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Concerns and the profession of accountancy

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CONCERNS AND THE PROFESSION OF ACCOUNTANCY

by
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Eugene H. Flegm, Assistant Controller of General Motors Corporation, 1989 President of The Academy of Accounting Historians, spoke at the Fourth Charles Waldo Haskins Seminar in Atlanta, Georgia on December 1, 1989. His presentation follows as edited by Pamela J. Duke, Georgia State University.

Expressing a growing concern about the proliferation of accounting pronouncements issued by the Financial Accounting Standards Board (FASB) and the trend these pronouncements appear to be taking toward a more theoretical viewpoint, Gene Flegm was particularly critical of FAS Statements 94, 95, and 96. These deal with consolidation of majority-owned subsidiaries, statement of cash flows, and accounting for income taxes. While intended to correct accounting abuses, in his opinion these statements not only fail in their intent, but actually create opportunities for abuse by complicating an already complex reporting system and do nothing to increase the reliability of accounting information.

It was suggested that the accounting profession is merely attempting to validate its discipline academically by developing a stronger basis in economic theory. Expressing a viewpoint representative of the short-run, technical, income orientation favored by the corporate community, Mr. Flegm declared that the economic view of earnings and values loses sight of accounting's primary purpose of historical recordkeeping and control.

Criticisms of recent FASB actions were defended on the basis of management's concern that the FASB's conceptual approach and subsequent pronouncements might lead middle managers to attempt to "fool" upper management by "handling" cash and other assets. He emphasized the accounting function is control and not wealth measurement. Wealth measurement and property valuation are the proper realms of appraisers and other specialists.

In Mr. Flegm's opinion, the FASB and the profession are trying to make the accounting process serve too many uses. Accounting is limited because it is transaction-driven and control-oriented. It has no use in stock valuation because the price of a company's stock is a function of who is running the firm and how well they are doing it. Accounting has no use in determining the valuation of the firm because the going concern decision and liquidation value are determined by management's intent. Financial analysts are not well served by accounting because they only use accounting data to confirm their own expectations. Thus, in Mr.

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HISTORY IN PRINT

The following publications involve accounting history and have appeared in non-Academy publications during the past few months. Such publications help us to be aware of the extensive research being conducted in accounting history and of other outlets for publication. Readers of *The Notebook* are urged to keep the editor alerted to publications which should be listed in this column. Send your suggestions to Elliott Slocum at the editorial address. Readers in Asia and Australia may send their suggestions to Dr. Robert Gibson, School of Management, Deakin University, Victoria 3217 AUSTRALIA.

Charles Alison Compton, "Profiting From the Past," *World,* KPMG Peat Marwick, No. 1, (1990), pp. 30-33.

Luigi Serra, "I Conti delle Fabbriche de Monte Cassino nel 1700," *Rivista Italiana di Ragioneria e di Economia Aziendale,* Anno LXXXIX, (Novembre e Dicembre 1989), pp. 566-574. [This article, included in the section, "History of Accounting," is published in Italian.]

Luigi Serra, *La Storia Della Ragioneria in Italia (The History of Accounting in Italy),* (Cassino: Istituto Tecnico Commerciale, 1989), 36 pages. [This short monograph discusses how accounting evolved; defines the golden period as coinciding with the school of Fabio Besta; discusses the influence of the Fourth International Congress of the History of Accounting in 1984; describes the current situation of accounting history and makes proposals for future study.]

Wanda A. Wallace, "A Historical View of the SEC's Reports to Congress on Oversight of the Profession's Self Regulatory Process," *Accounting Horizons,* (December 1989), pp. 24-39.

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Flegm's view, accounting functions only as a method of recordkeeping, a guardian of assets and a control over employees.

In closing, Mr. Flegm said that he had no quarrel with standard and rule setting as long as the resulting rules and standards make sense and the objective is the elimination of accounting abuses. However, he cautioned against letting the stewardship function of accounting interfere with "real world" managerial decision making, a condition analagous to "letting the tail wag the dog."