Accounting Historians Notebook

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Accounting history quiz

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ACCOUNTING HISTORY QUIZ

Name the famous accountants who made the following remarks.

(1) Accounting principles need not and should not be codified. To introduce such rigidity is to diminish the great service which accountants can and do perform in the interpretation of freely transacted business. There is no reason to believe that accounting and accounting statements should be so simplified as to be readily understandable by one and all. A reasonable man does not expect all persons to understand the intricate details of the practice of medicine without being trained therein. It is equally illogical to expect everyone to fully understand all about accounting. This interpretive function is best left to the accountant.

The demand for uniformity and standardization in accounting systems arises from a distrust of business management. Uniformity and standardization will gain little "since management controls the form which transactions take." Accountants are challenged "to accept their interpretive function and show integrity, courage, and resourcefulness in discharging this function."

(2) Present-day income statements can also be improved in many ways. The showing of gross profit should be eliminated, since there is no need for an intermediate figure before the all-important net operating income figure. Interest is a distribution of earnings, not an expense. Depreciation, a perfectly valid operating expense, should be included in operating expenses. Purchase discounts are not income, but adjustments of nominal cost. A combined statement of income and surplus should be presented, in view of the tendency to charge many items to surplus. Current dividends should be shown in the income statement as a charge against current earnings.

Accountants should make greater use of cumulative reports, statistical devices such as index numbers and funds statements. Accountants could also prepare a balance sheet in two segments — first, the current account data which would take the liquidation point of view, and secondly, the capital account section which would take the going-concern point of view.

(3) The present period of rising price levels has produced a lot of mumbo-jumbo and misconceptions with respect to depreciation, depreciation reserves and profit levels. A number of devices have been used in attempts to find the "solution" to high prices, such as the immediate absorption of all or a part of the cost of new assets, increasing the depreciation rates, reversing accrued depreciation and various write-up methods, including that of the quasi-reorganization.

Another fallacy encountered is the belief that increasing depreciation charges will increase working capital. Those who persist in the cry of "unreality" with respect to business profits should recognize that "men's minds as well as prices are infected by inflationary movements." There is also the worshipping cult which asserts that accountants should use index numbers in valuing fixed assets, but which fails to recognize that a proper application of index numbers to the conditions attaching to a particular business will probably justify continuation of recording assets at cost and the taking of depreciation on the cost basis.

(4) The significant antecedents of double-entry bookkeeping are (1) the art of writing, (2) arithmetic, (3) private property, (4) money, (5) credit, (6) commerce, and (7) capital. Although most of these antecedents existed to a certain extent in Roman and Greek cultures, double-entry bookkeeping needed something more to foster its development. "The ancient world did not produce bookeeping [because] it did not have the conception of productive business capital." Capital did exist in the sense of wealth, but wealth alone does not create capital in the modern sense of the word.

Mail your answers to Notebook, Box 658, University Plaza, Atlanta, Georgia 30303. Professor Gary John Previts has graciously offered to entertain the winner to a delightful "night on the town" in Cleveland, Ohio . . . sometime in latter January . . . assuming the winner can pay his own way there.