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DOCTORAL RESEARCH

This group of dissertations deals with varied and interrelated aspects of generally accepted accounting principles. We commence with Maloo's overview of the GAAP life cycle process and continue with Galliart's study of factors influencing a large segment of accounting theory and practice: that of income reporting. Environmental influences also form the basis for Frey's investigation of whether the thrust for development of accounting principles and auditing standards comes from within or without the profession. One significant source of influence on accounting theory and practice is tax law—just how significant the development of federal income tax regulation was for accounting is the subject of McClure's research. Along these same lines, Hughes examines one particular accounting problem: that of accounting for goodwill, and traces the interrelationships between accounting theory and tax regulations on this topic. This focus on particular accounting problems continues with Lambert's assessment of the user benefits of an accounting principle, yet to be generally accepted, in his study of the effects of general purchasing power information on commercial bank loan officers' decisions. We conclude, still with users in mind, by shifting the scene from the future to the past. We consider a significantly larger user group and we face a serious question of social responsibility with Dillon's examination of the alleged contribution of accounting practices to the stock market crash of 1929.

Toward A Theory Of Evolution Of Selected Accounting Ideas (The Florida State University, 1977, 295 pp.; 38/5, p. 2871-A)[1] by Man Chand Maloo. Maloo's hypothesis, born out by examination of six "important ideas" identified by faculty at the Florida State University and the Florida A&M University, is that "there seems to exist an ongoing accounting process which helps to explain the origin, evolution, and final acceptance or rejection of generally accepted accounting principles". According to Maloo, the slowness of this pro-

[1] *Dissertation Abstracts International* volume and page references.

cess is due to numerous causes, including: institutional factors; the pursuit of uniformity goal; and the rapid environmental changes which necessarily bring about a time interval between perceived needs for accounting information and accounting practices which can supply this demand.

With respect to institutional factors, Maloo identified three classes of institutional roles: initiators, proponents, and opponents—all active when a new accounting idea emerges. More accounting changes are initiated by low-authority institutions, such as "management, academicians, practitioners, the AAA and the AICPA." However, the success of a new accounting idea in reaching the status of a generally accepted accounting principle depends on the alignment of high-authority institutions, such as "the SEC, the NYSE, and others", in the role they play as "reactors" with the proponents or opponents from the low-authority institutions. Maloo's central thesis is that in assessing the possible consequences of proposed accounting changes, low-authority institutions consider the safeguarding of their own vested interests while the high-authority institutions attempt to evaluate the costs and benefits to society.

The Development of Income Reporting in the United States (University of Illinois at Urbana-Champaign, 1972, 488 pp.; 33/10, p. 5343-A) by Willard Harold Galliart. Galliart took an international perspective by attempting to assess the influence of developments in Italy, Holland, and Great Britain, prior to 1900, on the evolution of income reporting in the United States. His research relied heavily on review of the professional literature although some examination was made of published financial reports.

Three phases of the income reporting function were analyzed: income measurement, reporting income information, and the attest function. According to the author, improvements in the measurement of income have been hindered and delayed by the lack of a conceptual definition of income on the part of the accounting profession and its reliance on an operational approach, as well as the profession's borrowing of definitions from the fields of economics and law. The reporting of income information is, of course, directly linked with the accountant's perceptions of the firm's basic goal. The centuries-old belief in the supremacy of profit maximization in measuring business success has now been challenged and supplemental reports of enterprise achievement, on some other bases, have been proposed by various critics of the status quo. Galliart notes that, prior to the 19th century, particularly in Britain, income

information was intended primarily for internal management use and thus external reporting was slow in evolving. In recent years, however, significant influences have been brought to bear on the reporting function by various user groups, especially bankers, equity investors, the Securities and Exchange Commission, and the financial press. Galliart considers the attest function to be the least important aspect of the evolution of income reporting. In his opinion, public confidence in audited statements provides some value to the auditing process. However, from an historical perspective, whatever contribution auditing may have made to the evolution of income reporting is more than offset by the accounting profession's traditional preoccupation with the balance sheet.

The Public Accounting Profession—The Impact of External Environmental Factors From 1900-1971 (University of Maryland, 1972, 268 pp.; 33/11, p. 5883-A) by Ralph Wylie Frey, III. Frey evaluated the comparative influences of external political, legal, and economic environmental factors vis-a-vis factors internal to the public accounting profession in developing guidelines for performing the attest function. From the viewpoint of the external environment, the main institutions studied were the New York Stock Exchange, the Securities and Exchange Commission, consumerism, and conglomerates, while the pronouncements of the American Institute of CPAs were surrogates for internal influences. The author identified 42 publications dealing with accounting principles and auditing standards and isolated only 6 of them as resulting from initial exertions of external environmental factors. These were: Statements on Auditing Procedures Nos. 1 and 50, Accounting Research Bulletin No. 41, the Tentative Statement of Auditing Standards—Their Generally Accepted Significance and Scope, and Accounting Principles Board Opinions Nos. 4 and 19. Consequently, while Frey notes that the scope of his study was necessarily limited to a manageable task, those events which impacted on the development of accounting principles and auditing standards and procedures, and which were included in his review, chiefly emanated from within the internal environment.

Historical Critique of the Development of the Federal Income Tax From 1939-1954 And Its Influence Upon Accounting Theory and Practice (University of Illinois, 1968, 636 pp.; 29/3, p. 701-A) by Melvin Theodore McClure. McClure's study traces the development of Federal income tax regulation, during the period 1939-1954, from

a legislative, judicial, and administrative standpoint, and evaluates concurrent influences on accounting theory and practice.

The most significant contributions by the judiciary to the development of income taxation lay in broadening the way in which taxable income was defined, making taxation theory more cohesive, and not permitting income to be artificially allocated between taxpayers. Various standards evolved during this period, the most significant being the concept of the claim of right which, under certain conditions, allowed funds to be taxed wither when received or when the right to receipt became fixed. Also, the closed transaction approach became a guideline for recognizing revenues and expenses for tax purposes and the all events test developed as a standard for recognizing deductions. The first and third of these standards had important effects on the legal concept of realization in that the realization of revenues was accelerated by the claim of right concept whereas the realization of expenses and losses was delayed by the all events test. Both income tax law and regulations interpretation were affected by the recommendations of the AICPA's Committee on Federal Taxation in that a number of its proposals were adopted regarding specific changes in tax philosophy as well as the basic accounting principles which should be reflected in the Tax Code.

The other side of the coin, McClure found, is that accounting theory and practice was itself profoundly influenced by the growing field of income taxation. Such topics as accelerated depreciation, new depreciation guidelines and rules, the investment credit, stock options, pension plans, the net operating loss deduction, accounting for tax effects, and changes in accounting methods and correction of accounting errors created new challenges for accounting theory and practice. The gap between statutory law and accounting philosophy has both widened and narrowed as differences have arisen between accounting and taxable income and McClure optimistically calls for harmony through reconciliation.

A History of the Issues and Problems Surrounding Goodwill in Accounting (The University of Alabama, 1972, 509 pp.; 33/7, p. 3073-A) by Hugh Peter Hughes. This study traces the evolution of the concept and accounting treatment of goodwill. The term "goodwill" has come down from the era of small owner-operated enterprises when the profitability of a firm was attributed to the favorable attitudes of its customers. Although firms have grown in size and the number of factors influencing profitability has multiplied, this term has remained the same. Also unchanged over the centuries has

been the use of the cost principle for the valuation of goodwill as an asset. No such traditional unanimity of opinion existed, however, with respect to the accounting treatment to be accorded goodwill after it had been acquired by purchase. From the late 1920s, the tax law exerted a strong influence on accounting practice by not permitting deductions for goodwill amortization. Despite this 50-year tax tradition, however, the Accounting Principles Board made periodic amortization mandatory in the early 1970s. In our present post-industrial society and "from a contemporary, institutional viewpoint", Hughes states, "goodwill may be defined as a differential advantage accruing to a corporation in terms of its dominant goals—the ability to generate superior profits by whatever means to finance the technostructure's growth, usually by selling goods through purposeful manipulation of the consumer's customs and habits."

General Purchasing Power Financial Statements—A Behavioral Study (University of Arkansas, 1977, 144 pp.; 38/5, p. 2871-A) by Kenneth Ray Lambert. Lambert's research was concerned with the problem of whether the professional decisions of commercial bank loan officers would be affected by general purchasing power information and his conclusions supported a null hypothesis.

His study commenced with an historical survey of the topic of adjusting financial statements for changes in the general price level. In the United States, Sweeny's *Stabilized Accounting* was the most important early contribution to this literature. Research on this topic was sponsored by the AICPA and the AAA, price level adjustmented financial statements being recommended by the AAA in 1951. It was not until almost two decades later, in 1969, that the AICPA moved in the same direction when the Accounting Principles Board issued Statement No. 3. Since that time, much has been studied, written, and debated but little resolved. According to Lambert, the main cause of the dilemma is the fact that there are two coexisting enterprise concepts: the entity theory and the proprietorship theory and this prevents mutual agreement about how to account for the impacts of inflation.

The second part of the study was an empirical test of the reactions of bank loan officers when financial information about general purchasing power was supplied in addition to the conventional historical cost accounting data. A sample of loan officers, drawn from the three hundred largest banks in the United States, was divided into 2 groups. Each group was given the same set of financial statements for a hypothetical Alpha Company, based on historical cost,

plus financial statements for a second firm, Beta Company, and asked to evaluate a request from each company for a term loan. The Beta Company financial statements given to the first group of loan officers consisted of general purchasing power information although it was not so identified. The Beta Company financial statements provided to the second group of subjects had historical cost information and general purchasing power information presented in parallel columns. For this (group 2's) Beta Company, the historical cost data was a scale model of Alpha Company's and the general purchasing power data was the same as that supplied to group 1.

Lambert's analysis of the loan officers' responses showed that the first group, which was unaware of the nature of the Beta Company data, evaluated the Alpha and Beta Companies differently, probably because of the numerical differences between the two sets of data, whereas the second group evaluated the two companies about the same. Consequently, Lambert accepted the null hypothesis that there is no significant difference between the loan decisions of professional commercial bank officers which are based on conventional financial statements and those which are on financial statements which contain both historical cost and general purchasing power data.

The Role of Accounting in the Stock Market Crash of 1929 (The University of Michigan, 1977, 367 pp.; 38/6, p. 3573-A) by Gadis James Dillon. Did, as widely believed, accounting practices contribute significantly to the stock market crash of 1929? Dillon does not think so. He reviewed accounting literature of the 1920's, focusing on the following topics: statement preparation, content, and disclosure; income determination and uses; asset recognition, revaluation, and depreciation; and intercorporate investment and business combinations. He then selected a sample of 160 firms listed on the New York Stock Exchange and examined their accounting practices regarding the above topics, using as primary source data annual reports, *Moody's Industrial Manual,* and historical information from the SEC. Dillon's conclusions from this analysis were that "no aspect of accounting, individually or jointly, seemed sufficiently inadequate to be culpable in the crash."

The author feels that, from today's standpoint, disclosure was the greatest inadequacy of the 1920s. Many firms in the sample did not disclose amounts for sales or cost of goods sold and none issued comprehensive details of accounting policies. A surprising

outcome to him was the discovery, based on data from the SEC, that revaluations were less extensive than expected and that decrease in asset valuations exceeded increases. Upward revaluations were reported by 25% of the sample firms during the period 1925-1929 but not by more than 10% of the sample in any one year. Nor was the size of the upward revaluation great in that less than 10% of the sample increased their asset valuations by as much as 5% of total assets at any time during this same 5-year period. Furthermore, none of the firms in the sample credited income for increases in asset valuation. Dillon concluded his study by making statistical tests for relationships between these specific accounting practices and changes in stock prices. Nineteen accounting attributes were isolated from the specific accounting practices. For measures of stock market performance, cumulative unpredicted residuals were obtained by using stock rates rates of return data from the period immediately after the crash to extrapolate the market model for each firm in the sample. Stock rates of return data for the period prior to the crash were used, through regression techniques, to estimate market model parameters. The test used to investigate relationships between the 19 accounting attributes and the cumulative unpredicted residuals was the Mann-Whitney U test. Only one association was found to be significant at the .05 level: that between relative size of investments and cumulative residual, which, Dillon points out, "was not surprising given the impact of the crash on stock prices".