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FOREWORD

In reporting on corporate management's financial statements, the public accountant occupies a uniquely demanding position vis-à-vis the party employing him. The SEC has stated flatly of the CPA that "his duty is to safeguard the public interest, not that of his client,"¹ and has contrasted this responsibility with that of the lawyer.² If meaningful professionalism consists in rendering services requiring unusual technical competence and independence of judgment and in discharging a public responsibility, the public accountant's claim to professional status seems to be at least as meritorious as that of any other calling.

The only factor that makes the accountant's position with respect to his client at all tenable is the objectivity of the standard he is expected to apply in expressing an opinion on financial statements. The prevailing standard is that reflected in the auditor's usual opinion to the effect that the financial statements in question "fairly present" the company's financial position and its operating results for the calendar period "in accordance with generally accepted accounting principles." Under this standard, the legitimacy of a particular treatment of an item to be accounted for is determined by reference to the practices of other firms and other accountants; the accountant's private opinion as to the essential soundness of the method is only incidentally relevant, if indeed it is relevant at all.

This symposium is concerned with the extensive controversy aroused by accountants' use of a standard of reporting that sanctions financial reports prepared by widely divergent accounting methods, with the result that reports of different firms even within the same industry cannot be readily compared. It is a credit to the accounting profession that much of the pressure for improvement in reporting standards has been generated within the profession itself; but others have now joined the debate. The discontent with the accounting profession's performance has reached a point where compulsory change, through action of the SEC or the courts, is a real possibility. This possibility of legal change, together with the substantial interaction of law and accounting generally, has prompted the editors of *Law and Contemporary Problems* to provide in this issue the most comprehensive collection of views to date on the subject of the crisis over "uniformity" in financial reporting.

Changing the relationship between auditor and corporate management might offer some hope for improving the ability of the individual accounting firm to resist management's preference for a practice deemed objectionable, but little attention

¹ Touche, Niven, Bailey & Smart, 37 S.E.C. 629, 670-71 (1957).

² American Finance Co., 40 S.E.C. 1043, 1049 (1962).

has been given to reform in this area. Probably the only improvement that is feasible in the short run might result from the adoption by the SEC and the stock exchanges of requirements that would give substantial publicity to terminations of auditing engagements that are prompted by disagreements over accounting principles. Substantial progress in improving financial reporting is more likely to occur, however, as a result of activities in the field of accounting principles themselves.

The need for replacing "generally accepted accounting principles" with a standard having similar objectivity requires that any action taken encompass the entire accounting profession. Thus, the only authorities other than Congress in a position to act effectively are the American Institute of Certified Public Accountants and the SEC, which has sufficiently broad statutory authority to accomplish sweeping changes if it chooses to act. At the moment, because of the SEC's apparent willingness to await developments a while longer, the responsibility rests with the profession. The articles that follow document and comment upon the past, current, and possible future efforts of the AICPA to develop more uniform practices. This history is interesting as a study of professional self-regulation but is inconclusive as a guide to the prospects for resolving the many remaining issues.

The conclusions reached by our contributors on the hopefulness of the current situation are startlingly divergent. While widespread agreement exists in the profession on the need for progress in narrowing the availability of alternative accounting methods, differences persist over the ultimate goals and the methods and urgency of achieving them. Many of what appear to be the true issues in the controversy have been largely avoided in accountants' intramural discussions. The following are among the questions that appear to require better answers than have yet been given: What degree of uniformity is actually desired? What scope would uniformity leave for the exercise of enlightened professional judgment? Given the necessity for a degree of arbitrariness in almost any accounting decision, what is lost by adopting uniformity as a paramount value, overriding unavoidable (and possibly disingenuous) differences of opinion? Will uniformity necessarily produce artificial biases against particular industries on the part of investors or against particular business practices on the part of business managers? Granting that "circumstances" must control the choice of accounting methods, should a circumstance such as management optimism or other subjective corporate policy be given weight? Can accounting theory provide a workable series of principles or not? Can academic accountants, presumably more interested in and adept at developing accounting theory, make a contribution that will be accepted by practitioners?

Because comparability of financial statements is important to the efficiency of the capital markets and thus to the functioning of the economy as a whole, the responsibility of the accounting profession is enormous. The challenge should be welcomed.

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