown separately on the balance sheet."

6. "If capital stock is issued nominally for the acquisition of property and it appears that at about the same time, and pursuant to a previous agreement or understanding, some portion of the stock so issued is donated to the corporation, it is not permissible to treat the par value of the stock nominally issued for the property as the cost of the property. If stock so donated is subsequently sold, it is not permissible to treat the proceeds as a credit to surplus of the corporation."

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A significant step toward the establishment of a body of generally accepted accounting principles was taken by the American Institute of Accountants at their annual meeting in 1934 when the membership approved the adoption of a "Statement of Rules or Principles Recommended for Adoption by the Institute" contained in a report of a "Special Committee on Development of Accounting Principles."

In this report the Committee stated that:

"The special committee on the development of accounting principles believes that, in its first report to the membership of the Institute, it should indicate the general policy which it recommends that the Institute should follow:

"Since principles of accounting can not be arrived at by pure reasoning, but must find their justification in practical wisdom, the committee believes that the Institute should proceed with caution in selecting from the methods more or less commonly employed those which should be accorded the standing of principles or accepted rules of accounting. Further, when the Institute lays down rules or principles, they are apt to be regarded as self-serving declarations when they would operate to protect its members, though they will be given full weight when they affect the position of a member adversely. It is therefore highly desirable to secure the acceptance of any rules or principles laid down, not only by the Institute but also by the courts or by independent bodies having some regulatory powers or authority. The committee believes that the policy of the Institute should be to act with care and deliberation, and to endeavor whenever possible to secure the concurrence of some body possessing high authority in the rules or principles which it lays down."

"Your committee desires, also, to submit the following report on specific recommendations:

"In September, 1932, the special committee of the Institute on cooperation with stock exchanges, in a communication addressed to the New York stock exchange, set forth in five paragraphs certain principles which it thought would find general acceptance. Subsequently, the stock exchange asked all corporations whose securities were listed to secure from their auditors information on certain points, one of which was whether the accounting of the corporation conformed to accepted accounting practice, and particularly whether it was in any respect inconsistent with any of the principles put forward by the Institute. In a report to the governing committee of the exchange dated October 24, 1933, the committee on stock list stated that the replies had indicated very general acceptance of those principles, and added: 'The committee feels that all these principles should be regarded by the exchange as so generally accepted that they should be followed by all listed companies -- certainly, that any departure therefrom should be brought expressly to the attention of shareholders and the exchange.' The committee feels that these rules or principles . . . should be adopted by the Institute."

The "rules or principles" recommended by the committee and adopted by the membership were six in number and were substantially the same, and in some instances were word-for-word the same, as those which I quoted previously <sup>3/</sup> from the bulletin "Examination of Financial Statements" issued by the Institute in 1936.

In September 1939 the Committee on Accounting Procedure of the American Institute of Accountants issued the first three of a series of Accounting Research Bulletins. In Bulletin No. 1 the six "rules or principles" just referred to were reprinted under the caption "Rules already adopted" by the membership of the Institute. In addition there was included in the bulletin, described as a "rule already adopted by its committee on accounting procedure" the report of that committee relating to "Profits or Losses on Treasury Stock," which was prefaced by the statement "The executive committee . . . directed that . . . it be published, without approval or disapproval of the committee, for the information of members of the Institute." This report concluded with the following statements of the special committee on cooperation with stock exchanges and the committee on accounting procedure (which apparently comprise the "rule" referred to):



"Accordingly, although your committee recognizes that there may be cases where the transactions involved are so inconsequential as to be immaterial, it does not believe that, as a broad general principle, such transactions should be reflected in earned surplus (either directly or through inclusion in the income account)."

"This committee agrees with the special committee on co-operation with stock exchanges, but thinks it desirable to point out that the qualification should not be applied to any transaction which, although in itself inconsiderable in amount, is a part of a series of transactions which in the aggregate are of substantial importance."

Although these seven pronouncements are referred to as "rules" the bulletin also contains the following paragraph under the caption "Exceptions to General Pronouncements":

"The committee recognizes that its general rules may be subject to exception and that in extraordinary cases truthful presentation and justice to all parties at interest may require exceptional treatment. But the burden of proof is upon the accountant clearly to bring out the exceptional procedure and the circumstances which render it necessary."

Bulletin No. 2, captioned "Unamortized Discount and Redemption Premium on Bonds Refunded" was not characterized as a rule. In it three optional treatments were cited and discussed; one was stated to be "permissible" but "open to objection"; another, "has in the opinion of the committee, considerable support in accounting theory" and "perhaps conforms more closely than either of the other methods to the current trend of development of accounting opinion" although "the committee is not prepared at this time to express a preference for this method so definite as to call for a qualification of the certificate if any other method is employed"; and the third method was described as "not adequately supported by accounting theory, but to run counter to generally accepted accounting rules."

The title of Bulletin No. 3, "Quasi-reorganization or Corporate Readjustment. - Amplification of Institute Rule No. 2 of 1934," is, I think, self-explanatory and warrants no further comment here.

Bulletin No. 1 also listed 12 additional matters which were receiving attention and would be the subject of future bulletins.

Thirty Accounting Research Bulletins have been issued subsequent to the three I have discussed; a total of 33 to date. Of these, five dealt with subjects included in the 12 listed for future action in Bulletin No. 1. None of these 30 bulletins is described as a rule, and not more than one-third of them appear to be unequivocal statements of

principle or procedure. Most of them contain statements so qualified as to allow for a variety of practices (e.g.: "should ordinarily be included"; "is usually combined with"; "it is not generally necessary"; "it may be desirable"; "might well be adopted"; "is obviously proper"; "is good accounting practice.")

All of the 30 bulletins, except six which are captioned "Reports of Committee on Terminology," contain the admonition "Except in cases in which formal adoption by the Institute membership has been asked and secured, the authority of the bulletins rests upon the general acceptability of opinions so reached," and "It is recognized also that any general rules may be subject to exception; it is felt, however, that the burden of justifying departure from accepted procedures must be assumed by those who adopt other treatment."

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Another effort toward the establishment of a coordinated body of basic accounting principles is found in "A Tentative Statement of Accounting Principles Underlying Corporate Financial Statements," which was issued by the Executive Committee of the American Accounting Association in 1936.

The purpose of this statement was described as an attempt "to set forth some of the bases upon which accounting statements rest; it has not tried to establish the postulates of all accounting theory and procedure . . . any complete statement of fundamental principles must include suitable explanations, extensions, and qualifications in order to provide for special circumstances. With this understanding, however, it should still be possible to agree upon a foundation of underlying considerations which will tend to eliminate random variations in accounting procedure resulting not from the peculiarities of individual enterprises, but rather from the varying ideas of financiers and corporate executives as to what will be expedient, plausible, or persuasive to investors at any given point of time. A solution of this problem has been sought by attempting a tentative statement of certain basic propositions of accounting which embody standards of adequacy and reasonableness in the presentation of corporate financial statements. In most instances these principles represent levels of accounting practice departures from which now are viewed with concern by many practitioners and financial analysts."

The principal features of this statement may be summarized briefly. It recognized original cost as the proper basis of recording, and accounting for depreciation of assets; periodic revaluation of assets, up or down, whether in accordance with price levels or for other reasons, was condemned, as was the use of any values other than unamortized cost except insofar as furnished only as collateral notations for informative purposes; the income statement should be "all-inclusive," that is, should reflect all revenues and all costs recognized during the period whether or not strictly applicable to the current period; as an aid to proper

comprehension of the results for the period it was provided that a section of the income statement which would include all items resulting from normally recurring transactions would be followed by a second section showing all other items including, specifically, so-called capital gains and losses, prior year adjustments, difference upon settlement of liabilities and extraordinary items; the income statement should exclude any item arising from transactions or adjustments affecting the capital accounts, including dividends; a warning was expressed as to the use of reserves created to artificially stabilize profits; and the prescription was laid down that "Surplus set aside for contingencies or for other purposes does not lose its identity and should ultimately be restored intact to surplus account."

The propositions were advanced (the general objective of which was to make an effective distinction between capital and income) that capital should be divided into two main classes, namely, paid-in capital and earned surplus; that paid-in capital should be further sub-divided into capital stock, paid-in surplus, gains from the sale and from retirement of reacquired shares and capitalizations of earned surplus; that reductions of paid-in capital should be limited specifically to stock redemptions and retirements and to liquidating dividends; that upon retirement of reacquired shares any excess of cost over the prorata portion of capital stock and paid-in surplus applicable to the shares should be charged to earned surplus; that no credits to earned surplus might arise from transactions in the company's own stock; that no transfers should be made from paid-in surplus to earned surplus; and that, following the elimination of a deficit by utilization of paid-in capital, earned surplus should be dated.

The bulletin has been revised twice; first in 1941 under the title "Accounting Principles Underlying Corporate Financial Statements" and again about a month ago under the title "Accounting Concepts and Standards Underlying Corporate Financial Statements."

The 1941 revision embodied a number of desirable changes and additions. For the most part, however, they were clarifying in nature or served to add emphasis at selected points. Among the new features the following were most significant: 1) Upon retirement of a debt any related discount, premium or expense should be written off immediately; 2) Discovery value, timber growth, and other forms of accretion are generally not to be recognized as realized revenue; 3) Absorption of a deficit by transfer to paid-in capital should be approved by the stockholders; and 4) The treatment of reacquired shares was expanded to deal with the reissuance of such shares.

The 1948 revision was perhaps more extensive than the first. While all the changes effected are important, a few stand out more prominently than others and deserve specific mention. They are: 1) Recognition is given for the first time to the disposition of intangibles. It is now provided that "the cost of an intangible asset which has a limited-term significance should be assigned to expense by

systematic timely charges." 2) Also for the first time acceptance of "a flow of the cost of inventoriable items" sanctions the use of Fifo, Lifo or average cost methods. 3) In connection with the accounting treatment of reacquired shares, a complete cut-off is now effected as between such reacquisition and any subsequent events. The result is that the reissue of reacquired shares now "should be accounted for in the same manner as an original issue of corporate shares."

The latest (1948) statement comprises seven book-sized pages divided into six sections, viz.: Prefatory Note, Assets, Income, Liabilities and Stockholders' Interest, Financial Statements and Concluding Comment.

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In November 1937 "A Statement of Accounting Principles" formulated by Professors Sanders, Hatfield and Moore under the auspices of the Haskins & Sells Foundation was published by the American Institute of Accountants. The avowed purpose of this statement was to evolve "a reasonable number of accounting principles, based on practical business concepts of capital and income, which will merit the approval of those competent to judge of their soundness, and thus attain to general acceptance." Such a statement was highly desirable in the opinion of the Foundation because "Accounting practices at present are based, in a large measure, upon the ethics and opinions of reputable accountants, and to some extent upon the accounting provisions of the various laws, but wide variations of opinion often exist among equally reputable practitioners. There is no unified body of opinion, nor is there any official tribunal for the final determination of technical differences of opinion."

The statement was a very comprehensive one replete with discussion and notes. It covered directly, or by inference, all of the items referred to in the 1929 bulletin, the Institute's 1934 "rules" and the Association's 1936 statement, and many more. Whether or not it accomplished its stated purpose, or the attempt of its authors as stated in their letter of transmittal to the Foundation "to set forth the principles and rules of accounting which dictate what should appear in a balance-sheet and an income statement and in the accounts from which they are compiled" can best be judged from some of the pronouncements contained in the statement, of which the following are representative:

1. "Since the income statement is prepared for the information of owners, managers, creditors, and taxing authorities, and for regulatory and other purposes, those accounting practices are best which serve these purposes in the most reliable and helpful manner. It sometimes becomes necessary to prepare separate statements to serve the several purposes. The different statements should be reconcilable with one another, and the purpose of each should be always to afford a

substantially sound view of the facts to those to whom it is addressed. Furthermore, since reliable information is the main objective of an income statement, for whatever purpose prepared, no considerations of policy should prevent a true showing of the facts";

2. "The non-operating section of the income statement. . . should include . . . unrealized gain from appreciation (if shown at all . . .) . . .";
3. "One of the few topics relating to accounting on which there is general agreement is that depreciation involves a charge against the earnings of the period."
4. "Reserves to equalize maintenance . . ., even over successive fiscal years, may properly be employed, so long as the practice is clearly disclosed."
5. "So-called 'capital gains' and 'capital losses' are conspicuous examples of occurrences affecting the asset values of a business enterprise for which accounting practice discloses no generally followed or standard method of accounting . . . . Whether such gains or losses should be wholly included in the current income statement, wholly excluded from all income statements, or apportioned among the current and succeeding income statements is a matter to be determined by sound business judgment, made upon all the facts of the particular case, guided by the principle of conservatism . . . . In cases of doubt the tendency should be to include such items in the income statement."
6. "In the case of some commodities, such as grain or cotton, regularly quoted and readily realizable on an organized exchange, it may be the most convenient thing to value inventories on the basis of the current quotations. . . . no great harm can result from taking up the resulting profits or losses in such cases, provided (a) a consistent policy is followed, (b) the practice is clearly disclosed, including the possible effects on dividends."
7. "When unusual declines of large amounts have taken place and are likely to be permanent, the assets may be written down against capital, or capital surplus, or earned surplus . . . write-downs recording catastrophic physical or economic destruction of capital may be proper charges against capital or capital surplus. No such step should be taken without full consideration of its effect in reducing subsequent charges against income."

8. ". . . it may be justifiable to charge to Development (an asset account) some expenses which later may regularly be charged against income. Or it may be better to make all the charges to income and carry forward the resulting net deficit as an intangible asset. In any case the accounts should indicate what has been done."
9. "If the management wishes to go further and adopt a still more conservative policy with respect to inventory valuation, calculated to reduce the fluctuations in profits, that should be regarded as well within its province."
10. "The regular amortization of goodwill is not considered imperative, as is the amortization of wasting assets. Such a treatment, however, is not considered objectionable. Strictly speaking, the amortization is a charge against income for the period during which the goodwill is supposedly effective, but the practice of charging capital or surplus instead of current income is approved by accountants."
11. "Reacquired shares of a company's own stock . . . should not be included in the current assets section. Ordinarily the same rule will apply to the company's own issue of bonds. But a few bonds of a well-secured issue, upon reacquisition, if readily salable, may be carried as marketable securities."
12. "It is a proper exercise of the functions of management to choose which of the three methods shall be followed, provided the method chosen is clearly shown in the annual statements affected." (This statement was made in connection with the discussion of optional methods of accounting for unamortized discount and expense on bonds refunded).
13. "It is, however, good practice to call attention to the existence of material contingencies either parenthetically or in a footnote."

It would appear that our body of generally accepted accounting principles is not to be found in one place; that while there are some principles which are so generally accepted as to constitute rules, there are many others concerning which serious differences of opinion exist within the profession. I should like to suggest that the profession increase its efforts to resolve these differences.

Much could be accomplished in this respect, I think, if the Institute would adopt the policy of issuing its Accounting Research Bulletins so worded as to establish the considered views of its membership as definite statements of principles - rules, if you please. Optional treatments and qualifying comment should be avoided and it should be made quite clear that deviation by clients from these established principles would result either in an exception in your certificate or the refusal to certify in cases where the effect of the non-accepted practice would, in your opinion, make the statements misleading.

Also, I think, the Institute might well consider the publication of a statement of accounting principles as comprehensive and as forthright as that of the Association. In connection with the compilation of such a statement it would seem highly desirable that the Institute and the Association get together and arrive at a single solution for those matters upon which they now appear to differ. Personally I should like to see a joint statement which would leave no doubt as to what is meant when the term "generally accepted accounting principles" is used.

I have referred to a report of a "Special Committee on Development of Accounting Principles" which was adopted by the membership of the Institute in 1934. In this report it was stated that:

"Under the act creating the securities and exchange commission as passed at the last session of congress, that commission has wide powers to prescribe methods of accounting and your committee believes that a close cooperation with the commission is desirable and should permit of the formulation of accounting rules or principles in accordance with the policy which has been outlined. Obviously, the Institute desires to keep in close touch with the work of the commission for the purpose, first, of assuring that the methods prescribed by that body conform to the best accounting opinion and shall not be prejudicial to the welfare of the profession or the community; and, secondly, to enable it to bring rulings made by the commission to the attention of members of the Institute and to secure their cooperation in all measures designed for the protection of investors and benefit of the community."

The Commission has cooperated with the accounting profession in its attempts to formulate accounting rules or principles. Although we do have "wide powers to prescribe methods of accounting," very few of these powers have been exercised and the occasions upon which there have been ultimate disagreements between the profession and the Commission with respect to accounting matters have been rare indeed. And you may be sure that the Commission will continue to work with the profession to the end that in the not too distant future there may be developed a comprehensive and authoritative statement of generally accepted accounting principles.