1948

Accounting and Changing Price Levels: Preliminary Report, September 1, 1948

American Institute of Accountants

*149.81 A

AMERICAN INSTITUTE OF ACCOUNTANTS
13 EAST 41ST STREET, NEW YORK 17, N. Y.

A D V A N C E

FOR RELEASE: MONDAY, OCTOBER 25

Corporation annual reports should provide supplementary information to show the necessity for retaining out of profits amounts sufficient to replace productive facilities at current prices, it is said in a statement issued by the Committee on Accounting Procedure of the American Institute of Accountants made public yesterday (SUN).

At the same time, the committee announced its conclusion that a change in generally accepted accounting treatment of depreciation charges would not be desirable or practicable at the present time.

In making public the committee statement on depreciation and high costs, Chairman Samuel J. Broad said that the recommendations resulted from more than a year of study, including a special inquiry designed to test informed opinion on depreciation policy among business executives, economists and other financial experts.

"A substantial majority" said Mr. Broad, "agreed with the committee conclusion that a basic change in accounting procedures was not the right answer to the problem under present conditions. But a majority also felt, as does the committee, that business management must explain to employes and the public why high current prices of plant and facilities make it necessary for corporations to retain and reinvest a substantial proportion of net income in order to maintain assets at the same level of productivity at the end of the year as at the beginning."

The committee's position was stated in a letter to American Institute members, the text of which follows:

"The American Institute of Accountants' Committee on Accounting Procedure has reached the conclusion that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions to meet the problem created by the decline in the purchasing power of the dollar.

"The Committee has given intensive study to this problem and has examined and discussed various suggestions which have been made to meet it. It has solicited and considered hundreds of opinions on this subject expressed by businessmen, bankers, economists, labor leaders and others. While there are differences of opinion, the prevailing sentiment in these groups is against any basic change in present accounting procedures. The committee believes that such a change would confuse readers of financial statements and nullify many of the gains that have been made toward clearer presentation of corporate finances.

"Should inflation proceed so far that original dollar costs lose their practical significance, it might become necessary to restate all assets in terms of the depreciated currency, as has been done in some countries. But it does not seem to the committee that such action should be recommended now if financial statements are to have maximum usefulness to the greatest number of users.

"The committee, therefore, reaffirms the opinion it expressed in Accounting Research Bulletin No. 33, December 1947. (*)

"Any basic change in the accounting treatment of depreciation should await further study of the nature and concept of business income.

"The immediate problem can and should be met by financial management. The committee recognizes that the common forms of financial statements may permit misunderstanding as to the amount which a corporation has available for distribution in the form of dividends, higher wages, or lower prices for the company's products. When prices have risen appreciably since original investments in plant and facilities were made, a substantial proportion of net income as currently reported must be re-invested in the business in order to maintain assets at the same level of productivity at the end of a year as at the beginning.

"Stockholders, employees, and the general public should be informed that a business must be able to retain out of profits amounts sufficient to replace productive facilities at current prices if it is to stay in business. The committee therefore gives its full support to the use of supplementary financial schedules, explanations or footnotes by which management may explain the need for retention of earnings.

"Four of the twenty-one members of the committee, Messrs. Broad, Paton, Peloubet and Wellington, dissented from the conclusion that no basic change in the accounting treatment of depreciation of plant and equipment is practicable or desirable under present conditions. They believe further that inflation has proceeded to a point where original dollar costs have already lost their practical significance and that where depreciation is an important element of cost the advantages which would result from a basic change in accounting treatment outweigh the possible disadvantages which have been advanced against it.

For the

COMMITTEE ON ACCOUNTING PROCEDURE

By SAMUEL J. BROAD

Chairman."

(Note to Editor: The members of the Committee on Accounting Procedure issuing the statement on depreciation and high costs- Samuel J. Broad, New York, chairman; John N. Aitken, Philadelphia; William H. Bell, New York; H. L. Dalton, Toledo; Thomas M. Dickerson, Cleveland; James L. Dohr, New York; Fred J. Duncombe, Chicago; J. P. Friedman, New York; Anson Herrick, San Francisco; Thomas G. Higgins, New York; David Himmelblau, Chicago; John B. Inglis, Paul K. Knight, John A. Lindquist, all New York; Edward J. McDevitt, Boston; William A. Paton, Ann Arbor, Michigan; Maurice E. Peloubet and Walter L. Schaffer, New York; Maurice H. Stans, Chicago; Virgil S. Tilly, Tulsa, Oklahoma, and C. Oliver Wellington, New York).

(*) Copy of Accounting Research Bulletin No. 33 accompanies this information to editors.

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American Institute of Accountants
INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA
THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS
13 EAST 41ST STREET, NEW YORK 17, N. Y.

October 7, 1948

A preliminary report on an inquiry by the American Institute of Accountants designed to test the extent of informed opinion in the business and financial circles in favor of a change in accounting methods to recognize inflated prices in figuring depreciation charges was sent to you on the 12th of September.

The report was based on replies received in answer to a questionnaire sent to economists, investment analysts, government officials, representatives of labor organizations, bankers and financial experts. Since that time additional answers have come in, but they have not changed the overall percentages to any material degree. The opinions expressed in these later letters, whether for or against a change, follow the same general tone as those previously reported.

Instead of preparing a complete final report duplicating the material previously sent, the Institute has therefore prepared only a revised tabulation of results, including all answers received to October 1. A copy is attached.

LETTERS SENT OUT BEGINNING JULY 8th, 1948		410
TOTAL REPLIES RECEIVED THROUGH September 30, 1948		225
Expressed opinion	188	
No opinion	17	
Acknowledgements - reply later	20	

LETTERS SENT --------- BY CLASSIFICATION

		Total Sent	No. Replies
1.	Business Executives Steel Companies	17	12
2.	Business Executives Utilities	11	7
3.	Business Executives Retail Stores & Chains	11	7
4.	Business Executives Textiles & Clothing	11	2
5.	Business Executives Motion Pictures	7	2
6.	Business Executives Automotive	17	10
7.	Business Executives Oil	19	9
8.	Business Executives General	110	55
9.	Insurance Executives	16	7
10.	Bankers	49	25
11.	Economists & Statisticians	30	14
12.	Labor Representatives	2	2
13.	Accounting Teachers	16	10
14.	Lawyers	32	12
15.	Government Officials	16	7
16.	Controllers	11	7
17.	Investment Trust Officers	12	4
18.	Security Analysts	23	13

A.I.A. QUESTIONNAIRE TABULATION SHEET

Total Replies by Classification

	Name and Organization	1		1A		1B		2		3		4		5		6A		6B		7	
		Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
1.	(1 unclassified) Business Exec - Steel	3	8	1	3	3	1	6	3	5	3	5	2	3	4	4	2	3	3	6	0
2.	(1 unclassified) Business Exec - Utilities	1	5	0	0	0	0	0	3	0	3	3	1	2	1	0	0	0	0	1	0
3.	Business Exec - Retail	1	6	1	1	1	1	2	4	1	5	5	0	5	1	2	1	1	1	3	3
4.	Business Exec - Textile	0	2	0	0	0	0	0	2	0	2	1	1	2	0	0	0	0	0	0	1
5.	Business Exec - M. Picture	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6.	Business Exec - Auto	4	6	3	2	5	0	5	2	5	2	6	0	5	2	4	1	2	2	4	1
7.	Business Exec - Oil	2	7	1	2	2	0	3	0	2	2	4	0	3	1	0	2	2	0	2	2
8.	(1 no opinion) Business Exec - General	15	39	10	8	6	5	19	10	10	20	30	0	27	3	15	7	8	10	20	9
9.	(und. - 2 no opinion) Insurance Executives	1	3	1	1	1	0	1	1	1	0	1	0	1	0	1	1	0	1	1	0
10.	(3 und. - 2 no opinion) Bankers	2	18	0	3	2	3	4	9	4	9	11	0	13	1	3	4	3	4	3	8
11.	(1 und - 1 unc. 1 no op.) Economists & Statisticians	7	4	5	3	4	1	4	2	5	2	7	0	5	2	2	2	3	2	4	1
12.	(1 no opinion) Labor Representatives	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13.	Accounting Teachers	4	6	5	1	1	5	2	6	1	6	7	1	8	1	3	2	1	4	5	4
14.	Lawyers	3	9	3	1	0	4	5	4	2	8	10	0	8	2	1	0	0	3	3	5
15.	(1 no opinion) Government Officials	2	4	2	0	0	2	2	2	1	3	4	0	4	0	1	1	1	1	0	2

A.I.A QUESTIONNAIRE TABULATION SHEET

Total Replies by Classification - Page 2

Name and Organization	1		1A		1B		2		3		4		5		6A		6B		7	
	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
16. Controllers	2	5	0	1	2	0	3	3	2	4	5	0	5	0	2	0	0	2	1	5
17. Inv. Trust Officers (1 no opinion)	2	2	2	0	1	1	2	1	2	1	2	0	2	0	2	0	0	2	1	0
18. Security Analysts	5	7	2	3	3	2	3	6	3	7	7	1	8	1	3	2	2	3	2	6

CROSS TABULATION OF ANSWERS TO QUESTIONS 1, 1a, 1b

including answers from letters

	N to 1 (no ans. to 1a,1b)	N to 1 Y to 1a	Y to 1 Y to 1a	Y to 1 N to 1a and/or Y to 1b	No Opinion
1. Business Executives Steel	7	1	0	3	1
2. Business Executives Utilities	4	1	0	1	1
3. Business Executives Retail Stores	3	3	0	1	
4. Business Executives Tex. & Clothing	2	0	0	0	
5. Business Executives Motion Pictures	2	0	0	0	
6. Business Executives Automotive	5	1	1	3	
7. Business Executives Oil	6	1	0	2	
8. Business Executives General	32	7	7	8	1
9. Insurance Executives	2	1	0	1	3
10. Bankers	13	5	0	2	5
11. Economists & Statisticians	0	4	3	4	3
12. Labor Representatives	1	0	0	0	1
13. Accounting Teachers	2	4	3	1	
14. Lawyers	5	4	2	1	
15. Government Officials	2	2	2	0	1
16. Controllers	4	1	0	2	
17. Investment Trust Officials	1	1	2	0	
18. Security Analysts	5	2	2	3	1

AMERICAN INSTITUTE OF ACCOUNTANTS
13 EAST 41ST STREET, NEW YORK 17, N. Y.

ACCOUNTANTS ~~SURVEY~~ OPINION
ON DEPRECIATION

FOR RELEASE:

Sunday AM papers, Sept. 12, 1948

NEW YORK, September 12 -- Substantial sentiment in favor of giving more information in corporate reports about the relation of increased costs of plant and machinery to current income was indicated in the results of a survey announced today by the American Institute of Accountants.

A majority of those replying opposed basic changes in the income statement itself, but a majority also said that corporate income figures are unsatisfactory without an explanation of the necessity for retaining a considerable part of the income in the business to meet higher costs.

More than one hundred and fifty prominent business executives, economists, investment analysts, government officials, representatives of labor organizations, bankers and financial experts responded to an inquiry as to whether there should be a change in accounting methods to give greater weight to the effects of inflation in the calculation of business income.

Basic question asked in the survey was: "Do you think that a substantial change in accounting methods is necessary to provide satisfactory reporting of corporate income in view of recent changes in price levels?"

The questions were addressed to a selected group of executives and experts who are in a position to be familiar with the problem. In announcing preliminary results, President George D. Bailey of the American Institute, national professional society of Certified Public Accountants, warned that the results should not be interpreted on a statistical basis.

"The most significant thing about the survey," Mr. Bailey said, "is that there was no unanimous opinion in any of the major groups of those who answered our questions. We did not attempt a scientific sample, because it is impossible to weigh the opinion of a corporation president or a labor organization against that of an economist, or a government official, or a lawyer.

"What we found out," Mr. Bailey explained, "is that practically everyone who deals with financial statements is seriously concerned about the problem of presenting accurate figures on corporate profits when corporate income is inflated by rising prices. But the majority of those who have given serious thought to the subject are not convinced today that the solution is to be found in a shift from accounting based on original cost of plant and facilities to accounting based on current valuation."

By groups, the answers to the main question were as follows:

	Favor Change	Against Change	No Opinion
Business Executives - Steel	2	7	1
Business Executives - Utility	1	5	1
Business Executives - Retail	1	6	
Business Executives - Textile	0	2	
Business Executives - Motion Pic.	0	2	
Business Executives - Auto	4	5	
Business Executives - Oil	2	5	
Business Executives - General	14	34	1
Insurance Executives	1	3	3
Bankers	1	16	5
Economists & Statisticians	6	4	3
Labor Representatives	0	1	1
Accounting Teachers	4	5	
Lawyers	2	7	
Government Officials	2	4	1
Controllers	1	5	
Investment Trust Officers	2	2	
Security Analysts	3	7	

Of those who answered Yes to this question, 48% said they thought it would be sufficient to supplement the conventional figure for net income with an additional statement showing what the income would be if depreciation charges were based on the current value of plant and facilities. 52% of those who favored a change thought that the first figure given for net income should have depreciation on current values deducted. On the other hand, 41% of those who opposed a basic change nevertheless said that some supplementary information should be given.

Commenting on the results of the inquiry, Mr. Bailey said: "Economists, bankers, and representatives of labor organizations agree with the executives of our largest corporations that the problem of presenting a 'true' figure for corporate income in an inflationary period is not easy to solve. It is obvious that there must be much more extensive discussion before we can reach a final solution which everyone will be willing to accept."

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A detailed report on the survey, with excerpts from the many letters received, is attached.

ACCOUNTING AND CHANGING PRICE LEVELS

AN INQUIRY ADDRESSED TO BUSINESS EXECUTIVES AND FINANCIAL EXPERTS AS TO THE DESIRABILITY OF A CHANGE IN GENERALLY ACCEPTED ACCOUNTING METHODS WHICH WOULD GIVE GREATER WEIGHT TO PRICE CHANGES, ESPECIALLY IN FIGURING DEPRECIATION CHARGES.

PRELIMINARY REPORT

September 1, 1948

American Institute of Accountants
13 East 41st Street
New York 17, New York

LETTERS SENT OUT BEGINNING JULY 8th, 1948	410
TOTAL REPLIES RECEIVED THROUGH AUGUST 31st, 1948	204

Expressed opinion	166
No opinion	18
Acknowledgements - reply later	20

LETTERS SENT -------- BY CLASSIFICATION

		Total Sent	No. Replies
1.	Business Executives Steel Companies	17	10
2.	Business Executives Utilities	11	7
3.	Business Executives Retail Stores & Chains	11	7
4.	Business Executives Textiles & Clothing	11	2
5.	Business Executives Motion Pictures	7	2
6.	Business Executives Automotive	17	9
7.	Business Executives Oil	19	7
8.	Business Executives General	110	49
9.	Insurance Executives	16	7
10.	Bankers	49	22
11.	Economists & Statisticians	30	13
12.	Labor Representatives	2	2
13.	Accounting Teachers	16	9
14.	Lawyers	32	9
15.	Government Officials	16	7
16.	Controllers	11	6
17.	Investment Trust Officers	12	4
18.	Security Analysts	23	12

INTRODUCTION

This is a preliminary report on an inquiry by The American Institute of Accountants designed to test the extent of informed opinion in the business and financial circles in favor of a change in accounting methods to recognize inflated prices in figuring depreciation charges.

A letter from the President of the Institute and a set of seven questions (see exhibits immediately following) were mailed to 410 business executives, bankers, economists, lawyers, government officials, security analysts, representatives of organized labor and accounting teachers, beginning the second week in July, 1948. No attempt was made to design a scientific sample, since there seems to be no satisfactory method of assigning weights to these various groups for this purpose. Instead, names were arbitrarily chosen to include leaders in each of these fields. To date fifty per cent have replied.

Since the sample is not weighted, replies have been tabulated only by groups and not totalled. Total yeses and noes would not be very significant because a reply by the president of a large steel company cannot well be matched against a reply by a lawyer, a banker or an economist. It should be noted also that there is only a single reply from the Congress of Industrial Organizations, because the CIO

Associate Director of Research states that he was sure of the sentiment of all of the member unions and did not think it necessary to query them. Obviously, therefore, some of the replies represent individual opinion while others represent a consensus of a small or large group.

Two-thirds of those who replied wrote letters instead of answering the questions with a simple yes or no, because they felt that their answers should be qualified. Because of these modifications, we have included in this report extensive excerpts from the letters received, divided into the various categories, and the tabulations which follow should be interpreted in the light of these comments.

That the problem has been one of widespread concern among those most interested in corporate reporting has been abundantly indicated. A prominent economist wrote: "Your letter raised what, as you know, serious students of the subject have long recognized as a very troublesome problem, viz., the adequacy of existing accounting methods in presenting a proper picture of the economic position of the firm in a period of rapidly changing prices. Interest in this problem has currently been heightened by the large and continuous increase in prices since 1939 and more particularly since the middle of 1946. We here. . . are intensely interested in the problem and are certainly very happy to find that such a responsible body as your Institute is taking the lead in this connection."

An investment trust officer, wrote, "I believe that your Association is doing a helpful thing in exploring this general subject. It is not a question of accounting alone. I am sure that statements can be made which will reflect any intelligent determination of proper procedure from a business standpoint which recognized the many facets of the problem. The problem not only involves the question of accurate or informative reporting, but also the psychology of human beings and the organizational system under which they live."

The inquiry has made it clear that there is very strong sentiment on both sides of the question, and also that some of the ablest thinkers along these lines have not been able to reach a conclusion. An economics professor emeritus of one of the large eastern colleges writes, "I have not found it easy to arrive at a practical solution which seems to me to be entirely satisfactory. It still seems obvious that, in a period of rapidly changing prices, corporation accounts computed on the customary basis are likely to be extremely deceptive. The deception could be removed if the figures could be presented in terms of dollars of constant purchasing power. If, however, this is not feasible, a question of what kind of a compromise would be most useful is one concerning which I, unfortunately, do not have a definite opinion."

The head of a well-known chain of stores wrote, "I have endeavored to answer your questionnaire to the best of my ability. I am sure the answers seem to be in conflict in many respects. This results from the fact that my own thinking is not too clear. I understand the need, but cannot visualize the solution of the problem. Just because my answers taken alone appear to be in such great conflict, I am dictating the following paragraphs which will probably result in converting confusion into chaos."

The seriousness with which businessmen in general view the problem is best indicated by the reply of the chairman of the finance committee of a large corporation:

"We are very happy that the American Institute is taking such an interest in this most important problem and is attempting to obtain such facts as may lead to a proper practical solution. As the questionnaire requires very careful consideration, we propose to send it to the Presidents and comptrollers of our larger subsidiaries and also to our Directors, so that our final answers may include the best thinking we can give you."

American Institute of Accountants

INCORPORATED UNDER THE LAWS OF THE DISTRICT OF COLUMBIA

THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

13 EAST 41st STREET, NEW YORK 17, N.Y.

July 8, 1948

Mr. John J. Jones
The XYZ Company
New York, New York

Dear Mr. Jones:

The American Institute of Accountants is concerned about statements that accounting methods in general use no longer provide a satisfactory figure for the net income of corporations in reports to stockholders and to the public.

The most frequent criticism is that an income figure derived on the basis of the actual cost of inventories and plant facilities may be substantially larger than "economic income" when current values are materially different from historic costs.

The American Institute of Accountants has been giving much study to this problem. It is not, however, a problem of accounting alone, because it involves finding the most useful concept of income and reporting on corporate financial activities. For that reason, any solution, if a new solution is needed, must be acceptable to business, investors, economists and others, as well as to accountants.

The Institute is particularly anxious to find out whether there is a general demand for change from the long-established principles of accounting on monetary cost to a method which would more nearly approach what the economists call real income. If the desire for change is widely held, the Institute would like to find a solution to the problem.

To this end, the Institute is directing this letter to a relatively few business men and others, whom it believes to be familiar with business reporting, and would like very much to have your ideas either by letter or by answer to the attached series of questions.

The problem is not an easy one, and it has many implications. Accordingly, the attached form asks for your opinion on the basic question of the need for change, and also on the implications which seem to accountants to be involved in consideration of the basic question.

We believe this problem to be of such importance to our economic structure that we earnestly request you to give us your opinion, in spite of all the demands that are made upon your time each day.

Thank you very much for your cooperation.

Very sincerely yours,

G D Bailey

President

GDB:ab

1. Do you think that a substantial change in accounting methods is necessary to provide satisfactory reporting of corporate income in view of recent changes in price levels?

Yes ______
No ______

If your answer to Question 1 is Yes:

a. Do you think it would be sufficient to report income in the presently accepted manner, accompanied by a supplementary statement which more nearly reflected "economic income" -- for example, giving effect to current price changes in figuring the cost of using plant and facilities?

Yes ______
No ______

b. Should the figure first reported as net income be an approximation of "economic income"?

Yes ______
No ______

2. Would you favor reporting a figure for net income which approximated "economic income" if that were accepted for tax purposes?

Yes ______
No ______

3. Would you favor reporting a figure for net income which approximated "economic income" even if it were not accepted for tax purposes?

Yes ______
No ______

4. Do you believe that a change in the direction of "economic income", if accepted, should be followed year in and year out -- in years of low profits as well as high profits?

Yes ______
No ______

5. Do you think that a change, if accepted, should be applied to all companies -- in other words, that there should be a single concept of income for all companies?

Yes ______
No ______

6. If you think a change is desirable, do you believe:

a. That it should be reflected not only in the income statement, but also in the balance sheet by a restatement of those items in which there is a significant discrepancy between actual cost and current value?

Yes ______
No ______

b. That the reflection of changing price levels is needed only in the income statement?

Yes ______
No ______

7. To avoid the difficulties of estimating future replacement costs or requiring appraisals, it has been suggested that price index numbers could be used to measure the approximate difference between historical cost and current cost. Do you believe that such index numbers would be satisfactory for such measurement?

Yes ______
No ______

NOTE ON TABULATIONS

As explained in the introduction, the results of this inquiry are presented by groups but are not totalled, because the totals would be an addition of "horses and apples." The results in each group were tabulated as per the checked answers where the completed questionnaire was returned, though the qualifying letters in some cases would seem to indicate a different answer. The letters unaccompanied by a completed questionnaire were included in the tabulation of answers to Question No. 1 whenever the letter indicated a definite preference on one side or the other.

Many of those who answered Yes to Question No. 1 indicated that they thought it would be sufficient to have a supplementary statement and did not feel that the first figure reported as net income should approximate "economic income." On the other hand, many of those who answered No to Question No. 1 indicated that they thought a supplementary statement should be given. Therefore the tabulations of answers to Question No. 1 should be interpreted in relation to answers to Questions No. 1a and 1b. In addition a number of respondents answered No to Question No. 1, but indicated in their letter that they did favor a supplementary statement giving something in the nature of "economic income." The cross tabulation of these answers, taken from the letters, to Questions No. 1, 1a and 1b, is therefore given on a separate sheet and will add to more than the answers to Questions 1a and 1b taken from the questionnaires.

In a number of cases the writers have taken cognizance of the need for a solution, but indicated that management should be allowed to deduct reserves for replacement of capital goods from income.

A.I.A. QUESTIONNAIRE TABULATION SHEET

Total Replies by Classification

Name and Organization	1		1A		1B		2		3		4		5		6A		6B		7	
	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
(1 unclassified) 1. Business Exec - Steel	2	7	1	2	2	1	5	3	4	3	4	2	3	3	3	2	3	2	5	0
(1 unclassified) 2. Business Exec - Util.	1	5	0	0	0	0	0	3	0	3	3	1	2	1	0	0	0	0	1	0
3. Business Exec - Retail	1	6	1	1	1	1	2	4	1	5	5	0	5	1	2	1	1	1	3	3
4. Business Exec - Textile	0	2	0	0	0	0	0	2	0	2	1	1	2	0	0	0	0	0	0	1
5. Business Exec - M. Picture	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6. Business Exec - Auto	4	5	3	2	5	0	5	2	5	2	6	0	5	2	4	1	2	2	4	1
7. Business Exec - Oil	2	5	1	2	2	0	3	0	2	1	3	0	2	1	0	2	2	0	2	1
(1 no opinion) 8. Business Exec - General	14	34	9	7	6	4	16	8	10	15	25	0	23	2	13	7	7	9	18	6
(1 und. - 2 no opinion) 9. Insurance Executives	1	3	1	1	1	0	1	1	1	0	1	0	1	0	1	1	0	1	1	0
(3 und. - 2 no opinion) 10. Bankers	1	16	0	2	1	2	3	8	3	8	10	0	10	1	1	4	3	2	3	6
(1 und - 1 unc. 1 no op.) 11. Economists & Statisticians	6	4	5	3	4	1	4	1	5	1	6	0	5	1	2	2	3	2	4	1
(1 no opinion) 12. Labor Representatives	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13. Accounting Teachers	4	5	4	1	1	4	2	5	1	5	6	1	7	1	3	2	1	4	5	3
14. Lawyers	2	7	3	0	0	2	5	2	1	6	7	0	6	1	2	0	0	2	2	3
(1 no opinion) 15. Government Officials	2	4	2	0	0	2	2	2	1	3	4	0	4	0	1	1	1	1	0	2

A.I.A. QUESTIONNAIRE TABULATION SHEET

Total Replies by Classification - Page 2

Name and Organization	1		1A		1B		2		3		4		5		6A		6B		7	
	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
16. Controllers	1	5	0	1	1	0	2	3	1	4	5	0	5	0	2	0	0	2	0	5
17. Inv. Trust Officers	2	2	2	0	1	1	2	1	2	1	2	0	2	0	2	0	0	2	1	0
18. Sec. Analysts	3	7	2	1	1	2	2	6	1	7	5	1	6	1	1	2	2	1	2	4
SUB TOTAL																				

CROSS TABULATION OF ANSWERS TO QUESTIONS 1, 1a, 1b

including answers from letters

	N to 1 (no ans. to 1a,1b)	N to 1 Y to 1a	Y to 1 Y to 1a	Y to 1 N to 1a and/or Y to 1b	No Opinion
1. Business Executives Steel	6	1	0	2	1
2. Business Executives Utilities	4	1	0	1	1
3. Business Executives Retail Stores	3	3	0	1	
4. Business Executives Tex. & Clothing	2	0	0	0	
5. Business Executives Motion Pictures	2	0	0	0	
6. Business Executives Automotive	4	1	1	3	
7. Business Executives Oil	4	1	0	2	
8. Business Executives General	28	6	7	7	1
9. Insurance Executives	2	1	0	1	3
10. Bankers	12	4	0	1	5
11. Economists & Statisticians	0	4	3	3	3
12. Labor Representatives	1	0	0	0	1
13. Accounting Teachers	2	3	3	1	
14. Lawyers	3	4	2	0	
15. Government Officials	2	2	2	0	1
16. Controllers	4	1	0	1	
17. Investment Trust Officials	1	1	2	0	
18. Security Analysts	5	2	2	1	2

EXCERPTS FROM LETTERS

General Comments

Many of the letters contain a general discussion of the problem, such as that of a large rayon manufacturer:

"In the first place we must consider the causes underlying the present controversy. At the end of 1947, the managements of a large number of listed corporations were in a difficult position. They were compelled to publish a profit and loss statement for an accounting period established by custom. Profits for 1947 were generally substantially higher than in excess profits tax years and in the immediate post war reconversion period. During the year the value of the dollar declined substantially. Industry was faced with the necessity for substantial plant replacement at costs ranging two to three times original cost.

"Under the circumstances, management recognized that if 'net earnings' were published in accordance with so-called 'accepted accounting principles' it would be faced with a problem of explanation which no matter how phrased, would be purposely misinterpreted by forces hostile to business -- or the explanation would be omitted in many cases where the earnings figures would be recirculated.

"Few employees of large corporations read their annual reports--and fewer still understand them. Nevertheless, most of them read the 'net earnings' figures for 1947 in comparison with the figures for 1941, 1939 or some other prior year of low profits as printed on hand bills or in labor journals. Such imcomplete or incorrect information would leave a lasting impression on the employees to the definite disadvantage of industry."

A banker writes:

"I believe that financial statements, as now used on a dollar basis, cannot reflect the impact upon a business of fluctuating values. Over a long period of time the fluctuations are upward, in spite of interim declines, and every business finds itself geared to a higher price level for its operation. Top management should have some means of determining the extent to which higher prices make necessary a larger invested capital and whether reported earnings are sufficient to keep the company in business and to permit it normal growth and expansion. . .

"For those members of the public who do not understand financial statements, it may not make much difference, but I think the information should be available as a part of the educational process which is so badly needed. A large part of the public believes that corporations earn immense sums, perhaps 25% or 50% on their capital; and they also believe that corporate statements are deliberately misleading. If we are ever going to have any kind of harmony between Labor and Management under the capitalistic system, it would be highly desirable that the public be educated as to the financial life of corporations."

Another banker says:

"Something, with the same impact (as Lifo) has generated the 'economic income' discussion. That is to say, tax may or may not have a bearing, but certainly the very complicated question of depreciation (obsolescence) and amortization has given rise to the belief or perhaps only a feeling that something additional should be done to express all or some of the assets of an enterprise. . .

"The proponents of the economic income philosophy are attempting, I submit, to rectify by a strange bookkeeping mechanism a number of difficulties of which merely two may be stated as an indication; viz. (i) the obvious lack of continuous ready capital market for junior and senior equity, and (ii) the unholy basement which for many years has been fastened to agricultural production in this country; i.e., parity prices and the like. The economists, or at least some of them make a concerted effort to attempt to relate any particular period of time to a historical 'normal.' I venture to say that there have been few extended periods of time in the last thirty or fifty years when a normal condition actually existed. . .

"The answer that I have been seeking from these proponents, and for them to state it now, is what will be their purpose and intention when the next sharp recession or depression or notable dislocation occurs in the economy. There seems to be no adequate answer to this question in any of the writings which have come to my attention."

COMMENTS BY GROUPS

BUSINESS EXECUTIVES - STEEL COMPANIES

No to Question 1, No answer to 1A or 1B........6
No to Question 1, Yes to Question 1A...........1
Yes to Question 1, Yes to Question 1A..........0
Yes to Question 1, No to Question 1A
and/or Yes to Question 1B....................2* See page 47

No Opinion - 2

<u>The controller of a steel company writes</u>: "As stated in your letter, this problem is not an easy one to solve. However, our President has been aware of the fact for some time that income statements of companies, generally, as shown in their annual reports have not, in most cases, reported what in our opinion is the true economic income.

"Presently, we have a forty-cent dollar when compared with the actual cost of our fixed assets and it has been recognized by certain managers of some of the larger corporations that it is absolutely necessary to set aside a reserve over and above the actual cost of plant and equipment so that funds will be available when the time for replacement comes.

"Similarly, corporations have been using up low-priced inventories and, as a result, have been reporting extraneous profits without setting aside appropriate reserves for replacement and to reflect the real economic or sound values thereof nor to take care of any deflationary action that is bound to occur after the business peak subsides. . .

"For the present, we believe the practical approach to this problem is to set aside reserves to take care of the foregoing items as we have done in our reports to our shareholders. Also, we believe the Federal income tax law should be revised to take cognizance of these facts."

<u>A president of a steel corporation says</u>: "It is desirable to seek a supplementary manner of reporting in respect of the availability of profit for dividend payment. . . At least for the present it would seem preferable to report income in the present manner and to show as a separate deduction an additional amount representing the excess of an accrual for use of plant on a current replacement cost basis over the amount of depreciation set aside for the period. The purpose of this separate deduction would be to arrive at a final figure more nearly representing net income after reflecting the use of plant and facilities at their present rather than their historical cost."

Another steel corporation president said: "Stated in its simplest form, profits is the actual and realized net gain derived from the sale of an article after deducting what was actually paid for it. In actual practice methods for determining costs, which include the allocation and proration of certain cost elements, are ofttimes involved, and calculations may be subject to some degree of error. The principle as to what constitutes profit, however, must remain constant. . . I do not argue that higher prices should not be charged, nor that profits should not be sufficiently large to provide in part at least for the replacement of capital equipment. If such a course of action is necessary, prices should be increased, but if as a result of such prices profits are increased, the amounts so realized should be defined as the profits which they truly represent.

"In proposing an allowable deduction for depreciation on capital goods on the basis of values for which no monies have been expended, established business is in effect asking for special dispensation and the privilege of recovering in advance depreciation on such increased values or in anticipation of future investments for which no funds have been currently expended and in connection with which no costs are yet involved.

"Instead of creating distortions in defining profits, it would be far better in my opinion to continue to state profits as they are, reserve needed funds for capital replacement to the extent practicable, and take the necessary steps to stimulate a reduction in governmental expenditures and to effectuate an amendment to Section 102.....

"The problem of financing replacements during high inflationary times always presents difficulties, but in spite of these problems we cannot afford to lose sight of basic principles. We in America believe in free enterprise and in developing greater productivity by stimulating private initiative.

"In effectuating that basic principle, equality of opportunity must be preserved as it applies to the entrepreneur and established business. If the entrepreneur elects to enter business today he must finance his needs under the conditions which prevail and at prices which now exist.

"If established business needs additional funds, the same media are available for that purpose as for the entrepreneur, with the exception that established business may in full or in part retain available earnings for that purpose. Established business, however, possesses no advantages which have not been properly earned, and equality of opportunity exists."

One steel company president who had answered "no" to Question 1, said in response to Question 2 that he would favor change "in view of tax deductibility on net results."

Another said: "If one of the objectives is to reduce taxes, that problem should be attacked at its source -- reduce governmental expenditures. To attempt to secure an advantage by increasing the amount of depreciation allowable for tax purposes will, unless federal expenditures are reduced, only lead to a compensatory factor in the form of higher tax rates. It is true that some industries might gain some slight advantage, but the net benefit would be nominal.

"Much of the concern about adequate profits and the retention of sufficient amounts for the replacement of capital equipment stems from the uncertainty of tax liability arising from retained profits. Management should be permitted at its discretion to retain the funds essential for future operations and Section 102 of the Federal Revenue Code should be amended to place the burden of proof on tax officials as to unjustified retentions.

BUSINESS EXECUTIVES - UTILITIES

No to Question 1, No answer to 1A or 1B..........4
No to Question 1, Yes to Question 1A.............1
Yes to Question 1, Yes to Question 1A............0
Yes to Question 1, No to Question 1A,
and/or Yes to Question 1B.......................1

No Opinion - 1

<u>From the letter written by the president of a regional gas and electric company</u>: "It would seem to me that serious consideration should be given to such change in industries whose fixed capital is relatively short-lived, where such life is closely related to volume of production, and where factors of obsolescence are of major importance. I am not sure, however, that a change in accounting principles in the utility industry is necessary at this time. Should price levels continue for an appreciable period, it may well be necessary to consider it."

<u>The president of a large utilities holding company wrote</u>: "My own feeling is that the system of accounts required by regulatory authority of utilities today is not sound in view of changed conditions. I do not believe that many utilities can justify the rates they will be required to have in order to carry on present-day construction based on the book cost of their plant. Values have risen so abruptly that any basis other than value strikes me to be unsound and unfair to the stockholder of the past as compared to the purchaser of new securities. I think your Institute would be well advised to pursue the economic study which could bring about a change of

these rules imposed by commissions so that our system of accounts would reflect more realistically the income realized on today's operations."

A vice president of a railroad expressed the opinion of his company: "After discussion of this matter with several of our executives and accounting officers, we have concluded that changes in accounting procedures such as those suggested in the questionnaire do not appear to be necessary or desirable respecting the accounts of railroads and perhaps other regulated industries."

Another vice president from the utilities field said: "The reason for answering 'no' to the first question on your questionnaire is because of the results which I feel might flow from such a change, rather than a feeling that corporate reporting is entirely adequate. In the first place, it would seem that any attempt to report 'economic income' as opposed to 'monetary income' would lead to much confusion. This is because there would be various opinions as to how high the price levels should rise before a change in accounting methods was called for, and also because of probable variations in the methods of attempting to show the effect of price changes. Even if the professional accountants themselves should set up certain standards to be followed in this regard there would still be confusion unless such standards were made mandatory.

"Following upon this probable confusion could very well be a result which none of us would like to see occur. By this I refer to the possibility that governmental bodies such as the Securities and Exchange Commission, the Federal Power Commission and the Internal Revenue Bureau would feel called upon to eliminate the confusion by promulgating definite accounting regulations. Certainly if there were any attempt to gain acceptance of 'economic income' as the proper figure for tax purposes the Treasury Department would obviously expect to participate in determining what standards should be followed."

A utilities corporation president said: ". . I necessarily view the 'economic income' concept from the narrow perch of the public utility business. . . this industry has been through a cycle of economic income with accrued depreciation down to retroactive straightline depreciation -- with write-offs in excess cost (and in some cases costs 'above' and 'below' the line. The account classifications promulgated by the regulatory commissions are now so thoroughly fixed that any change would have to be effected against overwhelming odds.

"Your letter seeks to establish whether there is a general demand for change in income statements from 'monetary cost' to 'economic income.' I would deem such a change in the concept of accounting to be unfortunate. It is, of course, apparent that economic income may be quite different from monetary cost and I would consider that creditors and stockholders are entitled to information which would enable them to evaluate economic income....it is not a responsibility I would assign to accountants.... Frankly I think the accountants can serve everyone -- including themselves -- best if they stick to monetary cost. If they want to meander in the swamp of economic income as a side line, that's quite all right but let's have it in supplemental schedules and not in the account."

One secretary of a utility company said: "Your question number 4, whether the concept of 'economic income' should be followed in years of low profits as well as high profits seems to permit only one answer. I do not feel that we can very well contend that we must reduce reported income because of the low purchasing power of the dollar, if we expect to avoid increasing reported income should the value of the dollar return to abnormally high levels."

A president, speaking of the income statement and the balance sheet, said: "I cannot see how you could have an economic income statement without an economic balance sheet. Isn't that what the utility industry tried in the 20's. Will not the use of economic statements generally produce similar abuses. As for me, I want no more tampering with either the balance sheet or income statement -- nor do I want to work with balance sheets or income statements which someone else has adjusted to 'economic income.' And further, how do you determine 'economic income' in a regulated industry?"

BUSINESS EXECUTIVES - RETAIL STORES & CHAINES

No to Question 1, No answer to 1A or 1B........3
No to Question 1, Yes to Question 1A...........3
Yes to Question 1, Yes to Question 1A..........0
Yes to Question 1, No to Question 1A
and/or Yes to Question 1B...................1

The one executive in this group who favored change said: "It seems to us that a principal aim of corporate reports should be to present to everybody (Legislators, investors, employees and the general public) a correct picture of earnings in relation to true value. The Public is not now receiving this picture from corporate reports. We believe that, pending such a change, the Institute might well advise all companies to issue a supplemental statement in their annual reports, showing the difference between actual value and reported value of assets."

The financial vice president of a large chain says: "Any deviation from 'cost' accounting as the basis for financial statements would be most confusing. Evidence of this fact is the qualifications and explanations required on the financial statements of a company using Lifo inventory method. To extend 'economic' accounting to other assets (and possibly liabilities too) would leave the average reader hopelessly at sea. Furthermore, the average reader has always had his own finances on a cost basis which would make it still more difficult for him to understand. The only solution as I see it is for companies to call to the attention of their stockholders the elements of inflation in reported figures. This may be accomplished in the financial statements by use of contingency reserves and in the written portion of the report by appropriate comments."

Another president said: "Accepted methods of reporting certainly have undesirable aspects in a period of rapidly changing price levels. This is true whether the change be up or down. Accounting is based on the general theory that our monetary system is sifficiently stable to act as a yardstick. We know that our monetary system is not stable and at this particular time is most unstable. We know that this creates confusion in the field of accounting based on the use of these yardsticks. We do not know that another approach would not produce greater confusion. The trouble is with our monetary management and not with accounting. I doubt that accounting can cure or greatly alleviate the ills of our unsound fiscal policies....."

The vice president of a mail order concern said: "We in the retail business are keenly aware of the shrinkage in the value of the dollar and the need for more dollars to finance a given volume of business. We know, too, the practical effect of insufficient depreciation reserves to provide the cost of replacing worn-out facilities. We believe, however, that additional provision for this contingency is required in the annual report and the statement to the stockholders, with the reason for such an appropriation being fully explained.

"Any attempt made to set up accounting figures on a basis other than the dollar -- whether it be 'economic income' or other artificial bases -- would fail to serve its purpose when the country turned from inflation to deflation. We are in favor of continuing the use of the dollar as the standard basis of value."

The president of a chain of stores wrote: ". . .we have the question of taxation. It is certainly harmful to levy a tax on something that does not exist in fact. The effect of such taxation is potentially so harmful that I would favor almost anything that would give relief. Of course, such relief can be in the tax laws in a form that would not necessitate changes in practices of accounting and reporting. Unless the revised concept of accounting were accepted for tax purposes, I would most certainly restrict the concepts used to supplementary and explanatory purposes."

A vice president said: "Using 'economic income' might well result in immediate tax savings if such basis were started at a relatively low point in the cyle. However, through a complete cycle the tax bill should pretty much level off. We can see no reason for discarding tried and accepted methods for a possible tax saving."

Another vice president commented on using a revised method of accounting in years of low profits as well as high: "Here you have the real nut of the problem. When accounting ceases to be consistent, it ceases to be accounting. Certainly the 'new concept' should be equally applicable in any period of measurable changes in general price levels whether the movement be up or down. All rules must work both ways. Accounting should not be used to reflect desires, hopes or aspirations."

A financial vice president said: "If any broad change is to be made in accounting methods at this time, it should be one that would stand the test of time. If the proposed change is to be used only as a matter of expediency for the moment, then any justification for it vanishes."

On Question No. 5, a president wrote: "Again we have the question of consistency. One of the reasons why my answer to question 1 is negative is that I strongly feel that general consistency could not be obtained and that the confusion resulting therefrom would be much greater than the confusion eliminated."

The treasurer of a department store chain wrote: "Any change should be applied to all companies, but as a practical matter it wouldn't happen. This illustrates one of the practical objections to what we consider to be a highly theoretical proposal as outlined in the questionnaire."

The vice president of a food chain store said: "Looking at it from one point of view, a broad accounting change like the one suggested should be applied to all companies. On the other hand the wide differences of opinion and the complexities of industries would make it impractical if not almost impossible to say that such a change would have to apply universally. In other words, it would appear impossible to enforce such a controversial change."

On the use of indices, a president wrote: "The use of price indices is certainly sufficiently accurate to compensate for most of the distortion resulting from changes in price levels. Of course, those of us who are using Lifo (and who shouldn't be) not only have the question of indices but also the whole question of price level distortions substantially answered. Admittedly the use of Lifo applies only to one item on the balance sheet. It is a pretty important item, however. Admittedly, those of us who use Lifo are still faced with the problem of plant costs. We have always been faced with some pretty important problems in regard to plant costs. Our asset values and cost influencing factors surrounding this whole question of plant costs have always been nothing but the most gross form of approximattons. We are all using great amounts of plant equipment that have been fully depreciated on our books. To the extent to which we do this, our assets are undervalued and our costs are understated. Why strive for perfection?"

A treasurer writes: "No. Index numbers are not prepared to cover the composition of fixed asset accounts of different companies. Unless the composition of the assets is the same, no single index would be practical. Attempts to develop a myriad of indices for the various elements of the fixed asset account alone would, in my judgment be impractical. Aside from the varying composition of fixed asset accounts, there is the further complication arising from the fact that we usually include assets acquired in many different years, again making it very complicated to adjust by index numbers."

A vice president writes: "Index numbers might be satisfactory if they could be obtained, but getting accurate historical data in order to construct a proper index would appear in many cases to be impossible as well as costly. Department sotres are now using indexes for inventory valuation under Lifo; however, this concerns only one asset of one industry - a very small segment of our economy."

Questionnaires only, without letters, were received from Group Four, Business Executives - Textiles & Clothing.

In Group Five, Business Executives - Motion Pictures, there were two "No" answers.

The following quotation is from the president of a film company: "The business of a motion picture company consists of the production of pictures and their rental to exhibitors throughout the world. The income from any individual picture from theatre to theatre fluctuates very widely. A big 'A' theatre. . . is on one end of the scale and on the other you might find an open-air screen with benches showing the same picture to a very low income patronage. The appeal of individual pictures may vary almost as widely.

"Costs are almost as variable. A low cost picture may substantially outgross a picture of far greater cost. About 80% of the cost of a picture is wages, which have a tendency to be right with the times. The materials that go into production are generally current purchases so the price fluctuations are quickly reflected.

"The amortization of picture costs is made through the use of a table based upon our experience of the weekly flow of income, corrected as necessary.

"All we have left to deal with are the buildings we use for our film exchanges, studio and theatres. While replacement costs of those we own would undoubtedly increase our depreciation expense, the change would take place slowly, which is also true of leases, and it would be very difficult to measure their effect.

"It is my opinion, therefore, that our reports to the stockholders and to the public are based upon sound and modern accounting principles and that no fundamental change is necessary."

BUSINESS EXECUTIVES - AUTOMOTIVE (including rubber and parts)

No to Question 1, No answer to 1A or 1B........4
No to Question 1, Yes to Question 1A...........1
Yes to Question 1, Yes to Question 1A..........1
Yes to Question 1, No to Question 1A
and/or Yes to Question 1B.....................3

A president of one of the large automobile companies said: "Fundamentally, the problem is the adaptation of accounting and tax procedures to the economic situation created by a deteriorating currency inherent in unsound federal fiscal and tax policies.

"Under these circumstances, the application of currently accepted accounting practices to industrial operations -- and to some extent to other commercial operations -- does not accurately report the truth. It prescribes the reporting of a fictitious money profit when the fact of the matter is that as a productive economic unit of stated capacity, the institution may very well be in partial liquidation in a true economic sense. Furthermore, taxes are assessed on these fictitious profits."

The vice president of a company manufacturing automotive equipment writes: "The circumstances recall to mind the occasion when in 1936, Lifo became an accepted accounting principle through Institute declaration that it was so. Now, there seems to be occasion for a similar declaration upon the use of 'Current cost'."

The president of an automobile parts manufacturing company said: "We agree that it is a problem and it should be solved. As to whether it can or not is doubtful but in any case a very difficult task. The Federal tax picture casts shadows over all answers.

"The solution of this problem is not so much an accounting function but is largely a financial policy function which should be taken care of in relations with stockholders either by the president with full disclosures or by the board of directors. After all, the function of accounting should be to record actual costs and report to the board or the president or administration the hazards in the reports. All of this is on the premise that we should all be for uniform accounting practices consistently maintained. We cannot depend on the accounting division to place values on inventories or investments. Such a situation could be manipulated and requires policy decisions.....

"I have almost a crusading fervor in favor of enlightening stockholders to the low prices at which the assets which they own are carried on books on a depreciated basis and that when only small profits are shown on the basis of these low depreciation rates they are in effect turning over all the benefit of their assets either to the customers based upon prices or to employees if wages are out of line. Contribution toward salvage of this difficulty with stockholders would be to eliminate capital gains tax to a corporation on assets depreciated if they are sold."

Another parts company president wrote: "My personal opinion is, if the accounting profession would stick to good sound accounting principles, they would be doing the investing public a service rather than trying to change their system to please some financial writers or economists. I also think we are going entirely too far in trying to sell the stockholders and the public on what a wonderful job we are doing by trying to make our reports more attractive.

"My personal opinion is, anyone who cannot understand a sound accountant's report or statement probably should not own stock in a public company."

The vice president of a company in this category said: "We believe that the concept of business income should be substantially similar for all business people, but we do not believe that concepts should be enforced or imposed upon nonconformists. Until such time as experience shall convert all towards a common concept, we are, therefore, prepared to go through a period of some (continuing) confusion until the solution shall be worked out through practical evolution."

The same official continues: "We believe that properly constructed index numbers would provide a satisfactory means for the determination of current costs but that, to be appropriate for the purpose, such index numbers should be computed on a basis which reflects with reasonable homogeneity the type or classification of assets to which they are to be applied. Thus, for example, index numbers for application to buildings should rest on building materials and building labor, while the numbers to be used in the case of ships should rest on shipbuilding materials and shipbuilding labor. As we view the problem it is one of conversion of original money costs to current money costs (as might be done in a foreign exchange consolidation) rather than one dealing with change in the over-all purchasing power of the dollar."

BUSINESS EXECUTIVES - OIL

No to Question 1, No answer to 1A or 1B.........4
No to Question 1, Yes to Question 1A...........1
Yes to Question 1, Yes to Question 1A..........0
Yes to Question 1, No to Question 1A
and/or Yes to Question 1B....................2

The president of an oil company replied: "During the last thirty years, three prolonged periods have occurred when the purchasing power of the dollar changed greatly; 1915-21, 1930-35, 1941-48. In each of these periods, the reporting of corporate income on the basis of historical cost has appeared inadequate for the needs of business. Some method should be developed that can be applied uniformly and consistently to overcome the present difficulties of accounting reports that arise from the assumption that the purchasing power of the dollar is always stable."

Another oil company president wrote: "One of the main reasons for not favoring a change is our conviction that such changes might encourage 'tinkering' with operating results indicated by old, established accounting procedures. For it would seem that any change in policy designed to accomplish results sought by advocates of a change in accounting methods would lend itself just as easily to a reverse procedure if business conditions in the near future should follow a downward trend with resulting decrease in income."

From the president of one of the large oil companies: "In my opinion it would be basically unsound to deviate from actual costs in accounting for properties, plant and equipment and related depreciation charges. It is my further opinion that financial statements should be accompanied by a supplemental statement -- either narrative or tabular in which attention would be directed to the effect or possible effect of prevailing costs on the income reported by the company."

From the controller of a regional oil company: "In your letter the subject of inventories is coupled with that of plant facilities although it seems they cannot well be dealt with as one because of fundamental differences. There is a constant physical movement of inventories and, generally, inventories are completely revalued at the cost of each accounting period resulting in a fairly rapid adjustment to current prices with pronounced effects on profits falling only in those years in which substantial changes in the price level occur. Furthermore, there is now available a generally accepted method of inventory valuation (Last-in, First-out) which, if adopted at a proper time, ordinarily overcomes the distortion of profits as between periods due to changes in the price level.

"Departures from historical cost in computing depreciation can lead to abuse and the result may be as difficult to defend as a provision for some remote contingency. If current replacement cost is accepted as a measure of the proper charge to profit for depreciation, it would seem only fair in that connection to give consideration to changes in utility (the equipment being built today is not the same as the equipment built years ago) and it might be found that the older equipment is placing a sufficient burden on current profits without adjustment for changes in the price level."

One oil company president who strongly advocated a change said: "The use of index numbers for adjustment purposes seems to be more important in the case of the income statement than in the case of the balance sheet. The balance sheet might well continue to be prepared in its present form. However, if adjustment of the income statement should indicate a desirability for a corresponding change in the balance sheet, some modification might be made. Our present thinking is that it may be best to continue the practice of accounting for fixed assets for balance sheet purposes on the basis of historical costs."

BUSINESS EXECUTIVES - General

No to Question 1, No Answer to 1A or 1B	28
No to Question 1, Yes to Question 1A	6
Yes to Question 1, Yes to Question 1A	7
Yes to Question 1, No to Question 1A and/or Yes to Question 1B	7

NOTE: Only 4 of the executives in this group who answered "Yes" to No. 1 on the questionnaire sent letters, whereas 16 letters were received opposing change.

The following quotations are from those who advocated a change:

The president of a paper products manufacturing company said: "I would say that I am aware of the conflict of opinion as to both the mechanism and effect of application of the concept of economic income to the balance sheet and statement of assets as contrasted with its application to the earnings statement. It brings into account the question of the effect of restrictive covenants of mortgage and indentures if during periods of low price level the application would result in writing down of fixed assets. I have thought, however, that these are technical questions that must be resolved by the accounting fraternity itself. If they conclude that they cannot be resolved, they should make very clear why so that we can then get on with matters that are possible of accomplishment."

The controller of a film manufacturing company wrote: "The question of the effect of costs of inventories in the operating income account is, in our opinion, of much less importance than that of plant facilities. In our Company, only three principal raw materials are generally in long supply, and for one of these -- silver, we have been using the 'Lifo' method for the past several years.....

"As to the problem of plant facilities, we believe that it would be generally desirable to recompute the item of depreciation as taken into the income account, on some uniform basis. We would favor the revalorization scheme as introduced by France, which as you know is optional, but the formula to be used would have to be described by income tax law or regulation."

An executive of a building materials manufacturing company speaking for the president said: "I believe that the recent rapid changes in price levels caused a considerable distortion in earnings statements and to some degree in balance sheets. I believe that all the items of financial statements should be expressed in dollars of uniform value; that we should not have statements some items of which are expressed in dollars of current value and some items of which are expressed in dollars valued as in past years."

The president of a machine tool company wrote: "It would seem that we need two sets of reports. One that follows present well understood methods and one that will reflect relative values. One problem would seem to be the difficulty of getting economists and accountants to work out an acceptable formula from which we could determine economic values."

The following letters are from executives who oppose change:

The vice president of a similar company said: "In my own opinion, the standard method of determining net income in corporate accounting, despite its many difficulties, is far more useful and realistic than the proposed 'economic income' method of accounting. The first advantage of the present method is that it permits a definite determination of cost of production in dollars. The modern depreciation charge spreads the actual dollar cost of machinery and buildings over the number of units produced by these facilities. That is a reasonable conception that can be understood by anyone.

"The second advantage is that values are shown on the conventional balance sheet at cost, and provide a firm basis on which anyone interested in the figures can form his own conclusions as to market value, replacement value, or any other 'value' in which he is interested. Anyone can argue about the present value or reproductive cost of a building, but if a Company tells its stockholders and creditors what it paid for the building and how much it has charged off, then it has given them the two factors of value under its control and has not committed itself to an opinion as to present or so-called economic value.

".....As compared with these advantages, the proposed method of 'economic income' determination would introduce a hopeless uncertainty into all business calculations. This method......proceeds on the theory that depreciation reserves provide the funds with which to replace worn out equipment and buildings..... This, of course, is not the purpose of the depreciation charge. Depreciation merely spreads the cost of equipment and buildings over the number of units manufactured by that equipment, thereby enabling a firm to take these costs into account before arriving at a net profit figure on the year's production. .....Costs are historical and, therefore, are used as a guide for future action. When determining selling prices, these costs used as a basis should be adjusted to reflect anticipated wage and material cost increases or decreases. A similar adjustment should be made to reflect any inadequacy of the provision for depreciation to provide for replacement costs. This eliminates any justification for the development of hypothetical figures to be recorded in the books of account which, otherwise, are based on incurred costs.

"The drive behind the proposals for an 'economic income' method of accounting lies in the fact that some of our corporations with large capital investments are finding it difficult to justify to labor and the public the record dollar profits that they are making today, but which they cannot pay out in dividends because of the need to conserve cash for replacement of facilities and for expansion. The solution to their problem is not to change their method of accounting, but rather to explain to the public in their annual reports and in publicity the use to which the corporation is putting its retained earnings."

<u>The president of a form machinery corporation said</u>: "If accounting methods are changed from the present 'monetary'

basis to the so-called 'economic' basis, it will involve many difficulties of administration. Its only possible advantage might be to convince employes, customers and stockholders that the profits are substantially lower than if they had been computed on the conventional basis. There is some doubt as to whether or not these groups will accept such figures as genuine unless this method is used generally by all companies.

"The important consideration in this whole problem is that corporations must recover through their sales prices the additional depreciation required on a replacement cost basis; furthermore, this added income must be retained, for use in the business so as to be available when replacement finally becomes necessary. If such recovery is not attained through sales prices, a company faces the danger of impairing its capital and eventually failing."

<u>The president of a can company writes</u>: "Unquestionably changes in the price level during the past 10 years have been a matter of concern to management. It seems to us that these changes have occasioned the need for a careful reappraisal of many business policies. We have concluded that the price fluctuations, as an economic development, are related more to prudent business administration than to accounting for the results of that administration.....

"Until we can devise some more stable unit of measurement than the dollar of changing value, the problem in interpretation will remain. In my judgment tinkering with the generally accepted methods of computing income is subject to abuse and must inevitably weaken public confidence in corporate reports."

<u>The Treasurer of a metal products manufacturing corporation expressed his opinion</u>: "It is true that present methods do not recognize the real values underlying the inflated price structure of today, but if a company, and its Board, and its stockholders do not have the good judgment to realize that the profits they are showing are inflated, and pay out all those profits in dividends, then they are courting disaster, and are not worthy of the position they hold. Any sane and sound Board of Directors will not pay out in dividends that proportion of their earnings which reflects profits due to inflation.

"From a professional standpoint, I do not see how accountants can certify to a statement of accounts that is prepared on a hypothetical basis, and that is all the proposed change in methods would produce. Furthermore, if a deviation is allowed from the general and more accepted methods of preparing accounts, where are we going to stop?"

<u>A president of a machinery and steel products company states</u>: "It seems to me that the problem is a cash problem rather than one of profit and loss; that we get confused in our thinking when we let the difficulty of financing raw

material and equipment replacement influence us to change our accounting for income. Any attempt to adjust conventional accounting statements to so-called 'economic values' and 'economic income', would lead to such differences in application, either because of honest differences in economic opinions or actual fraud, that nothing but confusion would result."

<u>The vice president and treasurer of a metal company writes</u>: "While under the present methods in use, the number of dollars reported may be greater, I believe the general public has become accustomed to and realizes that the purchasing power of a dollar is considerably less than it was a few years ago and for that reason, I do not believe that the statements as now reported are misleading. It appears to me that any such drastic change as outlined in your letter would result in a statement of net income that would be misleading and one which would certainly require a detailed explanation. Of course, I certainly see no objection to a company including in its report to stockholders a supplementary statement of so-called 'economic income' if it so desires."

<u>Another opinion from a president of a cutlery company</u>: "If we get away from what at least is an understood base -- namely, the cost (or market) dollar -- we will have accounts that nobody will ever be able to understand..... While I would like to see some form of tax relief to avoid paying high taxes on 'profits' resulting from inflation, I think such a move might open a field for endless falsifications."

<u>The chairman of the board of a paper corporation writes</u>: "It seems axiomatic that whenever substantial changes take place in the price level that there is a demand for a radical change in accounting procedure. Usually these demands are actuated not as matters of principle but as of pocketbook expediency. There comes to mind the great rush in 1932 of corporations to write down the value of their properties to current replacement values and at the same time diminish the stated surplus against which the excess values might be written down. Following the writedown the written-down properties were depreciated for accounting purposes at a much lower rate than the rate based on original costs; thus in many cases a year's profits would be shown on current operations and dividends would be paid.

"I think we would all agree now that such a procedure resulting in an entirely different income account for the stockholders and for income tax, was not desirable, therefore I would not favor reporting any figure to the stockholders as income which could not be used for tax purposes unless the auditors in their certificate clearly set forth what the income was on the two bases.

"It would seem that everything desirable can be accomplished by the prudent use of reserves, except one thing, and that is the desire to charge these reserves against income. As the saying is, 'This is nice work if you can get it,' but before going all out, we should consider carefully what our position will be when the price trend turns downward, as it always has done!"

One controller of a cereal milling industry states: "At the present time it is our belief that even if the accounting profession were to adopt procedures recognizing depreciation on the so-called 'economic basis' only a few businesses -- mostly those with high income -- would find it 'convenient' to follow the new procedure. It is very doubtful that in a highly competitive industry, such as the flour milling industry, that the higher amounts of depreciation would be recognized by very many of the millers in fixing competitive selling prices."

A president of a cellulose products company remarks on Question 5: "I have noted with a question mark its feasibility..... Recognizing that more than a majority in number of all enterprises -- corporate, partnership or proprietorship -- fall in the category of 'small', probably a very large percentage might find it difficult, if not impossible, except at prohibitive cost, to change their present methods of accounting. Proposed recognition of the new methods of arriving at economic income should, it seems to me, therefore, be permissive and not mandatory just as 'Lifo' as against 'Fifo' is permissive and not mandatory."

The opinion of the president of a chemicals company was: "Yes. If adopted it should be applied to all companies. In addition it should be applied to every phase of our economy. Government expenditures, debt, currency figures, etc. should be adjusted somehow to the new concept of the dollar because unless this is done, there would be no relation between the dollar corporations express and the dollar expressed for other purposes. Such a policy, of course, would be impossible."

A treasurer of a metal company wrote about income statements and balance sheets: "Of course, if we were to have inflation such as has been experienced in Germany and China, I believe that some change probably should be made. At the same time, if this condition were to ever arise, I believe that any economic change should also be reflected in the balance sheet as well as the income statement."

INSURANCE EXECUTIVES

No to Question 1, no answer to Question 1A or 1B........2
No to Question 1, yes to Question 1A...................1
Yes to Question 1, no to Question 1A and/or yes to 1B...1
No opinion...3

The economic advisor of a life insurance company (the sole "Yes" reply in this group) said: "I should like to have you understand that because the operations of the company do not fall to any considerable extent within the purview of the questionnaire, and, because the purpose of the questionnaire had to do with broad economic considerations rather than intra-company objectives, my answers reflect my own personal opinions rather than a company viewpoint."

The economist of another life insurance company said: "There does not seem to be a need for 'substantial change...' Apart from the question of desirability, I have grave doubts about its feasibility."

The president of a bonding and insurance company wrote: "I believe present accounting methods in general use do provide satisfactory data relative to earnings for a given period, as such statements are based on actual facts for the period under review.

"I believe the operating statements and balance sheets of all companies should be accompanied by supplementary comments explaining the effect of the current price level on operating results for the period and indicating what the effect may be for subsequent periods.

"The term 'economic income' is very indefinite and any income stated on this basis would be primarily a reflection of the judgment of the individuals preparing the data. In the case of poor management I believe that such a basis could be deliberately 'juggled' to show any trend the management wished to show. In other words, I believe it would be wholly unreliable."

The vice president of a life insurance company commented: "It is more than obvious that under today's conditions income figures per se do not represent the basic earning power of most companies. You say that this is not alone a problem of accounting. With that I agree whole-heartedly and, in fact, would be inclined to put the problem the other way around. To my mind it would not be practicable even if it were orderly, for accountants to be obliged to assume the roles, in addition to their present one, of what might be characterized as economist, appraiser and, indeed, prognosticator.. to our mind, if the accountant has produced and verified the basic data with appropriate comments, the problem should be picked up at that point by management and the investor.

"In view of the fluff nature of 'apparent earnings' in some industries under present conditions, it is obvious that adjustments must be made in arriving at the 'real earnings' on the capital employed. We have been very much interested in the trend toward drawing this subject into annual reports to stockholders in connection with explaining the setting up of additional reserves, which itself is a difficult and controversial subject."

BANKERS

No to Question 1, no answer to Question 1A or 1B...........	12
No to Question 1, Yes to Question 1A......................	4
Yes to Question 1, No to Question 1A and/or Yes to 1B......	1
No opinion..	5

<u>The president of a banking firm, replying for himself and two associates, said</u>: "We believe that the treatment of inventory profits and losses and depreciation in the income account requires the adoption of new, or the further extension of present, principles by the accounting profession. We have two broad objections to present day accounting practice in these matters. The first is the lack of consistency between the reports of various companies (and, collaterally, the lack of supporting data to enable the figures of various companies to be adjusted to similar bases). The second is that present day accounting procedures with respect to these items do not reflect the present day actualities."

<u>An officer of a large New York bank wrote</u>: "I may be wrong but I have gained the impression that there is an attempt, probably not consciously, to make net income more nearly reflect availability of cash for dividends, repayment of debt, etc., etc., etc. I think that this is one of the arguments advanced in favor of Lifo for inventory costing purposes and it may be one of the thoughts back of the search for 'economic income.' If this is so, and if the logic is carried through to a conclusion, I think serious consideration should be given to the widespread use in published reports of a statement of cash flow, or cash income and outgo, or what have you, which would show the reader, for example, that retention of net income in higher inventories and receivables, or in replacement or expansion of fixed assets has been (or will be!) necessary. In other words, make it crystal clear to the public that net income absolutely does not purport to show availability of cash and then proceed to perfect the accrual method without apology."

<u>The vice president of another New York bank said</u>: "We have been giving a great deal of thought to this question

for some time, and we feel that there is merit to the argument that economic costs change with the business cycle irrespective of original monetary costs.

"However, I do not feel that it would be wise to hurriedly work out a system of adjustments in the interest of clarifying the income figures. We could easily make the situation worse rather than better by rushing into a complex system of adjustments. It is my thought that it would be better to develop alternative solutions more slowly through a process of evolution. In time, the problem will be given much more study, and accountants and economists will try different approaches to meet the specific needs of individual companies. Through such experience, sound methods should be developed to meet this problem."

The vice president and comptroller of still another New York bank wrote: "It is entirely possible, although it may be illogical to state the financial condition or results of operation of any enterprise in any currency or in the form of index numbers or cockle shells or any other medium that may be selected..... Not all of what has been done or is being done has been good, but it is believed in the main, that the good well outbalances the bad. There has been, for example, much stress on 'Lifo.' This principle is not new;..... It has had its great growth not altogether because it was sound in principle and applicable in certain instances but rather that it had (or seemed to have) a tax advantage. A number of enterprises which introduced it are now sorry that they did, and properly so."

An official of a Detroit bank said; "Any attempt to reflect 'economic income' in corporate reporting would likely create more confusion than now exists. There would probably be an unending argument about what index number or numbers should be used. Any effort to adjust dollar income might result in creating in the minds of the public an even greater suspicion than at present regarding the reliability of corporate reports."

The president of a large western bank wrote: "Presently, we have uniform and generally accepted standards for measuring depreciation, and I do not think it would assist public understanding if these standards were discarded in favor of a measure based upon the fluctuating purchasing power of the dollar in order to reflect so-called 'economic income,' as contemplated by the proposed change. I am afraid that only a relatively few people, qualified by their profession or education, could correctly interpret published figures reflecting the proposed theory....

"Of course, any varying cost index used as a base for reserves could be explained in footnotes or other material accompanying a financial statement, and this thought leads me to the conclusion that the present uniform method of depreciation, if not entirely satisfactory from the standpoint of accumulating sufficient earning to replace plant at prevailing costs, could be supplemented by a separate reserve from earnings, not alone to replace plant but also to provide additions and more modern equipment necessary for the survival of the particular business concerned. This latter measure, together with appropriate footnotes of explanation, would I believe, be more readily understood by the public and be less confusing than the proposed method of depreciation under discussion."

The president of a banking firm commented: "As to the treatment of inventory profits, we believe that the Lifo theory of inventory valuation (including any related theory such as 'normal stock') represents a basic improvement and should be incorporated as an integral part of the income statement wherever possible and irrespective of tax regulations.... In this connection it would be helpful if taxable income were also reported as supplemental data with a general reconciliation of any substantial differences from reported income."

The president of a bank, who favored change, wrote with reference to questions 5,6, and 7: "....We believe that the accounting profession should promote, or insist upon, consistency in this respect throughout given industries. At the same time we think that supplemental data should be presented showing profit and loss and balance sheet figures based on Fifo or average cost. If it is not practicable for the accounting profession to install the Lifo method as uniformly as suggested, then we believe that the Lifo figures should be given as supplemental information.

"As to the treatment of depreciation, we are not so concerned as to the balance sheet valuation of plants as we are that provision for their replacement which more nearly reflects actuality be included in the income account, and that the reports of various companies be reasonably consistent in this respect. We are inclined to think that, for mechanical reasons, the desired objectives are most likely to be accomplished if modern plant appraisal values are incorporated in the accounts....

"We feel that there are such inherent weaknesses in price indices on building and equipment costs that they can be of only very limited use in plant appraisals. In any event, we believe that accountants must assume a responsibility to determine that any plant appraisal is not arbitrary or capricious and conforms to some accepted or standardized method."

ECONOMISTS & STATISTICIANS

No to Question 1, Yes to Question 1A........................4
Yes to Question 1, Yes to Question 1A.......................3
Yes to Question 1, No to Question 1A and/or Yes to 1B........3
No opinion..3

A well-known economist and columnist writes: "The problem raised is the result of the fluctuating purchasing power of the dollar in which income is customarily measured. The problem is much the same as it would be in the engineering field if the foot meant a different measure of length each month or year. It is a problem to which, I am inclined to believe, no completely satisfactory solution is possible."

A professor of political economy wrote: "In the main I should say that a change in accounting practice from historical cost might possibly have an influence on wage policy, dividend policy and possibly on the price policy of corporations. If the new method were used for tax purposes it would of course have an effect upon the taxes paid in rising price periods and in falling price periods. It is in these terms I think that we should examine the matter of changing accounting practices.

"As an economist, I am particularly interested in the possible effect on the business cycle. Which accounting practice - the old (historical cost) or the proposed one (taking account of price changes) - would be most favorable for stabilizing the cycle.

"The answer I think runs largely in terms of the effect on taxes and savings. When prices are rising the inflationary process will be checked by high taxes and a high volume of savings. Now the old method has the effect that profits are large in inflationary periods and small in deflationary periods. From the tax standpoint this is desirable procedure I think since high taxes tend to check inflation and low taxes tend to check deflation. I should therefore not favor a change in accounting practices for tax purposes.

"Now with respect to corporate wage and dividend policy however the matter is different. The old method indicates high profits in inflationary periods and this might induce corporations to pursue a generous dividend policy and a generous wage policy. In inflationary periods generous dividends and rising wage rates tend to intensify the inflation. Now if this proposed new method were used, profits would be lower and presumably this would have a dampening effect on the payment of dividends and the granting of higher wages. If this were the effect, business savings would be higher in consequence of lower wage and dividend policies and this would have a tendency to check the inflationary process. There would thus from the business cycle standpoint seem to be a strong basis for using both methods - the old method for tax purposes and the proposed new method for the determination of corporate policies."

Another professor says: "My answer to your first question would be No, although I should not object to a supplementary (and subordinate) statement in which an attempt is made to approximate economic income by taking account of price changes that effect important elements in the income account.

"If there were available an absolutely accurate, unequivocal and generally accepted measure of price changes, clearly suitable for the adjustments desired, my answer to your first question might be Yes. But such measures are not available. If accountants were to make adjustments of the type you mention, a user of the corrected income figures would have no way of knowing just what elements of personal judgment and of possible unwise or biased choice of deflators entered into the computations that yield the published figures. Many unverifiable assumptions would be introduced into such corrections. Present figures are, presumably, unambiguous as to their derivation."

Another economist writes: "As to the central problem which you raise, I doubt whether satisfactory means could be found to adjust balance sheets in order to show current valuations. Any departure from cost less depreciation, would be subject to serious abuse by the unscrupulous, and in my judgment this would outweigh advantages to stockholders of having some clear cut idea of the value of their physical properties. Moreover, since property additions are ordinarily made from year to year, the technical problem of writing up balance sheet items by a single percentage appears to me to be insurmountable."

A government economist replied: "I think the accountants will have to decide that they deal with dollars and that they will have to set up corporate profit and loss statements upon a dollar basis, leaving it to others to make any reconstruction of the accounts which they wish to make in order to make allowances for changes in the price level and in the value of the dollar."

Another economist says: "In connection with question seven in your questionnaire, I believe that index numbers might possibly be useful, but this assumes that corporations have acted in reasonable uniformity so far as depreciation accounting is concerned. Actually, nothing could be farther from the truth. Balance sheets show all degrees of diversity, from carrying physical property at a fraction of economic value to clear overstatement of physical assets, even at current inflated prices. Hence there would have to be strong warnings for the unwary, in case index numbers were employed."

LABOR REPRESENTATIVES

Only two replies were received from <u>labor</u> representatives, One of which expressed no official opinion, and the other said: "....the answer to your first question would be 'no.' We generally feel that corporate income statements, that is, both the profit and loss statement and the balance sheet, attempt to understate current income. In addition, the profit and loss statement publicly released frequently differs considerably from the statement which must be submitted to the Bureau of Internal Revenue. We think profit and loss statements and balance sheets should reflect all of current earnings and not attempt to understate existing profit levels through various techniques."

ACCOUNTING TEACHERS

No to Question 1, no answer to Question 1A or 1B............2
No to Question 1, Yes to Question 1A........................3
Yes to Question 1, Yes to Question 1A.......................3
Yes to Question 1, No to Question 1A and/or Yes to 1B.......1

<u>One of the teachers who answered Yes to Question 1 said:</u> "I accept as theoretically sound the proposal of Mr. Blackie in his recent paper before the National Association of Cost Accountants. As a practical matter, however, I find myself unable to go beyond the occasional correction of changes in price level through the medium of an 'across the board' reorganization. I would be willing to base the reorganization on index number corrections."

<u>Another teacher who answered Yes wrote</u>: "Although I feel that the situation is serious enough to justify supplementary interpretive statements, I believe that the traditional original cost figures have sufficient stability so that the basic accounting records should not be changed unless the situation is sufficiently serious to justify a quasi-reorganization type of procedure."

<u>The dean of a graduate school of business said</u>: "I have never been able to get the slightest excited regarding this matter of trying to reflect in our financial statements and in our books of account so-called 'economic income.'

"I have discussed this matter with a number of prominent practicing accountants and the more I hear it discussed the more impractical I believe the concept to be....

"Accordingly, why can't we be satisfied with an honest and intelligent statement of our accounts on a monetary cost basis, making such adjustments to current valuations as we presently use with reference to marketable securities, current inventories, and similar items. I personally would be very regretful to see the accounting profession toppled off its foundation merely because a few theoretical economists aren't satisfied with the present basis on which business operates."

From a mid-western university, a teacher says: "In my opinion, any substantial change in accounting method would lead to chaos and we would lose much information of comparative and historical value and embark upon a need for continuous change in methods with a resultant confusion from which I believe we could never recover. I look upon the present methods as sound and substantially established for purposes of business needs.

"Statements, I think, should be continued on the same basis which we now know, but the interpretation of these statements in accordance with price level changes is quite another matter and one which I think can be applied without substantial change in accounting methods for purposes of reporting initially."

A professor from a west coast university said: "During late April I discussed the matter at length with one of New York's most prominent accountants and when I asked him what index would be used to convert book income to economic income he stated that he did not know. To me that is only one of many difficulties which accountants would encounter and if it were attempted I think we would add confusion to our accounting to such a degree that the accounts would not mean very much, if anything, to anyone."

LAWYERS

No to Question 1, No answer to Questions 1A or 1B........3
No to Question 1, Yes to Question 1A....................4
Yes to Question 1, Yes to Question 1A...................2

There was no additional comment from the two attorneys who answered "Yes" to Question 1.

Of those who answered "No", one lawyer said: "In the period of transition from an old to a new price level, it seems to me that a point of departure is almost as important as a measure of change. Hence I have answered 'no', but I do not wish this to be understood as opposing a method of reporting an adjusted income figure giving effect to changes in price level."

Another said: "Basically my hesitation with respect to the whole project is that the economic problem is no different in the case of a company going to (a) expand or (b) go into a new kind of business on the one hand or one going to (c) replace existing facilities -- in these cases the problem is a financial one of preserving liquid assets or credit so as to be able to acquire fixed assets. My concept of depreciation or amortization is one of getting back an investment already made over the useful life of the asset and we hoist ourselves on the horns of a true dilemma when we try to make it accomplish more (as a bookkeeping or accounting operation.)"

Another attorney has this to say: "Income statements and balance sheets are supposed to represent facts -- not opinions or intangibles. Inasmuch as it is recognized as poor accounting practice to revalue assets at someone's opinion of market and not at actual cost, it would appear equally poor to translate facts into someone's opinion of the economic trend."

GOVERNMENT OFFICIALS

No to Question 1, No answer to 1A or 1B........2
No to Question 1, Yes to Question 1A...........2
Yes to Question 1, Yes to Question 1A..........2
No opinion.....................................1

Of the two who answered "Yes" to Question 1, one federal official said: "Although what you call 'economic income' may represent a more satisfactory income figure for general use, it would not be advisable immediately to omit all data on income as defined by present accounting methods and to present data only on economic income. For the time being, as indicated in our answer to Question 1A, it might be advisable to present economic income as a supplementary figure to the more familiar figure based on current methods of computation."

Of the four who answered "No", one official said: "If published figures were to take the form of adjusted figures without a detailed description of the processes, readers could be misled. If users of the reports were misled, then the result could only bring discredit to the accounting profession. This leads one to the view that financial reports should reflect the true summary of the transactions as they occur and at the negotiated values. There need be no objection to the inclusion of proforma statements, nor tables showing the adjusted values with an adequate description of how they are derived. It is presumed that any change would call for continuing adjustments both up and down, depending upon the price level. In my opinion this would destroy comparability of accounts in successive periods to the extent that value comparisons would be destroyed."

CONTROLLERS

No to Question 1, No answer to Question 1A..........4
No to Question 1, Yes to Question 1A................1
Yes to Question 1, No to 1A and/or Yes to 1B........1

No letter accompanied the questionnaire advocating a change.

The vice president and controller of a meat packing company said: "I am already on record at some length in opposition to any change in the 'money' basis of keeping accounts and presenting financial statements. If my reply to your inquiry were to be limited to a categorical response to the questionnaire you sent me it would have to be in the same terms -- namely, that the recording and reporting of money income is too important to permit the substitution of any other basis of accounting.

"That answer, however, hardly covers the subject. It should be possible to present collateral information on 'economic income' in the form of supplementary statements or interpretative comment. Under present conditions it is exceedingly important that information of that sort be furnished to investors and to the general public, and I certainly would not want to discourage the most active exploration of the possibilities in this field."

The vice president and controller of a bank said: "I favor reporting net income on a cost basis rather than on the so-called 'economic income' basis, which as I understand it, is estimated on replacement values. It seems to me that the responsibilities of comptrollers and accountants generally, is to state the net income of corporations over the years in a manner which will be factually and historically correct. Any attempts to adjust the results to current values would destory comparisons with previous years."

<u>The controller of a chemical company said</u>: "Do not believe any existing price index numbers would be sufficient to cover all items involved. Numerous index numbers would be necessary and this would be impratical and confusing."

INVESTMENT TRUST OFFICIALS

No to Question 1, no answer to Question 1A.........1
No to Question 1, Yes to Question 1A..............1
Yes to Question 1, Yes to Question 1A.............2

<u>Of those who answered "Yes" to Question 1, an official of an investment company said:</u> "I believe that for top management it is necessary to have financial statements, both on the old basis and also reflecting changes in price level. From the old statements it is possible to determine how efficiently the invested capital used has been put to work, and from the new statements it is possible to judge a company's health. The new statements would indicate possible needs for new capital, cost of new plants or enterprises, the effect of using depreciation based on reproduction cost perhaps, the effect of inventory rises and falls on earnings, and the rate of earnings based on the investment required for a new corporation set up to do the same type of business.

"I am inclined to think there is still use for the old type of statement as well as the new. Which one is presented first depends on to whom it is presented."

<u>Another investment trust official who answered "Yes" wrote</u>: "From the standpoint of the investor, it seems to me that one of the basic elements of accounting is to provide a uniform measuring stick of a company's operations and managements results over the years. It is difficult to see how such uniformity can be maintained if the management or accountants can employ a constantly shifting basis for their reports to stockholders. Such a shifting basis would it seems to me, make it almost impossible for a stockholder to study a company's record intelligently."

<u>The one letter from a member of an investment company accompanying a questionnaire answering "No", said</u>: "It seems to me a substantial change in accounting methods to take care of recent changes in price levels would be more confusing than otherwise. For many reasons and many purposes reports according to established accounting principles are desirable and even necessary. It seems to me satisfactory adjustment of these reports in recognition of the changed price level may

best be made through reserves, as many companies now do, or by footnotes calling attention to the changes in price level etc."

<u>One official who answered "Yes" to Question 1, said, in reference to use for tax purposes</u>: "If followed, would probably result in fairer taxation but might lead to complications in reporting to stockholders."

<u>Another who answered "Yes" to Question 1 said</u>: "Certainly if the new statements were accepted for tax purposes, I should think that net income should be reported on that basis. I have difficulty, however, in picturing the Treasury Department accepting depreciation based on 'reproduction cost,' for example. It has given recognition to inventory cost, of course, in permitting the use of the Lifo method of inventory control. The Treasury has never concluded that an established business should be permitted to replace its plant at a higher reproduction cost by saving out in depreciation any more than its plant originally cost."

<u>A "Yes" to Question 1 answer contained the following</u>: "I think there should be a definite link between the income statement and the balance sheet. On the other hand periodic restatement of fixed assets, inventory, etc., might result in widespread misuse. It is my recollection that restatement of assets was one of the most bitterly attacked policies of the utility industry in the 1920's."

<u>The other who answered "Yes" said</u>: "I believe that the balance sheet should reflect significant changes between actual cost and current value in order to be on the same basis as any new income statements. Otherwise, there is no means of measuring the significance of the income. In recent years many people have stated from time to time that 'corporate incomes are too high.' Without measuring them against the invested capital required to produce them in a capitalistic economy in which investments are made for the production of income, there is certainly a significant relationship between earned income and the capital on which it is earned."

<u>Another investment trust official wrote</u>: "In the absence of any better method of determining replacement costs, it may be that index numbers would be satisfactory. Certainly the experience of the Interstate Commerce Commission in attempting to revalue railroad properties in connection with the so-called 'recapture clause' would indicate that any current appraisal of reproduction costs in large volume would be so cumbersome as to prove impossible. Probably index numbers would hit wide of the mark, but if used with consistency they would constitute a practical method of doing something which probably could not be done with any more exactitude by any other method."

SECURITY ANALYSTS

No to Question 1, no answer to Question 1A.........5
No to Question 1, Yes to Question 1A..............2
Yes to Question 1, Yes to Question 1A.............2
Yes to Question 1, No to 1A and/or Yes to 1B.......1
No opinion...2

<u>One analyst wrote</u>: "I agree that present reporting of corporate income is probably misleading in reflecting in profits (i) mere appreciation and depreciation in inventory prices and (ii) charges for plant depreciation which are inadequate to replace properties acquired at lower costs. I would like to see these defects remedied, but because of the problems of handling I am not certain that complete changes should be made at this time.

"As to (i) above: Inventories are permitted to be adjusted now, as I understand it, by Lifo or normal stock methods. Because of possible effects of the Lifo method beyond those intended, and for purposes of comparisons among competitors, Fifo (or if necessary, average cost, etc.) figures should also always be indicated. In this connection I would like to point out my strong preference, for comparative purposes, etc. that the alternative figures indicated should actually be Fifo and not average cost, etc., and further, that the use of average cost, etc. bases even now distorts comparisons between companies and should therefore be accompanied by Fifo figures, if possible, just as much as Lifo figures should be.

"As to (ii) above: When the post war price level is better indicated, a reappraisal of plants with depreciation charges geared thereto should be required. However, this seems inappropriate to me in present circumstances, and I do not believe that future year to year cyclical changes in plant values have to be reflected in changed balance sheet values and depreciation charges. In any event, the portions of such items resulting from write-ups should also always be indicated, else actual managerial accomplishments in expanding plant efficiently would be unduly obscured."

<u>The security analyst for a life insurance company who answered "No" wrote</u>: "Although there is no method of accounting upon the basis of which reports can be read without discrimination, it seems to me that 'cost' accounting produces the most accurate results over a period and is the only proper basis for official records and books of companies over the years.

"To substitute 'economic' accounting would destroy the ultimate validity of the record. Economic changes are extremely violent and extremely varied. How permanent any of these changes will be no one can say. The record of economic forecasting is not good. It furnishes no proper basis for official records.

"However, all these changes are real and therefore have to be considered by anyone who is a realist. It seems to me that the best solution is to supplement the regular records on the cost basis by means of a limited amount of supplemental or memorandum figures, not a part of the accounting records of the company, showing from time to time when violent economic changes occur, how much greater or lesser depreciation charges would have had to be to reflect present replacement price levels."

Another analyst who answered "No" said: "I believe accounting should set forth actual figures based on original cost and that Boards of Directors should set up reserves to take care of changed conditions."

ADDENDUM

An additional reply from a steel company was received after the tabulations were completed and the body of the report made up. This reply, representing the concensus of views of the officers of the company answered Yes to Question No. 1, No to Question 1A, and Yes to Question 1B. It contained the following comments:

On Question No. 1: "Yes. Price inflation has made it necessary to allow sufficient latitude in accounting methods to report properly the income of the period in terms of current dollars. Such latitude is allowed in costing the consumption of short-term inventories (stocks of goods) through the adoption of Lifo. By such adoption all major elements of cost except the consumption of long-term inventories (wear and exhaustion of properties) are generally stated on a current dollar basis. When wear and exhaustion is based on former (different) prices, purchasing power equivalent to that expended is not currently recovered, and current income is accordingly over (or under) stated."

On Question 1A: "No. Unless wear and exhaustion is measured in current dollars, a supplementary statement is certainly desirable to avoid hidden erosion of the capital invested in the industrial equipment that assures our peacetime standard of living and wartime potency. But wear and exhaustion based on original prices should be abandoned in order to avoid misrepresentation."

On Question 1B: "Yes. The only figures reported should represent an approximation of 'economic income.' The current cost of labor, materials, and equipment used in producing items sold together with the taxes which must be paid, represent the true costs of a going concern. Income statements should be reported on one basis only, the true costs, and this will result in an approximation of 'economic income.'"

On Question No 3: "Yes. It is desirable that book income and tax income should be in agreement whenever possible. Nevertheless, as a matter of good business practice, it is necessary that corporate income statements reflect 'economic income,' even though it is not accepted for tax purposes. Acceptance for determination of taxable income normally follows rather than precedes development of more accurate accounting methods."

On Question No. 4: "Yes. Income should, of course, be reported on a consistent basis from year to year. Present practice of computing depreciation on original cost results in an inconsistent basis in periods of changing price levels. One cannot even know if a given year is one of 'high profits' or 'low profits' until income is correctly computed. When so computed it should be reported."

On Question No. 5: "No. Every company possessing depreciable assets should theoretically cost their wear and exhaustion to recover in current dollars the purchasing power originally expended...Decision should, as in the case of Lifo, be left to the discretion of the Board of Directors."

On Question 6A: "Yes. It would be desirable to restate in the balance sheet those items in which there is a significant discrepancy between actual cost and current value provided it is a flexible rather than a rigid re-statement."

On Question 6B: "Not necessarily. To avoid self deception and public misrepresentation it is very necessary to reflect the results of changing price levels in the income statement, and it probably would be desirable to do so in the balance sheet."

On Question No. 7: "Yes. The method of accounting for wear and exhaustion as discussed in the answer to Question 1 is not concerned with future replacement costs, but only with currently recovering purchasing power originally expended. The purchasing power of dollars is customarily measured, and cannot feasibly be otherwise measured, by averaging prices (computing index numbers) of items for which dollars are expended. If index numbers are deemed to be satisfactory for evaluating inventories, as they were so ruled in the Hutzler case, they certainly should be usable for recovering currently the purchasing power equivalent to that originally expended for long term inventories (properties)."